

## RATING ACTION COMMENTARY

### Fitch Affirms NN's IFS Rating at 'AA-'; Outlook Stable

Wed 22 Nov, 2023 - 09:17 ET

Fitch Ratings - Frankfurt am Main - 22 Nov 2023: Fitch Ratings has affirmed Nationale-Nederlanden Levensverzekeringen Maatschappij N.V.'s Insurer Financial Strength (IFS) Rating at 'AA-' (Very Strong) 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

**Resilient Technical Performance:** NN Group N.V.'s 'Strong' profitability is based on resilient reported group operating earnings. However, the reported operating result dropped to EUR1.7 billion in 2022 from EUR2 billion in 2021 on a weaker combined ratio in Netherlands non-life activity, the sale of investment firm NNIP and lower revenue in Japan life operations. In 1H23, the operating result rose to EUR1.4 billion. Fitch expects the group to generate better operating earnings in 2023 on improvements in Netherlands non-life and banking business.

The Fitch-calculated pre-tax operating return on assets (ROA) declined to 0.1% in 2022 from 1.3% in 2021, due to equity investment losses and negative revaluations on real estate and derivatives. We expect the ROA to improve to above 1% in the medium term on smaller revaluation losses. While further negative revaluations on real estate are likely, the revaluation result of derivatives used for hedging mainly reflects accounting asymmetries, which should be remedied in 2023 with the introduction of IFRS 17.

**Very Strong Capital:** NN has maintained 'Very Strong' capitalisation. The group scored 'Very Strong' on Fitch's Prism Factor-Based Model (FBM) based on end-2022 numbers (2021: 'Extremely Strong') due to mark-to-market losses on investments. It reported a very strong Solvency II (S2) ratio of 201% at end-1H23 (end-2022: 197%). Operating capital generation exceeded capital repatriation in the form of its regular EUR250 million share buyback programme and a EUR309 million interim 2023 dividend.

Fitch believes that NN's capitalisation has sufficient headroom in the 'AA' category to withstand adverse developments of the unit-linked Dutch court ruling and expects capitalisation to remain very strong in 2023 and 2024.

**Low Leverage:** The group's Fitch-calculated financial leverage ratio (FLR) remained unchanged at 23% as of end-2022. A fall in adjusted IFRS equity on the back of a net loss in 2H22 was offset by lower financial debt as EUR600 million of senior debt was repaid when it matured in March 2022. Fitch expects the FLR to decline in 2023 after its EUR500 million senior unsecured notes matured in January 2023 and were not replaced.

**Very Strong Financial Flexibility:** NN's debt-servicing capability and financial flexibility is 'Very Strong' based on a three-year average fixed-charge coverage (FCC) of 9x, stable market access, and financial flexibility underpinned by adequate cash reserves and contingent funding. We expect FCC to remain very strong in 2023 on lower financial debt and strong group operating earnings.

**Very Strong Company Profile:** Fitch ranks NN's company profile as 'Favourable' compared with other Dutch insurers'. In the Netherlands, NN is the largest insurer in life and pensions and holds a number 2 position in property and casualty as well as in disability and accident. International operations, such as those in central Europe and Japan, accounted for about 30% of NN's operating result in 2022. Gross premium income declined 5% to EUR13.6 billion in 2022.

**Low Investment Risk:** Fitch assesses NN's investment and asset risk as low and scores the credit factor as 'Very Strong'. The group's asset allocation remained broadly unchanged in 2022. Investments mainly comprised debt securities (53% of insurance investments at end-2022, mostly investment-grade) and high-quality Dutch residential mortgages (28%). Real estate investments had a 9% share, while equity investments accounted for 2%. We expect exposure to higher-risk assets to remain commensurate with the ratings.

#### RATING SENSITIVITIES

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

-Improvement in NN's financial leverage, while the group achieves strong operating earnings and a S2 ratio above 200%

#### Factors That Could Collectively or Individually Lead to Negative Rating Action/Downgrade

- Significant deterioration of NN's financial leverage on a sustained basis
- Deterioration of NN's S2 ratio to below 170%
- Sustained weakening of NN's operating earnings

#### 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 <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

#### RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕			PRIOR ↕
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+
Nationale-Nederlanden Levensverzekeringen Maatschappij N.V.	LT IFS	AA- Rating Outlook Stable	Affirmed	AA- Rating Outlook Stable

[VIEW ADDITIONAL RATING DETAILS](#)

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## APPLICABLE CRITERIA

[Insurance Rating Criteria \(pub. 20 Jul 2023\) \(including rating assumption sensitivity\)](#)

## APPLICABLE MODELS

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

Prism Factor-Based Capital Model, v1.8.0 (1)

## ADDITIONAL DISCLOSURES

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Nationale-Nederlanden Levensverzekeringen Maatschappij N.V.

NN Group N.V.

EU Issued, UK Endorsed

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