FitchRatings

Banks
Development Banks
Netherlands

# BNG Bank N.V.

## Update

## Key Rating Drivers

**Ratings Equalised with Sovereign:** BNG Bank N.V.'s Issuer Default Ratings (IDRs) and Government Support Rating (GSR) are driven by sovereign support from the Netherlands. The Long-Term IDR is equalised with that of the Netherlands (AAA/Stable). This reflects Fitch Ratings' view of an extremely high probability of support from the Dutch state in the event of stress. The Dutch state's strong propensity to support the bank is mainly underpinned by its policy role and 50% state ownership.

**Clear Policy Role:** BNG Bank is the larger of the two Dutch policy banks. It has a clear, strategic and long-established role as a provider of banking services and financing to public authorities. Fitch believes that BNG Bank will continue to have 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 originated by the bank.

**Low Resolution Risk:** BNG Bank is within the scope of the Bank Resolution and Recovery Directive (BRRD) and subject to simplified resolution planning obligations. The preferred approach, should BNG Bank fail, is liquidation under national insolvency proceedings, which substantially reduces the risk of a resolution being triggered.

Fitch believes that the Single Resolution Board (SRB) 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. The clarity over the preferred course of action in the unlikely event BNG Bank fails or is likely to fail, and the absence of a requirement to issue and maintain bail-in-able debt buffers, further support our assessment.

**Pre-Emptive Support Highly Likely:** 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 access to wholesale funding and investor confidence. We believe it is highly likely that support from the sovereign would be provided in accordance with the private investor test as part of state aid considerations.

**Low-Risk Operations:** The low-risk nature of BNG Bank's assets, its solid risk-weighted capital ratios, the accommodative Dutch regulatory policy towards policy banks, and prudent liquidity management make it highly unlikely that the bank will ever require extraordinary support.

**Social Role Relevant to the Rating:** The bank fulfils a critical role in financing housing associations at low cost and thus contributes to the implementation of the state's social policy to improve housing affordability for underserved communities in the Netherlands. This factor has a moderate positive influence on Fitch's assessment of a high likelihood of support from the Dutch state if needed, and is relevant to BNG Bank's ratings in conjunction with other factors.

**No Viability Rating Assigned:** Fitch does not assign a Viability Rating to BNG Bank as its policy role determines most of its operations, the bank's articles of association frame its strategy, and its franchise primarily relies on the public-sector ownership.

## Ratings

| | |
|---|---|
| **Foreign Currency** | |
| Long-Term IDR | AAA |
| Short-Term IDR | F1+ |
| Derivative Counterparty Rating | AAA(dcr) |
| | |
| Government Support Rating | aaa |
| | |
| **Sovereign Risk (Netherlands)** | |
| Long-Term Foreign-Currency IDR | AAA |
| Long-Term Local-Currency IDR | AAA |
| Country Ceiling | AAA |
| | |
| **Outlooks** | |
| Long-Term Foreign-Currency IDR | Stable |
| Sovereign Long-Term Foreign-Currency IDR | Stable |
| Sovereign Long-Term Local-Currency IDR | Stable |

## Applicable Criteria

Bank Rating Criteria (September 2023)

## Related Research

Global Economic Outlook (September 2023)

Fitch Affirms the Netherlands at 'AAA'; Outlook Stable (August 2023)

Fitch Affirms BNG Bank at 'AAA'; Outlook Stable (January 2023)

## Analysts

Olivia Perney
+33 1 44 29 91 74
olivia.perney@fitchratings.com

Oceane Lefebvre
+33 1 44 29 91 49
oceane.lefebvre@fitchratings.com

## Rating Sensitivities

### Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

A downgrade of the Dutch sovereign rating would lead to a similar action on BNG Bank's ratings. The ratings are also sensitive to changes in Fitch's assumptions about the Netherlands' propensity to support the bank. A weakening of BNG Bank's policy role 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 could notch BNG Bank's ratings down from the sovereign rating if there was an increased likelihood that senior creditors would suffer losses under state-aid rules. Fitch could 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.

### Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

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

## Other Debt and Issuer Ratings

| Rating level | Rating |
|---|---|
| Senior unsecured: Long-term | AAA |
| Senior unsecured: Short-term | F1+ |

Source: Fitch Ratings

BNG Bank's short- and long-term senior unsecured debt ratings and its Derivative Counterparty Rating are in line with its IDRs. This reflects Fitch's view that default risk on senior unsecured debt equates to the default risk of the bank, as captured in its IDR, and the expectation of average expected recoveries upon default. Under Dutch legislation, derivative counterparties have no preferential status over other senior obligations in a resolution.

## Significant Changes from Last Review

### 1H23 Profit Dented by Valuation Losses

The bank's net profit significantly reduced in 1H23 (-32% yoy), mainly due to valuation losses in the securities portfolio. However, its operating profit/risk-weighted assets ratio was stable overall. Profit maximisation is not a key strategic objective for BNG Bank, as shareholders require a modest return on equity. The bank's return on equity has been historically around 6%.

Net interest income increased by 22% yoy, showing the benefits of higher interest rates. This was despite increased funding costs, from a very low starting point, and higher debt issuance. The bank was able to contain the increase in non-interest expenses at a moderate 5% yoy.

BNG Bank continues to benefit from historically low defaults. Its impaired loans ratio was stable at 0.8% of gross loans at end-June 2023. The bank's asset quality metrics are strong due to its inherently low-risk exposures and majority of state-related loans, and we expect asset quality to be resilient over the next 12 to 18 months.

At end-June 2023, BNG Bank's common equity Tier 1 ratio increased to 38.5%, well above the bank's regulatory minimum and internal target.

### Stable Funding and Sound Liquidity

BNG Bank does not collect retail deposits, but has a stable and diversified investor base. The bank continues to actively issue debt in various currencies to cover its annual refinancing needs of around EUR14 billion–EUR15 billion. Above 70% of this amount had been raised as of end-June 2023. BNG Bank has a record in maintaining strong access to the debt capital markets through various credit cycles, due to its links to the state and high ratings.

Liquidity is sound and Fitch views it as prudently managed. The buffer of liquid assets is ample, mostly consisting of cash and 'AAA' or 'AA' rated liquid securities (25% of total assets at end-June 2023). The bank's liquidity coverage ratio decreased to 179% at end-June 2023 (end-2022: 189%) after repaying EUR2 billion TLTRO, but remains well above the regulatory requirement.

# Financials

## Financial Statements

| | 30 Jun 23 | | 31 Dec 22 | 31 Dec 21 | 31 Dec 20 |
|---|---|---|---|---|---|
| | 6 months - interim (USDm) Reviewed - unqualified | 6 months - interim (EURm) Reviewed - unqualified | Year end (EURm) Audited – unqualified | Year end (EURm) Audited – unqualified | Year end (EURm) Audited – unqualified |
| **Summary income statement** | | | | | |
| Net interest and dividend income | 292 | 269 | 481 | 407 | 477 |
| Net fees and commissions | 14 | 13 | 19 | 17 | 25 |
| Other operating income | -29 | -27 | 126 | 105 | -13 |
| Total operating income | 277 | 255 | 626 | 529 | 489 |
| Operating costs | 85 | 78 | 167 | 161 | 140 |
| Pre-impairment operating profit | 192 | 177 | 459 | 368 | 349 |
| Loan and other impairment charges | -12 | -11 | 52 | 20 | 16 |
| Operating profit | 204 | 188 | 407 | 348 | 333 |
| Other non-operating items (net) | 0 | 0 | 0 | 2 | -1 |
| Tax | 51 | 47 | 107 | 114 | 111 |
| Net income | 153 | 141 | 300 | 236 | 221 |
| Other comprehensive income | -15 | -14 | -175 | -74 | 7 |
| Fitch comprehensive income | 138 | 127 | 125 | 162 | 228 |
| | | | | | |
| **Summary balance sheet** | | | | | |
| **Assets** | | | | | |
| Gross loans | 97,426 | 89,661 | 89,782 | 89,975 | 89,152 |
| - Of which impaired | 762 | 701 | 848 | 549 | 396 |
| Loan loss allowances | 125 | 115 | 158 | 237 | 210 |
| Net loans | 97,301 | 89,546 | 89,624 | 89,738 | 88,942 |
| Interbank | 444 | 409 | 346 | 163 | 120 |
| Derivatives | -5,731 | -5,274 | -4,942 | 19,240 | 29,356 |
| Other securities and earning assets | 20,388 | 18,763 | 15,959 | 17,615 | 19,101 |
| Total earning assets | 112,402 | 103,444 | 100,987 | 126,756 | 137,519 |
| Cash and due from banks | 22,458 | 20,668 | 6,821 | 9,264 | 2,312 |
| Other assets | 4,570 | 4,206 | 4,266 | 13,037 | 20,528 |
| Total assets | 139,430 | 128,318 | 112,074 | 149,057 | 160,359 |
| | | | | | |
| **Liabilities** | | | | | |
| Customer deposits | 6,113 | 5,626 | 4,785 | 4,525 | 5,599 |
| Interbank and other short-term funding | 21,742 | 20,009 | 8,914 | 23,984 | 19,832 |
| Other long-term funding | 98,279 | 90,446 | 87,083 | 97,916 | 101,039 |
| Trading liabilities and derivatives | 7,080 | 6,516 | 6,314 | 17,245 | 27,621 |
| Total funding and derivatives | 133,214 | 122,597 | 107,096 | 143,670 | 154,091 |
| Other liabilities | 1,229 | 1,131 | 363 | 325 | 1,171 |
| Preference shares and hybrid capital | 336 | 309 | 309 | 733 | 733 |
| Total equity | 4,652 | 4,281 | 4,306 | 4,329 | 4,364 |
| Total liabilities and equity | 139,430 | 128,318 | 112,074 | 149,057 | 160,359 |
| Exchange rate | | USD1 = EUR0.920302 | USD1 = EUR0.937559 | USD1 = EUR0.884173 | USD1 = EUR0.821963 |

Source: Fitch Ratings, Fitch Solutions, BNG Bank

## Key Ratios

| | 30 Jun 23 | 31 Dec 22 | 31 Dec 21 | 31 Dec 20 |
|---|---|---|---|---|
| **Ratios (%; annualised as appropriate)** | | | | |
| | | | | |
| **Profitability** | | | | |
| Operating profit/risk-weighted assets | 3.5 | 3.6 | 2.7 | 2.8 |
| Net interest income/average earning assets | 0.5 | 0.4 | 0.3 | 0.3 |
| Non-interest expense/gross revenue | 30.7 | 27.2 | 30.7 | 28.8 |
| Net income/average equity | 6.6 | 7.0 | 5.4 | 5.2 |
| | | | | |
| **Asset quality** | | | | |
| Impaired loans ratio | 0.8 | 0.9 | 0.6 | 0.4 |
| Growth in gross loans | -0.1 | -0.2 | 0.9 | 0.8 |
| Loan loss allowances/impaired loans | 16.4 | 18.6 | 43.2 | 53.0 |
| Loan impairment charges/average gross loans | 0.0 | 0.1 | 0.0 | 0.0 |
| | | | | |
| **Capitalisation** | | | | |
| Common equity Tier 1 ratio | 38.5 | 35.0 | 32.0 | 33.0 |
| Tangible common equity/tangible assets | 3.3 | 3.8 | 2.9 | 2.7 |
| Basel leverage ratio | 8.9 | 13.0 | 10.6 | 3.5 |
| Net impaired loans/common equity Tier 1 | n.a. | 17.4 | 7.7 | 4.6 |
| | | | | |
| **Funding and liquidity** | | | | |
| Gross loans/customer deposits | 1,593.7 | 1,876.3 | 1,988.4 | 1,592.3 |
| Gross loans/customer deposits + covered bonds | 1,593.7 | 1,876.3 | 1,988.4 | 1,592.3 |
| Liquidity coverage ratio | 178.6 | 189.0 | 173.6 | 133.0 |
| Customer deposits/total non-equity funding | 4.8 | 4.7 | 3.6 | 4.4 |
| Net stable funding ratio | 126.3 | 125.0 | 126.0 | 122.0 |

Source: Fitch Ratings, Fitch Solutions, BNG Bank

## Support Assessment

| Policy Banks: Government Support | |
|---|---|
| Typical D-SIB GSR for sovereign's rating level (assuming high propensity) | a+ to a- |
| Actual jurisdiction D-SIB GSR | ns |
| Government Support Rating | AAA |
| | |
| **Government ability to support D-SIBs** | |
| Sovereign Rating | AAA/ Stable |
| Sovereign financial flexibility (for rating level) | Neutral |
| | |
| **Government propensity to support D-SIBs** | |
| Resolution legislation | Negative |
| Support stance | Negative |
| | |
| **Government propensity to support bank** | |
| Systemic importance | |
| Liability structure | |
| Ownership | |
| | |
| **Policy role and status** | |
| Ownership | Equalised |
| Policy role | Equalised |
| Guarantees and legal status | No Impact |

The colours indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

### Extremely High Probability of Support from the Dutch State

In Fitch's view, legislative, regulatory and policy initiatives, including the implementation of the BRRD, have substantially reduced the likelihood of sovereign support for EU commercial banks in general. However, Fitch continues to factor Dutch state support into BNG Bank's ratings given the nature of BNG Bank's business, status and public ownership. Fitch believes the Dutch state will act pre-emptively to maintain the bank's viability, subject to any recapitalisation following EU state-aid rules.

Under the EU state-aid rules, public support does not qualify as state aid if the investments by the state in a company do not confer an advantage to the company. This would be the case when the state acts in the same way as a private investor. This principle is commonly referred to as the 'market economy operator test'.

The BRRD and the SRB do not restrict shareholders' ability to carry out a capital injection under market conditions to protect their investments in a strategic, long-term and viable institution. The implementation of the BRRD into Dutch law does not include specific provisions on the treatment of public banks. This could suggest that the Dutch authorities are confident that the BRRD provides sufficient flexibility for public shareholders to inject funds into public banks to address capital shortfalls.

### Simplified Resolution Planning Obligations

As per the SRB decision, simplified resolution planning obligations apply in the case of BNG Bank. Under these simplified obligations, the preferred course of action for BNG Bank in the event that it is failing or likely to fail, and if failure cannot be avoided by a private solution, is insolvency under national law.

We believe that the adoption of a formal plan that does not involve the use of a bail-in tool reduces the likelihood that BNG Bank's senior unsecured creditors will suffer losses. This is because it reduces the risk the state will be prevented from providing support to the bank in a timely manner.

Under the Single Resolution Mechanism Regulation, when considering whether resolution is necessary in the public interest to prevent insolvency, the resolution authorities need to consider whether or not liquidation would present a threat to financial stability, among other factors. The adoption of a simplified obligations plan for BNG Bank, in our view, means that the resolution authorities do not consider the liquidation of BNG Bank to be a threat to financial stability, for example due to its specific business model and Dutch public-sector focus.

As a result, we believe the resolution authorities may not be incentivised to intervene and take resolution action if it is clear that the Dutch state, in its capacity as BNG Bank's shareholder, is willing to inject capital – even if this may take time. Capital injection may have a lag, for example, because it would need to go through a political approval process in the Netherlands or be approved for compliance with EU state-aid rules.

## Environmental, Social and Governance Considerations

FitchRatings **BNG Bank N.V.**

**Banks**
**Ratings Navigator**

### Credit-Relevant ESG Derivation

BNG Bank N.V. has 1 ESG rating driver and 5 ESG potential rating drivers

- + BNG Bank N.V. has exposure to services for underbanked and underserved communities: SME and community development programs; financial literacy programs which, in combination with other factors, impacts the rating.
- BNG Bank N.V. has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

| | | | ESG Relevance to Credit Rating |
|---|---|---|---|
| key driver | 0 | issues | 5 |
| driver | 1 | issues | 4 |
| potential driver | 5 | issues | 3 |
| not a rating driver | 3 | issues | 2 |
| | 5 | issues | 1 |

### Environmental (E) Relevance Scores

| General Issues | E Score | Sector-Specific Issues | Reference | E Relevance |
|---|---|---|---|---|
| GHG Emissions & Air Quality | 1 | n.a. | n.a. | 5 |
| Energy Management | 1 | n.a. | n.a. | 4 |
| Water & Wastewater Management | 1 | n.a. | n.a. | 3 |
| Waste & Hazardous Materials Management; Ecological Impacts | 1 | n.a. | n.a. | 2 |
| Exposure to Environmental Impacts | 2 | Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations | Business Profile (incl. Management & governance); Risk Profile; Asset Quality | 1 |

### Social (S) Relevance Scores

| General Issues | S Score | Sector-Specific Issues | Reference | S Relevance |
|---|---|---|---|---|
| Human Rights, Community Relations, Access & Affordability | 4 | Services for underbanked and underserved communities: SME and community development programs; financial literacy programs | Business Profile (incl. Management & governance); Risk Profile | 5 |
| Customer Welfare - Fair Messaging, Privacy & Data Security | 3 | Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) | Operating Environment; Business Profile (incl. Management & governance); Risk Profile | 4 |
| Labor Relations & Practices | 2 | Impact of labor negotiations, including board/employee compensation and composition | Business Profile (incl. Management & governance) | 3 |
| Employee Wellbeing | 1 | n.a. | n.a. | 2 |
| Exposure to Social Impacts | 2 | Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices | Business Profile (incl. Management & governance); Financial Profile | 1 |

### Governance (G) Relevance Scores

| General Issues | G Score | Sector-Specific Issues | Reference | G Relevance |
|---|---|---|---|---|
| Management Strategy | 3 | Operational implementation of strategy | Business Profile (incl. Management & governance) | 5 |
| Governance Structure | 3 | Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions | Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage | 4 |
| Group Structure | 3 | Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership | Business Profile (incl. Management & governance) | 3 |
| Financial Transparency | 3 | Quality and frequency of financial reporting and auditing processes | Business Profile (incl. Management & governance) | 2 |
| | | | | 1 |

**How to Read This Page**
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

**The Environmental (E), Social (S) and Governance (G) tables** break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

**The Credit-Relevant ESG Derivation** table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to result in a negative impact unless indicated with a '+' sign for positive impact.h scores of 3, 4 or 5) and provides a brief explanation for the score.

**Classification** of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

**CREDIT-RELEVANT ESG SCALE**

**How relevant are E, S and G issues to the overall credit rating?**

| | |
|---|---|
| 5 | Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator. |
| 4 | Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator. |
| 3 | Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator. |
| 2 | Irrelevant to the entity rating but relevant to the sector. |
| 1 | Irrelevant to the entity rating and irrelevant to the sector. |

BNG Bank N.V. has an ESG Relevance Score of '4[+]' for Human Rights, Community Relations, Access & Affordability due to its policy role, which through the financing of housing associations provides accessibility and affordability to the Dutch housing market. This has a positive impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.

DISCLAIMER & DISCLOSURES