Q1 2021 Earnings Call

Company Participants

- Daniel Sundahl, IR Officer
- Lars Aasulv Loddesol, Group CFO
- Odd Arild Grefstad, Group CEO

Other Participants

- Ashik Musaddi, Analyst
- Blair Thomson Stewart, Analyst
- Håkon Astrup, Analyst
- Jan Erik Gjerland, Analyst
- Peter Eliot, Analyst
- Thomas Svensson, Analyst
- Ulrik Årdal Zürcher, Analyst
- Vegard Toverud, Analyst

Presentation

Daniel Sundahl {BIO 20548519 <GO>}

Good morning, ladies and gentlemen. And welcome to Storebrand's First Quarter Results Presentation. My name is Daniel Sundahl. I'm Head of Investor Relations. As usual, we will start with our CEO, Odd Grefstad, giving you the main highlights of the quarter. And afterwards, our CFO, Lars Loddesol, will take you deeper into the numbers. At the end of the presentation, we will open up for Q&A. (Operator Instructions) But without further ado, I give the word to CEO Odd Grefstad.

Odd Arild Grefstad {BIO 5483351 <GO>}

Thank you, Daniel. ,Good morning, everyone. Storebrand reports a strong result and an exceptionally strong growth in the First Quarter 2021. The profit of NOK 870 million is driven by continued growth in assets under management and insurance premiums. Unit Linked reserve grew by 33% compared to the First Quarter in 2020. Assets under management grew by 19% year by year, and is amounting to NOK 987 billion. Annual portfolio premiums in insurance grew 14% compared to the same quarter last year. A healthy top line growth has been combined with strong cost control throughout the group.

The focus on sustainability continues. Storebrand has successfully announced its first-ever Green Bond issued from a Nordic insurer. A Tier 2 bond of EUR 300 million. Increased long-term interest rates have improved the solvency ratio in the quarter. Given the current interest rate level, Storebrand does not benefit from transitional capital anymore. The solvency ratio was 176% at the end of the quarter, an increase of 10percentage points from the last quarter's underlying solvency ratio. Issuance of new subordinate debt also added positively to the solvency ratio, while regulatory solvency factors reduced the solvency ratio in the quarter.

Moving to Storebrand's strategy. Storebrand follows a twofold strategy that gives a compelling combination of capital-light 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 continue a strategy to build a Nordic powerhouse in asset management as well as ensuring fast growth in -- as a Salinger in the Norwegian retail market for financial services. The combined synergies stemming from capital, customer base, cost and data across the group provides a solid platform for profitable growth and value creation. The ambition is to deliver a profit before amortization and tax of about NOK 4 billion in 2023.

Storebrand also continues to manage capital and a back book with guaranteed products for capital release. This leads to our dividend policy of growing ordinary dividends from earnings as well as an estimated capital release of NOK 10 billion towards 2030.

Moving to the strong growth across all our Future Storebrand. Unit Linked reserves grew by 33% compared to the First Quarter in 2020. The growth in Unit Linked savings is driven by premiums from existing contracts, new sales, investment returns and increased savings rates. This gives a 9% premium growth year-by-year.

Assets under management, and Storebrand asset management increased by NOK 25 billion or 3% to NOK 987 billion in the quarter. The growth is driven by positive net flow from new sales as well as market returns. However this quarter, currency effects fully offset the market return in the quarter. Within insurance, the overall portfolio premium grew by 14% year-by-year with a 40% growth in the pure P&C and individual life portfolio premiums. P&C growth is partly driven by the portfolio transfer from Insr.

The bank lending portfolio increased by NOK 2 billion or 4% to NOK 52 billion during the First Quarter. The portfolio consists of low-risk home mortgages with an average loan-to-value of 55%. High digital interaction and activity among retail customers is contributing to strong growth with a significant high percentage growth in retail savings, 33% increased year-by-year, and a 40% growth in P&C and individual life where onboarding on the Insr portfolio is moving faster than planned, and we have already transferred close to NOK 500 million in annual portfolio premiums by the First Quarter. The strong growth in -- and digital activity demonstrates our position as a digital front runner.

Regarding Individual Pension Account, Storebrand experienced strong interest from our customers, but low numbers in actual movement in pension accounts in the market.

We have, however seen increased activity on our digital platform from the introduction of Individual Pension Account that has contributed to increased retail sales. It is very satisfactory to see that Storebrand asset management is the fastest-growing Nordic asset manager in 2020 with a 15.17% growth. The growth is driven by positive net flow from new sales as well as market returns. We are especially pleased with the strong demand for our private equity solutions from Cubera and our new partnership with infrastructure investments.

As presented in 2020, a new growth area for Storebrand is public sector occupational pension where Storebrand won its first mandates in 2020, transferred into the balance in the First Quarter of 2021. This has resulted in a large net increase in defined benefit reserves in the Norwegian business of NOK 7.5 billion in the quarter.

Moving to the announcement this morning of the sales of Værdalsbruket. Storebrand has connected strategic review of its ownership of AS Værdalsbruket and has entered into an agreement to sell 100% of the shares in AS Værdalsbruket to Fabritius Gruppen AS, fully owned by Gjelsten. As Værdalsbruket is the second largest private landowner in Norway located in (inaudible) county. The main activity are forestry, sawmill and limestone extraction. Storebrand has owned AS Værdalsbruket since 1935.

We are pleased to have found a new owner who wants to preserve and further develop the business in a good and sustainable way. The transaction is estimated, a positive impact of approximately NOK 500 million on Storebrand's group result in the Second Quarter 2021 and add 2percentage points to Storebrand's group solvency ratio also in the Second Quarter. Completion of the transaction is expected to take place of May 2020. And with that, I give the word to our CFO, Lars Loddesol.

Lars Aasulv Loddesol {BIO 3969188 <GO>}

Thank you, Odd Arild. Good morning, everyone. The First Quarter 2021 was a satisfactory quarter with NOK 870 million in group profit and NOK 671 million in operating profit. Revenues were up and costs under control. Insurance results were generally on the weak side. More details on that in a moment.

Due to a higher tax charge in the quarter, earnings -- sorry, with the increased interest rate level in the quarter, we are now entirely out of the transitional solvency capital, and the underlying solvency is up by 10percentage points to 176%. Due to a higher tax charge in the quarter, earnings per share after-tax adjusted for amortization is on the weak side. I will revert to this.

Despite the significant rise in interest rates, we have been able to maintain most of our -- most of the customer buffers in Norway and actually increase them in Sweden. This is due to good returns, the asset liability match in Sweden and a large portfolio of bonds at amortized cost in Norway. The solvency of Storebrand is now without transitional capital. The solvency has strengthened by 10percentage points to 176% in the quarter, primarily resulting from higher long-term interest rates. This is somewhat below analyst expectations, which may be attributed to a negative impact from symmetric equity stress and other regulatory changes. Furthermore, strong business growth in the public sector and the bank dilutes the solvency position initially, but as solvency -- or is positive to solvency generation over time.

The regulatory solvency is down by 2percentage points as we no longer benefit from transitional capital. The underlying solvency is up 10percentage points to 176%. The sensitivities show strong resilience to further market development. The solvency position is more robust as the UFR is lower and the equity stress is higher. It means that it's easier to invest at the solvency discount curve and that a potential fall in the equity markets will be neutralized by a lower equity stress factor.

Fee and administration income is up 9%, adjusted for currency movements. The Insurance result is significantly better than last year, but negatively impacted by seasonal swings and some one-offs. Costs remain under control despite growth related to the acquisition of the Insr portfolio and acceleration in digital investments, as communicated on our Capital Markets Day in December last year.

The most noteworthy item on this table is the non-payable tax charge of 41%. We have currency hedged part of the investment in our Swedish operation. Accounting-wise, the value of our investment in SPP will fluctuate with the Swedish kroner and Norwegian kroner currency cross. This does not have tax implications. The currency hedge, however is a taxable financial instrument.

In the First Quarter last year, we got a tax income from a stronger Swedish kroner. In the First Quarter this year, we saw the opposite effect. Furthermore, under IFRS, we have to account for a tax liability on Swedish real estate investments despite the fact that this will never lead to any actual taxes being paid by SPP. This has a negative effect of NOK 44 million in the quarter, but it will have limited effect from here on. The underlying normalized tax rate for the Storebrand group remains at 19% to 22%.

In the lower table on this slide, we find the same group figures, as on the previous page, broken into our 3 result segments. Savings, Insurance and Guaranteed. Savings show strong growth. Insurance is significantly up from last year, but below our ambitions and market expectations. Guaranteed shows a good quarter after strong financial results from the Swedish operation. Other contains the operating cost in the holding company as well as company portfolios and debt expenses.

Continued strong growth and good cost control drives improving operating profit in Savings. The weak financial result in the First Quarter of 2020 was related to the market turmoil caused by COVID-19. The financial result this quarter is slightly above expectations. All underlying business areas show significant improvements from last year. Unit Linked Sweden includes a special income element of NOK 36 million. The result in asset management has been reduced by NOK 26 million in performance-related expenses due to good relative performance in many of our active funds. Earned but not booked income amount to NOK 73 million and will be booked in the Fourth Quarter. The fixed result, i.e., the result without performance-related income or expenses, is NOK 181 million, the strongest on record.

This picture illustrates continued good premium growth. A 33% growth in reserves and Unit Linked as well as 19% growth in asset management. A combination of strong sales, structural growth and good market returns drive the growth. If it had not been for the stronger Norwegian kroner in the quarter, assets under management would have passed a cool NOK 1 trillion.

The bank once again -- is once again growing after a period with flat development. The margin is satisfactory given the low interest rate environment. The insurance area also shows good growth in premium income. Operational cost is up primarily as a consequence of the acquisition of the Insr portfolio last year. Claims are negatively affected by a negative prioritization effect in SPP of NOK 28 million.

In P&C, we traditionally have larger seasonal claims in the winter, which is also reflected in the results this year. Furthermore, the weak employment market continues to reduce reactivation, i.e., it's more difficult for people on long-term sick leave to find a way back into the workforce. The latter situation is an industry-wide problem and is expected to -- or a nationwide problem and is expected to continue for at least the next quarter. We expect a return to normal reactivation levels when the pandemic, hopefully, is under control in the second half of the year.

The result in P&C and individual life is strongly up from last year. Health and group life is weak due to disability and low reactivation, where the pension-related disability insurance Nordic is hurt by both prioritization issue and lack of reactivation mentioned above. The COVID-19-related reserve strengthening we made in the First Quarter last year remains untouched and creates a cushion for long-term health effects from the pandemic as well as potential permanent changes in disability claims patterns.

Here, we see that the combined ratio ended at 98%, above the targeted 90% to 92% following the issues commented on the previous page. There is strong growth in P&C insurance and individual life with 40% growth in portfolio premiums. This is partly explained by the takeover of the Insr portfolio, but also successful development in our partnerships.

We are ahead of the business case for the takeover of the Insr portfolio, and we are now targeting around NOK 700 million in new premiums to be moved to Storebrand by the summer. The Insr portfolio is onboarded on satisfactory tariffs and we see no adverse claims development.

Guaranteed shows satisfactory development in operating profit and strong profit sharing from the Swedish operation. Defined benefit in Norway is weak due to risk results impacted by higher disability claims and low reactivation. Guaranteed product Sweden showed good results after realizing high financial returns in the quarter, in particular, related to a sale of a property that generated a nice book profit.

The small reduction in reserves in (inaudible) is a result of 2 major elements: first, we have taken on around -- or NOK 7.5 billion in public sector assets after winning several public sector customers as of January 1. This is good growth. The other major factor is a weaker

Swedish kroner, reducing the value of the Swedish kroner assets as measured in Norwegian kroner. The third element worth to notice is that Euroben has been reclassified from a subsidiary under other to guaranteed products in Sweden. The reserves of Euroben are around NOK 10 billion and profitable and with low-risk to shareholders.

Due to higher interest rates in the quarter, buffer capital is in the form of market value adjustment reserves, and excess value of bonds at amortized cost has gone down. At the same time, we have managed to build reserves in additional statutory reserves and conditional bonuses in Sweden. The healthy buffers we had coming into the year reduced the negative results -- the result effect of higher rates in line with the strategy and the risk management policy. The higher rates have been used to extend the maturity profile of our bond portfolios to reduce interest rate risk and manage reinvestment risk. The balance sheet is stronger than ever and guaranteed reserves as a percentage of total pension reserves continue to fall.

After the closure of Banco and the transfer of Euroben to SPP, what remains in the other segment are the company portfolios of around NOK 32 billion, and the holding company senior debt and life company sub debt of about NOK 10 billion in total. The financial result is negatively impacted this quarter by NOK 35 million due to repurchase of EUR 50 million of subordinated bonds, which will reduce the interest rate expenses going forward.

One subsidiary remains in these figures, and that is Værdalsbruket. I can already now guide you on extremely good results under this segment in the Second Quarter. To sum it all up, the First Quarter of 2021 is a quarter that demonstrates continued strong growth in our core -- in our strategic core. Strong financial risk management that supports both superior returns to our clients and resilience to volatility in financial markets and a strong balance sheet. And with that, I give the word back to you, Daniel.

Daniel Sundahl {BIO 20548519 <GO>}

Thank you, Lars, and thank you, Odd Arild. With that, we will open up for Q&A, and I give the word to the conference call operator.

Questions And Answers

Operator

(Operator Instructions) First with Peter Eliot from Kepler Cheuvreux.

Q - Peter Eliot {BIO 7556214 <GO>}

So the first one was on solvency. I was wondering could you just give us an idea of how far you currently are from transitionals kicking in? I mean maybe how far interest rates would have before you did get transitionals back or something like that? Very helpful. Second one was on today's divestment. I'm wondering if there are any other similar assets you've got that might potentially be looked at the strategic review in the future? And also whether there's any tax implications either from today's sale or any sort of possible future sales?

The (inaudible) Was on Insr. You said it was going faster than planned. I'm just wondering, are you able to update us at this stage on what premiums you sort of expect to ultimately receive from it? And maybe if I can very, very quickly squeeze in a fourth one. Just on what you were saying last -- just now your explanation of the sort of weak employment market and low reactivation rate impacting the results. I just -- that comment seemed quite similar to the reasons that you gave last year for the reserve strengthening.

So I'm just struggling to reconcile the comment that the reserve increases are sufficient, but they're still dragging on the results. I'd probably missed something and there's probably slightly different effects. But if you could explain that, that would be very helpful.

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

Peter, unfortunately, the first part of your question disappeared in some technical issues on our side. But I heard the last question. I will try to reply to that. Then you unfortunately have to repeat the first question. But on reactivation, it's correct that the explanation of weak disability results in the third, Fourth Quarter last year as well in the First Quarter this year is similar, i.e., as long as the situation continues with a weak employment market as a consequence of the pandemic. And a lot of Norway and Oslo, in particular, is basically all closed currently, we will expect weaker reactivation levels. However the reserves that we set aside in the First Quarter last year were for the long-term effects of long-term health effects of COVID-19, i.e. like people will have long-term sick effects, not just temporary sick effects. And furthermore, that there will be changes in the long-term disability claims patterns in society. So we set aside extra reserves for the long-term effects of COVID-19. But the fact that we have lower reactivation on a temporary basis as long as a pandemic last is something that we are taking on in the results every quarter.

Q - Peter Eliot {BIO 7556214 <GO>}

Perfect. The other questions I asked were, firstly, on solvency, how far you are from the transitionals kicking in? And the second one was on today's divestment that you announced, and I'm wondering whether you've got any other similar assets, which you could potentially sell? And also whether there's any tax implications either from today's sale or possibly any future ones? And the third one was on Insr. You said it was going faster than planned. I was wondering if you now had a view on sort of what the ultimate amount of premiums that you might get from that business is?

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

Okay. If we start with how long -- how far we are away from transitionals, I think you can see that on Page 10 in the analyst presentation that if interest rates were to fall by 50 basis points, we would get about 11percentage points of transitional capital back into the regulatory solvency. So I guess that's the best answer I can give, not exactly in terms of basis points because it will depend on the whole curve and a couple of other factors. When it comes Værdalsbruket, unfortunately, I cannot say that we have a lot of these type of assets. It's been a long history with Værdalsbruket. It's been owned by Storebrand since 1935. We have, of course followed that investment very closely. I think now it's the right time to sell it and give it to a new owner. This is -- I see as a very good sale from Storebrand, NOK 500 million in result and a 2% point in increase in solvency that will come into place in the Second Quarter. But you should not expect us to have more of these type of assets.

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

And on the tax side, there's no tax implication from the sale. It's the tax under Norwegian tax law.

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

And on the total insurance, Insurance -- no, Insr takeover. As I mentioned, we expect to take over most of the portfolio by the summer. It will probably end up in excess of NOK 700 million in portfolio premiums.

Operator

The next questions come from Ashik Musaddi from JPMorgan.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Just a few questions I have is, first of all, how do we think about the solvency ratio hurdle of 180%, given that you have raised solvency debt into this quarter? Does this mean that, that debt will be part of that to 180% hurdle going forward as well? Because in past, you mentioned that you don't want to return extra capital, which is supported by debt issuance. So that's my first question. The second question would be, can you just give some more thoughts about the movement in solvency ratio in the quarter? Because it was lower than expected, and it was largely driven by the equity spreads and model adjustment, et cetera. Can you give a bit more color on that as to why was it very different from the sensitivity that had been provided? Suggest us to understand like -- and we don't get it wrong in the future. So that would be the second question. The third one would be any thoughts on this Individual Pension Account, which has been introduced this year? I mean how should we think about margin development going forward? Should we be expecting like 1 basis point decline a year in terms of revenue margin or 2 basis points? Or any color on that would be very helpful. The reason why I'm trying to get a bit more color is given that you would have already seen some impact in First Quarter. So any thoughts around the annual view would be great.

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

If I start on the solvency ratio, I think what we have said that there should not be a material impact from transitional rules when we look at 180%. That debt refinancing and debt -- subordinated debt is absolutely full part of our solvency ratio. There's no conditions around that. We have a strong solvency ratio of 176% now. We, of course aim to be in position, as we have talked about, to start share buybacks, hopefully in 2022.

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

I should say that the subordinated debt that we have issued now is part of the capital management framework. It does not -- there is no reduction in terms of solvency level for share buybacks. So it's part of an appropriate and good capital management structure of the group. And absolutely no negative effect, quite the opposite on our ability to do share buybacks and regular dividends. In terms of the movement, there will always be some model and assumption changes relating to the changes in the business, and it's difficult to predict exactly what they want to be beforehand because as soon as we build them into the model or the business changes, it will lead to model and assumption changes.

In this quarter, they amount to approximately 2percentage point negative. On the regulatory changes, there's a small uplift from VA, but the UFR is lower. The fact that the UFR is lower, it's the solvency of approximately 3percentage points. But it must be also said or repeated that with the lower UFR, it's easier to reach a financial return above the discount rate in the solvency model, which means that we will create more solvency capital over time. And thirdly, the equity stress was up quite strongly this quarter, and partly because of the way it's structured that based on European equity markets.

So European equity markets did well this quarter. That means that the equity stress goes up, more than would be indicated by world economic -- world equity markets where we have a -- we are more invested towards a MSCI world basket whereas equity stress -- symmetric equity stress in the -- under EIOPA is more based on the European markets. So I think that probably explains most of the -- that's about 5percentage points in terms of negative impact.

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

I just want to stress that I really feel that the movement in the solvency in the quarter is strong and the negative effect is actually also, on the long term, very positive for us because the equity distress now reaches the level where it's not going to be increased much more. The reduced UFR means that the hurdle rate going forward is reduced and will create faster solvency generation.

On top of that, the very strong business growth is, as we have shown, with very high double-digit return on equity. It's very profitable. But of course at the 180% solvency level, it will have some watering out the solvency ratio in itself, but it's the best way of creating value for the group long term. So I feel it's a strong set of solvency ratios and the negative elements is all for the good causes. We showed the picture on the Capital Markets Day indicating that the bank solvency is 110% to 120%, that the Unit Linked business, 140% to 160%. But that means that when you add more business in these areas and you blend it into 180% or 176% solvency, you get the dilution effect day 1. But that (inaudible), it does create more solvency cation going forward, it's profitable growth for Storebrand.

It, over time, will reduce our -- reduce the need to have 180% to -- in order to do share buybacks or special dividends. As indicated on the Capital Markets Day that could go down in a few years' time. When it comes to the Individual Pension Account, as I said in my presentation, there has been a limited transfers in the market altogether. But we will see gradually the capital set of cases during the year being included in the Individual Pension Account. And as we said on our Capital Markets Day that will reduce as we see it, the result element from defined contribution in Norway altogether with around NOK 100 million in 2022. But there is a strong growth in the portfolio. And already in 2023, we expect to be at the same level in research generation from this portfolio as we see this year and last year. Of course strong growth in combination with very strict cost control will lead to a situation with continued growth in this portfolio after the NOK 100 million dump in the route, so to say in '22.

Operator

The next question comes from Håkon Astrup from DNB Markets.

Q - Håkon Astrup

Two questions from me. The first question on Insurance. Do I understand you correctly that you think it will be difficult to reach your combined ratio target of 90% to 92% in 2021, I think given the headwinds that you expect from disability? That was the first question.

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

No. We still aim to reach 90% to 92% in combined ratio for the full year. And as you saw last year as well, we had a bad First Quarter, but then we had a couple of quarters in the mid-80s. So we made up for the shortfall in the First Quarter.

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

Should also add that, of course the strong growth in the portfolios now comes in with cost initially. But during the year, we will have much more income from the portfolios, and then we also will have a better research generations, especially in other lines in P&C during the year.

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

We're also constantly monitoring the profitability in the different product lines and making adjustments where needed.

Q - Håkon Astrup

Perfect. That was very clear. The second question, a bit more high-level one, and that is on the bank. So how do you see the position of Storebrand Bank going forward given a potential murder -- merger, sorry, between Sbanken and DNB?

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

Hope it's not a murder. But now, of course this Sbanken has been a digital foreigner in the banking market in Norway. It's a highest customer satisfaction in the market. I think an acquisition of Sbanken of from DNB open up the space for other digital-based banks as Storebrand Bank. Of course we are very eager to take our (inaudible) share of the growth in the banking market to expand our retail position that are in very strong growth, as we see from the numbers this quarter. We look very forward to meet that opportunity. And you see that the growth in this quarter of 4% points of more than NOK 2 billion in growth of the loan portfolio. That is a good start of the continuing growth and development of Storebrand Bank.

Q - Håkon Astrup

And just to follow-up. So I'll just see a potential of different strategic options for Storebrand Bank going forward?

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

What do you mean with strategic options?

Q - Håkon Astrup

Yes. I mean in the past, you have talked about that you -- that in future, for instance, go into partnership with other banks or et cetera? Or do you still feel that Storebrand Bank works best on itself?

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

We, of course always follow the market very closely. But we feel that having the bank operation, together with the insurance operations and the saving setup in our retail business, that gives us the opportunity to have the best solutions for different groups of customers. Adding these types of products together in good value propositions for our customers and having a fully owned bank, that doesn't need to be the largest bank in the market, but needs to be a good bank solutions, especially on the savings side, together with our savings strategy. That is important. So we are very happy with Storebrand Bank and are happy to grow it organically from the point we are today.

Operator

The next question comes from Ulrik Zürcher from Nordea.

Q - Ulrik Årdal Zürcher

And congratulation for a fantastic inflow momentum. Really happy to see that. But I ask two questions. The first one is you had a negative Unit Linked transfer balance in Sweden two quarters in a row now. That's -- it's been years since you had that. Is there anything specifically going on in that market we should be aware of? Or why have you been losing some business there? Second question, I was just wondering if it would be possible to be a bit more specific on the P&C claims ratio. That was up, I think 14percentage points Q-on-Q effect was just driven by the cold winter in Norway or product mix given your new business? Or what was the driver there?

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

So on the negative Unit Linked balance in Sweden, we see especially one competitor that offers quite high compensation for transfers in the Swedish market. So we've seen some more -- some transfers to one competitor, in particular, due to high compensation from them. That's a very costly growth strategy. We've implemented measures to counter that, and we continue to have high ambitions for a positive transfer balance over time in Sweden. On P&C claims, in addition to normal seasonality swings in the winter, there was also a runoff loss for motor in the quarter of NOK 15 million, which is -- yes, we have -- so that was more negative than we've seen in the past. Hopefully, that was a one-off runoff loss.

Operator

The next question comes from Blair Stewart from Bank of America.

Q - Blair Thomson Stewart {BIO 4191309 <GO>}

I've only got a couple of small questions left. Firstly, in the DB fee segments. I just wondered why the fee income wasn't any higher on a quarter-on-quarter basis, given that you've taken in the transfer balance from the public sector? Or was it just simply too early to see any benefit of that? Or is there something else going on?

Secondly, the loss of the group life contract, which was about NOK 275 million in premiums. I just wonder if you can talk a little bit about that and what the -- if any P&L effect of that is, I'm assuming, because it's left you that it wasn't very profitable, but perhaps not? And finally, just on the pension-related disability line. I think you took a NOK 28 million hit from Sweden. Was that just an error in the previous quarter that had to be rectified? Or was it something else?

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

Good questions, Blair. On the DB fee income, we -- the old DB portfolio is in runoff, so that goes down with premiums going down as well. But then we have the public sector funds that came into this portfolio the way we book it in the quarter. And unfortunately, not all of the income relating from that portfolio has been fully recognized in the quarter simply due to the fact that we are taking on board this currently and some of the income -- fee income related to that will be booked in the Second Quarter.

So that's only -- like the takeover procedure has a delay in the fee income recognition. So your question is accurate and well spotted. On the group life loss of this one particular client, the reason why we lost it is because we priced it in a way that should provide profits, and it has not been very profitable for us. So losing an unprofitable client is acceptable. It does lead to lower premiums. So we do have to adjust somewhat on the cost side, but very limited. So it should not have any significant P&L nor balance sheet impacts in the short to medium or at all. On the NOK 28 million in Sweden, we were on disability or sick leave claims in Sweden.

We booked NOK 28 million too much -- or a positive result, which was NOK 28 million higher than it should have been due to a technical error during last year. That has been reversed now. It was still very profitable with disability insurance in Sweden last year, but NOK 28 million less profitable than what can be seen from the accounts of last year. That has now been rectified, and we do expect continued positive results from this business line in Sweden going forward.

Operator

(Operator Instructions) We have a question from Vegard Toverud from Pareto Securities.

Q - Vegard Toverud {BIO 17129809 <GO>}

I have three questions. First, Værdalsbruket, should you slow the sale price or confirm that you have booked it at around NOK 60 million in your account?

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

We can confirm that the sales price was a little bit higher than NOK 800 million, and that means that the booking in our account was a little bit less than NOK 300 million.

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

But the reason why you asked about NOK 60 million is probably because it's been booked partly in Storebrand ASA and partly in Storebrand Life.

Q - Vegard Toverud {BIO 17129809 <GO>}

Yes. As far as I could tell this morning, it was a little lower, but we could follow-up on that maybe on e-mail. On the transfer marketing, seems also that the net transfers of DC in Norway are quite negative compared to what it used to be. Is there any change in the competitive environment? And who are you losing premiums to here?

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

It was very tough competition last year on defined contribution contracts in the Norwegian market ahead of, I guess positioning, ahead of the IPA, the Individual Pension Account market -- no, sorry, yes, the Own Pension Account market. So we did lose some contracts in the Fourth Quarter that were booked in the transfer balance now.

Q - Vegard Toverud {BIO 17129809 <GO>}

Is it possible to say where these premiums are going? To which competitor?

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

Well they went to different competitors, but I don't know.

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

No I think it was a lot of different mandates and tender offering from all the different competitors last year. We won some, and we lost some and it's, of course all the still -- the large players in the market that both had some losses and some gains on that with DNB and Nordea, maybe as the largest competitors to us in this market.

Q - Vegard Toverud {BIO 17129809 <GO>}

Okay. Then lastly, as you expect also a lower reactivation next quarter, is that already in the accounts? Or have you provisioned for it now? Or should we expect also lower results for the next quarter?

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

No. I would expect reactivation to be low until the employment market normalizes somewhat. And as long as Norway is closed, we expect lower reactivation and lower disability results in the Second Quarter. But as I mentioned, when the whole service industry and those kind of industries open up again hotels, traveling, restaurants and cafes and bars. Hopefully, that will open up sometime during the summer or, at least, in the Third Quarter. That should pull away a lot of that lack of reactivation that we've seen in the last few quarters. So we try to reserve for the long term effects, but the short-term implication on reactivation has not been reserved for. So it leads to an expected weak result but not losses.

Q - Vegard Toverud {BIO 17129809 <GO>}

Okay. And could you then just potentially give some details on which lines will this hit the group life and the DC-related pension in insurance and also some in the Guaranteed segment?

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

Well that's what we've seen historically that we've had both in the -- some of the group life contracts in the DB contracts as well as the disability in Norway linked to defined contribution contracts.

Operator

The next question come from Peter Eliot from Kepler Cheuvreux.

Q - Peter Eliot {BIO 7556214 <GO>}

I have 3 more questions, please. The first one was Swedish Unit Linked. The fee margin was very high this quarter, 89 basis points. I'm just wondering if there's anything sort of particular that was driving that? And I mean I guess given your comments about needing to be a bit more competitive, might that put a bit of pressure on that going forward? Or how should we think about that?

That would be great. The second one, I mean also in Sweden, you posted a very strong consolidation ratio at 111%. I mean I guess that just means that the income you already talked about should be more secure without meaning you can go up to the next level, but any comments you can make on that would be very helpful.

Does it give you any sort of more flexibility? Or what does that mean for you? And the third one, just on the asset management net flows, obviously very strong across the group. Would you be able to split those into sort of Storebrand and Skagen? And any thoughts on the outlook there, sort of pipeline you're seeing, how that might develop would be very helpful.

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

Okay. On the Swedish Unit Linked margin, you're right, it was 89%, but it includes a one-off transaction fee of NOK 36 million. So adjusted for that, it's 0.78. That's in line with the slow decline in the margin in Swedish Unit Linked overtime. So if you make that adjustment, you will see a normalized development. On consolidation of 111%, you're correct. It ensures that we will get the consolidation -- the indexation fee going forward. It was booked with NOK 37 million in this quarter. It includes one more small portfolio in addition to the one that you have in your spreadsheet. So you should expect that to be slightly higher than it has been in the past. But you're correct, the next level before we get a significant jump in further indexation fee is at approximately 120%. So that's much higher up. So it ensures that we will get the indexation fee, and it's slightly more than it has been.

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

When it comes to the flow in asset management, as you say it's a very strong flow numbers altogether. Of course on the Storebrand side, an example with the NOK 7.5 billion in transfer in the public sector is a very positive flow in our captive asset management business. But the very strong growth also come from alternatives, and especially Cubera on a real estate side. We also now started doing very positive business with infrastructure. So these elements are the main drivers on the external side for the growth. Together with, of course our bread and butter business in asset management that goes to institutional players. When it comes to more active business like -- active funds like Skagen and also Delphi, we now see a very strong return. That's also, as Lars said, we have very positive performance fees that is not booked, but we have to take, of course the cost as -- on a quarterly basis. So we have a very positive outlook when it comes to our active mandates due to the strong relative and absolute performance we see in these mandates going forward. But the main drivers for the growth is, as you understand, the growth in Storebrand as it comes from our captive business, but also very much external business due to alternatives.

Operator

(Operator Instructions) We have another one in the queue already, and that's from Thomas Svensson from SEB.

Q - Thomas Svensson {BIO 17516221 <GO>}

Just a follow-up on the asset management flow there. So your long-standing ESG profile, how do you think that will benefit you for the next couple of years? Is it so that everybody is green now. So you will not get an extraordinary mandates as a result of your ESG profile? And secondly, on the public -- and so far, what is the potential of the pipeline for flow of funds from the public sector in the next couple of years?

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

Well thank you. We feel that we are perfectly placed in the market with our ESG profile for our asset management. Been performing this kind of asset management now in more than 25 years, gives us a very strong position for ESG mandates. That is, of course important for all our business, but we see that the Nordic growth and international growth in special is absolutely important with the ESG solutions we can offer to the market. It's a full very broad range of it from index funds that are very much ESG-linked without high tracking errors to specialized funds, very focused on ESG. So that is a very strong sales point together with the return in the portfolios and funds, of course. And especially in the international growth that we have a breakthrough when it comes to international mandates last year. We see this as a very important point going forward. When it comes to the public market, of course that is divided into different parts. Of course public companies, that is an ongoing process, and we see large interest and flow into the business on an ongoing basis based on discussions for public companies. But the mere municipality market, that has an opening in the end the end of the year. So that is an autumn type of business. So we are now working on our dialogue with different municipalities. It's too early to say how large this market will be at the autumn of 2022, but there is positive '21 and -- but there is positive discussions around

these mandates.

Operator

And the last question for today is from Jan Gjerland from ABG Sundal Collier.

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

Sorry, if this has been asked before, but the DCC in Sweden, could you shed some more like into how it would work going forward? If you expect more contribution from taking back money from the DCC? Or how should we read your strong performance-related earnings in Sweden?

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

I can try, Jan. Yes. I think in expectation, given changes in rate levels and how we look now, we would expect somewhat higher recuperation of deferred capital contribution going forward and what you have seen when you look in the rearview mirror.

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

So not NOK 100 million every quarter, but sort of a contribution between 0 and NOK 100 million would be sort of what we should be put into our model, so to speak?

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

I think we're going to be careful to guide in the model, but what you do see is that the drag becomes less in the sensitivities, which we published in the supplementary information, the drag from the low interest rate environment becomes lower each quarter, and that means that we will, on average, have a little bit higher contribution from DCC each quarter. But I don't dare to give a number.

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

It's a lot of moving parts, as you know. Of course this quarter, very positive on the real estate side as a gain on that part. But of course equity markets, credit spreads, how the alternative is behaving on a quarterly basis have an impact on this. But having a lower UFR and a lower hurdle rate helps for getting more positive returns overall going forward.

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

Perfect. Just back to the profit sharing and the indexation fees, which is sort of the moving parts as well. You touch a little bit on them and that indexation fees are to stay maybe a little bit higher, as you said. The profit sharing, how does that work when it comes to -- is that on top of the indexation? Or how should we read that profit sharing in a different kind of models?

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

Yes. So the profit sharing is -- in the portfolio with a profit sharing, which is not in the portfolio, which has an indexation fee works in the way that if you have a return above the guaranteed rate, 90% goes to the policyholder and 10% goes to the shareholder. So you can still have profit sharing and indexation fee at the same time, but you need to have sufficient return in the so-called EF portfolios in the Swedish business, while the indexation fees is in the defined benefit or the so-called KF portfolios for those who follow us very closely.

Operator

There is no further question in the queue, so I will hand the call back to you. Thank you.

A - Daniel Sundahl {BIO 20548519 <GO>}

With that, we have come to the end of this quarterly presentation. Thank you very much, everyone, for attending. We look forward to see you next quarter again. Have a nice day.