

NN Bank N.V. Mortgage Covered Bond Ratings Affirmed Following Approved Amendments; Outlook Stable

April 22, 2022

Overview

- On April 8, 2022, a bondholders' meeting approved the conversion of NN Bank's conditional pass-through covered bonds into soft-bullet covered bonds and their transfer from the conditional pass-through to the soft-bullet covered bond program, with the effective implementation date being today.
- We affirmed our 'AAA' ratings on NN Bank's soft-bullet covered bond program and on the 11 covered bonds now outstanding.
- Furthermore, we have assigned our stable outlook to the seven converted covered bonds, in line with the outlook of the four covered bonds that were already outstanding.
- We discontinued our 'AAA' rating on the conditional pass-through covered bond program.

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MADRID (S&P Global Ratings) April 22, 2022--S&P Global Ratings today affirmed its 'AAA' credit ratings on the soft-bullet mortgage covered bond program and related issuances from NN Bank N.V. Furthermore, a 'stable' outlook was assigned to the seven converted and transferred covered bonds, in line with the outlook of the four covered bonds that were already outstanding (please see list below).

Today, NN Bank amended the terms of the seven covered bond series originally issued under its €5 billion conditional pass-through covered bond program. The amendments have led to the change of its conditional pass-through payment obligation structure to soft-bullet maturities (where the repayment of principal can be extended for up to one year under specified conditions instead of up to 32 years previously). We have analyzed the proposed term changes and do not consider them to be distressed, according to our ratings definitions.

Furthermore, the covered bonds in question now form part of NN Bank's €7.5 billion soft-bullet covered bond program and therefore are subject to the transaction documents governing it. Lastly, the cover pool assets that previously formed part of the conditional pass-through program have also been transferred to the soft-bullet program.

In accordance with our covered bonds criteria, we have determined the issuer's reference rating level (RRL), and attributed notches of uplift from this level through our determination of jurisdictional support and collateral-based support. Based on the long-term issuer credit rating

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(ICR) on NN Bank and our assessment of jurisdictional support, we assess the RRL at 'a+' and the jurisdiction-supported rating level (JRL) at 'aa+'.

We have reviewed the combined asset information provided by the issuer as of January 2022 and performed our cash flow analysis as of April 2022. The underlying assets comprise €4.88 billion of Dutch residential mortgage loans (net of saving and construction deposits). In our cash flow analysis, we have modeled the seven converted covered bonds with their new terms and conditions (namely their new related extended maturity dates) together with the four previously outstanding covered bonds.

Based on our cash flow analysis, we believe that the available credit enhancement exceeds the target credit enhancement, which means that the covered bonds are eligible for four notches of collateral-based uplift. We consider that the soft-bullet structure of the issuances covers liquidity risk. Furthermore, the overcollateralization is committed at a level consistent with the assigned ratings. With a JRL of 'aa+', the program only requires one notch of collateral uplift to attain a 'AAA' rating.

There are currently no rating constraints to the 'AAA' ratings relating to counterparty, sovereign, legal, or administrative and operational risks.

We have assigned our 'stable' outlook to the seven covered bonds transferred from the conditional pass-through program that have been converted into soft-bullet covered bonds given that now their creditworthiness is linked to that of the issuing bank. The stable outlook reflects that up to a three-notch downgrade of the bank would not, on its own, automatically result in a downgrade of the covered bond program.

Lastly, following the transfer of the assets and covered bonds out of the conditional pass-through covered bond program, we have also discontinued our 'AAA' rating on it.

Ratings List

Covered bonds' ISINs	Rating to	Rating from
NL0012650477	AAA/Stable	AAA
NL0013019375	AAA/Stable	AAA
NL0013088990	AAA/Stable	AAA
NL0013400401	AAA/Stable	AAA
NL0013423122	AAA/Stable	AAA
NL0013423155	AAA/Stable	AAA
NL0013995095	AAA/Stable	AAA
NL0015436072	AAA/Stable	AAA/Stable
NL0015614611	AAA/Stable	AAA/Stable
NL00150002A1	AAA/Stable	AAA/Stable
NL00150008B6	AAA/Stable	AAA/Stable

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash

Flow Analysis Of Structured Finance Securities, Dec. 22, 2020

- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- Criteria | Structured Finance | RMBS: Global Methodology And Assumptions: Assessing Pools Of Residential Loans, Jan. 25, 2019
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Structured Finance | Covered Bonds: Covered Bond Ratings Framework: Methodology And Assumptions, June 30, 2015
- Criteria | Structured Finance | Covered Bonds: Covered Bonds Criteria, Dec. 9, 2014
- Criteria | Structured Finance | RMBS: Methodology For Assessing Mortgage Insurance And Similar Guarantees And Supports In Structured And Public Sector Finance And Covered Bonds, Dec. 7, 2014
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- ESG Credit Indicator Report Card: Covered Bonds, April 7, 2022
- Global Covered Bond Insights Q1 2022, March 17, 2022
- Ratings Unchanged On NN Bank's Mortgage Covered Bonds Based On Proposed Amendments, March 15, 2022
- S&P Global Ratings Definitions, Nov. 10, 2021
- Dutch Covered Bond Market Insights 2021, Nov. 8, 2021
- Glossary of Covered Bond Terms, April 27, 2018

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