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NN Bank N.V.

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NN Bank N.V.

Credit Highlights

Issuer Credit Rating

A-/Stable/A-1

Overview

Key strengths	Key risks
Strategic importance to the insurance group NN Group N.V., thanks to its complementary customer base and products, and its role as a mortgage origination platform for the whole group.	Concentrated exposure to Dutch mortgage loans.
Low-risk loan book, consisting almost exclusively of mortgage loans.	Relatively small size.
Relatively high profitability.	Sizable share of potentially less sticky internet-based savings accounts.

NN Bank remains solidly profitable, as it demonstrated in 2020 and the first half of 2021. Despite the pandemic, NN Bank's pretax profits increased by 5.7% throughout 2020, owing to its successful arrears management, and by 4.7% year on year at end-June 2021.

While NN Bank's net income improved over the past year, we expect its net interest margin to decline on the back of high mortgage refinancing figures. NN Bank's net income increased by 7.8% to €125 million in 2020 and stood at €64 million at end-June 2021, thanks to lower interest expenses from the refinancing of bonds in 2020 and the recovery of provisions taken on the back of COVID-19 over 2019. Nevertheless, over the past year, NN Bank experienced high refinancing figures from mortgages which incidentally increased interest income. We expect refinancing figures to stabilize to a lower level, bringing the interest margin down slightly over 2021.

We base our long-term rating on NN Bank on our assessment of its strategic importance within the NN Group. NN Bank's long-term rating is 'A-', one notch lower than the 'a' rating on NN Group. We believe the bank will remain a key asset to the group because of its origination and its servicing capacity of mortgage loans for the group.

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 if needed.

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 remote, 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 NN Group, complemented in 2013 with the activities of WestlandUtrecht Bank. The bank provides wealth-management products in the form of bank savings and investment products, and mainly finances Dutch mortgage loans (€20.6 billion as of mid-year 2021), with consumer finance being negligible (€0.1 billion).

We view NN Bank as fully integrated within the NN Group. In particular, the bank uses the group's brand, shares the 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 its 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 18.6% as of mid-year 2021 (17.4% as of end-2020). We view this as very robust, considering the bank's exposure to the low risk asset class of Dutch mortgages--one third of which benefits from the Dutch government-supported guarantee Nationale Hypotheek Garantie--and the use of the standardized approach to determine regulatory risk-weighted assets.

The growth in capital is driven by higher retained profits which exceed the growth in risk weighted assets, which

further enhances NN Bank's comfortable level capitalization. Also, the group provided the bank with subordinated loans of €85 million, which qualify as tier 2 capital that support its total capital ratio (20.0% as of mid-year 2020), as well as a committed credit facility that supports its liquidity.

In accordance with the Dutch regulator, NN Bank did paid a limited final dividend over 2020 of €12 million as per the recommendations made by the European Central Bank (ECB) and the Dutch National Bank. The bank is also considering the payment of an interim dividend in October 2021, as the ECB is not recommending dividend restrictions beyond September 2021.

That said, NN Bank is self-funded and has been diversifying its funding sources toward capital markets over the past few years, substantially complementing the deposit base (loans to deposits were 126% at year-end 2020 as per NN Bank's calculations. In September 2021, the bank issued its first green €500 million senior non-preferred notes aiming to diversify its funding base as well as meeting the requirements for own funds and eligible liabilities communicated by the Dutch regulator (see "Netherlands-Based NN Bank's Proposed Senior Nonpreferred Notes Issuance Rated 'BBB+', published Sept. 13, 2021, on RatingsDirect). This issuance adds to its €1.6 billion of senior unsecured debt, and €4.3 billion of covered bonds outstanding. In March 2021, NN Bank raised €0.5 billion via its soft bullet covered bond program that it established in June 2020. This allowed the bank to further diversify its investor base and attract longer-dated funding of 20 years. Moreover, NN Bank redeemed both of its residential mortgage-backed securities transactions initiated in 2014 at the first optional redemption date, due to cheaper funding opportunities. 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 one half of customer deposits. Furthermore, the bank plans to optimize its funding costs by managing retail savings products and wholesale funding solutions, which will likely contribute to reduced overall costs.

Total gross loans have increased by about 54% since 2017, 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 mortgage loan book. That said, the size of the bank's loan book does not reflect its importance in Dutch mortgage lending, since a large portion (65% in 2020; 62% in the first half of 2021) of originated loans (€8.2 billion in 2020 and €4.4 billion in the first half of 2021) lands on the balance sheet of other NN Group entities. As of end-year 2020, NN Bank had a 6.6% market share of new originated mortgage loans, making it the fifth-largest mortgage loan originator in the Netherlands (see NN Bank's Annual Report, published in 2020).

In our view, the bank's rapid growth in recent years is not the result of a more aggressive underwriting approach. The bank's average net loan to indexed market value was 66% at end-year 2020, not meaningfully higher than that of large Dutch banks. Rather, NN Bank's growth, like other bank subsidiaries of Dutch insurance groups, is the result of the introduction of tax-friendly bank savings products, like the Dutch Saving Bank Act in 2008, and the banks' competitive pricing advantage in the long term. Furthermore, in 2020, new residential mortgage loans below €310,000 were eligible for coverage by public mortgage loan insurance, under the Nationale Hypotheek Garantie in the Netherlands.

The bank's growth also reflects, on the asset side, the usefulness of mortgage loans for the wider NN Group asset-liability management (NN Life and NN Non-Life; NN Investment Partners), particularly in a low-interest-rate environment. Also, on the liability side, the bank's growth demonstrates the support of savings products to NN Group's

savings and pensions offering. We have seen cases 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 to 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.

The bank is pursuing its phase of growth and development following the integration of Delta Lloyd Bank, acquired in 2017. We expect that over the coming years the bank will focus on becoming more data-driven by developing mortgage origination for third parties, and positioning itself in the sustainable finance segment, notably via its label Woonnu.

We expect NN Bank will remain profitable despite the pandemic. Payment holiday requests over the past year were low, with around 700 requests representing 0.8% of outstanding mortgage loans and NN Bank granting payment holidays to about 500 of those requests. As of mid-year 2021, a large majority of customers (88%) resumed payment and only 4% show structural payment problems. This, together with the housing price index growth and a positive update in the macroeconomic forecast, explains the decrease in provisions in the first half of 2021.

Our short-term rating on NN Bank considers 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 help the subsidiary in case of distress, as we believe is the case for NN Bank, we assign a higher short-term 'A-1' rating (compared with 'A-2' under our standard mapping).

Environmental, Social and Governance

NN Bank's exposure to environmental risks is contained to its mortgage portfolio. As of end-year 2020, portfolio emissions amounted to 396,546 tonnes of carbon dioxide, according to the Partnership for Carbon Accounting Financials' calculation method. We view NN Bank's environmental outlook positively, given its shift to sustainable living.

From a social risk standpoint, the bank has not received any significant fines from governmental, legal, or arbitral proceedings thanks to its successful risk management policies.

NN Bank's management and governance has a track record that led the bank to meet its financial and operational goals over the last five years. We believe the bank has performed well, despite the difficult pandemic-related environment, and that it was not severely affected by credit quality concerns.

Key Statistics

Table 1

NN Bank N.V. Key Figures					
	--Year-ended Dec. 31--				
(Mil. €)	2021*	2020	2019	2018	2017
Adjusted assets	24,789.8	25,473.1	24,649.1	21,594.0	16,065.4
Customer loans (gross)	21,137.2	21,280.7	20,024.5	18,471.4	13,767.9
Adjusted common equity	1,155.6	1,096.6	994.2	907.1	695.1
Operating revenues	193.6	403.1	379.6	315.3	288.9
Noninterest expenses	114.0	230.3	222.9	222.7	178.1
Core earnings	64.6	125.3	117.7	75.9	85.9

*Data as of June 30.

Table 2

NN Bank N.V. Business Position					
	--Year-ended Dec. 31--				
(%)	2021*	2020	2019	2018	2017
Total revenues from business line (currency in millions)	193.6	403.1	379.6	315.3	288.9
Other revenues/total revenues from business line	100.0	100.0	100.0	100.0	100.0
Return on average common equity	11.1	11.7	11.7	9.0	12.7

*Data as of June 30.

Table 3

NN Bank N.V. Capital And Earnings					
	--Year-ended Dec. 31--				
(%)	2021*	2020	2019	2018	2017
Tier 1 capital ratio	18.6	17.4	15.7	16.3	15.1
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Double leverage	N.M.	22.0	19.1	15.1	10.6
Net interest income/operating revenues	66.5	68.3	65.3	68.9	77.1
Fee income/operating revenues	31.8	25.3	25.5	27.4	16.5
Market-sensitive income/operating revenues	1.7	6.4	9.2	3.7	6.4
Cost to income ratio	58.9	57.1	58.7	70.6	61.6
Provision operating income/average assets	0.6	0.7	0.7	0.5	0.7
Core earnings/average managed assets	0.5	0.5	0.5	0.4	0.6

*Data as of June 30. N.M.--Not meaningful.

Table 4

NN Bank N.V. Risk Position					
	--Year-ended Dec. 31--				
(%)	2021*	2020	2019	2018	2017
Growth in customer loans	(1.3)	6.3	8.4	34.2	8.2

Table 4

NN Bank N.V. Risk Position (cont.)					
	--Year-ended Dec. 31--				
(%)	2021*	2020	2019	2018	2017
Total managed assets/adjusted common equity (x)	21.5	23.3	24.8	23.8	23.1
New loan loss provisions/average customer loans	(0.1)	0.0	(0.0)	(0.0)	(0.0)
Net charge-offs/average customer loans	0.0	(0.0)	N.M.	N.M.	N.M.
Gross nonperforming assets/customer loans + other real estate owned	1.1	1.4	0.6	0.8	1.2
Loan loss reserves/gross nonperforming assets	8.0	8.5	17.4	19.8	17.4

*Data as of June 30. N.M.--Not meaningful.

Table 5

NN Bank N.V. Funding And Liquidity					
	--Year-ended Dec. 31--				
(%)	2021*	2020	2019	2018	2017
Core deposits/funding base	68.8	65.8	65.5	71.9	70.3
Customer loans (net)/customer deposits	130.9	135.0	132.7	127.4	129.6
Long-term funding ratio	98.5	94.2	91.9	98.4	95.7
Stable funding ratio	111.4	107.0	105.0	107.4	105.9
Short-term wholesale funding/funding base	1.6	6.1	8.5	1.6	4.5
Broad liquid assets/short-term wholesale funding (x)	8.3	2.4	1.9	6.6	2.4
Net broad liquid assets/short-term customer deposits	24.7	18.7	16.9	19.2	12.9
Short-term wholesale funding/total wholesale funding	5.1	17.9	24.6	5.8	15.1
Narrow liquid assets/3-month wholesale funding (x)	16.1	10.8	10.7	12.8	5.5

*Data as of June 30.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Related Research

- NN Group N.V., June 25, 2020.
- Netherlands-Based NN Bank's Proposed Senior Nonpreferred Notes Issuance Rated 'BBB+', Sept. 13, 2021

Ratings Detail (As Of October 13, 2021)*

NN Bank N.V.

Issuer Credit Rating	A-/Stable/A-1
Senior Secured	AAA
Senior Secured	AAA/Stable
Senior Subordinated	BBB+
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+

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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