# Q2 2018 Earnings Call

## Company Participants

- Kjetil Ramberg Krøkje, Head-Investor Relations
- Lars Aasulv Løddesøl, Group Chief Financial Officer
- Odd Arild Grefstad, Chief Executive Officer

## Other Participants

- Jonny Urwin, Analyst
- Matti Ahokas, Analyst
- Peter D. Eliot, Analyst

## MANAGEMENT DISCUSSION SECTION

### Operator

Good afternoon and welcome to the Storebrand Analyst Conference Call. My name is Anne, and I will be your coordinator for today's conference. For the duration of this call, you will be listening only. However, in the end of this presentation, you will have the opportunity to ask questions.

I will now hand you over to Head of Investor Relations, Kjetil Krøkje, to begin today's conference. Thank you.

### Kjetil Ramberg Krøkje

Thank you. Good afternoon, ladies and gentlemen. Welcome to Storebrand's second quarter 2018 conference call. My name is Kjetil Ramberg Krøkje, and I'm Head of Investor Relations at Storebrand. Together with me today, I have group CEO, Odd Arild Grefstad; CFO, Lars Løddesøl; and Head of Economic Capital, Trond Finn Eriksen.

In the presentation today, Odd Arild will give an update on developments in the second quarter. CFO, Lars Løddesøl, will give an overview of the financial developments and dig into some of the more technical elements in the quarter. The slides will be similar to the analyst presentation released this morning and are available on our webpage. 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 will now leave the word to Storebrand's CEO, Odd Arild Grefstad, who will start the presentation on slide 2.

## Odd Arild Grefstad {BIO 5483351 <GO>}

Thanks, Kjetil. I'm very pleased to announce second quarter result of NOK 812 million. The operating result for the quarter is strong at NOK 645 million. This is a 16% increase from the corresponding period last year. Good growth in savings combined with strong insurance results and continued good cost control, contributes to the strong result for the quarter. The underlying solvency margin is strengthened with 3 percentage points in the quarter to 163%. Including transitional rules, the solvency margin is 167%.

If you move to slide number 3, you see that in our Capital Markets Day in May, we introduced this picture to illustrate our twofold strategy in relation to active management of our Guaranteed Products, as well as our growth in Savings and Insurance. This is a continuation of our strategy for the last five years, but reflects that we are now in a strong – that we now have a strong balance sheet and are in a long-life solvency position. This means that we have the flexibility to use the balance more actively and that the use of capital and cost going forward will be led by what creates shareholder value and not only by reducing risk.

In our front book, we will further develop our leading position within occupational pension and use this position to grow within private savings. Growth within occupational pension and private savings drives the growth within asset management. In addition, the asset management area grows by winning external mandates that is due to strong performance on administration and also our strong position as a leading asset manager on the sustainability.

Meanwhile, we continue to aim for at least 150% solvency ratio and manage for gradual capital release as the capital need for our Guaranteed business now have peaked.

If we then move to slide number 5 to – let's take a closer look into these quarter's 3% points movement in the solvency position. This movement can be divided into three main components. The first is the model changes and improvements we have done in addition to assumption changes from EIOPA. Our internal improvements have given us 1% negative movement in relation to changes in cost allocation. The assumptions from EIOPA has given us 0.6% positive movement. The main effects come from increased volatility adjustment, which has then, of course, positive effect. This is contracted by some increase in the equity stress.

The second main element is due to market and business mix developments. In Norway and Sweden, loan interest rate has fallen by 9 basis point in the quarter. And this has, of course, led to a negative effect on solvency. On the other hand, returns have been strong and this has led to increase in buffer capital. And on top of this, the conversion from defined benefit to paid up policies has been very long in the quarter. In sum, this has led to a 1% point increase in the solvency margin.

Thirdly, a good result for the quarter has built 3% in solvency margin, of which half is allocated to dividend. So, we book a 1.5% increase from this element.

Then, let's move to slide number 5. And to sum it up, we also see a strong result growth building our buffer capital that has increased the solvency margin in the quarter. Equally important, we see that the sensitivities for longer interest rates and falling equity market is considerably reduced in the quarter. Now we see that a 15 basis point fall in the interest rate from today's level will reduce the underlying solvency margin with only 6 percentage points. Again, increase in buffers and increased asset duration has led to these reduced sensitivities. In sum, we now have a strong solvency position and are robust towards potential market stress going forward.

Then, let's move to slide number 6. We see that the strong growth in Savings segment continues. Unit linked results grew by 18% compared to second quarter in 2017. Assets under management grew by 14% since second quarter in 2017. During this quarter, we have seen a flat development in asset under management and this is by partly due to some assets under management reduction in Skagen related to negative returns on emerging markets, as well as some outflow of customer products.

Our bank has had the positive development with 12% volume growth in retail loans during the past year. Growth within insurance has been low, but we see now signs of growth picking up towards the end of the quarter and the profitability is very good in this segment.

If we then move to slide number 7. Part of the growth within unit liked stems from the Swedish occupational pension business in SPP. We now see impressive growth in our Swedish business and premium income have increased by 22% since the same period last year. The positive development is a result of good sales and very positive development in net transfers. SPP has been through a substantial digital transformation, it is now perceived to be a customer-friendly and a very strong positioned occupational pension company in the Swedish markets.

Slide number 8. We are actively working with digitalization, our front-end and our value chain in Storebrand, both through our own digital innovations as well as through partnerships. In this respect, Storebrand Bank has partnered up with the Swedish savings app Dreams. The savings app was introduced on a small scale in January, and after the prudent launch in June, the number of users has grown to over 30,000 individuals. That has also received top rating among savings apps in Norway. With Dreams, we are reaching a new customer segment. A typical Dreams customer is a female under age of 30.

Slide 9. In Storebrand, we are also investing in more long-term saving solutions for our customers and are firmly committed to our focus on sustainable investments. It is, therefore, a pleasure to present to you another exciting new savings concept that we just launched called the bølge or wave in English, where we give customers the opportunity to invest directly into the 17 sustainable development goals.

In other words, you can invest directly in the development goal that is closest to your heart. For example, we just launched a portfolio where you can invest in gender equality, based on the analysis of what companies scored the highest based on their commitment to solving this important issue. Each portfolio consists of the top 40 to 100 companies, contributing solving each (00:10:05). This is a concept we are looking forward to currently develop on the near future.

And with that, I give the words to Lars.

## Lars Aasulv Løddesøl

Thank you. And then, we can turn to page 10 key figures. As Mr. Grefstad presented, we are happy with the group result of NOK 812 million in the quarter. The operating result of NOK 645 million is somewhat better than what we expect going forward, driven by satisfactory growth and good insurance results. The solvency capital has been strengthened in the quarter and the capital requirement has gone down. This leads to an improved solvency margin. The calculated tax charge has gone up in the quarter, explaining the lower EPS after tax has been adjusted for amortization in the quarter.

Turning over to page 11, Storebrand Group. We see satisfactory growth in fee and administration income. Partly, this is explained by the acquisition of Skagen, but adjusted for Skagen and currency effects, we still see a 6.5% growth year-to-date. The insurance results are good in the quarter. The main reason is improving disability of development. With an improved cycle in the jobs market, less people seek disability cover and some other previously disability retired workers re-enter the workforce.

Operating costs are under good control. In the second quarter, we have exercised to share a purchase program for employees. The program had a very good uptake this year and the cost ended at NOK 25 million. The cost is taken in full in the quarter. While the cost level overall is flat, we continue to reallocate cost from back book to selected growth areas. Taxes are estimated at 18% in the quarter and 17% year-to-date. Taxes payable stay close to zero due to the historic tax losses on the balance sheet.

Turning over to page 12. This picture shows the same figures as the ones we saw on the previous page, here broken down into the result areas: Savings, Insurance and Guaranteed. Just to remind you, Savings include non-guaranteed savings in Norway and Sweden, including Unit linked, asset management, and retail banking. Insurance is short-term insurance risk (00:12:39) both P&C and Life, which can be measured on combined ratio. And Guaranteed is the defined benefit plans in Norway and Sweden, including long-tail embedded insurance risk in life longevity.

Trading experienced good growth in line with our strategy. The operating costs in this area are increasing as a consequence of Skagen, investments in digital solutions, and other growth initiatives. Insurance showed good profits from following implemented pricing measures; cost cutting and the general decline in disability. Guaranteed has increased profitability, despite being in long-term run-off. The conversion of defined benefit plans to pay deposits is declining. The cost measures come through as planned, and we have been able to increase prices in certain areas.

The percentage of Guaranteed reserves as a percentage of overall best reserves continue to decline and is now less than 60% of the total. More details can be found on the following pages. But, I will wrap it up here, so that we can open up for questions.

## Kjetil Ramberg Krøkje

Thank you, Lars and Odd Arild. The operator will now open up for questions.

# Q&A

## Operator

Thank you. We have a couple of questions coming through already. And the first one comes from Peter Eliot from Kepler Cheuvreux. Please go ahead. Your line is now open.

## Q - Peter D. Eliot {BIO 7556214 <GO>}

Thank you very much. I have three questions, please. I was wondering, first of all, if – to just sort of understand your view of the underlying results in the quarter. I guess, if I try and quantify the one-offs, I think as I understand, that we've got probably NOK 120 million from reserve releases, NOK 53 million from risk results and paid-up, and NOK 41 million maybe in the other. So that if I take all of those, that would get me to sort of around about NOK 600 million. I just wanted to check whether that was sort of in line with what your thinking was?

The second thing and maybe just a little bit more on those reserve releases, I know you gave us a little bit of the drivers, but I guess it's the second quarter where we're seeing quite significant. And I'm just wondering if you could comment on what we should expect going forwards?

And then, final question, next the very good development of the fee and administration results, that I guess, if I looked at Swedish Unit linked in particular, the reserves are up, but the income is down. And I'm just wondering if there's any sort of one-offs in there or whether that's natural margin, sort of pressure or perhaps you could just comment on the outlook there? Thanks very much.

## A - Lars Aasulv Løddesøl

Thanks, Peter. You mentioned a couple of gains and it has been your first question. I would say that some of the reserve release is in excess of what we expect on a normalized basis. I would measure that that approximately NOK 50 million. All the other things are basically things that are within normal variations and should not be accounted for as anything special. So, net-net, we're talking less than NOK 50 million in things that are of an extraordinary nature here.

In terms of reserve releases going forward, for example, this business is probably a long-term cycle effect and we should probably not expect quarterly changes on that. So we – I would guess that we will continue to see low visibility in the coming quarters with a very sound jobs market in Norway these days.

And on fee and administration income and the margins in Unit linked Sweden, we've had particularly the strong growth in Sweden in the tick-the-box market, which is a low-margin market, but that comes on top of the high-margin business that we have in the core business and furthermore, it may be some kind of periodic effect here. We don't see a general margin pressure in the Swedish Unit linked business, which is called Other Occupational Pension, which is a core pension product that we sell. So, all in all, we're pretty, pretty – we're pretty confident both with the Swedish Unit linked business, as well as the results that we present this quarter.

## Q - Peter D. Eliot {BIO 7556214 <GO>}

Great. Thanks very much.

## Operator

And the next questions comes from Jonny Urwin from UBS. Please go ahead. Your line is now open.

## Q - Jonny Urwin {BIO 17445508 <GO>}

Thanks, all. Good afternoon. Just two for me. Firstly, the EIOPA stress tests are ongoing. I wondered if you had any initial observations or color that you could share with us at this early stage, please.

And secondly, just on the model change, so it seems that the direction of travel on model changes over the last few quarters is now negative. I was just wondering of you now taking the opportunity to strengthen the model's conservatism now the ratio is in a bit better shape, just trying to tighten things up? Thanks.

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

Thank you, Jonny. If I'm talking over the (00:18:06) EIOPA stress test, yes, we are conducting the EIOPA stress test. One of the stresses is on increased interest rate, (00:18:15) is very unlikely to view increased interest rate, that's a risk factor again. We have not completed the survey. I will not comment on it now. I think, I will have rest of the companies to make published statements on this Q1 next year. I'm even prepared to do so.

When it comes to the model changes, it is a matter of (00:18:44) is based on recent assumptions that will change from one model to another and this is within, what I would say is natural variance from one quarter to another.

## Q - Jonny Urwin {BIO 17445508 <GO>}

Okay. Thank you.

## Operator

And we have one more question and that's from Matti Ahokas from Danske Bank. Please go ahead. Your line is now open.

## Q - Matti Ahokas {BIO 2037723 <GO>}

Hi. Yes. Good afternoon. Question on the Insurance segment. First of all, Lars, you mentioned there was NOK 50 million of reserve releases kind of out of the ordinary. In which parts of the Insurance segment were these or if the other reserve releases, if you could shed a bit more light on whether it was P&C or disability, et cetera?

Then, the second question is we heard today from one of your nonlife competitors that very bearish outlook, or actually from (00:19:54) competitors, a very bearish outlook on the Norwegian motor insurance market. If I look at your figures, it doesn't seem to me that that had a big impact, and was just wondering are you seeing the same negative trends as your competitors in Norwegian motor insurance? Thanks.

## A - Lars Aasulv Løddesøl

If I take the first on the insurance release, it's primarily related to disability and disability comes primarily through on page 15, where you have the last line called pension related disability insurance Nordic, that is Norway and Sweden. But, it's primarily from the Norwegian business, where we have this release related to lower disability. Peter mentioned also that we have a good risk result in paid-up policies of NOK 53 million. A part of that is also related to less disability (00:20:56) a component in that market.

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

When it comes to motor insurance, that while P&C is quite a limited part of our total insurance offering, and Storebrand is much more life insurance – disability insurance and so on. So, I think the composition is very different when you see us towards other P&C companies. So, in that respect, you don't see that much impact within our portfolio. And I don't have any more information actually about the motor insurance impact as such on our – in our results since they're quite limited.

## Q - Matti Ahokas {BIO 2037723 <GO>}

How much is by the way a motor from P&C premiums roughly?

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

I think you look at the premium composition in the presentation, you'll see that the personal lines was one-third more or less, and then again, you have the pure P&C, which is probably a half of that, and of the pure P&C that's mainly motor, but also some housing. Yeah.

## Q - Matti Ahokas {BIO 2037723 <GO>}

All right. Thanks.

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

So maybe 12 (00:22:21) for the total premiums.

## Q - Matti Ahokas {BIO 2037723 <GO>}

Got it. Thanks.

## Operator

And we do have a follow-up question from Jonny Urwin from UBS. Please go ahead. Your line is now open.

## Q - Jonny Urwin {BIO 17445508 <GO>}

Thank you. Sorry. Just a quick follow-up. Consolidation in the Norwegian markets picked up a bit recently, I just wondered what you guys thought about that, do you expect it to continue? Would you be open to be sort of involved in it? Thanks.

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

Well, of course, we follow very closely what happens in the Norwegian market when it comes to consolidation. We're about seeing now DNB and (00:22:57) joining forces together when it comes to the P&C market, and also Nordea buying Gjensidige (00:23:05) banking operations. We of course follow this market very closely. We also see that this gives us a great opportunity in the markets, meaning that we will be a provider – a direct provider, where we have a consolidation where you, well, take off some – all of these players in the market. So, we think it's a quite good space for us going forward when it comes to our operations and the combination with customer base we have and opportunities to do our B2B2C strategy and get the full strength or retail offering.

## Q - Jonny Urwin {BIO 17445508 <GO>}

Do you think it hinders you that you don't have a massive P&C offering?

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

Once again?

## Q - Jonny Urwin {BIO 17445508 <GO>}

Do you think it hinders the Storebrand's proposition given you don't have P&C? Would it be helpful if you have more of a P&C offering than you do?

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

No. I think what you see now from Storebrand, we are very much a savings company. Its pension and savings. And it's very strong positioned on corporate savings by building the retail savings, also that it is supported by insurance that's very much mainly on the personal lines that has allocation towards savings. And to have (00:24:27) one-stop buyers in the market, we also offer banking operations and P&C business. But, I don't see that that's as a main element that we don't have more P&C, so to say. And I also think it's important to note for the individuals, we have a full scale P&C offer for corporates. We don't insure large claims or anything like that for corporates. But, that's another assessment, of course.

## Q - Jonny Urwin {BIO 17445508 <GO>}

Okay. Thanks very much.

## Operator

And we have Peter Eliot again from Kepler Cheuvreux. Please go ahead. Your line is now open.

## Q - Peter D. Eliot {BIO 7556214 <GO>}

Thanks very much. Just wanted to come back firstly actually on the points about the reserve releases. When you mentioned sort of cost of just less 50% million is one-off, I guess, if I – I think it's off top of my head that that would imply an underlying combined ratio is more in the sort of 85% or low 80%. But you still seem to be guiding to 90% to 92% as being appropriate. Could you just square that for me?

And secondly, perhaps if I could also – you mentioned Skagen briefly, but could you just say again what your – the current sort of flow situation there is and what your outlook is? Thank you.

## A - Lars Aasulv Løddesøl

Yes. On the combined ratio, you are right. But the combined ratio figure that you reached there is also a result of actually very good underlying results currently due to the fall in, in particular, in disability, but also low motor claims and low other claims that we've had in the quarter. So, it's not going to be stable 90% to 92% in every quarter.

We have had a couple of quarters that are better. It's partly explained by reserved releases, but also partly explained by simply low claims in this – into that couple of quarters. Furthermore, we've had a cost-cutting program within the Insurance business, which are giving the necessary results, so that we have a competitive offering. We can use that competitive offering in increasing distribution spend, marketing spend, and other things, in order to reestablish the growth that we have mentioned or we told you during Capital Markets Day that we will. And this is a growth of 5% per annum and we are using now measures to get back in growth.

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

When it comes to Skagen, well, it's about some outflow of assets, but it's very much according to the plan we have put forward when we acquired the Skagen. On top of this, this quarter, as I mentioned, we have also – some of the Skagen fund has very much emerging markets still. And based on that, we also have seen the emerging (00:27:36) market has had a negative return. So, that also contributes to a negative element into that dimension of the Skagen in this quarter. But, altogether, very much in line with the plan we put forward when we put – when we did acquire Skagen last year.

## Q - Peter D. Eliot {BIO 7556214 <GO>}

Thanks very much.

## Operator

We have one more question before (00:28:13) And the next person who would like to ask a question is Matti Ahokas from Danske Bank. Please go ahead. Your line is now open.

## Q - Matti Ahokas {BIO 2037723 <GO>}

Thank you. If I may continue on the market consolidation; obviously, with the moves of Gjensidige in terms of selling the bank, has that created more kind of questions also as a strategic rationale of Storebrand Bank for you? Obviously, you have a much bigger life offering, whereas Gjensidige is focused more on the P&C side. But does it raise questions also from your point of view that you should definitely own the bank? And on that same note, have you considered external bank distribution of P&C products more nowadays as another distribution channel? Thanks.

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

Well, we are always looking at different opportunities in the market. But, I would say that having large pension and savings operations, especially when it comes to the (00:29:21) these products, it's important to have good solution when it comes to banking to support that. So, I will not say that it changed our view of it, but as I said, we of course, are looking at the different modes in the market both when it comes to production and also distribution of both P&C and banking operations.

## Q - Matti Ahokas {BIO 2037723 <GO>}

So, I guess that last week they had a number of parties interested in their bank. Have you been approached by potential buyers of the banking operations?

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

Well, it's a small market and we know all the different players in this market. And I think, as I said, after that in this market this was very much Gjensidige Bank, Storebrand Bank and the former Skandiabanken, and that was operating as a direct bank. So, now there's only two, Skandiabanken and Storebrand Bank, and I think this is also great, it's a great opportunity for us going forward on the banking side.

## Q - Matti Ahokas {BIO 2037723 <GO>}

What about the banking, external bank distribution for P&C products? Have you considered that?

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

Us being a producer for all other banks, do you mean?

## Q - Matti Ahokas {BIO 2037723 <GO>}

Yes.

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

Yeah. Well, we have a small P&C operations that we just talked about. Our main insurance operation have scaled towards our savings and pension products. And the way we look upon our P&C business is more like an add-on to the show (00:31:04) that we provide a full-fledge of retail products for our customers, our large customer base, and we don't see us as a more natural, well, producer for others when it comes to our insurance business.

## Q - Matti Ahokas {BIO 2037723 <GO>}

Thanks.

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

We have strong contracts and we are quite active when it comes to, well, agreements like – well, different agreements in Norway with (00:31:36), what it's called?

## A - Lars Aasulv Løddesøl

White-Collar union.

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

Yeah. White-Collar union. We also provide insurance for Rema, which is one of the largest grocery store chains in Norway. So, we do produce for other players, so it is possible, but that has not been our main focus.

## Q - Matti Ahokas {BIO 2037723 <GO>}

Thanks.

## Operator

Thank you. There is no questions coming through, so I will hand the call back to you again. Thank you.

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

I just want to thank everyone for joining the call and also to remind you that we will be present in London on Monday and we hope to see several of you there. So, have a good afternoon from our side.