Y 2021 Earnings Call

Company Participants

- Daniel Sundahl, Head of Investor Relations and Rating
- Lars Aasulv Loddesol, Group Chief Financial Officer
- Odd Arild Grefstad, Group Chief Executive Officer

Other Participants

- Analyst
- Blair Stewart
- Hakon Astrup
- Jan Erik Gjerland
- Peter Eliot
- Ulrik Ardal Zurcher
- Vegard Toverud

Presentation

Daniel Sundahl {BIO 20548519 <GO>}

Good morning, ladies and gentlemen. Welcome to Storebrand's Fourth Quarter Result Presentation, which we today are broadcasting here from our new studio.

As always, CEO, Odd Arild Grefstad will start today by giving you the key highlights of the quarter. Afterwards, CFO, Lars Loddesol will take you deeper into the numbers.

At the end of the presentation, we will open up for Q&A. To ask a question, you will need to participate in the Teams webinar. You will find the details on the IR website or you can use the QR code you see on the screen now. To ask a question, please use the 'raise hand' function in Teams, and you will be placed in the queue.

Without further ado, please go ahead Odd Arild. The floors is yours.

Odd Arild Grefstad {BIO 5483351 <GO>}

Thank you, Daniel, and good morning, everyone.

The Storebrand Group delivers a record strong group profit of NOK1,367 million in the fourth quarter and NOK4.5 billion for the full year. This is an increase of 12% for the quarterly results and 66% increase for the full year's result. The operating profit of NOK1,038 million benefits from strong performance related fees booked in the fourth quarter. All business units contributed to the solid group profit for the year. SPP, asset management, and occupational pension Norway all delivered above NOK1 billion in reserves each. And our retail business in Norway saw a 42% profit growth in 2021.

Storebrand is for the third consecutive year recognized as the most sustainable insurance company in the world, in the Corporate Knights Global 100 ranking. This recognition adds to other awards and demonstrates our Storebrand continues to push the sustainability agenda. Unit Linked had another strong year growing 15% in 2021. Total assets under management increased by 14%

from last year to NOK1,097 billion. We strengthened our position as Norway's largest private asset manager and the fifth largest in the Nordics.

Within Insurance, the overall insurance portfolio premiums grew by 22% compared to last year. The growth within retail insurance was a record high 54% in 2021. Storebrand's solvency ratio came in at 175%. This is at the upper range of the targeted level of 150% to 180%. The Board proposes an ordinary dividend of NOK3.5 per share for 2021 to the Annual General Meeting, which is an increase of 8% compared to last year.

The Board intense to apply for a share buyback program when the solvency ratio is sustainably above 180%. Storebrand aims to give customers the best possible pension in a more sustainable world. In 2021, our investment portfolios delivered the highest customer returns in the Norwegian defined contribution market. I'm also very pleased to see that the returns we deliver are the highest among competitors also over the last three years and five years. This is a result of our strategic asset allocation and strong performance in our asset management mutual funds that meet our high ESG standards. We give our customers a unique allocation to what's important alternative asset classes for pension savings, including private equity, and real estate.

This year, some 200,000 individual customers in Storebrand will benefit from increased pensions savings. New regulation makes pension contribution mandatory for all employees, regardless of income level, age, and hours worked. This is an important step towards a more equal pension system, which will especially benefit lower income groups. This is expected to add roughly NOK800 million in annual Unit Linked premiums to Storebrand, equivalent to a 6% increase.

As you are well familiar with, Storebrand follows a two-fold strategy that gives a compelling combination of self-funded growth in the front book and capital return from a maturing back book of guaranteed pensions. Storebrand aims to be the leading provider of occupational pension in both Norway and Sweden and to build a Nordic Powerhouse in asset management and continue fast growth as a challenger in the Norwegian retail market for financial services.

The combined synergies stemming from capital, customer base, cost and data across the group, provide a solid platform for profitable growth and value creation. Storebrand also continues to manage capital and a back book with guaranteed products for capital release. This leads to a dividend policy, a growing ordinary dividends from earnings, as well as an estimated capital release of NOK10 billion towards 2030.

We are making progress a growth across the whole organization within our growth areas of future Storebrand. And we see that volume growth is translating into profit growth. Starting with occupational pension area, reserves in Unit Linked grew by 15% year-on-year. Occupational pension Norway contributed NOK1,035 million to the group result in 2021, and SPP contributed NOK1,286 million. Public pension are gaining momentum; and in the fourth quarter, we won new municipality mandates. Altogether, NOK5.5 billion of reserves will be transferred to Storebrand.

In 2018, we set ourselves high growth ambitions for Storebrand asset management towards 2021. We now deliver on these ambitions and are number one Norwegian asset manager with European footprint and we have grown the result by more than NOK250 million, delivering a profit of NOK1,078 million in asset management. In the retail market, we deliver a profit of NOK824 million, which represents a profit growth of 42% in 2021.

Storebrand has demonstrated strong organic growth in our core markets. Since 2017, Storebrand has successfully completed 6 M&A bolt-ons. These acquisitions accelerate our growth and build additional capabilities. We use both the life platform and the asset management platform to build scale and realize synergies. Pension is becoming interlaced and add-ons within insurance further build our retail position in Norway based on Storebrand and capital synergies.

In the fourth quarter, we announced the acquisition of Danica Pension. Danica Pension is an exciting opportunity for us to strengthen our position in the SME market for Norwegian occupational pension. It also expands our insurance offering in personal risk products with a customer base of around 250,000 individuals. This acquisition has a great potential for accessing new customer segments that we aim to grow in. Danica has NOK29 billion in assets under management and a gross written premium of NOK2.1 billion. This is an acquisition where we expect to realize significant cost and capital synergies. We are looking forward to combining Storebrand's strong expertise and digital services with Danica's partners and Danske Banks professional distribution channels. The partnership with Danske Bank further opens new opportunities for sales of insurance through the Danske Bank distribution network in Norway. The compelling combination will give existing and new customers leading products and services, and we are looking forward to welcoming Danica's customers to Storebrand.

Another highlight from the past year is that our Swedish Branch SPP continues to deliver strong profitable growth. Strong results and higher return on equity is the foundation for solids shareholder returns. But on top of that, the guaranteed products have been in runoff over the last years. From 2015, and until now, SPP has been able to payout SEK5 billion on top of the SEK3.7 billion resolved after-tax. At the same time, returns on equity in SPP has more than doubled to 17.9% this year.

The strong dividend capacity in SPP since 2015 shows the powerful mechanism or guaranteed products going through the runoff phase. The same mechanism will now play out for the Norwegian business and make the Storebrand Group able to return excess capital to shareholders over the coming years. We reaffirm our commitment to deliver growing ordinary dividends to shareholders with a dividend of NOK3.5 per share for 2021. This is an 8% increase and in line with the dividend policy or returning minimum 50% of the result after tax with nominal growth. We are fully committed to return excess capital to shareholders when the solvency level reaches 180%. My ambition is to start our share buyback program this year.

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

Daniel Sundahl {BIO 20548519 <GO>}

Thank you, Odd Arild. A record strong year behind us and another exciting year ahead of us indeed. Let's take a closer look at the numbers. Please go ahead, Lars.

Lars Aasulv Loddesol {BIO 3969188 <GO>}

Thank you, Daniel.

The IFRS results in the Storebrand Group are close to cash and can be lifted in the group through dividends. For 2021, the holding company receives net cash transfers of -- in excess of NOK3.3 billion and the board proposes to pay a dividend to shareholders of NOK1,646 million, strengthening the holding company cash position by more than NOK1.7 billion.

The group result in the fourth quarter was at an all time high of NOK367 million higher even than the second quarter, when we booked NOK546 million gain on the sale of the forest estate, Vaerdalsbruket. This follows strong performance results and good financial results. The operating result of NOK609 million was relatively weak in the quarter caused by higher costs and a weaker insurance results. Parts of the cost increase was a catch-up effect of higher activity as the pandemic close down is coming to an end as well as some smaller write-offs. The write-offs were primarily related to old systems rendered worthless as more and more of our systems are moved up in the cloud. Also, seasonal insurance effects and some periodization between quarters had a negative contribution.

Furthermore, we've taken expenses relating to the to the rebuilding of offices in Norway and Sweden to what we have named future Storebrand workplace, including the studio in which we are now setting. Whilst we normally do not give guiding on results, it's reasonable to look at the average of the operating result for the two last quarters to indicate the expected level going forward.

The solvency position ended last year at 175%. Earnings per share came in as expected by analysts. Good financial results throughout 2021 have continued to strengthen buffers in Norway and Sweden. The buffer capital strengthened to 11.2% of customers reserves in Norway and 17.8% in Sweden. This protects the guaranteed return to our customers, protects shareholders from financial market corrections, and enables us to increase the risk in the collective portfolios, which going forward gives higher expected return to our clients.

At the Capital Markets Day in December 2020, we announced an ambition to achieve a profit before amortization and tax of about NOK4 billion in 2023. The profit ambition was reached in 2021, helped by gains from the sale of AS Vaerdalsbruket and strong performance in active funds with performance fees. The full effect of introduction of individual pension accounts in 2021 will give a negative contribution in 2022 of around NOK100 million as per previous guiding.

The full effect of the Danica acquisition, given regulatory approvals will come in 2023. Strong growth in all business units will continue -- contribute to additional profit growth in the coming years. Adjusted for acquisitions, currency, and performance related cost to the group has reported flat nominal cost from 2012 to 2020. In 2021, we delivered on the ambition to keep cost at NOK 4.4 billion. The underlying cost base is expected to grow to approximately NOK 4.9 billion in 2022. This is mostly explained by investments in profitable growth, including public occupational pensions and our P&C offering in the market for small and medium-sized enterprises as well as other initiatives and acquired businesses, including Capital Investment. Together, these growth initiatives are expected to increase costs by approximately NOK400 million. Should the growth not materialize, management has a contingency plans in place to cut costs. High inflation rates particularly, wage inflation is also expected to lead to higher cost of around NOK100 million despite continuous efficiency initiatives in the group.

Acquired business, such as Danica pending regulatory approval and performance related expenses will add to the total cost based. We will revert with more precise guiding on cost, synergies, and value creation related to Danica after having received the necessary approvals. Importantly, the planned development in cost is related to ambitious growth plans and contingency plans are in place should the profitable growth not materialize.

The solvency at the end of 2021 was 175%. There is no transitional capital in the reported solvency. This is -- since the third quarter, the following has happened. One several minor model and assumption changes given negative contribution of 1 percentage point. With good equity markets comes higher symmetric stress factor now at 45.9%/55.9% of listed and unlisted shares respectively.

In addition, the volatility adjustment is down by 1 basis points to 32 basis points in Norway. The combined effect is a negative 3 percentage points. Twists in the interest rate curve with higher short-term rates and marginally lower long-term rates than in the third quarter give a negative effect of one percentage point. Good asset returns and strong results contribute 4.5 percentage points before dividends or two percentage points. We did -- sorry, we deduct expected dividends from the solvency every quarter. We have set aside a total of six percentage points of dividends through the year. Implying that the Solvency before the dividend allocation was 180% -- sorry 181%, up from 165% at the end of 2020, a strong 16 percentage points improvement for the year as a whole.

With higher rates and stronger buffers, the sensitivity to financial market movements is reduced. Furthermore, the solvency the Solvency II framework includes volatility reducing features like symmetric equity adjustment, and volatility adjustment on the discount curve.

In fact, these sometimes overcompensate market movements as can be seen in the equity market sensitivity. All those sensitivities for sudden changes in interest rates are reduced, the group still great the benefits from higher interest rates in both the long and short-term end of the curve through higher returns on company and customer portfolios when assets are reinvested.

The quarterly and full year results are strong. Fee and administration income is up by 16% for the full year and by 26% for the quarter over last year. This is partly because of the strong performance fees booked in the fourth quarter, but it's generally a result of the growth across the group. The full year group profit is up 66% from last year at NOK4,503 million. The taxes in the quarter were calculated to 25% and 21% for the full year. This is a normalized tax charge for Storebrand with a business mix we currently have. The tax charge in our Swedish subsidiary, SPP substantially lower than in Norway.

Here are the same figures as in the previous slide, but broken into the three segments, savings, insurance, and guaranteed. Savings results are up 36% from 2020. Insurance has more than doubled after weak 2020, and guaranteed is up 77% with improved risk results, strong financial results, and profit sharing in both Norway and Sweden.

Moving over to savings. We can see strong momentum in all business areas year-to-date. Unit Linked Norway is down in the quarter, following the introduction of individual pension account. This is as expected and as previously guided. All the other areas are up 40% or more over 2020. This follows more assets under management and good performance in active funds with performance fees. For those, who have followed us for some time, it's also satisfactory to see that the asset management results for 2021 deliver ahead of the NOK1 billion target announced at the Capital Markets Day back in 2018.

Here is an illustration of the development within the savings segment. Let me point out two things. The IPA market transfers in 2021 lead to an to an NOK8 billion outflow from Unit Linked Norway. The majority of this is a one off effect due to the imbalance between market shares in pension certificates versus active funds. The IPA transfers have now been finalized. I'm glad to register that so far this year, we've won some new large clients and laps remains at low levels. Despite the negative flow in 2021, assets under management was still up 15% year-on-year.

The bank has stable margins and good growth. The bank is primarily a low-risk mortgage bank with average loan to value at 57% and expects lower margins than banks with a higher -- with higher risk profiles. The bank now makes a standalone 9% return on equity despite low interest rates and strong growth. The positive cross sales effect from the bank brings to the total value creation higher. We continue to aim for 10% return on equity for the bank.

The asset management company, assets under management grew by 14% or NOK135 billion last year coming from positive net flow, good returns, and the acquisition of the real estate company Capital Investments in Denmark. The insurance results were weak in the fourth quarter. Across the different product groups, we see the following pattern. Reactivation, i.e., people returning to work from disability is picking up with more jobs available as the economic activity is improving.

Secondly, disability continues at the round pandemic levels and are relatively stable. This is as expected as there is a 12-month lag from people registered disability until it's approved by the Social Security Authorities. We expect gradual improvements through 2020 into next year. And thirdly, mortality has increased somewhat in Norway in the fourth quarter. Mortality was low in the first 18 months of the pandemic as fewer people were infected by the flu and similar regular diseases. In Sweden, we see the opposite effect as more people passed away early in the epidemic and fewer now.

The weak results in the quarter were related to some large claims, a higher reinsurance cost due to growth, and seasonal swings. The full year results for 2021 were up by more than 100% over 2020 and should improve further in 2022. In fact, we have implemented significant price increases for '22 renewals, most of which have already been accepted by clients.

Due to the factors commented on -- in the previous picture, we did not reach the targeted 90% to 92% combined ratio last year, but ended up at 94%. We reiterate the 90% to 92% target for 2022. We have had phenomenal growth in 2021 partly due to the acquisition of the insurer portfolio, but also through distribution partners and external agents. We maintain a double-digit growth ambition for P&C for 2022.

Guaranteed shows strong results for 2021. Results are up in all product segments, especially, strong results come from paid-up policies in Norway and the and the guaranteed products in Sweden. This can be attributed to the strong financial results and profit sharing in addition to efficient operations and scale.

This time, we have slightly altered the upper left-hand graph to better visualize the underlying development in the guaranteed reserves. As you can see, the run-off business is in decline while slow guaranteed Swedish products and public sector pensions are increasing. Importantly, the strongest growth comes from customer buffers, improving the solidity and risk manageability of the portfolios.

Guaranteed reserves as a percentage of pension reserves continued to decline. Once again, we strengthened the buffers in the quarter. We have included this additional picture to improve transparency on the guaranteed portfolio. This picture is the same as on the previous page, but broken into the Norwegian and Swedish reserves. Smart guarantees are actively sold guaranteed products that gives protection to the customers and acceptable capital requirements and returns to us. The other segments results include transaction costs from the Danica Pension acquisition and higher earnouts relating to the excellent performance results in Skagen.

And with that, I finalize my presentation and give the word back to you, Daniel.

Questions And Answers

Operator

(Question And Answer)

A - Daniel Sundahl {BIO 20548519 <GO>}

Thank you, Lars. We will now move on to Q&A and are happy to take your questions. Please use the raise hand function in the Teams Webinar to be placed in line to ask a question. And first off today is Peter Eliot from Kepler Cheuvreux. Please go ahead, Peter. Sorry, Peter, we cannot hear you. We will just use the second --

Q - Peter Eliot {BIO 7556214 <GO>}

Sorry, hopefully, now you can.

A - Daniel Sundahl {BIO 20548519 <GO>}

Thank you. Now, we hear you Peter.

Q - Peter Eliot {BIO 7556214 <GO>}

Yeah. Thanks a lot. Three questions for me, please. First of all, I mean, you've flagged that you're expecting costs to increase this year by NOK400 million due to the growth initiatives. Are you able to give us some feeling as to what you expect payback period to be on that investment? Secondly, I mean staying on costs, I mean, I guess this year you've flagged quite a few things related to M&A, IT write-downs, I get the feeling it's inflated slightly. But your slide seems to take NOK4.4 billion, as a base going forward

So I was just wondering if you could simply explain to what extent you consider there are sort of one-off costs in this year's numbers? And then finally on the profit sharing paid up business was very strong, I just wonder if you could take us through how you achieved such a high return, and whether we might expect that sort of feedback in the future as well? Thank you very much.

A - Daniel Sundahl {BIO 20548519 <GO>}

Thank you, Peter.

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

Thank you, Peter. And let's start on the cost and the growth of the cost as Lars very well said, we are now seeing very strong growth in our business. We expect strong growth in our business also into '22 and '23, and we are fueling that growth. And that's why you also see the increased costs. So it's like Lars said, if we are not seeing the growth coming through with also combined result, we are not going to see this cost increase either. So it's very much a one to one effect where we expect to see result coming as we are taking this cost on.

When it comes to the cost base, we guided on NOK4.4 billion for this year, we deliver on NOK4.4 billion for this year. Yes, there is some timing issues between quarters and there is also, as we see it elements in this quarter that is somewhat above expectation. But then again, of course, this has been a year with the pandemic, we are opening up now. So there will be some more use of cost during 2022 compared to what we have seen in the pandemic world in 2021.

But you're absolutely right, that in the fourth quarter, we see some extra cost we have cost of the acquisition of Danica. We have also some smaller write downs, due to the fact that we are now lifting a lot of our business up in the sky. So, altogether this sums up to between NOK80 million and NOK100 million in extra cost, I would say in this the fourth quarter.

Then, on the profit sharing. I think it's fair to say that we are very well capitalized. We have very strong buffers in our guaranteed book of business now. And also, we have had a high look to return in the fourth quarter, some write up of the real estate portfolio increased the book to return in the fourth quarter and that led to also profit sharing.

Going forward of forward, of course, we need to have the book return, to have profit sharing, but there is also some changes in regulation, makes it more possible for us to take profit sharing in individual accounts, and not doing the same reservation on all accounts that we use to do now in 2021. So, the opportunity to take profit sharing will be better in '22 compared to '21, but we need, of course, to see the book return come true.

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

And I guess also like to add that with the higher interest rate we see now the expected return here will go up over time in the period of policy book, making profit sharing over time more likely.

Q - Peter Eliot {BIO 7556214 <GO>}

That's great. Thank you very much. Could I just come back very quickly on the first point? And I'm probably being very slow. So sorry if I missed it, but just to understand are you basically saying that you don't expect any P&L impact from the investments you're making because you expect that the income side to offset that.

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

Well, it's a lot of element of cost in our results increased the interest rates is helpful also, when you look at the return on our capital -- company capital, we have increases in prices as Lars said. We have, of course, the effect -- the full effect of the pension account coming into full effect in '22, as we have said have a negative effect of NOK100 million. But most of these investments we are doing, is investments in solution to watch our customers, that we will see also direct effects on the results on. So we have strong growth and we are seeing that the growth also comes into the P&L directly as we go.

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

Peter, if I may add a couple of comments. In the public sector, we went from almost nothing to winning all the contracts that were finalized, both in 2020 and 2021. In order to service those clients, we need people and systems et cetera. So this goes very much hand in hand. The same thing on SME Corporate Insurance, we need people, both in the public department, service department and claims department to deal with that. So this -- it really goes hand in hand with the income that we generate from these areas.

Similarly, Capital Investment, when we acquired Capital Investment, we got the people and systems that they have in place. But it comes with an income stream as well, a positive income stream. So these things go very much very much hand in hand and just to take an example, if we were not to succeed with SME P&C insurance, then obviously, we would scale down that initiative, and we would reduce the cost. Similarly, we've paid a fair amount of money for in provisions for external agents for our sales both in P&C Norway and pensions in Sweden, et cetera. And if the sale doesn't come through, then the provisions to agents doesn't come through either. So these things go very much hand-in-hand and they should have a positive impact on the bottom-line.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you very much.

A - Daniel Sundahl {BIO 20548519 <GO>}

Great. The next speakers -- the next question comes from Blair Stewart of Bank of America. Please go ahead there.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you very much indeed. I've got a couple of questions. One -- first was just a clarification on the profit sharing in Q4, how much of that was from one-off aspects, such as the real estate write up, please?

Second question. is just -- just sort of trying to get a solvency roadmap from here. The sensitivities are quite low to financial market moves. That's -- are we really just talking about organic build through retained earnings and if so, can you remind us what that should be seem to remember five or six points what's the guidance before?

The third question I had was, just on the unit linked business in Norway. I think the margin was 65 basis points in Q4, a bit lower than it had been during the year. Is that a good run rate for margins and unit like Norway?

And lastly, you've touched on some of this, but we've clearly had a big move in bond yields since the start of the year. I guess there's an initial negative mark-to-market impact and solvency doesn't seem to be much. But as you alluded to, there is reinvestment benefits, as we move forward, but presumably that's quite slow given the fairly long duration of your portfolio. So just clearly looking for some commentary around the impacts of these higher bond yields that we've seen year-to-date on your thinking. Thank you so much.

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

Thank you, Blair. If we start on the profit sharing as Odd Arild already said, it was very much related to the actual book to return. The book return comes from a lot of different sources. Real estate returns were good in Norway and Sweden last year. So that's part of the explanation, equity markets were good that's part of the explanation and as you know, a lot of our golden investments are in hold to maturity bonds or bonds at amortized cost. So that's a stable contributor to the book to return.

I think it's fair to say in the fourth quarter that towards the end of the year, we did have some write-ups of real estate values, due to -- I could give you some concrete examples, but that contributed positively towards the end of the year. It's impossible to take one asset class out of the total here, but we continue to invest to generate returns above the guaranteed rate of return and we succeeded with that last year.

Okay. Should I try on the solvency? I think the guiding the gave on our capital markets, was a 10% solvency increase based on regular results and generation in the business. Then maybe around 3% on top of that, due to the fact that we see that the back book is not rising and being reduced.

And of course, that will increase as we seen stronger and stronger run off of the back book, that's been very strong in Sweden for so for a while as I said, we also see reeled run off now from the Norwegian back book. And that should add on at least 3% points a year. Then, around half of this is normally used to normal dividend, and the rest should be for organic growth of solvency. Then again, of course, we are looking at different tools, as I have talked about before. And as I said in my introduction, we are very eager to start doing our share buyback program during 2022.

And some of the tools, there is opportunity to do some more subordinated debt in the business, absolutely very good room to do that. And we also after now the reform of the pension market in 2021, we can enter into a reinsurance agreement again for really the risk that we see in the solvency equation.

And also, of course, in the asset allocation in the FX hedging and so on, we see opportunities for looking at that. And if you look at the sensitivities, of course, what you have seen so far with increased interest rates and actually somewhat falling equities is both very helpful for the solvency ratio development this year. And on top of that, we also see that the volatility adjustments seem to be positive development so far. But of course, there is a lot of market movements here, but we strongly believe there is both tools and markets available to create the necessary solvency to come back and start our share buyback program during 2022.

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

On the unit linked Norway margins, you are correct that they are down very much according to the guiding that we've given in the markets along the way, and within the guided level that we mentioned on Capital Markets Day back in December 2020. So we said that the unit linked margins would go down to 60 to 80 basis points and unit linked Norway would be in the lower end of that range.

When it comes to bond yields, I guess that we have the largest buffers we've ever had. So even with some rising bond yields, we can take that with the customer buffers we have. And for in solvency sense, the higher bond yields gives us also a higher capital generation going forward. From an IFRS perspective, higher bond yields will increase the return on the company portfolios, roughly a percentage points higher, short-term interest rates gives somewhere in the area of NOK200 million higher result for Storebrand from the company portfolios, but then, of course also somewhat higher cost of debt. But positive IFRS effects for sure.

A - Daniel Sundahl {BIO 20548519 <GO>}

Good. Moving on, we'll take the next question from Vegard Toverud at Pareto. Please go ahead, Vegard.

Q - Vegard Toverud {BIO 17129809 <GO>}

Thank you. I have five questions if I can have them all. There seem to be certain cost increase in different areas in the DC products, retail bank, P&C, et cetera in Q4 Q-on-Q. Is there any specifics driving this quarterly development? And why are you so eager to do buybacks versus extraordinary dividend? That's the second question.

The impact of the pension account. It seems that all transfers are now down. But is it also so that we've seen the full impact on margins. You have gained some momentum in the public sector and you mentioned the NOK8 billion of transfers, what do you expect in growth for 2022?

And lastly, for the other segment, you mentioned, there's some earn-out the element. How much is the earn-out element in the quarter? Thank you.

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

Thank you, Vegard. Let me start trying to cover the four first, and get some help with the fifth. Well, if you look at the cost increase in Q4, of course, Norway has gradually opened up in the fourth quarter that it gives more activity. We have also done more on marketing, brand marketing and such in the fourth quarter. So there is so seasonal. So you need to look at the full year cost base, when you are guiding on this and not quarter-by-quarter. So, I think that is the most important moment, and I also mentioned, of course, some write downs, some increased cost for acquisitions and so on that adds on to the total cost base. But it's within what we guided on the NOK4.4 billion for the full year.

Then, when it comes to buybacks and dividends, we have had that discussion with our shareholders and we are open for that discussion with our shareholders. We have -- we'd like to do what is most effective for our shareholders and we got that message when you take all the input that a combination of ordinary dividends and share buybacks to take on our capitalization is a very good combination. But that, of course is open for debate if we got other signals from our shareholders.

Then, when it comes to the transfer of the market, yes, there was a large transfer market for D&C with a new reform in 2021. And we have had also a gradual impact in the fourth quarter of these transfers. So as Lars said, we have guided on the 60 to 80 basis point in margins, and with the Norwegian business at the lower end of this 60 to 80 basis points. So I think that is the best guidance we can give also now.

On the public sector growth, what we already mentioned that we won about NOK5.5 billion in new contracts at the end of last year. So this will be transferred in January this year. So they will be booked in the accounts, in the beginning of this year.

Then, whatever we win this year of, like NGOs and semi-public companies may add up during the year, it's difficult to give you an exact number. The largest part of this market is the municipality market and that is typically decided in the fourth quarter every year, with an actual transfer in January, the following year. So, what you will see now this year in terms of what is booked is what we won last year.

Yes, and just to add on that, we are very satisfied with the development within the public sector, we are now close to NOK20 billion in assets under management within this public sector. We have put forward a NOK5 billion target annually for growth and meeting that target also this year with NOK5.5 billion is, as we have planned for. And so far we have higher growth rate in this area, compared to what we expected when we started our emphasize into the public sector again.

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

And for the final question, the adjustment in earnouts in the quarter, its net effect of minus NOK23 million on the financial result line in the other segment.

A - Daniel Sundahl {BIO 20548519 <GO>}

Next.

Q - Vegard Toverud {BIO 17129809 <GO>}

Okay. Thank you. I just have one quick follow-up on question three there. The question is really if the full effect during the quarter is already in the margins. Since you're -- at the margins that you have guided. Are a lot of the transfer coming towards the end of Q4 so that the there's still a margin pressure on DC going into Q1 or is the level that we see in Q4 representative for the level that we could expect also in 2022. Thank you.

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

I think you can expect that the margin will continue to go down somewhat this year, but for the overall unit linked within the parameters set by or the guiding that we've given earlier.

A - Daniel Sundahl {BIO 20548519 <GO>}

Next up is Hakon Astrup from DNB Markets. Please go ahead, Hakon.

Q - Hakon Astrup {BIO 18861149 <GO>}

Hi. Thank you for taking the questions. Three questions from me. One on solvency, and M&A and other on Danica and the last one on insurance. Start one with solvency and M&A. You have a strategy of bolt-on acquisitions then you have been quite active over the last six months with Capital and Danica. So my question is, if the management and Board have any view on how much of the NOK10 billion in expected capital release, that will be used for M&A, and how much will be paid back to shareholders? That was the first question.

Second question on Donica. Can you shed some light on potential synergies here on the revenue side, cost and also capital? And if you can add some numbers, that will be very helpful. And on insurance, so given that we are seeing wage inflation coming up a bit in Norway. How will that impact health and group life and also disability given that wage growth is coming up? Thank you.

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

Thank you. Let's start with the solvency and M&A. Yes, we have done some bolt-on acquisition, and we have done that because we of course see that this is really value creative for our shareholders, using some solvency now, to create even higher results and dividend streams going forward. When we put forward this number of NOK10 billion, of course, that was a number that we said was limited to 2030. We see even higher opportunities for capital release when we prolong this period also for 2030 going forward.

So, I feel very confident that we will be able to do the dividends and share buybacks to really give this our capitalization back to the shareholders, and I feel very confident about the NOK10 billion that we have put forward, as an estimate for this capital release to shareholders.

When it comes to Danica and synergies, I think it's -- we added a page in the back of the presentation with the cost base and income stream from Danica it stands today. When we look at the cost base roughly, NOK70 million is from IT costs. And of course, we can take over this on our IT platform with very low marginal cost. So that, that is a very clear synergy. And of course, in addition, there is some overlap also within functions, that we will need to look at, but there will be some further synergies between the two company.

When it comes to the solvency side of things, we take over a company portfolio of roughly NON 1 billion, when we take over the company. It's roughly, we take it in on without really having to add any more capital at 150% solvency level, and we also see the potential to do, both subordinated debt do reinsurance and other measures to improve the capital position further in Danica, when you take it into Storebrand, as this is a leveraged company today, and also, with the -- without any use of reinsurance on that.

In addition, there are some diversification synergies on the capital side that will give maybe a couple of hundred millions in diversification effect from day one. So there's our significant synergies also in the case.

And on top of that, of course, we are very good to also develop the relationship with Danske Bank and the partners, and I will stress that for us this is a good, of course, business case as it's put forward. But also, on top of that, it gives us a broader distribution network in Norway for important parts of our business, and we are very eager to invest and find a good solution together with our partners going forward to maximize the effect of that.

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

And the final question was on the insurance segment, could you repeat the question, please, Hakon?

Q - Analyst

Yes, I can. Teeing up our at least we are expecting high wage inflation in Norway this year. And how will that impact that segment with higher wages and even Norway, you see some of the disability coming down you have to pay maybe a higher amount out to customers? That was the question.

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

Yes. Well, we are pricing our premiums as linked to the development in GE. And when GE increases then we increase premiums automatically. In addition to the GE increase, then we also have taken additional price increases and all the disability products that we sell through last year. And as I mentioned previously, that has been accepted by customers, so we do expect a higher premium income in this sector, that should have a positive impact on both group life, and disability insurance in Norway in 2022.

A - Daniel Sundahl {BIO 20548519 <GO>}

We will take three final questions. We will start with Ulrik Ardal Zurcher from Nordea. Please go ahead.

Q - Ulrik Ardal Zurcher {BIO 19208986 <GO>}

Thank you for taking the questions, and I'm sorry, maybe I'm very slow here. But how has the solvency margin been impacted by the significantly higher rates since year end so it seems end of Q4? That's first one. And the second one, I think I ask this one every time, but the negative unit linked premium transfer balance is Sweden it just keeps on like accelerating, when can we expect that trend to stop? Thank you.

A - Daniel Sundahl {BIO 20548519 <GO>}

Thank you. The rate effect in 2021?

Q - Ulrik Ardal Zurcher {BIO 19208986 <GO>}

In 2022 since year end.

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

So yes, do you want to start Lars?

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

Basically, you can read it off the sensitivities that we've given if rates go up by 50 basis points, which is illustrated in the sensitivity that we show and now we've had a rate increase of 40 basis points. So it's basically, you can read it off there. Then there will be some deviations due to twists in the curve and so on that are difficult to give an exact guidance on, but it will obviously have a positive impact.

But as I mentioned earlier as well, even more than the positive solvency impact immediately, is the positive impact on reinvestments going forward. So this really enables us to invest above with a good margin above the guaranteed rate of return for all the reinvestments we do, which reduces the duration gap and reduces the risk in the portfolio role, and therefore, strengthen solvency as those investments happen.

Q - Ulrik Ardal Zurcher {BIO 19208986 <GO>}

So is that last part, not a part of the sensitivity?

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

Well, it's a second-order effect, that doesn't come through in the sensitivity table.

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

So, I think if you use the sensitivity table, you should be close to a 3% when you look at the development in the interest rate level so far this year.

When it comes to Sweden, of course, you have seen a very special situation in Sweden during 2021 with the transfer balance, you will also have some impact in the first quarter due to the sales that you saw in 2021, and the transfers. But I will say that the market has normalized in 2022, where you see some of the elements with the provisions to clients to move, has been taken off in the market with some of the competitors -- all of the competitors actually. So we expect not to see these kinds of transfers out of the SPP continue during 2022. And the whole organization is very eager to turn this around to a positive transfer balance, again during 2022.

Operator

Thank you. The next question comes from Jan Erik Gjerland from ABG Sundal Collier. Please go ahead, Jan Erik.

Q - Jan Erik Gjerland {BIO 5346031 <GO>}

Yes. Thank you for taking my questions. Shorter on the solvency situation, the Danica transaction, if I remember correctly, it's said to be 5 percentage points negative when it was done. Is that still the case? When we look at the growth on the unit linked basis is this level as I said Lars, the EPK [ph] impact is this sort of a starting point for any changes for a competition going forward now at year end or is it more to come? And finally, on the IFRS 17, how does that affect you during 2023? How should we read your solvency situation from 1st of January next year when it comes to the solvency or the IFRS 17? Thank you.

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

Yes. On the solvency impact of Danica, we still have the guiding on 5 percentage points. But as Odd Arild said a few minutes ago, we will -- when it has been approved and integrated, we will be able to do both some subordinated loans and lapse and take out also some synergies between the companies in the capital calculation. So the impact will be much less after full integration.

Q - Ulrik Ardal Zurcher {BIO 19208986 <GO>}

So more 2-ish or is that optimistic?

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

More likely half of that, the topped impact of the 5%.

Q - Ulrik Ardal Zurcher {BIO 19208986 <GO>}

Okay. Thank you.

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

I missed the second question so --

Q - Ulrik Ardal Zurcher {BIO 19208986 <GO>}

The -- you had linked (inaudible) and base now is this the real starting point for any more competition or from here or is this sort of still seeing margin and volume impact also in January from (inaudible)

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

No, I think you have now seen that the full transfer being, coming into the market through 2021. We are now at the point where down -- our pension account is established. And we still have our portfolio of (inaudible) Pension Capital Certificates that will increase from this level on. And of course, as Lars said we are doing price elements now, especially for our risk products. So, we are now in a stable situation, so to say and expect of course to be competing in the market, and look at positive transfer balances going from here.

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

On the last question on IFRS.

Q - Ulrik Ardal Zurcher {BIO 19208986 <GO>}

Maybe follow up on the risk one, if I can. Is the risk pricing then ending up in the insurance operation and not in the unit linked business the repricing of disability?

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

That's correct.

Q - Ulrik Ardal Zurcher {BIO 19208986 <GO>}

For the repricing either? Thank you.

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

On the IFRS question, the IFRS 17 there is a change in the accounting standards, which will come through and reported for the first time in the first quarter 2023. It does not impact the solvency at all, but it's a new way to look at the value creation within P&C insurance, and life insurance.

It does not apply to the subsidiaries or the dividend capacity, and it should not impact the cash creation in the group. So overall the IFRS 17 will be a new way to report results, but it should not impact the solvency position or the dividend capacity.

Q - Ulrik Ardal Zurcher {BIO 19208986 <GO>}

Thank you. Very clear clarification.

A - Daniel Sundahl {BIO 20548519 <GO>}

And the final question is coming from Thomas Svendsen in SEB. Please Thomas go ahead and happy if you can try to keep it to one question, sorry. We are running out of time. So we need to unmute you I believe or you need to unmute yourself.

Unfortunately, we're unable to hear you still. Here we go, perhaps. Sorry, Thomas, we cannot hear you. So I think we'll give you a call later afterwards, and take your question then. Ladies and gentlemen, thank you all for your questions. We have reached the end of the today's presentation. Our next quarterly results are due on the 4th of May and we look forward to seeing you then. Thank you for tuning in. Have a nice day. Goodbye.