Q4 2016 Earnings Call

Company Participants

- Kjetil Ramberg Krøkje, Head of Investor Relations
- Lars Aasulv Løddesøl, Chief Financial Officer
- Odd Arild Grefstad, Chief Executive Officer
- Trond Finn Eriksen, Head of Capital Management

Other Participants

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

MANAGEMENT DISCUSSION SECTION

Operator

Welcome to the Storebrand's Fourth Quarter Conference Call. My name is Anna and I will be your coordinator for today's meeting. For the duration of the call, you will be in listening-only. However, at the end of the presentation, you will have opportunity to ask questions.

I will now hand you over to Kjetil Krøkje to begin today's conference. Thank you.

Kjetil Ramberg Krøkje

Yes. Good afternoon, ladies and gentlemen and welcome to Storebrand's fourth quarter 2016 conference call. I'm Head of Investor Relations of this program. And together with me today I have Group CEO, Odd Arild Grefstad, CFO, Lars Løddesøl, Finance Director, Sigbjørn Birkeland, and Head of Economic Capital, Trond Finn Eriksen.

In the presentation today, Odd Arild will give an overall view of the development in the fourth quarter and the full year and Lars will give some more details on the numbers and some special elements in the results. The slides will be similar to the analyst presentation released this morning and are available on our webpage.

And 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.

With that for introduction, I will leave the work to Storebrand's CEO, Odd Arild Grefstad, who will start the presentation on slide 2.

Odd Arild Grefstad {BIO 5483351 <GO>}

Thank you, Kjetil. This year, Storebrand celebrates its 250th anniversary and it goes without saying that you don't survive that long without being sustainable. Therefore, it's a pleasure to start off by briefly highlighting Storebrand's strong performance in the annual Global 100 sustainability ranking, which was published at the World Economic Forum in Davos.

Storebrand was ranked the most sustainable insurer and financial sector company overall, and the second-most sustainable company in any category.

The award makes us proud and it is important to us because it proves Storebrand's world-class capabilities within sustainable investments. Sustainability is an important part of our commercial growth within asset management and going forward, we will leverage this position to further differentiate our brand in the retail area.

If we move to slide number 3 and turn to the results, the group result before amortization and write-downs was NOK 912 million for the quarter and NOK 2,913 million for the full year. This is a strong result which was driven by good financial results and reduced costs.

The growth within savings and insurance continues, while the guaranteed products are in long-term run-off. This is illustrated by a premium growth of 16% within unit-linked in 2016 and a growth of 32% within retail loans.

The underlying solvency position is increased by 20 percentage points during the year to 144% after the proposed dividend. This represents a normalization of our capital position. Therefore, we are ready to resume dividend payments after several years of solidly strengthening. The board proposes a dividend of NOK 1.55 per share for the year.

If we then move to slide number 4, Storebrand's dividend policy implies a normal dividend above 35% for the group's result after tax, before amortization.

The board has previously signaled at least half of the dividend for 2016. After an overall evaluation, the board proposes a dividend payout ratio of 27% of the results, equivalent to NOK 695 million or NOK 1.55 per share. The board expects a dividend payout ratio of more than 35% of the results for 2017, as illustrated on the slide. It is expected, a gradual increase in the solvency position going forward, which implies a further gradual increase in the dividend payout ratio.

If we then move to slide number 5, transformation of the business model. This slide illustrates the two-fold strategy we have been implementing consistently throughout past five years. Today, we have reached an important milestone with the return to a normalized capital position and resuming dividend payments.

However, the two-fold strategy will continue to be important going forward, with capital light growth within savings and insurance, and capital release from the guaranteed back book, which now has reached its peak capital consumption level.

Slide number 6. Let's go a bit deeper into the growth part of our strategy. To better illustrate the underlying growth, we have adjusted the growth numbers for currency effects related to the weakening of the Swedish krona. The currency-adjusted growth in unit linked results was 15% compared with the previous year and 6% within asset management.

The growth within insurance was 5%. This is lower than our long-term ambition of 10% and is caused by the shift of our shift from external distribution to a more cost-effective distribution. This, together with the transition to a new disability pension product in Norway, implies a lower growth rate in 2016 and 2017 when it comes to insurance.

Last but not least, 2016 was a successful year for us in retail banking. We grew our lending portfolio by over 30%. The new loans are mainly placed on the life balance sheet.

Slide 7. To innovate, the customer journey is important to drive growth. Storebrand's functional organization reflects the customer value chain. We use insights from sales front and customer service to develop technological solutions, products and concepts that meet the customers' demand.

On the slide, some selected initiatives that we have implemented is illustrated. I would like to go a bit deeper into the example on the far right. That's on slide number eight. Storebrand's mission is to give people a future to look forward to. An important part of fulfilling this mission is to make sure people get the pension they desire.

Today, making the right decision about your pension is quite complicated. You have to deal with difficult concept such as risk adjusted returns and asset allocation. And many people have got that mix for guarantee and non-guarantee pension certificates which further complicates the matter. At Storebrand, we want to make pension easy for our customers. To help our customers make the right decision, we have built a digital pension advisor based on our existing pension tools.

We have boiled down all the complicated stuff to a few simple questions and recommendations. The two uses advanced data analytics to give personalized recommendation on the best action available to give a better pension, based on the pensions unique mix of different pension certificates and paid-up policies.

The best action likely to converting your paid-up policy to a paid-up policy with investment choice or it might be topping up your certificates with extra savings. We (9:31) purchasing tools into the digital pension advisor. And after we have launched the advisor, we have seen a tripling of the traffic and a doubling of the sales rates. That is very promising for the growth in savings going forward.

And with that, I will leave the word to our CFO, Lars Løddesøl.

Lars Aasulv Løddesøl

Good afternoon, everybody. Let's dig into the numbers on page 9 and in the upper left-hand corner, the result development is described in different colors. The red color is the operating result and is the core earnings of the group, and it is satisfactory to see the positive development during the year.

This does include the performance fees from one of our (10:25) global funds, which was NOK 45 million in the fourth quarter. That should be seen in the context of being higher at NOK 94 million in the fourth quarter of 2015. So you can see, even with lower performance fees, the underlying earnings is growing satisfactory in this period.

On top of that, we've had a very satisfactory financial result throughout 2016 in the lighter blue area, and there has been certain special items that have impacted the results on a quarterly basis. In this quarter, minus NOK 52 million in the green area, is primarily related to a shortening of the write-off period for immaterial or IT systems, basically. So in a digital world, we see that the IT systems that we invest in have a shorter lifespan, and we therefore decrease the amortization period.

Earnings per share is strong at NOK 1.64 in the quarter. In addition to being supported by the strong results, it's also supported by a low tax rate, which is a result, first and foremost, of sale of certain properties which had tax liabilities connected to them. So by selling the properties with the tax liabilities, the overall tax rate shrunk to 14% for the year as a whole. Solidity capital is maintained at a high level and customer buffers are stable.

Moving over to page number 10, the solvency position of Storebrand Group, we see a very strong improvement in the underlying solvency position, from 131% to 144%.

On the following page, I will describe this development a little further. What I would like to emphasize here is that while the transitional rules have decreased from 34% to 13%, with the increased interest rates in the quarter, the transitional rules have less impact on the overall regulatory solvency.

And if you look in the right-hand side of the same page 10, you see the sensitivities going forward. And it's particularly interesting to look at the interest rates with a 50 basis points fall in interest rates from this level. The solvency position without transitional rules will decrease from 140% to 130%, while the transitional rules will increase in value to 30%, which gives an improvement in the overall regulatory solvency position. And the same thing is actually happening, if interest rates were to increase, then the underlying solvency position increases to 157%, the transitional rules decreases to 5%, and the total regulatory solvency is at 162%.

So, actually, to make this simple, the regulatory solvency is not going to be significantly impacted by interest rate movements from here on.

Obviously, a significant fall in the equity markets or spreads or real estate markets could still impact the overall solvency, but we are fairly neutralized from interest movements from here on. The underlying solvency has strengthened, that's the most important point. And I would like to move over to page 11, describing the development during the quarter.

First, we started off at 131% and then you reduce that by 3 percentage points, primarily due to the fact that the stress under the Solvency II standard model was increased from 34% to 38% for listed stocks in the quarter as part of that framework.

Then the interest rates increased which decreased liabilities and improved the solvency position by 15 percentage points, and the increased in interest rates were 49 basis points in the 10-year swap, both in Norway and in Sweden. And then there are some twists on the curve in addition to that.

Then we issued, as you are well aware, the subordinated loan back in October which was SEK 750 million which improved solvency by 3 percentage points, ending up at 146 percentage points before dividends. Then you can add on top of that these transitional rules which were, as I described in the previous page, reduced by the higher interest rate, leaving us with a fourth quarter solvency rate of 160% before the dividends of SEK 695 million which decreases that again to 157%.

Moving over to page 12, we see the results of the group in the traditional schedule. Fee and administration income was slightly down in 2016 compared to 2015. The run-off on revenues from guaranteed business was slightly higher than the increase in revenues from the non-guaranteed savings business and insurance business.

Looking into 2017, we expect that the total revenues will increase during this year. Insurance result improved during the year and the operational cost was down quite significantly year-over-year. And in actual effect, the NOK 861 million in operational cost in the fourth quarter includes about NOK 50 million in the special effect that I mentioned a little earlier. So the underlying number is even better than this.

Then the financial items were significantly improved in the fourth quarter and last year over 2015 partly as a result of – or in the quarter the most important impact on this number was that we had profit split in the individual portfolios in Norway. That is something we don't expect to see additional profit split revenues in 2017. But gradually going forward, there could be profit split in certain portfolios.

But in the fourth quarter, we had due to exceptionally good book return in the guaranteed – individual portfolio in Norway, we managed to take out NOK 139 million in a one-off profit split in the individual portfolios in Norway. In Sweden, we also had very good return in, well throughout 2016 and in the fourth quarter in particular, both from real estate, from equities and from credit spreads, which gave profit split also in this book. In addition, for the full year, the results were lifted by a strong return on company portfolios, especially in the second and third quarter. Tax, I already mentioned, but it was 17% in the fourth quarter and 14.5% for the year as a whole.

And lastly on page 13, this is basically the same numbers as on the previous page. But in the profit per line of business, a box on the bottom, we see that the result improvement in savings and non-guaranteed and insurance improved during the year of 2016 and even in the quarter-over-quarter, while the biggest, I guess, to some extent, a surprise to analysts and compared to what were the forecasts out there, was that the profitability in the Swedish and Norwegian guaranteed portfolios lifted the results significantly in the fourth quarter, which I talked about a moment ago.

And in other profit, you have the company portfolios and a number of small subsidiaries which had a slightly weak result for the quarter. But overall, this line was strong for the year as a whole. This ends up in giving us a result for profit before amortization and longevity of NOK 912 million in the quarter and NOK 2,913 million for the full year.

And I will end my number exercise here, would be happy to take questions from any other numbers or other questions you may have.

Kjetil Ramberg Krøkje

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

Q&A

Operator

Thank you. . I can see we have a couple of questions already coming in. I would introduce the first speaker and Peter Eliot from Kepler Chevreux. Please go ahead. Your line is now open.

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

Thank you very much. Just a little bit – the first thing I would talk, I was a little bit confused by the complexity of the interest rate sensitivity. You've shown on slide 10 the solvency ratio increases. This is with transitional rules, increases for both higher and lower interest rates. I was wondering if you could just explain how that is the case.

And then, secondly, on slide 11, when you showed the sort of the waterfall, you haven't got anything in that or the sort of underlying solvency in capital generation. I mean, I know it's more than a quarterly basis, but can we sort of add something into that? So, are you able to tell us roughly what is happening there?

And I suppose want to add a third one, I was wondering if you could just tell us the latest on the payable tax, but without the rebate (20:40). Thank you very much.

A - Lars Aasulv Løddesøl

Well, on the sensitivity, you know that the transitional rules, they look at the liabilities under Solvency I and the liabilities under Solvency II. They do not take account for changes in assets, only in the liabilities. Furthermore, they don't take into account – there are not transitional rules for the Swedish business. So basically, you have to look at the dynamics under Solvency I and the dynamics with the liabilities under Solvency II and look at the difference between the two. Important factor is that there is some complexity and we are at the low point in terms of the overall, how low it can fall with interest rate movement, either up or down.

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

I think also, Lars, that it's important to say that you should expect actually while dynamics here are seen in the fourth quarter, that interest rates of 50 basis points up should decrease the transition rules even further. But the point here is that by this transition, the 50 percentage points up, it will be out of the transition rules when it comes to interest rates. It's just some transitional rules that is aligned to shares that is still on the balance sheet. So from this point up, you are really out of the transitional rules and uplift in solvency is the same, of course, without transitional rules. So the 5 percentage points here is only the equity stress.

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

Okay. Thank you.

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

When it comes to the movement of the solvency position, which with none of the particular slice with such a movement and we have decided to slice it this way. One way to look at this stuff, you could also apply this, so we showed show the quarterly results after tax of just about NOK 600 million, and that's corresponding to just about 2 percentage points of the solvency ratio attach. But on top of that, you will also have solvency generation from express return above the discount rate in the quarter. And that is built into - a lot of that is what you see in the 15% percentage points increase that you see increased interest rates.

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

So to sum it together or (23:24) what we gave as an estimate in our Capital Markets Day of a normalized growth in the solvency position of (23:32) 7 percentage points a year, that is still a very good estimates of what we expect in a normalized situation.

A - Lars Aasulv Løddesøl

That's correct. When it comes to finance tax and on the payroll area, we have, first of all, now taken care of that into the balance sheet, so it's all implemented in the numbers we have at year end. Going forward, we have looked more closely into the numbers, and our best estimate is that this will increase our cost for 2017, everything equal, with SEK 55 million before tax. And, of course, we work very hard, of course, to also reduce the effect of this in total over the year.

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

Okay. Thank you.

A - Lars Aasulv Løddesøl

Okay. Thank you.

Operator

The next question is coming 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 here from Danske. A question on slide number 4 where you have the dividend, I'm a bit puzzled and I was hoping if you could clarify it a bit more. Obviously, the payout ratio for 2016 was clearly higher than what you kind of originally anticipated, roughly half or more than half of the normal dividend. But when you talk about, in bold, more than 35% dividend payout ratio, what are the moving parts there? Is it the solvency ratio or are there - what should we be looking at when we try to estimate what should be in 2017?

And basically, how high could this basically go if you look at 2018 onwards? Are you looking for a kind of graphically nice growing path, or how should we interpret this? And then just a figure question on the guaranteed pension, the SEK 139 million gain in individual life and pension in Norway, that I guess was related to the sale of the properties but was there something else kind of one-off in the guaranteed pension effects?

A - Lars Aasulv Løddesøl

It should be clarified within the reserved portfolio again as a starting point. The individual portfolio in Norway, those are old tax incentivized insurance – sorry, savings schemes with guarantees. And in that portfolio, we had a book return of above 6% and for certain contracts that meant that there was a surplus that was profit split. These portfolios are profit split 65% to customers and 35% to Storebrand and this generated a result of NOK 139 million for Storebrand and therefore increased the – there was an allocation to customer of NOK 270 million or so.

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

Yeah. So this has nothing to do with the real estate portfolio. This is to do really with our guaranteed business in Norway. I think what is a bit surprising is that we know already our levels on these guarantees where we have a very comfortable buffer situation and maybe gradually can start profit trading again. But we had a very special situation, we had high book return in this portfolio in 2016 and that's why you should not expect this kind of element come back in this portfolio in 2017.

An interesting discussion is of course also on the kind of policies that has – very much show the same characteristics, where you have 80/20 profit split. And it's also clear that we start to have a very good buffer capital situation for some of these portfolios. But in 2017, you should expect us to use the surplus in this portfolio to fulfill the remaining longevity reservation that is now on a very low level. It's of just NOK 350 million and we expect to then finish all the reservation for longevity based on surplus return on these funds in 2017.

And that also leads me, actually, to your first question about the dividends. In 2016, we had now dividend from the life insurance company up to the holding company. And that was because we were still in a reservation process for the life insurance company to fulfill the obligation about longevity. And as I said, we started this some years ago and had NOK 12.4 billion to really reserve for. It's just NOK 350 million left now, and it will be completed during 2017.

But as long as we are in this scheme, it's not possible for us to take a dividend from life insurance company to the holding company. That's why we also had lower than a 35% dividend payout in 2016. By that, we expect to lift that ban on the life insurance company during 2017 and also have a much larger up-streaming to the holding company, and that's one of the element together with, of course, the solvency position that is important for us to decide on the payout ratio when it comes to the dividend.

And, of course, as we have talked about, we are now in a situation with a peak capital on the guaranteed book of business, very much of our growth in the comp book is the capital light and that gives opportunities to still, of course, do some strengthening on the solvency position, to keep them that line solvency position about 150% gradually, but also to have a payout ratio that should be above 35% as illustrated on slide number 4.

Q - Matti Ahokas {BIO 2037723 <GO>}

The question obviously is how much above 35%...

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

Yeah. Yeah, that is a very good question. We have tried to give an illustration here, of course, on slide number 4 about what we expect in 2017. I think what we wanted to stress is that when we have a dividend policy staying above 35%, it means above. And we believe it could be a payout ratio at least higher than 35% in 2017, but we don't want to be very exact of the numbers on this stage.

And we also say that going forward, we see capital light growth. We see that gradually a larger part of the annual results could be distributed to the shareholders as long as we follow the path that we expect to do to build solvency of capital going forward.

Q - Matti Ahokas {BIO 2037723 <GO>}

Great. That's very clear. Just a clarification, what would you say is the normal kind of dividend that you would upstream from the life company to the holding company? What level are we talking of in millions of krone?

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

We haven't talked about the level of it. But, of course, again, it's very much above the solvency position. As long as the solvency position in the life insurance company is at the right levels, you can expect to upstream a large part of the result of the life insurance company to the holding company.

Q - Matti Ahokas {BIO 2037723 <GO>}

Great. Very helpful. Thanks.

Operator

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

Q - Paul De'Ath

Yeah. Hi there. And I just wanted to clarify a point that I think you just made in the last answer, and you're saying you're actually now at the peak capital point because I think at the Investor Day or the Capital Markets Day, you talked about that potentially coming in 2018. But has that now been advanced by a couple of years and what does that mean in terms of then the future roll-off of capital?

And then, second point just on the Solvency II ratio and the fact that obviously the transitional element has shrunk down quite a lot. Is there any situation in the future where you could see the transitionals actually being a negative in terms of the solvency ratio, or would that not be possible? Thanks.

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

Just to be clear on the last one, you can think about the transitionals as a security in that if you have falling interest rates from this level, you will still have a strong solvency position with transitional rules because then the transitional will increase again. But you will never have a negative effect on transitionals. Then you are out of the transitionals when you look at the underlying solvency position and just that.

At peak capital, well, first of all, I think we are in 2017 now, so it's just one year to 2018. But anyway, what has happened since Capital Markets Day is, of course, that we have - been a lot of rolling forward efforts in the balances. But the most important is that we have seen an increased interest rate level compared to what we had back then. And increased interest rate levels, that makes the peak capital timing coming closer to us. And we estimate that we are at that level now.

Of course also, higher interest rates will also have something to say when it comes to the trail off of this capital release, so to say, from the guaranteed portfolios. But I think we, Kjetil, we'll like to come back on that on a later stage.

A - Kjetil Ramberg Krøkje

It would be natural to have some more discussions around economic capital when we present our first quarter numbers with some updated calculations from the economic capital team.

Q - Paul De'Ath

Excellent. Thanks very much.

A - Kjetil Ramberg Krøkje

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>}

Hi. Thanks for taking my questions. Just a quick one on the dividends. So, obviously, you're talking about the payout ratio increasing which is great. But, I mean, have you formally committed to a dividend ratchet as well, because obviously earnings could come down, assuming the payout ratio goes up and (35:11) dividend growth?

Secondly, just on the outlook for operating profits. So slide 9 as usual shows us the development through the quarters. But it looks to me like there's about NOK 500 million a quarter of operating results. Do you think that's a fair assumption for 2017 and beyond? Thanks very much.

A - Lars Aasulv Løddesøl

On the last question, I can confirm that the operating results have been fairly stable and slightly increasing the last several quarters, and that we anticipate that to continue.

Q - Jonny Urwin {BIO 17445508 <GO>}

So around NOK 500 million with a bit of growth then.

A - Lars Aasulv Løddesøl

Well, as you see, it has gone – it was in the second quarter at NOK 411 million, so it can go below NOK 500 million as well, but in the area of NOK 500 million, and over time increasing that would be our objective to deliver.

Q - Jonny Urwin {BIO 17445508 <GO>}

Thanks.

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

When it comes to payout ratio or dividends, what we are talking about all the time is, of course, solvency ratios and dividend payout based on results after tax and before amortization. And that might create a situation where we have preparations in the nominal number of payout from one year to another. That is what we are aiming on when we are guiding here.

Q - Jonny Urwin {BIO 17445508 <GO>}

Okay. But there's no formal commitment, not to lower the dividend?

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

Nominal number can be both higher and lower. What we aim to do is to have a payout that make us have the right capital situation in the company at all time. And don't keep any capital on top of what we need, I think is needed to run the business most effectively.

Q - Jonny Urwin {BIO 17445508 <GO>}

Okay. Thank you. That's great.

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. First question just on slide 12, I'm just wondering, of the NOK 924 million financial items and risk result in life, how much of that would you regard as genuinely one-off and assuming we just had a normal financial market, sell-off (37:50) conditions, what should that number be very roughly in your own modeling?

The second question is on the loan growth that's now being transacted into the life business. I just wonder what's the return on those loans and what assumptions are you making for defaults over time? And then on the capital levels, I noticed that your solvency capital requirements actually went up quarter-on-quarter from 23.8 to 24.2, 24.3. Just with relation to the comment about peak capitalization or peak capital level, I just wondered if you could comment on that.

And I have also noticed that if you take out the transitionals the reconciliation reserve is practically doubled in the last year from NOK 12 billion up to just over NOK 20 billion. And that's presumably is just enforced value, is that simply the gear into interest rates? Thank you.

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

If I could start on the solvency questions, Blair. First of all, the increase in Solvency capital requirement is very much related to increased equity stresses from 34 to 38 for type I and from 44 to 48 for type II. So that's very much really comes to the increase in reconciliation of reserve. Yes, you're right it's a lot that related to interest rates, some of the decrease in liabilities and all technical provisions due to increased interest rates.

Q - Blair Stewart {BIO 4191309 <GO>}

It's a very big number, Trond, and from 12% to 20% interest rates, have gone up by about 50 basis points over the year, if I'm not wrong.

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

It's actually over (39:57) but it's actually not that much of. I have to look a little bit more into that number, Blair, before giving you - but I'll return to you with a more detailed answer to that.

Q - Blair Stewart {BIO 4191309 <GO>}

Yes. Probably other factors, current spreads, exit markets, et cetera, but it'd be useful to know. Thank you.

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

I think you have to be that because if you look year by year, the interest rate movement has been marginal actually.

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

Yeah. It's been quite heavy outperformance in the portfolios in most markets which will contribute to that. And especially real estate with strong returns and credit business.

Q - Blair Stewart {BIO 4191309 <GO>}

I'm just wondering, because you don't publish an embedded value report anymore and I'm just trying to get a feeling for whether there's been changes in your assumptions as to the future of profitability of the book.

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

No. It's actually the assumptions changes, the model changes over the year, it's close to zero. There has been a lot of underlying changes, but they are really not that (41:08).

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you.

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

Shall we then move to the operating results, Lars.

A - Lars Aasulv Løddesøl

Yes. On the financial items and the NOK 924 million, that's a combination of the profit split that we saw in Norway and Sweden, especially in the fourth quarter, as I mentioned before.

And in the Norwegian market, you should not expect a profit split in the next few years. In the Swedish market, with normalized returns, the normalized or the expected returns will be slightly higher than what you run up in the solvency curve or a discount curve, and therefore you should have, on a normalized basis, a positive result from the Swedish guaranteed business.

And the last major item here is the company portfolios and the returns there. When interest rates in Sweden rate are around zero, you should expect to run zero in the financial result from the Swedish portfolio, while in the Norwegian portfolio, there is a positive return, but much lower than it has been during 2016 where we've had a credit spread contraction which has contributed to extraordinary results.

So there are several moving parts here, especially short-term interest rates that will impact this number, as well as developments in different asset classes. But if you take very much like a normalized approach to this, then expected number is around one-third of this number.

Q - Blair Stewart {BIO 4191309 <GO>}

Yeah. Okay. That's what I was getting to. What would be the investment income, the expected investment yield on the company portfolio in Norway?

A - Lars Aasulv Løddesøl

Well, in Norway, the short-term interest rate is around 1%, so maybe between 1% and 1.5% and in Sweden around 0%.

Q - Blair Stewart {BIO 4191309 <GO>}

Yes. I got the Swedish part. That's great. Thanks very much. And on the loans, a very big increase in the loans?

A - Lars Aasulv Løddesøl

Yeah. It's a large increase in the loan. And it's an important part for us also to really get our business to consumer subsidy going because we see that on top of the loans, we get, of course, deficits from our customers and we also get the cross-sell going into more risk products and also savings products. So this is an important part of also the whole retail structure here overall. But we have a return on equity target for our banking access, is standalone of 10%, above 10% after tax. And when we price our loans, it's also based on - I'm sure that we will reach 10% return on equity target as such.

I'll also add that if you look at loan to value on this book, it's for more (44:16) in Norway. Historically, I will say the last - well, as long as we have been doing loans in Norway, at least in close to zero in losses in this portfolio. Of course, we have our models taking account for some losses. But still, with loan to value that'd be (44:42) here and specially what we're also put in the life insurance balance sheet, it's very limited as we view it, a risk of heavy losses in such a portfolio.

Q - Blair Stewart {BIO 4191309 <GO>}

So did you give the loan to value number?

A - Lars Aasulv Løddesøl

What we put on the life balance sheet, I think it's below 70%.

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

Yeah. Once it goes in the balance sheet of life company, it's less than 70%, and that is most of the growth as you see.

Q - Blair Stewart {BIO 4191309 <GO>}

Sorry, to ask you again, but as an asset for the life company, what was the yield on the asset?

A - Lars Aasulv Løddesøl

You have to look at the yield for the life company as compared to buying covered bonds or similar asset classes, and this gives a good solvency capital adjusted return compared to similar asset classes.

Q - Blair Stewart {BIO 4191309 <GO>}

Yeah. I would expect there'd be a good return. Yeah. Have you prepared to say what the yield is?

A - Lars Aasulv Løddesøl

Well, basically, we're now lending at around 2% and they're paying about 40 basis points to the bank to administer these loans, so then you end up with 1.6%.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. But obviously, very low levels of capital.

A - Lars Aasulv Løddesøl

Yes. Yeah.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Thank you. Sorry for asking so many questions. Thank you.

A - Lars Aasulv Løddesøl
No, fine.

Operator

The next question comes from Peter Eliot from Kepler Cheuvreux. Please go ahead. Your line is open.

Q - Peter D. Eliot {BIO 7556214 <GO>}
Actually, I thought I'd canceled mine. I think, my question was answered. Thanks a lot.

Operator

Then we take the next question from Jonny Urwin from UBS. Please go ahead. Your line is now open.

Q - Jonny Urwin {BIO 17445508 <GO>}
Thanks a lot. Just a quick clarification on the capital generation. So you're sticking to the 5% to 10% guidance. And at the top end of that, we'll expect like an organic build of sort of 6% to 7% post dividend, is that right?

A - Lars Aasulv Løddesøl
That's right.

Q - Jonny Urwin {BIO 17445508 <GO>}
Thank you.

Operator

There are no further questions coming through so we'll hand the call back. Thank you.

A - Kjetil Ramberg Krøkje
Then I would like to thank all of you for following the call and wish you all a pleasant afternoon.

Operator

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