

RATING ACTION COMMENTARY**Fitch Affirms NN's IFS Rating at 'AA-'; Outlook Stable**

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Fitch Ratings - Paris - 06 Nov 2024: Fitch Ratings has affirmed Nationale-Nederlanden Levensverzekering Maatschappij N.V.'s Insurer Financial Strength (IFS) Rating at 'AA-' and NN Group N.V.'s (together NN) Long-Term Issuer Default Rating (IDR) at 'A+'. The Outlooks are Stable.

The affirmation reflects NN's 'Very Strong' capitalisation and company profile as well as its 'Strong' profitability.

KEY RATING DRIVERS

Very Strong Capital: NN reported a very strong Solvency II (S2) ratio of 192% at end-1H24 (end-2023: 197%), which is at the upper end of the 150%-200% target range. The group scored 'Extremely Strong' on Prism Global model at end-2023 under IFRS 17 (end-2022: 'Very Strong' under IFRS 4). Fitch expects NN to maintain very strong capital metrics in 2H24, supported by sustained operating capital generation.

Low Leverage: The Fitch-calculated financial leverage ratio (FLR) fell to 15.4% at end-1H24 from 17.8% at end-2023, due to the combined effect of restricted Tier 1 (RT1) notes new issue and the repurchase and redemption of undated subordinated notes in 1Q24. In 2023, the FLR had improved from 19.4% at end-2022 (under IFRS17), due primarily to the maturity of its EUR500 million senior debt, which was not replaced. Fixed-charge coverage is strong, while the group's financial flexibility was demonstrated in the recent capital-management actions.

Resilient Operating Performance: NN's strong profitability is underpinned by resilient reported group operating earnings. The primary driver of earnings growth is European (mostly life) business outside the Netherlands. In contrast, life business in the Netherlands, which accounted for 55% of operating result in 2023, weighed on earnings growth both in 2023 and 1H24. The pre-tax return on operating assets remained robust at around 1% at end-2023. Net income return on equity (ROE) was 6% at end-2023, down from 8% at end-2022, which Fitch views as low for the rating.

Very Strong Company Profile: In the Netherlands, NN is the largest insurer in life and pensions and the second largest in property and casualty (P&C), and disability and accident. International operations, such as those in Europe and Japan, accounted for about 26% of operating result in 2023.

Low Investment Risk: We assess NN's investment and asset risk as low. Investments excluding banking mainly comprised debt securities (52% of insurance investments at end-2023). The group has a fairly high exposure to the property market, consisting of high-quality Dutch residential mortgages representing 28% of the investment portfolio and real estate at 8%. Equity investments accounted for a low 3%. Fitch expects exposure to higher-risk assets to remain commensurate with the ratings.

Very Strong Asset and Liability Management: NN uses cash flow matching, duration matching and derivatives-based hedging to manage interest-rate risk. The group's exposure to longevity risk fell in 2023 as a result of two significant reinsurance transactions on around EUR13 billion of Dutch pension liabilities.

RATING SENSITIVITIES**Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade**

- Sustained weakening of operating earnings, leading to an ROE consistently below 5%
- S2 ratio below 170% on sustained basis
- FLR consistently above 24%

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- Sustained operating earnings growth leading to ROE consistently above 15%

-S2 ratio above 200% and FLR below 16%, both on a sustained basis, are prerequisite for an upgrade

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

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit

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RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕			PRIOR ↕
Nationale-Nederlanden Levensverzekering Maatschappij N.V.	LT IFS	AA-	Rating Outlook Stable Affirmed	AA- Rating Outlook Stable
NN Group N.V.	LT IDR	A+	Rating Outlook Stable Affirmed	A+ Rating Outlook Stable
senior unsecured	LT	A	Affirmed	A
subordinated	LT	BBB+	Affirmed	BBB+

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Insurance Rating Criteria \(pub. 04 Mar 2024\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

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

Prism Global (ex-U.S.) Model, v1.8.1 (1)

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

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