Y 2019 Earnings Call

Company Participants

- Daniel Sundahl, Investor Relations Officer
- Lars Aasulv Loddesol, Group Chief Financial Officer
- Odd Arild Grefstad, Group Chief Executive Officer
- Trond Finn Eriksen, Head-Investor Relations

Other Participants

- Ashik Musaddi
- Blair Stewart
- Matti Ahokas
- Peter Eliot

Presentation

Operator

Hello, and welcome to the Storebrand Analyst Conference Call. My name is Jeff, and I'll be your coordinator for today's event. Please note, this call is being recorded. (Operator Instructions).

I'll now hand you over to your host, Daniel Sundahl, to begin today's call. Thank you.

Daniel Sundahl {BIO 20548519 <GO>}

Good afternoon, ladies and gentlemen. Welcome to Storebrands' fourth quarter 2019 conference call. My name is Daniel Sundahl, and I am Head of Investor Relations at Storebrand. Together with me here today, I have group CEO, Odd Arild Grefstad; CFO, Lars Loddesol; Executive Vice President, Heidi Skaaret; Chief Investment Officer and Head of Capital Management, Trond Finn Eriksen; and Head of Finance and Strategy, Kjetil Krokje.

In the presentation today, CEO, Odd Grefstad will give an update on the main developments in the fourth quarter. CFO, Lars Loddesol, will then give a deeper insight into the financial development and other technical aspects in the quarter. The slides will be similar to the analyst presentation released this morning and are available on our web page. After the presentation, the operator will open up for questions. To be able to ask questions, you will need to dial into the conference call.

I now give the word to Storebrand's CEO, Odd Arild Grefstad, who will start the presentation on Slide 2.

Odd Arild Grefstad {BIO 5483351 <GO>}

Thank you, Daniel. Storebrand presents a solid result of just about NOK1 billion for the fourth quarter and NOK3.037 billion year-to-date. Operating profit in the fourth quarter is NOK707 million, a considerable increase from the previous year.

Performance-related income earned in SKAGEN in 2019 is booked in the fourth quarter contributing positively to the results. While the insurance results is weakened by the group life results. Lars will deliver on this. Our financial result is very strong in the fourth quarter, particularly in SPP. Overall, Storebrand had a strong growth. Asset management increased by NOK124 billion to NOK831 billion in 2019. Unit Linked reserve continued a strong growth with 23% during 2019. Our Solvency margin is 176% at year-end, and the board proposes an ordinary dividend of NOK3.25 per share. This represents a NOK0.25 nominal increase compared to last year.

If we then move to Slide number 3, as usual, this is our twofold strategy. We actively manage the balance sheet and risk in the guaranteed products and that are in long-term run-off. In the quarter, solvency at 176% means that we are approaching the level for capital release to our shareholders defined at a solvency level of 180%. And I will talk more about this shortly.

We also maintained strong cost control and are committed to flat nominal cost from 2018 to 2020. Storebrand is well positioned to capitalize growth within savings through our leading position in occupational pension and growth in Unit Linked in Norway and Sweden, as well as the retail market for Norway. The growth in these business units contributed to additional growth in our asset management, which shows a growth through external institutional shares.

Let's then move to Slide number 4. As mentioned, the board proposes an ordinary dividend of NOK3.25 per share. This represents a NOK0.25 nominal increase in the ordinary dividend compared to last year, and corresponding to an increase of 8.3% and a payout ratio of 73%, in line with our dividend policy. The solvency margin was 176% at the end -- year-end 2019. When the solvency margin reaches 188%, the board has now stated that it intends to initiate a share buyback program. A review of the solvency level and a related share buyback program will normally be conducted every six months at Q2 and Q4, starting in July 2020. Buybacks are subject to approval at the AGM at Storebrand and by the regulator.

If we then move to Slide number 5, the result that we continue our strong growth. The growth in Unit Linked continues with double-digit premium growth, a strong underlying structural growth in Norway, good sales and transfers in Sweden, combined with strong return to our customers gives an increase in Unit Linked volumes by 23% compared to previous year. Our asset management strengthened its position by -- as a leading Norwegian asset manager with an increase in assets under management by 18% to NOK831 billion during 2019. In insurance, we see positive effect from growth initiatives within pure P&C, where premiums grew by 13% in 2019. The strong growth in 2019 creates a solid baseline for value creation in all business units for 2020.

Let's then move to the next slide. Storebrand has worked with sustainable solutions for more than 25 years. We are, therefore, extremely proud to be ranked as the world's most sustainable insurance company and the most sustainable Nordic financial company in the Global 100 Index published by Corporate Knights during the World Economic Forum in Davos this year. The respected award is a recognition of our work, and we are pleased to observe that both corporate and retail customers appreciate our sustainable solutions.

On Slide number 7, we exemplify this. In Sweden, SPP continues to achieve solid growth in sales premiums and transfers received. 2019 is also the year where SPP decided to go purely fossil free, meaning that more than one-third of the Storebrand's assets under management, or NOK277 billion, were invested in Fossil Free Funds at the end of 2019. The growth in Fossil Free Funds is a result of strong customer demand, especially from institutional investors in Sweden, but we also see increased interest in the rest of Europe.

Moving then to the next slide, we also show that SPP does not only stand out with strong growth and sustainable solutions. SPP is also Sweden's most digital life insurance company and this really contributes to the competitiveness and growth of the company. A solid proof of this is Sajna, SPP's fully digital tool for signing new occupational pension agreement and the only provider to offer this in Sweden. This is a unique customer solution and a highly cost-effective distribution platform for SPP. Sajna was awarded the digital project of the year at the CIO Awards in Sweden, in December.

And with that, I give the word to Lars.

Lars Aasulv Loddesol {BIO 3969188 <GO>}

Thank you, Odd. And I would like you to move to key -- sorry, key figures on Page number 9. The group result of NOK1,026 million is satisfactory. The strong results are supported by good financial markets and good performance fees for the full year. The operating result is hurt by weak insurance results and higher costs in the quarter, which I'll refer to in a moment.

The earnings per share has improved during the fourth quarter, and the solvency is stronger. Good financial markets have led to strong returns. The excess return has been used to strengthen buffers in Norway and in Sweden. As you can see from the table on the lower right, customer buffers are up from 6.4% to 8.6% in Norway and from 8.7% to 10% -- 10.7% in Sweden. This is equivalent to value creation, not to take it through the P&L but pushed directly into the balance sheet. This strengthens the company's ability to withstand future market turbulence and secures customer returns in times of market volatility.

Moving over to Page 10, we entered the fourth quarter with 172% in solvency margin without transitionals. Model changes and assumption changes has neutral contribution during the quarter. There has been a strong increase in rates during the fourth quarter, with 35 bps on the 10-year swap rate in Norway and 39 bps on the same rate in Sweden. This gives the contribution of 9 percentage points.

Reduced volatility adjustment, higher equity stress and new capital requirements on mortgages on the life balance sheet pushed the solvency down by 7 percentage points. These are all regulatory model changes and do not weaken the economic solvency of the group. Good risk management strengthened buffers and a positive development in the product composition is a positive contribution of 2 percentage points, while operating profit gives another 1 percentage point after setting aside for dividend. As previously communicated, we no longer include subordinated loans that are coming to call in March. The solvency by the end of the quarter ends at 174% without transitionals, and 176% with transitionals. The transitionals included here are related to the stocks we held into the Solvency II regime back in 2016. This transitional capital will largely be gone during 2020.

Moving over to the following Page 11, showing the movement from 2018 to 2019. Looking at the solvency moving during the full year 2019, we still see model changes and assumption changes being neutral. The acquisition of Cubera pushed down the solvency by 1 percentage point. Changes in volatility adjustment, equity stress, lower UFR at the beginning of the year and capital requirements on mortgage investments, pushed the solvency down by 8 percentage points. None of these changes actually weaken the economic solvency of the group. As communicated earlier, an optimization of our reinsurance program contributed 3 percentage points, while net repayments of subordinated loans give a negative 1 percentage point effect.

There were large swings in interest rates during 2019, but by the end of the year, long-term rates ended close to where they started. Short rates, however, were up, flattening the curve and bringing forward rates down. This gave a 5 percentage points negative effect on the solvency margin. Good returns, buffer building, effective risk management, guaranteed business and run-off, growth in Unit Linked as well as satisfactory operating results, collectively contributed 20 percentage points in solvency before dividends.

On Page 12, we see that there are no significant changes in sensitivities in the quarter.

And moving over to Page 13, we saw a 6% increase in top line revenues last year. Insurance results were weak. The increase in cost in the fourth quarter was partly seasonal and partly on nonrecurring nature. During the year, we had restructuring costs, the acquisition of Cubera, establishment of a common asset management platform and performance-related bonuses. The last cost element are relates to performance-related bonuses, it's positive as it is a consequence of competitive returns to customers and performance fees to owners. We have brought some additions in Storebrand, and we run several exiting growth initiatives. Nevertheless, we have 50 fewer full-time employees into 2020, and the management committed to deliver on the stated cost ambition. Financial results were good in the quarter and through 2019. The tax rate of 20% for the full year is as expected.

On the following Page 14, shows the group result broken down in the three result areas, savings, insurance, and guaranteed. We see satisfactory development in savings, weak performance in insurance and a good year for guaranteed. As there has been several -- or sorry, as there has been some questions on insurance and in the interest of time, I'll jump to Page 19, named Insurance. This area delivered behind 2018 and planned both for the quarter and for the full year. It is the same group life contract as we have previously commented on that did cause us some trouble. We have further strengthened buffers in the fourth quarter, and we have implemented significant pricing increases accepted by the client. The other business lines show satisfactory profitability and P&C have picked up growth above 10%, in line with our ambition.

Finally, let's take a quick look at Page 22. The reserves in guaranteed are in run-off. The apparent stability is a combination of long-term run-off and a short-term buffer building. The liabilities are improving with declining average guarantees and shorter duration. Guaranteed reserves as a percentage of total pension reserves are now at 54.5%. At the time, the figure itself -- when we started in 2012, the same number was well above 80%.

And with that, I give the word back to Daniel.

Daniel Sundahl {BIO 20548519 <GO>}

Thank you, Lars and Odd Arild. Operator, we'll now open up for questions.

Questions And Answers

Operator

(Question And Answer)

(Operator Instructions) The first question comes from the line of Peter Eliot from Kepler Cheuvreux. Please go ahead.

Q - Peter Eliot {BIO 7556214 <GO>}

Thanks very much, guys. So my first question, I guess, is perhaps unsurprisingly on the health and group life. And I'm just wondering if -- because, obviously, you had good -- very good results there in 2017 and 2018. And I'm just wondering if you can comment a little bit more on what sort of suddenly happened or alert due to the factor to need buffers? Was it a case maybe you released a little bit more than you perhaps should have done in those earlier years? Or is there something that has sort of very specifically changed in that book for 2019? That was the first one. Thank you.

Second question, just on the solvency WACC. Obviously, you had quite positive equity markets in Q4. And I'm just wondering why you don't sort of split out the impact of equity markets and credit spreads in that WACC and whether they did actually have an impact. And I don't know if you can split out the 7 percentage points in terms of VA, equity stress and other regulatory? And then finally, if I could ask a couple of points on SKAGEN? I was wondering if you could give us an update on the flows you're seeing there and the outlook. On the cost side, if I sort of take the NOK280 million you reported and add back the NOK26 million in performance fees -- performance costs, I get to over NOK300 million. I'm just wondering if that's representative of the sort of quarterly run rate or if there's anything -- because I think the one-offs you mentioned were pre Q4. So -- and then just finally, is there anything that you can do or having the pipeline on the performance? Because I guess, SKAGEN Global is performing very well. But the other funds sort of seem to be sort of consistently below benchmark and I'm just wondering, if you've got any plans to address that. Thank you very much.

A - Lars Aasulv Loddesol {BIO 3969188 <GO>}

Okay. I'll start with the group fund question. You're correct that in '17 and '18, we have -- had the reserve releases due to an apparent good development in this particular portfolio. It turns out that for some reason, this particular portfolio, people claim their disability capital later than is usual. So therefore, we thought that the year '15, '16 was better than expected, since we didn't get claims in '17 and '18. And then the claims came in, in -- towards the end of '18 and during '19 and such. So the later claims ratio or claims are a longer claims period in this portfolio than we are used to. That fueled us, and we retrospectively, we released too much reserves in '17 and '18, which we have to correct in '19. Now, however, we have more data on this portfolio. And we feel that we are adequately reserved for -- based on the experiences that we've seen.

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

When it comes to your second question regarding the minus 7% on Page 10 of the presentation, volatility adjustment in our value from 45 to 46, that has created approximately 3 percentage points of the solvency ratio. Equity stress levels went from 37% to 39%, and that put another 2 percentage points roughly off the solvency ratio. And then we have some new regulations in Norway, where we have now a capital charge on the mortgage loans that are on the life balance sheet, which contributes another 1 percentage points roughly. And there are also some new regulation around surrendered charges in Sweden, but may will change the surrendered charges on some of the guaranteed stuff. This is also going to contributes a bit less than 1 percentage point. So those 4 combined are up to 7 percentage points.

A - Lars Aasulv Loddesol {BIO 3969188 <GO>}

On your last question on SKAGEN, there has still been outflows during 2019, however, decreasingly so. And the outflow has been mostly in some of the institutional portfolios, but the retail portfolio is stable. In terms of performance fees, the actual performance fees were NOK225 million in performance-related income. And then you have to deduct the total during the year of $84 million in performance-related OpEx. So the net contribution is NOK141 million. But in the fourth quarter, you have this other effect of NOK225 million, which is a full year income, and then a reversal of some of the charges for performance-related OpEx taken in the previous quarters. So you have an income for reversed performance-related OpEx to NOK26 million. So in the quarter, you had the NOK250 million impact. That's not very pure. This is the same estimate we've seen on this line previously.

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

When it comes to performance, of course, I'm very pleased to see that SKAGEN build off and also SKAGEN m2, which is known to be the best real estate company in the Europe. It's performing very well in SKAGEN. We keep our philosophy in SKAGEN as we do with all our boutiques, Delphi, Storebrand, SPP as well. We work with our processes, of course, but we stick to the value approach that we have in SKAGEN. And of course, we have seen now for a while that value-based investment has been while not creating as much value as growth companies have done, and it's also been very focused on some few companies that have created the value of our index. So I will say we strengthen our processes. We work with teams, but we are keeping our philosophy within SKAGEN.

Q - Peter Eliot {BIO 7556214 <GO>}

That's, great. Thank you very much. Perhaps I can follow follow-up offline on the SKAGEN costs. But maybe just quickly, I don't know, Trond, if you can comment quickly on the contribution from other market movements other than interest rates. Because just parts of the puzzles that we didn't see -- a positive from equity markets, for example, on that solvency WACC?

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

Yes. You didn't find the -- find good equity markets in the 2 percentage points for the recent (inaudible) allocation fee. And the thing about good equity markets is they have buffer capital, which is very positive. And we see that the buffer cash flow is strengthening in the quarter. On the same time, good equity markets also increased Unit Linked reserves, which in isolation are good, very good. But in the same time, since insurance get increased lapse on those products, it, in general, will unnecessarily, strengthens the solvency position of the group, although it's very good for the solidity of the group as a whole. So I don't know if that made any sense.

Q - Peter Eliot {BIO 7556214 <GO>}

Okay, okay. No, that's great. And obviously, we just sort of applied the sensitivities that you gave, which shows a significant month to equities, but I understand that comes through those bars you set. Thank you.

Operator

The next question comes from the line of Matti Ahokas from Danske Bank. Please go ahead.

Q - Matti Ahokas {BIO 2037723 <GO>}

Yes. Good afternoon. A couple of questions from me as well. Firstly, on the capital release and your comments regarding the buybacks as the preferred tool for capital release, does this mean that extra dividends are totally off the table? And what kind of authorization do you believe you need in order to be able to kind of significantly adjust the excess capital once that's off the bar? The second question is that you believe that you could actually start the buyback already now in July 2020 or if things continue as you expect them to -- or will this be more a thing in one year's time, so after the 2020 full year results? Thanks.

A - Lars Aasulv Loddesol {BIO 3969188 <GO>}

Well, first of all, we have, of course, been talking to a lot of investors and they talked about the preferred way of doing capital release back to shareholders, and we see that there is a preference for share buybacks when it comes to this excess capital. It doesn't mean that we cannot both use combination of buybacks and additional dividends over time, but you should expect us to do this with the share buybacks when we're aiming for the stock to do this. We -- or the board said that they will review this situation twice a year, they will do it first time in Q2 2020. Of course, you have seen some reduction in interest rates during the first quarter of 2020. That will have some negative impact on the solvency position. But you also see that we had a 20% increase in the solvency position due to good results, buffer building and so on during 2020. Of course, we don't take -- 2019, of course we don't see that coming through in 2019 due to exceptional good markets in 2019, but we have a strong growth in solvency capital in the group. And we, of course, work very hard to do as much as possible as value creation and capital creation, solvency creation as we can. But I think to be able to do some share buybacks already in the second half of 2020, you also need to see some movements in the interest rate levels up from the levels you see today. Well, when it comes to the permissions, so I think it's very easy that we can ask the AGM to have the same permission as we have today to buy back up to 10% of the outstanding shares. We do that on an annual basis. Have that permission today and we'll ask to have that permission also going after the new AGM. And then, of course, we have to also have a permission from regulators to start doing share buyback.

Q - Matti Ahokas {BIO 2037723 <GO>}

Just out of curiosity, have you done buybacks? And I can't remember. My memory is not that great, but in history?

A - Lars Aasulv Loddesol {BIO 3969188 <GO>}

We actually did a small one last year to -- for our share incentive programs. That was the last time we did one. And then we've done share buybacks historically, but that's some years ago now.

Q - Matti Ahokas {BIO 2037723 <GO>}

Okay. That's what I remember. If I just may have a follow-up. Obviously, we've seen a very kind of fortunate situation in the market with a huge growth in your Unit Linked reserves and also on the assets under management. But if we look forward from here now on, what kind of assets under management growth, assuming kind of normalized market, do you think is -- or would you be satisfied with, both in terms of Unit Linked reserves and also the asset management, AUM?

A - Lars Aasulv Loddesol {BIO 3969188 <GO>}

Yes. If you remember from the Capital Markets Day in May 2018, we showed at the time and even up to today that we've had around 20% annual growth in Unit Linked reserves. We also said that looking forward, we expect that to be at a lower level between 12% and 15% per annum. So that will obviously depend on market returns. But there is set structural growth in the portfolio, where most of the people with a Unit Linked are younger people saving into the plans and very few people reaching retirement date and, therefore, taking money out of those plans. So structurally, there's an underlying strong growth, and you should expect 10% to 15% growth with normalized financial markets. And even higher than the financial markets.

And on the asset management --

Q - Matti Ahokas {BIO 2037723 <GO>}

Go ahead, sorry.

A - Lars Aasulv Loddesol {BIO 3969188 <GO>}

And on the asset management as a whole, you will have the structural effect on some of the guaranteed liabilities running out and the structural effects of growth in Unit Linked. And then together with growth from external mandates, which is -- which, of course, is harder to predict, but obviously, you would expect as high-growth rates in asset management as you'd expect in Unit Linked.

Great. Thanks a lot.

Operator

The next question comes from the line of Ashik Musaddi from JP Morgan. Please go ahead.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Hi. Thank you, and good afternoon, everyone. Lars, just few questions. So first of all, I mean, if I think about the capital position at the moment, 176%, I mean, there are some headwinds with respect to IO per review, especially related to interest rate risk and may be related to last liquid point as well. And then on top of that -- I mean, interest rates going down in the first quarter, not very helpful. So -- I mean, what is your confidence level to do a buyback even like early next year? I mean, if interest rates don't change, let's say, from here, what's your confidence level? What needs to happen for you to do a buyback? Because if I think about your capital generation net of dividend, we are talking about, say, like in a normal market, about, say, 4 points a year. So your 176% at best goes to -- I mean, 180%. And then there is some drag from interest rate year-to-date. And on top of that, there is uncertainty on this IO per review. So what gives you confidence to think about a buyback early next year, or announce a buyback at that point? So that's number one.

Secondly, can you give some clarity around this individual pension account-related risk, where there is a regulation change expected, which I think you mentioned in the report, that the pension certificates will now be moved into employers, whereas you lose some bargaining power on the pricing? So what sort of headwind are we talking about? And how do you plan to address that? Because if I understand correctly, we are talking about NOK200 million, NOK300 million of revenue headwind, that's basically 10% of your profit. So -- because I don't think there'll be any costs associated with it. So any thoughts on that would be the second one.

And third one would be around, say, cost. Now you've still maintained your cost guidance flat for 2020. Now what should be the base for 2020? I mean, if I think about like 2019, there was a NOK100 million of performance cost plus Cubera. So let's say that is a new scope thing, so 3.8 becomes 3.9 in the new scope, but is 3.9 a good cost base for 2020? Which I'm a bit surprised, because on an underlying basis, you did NOK4 billion for this year. So shouldn't cost be moving up with higher assets in the savings business, et cetera? Would be great to know what sort of absolute level of cost we should care about? Thank you.

A - Lars Aasulv Loddesol {BIO 3969188 <GO>}

Yes. I'll start, Ashik, on the solvency generation just to kick off that question. I think when you look at our solvency capital generation, we have roughly 10% from results. And then we also expect to harvest some risk premiums above the risk-free rate when we roll forward. So the net capital generation should be larger than the 4% you alluded to during a normal year. And then in EIOPA, there is a process. We know that the interest rate are not linked to full (inaudible), but they are being discussed, and we're, of course, looking into it. But at the end of the day, this is the same business before and after any changes in regulation efforts, and we will, of course, adapt to the new regulations, both on how we set our targets and how we adapt our AUM.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Sorry, just to be clear on that, so what you're saying is, if regulation changes your solvency ratio so then your 180% could be a fluid number? So that can change as well?

A - Lars Aasulv Loddesol {BIO 3969188 <GO>}

I think what we see now is that there's still quite a long process in moving towards fixed. I'm not going to preempt any changes in that but it's a valid point that the business doesn't really change from changes in regulation.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay.

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

Good. If you could then move to our pension accounts, there's nothing new in this quarter around that issue. I think we discussed those in the last quarter. It's, of course, a huge opportunity, I would say, for us in the retail market, we are collecting all the assets for individuals when it comes for the defined contribution and from the pension certificates. That is, of course, different elements of pricing areas. The corporate pricing elements, it's the administration cost elements, it's the pricing of the asset management fees, both when it comes to the retail part and the corporate part. And it also is additional insurance products that is linked to this defined contribution part. And when we have changes in the pricing and one of these elements it's, of course, natural for us to look at all these elements and ensure that we have a good profitability in the total offering of defined contribution on our pension account going forward. And we will do that, but that is, of course, a process that we need to have examined before we go external.

A - Lars Aasulv Loddesol {BIO 3969188 <GO>}

With respect to the cost base, your thinking is correct that we have the -- basically NOK3.8 billion plus the Cubera cost, plus any performance-related bonuses. And if they are higher than NOK100 million, that will be good because that will generate about 3x as much in performance fees. If they are smaller, then it's good for the cost base, but less good for the excess performance. So it's a fluid number. But your thinking is correct, ending with your parameters around NOK3.9 billion, that may help.

Q - Ashik Musaddi {BIO 15847584 <GO>}

So what it means is if the performance fees is still the same, let's say, in 2020 versus 2019 then the cost base we should be baking in our model is NOK3.9 billion, is that correct? Because somehow, I mean, I think you are running ahead of that cost base at the moment. It's not that run rate, you are running a bit NOK100 million, NOK150 million ahead of that. So is it fair to say that you'll be cutting cost in this year rather than maintaining a flat versus 2019?

A - Lars Aasulv Loddesol {BIO 3969188 <GO>}

It's fair to say that we've incurred some additional costs during 2019 in order to make sure that we have the runway, which enable us to end up there during 2020. So it's not like we're going to cut cost from this level, but it's correct that the cost we incurred during 2019 looks like it's on a trajectory, which is slightly higher. But the restructuring cost that we had has ensured fewer employees. The asset management platform that we have established has ensured lower running cost, and we had a cost overrun of that project of NOK20 million which was written off in the fourth quarter. And we have also written down some previous systems that we are no longer using and no longer having -- running cost on as a consequence of this new asset management platform. So we are confident that we have a trajectory which will lead us to be within the stated cost targets for 2020.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Absolutely. Many thanks for this.

Operator

The next question comes from the line of Blair Stewart from Bank of America. Please go ahead.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you. Good afternoon, gentlemen. I've got a few questions. Firstly, could you summarize the tax issues that are discussed in Note 9 of the report? There's a lot of detail there, but really, what I'm trying to ask is, what are the shareholder risks here if the rulings go against you? Because I understand that part of this accrues to the policyholder. So I'm interested in what the shareholder risks are for the various tax issues.

My second question is on the consolidation ratio in SPP. I know this is now 109. What does that imply? Does that allow you to take an additional 40 basis points on the relevant reserves? And third question is on the buyback. It seems to me, at least, that you need to do a significant amount of buyback activities to get anywhere close to your 10% ROE target. So I can understand why that's important. Is there any initial view from the regulator on whether a buyback would be palatable to them? Have you had any other discussions.

And finally, just on the question of pension certificates and the margins in the unit-linked segment in Norway. I know there's a lot of moving parts but I mean the margins -- the revenue margin has been going down almost every year for the last 5 years. Is that a trend that you expect to continue? Perhaps, albeit, offset by a higher top line but the margin certainly has been going down. Thank you.

A - Lars Aasulv Loddesol {BIO 3969188 <GO>}

If I start with the tax there. We think we have stated it quite clearly in the notes to the quarterly report this time. It's quite an extensive discussion about three different elements of the tax -- the outstanding tax issues. The downside risk is at NOK1.2 billion cost to the shareholders as stated. However, we are quite sure and the board is quite sure based on internal and external expertise that this interpretation of the tax law will end in our favor, in which case, we have an upside more than a downside. However, again, this probably has to be taken through the legal system in order to find the final solution, which means that a clarification may take three or four years before finalization. So the three different elements in the tax issues are stated in the quarterly report and in the notes. They have about NOK1 billion upside and above NOK1 billion in downside, but we are -- well, it's going to take some time to get the final clarification on all of them.

Q - Blair Stewart {BIO 4191309 <GO>}

And does that mean that in the meantime, you're in a tax payable position?

A - Lars Aasulv Loddesol {BIO 3969188 <GO>}

Not this year, but likely in 2020. Or not for '19, but likely for 2020. To consolidation, you are correct --

Q - Blair Stewart {BIO 4191309 <GO>}

If you win the tax ruling, you move back into a non-tax payable position, is that right?

A - Lars Aasulv Loddesol {BIO 3969188 <GO>}

That's correct.

Q - Blair Stewart {BIO 4191309 <GO>}

So the other upside?

A - Lars Aasulv Loddesol {BIO 3969188 <GO>}

Yes.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you.

A - Lars Aasulv Loddesol {BIO 3969188 <GO>}

On the consolidation ratio in SPP, yes, that is well above 108 now, which means that we are able to take out the 40, 50 mentioned, which, again, means about NOK25 million per quarter from SPP. And the consolidation will fluctuate with, first and foremost, interest rates, but also with excess returns in the portfolios where we have -- where we harvest excess returns from equities or credit, et cetera.

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

When it comes to the share buyback program, first of all, we, of course, have a regular contact with the regulator. We also annually send them their -- our own risk and solvency assessment or the government that takes into account both the solvency position, and of course, the different types of stresses that we applied to this solvency position. So they gravel down our position and our statements that we gave to the market to date. When it comes to the combination of buybacks and additional dividends, of course, we are able to use both tools. But as I said, we are very firm that we will start out with doing share buybacks for excess capital talking point.

Q - Blair Stewart {BIO 4191309 <GO>}

Do you think it's realistic to hit your ROE target without doing buybacks?

A - Lars Aasulv Loddesol {BIO 3969188 <GO>}

Without doing buybacks? You are correct that the R&D is important to make the ROE target, and it will help do something on both.

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

Absolutely. So we are very committed to do that.

Q - Blair Stewart {BIO 4191309 <GO>}

Could you hit the ROE target in the medium-term without doing a buyback?

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

We have already, I think, last year and the year before that. I mean over 10% return on equities. So --

Q - Blair Stewart {BIO 4191309 <GO>}

That was good luck. That was good luck. Although, you can't get good luck. Okay. No problem.

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

Okay. When it comes to Unit-linked segments, and the margins, you are absolutely right, of course. With the trends onward, then I think it's very fair to say that the margins in Norway for pure plan contribution, they are extremely low compared to also the different countries that is easy for us to compare to. And that is due to the fact that there are, of course, very good margins in the pension certificates. All of these changes now. And then we also have to change the way we're doing the pricing on these contracts.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. I think, that's it. Thank you very much.

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

Thank you.

Operator

The next question comes from the line of Peter Eliot from Kepler Cheuvreux. Please go ahead.

Q - Peter Eliot {BIO 7556214 <GO>}

Thanks very much. I think Blair must be looking over my shoulder actually, yes, because identical to my second lot of questions. But if I can maybe just ask one follow-up. The -- I was just wondering if you could give us your view of where the solvency ratio is today? I mean, obviously, you've talked about the interest rate falls. And you've had the NOK VA falling another 4 basis points as well, maybe slightly offset by a bit more favorable equity stress. Yes, I was just wondering, putting everything together, can you give us a rough feel for how you think it's changed year-to-date?

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

I think all else equal, Peter, somewhat lower interest rate would pushed the solvency ratio lower. And also after stating the UFR sensitivity, will also take a solvency ratio a couple of percentage points lower. And then, of course, we have already earned some money year-to-date, which makes up for some of that. And then, of course, technical factors affect the solvency ratio direction wise that you -- the way you pointed, but we don't have an exact estimate on this point in time.

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

We give the sensitivities, and then it's up to you to make that call.

Q - Peter Eliot {BIO 7556214 <GO>}

Yes. No, I was -- it's worth a try. I knew you had to, it's all right. You were monitoring the management headquarters that gave a -- sadly not a response, but worth a try. Thank you.

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

Thank you.

Operator

(Operator Instructions) And we have had another question come through from the line of Ashik Musaddi from JP Morgan. Please go ahead.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yes. Hi. Sorry, just a couple of additional questions, if possible. One is NOK150 million of net performance fees from SKAGEN versus last year, probably nothing. Is this what is in line with your expectations when you bought it? Or do you think that this is still low? And I'm just looking for net performance fees rather than the NOK225 million growth, so any thoughts on that? Do you think it's low or it's acceptable? The second one would be this strengthening of buffers in the guaranteed book. I mean, till when would you continue to do it? Is there a number? Is there like a feeling where you will go and you'll stop there or it will just go on forever? Thank you.

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

In terms of discussing performances, they are different in different funds. And if you reach a normal just benchmark return it will be in the order of NOK150 million plus in net performance fees. However, running an effort when we want to have above benchmark returns, in which case, you should have a higher performance fees as well. But the way we run the business, we run for a break even on a fixed to pick basis. And then we create an environment where additional performance should be available as possible to create additional value for policy holders, customers and shareholders.

Q - Ashik Musaddi {BIO 15847584 <GO>}

But do -- what like -- I mean, what I'm trying to understand is when you acquired it, did you think that it would be NOK150 million or would you would have target a high number in a normal course of business?

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

I think, one way to look at this, Ashik, is that we paid roughly NOK1.5 billion for the company. That could go up to a larger number. It's the performance fees already high and the returns are greater. And then there's a symmetry there. But I think on a PE basis, it's reasonably fair, NOK150 million and NOK1.5 billion purchase price. So it's fair enough and within the parameters we set when we acquired SKAGEN.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yes, that's clear. Yes.

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

In terms of buffers, we have had a very strong year for 2019 in terms of financial return. And also this year, it makes sense when we run our sensitivity and our risk management to continue to be buffered as I've gone through earlier in the presentation. I guess, we are reaching an area where we don't need -- in some portfolios, we don't need additional buffers. But in other portfolios, there's still room to build additional buffers.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. So it can continue in the near future? Okay. That's clear. Thank you.

Operator

There are no further questions in the queue. So I'll hand back over to your host for any closing remarks.

A - Daniel Sundahl {BIO 20548519 <GO>}

Thank you very much. Before we end, I would like to invite all of you to our Capital Markets Day conference in London on June 9 this year. Registration and more information is available on our website, storebrand.com/ir. I'd also like to remind you that we will be present in London and Frankfurt tomorrow, and Stockholm on Friday, and we hope to see several of you there. Thank you for joining the call. Goodbye.

Operator

Thank you for joining today's call. You may now disconnect your lines.