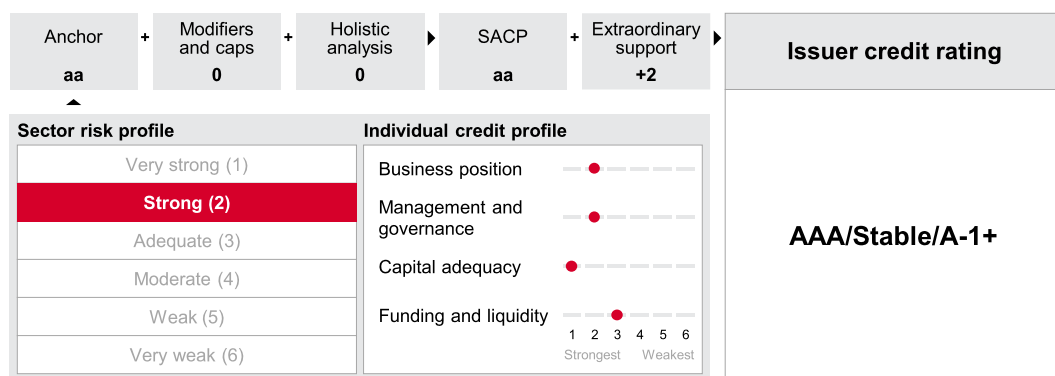


Research Update:

BNG Bank 'AAA/A-1+' Ratings Affirmed Following Transition To Public Sector Funding Agencies Methodology; Outlook Stable

October 22, 2024



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Overview

- We think that our revised criteria for rating public sector funding agencies (PSFAs), published July 26, 2024, better captures the underlying relative creditworthiness of BNG Bank N.V.(BNG), considering the bank's business model and its leading role in providing financing to the low-risk Dutch public sector.
- Our assessment of BNG's stand-alone credit profile (SACP) has improved by two notches to 'aa', reflecting that we now more closely link our analysis to the low credit risk profile of the underlying sectors where the bank lends and because of the bank's strong business position compared with other PSFAs we rate.
- In addition, we revised to extremely high from almost certain our assessment of the likelihood of BNG receiving government support since we now incorporate government support features in our assessment of the bank's SACP.
- We affirmed our 'AAA' long-term and 'A-1+' short-term issuer credit ratings on BNG. The outlook is stable.

Rating Action

On Oct. 22, 2024, S&P Global Ratings affirmed its 'AAA' long-term and 'A-1+' short-term issuer credit ratings on the Netherlands-based BNG Bank N.V. (BNG). The outlook is stable.

We also affirmed our 'AAA' issue rating on BNG's senior unsecured debt and 'A-1+' short-term rating on the bank's commercial paper.

Outlook

The stable outlook reflects our view that BNG will maintain its solid market position and that the risks associated with the municipal and social housing sectors will remain low given strong support from government guarantees. The stable outlook also captures our expectation that BNG's prudent management policies will continue to mitigate risks by maintaining solid capital adequacy and adequate liquidity, supported by the diversified funding sources and access to liquidity at the central bank.

Downside scenario

We could lower our ratings if BNG's SACP deteriorated by more than one notch, following, for example, weaker asset quality, diminished market share, or changes in the management policies and procedures that would constrain the bank's capital or liquidity positions. We could also lower the rating on BNG if we downgraded the Netherlands (unsolicited AAA/Stable/A-1+).

Rationale

The affirmation follows the application of our revised criteria "Methodology For Rating Non-U.S. Public-Sector Funding Agencies," published July 26, 2024, on RatingsDirect. Under this methodology, we assess the SACP of BNG as 'aa'. The criteria defines a PSFA's mission as providing cost-efficient lending to public-sector entities in their country of domicile. We think this definition better captures risks to BNG's business model since the bank lends predominately to the Dutch municipalities and social housing providers.

The ratings on BNG are supported by our assumption that the bank will continue playing a key role in providing financing to the Dutch public sector and sustain a strong market position relative to other PSFAs we rate. We now more closely link our assessment of BNG's SACP to the low credit risk profile of the underlying sectors the bank serves, and we expect these sectors will continue to benefit from government guarantees. Our ratings also incorporate BNG's management efforts in maintaining a solid capital buffer, adequate liquidity, and a diversified funding base.

We now see an extremely high likelihood of government support, versus almost certain previously. This because we capture in our assessment of the bank's sector risk profile some of the government support features such as guarantees provided to social housing associations. Moreover, the extremely high assessment is underpinned by our view of BNG's critical role for, and very strong link with, the Dutch government.

Sector risk profile: The government guarantees allocated to the social housing providers BNG lends to underpin our assessment of low risks

BNG has a solid track record of fulfilling its public policy role of providing low-cost financing to Dutch municipalities and social housing providers. BNG was founded more than 100 years ago as the bank for the Dutch municipalities. The Dutch state owns 50% of the bank, and the municipalities and provinces own the other 50%.

We view the overall sector risk profile for BNG as strong. About 50% of BNG's long-term lending is to the social housing sector, and around 33% is to local authorities.

We regard the industry risk for all Netherlands-based social housing providers as low (see "Regulatory Framework Assessment: Social Housing Providers In The Netherlands," published July 23, 2024). The very strong regulatory framework, in our view, is supported by the Dutch housing providers benefiting from the guarantee fund Waarborgfonds Sociale Woningbouw (WSW) provides to the Dutch social housing associations. Furthermore, we think that Dutch municipalities operate in a supportive institutional framework characterized by large support from the central government in the form of grants (see "Institutional Framework Assessment: Dutch Municipalities Benefit From Central Government Transfers," published Oct. 17, 2024, on RatingsDirect).

Individual credit profile: Strong market share, sophisticated management, robust capitalization and adequate liquidity with diversified funding base support the ICP

BNG's public mandate supports its leading position in a niche, low-risk market. The bank covers about 50% of the Dutch public sector's financing needs, and we expect that it will remain a leading player in the segment, alongside main competitor Nederlandse Waterschapsbank N.V. Competition in this market is quite contained, especially from private commercial banks. BNG's market position compares in line with that of other rated PSFAs like Kommunalbanken and Kommuninvest that have a similar market share of roughly 50% of lending to the respective public sector.

We assume social housing entities will continue to dominate BNG's portfolio. Over the past few years, BNG has invested in different asset classes, such as the energy and infrastructure sector, where the bank undertakes project financing in areas such as property energy transition and renewable energy. We expect this type of investment to not exceed more than 10% of its lending portfolio. The bank's low-risk customer base and niche market positioning support its earnings capacity through the credit cycle, in our view.

We expect that BNG will maintain a very strong capitalization thanks to its low-risk exposures and prudent capital management. Our risk-adjusted capital (RAC) ratio after adjustments for BNG now factors in a charge for single-name concentration on the banks' underlying borrowers. At year-end 2023, we calculated that BNG's RAC after adjustments equaled to 29.7% very comfortably above the 15% threshold for the very strong category.

The bank's RAC ratio before adjustments improved to 33.6% in December 2023 from 24.5% a year prior. This mainly points to lower derivatives exposure coming in lower than 3% of total assets at end-2023. Consequently, we no longer incorporate a credit valuation adjustment (CVA) charge in our RAC ratios. .

We view BNG's overall funding and liquidity profile as adequate. We consider that risks to a weak one-year funding gap of 0.66x as of June 2024 RE balanced by a broad access to a well-established and diversified capital market. The bank enjoys a large and diversified investor base, demonstrated by its currency funding mix (43% euro, 44% U.S. dollar, 1% Australian dollar, 2% Swiss Franc, 2% Chinese yuan renminbi, and 7% British pound sterling) and geographical

funding mix (51% Europe including the U.K., 30% Asia, 13% Americas, and 6% Middle East and Africa).

Our adequate assessment of BNG's liquidity considers our estimated 12-month liquidity ratio of 0.88x as of June 2024. We calculate the ratio under stressed market conditions and considering no access to the capital markets. We also incorporate BNG's direct and meaningful access to the short-term liquidity from the ECB since most of the bank's loans could be pledged as collateral at the ECB. The credit line BNG can draw upon at the ECB due to this collateral equaled almost €34 billion as at Oct. 8, 2024. We think that ECB has both willingness and ability to provide liquidity support to BNG if needed.

Extraordinary support: Extremely high likelihood of support from the Dutch government

The 'AAA' rating on BNG is supported by its critical role and very strong link with the Dutch government. Therefore, we foresee an extremely high likelihood that the central government would provide timely and sufficient extraordinary support to BNG in case of need. Specifically, we look at BNG's:

- Critical role as one of the state's two public sector banks with a public policy mandate. BNG Bank plays a vital role in providing low-cost, stable, constant financing to the Dutch public sector, which is a top public policy goal. This role also supports municipalities in helping the country achieve its Paris Agreement goals. Private sector commercial banks are typically willing to finance only a small part of the public sector's financing needs due to lower margins and increased illiquidity and are not able to compete with the low-cost financing that BNG Bank provides. In the absence of public sector banks, the government would likely have to finance the public sector directly.
- Very strong link, considering the ownership by the Dutch state (50%) and other Dutch public authorities (50%) and no explicit guarantees on the bank's debt. There is no legal framework in place providing explicit support from the government. BNG is subject to EU state aid rules and The Bank Recovery and Resolution Directive (BRRD). Our 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. The bank's strategy and capital/dividend policy is approved by the Ministry of Finance (MOF) through regular meetings. BNG's default, while very unlikely, could result in significant reputational damage for the government.

Table 1

BNG Bank N.V.--Selected Indicators

| (Mil. €) | 2023 | 2022 | 2021 | 2020 | 2019 |
|--------------------------|---------|---------|---------|---------|---------|
| Business position | | | | | |
| Total adjusted assets | 115,540 | 112,074 | 149,057 | 160,359 | 149,689 |
| Customer loans (gross) | 90,596 | 89,782 | 89,975 | 89,152 | 88,472 |
| Growth in loans (%) | 0.9% | -0.2% | 0.9% | 0.8% | 4% |
| Net interest income | 563 | 481 | 407 | 477 | 435 |
| Noninterest expenses | 179 | 167 | 159 | 141 | 126 |

Table 1

BNG Bank N.V.--Selected Indicators (cont.)

| (Mil. €) | 2023 | 2022 | 2021 | 2020 | 2019 |
|--|---------|---------|---------|---------|---------|
| Capital and risk position | | | | | |
| Total liabilities | 111,128 | 107,768 | 143,995 | 155,262 | 144,802 |
| Total adjusted capital | 4,238 | 4,130 | 4,743 | 4,705 | 4,537 |
| Assets/capital (%) | 27 | 27 | 31 | 34 | 33 |
| RAC ratio before adjustments (%) | 33.6 | 24.5 | 27.7 | 28.2 | 27.5 |
| RAC ratio after adjustments (%)* | 29.7 | N/A | N/A | N/A | N/A |
| Gross nonperforming assets/gross loans (%) | 0.66 | 0.94 | 0.61 | 0.44 | 0.33 |
| Funding and liquidity | | | | | |
| Liquidity ratio with loan disbursement (1 year) | 0.88§ | N/A | N/A | N/A | N/A |
| Liquidity ratio without loan disbursement (1 year) | 0.88§ | N/A | N/A | N/A | N/A |
| Funding ratio (1 year) | 0.66§ | N/A | N/A | N/A | N/A |

*RAC ratios after adjustments reflect our revised criteria for rating PSFAs, published July 26, 2024, and are therefore not available for 2019-2022. §As of end-June 2023. The funding and liquidity ratios for 2019-2022 are not available, since we applied the revised PSFA criteria published July 2024. Funding ratio is without loan disbursements. RAC--Risk-adjusted capital. N/A--Not applicable.

| | |
|-----------------------------------|------------------------|
| Issuer credit rating | AAA/Stable/A-1+ |
| Sector risk profile | Strong |
| Individual credit profile: | |
| Business position | Strong |
| Management & governance | Strong |
| Capital adequacy | Very Strong |
| Funding & liquidity | Adequate |
| Anchor | aa |
| Overriding factors and caps | 0 |
| Holistic analysis | 0 |
| Stand-alone credit profile | aa |
| Extraordinary support | +2 |

Related Criteria

- Criteria | Governments | International Public Finance: Methodology For Rating Non-U.S. Public-Sector Funding Agencies, July 26, 2024
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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

Related Research

- Full Analysis: The Netherlands, Oct. 21, 2024
- Institutional Framework Assessment: Dutch Municipalities Benefit From Central Government Transfers, Oct. 17, 2024
- Regulatory Framework Assessment: Social Housing Providers In The Netherlands, July 23, 2024

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/sourceld/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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