

## NN Bank N.V.

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# NN Bank N.V.

## Major Rating Factors

### Issuer Credit Rating

A-/Stable/A-1

#### Strengths:

- Strategic importance within insurance group NN Group N.V., thanks to complementary customer base and products, and role of mortgage origination platform for the whole group.
- Low-risk loan book consisting almost exclusively of mortgage loans.
- Relatively high profitability.

#### Weaknesses:

- Concentrated exposure to Dutch mortgage loans.
- Relatively small size.
- A sizable share of potentially less sticky internet-based savings accounts.

### Outlook

S&P Global Ratings' stable outlook on the Netherlands-based NN Bank N.V. mirrors the stable outlook on its parent, the Netherlands-based multiline insurer NN Group N.V.

The stable outlook on NN Bank also reflects our expectation that the bank will remain a highly strategic subsidiary of NN Group over the next two years. Any rating action on NN Group would therefore result in a similar rating action on NN Bank.

We would lower our ratings on NN Bank if we believed that its strategic importance for NN Group was diminishing, for instance if the bank was not sufficiently profitable over the cycle, or if it started to pose a greater financial risk to its parent. Rating pressure could also come from a downward revision of NN Group's group credit profile (GCP), which would indicate the insurance group's reduced capability to support its bank subsidiary in case of need.

Conversely, we would upgrade NN Bank if we were to revise NN Group's GCP upward. We would also upgrade NN Bank if we were to reassess the bank's strategic importance for the group as core. We view this reassessment as a remote possibility for the moment because it would necessitate a stronger contribution to the group's profits, as well as the bank becoming a critical component of the group's business model.

## Rationale

We base our long-term issuer credit rating on NN Bank on its highly strategic status within NN Group. The long-term rating on NN Bank is one notch lower than the 'a' GCP of NN Group, reflecting our view that the group is likely to support the bank under almost all foreseeable circumstances.

NN Bank is a fully owned subsidiary of NN Group, founded in 2011 as a Dutch retail bank from activities of WestlandUtrecht Bank and NN Group. The bank provides wealth-management products in the form of bank savings and investment products, and mainly finances Dutch mortgage loans (€20.4 billion as of mid-2020), with consumer finance being negligible (€0.2 billion).

We view NN Bank as fully integrated within NN Group. In particular, the bank uses the NN brand, shares the group's client base, distribution network, and a wide range of services, such as IT, human resources, and general management. Full integration within NN Group is also visible in various forms of financial support. NN Group has stated publicly that it intends to maintain the bank's adequate capitalization at all times. The bank's common equity tier 1 ratio was 16.7% at mid-2020. We consider this very robust, considering the bank's exposure to the low risk asset class of Dutch mortgages—a third of which benefits from a Dutch government-supported guarantee (Nationale Hypotheek Garantie)—and the use of the standardized approach to determine regulatory risk-weighted assets. Also, the group provided the bank with subordinated loans (€85 million) that support its total capital ratio (18.1% as of mid-2020), as well as a committed credit facility that supports its liquidity.

That said, NN Bank is a self-funded bank. It has been diversifying its funding sources toward capital markets over the past few years, substantially complementing the deposit base (loans to deposits were 130% at mid-2020 up from 104% at end-2013). The bank had €1.9 billion of senior unsecured debt and €2.6 billion of conditional pass-through covered bonds outstanding as of mid-2020. In the third quarter of this year, NN Bank also raised €1.0 billion via two public soft bullet covered bond issuances under its new soft bullet covered bond program established in June this year, allowing it to further diversify its investor base and potentially attract longer-dated funding (i.e., longer than 10 years). This trend for funding diversification is positive, in our view, particularly considering that internet-based savings—a potentially less sticky funding source—account for about half of customer deposits.

Total gross loans have increased by close to 250% since 2013, illustrating the bank's successful growth over the past few years, notably via the acquisition of Delta Lloyd bank in 2017. NN Bank is now the fifth-largest retail bank in the Netherlands by size of its mortgage loan book. That said, the size of its loan book does not reflect its importance in Dutch mortgage lending, since a large portion (68% in 2019) of originated loans (€7.9 billion in 2019) lands on the balance sheet of other entities of NN Group. In the first half of 2020, NN Bank had a market share of 10.4%, making it the second-largest mortgage loan originator in the Netherlands (source: TOF Tracker 2Q20).

The bank's rapid growth in recent years is not the result of a more aggressive underwriting approach, in our view. The bank's average net loan to indexed market value was 70% at end-2019, not meaningfully higher than that of large Dutch banks. Rather, NN Bank's growth, like that of other bank subsidiaries of Dutch insurance groups, is the result of the introduction of tax-friendly bank savings products (Dutch Saving Bank Act in 2008), and these banks' competitive

pricing advantage on long-term mortgages (see "Bank Subsidiaries Of Insurance Groups In The Netherlands Are Challenger Banks--And Here To Stay," published Dec. 13, 2018, on RatingsDirect).

The bank's growth also reflects, on the asset side, mortgage loans' usefulness for the wider NN Group's asset-liability management (NN Life and NN Non-Life; NN Investment Partners), particularly in a low interest-rate environment and, on the liability side, savings products' support to NN Group's savings and pensions offering. We have seen cases relatively recently of insurance groups (such as ASR in the Netherlands and Gjensidige in Norway) exiting banking activities. We do not believe such a strategic decision would make sense in the case of NN Group, considering its leading position in the Dutch market and focus on long-term savings and life insurance products, which the banking activities complement. We are monitoring the potential emergence of legal changes that would reduce the attractiveness of bank savings products and, therefore, the attractiveness of in-house banking activities for insurance groups. We do not expect this risk to materialize within our two-year outlook horizon.

We believe the bank is entering a new phase of growth and development following completion of the integration of Delta Lloyd Bank acquired in 2017. In our view, the bank will concentrate in the coming years on becoming a more data-driven business and organization, developing mortgage origination for third parties, and positioning itself in the sustainable finance segment, notably via its recently launched label Woonnu.

We expect the bank will remain profitable during the pandemic. Payment holiday requests have been very low so far (0.7% of mortgage customers in first-half 2020), explaining the very low cost of risk in the first half of the year (2 basis points [bps]). We expect such requests and the cost of risk will increase in second-half 2020, but not to a level that would make the bank loss-making. For this to happen, cost of risk would have to increase to above 60 bps, in our view, which is very unlikely considering the mortgage profile of the loan book.

Our short-term rating on NN Bank takes into account our assessment of NN Group's liquidity. When we assess the parent's liquidity as exceptional--as is the case for NN Group--and we know it would be available for the subsidiary in case of distress--as we believe is the case for NN Bank--we assign a higher short-term rating of 'A-1' (compared to 'A-2' under our standard mapping).

**Table 1**

NN Bank N.V.--Key Figures						
	--Fiscal year ended Dec. 31--					
(Mil. €)	2019	2018	2017	2016	2015	2014
Adjusted assets	24,649	21,594	16,065	15,135	12,021	9,068
Customer loans (gross)	20,025	18,471	13,768	12,724	10,665	8,100
Adjusted common equity	994	907	695	621	526	402
Operating revenues	380	315	289	286	256	195
Noninterest expenses	223	223	179	175	148	140
Core earnings	118	76	85	80	67	33
(%)						
Return on equity	11.7	8.1	12.7	13.8	14.3	8.7
Tier 1 capital ratio	15.7	16.3	15.1	14.3	14.6	15.3
Net interest income/operating revenues	65.3	68.9	80.5	70.8	66.2	64.9

Table 1

NN Bank N.V.--Key Figures (cont.)						
(Mil. €)	--Fiscal year ended Dec. 31--					
	2019	2018	2017	2016	2015	2014
Fee income/operating revenues	25.5	27.4	16.5	16.7	20.4	12.8
Market-sensitive income/operating revenues	9.2	3.7	6.4	12.5	13.4	22.3
Noninterest expenses/operating revenues	58.7	70.6	61.6	61.1	58.0	71.6
Non-performing loans--mortgages	0.4	0.5	0.6	1.0	1.2	1.5
Non-performing loans--consumer lending	7.0	8.1	5.3	6.2	6.9	8.5
Growth in customer loans	8.4	34.2	8.2	19.3	31.7	35.5
New loan loss provisions/average customer loans	(0.01)	(0.03)	(0.03)	0.04	0.19	0.15

## Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Insurance | General: Methodology For The Classification And Treatment Of Insurance Companies' Operational Leverage, Oct. 31, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria | Insurance | General: Enterprise Risk Management, May 7, 2013
- Criteria | Insurance | General: Insurers: Rating Methodology, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Criteria Clarification On Hybrid Capital Step-Ups, Call Options, And Replacement Provisions, Oct. 22, 2012
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Criteria | Financial Institutions | General: Methodology: Hybrid Capital Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers, Feb. 10, 2010
- Criteria | Financial Institutions | Banks: Assumptions: Clarification Of The Equity Content Categories Used For Bank And Insurance Hybrid Instruments With Restricted Ability To Defer Payments, Feb. 9, 2010
- Criteria | Insurance | General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

## Related Research

- NN Group N.V., June 25, 2020
- Bank Subsidiaries Of Insurance Groups In The Netherlands Are Challenger Banks--And Here To Stay, Dec. 13, 2018

Ratings Detail (As Of September 29, 2020)*	
<b>NN Bank N.V.</b>	
Issuer Credit Rating	A-/Stable/A-1

**Ratings Detail (As Of September 29, 2020)\*(cont.)**

Senior Secured	AAA
Senior Secured	AAA/Stable
Senior Unsecured	A-
Senior Unsecured	A-1
<b>Issuer Credit Ratings History</b>	
11-May-2017	A-/Stable/A-1
07-Oct-2016	A/Watch Neg/A-1
20-Jan-2016	A/Stable/A-1
<b>Sovereign Rating</b>	
Netherlands	AAA/Stable/A-1+
<b>Related Entities</b>	
<b>Nationale-Nederlanden Levensverzekering Maatschappij N.V.</b>	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	
Local Currency	A/Stable/--
Junior Subordinated	BBB+
<b>Nationale-Nederlanden Schadeverzekering Maatschappij N.V.</b>	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	
Local Currency	A/Stable/--
<b>NN Group N.V.</b>	
Issuer Credit Rating	BBB+/Stable/A-2
Junior Subordinated	BBB-
Senior Unsecured	BBB+
Subordinated	BBB-
<b>NN Life Insurance Co. Ltd.</b>	
Financial Strength Rating	
Local Currency	A-/Stable/--
Issuer Credit Rating	
Local Currency	A-/Stable/--
<b>NN Re (Netherlands) N.V.</b>	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	
Local Currency	A/Stable/--

\*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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