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NN Bank N.V.

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NN Bank N.V.

Credit Highlights

Issuer Credit Rating

A-/Positive/A-1

Overview

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

NN Bank N.V. is a highly strategic subsidiary of insurance group NN Group N.V. NN Bank is part of NN Group N.V. (A-/Positive/--) 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, and maintains a high level of integration with its parent in terms of the distribution network, client base, marketing, profit sharing, and operating as an originator and servicer of group mortgage loans. NN Bank accounts for a significant proportion of its parent at 10% of total assets and 5% of earnings.

We expect NN Bank's profitability to remain strong in 2023 and 2024. NN Bank is benefitting from the higher interest rate environment. Its net interest margin increased by 69 basis points (bps) to 1.66% as of end-June 2023. This supports its net interest income, despite decreased mortgage origination as mortgage rates increased and competition has intensified. NN Bank reported an 55% decrease in mortgage origination over the first half of the year, yet a 4% increase in loans outstanding to €20.9 billion. However, the lower third-party loan origination activity has negatively affected the bank's fees and commissions revenues. Pressure on costs from inflation and investments remains, but we expect the bank to manage its cost to income ratio within 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 is mostly residential mortgages with a loan-to-value ratio of 57% at mid-2023 and one-third are under a public guarantee. Therefore, cost of risk should remain relatively stable over 2023-2024 at 5 bps-10 bps. As a result, we expect NN Bank's return on equity to peak at 12%-14% in 2023 and to be about 9%-10% in 2024.

NN Bank is well capitalized and has a well-diversified funding mix. The bank manages its capital ratios to meet requirements with a total capital ratio of 17.1% at June 30, 2023. Deposits represented 72% of NN Bank's total funding at mid-year 2023 while the remainder was wholesale funding, mainly covered bonds with long maturities and senior notes.

Outlook

Our positive outlook on NN Bank mirrors that on its parent NN Group. The positive 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 result in 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 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.

Upside scenario

Conversely, we would upgrade NN Bank if we raise NN Group's GCP. We would also upgrade NN Bank if we reassess the bank's strategic importance for the group as core. We view a 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 in a top-down approach, without assessing its stand-alone credit profile. Therefore, 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 NN Group's activities, and complemented with WestlandUtrecht Bank's activities in 2013. The bank provides retail investment products in the form of bank savings and investment products, and mainly finances Dutch mortgage loans (€20.8 billion in first-half 2023), with consumer finance being negligible (€0.1 billion).

We view NN Bank as fully integrated within NN Group. In particular, the bank uses the group's brand and shares the client base, distribution network, and a wide range of services, such as information technology (IT), human resources, and risk management. Full integration within NN Group is also visible in its various forms of financial support. NN Group has stated that it intends to maintain the bank's adequate capitalization at all times. The bank's total capital ratio increased to 17.1% in first-half 2023 from 16.6% at year-end 2022, mainly due to capital build-up from retained earnings growing faster than risk-weighted assets (RWA) from its loan book. We expect NN Bank to keep its capital ratios above requirements, which are 14.7% for total capital and 9.4% for common equity Tier 1 (CET1). Capital requirements are projected to further increase in 2024 due to the countercyclical buffer in the Netherlands required level of 2%. 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 guarantee Nationale Hypotheek Garantie--and the use of the standardized approach to determine regulatory RWA. Also, the group provided the bank with subordinated loans of €85 million, which qualify as Tier 2 capital.

NN Bank is the fifth-largest retail bank in the Netherlands by size of mortgage loan book and new mortgage originations (about 5.9% market share at mid-2023). 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 (47% of €2.2 billion in first-half 2023) land on the balance sheet of other NN Group entities (NN Life, NN Non-Life, NN Belgium), as well as the NN Dutch residential mortgage fund. As of mid-2023 NN Bank serviced €55.9 billion of mortgages, out of which only 37% were held on the bank's balance sheet.

Rapidly rising interest rates since July 2022 have tightened consumer spending and reduced housing demand causing house prices to fall. We expect negative house price growth in real terms in 2023-2024 despite nominal prices starting to slowly rise again in the second half of 2023. This is because nominal wages increased more than expected over the past year, allowing households to borrow more and supporting mortgage loan demand, but high interest remained a constraining factor. Nevertheless, we do not anticipate the bank's asset quality to deteriorate significantly, which is structurally supported by fixed-rate long-term mortgages representing the largest part of its loan portfolio (76% of the portfolio has a fixed-rate period of above 10 years). Moreover, the energy price shock has been largely cushioned by public supporting measures and the bank's average net loan to indexed market value was 57% at mid-2023, in line with other large Dutch banks. The nonperforming loan (NPL) ratio stood at 0.6% of total loans at mid-year 2023 and we expect it to stay below 1% over the next year. Downside risks to asset quality could emerge if cost-of-living pressure persists and results in more abrupt and significant adjustments in the housing market than we currently anticipate. NN Bank maintained prudent credit provisioning with a management overlay of €1.5 million (down from €2.6 million year-on-year) to cover the potential effects of high inflation and increasing mortgage rates. We expect NN Bank's cost of risk to remain low over the next year, at about 5 bps-10 bps.

NN Bank continues to pursue its development strategy, becoming a digital and data-driven retail lender and positioning itself in the sustainable finance segment, notably via its label Woonnu. We expect the bank to continue expanding its commercial proposition through cross-selling of insurance products from its parent company, focus on sustainability goals, and implement payment and other fee-generating services. This would lead to more diversified income generation and help the bank to grow beyond NN Group's current customer base. The bank targets a share of 30% of noninterest revenues in the medium term compared to 7.4% as of mid-2023.

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 128% in first-half 2023). Wholesale funding accounted for 29% of NN Bank's total funding at mid-year 2023. This wholesale funding includes senior unsecured loans (€1.7 billion) and covered bonds (€5.1 billion). Covered bond funding allows the bank to further diversify its investor base and attract longer-dated funding of 20 years, while supporting its long-term sustainability strategy with the issuance of green bonds (€1.75 billion issued since 2021 or €0.75 billion in 2023). This funding diversification trend is positive, in our view, particularly considering that internet-based savings--a potentially less stable funding source--account for about one-half of customer deposits. The bank has a solid liquidity position with a LCR at 159% at

mid-2023 as well as a committed credit facility from the parent/group that supports its liquidity. Moreover, NN Bank retains €2 billion bonds issued under its soft bullet covered bond program to provide for 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

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 fully aligned with that of the group. Some examples of NN Bank's initiative include Woonnu and Powerly. The Woonnu platform launched in 2020 helps clients to improve the sustainability of their houses (originated €2.8 billion since inception) and Powerly 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. €)	2023*	2022	2021	2020	2019
Adjusted assets	24,496.0	24,133.0	24,340.0	25,473.0	24,649.0
Customer loans (gross)	20,905.0	20,346.0	21,238.0	21,281.0	20,025.0
Adjusted common equity	1,086.0	1,042.0	964.0	1,097.0	994.0
Operating revenues	218.0	367.0	380.0	403.0	380.0
Noninterest expenses	133.0	257.0	253.0	230.0	223.0
Core earnings	65.0	82.0	102.0	125.0	118.0

*Data as of June 30.

Table 2

NN Bank N.V.--Business position					
	--Year-ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Total revenues from business line (currency in millions)	218.0	367.0	380.0	403.0	380.0
Other revenues/total revenues from business line	100.0	100.0	100.0	100.0	100.0
Return on average common equity	12.1	7.6	9.1	11.7	11.7

*Data as of June 30.

Table 3

NN Bank N.V.--Capital and earnings					
	--Year-ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Tier 1 capital ratio	15.8	15.3	17.3	17.4	15.7
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	92.6	70.0	64.4	68.3	65.3
Fee income/operating revenues	14.9	26.8	34.2	25.3	25.5
Market-sensitive income/operating revenues	(7.5)	3.3	1.4	6.4	9.2
Cost to income ratio	61.0	70.2	66.7	57.1	58.7
Preprovision operating income/average assets	0.7	0.5	0.5	0.7	0.7
Core earnings/average managed assets	0.5	0.3	0.4	0.5	0.5

*Data as of June 30.

Table 4

NN Bank N.V.--Risk position					
	--Year-ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Growth in customer loans	5.5	(4.2)	(0.2)	6.3	8.4
Total managed assets/adjusted common equity (x)	22.6	23.2	25.3	23.3	24.8
New loan loss provisions/average customer loans	(0.0)	0.0	(0.1)	0.0	(0.0)
Gross nonperforming assets/customer loans + other real estate owned	0.6	0.6	0.6	1.4	0.6
Loan loss reserves/gross nonperforming assets	7.0	8.1	8.1	8.5	17.4

Note: *Data as of June 30.

Table 5

NN Bank N.V.--Funding and liquidity					
	--Year-ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Core deposits/funding base	70.2	70.6	68.7	65.8	65.5
Customer loans (net)/customer deposits	128.2	125.3	133.5	135.0	132.7
Long-term funding ratio	96.8	94.5	97.8	94.2	91.9
Stable funding ratio	109.5	108.0	108.2	107.0	105.1
Short-term wholesale funding/funding base	3.4	5.8	2.3	6.1	8.5
Regulatory net stable funding ratio	137.0	139.0	141.0	132.0	132.0
Broad liquid assets/short-term wholesale funding (x)	3.9	2.4	4.7	2.4	1.9
Broad liquid assets/total assets	12.5	13.0	10.3	13.5	14.8
Broad liquid assets/customer deposits	18.8	19.3	15.8	21.9	24.2
Net broad liquid assets/short-term customer deposits	20.4	16.2	18.2	18.7	16.9
Regulatory liquidity coverage ratio (LCR) (x)	1.6	1.8	1.7	1.7	1.7
Short-term wholesale funding/total wholesale funding	11.4	19.6	7.4	17.9	24.6
Narrow liquid assets/3-month wholesale funding (x)	73.3	12.1	16.7	10.8	10.7

Note: *Data as of June 30.

Related Research

- NN Group N.V., Oct. 31, 2023
- Banking Industry Country Risk Assessment: The Netherlands, Sept. 29, 2023
- Transaction Update: NN Bank N.V. Dutch Soft-Bullet Covered Bond Program, April 28, 2023

Ratings Detail (As Of December 4, 2023)*

NN Bank N.V.

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

Issuer Credit Ratings History

18-May-2022	A-/Positive/A-1
11-May-2017	A-/Stable/A-1
07-Oct-2016	A/Watch Neg/A-1

Sovereign Rating

Netherlands	AAA/Stable/A-1+
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Related Entities

NN Group N.V.

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

NN Life Insurance Co. Ltd.

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

NN Re (Netherlands) N.V.

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

*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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