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Ratings

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Storebrand Bank ASA

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Storebrand Bank ASA

SACP	bbb+	
Anchor	a-	
Business Position	Weak	-2
Capital and Earnings	Very Strong	+2
Risk Position	Moderate	-1
Funding	Average	0
Liquidity	Adequate	

+

Support	+1
ALAC Support	0
GRE Support	0
Group Support	+1
Sovereign Support	0

+

Additional Factors	0

Issuer Credit Rating
A-/Stable/A-2

Major Rating Factors

Strengths:	Weaknesses:
• Very strong capital and good profitability. • Increasingly integrated, strategic role for the Storebrand group.	• Small share of the Norwegian residential mortgage market, which is very competitive, with large players dominating. • Concentration on residential customers in Norway, mitigated to some extent by the granularity of the portfolio.

Outlook: Stable

S&P Global Ratings' stable outlook on Norway-based Storebrand Bank ASA mirrors that on the Storebrand insurance group's core operating company, life insurer Storebrand Livsforsikring AS (Storebrand Liv; A-/Stable/--).

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 over a 24-month horizon would result in a similar action on Storebrand Bank.

Similarly, if we believed that the group status of Storebrand Bank within the Storebrand group had changed, resulting in a lower likelihood of extraordinary support from the group over the next 24 months, this would result in a rating action on the bank. However, we consider such a scenario to be unlikely.

Rationale

The ratings on Storebrand Bank reflect our 'a-' starting point, or anchor, for Norway-based mainly domestic banks, as well as Storebrand Bank's very strong capitalization and solid profitability. We consider that the bank's share in its domestic market is low, and its primary focus on Norwegian mortgage lending segment leads to concentrations on residential real estate. However, this is to a large extent balanced by its very strong capital position with our risk-adjusted (RAC) ratio, which we expect will remain well above 15% over the next 18-24 months. In addition, we consider that the bank's liquidity management is solid and its funding profile–with access to covered bond markets that adequately match the maturity profile of its assets–is on par with those of peers.

Our view of Storebrand Bank as core to its owner Storebrand provides one notch of group support above the bank's stand-alone credit profile, in line with our 'a-' group credit profile for the Storebrand group. We see Storebrand Bank as having low systemic importance and therefore do not factor any extraordinary government support into the ratings.

Anchor: 'a-' owing to focus on Norwegian market

Our bank criteria use our Banking Industry Country Risk Assessment's economic and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. Our anchor for a commercial bank operating mainly in Norway is 'a-', based on an economic risk score of '2' and an industry risk score of '3'. We view the economic and industry risk trends in the Norwegian banking industry as stable.

Storebrand Bank's 'a-' anchor reflects its domicile in Norway, where it is primarily regulated, and its exclusive focus on the Norwegian market.

Our assessment of low economic risk in Norway reflects the country's wealthy government, which is supported by returns from its global investment fund and a predictable political environment. The contraction in oil prices over 2014-2015 has seen loose monetary policy prevail over the past several years and, coupled with a competitive mortgage market, has triggered an increase in property valuations and household debt. This has contributed to material imbalances; at end-2017, debt-to-disposable income in Norway stood at 224%, which is high compared with other European countries.

However, because of stricter macro-prudential regulations and increased housing supply, we have seen a reduction in house prices since the start of 2017. Nationally, this has meant annual nominal house price growth has slowed to about 1% over 2017 from 10% in 2016. The trend was even more marked in Oslo where prices decreased by 3% in 2017 after growing 22% in 2016. Many of the regulations introduced in 2017 are likely to be carried forward. Therefore, we anticipate that house prices will continue to contract over the next two years. In addition, bank losses related to oil and oil-related sector investment appear to have peaked in 2016 and we anticipate that, against the positive economic backdrop, asset quality will continue to improve.

Norway's banking regulator has been proactive in maintaining solid capital and liquidity requirements over the past several years, which supports our view of industry risk in the country. DNB Bank ASA remains the market leader, contributing about 30% of total lending, while the larger domestic savings bank alliances (28%) and the other Nordic banks branches (24%) make up most of the remaining market share. Lending margins have improved over the past year and now appear to be stabilizing at a slightly higher level, whereas they had previously been under pressure.

Restrictions on domestic investments by Norway's Government Pension Fund Global have resulted in a sizable outflow of capital, some of which is being repatriated through banks' use of international wholesale funding. However, Norway's expanding bond market, banks' receipt of funding from foreign parent companies, and likely liquidity support from the government help offset some of the risks from what we see as a structural lack of deposits.

Table 1

Storebrand Bank ASA Key Figures

	--Year-ended Dec. 31--				
(Mil. NOK)	**2017**	**2016**	**2015**	**2014**	**2013**
Adjusted assets	31,911	32,293	33,525	33,894	38,957
Customer loans (gross)	27,326	27,334	29,351	28,466	33,747
Adjusted common equity	1,802	1,901	2,015	2,018	2,316
Operating revenues	504	480	397	526	621
Noninterest expenses	300	285	267	260	375
Core earnings	146	139	59	138	165

NOK--Norwegian krone.

Business position: Small but growing franchise, with the potential to expand within the overall group's large customer base

In our view, Storebrand Bank's low market share and concentrated business operations are to some extent are balanced by stability of its franchise, cross-selling potential due to the relationship with the group, and stable stream of fee and commission income. As we expected, the bank has reduced much of its dependence on the volatile commercial real estate (CRE) business. We anticipate that the bank will continue to focus on growing its domestic mortgage book.

Storebrand Bank has a market share of about 2% in retail lending. As of Dec. 31, 2017, the bank had total assets of Norwegian krone (NOK) 31.9 billion (about €3.2 billion), with gross loans of NOK27 billion. Approximately 97% of total loans represent retail mortgage lending. The bank has been actively winding down its CRE loan book since 2013 and the share of commercial loans--both corporate and CRE--has now decreased to 1% of total loans, down from 31% in 2012.

Since 2011, Storebrand Bank has deployed a revised retail market strategy coordinated with the insurance group, and has been growing its residential mortgage book by successfully cross-selling to the group's clients, in line with the group's strategy. The bank has actively positioned itself to serve occupational pension fund customers by using various insurance and fund management products to penetrate the customer base. Storebrand Bank's integration with the group has been increasing, and the bank has a high share of cross sales across all group product lines, with banking customers also buying various insurance products.

Since 2015, the bank has been successfully selling a share of the mortgage loans it has generated to Storebrand Liv, receiving healthy management fees for loan generation and management. As of June 30, 2018, the bank had sold NOK17.4 billion of mortgages to the insurance company, which will also give a significant boost to the bank's fee income.

In our view, the bank has gained significant importance within the group. We expect integration with the insurance distribution network will improve the group's penetration, which--together with the higher fee income contribution from Storebrand Liv--should enhance the bank's earnings potential while supporting stability of its earnings.

Aside from its wind-down of the CRE book that now represents about 1% of the 2017 lending book, from 6% in 2016, we expect mortgage loan growth will continue and outpace the broader market. We expect that the bank will continue to generate loans from its own balance sheet and will also pass some mortgage loans on to Storebrand Liv, which will support its fee income over the next years.

Table 2

Storebrand Bank ASA -- Business Position

	--Year-ended Dec. 31--				
(%)	**2017**	**2016**	**2015**	**2014**	**2013**
Total revenues from business line (mil. NOK)	503.80	505.00	397.40	526.00	621.20
Commercial banking/total revenues from business line	4.17	9.50	11.90	27.30	37.44
Retail banking/total revenues from business line	87.79	78.32	100.33	76.08	61.91
Commercial & retail banking/total revenues from business line	91.96	87.82	112.23	103.38	99.36
Other revenues/total revenues from business line	8.04	12.18	(12.23)	(3.38)	0.64
Return on average equity	6.56	7.03	2.51	5.39	6.46

NOK--Norwegian krone.

Capital and earnings: A very strong capital position supported by reduced corporate exposures

Our assessment of Storebrand Bank's capital and earnings as very strong reflects our expectation that the RAC ratio will remain at 22%-23% in the next 18-24 months. At year-end 2017, Storebrand Bank's RAC ratio stood at 23.1%, up from 21.5% in December 2016, mainly driven by a reduction in risk-weighted assets (RWAs) as the bank winds down its corporate lending and reduces CRE exposures.

Our RAC forecast includes our expectation of stable earnings, supported by an increase in fee income from the sale of loans to Storebrand Liv. We expect the margins will remain stable and net interest income will continue to form the major part of operating revenues. Lending growth in the bank will be higher than previous years. Furthermore, we expect a reduced dividend payout in the coming years. Storebrand Bank has been consistently reducing its CRE exposures, from 31% of loans at end-2012 to 1.1% at end-2017. This reduction has reduced risk-weighted assets (RWAs) and had a positive impact on RAC. We expect residential mortgage lending to remain a core lending activity over the next two years.

Storebrand Bank reported a common equity tier 1 (CET1) ratio of 16.6% (versus the minimum requirement for the CET1 ratio of 12.0%) and a total capital adequacy ratio of 18.9% on Dec. 31, 2017. We expect improvements in the bank's regulatory ratios will continue to support a RAC ratio well above 15% over the next 18-24 months.

With 89% of total capital comprising core capital, quality of the capital has been good. Storebrand Bank's access to capital markets enables it to raise more hybrid capital in the case of need. Our earnings buffer metric, which measures the bank's earnings capacity compared with normalized losses, reflects our expectations that Storebrand Bank will be able to cover its estimated normalized losses and generate additional capital via retained earnings to support further asset growth.

Table 3

Storebrand Bank ASA -- Capital And Earnings					
	--Year-ended Dec. 31--				
(%)	**2017**	**2016**	**2015**	**2014**	**2013**
Tier 1 capital ratio	16.60	15.70	15.20	13.30	12.80
S&P Global Ratings RAC ratio before diversification	23.11	21.50	20.20	17.73	13.71
S&P Global Ratings RAC ratio after diversification	11.92	13.40	13.38	12.50	10.01
Adjusted common equity/total adjusted capital	88.85	89.37	89.92	89.96	93.92
Net interest income/operating revenues	74.24	77.66	94.92	87.79	88.01
Fee income/operating revenues	15.09	10.09	10.22	10.78	11.30
Market-sensitive income/operating revenues	10.66	12.98	(6.54)	1.39	(2.58)
Noninterest expenses/operating revenues	59.59	59.32	67.06	49.43	60.33
Preprovision operating income/average assets	0.63	0.59	0.39	0.73	0.62
Core earnings/average managed assets	0.45	0.42	0.18	0.38	0.41

N/A--Not applicable.

Table 4

Storebrand Bank ASA -- Risk-Adjusted Capital Framework Data					
(Thousand NOK)	**Exposure***	**Basel III RWA**	**Average Basel III RW (%)**	**S&P Global Ratings RWA**	**Average S&P Global Ratings RW (%)**
Credit risk					
Government and central banks	1,288,441	50,403	4	42,634	3
	--				
Institutions and CCPs	3,254,073	365,671	11	415,078	13
Corporate	383,332	383,332	100	252,817	66
Retail	27,568,922	9,970,694	36	6,671,961	24
Of which mortgage	27,054,083	9,584,564	35	6,273,842	23
Securitization§	0	0	0	0	0
Other assets†	410,110	444,245	108	405,716	99
Total credit risk	32,904,879	11,214,345	34	7,788,206	24
Credit valuation adjustment					
Total credit valuation adjustment	--	59,334	--	0	--
Market risk					
Equity in the banking book	0	0	0	0	0
Trading book market risk	--	0	--	0	--
Total market risk	--	0	--	0	--
Operational risk					
Total operational risk	--	892,486	--	986,291	--

Table 4

Storebrand Bank ASA -- Risk-Adjusted Capital Framework Data (cont.)

(Thousand NOK)	Basel III RWA		S&P Global Ratings RWA	% of S&P Global Ratings RWA
Diversification adjustments				
RWA before diversification	12,166,165		8,774,497	100
Total diversification/concentration adjustments	--		8,232,874	94
RWA after diversification	12,166,165		17,007,371	194
(Thousand NOK)	**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings RAC ratio (%)**
Capital ratio				
Capital ratio before adjustments	2,022,402	16.6	2,027,500	23.1
Capital ratio after adjustments‡	2,022,402	16.6	2,027,500	11.9

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Other assets includes deferred tax assets (DTAs) not deducted from ACE. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). CCP--Central counterparty. NOK--Norwegian krone. RAC--Risk-adjusted capital. RW--Risk weight. RWA--Risk-weighted assets. Sources: Company data as of Dec. 31, 2017; S&P Global Ratings.

Risk position: Concentration in Norwegian real estate limits diversity

We consider that Storebrand Bank's risk profile is less diversified than that of a typical universal bank in Norway due to its predominant focus on residential real estate. However, solid risk management systems have resulted in good asset quality over the past four years which has largely balanced this lack of diversification.

Historically, the bank had significant exposures to CRE, but this decreased from about 30% in 2012 to about 1% of total lending at end-December 2017. We consider this to be positive for the risk profile of the bank and expect the bank will continue to focus on its core activity, mortgage lending, where it has strong expertise supported by good quality underwriting and risk management systems. As of December 2017, the weighted average loan-to-value (LTV) for mortgage loans was 57%, and 97% of mortgage loans had LTV less than 85%. However, this might change slightly since the bank has been selling some of the mortgage loans it generates to Storebrand Liv, and the loans sold have LTV less than or equal to 70%. We nevertheless expect that this will not have a material effect on the quality of the loan portfolio that remains on the bank's books.

We expect the bank will continue actively growing its mortgage loans at above the broader market growth rate, at about 12%-15% per year for the next two years. Our base-case expectation is that the bank will continue selling a share of its loans to the insurance company, so the bank's loan book might show a smaller loan growth.

Storebrand Bank's nonperforming assets (NPAs) accounted for 0.97% of lending as of Dec. 31, 2017 (0.71% a year earlier), down from 1.4% at the end of 2013. The high level of NPAs in 2013 represented mainly nonperforming CRE loans, which are no longer a concern due to a material decrease of the CRE exposure. Loan loss reserves covered 26% of the nonperforming loans at end-December 2017, reflecting the collateralized nature of the remaining NPAs. We expect NPAs will remain at about 0.70%-0.90% over the coming two years as the bank expands its lending book, supported by good quality of the bank's underwriting standards and risk management systems.

Table 5

Storebrand Bank ASA -- Risk Position					
	--Year-ended Dec. 31--				
(%)	2017	2016	2015	2014	2013
Growth in customer loans	(0.03)	(6.87)	3.11	(15.65)	(4.79)
Total diversification adjustment / S&P Global Ratings RWA before diversification	93.83	60.00	51.05	41.88	37.01
Total managed assets/adjusted common equity (x)	17.75	17.03	16.68	16.85	16.86
New loan loss provisions/average customer loans	0.03	0.06	0.16	0.24	0.03
Net charge-offs/average customer loans	0.02	0.14	0.04	0.44	0.17
Gross nonperforming assets/customer loans + other real estate owned	0.97	0.71	0.64	0.54	1.39
Loan loss reserves/gross nonperforming assets	26.17	33.69	47.41	35.06	24.15

N/A--Not applicable. RWA--Risk-weighted assets.

Funding and liquidity: Funding profile similar to that of larger peers; liquidity supported by access to covered bonds market

We consider Storebrand Bank's funding stable and broadly in line with that of its domestic peers, despite a fairly high reliance on wholesale funding.

Stable core customer deposits formed 50% of the bank's total funding base as of Dec. 31, 2017. Funding secured at wholesale markets--primarily through issuing Norwegian covered bonds--represents about 46% of funding. We view covered bonds as a stable source of funding even though the respective covered bond market is somewhat less established than in Sweden or Denmark. Given international demand for Norwegian and other Nordic covered bonds, the bank also has access to longer-term covered bonds denominated in Swiss francs and euro. Storebrand Bank's stable funding ratio was at 104.64% on Dec. 31, 2017, improving from 88.2% at end-2010. We expect Storebrand Bank will reduce some of its reliance on wholesale funding as it continues to grow its retail deposits and run down its corporate loan book.

We assess Storebrand Bank's liquidity as adequate. At year-end 2017, the bank had liquid assets covering 1.64x of its wholesale funding maturing within a year. The bank's aim to fund all customers lending with deposits and long-term funding above one year adheres to our expectations for liquidity management and should lead to stable liquidity measures, in our view.

At the end of the fourth quarter in 2017, Storebrand Bank's liquidity buffer was about NOK4.2 billion, mostly in liquid government and covered bonds to cover expiring wholesale debt of about NOK2.55 billion in the rest of 2018. The bank has high upcoming debt maturities in 2018, which include senior debt as well as covered bonds. We believe that the bank has the flexibility to create further liquidity through additional loan syndication with the parent or by issuing covered bonds on unencumbered retail mortgages.

Table 6

Storebrand Bank ASA -- Funding And Liquidity					
	--Year-ended Dec. 31--				
(%)	2017	2016	2015	2014	2013
Core deposits/funding base	49.82	51.75	58.00	63.42	58.03
Customer loans (net)/customer deposits	186.34	178.94	164.17	146.77	162.26

Table 6

Storebrand Bank ASA -- Funding And Liquidity (cont.)					
	--Year-ended Dec. 31--				
(%)	2017	2016	2015	2014	2013
Long-term funding ratio	91.83	86.46	87.48	93.59	91.45
Stable funding ratio	104.64	99.08	96.94	105.76	101.77
Short-term wholesale funding/funding base	8.80	14.67	13.46	6.97	9.17
Broad liquid assets/short-term wholesale funding (x)	1.64	1.05	0.84	1.88	1.23
Net broad liquid assets/short-term customer deposits	11.27	1.49	(3.75)	9.67	3.65
Short-term wholesale funding/total wholesale funding	17.27	29.93	31.51	18.67	21.64

Support: Core group status provides Storebrand Bank with one notch of group support in the rating

We expect that the bank will remain a core subsidiary for Storebrand group, given the ongoing successful aligning the banking strategy with the Storebrand group's existing strategy and customer base. In our view, the bank has been successfully developing its strategy, contributing to the group's profitability and overall business. The group views the bank as an important element of further growth and profitability contributor for the larger group. Furthermore, we maintain our view that the Storebrand group has made a clear commitment to Storebrand Bank's growth strategy and we believe there continues to be a long-term commitment by the group to support the bank's expansion plans with necessary capital if needed.

We consider Storebrand Bank to have low systemic importance and consequently do not factor any extraordinary government support into the ratings.

We do not add any support uplift to Storebrand Bank's ratings under our "Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity," published April 27, 2015. We believe that it is generally unlikely that Storebrand Bank would be subject to a well-defined bail-in resolution process, given its small size, limited complexity, and low systemic importance.

Additional rating factors: None

No additional factors affect this rating.

Related Criteria

- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria - Financial Institutions - Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011

- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Norwegian Life Insurer Storebrand Upgraded To 'A-' On Improved Capitalization; Outlook Stable, July 20, 2018

Anchor Matrix

Industry Risk	Economic Risk 1	2	3	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of August 10, 2018)

Storebrand Bank ASA	
Issuer Credit Rating	A-/Stable/A-2
Issuer Credit Ratings History	
20-Jul-2018	A-/Stable/A-2
25-Jul-2017	BBB+/Positive/A-2
13-Jul-2016	BBB+/Stable/A-2
Sovereign Rating	
Norway	AAA/Stable/A-1+
Related Entities	
Storebrand ASA	
Issuer Credit Rating	BBB/Stable/--
Storebrand Boligkreditt AS	
Senior Secured	AAA/Stable
Storebrand Livsforsikring AS	
Financial Strength Rating	
Local Currency	A-/Stable/--
Issuer Credit Rating	A-/Stable/--
Junior Subordinated	BBB

Ratings Detail (As Of August 10, 2018) (cont.)	
Subordinated	BBB

*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.