2.1 Financial results

Result and return

BNG Bank achieved a net profit of EUR 163 million for the 2019 reporting year. The main reasons for the decrease of EUR 174 million compared with 2018 are a lower result on financial transactions and higher provisions for credit losses. The return on equity of 3.6% is lower than the target of 3.7%.

At EUR 435 million, the interest result is virtually the same as the result for 2018. The increase in the long-term loan portfolio and the favourable lending rates for new funding raised had a positive impact on the interest result in 2019. The relatively large volume of early repayments on long-term loans meant that the contribution of results on sales to the interest result was also unexpectedly large at EUR 15 million. However, the bank's interest result is coming under pressure as a result of the historically low interest rates. As a consequence, the bank's equity generates increasingly low returns.

The result on financial transactions was EUR 37 million positive in 2019 (2018: EUR 112 million positive). This relates to realised value adjustments in the amount of EUR 21 million, largely due to changes in the liquidity portfolio. The unrealised market value adjustments show a diverse picture. Positive results are mainly due to the revaluation of the credit component of the interest-bearing securities in the financial assets balance sheet item at fair value through the income statement. The sharp decrease of the interest rate in particular adversely impacted the credit component of the interest rate swaps concluded with customers and the swaps entered into in order to hedge the market risks of the interest-bearing securities referred to above. Owing to the continuing volatility of the financial markets, the bank's results will remain sensitive to these market value adjustments, which lead to unrealised results until the maturity of the underlying transactions.

Consolidated operating expenses in 2019 rose to EUR 81 million, up EUR 5 million relative to the previous year. The bank's costs are rising owing to investments in information technology and the hiring of internal and external staff. These investments are necessary to make processes more efficient and to ensure an adequate response to the ever-increasing requirements imposed by regulations and regulators.

The bank's contribution to the European Resolution Fund in 2019 was set at almost EUR 8 million. The decrease of EUR 4 million relative to the contribution in 2018 was caused by the strong decrease in the balance sheet total in 2017 compared with the balance sheet total at year-end 2016. The contribution to the statutory bank levy in 2019, which was determined on the basis of the balance sheet at year-end 2018, amounted to EUR 30 million.

Write-downs for credit losses in 2019 amounted to EUR 153 million. This high amount from a historical perspective is mainly due to the reduced creditworthiness of a counterparty who provides services to municipalities. Although the level of creditworthiness of the loan portfolio is high on average, problems in incidental cases cannot be excluded. In addition, the less favourable economic developments led to an increase in expected credit losses. Impairments in some participating interests of BNG Gebiedsontwikkeling on balance stood at EUR 7 million.

The balance sheet total increased in 2019 by EUR 12.2 billion to EUR 149.7 billion, mainly due to the lower long-term interest rates, which can be seen in the increase in the balance sheet items Derivatives, Cash collateral, Debt securities and Value adjustments on loans involved in portfolio hedge accounting. The item Loans and advances increased by more than EUR 3.3 billion, mainly due to the growth in long-term loans.

The bank's equity decreased in 2019 with EUR 0.1 billion to EUR 5.0 billion. The net profit over 2019 did not fully compensated for the dividend payments over 2018 and the decrease of the unrealised reserves. The risk-weighted solvency ratios remained stable compared with year-end 2018; the Common Equity Tier 1 ratio and the Tier 1 ratio were 32% and 38%, respectively, at year-end 2019. The bank's leverage ratio decreased by 0.2% compared with year-end 2018 to 3.6%, as a result of the increase in the balance sheet total.

In line withour dividend policy, we propose to pay out EUR 71 million (2018: EUR 159 million) to shareholders. This equals 50% of the net profit after deduction of the dividend distribution to providers of hybrid capital. The dividend amounts to EUR 1.27(2018: EUR 2.85) per share.

Lending and funding

At EUR 14.0 billion, the volume of new long-term lending in 2019 was significantly higher than expected. The increasingly lower interest rates for long-term loans contributed to the high demand for long-term loans. The demand for credit from local authorities and the healthcare sector in particular was higher than expected. The share in solvency-free long-term lending to local authorities, housing associations and healthcare institutions amounted to approximately 71%, the same as in 2018. As a result, the target of 55% was amply achieved.

As a result of the relatively high volume of new long-term lending in 2019, the long-term loan portfolio rose to EUR 84.2 billion, upEUR 2.6 billion relative to year-end 2018. With a score of more than 93% at the end of 2019, the target that at least 90% of long-term loans in the balance sheet must qualify as promotional loan has also been met. The average level of outstanding short-term loans to clients was EUR 4.2 billion, the same as in 2018.

In 2019, we raised EUR 17.8 billion (2018: EUR 18.4 billion) in long-term funding, by issuing six benchmark loans – in euros and US dollars – ranging in size from 500 million to 3.0 billion, among other things.

We propose to pay out **50%** of the profit available to shareholders as **dividend** to them.

In line with the demand for long-term loans, the average maturity of the raised funding increased. Owing to the bank's good credit ratings and the favourable market conditions in the international capital markets, we were able to raise long-term and short-term funding at attractive prices.

Financial targets and results

2019 targets	2019 results	2018 results
The return on equity is above the return criterion set by the Ministry of Finance: >3.7%.	3.6%	8.5%
The external ratings of Moody's, S&P and Fitch are the same as the ratings of the State of the Netherlands.	Achieved. Moody's: Aaa, Standard & Poor's: AAA and Fitch: AAA.	Moody's: Aaa, Standard & Poor's: AAA and Fitch: AA+.
Leverage ratio ≥3.4%.	3.6%	3.8%
Tier 1 ratio ≥23.5%.	38%	38%
Share of promotional loan in portfolio ≥90%.	93%	93%
Growth of the loan portfolio compared with year-end 2018.	Achieved.	Achieved.