

Long-Term Issuer Rating: AAA

Outlook: stable

Short-Term Rating: L1

Preferred Sen. Unsec. Debt: AAA

17 September 2019

Rating Action:

Creditreform Rating affirms BNG Bank N.V.'s (Group) long-term issuer rating at 'AAA' (Outlook: stable).

Creditreform Rating (CRA) affirms BNG Bank N.V. (BNG) long-term issuer rating at 'AAA' and the short-term rating at 'L1'. The rating outlook is stable.

In addition, adjustments in our rating methodology for bank capital and debt instruments occurred because of legislative alterations in the European Union. As a result, CRA reclassifies its rating of senior unsecured debt to preferred senior unsecured debt and affirms it at 'AAA'.

Please find a complete list of rating actions regarding the bank and its affected subsidiaries at the end of this rating action paper. In addition, we refer to the more detailed report of the Group from April 2018 on our homepage.

Key Rating Drivers

CRA affirms the rating of BNG and its bank capital and debt instruments as a result of our periodic updating process for the following reasons:

- Very strong regulatory capital figures
- impressive cost-to-income ratios as well as good earnings figures
- Outstanding quality of assets
- Stability and high probability of support through the public shareholders

Rating Rationale

BNG's credit rating affirmation is primarily driven by its strong capitalization, stable and satisfying profitability figures, the outstanding asset quality and its key role in financing the Dutch local authorities and public sector intuitions.

Profitability

BNG reveals a decrease in its profitability year-over-year by 56m EUR (-14%). However, the decrease is mainly a result of unrealized changes in the market value of financial instruments recognized at fair value.

Despite the declining net profit, BNG displays still satisfying profitability figures and impressive cost-to-income ratios (CIR of 20.5% in 2018). With regard to the fiscal year 2019, BNG projects stable interest income besides a slight increase in operating expenses. Thus, we assume a steady performance in the fiscal year 2019.

Asset Situation and Asset Quality

BNG's asset-quality is at an outstanding level. The bank reveals besides a very low non-performing loans ratio and virtually non-existing write-offs on customer loans an impressive risk-weighted asset ratio of 8.8%. This low RWA ratio can be explained through the banks business model of lending to public authorities and entities (91% of the banks loans portfolio) which are ultimately backed by government bodies with a risk weight of 0%.

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Because of the role and the business model of BNG we assume that the quality of assets will remain stable at an outstanding level. However, the banks asset quality is highly dependent on the Dutch public sector.

Refinancing and Capital Quality

BNG reveals very strong regulatory capital figures. A CET ratio of 32% and a total capital ratio of 38% are outstanding (CET1 minimum requirement of 10.25% for 2019). In addition, BNG sets an internal limit of 24% for its total capital ratio, which is very considerably.

By contrast, the bank displays a relatively low leverage ratio of 3.8%. However, this is a result of the banks business model as a public financier and reflects the low risk respective the risk-weights of its loans. Moreover, the amendment of the European Capital Requirement Regulation CRR II in June 2019 includes an adjustment of the leverage ratio for promotional banks which will boost the leverage ratio of BNG and thus eliminate the general problem of promotional banks with this figure.

The ratings of BNG's bank capital and debt instruments are affected due to our rating mechanism. Due to the lack of Tier 2 Capital and a relatively low amount of AT1 Capital, CRA does not assign ratings for this bank capital classes.

Liquidity

In our opinion, the overall liquidity situation of the bank is satisfactory and ensured by its solely public sector shareholders and its role in the Dutch public sector.

Outlook

We consider the outlook of BNG's long-term issuer rating and its debt instruments as stable. This reflects our view that BNG is likely to keep its role in the Dutch public sector, its profitability in the upcoming years while maintaining a high level of capitalization.

Scenario Analysis

In a scenario analysis, BNG's rating did not change in the "best case" scenario and developed significantly worse in the "worst case" scenario. The ratings of senior unsecured debt would behave similarly based on our rating mechanism. These ratings are especially sensitive to changes in total equity and to the bank capital and debt structure in general.

An upgrade of BNG's long-term issuer rating is with regard to the current rating of 'AAA' not possible.

By contrast, a downgrade of BNG's long-term issuer credit rating and its debt instruments is likely if we see that BNG loses its role in Dutch public sector. In particular, the banks' rating is especially sensitive to changes in the creditworthiness of the Netherlands as we see a high degree of linkage between BNG and the Dutch public sector. In addition, a massive decrease in BNG's capitalization, its asset-quality or a lasting reduction of its profitability might lead to a downgrade of the BNG's long-term issuer rating and its unsecured debt as well.

CRA's rating actions at a glance

BNG Bank N.V. (Group):

- Long-Term Issuer Rating affirmed at 'AAA', stable outlook
- Short-term rating affirmed at 'L1'
- Reclassification of the senior unsecured debt rating to preferred senior unsecured debt and affirmed at 'AAA'

Ratings Detail

Bank ratings

The bank ratings are dependent on a host of quantitative and qualitative factors. An improvement in either sub-category may result in a higher rating score.

LT Issuer / Outlook / Short-Term **AAA / stable / L1**

Bank Capital and Debt Instruments Ratings

The ratings for bank capital and debt instruments are inter alia dependent on subordination and relative size of the instrument class, based on the long-term issuer rating of the bank.

Preferred senior unsecured debt (PSU): **AAA**

Ratings Detail and History

Please consult our website www.creditreform-rating.de for additional information regarding the dates of publication.

Figure 1: Ratings Detail and History

Bank Issuer Rating	Rating Date	Publication Date	Result
Initialrating	06.04.2018	09.04.2018	AAA / stable / L1
Monitoring	04.07.2018	06.07.2018	AAA / stable / L1
Rating Update	17.09.2019	19.09.2019	AAA / stable / L1
Bank Capital and Debt Instruments	Rating Date	Publication Date	Result
Senior Unsecured / T2 / AT1 (Initial)	06.04.2018	09.04.2018	AAA / A+ / A
Senior Unsecured / T2 / AT1	04.07.2018	06.07.2018	AAA / n.r. / n.r.
PSU	17.09.2019	19.09.2019	AAA

Appendix

Figure 2: Group income statement | Source: eValueRate / CRA

Income Statement	2015	2016	2017	%	2018
Income (€000)					
Net Interest Income	450.000	405.000	435.000	-0,2	434.000
Net Fee & Commission Income	28.000	24.000	23.000	+21,7	28.000
Net Insurance Income	-	-	-	-	-
Net Trading Income	16.000	152.000	181.000	-38,7	111.000
Equity Accounted Results	2.000	4.000	2.000	+100,0	4.000
Dividends from Equity Instruments	-	-	-	-	-
Other Income	3.000	3.000	2.000	+50,0	3.000
Operating Income	499.000	588.000	643.000	-9,8	580.000
Expenses (€000)					
Depreciation and Amortisation	2.000	2.000	2.000	+50,0	3.000
Personnel Expense	38.000	38.000	44.000	-9,1	40.000
Tech & Communications Expense	-	-	-	-	-
Marketing and Promotion Expense	-	-	-	-	-
Other Provisions	-	-	-	-	-
Other Expense	73.000	77.000	71.000	+7,0	76.000
Operating Expense	113.000	117.000	117.000	+1,7	119.000
Operating Profit & Impairment (€000)					
Pre-impairment Operating Profit	386.000	471.000	526.000	-12,4	461.000
Asset Writedowns	72.000	-32.000	-10.000	< -100	2.000
Net Income (€000)					
Non-Recurring Income	-	-	-	-	-
Non-Recurring Expense	-	-	-	-	-
Pre-tax Profit	314.000	503.000	536.000	-14,4	459.000
Income Tax Expense	88.000	134.000	143.000	-14,7	122.000
Discontinued Operations	-	-	-	-	-
Net Profit (€000)	226.000	369.000	393.000	-14,2	337.000
Attributable to minority interest (non-controlling interest)	0	4.000	18.000	+5,6	19.000
Attributable to owners of the parent	226.000	365.000	375.000	-15,2	318.000

Figure 3: Group key earnings figures | Source: eValueRate / CRA

Income Ratios (%)	2015	2016	2017	%	2018
Cost Income Ratio (CIR)	22,65	19,90	18,20	+2,32	20,52
Cost Income Ratio ex. Trading (CIRex)	23,40	26,83	25,32	+0,05	25,37
Return on Assets (ROA)	0,15	0,24	0,28	-0,04	0,25
Return on Equity (ROE)	5,43	8,23	7,93	-1,18	6,75
Return on Assets before Taxes (ROAbT)	0,21	0,33	0,38	-0,05	0,33
Return on Equity before Taxes (ROEbT)	7,54	11,21	10,82	-1,63	9,20
Return on Risk-Weighted Assets (RORWA)	1,77	2,99	3,38	-0,59	2,79
Return on Risk-Weighted Assets before Taxes (RORWAbT)	2,45	4,08	4,60	-0,81	3,79
Net Interest Margin (NIM)	0,31	0,36	0,44	-0,04	0,40
Pre-Impairment Operating Profit / Assets	0,26	0,31	0,38	-0,02	0,36
Cost of Funds (COF)	4,02	3,83	4,06	-0,06	3,99
Change in %Points					

Figure 4: Development of assets | Source: eValueRate / CRA

Assets (€000)	2015	2016	2017	%	2018
Cash and Balances with Central Banks	3.175.000	6.417.000	2.996.000	-47,0	1.587.000
Net Loans to Banks	14.000	14.000	12.000	> +100	82.000
Net Loans to Customers	90.251.000	88.480.000	86.850.000	-1,3	85.693.000
Total Securities	15.943.000	17.123.000	15.367.000	+17,1	18.001.000
Total Derivative Assets	39.970.000	41.847.000	34.687.000	-7,7	31.999.000
Other Financial Assets	0	0	0	-	-
Financial Assets	149.353.000	153.881.000	139.912.000	-1,8	137.362.000
Equity Accounted Investments	47.000	46.000	47.000	-6,4	44.000
Other Investments	-	-	-	-	-
Insurance Assets	-	-	-	-	-
Non-current Assets & Discontinued Ops	68.000	-	30.000	-	-
Tangible and Intangible Assets	16.000	17.000	17.000	+0,0	17.000
Tax Assets	-	-	-	-	7.000
Total Other Assets	27.000	56.000	19.000	> +100	79.000
Total Assets	149.511.000	154.000.000	140.025.000	-1,8	137.509.000

Figure 5: Development of asset quality | Source: eValueRate / CRA

Asset Ratios (%)	2015	2016	2017	%	2018
Net Loans/ Assets	60,36	57,45	62,02	+0,29	62,32
Risk-weighted Assets/ Assets	8,56	8,01	8,31	+0,48	8,80
NPLs*/ Net Loans to Customers	0,14	0,15	0,04	+0,02	0,07
NPLs*/ Risk-weighted Assets	0,99	1,05	0,33	+0,14	0,47
Potential Problem Loans**/ NPLs*	0,79	0,00	2,63	+2383,33	2385,96
Reserves/ NPLs*	38,58	32,56	89,47	-7,02	82,46
Reserves/ Net Loans	0,05	0,05	0,04	+0,02	0,05
Net Write-offs/ Net Loans	0,07	0,00	0,00	+0,00	0,00
Net Write-offs/ risk-weighted Assets	0,00	0,00	0,00	+0,00	0,00

Change in %Points

* NPLs are represented from 2018 onwards by Stage 3 Loans.

** Potential Problem Loans are represented from 2018 onwards by Stage 2 Loans.

Figure 6: Development of refinancing and capital adequacy | Source: eValueRate / CRA

Liabilities (€000)	2015	2016	2017	%	2018
Total Deposits from Banks	1.282.000	1.832.000	2.079.000	+14,6	2.383.000
Total Deposits from Customers	-	-	-	-	-
Total Debt	111.942.000	113.401.000	105.102.000	-0,6	104.516.000
Derivative Liabilities	24.947.000	26.478.000	22.184.000	-11,5	19.642.000
Securities Sold, not yet Purchased	-	-	-	-	-
Other Financial Liabilities	6.869.000	7.557.000	5.472.000	+6,0	5.800.000
Total Financial Liabilities	145.040.000	149.268.000	134.837.000	-1,9	132.341.000
Insurance Liabilities	-	-	-	-	-
Non-current Liabilities & Discontinued Ops	-	-	-	-	-
Tax Liabilities	222.000	147.000	190.000	-47,9	99.000
Provisions	-	-	-	-	-
Total Other Liabilities	86.000	99.000	45.000	+73,3	78.000
Total Liabilities	145.348.000	149.514.000	135.072.000	-1,9	132.518.000
Total Equity	4.163.000	4.486.000	4.953.000	+0,8	4.991.000
Total Liabilities and Equity	149.511.000	154.000.000	140.025.000	-1,8	137.509.000

Figure 7: Development of capital ratios | Source: eValueRate / CRA

Capital Ratios (€000)	2015	2016	2017	%	2018
Total Equity/ Total Assets	2,78	2,91	3,54	+0,09	3,63
Leverage Ratio	2,60	3,00	3,50	+0,30	3,80
Phased-in: Common Equity Tier 1 Ratio (CET1)	23,00	26,00	30,40	-	-
Phased-in: Tier 1 Ratio (CET1 + AT1)	27,00	31,90	36,70	-	-
Phased-in: Total Capital Ratio (CET1 + AT1 + T2)	-	31,90	36,70	-	-
Fully Loaded: Common Equity Tier 1 Ratio (CET1)	-	-	-	-	32,00
Fully Loaded: Tier 1 Ratio (CET1 + AT1)	-	-	-	-	38,00
Fully Loaded: Total Capital Ratio (CET1 + AT1 + T2)	-	-	-	-	38,00
Change in %Points					

Figure 8: Development of liquidity | Source: eValueRate / CRA

Liquidity (%)	2015	2016	2017	%	2018
Net Loans/ Deposits (LTD)	-	-	-	-	-
Interbank Ratio	1,09	0,76	0,58	+2,86	3,44
Liquidity Coverage Ratio	171,00	173,00	207,00	-32,00	175,00
Customer Deposits / Total Funding (excl. Derivates)	-	-	-	-	-
Net Stable Funding Ratio (NSFR)	120,00	130,00	130,00	+3,00	133,00
Change in %Points					

Regulatory

Creditreform Rating AG was neither commissioned by the rating object nor by any other third party for the rating. The analysis took place on a voluntary basis by Creditreform Rating AG and is to be described in the regulatory sense as an unsolicited rating.

The rating is based on publicly available information and internal evaluation methods for the rated bank. The quantitative analysis is based mainly on the latest annual accounts, interim reports, other investor relations information of the bank, and calculated key figures by eValueRate / CRA. Subject to a peer group analysis were 54 competing institutes.

The information and documents processed met the requirements of the rating system of Creditreform Rating AG as published on the website www.creditreform-rating.de. The rating was carried out on the basis of the rating methodology for bank ratings, the methodology for the rating of bank capital and unsecured debt instruments as well as the methodology for government related banks in conjunction with Creditreform`s basic document "Rating Criteria and Definitions".

The complete presentation of the rating methodologies used by Creditreform Rating AG and the basic document "Rating Criteria and Definitions" is published on the following homepage:

www.creditreform-rating.de/de/regulatory-requirements/.

On 17 September 2019, the rating was presented by the analysts to the rating committee and adopted in a resolution.

The rating result was communicated to BNG Bank N.V. (Group), and the preliminary rating report was made available to the bank. There was no change in the rating score.

The rating is valid until withdrawal and is subject to monitoring from the rating date (see cover page). The rating will be comprehensively reviewed at least once every year. Within this period, the rating can be updated.

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRA) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

Conflict of Interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks.

In case of providing ancillary services to the rated entity, CRA will disclose all ancillary services in the credit rating report.

Rules on the Presentation of Credit Ratings and Rating Outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our policy "Rating Committee," all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, CRA has used following substantially material sources:

1. Aggregated data base by eValueRate
2. Annual Report and interim reports
3. Investors relations information and other publications
4. Website of the rated bank

There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRA website. Furthermore CRA considers satisfactory the quality and extent of information available on the rated entity. In regard to the rated entity Creditreform Rating AG regarded available historical data as sufficient.

Between the disclosure of the credit rating to the rated entity and the public disclosure no amendments were made to the credit rating.

The "Basic data" information card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In case where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating and indicates how the different methodologies or these other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions, such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings as well as best-case scenario credit ratings are explained.

The date at which the credit rating was released for distribution for the first time and when it was last updated including any rating outlooks is indicated clearly and prominently in the "Basic data" card as a "Rating action"; first release is indicated as "initial rating", other updates are indicated as an "update", "upgrade or downgrade", "not rated", "confirmed", "selective default" or "default".

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within „Basic data“ information card.

In accordance to Article 11 (2) EU-Regulation (EC) No 1060/2009 registered or certified credit rating agency shall make available in a central repository established by ESMA information on its historical performance data, including the ratings transition frequency, and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA website: <https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>.

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