

RatingsDirect®

Research Update:

Norwegian Life Insurer Storebrand Livsforsikring AS Outlook Revised To Positive; 'BBB+' Ratings Affirmed

Primary Credit Analyst:

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

Secondary Contact:

Jure Kimovec, FRM, CAIA, ERP, Frankfurt (49) 69-33-999-190; jure.kimovec@spglobal.com

Table Of Contents

Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Related Criteria

Ratings List

Research Update:

Norwegian Life Insurer Storebrand Livsforsikring AS Outlook Revised To Positive; 'BBB+' Ratings Affirmed

Overview

- We believe Storebrand Livsforsikring AS's (Storebrand's) capital adequacy continues to strengthen, particularly from strong earnings in the Norwegian occupational pension business.
- If capital adequacy remains sustainably at current levels, we could improve our assessment of capital and earnings.
- We are therefore revising our outlook on Storebrand and its banking subsidiary, Storebrand Bank, to positive from stable and affirming our 'BBB+' ratings on both companies.
- The positive outlook indicates that we could raise the ratings over the next 24 months if Storebrand maintains capital adequacy in the moderately strong range and continues to strengthen its financial risk profile and earnings.

Rating Action

On July 25, 2017, S&P Global Ratings revised its outlook on the members of the Norway-based Storebrand group--life insurer Storebrand Livsforsikring AS and Storebrand Bank ASA--to positive from stable. At the same time, we affirmed our 'BBB+' long-term counterparty credit ratings on both companies.

We also affirmed our 'A-2' short-term rating on Storebrand Bank.

In addition, we revised our outlook on the group's non-operating holding company, Storebrand ASA, to positive from stable and affirmed our 'BBB-' counterparty credit rating on the company.

Rationale

The outlook revisions reflect our view that Storebrand's capital position and earnings generation capacity have improved in recent years. Although the amount of guarantees in Storebrand's backbook is still significant, we believe the company is making progress in shifting its product portfolio toward more capital-light products, such as unit-linked products, which will eventually lead to lower capital needs. Because of its strong position in the Norwegian occupational pension market, we believe Storebrand will benefit from rising earnings and further increased capital. However, for us to consider an upgrade, we would need to see that Storebrand's capital position is

sustainable at current levels, possibly supported by stable and strong inflow of capital-light products.

Storebrand's capital adequacy, as measured by our risk-based capital model, improved to the moderately strong range in 2016. We believe this reflects the company's shift toward defined contribution schemes and unit-linked products. Storebrand's capital position has been further bolstered by its strong earnings generation. For example, in 2016 Storebrand contributed about Norwegian krone (NOK) 1.5 billion to the overall group result, benefitting from sound margins from unit-linked products and from favorable investment results. For 2017-2019, we expect annual net income of about NOK1.2 billion-NOK 1.4 billion. The strong operating performance--combined with the beneficial multichannel distribution strategy--is a key element of Storebrand's overall strong competitive position and business risk profile, in our view.

In addition, Storebrand has only about NOK300 million remaining to strengthen its longevity reserves. The positive trend of strengthening capitalization is further supported by its improving Solvency II ratio, which was 183% (without using transitionals) as of year-end 2016.

Still, Storebrand has a significant portfolio of guaranteed pension business; as of second-quarter 2017, about 63% of its total reserves were guaranteed. Despite Storebrand's efforts to reduce this exposure, these policies will remain a large proportion of its book of business for many years. Furthermore, about one-third of Storebrand's guaranteed portfolio consists of paid-up policies, which are capital-intensive products with no repricing option and carry an annual guarantee averaging about 3.4% at year-end 2016. The guaranteed portfolio relies on Storebrand's capitalization and could hamper the company's capital adequacy, particularly when combined with an adverse economic downturn, given its dependence on investment results. To reflect this uncertainty, we have maintained our assessment of Storebrand's capital and earnings at upper adequate, its risk position at moderate, and--consequently--its financial risk profile at lower adequate.

Storebrand's strong business risk profile and lower adequate financial risk profile lead to an anchor of 'bbb+'. We align the rating with the anchor, as we view all of the potential modifying factors--enterprise risk management (ERM), management and governance, and liquidity--as neutral to the ratings.

Outlook

The positive outlook indicates that we could raise the ratings over the next 24 months if Storebrand's capital adequacy remains sustainably in the moderately strong range and continues to strengthen its financial risk profile. This could happen via, for example, strong and resilient earnings generation and a continued, successful shift toward capital-light products.

The positive outlook on subsidiary Storebrand Bank reflects that on Storebrand

because we view the bank as a core group entity, and so we align the rating with the unsupported group credit profile.

Upside scenario

We could raise the ratings if:

- Storebrand's capital adequacy remains sustainably in the moderately strong range, as measured by our risk-adjusted capital model, possibly supported by less earnings volatility;
- Its retains adequate financial flexibility based on solid earnings; and
- The company defends its strong competitive position and sound market position in Norway.

Downside scenario

We could revise our outlook back to stable if:

- Storebrand fails to maintain its capital adequacy at current levels, which could result from, for example, lower-than-expected retained earnings, higher investment risk, or an aggressive dividend payout policy; or
- Storebrand's fixed-charge coverage deteriorated below 4x, which could stem from, for example, lower-than-expected earnings.

Ratings Score Snapshot

Financial Strength Rating	BBB+/Positive	BBB+/Stable/--
Anchor	bbb+	bbb+
Business Risk Profile	Strong	Strong
IICRA	Intermediate Risk	Intermediate Risk
Competitive Position	Strong	Strong
Financial Risk Profile	Lower Adequate	Lower Adequate
Capital & Earnings	Upper Adequate	Upper Adequate
Risk Position	Moderate Risk	Moderate Risk
Financial Flexibility	Adequate	Adequate
Modifiers	0	0
ERM and Management	0	0
Enterprise Risk Management	Adequate	Adequate
Management & Governance	Satisfactory	Satisfactory
Holistic Analysis	0	0
Liquidity	Exceptional	Exceptional
Support	0	0
Group Support	0	0
Government Support	0	0

IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria

- Criteria - Insurance - General: Insurer Hybrid Capital Instruments With Nonviability Contingent Capital (NVCC) Features, July 24, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Criteria Clarification On Hybrid Capital Step-Ups, Call Options, And Replacement Provisions, Oct. 22, 2012
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Criteria - Financial Institutions - General: Methodology: Hybrid Capital Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers, Feb. 10, 2010
- Criteria - Financial Institutions - Banks: Assumptions: Clarification Of The Equity Content Categories Used For Bank And Insurance Hybrid Instruments With Restricted Ability To Defer Payments, Feb. 9, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Ratings List

Outlook Action; Ratings Affirmed

	To	From
Storebrand Livsforsikring AS		
Counterparty Credit Rating	BBB+/Positive/--	BBB+/Stable/--
Financial Strength Rating		
Local Currency	BBB+/Positive/--	BBB+/Stable/--
Junior Subordinated	BBB-	BBB-
Storebrand Bank ASA		
Counterparty Credit Rating	BBB+/Positive/A-2	BBB+/Stable/A-2
Storebrand ASA		
Counterparty Credit Rating	BBB-/Positive/--	BBB-/Stable/--

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.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on the 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 © 2017 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.

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 acknowledgement 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 nonpublic 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 and www.globalcreditportal.com (subscription) and www.spcapitaliq.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.