

RATING ACTION COMMENTARY

Fitch Affirms Nationale-Nederlanden's IFS Rating at 'AA-'; Outlook Stable

Fri 03 Mar, 2023 - 8:29 AM ET

Fitch Ratings - Frankfurt am Main - 03 Mar 2023: Fitch Ratings has affirmed Nationale-Nederlanden Levensverzekeringen Maatschappij N.V.'s Insurer Financial Strength (IFS) Rating at 'AA-' (Very Strong) and NN Group N.V.'s (together NN) Long-Term Issuer Default Rating (IDR) at 'A+'. The Outlooks are Stable.

The affirmation reflects NN's 'Very Strong' capitalisation and company profile as well as its 'Strong' profitability.

KEY RATING DRIVERS

Resilient Operating Performance: NN's 'Strong' profitability is based on resilient reported group operating earnings. The operating result dropped to EUR1.7 billion in 2022 from EUR2 billion in 2021 on a weaker combined ratio in Netherlands non-life, the sale of investment firm NNIP and lower revenues in Japan Life. We expect the group to generate broadly stable operating earnings in 2023.

Results Burdened by Mark-to-Market Losses: Pre-tax operating return on assets (ROA) declined to 0.4% in 2022 from 1.3% in 2021, as equity investment losses and negative revaluations on real estate and derivatives burdened results. We expect the ROA to improve to above 1% in the medium term on smaller revaluation losses. While further

negative revaluations on real estate are likely to burden the ROA in 2023 the revaluation result of derivatives used for hedging purposes mainly reflects accounting asymmetries, which should be remedied in 2023 with the introduction of IFRS 17.

Very Strong Capital: NN Group N.V. has maintained very strong capitalisation based on end-2022 numbers. NN reported a very strong Solvency II (S2) ratio of 197% at end-2022 (end-1H22: 196%). Operating capital generation broadly offset negative market variance arising from changes in credit spreads and negative real-estate revaluations.

Very Strong Leverage: NN's Fitch-calculated financial leverage ratio (FLR) rose slightly to 23% at end-2022 (1H22: 22%) due to lower adjusted IFRS equity on the back of a net loss in 2H22 and capital repatriation to shareholders. Fitch expects NN's FLR to decline after its EUR500 million senior unsecured notes matured in January 2023 and were not replaced.

Very Strong Financial Flexibility: NN's debt-servicing capability and financial flexibility is 'Very Strong' based on a three-year average fixed-charge coverage (FCC) of 12x, stable market access, and financial flexibility underpinned by adequate cash reserves and contingent funding. We expect rising interest rates to have no meaningful impact on FCC in 2023, which will remain very strong, as funding needs are limited and the group's operating earnings are strong.

Very Strong Company Profile: Fitch ranks NN's company profile as 'Favourable' compared with other Dutch insurers'. Recent acquisitions in the Netherlands have firmly established NN as the market leader in non-life insurance, and as the second-largest insurer in property and casualty, while securing its leading position in life and pensions. International operations, such as those in central Europe and Japan, accounted for about 30% of NN's operating result in 2022. Gross premium income declined 5% to EUR13.6 billion in 2022.

Low Investment Risk: Fitch assesses NN's investment and asset risk as low and scores the credit factor as 'Very Strong'. The group's asset allocation remained broadly unchanged in 2022. Investments mainly consisted of debt securities (53% share of insurance investments at end-2022, mostly investment-grade) and high-quality Dutch residential mortgages (28%). Real estate investments had a 9% share, while equity investments accounted for 2%. We expect the exposure to higher-risk assets to remain commensurate with the ratings.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Improvement in NN's financial leverage to below 15%, while operating earnings are strong as reflected in an ROA of 1.3% or higher, and the group's S2 ratio is above 200%

Factors that could, individually or collectively, lead to negative rating action/downgrade:

-- Deterioration of NN's financial leverage to above 30%

-- Deterioration of NN's S2 ratio to below 170%

-- Sustained weakening of NN's operating earnings, as reflected in an ROA of 1% or below

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY / DEBT ⚡

RATING ⚡

PRIOR ⚡

Nationale-Nederlanden Levensverzekeringen Maatschappij N.V.	LT IFS	AA- Rating Outlook Stable	AA- Rating Outlook Stable
	Affirmed		
NN Group N.V.	LT IDR	A+ Rating Outlook Stable	A+ Rating Outlook Stable
	Affirmed		
senior unsecured	LT	A	Affirmed
			A
subordinated	LT	BBB+	Affirmed
			BBB+

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Insurance Rating Criteria \(pub. 15 Jul 2022\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Prism Factor-Based Capital Model, v1.8.0 ([1](#))

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ENDORSEMENT STATUS

Nationale-Nederlanden Levensverzekeringen Maatschappij N.V.
NN Group N.V.

EU Issued, UK Endorsed
EU Issued, UK Endorsed

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