S&P Global Ratings

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Storebrand Group

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Storebrand Group

Anchor	a-
Business Risk	**Strong**
Competitive position	Strong
IICRA	Intermediate
Financial Risk	**Satisfactory**
Capital and earnings	Strong
Risk exposure	Moderately high
Funding structure	Neutral

+

Modifiers	0
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

=

SACP	a-

+

Support	**0**
Group support	0
Government support	0

=

A-/Stable/--	Financial strength rating
BBB/Stable/--	Holding company ICR

IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

Credit Highlights

Overview

Strengths	Risks
A leading life and pension insurer in the Nordics, benefitting from well-established relationships with key corporate clients in Norway.	Reliance to some extent on softer forms of capital.
Very strong capitalization measured by S&P Global Ratings' risk-based capital model.	Significant portfolio of guaranteed pensions business, which could lead to capital and earnings volatility

Storebrand will remain one of the top life insurers in the Nordics. Storebrand benefits from its strong franchise and sound reputation, particularly in the Norwegian occupational pensions market, where it is the market leader. The group's expanding asset management activities enhance diversification, fostering the company's overall market position.

We expect Storebrand will continue to generate sound earnings. Storebrand has implemented a clear strategy to shift to capital-light products like unit-linked products, the main source of its overall earnings. The group also benefits from its strong position in asset management.

We anticipate Storebrand's capitalization will remain very strong. The group's shift to capital-light products and healthy earnings generation also support its very strong capitalization, as measured by our risk-based capital model. Albeit somewhat offset by the reliance of softer forms of capital, we regard this as key rating strength that we express in our choice of anchor for the ratings.

Outlook : Stable

The outlook is stable because we expect Storebrand will be able to defend its strong position in the Norwegian life and pension market, particularly in the occupational pensions sector. We also anticipate that Storebrand's capitalization will remain in the 'AA' range according to our capital model.

The stable outlook on Storebrand Bank reflects our view of the bank's core status within the Storebrand group, and our expectation that the group would provide support to the bank if necessary. Any rating action on the Storebrand group would result in a similar action on Storebrand Bank.

Upside scenario

We view an upgrade as remote over the next two years. However, we could raise the ratings if potential capital and earnings volatility stemming from the group's exposure to guaranteed liabilities and high-risk assets decreases, and the group's reliance on softer form of capital declines. An upgrade would also depend on Storebrand maintaining its strong market position.

Downside scenario

While unlikely at this stage, we could lower the ratings if the group's capitalization dropped for a prolonged period to below our 'AA' range. This could be triggered, for example, by:

- Very aggressive dividend payouts or large share buybacks;
- A material decline in the group's capital buffers or large investment losses, such as triggered by a market downturn; or
- A large acquisition that erodes the group's capital position.

Key Assumptions

- In Norway and Sweden, we anticipate moderate economic growth in the coming years. We forecast GDP growth of about 2%, and a relatively low prevailing unemployment rate with stable inflation rates of around 2%.
- We expect long-term interest rates to remain low in 2019-2021.

Key Metrics

	2021F	2020F	2019F	2018	2017	2016	2015	2014
S&P Global Ratings capital adequacy assessment	Very strong	Very strong	Very strong	Very strong	Strong	Moderately strong	Upper adequate	Upper adequate
Gross premiums written (mil. NOK)	>31,000	>31,000	>30,000	29,670	26,719	25,971	25,577	25,304
Net premiums written (mil. NOK)	>31,000	>31,000	>30,000	29,631	26,652	25,829	25,460	25,220
Net income (mil. NOK)	>2,000	>2,000	>2,000	3,697	2,406	2,142	1,383	2,084

Key Metrics (cont.)	2021F	2020F	2019F	2018	2017	2016	2015	2014
Return on shareholders' equity (%)	>7	>7	>7	11.61	8.23	7.85	5.35	8.77
Return on assets (%)	>0.45	>0.45	>0.45	0.55	0.53	0.56	(0.02)	0.64
Net investment yield (%)	>4	>4	>4	7.49	3.27	5.36	4.93	4.07
Fixed charge coverage (x)	>7	>7	>7	10.0	7.7	8.8	0.9	7.6
Financial leverage (%)	>19	>19	>19	19.5	21.8	20.7	21.7	22.8
Financial obligations to EBITDA	>2	>2	>2	2.2	2.4	2.0	24.0	2.1

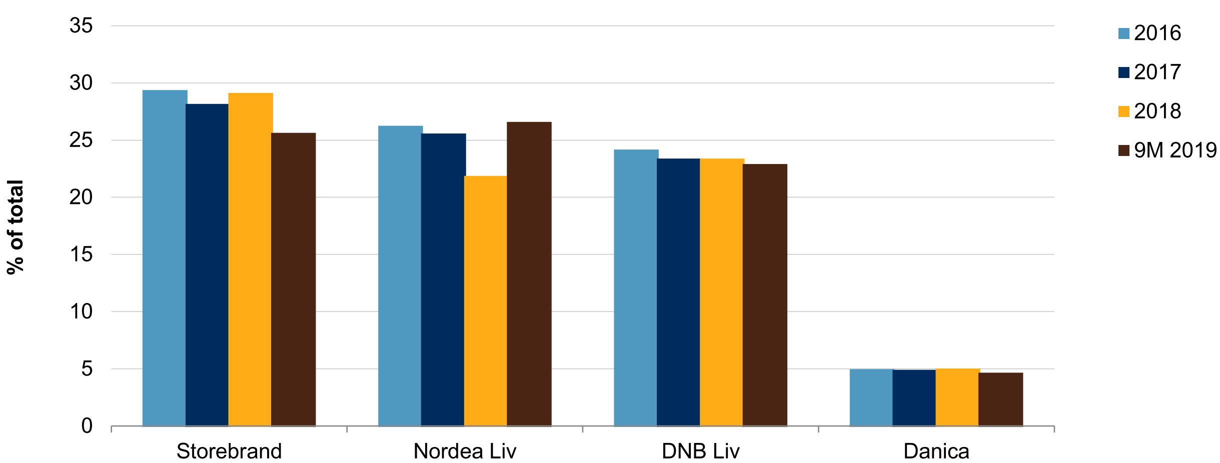
F--Forecast (S&P Global Ratings' base-case assumptions). NOK--Norwegian krona. The assessment for S&P Capital Adequacy for 2014-2016 reflects the rating scores under the previous insurance criteria framework As per new insurance criteria framework published on July 1,2019. We base our Financial Leverage(%) on total shareholders equity [Financial obligations/(reported equity + financial obligations)]. Fin Leverage (%) and S&P Capital Adequacy for 2016-2013 based on Storebrand Liv.

Business Risk Profile: Strong

In our view, Storebrand--together with its Swedish subsidiary SPP--benefits from a market-leading position in the Nordic life and pension insurance sector, alongside KLP, DNB, Danica, and Nordea. Particularly in the Norwegian unit-linked segment, Storebrand has been able to retain its top position, with a market share of about 30%, which we do not anticipate will change materially over the medium term.

Chart 1

Market Share Distribution In Norway's Unit-linked Segment



Source: Norwegian Insurance Association.

We believe Storebrand's well-recognized brand, long-standing expertise in the occupational pensions market, and stable relationships with large Norwegian corporate entities will remain key competitive advantages. We also acknowledge that SPP's new sales have increased recently. Storebrand's small non-life insurance and bank businesses provide additional diversification of business lines and income streams, albeit to a lesser extent than for DNB, Danica, or Nordea Liv, which are part of larger, regional banks and benefit from their support and services.

In response to the prevailing low-interest-rate environment, Storebrand has a clear strategy of decreasing its large exposure to insurance products carrying guarantees. Therefore, the company is focusing on unit-linked products that provide a material income stream to the group (making up 41% of overall earnings in 2018 compared with 12% in 2012). Furthermore, we regard Storebrand's asset management as a meaningful earnings generator, of which roughly two-thirds of the assets under management stem from internal insurance business, and the remainder from external business. We understand that Storebrand intends to further develop its asset management because scale is an important factor due to fierce competition and margin pressure.

Financial Risk Profile: Satisfactory

Storebrand's shift to capital-light products supports sustained improvement of its capitalization and earnings capacity. The group's results as of Sept. 30, 2019, showed solid net income of Norwegian krone (NOK) 1.4 billion (about €1.8 billion), supported by sound earnings from the unit-linked segment. This is broadly in line with our net income forecast of NOK2.0 billion annually over 2019-2021. Combined with an annual dividend payout ratio of about 50%-65%, we expect that the group's capitalization (measured by our risk-based capital model) will remain very strong over 2019-2021.

However, we also note that Storebrand's capital relies to some extent on softer forms of capital, such as policyholder or hybrid capital. This somewhat constrains our overall assessment of the group's capital and earnings to strong rather than very strong. Moreover, we believe Storebrand remains exposed to interest rate risk, due to its still-significant portfolio of guaranteed pensions business, particularly in the prevailing low-interest-rate environment. As of the third-quarter of 2019, about 56% of its total reserves carry an average guarantee of just below 3%. It will take many years until the guarantee amount in these policies decreases, despite Storebrand's efforts to reduce this exposure. We consider that the guaranteed portfolio could lead to volatility in the group's capital and earnings. On the other hand, credit quality remains high, with investments at the 'A' level on average.

In our view, Storebrand has adequate access to capital through the equity and bond markets. For example, in 2018, the group tapped the equity market to finance the acquisition of Skagen, and issued additional subordinated debt of NOK1 billion. We expect Storebrand to maintain prudent financial leverage and favorable fixed-charge coverage over 2019-2021 following our earnings forecast.

Other Key Credit Considerations

Governance

In our opinion, Storebrand has executed on its well-defined strategy to focus on its key business areas and goals, for example to strengthen its asset management.

Furthermore, we believe the group benefits from a deeply embedded enterprise risk management framework and culture to prevent and manage risks.

Beyond that, we do not see any material governance issues for Storebrand.

Liquidity

We regard Storebrand's liquidity position as exceptional, thanks to its recurring premium income and highly liquid asset portfolio.

Factors specific to the holding company

We rate Storebrand ASA, the holding company, two notches below the operating companies of Storebrand Liv and Storebrand Bank. This reflects our view of structural subordination of Storebrand's creditors versus the policyholders of its insurance subsidiaries.

Accounting considerations

We base our analysis on Storebrand group's financial statements, which are prepared in accordance with EU-approved International Financial Reporting Standards. We have adjusted our risk-based insurance capital model by:

- Focusing on the group's insurance activities and deconsolidating Storebrand Bank.
- Giving partial credit for the Norwegian and Swedish capital buffers, such as additional statutory reserves.
- Adjusting the risk charges for Norwegian and Swedish asset liability mismatches to reflect the specific characteristics of parts of the group's bond portfolio and its tight asset-liability management.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer, June 7, 2010
- 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

Appendix

Storebrand Credit Metrics History

Ratio/Metric	2018	2017
S&P Global Ratings capital adequacy assessment	Very strong	Strong
Total invested assets	320,539	326,817

Storebrand Credit Metrics History (cont.)

Ratio/Metric	2018	2017
Total shareholder equity	32,873	30,832
Gross premiums written	29,670	26,719
Net premiums written	29,631	26,652
Net premiums earned	29,631	26,652
Reinsurance utilization (%)	0.13	0.25
EBIT	3,165	2,871
Net income (attributable to all shareholders)	3,697	2,406
Return on revenue (%)	5.76	7.47
Return on assets (excluding investment gains/losses) (%)	0.55	0.53
Return on shareholders' equity (reported) (%)	11.61	8.23
Life: Net expense ratio (%)	14.83	15.38
EBITDA fixed-charge coverage (x)	10.04	7.65
EBIT fixed-charge coverage (x)	8.65	6.15
Financial obligations/EBITDA adjusted	2.16	2.40
Financial leverage including pension deficit as debt (%)	19.47	21.79
Net investment yield (%)	7.49	3.27
Net investment yield including investment gains/(losses) (%)	7.49	3.27

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 17, 2019)*

Holding Company: Storebrand ASA	
Issuer Credit Rating	BBB/Stable/--
Operating Company Covered By This Report	
Storebrand Livsforsikring AS	
Financial Strength Rating	
Local Currency	A-/Stable/--
Issuer Credit Rating	A-/Stable/--

Ratings Detail (As Of December 17, 2019)*(cont.)	
Junior Subordinated	BBB
Subordinated	BBB
Domicile	Norway

*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.

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