S&P Global
Ratings

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Storebrand Group

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Anchor	a
Business Risk	**Strong**
Competitive position	Strong
IICRA	Intermediate
Financial Risk	**Strong**
Capital and earnings	Strong
Risk exposure	Moderately low
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

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

Credit Highlights

Overview	
Key strengths	**Key risks**
A leading Nordic life and pension insurer with a strong footprint in the Norwegian pension market, diversified with Swedish market and retail operations.	Reliance on softer forms of capital.
Sound capitalization measured by S&P Global Ratings' risk-based capital model, supported by expectations of disciplined capital and risk management.	Asset risk and turbulent market conditions could impair the strength of guaranteed buffer reserves.
Good operating performance record with clear profitability targets.	Considerable portfolio of guaranteed pensions business, which is in run-off and slowly declining and could lead to potential capital and earnings volatility.

We believe that Storebrand will retain its position as one of the top life insurers in the Nordics. Storebrand has a strong position in the Norwegian life insurance market, benefitting from its strong franchise, particularly in the Norwegian occupational pensions market where it is the market leader. Moreover, Storebrand has a diversified product portfolio with asset management and retail operations along with its reentry into the Norwegian municipal occupational pension market in 2020.

We expect Storebrand's sound earnings generation to last. Storebrand has successfully implemented a clear strategy to pivot to a capital-light business for future growth and earnings. The guaranteed pension business has been steadily declining and now makes up about one half of total reserves, comparing favorably with some continental European peers. Nonguaranteed operations now contribute to more than 60% of profits and more than 70% of assets under management (AUM).

We believe Storebrand's capitalization will remain sound. We expect capitalization to be at the 'AA' confidence level as measured by our risk-based capital model, supported by the run-off of the guaranteed book of business, a clear shift to capital-light products, and sustained healthy earnings generation.

Outlook: Stable

The stable outlook reflects our expectation that over the next two years Storebrand will maintain capital adequacy of at least the 'AA' level and strong reserve buffers for its insurance book. We also anticipate that the group will continue to deliver on profitable and diversified growth and maintain its strong market position.

Downside scenario

We could lower the ratings over the next two years if the group's capitalization drops for an extended period to below our 'AA' range, for example because of higher-than-expected dividend payments, material investment, or operating losses. We could also lower the ratings if we note a material and sustained deterioration in operating earnings or premium income that weakens the group's competitive profile.

Upside scenario

Although a remote possibility, we could raise the ratings if we observe a material and sustainable improvement in the balance sheet strength, such as stronger capital adequacy levels, or if the group demonstrates a stronger business position versus peers, such as a materially stronger operating performance.

Key Assumptions

- We expect Swedish and Norwegian economic growth to slow to 2.3% and 3.7% in 2022 and 2.1% and 2.5% in 2023, respectively.
- We forecast relatively high unemployment rates with inflation rates of around 3.8% for Norway and 4.9% for Sweden in 2022. For more information, please refer to "Norway", published March 14, 2022, and "Sweden" published May 2, 2022.

Storebrand Group--Key Metrics

	2024f	2023f	2022f	2021	2020	2019	2018	2017
S&P Global Ratings capital adequacy	Strong	Strong	Strong	Strong	Strong	Strong	Strong	Strong
Net income (Mil. NOK)	>2,000	>2,000	~2,000	3,130.0	2,355.0	2,082.0	3,697.0	2,406.0
Return on shareholders' equity (%)	>5.0	>5.0	>5.0	8.5	6.8	6.3	11.6	8.2
Return on assets (%)	>0.4	>0.4	>0.4	0.6	0.4	0.5	0.6	0.5
Net investment yield including investment gains/(losses) (%)*	~2-3	~2-3	<1	3.2	4.4	5.3	1.9	4.2
Fixed charge coverage (x)	>4	>4	>4	12.9	9.4	10.0	10.0	7.7
Financial leverage including pension deficit as debt (%)	<30	<30	<30	24.5	20.2	21.0	20.0	22.2

Storebrand Group--Key Metrics (cont.)	2024f	2023f	2022f	2021	2020	2019	2018	2017
Financial obligations to EBITDA	<4	<4	<4	2.3	2.7	2.4	2.2	2.5

*Net investment yield is for Storebrand Livsforsikring (excluding the unit linked business). f--Forecast (S&P Global Ratings' base-case assumptions). NOK--Norwegian krona.

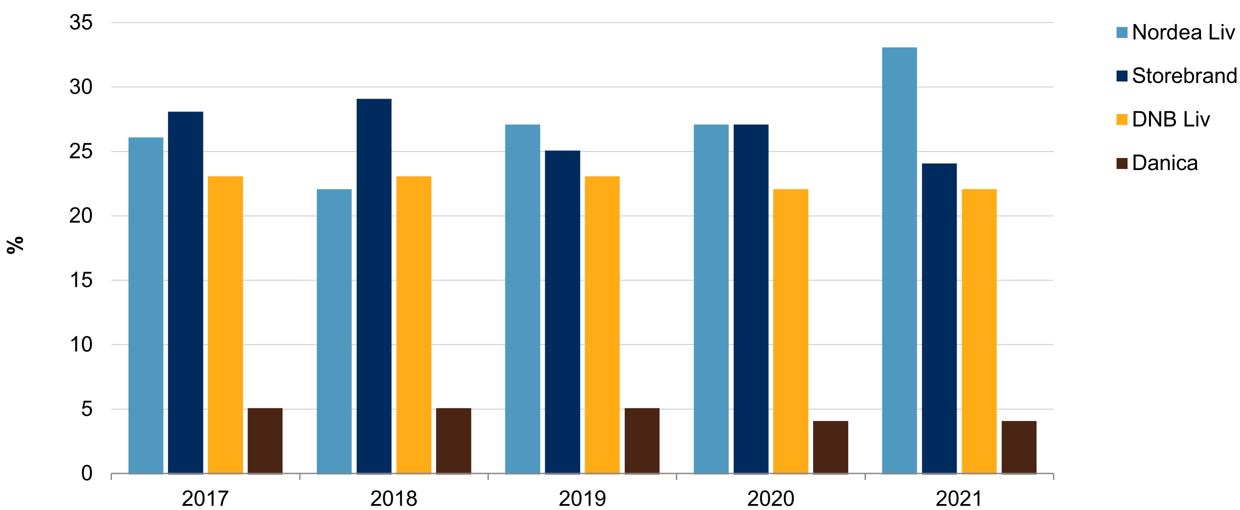
Business Risk Profile: Strong

In our opinion, Storebrand--together with its Swedish subsidiary SPP--benefits from a strong position in the Nordic life and pension insurance sector, alongside KLP, DNB, and Nordea. We expect that the group will continue to demonstrate strong strategic execution in delivering profitable growth and increasing the diversity and market position of operations, which we regard as a key supporting factor for its credit strength. We anticipate that the group will continue to deliver sound operating results in line with its targets. Although, we note that in the second quarter (Q2) 2022 the reported result before amortization and tax of Norwegian krone (NOK) 577 million was impacted by turbulent market conditions and is the lowest reported result of the last five quarters.

Storebrand is one of the top private defined contribution pension providers in Norway and Sweden and is expanding into retail markets and public sector pensions. It is also one of the top five asset managers in the Nordics and external AUM account for about one half of the total NOK1,009 billion at the end of Q2 2022. In the Norwegian unit-linked segment, Storebrand has retained its top two position, with a market share of about 24%, and we expect the group to maintain its strong foothold in this market. In Sweden, SPP's market share has also risen in recent years and currently stands at about 12%.

Chart 1

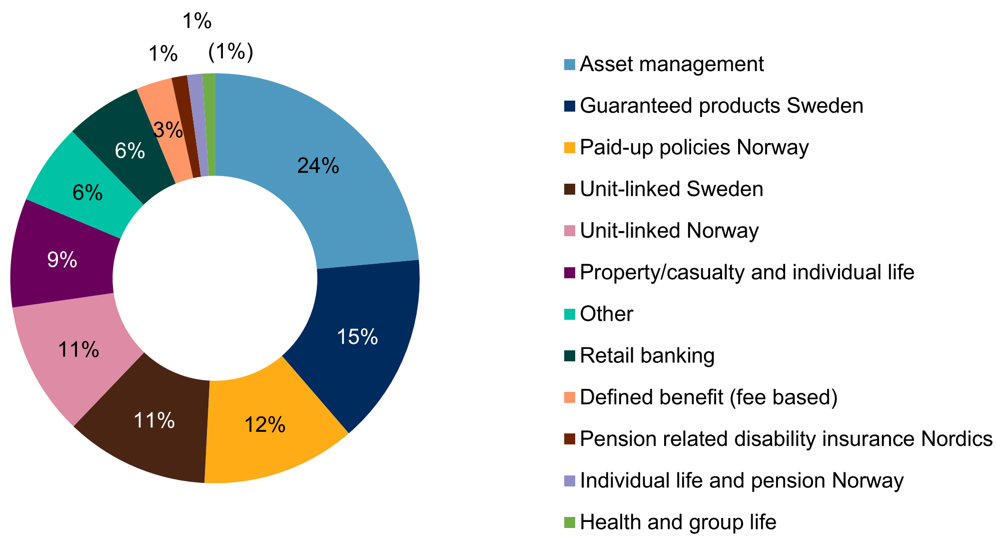
Market Share In The Norwegian Unit-Linked Segment



Source: S&P Global Ratings, Finanstilsynet.

Chart 2

Storebrand's Diversified Business Mix Bv Profit Before Tax



Source: S&P Global Ratings.

Storebrand actively aims to reduce its large exposure to insurance products carrying guarantees, which now makes up about one half of total reserves, comparing favorably with some continental European peers. Consequently, the group is focusing on unit-linked products that provide a substantial income stream to the group (making up about 23% of overall earnings in 2021). We believe the decision to re-enter the Norwegian municipal occupational pension market in 2020, following recent pension reforms, along with the group's ongoing ambitions for its asset management and retail businesses, could mean additional diversification, albeit new business in the municipal pension sector could gradually increase guaranteed business exposure. We regard Storebrand's asset management as an important earnings generator, of which roughly half of assets under management stem from the internal insurance business, and the remainder from external business. In our view, Storebrand has over the years successfully developed its asset management business as scale remains an important factor, due to competition and margin pressure.

Financial Risk Profile: Strong

In our view, Storebrand's shift toward capital-light products supports the sustained improvement of its capitalization and earnings capacity. During the first half of 2022, Storebrand delivered net income of about NOK1.3 billion supported by earnings from the unit-linked segment. This is broadly in line with our forecast of around at least NOK2 billion for 2022, our prudent forecasts reflecting volatile market conditions. However, we do anticipate that management will adjust to the turbulent market conditions and achieve the target of NOK4 billion profits as market and economic conditions stabilize. We continue to expect Storebrand's dividend payout ratio will remain at 50%-65% in normal market circumstances, and that the group's capitalization will stay in the 'AA' range (as measured by our risk-based capital model) over 2022-2024. Regulatory capital adequacy, based on Solvency II, stood at 175% at year-end 2021, and strengthened to 195% in Q2 2022, mainly because of regulatory changes and reduced risk exposure that were partially offset by market volatility and widening credit spreads. Storebrand has initiated a NOK500 million share buyback in 2022. However, we expect the group will remain disciplined in its approach to capital management by maintaining the strength and resilience of the balance sheet, particularly because the ongoing market turmoil and economic uncertainty in 2022 could weaken asset risk and earnings.

In Q2 2022, guaranteed reserves were about 50% of the total and the average guaranteed rate about 3.0%. The guaranteed portfolio continues to decline, and we note that Storebrand expects about NOK10 billion of capital to be released by 2030 as guaranteed liabilities are paid out. Nonguaranteed operations now contribute to more than 60% of profits and more than 70% of AUM, and the shift in business mix has helped reduce the solvency position's sensitivity to interest rate movements. We expect the group will maintain strong reserve buffers in the guaranteed book, which have been shored up to NOK20 billion for the Nordic guaranteed book and Swedish krona 15 billion for the Swedish guaranteed book at year-end 2021. Storebrand's investment portfolio is also exposed to risk assets like equity, property, and speculative-grade bonds. While Storebrand's guaranteed business and exposure to risk assets could be a source of volatility for capital and earnings, we expect that the strong capital buffers should help to meet the guaranteed interest rates if investment returns are insufficient.

We note that Storebrand's capital to some extent relies on softer forms of capital, such as policyholder or hybrid capital. This somewhat constrains our overall assessment of the group's capital and earnings.

During 2022, the group effectively issued a NOK650 million floating-rate subordinated Tier 2 debt. We believe the proceeds of the subordinated Tier 2 debt issue will be used to repurchase or refinance the group's existing Tier 2 debt that is callable in 2022. Furthermore, we expect Storebrand to maintain prudent financial leverage below 30%, and fixed-charge coverage of about 5x-6x over 2022-2024 in line with our earnings forecast.

Other Key Credit Considerations

Governance

In our opinion, Storebrand has executed on its well-defined strategy to focus on key areas and goals, for example to strengthen its asset management business. Additionally, 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 Storebrand Liv and Storebrand Bank. This reflects our view of the structural subordination of Storebrand's creditors versus the policyholders of its insurance subsidiaries.

Environmental, social, and governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

We believe Storebrand's exposure to environmental and social risks is in line with the industry's and peers' such as DNB and Danica. The group's risks are mainly concentrated in life insurance where, like peers, it faces greater social risk than environmental. The group's main exposure to environmental risk is through its investment portfolio, where changes in public opinion regarding climate change could cause greater asset-valuation volatility.

However, we note that sustainability is well integrated into all investment decisions. In 2020, Storebrand announced a new climate policy covering the entire group, a new climate strategy for its investments, and a new purchasing policy with updated expectations for its suppliers.

Moreover, in the fourth quarter of 2021, Storebrand was recognized on the Dow Jones Sustainability Index as one of the 10 percent most sustainable companies in the world.

Although there is a clear shift toward asset management and unit-linked products, Storebrand's back book still carries guaranteed business, which is somewhat more exposed to social factors. For example, demographic trends could, in our opinion, lead to greater longevity, which could increase insurance liabilities.

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

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Related Research

- Storebrand Livsforsikring Upgraded To 'A' On Ongoing Profitable Growth And Improved Financial Strength; Outlook Stable, June 14, 2022

Appendix

Storebrand Group--Credit Metrics History

Ratio/Metric (Mil. NOK)	2021	2020	2019	2018
S&P Global Ratings capital adequacy	Strong	Strong	Strong	Strong
Total invested assets	653,123.0	609,883.0	538,108.0	498,748.0
Total shareholder equity	37,709.0	35,923.0	33,398.0	32,873.0
Gross premiums written	53,729.0	44,220.0	32,393.0	29,670.0
Net premiums written	53,681.0	44,188.0	32,366.0	29,631.0
Net premiums earned	53,681.0	44,188.0	32,366.0	29,631.0
Reinsurance utilization (%)	0.1	0.1	0.1	0.1
EBIT adjusted	4,381.0	2,575.0	2,957.0	3,165.0
Net income (attributable to all shareholders)	3,130.0	2,355.0	2,082.0	3,697.0
Return on revenue (%)	3.7	3.2	3.4	9.1
Return on assets (excluding investment gains/losses) (%)	0.6	0.4	0.5	0.6
Return on shareholders' equity (reported) (%)	8.5	6.8	6.3	11.6
Life: Net expense ratio (%)	10.2	10.5	14.2	14.8
EBITDA fixed-charge coverage (x)	12.9	9.4	10.0	10.0
EBIT fixed-charge coverage (x)	10.8	7.2	8.1	8.7
Financial obligations / EBITDA adjusted	2.3	2.7	2.4	2.2
Financial leverage including pension deficit as debt (%)	24.5	20.2	21.0	20.0
Net investment yield including investment gains/(losses) (%)*	3.2	4.4	5.3	1.9

Note: Net investment yield is for Storebrand Livsforsikring (excluding the unit linked business).

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 August 10, 2022)*

Operating Company Covered By This Report	
Storebrand Livsforsikring AS	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	A/Stable/--
Junior Subordinated	BBB+
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.