Q1 2015 Earnings Call

Company Participants

- Kjetil Ramberg Krøkje
- Lars Aasulv Løddesøl
- Odd Arild Grefstad

Other Participants

- Ashik Musaddi
- Blair T. Stewart
- David T. Andrich
- Gianandrea Roberti
- Matti Ahokas
- Peter D. Eliot

MANAGEMENT DISCUSSION SECTION

Operator

Good afternoon, ladies and gentlemen, and welcome to the Storebrand ASA Quarter 1 2015. My name is Anna. I will be your coordinator for today's conference. For the duration of the call, you will be on listening only. However, at the end of the presentation, you will have opportunity to ask questions.

I will now hand you over to Head of Investor Relations, Kjetil Ramberg Krøkje, to begin today's conference. Thank you.

Kjetil Ramberg Krøkje

Good afternoon, ladies and gentlemen. Welcome to Storebrand's first quarter 2015 conference call. My name is Kjetil Ramberg Krøkje and I'm Head of Investor Relations at Storebrand.

Together with me today, I have Group CEO, Odd Arild Grefstad; Group CFO, Lars Løddesøl; and Head of Economic Capital Management, Trond Finn Eriksen. In the presentation today, Odd Arild will give an overview of the development in Q1 and Lars will give some more details on elements in the results and a brief presentation of the 2014 embedded value results.

The slides will be similar to the analysts' presentation released this morning and are available on our webpage. After the presentation, the operator will open up for questions.

To be able to ask questions, you will need to dial into the conference call.

I will now leave the word to Storebrand's CEO, Odd Arild Grefstad, who will start the presentation on slide three.

Odd Arild Grefstad {BIO 5483351 <GO>}

Thank you, Kjetil. And start on slide three, Storebrand delivers a Group result of NOK450 million for the first quarter of 2015, and a Group embedded value of NOK34.2 billion for the full year of 2014.

The income grew significantly, with 6.6%, adjusted for corporate banking and public sector pension in run off. This is driven by strong sales and returns. Strong sales in unit linked pension, and external customer inflows has, together with strong markets, increased assets under management with 13% compared to last year and 4% in the quarter.

We have experienced strong sales in insurance in the quarter with 7,000 new customers, both from the agreement with Akademikerne and also from other customers. In total, a 13% growth in written premiums. We have succeeded in moving more than expected, to pay the policies with investment choice, with NOK1.7 billion in the quarter. This affects results negatively by the building up for longevity reserves compared to last year. This is due to higher conversions to non-guaranteed, paid-up policies, and the use of risk reserves for reserve strengthening.

Let me also comment on a couple of things on the balance sheet. We have strengthened longevity reserves with NOK1.2 billion in the quarter. We are now very comfortable with the situation, as I said last quarter, and we prioritize measures that strengthen the balance sheet over short-term results.

We report our Solvency I ratio 173% and an estimated Solvency II ratio of 152% in the quarter. I will revert to these numbers in more detail in the presentation, and Lars will also, through similarities and differences in economic capital and MCEV and Solvency II during the presentation.

Let's then move to slide number four. Storebrand's business model is undergoing a fundamental transformation. We have a dual strategy to manage the guaranteed balance sheet and continue to grow in savings and insurance. We managed the guaranteed balance sheet, now aiming for at least 130% solvency ratio. We will continue to grow in savings and insurance by leverage our position in the individualized occupational pension market.

Let me start with a brief update on the left side of the strategy implementation and then we move to slide number five. We continued to transfer out guaranteed liabilities from the balance sheet in the first quarter. The transfer this quarter consists of NOK1.7 billion all paid-up policies to paid-up policies with investment choice and a little more than NOK3 billion in public sector transfers. We still expect to keep transferring NOK1 billion in paid-up policies per quarter in 2015.

Then, let's move to slide number six. Storebrand has reported estimated – estimates on Life Group solvency for the last two quarters. The solvency ratio including transition rules is strengthened with 4% points in the quarter to 152%.

All of the effects come from the increase in transitional rules and is caused by lower interest rates and increased equity stress. The solvency ratio without transition rules is reduced from 101% to 98% and the reduction is caused by lower interest rates and an increase equity stress from 42% to 47%. The result for the period and increased buffers gives positive contribution.

And I'd like to add that with the increased interest rates we have seen now in the second quarter. We are about 100% again. We are now in the first quarter 2015 and the Solvency II is implemented 1 of January, 2016. We have a clear objective to increase the underlying solvency ratio by 10% points by year end.

Then, let's move to slide number seven, longevity. We went into 2014 with a reserve strengthening need of NOK12.4 billion. One year and one quarter later, we have filled 60% of the gap, equal to around NOK7.4 billion. This is a very clear example of us prioritizing, strengthening of the balance sheet over short-term IFRS profits.

As you can see on the right-hand side of the slide, we have a negative direct impact of NOK154 million in the quarter and NOK121 million indirect negative result effects from foregone profit sharing and risk results.

Let's move to slide number eight. Unit linked is still growing rapidly with 33% year-over-year and 10% from last quarter. This strong growth is driven by premiums growth by 17% quarter-over-quarter, NOK1.7 billion on new paid-up policies with the investment choice and, of course, strong markets.

The asset management continues to grow despite transfer out of guaranteed. Both external public clients and assets from the Life Company is growing and the business area works extremely well as the Group's asset gatherer.

The Bank has been relatively flat in the quarter and it's fair to say that a lot of our sales forces used effort on paid-up policies and with the investment choice and on insurance in this quarter.

And lastly, on insurance, the Akademikerne deal and sales to large corporates has really accelerated growth in the quarter. As you can see on the slide, there is a 14% growth from our written premium year-on-year, but more impressive, there is 10% growth since the fourth quarter.

Then, I move to slide number nine, and I just wanted to end my part of this presentation to show that the transformation is taking place in the business mix. Since last year, income from savings has grown with 14%, and insurance premiums, which is not on this slide, has grown by the same amount.

At the same time, income from guaranteed pension has been reduced by 9%. This is really our strategy coming through in the P&L.

And I will now leave the word to Group CFO, Lars Løddesøl, who will give some more flavor on the results and also take you into the 2014 embedded value calculations.

Lars Aasulv Løddesøl

Thank you, and good afternoon. On the figure 10, with the key figures, we show the continued delivery of results before profit sharing and loan losses above NOK0.5 billion per quarter, even in a quarter where we see revenues from guaranteed business going off, and also weak results from – risk results from the guaranteed pension business. We also see the buffer building continues and earnings per share in the quarter was NOK0.78.

Over on page 11, I think Odd Arild has already mentioned many of the key points, and I would like to comment briefly on four areas where we see that the consensus estimates were slightly higher than the numbers achieved in the quarter.

First, we see that the financial result and profit split from the Swedish business was weaker than anticipated, and that you, as analysts, had reason to anticipate, based on the sensitivities we give in the supplementary information.

The explanation for this is that certain contracts, when they are reserved in conditional bonuses by 15%, any additional return does not go into the buffer, they go (10:26) into the pension capital, i.e., it's a guaranteed contribution to the contract.

The new guaranteed contribution does not have a return requirement as such. It's only a capital guarantee. But that means that NOK35 million this quarter has gone to increased pension liabilities for guaranteed customers as a result of the falling interest rates and the good returns in the quarter.

This is something that happens with effect from the end of the year. So this is an estimate in the first quarter and it may be reversed if the returns does not continue to be as good for the rest of the year. That accounts for a difference of NOK35 million on the net profit sharing and loan losses from the Swedish business.

The second area where we see a difference between the presented results and the estimates is connected to the paid-up policies with investment choice where we have converted NOK1.7 billion, as Odd Arild just mentioned, much higher than the NOK1 billion anticipated in the market. And as such, the reservation cost is about NOK35 million higher than was anticipated by the consensus.

Thirdly, the risk result for risk result life and pensions is weaker than last year where we had release of reserves in the first quarter and weaker than people had anticipated, amongst other things, because of the risk utilization fund, which we are not allowed to take as a result component in a period where we are increasing reserves for longevity. So this is a result component that will not – that has – will decrease during the period of longevity reserve requirement, which Odd Arild also mentioned earlier.

And fourthly, the cost level is slightly higher than was anticipated. In the first quarter last year, we had some VAT returns and some bonus – some money that was set aside for bonuses that wasn't used, which means that there were certain one-off elements that brought the cost down somewhat in the first quarter last year.

If we look at the underlying trend, the cost is up 2%. And that cost increase is connected to our preparing to take onboard the Statoil contract and the Akademikerne contract, as well as certain IT investments. We will continue to follow the cost level very thoroughly and we will have continued tight cost control. And the cost income objective of 60% for the year as a whole is something that we aim to deliver on by the end of the year.

At this stage, cost income was 61% on a 12-month rolling basis and we'll revert with that on a quarterly basis with the exact figure so that you can see the development yourself. That concludes what I want to say about the results. And for the sake of time, we will move over to the embedded value numbers, which are shown from page 21 onwards.

Storebrand Group MCEV, or embedded value, was NOK34.2 billion at the end of 2014. For the Life Group, the embedded value was up from NOK27.7 billion to NOK30.3 billion before closing adjustments, which gives 9.5% return on the opening balance.

By adding on to that the closing adjustments and the IFRS value of other subsidiaries, we get the embedded value for the Group at NOK34.2 billion or NOK76.6 per share. This is an improvement of NOK3.3 billion, of which NOK2.3 billion is an increase of the capital, while the value of in-force is up NOK1 billion.

The numbers are impacted negatively by the interest rate fall and positively by buffer building and by changes in the investment strategy and the risk management. There is a significant gap between the embedded value of NOK34 billion, the book value of NOK25 billion and the value on the stock exchange of NOK13 billion.

This can be partly explained by the fact that embedded value measures the value of future business, and the discount factor today is very low, which means that the value of future profits is a high value.

Furthermore, we see that the return on embedded value, or on the value of in-force, is low compared to some European peers. And this is probably related to the way we measure new sales when new people that work in a corporation are replaced or when one person leaves a corporation with a pension plan in Storebrand is replaced by a new person, that's replacement sales and not new sales.

The value of new sales is down in 2014, partly because of margin pressure, and mainly because of a change in the cost allocation model, where we more granularly allocate costs to operations or new sales. And that has negatively impacted the value of new business.

While this picture shows the correct technical way to present embedded value and the movement, I will like to lead your attention to the following page, page 22, to go through the movement in a slightly more simplistic way.

The interest rate fall in 2014 decreases embedded value by NOK4.3 billion. In addition, we have harmonized the embedded value model with the Solvency II assumptions and changed the discount factor to the same as Solvency II. This reduces the values by an additional NOK2.9 billion, altogether NOK7.2 billion.

Previously, in our embedded value calculations, we showed this as a sensitivity with the Smith-Wilson curve. Now, we have certainty around the Solvency II curve and we use this curve also for embedded value.

The strong returns and results during 2014 increases values by NOK2 billion; first and foremost, as a result of higher assets under management in the unit linked business, which creates future profits. Then, we add on to that the value of new business, and the fact that we have got a lot of new unit linked customers in Norway, as they are converting out of defined benefits schemes moving into defined contribution schemes, and that increases the future value. The total value of this is NOK3.2 billion. Reduced costs and the cost allocation model that I mentioned a moment earlier increases the value by an additional NOK1.8 billion.

The next step is building our hold to maturity bonds. Risk management between different paid-up policy portfolios, and modeling that is more granular in terms of expected new paid-up policies with respect to the interest rate guarantee and the buffers on those policies, improves the numbers.

On the contrary, we have put in an expectation that, in the future, there will be further margin pressure on unit linked contracts in Norway, both in terms of the defined contribution contracts as well as the pension certificates coming out of those contracts in due course. This, in itself, reduces the value, but the totality is an improvement of NOK2.5 billion.

And lastly, there are some currency changes and other elements that increases capital by an additional NOK1.3 billion for a total of NOK31.4 billion for the Life Group.

On page 23, we have put together embedded value and Solvency II in the same picture. And as I've mentioned, we now use the same interest rate curve to deduct in both models. Both Solvency II and embedded value starts with shareholder surplus or equity, and the two numbers are very similar, approximately NOK15 billion.

In embedded value, we add on to that the look-through value, which is the net present value of the margin that the Life business leaves in Storebrand asset management. This is not calculated as part of Solvency II.

Furthermore, we add on to that the value of the in-force, which is the Solvency II name or the reconciliation reserve, which is the embedded value name. Here, there are large differences in the methodology.

In Solvency II, you start with today's business without future profits, i.e., short contract boundaries. In embedded value, we take on the new premiums in existing contracts, which gives more income into the future, i.e. long contract boundaries.

This is a realistic assumption in a company that is not in run-off. The difference is about NOK4 billion in value. Furthermore, there is a big difference in the way you calculate CNHR in embedded value and risk margin in Solvency II.

In simple terms, Solvency II has more and higher stresses, especially for lapse risk, something that is corrected out in embedded value. And last, we see that embedded value does not account for subordinated loans, which is tried to mark here with a red square in the picture.

Moving over to the following page 24, we put the values of transitional rules in Solvency II and we see that this accidentally gives a similar value for total economic capital as embedded value.

So, I guess, we can say that the Solvency II number is the correct regulatory capital with standard model, while embedded value is a similar now with the same assumptions, similar model, however, with more realistic assumptions in terms of on the stress and on the contract boundaries, which means to some extent that it is an approximation to Solvency II with internal model. We use both in the way we manage the business and manage the risk in the business.

And with that, I give the word back to Odd Arild to sum up our presentation.

Odd Arild Grefstad {BIO 5483351 <GO>}

Well, thank you, Lars. I just want to add on that there is strong growth in the strategic right areas this quarter that fuels the shift in the business mix. We show that we prioritize buffer building and strengthening of the balance sheet. Most obvious evidence is that we have increased the longevity buffers by NOK1.2 billion and that we transfer paid-up policies of NOK1.7 billion into investment choice.

I think that ends our presentation and I suppose we are open for questions.

Kjetil Ramberg Krøkje

Yes. Thank you. Operator, you can now open up for Q&A.

Q&A

Operator

Thank you. The first question comes from Peter Eliot, Berenberg. Please go ahead, your line is now open.

And I'm so sorry for that, there is technical issue, I will open right line open, I'm so sorry. Peter your line is now open.

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

Thanks very much. I have two question areas, please. The first one comes under capital part, so I apologize but looking at the 6.4 billion that you transferred from fee-based to paid-up in the quarter, would you be able to say how much of that was from your own scheme closing and how the remainder compares to a run rate you might expect, going forward? I appreciate there's some seasonality in there, but just perhaps you could sort of tie that into the forecasts that you've made before for the progression of paid-up policies. And am I right in thinking that, if we hadn't had that, then the solvency ratio would have been about 5 percentage points higher, probably?

The second thing I wanted to ask on was, it's early in the year to talk about dividends, but just because you mentioned the 130% and, clearly, you're at 152% at the moment that would point to very positive. But clearly, the market is probably more focused on the 98% as the relevant number. I'm wondering if you could just remind us what bearing you consider the without transition rule number has on your, and perhaps the regulator's, impact on that decision eventually. Thank you.

A - Lars Aasulv Løddesøl

Peter, if I answer the first one. The transfer out of defined benefit plans is as expected, and we have made a projection in our Solvency II calculations, as well as our embedded value calculations, in terms of expectations as to what happens this year.

Storebrand is part of that expectation, and the run rate, if you take the Storebrand contract out, is approximately as expected. And there is also seasonality, as you say. We expect more to take place at yearend, i.e., with an effect in the first quarter than during the rest of the year.

I'm not sure whether we've published the size of the Storebrand's plan, but it's about 2.5 billion. So that's almost half of the number that took place in the first quarter. Then, in terms – so, your expectation about 5 billion more capital, as this is according to plan and according to expectations, this is not a change in the capital as such.

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

If I should comment on dividend, I would say that we are very satisfied with the development in the balance sheet in this quarter. Also, of course, satisfied with the numbers on Solvency II with the transitional rules, then there is no new message around the dividend this quarter. It's the same as we did on our Capital Markets Day. And, of course, the Board will make up their mind at the end of the year.

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

Okay. Thank you.

Operator

The next question is coming from Matti Ahokas, Danske Bank. Please go ahead. Your line is now open.

Q - Matti Ahokas {BIO 2037723 <GO>}

Yes. Good morning. It's Matti Ahokas from Danske. Two questions, please. Firstly on capital, as you say, you've been increasing capital at the expense of short-term profit. But like Peter pointed out also in the previous question, actually, as you say, that even on full Solvency II, you're above 100% on the transition rules, you're clearly above the target. So is this really necessary or was this more of a function of the significant fall in the interest rates in the first quarter, and how should we look at things, going forward?

Also on the same note that, if you look at your subordinated capital or subordinated loans are around NOK7.5 billion. Wouldn't a good way to increase the solvency also to potential increase that level, especially when interest rates are this low?

The second question is regarding the guaranteed pension business. And you point out in the presentation that you say that lower results are the new normal, but should we take the NOK81 million that we're seeing this quarter is the new normal run rate for the business, or is it something else? Thanks.

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

If I start on the paid-up policies and the conversion, if that is necessary, if I understand your question right, I would say that it makes perfect sense, both from a customer perspective to make this possible for our customers to move from paid-up policy into investment choice.

Then, it's also make perfect sense economically, when you look at it. We free capital by moving from capital heavy paid-up policies into paid-up policies with investment choice. We also fuel our growth in the savings area. And, of course, it will give us also good results in the years to come. So this is a win-win situation, as I view it. And I'm very happy to see an increased charge in the quarter for this extra conversion from paid-up policies into investment choice.

A - Lars Aasulv Løddesøl

Your second question on subordinated loans, I guess you could say that we have a toolbox of available things to strengthen the solvency position, increased subordinated loans is in that toolbox and we will evaluate using some additional subordinated loans in the second half of the year. We're not likely to do anything before the summer.

A - Kjetil Ramberg Krøkje

Yeah. And looking at the guaranteed segment, just looking at the three main products, I think on defined benefit you see that we hold the same top line margin, but the top line will go down in accordance with the sanctions you use for the reserves. Paid-up policies will also develop according to assumptions and the modern studies there.

And then you have the charge for longevity, which is NOK90 million a quarter, which is communicated. And we have said that we will do NOK1 billion a quarter this year in paid-up policies with investment choice. And that will also give a charge of roughly NOK30 million to NOK40 million a quarter. Of course, if we do more or less, that will affect that charge.

And then when it comes to the Swedish line, you know that there is volatility in that result line. And of course, we need to follow the sensitivities, and also your own models, to look on that results for profit sharing. So when that's said, I think that, yes, low results are the new normal, but there are also some more volatile elements in this segment that you need to look on a quarterly basis.

Q - Matti Ahokas {BIO 2037723 <GO>}

So NOK81 million is not the new normal?

A - Kjetil Ramberg Krøkje

Sorry, well, it's a lower result is the new normal, but just given the volatility in the guaranteed segment, we to say that it's exactly NOK81 million, that will be a very precise estimate for something that isn't so precise.

Q - Matti Ahokas {BIO 2037723 <GO>}

Great. And if I can have another follow-up one on the capital? We talk about 10 percentage point increase in the solvency margin. Is that meaning that it would be from 150 percentage points to 10 percentage points, or is that the full Solvency II, or which one are we talking about here?

A - Lars Aasulv Løddesøl

We are talking about the one without transition rules.

Q - Matti Ahokas {BIO 2037723 <GO>}

The one without transition rules?

A - Lars Aasulv Løddesøl

Yes.

Q - Matti Ahokas {BIO 2037723 <GO>}

Okay. Thanks very much.

Operator

The next question comes from Ashik Musaddi from JPMorgan. Please go ahead. Your line is now open.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Thank you, and good afternoon, everyone. So I would like three questions. First of all, can you just update us whether your Solvency II number that you reported on slide number 22, I guess – slide number 23, sorry – yeah, includes the NOK5 billion you still need to add on longevity reserving, so is that adjusted in that? That would be great if you can give some color.

Secondly is, can you give us some more color on what is really this NOK11.5 billion transition rules? So what are the sort of transition rules are you using at the moment, to get some sense? And thirdly is, are you using ultimate forward rate as well? And, if yes, what is the benefit of that under both the Solvency II numbers that you have flagged? Thank you.

A - Kjetil Ramberg Krøkje

If I may start? The Solvency II number published on slide number 22 includes that there is a longevity charge that needs to be met over the coming years. The second question on transition rules, we are taking usual two different transitional rules. So, the first one is that we are applying a 22% stress to the equity, instead of 47%. That's included in those NOK11.5 billion that you see.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah.

A - Kjetil Ramberg Krøkje

It also include the difference of the value of the best estimate liabilities under Solvency II and under Solvency I.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. So the best estimate liability on Solvency I is used under Solvency II?

A - Kjetil Ramberg Krøkje

Yeah, so you take the difference between the Solvency I liabilities and the Solvency II liabilities and you add that.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay, yeah. Thank you.

A - Kjetil Ramberg Krøkje

And your last question was on the ultimate forward rate?

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah.

A - Kjetil Ramberg Krøkje

And yes, we are using the ultimate forward rate in the calculations. Of course, the reason why we use the ultimate forward rate is because there is no available long dated bonds in the market. So it's kind of difficult to say what the figure would be without using the ultimate forward rate, because there is really no market rate to use.

Q - Ashik Musaddi {BIO 15847584 <GO>}

So, even if you use a euro SOC curve (34:36) that is still not any idea about what should be the benefit, or is it really difficult to judge because we don't have a Norwegian risk free rate for that?

A - Kjetil Ramberg Krøkje

Yeah. It's at least be a very (34:49) to use the long-term euro market, since Norwegian interest rates tends to be quite much higher.

Q - Ashik Musaddi {BIO 15847584 <GO>}

And you're using this for both the Solvency II numbers, both standard and the transition rules one?

A - Kjetil Ramberg Krøkje

Yeah, we are using it for the standard model on the transitional rules. It's implemented with, of course, the difference between the Solvency I figure, which is based on today's Solvency I calculations in Norway, and the Solvency II calculation as shown without the transitional rules.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. That's very clear. Thank you.

Operator

The next question comes from Blair Stewart from Merrill Lynch. Please go ahead. Your line is now open.

Q - Blair T. Stewart {BIO 4191309 <GO>}

Thank you and good afternoon. I've got a couple of small questions just to pick up on. Firstly, on the 10 point underlying improvement that you're expecting in economic capital, could you perhaps outline what those actions are? Are they standard operational aspects that we're seeing at the moment in the numbers, or are there exceptional management actions still to come through?

Secondly, you talked – I think you said that you still expect to be transferring on average NOK1 billion of reserves into the new paid-up with investment choice for the year. I just wonder is that the NOK1.7 billion we've had in Q1 plus NOK1 billion targeted for each of Q2, Q3 and Q4, or are you still sticking to the NOK4 billion for the year, even though you've had a strong Q1?

And just finally, on the impact of the higher than expected longevity provisioning that you've done. You're clearly ahead of plan. What is the impact of that in the first quarter on the economic capital position? Because obviously, you're further ahead in your reserving plans than you would have expected at the end of the year. Thank you.

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

If I start with the conversion of paid-up policies. I would say that we're very pleased to see the NOK1.7 billion in the first quarter. When I just went in for this conference call, I also saw that we have now crossed the line for NOK3 billion so far. We started October 15 and the progress has been very good.

Our official number is below NOK5 billion for the full year-end of 2015. But, of course, we are very pleased to see that we have started very well off and the expectation is more on the positive side, or on the negative side, when it comes to that guiding.

Q - Blair T. Stewart {BIO 4191309 <GO>}

So NOK5 billion for 2015?

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

That is our official numbers. We haven't reverted those, but, of course, we have now a run rate that is still above NOK1 billion a quarter, so – and we are doing all our efforts to beat that. I will expect to see, more or less, NOK1 billion a quarter, going forward.

A - Lars Aasulv Løddesøl

And just a quick comment. The NOK5 billion was including the NOK1 billion we did in 4Q last year. So, NOK4 billion for 2015.

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

Yes. That is our optional numbers. Yeah.

A - Lars Aasulv Løddesøl

When it comes to the impact of other longevity reserve strengthening on economic capital position, it's somewhat difficult to isolate the different effects, but it would be approximately three percentage points from reserving NOK1.2 billion. It should also be noted that, in our projections, we are going – we leave the answer there, I think, approximately three percentage points.

Q - Blair T. Stewart {BIO 4191309 <GO>}

Is the three points, is that the full NOK1.2 billion or is that the additional amount? I guess, you would expect to reserve something like NOK800 million rather than NOK1.2 billion. Is it the additional – Is it the incremental amount or is it the full NOK1.2 billion that's a three point effect?

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

That's the full NOK1.2 billion that gives the 3% effect. And that shows, actually, that in our Solvency II model, we're discounting with low interest rates, a large part of the remaining NOK5 billion in the calculation is expected to be covered by shareholders' equity.

But, of course, in the real world, when we are going forward with this high level of buffers and also with already 60% covered, we expect to be much closer to a 20%. That is the rule of use of equity compared to the number that comes out of the calculation. So that is a part of the growth of the solvency number underlying that we expect, going forward.

A - Lars Aasulv Løddesøl

So, back to your first question on the 10 percentage points improvement plan, that includes what Matti asked about, in terms of subordinated loan that's available in there. You have the reserve generation, you have the reserve building, and you have a further refinement of models that we are working on where we see that we are able to improve the quality of the modeling.

So there are a number of – and some of the improvements in modeling, I should say, goes both ways, not only improvements, there are also things that go the other way. But on balance, we expect that these things will go in the right direction, and the toolbox has a number of tools in it, which we can use more of or less of depending on interest rate movements and successful implementation of different tools.

Q - Blair T. Stewart {BIO 4191309 <GO>}

Okay. But you have – just to be clear, you have included the expectation of additional debt raise (41:25) in that 10 point target?

A - Lars Aasulv Løddesøl

I would say that that is a tool in the toolbox available for us to use, if other tools do not give the expected effect.

Q - Blair T. Stewart {BIO 4191309 <GO>}

Okay. So if needed?

A - Lars Aasulv Løddesøl

Yeah, if needed (41:43).

Q - Blair T. Stewart {BIO 4191309 <GO>}

Thanks. Thank you. See you tomorrow.

Operator

We do have another question from David Andrich from Morgan Stanley. Please go ahead. Your line is now open.

Q - David T. Andrich {BIO 15414075 <GO>}

Hi. Good afternoon. Thank you for taking my questions. Just one question on my side. I was just wondering, you're sitting with the transition rules under Solvency II about 152% and you state that your target's to be above 130%. And I guess I was wondering, I know in a question regards to the dividend earlier, you said obviously it's up to the board. But I guess I was wondering, in terms of if you were to fast forward to the end of the year and be sitting in this position, would you feel then comfortable recommending a dividend?

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

I feel very comfortable about the situation and the way our buffers are developing. And of course, it's a clear aim for us to come back as soon as possible with a dividend, and I will have a clear view on that with my board at the year end.

Q - David T. Andrich {BIO 15414075 <GO>}

All right. Thank you very much.

Operator

We do have another question from Gianandrea Roberti from Carnegie. Please go ahead. Your line is now open.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Yes. Hi. That was Gianandrea Roberti from Carnegie. Just a couple of questions from my part as well. On the dividend, do you know, or do you feel like, the fact that although you've done quite a bit of longevity strengthening, there is quite a bit to go? Do you feel that there's an impediment, from a regulatory point of view, for you to paying a dividend, or do you get any signal on that, or you just don't know? That's the first question.

And then if I go back to the earnings power, I understand everything that you've been saying and trying to explain, I basically have a strong feeling that in the current situation, you basically have around NOK450 million, NOK500 million per quarter of Group results. So that's what we should be looking at. Is this something that you can confirm or how do you feel about that? Thank you.

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

I'll start with the first question. And I think it's fair to say that the regulator, of course, had the opportunities to have guidance on dividend in Storebrand. But – and it's also fair to say that the life insurance company's dividend capacity (44:41) is not the only dividend capacity (44:44) in the Group. I think last year, we had NOK700 million from asset management, from banking activities, from insurance activities. So there is also up-streaming opportunities beside the life insurance company that can be utilized for dividend payments.

A - Lars Aasulv Løddesøl

And, Gianandrea, we are not giving earnings guidance, as you know. But instead of giving you a number, we could reason around the numbers that we gave now and the volatility in those numbers, if you want to. And if you look at page 10 in the presentation, graphically, we show that result before profit sharing and loan losses has been in the order of NOK600 million to NOK550 million in the last several quarters. And the composition of that is fee and administration income, where we show that we have an increase, although we are losing business from corporate banking and municipality business.

I said the risk result to life and pension is somewhat weaker than we expect, going forward. We see a strong growth in insurance premiums with the contract that we have with Akademikerne. And we know that the second and third quarter tend to have fewer claims than the first quarter and the fourth quarter due to the weather seasons in Norway.

On operational costs, I've said that we should be able to control that throughout the year. And in terms of the financial result, I said that the financial results were good due to good financial markets in the first quarter. So at least that gives you guidance on some of the components coming into result before profit sharing and loan losses.

Then below the line, net profit sharing and loan losses is really dependent on the profit split in Sweden. And that, again, is dependent on interest rates and interest rate movements, and your guess is as good as mine, or yours probably is better because you're an analyst, and provisions for longevity, and we talked about that during this call.

And then maybe I should add that in the fourth quarter, we tend to take into net profit sharing and loan losses also – positive surplus return – yeah, performance fees in the asset management business. So there's usually a pickup in that in the fourth quarter. So that, at least, is some comments around the different elements in the results.

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

Yeah, and based on that, of course, we had a very strong development moving paid-up policies into investment choice, NOK1.7 billion. That is somewhat higher than you should expect on a quarterly basis, going forward.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Thank you.

Operator

There are no questions coming through, so I will hand the call back for any concluding remarks. Thank you.

A - Kjetil Ramberg Krøkje

Okay. Thanks. We would just want to say thank everyone for dialing into the call and we hope to see some of you at the analysts' presentation tomorrow in London at 2 o'clock London time.

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

Goodbye.

Operator

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