

RatingsDirect®

NN Bank N.V.

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NN Bank N.V.

Major Rating Factors

Issuer Credit Rating
A-/Stable/A-1

Strengths:	Weaknesses:
<ul style="list-style-type: none">• Fully owned, highly strategic bank subsidiary of the insurance group NN Group N.V.• Growing operational importance within the group thanks to customer, product, and asset-liability management complementarities.• Low risk profile of the mortgage lending portfolio, in line with the market average.	<ul style="list-style-type: none">• Concentrated exposure to Dutch retail lending.• Relatively small size.• Important share of internet-based savings accounts with no restrictions on withdrawals.

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 outlook on NN Group is stable. It reflects our expectation that, during the next two years, the consolidated NN Group will gradually rebuild its capital adequacy on the back of earnings retention after ordinary dividend and maintain its risk profile at levels at least in line with our benchmark for an 'A' range. The stable outlook also factors in our expectation that the integration of Delta Lloyd will continue to go smoothly, with no negative impact on the balance sheet or operating performance compared with our expectations.

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

We would lower our ratings on NN Bank if we came to believe 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 upgrade NN Group's GCP. 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.

Under our methodology for linking long-term and short-term ratings, the short-term rating on a highly strategic member of a group--such as NN Bank--takes into account the group's liquidity assessment. 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, we assign a higher short-term rating of 'A-1' (compared to 'A-2' under our standard mapping) to the subsidiary to reflect this strength, if the long-term rating on the subsidiary is 'A-1'.

NN Bank is a fully owned subsidiary of NN Group, founded in 2011 as a Dutch retail bank. Total loans amounted to €13.8 billion as of end-2017, 2.3x the amount as of end-2013, when a large part of WestlandUtrecht Bank's loan

book--almost exclusively mortgage loans--was transferred to NN Bank. The bank provides wealth management products in the form of bank savings and investment products, and mainly finances Dutch mortgage loans, but also consumer finance loans to a minor extent (€0.2 billion as of end-2017). After only a few years in operation, NN Bank ranks as the sixth-largest player (pro forma Delta Lloyd) in the Dutch mortgage market based on new production in 2017.

The main challenge facing the bank is the integration of Delta Lloyd Bank (DLB), legally merged with NN Bank on Jan. 1, 2018. As the two banks have similar business profiles, the main benefit for NN Bank is increased scale, with total assets up by a third. The main operational challenge is the migration of DLB's mortgages to NN Bank's new IT mortgage platform, expected to run until mid-2019. We expect the integration to occur smoothly, based on the bank's good track record in integrating another mortgage portfolio (ING Insurance in 2013), the already completed migration to NN Bank's savings platform and combination of human resources at the beginning of the year.

We expect NN Bank to continue growing its loan book on the back of a dynamic Dutch mortgage market, NN Group's merger with Delta Lloyd (adding a loan portfolio of €4.5 billion in 2018) and the continuing transfer of mortgage loans from ING Bank (€3.1 billion remaining). We understand the transfer of mortgages to other entities of NN Group will help NN Bank optimize its balance sheet. Around 60% of 2017 mortgage production was transferred to other group members. The renewed competition in the Dutch mortgage market will also constrain future growth in our views. Mortgage production declined by slightly over 20% in 2017 for this reason.

The bank has seen rapid loan growth in recent years. We do not think this is the result of a more aggressive underwriting approach. The bank's average net loan to indexed market value of 78% at end-2017 is in line with other Dutch banks. Rather, NN Bank's growth, like other bank subsidiaries of Dutch insurance groups, reflects its competitive pricing advantage over large banks and ALM strategy for long-term mortgages.

NN Bank is highly unlikely to be sold, in our view. It was set up, like other banking arms of Dutch insurers, in response to a declining Dutch life insurance market. The bank is profitable, close to its target level, with a reported return on equity of 12.7% in 2017 (9.7% pro forma of DLB's integration). Both sides of the bank's balance sheet, that is, mortgage loans and bank savings products, support NN Group's savings and pensions offering and asset-liability management.

The bank's business is integral to the strategy of the insurance group, in our view. Clients have been moving toward tax-friendly bank savings products since they were introduced under the Dutch Saving Bank Act in 2008. Furthermore, the relatively long duration of mortgage loans is a good match with the duration profile of insurance liabilities. In addition, mortgage loans offer investment opportunities for other entities of the group (NN Life and NN Non-Life; NN Investment Partners).

We view NN Bank as fully integrated into NN Group. In particular, the bank uses the NN brand, and shares the group's client base, distribution network, and marketing. The bank's CEO and CFO come from NN Group. Operational risk management relies on the wider group's framework. Integration is also reflected in the group's financial support. NN Group has stated publicly that it intends to maintain adequate capitalization at all times. The bank's Common Equity Tier 1 ratio was 15.1% at end-2017 (15.4% including DLB pro forma). Also, the group provides the bank with subordinated loans that support its total capital ratio, as well as a committed credit facility that supports its liquidity.

NN Bank has been diversifying its sources of funding. The bank set up a senior unsecured issuance program in 2016. In 2017, it established a conditional pass-through covered bond program and launched its first cross-border bank saving product (in Spain). We view this trend for funding diversification positively, as internet-based savings accounts with no restrictions on withdrawals account for 33% of NN Bank's total funding base at end-2017, down from 37% at end-2016, according to our calculation.

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.

Table 1

NN Bank N.V. Key Figures				
	--Fiscal year ended Dec. 31--			
(Mil. €)	2017	2016	2015	2014
Adjusted assets	16,065	15,135	12,021	9,068
Customer loans (gross)	13,768	12,724	10,665	8,100
Adjusted common equity	711	621	526	402
Operating revenues	289	286	256	195
Noninterest expenses	179	175	148	140
Core earnings	85	80	67	33
(%)				
Return on equity	12.7	13.8	14.3	8.7
Tier 1 capital ratio	15.1	14.3	14.6	15.3
Net interest income/operating revenues	80.5	70.8	66.2	64.9
Fee income/operating revenues	16.5	16.7	20.4	12.8
Market-sensitive income/operating revenues	3.0	12.5	13.4	22.3
Noninterest expenses/operating revenues	62.0	61.1	58.0	71.6
Non-performing loans--mortgages	0.6	1.0	1.2	1.5
Non-performing loans--consumer lending	5.3	6.2	6.9	8.5
Growth in customer loans	8.2	19.3	31.7	35.5
New loan loss provisions/average customer loans	(0.0)	0.0	0.2	0.2

Related Criteria

- Criteria - Structured Finance - General: Methodology And Assumptions: Assessing Pools Of European Residential Loans, Aug. 4, 2017
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria - Structured Finance - General: Ratings Above The Sovereign - Structured Finance: Methodology And Assumptions, Aug. 8, 2016
- Criteria - Structured Finance - Covered Bonds: Counterparty Risk Analysis In Covered Bonds, Dec. 21, 2015

- 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 - General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- Criteria - Structured Finance - General: Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- General Criteria: Methodology: Credit Stability Criteria, May 3, 2010

Related Research

- NN Group N.V., June 6, 2018
- Delta Lloyd Operating Entities Upgraded To 'A' On Integration Into And Core Status To NN Group; Outlook Stable, Jan 02, 2018
- New Issue: Nationale-Nederlanden Bank N.V. (Conditional Pass-Through Covered Bond Program), October 10, 2017
- Insurer NN Group N.V. Downgraded To 'BBB+' And Core Subsidiary To 'A'; Outlook Stable, May 11, 2017

Ratings Detail (As Of August 16, 2018)

NN Bank N.V.

Issuer Credit Rating	A-/Stable/A-1
Senior Secured	AAA
Senior Unsecured	A-
Senior Unsecured	A-1

Issuer Credit Ratings History

11-May-2017	A-/Stable/A-1
07-Oct-2016	A/Watch Neg/A-1
20-Jan-2016	A/Stable/A-1

Sovereign Rating

Netherlands	AAA/Stable/A-1+
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Related Entities

Delta Lloyd Levensverzekering N.V.

Financial Strength Rating	
<i>Local Currency</i>	A/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	A/Stable/--
Junior Subordinated	BBB+

Delta Lloyd Schadeverzekering N.V.

Financial Strength Rating	
<i>Local Currency</i>	A/Stable/--

Ratings Detail (As Of August 16, 2018) (cont.)

Issuer Credit Rating	
<i>Local Currency</i>	A/Stable/--
Delta Lloyd Treasury B.V.	
Issuer Credit Rating	
<i>Local Currency</i>	BBB+/Stable/A-2
Commercial Paper	
<i>Local Currency</i>	A-2
NN Group N.V.	
Issuer Credit Rating	BBB+/Stable/A-2
Junior Subordinated	BBB-
Senior Unsecured	BBB+
Subordinated	BBB-
NN Life Insurance Co. Ltd.	
Financial Strength Rating	
<i>Local Currency</i>	A-/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	A-/Stable/--
NN Re (Netherlands) N.V.	
Financial Strength Rating	
<i>Local Currency</i>	A/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	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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