

Research

NN Group N.V.

Primary Credit Analyst:

Silke Sacha, Frankfurt + 49 693 399 9195; silke.sacha@spglobal.com

Secondary Contact:

Mark D Nicholson, London + 44 20 7176 7991; mark.nicholson@spglobal.com

Research Contributor:

Pratik C Giri, CRISIL Global Analytical Center, an S&P affiliate, Mumbai

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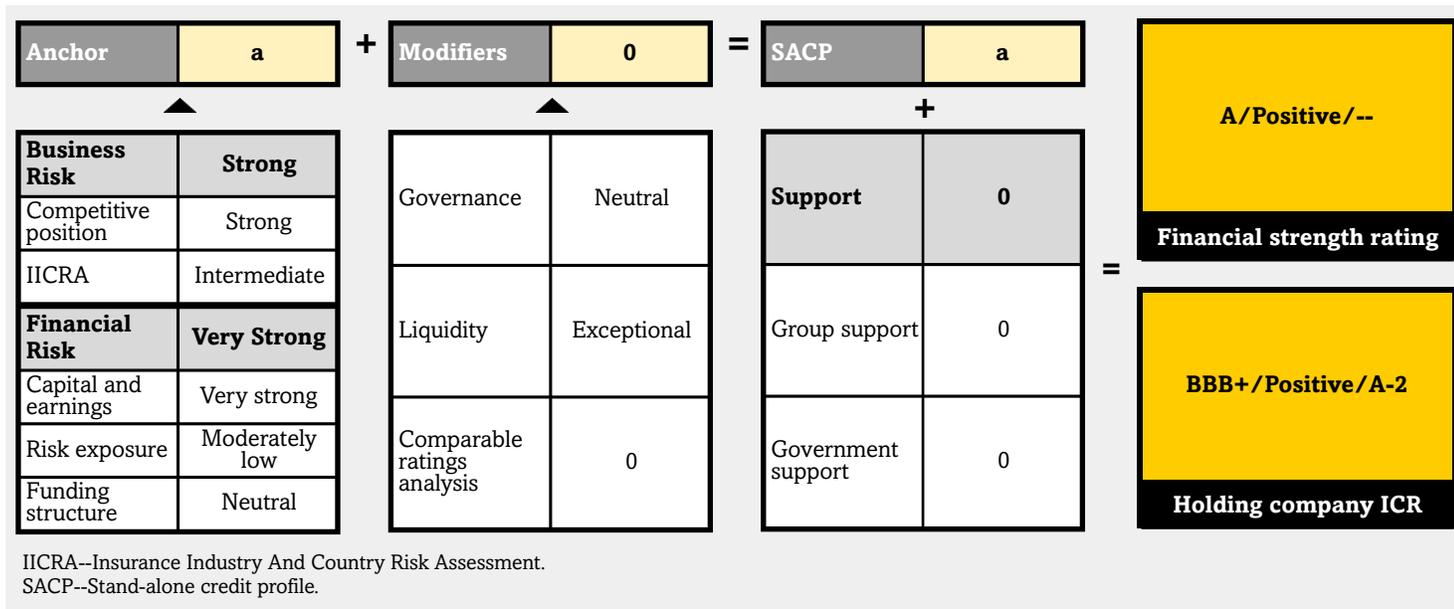
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NN Group N.V.



Credit Highlights

Overview	
Key strengths	Key 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 rising interest rates and higher inflation. We consider the group's sustainable, very strong capital adequacy, as well as its profitability, in line with peers, could support a higher rating.

Business and earnings diversification differentiates NN, leading to stable capitalization that is commensurate with a higher rating. NN holds a leading position in the domestic market. It is also one of the top three life insurers in several Central and Eastern European (CEE) countries and is 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 risks for the next decade given its guaranteed back book. However, we acknowledge the group's close asset-liability cash-flow matching and actions to reduce its longevity exposure, which mitigate the potential effects stemming from

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 the form 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 via investment exposure or the guaranteed life book of business.

Key Assumptions

- GDP growth in the Netherlands of 4.4% in 2022, 0.5% in 2023, and 0.9% in 2024.
- GDP growth in Japan of 1.0% in 2022, 1.8% in 2023, and 1.0% in 2024.
- Long-term interest rates in the Netherlands rising to 1.45% in 2022, 2.86% in 2023, and 3.17% in 2024.
- Dutch unemployment rate to average 3.7% in 2022-2024.

NN Group N.V.--Key metrics

	2024f	2023f	1H 2023	2022	2022	2021	2020
Gross premiums written (mil. EUR)	>14,000	>14,000	7,244.0	13,478.0	13,641.0	14,312.0	13,822.0
Net premiums written (mil. EUR)	N/A	N/A	N/A	N/A	12,087.0	12,787.0	12,487.0
Net income (mil. EUR)	>1,500	~1,200	586.0	1,634.0	1,566.0	3,298.0	1,926.0
Return on shareholders' equity (%)	>5	>5		7.3	5.9	9.0	5.4
Net combined ratio (%)	<95	<95			92.5	90.9	92.9
S&P capital adequacy	Very Strong	Very Strong			Very Strong	Very Strong	Strong
Fixed charge coverage	>9.0	>9.0		8.9	8.5	18.3	11.4

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

	2024f	2023f	1H 2023	2022	2022	2021	2020
Financial leverage (%)	<25	<25	21.5	23.2	26.6	16.5	13.9

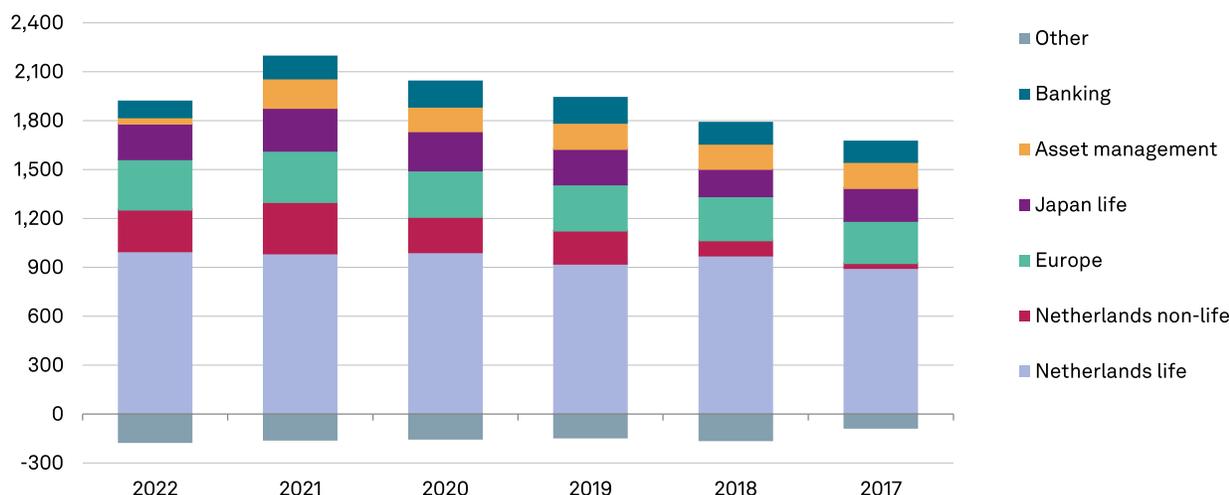
N/A--Not available. f--S&P Global Ratings forecast.

Business Risk Profile: Strong

From our perspective, NN benefits from wide earnings diversification despite the recent divestment of 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 good reputation.

NN has 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 CEE countries, as well as Japan (in the niche, corporate-owned life insurance market).

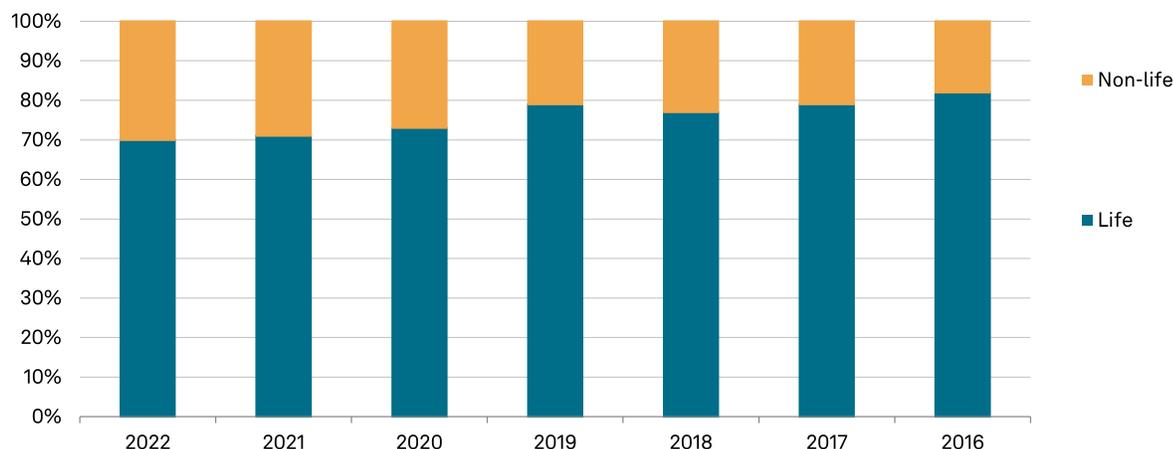
The Netherlands-based defined contribution pension business experienced strong net inflows of €1.3 billion in the first half of 2023, up from €0.9 billion in the same period the year before.

NN also benefits from its banking operations, which contributed about 8% to overall group earnings in first-half 2023.

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, although lower compared to other EMEA markets.

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.

According to our risk-based capital model, the increase in capitalization to the very strong range stemmed from NN's net income of €1.6 billion reported in 2022, which benefited from a gain on the sale of NN IP (€1.1 billion). However, the group recorded a net income of €586 million for the first half of 2023 based on IFRS-17 accounting, which was somewhat lower than the same period in the previous year (IFRS-17 comparative figure) mostly due to lower realized gains, which offset the higher operating result.

We note the group's efficiency and sound underwriting profitability. For 2023-2024, we anticipate annual net income of about €1.2 billion-€1.5 billion, supported by a non-life combined (loss and expense) ratio of below 95%. We estimate this will lead to a return on equity of about 5% over the next two-to-three years.

NN completed a share buyback of €1.0 billion in December 2022. On March 1, 2023, the group began another share buyback for €250 million that was completed in October 2023. 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 its longevity and interest rate risk. Nonetheless, NN's stringent liability and asset cash flows management reduces 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 201% as of June 30, 2023. In our view, the group's asset allocation is rather prudent, with the majority of investments in fixed-income assets (80%) of which 28% is 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 group repaid €500 million of senior debt that matured on Jan. 13, 2023. On May 3, 2023, the group issued €1,000 million of dated Tier 2 subordinated notes under NN's sustainability bond framework. The proceeds of the issuance were used to repurchase dated Tier 2 subordinated notes worth €665 million that are first callable in April 2024, as well as undated restricted Tier 1 subordinated notes worth €335 million that are first callable in June 2024.

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 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.

The numbers are based on IFRS 4 accounting until 2022. For 2023 we used estimations based on IFRS 17.

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
- 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 metrics history					
Ratio/Metric	2022	2021	2020	2019	2018
S&P Global Ratings capital adequacy*	Very strong	Very strong	Strong	Strong	Strong
Total invested assets	200,877	232,902	240,235	229,493	210,444
Total shareholder equity**	17,832	34,918	38,772	32,792	24,848
Gross premiums written	13,641	14,312	13,822	14,508	13,272
Net premiums written	12,087	12,787	12,487	14,046	12,793
Net premiums earned	12,096	12,820	12,602	14,057	12,861
Reinsurance utilization (%)	11.39	10.66	9.66	3.18	3.61
EBIT	1,798	4,120	2,464	2,582	1,810
Net income (attributable to all shareholders)	1,566	3,298	1,926	1,985	1,133
Return on revenue (%)	10.67	22.89	14.39	13.26	10.00
Return on assets (including investment gains/losses) (%)	0.77	1.61	0.97	1.10	0.81
Return on shareholders' equity (reported) (%)	5.94	8.95	5.38	6.89	4.56
P/C: net combined ratio (%)	92.49	90.87	92.87	93.07	99.44
P/C: net expense ratio (%)	27.38	27.63	27.89	27.36	28.68
P/C: return on revenue (%)	17.00	18.36	16.50	16.66	11.07
Life: Net expense ratio (%)	8.70	7.27	7.46	6.54	6.31
EBITDA fixed-charge coverage (x)	8.49	18.32	11.39	11.67	8.10
EBIT fixed-charge coverage (x)	7.99	17.84	10.67	11.18	7.84
Financial obligations / EBITDA adjusted	3.05	1.54	2.28	2.34	3.37
Financial leverage adjusted including pension deficit as debt (%)	26.62	16.46	13.94	16.93	21.43
Net investment yield (%)	2.20	1.95	1.98	2.13	2.19
Net investment yield including investment gains/(losses) (%)	2.04	2.91	2.28	2.33	2.88

**including undated subordinated notes. P/C--Property/casualty.

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 October 31, 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	
<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/--

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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