Q2 2013 Earnings Call

Company Participants

- Odd Arild Grefstad, CEO
- Trond Finn Eriksen, Head of IR
- Unidentified Speaker, Company Representative

Other Participants

- David Andrews, Analyst
- Matti Ahokas, Analyst
- Peter Eliot, Analyst

Presentation

Trond Finn Eriksen {BIO 17132188 <GO>}

Good morning, ladies and gentlemen. Welcome to Storebrand's Second Quarter 2013 conference call. My name is Trond Eriksen and I am head of Investor Relations at Storebrand. Together with me I have Group CEO, Odd Arild Grefstad.

As we have notified, the slide presentation will be running on the webcast available on storebrand.no/ir. The slides are similar to the analysts' presentation released this morning. In the presentation today, Odd Arild will give an overall view of the development in the Second Quarter and first half 2013.

After the presentation, the operator will open up for questions. To be able to ask questions, you need to dial into the conference call. I will leave the word to Storebrand CEO, Odd Arild Grefstad. Mr. Grefstad, results starting on (slide 6).

Odd Arild Grefstad {BIO 5483351 <GO>}

Thank you, Trond; and hi. Good afternoon, everyone. I'd like to start by slide number 2; use the slides 2 to 7 for giving an overall view of the results in the Second Quarter. And first of all, as a result of NOK518 million this quarter, it's NOK1,070 million altogether in first half of 2013.

The result develops according to plan. Fee and administration income has increased with more than 8% compared with the same period last year; and the cost program contributes to a nominal cost reduction compared to the last year.

The conversion from guaranteed to non-guaranteed products continues with full force and NOK8.3 billion has been converted out of the guaranteed products so far in 2013.

In the same period, we see a strong growth in unit-linked reserves of actually 27%. It's increased from NOK58 billion to NOK74 billion in one year. We also strengthened the balance sheet, and the solvency ratio is increased by 9% points to 174% over this quarter.

I have also made a structural change in our organization to strengthen the implementation of our strategy this quarter. In addition, as you see and have noticed from the presentation, we have adjusted the reporting structure accordingly. The reporting structure now focuses on results and value drivers within the segment Savings -- that is non-guaranteed products; in Insurance, and in Guaranteed Pension and in Other.

If we then move to slide number 3 then you will recognize the illustration that we have been used the last quarters. This illustration shows the measures we are taking to manage the balance sheet on the one hand side, and especially the guaranteed portfolios; and on the other side, developing the business with profitable growth within non-guaranteed savings and insurance.

This includes both sustaining our leading market position within occupational pension and especially non-guaranteed products, and increasing our retail sales to (employees) and former employees through (off-site) marketing and distribution, and developing a market to consumer concepts.

If we then move to slide number 4, we have an update on the development on the left-hand side how to manage the balance sheet. If we start by looking at the box at the upper-left corner, we see that we have been able to move NOK8.3 billion transferred out of guaranteed portfolio by the first half of 2013.

In the First Quarter, we saw a positive effect from the closure of the public DB book where were able to move a NOK6 billion transferred out in that quarter. There's still NOK14 billion that is waiting to be transferred out of the balance sheet in the coming couple of years from the public sector balance sheet. But also this quarter, we have been able to move NOK1 billion from the guaranteed products into non-guaranteed products.

Within the risk reduction area we continue to build our portfolio on bonds held at amortized costs. This quarter, we have been carrying out the transaction that we announced in the First Quarter, and have been selling seven shopping centers. That is the same as 13% of the real estate portfolio altogether.

If we then turn to the cost program on the right-hand side bottom of the slide, we see that we are proceeding according to plan when it comes to a run rate so far of NOK174 million in cost reduction.

Most important measures that has been taken in the Second Quarter has been a reduction in the workforce; a continued movement of (employees) from Norway and Sweden into our operations for back office in Storebrand Baltic; and also, an (optimation) of the (regular) distribution network in Norway.

If we then move to slide number 5, I would like to give some comments on the reason for our new organizational structure. First of all, I want to make a clear distinction between business and growth and business with guaranteed. And the new structure effectively marks this distinction.

Secondly, the new organizational structure is designed to strengthen the implementation of our strategy and establish the amount of one bottom line per Group, one Storebrand.

It also is designed to reduce complexity by reducing the number of reporting lines as such, and furthermore, we strengthen our customer orientation with clear responsibility for product and concept development within the commercial areas in Norway and Sweden.

Lastly, Nordic synergies and further cost reductions are important. In this model, only the commercial areas are national and all the other units have Nordic mandates.

It's also very pleased to introduce Staffan Hansen and Hege Hodnesdal as new members of the executive team. They are both experienced leaders within the Group and have an excellent track record of implementing changes. Staffan Hansan's responsibility within Savings has both asset management business and retail banking responsibility within it.

If I then turn to page number 6 and take a closer look at the results for the quarter, you will find the top part of the slide as a well-known structure that has been used for a couple of years now. So that is a well-known format.

If you look at the figures, you will see that the fee and administration income on life insurance, bank and asset management amounts to NOK2.1 billion for the first half of 2013, and that is the number that is 8% increased from the corresponding period last year. We also see that nominal costs of NOK1,671 million is nominally reduced compared to the same period last year.

If you then turn to the bottom part of the table, we see the Group result in the different business lines that we like to report on going forward. First of all Savings, which consists of defined contribution, unit-linked, asset management and retail banking, it shows a strong growth of 62% from the corresponding period last year.

This is the main growth area for us, both when it comes to top line and bottom line also going forward, and we expect to see top line and bottom line grow quarter by quarter.

Insurance is also up in the quarter, shows a strong result. As for guaranteed pension, price increases on the interest rate guarantee has come through with NOK172 million for this quarter, and combined with cost reduction, the result is strong on a quarterly basis when it comes to guaranteed pension.

I'd also like to give some comments on Other here. Other is negative on NOK64 million, but this number is negatively affected by the fact that we have been seeing double interest payments on subordinate loan this quarter.

A new subordinate loan was taken up early in the quarter while the old one was repaid at the end of the quarter. This has led to a situation with NOK30 million in costs for subordinated loan that you should not expect to see in the next quarter.

There's also restructuring costs in this number when it comes to the corporate banking activities. The corporate banking activities are in run-off in Storebrand, and we have made a provision for restructuring on something about NOK20 million in this number.

So you should not expect us to have NOK64 million negative on Other going forward. It should be more like a NOK20 million to NOK25 million negative going forward.

If I then turn to page number 7 and wrap up this introduction by looking at the key figures on the overall level, we continue to see a strong improvement with the quality of earnings. It's now on NOK463 million in the result before profit sharing and loan losses.

And if we then add on the one-off elements with the interest rates, we see that we have a run rate as we speak of about NOK500 million in the result before profit sharing and loan losses.

Earnings per share is reported to be NOK1.43 this quarter. The reason why this high number is that we have seen -- due to the fact that we have sold real estate in the quarter, we have sold real estate as a part of companies and not real estate in itself, and this has led to a positive tax effect.

The temporary tax differences has been taken into account and given a positive tax effect in itself by NOK245 million in the quarter, and that, of course, adds to a very positive earnings per share in the quarter. It also adds, together with a good result altogether and also an increased interest rate level in Sweden, to an increase in the solvency ratio of 9% points to 174% for the quarter.

So that is very much what I'd like to dig into the numbers as a starting point. Then on the coming slides we have a drilldown in both Savings, Insurance and the guaranteed portfolio, as also for Other, but I'd like to sum this session up by stating that the top line growth is strong. It's 8.2% year to date.

That is combined with a nominal flat; actually somewhat lower cost levels compared to last year. And the cost programs are performing according to plan.

That we are able to transfer our guarantees into non-guaranteed products has been doing that with NOK8.3 billion so far this year, and that is even before we had the opportunity to work with our paid-up policies and (move then the power to pay the) policies within the investment choice. And we also see that the solvency ratio has picked up to 174%. Thank you.

Trond Finn Eriksen {BIO 17132188 <GO>}

Thank you, Odd Arild. The operator will now open up for questions. (inaudible).

Questions And Answers

Operator

(Operator Instructions)

Q - Matti Ahokas {BIO 2037723 <GO>}

Matti Ahokas, Handelsbanken. Two questions on the new reporting structure, if I may. Firstly, when looking at the Savings division or business area in isolation, I think it's very good that you've split it up this way. But when we look at the kind of growth and targets that you would have in this area, what should we be looking for? Is the NOK141 million a figure which is okay or not?

And also, I was wondering, in terms of capital allocation in the new reporting structure. Obviously, previously, you didn't report the capital by business area either, but I was wondering what kind of thoughts and what kind of capital allocation in the new reporting structure should one be looking at?

Thanks.

A - Trond Finn Eriksen {BIO 17132188 <GO>}

If I may start with the capital allocation. I say that at this stage we don't plan to start reporting the capital assumption for the different lines of business. You could to some extent do that by taking the Solvency 1 capital requirements on the savings for the unit-linked business; (takes) the capital requirements for the retail package. So it's -- you could do it quite easily on overall level.

Then the second question would be what is the true economic capital distribution, which is a sort of more complicated question. But it's quite -- it should be quite easy to do it on an overall level based on today's capital requirements, but we have no intentions of starting to report it that way.

A - Odd Arild Grefstad {BIO 5483351 <GO>}

If I then comment on the result and expectations for result on Savings going forward. Of course, if you look at the total setup, that we have still NOK310 million of the NOK518 million from the guaranteed business.

A lot of our guaranteed business will continue with us, especially in Sweden going forward, so we will expect to see results on the guaranteed business for years to come. But you also know that there will be a transfer from the DB portfolio in Norway due to the new regulations into new products, hybrid products and DC products.

And we also, as we have alluded to, seen a quite outstanding growth actually when it comes to DC and unit-linked type of products, both in Norway and Sweden.

So I expect of course to see strong growth in this area going forward, and I also expect to see strong return results generation from this area. NOK141 million, that is a strong growth compared to last year, but that should also be the case going forward. And this is the area where we had to make sure that we have a result generation that will over time take over from the guaranteed business result generation.

So this is a very important area for us, both when it comes to growth, but also very much when it comes to taking out the results on the bottom line.

Q - Matti Ahokas {BIO 2037723 <GO>}

When you talk about growth year on year in the Second Quarter, do you mean percentage growth or absolute millions when comparing the Q3 -- Q2 result this year to last year, the NOK141 million to NOK81 million? Is that the trend we should be looking at, or what?

A - Odd Arild Grefstad {BIO 5483351 <GO>}

Well it's hard to guide on 62% growth on an annual basis, of course. That is a tough call. But then again, we have now restructured our business very clear into non-guaranteed and guaranteed business.

We have done the right -- the cost allocation as we view it, and that has actually reduced some of the results because we have allocated more sales costs into especially the Swedish business in this quarter compared to last year. So that masks actually out some of that result generation from these products.

We have the setup now where it's very clear about the value drivers, where we should reduce the cost in the guaranteed business; and where growth and profitability is the drivers on the Savings area and Insurance area. So I am careful giving you various (big) percentage growth rates on a quarterly basis, but this is really why we like to see that our results in three to four years' time is the dominant result generation area for Storebrand.

Q - Matti Ahokas {BIO 2037723 <GO>}

Great. Thanks.

Operator

(Operator Instructions) Next?

Q - Peter Eliot {BIO 7556214 <GO>}

Peter Eliot, Berenberg. I have a couple of questions first of all, just on the old reporting format, and I've referred back to your supplementary information for that. On reflection, I'm wondering whether it's a typo, but perhaps you could confirm.

You're showing NOK665 million of net earned premiums for the Insurance business for this quarter, and that's up, both on my figures and what you're showing on page 36 of the supplementary information from NOK513 million. so a huge increase. I'm just wondering if that's the right number if you could explain what's driving that.

Second question was on the Bank where the net interest margin has gone up a lot, and I was wondering if you could perhaps talk about the drivers behind that.

Then perhaps just to follow up on the last question now that we've changed the reporting structure. On the old structure, I know some of your guidance and targets were a little bit out of date with the changes that have gone on, but nevertheless, we had some idea of what we were going to over the next year or two in administration results. And I guess now that we've changed that it's less clear how that translates.

I'm just wondering whether you can give any -- I know we can back out the savings that you're going to make on the cost side, and hopefully, that should all translate through into -- or largely translate through into earnings, but I'm just wondering whether you can give us any guidance on where you would hope some of those items might move to over the next year or two. Thank you.

A - Trond Finn Eriksen {BIO 17132188 <GO>}

Yes. If I may start with your first question, Peter. Yes, you are right, the premiums shown on page 36 of the supplementary information shows quite a large pickup from Q1, and the reason for that is because it's not comparable figures.

As we have stated above the table, we moved the one-year disability insurance product from the Life Company under the (reporting) to the (insurance), but we were not able to at this point also give out the historical figures. You will get that in due course. So those figures are not comparable.

You need to look at what we are reporting under Insurance to get -- under the new reporting segment to get actually comparable figures. So that's (the question).

Q - Peter Eliot {BIO 7556214 <GO>}

Okay.

A - Odd Arild Grefstad {BIO 5483351 <GO>}

If I start commenting on the retail banking, you're absolutely right. You have seen, and we have it on slide number 9 on the package also, how the interest margin on retail banking have picked up during the Second Quarter. It's been on around 1% point in interest margins; picked up to 1.23% this quarter.

And that is -- what we have seen in Norway is that the market leader DNB has really been pricing up retail banking products. It's due to the fact that there will and are stronger expectations for capital when it comes to regulations going forward. And that is already implemented to take higher margins on these products in the market. And most of the bank has followed that to make sure that we have a margin taking out these results as we speak.

So that is the retail market -- retail banking in Norway in these days are earning quite a lot of money actually.

When it comes to guiding on administration result, I would say that our guiding as -- and the focus from our cost programs is still the same. So the guidings we have talked about in the increase in administration results both in Sweden and in Norway is very much the same.

And we see that we are developing according to plan and have a strong increase, especially in the Norwegian administration result this quarter. And the Swedish administration result was (NOK10 million) down from last quarter. And of course, we are working to make sure that we also have a further pickup in administrator results in the Swedish business. So altogether, we are moving towards the goals we have already set forward to you.

Q - Peter Eliot {BIO 7556214 <GO>}

Okay. Thank you

Q - David Andrews {BIO 16086344 <GO>}

David Andrews, Morgan Stanley. Good morning. My question is on the disability insurance experience for SPP. I was just wondering in terms that you say it's weaker than in previous years and that reserve releases have been lower.

I was just wondering what corrective actions you've taken, whether you see this coming back or whether you think this will be a continuing issue going forward, and if maybe we should expect some additional increases in reserves like we saw in Q1 in Norway.

A - Odd Arild Grefstad {BIO 5483351 <GO>}

Was your question about the risk part of the SPP or --

A - Trond Finn Eriksen {BIO 17132188 <GO>}

I think when we acquired the SPP back in 2007, we had a number of years with very good risk results due to lower disability in the Swedish market and we had quite a lot of releases of reserves.

Then we have actually been guiding at the levels that we are on now, around (NOK30 million) on a quarterly basis. And from what we see in the Swedish market now, that seems to be quite correct, to put it that way. And as such, we don't foresee any need for either releasing or strengthening those kinds of reserves. Saying that, the reserves will always be adjusted to what you observe in the market, so --

A - Odd Arild Grefstad {BIO 5483351 <GO>}

I agree. It's -- on a normalized level what we see this quarter, and I don't see in the foreseeable future any risk of a negative effect in this risk result, so that should be a quite stable situation as we see it today.

Q - David Andrews {BIO 16086344 <GO>}

Okay. Great. Thank you very much.

Operator

(Operator Instructions) At this time, no further questions.

A - Trond Finn Eriksen {BIO 17132188 <GO>}

I'd like to thank you everyone for joining the call today and I wish you a pleasant summer. Goodbye.

A - Unidentified Speaker

Goodbye. Good summer.