

Research Update:

Norwegian Insurer Storebrand Ratings Affirmed At 'A-'; Outlook Stable

July 23, 2019

Overview

- Norwegian Storebrand Group (Storebrand) is one of the largest life and pension insurers in the Nordics, with a leading position in the Norwegian occupational pension market.
- In our view, Storebrand enjoys very strong capitalization according to our risk-based capital model, offset somewhat by softer forms of capital and significant portfolio of guaranteed pensions business.
- We are affirming our 'A-' ratings on Storebrand's core subsidiary Storebrand Livsforsikring AS. The ratings on other core subsidiary Storebrand Bank ASA remain 'A-/A-2'.
- The stable outlooks reflect our expectation that Storebrand will safeguard its strong competitive position in the Norwegian life insurance market, and maintain capitalization in the 'AA' range.

PRIMARY CREDIT ANALYST

Sebastian Dany
Frankfurt
(49) 69-33-999-238
sebastian.dany
@spglobal.com

SECONDARY CONTACT

Mark D Nicholson
London
(44) 20-7176-7991
mark.nicholson
@spglobal.com

Rating Action

On July 23, 2019, S&P Global Ratings affirmed its 'A-' long-term insurer financial strength and issuer credit ratings on Storebrand Group's (Storebrand's) core subsidiary Storebrand Livsforsikring AS. The ratings on Storebrand Bank ASA, Storebrand's other core subsidiary, remain at 'A-/A-2'. We also affirmed our 'BBB+' issuer credit rating on the group's holding company Storebrand ASA. The outlook on these entities is stable.

Outlook

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 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 if 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 by, for example:

- very aggressive dividend payouts or large share buybacks;
- a material decline in the group's capital buffers or large investment losses, triggered by a market downturn, for example; or
- a large acquisition that could erode the group's capital position.

Rationale

The ratings reflect our view of Storebrand's leading position in the Norwegian occupational pension market. We believe the group's capitalization will remain in the 'AA' range, and a key rating strength. However, a high amount of softer forms of capital, and its still significant guaranteed back-book, albeit declining, partly offsets this.

We anticipate Storebrand will maintain its strong position in the Norwegian life insurance market, benefitting from its strong brand recognition and long-standing expertise in the occupational pension market. Furthermore, we believe Storebrand benefits from a diversified business and earnings mix, particularly via the group's asset management business. We believe the recent acquisition of Cubera Private Equity AS, and the acquisition of Skagen AS in 2017, will further enhance asset management operations.

We expect Storebrand will maintain capitalization in the 'AA' range according to our capital model over the next two-to-three years. This is supported by our assumption of net income of at least Norwegian krone 2 billion annually over this period, fueled by the group's continued shift to capital-light products, on-going growth in the unit-linked segment, and solid income streams from the asset management business. We also assume an annual dividend payout ratio of about 50%-65%. Our view of the group's capitalization is somewhat constrained by the group's capital reliance on softer forms of capital, such as policyholder or hybrid capital.

From our perspective, Storebrand continues to face interest rate risk, based on its still-material portfolio of guaranteed pensions business, despite its shift to capital-light products. As of second-quarter 2019, about 57% of its total reserves carry an average guarantee of just below 3%, although we acknowledge that the 10-year government bond yield in Norway is higher than in other European markets. Nevertheless, in our view, the guaranteed portfolio could lead to volatility in the group's capital and earnings.

Ratings Score Snapshot

Business Risk Profile	Strong
Competitive position	Strong
IICRA	Intermediate Risk
Financial Risk Profile	Satisfactory
Capital and earnings	Strong
Risk exposure	Moderately high
Funding structure	Neutral
Anchor*	a-
Modifiers	
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
Financial Strength Rating	A-

*This is mainly influenced by our view of Storebrand's leading position in the occupational pension business in Norway, its sound profitability compared to its peers, and its very strong capitalization according to our capital model.

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 Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Ratings Affirmed

Storebrand Livsforsikring AS

Issuer Credit Rating A-/Stable/--

Financial Strength Rating A-/Stable/--

Storebrand ASA

Issuer Credit Rating BBB/Stable/--

Storebrand Livsforsikring AS

Subordinated BBB

Research Update: Norwegian Insurer Storebrand Ratings Affirmed At 'A-'; Outlook Stable

Ratings Affirmed

Junior Subordinated	BBB
---------------------	-----

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.