



RATING ACTION COMMENTARY

Fitch Upgrades NN's IFS Rating to 'AA-'; Outlook Stable

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Fitch Ratings - Frankfurt am Main - 12 Apr 2021: Fitch Ratings has upgraded Nationale-Nederlanden Levensverzekeringen Maatschappij N.V.'s Insurer Financial Strength (IFS) Rating to 'AA-' from 'A+' and NN Group N.V.'s (together NN) Long Term Issuer Default Rating (IDR) to 'A+' from 'A'. The Outlook is Stable.

A full list of rating actions is detailed below.

KEY RATING DRIVERS

The upgrade reflects that NN's strong operating performance and very strong capitalisation have remained broadly resilient amid adverse and volatile business and capital-market conditions caused by the coronavirus pandemic.

Fitch now expects that any default-related losses in NN's fixed income and real estate portfolios over the next few years will be limited, allowing profitability and capital levels to remain well within tolerances for NN's ratings.

The upgrade also reflects a decrease in the group's financial leverage (FLR) and our expectation that the FLR will remain commensurate with the ratings in the medium term.

Feedback

NN maintained a very strong capital position at end-2020; we estimate its Fitch Prism Factor Based Model score remained 'Extremely Strong', while its Solvency 2 (S2) ratio stood at 210% (2019: 224%). The 14pp decrease in the S2 ratio is mainly a result of capital distributions to shareholders, including the suspended final dividend for 2019, and the inclusion of NN Bank in the solvency-capital calculation. The group's FLR decreased to 23% (2019: 26%) due to the redemption of its EUR300 million senior notes in June 2020, and resilient profitability.

We assess NN's profitability as strong, supported by a continued multi-year improving trend in its IFRS operating earnings, and a Fitch-calculated pre-tax operating return on assets (ROA) above 1.2%. The improving trend of the operating result continued (2020: EUR1.9 billion; 2019: EUR1.8 billion) as all business units remained resilient to the effects of the coronavirus pandemic. NN disclosed a total negative pandemic impact of EUR53 million on its 2020 operating earnings.

Fitch ranks NN's business profile as favourable compared with that of other insurance companies in the Netherlands. Recent acquisitions have firmly established NN as the market leader in disability and accident insurance and as the second-largest property and casualty insurer in the Netherlands, and secured its leading position in the life and pensions segment. NN's international operations are well-established and accounted for about 50% of the group's gross written premiums in 2020.

NN's debt-servicing capability and financial flexibility is very strong based on a three-year average Fitch-calculated fixed charge coverage ratio of 13x, a sound cash position, as well as ready access to available contingent and financial-market funding.

Fitch assesses NN's investment and asset risk as low and scores this credit factor as very strong. Investments mainly consist of investment-grade debt securities and Dutch residential mortgages. NN is gradually optimising its investment portfolio, mainly by shifting to higher-yielding fixed-income assets and increasing exposure to Dutch residential mortgages. This could lead to incremental credit and investment risk, but we expect the overall high quality of the investment portfolio will be maintained.

We estimate that NN's Fitch-calculated risky assets-to-equity ratio increased to 49% at end-2020 from 43% at end-2019 as the group took advantage of investment opportunities amid increased financial market volatility during the year.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- FLR increases above 30%
- The group's S2 ratio falls to below 170%
- Operating earnings weakens as reflected by a return on assets (ROA) of 1% or below

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- FLR falls below 15% while operating earnings remain strong, as reflected by a ROA of 1.3% or higher, and the group's S2 ratio remains above 200%.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY/DEBT	RATING		PRIOR	
Nationale-Nederlanden Levensverzekeringen Maatschappij N.V.	Ins Fin Str	AA- Rating Outlook Stable	Upgrade	A+ Rating Outlook Stable
NN Group N.V.	LT IDR	A+ Rating Outlook Stable	Upgrade	A Rating Outlook Stable
● senior unsecured	LT	A	Upgrade	A-
● subordinated	LT	BBB+	Upgrade	BBB

[VIEW ADDITIONAL RATING DETAILS](#)**FITCH RATINGS ANALYSTS****Andras Sasdi, CEFA**

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Additional information is available on www.fitchratings.com**APPLICABLE CRITERIA**[Insurance Rating Criteria \(pub. 25 Aug 2020\) \(including rating assumption sensitivity\)](#)**APPLICABLE MODELS**

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Prism Factor-Based Capital Model, v1.7.2 ([1](#))**ADDITIONAL DISCLOSURES**[Dodd-Frank Rating Information Disclosure Form](#)[Solicitation Status](#)[Endorsement Policy](#)**ENDORSEMENT STATUS**

Nationale-Nederlanden Levensverzekeringen Maatschappij N.V.
NN Group N.V.

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Insurance Europe Netherlands
