# Q4 2013 Earnings Call





## Company Participants

- Lars Loddesol, Group CFO
- Odd Arild Grefstad, CEO
- Trond Eriksen, Head of IR

## Other Participants

- Blair Stewart, Analyst
- Daniel Do-Thoi, Analyst
- David Andrich, Analyst
- Gianandrea Roberti, Analyst
- Matti Ahokas, Analyst
- Peter Eliot, Analyst

## Presentation

### Operator

Good afternoon, ladies and gentlemen. I will now start the Storebrand call.

### Trond Eriksen {BIO 17132188 <GO>}

Good afternoon, ladies and gentlemen. Welcome to Storebrand's Fourth Quarter and full-year 2013 conference call, also including 2013 embedded value. My name is Trond Eriksen, Head of Investor Relations at Storebrand.

Together with me, I have Group CEO, Odd Arild Grefstad; Group CFO, Lars Loddesol; and Head of Economic Capital Allocation, Lars Dahl. As we have notified, the slide presentation will be running on the webcast available on storebrand.no/ir.

In the presentation today, Odd Arild will first give an overall view on the development in Q4 and 2013; before Lars will give an update on the key figures and the development in embedded value.

After the presentation, the operator will open up for questions. To be able to ask questions, you will need to dial into the conference call. I will leave the word to Storebrand CEO, Odd Arild Grefstad. Mr. Grefstad will start his presentation on slide 2.

### Odd Arild Grefstad {BIO 5483351 <GO>}

Thank you, Trond Finn. Hello, everyone. I am very proud today to present for you the strongest results in the Company's history. Storebrand has a result of NOK2,935 million, and a Fourth Quarter result of NOK1,054 million.

The strong financial markets during 2013, with rising equity markets and reduced credit spreads, have, of course, provided tailwind for our business; as has the change of the pensions for the Storebrand own employees also given a one-off effect in the Fourth Quarter of NOK352 million.

But even if we disregard these non-recurring items, it's still a very good result. It's 11.5% increase in the fee and administration income, in combination with a 6% nominal cost reduction. That is adjusted for all non-recurring items in 2013 and 2012.

Cost reductions are picking up pace, and we are -- if we compare the Fourth Quarter in 2013 with the Fourth Quarter in 2012, there is a reduction of the cost of 17%. Altogether, this makes me confident that we will reach the targeted cost level of NOK3.5 billion at the end of 2014.

The growth in unit-linked defined contribution is also clear when we calculate our embedded value numbers. The increase of NOK5.9 billion is mainly due to strong growth in this product. But the increase is also a result of our own measures, like cost reduction; changed product attributes; and increased sales. Increased interest rates is, of course, also very helpful.

Storebrand has a solvency ratio of 176% by the end of the year. This represents a 14percentage points increase during 2013.

In spite of these historic results, the Board has decided to propose to the Annual General Meeting that no dividend is to be paid, and all the net profit of 2013 to be allocated to other equity.

The Group is still in a situation where it needs to strengthen its reserves for higher life expectancy, and the principles for the escalation plan is still not in place. Therefore, also, all our customers during 2013 has to give all the surplus return above the guarantee into the strengthening of the reserves.

Let me now move to slide 4. Quick look at our strategy, as I do on a quarterly basis. We aim to manage the guaranteed business into a new regulatory environment without raising new equity capital; and we want to develop our capital-light business with focus on savings for retirement at its core, supported by additional retail marketing product offering in the context of (broadside) marketing.

Moving to slide 5, we see the effects of 2013 from the left-hand side of this strategy. We see that we have moved NOK10 billion out of the guaranteed reserves during 2013. We have taken down the risk of the guaranteed investment portfolios by, for example, selling

18% of our real estate portfolio. And we have also substantially reduced the costs, sold our non-core assets, and introduced new capital-light products in the market.

Moving to slide 6, we give an update on the regulatory environment in Norway. A number of changes are taking place in the regulatory framework for occupational pension. If we take it step by step, we can start with the changes that is already now implemented from January 1, 2014; and then move into what is still in progress.

Most important, the increased maximum savings rates with tax incentives for defined contribution pension has come through by January 1, 2014, leaving the opportunity to save up to 25% for all the wages into these kind of products.

The new hybrid occupational pension product is also clear, from the regulatory side, by January 1, 2014. It might be a very important product into the public sector, going forward. But so far, it's not very much demand for this product in the private sector.

If you look forward, there is still some important elements that need to be clarified, going forward. Most important, maybe, is the transitional rule for paid-up policies, into paid-up policies with the investment choice. We have strong belief that this will come in place by the first half of 2014, and then will be a product that can be in the market second half of 2014.

Then, the transition rules for the guaranteed reserves into Solvency II also is a key element. There is no clear sight; the rules from EU and the Norwegian FSA will look at their implementation in the -- for the Norwegian products.

Last, I'd also like to mention that the new government has introduced, or spoken about introducing, a more tax favorable retail pension product, and we expect more clearance about that at the end of the year.

If we then move to slide 7, let me also give you an update on the longevity reserves. At the end of 2012, we estimated a gross strengthened need of the reserves for longevity of NOK11.5 billion. At the end of 2013, this number is then NOK12.5 billion. The reason for that NOK1 billion increase is new premiums coming in, it increased reserves by the guaranteed rate; and some asset that was moved earlier 2013 that was sold late 2012.

It's important for me to also state that the whole portfolio is now calculated accounting to the new mortality tables; that should be the final reserve number that we need to focus on.

More important is that we have been able to build substantially reserves towards this reservation during 2013.

The most flexible reserve in our balance sheet is the market value adjustment reserve, and that is it increased by NOK2.8 billion to NOK3.8 billion. If we add that together with the reserve that is special set aside for longevity, it adds up to NOK8.1 billion.

And if you take that against the total reservation need of NOK12.5 billion, there is a need for reservation for the five years to come of NOK4.4 billion, even if we take into account the -- before we take into account that there also should be a reservation from equity into this (equilation).

So during the year, even if it has seen an increase in the top number, it's been NOK1.8 billion in the net reduction in the reservation needs when we take the reservation directly and the market value adjustment reserve altogether. On top of that is also other reserves that can be used for this situation, if we choose to do so. Then, Lars, I leave the work to you.

## Lars Loddesol {BIO 3969188 <GO>}

Thank you. On page 8, we show the key figures for the Group. You see that we now produce in excess of NOK0.5 billion in result before profit sharing and loan losses on a quarterly basis. In fact, last quarter, we produced NOK597 million in result before profit sharing and loan losses; in addition to NOK277 million in net non-recurring items; and NOK180 million in net profit sharing and loan losses.

In terms of earnings per share, this is after tax, you see a nice development through the year. And it makes -- and I would like to comment briefly on the tax issue here.

For the Fourth Quarter, on a standalone basis, the tax rate was calculated to 22%. But due to sale of properties with tax liabilities, we had a very low tax rate in the Third Quarter, in particular, so that the tax rate for the year as a whole is down to 7%.

And this is non-taxable, as we still have tax carry-forwards from previously. In terms of solvency ratio, that has been strengthening quarter by quarter. In the Fourth Quarter, the solvency ratio comes out at 176%.

As of the end of last year, the Swedish authorities changed the interest rate curve used for solvency calculation purposes, which, in isolation, reduces the ratio by 8percentage points.

So adjusted for this, there's a strengthening of the solvency ratio in the Fourth Quarter. As you can see, solidity capital and customer buffers all developed favorably quarter by quarter, and are strengthened.

Moving over to the Group results on page 9. Here, you can see the points that Mr. Grefstad alluded to earlier with a fee and administration income increasing by 11.5%, or NOK448 million through the year. That's an increase in earnings both from assets under management, from the non-guaranteed business; it's an improvement in bank margins; and it's an improvement in the margins that we have for the guaranteed business.

Furthermore, you can see that the operational cost is down by 6percentage points when we adjust for the non-recurring items. In fact, the underlying, or the -- if you just look at the accounting figures, the cost level is down 18%.

I should also mention that below the line, and not shown in this picture, is that we do a write-down of the goodwill in the bank of NOK300 million.

Storebrand Bank acquired Finansbanken back in 1999, and part of the goodwill in that transaction was related to the corporate bank. As we are now closing down the corporate bank, we have decided to write-down the goodwill related to this asset, and that's a write-down of NOK300 million.

If you look at the result per business line, you see a strong improvement in results from all different businesses. Savings, non-guaranteed, from NOK288 million to NOK670 million; insurance business is improving; the guaranteed business is improving significantly, from just short of NOK1.2 billion to NOK1,665 million; and also, in other there is an improvement.

There is, in the documentation, more details on the different business areas. But in the interests of time, I'm not going to go through this now.

Let's, therefore, move to page 17, which is the embedded value numbers. In 2013, there was an improvement in the embedded value earnings of Storebrand of NOK5.4 billion, which gives a 24.7% return on opening embedded value; and a 13.8% operating return.

Including the IFRS value of other Group companies, the total embedded value for the Group is NOK30.2 billion; equivalent to NOK67.6 per share. The opening balance was NOK21.8 billion in the life company, or in the life group.

New business was added in 2013, adding NOK0.5 billion to the value. If you look at the value of new business, the value of new business is strengthened in Sweden in all the different product groups; while in Norway the volume in defined contribution sales was down 15%, which led to a slight decrease in value of new business in Norway. Altogether, it's a slight improvement (when from 2012).

In other operating MCEV earnings, you have the return on the embedded value from last year, as well as the fact that we had higher volumes; higher returns; and higher fees for interest rate guarantee than was anticipated in last year's numbers, which plays out in an improvement in other operating MCEV earnings. And those two components taken together gives you the operating return for the year.

If you add onto that the economic variances of NOK3.5 billion, they can be divided equally in two parts. The result of the higher interest rate level in Norway and Sweden, which reduces the cost of the guarantees in our products; that explains approximately half of the NOK3.5 billion.

The other half of this number comes from the fact that equity markets, in particular, did very well during 2013. We have more assets under management than expected last year, and, therefore, have higher expected return on these means in the coming years.

Then you have to deduct the cost of non-hedgeable risk, or other non-operating variances, by NOK1.1 billion. And as we have increased margins in our products, the risk of lapses, or the reduction in earnings as a consequence of a possible lapse, is increased, and that's this number of the cost of non-tangible risk.

That gives us an MCEV, or embedded value of Storebrand Life Group, of NOK27.2 billion at the end of the year.

In dividends and closing adjustments, that's primarily the effect of the strengthened Swedish krona, which improves the value of an additional NOK0.5 billion to NOK27.7 billion.

Then you add onto that, as I mentioned earlier, the IFRS value of other Group companies, like the asset management business and the bank, to get to the NOK30.2 billion. I think, by that, I conclude the remarks, and we are opening up for questions.

## Questions And Answers

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

Thank you, Lars. Operator, we'll now open up for questions.

### Operator

(Operator Instructions) Matti Ahokas, Danske Bank.

### Q - Matti Ahokas {BIO 2037723 <GO>}

It's two questions, if I may. Firstly, on page 7, where you show that the increase in the longevity reserves of roughly NOK1 billion, should one expect that if your premiums and reserves and transfers grow at the current pace this figure will be (NOK13.5 billion) in a year's time? Or how should one read that?

Then regarding the dividend, could you a bit elaborate, was it mainly the longevity uncertainty behind the decision not pay the dividend? Or was there something other behind this, as well? I know you've discussed this, but it would be great to hear the latest from what the Board thinks about the situation. Thanks.

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

Thank you, Matti. The first question about longevity, it's important for me to stress that the whole portfolio now is put forward into the new tables, the 2013 tables. That means that it will not be any development with new premiums coming in. Everything now is taken into account with the new tables in place, so you should not expect this NOK12.5 billion actually to move very much, going forward.

Also, what I can say is that the NOK0.5 billion out of this is from the public sector; that is already finalized for reservations. So basically, there is NOK12 billion today that is -- should be up for reservation during the next five years.

When it comes to dividend, it's clear that our main goal is to make sure that we have (served) Storebrand into Solvency II in 2016, and with the reservation of longevity, without going to the shareholders and ask for additional capital. That has been the clear statement from me from day one.

Then, of course, there has been a very strong development, both when it comes to solidity and results, during 2013 that leave us into a more normalized situation. So that has been taken in to account.

But still, 2013 is a year before we start moving into the formal step-up plans that is not finalized yet. And that is a year when we also then take all the surplus result out above the guarantees from our policyholders and set aside for our reservation needs in 2013, mainly through market value adjustment (reserves) increase. And in that situation, we don't pay any dividends for 2013.

## Q - Matti Ahokas {BIO 2037723 <GO>}

Great. Thanks.

## Operator

David Andrich, Morgan Stanley.

## Q - David Andrich {BIO 15414075 <GO>}

Thanks for taking my questions. I guess, just two on my side. First of all, in terms of the NOK12.5 billion estimate, what could influence that in terms of making that larger, going forward? You're saying that you've built it out across the portfolios now, and you are anticipating future premium contributions, etc., but are there any factors that could influence that to be bigger in the future?

Then second of all, just in terms of the dividend for 2014, what would we need to see develop over the year to give you greater certainty in a dividend being paid for 2014? Thank you.

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

Well when it comes to longevity reservation, as I said earlier, first of all, standing in 2012 looking into 2013, there was, of course, a lot of uncertainty around how (this) balance would move during 2013.

It was about the speed of the movement in the public sector reserves; it was about all the transition rules that was on the table, moving from the guaranteed business into the hybrid product with continuity; and it was also a proposal on the table to actually shutdown the whole DB schemes in Norway, but in a three years horizon. All of this has been cleared during the year, and we now have virtually a situation of how these balance are at, of course, the end of 2013.

And when we now buy product by product, client by client has really worked through this balance with the new mortality tables in place. From my view, anyway, I can't -- it's hard to see what should really change this gross number, based on the portfolio we have going forward. So it's more about how we are able to build market value adjustment reserve, realize that, and take that as a part of the reservation over the next years into the accounts.

Second question was about how the dividend -- well, I already alluded to that and said that the first goal, of course, is to make sure that we are able to move this Company into Solvency II, and into the full reservation, without asking for new capital. Then, a very strong development in (2013) is helpful.

It's also clear that we, during 2014, will be moving into a more formal step-up plan with also clear (sight) situation around the capital that should be added, this 20%, from the shareholders. And of course, it's all about these elements; the longevity reservation, and that final situation at the end of the year. But we are moving, we are progressing, and I'm very much also working towards be able to give dividends, and look forward to that.

## Q - David Andrich {BIO 15414075 <GO>}

Great, thank you very much.

## Operator

Daniel Do-Thoi, JPMorgan.

## Q - Daniel Do-Thoi {BIO 17019775 <GO>}

Two questions on my side, as well. The first one is on the risk result, and there just two items within that. Firstly SPP, what's the reason for the decline in the quarter to NOK60 million versus the run rate that we had seen in the first nine months, which, you alluded to last time, would be a reasonable assumption, going forward?

Second of all, on disability insurance, there's a few comments on that in the report, but I just wanted to follow up on that as to why we've seen a reduction there as well.

Then on the guaranteed portfolio within defined benefit, quite a bit of a jump in the fee and admin income line. So I just wanted to know what the impact was there, given that, if I understand this correctly, the re-pricing and the public DB book doesn't come until the First Quarter in 2014. Thank you.

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

Can I take the risk result in Sweden? There is some weaker results in the Fourth Quarter. There will be quarterly changes in the results, of course.

There also, long term, you see that shift from the old DB portfolio in Sweden to what's unit-linked type of products. That will have an impact long term on the risk results. But we don't expect -- really, we expect more normalized results for the risk result in Sweden in the First Quarter, and going forward.

When we look at the Norwegian result on disability, I will say that there was a reserve strengthening in the Fourth Quarter that impacted the numbers significantly.

We are looking at the total customer value, of course, when doing the pricing of the risk products together with the savings products. But we are aiming to make sure that we have a positive margin also on the risk disability product, going forward, and have taken also then some reservation during 2014 -- 2013 to make sure that that will happen on (top).

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

And with respect to the increase in fee and administration income for the guaranteed portfolios, they were -- there is a final calculation on that at the end of the year, which played out positively in this quarter. Over time, this will go down as we are reducing the level of the defined benefit pensions in Norway.

## Q - Daniel Do-Thoi {BIO 17019775 <GO>}

Thank you, that's clear. And just to confirm, the normalization on the SPP risk result, that would be in line with the nine-month run rate, i.e., around NOK40 million to NOK45 million per quarter? Is that correct?

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

It's, of course, very difficult to be that precise around that number, but the magnitude of it should be more in that respect, going forward.

## Q - Daniel Do-Thoi {BIO 17019775 <GO>}

Okay. Great. Thank you.

## Operator

Blair Stewart, Bank of America.

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

I think I've got three questions. The first one is with regards to the cost to shareholders from the longevity provision.

You've talked a lot about the gross numbers, but just looking at the net cost to shareholders, am I right in thinking that the roughly NOK200 million, or so, deduction from the guaranteed book, or the fee-based book, is the right run rate for an annual cost starting from this year? Is there anything that's happened that would alter that?

Secondly, given the importance of the market value adjustment reserve, and how quickly that can change, have you done anything to protect that number from the volatility in markets?

And thirdly, given the changes to the defined contribution rates, are you seeing, or do you expect to see, any changes in customer behavior, specifically with regards to closing down DB schemes? Thank you.



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

Thank you, Blair. To start then with the cost for shareholders for reservation, on the fee-based portfolio, when you calculate it that way, it's -- the minimum you start with around 230 million. That is then, giving the fact that you have a surplus on the paid-up policies, enough to cover up for the reservation; have a return on the paid-up policies, that will then, in itself, give the reservation for that portfolio.

And it's fair to say that the 230 million is the very rough bottom of what you can see over the next year when it comes to shareholder contribution. Then again, it's very much up to the final settings of the rules.

It's about how you can be able to use reserves from one portfolio and one contract for another contract across DB and paid-up policies. And that final rules around that, and also the use of equity on the different portfolios, is not yet set. We expect that to be clarified by the regulator as soon as possible, actually. So that is -- will also impact on that final number, in that respect.

Protecting market value adjustment return, well, in my view, it's more about how what kind of asset allocation do you have on your balance sheet.

We have done changes in allocation; reduced the portfolio of real estate; we have quite a lot of allocation to shares in our portfolio; have been building up portfolios and amortized cost.

That gives a much more stable return on a yearly basis compared to what you saw a few years ago in Storebrand. Then again, that portfolio, of course, also has some volatility, but that is the same if you have your market value adjustment, or not.

So in my view, market value adjustment results are the extreme most flexible results you have, and is even of a higher quality actually when it comes to reservation for longevity when you look at it compared to the exact reservation that is done for longevity. So that is my view on longevity reservation when it comes to both market value adjustment reserves, and the expected reservation that is done so far.

Contribution rates, well, so far, I will say that I have a lot of discussion with our large clients, of course. There is quite a lot of discussion within these companies about the opportunity to use higher contribution rates. They look at it in a total wage-type of setting; increase of wages versus increase in savings rates for pension.

Then again, most companies now today has their locked DB scheme that is in slow run off in the companies, and then all new employees comes into the company within the C schemes. So quite a few companies also say that we just now wait and see, and don't do anything changes in the DB scheme. And gradually, this will be a DB -- a DC type of company anyway. So you see all sorts of behavior in this respect.

I don't expect a very rapid outflow of the DB schemes now. Of course, we have this rule on place where we thought it would be a run off within a three-year horizon. I do think it will take more than three years now, and be over a quite longer period, where we will have DB schemes on our books.

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

Yes. If I can come back, Odd, on the market value adjustment reserve, I'm not sure if you split it out any more, but it used to be that a lot of that was held -- was from equities.

And my question was really regarding is there anything being done to try and hedge equity levels and hedge yourself? Because with the setback in markets recently, that market value adjustment reserve presumably goes lower, and that would obviously then reduce your flexibility to cover the reservations. Is that something that you worry about?

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

Well I don't know if we have the split on it on the different elements, Trond Finn? But generally, I can say we don't have any -- we have adjusted our allocation towards shares, so it's what we view as the optimal allocation. And we do not have any hedging program, that will confuse that picture, in place.

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

Okay.

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

When it comes to the distribution of the market value adjustment reserves between different asset classes, we are not providing that any more. Of course, we can provide that after, if you want. The reason why it's taken out is due to the fact that we want to shorten somewhat what we present. But it's no (problem) providing that for you again this year, if that is wanted.

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

Okay. Thank you very much.

## Operator

Gianandrea Roberti, Carnegie.

## Q - Gianandrea Roberti {BIO 6786731 <GO>}

I have three questions. One is a bit nitty-gritty. You was asked before, the fee and admin result in the defined benefit business jump nearly NOK40 million in this quarter. And if I calculate that as a percentage of the average reserve in that business, I'm around 40 bps, and the average was around 35 bps in the previous three quarters.

I think, Lars, you say that of that number it's going to go down going forward, simply as a function of reserves going down. But I'm more thinking, okay, should I need to assume this 40 bps on declining reserve, or I need to go back to the average 35 bps on declining reserve, because it can make quite a lot of difference on the overall result in defined benefit in Norway. That's the first question.

The second one, what is the growth in unit-linked SPP, adjusted for currencies? Because I can see it's around 41%, the reserves growth, when I look at your account in SPP, but I suspect quite a lot of it has to do with currencies. So if you can give me that number, would be very helpful.

Also, just to pick up one comment you made before, it's NOK230 million the longevity strengthening assumption. I think you used the word rock bottom there, which, if I understand correct English, means the lowest assumption. Is it possible to have a worst case assumption of that number, anyway? Thanks.

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

If I may start with your first question, Gianandrea, I think the most relevant thing to look at is, to find the correct bps to use is, to look at the full year divided some four quarters. As Lars Loddesol said, there will be some variations from between the quarters, and the final bill is made up in the Fourth Quarter.

So the average, going forward, you will see transfers out of (inaudible). We expect approximately NOK5 million of public (defined benefit) to leave us during the First Quarter 2014; that will influence, of course, the top numbers. At the same time, you know that we, during the Q3 presentation, said that we have increased prices, which will compensate that, to some extent.

But over time, the revenues from this type of business will go down as you get the shift from defined benefit, defined contribution.

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

Your second question was a bit hard to actually get; could you repeat the …

## Q - Gianandrea Roberti {BIO 6786731 <GO>}

No. Yes. It was actually quite simple. The growth in the reserves in unit-link Sweden, because I can see it's around 40% on a year to year …

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

(inaudible).

## Q - Gianandrea Roberti {BIO 6786731 <GO>}

Yes, unit-link SPP. But is there quite a bit of currency movement in there, or …

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

Yes. There is some currency elements on all the SPP numbers, and what is whispering around is around 10% on the currency effects on it. So it has an impact. And there is a strong growth, both in Norwegian and the Swedish DB this year's numbers, and altogether it's a 35% growth on the volumes from year to year.

## Q - Gianandrea Roberti {BIO 6786731 <GO>}

Sorry, 35% altogether? You mean Norway, Sweden, or you are referring to SPP now? Sorry, I missed it.

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

No. That was Norway, Sweden altogether.

## Q - Gianandrea Roberti {BIO 6786731 <GO>}

Norway, Sweden altogether, okay.

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

The balance of unit-linked defined contribution, it is a 35% growth of volume during the year.

## Q - Gianandrea Roberti {BIO 6786731 <GO>}

Okay. Thanks.

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

When it comes to what to be the worst case, it's a bit difficult to answer, actually. If you look at what we have put forward in this slide, we have today both restoration market value adjustment results and overvalues in our bonds at amortized cost. So we could actually have locked down the whole reservation today with going out and realized these gains.

But then again, of course, that would have reduced, especially when it comes to the reservation for -- or the values on amortized cost for the bonds, it will have a reduced run rate of the portfolio, going forward. So this is a balancing act.

We have quite a strong set of results towards this in the portfolio. We have a timeframe that we can use, fully or partly. And we are monitoring this the best possible way, of course, to reduce, or minimize, also the use of equity, as such. But -- so I think that is how precise I can be on that question today.

## Q - Gianandrea Roberti {BIO 6786731 <GO>}

I appreciate that, thanks a lot.

## Operator

(Operator Instructions) Peter Eliot, Berenberg.

## Q - Peter Eliot {BIO 7556214 <GO>}

Just one last question from me, please, which was on -- I was just wondering if you could update us, or remind us, on the current state of affairs between the interconnection of the longevity reserving and the transfers?

Now, I know there was some talk about possibly being able to reserve some policies ahead of others in order to accelerate the timeframe of building up some, so that some could switch out ahead of others, and just perhaps if you could update us the general background around that, please.

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

Yes, I think what you are alluding to is the connection between the market that will open up for moving paid-up policies into paid-up policies with investment choice; and, of course, being able to fulfil the full reservation for longevity on the paid-up policies that has the intention to move into investment choice. Will be very interesting to do, to make sure that, that market really kicks off.

And it is possible also, in that respect, to use that 20% equity maybe into these policies that really need that contribution to be fully financed to move into investment choice.

But then again, this (penal) tunings around the rules for how to use surplus returns across portfolios and contracts, and also how to use equity across portfolios and the contract, is not finalized. But it is, as we view it, an important opportunity to also really get kick-starting the market of DB, the paid-up policies with the investment choice, that we expect to start second half of 2014.

## Q - Peter Eliot {BIO 7556214 <GO>}

Okay. Thanks a lot.

## Operator

Blair Stewart, Bank of America.

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

It's just on the dividend, really. It's probably more of a comment than a question, and feel free not to answer this. But I just feel, looking at Bloomberg, almost every analyst that covers a stock expects a dividend in 2014.

And some of your comments are dialed around the Company being in buffer-building mode; no surplus returns for policyholders over and above the guarantee; and building up the various buffers as much as possible; and a formal step-up plan, etc.

All these things are unlikely to change in 2014, I would have thought, unless something miraculous happens. I just wonder if it would be in your interest to be a bit more clear about the prospect of a dividend actually being paid this year?

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

It's a fair question, Blair. I think that the only thing that is a big difference from (2014) to 2014 is that we have the clearance around the longevity reservation, and are in a situation where we have -- we are a part of a formal step-up plan, with a clear contribution from equity. That might be a different element into that discussion compared to what you have seen in 2012 and 2013.

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

Yes, okay. That's great, thank you. Maybe talk more about that tomorrow. Thank you.

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

Thank you.

## Operator

Daniel Do-Thoi, JPMorgan.

## Q - Daniel Do-Thoi {BIO 17019775 <GO>}

Just one quick question from me. The final reservation into the NOK12.5 billion, or the NOK12.0 billion, how much of that is related to defined benefit, and how much of it is related to paid-up policies? Is that still around 50%?

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

It's somewhat -- it's around NOK7 billion on the paid-up policies, and the remaining on defined benefit.

## Q - Daniel Do-Thoi {BIO 17019775 <GO>}

Okay. Great. Thank you.

## Operator

Thank you. We have no further questions coming through. (Operator Instructions) As we appear to have no further questions, I'll hand back to your host for any concluding remarks.

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

Well then, I'd just like to thank everyone for participating in the conference call today. Have a nice evening. Bye.

## Operator

Thank you for joining today's call. You may now disconnect your lines. Thank you.