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NN Group N.V.

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NN Group N.V.

Anchor	a	+	Modifiers	0	=	SACP	a	
	▲		▲			+		
Business Risk	Strong							A/Positive/--
Competitive position	Strong		Governance	Neutral		Support	0	Financial strength rating
IICRA	Intermediate							
Financial Risk	Very Strong		Liquidity	Exceptional		Group support	0	BBB+/Positive/A-2
Capital and earnings	Very strong							Holding company ICR
Risk exposure	Moderately low		Comparable ratings analysis	0		Government support	0	
Funding structure	Neutral							

IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

Credit Highlights

Overview	
Strengths	Risks
Well-diversified business and earnings mix leading to improved capitalization.	Geopolitical tensions, interest rate volatility, and rising inflation could impact earnings.
Domestic market leader with a strong brand and reputation.	Limited organic growth opportunities in the highly penetrated Dutch insurance market.
Effective asset-liability management .	

NN Group (NN) shows solid capitalization despite geopolitical tensions, but interest rate volatility and rising inflation may impact bottom line earnings. We believe the group's capital adequacy will remain very strong, due to solid earnings (€1.6 billion net income in 2022) despite the volatile interest rates and rising inflation. We consider the group's sustainable, very strong capital adequacy, as well as its profitability in line with peers, able to support a higher rating.

Business and earnings diversification differentiates NN, leading to stable capitalization commensurate with a higher rating. NN group holds a leading market position in the domestic market. It is also one of the top three life insurers in several Central and Eastern European countries and part of Japan's niche, corporate-owned life insurance market. Additionally, diversification stems from the group's profitable banking operations. We continue to view the group's earnings diversification--which we think recently led to improved capitalization--as commensurate with a higher rating. This is a key strength compared with peers and is reflected in our anchor choice.

The group's active management of its key risks supports the rating. NN will be exposed to interest rate and longevity risk for the next decade, due to its guaranteed back book. However, we acknowledge the group's close asset-liability

cash-flow matching and actions to reduce longevity exposure, which mitigate the potential effects of these risks.

Outlook: Positive

The positive outlook reflects our belief that NN can sustainably 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'.

Downside scenario

We would revise the outlook to stable over the next 24 months if the group's capitalization does not remain very strong according to 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.

Upside scenario

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

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

Key Assumptions

- GDP growth in the Netherlands of 4.4% in 2022, 0.1% in 2023, and 1.7% in 2024.
- GDP growth in Japan of 1.5% in 2022, 1.2 in 2023, and 1.1% in 2024.
- Long-term interest rates in the Netherlands rising to 1.51% in 2022, 3.04% in 2023, and 3.42% in 2024.
- Dutch unemployment rate to average 4.0% in 2022-2024.

NN Group N.V.--Key Metrics

	2024f	2023f	2022	2021	2020	2019
Gross premiums written (mil. EUR)	>14,000	>14,000	13,641	14,312	13,822	14,508
Net premiums written (mil. EUR)	>13,000	>13,000	12,087	12,787	12,487	14,046
Net income (mil. EUR)	>1,800	>1,800	1,566	3,298	1,926	1,985
Return on shareholders' equity (%)	>5	>5	5.9	9.0	5.4	6.9
Net combined ratio (%)	<95	<95	92.5	90.9	92.9	93.1
S&P capital adequacy	Very strong	Very strong	Very strong	Very strong	Strong	Strong
Fixed charge coverage	>9.0	>9.0	8.5	18.3	11.4	11.7

NN Group N.V.--Key Metrics (cont.)

	2024f	2023f	2022	2021	2020	2019
Financial leverage (%)	<20	<20	26.6	16.5	13.9	16.9

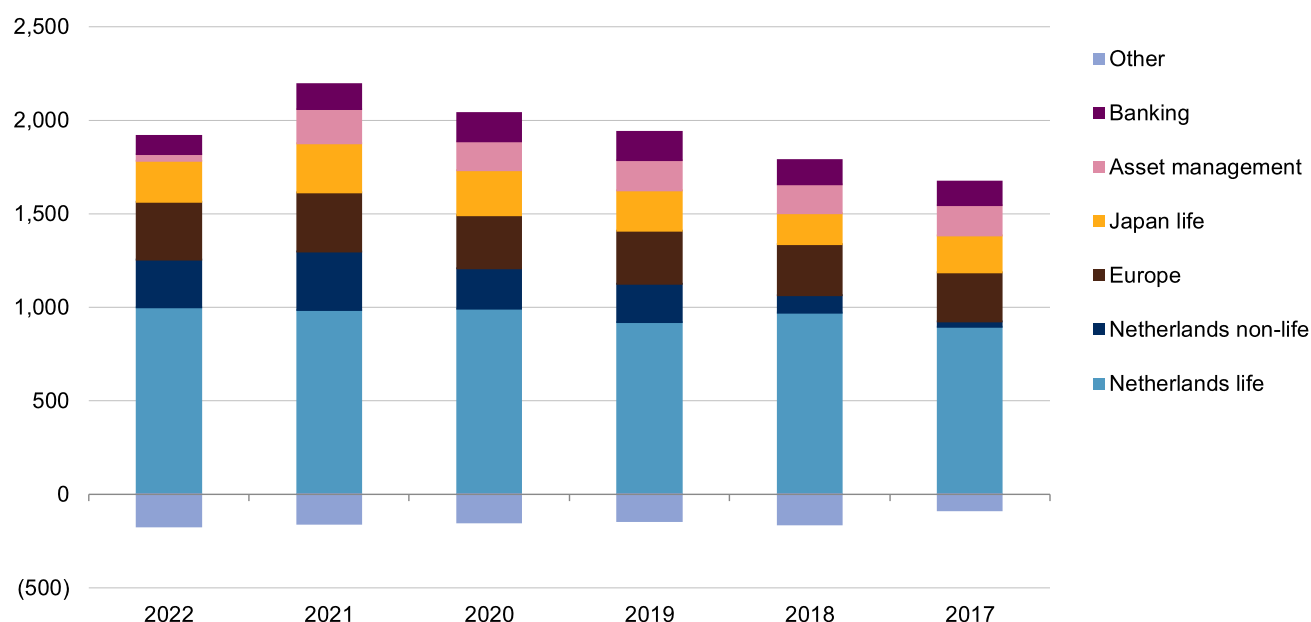
N/A--Not available. f--S&P Global Ratings forecast.

Business Risk Profile: Strong

From our perspective, NN benefits from wide earnings diversification despite recently divesting its asset-management business. We regard the group's earnings diversification across regions and business lines (see chart 1) as a key differentiator compared with other Dutch insurers like Achmea and ASR. We think this recently led to improved capitalization, which is commensurate with a higher rating.

Chart 1

Earning Diversification Based On Operating Profit



Source: S&P Global Ratings.

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NN has a leading position in the life and property and casualty (P/C) markets in the Netherlands. Moreover, the group is a well-known brand and has a sound reputation.

NN enjoys an ample product portfolio and geographic diversification through its various insurance operations in Europe. It is one of the top three life insurers in several Central and Eastern European countries, as well as Japan (in

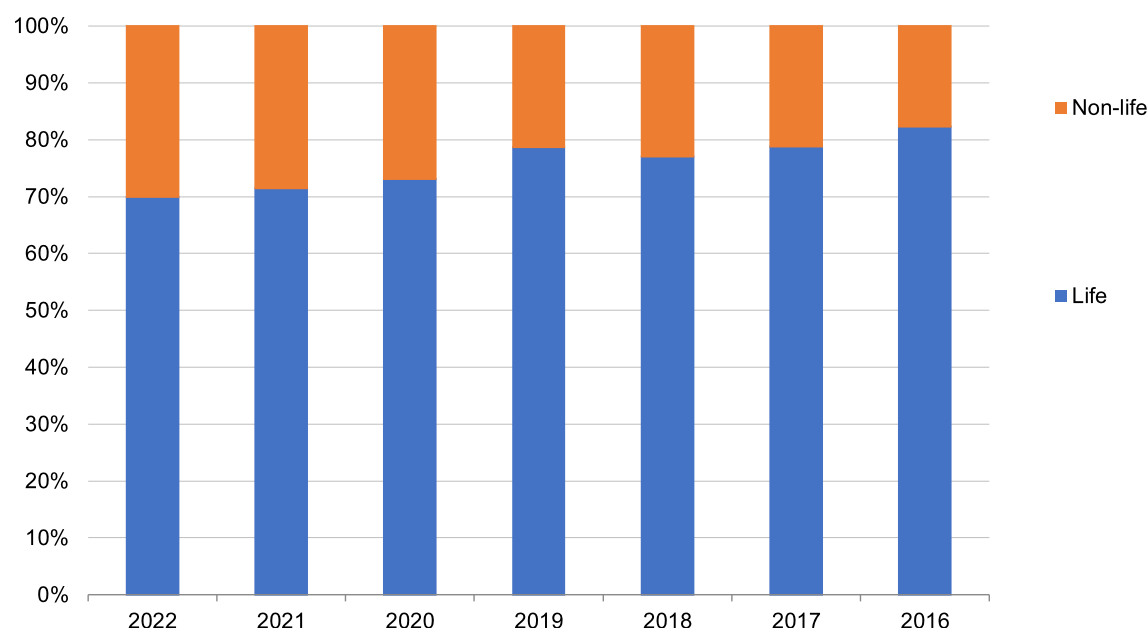
the niche, corporate-owned life insurance market).

NN also benefits from its banking operations, which contributed about 6% to overall group earnings in 2022.

We anticipate only a slight premium increase if growth opportunities in the Dutch insurance market are hindered by uncertainty due to geopolitical tensions, higher interest rates, and persistently high inflation.

Chart 2

Life And Non-Life Split



Source: S&P Global Ratings

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Financial Risk Profile: Very Strong

NN's capitalization, based on our risk-based capital model, improved recently 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.

The improvement of capitalization to the very strong range (according to our risk-based capital model) stemmed from NN's net income of €3.3 billion reported in 2021, which benefitted from extraordinarily high realized gains. However for year-end 2022, the company reported a net income of €1.6 billion, significantly lower than the previous year, reflecting negative real estate revaluations and impairments on equity securities (but also a gain from the sale of NN

IP).

We regard the group's efficiency and sound underwriting profitability as a positive. For 2023-2024, we anticipate annual net income of about €1.9 billion, supported by a non-life combined (loss and expense) ratio of about 95%. We estimate this will lead to a return on equity of about 5% over the next two to three years.

NN completed the share buyback of €1.0 billion in December 2022. It commenced another share buyback of €250 million on March 1, 2023, likely to be completed within the next 12 months. Combined with moderate growth of risk-based capital due to the projected increase in market risks and overall exposure growth despite a declining life back book, we believe the group's capitalization will stay in the very strong range. However, compared with other 'A+' rated peers, we have not yet observed a longer track-record of capital adequacy at that level.

NN's in-force book is dominated by life-long interest guarantees for its customers. As for most Dutch peers, this elevates the longevity and interest rate risk. Nonetheless, in our view NN follows stringent liability and asset cash flows management, reducing these risks. The rising yield environment in Europe also eases the pressure from this risk.

Our perspective of NN's capitalization and risk management is supported by the group's solvency position, reflected in a solid Solvency II ratio of 197% as of Dec. 31, 2022. In our view, the group's asset allocation is rather prudent, with the majority of investments in fixed-income assets (81%), of which 28% are in mortgages (excluding NN Bank). Despite NN's investment in higher yielding assets, we still regard its credit quality as high on average.

We consider that the group has a favorable funding structure and good access to capital markets, exemplified by frequent issuances; the last issuance of subordinated notes was on Aug. 30, 2022.

Other Key Credit Considerations

Liquidity

We regard NN's liquidity as exceptional, mainly stemming from steady premium income and highly liquid assets.

Factors specific to the holding company

We rate NN Group N.V., the holding company, two notches below NN's core insurance companies. This reflects our view of structural subordination because the holding company does not generate any operative insurance cash flows.

Environmental, social, and governance

ESG Credit Indicators

E-1	E-2	E-3	E-4	E-5	S-1	S-2	S-3	S-4	S-5	G-1	G-2	G-3	G-4	G-5
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ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

ESG factors have no material influence on our credit rating analysis of NN Group.

Accounting considerations

We base our analysis primarily on audited financial data prepared in accordance with International Financial Reporting Standards. We regard the group's financial communication and disclosures as sound and transparent.

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

Appendix

NN Group N.V.--Credit Key Metrics				
Ratio/Metric	2022	2021	2020	2019
S&P Global Ratings capital adequacy	Very strong	Very strong	Strong	Strong
Total invested assets	200,877	232,902	240,235	229,493
Total shareholder equity*	17,832	34,918	38,772	32,792
Gross premiums written	13,641	14,312	13,822	14,508
Net premiums written	12,087	12,787	12,487	14,046
Net premiums earned	12,096	12,820	12,602	14,057
Reinsurance utilization (%)	11.39	10.66	9.66	3.18
EBIT	1,798	4,120	2,464	2,582
Net income (attributable to all shareholders)	1,566	3,298	1,926	1,985
Return on revenue (%)	10.67	22.89	14.39	13.26
Return on assets (including investment gains/losses) (%)	0.77	1.61	0.97	1.10
Return on shareholders' equity (reported) (%)	5.94	8.95	5.38	6.89
P/C: net combined ratio (%)	92.49	90.87	92.87	93.07
P/C: net expense ratio (%)	27.38	27.63	27.89	27.36
P/C: return on revenue (%)	17.00	18.36	16.50	16.66
Life: Net expense ratio (%)	8.70	7.27	7.46	6.54
EBITDA fixed-charge coverage (x)	8.49	18.32	11.39	11.67
EBIT fixed-charge coverage (x)	7.99	17.84	10.67	11.18
Financial obligations / EBITDA adjusted	3.05	1.54	2.28	2.34
Financial leverage adjusted including pension deficit as debt (%)	26.62	16.46	13.94	16.93
Net investment yield (%)	2.20	1.95	1.98	2.13

NN Group N.V.--Credit Key Metrics (cont.)

Ratio/Metric	2022	2021	2020	2019
Net investment yield including investment gains/(losses) (%)	2.04	2.91	2.28	2.33

*including undated subordinated notes

Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	Very Strong	Strong	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	a/a-	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

Ratings Detail (As Of March 24, 2023)*

NN Group N.V.

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

Related Entities

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

NN Life Insurance Co. Ltd.

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

NN Re (Netherlands) N.V.

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

Ratings Detail (As Of March 24, 2023)*(cont.)

Domicile

Netherlands

*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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