

Research Update:

NN Group's Core Operating Entities Outlooks Revised To Positive On Strengthened Capital Adequacy; 'A' Ratings Affirmed

May 18, 2022

Overview

- Thanks to sound earnings stemming from a diversified business mix, NN Group's capitalization has improved significantly, and is now very strong based on our risk-based capital model.
- We believe the group's capitalization will remain very strong due to ongoing healthy earnings and a moderate payout policy.
- We have therefore revised our rating outlook on NN's core operating subsidiaries and the holding company to positive from stable and affirmed our ratings.
- The positive outlook reflects our belief that NN can maintain very strong capitalization under our risk-based model over the next two years, alongside a diversified business mix, and achieve profitability in line with peers'.

Rating Action

On May 18, 2022, S&P Global Ratings revised its outlooks on the core operating entities of Dutch NN Group to positive from stable (see the ratings list). We affirmed our 'A' long-term issuer credit and financial strength ratings on those entities.

At the same time, we revised our outlook on nonoperating holding company NN Group N.V. to positive from stable and affirmed our 'BBB+' long-term and 'A-2' short-term issuer credit ratings on the company.

We also revised the outlook on bank subsidiary NN Bank to positive, and affirmed our 'A-' long-term and 'A-1' short-term issuer credit rating.

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Rationale

NN's capitalization, based on our risk-based capital model, has recently improved and we believe it will remain very strong over the next two to three years thanks to solid profit generation, a prudent payout policy, and only moderate growth of capital requirements. We consider that the combination of sustainably very strong capital adequacy and profitability in line with peers' could support a higher rating.

The improvement of capitalization to the very strong range according to our risk-based capital model stemmed from excellent net income of €3.3 billion in 2021. Although that result benefitted from extraordinarily high realized gains, we also acknowledge a gradual increase in the operating result to €2 billion in 2021 from €1.6 billion in 2017.

NN continues to benefit from a diversified business mix, in our view, despite the divestment of its asset-management business last year. Besides its leading positions in life and non-life in its domestic market, NN is one of the top three life insurers in a number of Central and Eastern European countries and in a niche business in Japan. Further diversification stems from the group's profitable banking operations.

We regard the group's focus on efficiency and sound underwriting profitability as positive. For 2022–2024, we anticipate annual net income of about €1.9 billion, supported by a non-life combined (loss and expense) ratio of around 95%. We estimate that this will lead to a return on equity of about 5% over the next two to three years.

In our earnings forecast, we also incorporate the announced share buyback of €1 billion to be completed before March 1, 2023. Moreover, we anticipate additional share buybacks of €250 million annually in 2023 and 2024. Combined with moderate growth of risk-based capital due to a declining life back book, we believe the group's capitalization will stay in the very strong range. Compared with other 'A+' rated peers, however, we have not yet observed sustainable capital adequacy at that level.

Outlook

The positive outlooks reflect our belief that NN can maintain sustainably very strong capitalization under our risk-based model over the next two years, alongside a diversified business mix, and achieve profitability in line with peers'.

Upside scenario

We could upgrade NN Group N.V. and its core operating companies within the next 24 months if:

- The group's capital adequacy stays at least very strong according to our risk-based capital model;
- NN maintains a prudent dividend policy and risk taking;
- NN achieves profitability in line with 'A+' rated peers; and
- The volatility of earnings or capitalization does not increase, for instance, due to investment exposure or the guaranteed life book of business.

Downside scenario

We would revise the outlook to stable over the next 24 months if the group's capitalization does not remain very strong in our risk-based model; or if profitability stays below that of 'A+' rated peers. We would also revise the outlook to stable if the group takes excessive risk, for instance, in terms of elevated dividends or share buybacks.

Ratings Score Snapshot

	To	From
Financial strength rating	A	A
Anchor*	a	a
Business risk	Strong	Strong
IICRA	Intermediate	Intermediate
Competitive position	Strong	Strong
Financial risk	Very strong	Strong
Capital and earnings	Very strong	Strong
Risk exposure	Moderately low	Moderately low
Funding structure	Neutral	Neutral
Modifiers		
Governance	Neutral	Neutral
Liquidity	Exceptional	Exceptional
Comparable ratings analysis	0	0
Support	0	0
Group support	0	0
Government support	0	0

*This is influenced by lacking a track record of achieving sustainable and very strong capital adequacy. IICRA--Insurance Industry And Country Risk Assessment.

ESG credit indicators: E-2, S-2, G-2

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group 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
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Ratings List

***** NN Group N.V. *****

Ratings Affirmed

NN Bank N.V.

Senior Unsecured	A-
Senior Subordinated	BBB+

NN Group N.V.

Senior Unsecured	BBB+
Subordinated	BBB-
Junior Subordinated	BBB-

Nationale-Nederlanden Levensverzekering Maatschappij N.V.

Junior Subordinated	BBB+
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Ratings Affirmed; CreditWatch/Outlook Action

	To	From
NN Bank N.V.		
Issuer Credit Rating	A-/Positive/A-1	A-/Stable/A-1

NN Group N.V.

Issuer Credit Rating	BBB+/Positive/A-2	BBB+/Stable/A-2
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NN Re (Netherlands) N.V.

Nationale-Nederlanden Levensverzekering Maatschappij N.V.

Issuer Credit Rating		
Local Currency	A/Positive/--	A/Stable/--
Financial Strength Rating		
Local Currency	A/Positive/--	A/Stable/--

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