

CREDIT OPINION

31 July 2024

Update



RATINGS

BNG Bank N.V.

Domicile	The Hague, Netherlands
Long Term CRR	Aaa
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Aaa
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	Aaa
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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BNG Bank N.V.

Update following ratings affirmation

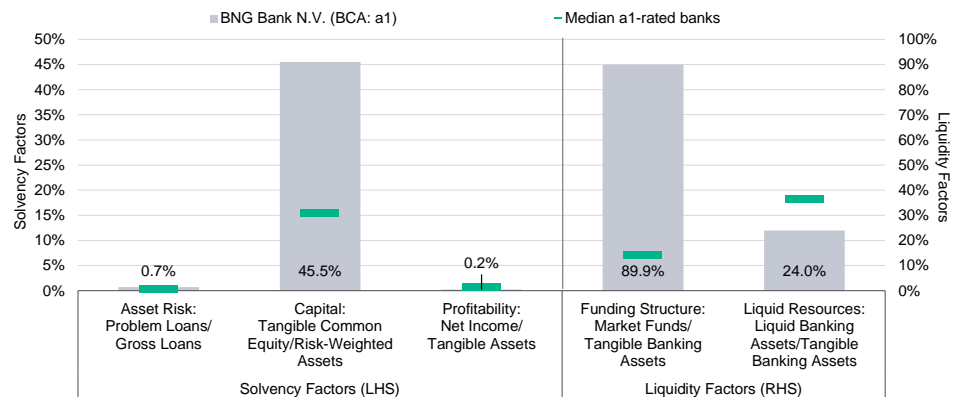
Summary

[BNG Bank N.V.](#)'s (BNG) Baseline Credit Assessment (BCA) of a1 reflects the bank's (1) role as the largest lender to the Dutch public sector; (2) entrenched franchise in a niche market, which results in exceptional stability in its fundamentals; (3) very high asset quality because its portfolio is mostly comprised of loans to Dutch public entities; 4) high capitalisation; and (5) adequate funding profile and liquidity position.

BNG's Aaa deposit and senior unsecured ratings reflect (1) the bank's a1 BCA; (2) the application of our Advanced Loss Given Failure (LGF) analysis, resulting in a two-notch uplift from the bank's Adjusted BCA of a1, given the significant volume of senior unsecured debt; and (3) a two-notch government support uplift, reflecting a very high support probability from the [Government of the Netherlands](#) (Aaa stable) because of the bank's public ownership and its role as one of the main providers of financing to the Dutch public sector.

Exhibit 1

Rating Scorecard - Key financial ratios



Source: Moody's Financial Metrics

Credit strengths

- » Largest lender to the Dutch public sector, fully owned by Dutch public entities
- » High asset quality, reflected in the very low level of nonperforming loans (NPLs)
- » Financial performance commensurate with the bank's public policy role
- » Large volume of senior debt, resulting in the bank's deposit and senior unsecured debt ratings benefiting from a very low loss given failure rate, which results in a two-notch uplift from the BCA
- » Very high probability of government support, resulting in a two-notch uplift for the bank's debt and deposit ratings

Credit challenges

- » Borrower concentration, given the bank's narrow public policy mandate
- » Mismatches between assets and liabilities, mitigated by an ample liquidity portfolio and diverse funding

Outlook

The stable outlook on BNG's long-term deposit and senior unsecured debt ratings reflects the bank's stable financial metrics and its established franchise backed by a public policy mandate in the Netherlands, with a track record of stable market shares.

Factors that could lead to an upgrade

Upward pressure on BNG's BCA could result from a lower reliance on wholesale funding, which is unlikely given the bank's business model. However, an upgrade of the bank's BCA will not trigger any upgrade of the bank's deposit and senior unsecured ratings, which are already at Aaa.

Factors that could lead to a downgrade

Downward pressure on BNG's BCA could result from (1) a deterioration in the creditworthiness of the Dutch public sector, (2) a significant increase in the bank's non-0% risk-weighted assets, (3) a significant increase in its funding gaps, or (4) a deterioration in its solvency. A downgrade of the BCA could result in a downgrade of all the ratings. BNG's ratings would also be downgraded if the rating of the Dutch government was downgraded.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2

BNG Bank N.V. (Consolidated Financials) [1]

	12-23 ²	12-22 ²	12-21 ²	12-20 ²	12-19 ²	CAGR/Avg. ³
Total Assets (EUR Million)	112,999.0	108,767.0	144,204.0	132,659.0	126,118.0	(2.7) ⁴
Total Assets (USD Million)	124,824.9	116,081.3	163,398.4	162,315.7	141,567.2	(3.1) ⁴
Tangible Common Equity (EUR Million)	4,371.0	4,269.0	4,117.0	4,078.0	3,875.0	3.1 ⁴
Tangible Common Equity (USD Million)	4,828.4	4,556.1	4,665.0	4,989.7	4,349.7	2.6 ⁴
Problem Loans / Gross Loans (%)	0.7	0.9	0.6	0.4	0.4	0.6 ⁵
Tangible Common Equity / Risk Weighted Assets (%)	--	37.4	32.3	33.6	31.4	33.7 ⁶
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	13.4	19.2	12.6	9.3	7.9	12.5 ⁵
Net Interest Margin (%)	0.5	0.4	0.3	0.3	0.3	0.4 ⁵
PPI / Average RWA (%)	--	3.5	2.7	2.7	3.0	3.0 ⁶
Net Income / Tangible Assets (%)	0.2	0.3	0.1	0.2	0.1	0.2 ⁵
Cost / Income Ratio (%)	35.9	28.2	32.2	30.0	24.7	30.2 ⁵
Market Funds / Tangible Banking Assets (%)	90.3	91.0	93.1	91.7	91.6	91.5 ⁵
Liquid Banking Assets / Tangible Banking Assets (%)	23.0	24.2	26.8	10.3	9.7	18.8 ⁵
Gross Loans / Due to Customers (%)	1510.7	1876.3	1988.4	1592.3	1586.9	1710.9 ⁵

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Ratings and company filings

Profile

Founded in 1914 and headquartered in The Hague, BNG is a Dutch¹ credit institution specialised in lending to (semi-)publicly owned institutions. BNG has no branches² and does not provide financing to private customers. The bank's clients are mainly local authorities and public-sector institutions in the areas of housing, healthcare, education and public utilities.

The bank's shareholders are exclusively Dutch public authorities; 50% of the bank's shares are held by the Dutch State and the remaining 50% are held by municipal authorities, provincial authorities and a district water board.

Detailed credit considerations

BNG is the largest lender to the Dutch public sector and is fully owned by Dutch public entities

BNG's bylaws restrict its ownership to the Dutch public sector. This ownership structure has been stable since 1921 and is unlikely to change, given the bank's mandate to act as a lender to the Dutch public sector. The bank's long-term loan portfolio was €89.4 billion as of the end of December 2023, up €1.4 billion from year-end 2022. Total new long-term lending amounted to €11.3 billion in 2023, which was 8% lower than the 2022 level. Demand from social housing remained elevated and increased in the public sector to €46.9 billion in 2023 from €44.8 billion a year earlier, while long-term loans to local authorities diminished by €1.5 billion to €29.4 billion in 2023.

The bank's market share of lending to local governments, housing associations and healthcare institutions (core clients) was 65.7% in terms of new long-term lending in 2023. We expect the bank to maintain its position in the Dutch public-sector financing business given its mandate, ownership and advantageous funding costs compared with those of commercial banks.

As a bank established with an explicit public policy mandate, BNG benefits from an entrenched franchise in a niche market. These conditions result in exceptional stability in terms of asset quality, capital and profitability, supporting the bank's ongoing operating performance and resulting in a very low risk profile. BNG is also relatively insulated from a prolonged economic slowdown if it were to arise. This feature is reflected in a qualitative positive adjustment of one notch in our scorecard.

High asset quality, reflected in the very low level of NPLs

BNG's asset quality is very high, because its portfolio is mostly comprised of loans to Dutch public entities, which we reflect in our assigned Asset Risk score of aa2.

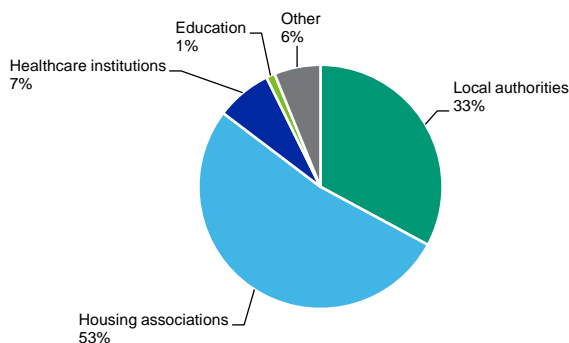
Despite market volatility, BNG has consistently been able to lend to the Dutch public sector at advantageous rates, given the bank's low funding costs compared with those of commercial banks. The bank's narrow public policy mandate translates into concentrations in its loan portfolio. However, these concentrations mainly relate to Dutch local governments, housing associations and healthcare actors that benefit from guarantees on their liabilities from the central government (91% of long-term lending, or €81.8 billion as of year-end 2023 compared to €81.2 billion a year ago³). Therefore, they do not entail any capital charge.

Around 9% of the bank's lending was subject to a capital charge at year-end 2023. These exposures consist of loans, for example, to public-private partnerships. Concentration risks in such loans are modest and volumes are closely monitored. As defined in its strategic framework "Our Road to Impact", BNG will exclusively focus on the public domain in the Netherlands. The bank does not expect any substantial increase in the share of non-zero risk weighted loans.

The bank's non-performing exposure totaled €599 million as of end-December 2023, representing 0.7% of loans and advances, decreasing from 0.9% at year-end 2022. As of year-end 2023, BNG received a €382 million guarantees from the government with respect to non-performing exposures.

Exhibit 3

Breakdown of the long-term loan portfolio as of year-end 2023



Source: Company reports

BNG's securities portfolio (€20 billion as of 31 December 2023) predominantly consists of High-Quality Liquid Assets (HQLA) held as a liquidity buffer. The portfolio is primarily invested in government debt, bonds with government guarantees and covered bonds. This portfolio is mainly composed of securities rated from Aaa to A (97%) and securities in the Baa range (3%). Non-investment-grade securities only represent 0.2% of the portfolio. BNG's overall exposures to the weaker European sovereigns⁴ through both its loan and securities portfolios amounted to around €0.4 billion as of end-December 2023.

Strong capital in view of low-risk lending activity

BNG's capitalisation is commensurate with its low-risk assets, reflected in a Capital Score of aa1.

The bank's Common Equity Tier 1 capital ratio was 43% as of year-end 2023 (from 35% a year earlier), compared with the regulatory requirement of 10.00% for 2024⁵. The bank's Tier 1 capital includes €309 million of Additional Tier 1 (AT1) capital securities issued in 2016. The bank redeemed the AT1 instruments issued in 2015 (€423.8 million) in May 2022. As of end-December 2023, BNG's Tier 1 leverage ratio was 13% (year-end 2022: 13%), above the minimum regulatory requirement of 3%.

BNG's financial performance is in line with the bank's public policy role

Our assigned score of ba3 reflects BNG's moderate profitability, in line with its public policy role, and is adjusted upwards by one notch to reflect the quality and stability of earnings.

Like other government-related specialised lenders, BNG must generate sufficient profit to grow its capital in line with its loan portfolio and comply with regulatory capital requirements. However, the bank must also balance this capital growth and profit objectives with the provision of efficient, low-cost funding to local governments and related public sectors.

In 2023, BNG reported a net profit of €254 million, down 15% from the strong performance in 2022. Interest income increased by 17%, driven by higher interest rates and longer maturities on loans to clients⁶. The positive performance was offset by a negative €78 million as result of financial transactions compared to a positive €113 million in 2022, mainly attributable to spreads and interest rate volatility which impacted the result on the liquidity portfolio and the result on hedge accounting. Additionally, operating expenses increased by 23% to €142 million in 2023.

Like most other specialised lenders, BNG's costs are low relative to its total assets. The bank's adjusted cost-to-income ratio was still relatively low in 2023, yet increasing to 36% from 28% in 2022 and 32% in 2021.

We expect increasing expenses, driven by wage inflation but also investments in systems and staff, to continue to constrain BNG's profitability. We nonetheless believe that the bank's business model, its dominant position in the market and close relationships with its clients (part of which are also its shareholders) will continue to provide it with sufficient flexibility in setting up margins, thereby preserving the necessary level of profit.

Funding profile and liquidity are adequate

Our assigned combined liquidity score of baa2, two notches above the macro-adjusted score, reflects the diversified funding strategy of the bank, its strong standing in the capital markets, together with its comfortable liquidity buffer and its material drawing capacity.

BNG is almost entirely wholesale funded and, therefore, relies on capital markets for its financing. The bank deploys a diversified funding strategy by issuing debt in multiple currencies and markets, with the aim of reaching out to a wide array of investors. BNG's asset and liability management entails some maturity mismatches. The bulk of assets has remaining maturities above five years, whereas a greater proportion of liabilities have maturities remaining below five years. Maturity mismatches could have negative implications for the bank's interest margins (whereby the bank's spreads would rise significantly for a prolonged period and imply an increase in the refinancing cost of outstanding loans).

Liquidity risk is managed through euro commercial paper and US dollar commercial paper programmes and a comfortable liquidity buffer (constituting highly liquid assets - eligible to the liquidity coverage ratio - worth €13 billion as of 31 December 2023). The bank also has an immediate drawing capacity of €29 billion, collateralised by public-sector loans (pre-pledged) at the European Central Bank. Additionally, most of BNG's loan book can be used as collateral for central bank funding.

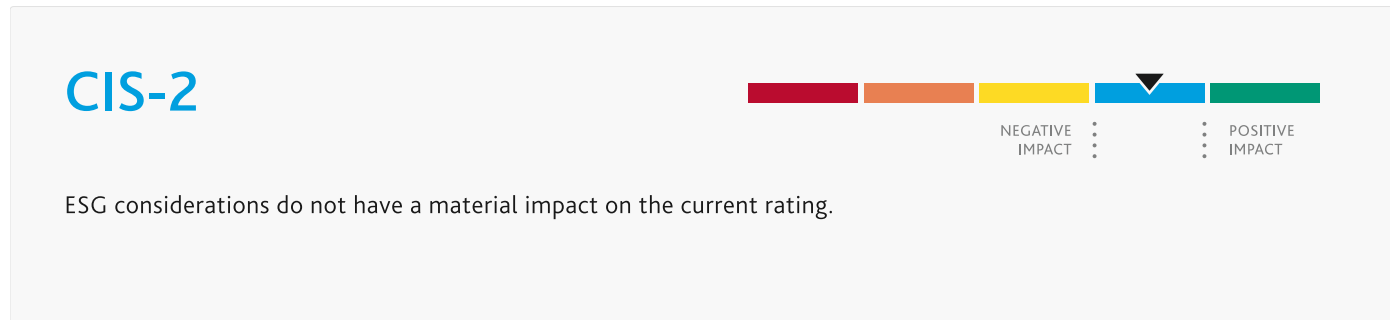
The funding gaps are maintained within reasonable limits in view of BNG's good standing in the capital markets. As bonds issued by a promotional bank (an institution where lending to the public sector represents more than 90% of total loans), the securities issued by BNG are classified as "level 1" category assets⁷. BNG's bonds are also eligible for the European Central Bank's public-sector purchase programme aimed at stimulating the economy. These measures have further enhanced financial institutions' appetite for the bank's securities. As of year-end 2023, BNG's liquidity coverage ratio (LCR) was 143% (down from to 189% in 2022) and its net stable funding ratio (NSFR) was 119% (from 125% in 2022), in compliance with the European Union (EU) prudential requirements.

Environmental, social and governance considerations

BNG N.V.'s ESG credit impact score is CIS-2

Exhibit 4

ESG credit impact score

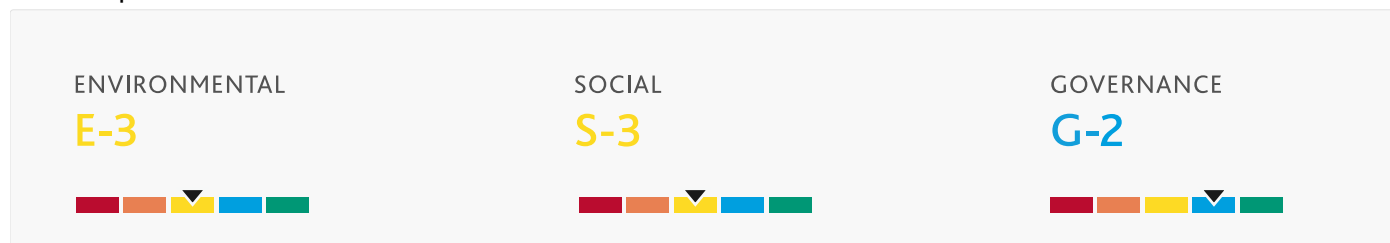


Source: Moody's Ratings

BNG's **CIS-2** indicates that ESG considerations have no material impact on the current ratings.

Exhibit 5

ESG issuer profile scores



Source: Moody's Ratings

Environmental

BNG faces moderate exposure to environmental risks. Given its role as lender to the public sector, BNG's exposure to environmental risks is closely aligned to that of the Dutch sovereign, which primarily stems from its exposure to physical climate risks, and in particular to rising sea levels.

Social

BNG faces moderate social risks in relation to regulatory and litigation risks, which require the bank to meet strong compliance standards. The exposure to customer relation risks is however below the industry average, as the bank has only modest exposures to private companies and no retail activity with individuals.

Governance

BNG faces neutral-to-low governance risks. The bank's risk management policies and procedures are in line with the industry's best practices. BNG has a proven track record of contained risk appetite in its lending and investment activities. BNG's simple legal structure reflects its domestic franchise as a public sector lender. Ownership is concentrated within the Dutch public sector, with the Dutch State owning half of the bank's shares and the other half being held by municipal authorities, provincial authorities and a water company board. However, the large presence of independent administrators, the alignment between the bank's public policy role and the interest of the controlling shareholders as well as the domestic developed institutional framework mitigate associated governance risks.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Loss Given Failure (LGF) analysis

Despite its ownership and public mandate, BNG falls in the scope of the EU Bank Resolution and Recovery Directive (BRRD), which we consider to be an operational resolution regime. Nonetheless, the Single Resolution Board (SRB) announced on 27 February 2019 that simplified obligations apply to BNG and that the preferred resolution strategy was normal insolvency law - liquidation- rather than bail-in. Thus, we apply our advanced Loss Given Failure (LGF) analysis, using our standard assumptions.

Our LGF analysis indicates a very low loss given failure for the bank's deposits and senior unsecured debt, leading to a two-notch uplift to the bank's Adjusted BCA.

Government support considerations

Despite the limitations on government support embedded in the BRRD, the scope of which includes BNG, we expect a very high probability of government support for the bank's deposits and senior unsecured debt, resulting in a two-notch uplift for both debt classes. Because of the bank's ownership and public policy mission, the probability of receiving government support is considerably greater than that of commercial banks.

The very high support assumptions include the support that would come (1) from the Dutch public sector (including the central government) acting as the shareholder of the bank, and (2) from the government stepping in to address systemic risks. BNG was designated as a domestic systemically important bank in 2015.

Methodology and scorecard

About Moody's Bank Scorecard

Our Bank Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our scorecard may materially differ from that suggested by unadjusted accounting data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 6

Rating Factors

Macro Factors							
Weighted Macro Profile	Strong +	100%					
Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2	
Solvency							
Asset Risk							
Problem Loans / Gross Loans	0.7%	aa2	↔	aa2	Quality of assets	Long-run loss performance	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded)	45.5%	aa1	↔	aa1	Risk-weighted capitalisation		
Profitability							
Net Income / Tangible Assets	0.2%	b1	↔	ba3	Earnings quality		
Combined Solvency Score		a1		a1			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	89.9%	caa3	↔	baa3	Term structure	Market funding quality	
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	24.0%	baa1	↔	a3	Additional liquidity resources		
Combined Liquidity Score		b1		baa2			
Financial Profile							
Qualitative Adjustments				Adjustment			
Business Diversification				1			
Opacity and Complexity				0			
Corporate Behavior				0			
Total Qualitative Adjustments				1			
Sovereign or Affiliate constraint				Aaa			
BCA Scorecard-indicated Outcome - Range				aa3 - a2			
Assigned BCA				a1			
Affiliate Support notching				0			
Adjusted BCA				a1			
Balance Sheet							
		in-scope (EUR Million)		% in-scope		at-failure (EUR Million)	% at-failure
Other liabilities		7,614		7.0%		8,226	7.6%
Deposits		5,997		5.5%		5,385	5.0%
Preferred deposits		4,438		4.1%		4,216	3.9%
Junior deposits		1,559		1.4%		1,169	1.1%
Senior unsecured bank debt		91,327		84.2%		91,327	84.2%
Dated subordinated bank debt		18		0.0%		18	0.0%
Preference shares (bank)		309		0.3%		309	0.3%
Equity		3,256		3.0%		3,256	3.0%
Total Tangible Banking Assets		108,521		100.0%		108,521	100.0%

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF	Assigned	Additional	Preliminary
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	88.5%	88.5%	88.5%	88.5%	3	3	3	3	0	aa1
Counterparty Risk Assessment	88.5%	88.5%	88.5%	88.5%	3	3	3	3	0	aa1 (cr)
Deposits	88.5%	3.3%	88.5%	87.5%	2	3	2	2	0	aa2
Senior unsecured bank debt	88.5%	3.3%	87.5%	3.3%	2	2	2	-	-	-

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	aa1	1	Aaa	Aaa
Counterparty Risk Assessment	3	0	aa1 (cr)	1	Aaa(cr)	
Deposits	2	0	aa2	2		Aaa
Senior unsecured bank debt	-	-	-	2	Aaa	Aaa

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Ratings

Ratings

Exhibit 7

Category	Moody's Rating
BNG BANK N.V.	
Outlook	Stable
Counterparty Risk Rating	Aaa/P-1
Bank Deposits	Aaa/P-1
Baseline Credit Assessment	a1
Adjusted Baseline Credit Assessment	a1
Counterparty Risk Assessment	Aaa(cr)/P-1(cr)
Issuer Rating	Aaa
Senior Unsecured	Aaa
Commercial Paper	P-1

Source: Moody's Ratings

Endnotes

1 The Netherlands - Banking System Profile

2 BNG has one subsidiary that is being unwound.

3 Off-balance sheet commitments amount to €10.6 billion, which slightly decrease compared to 2022. No breakdown by sector is provided.

4 Italy, Portugal and Spain.

5 This ratio includes a 4.5% Pillar 1 requirement, a 2.0% Pillar 2 requirement, a 1% Other Systematically Important Institutions buffer and a 2.5% capital conservation buffer.

6 Based on our calculations, net interest margin was 48 bps of average interest earning assets in 2023, up from 36 bps in 2022 and above its 30-40 bps usual range.

7 The highest quality of the High-Quality Liquid Assets of the liquidity coverage ratio

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