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Fitch Affirms BNG Bank at 'AAA'; Outlook Stable

Fitch Ratings - Paris - 17 Feb 2021: Fitch Ratings has affirmed BNG Bank N.V.'s Long-Term Issuer Default Ratings (IDRs) at 'AAA' with a Stable Outlook and Short-Term IDR at 'F1+'. A full list of rating actions is below.

Key Rating Drivers

IDRS, SENIOR DEBT, DERIVATIVE COUNTERPARTY RATING (DCR), SUPPORT RATING (SR) AND SUPPORT RATING FLOOR (SRF)

BNG Bank's ratings reflect Fitch's view of an extremely high probability of support from the Dutch state in the event of stress and despite the implementation of the EU Bank Recovery and Resolution Directive in the Netherlands. Fitch's expectations that the Dutch state would have a strong propensity to support BNG Bank are underpinned by the bank's policy role and its 50% state ownership. As a result, BNG Bank's SRF, and hence its Long-Term IDR are equalised with that of the Dutch sovereign (Netherlands, AAA/Stable).

Fitch does not assign a Viability Rating to BNG Bank as most of its operations are determined by its policy role, its strategy is framed by the bank's articles of association and its franchise largely dependent on its public sector ownership.

BNG Bank is the largest of the two Dutch policy banks. It has a clear, strategic and long-established role to provide banking services and financing to the public authorities. Lending is generally extended either to Dutch public sector bodies, or to housing associations and healthcare institutions, with most of them benefiting from the state's guarantee. Fitch believes that BNG Bank will continue to play a significant role in supporting state policy objectives, and that it would be difficult to transfer this role to commercial banks, given the low yield and long maturity of the assets generated by the bank's business model.

BNG Bank's full public ownership is long-term and strategic. Half of its capital is held by the Dutch state with the other half owned by Dutch local authorities. The bank's articles of association prevent private ownership.

As a fully-fledged credit institution, BNG Bank is within the scope of the BRRD and it is subject to simplified obligations in relation to resolution planning. The preferred resolution strategy for BNG Bank, should it ever fail, is liquidation under national insolvency proceedings. Fitch believes that the Single Resolution Board would not be incentivised to take resolution action if it is clear that the Dutch state, BNG Bank's main shareholder, is willing to pre-emptively inject capital into the bank. We believe

it is highly likely that support from the sovereign would be arranged in accordance with the private investor test as part of state aid considerations. In our view, this substantially reduces the risk of resolution being triggered.

Fitch believes that the state would act pre-emptively to replenish BNG Bank's capital levels, if needed, due to the dependence of the bank's business model on wholesale funding and hence investor confidence. We also believe it is highly unlikely that extraordinary support will be required given the low risk nature of BNG Bank's assets, the bank's solid risk-weighted capital ratios and prudent liquidity management. However, the bank operates with a moderately low leverage ratio.

BNG Bank's long- and short-term senior unsecured debt ratings are at the same level as the bank's IDRs. Fitch believes the default risk of the bank's senior unsecured debt is equivalent to the default risk implied by the IDR since senior unsecured obligations are viewed as having average recovery prospects. BNG Bank's DCR is aligned with the bank's Long-Term IDR, which is at the highest possible level. Under Dutch legislation, derivative counterparties have no preferential status over other senior obligations in a resolution.

RATING SENSITIVITIES

IDRS, SENIOR DEBT, DCR, SR AND SRF

Factors that could, individually or collectively, lead to positive rating action/upgrade:

BNG Bank's ratings and SRF are at the highest level on Fitch's scale and therefore cannot be upgraded.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

BNG Bank's IDRs, senior debt ratings, DCR and SRF will likely move in tandem with the Dutch sovereign rating. The bank's ratings (including the SR and SRF) are also sensitive to changes in Fitch's assumptions about the Netherlands' propensity to support the bank. A weakening of BNG Bank's strategic importance to the Dutch state or a reduction of the state's ownership, which we view as highly unlikely, would result in a downgrade of BNG Bank's ratings. A deviation from its narrowly defined domestic policy role would also be rating-negative.

Fitch would also take negative rating action if there were any changes to the resolution approach, particularly if they imply that BNG Bank could be resolved with the use of the bail-in tool.

Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all

rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [<https://www.fitchratings.com/site/re/10111579>]

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

Public Ratings with Credit Linkage to other ratings

BNG Bank's IDRs and Support Rating are driven by support from the Netherlands.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

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Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
BNG Bank N.V.	LT IDR	AAA 	Affirmed	AAA 
	ST IDR	F1+	Affirmed	F1+
	Support	1	Affirmed	1
	Support Floor	AAA	Affirmed	AAA
	DCR	AAA(dcr)	Affirmed	AAA(dcr)
• senior unsecured	LT AAA	AAA	Affirmed	AAA
• senior unsecured	ST F1+	F1+	Affirmed	F1+

RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

[Bank Rating Criteria \(pub.28 Feb 2020\) \(including rating assumption sensitivity\)](#)

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