

## Norway-Based Storebrand Livsforsikring Dated Subordinated Bonds Rated 'BBB-'

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- Storebrand Livsforsikring AS has issued Swedish krona subordinated bonds to replace an existing issue.
- We expect to treat the issue as having intermediate equity content, according to our criteria for rating hybrid capital instruments.
- We are assigning our 'BBB-' issue rating to the bonds.

FRANKFURT (S&P Global Ratings) Oct. 3, 2016--S&P Global Ratings today assigned its 'BBB-' long-term issue rating to the Swedish krona dated subordinated bonds issued by Norway-based life insurer Storebrand Livsforsikring AS (BBB+/Stable/--). The issue rating is subject to our receipt and review of the bonds' final term sheets and conditions.

The 'BBB-' issue rating reflects our standard approach for rating a subordinated debt issue, which is two notches below the long-term counterparty credit rating on the issuer, Storebrand Livsforsikring. This reflects the bonds' subordination and interest deferral features, and takes into account our understanding that:

- The bonds are subordinated to senior creditors;
- The issuer can choose to defer interest as long as it has not declared or made a dividend or payment (including payment in relation to redemption or repurchase) on a more junior security in the previous six months;
- Under the bonds' terms and conditions, interest deferral is mandatory if a solvency event has occurred, which under Solvency II would be a breach of the solvency capital requirement; and
- The bonds will be eligible as regulatory solvency Tier 2 capital.

The bonds contain a clause enabling Storebrand Livsforsikring to write down the securities to absorb losses, pursuant to Norwegian legislation (the Norwegian Act on Guarantee Scheme for Banks and Public Administration of Dec. 6, 1996), but only after all Tier 1 capital and all paid up equity and equity fund/retained earnings of the issuer have been cancelled. As such, we consider it unlikely that Storebrand Livsforsikring will use the write-down feature before it is insolvent. We have not applied additional notching to reflect write-down risk.

We expect to classify the bonds as having intermediate equity content, but this will depend on our receipt and review of the bonds' final term sheet. Hybrid capital instruments with intermediate equity content can comprise only up to 25% of total adjusted capital (TAC), which is the basis of our consolidated risk-based capital analysis of insurance companies. To be included in TAC, the issue must meet the requirements to be considered eligible for regulatory solvency in terms of both volume and its terms and conditions, according to our rating approach.

We understand that the instrument is callable on the fifth anniversary of issuance and on any interest payment date thereafter. However, there is no step-up until the tenth anniversary. The coupon will carry a variable rate based on the three-month Norwegian Interbank Offered Rate plus a credit spread, which will increase by 100 basis points on the tenth anniversary in 2026.

We understand that Storebrand Livsforsikring plans to use the proceeds from the bonds to refinance its Norwegian krona 1,500 million floating rate perpetual subordinated bonds callable in May 2018.

We expect that Storebrand Livsforsikring's financial leverage (debt plus hybrid capital, divided by the sum of economic capital available, debt, and hybrid capital) will remain broadly unchanged at between 15% and 20%. We also project that the fixed-charge coverage ratio (EBITDA divided by senior and subordinated debt interest) is likely to be about 5x.

#### RELATED RESEARCH AND CRITERIA

- Criteria - Financial Institutions - General: Methodology: Hybrid Capital Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers - February 10, 2010
- Criteria - Insurance - General: Insurer Hybrid Capital Instruments With Nonviability Contingent Capital (NVCC) Features - July 24, 2014
- Criteria - Financial Institutions - Banks: Assumptions: Clarification Of The Equity Content Categories Used For Bank And Insurance Hybrid Instruments With Restricted Ability To Defer Payments - February 09, 2010
- General Criteria: Criteria Clarification On Hybrid Capital Step-Ups, Call Options, And Replacement Provisions - October 22, 2012
- General Criteria: Group Rating Methodology - November 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors

For Corporate Entities And Insurers - November 13, 2012

- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition - September 15, 2008
- Criteria - Insurance - General: Enterprise Risk Management - May 07, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology - May 07, 2013
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model - June 07, 2010
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

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