FINAL

Bloomberg Transcript

Q1 2018 Earnings Call - Second

Company Participants

- Lars Aasulv Løddesøl, Group Chief Financial Officer
- Odd Arild Grefstad, Chief Executive Officer
- [0BZ74J-E Kjetil Krøkje]

Other Participants

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

MANAGEMENT DISCUSSION SECTION

Operator

Good afternoon, ladies and gentlemen, and welcome to the Storebrand Quarter One 2018. My name is Anne, and I will be your coordinator for today's conference. I will now hand you over to Head of Investor Relations, Kjetil Krøkje, to begin today's conference. Thank you.

[0BZ74J-E Kjetil Krøkje]

Good afternoon, ladies and gentlemen. Welcome to Storebrand's first 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 Q1. Whilst the CFO, Lars Løddesøl, will give some more detail on the financial development 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 be dialed into the conference call.

So, with that, I will leave the word to Storebrand's CEO, Odd Arild Grefstad, who will start the presentation on slide 2.

Odd Arild Grefstad {BIO 5483351 <GO>}

FINAL

Bloomberg Transcript

Thank you, Kjetil. First, let me lead your attention to the forthcoming Capital Markets Day. We will be in London and host presentations from 9:00 to 12:00 on Thursday, May 31. Go to storebrand.com/ir to register your attendance or save the date for some webcasting in your calendar.

Let's move to slide number 3. I'm very pleased to present the group results before amortization and write-downs of NOK 931 million for the first quarter. Savings volume growth, combined with strong insurance and risk results, contributes to the strong results in the quarter. One special effect this quarter is a positive non-recurring reserve release of NOK 149 million due to the completion of the scheme for longevity reservation.

The operating profit in the first quarter was NOK 635 million, an increase of 37% compared to the same period last year. A 17% unit-linked growth and a strong risk and insurance results, 14% growth in retail bank with improved margins drive the strong operating profits. The underlying solvency position improved by 5 percentage points to 160% in the first quarter before transitionals. Including transitionals, the solvency ratio was 165%.

Then, let's move to slide number 4. This (00:03:13) illustrating our twofold strategy, which we have been implementing through the five – past five years. It is pleasing to see that we are really delivering on both sides of the strategy in the first quarter with strengthened capital position and growth within savings.

Let's move to slide number 5. In the movement of the underlying solvency position, I want to highlight three main elements. Firstly, the market movements and especially the increase in the Norwegian 10-years rate of 31 basis points resulted in an increase of 5 percentage points in the first quarter. Second, EIOPA provides quarterly update on VA and equity stress, as well as implementation of a new UFR of 4.05% in this quarter. In sum, these changes give a 3.5% increase in the solvency.

Lastly, operational performance. This reserve generation in this quarter gives a 3% point increase, of which half is reserved for expected dividends. In addition, the acquisition of Silver and a net reduction in subordinated debt reduces the solvency by 3.5 percentage points and this then moves us back to a solvency position of 160%.

The effect of the transition rules are reduced from 16 percentage points to 4 percentage points during this quarter. Increased interest rates and increased VA reduces the Solvency II liability and that also then reduces the value of the transitional rules. The effect is in line with the reported sensitivities from the last quarter.

Moving to slide number 6. Talking about development in the sensitivities. We see that the sensitivity for increased solvency due to an increase in the interest rate is reduced. The reason for this is that we now are at a point of time where paid policies are becoming more profitable, and this will increase the lapse risk on the Solvency II.

Regardless, limited immediate solvency effects, increased interest rates are very positive for Storebrand, and that is because increasing the interest rate gives reduced investment

FINAL

Bloomberg Transcript

risk and increased resource and solvency over time to customers and owners.

Then, let's move to slide number 6. With that – number 7, actually. With the acquisition of Skagen, the group is well positioned for a strong growth in the Norwegian individual savings markets. In Q1, the group acquired the remaining 9% of the shares, and this was financed with liquidity from Skagen AS.

As for the integration update, we have decided to converge into one common operational platform using technology solutions from both Skagen and Silver. We have also decided to establish a common institutional distribution platform.

Lastly, on the onboarding of Silver customers, this has been a very successful onboarding and they are now all being fully served on Storebrand's platform.

Turning to slide number 8. I also want to comment on development of the Swedish business SPP this quarter. The development has been an impressive turnaround. From a situation a few years back with a very weak administration results and volatile results due to ALM mismatch, we now see solid results contribution. And on top of this, we see growth within the Swedish business with 22% premium growth from the same period last year due to strong sales and positive net transfers.

Moving to slide number 9. The strong growth in savings continues with a growth in unit-linked reserves of 17% and in asset management of 18%. On a quarterly basis, growth is dampened due to weak financial markets both for equities and bonds, as well as the weaker Swedish krona.

Retail lending has grown with 14% with margin improvements, and growth in insurance is weak. But reserves are strong and we are in the process of implementing new growth initiatives that we expect to give positive effects going forward.

And with that, I'll give the word to Lars.

Lars Aasulv Løddesøl

Thank you, Odd Arild, and asking you to turn to page number 10, key figures. The group result is good at NOK 931 million. The operating result at NOK 635 million is somewhat above the normalized level that we have previously communicated around NOK 550 million per quarter. This is primarily driven by good risk results and firm cost control.

As a reminder, we record performance fees in the fourth quarter. And this quarter and the fourth quarter will normally be a lot better than the first three quarters as you can also see from the graph. Financial return in the first quarter was quite satisfactory despite turbulent equity and bond markets. Good returns in real estate and credit markets get the profit split (00:09:28) in Sweden and acceptable returns in company portfolios.

The special item in the quarter of NOK 149 million relates, as Odd Arild alluded to, to reserves for longevity. Just to remind you of the history here, in 2013, Storebrand started a plan to strengthen longevity reserves by NOK 12.4 billion. In the fourth quarter of 2015, we set aside NOK 1.4 billion in a one-off charge to cover the Storebrand part of the base.

In the fourth quarter of 2017, Storebrand finished a reserve strengthening well ahead of plan. And the final allocation of reserves done on each individual contract which happened in March this year, it became clear that we had set aside too much on the capital for this purpose. As a consequence of good risk management and buffer-building throughout last year and the last few years, we were able to return a total of NOK 149 million to company profits.

As Odd has commented on, the underlying solvency margin improved in the quarter. As you can see from this graph, the capital requirements fell with higher interest rates and lower equity stress, while the solvency capital increased due to operating performance.

Customer buffers in Norway fell with equity markets and bond markets, and we now benefit from the risk management and buffer-building done last year. Cash earnings per share ended at a strong NOK 1.69 in the quarter.

Turning over to the next page, 11, fee and administration income is NOK 1.220 billion in the quarter, of which NOK 107 million comes from Skagen. The insurance result is strong, primarily driven by run-off gains from previous years.

The operational cost line includes NOK 110 million from Skagen, which means the Skagen contribution is a negative NOK 3 million in the quarter. In the first quarter this year, relative performance in Skagen has been weak, and we've not had to set off too much for fund manager bonuses. This far in April, performance has picked up significantly, and we may have to settle for bonuses in the second quarter.

However, we are not allowed, under IFRS, to take corresponding profits into income before at the end of the year. So far this year, we have earned but not booked NOK 55 million in performance fees from Skagen and Delphi.

Adjusting for the Skagen costs, the Storebrand cost level is well under control, and we confirm our cost targets for the year. Financial results and risk result life includes NOK 149 million reserve release from longevity.

Amortization is positively impacted by a technical accounting effect relating to the acquisition of Silver. Normal amortization charge will be NOK 105 million per quarter. Tax has been estimated to 16% in the quarter and normalized tax charge will be around 20%.

Turning over to page 12, this picture shows the same results split into the business areas savings, Insurance and guaranteed. Savings profits continue to grow according to plan. Insurance results are strong in the quarter and so much stronger than we expect going

FINAL
Bloomberg Transcript

forward. Guaranteed include NOK 149 million longevity profit but show underlying resilient profitability despite being in long-term run-off.

And that concludes our initial remarks and we open up for Q&A.

Q&A

Operator

Thank you. I can see there are questions already coming through, and the first one is from Matti Ahokas from Danske Bank. Please go ahead. Your line is now open.

Q - Matti Ahokas {BIO 2037723 <GO>}

Yes. Good afternoon. It's Matti Ahokas here from Danske. Two questions, please. Firstly, regarding the development of the assets under management, they were down quite a lot from NOK 721 billion to NOK 707 billion. So, it is a function of were there any outflows or it's just a function of the market movements altogether?

And then, a small clarification on slide number 13 where you say about the fees earned not booked to NOK 55 million. So, if everything would continue as is, it will be NOK 210 million booked in the fourth quarter with no impact on cost. Did I understand this correctly? Thanks.

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

Yes. On AUM, that's a consequence of a positive contribution from the Silver funds and a negative translation effect of the similar size coming from the exchange rates, the change from Norwegian to Swedish kroner, so which has been 6% in the quarter i.e. all of the funds we have in Sweden translated into Norwegian kroner are 6% or worth 6% less in Norwegian kroner. In addition, comes turbulence in financial markets where both the bond market and the equity market as well. There is also a limited – continued outflow in Skagen, which is expected with (00:15:04). But as I said, the performance in Skagen is picking up nicely now so that may be reversed later on. So, that's the main components of the change.

On the fees earned but not booked, that is a performance fees that I mentioned in my comments earlier that where we are not allowed to book performance fees before they are sure are secured at the end of the year. However, as I mentioned, we have to book the estimated performance bonuses to the portfolio managers on a running basis.

Therefore, if performance is great one quarter, you have to set up both for bonuses to portfolio managers, while we cannot take into account the fees earned but not booked before the end of the fourth quarter. So that creates some volatility in the reported results.

The NOK 55 million consists of NOK 16 million from Delphi and NOK 39 million from Skagen. And there is – you cannot just times that by 4 to get the final number because

FINAL
Bloomberg Transcript

FINAL

that would be typically what was tied through the year. Hopefully, it will go up to a larger number than you mentioned, but it can also fall to a lower number.

Q - Matti Ahokas {BIO 2037723 <GO>}

Got it. Very clear. Thanks a lot.

Operator

And the next question 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 just want to follow-up on that tech question from Matthew, first of all, and I'm just wondering if you can quantify the SKAGEN outflows at all. And then I had some questions of my own. The main area actually was on the insurance operations, obviously very impressive cost ratio, 3 percentage points below last year. I'm wondering if you can just comment on how sustainable that is.

And also on the composition of the reserve releases which seem to have come from all three divisions. And finally, on insurance, the premium, the quarterly disclosure shows disability premiums up 20% on quarter one last year. But overall, you're showing simply sort of talking about flat. So I'm just wondering if you could square that number.

And then if I am allowed to add one more, I was just a little bit confused by the sensitivities you showed on the solvency on slide 6, specifically on the equity sensitivity which has gone up a lot although you don't seem to have increased your exposure a little bit in Sweden, but it doesn't really account for the increase. And also on the UFR, I mean, I would've thought you're already accounting for 4.05. So, I'm surprised that there is sensitivity to that and I'm surprised it doesn't get worse under 3.65. I'm sorry if there are a lot of questions there. Yeah. Thank you.

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

(00:18:23) just from a – just from the – really clarifying on the sensitivity on our side on – for the solvency figure. Let me consolidate UFR. It's a cycle. It should become 3.9% in the chart. Sorry about that. I think that you should clarify the question.

On the equity sensitivity, actually last quarter, the equity sensitivity was quite low because the (00:18:57) capital during the year. So, we could actually (00:19:06-00:19:16) stress once more. Now, it really have fallen (00:19:21) the free cash flow. Now (00:19:21) as the equity stress has actually starts to (00:19:27) so other elements (00:19:31) So, there isn't (00:19:37).

If you go up for the (00:19:43) on the insurance side and the growth and – we see payments for own accounts increase in the disability line. This is due to (00:19:56) products last year on a lower level which has now come up at more or less normal run rate

Bloomberg Transcript

with all the signs coming in. This was already – when you look at the (00:20:07) during the year last year, and that's the difference between the two metrics being (00:20:14) payments, which is more forward-looking in nature.

On the (00:20:23) take that, Lars?

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

Could I just say – sorry, it's quite a bad line. I'm not sure if it's only me, but I'm struggling to understand everything you're saying. Apologies if it's just me. But I can follow up offline if that's the case. Sorry.

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

Yeah.

Operator

Sorry. This is the (00:20:47) operator. It is, when the second person is talking, there is – I think he's sitting a little bit far away from the microphone. If you just move a little bit closer and we can see how it sounds. Otherwise, I think it's come through clear. Thank you.

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

And, Peter, the Skagen actual was NOK 2.3 billion in the quarter. And on insurance costs, we have – we constantly manage the cost level. We will continue to do so. I'm not able to give you any concrete guiding on further development although I think we need to maintain it in the area of 15 basis points in order to be competitive, if that answered your question.

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

Yeah. Maybe just a quick follow up on that, I mean, obviously, the improvement has been quite significant from sort of 18 to 15. So I'm just wondering are any one-offs in there or I mean is there any reason that we should sort of expect that sort of revert to the previous level or to stay on the current – I mean I'm just wondering if there are any one-offs basically in either number.

A - Lars Aasulv Løddesøl

On the cost in (00:22:05) area?

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

Yeah. I think what you'll mainly see there is the allocation to savings from insurance and it reflects the actual investments and the margins (00:22:17) used in the business. So it's not a one-off. It's actually a reallocation of cost compared to last year.

A - Lars Aasulv Løddesøl

FINAL
Bloomberg Transcript

You see that we have somewhat lower cost on both the (00:22:28) business and on the insurance and somewhat higher cost on the savings area due to the fact that there you see more resources on the savings area as we speak. I also want to just add onto to the Skagen because the net outflow is €2.4 billion. But the good thing is that we see quarterly inflow in Skagen and is still on the high level on that €3 billion on a quarterly basis here. So, that is of course very important also going forward.

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

And if I may add an additional comment on insurance and growth, we work – as you are very familiar with there are a number of different product lines here and we work quite hard to strengthen growth in all of the different product lines. So there is sales within SMEs, small and medium size enterprises on group life and similar products, it's growing strongly this year which will come into effect in the next few quarters. There's also initiatives on P&C and on health insurance that will gradually pick up growth in this area throughout the year

and even with a higher FX (00:23:41) next year.

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

Great. Thank you.

Operator

The next question comes from Blair Stewart from Bank of America. Please go ahead. Your line is now open.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you. Good afternoon, gentlemen. A couple of questions, firstly, just on the unit linked savings segment in Norway, I noticed that just looking at the fee line was unchanged despite the addition of silver which slightly surprised me. I think you previously indicated that silver would add I think NOK 60 million, 6-0, on a full year basis (00:24:16) NOK 15 million a quarter. It's quite a surprise that the fee line wasn't higher and the cost lane went up. I just wonder if you can explain that. You did mention some margin pressure, but is there anything else going on there?

Secondly, just relating to the higher interest rates and one comment that Odd Arild made in his introductory remarks, is there any likelihood of profit sharing re-emerging in the paid-up books in any significant way?

And finally, again, on the higher interest rates theme, is there any difference or any changes to your asset allocation over the last quarter and how is the expected investment return evolving? You used to show a slide giving the expected investment return over the next few years. You stopped giving that. It was possibly something you'll return to the Capital Markets Day. But I just wondered generally how that was evolving. Thank you.

FINAL
Bloomberg Transcript

FINAL

A - Lars Aasulv Løddesøl

Blair, I'll start with the unit-linked savings in Norway. The funds from Citigroup came in during February. So therefore you have – the balance is up by the whole amount but the income is only up by one month of income. So that will gradually improve both the margin and the absolute income in the coming quarters.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay.

A - Lars Aasulv Løddesøl

On the cost side, there has to be a reallocation of cost to the areas that are, where we use more manpower these days which is in the savings area. It started with ASK and I guess last year and we continue to focus more on savings and pension, therefore the cost to this area, allocated cost to this area is somewhat higher. And I should mention in the same context that we do not have deferred acquisition cost on this, the way we account for cost in Norway. So we take all of the cost upfront while the revenues will come in later. So therefore, you will see some cost flow planned on these initiatives.

When it comes to increased interest rates and profit-sharing, it's of course, we can expect earlier profit sharing when you see a pickup in interest rates. And there is also different portfolios when it comes to paid-up policies and some of the portfolios starts to add high above the capital. But there is always of course a trade-off in the risk management area versus building bunkers or starting taking out profit sharing.

I also like to mention that there is discussion and (26:56) in Norway now, also with our regulator and the Ministry of Finance to lift, add some of the elements of the paid-up policies to make get a better product, both for customers and the companies and it is possible and do some changes when it comes to the (00:27:11) interest rate guarantee and also the flexibility of building up buffers and use of buffers. So hopefully, that also will have a positive impact that can increase the opportunity to start profit-sharing somewhat earlier.

When it comes to asset allocation, there's not been any major changes to the asset allocation

allocation, there's not been any major change with asset allocation during Q1. In the supplementary information package table (00:27:42) on expected return over the next 12 months. I can also assure you that we will (00:27:51) Capital Markets Day updated slides on this.

Bloomberg Transcript

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Thank you. I'll just come back to the discussions that are happening at the government level on the paid-up books. Is it just the removal of the annual guarantee? That was something that has been talked about for years. Is there anything else in discussion?

FINAL

Bloomberg Transcript

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

There's a lot of elements in discussion actually and some of them from the labor organizations. It's more about also the state to take more of the risks when it comes to better policies to ensure that you have, over time, a better – well, a better common comps to pensions for people because you see, of course, with allocation we have for paid-up policies today. And it will be a real loss for the pensioners going forward and that is being obvious for many in Norway as we are now seeing these paid-up policies for the (00:28:52) is growing. And I think the most realistic element is about (00:28:57) building, is about all the interest rate currencies and that will also be very helpful.

Q - Blair Stewart {BIO 4191309 <GO>}

Yeah. Thank you.

Operator

The next question comes from Jonny Urwin from UBS. Please go ahead. Your line is now open.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hello. Thanks for taking my questions. Just two for me. So firstly, looking at the roll forward of the (00:29:31) there was – there's limited improvement in own funds this quarter despite decent level of profitability. So, could you help us bridge that gap? Obviously, the accrued dividend will take up part, but I just wondered what the driver was.

And then, secondly, we can see from (00:29:55) today that the regulator in Norway has become a little more active on capital models. Are there any risks to your model from potential changes from here, or is it a company-specific issue to consider? I know at least part of it is. Thanks.

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

On the latest one, I – we have not seen anything around the (00:30:19) report today. We have been busy with our own. But there is no news around our remodeling. It's been of course no hope, and for a while, we have had discussions about it with the regulator and there is no, as we can say, outstanding issues when it comes to modeling we are reporting. (00:30:50)?

A - Operator

When it comes to changes in (00:30:53) actually a bit more complicated than what it might sound like in the first place. First of all, decreased equity markets and increased home prices have, to some extent, lowered (00:31:12) from the non-European business (00:31:16) down from that part of the book. Then, on – also (00:31:26) own funds, it's surplus value of bonds at amortized cost and also that during the quarter just to increase their interest rates again. I guess that's the two main explanations for any additional effects on Sweden.

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

Yeah. Yeah. This quarter, we also see the same effects on (00:31:51) consumer.

Q - Jonny Urwin {BIO 17445508 <GO>}

Okay. Thank you.

Operator

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

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

Perfect. Then I would like to thank you all for joining the call. I would like to remind you that we'll be present in London tomorrow for our Analyst Meeting and we look forward to see you there. And lastly, reminder to register for our Capital Markets Day on May 31 on the IR Web page. Have a good afternoon.

Operator

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

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

Bloomberg Transcript