

Research Update:

NN Group Affirmed At 'A' On Solid Capital; Outlook Positive

May 30, 2023

Overview

- While underlying profitability and capitalization remain solid, NN Group posted a net profit of only €1.6 billion in 2022 due to negative revaluations.
- We affirmed all our ratings on NN Group and its related subsidiaries because we expect the group to continue to benefit from a diversified business mix with profitable operations in the Netherlands, Japan, and the EU.
- The positive outlook reflects our expectation that NN group can maintain its capital adequacy at a very strong level, with a stable profitability in line with its peers.

Rating Action

On May 30, 2023, S&P Global Ratings affirmed its 'A' long-term issuer credit and financial strength ratings on NN Group and its related subsidiaries. The outlook remains positive.

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

Rationale

NN's capitalization, according to our risk-based capital model, improved in 2021 and remained at a very strong level throughout 2022 despite the challenging macroeconomic environment. 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 in capital requirements. The group posted a net profit of only €1.6 billion for 2022, mainly driven by negative revaluations of real estate and derivatives, while the previous year it benefited from capital gains and positive real estate revaluations. However, we note a gradual increase in underlying operating results. We still consider that the combination of sustainable very strong capital adequacy and profitability in line with 'A+' rated peers' could support a higher rating.

NN continues to benefit from a diversified business mix, in our view, despite the divestment of its

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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 several Central and Eastern European countries and in its business niche in Japan. Further diversification stems from the group's overall profitable banking operations.

We regard the group's focus on efficiency and sound underwriting profitability as positive. For 2023–2025, we anticipate annual net income of more than €1.5 billion, supported by a non-life combined (loss and expense) ratio of below 95%. We estimate that this will lead to a return on equity of about 6% over the next two-to-three years.

In our earnings forecast, we also incorporate the announced share buyback of €250 million to be completed in 2023. Moreover, we anticipate additional share buybacks of €250 million annually in 2024 and 2025. Combined with only moderate growth of risk-based capital due to a declining life 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 outlook reflects our view that NN can sustainably maintain very strong capitalization under our risk-based model over the next year, alongside a diversified business mix, and achieve profitability in line with peers'.

Downside scenario

We would revise the outlook to stable over the next 12 months if the group's capitalization does not remain very strong according to our risk-based model; if the group takes excessive risk, for instance in terms of elevated dividends or share buybacks; or if profitability stays below that of 'A+' rated peers.

Upside scenario

We could upgrade NN and its core operating companies within the next 12 months if NN:

Retains capital adequacy of at least very strong according to our risk-based capital model;

Maintains a prudent dividend policy and approach to 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.

Ratings Score Snapshot

Financial Strength Rating	A/Positive
Anchor*	a
Business Risk	Strong
IICRA	Intermediate
Competitive position	Strong

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Financial Risk	Very Strong
Capital and earnings	Very Strong
Risk exposure	Moderately Low
Funding structure	Neutral
Modifiers	0
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
SACP	a

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

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

Related Criteria

- 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
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Ratings List

Ratings Affirmed

NN Bank N.V.

Issuer Credit Rating	A-/Positive/A-1
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NN Group N.V.

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

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

Ratings Affirmed

NN Bank N.V.

Senior Unsecured	A-
Senior Subordinated	BBB+

NN Group N.V.

Senior Unsecured	BBB+
Subordinated	BBB-
Junior Subordinated	BBB-

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceld/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; or Stockholm (46) 8-440-5914

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