

Research Update:

BNG Bank 'AAA/A-1+' Ratings Affirmed; Outlook Stable

November 23, 2023

Overview

- We expect BNG Bank will continue to play a vital role in providing low-cost, stable financing to the Dutch public sector, such as social housing providers, municipalities, and the health care entities.
- We assume BNG Bank will benefit from very strong capitalization, thanks to its low-risk exposures.
- We therefore affirmed our 'AAA' long-term and 'A-1+' short-term issuer credit ratings on BNG Bank.
- The outlook on the 'AAA' long-term rating on BNG Bank is stable, mirroring that on the long-term rating on Netherlands.

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Rating Action

On Nov. 23, 2023, S&P Global Ratings affirmed its 'AAA' long-term and 'A-1+' short-term issuer credit ratings on the Netherlands-based BNG Bank. The outlook on the long-term rating is stable.

Rationale

We affirmed the ratings on BNG Bank because we expect the bank will continue enjoying strong support from the Dutch government. We also think the bank will maintain very strong capitalization and good asset quality over the next 24 months.

Reassessing BNG Bank's €309 million additional tier 1 (AT1) capital equity content leads us to think they have no equity content. As such, we now exclude them from our calculation of the total adjusted capital. This change had a neutral effect on the bank's robust capital adequacy position. We base our view of no equity content on BNG Bank being overcapitalized with common equity tier 1 capital (CET1) ratio of 38.53% as of mid-2023, which is well above the minimum regulatory capital requirement of 9.75%. Therefore, we think there is a high probability BNG Bank

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will exercise the call option on its AT1 instruments outstanding without replacing them with equivalent instruments. BNG Bank already redeemed one of the tranches (€424 million) in May 2022, and the redemption of the outstanding tranche can be done in May of every year. Moreover, we think that BNG Bank, with its important public role and significant government ownership, would receive pre-emptive extraordinary government support, if needed, and such support would likely come way before a trigger event on the At1 instruments has occurred. This assumption is in line with our view that the EU's Bank Recovery and Resolution Directive (BRRD) does not appear to prevent the Dutch government, in its capacity as an existing shareholder, from granting support to Dutch-domiciled government-related entities (GREs) in going-concern situations--even if they are subject to BRRD.

We expect that BNG Bank will continue to benefit from very strong capitalization, thanks to its low-risk exposures. At end-2022, our risk-adjusted capital (RAC) ratio for BNG Bank stood at 24.5%, well above the level typically exhibited by commercial banks. We now longer include the AT1 capital in the RAC and anticipate that the ratio will hover between 26% and 27% over the next two years, which is comfortably above the 15% threshold for the rating.

We continue to equalize the issuer credit rating on BNG Bank with the sovereign rating on the Netherlands (unsolicited AAA/Stable/A-1+). This will remain the case as long as we expect that the Dutch government is willing and able to provide extraordinary support to BNG Bank if needed. We also consider the Dutch government's policy commitment to maintaining its GREs at a 'AAA' rating level. Our expectation is based on the bank's important public sector mandate and its combined ownership by the Dutch state (50%) and 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 Bank plays a vital role in providing low-cost, stable, constant financing to the Dutch public sector. This role also supports municipalities in helping the country achieve its Paris Agreement goals. Furthermore, we think that BNG Bank's links with other entities--such as Waarborgfonds Social Woningbouw (WSW) and Waarborgfonds voor de Zorgsector (WfZ), 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 since 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 of its strategy and capital policy.

Outlook

Our stable outlook on the long-term rating on BNG Bank mirrors that on the long-term rating on the Netherlands. As long as we consider support for BNG Bank from the Dutch government almost certain, the long-term issuer credit rating on BNG Bank is likely to align with that on the sovereign.

As a result, any rating action on the Netherlands would likely result in a similar action on the bank.

Ratings Score Snapshot

Issuer Credit Rating	AAA/Stable/A-1+
SACP	a+
Anchor	bbb+
Business position	Adequate
Capital and earnings	Very strong
Risk position	Strong
Funding	Adequate
Liquidity	Adequate
Comparable ratings analysis	0
Support	+4
ALAC support	0
GRE support	+4
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

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- 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
- 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: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Netherlands 'AAA/A-1+' Ratings Affirmed; Outlook Stable, Oct. 21, 2023
- Banking Industry Country Risk Assessment: The Netherlands, Sept. 29, 2023

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- BNG Bank N.V., Sept. 1, 2023
- Waarborgfonds Sociale Woningbouw, July 18, 2023
- Waarborgfonds voor de Zorgsector, July 18, 2023

Ratings List

Ratings Affirmed

BNG Bank N.V.

Issuer Credit Rating AAA/Stable/A-1+

BNG Bank N.V.

Senior Unsecured AAA

Commercial Paper A-1+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceid/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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