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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
Fully owned highly Strategic subsidiary of NN Group N.V., the Dutch leading insurance group.	Concentrated exposure to Dutch mortgage loans.
Low-risk loan book, consisting of mortgage loans.	Relatively small compared to peers.
Sustainable profitability level supporting robust capitalization.	Sizable share of potentially less stable internet-based savings accounts.

***We expect NN Bank N.V. to remain a highly strategic subsidiary of insurance group NN Group N.V.*** NN Bank is the fully owned banking subsidiary of NN Group N.V. and operates in one of its key markets. The bank complements the group's insurance activity by offering mortgage loans and savings and retail investment products to its customers. It maintains a high level of integration with its parent in terms of the distribution network, client base, marketing, profit sharing, and as an originator and servicer of mortgage loans for other NN group entities. The bank supports NN Group's insurance activities in the Netherlands by helping to maintain customer loyalty and producing cross-selling opportunities. We therefore view NN Bank as a highly strategic subsidiary of NN Group and integral to the insurance group's strategy in the Netherlands, representing 11% of group total assets and 9% of group earnings, on average, over 2019-2023.

***We expect NN Bank's profitability to decline after its net interest margin (NIM) peaked in 2023.*** NN Bank's NIM decreased by 7 basis points (bps) to 1.58% as of mid-2024 after reaching a peak of 1.66% in mid-2023, and compared to an average NIM of 1.05% over 2019-2022. NN Bank had originated €1.8 billion of mortgages by mid-2024, an 18% year-over-year decrease from yearly origination levels of €7.8 billion, on average, over 2019-2023. The volume of mortgages was hit by higher interest rates depressing customer demand and intense competition in the Dutch mortgage market. This led to a slight 0.4% decrease in NN Bank's mortgage loan book over the first half of the year. This results in the decrease of the bank's net interest income but also its fees and commissions, as investor appetite for mortgages has decreased, resulting in a fall in origination and servicing fees from third parties.

We expect NN Bank's NIM will continue to decrease but mortgage volumes to recover over time, which overall will lead to lower operating revenue. Pressure on costs should decrease and we expect the bank to manage its cost-to-income ratio closer to its target of below 55% thanks to its cost structure optimization through digitalization. We do not expect NN Bank's credit risk metrics to deteriorate as the loan portfolio mostly relates to residential mortgages with a loan-to-value ratio of 57% at mid-2024, and about one-third are under a public guarantee. Therefore, cost of risk should remain relatively stable over 2024-2025 at 1 bps-5 bps. As a result, we expect NN Bank's return on equity to decrease slightly to about 10%-11% in 2024-2025 after peaking at 12% in mid-2023.

## Outlook

Our stable outlook on NN Bank mirrors that on its parent NN Group. The stable outlook on NN Bank also reflects our expectation that it will remain a highly strategic subsidiary of NN Group over the next two years. Any rating action on NN Group would therefore lead us to take a similar rating action on NN Bank.

### Downside scenario

We would lower our ratings on NN Bank if its strategic importance for NN Group diminishes, for instance, if the bank is not sufficiently profitable over the cycle, or if it starts to pose a greater financial risk to its parent. Rating pressure could also arise if we were to revise downward NN Group's group credit profile (GCP), which would indicate the insurance group's reduced capability to support its banking subsidiary if needed.

### Upside scenario

We would upgrade NN Bank if we revised upward NN Group's GCP. We would also upgrade NN Bank if we reassessed the bank's strategic importance for the group to core. Such a reassessment 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

*Our rating on NN Bank is underpinned by its high strategic importance to NN Group.* We think that the bank's strategic and operational ties with its insurance parent support its creditworthiness, and we therefore base our long-term issuer credit rating on NN Bank on its highly strategic status within NN Group in a top-down approach, without assessing its stand-alone credit profile. Our 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 Dutch mortgage leader, originating and servicing mortgages for third parties.* It is the fifth-largest retail bank in the Netherlands by size of mortgage loan book, with a 3.9% market share in new mortgage originations as of mid-2024. That said, the size of the bank's loan book does not reflect its importance in Dutch mortgage lending, since a large portion of originated loans (50% of €1.8 billion in first-half 2024) land on the balance sheet of other NN Group entities (NN Life, NN Non-Life, NN Belgium), as well as the Goldman Sachs Dutch residential mortgage fund. As of mid-2024, NN Bank serviced €55.4 billion of mortgages, of which only 38% were held on its own balance sheet.

*NN Bank will launch a payment services offering in 2025 as part of its development strategy.* This will mark a step further in building a digital retail bank, and will enable NN Bank to complete its banking services offering and help rebalance its earning generation to comprise higher share of fee-based revenues in the medium term compared to 14.5% as of mid-2024. Additionally, the payment services offering will not only facilitate clients' acquisitions but will also increase and enhance customer contact points, which will boost traffic for NN Group's products distribution and

increase cross-selling opportunities. We therefore believe this launch could strengthen the bank's position in the insurance group's retail strategy.

***We expect NN Bank's mortgage activity to benefit from decreasing interest rates while asset quality should remain high.***

The bank's gross customer loan portfolio increased in recent years with a compound annual growth rate of 9.2% over 2015-2023. However, this trend ended over the first half of 2024, which saw stable loan book volumes, with high interest rates depressing customer demand amid intense competition in the Dutch mortgage market.

In our view, the interest rate decrease should stimulate mortgage volumes and benefit NN Bank's loan book growth. Additionally, we think that NN Bank's asset quality will remain high as the net exposure of its mortgage book is low, considering the collateral value, the Nationale Hypotheek Garantie (NHG) guarantee, and the customer savings held at the bank. The bank's loan to value stood at 57% as of mid-2024, in line with other large Dutch banks, while nominal house price growth resumed after a decline in 2023. The nonperforming loan ratio stood at 0.6% of total loans at mid-year 2024 and we expect it to stay below 1% over the next year.

NN Bank has maintained prudent credit provisioning, with a management overlay of €1.0 million at end-2023 (down from €3 million in 2022) to cover the potential effects of high inflation and increasing mortgage rates. However, we expect the bank's cost of risk to remain low over the next year, at about 1 bps-5 bps.

***NN Bank is well capitalized with a sound capital buffer.*** The bank's total capital ratio increased to 18.3% in first-half 2024 from 17.8% at year-end 2023, due to lower risk-weighted assets (RWAs) from the decrease in the loan book compared with end-2023 (a drop of 0.4%) and some capital buildup from retained earnings. We expect NN Bank to keep its capital ratios above requirements. In our view, the bank's capital position is very robust, considering its exposure to the low-risk asset class of Dutch mortgages--one-third of which benefit from the Dutch government-supported NHG guarantee--and the use of the standardized approach to determine regulatory RWA. We note that in 2024, the bank has redeemed at the call date €40 million of subordinated loans owned by NN group that qualify as Tier 2 capital, which replaced the distribution of a first-half-year dividend.

***NN Bank has diversified funding and operates with good liquidity.*** The bank is self-funded and has been diversifying its funding sources toward capital markets over the past years, substantially complementing the deposit base (the loan-to-deposit ratio was 126% in first-half 2024). Wholesale funding accounted for 28% of NN Bank's total funding at mid-year 2024. This wholesale funding includes senior debts (€1.2 billion) and covered bonds (€5.5 billion). Covered bond funding allows the bank to attract longer-dated funding up to 20 years and diversify its investor base. The bank is also supporting its long-term sustainability strategy with the issuance of green bonds (€1.765 billion issued since 2021). This funding diversification is positive, in our view, particularly considering that internet-based savings--a potentially less stable funding source--account for about half of customer deposits. The bank has a solid liquidity position with a liquidity coverage ratio of 193% as of mid-2024 as well as a committed credit facility from NN Group, which supports its liquidity. Moreover, NN Bank retains €2 billion bonds issued under its soft bullet covered bond program to provide sufficient contingent liquidity.

***Our short-term rating on NN Bank reflects our assessment of NN Group's liquidity.*** Since we assess NN Group's liquidity as exceptional, which would help NN Bank in case of distress, we assign a higher short-term rating of 'A-1' compared with 'A-2' under our standard mapping.

## Environmental, Social, And Governance

ESG credit factors have an overall neutral influence on NN Bank's credit quality. We think NN Bank's exposure to environmental risks is contained to its mortgage portfolio, which the bank intends to steer toward net zero by 2050 or sooner, under its sustainability strategy that is fully aligned with that of the group. Some examples of NN Bank's initiatives include Woonnu and the Better Living Platform. Having launched in 2020, the Woonnu platform helps clients to improve the sustainability of their houses, while its Better Living Platform offers online home improvement advice.

NN Bank's management and governance is reflected in its track record of meeting financial and operational goals over the past five years. We believe the bank has performed well in recent years with resilient credit quality metrics.

## Key Statistics

**Table 1**

NN Bank N.V.--Key figures					
	--Year-ended Dec. 31--				
(Mil. €)	2024*	2023	2022	2021	2020
Adjusted assets	24,987.1	25,181.9	24,133.0	24,340.0	25,473.0
Customer loans (gross)	21,442.3	21,528.0	20,346.0	21,238.0	21,281.0
Adjusted common equity	1,170.6	1,109.4	1,042.0	964.0	1,097.0
Operating revenues	212.5	441.7	367.0	380.0	403.0
Noninterest expenses	129.9	275.4	257.0	253.0	230.0
Core earnings	61.9	127.1	82.0	102.0	125.0

\*Data as of June 30.

**Table 2**

NN Bank N.V.--Business position					
	--Year-ended Dec. 31--				
(%)	2024*	2023	2022	2021	2020
Total revenues from business line (currency in millions)	212.5	441.7	367.0	380.0	403.0
Retail banking/total revenues from business line	100.0	100.0	100.0	100.0	100.0
Return on average common equity	10.6	11.6	7.6	9.1	11.7

\*Data as of June 30.

**Table 3**

NN Bank N.V.--Capital and earnings					
	--Year-ended Dec. 31--				
(%)	2024*	2023	2022	2021	2020
Tier 1 capital ratio	17.2	16.5	15.3	17.3	17.4
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	93.3	92.0	70.0	64.4	68.3

**Table 3**

<b>NN Bank N.V.--Capital and earnings (cont.)</b>					
	<b>--Year-ended Dec. 31--</b>				
<b>(%)</b>	<b>2024*</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>
Fee income/operating revenues	14.5	14.7	26.8	34.2	25.3
Market-sensitive income/operating revenues	(7.7)	(5.0)	3.3	1.4	6.4
Cost to income ratio	61.1	62.4	70.2	66.7	57.1
Preprovision operating income/average assets	0.7	0.7	0.5	0.5	0.7
Core earnings/average managed assets	0.5	0.5	0.3	0.4	0.5

\*Data as of June 30.

**Table 4**

<b>NN Bank N.V.--Risk position</b>					
	<b>--Year-ended Dec. 31--</b>				
<b>(%)</b>	<b>2024*</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>
Growth in customer loans	(0.8)	5.8	(4.2)	(0.2)	6.3
Total managed assets/adjusted common equity (x)	21.4	22.7	23.2	25.3	23.3
New loan loss provisions/average customer loans	(0.0)	(0.0)	0.0	(0.1)	0.0
Gross nonperforming assets/customer loans + other real estate owned	0.6	0.6	0.6	0.6	1.4
Loan loss reserves/gross nonperforming assets	2.8	2.8	8.1	8.1	8.5

\*Data as of June 30.

**Table 5**

<b>NN Bank N.V.--Funding and liquidity</b>					
	<b>--Year-ended Dec. 31--</b>				
<b>(%)</b>	<b>2024*</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>
Core deposits/funding base	71.6	68.8	70.6	68.7	65.8
Customer loans (net)/customer deposits	126.2	130.7	125.3	133.5	135.0
Long-term funding ratio	96.0	94.9	94.5	97.8	94.2
Stable funding ratio	108.8	107.2	108.0	108.2	107.0
Short-term wholesale funding/funding base	4.2	5.3	5.8	2.3	6.1
Regulatory net stable funding ratio	4.2	5.3	139.0	141.0	132.0
Broad liquid assets/short-term wholesale funding (x)	3.1	2.3	2.4	4.7	2.4
Broad liquid assets/total assets	12.3	11.8	13.0	10.3	13.5
Broad liquid assets/customer deposits	18.1	18.1	19.3	15.8	21.9
Net broad liquid assets/short-term customer deposits	18.4	15.7	16.2	18.2	18.7
Regulatory liquidity coverage ratio (LCR)	193.1	197.0	183.0	165.0	168.0
Short-term wholesale funding/total wholesale funding	14.7	17.0	19.6	7.4	17.9
Narrow liquid assets/3-month wholesale funding (x)	7.9	6.0	12.1	16.7	10.8

\*Data as of June 30.

## Related Criteria

- [Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions](#), Nov. 15, 2023
- [General Criteria: Hybrid Capital: Methodology And Assumptions](#), March 2, 2022
- [General Criteria: Environmental, Social, And Governance Principles In Credit Ratings](#), Oct. 10, 2021
- [General Criteria: Group Rating Methodology](#), July 1, 2019
- [Criteria | Insurance | General: Insurers Rating Methodology](#), 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

## Related Research

- [Economic Outlook Eurozone Q1 2025: Next Year Will Be A Game Changer](#), Nov. 26, 2024
- [NN Group N.V.](#), Nov. 7, 2024
- [Benelux Banks Outlook 2024: Profitability Hinges On Operating Efficiency](#), Feb. 22, 2024
- [Netherlands-Based NN Group Rating Raised To 'A+' From 'A'; Outlook Stable](#), Dec. 21, 2023
- [Banking Industry Country Risk Assessment: The Netherlands](#), Sept. 29, 2023

### Ratings Detail (As Of December 13, 2024)\*

#### NN Bank N.V.

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

#### Issuer Credit Ratings History

21-Dec-2023	A/Stable/A-1
18-May-2022	A-/Positive/A-1
11-May-2017	A-/Stable/A-1

#### Sovereign Rating

Netherlands	AAA/Stable/A-1+
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#### Related Entities

##### NN Group N.V.

Issuer Credit Rating	A-/Stable/A-2
Junior Subordinated	BBB
Senior Unsecured	A-
Subordinated	BBB
Subordinated	BBB-

**Ratings Detail (As Of December 13, 2024)\*(cont.)**

**NN Life Insurance Co. Ltd.**

Financial Strength Rating

*Local Currency*

A/Stable/--

Issuer Credit Rating

*Local Currency*

A/Stable/--

**NN Re (Netherlands) N.V.**

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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