

Old Mutual Life Assurance Co. (South Africa) Ltd. Proposed Unsecured Subordinated Notes Rated 'zaA+'

November 6, 2020

LONDON (S&P Global Ratings) Nov. 6, 2020--S&P Global Ratings today assigned its 'zaA+' South Africa national scale issue rating to the unsecured deferrable subordinated notes to be issued by life insurer Old Mutual Life Assurance Company (South Africa) Ltd. (OMLACSA; South Africa long- and short-term national scale ratings of 'zaAAA/zaA-1+'). The issue rating is subject to confirmation of the final terms and conditions of the issue. We understand that the company will use the proceeds for general corporate purposes.

To arrive at the issue rating, we first apply a one-notch downward adjustment to the 'BB' global scale rating on OMLACSA to take into account the coupon payment risk on the debt, and from this we derive the national scale rating of 'zaAA', using our mapping specification. This captures both the payment risk and OMLACSA's stable credit profiles. We then deduct two further notches from the resulting national scale rating to reflect the notes' subordination. As a result, we rate the deferrable subordinated notes 'zaA+', four notches below the 'zaAAA' long-term national scale rating.

Our assessment of payment risk captures the terms of mandatory deferral on breach of solvency requirements. At mid-2020, OMLACSA's solvency ratio stood at 208% and the Old Mutual Group's was 182%. In our base case, we anticipate that the group will maintain capital within its 155%-175% target. OMLACSA can redeem the notes on the specified maturity date. The notes also contain mandatory interest deferral provisions if regulatory capital requirements are breached.

We expect to classify the notes as having no equity content, given their short (five-year) maturity. Including this debt issuance, we estimate OMLACSA's financial leverage will remain less than 20%. While fixed-charge coverage will likely fall below 4x in 2020 on account of COVID-19-related provisions and losses, we expect the issuer to maintain average fixed-charge coverage above 4x over 2020-2021.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018

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- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- 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

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. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceld/504352 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.

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