

RatingsDirect®

NN Group N.V.

Primary Credit Analyst:

Sebastian Dany, Frankfurt (49) 69-33-999-238; sebastian.dany@spglobal.com

Secondary Contact:

Marc-Philippe Juilliard, Paris +(33) 1-4075-2510; m-philippe.juilliard@spglobal.com

Research Contributor:

Ami Shah, CRISIL Global Analytical Center, an S&P Global Ratings affiliate, Mumbai

Table Of Contents

Credit Highlights

Outlook

Key Assumptions

Business Risk Profile

Financial Risk Profile

Environmental, Social And Governance

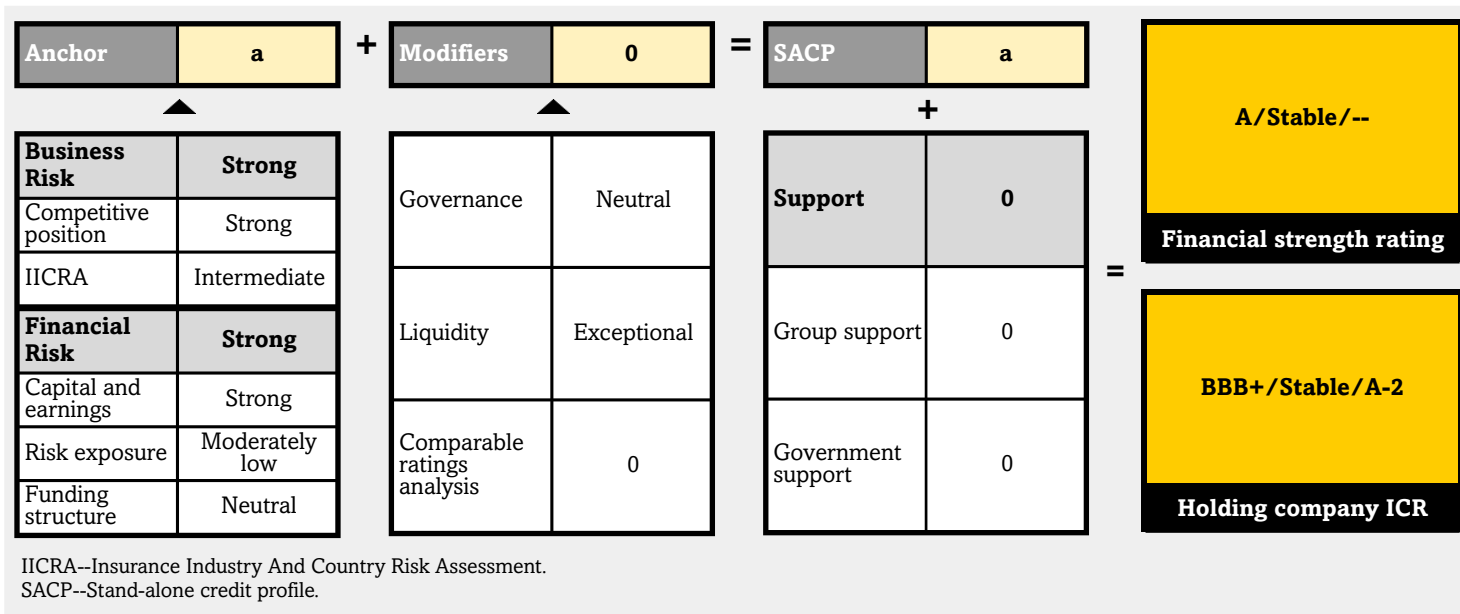
Other Key Credit Considerations

Credit Metrics History

Related Criteria

Related Research

NN Group N.V.



Credit Highlights

Overview	
Strengths	Risks
Leading insurance group in The Netherlands.	Prevailing very low interest rates constrain investment income and margins in the back book of Netherlands-guaranteed life business, further elevated by COVID-19 fallout.
Diversified earnings and business mix across regions and sectors.	Limited organic growth opportunities in Dutch market.

Diversified income streams will remain a key strength of NN Group. NN Group (NN) is the leading life and property/casualty (P/C) insurer in The Netherlands, benefitting from its well-known name and good reputation. NN's insurance operations in other European countries and Japan, together with a sizable international asset manager and a banking business, provide reasonable earnings diversification. This will help to mitigate the effects of the COVID-19 fallout, although we expect earnings to be constrained in 2020. We view NN's earnings diversification across regions and sectors as a key rating strength compared with peers, which we reflect in the anchor.

We believe that NN's capitalization will settle in the strong range based on our risk-based capital model over the next two to three years. Despite the general fall in global stock markets in March 2020, we estimated that NN's capitalization is still in the strong range according to our risk-based capital (RBC) model, thanks to its sound capital base. As a result of its ongoing focus on cost efficiency, and only moderate risk growth, we expect NN's capitalization to settle in the strong range. Furthermore, we acknowledge that NN has a robust solvency position. The group estimates a Solvency II ratio of approximately 227% as of May 2020.

Interest rate risk remains a key risk for NN, while mitigated by the group's positive asset-liability-duration controls. Similar to most Dutch life insurers, NN has an in-force life insurance back-book with guarantees, which could lead to earnings volatility. While the guarantees will abate only slowly, we believe NN has a strong control of its asset and liabilities cash flows. With that, NN reduced the potential impact of the risk.

Outlook: Stable

The outlook is stable because we believe that NN's capitalization, according to our RBC model, will settle in the 'A' range over the next 24 months, supported by diverse income streams.

Downside scenario

We might lower the ratings over the next two years if, contrary to our expectations, NN's capitalization were to fall below the 'A' range for a sustained period. This could occur, for example, due to large investment losses, or potential issues in the integration of Vivat Non-Life. We might also lower the ratings if NN started an aggressive dividend policy that weakened its capital and earnings position, which we do not anticipate.

Upside scenario

Although unlikely over the next 24 months, we could consider raising the ratings if NN's capitalization strengthens more than we expect, leading to sustainable capital adequacy in the 'AA' range. This would likely be demonstrated by group entities generating a material profit contribution, while NN maintains prudent dividend policy and risk-taking. At the same time, an upgrade would hinge on no increased volatility of earnings or capital due to investment exposure or the guaranteed life book of business.

Key Assumptions

- Following the COVID-19 fallout, we anticipate The Netherlands' GDP to fall by 6.7% in 2020, and to grow again by 6.2% in 2021, and 4.0% in 2022. For Japan's GDP we expect a decline of 2.9% in 2020, and an increase of 4.3% in 2021, and 0.4% in 2022.
- Furthermore, we expect long-term interest rates in The Netherlands to remain very low at -0.3% in 2020 and 2021, and -0.1% in 2021.
- Dutch unemployment levels to remain below 4% until 2022.

Table 1

Key Metrics								
	2022F	2021F	2020F	2019	2018	2017	2016	2015
Gross Premiums Written (mil. EUR)	>14,000	>14,000	>13,500	14,508	13,272	12,060	9,424	9,205
Net Premiums Written (mil. EUR)	>13,000	>13,000	>13,000	14,046	12,793	11,723	9,246	9,049
Net Income (mil. EUR)	~1,500	~1,500	~1,000	1,985	1,133	2,132	1,190	1,595
Return on Shareholders' Equity (%)	>4.0	>4.0	>3.0	6.9	4.6	8.8	5.3	7.4
Net Combined Ratio (%)	<100	<100	<100	93.1	99.4	102.0	100.5	98.2
S&P Capital Adequacy *	Strong	Strong	Strong	Strong	Satisfactory	Moderately strong	Very Strong	Very Strong
Fixed Charge Coverage	>9.0	>9.0	>8.0	11.7	8.1	13.0	10.8	12.8

Table 1

Key Metrics (cont.)								
	2022F	2021F	2020F	2019	2018	2017	2016	2015
Financial Leverage (%) **	<25	<25	<25	16.9	21.4	21.7	14.9	16.3

F--S&P Global Ratings forecast. Footnotes on Cap Adeq on 2018 and earlier; on leverage calc. ** Based on new criteria and guidance "Insurers Rating Methodology" published on July 1, 2019, we calculate Financial Leverage as Financial obligations/(reported equity + financial obligations) for 2018 and onwards. * Wording for capital adequacy scores for 2018 and earlier based on insurance criteria which was superseded in July 2019.

Business Risk Profile: Strong

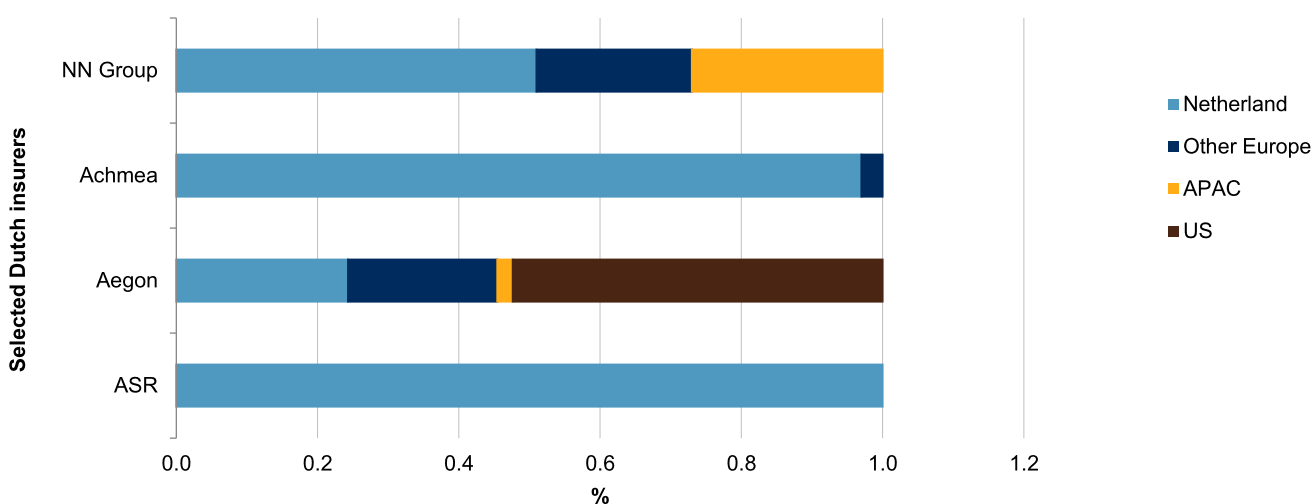
NN is the leading insurance group in the Dutch life and (P/C) market after the completion of Vivat Non-life as per April 1. We anticipate that NN's underwriting profitability will benefit from scale effects, as well as the further consolidation of the Dutch P/C market.

Besides its dominant position in the Dutch market, NN also enjoys meaningful presences in Belgium, Central and Eastern Europe, and Japan, which enhances its geographic diversification. Furthermore, NN's international asset manager and its bank are important earnings contributors. In 2019, they delivered 9% and 8%, respectively, to the group's operating earnings.

From our perspective, the ample diversification across regions and business lines, and diversified income streams, are key rating strengths compared with local peers like Achmea and ASR (see chart 1).

Chart 1

NN Group Benefits From Wide Earnings Diversification



Source: S&P Global Ratings.

Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

Due to the expected economic recession following the COVID-19 fallout, we expect premium growth to be restrained, somewhat offset by the increase of premiums from Vivat Non-Life (roughly €700 million gross premiums written).

Furthermore, we continue to see limited organic growth opportunities in the Dutch insurance market.

Financial Risk Profile: Strong

Because of the expected economic recession, we also expect earnings to be constrained. For 2020, acknowledging the current uncertainties, we anticipate a net income of about €1 billion, mainly due to depressed investment results. Nonetheless, following our overall expectation of an improved macroeconomic environment in 2021 and 2022, and NN's strong market position, we expect net income will strengthen again to about €1.5 billion annually. This is a clear increase, but net income is unlikely to return to 2019 levels of close to €2.0 billion in 2020.

Most importantly, also taking into account our lower earnings expectation, we believe NN's capital adequacy will settle in the 'A' range in our capital model over the next two to three years, based on the group's sound capital base and rather modest business growth.

We note that NN temporarily suspended its dividend distributions for the fiscal year 2019, following EIOPA and DNB recommendations. We consider in our forecast that NN intends to pay the dividend at a later stage.

Like most Dutch life insurance companies, NN also has an in-force book in The Netherlands, which is characterized by life-long interest guarantees for its policyholders. With interest rates likely remaining low, we note in particular that NN's earnings could be constrained by guarantees in the life back-book. However, we believe that NN benefits from its rigorous management of liability and asset cash flows, which we regard as a positive rating factor. NN also benefits from long-running government bonds and mortgages.

We regard the group's investment portfolio as relatively prudent, with about 82% in fixed-income investments including mortgages, and high credit quality on average.

In our opinion, NN has a favorable funding structure with no refinancing peaks in the next three years. Furthermore, we anticipate that it will maintain healthy leverage and coverage ratios, even if earnings are likely somewhat lower in 2020.

Environmental, Social And Governance

NN's exposure to environmental and social risk factors is on a par with the overall insurance industry. Most of NN's P/C insurance business stems from The Netherlands. This exposes it to the risk that climate change could increase the frequency and severity of claims caused by extreme weather events, such as natural catastrophes and floods. NN Group's main focus is life insurance. Although much of its new business is capital-light, the group's back-book includes long-running contracts that contain a guarantee. In these traditional life and savings business lines, NN Group is somewhat more exposed to social factors than it is through other lines, such as unit-linked or protection products. For example, demographic developments could lead to greater longevity, which could increase insurance liabilities. We view NN's exposure as being similar to that of peers with a similar business mix like ASR or Storebrand. Corporate governance practices at NN are typical for The Netherlands.

Other Key Credit Considerations

Governance

We do not see any material governance issues for NN. The group benefits from a deeply embedded enterprise risk framework and risk culture. From our perspective, this is a key element to managing and preventing risks.

Liquidity

We view NN's liquidity as exceptional, owing to the strength of available liquidity sources, the stability of cash flows from both life and non-life businesses, committed revolving credit facilities, and balance-sheet liquidity.

Factors specific to the holding company

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

Accounting considerations

NN prepares its consolidated financial statements under International Financial Reporting Standards (IFRS). We view the group's financial communication and disclosures as sound and transparent.

Credit Metrics History

Table 2

NN Group--Credit Metrics History			
Ratio/Metric	2019	2018	2017
S&P Global Ratings capital adequacy*	Strong	Satisfactory	Moderately strong
Total invested assets	229,493	210,444	211,882
Total shareholder equity**	32,792	24,848	24,799
Gross premiums written	14,508	13,272	12,060
Net premiums written	14,046	12,793	11,723
Net premiums earned	14,057	12,861	11,767
Reinsurance utilization (%)	3.2	3.6	2.8
EBIT	2,582	1,810	2,654
Net income (attributable to all shareholders)	1,985	1,133	2,132
Return on revenue (%)	13.3	10.0	15.7
Return on assets (including investment gains/losses) (%)	1.1	0.8	1.3
Return on shareholders' equity (reported) (%)	6.9	4.6	8.8
P/C: net combined ratio (%)	93.1	99.4	102.0
P/C: net expense ratio (%)	27.4	28.7	29.0
P/C: return on revenue (%)	16.7	11.1	11.7
Life: Net expense ratio (%)	6.5	6.3	6.4
EBITDA fixed-charge coverage (x)	11.7	8.1	13.0
EBIT fixed-charge coverage (x)	11.2	7.8	12.8
Financial obligations / EBITDA adjusted	2.3	3.4	2.4
Financial leverage including pension deficit as debt (%)	16.9	21.4	21.7

Table 2

NN Group--Credit Metrics History (cont.)			
Ratio/Metric	2019	2018	2017
Net investment yield (%)	2.1	2.2	2.6
Net investment yield including investment gains/(losses) (%)	2.3	2.9	3.5

** including Undated subordinated notes.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, 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 For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Dutch Insurance Group NN 'A' Ratings Affirmed On Resilience To COVID-19 Fallout; Outlook Stable, May 27, 2020
- The Netherlands Life, May 19, 2020

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 June 25, 2020)*

NN Group N.V.

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

Related Entities

Nationale-Nederlanden Levensverzekering Maatschappij N.V.

Financial Strength Rating	
<i>Local Currency</i>	A/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	A/Stable/--
Junior Subordinated	BBB+

Nationale-Nederlanden Schadeverzekering Maatschappij N.V.

Financial Strength Rating	
<i>Local Currency</i>	A/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	A/Stable/--

NN Bank N.V.

Issuer Credit Rating	A-/Stable/A-1
Senior Secured	AAA
Senior Unsecured	A-
Senior Unsecured	A-1

NN Life Insurance Co. Ltd.

Financial Strength Rating	
<i>Local Currency</i>	A-/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	A-/Stable/--

NN Re (Netherlands) N.V.

Financial Strength Rating	
<i>Local Currency</i>	A/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	A/Stable/--

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.

Additional Contact:

Industrial Ratings Europe; Corporate_Admin_London@spglobal.com

Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.