FitchRatings

Banks
Development Banks
Netherlands

BNG Bank N.V.

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 (December 2023)

Western European Banks Outlook 2024 (December 2023)

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

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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 (AAA/Stable). The Long-Term IDR is equalised with that of the Netherlands. 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 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 state and public-sector ownership.

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 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	AAA/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.

Company Summary and Key Qualitative Factors

Operating Environment

Resilient Environment for Banks Despite Weaker Economic Growth

The Dutch GDP growth weakened significantly in 2023, following a strong 4.4% growth in 2022. Fitch expects economic growth in 2024 for the Netherlands to be slightly higher than in 2023, which should allow the banks to continue to generate adequate lending and business volumes. Fitch's neutral sector outlook for Benelux banks in 2024 incorporates our expectation of moderating but still healthy profitability, slightly deteriorating impaired loan ratios, and overall stable funding and liquidity for Dutch banks.

Business Profile

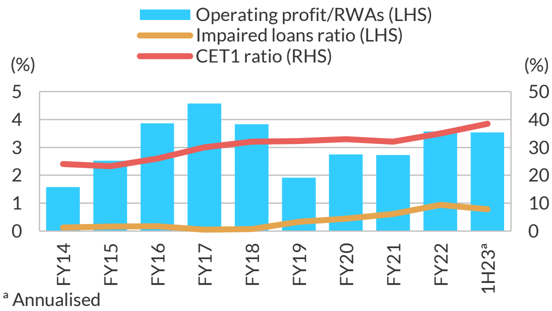
Public Sector Focus

BNG Bank has a clear mandate to provide funding at the lowest possible cost to the Dutch public sector and related entities. The bank's customer base consists almost entirely of Dutch local authorities, public sector utilities and entities involved in social housing, healthcare and education. The bank aims at increasing social impact and has defined five sustainable development goals in its current strategic plan.

The narrow lending margins, which require very low cost of funding, make the business economically unattractive for a commercial bank, which is BNG Bank's key competitive advantage. Moreover, the bank has strong relationships with municipalities, which jointly own the bank with the state and other public sector entities. BNG Bank seeks to maintain a substantial market share in the Dutch public-and semi-public sector's long-term zero risk-weighted financing, and at least 90% of its loans need to qualify as promotional. A promotional loan is granted to promote the public policy objectives of central or regional governments in an EU member state.

BNG Bank is owned by the Dutch state (50%) and by municipal and regional authorities (50%, by a combination of Dutch provinces and municipalities and a regional public water authority). The bank's articles of association forbid non-public or commercial ownership, and we expect the Dutch government and public entities to maintain their shareholding. Although no explicit guarantee exists between the Dutch state and BNG Bank, the government has a substantial involvement in the bank and provides a backstop guarantee to a high proportion of the bank's loans.

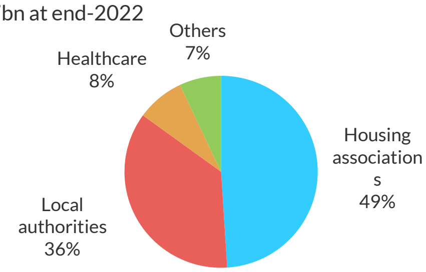
Performance Through the Cycle



[a] Annualised
Source: Fitch Ratings, Fitch Solutions, BNG Bank

Long-Term Lending by Sector

EUR87bn at end-2022



Source: Fitch Ratings, BNG Bank

Risk Profile

Inherently Low Credit Risk

BNG Bank's very low appetite for credit risk is the result of its policy role. Most of the loans granted in 2022 and 1H23 (more than 90%) were zero risk-weighted (solvency-free) having been either extended to the Dutch public-sector bodies, or guaranteed by the Dutch housing guarantee fund Waarborgfonds Sociale Woningbouw or the Dutch healthcare guarantee fund Waarborgfonds voor de Zorgsector, and therefore, ultimately, the Dutch state.

Non-guaranteed exposures are permitted if they have a social impact and if borrowers are at least 50% publicly owned, and include project financing in property energy transition and renewable energy.

The bank does not have a trading book and has a low exposure to market risk, which is mostly in the form of interest rate and foreign exchange risk. Foreign-currency risk arises from substantial funding in foreign currency (2022: 30%; 10M23: 40%), while lending is exclusively in euros. The risk is fully hedged through swaps.

Financial Profile

Asset Quality

Customer loans account for about 70% of total assets. About 50% are loans to housing associations, about one-third to municipalities, and the rest is evenly split between healthcare and other sectors. The bank's asset quality metrics are strong due to its inherently low-risk exposures and the majority of loans being state-related. Its impaired loans ratio was stable at 0.8% of gross loans at end-June 2023. Loan impairment charges are generally small and infrequent. BNG Bank released EUR11 million of loan loss allowances in 1H23 and is reviewing its provisioning in the healthcare portfolio.

The securities portfolio is low risk and almost exclusively investment-grade, of which about two-thirds is rated 'AAA'. It is mainly invested in highly-rated sovereign bonds, residential mortgage backed securities, and covered bonds.

Earnings and Profitability

BNG Bank's profitability is lower than that of larger Dutch commercial banks due to its public policy role. Profit maximisation is not a key strategic objective, as its shareholders require a modest return on equity. The bank's return on equity has been around 6% for the past five years.

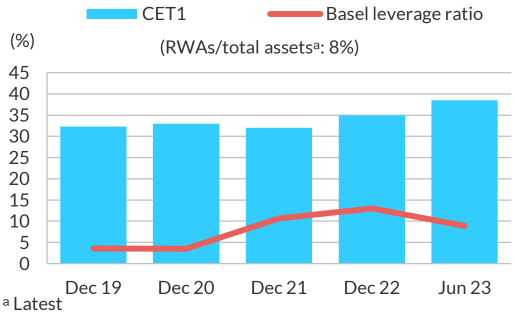
Net interest income increased by 22% yoy in 1H23 and is the main driver of BNG Bank's revenue (2019–2022 average: 85%). The bank's net interest margin has been narrow, at 30bp–50bp over the past five years, but stable. BNG Bank has an exceptionally low cost of funding due to its high rating and investors' trust in the bank's strong relationship with the state. Fitch believes the bank's business model would be barely viable otherwise.

Despite a moderate increase in expenses, the operating profit/risk-weighted assets ratio was stable overall. The annualised 1H23 net income is slightly below 2022 level, mainly due to losses on the sale of securities.

Capital and Leverage

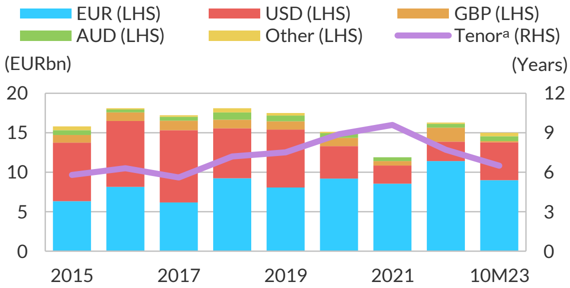
BNG Bank's solid risk-weighted regulatory capital ratios benefits from zero risk-weights on a large proportion of its loan book. Its common equity Tier 1 ratio, calculated under the standardised approach, was a sound 38.5% at end-June 2023, well above the internal 22% target. The leverage ratio was also sound at 8.9% at end-June 2023, which is about 400bp lower than at end-2022, reflecting BNG Bank's balance sheet increase.

Capital Ratios



[a] Latest
Source: Fitch Ratings, Fitch Solutions, BNG Bank

Raised Funding by Currency



[a] Weighted average
Source: Fitch Ratings, BNG Bank

Funding and Liquidity

BNG Bank does not collect retail deposits, but has a stable and diverse investor base. The bank actively issues debt in various currencies to cover its annual refinancing needs (EUR14 billion–EUR15 billion). Above 70% of this amount had been raised at end-June 2023, and the 2023 funding programme was completed by early December. BNG Bank has maintained strong access to the debt capital markets through various credit cycles, due to its links to the state and high ratings. BNG Bank does not issue secured debt and could use its entire solvency-free loan portfolio as collateral to obtain funding from the ECB, if needed.

Liquidity is sound and managed prudently, in Fitch's view. The ample liquid assets buffer mostly consists of cash and 'AAA' or 'AA' rated liquid securities (end-June 2023: 25% of total assets). The bank's liquidity coverage ratio fell slightly (end-June 2023: 179%) 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 capital	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
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 for 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 injections may come with a lag, for example, because they 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

ESG Relevance to Credit Rating

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.

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.

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