

## 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

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# NN Group N.V.

<b>Anchor</b>	<b>a</b>	+	<b>Modifiers</b>	<b>0</b>	=	<b>SACP</b>	<b>a</b>	
▲			▲			+		
<b>Business Risk</b>	<b>Strong</b>					<b>Support</b>	<b>0</b>	<b>A/Stable/--</b>
Competitive position	Strong		Governance	Neutral				<b>Financial strength rating</b>
IICRA	Intermediate							
<b>Financial Risk</b>	<b>Strong</b>		Liquidity	Exceptional		Group support	0	<b>BBB+/Stable/A-2</b>
Capital and earnings	Strong							<b>Holding company ICR</b>
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
Largest life and second-largest non-life insurer in the Netherlands, further benefitting from the acquisition of Vivat's non-life business.	Low organic growth opportunities in Dutch market.
Diversified earnings and business mix across regions (The Netherlands, Belgium, Central Eastern Europe, Japan) and sectors (life and non-life insurance as well as asset management and banking).	Low interest rates put pressure on investment income and margins in the back book of Netherlands guaranteed life business.

**NN Group will continue to benefit from diversified income streams.** NN Group (NN) has a leading position in The Netherlands, further fostered by the recent acquisition of Vivat Non-Life, enjoying a well-known name with a good reputation. NN's presence in other European countries and Japan, as well as a sizable international asset manager and a banking business provide reasonable earning diversification. From our perspective, NN's earnings diversification across regions and sectors is a key rating strength compared with peers, which we reflect in the anchor.

**We expect that NN's capitalization, based on our risk-based capital (RBC) model, will further improve over the next two to three years.** NN strengthened its capitalization according to our RBC model in 2018 and we anticipate it will improve further to strong levels, supported by sound operating results, moderate dividend payouts, and an ongoing focus on cost efficiency following the integration of Delta Lloyd and Vivat. Furthermore, we acknowledge that NN has a solid Solvency II ratio of 217% as of Sept. 30, 2019.

**NN will remain exposed to interest rate risk, but benefits from close asset-liability cash flow matching.** Like most Dutch life insurers, NN has an in-force life insurance back-book with guarantees, which could lead to earnings volatility. The guarantees will abate only slowly, but we believe NN manages asset and liabilities cash flow closely, and thereby mitigates the risk.

## Outlook: Stable

The stable outlook reflects our expectation that, during the next two years, NN will further strengthen its capital base on the back of earnings retention after ordinary dividends and share repurchases, resulting in sustainable, strong capital adequacy. We also expect the group's integration of Delta Lloyd and Vivat Non-Life will be smooth, with no negative effects on its balance sheet or operating performance.

### Downside scenario

Although contrary to our base case, we could lower our ratings over the next 12-24 months if the strengthening of the group's capital adequacy is materially weaker or slower than we expect. This may occur, for example, from negative profit generation for a prolonged period, such as following potential issues in integrating Delta Lloyd or Vivat Non-Life; or from material investment losses. The improvement could also be weaker than we expect if NN initiated an aggressive dividend policy that weakened its capital and earnings position.

### Upside scenario

We do not expect to raise the ratings over the next 24 months. However, we could consider it 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 a prudent dividend policy and risk-taking. At the same time, we do not foresee increased earnings or capital volatility stemming from investment exposure or the guaranteed life book of business. These factors would allow NN's financial risk profile to remain strong, in our view.

## Key Assumptions

- The Netherlands' GDP growth of about 1.7% in 2019, 1.3% in 2020, and 1.5% in 2021.
- Long-term interest rates in the Netherlands staying structurally low at -0.2% in 2019, -0.4% in 2020, and -0.2% in 2021.
- Dutch unemployment levels stabilizing at 3.4% in 2019 and 2020, and 3.5% in 2021.
- Japan's real GDP at about 0.9% in 2019 and 0.2% in 2020, with inflation of 1.0% in 2019 and 2.0% in 2020.

**Table 1**

Key Metrics								
	2021f	2020f	2019f	2018	2017	2016	2015	2014
Gross Premiums Written (mil. EUR)	>14,000	>14,000	>13,000	13,272	12,060	9,424	9,205	9,340
Net Premiums Written (mil. EUR)	>13,000	>13,000	>12,800	12,793	11,723	9,246	9,049	9,197
Net Income (mil. EUR)	>1,600	>1,600	>1,600	1,133	2,132	1,190	1,595	611
Return on Shareholders' Equity (%)	>6.0	>6.0	>6.0	4.6	8.8	5.3	7.4	3.4

**Table 1**

<b>Key Metrics (cont.)</b>								
	<b>2021f</b>	<b>2020f</b>	<b>2019f</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Net Combined Ratio (%)	<100	<100	<100	99.4	102.0	100.5	98.2	96.0
S&P Capital Adequacy *	Strong	Satisfactory	Satisfactory	Satisfactory	Moderately strong	Very Strong	Very Strong	Very Strong
Fixed Charge Coverage	>8.0	>8.0	>8.0	8.1	13.0	10.8	12.8	6.6
Financial Leverage (%) **	<25	<25	<25	21.4	21.7	14.9	16.3	15.7

f--S&P Global Ratings forecast. \* Wording for capital adequacy scores for 2018 and earlier based on insurance criteria which was superseded in July 2019. \*\* 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.

## Business Risk Profile: Strong

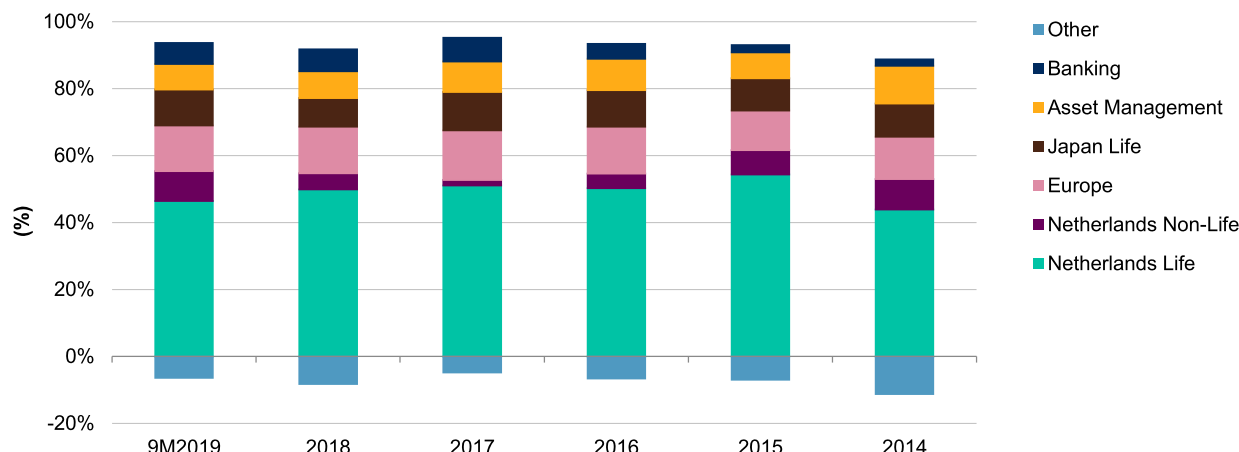
NN benefits from a leading position in its Dutch home market, and at the same time an ample diversification across regions and business lines. This leads to diversified income streams, which we regard as a key rating strength compared with local peers like Achmea and ASR (see chart 1).

In the Netherlands, NN has a market share in group pensions of about 40%, and in individual life of about 20%. Furthermore, NN is the second-largest non-life insurer (excluding health insurance) with a market share of about 20%; and post completion of Vivat Non-Life, NN will become the leading non-life insurer (excluding health insurance).

Apart from its dominant position in the Dutch market, NN has also built up meaningful presences in Belgium, Central and Eastern Europe, and Japan, which enhances its geographic diversification. In addition, a sizable international asset manager and a bank complement the group's business lines, which contribute about 9% and 7% of the group's operating earnings as of Sept. 30, 2019.

**Chart 1**

**NN Benefits From Earnings Diversification Across Regions And Non-Insurance Operations**  
Based On Operating Profit



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We see limited organic growth opportunities in the Dutch insurance market and do not expect the operating environment to improve materially for any sector (non-life or life) in 2019-2020. Therefore, we forecast only a flat premium development in our base-case scenario, barring the increase of premiums from Vivat Non-Life (roughly €700 million gross premiums written).

## Financial Risk Profile: Strong

We anticipate NN's capital adequacy will strengthen further from the current level and will be in 'A' range by 2021 based on our capital model, supported by NN's sound earnings generation. Over the next three years, we anticipate net income of at least €1.6 billion annually and moderate dividend payouts. The nine-month results in 2019 have been above our expectation, showing sound earnings of €1.6 billion as of Sept 30, 2019, benefitting from improved underwriting results and revaluations in the Dutch non-life business. In addition, we expect only low-single-digit growth in capital requirements, based on limited business growth and no material change in the group's asset structure.

In line with most Dutch life insurance companies, NN also has an in-force book in The Netherlands, which is dominated by life-long interest guarantees for its policyholders. We note that the guarantees in NN's life back-book could strain earnings, particularly in a prolonged low-interest-rate environment. However, we believe that NN stringently manages liability and asset cash flows, benefitting from long-running government bonds and mortgages.

We regard NN's investment portfolio as relatively prudent, with about 85% in fixed-income investments including mortgages, and on average high credit quality. The group's exposure to single sectors or obligors does not raise any

concerns.

From our perspective, the group has a favorable funding structure with no refinancing peaks in the next three years. Furthermore, we anticipate that NN will maintain healthy leverage and coverage ratios, the latter supported by sound earnings.

## 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 manage and prevent risks.

### Liquidity

We regard 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.

**Table 2**

NN Group Credit Metrics History		
Ratio/Metric	2018	2017
S&P Global Ratings capital adequacy	Satisfactory	Moderately strong
Total invested assets	210,444	211,882
Total shareholder equity*	24,848	24,799
Gross premiums written	13,272	12,060
Net premiums written	12,793	11,723
Net premiums earned	12,861	11,767
Reinsurance utilization (%)	3.6	2.8
EBIT	1,810	2,654
Net income (attributable to all shareholders)	1,133	2,132
Return on revenue (%)	10.0	15.7
Return on assets (including investment gains/losses) (%)	0.8	1.3
Return on shareholders' equity (reported) (%)	4.6	8.8
P/C: net combined ratio (%)	99.4	102.0
P/C: net expense ratio (%)	28.7	29.0
P/C: return on revenue (%)	11.1	11.7
Life: Net expense ratio (%)	6.3	6.4
EBITDA fixed-charge coverage (x)	8.1	13.0
EBIT fixed-charge coverage (x)	7.8	12.8

Table 2

NN Group Credit Metrics History (cont.)		
Ratio/Metric	2018	2017
Financial obligations / EBITDA adjusted	3.4	2.4
Financial leverage including pension deficit as debt (%)	21.4	21.7
Net investment yield (%)	2.2	2.6
Net investment yield including investment gains/(losses) (%)	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

- Japan-Based NN Life Insurance Co. Ltd. Ratings Affirmed At 'A-'; Outlook Remains Stable, Oct. 2, 2019

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 December 6, 2019)\***
**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:**

Insurance Ratings Europe; [insurance\\_interactive\\_europe@spglobal.com](mailto:insurance_interactive_europe@spglobal.com)



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