

BNG Bank, the Dutch public sector bank



BNG Bank
Edwin van Veenhuizen

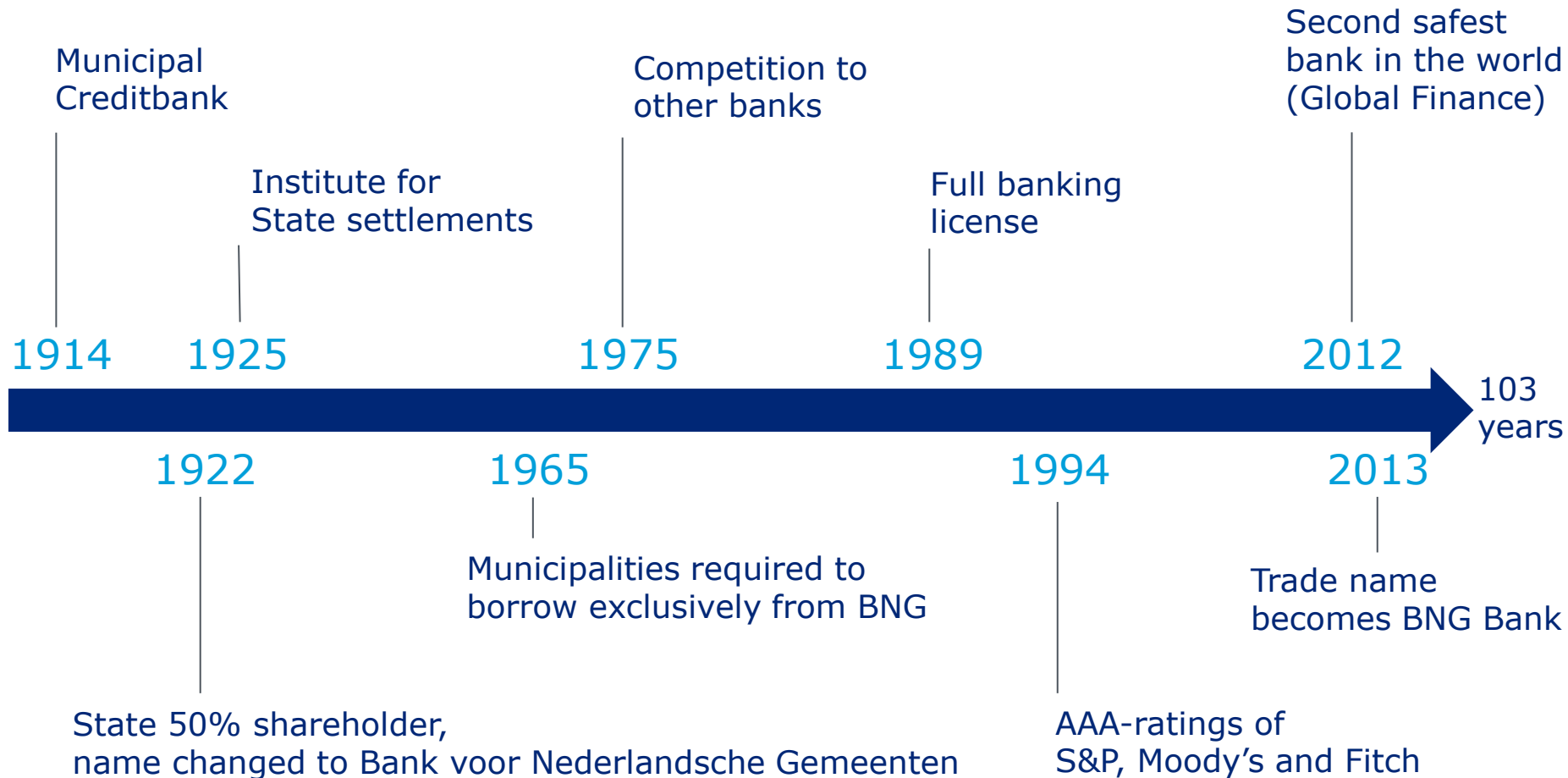
Conference on Public Banking International Experiences

Pamplona, October 27th 2017

Agenda

- History;
- Mission, Legal Structure and Strategy;
- Business model;
- Risks and Challenges;
- Strategic review;
- ECB supervision;
- Organisation.

History



Key facts

- Founded by (local) government in 1914
- Dutch Government owned
- Dutch State 50% (since 1921)
- Dutch local governments 50%
- Ownership restricted to Dutch public authorities (art. 6 Articles of Association)
- Registered shares only (not listed)
- Dutch Promotional Bank
- Lending restricted to local authorities and public sector institutions in the Netherlands and the E.U. (art. 2.3 Articles of Association)
- BNG Bank's ratings: Aaa (stable) / AAA (stable) / AA+ (stable)

One of the 'World's Safest Banks in 2017'

RANK	BANK NAME	COUNTRY
1	KfW*	Germany
2	Zürcher Kantonalbank*	Switzerland
3	Landwirtschaftliche Rentenbank*	Germany
4	L-Bank*	Germany
5	Bank Nederlandse Gemeenten*	Netherlands
6	Nederlandse Waterschapsbank*	Netherlands
7	NRW.BANK*	Germany
8	Banque et Caisse d'Épargne de l'État*	Luxembourg
9	Caisse des Dépôts et Consignations*	France
10	DZ Bank*	Germany

Mission – unchanged and steady course over 100 years

BNG Bank is the bank of and for Dutch local authorities and public sector institutions. The bank makes a sustainable contribution to minimizing the costs of social provisions for the public, by supplying customized financial services (promotional bank).

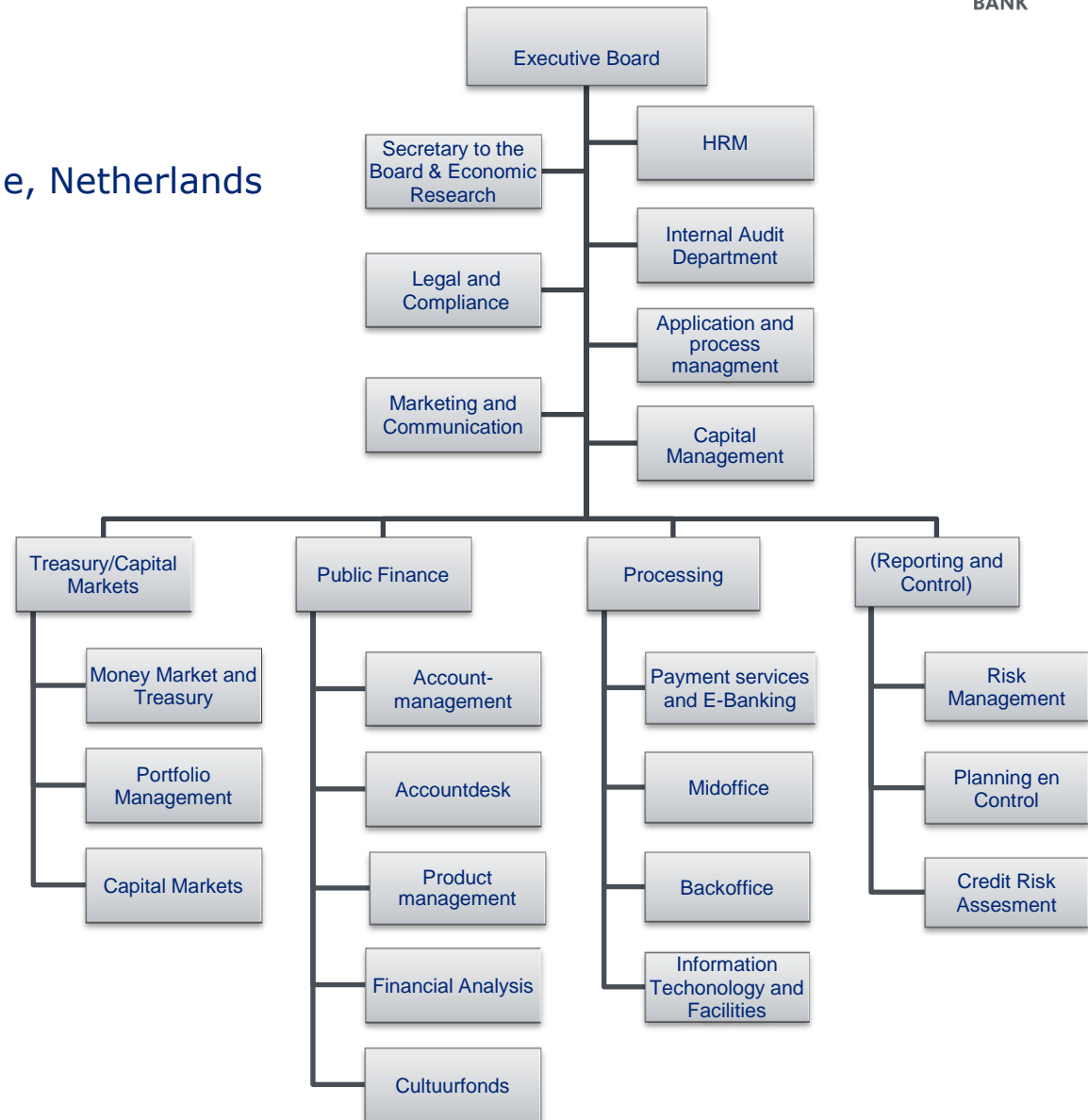
- Even (and especially) in time of crisis, BNG Bank has always been able to meet the demands of its clients;
- BNG Bank follows and supports government policy.

Legal structure and main activities



Organisation

- One location: The Hague, Netherlands
- Approx. 300 fte



Supervision and governance

Shareholders

Dutch State (50%), Municipalities, Provinces and a Waterboard

Non Executive

Chair: Mrs. drs. M. Sint (former Chair Isala Hospital and politician)

Vice-Chair: Mr. drs. J.J. Nooitgedagt RA (former CFO AEGON)

European Supervision

Dutch banks end of 2014 under supervision of ECB:

ING, Rabobank, ABN Amro, SNS, RBS NV, BNG Bank, NWB Bank

Developments in Rules and Regulations

- BNG Bank Euro-denominated bonds eligible under ECB Public Sector Purchase Programme (“PSPP”)
- Issues by BNG Bank are, because of the promotional bank status of BNG Bank, eligible for Liquidity portfolio’s of other banks
- Dutch Central Bank has designated BNG as a bank of national systemic importance

Business model

Strictly limited business model and clientele – no e.g. retail, trading, asset management, custody services

Entirely owned by public sector (50% central government, 50% local government)

Clear mission and business purpose – public policy mandate

Not established for profit maximising purposes – reasonable return necessary to conduct business

Funding acquired from global debt capital markets – no retail deposit base

Low risk profile with conservative risk management policies. Derivatives used widely for hedging purposes.

Credit rating strongly linked to the sovereign credit rating based on risk profile and implicit guarantee

Lean, simple and small organization (one location, appr. 300 fte) compared to the size of the balance sheet

Business model (1)

- **A bank of and for the public sector:**

- The bank is publicly owned but privately organised;
- Shares are owned by (local and central) government;
- Shares of BNG Bank can only be in the hands of Dutch public authorities;
- BNG Bank is a promotional bank.

- **A strategy of and for the public sector:**

- Retain substantial market shares (>50%) in the Dutch public sector;
- Achieve a 'reasonable return' for its shareholders, no objective of profit maximization;
- The bank aims for a cost/income ratio of under 20%. Staff is about 300 employees that operate from one location in The Hague.

- **Excellent creditworthiness:**

- Excellent creditworthiness is essential for the mission of the bank to fund the Dutch public sector at the lowest possible cost. Current ratings are Aaa by Moody's and S&P's (outlook stable) and AA+ by Fitch (outlook stable).

Business model (2)

- **Clients:**

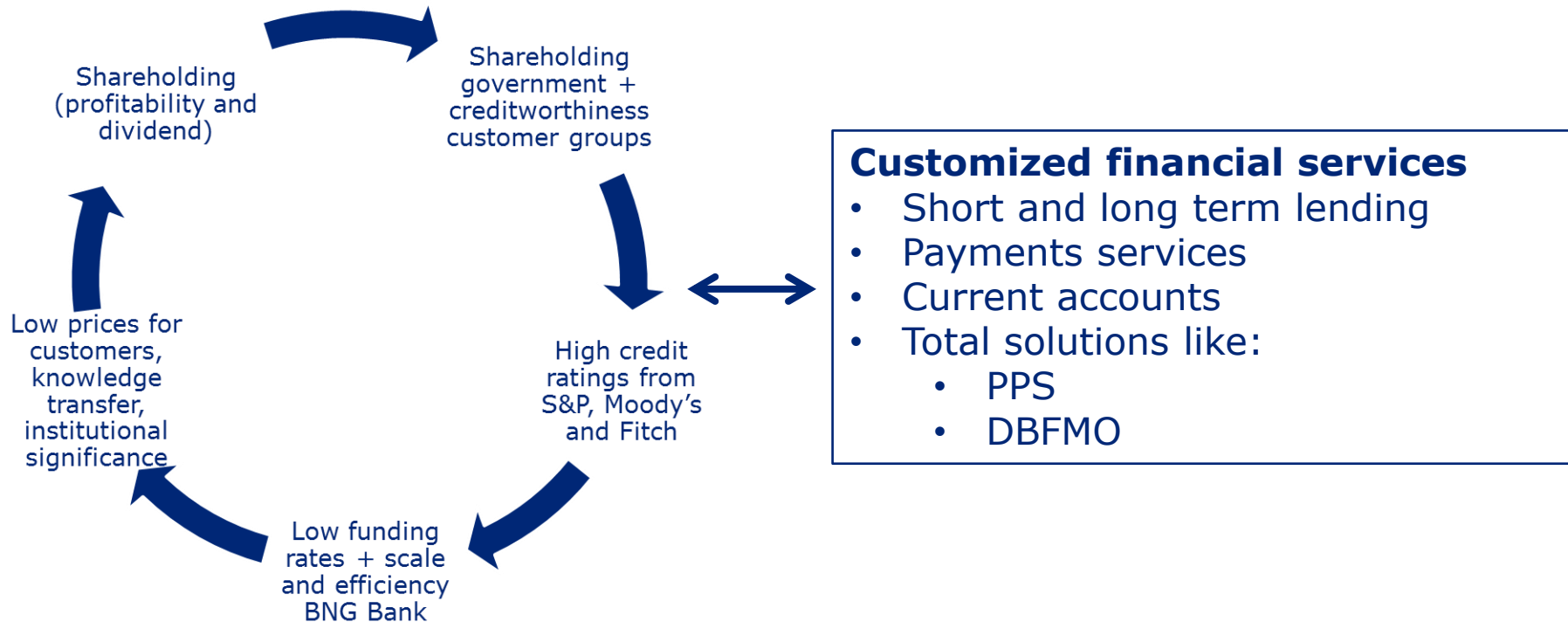
- The Articles of Association limit the group of clients to public sector entities (within the EMU-area). Key client groups: Local government, housing associations, healthcare, education and public utilities;
- Approximately 90% of the loans are either granted to Dutch local authorities or guaranteed by Dutch local or central government (directly or indirectly) and zero risk weighted;
- Indirect government guarantees are provided by specific guarantee funds with a final backstop by the Dutch state;
- 99% of BNG Banks loan exposure is to clients in the Netherlands.

- **Products:**

- The bank is structured around more or less one line of business: short and long-term lending to the Dutch public sector;
- BNG Bank is wholesale funded, obtained via the capital market (no deposits from retail customers).

thorough positive involved
steady partner reliable safety
government pleasant
respectability customer-friendly
municipalities think along with
industry professional solid
knowledge
kind fast

Business Model (3)

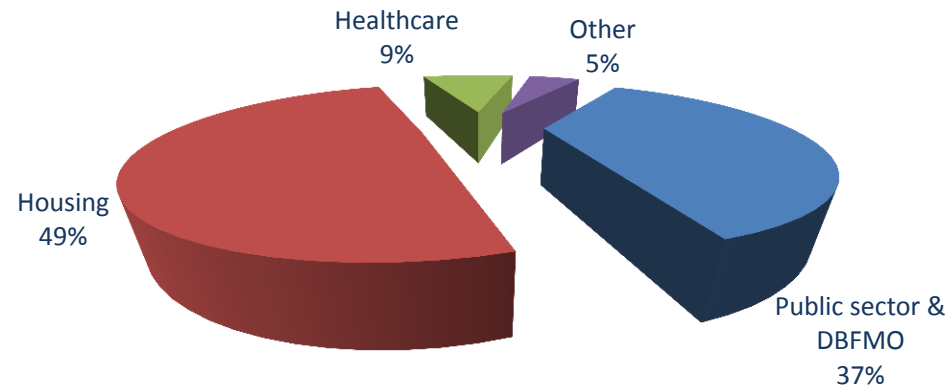


Risk Appetite

- Very prudent Credit Risk policy:
 - > 90% non risk weighted assets, minimal defaults;
- High ratings;
- Interest Rate Risk:
 - Limited ALM position to gain additional income;
 - Strive for stable results by hedging all cash flows to floating interest rates plus/minus margins and applying hedge accounting;
- No Currency Risk
- Strong Liquidity Profile:
 - Limited refinancing risk;
 - Large liquidity portfolio;
 - Loans can be pledged as collateral at ECB.

Clients: the Dutch Public Sector

- Public sector & DBFMO:
 - Exposure towards various entities that are a direct part of the Dutch public sector;
 - Credit quality similar to the Dutch State;
 - 0% BIS risk-weighted (solvency free);
- Housing Associations:
 - Non-profit organisations;
 - Social housing: subsidising rent;
 - Guarantee fund WSW: 0% BIS risk-weighted;
- Health Care Institutions:
 - Non-profit organisations;
 - Cure and care;
 - Guarantee fund WfZ: 0% BIS risk weighted;
- Other:Public Utilities:
 - Other public sector entities not part of above client groups, amongst which:
 - Public utilities owned by provinces and municipalities;
 - Education organisations (universities and higher education)



BNG Long Term Lending Portfolio:

Eur 81.0 bn

(December 2016)

Of which 92% zero-risk weighted.

BNG Bank's Market Share (of total outstanding loans to Dutch public sector)

	2016	2015	2014
Municipalities	67%	66%	65%
Housing Associations	54%	54%	54%
Health Care	48%	47%	47%
Public Utilities	8%	8%	9%
Others	27%	27%	27%

Financial Data

	2016	2015	2014	2013
Total Assets (EUR bn)	154.0	149.5	153.5	131.2
Leverage Ratio	3.3%	2.9%	2.0%	2.3%
TIER 1 Ratio	31.9%	26.7%	23.6%	24.3%
Profit (EUR mn)				
- Profit (before tax)	503	314	179	397
- Net Profit (after tax)	369	226	126	283
Net Interest Margin	0.26%	0.30%	0.29%	0.40%
Cost to Income Ratio	11.3%	13.4%	23.0%	11.6%
Return on Equity	11.5%	7.3%	4.3%	10.4%

Dividend pay-out ratio 2016-2011: 25%
2010-2008: 50%

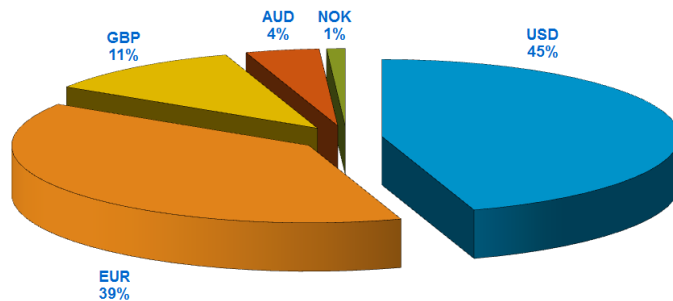
Funding

- Long term funding requirement
 - EUR 15 – EUR 18 bln per year
- Strategic funding
 - maintenance of a benchmark curve in EUR and USD
 - regular issuance of liquid transactions (minimum size 1 bn)
- Regular presence in public markets
 - AUD, CAD, CHF, GBP, JPY, NOK, NZD and SEK
- Private placements, structured and retail issues

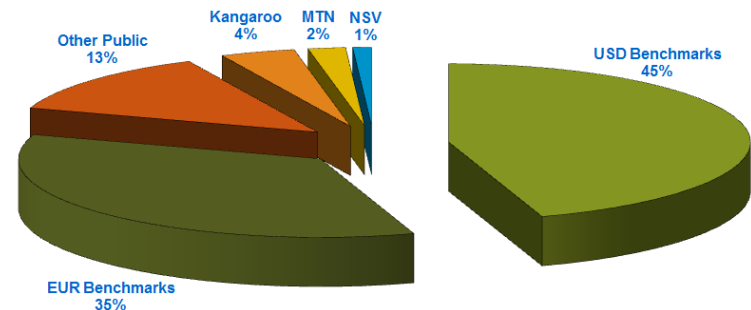
Long Term Funding 2017

(as per August 10, 2017)

- Total Issuance: EUR ± 11,3 bn equivalent
- Weighted average maturity: 6.1 years
- 50 transactions / 5 currencies



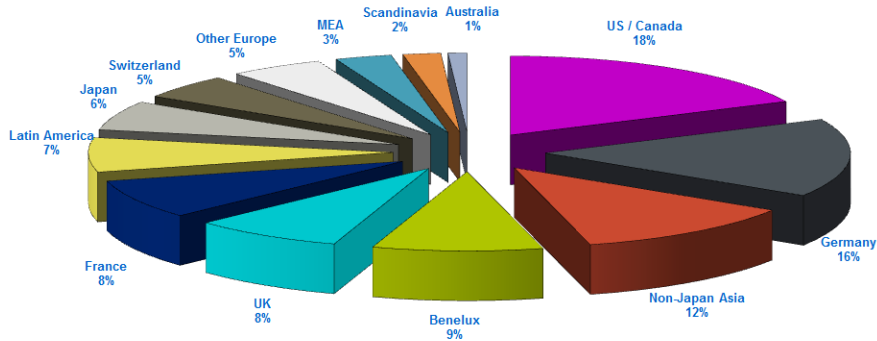
Distribution by currency



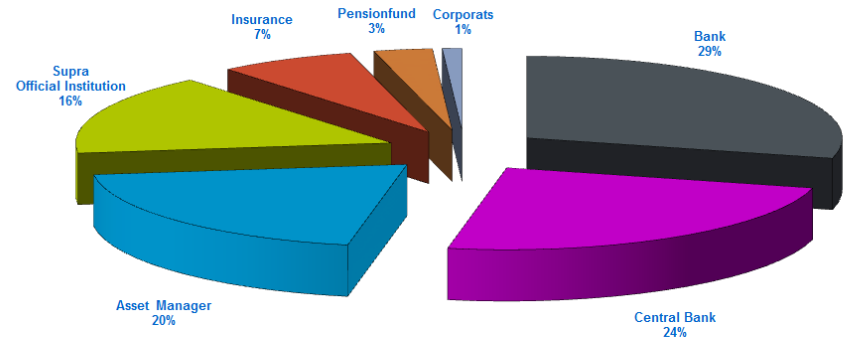
Distribution by issue type

Long Term Funding 2017

(as per August 10, 2017)



Distribution by geography



Distribution by investor type

BNG Bank: Trends and Topics

Trends:

- Changing role of public sector:
 - Focus on debt relief and balanced budgeting;
 - Decentralization of tasks to local authorities while cutting budget (efficiency);
 - Public sector will act more as a director and less as an actor;
- Demographic factors:
 - Ageing population;
 - 'Shrinking' regions as opposed to 'overcrowded' urban areas;
- Rising awareness of sustainability issues;
- Ongoing European Integration;
- Digitization of the society: big data 24/7, online economy.

Today's prime topics:

- New accents in positioning of BNG Bank in the market and for its stakeholders;
- P&L and Balance Sheet volatility;
- Regulatory changes: impact on ratio's, workload and systems;
- Improving data quality.

Risks and challenges

- Clients and client demand are highly dependent on political developments:
 - E.g. changes in structure of Dutch social housing or healthcare sector, have potential impact on financing needs and credit quality;
- Changes in regulation that do not take into account specifics of BNG Bank business model:
 - High CET1 ratio, low leverage ratio;
 - Dutch central and local government are the only shareholders;
 - Credit Risk originates from only a minor part of portfolio;
- Increasing effects from regulatory changes (BRRD, LCR, NSFR, RSF, bank levy), with impact on spreads, interest result and operational expenses;
- Leverage ratio 1 January 2018;
- BNG Bank operates with a relatively small staff: key-man risk.

Strengths BNG Bank

- Ownership public sector (50% central government, 50% other governments);
- Low risk portfolio: >90% to or under guarantee of Dutch public sector;
- Long lasting customer relations;
- Excellent ratings;
- Excellent reputation;
- Very good access to financial markets.

Opportunities

- Position as sustainable bank on behalf of customers;
- Meet financing demands of clients on behalf of transition process towards a sustainable society;
- Act as associated and proactive partner of the public sector in realising infrastructure, real estate etc.;
- Financing (small scale) PPPs on the level of local governments;
- Participation in European initiatives (Juncker-plan);
- Intermediary in securitisations and PPP.

New accents

- Development of new product-market combinations within present boundaries of Articles of Association;
- Even more focus on partnership with public sector: proactive and involved;
- Proactive on issues of sustainability;
- Focus on the Netherlands, contribute to realising European policy in the Netherlands, using our specific knowledge of the Dutch public sector and market;
- Key values: professional, reliable and sustainable;
- HRM policy more explicitly aimed at development of staff;
- Processes and IT have to support excellent service level and data quality and insight.

Conclusions

- Added value of BNG Bank beyond doubt;
- No change in Articles of Association (article 2);
- No change in ownership;
- Maintenance of newly acquired status of promotional bank/lender;
- Continuation of cautious policy on foreign lending;
- Maintenance of excellent funding position;
- No change in formal/legal status of BNG Bank (banking license).



BNG Culturefund

Founded in 1964 to stimulate activities in relation to art and culture

- Many culture projects every year
- Events for clients

Sponsor of many awards

- BNG Bank Literatuurprijs
- BNG Bank Theatermakersprijs
- BNG Bank Erfgoedprijs
- BNG Bank Prijs voor Beste Amateurkunst Gemeenten

BNG Area Development

In cooperation with local governments, they invest in projects for space planning

- Risk participations
- Knowledge and management

Dutch Public Sector

Municipalities

- credit quality: similar as the State of the Netherlands
- Municipal Act / Financial Relationship Act
- 0% BIS risk-weighted by Dutch Central Bank

Housing Associations

- social housing: subsidizing rent
- guarantee fund "WSW": rated Aaa(stable)/AAA(stable)
- back stop by the State of the Netherlands:
irrevocable/irreversible/unlimited
- 0% BIS risk-weighted by Dutch Central Bank

Health Care institutions

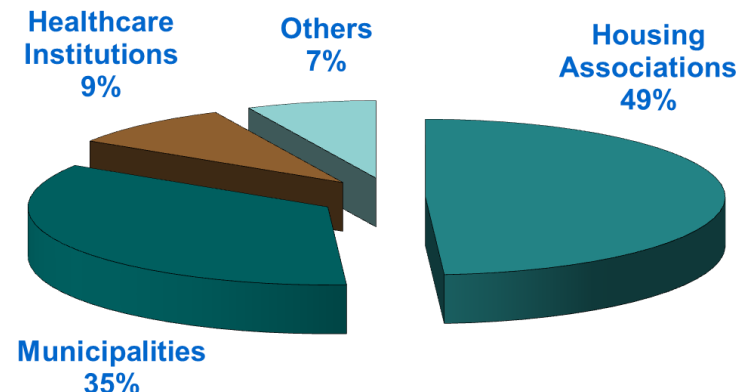
- hospitals, elderly homes
- guarantee fund "WFZ": rated AAA(stable) by S&P
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Others

- education sector (universities/colleges), ETFF

Public Utilities

- network companies only / waste management



BNG Long Term Assets:

Eur 81.0 bn

(December 2016)

Strategische doelstellingen

Substantiële marktaandelen in publieke sector, redelijk rendement voor aandeelhouders

Kredietverlening aan:

- Rijksoverheid en decentrale overheden (vaak ook aandeelhouder)
- Woningcorporaties
- Gezondheidszorg
- Onderwijsinstellingen
- Energie, water, telecom
- Transport, logistiek, milieu

Energietransitie Financieringsfaciliteit



Eigen vermogen



Risicodragend vermogen



Senior vreemd vermogen

Belangrijkste prioriteiten BNG Bank

- Centraal en decentraal overheidsbeleid ondersteunen.
- Als National Promotional Bank zet BNG Bank haar project finance ervaring en langeretermijnfocus in t.b.v. de energietransitie.
- Benutten van eigen expertise en capaciteit, in samenwerking met stakeholders zoals gemeenten, VNG, Aedes, EZ, NIA / Invest-NL.
- Bundeling kleinere investeringsopgaven via balans BNG Bank.

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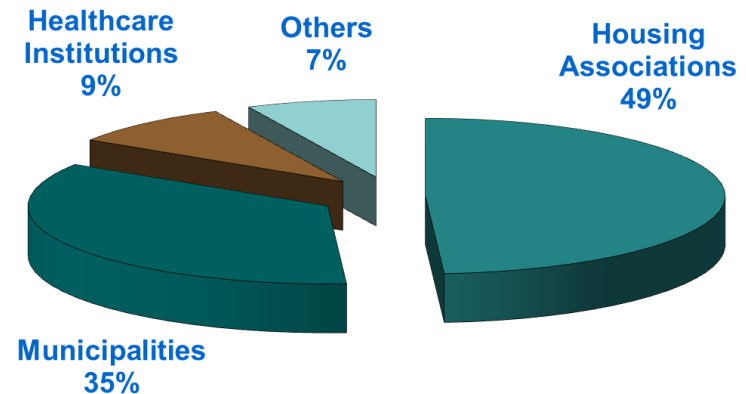
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