

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 complementary customer, product, and asset-liability management.• Low risk profile of the mortgage lending portfolio, in line with the market average.	<ul style="list-style-type: none">• Concentrated exposure to the Dutch real estate market.• Relatively small size.• Important 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 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 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. Total loans amounted to €18.4 billion as of end-2018, 3.1x the end-2013 figure, illustrating the bank's strategy to gain scale. 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-2018). After only a few years in operation, NN Bank ranks as the sixth-largest player in the Dutch mortgage market based on new production in 2018 with a 5% market share.

2018 was a transformational year for the bank due to the integration of DL Bank, legally merged on Jan. 1, 2018. It has improved NN Bank's scale meaningfully with total assets up by one-third, but reduced the bank's net interest margin--to a reported 1.0% from 1.4%--because of the lower net interest margin at DL Bank, resulting in a lower but still high return on average equity (8.1% vs. 12.7% in 2017).

The main operational challenge facing the bank is the implementation of a new LTV-based pricing system--already completed for NN Bank's mortgages but not yet for DL Bank's mortgages--and the migration of DL Bank to a new IT mortgage platform. We expect the latter to occur in 2019-2020 with the former being a strategic priority. We expect the integration to progressively near its term, following staff and office integration in 2018, the almost completed migration of DL Bank to NN Bank's IT savings platform, and the bank's experience in integrating new mortgage portfolios (such as ING Insurance in 2013).

We expect NN Bank to continue growing its loan book, although by a low single-digit percentage, despite strong mortgage production. NN Bank originated €6 billion of new mortgages in 2018, equivalent to about one-third of its loan book, on the back of a dynamic Dutch mortgage market. The continuing transfer of mortgage loans from ING Bank also added €508 million in 2018, equivalent to about 8% of NN Bank's mortgage production. Such production volumes do not translate into substantial balance sheet growth because a large part (77% in 2018) is transferred to other entities of NN Group.

We do not think the bank's rapid growth in recent years is the result of a more aggressive underwriting approach. The bank's average net loan to indexed market value was 73% at end-2018, not meaningfully higher than that of large Dutch banks, in our view. 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.

It 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 recently seen cases of insurance groups (ASR in the Netherlands, Gjensidige in Norway) exiting or starting to exit 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 view NN Bank as fully integrated with NN Group. In particular, the bank uses the NN brand, and shares the group's client base, distribution network, and marketing. 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 16.3% at end-2018. We expect very limited impact from final revisions to the Basel III framework (Basel IV) on capital ratios because the bank applies the standardized approach for credit risk. 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.

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'.

NN Bank is a self-funded bank that has been diversifying its sources of funding toward capital markets, substantially complementing the deposit base (loans to deposits were 125% at end-2018). The bank set up a senior unsecured issuance program in 2016, with a senior unsecured inaugural benchmark issuance in Q2 2019 and about €1 billion of senior unsecured debt outstanding as of end-July 2019. 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, particularly because internet-based savings accounts for about half of customer deposits.

NN Bank N.V. Key Figures

	--Fiscal year ended Dec. 31--				
(Mil. €)	2018	2017	2016	2015	2014
Adjusted assets	21,594	16,065	15,135	12,021	9,068
Customer loans (gross)	18,471	13,768	12,724	10,665	8,100
Adjusted common equity	907	695	621	526	402
Operating revenues	315	289	286	256	195
Noninterest expenses	223	179	175	148	140
Core earnings	76	85	80	67	33
(%)					
Return on equity	8.1	12.7	13.8	14.3	8.7
Tier 1 capital ratio	16.3	15.1	14.3	14.6	15.3
Net interest income/operating revenues	68.9	80.5	70.8	66.2	64.9
Fee income/operating revenues	27.4	16.5	16.7	20.4	12.8
Market-sensitive income/operating revenues	3.7	6.4	12.5	13.4	22.3

NN Bank N.V. Key Figures (cont.)

(Mil. €)	--Fiscal year ended Dec. 31--				
	2018	2017	2016	2015	2014
Noninterest expenses/operating revenues	70.6	61.6	61.1	58.0	71.6
Non-performing loans--mortgages	0.5	0.6	1.0	1.2	1.5
Non-performing loans--consumer lending	8.1	5.3	6.2	6.9	8.5
Growth in customer loans	34.2	8.2	19.3	31.7	35.5
New loan loss provisions/average customer loans	(0.0)	(0.0)	0.0	0.2	0.2

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
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria | Insurance | General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Related Research

- NN Group N.V., June 24, 2019
- Achmea Bank's Banking Acquisition Highlights Its Strategic Importance To Achmea Group, March 22, 2019
- Bank Subsidiaries Of Insurance Groups In The Netherlands Are Challenger Banks--And Here To Stay, Dec. 13, 2018

Ratings Detail (As Of August 20, 2019)*

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

Nationale-Nederlanden Levensverzekering Maatschappij N.V.

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

Nationale-Nederlanden Schadeverzekering Maatschappij N.V.

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

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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