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Update: BNG Bank N.V.

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Update: BNG Bank N.V.

SACP: a+



Support: +5



Additional factors: 0

Anchor	bbb+	
Business position	Adequate	0
Capital and earnings	Very strong	+2
Risk position	Strong	+1
Funding	Adequate	0
Liquidity	Adequate	
CRA adjustment	0	

ALAC support	0
GRE support	+5
Group support	0
Sovereign support	0

Issuer credit rating
AAA/Stable/A-1+

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

Issuer Credit Rating

AAA/Stable/A-1+

Key strengths

Almost certain likelihood of extraordinary support from the Dutch Ministry of Finance.

Leading lender to Dutch public authorities, supporting better asset quality than that of traditional commercial banks.

Very strong capitalization.

Key risks

Limited revenue diversification, with business prospects linked to the Dutch public sector funding needs.

Moderate capital generation due to low lending margins and exposure to capital markets volatility.

We continue to assess the issuer credit rating on BNG Bank at the same level as that on the Dutch government (AAA/Stable/A-1+), so long as we expect that the latter would remain willing and able to provide extraordinary support to BNG Bank if and when needed. Our expectation finds foundation on the bank's important public sector mandate and its combined ownership by the Dutch state (50%) and other Dutch public authorities (50%). In particular, our rating approach considers the bank's:

- Critical role as one of two public sector banks with a public policy role. In our view, BNG plays a vital role in providing low-cost, stable, constant financing to the Dutch public sector. This role would also support municipalities in playing their part in the country's achievement of the Paris Agreement goals. Furthermore, we think that BNG Bank's links with other entities, such as WSW and Waarborgfonds voor de Zorgsector--both of which benefit from government guarantees--increase the government's incentive to provide extraordinary support to BNG Bank; and
- Integral link with the government, as we consider the bank an extension of the government. BNG Bank's articles of association limit its ownership and lending activities to the public sector, which supports our view of the link between the bank and the government. Although the government is not involved in the day-to-day running of the bank, it maintains close oversight over its strategy and capital policy.

Our assessment also factors in the EU's Bank Recovery and Resolution Directive (BRRD). Our longstanding view is that the BRRD does not appear to prevent the Dutch government, in its capacity as an existing shareholder of a bank, from granting support to Dutch-domiciled government-related entities in going-concern situations—even if they are subject to BRRD.

In our view, BNG Bank's public mandate supports its leading position in a niche, low risk market. The bank provides about 60% of the Dutch public sector's financing needs and we expect that it will remain a leading player in this market segment, along with its main competitor NWB Bank N.V. Competition in this market segment is quite contained, especially from private commercial banks. Although we consider that the private banks' interests in financing the domestic public sector have been increasing in the past few years, especially in relation to sustainability-related projects, such a role could not be easily taken over by private sector commercial banks, as they cannot compete with the low-cost financing that BNG Bank provides as long as its credit quality is seen as on par with the government's. Social housing entities dominate BNG Bank's portfolio at end-2021 and represent 48% of its total loans. Municipalities and health care sectors follow, and account for 35% and 8% of BNG Bank's total loan book. Over the past few years, BNG started to invest in different asset classes, such as the energy and infrastructure sector, where the bank undertakes project financing in the area of property energy transition and renewable energy. However, we expect this type of investment to continue to constitute up to 10% of the portfolio. The bank's low-risk customer base and niche market positioning support its earning capacity through the credit cycle, in our view. However, the business and geographical concentration inherent in its business model could pose some risks as well. That said, we expect the bank's operating revenues—excluding the volatile result on financial transactions—to remain broadly stable in the range of €440 million-480 million in 2022-2024. Our projections consider that the bank will maintain its margins in the range of 40 basis points (bps)-42 bps while being in the position to transfer higher funding costs to its clients in 2022-2024 without sacrificing market share.

We believe that BNG Bank is likely to maintain its conservative risk profile. The bank's low-risk type of lending activity (constituting at least 90% of the bank's total lending exposures) supports its stronger-than-industry average asset quality, with a loss experience historically close to zero. Government risk dominates its portfolio, given the bank's focus on very low-risk lending issued to, or guaranteed by, public authorities. We also understand that the bank has been restricting the range of more risky private projects to finance, opting for the ones benefitting from a major involvement of the public sector. Still, these projects can constitute no more than 10% of the bank's portfolio. This restriction comes on top of a general enhancement of the internal credit processes, following the one-off 17 bp credit losses reported in 2019 and a regulatory inspection. At this stage, we expect the bank's nonperforming exposure ratio and cost-of-risk to remain negligible.

We expect that BNG Bank will continue to benefit from very strong capitalization, thanks to its low-risk exposures and prudent capital management. At end-2021, we estimate that our risk-adjusted capital (RAC) ratio could be 27.8%-28.3%, well above the level typically exhibited by commercial banks. We anticipate that the RAC ratio will remain very comfortably above the 15% mark over the next two years. Our forecasts assume expected average net income of about €170 million-€190 million per year over the next two years, and on increasing risk-weighted assets (RWAs), reflecting the bank's further expansionary activity. In particular in our forecast for 2022-2024 we include a loan book outstanding increasing approximately 1%-2%, a net interest margin of 40 bps-42 bps through 2022-2024

(compared with 41 bps at end-2019), and a cost-to-income ratio averaging 38%-40% (up from the 28% calculated at end-2019), on the back of the investments in both the bank's lending processes and IT infrastructure. Our profitability-related figures do not consider the impact of the volatile result on financial transactions, which mostly includes the unrealized market value changes in derivatives and financial instruments, standing at €100 million in 2021.

BNG Bank will continue to rely on wholesale funding, with well diversified funding sources. We negatively view the large share of short-term wholesale funding in the bank's funding base--which has decreased to below 25% in the past three years--because this funding resource is more confidence-sensitive. However, we understand that BNG mostly uses this funding to finance short-term loans to clients, cash collateral for hedging operations, cash holdings, and short-term, highly rated securities that act as a liquidity buffer. This recourse to short-term funding supports the low cost of liabilities, which is an absolute requirement for an efficient business model. We consider this acceptable for a government-owned bank because ownership should not change, and we think that there is a strong correlation between the bank's risk and that of the sovereign. We would view such a reliance on short-term wholesale funding more negatively for a private bank.

We do not incorporate any negative rating adjustments for BNG's funding profile and liquidity position because we also consider many qualitative factors. The bank enjoys a large and diversified investor base, demonstrated by its currency funding mix (46% euro, 42% U.S. dollar, 6% Australian dollar, and 4% British pound sterling), its geographic funding mix (40% Europe not including the U.K., 30% Asia, 17% Americas, and 9% U.K.), and its investor type funding base (39% central banks, 28% banks, and 12% asset managers).

BNG's liquidity position is also more resilient than our metrics show, thanks to its large investment portfolio comprising highly liquid securities. Lastly, in contrast with most of the banks that we rate, the majority of BNG's loan book is solvency free and could be pledged as collateral at De Nederlandsche Bank in case of liquidity stress.

Outlook

Our stable outlook on BNG reflects that on The Netherlands. For as long as we consider support from the Dutch government almost certain, and provided the bank maintains an adequate financial standing, the long-term issuer credit rating on BNG is unlikely to diverge from that on the sovereign.

As a result, any rating action on The Netherlands would likely result in a similar rating action on the bank. Nevertheless, we expect BNG's financial risk profile to remain resilient over the next two years, despite the operational and digital investments the bank plans to undertake as part of its strategic planning.

Key Metrics

BNG Group--Key Ratios and Forecasts*					
(%)	--Fiscal year ended Dec. 31--				
	2020a	2021a	2022f	2023f	2024f
Growth in operating revenue	(3.4)	8.2	0.6-0.7	(2.4)-(2.9)	(0.8)-(1.0)
Growth in customer loans	0.80	0.9	0.7-1.0	0.7-1.0	0.4-0.5
Growth in total assets	7.1	(7)	0.1-0.1	0.1-0.2	(0.1)-(0.1)
Net interest income/average earning assets (NIM)	0.4	0.4	0.4-0.4	0.4-0.4	0.4-0.4
Cost to income ratio	28.8	30.1	30.0-31.5	31.4-33.0	32.2-33.8
Return on average common equity	5.2	5.4	5.1-5.6	4.7-5.2	4.6-5.1
Return on assets	0.1	0.2	0.1-0.2	0.1-0.2	0.1-0.2
New loan loss provisions/average customer loans	0.00	0.00	0.0-0.0	0.0-0.0	0.0-0.0
Gross nonperforming assets/customer loans	0.4	0.6	0.5-0.5	0.4-0.5	0.4-0.5
Net charge-offs/average customer loans	N.M.	0.0	0.1-0.1	0.0-0.0	0.0-0.0
Risk-adjusted capital ratio	28.2	28.1	28.4-29.9	28.8-30.3	29.3-30.9

*All figures are S&P Global Ratings-adjusted. a--Actual. e--Estimate. f--Forecast. NIM--Net interest margin. N.M.--Not meaningful.

Key Statistics

Table 1

BNG Bank N.V. Key Figures					
(Mil. €)	--Year-ended Dec. 31--				
	2021	2020	2019	2018	2017
Adjusted assets	149,057.0	160,359.0	149,689.0	137,509.0	140,025.0
Customer loans (gross)	89,975.0	89,152.0	88,472.0	85,081.0	85,380.0
Adjusted common equity	4,010.0	3,972.0	3,804.0	3,733.0	3,618.0
Operating revenues	529.0	489.0	506.0	580.0	643.0
Noninterest expenses	159.0	141.0	126.0	119.0	117.0
Core earnings	236.0	221.0	163.0	337.0	390.8

Table 2

BNG Bank N.V. Business Position					
(%)	--Year-ended Dec. 31--				
	2021	2020	2019	2018	2017
Return on average common equity	5.4	5.2	3.9	7.9	9.9

Table 3

BNG Bank N.V. Capital And Earnings					
	--Year-ended Dec. 31--				
(%)	2021	2020	2019	2018	2017
Tier 1 capital ratio	38.0	39.4	38.0	38.0	37.0
S&P Global Ratings' RAC ratio before diversification	N/A	28.2	N/A	N/A	26.6
S&P Global Ratings' RAC ratio after diversification	N/A	23.2	N/A	N/A	21.5
Adjusted common equity/total adjusted capital	84.5	84.4	83.8	83.6	83.2
Net interest income/operating revenues	76.9	97.5	86.0	74.8	67.7
Fee income/operating revenues	3.2	5.1	5.9	4.8	3.6
Market-sensitive income/operating revenues	18.9	(3.5)	7.3	19.3	28.1
Cost to income ratio	30.1	28.8	24.9	20.5	18.2
Preprovision operating income/average assets	0.2	0.2	0.3	0.3	0.4
Core earnings/average managed assets	0.2	0.1	0.1	0.2	0.3

N/A--Not applicable.

Table 4

BNG Bank N.V. Risk Position					
	--Year-ended Dec. 31--				
(%)	2021	2020	2019	2018	2017
Growth in customer loans	0.9	0.8	4.0	(0.4)	(2.3)
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	21.4	N/A	N/A	24.1
Total managed assets/adjusted common equity (x)	37.2	40.4	39.4	36.8	38.7
New loan loss provisions/average customer loans	0.0	0.0	0.2	0.0	(0.0)
Net charge-offs/average customer loans	(0.0)	N.M.	0.0	0.0	N.M.
Gross nonperforming assets/customer loans + other real estate owned	0.6	0.4	0.3	0.1	0.0
Loan loss reserves/gross nonperforming assets	43.2	53.0	66.6	82.5	106.3

N/A--Not applicable. N.M.--Not meaningful.

Table 5

BNG Bank N.V. Funding And Liquidity					
	--Year-ended Dec. 31--				
(%)	2021	2020	2019	2018	2017
Core deposits/funding base	0.0	0.0	0.0	0.0	0.0
Long-term funding ratio	82.5	79.3	74.6	76.4	72.5
Stable funding ratio	99.0	89.4	84.3	84.6	78.8
Short-term wholesale funding/funding base	16.0	19.4	24.4	22.6	27.0
Broad liquid assets/short-term wholesale funding (x)	1.1	0.7	0.5	0.6	0.5
Broad liquid assets/total assets	14.6	10.1	9.8	10.9	10.6
Net broad liquid assets/short-term customer deposits	68.2	(288.9)	(474.6)	(344.1)	(785.9)
Short-term wholesale funding/total wholesale funding	15.9	19.3	24.3	22.5	26.8
Narrow liquid assets/3-month wholesale funding (x)	2.4	1.2	0.9	1.3	1.2

BNG Bank N.V.--Rating Component Scores

Issuer Credit Rating	AAA/Stable/A-1+
SACP	a+
Anchor	bbb+
Economic risk	3
Industry risk	3
Business position	Adequate
Capital and earnings	Very strong
Risk position	Strong
Funding	Adequate
Liquidity	Adequate
Comparable ratings analysis	0
Support	5
ALAC support	0
GRE support	+5
Group support	0
Sovereign support	0
Additional factors	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

Related Criteria

- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings Detail (As Of July 19, 2022)*

BNG Bank N.V.	
Issuer Credit Rating	AAA/Stable/A-1+
Commercial Paper	A-1+
Senior Unsecured	AAA
Short-Term Debt	A-1+

Ratings Detail (As Of July 19, 2022)*(cont.)

Issuer Credit Ratings History

24-Nov-2015	<i>Foreign Currency</i>	AAA/Stable/A-1+
27-May-2015		AA+/Positive/A-1+
02-Dec-2013		AA+/Stable/A-1+
24-Nov-2015	<i>Local Currency</i>	AAA/Stable/A-1+
27-May-2015		AA+/Positive/A-1+
02-Dec-2013		AA+/Stable/A-1+

Sovereign Rating

Netherlands	AAA/Stable/A-1+
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*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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