Q4 2017 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

- Blair Stewart, Analyst
- Jonny Urwin, Analyst
- Matti Ahokas, Analyst
- Michelle Ballatore, Analyst
- Paul De'Ath, Analyst
- Peter D. Eliot, Analyst

MANAGEMENT DISCUSSION SECTION

Kjetil Ramberg Krøkje

All right. Thank you. Good afternoon, ladies and gentlemen. Welcome to Storebrand's Fourth Quarter 2017 Conference Call. My name is Kjetil Ramberg Krøkje and I'm Head of Investor Relations at Storebrand. Together with me, 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 the developments in the year and introduce the new dividend policy. CFO Lars Løddesøl will give an overall view of the financial development in the quarter 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 web page.

After the presentation, the operator will open up for questions. To be able to ask questions, you will need to dial-in to 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 you, Kjetil.

I'm pleased to present the Group result before amortization and write-downs of NOK 2.940 billion for the full year of 2017, and a quarter result of NOK 618 million. The fourth quarter results is, however, negatively impacted by more than NOK 300 million, which will strengthen future earnings, capital buffers and also our solvency positioning. Lars will refer to that later on. The underlying solvency positioning is – has improved to 165% in 2017 before transitionals, and 172% including transitionals. The Board proposes a dividend of NOK 2.50 per share, and we are introducing a more explicit dividend policy for 2018. It is also pleasing to report strong growth in the Non-guaranteed Savings segment. 2017 saw 20% growth in unit linked, 25% growth in assets under management, resulting from good sales, good market returns, and acquisition of SKAGEN. Assets acquired from Silver will be reported from the first quarter of 2018.

Let's turn to slide number 3. This is a (26:00) slide illustrating our two-fold strategy, which have been implemented consistently through the past five years. It is pleasing to see that we are really delivering on both sides of the strategy in the fourth quarter, with both solvency improvements and increased dividends on the one side, combined with strong growth in assets as well as earnings within the Savings segment in the other side.

If you then turn to slide number 4 and let me start with managing the balance sheet. Storebrand ends 2017 in a robust capital position. The solvency ratio increased 15 percentage points before dividends. The strong solvency improvements are mainly attributed to capital creation and better capital increases in the Life Insurance division. The solvency improvement in 2017 is greater than we normally can expect. That indicates that we are well-positioned for further increases in the solvency ratio combined with growing dividend.

If you then turn to slide number 5. The Board proposes a dividend of NOK 2.50 per share, comprising of our ordinary dividend of NOK 2.10 per share and a special dividend of NOK 0.40 per share. This comes as a result of strong financial returns and a very positive return after tax. With this, a cash dividend of 40% of profit after tax, adjusted for amortization. And for the first time in many years, a dividend of NOK 1.3 billion will be paid from the Life Insurance business through the holding company. This will strengthen the Group liquidity and dividend paying capacity, while also contributing to reach our goal of a net debt ratio of zero in the holding company.

If we then move to slide number 6, the new dividend policy. Storebrand's objective is to create attractive and competitive returns for shareholders through dividends and value creation in the business. The Board is therefore introducing a more explicit dividend policy. The goal is to pay out more than 50% of earnings after tax. The ambition is to pay ordinary dividends of at least the same nominal level as previous years.

If the solvency margin is about 180%, the Board intends to propose special dividends or share buy backs. The new dividend policy intends to reflect the strong growth in fee-based earnings, the more volatile financial markets-related earnings, and the future capital release from the guaranteed book.

Slide number 7. The strong growth within Savings continues, and it's worth nothing that assets under management have increased by 25% and is now NOK 721 billion. There's also a strong growth in unit linked with 17% growth in Sweden and 23% growth in Norway. And the retail bank has grown by 19% in 2017. And as previously communicated, the reduced growth within Insurance in 2017 is due to changes in distribution, as well as our new disability product with regulatory lowered premiums and coverage.

Slide number 8. With the acquisition of SKAGEN, the Group is excellent positions for the strong growth in the Norwegian individual savings market. If you look at the market for long-term savings, Storebrand has a strong position in the pension-related parts on the left-hand side of the slide, in gray, which represents the value chain of pensions. Let me highlight a modest position within pure mutual funds. With the purchase of SKAGEN, this is really changed and we expect to have doubled over collective market share to about 28% in these combined markets.

Slide number 9. In the second half of 2017, two new private savings product was introduced to the market. It was Individual Pensions Savings product, IPS, that is (31:17) Pensions Savings product with real (31:21), and the equity savings account of Aksjesparekonto (31:26) for equity mutual funds and equities.

Preliminary reports show that Storebrand Group has taken a leading position within the IPS markets, Storebrand with a market share of 20% and SKAGEN with a market share of 4%. And that's, of course, combined total market share of 24% all altogether.

In the ASK market, SKAGEN's strong position within mutual funds saving is clearly visible. Combined, the Storebrand Group achieved a market share roughly 22% with the brand names Storebrand, Delphi, and SKAGEN and ranked as a runner-up in this important product.

Storebrand's strength within pension savings and SKAGEN's strength in the Savings and investment segment is a further indication of how our businesses complement each other and strengthens our positions in the growing Savings segment.

And then, I give the words to Lars.

Lars Aasulv Løddesøl

Thank you, Odd Arild.

Let me start on page 10 regarding key figures. The numbers we published today are distorted by the onboarding of SKAGEN and a few special items that I will (32:55). Seeing through that, the quarter is quite normal. There's continued growth in Non-guaranteed Savings and with the transition towards capital-light products.

Let's start in upper left-hand corner. The quarterly results came to NOK 618 million. The operating result includes NOK 590 million from Storebrand and NOK 202 million from

SKAGEN. The SKAGEN numbers in this overview are adjusted downwards to reflect the fourth quarter results from SKAGEN.

The operating result in Storebrand is strengthened by the performance fees from Delphi, but are negatively affected by weak Insurance result and a higher operating cost in the quarter. The weaker Insurance results in the quarter stem from seasonal factors, as well certain large disability payments. The full year results, however, are satisfactory; and the development in the fourth quarter does not change our view on achieved profitability.

When it comes to operating cost, the fourth quarter was impacted by a number of special issues. These included an extraordinary effort to develop and send the new ASK and IPS products as described by Mr. Grefstad a moment ago, an internal refurbishing project which will reduce our office rent going forward, and also a number smaller expenses, which are not expected to be repeated in 2018.

Our objective of reducing cost in nominal terms from 2015 to 2018 stands firm, adjusted for the SKAGEN acquisition. The SKAGEN results are largely a consequence of performance fees booked at the end of the year. This means that the result impact from SKAGEN will be limited in the first three quarters every year. The performance fees should lift the fourth quarter results.

Financial return in the quarter had been weak, first and foremost as a consequence of (34:54), which has reduced booked return and portfolios co-invested with the connected portfolio in the (34:59).

Special items consist primarily of an accounting charge of NOK 200 million for a reduced discount rate in Sweden. EIOPA, the insurance regulator in Europe, has proposed to the EU Commission to reduce the UFR, the ultimate forward rate, from 4.2% to 3.65% over the next three years. In Sweden, we use the Solvency II discount rate for accounting purposes. By reserving NOK 200 million, we have taken a one-off charge that addresses the change in the next three years.

It is important to note that this also reduces the earning (35:41) rate for future returns, which means that the result will improve by the same amount over time. Other special items include NOK 10 million in severance pay in Sweden due to a new core IT system and NOK 30 million in transaction costs related to the acquisitions of SKAGEN and Silver. On the positive side, we have included the SKAGEN results not attributable to the fourth quarter, approximately NOK 50 million.

I have mentioned how management decisions in the quarter have significantly strengthened (36:14). This can be seen in the two lower graphs on the page. If we have included the order values in the bonds (26:23) will actually exceed 12%. This allows us to manage booked return with a lot of efforts in the years ahead. Earnings per share adjusted for amortization of intangible assets came to NOK 1.56 for the quarter and NOK 6.47 (36:45) for the full year.

In summary, we have (36:50) that have weakened results by more than NOK 300 million in the quarter in order to strengthen future profitability and reduce risks.

Moving over to page 11. Storebrand solvency position has been strengthened by 5 percentage points in the quarter from 150% to 155%. Including transitionals, the improvement is 12 percentage points from 160% to 172%.

Let's look at movements in the quarter, starting from the right-hand side. In November, we issued a subordinated loan of SEK 1 billion. This strengthened the solvency by 3.7% (37:30). The acquisition of SKAGEN weakened the solvency by just short of 2% this quarter as previously announced net +2 (37:38).

We have good returns, albeit buffers, and made changes in our product portfolio and asset allocation that, in total, strengthened the solvency by an additional 2 percentage points.

The accounting results in the – for the Group after tax of approximately NOK 0.5 billion configures an additional 2 percentage points, and – while reduced rates and a lower volatility adjustment configures the negative 2 percentage points. We continuously refine our modeling and our model assumption, and this has hit the solvency by 2 percentage points in the quarter.

Also, the transitional grew significantly in the quarter. This is largely explained by the same factors I've already mentioned. Reduced rates (38:27) increases the value of our liabilities. Furthermore, more precise NFSA assumptions also increased liabilities in the Solvency II. As the transitionals exist to bridge the difference in liabilities under Solvency I and Solvency II, they increase with higher Solvency II liabilities.

Moving over to the following page 12. This picture shows the movement from the third quarter to the fourth quarter, and the sensitivities to market movements going forward. The sensitivities increased somewhat compared to the third quarter. Interest-sensitive tax assumptions increased sensitivity as profitable (39:14) and interest rates increase and they stay unprofitable if rates fall.

Moving over to page 13. Fee and administration income is significantly up in the quarter including NOK 294 million from SKAGEN. Adjusted for this, the growth is 5% year-on-year, which is a combination of 13% growth in the front book and the (39:42) products, and a 5% decline in the Guaranteed. The Insurance result is in line with last year. The operational cost line is up, but this includes both the operational cost in SKAGEN as well as a transaction cost from the acquisition of SKAGEN and Silver. In addition, remaining costs were high, as explained a few minutes ago.

Going forward, the total quarterly cost levels of Storebrand, including SKAGEN, should be just below NOK 1 billion. I repeat that our (40:15) for 2018 is, of course, will be nominally lower than 2015, excluding SKAGEN.

For those of you who follow us closely, you will have to take that the historical figures have increased a little. This is caused by a poor net use of elimination principles across the Group and increased (40:38) income by NOK 14 million for the quarter and NOK 58 million for the full year 2017. The change does not impact the results. This change is also further explained on our IR web pages.

(40:54) items are negatively impacted by the NOK 200 million effect from the discount change in Sweden and the NOK 51 million run-off from SKAGEN. The fact that the fourth quarter results in SKAGEN initiated in run-off is very positive. It means its customers, employees and owners made a good return last year.

Amortization increased to NOK 237 million in the quarter. The primary reason is that we have to calculate the netted result for SKAGEN as of the acquisition date, November 13 (41:29). This has not been amortizing the accounts. Going forward, amortizations at Storebrand will [Technical Difficulty] (41:35) at approximately NOK 100 million per quarter including both remaining amortizations or intangibles from the acquisition of SPP in 2007 and the SKAGEN acquisition.

The negative tax charge or tax income, if you want, in the quarter is a result of the sale of two large properties as well as a reduction in the general corporate tax level in Norway. On the negative side, we have reserved for a possible additional tax charge for the year 2015, and further explanation are in the notes.

Then, finally, I'm going to retouch on page 14 as this may help (42:19) how the SKAGEN acquisition affected the accounts in the quarter. This, we try to explain here. Fee and administration income increased by NOK 294 million. The amount is largely caused by performance fees booked at the end of the year. The operating cost from SKAGEN is NOK 41 million and reflects the costs (42:38) since the acquisition.

The financial result is minus NOK 45 million, including positive contribution from SKAGEN of NOK 6 million and the run-off cost of NOK 51 million. The amortization charge is, as explained, related to the purchase price analysis and reflects estimated results as per the date of acquisition. Finally, with the tax (43:03) contributions of Storebrand of NOK 33 million, more than enough to pay transaction expenses.

The lower tax table shows SKAGEN results for the quarter in 2017. It documents my previous comments about limited results in the first three quarters, and then in reflect of performance fees in the fourth quarter. The table also shows that there is some volatility in the numbers. The quarterly cost is driven by estimated bonuses on performance fees where the actual performance fees can only be booked in the official counts at the end of the year. We will, of course, disclose both.

And this concludes my comments, and we are – we will open up for questions.

Q&A

Operator

Thank you. And we already have two questions coming through. The first one is from Jonny Urwin from UBS. Please go ahead, your line is now open.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi, guys. And thanks for taking my questions. Just two for me please. So, firstly, the new dividend policy looks to be calibrated on the solvency ratio with transitional measures. However, I just noted from the presentation, you also meant – you also mentioned that ordinary dividends are subject to a sustainable solvency margin of above 150%. When we think of a sustainable basis, I would imagine that's sort of based on the ex-transitional ratio to be prudent, and if you could get some detail on what sustainability above 150% means, is that based on the ex-transitional or with the transitional, please?

Secondly, the ordinary dividend. So, this is obviously a beat on the (44:53) dividends, including the special, but the ordinary components are a bit lower. I just wonder, does that signal a bit of caution from you guys around the outlook, given you've introduced the ratchets on the ordinary dividend, (45:06) there? Any comment is much appreciated.

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

I can comment on the first one. When I look at the solvency ratios, we are talking about the solvency ratios including the transitionals, but we also expect, of course, that the transitionals will be reduced over time. So, our internal managing is very much without the transitionals. But the numbers you can look at when you are looking at the dividend policy is including transitionals.

A - Lars Aasulv Løddesøl

On the second question with special dividends and ordinary dividends, as it states in the dividend policy and our ambitions that, as Mr. Grefstad mentioned earlier, the ordinary dividends reflects the capital-light growth and results from the front book. While this year had very good financial results due to good financial markets, as well as a very low tax charge, which made the results this year good, and we have therefore decided to pay out an additional dividend reflecting the additional value creation after tax that was created in (46:33).

Q - Jonny Urwin {BIO 17445508 <GO>}

Okay. Thank you.

Operator

The next question is 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. Yeah, I guess the first one was a bit of an expansion on Jonny's question. I mean, when I'm looking at the dividend that you've declared or you're posing, it's just transcribed with both the policies. I guess if you look at – on the existing policy, then it seems to be, on my numbers, quite a bit less than the 35%. So, I'm just – I guess you're already looking forward a little bit. But on the new policy, you talked about specials and buy backs applying when the solvency ratio is over 180%. I guess now you've paid a special when it's not there, but to reflect the strong financial results. So, I guess my question is, should we also expect sort of specials in the future when we have strong one-off results even though we're below 180%?

And could you give us a little bit of thinking in terms of what you're thinking of specials? I mean, if the solvency ratio did develop very strongly over the coming quarters and you're up 190%, would that signal a very large buy back or would you, I mean, (48:06) feel for the magnitude perhaps of any specials we might expect? I'm sorry that was rather a long question.

And then the second one was on the tax one-offs, which I guess becoming quite a regular occurrence. Can you give us any guidance as to whether we should expect these on an ongoing basis, whether you've got more potential properties sources? Any sort of guidance on an underlying tax rate that you might expect would be very helpful? Thank you.

A - Lars Aasulv Løddesøl

Thank you. I'll start with the dividend. I think, first of all, it's a very clear statement from the Board that they will give additional capital back to the shareholders, so that is really clear statement here. Then if you look at the 2017, we used this year (49:01) strong increase in dividend, but also to meet the long-term target of our net debt ratio of zero in the holding company, and that is both now a top list with the dividend we did this year. That is also well above the dividend policy we had for 2017.

Looking forward, of course, it's the new dividend policy that comes into action. And yes, you should expect if there is a special good financial results in the markets or there is quite positive special element, that we will give a special dividend.

Again, the Board will return additional capital to the shareholders going forward. But what we try to do here is to show that there is one capital stream from the fee-based business. There is one possible capital stream from financial elements and other elements that is more (50:02) in the balance sheet. And, of course, over time, we have important capital stream from the release of the capital from the Guaranteed backlog. So, in that way, you can say, it's more or less two elements in the extra dividends going forward.

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

Yeah. On the tax side, Peter, we've said that we expect the tax rate from 19% to 23% for 2018 as we did for 2017. As you know, if we sell properties that releases tax increasing temporary differences from our balance sheet, that has become the tax income on the P&L; and if that happens, that will reduce the tax cost, but there's no (50:54) or properties or anything like that in effect (50:59) but if that occurs, that will lower the expected tax cost.

A - Lars Aasulv Løddesøl

And you also bear in mind, of course, that this will just – it is not very limited payable action in our tax, as we're speaking.

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

Okay. Thank you.

Operator

The next questions come from Blair Stewart from Bank of America. Please go ahead, your line is now open.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you very much. Good afternoon. I've got a few questions. Firstly, just looking at operational factors, the performance of SKAGEN funds themselves, could you maybe comment on how that has progressed and whether the degree of performance fees coming through in Q4 is something you would expect on a normalized basis? Also, just on the dividend policy, just intrigued slightly as to why you chose the earnings definition after the amortization, which is clearly a non-cash item, it seemed rather odd to me? Finally, just on the solvency – effect of solvency range that you seem to have hand in, which I'd say was between 150% and 180% just given some of the comments you've made. It doesn't seem a particularly wide range given some of the volatility that we've seen in the past. I wonder if you'd just comment on that. Thank you.

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

Thank you, Blair. Starting with SKAGEN, of course we have been seeing a development in SKAGEN where you have had some outflow in the past, that is also the case in 2017 and that is very much on the institutional side of the SKAGEN business. But when you look at the recent markets, especially in Norway, you've seen strong development during 2017 in flow in SKAGEN.

When you look at the – it's a mixed picture when you look at performance fees in the different mutual funds in 2017. And I will say that we expect some, of course, plan for having even stronger performance fees going forward. But altogether, I think the results we have seen in SKAGEN this year is a quite strong results, and the results that we are satisfied with them also is the indications that Lars gave for going forward where you will see – well, quite low result effects in the first three quarter, but then a positive effect from performance fees in the fourth quarter.

Q - Blair Stewart {BIO 4191309 <GO>}

Can I just ask on – Odd Arild, what's your expectation for net flows for SKAGEN over the next year or two? Do you expect them to remain negative?

A - Lars Aasulv Løddesøl

No. The ambition is to have a positive net flow for SKAGEN going forward. There is quite a limited level of institutional money left in SKAGEN, as we speak. It's mostly on retail money, but we also have, of course, ambitions, international, both with SKAGEN and with Storebrand, and there is a very strong incident figure coming from SKAGEN's set-up internationally, while our own set of brand management is only in Norway and Sweden. And, of course, we are planning to leverage on that (54:42) Storebrand and Delphi (54:45) going forward.

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

So, we then move to the dividends. I think it's just a way of making this easier. So, just look at the bottomline result of the tax, we know that amortization is around NOK 400 million a year and will be that going forward. So, that is taken into account to give a clear number, nice number, and to give a dividend payout ratio take on that.

Solvency between 150% and 180%. This was very much the (55:23) we gave in our Capital Markets Day back in 2015. We, of course, have moved quite significantly when it comes to solvency position from that level of. And when we look at our stresses and so on, we feel that this is a comfortable level to communicate through and also to communicate the dividends (55:55).

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Thank you.

Operator

The next question come from Michelle Ballatore from KBW. Please go ahead, your line is now open.

Q - Michelle Ballatore

Yes. Good afternoon. I have a question going back to the capital generation. So, at your Capital Markets Day in 2016, you showed this slide with an expected capital generation, you expect between 5% and 10% of solvency in terms of capital generation, and then dividends and other minus 1%, 2%, and a net capital generation of 6%. And then you mentioned also that the run-off of guarantee can increase this capital generation up to more than 10% percentage points. So, in the context of 2017, did you have any impact from the run-off of guarantees? I mean, what is the capital generation, how can we split the capital generation between earnings and the run-off off of the guarantees? Thank you.

A - Lars Aasulv Løddesøl

If I may start on that question. I think that the capital generation that Odd Arild showed on the page 4, it's the specification of the capital generation in 2017. As you can see there that from asset return, business mix, and operating earnings. That consists of 18 percentage points all together. It looks very strong financial markets in 2017, contributing positive (57:55). It's actually a more return above what you could expect than a change in the business mix, because the change in the business mix is still (58:09) developing in the wrong direction. We have reached the peak capital when it comes to capital requirement from back of this year, but – and a substantial release from (58:24) is still some time ahead, short-time ahead (58:31) on the Capital Markets Day a little more precise information.

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

So, I think on the – when you look at the fraction, Michelle, it's more about creating own funds and FDR (58:43) is quite stable in 2017 compared to 2016. I think it's fair to say also that the capital generation and the solvency generation, I believe this is in the upper scale of what we gave him in our Capital Markets Day and with the development we have seen in the business from that time of.

Q - Michelle Ballatore

Great. Thank you.

Operator

The next question comes from Paul De'Ath from RBC. Please go ahead, your line is now open.

Q - Paul De'Ath

Yeah. Hello. A couple of questions, please. Firstly, just following up on the answer to that ASK question and on this issue of peak capital and when the major capital releases start coming through. Did I hear correctly saying that you're in – not at peak capital just yet? I thought we'd already got to that point. And is there any change to the expected timing of the capital releases? That's the first question.

And then just second question, just looking again, sorry, going back to the dividend on the special -the potential for specials over 180 percentage points on the solvency ratio. Is there any element within your decision-making process as to how you get above 180%? I'm just looking at the sensitivities on page 12; and interest rates going down increases the solvency ratio. And so, if we have rates going down significantly and then that pushed the ratio above 180% then presumably that – although you're above 180%, not a great result for the long-term business? So, does that influence you somewhat or is it if you're above 180% and then you give some money back? Thanks.

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

Yeah. Hi, Paul. I'll try to answer the first one. There's no change in the communication around the capital. We are at that level now, I would say, at that level throughout the end of 2017. And as we've said, it will remain at that level for our back book for some time, and then start to trail up and release capital. We'll try to spend some time now going through our projections and operate as (01:01:23) Capital Markets Day and the potential for capital release, and also we'll be more clear on the estimated timing of that.

Q - Paul De'Ath

Also, it was clear that it's almost sensitive to a lot of elements, but – and especially the interest rate levels. Such increase in interest rate levels will lead to a situation where the capital release from the back book will come out. Then on the estimated Solvency II position, I'm not sure that (01:02:04).

A - Lars Aasulv Løddesøl

So, in a situation where you have interest rates decline and you (01:01:13 you will have more transition rules, so they approach the 180% level, which is the top threshold in the policy. In that situation, it would be natural to take care all factors into account as the Board always need to do, and I think, in general, lower interest rates is worse for our type of business, but (01:02:45) higher interest rates in general are better. And also some of the transitional rules were already declined in the first quarter. So, some of these will decline according to the rules and the run-off (01:02:58).

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

But I think also it is fair to say that, of course, the 150% and 180% is guidance, then of course the Board needs to take a thorough view on an annual basis on the REIT economics of the business. But this is good guidance, so how we like to do in normal situations to perform, based on our new policy.

Q - Paul De'Ath

Excellent. Thank you.

Operator

The next questions come from Matti Ahokas from Danske Bank. Please go ahead, your line is now open.

Q - Matti Ahokas {BIO 2037723 <GO>}

Yes. Good afternoon. A couple of questions for me, please. Firstly, if you could elaborate a bit more on the disability payments, the large one-offs you mentioned in Insurance, what exactly were they? And then regarding SKAGEN, if you look at the full year profit before amortization, the illustrative IFRS figures you present, NOK 274 million, is the comparison figure the NOK 204 million that you presented for 2016, so was the profit actually up by 30-something percent in 2017 pro forma?

A - Lars Aasulv Løddesøl

Yes, on the (01:04:17), you are completely right. It's much stronger results and performance in 2017 compared to 2016. I'm very, very glad to see that, of course.

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

And on the disability payment, we had – we have one corporation with a quite large coverage and we had a couple of people being sick, and reserving (01:04:47) in the quarter. So, it's not something we see as a (01:04:52), but it doesn't impact the quarterly results as such.

Q - Matti Ahokas {BIO 2037723 <GO>}

How much was this, Lars, all together in the fourth quarter?

A - Lars Aasulv Løddesøl

I don't have an exact number.

Q - Matti Ahokas {BIO 2037723 <GO>}

Okay. Yeah. Great. Thanks a lot.

Operator

And the next questions comes from Peter Eliot from Kepler Cheuvreux. Please go ahead, your line is now open.

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

Thank you. Yeah. Just a couple of follow-ups. I think, first of all, on the sort of the high capital requirements from the paid-up policies, I noticed that the paid-up policies declined by just over NOK 1 billion in the quarter at this time, seemingly driven by the other, which the note says is transfers between DB and paid-up. I was just wondered if you could elaborate on what caused that and whether that is a sort of reduction that might be repeated.

And second question was on the health insurance. I guess we had significant run-off gains in Q3 and then followed by a slightly worse combined ratio in Q4. Would you say sort of Q4 is a new normal or do you think there were some one-offs?

And then finally, just on the solvency sensitivities. I assume it's a typo on the right, actually where it says that there is a 13 point gain from the transitionals. I think that should be 16 to 172. And could you clarify that the timing of the UFR impact that we're going to see come through? Thank you.

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

Yeah. I can start from the first one on the paid-up policies. If you look at the development in the quarter, it's settling down. This is reflected by the fact that there is more payouts and some conversions to paid-up policies (01:06:52) versus the actual guaranteed return in the portfolio. So, in that sense, it's good to see that the current book is starting to trade off. But, of course, we still have some funds left in the defined benefit, which over time will transfer to the paid-up policy book.

A - Lars Aasulv Løddesøl

With respect to your second question on health insurance, you will see that this is classified health insurance and group life together. The health insurance is growing fast, is profitable and it's good and there is no significant volatility between the quarters. However, in group life, we had a very strong in the third quarter and we had a weak quarter in the second quarter – in the fourth quarter. If you take the group life and, for that matter, health insurance asset books together, look at the (01:07:46) result and divide that in four, that's the best estimate I can give on future performance in (01:07:51).

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

Yeah.

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

When it comes to your third question, Peter, regarding the sensitivities on solvency. Yes, you're correct, it's a typo in that graph. And then the second part of that question, I missed it, sorry. Could you repeat this?

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

Just wanted to clarify how the UFR, the timing of – how we would see the UFR impact in the solvency ratio?

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

Yeah. I'm (01:08:28) of the new interest rates curves two days ago. We think (01:08:32) on the UFR down to 4.05 (01:08:36) , so we think there's upstroke in Q1 2018, (01:08:40) will be from Q1 2019.

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

Okay. So, on the risk transition, was that a minus 1 percentage point impact that we'll see in Q1?

A - Lars Aasulv Løddesøl

Yes.

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

Yes. I'm actually increasing in terms of transitional (01:09:03) be coming back in the transitionals.

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

Okay.

A - Lars Aasulv Løddesøl

Because I know where the UFR (01:09:13).

FINAL

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

Yeah. (01:09:15).

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

Yeah. Thank you.

Operator

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

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

All right. Thank you all for joining the call. I would like to remind those of you in London that you are present at the Grange St. Paul's Hotel at 14:00 GMT tomorrow, and we would like to take the opportunity to wish you all a good afternoon.

Operator

Thank you for joining today's conference. You may now replace your handset to end this call. Thank you.

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