Q3 2014 Earnings Call

Company Participants

- Gianandrea Roberti
- Lars Aasulv Løddesøl
- Odd Arild Grefstad
- Trond Finn Eriksen

Other Participants

- Blair T. Stewart
- Daniel A. Do-Thoi
- David T. Andrich
- Matti Ahokas
- Peter D. Eliot

MANAGEMENT DISCUSSION SECTION

Operator

Good afternoon, ladies and gentlemen, and welcome to the Storebrand Third Quarterly Conference Call. My name is Ann, and 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 Trond Finn Eriksen to begin today's conference. Thank you.

Trond Finn Eriksen {BIO 17132188 <GO>}

Good afternoon, and welcome to Storebrand's Third Quarter 2014 Conference Call. My name is Trond Finn Eriksen, Head of Investor Relations at Storebrand. Together with me, I have Group CEO, Odd Arild Grefstad; and Group CFO, Lars Løddesøl.

In the presentation today, Odd will give an overall view of the development in Q3. And Lars will give some more details on some elements in the results. The slides will be similar to the analyst presentation released this morning, and are available on our Web page.

After the presentation, 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 floor to Storebrand's CEO, Odd Arild Grefstad, who will start the presentation on slide number 2.

Odd Arild Grefstad {BIO 5483351 <GO>}

Thank you, Trond. Start on slide number 2, the highlights. Storebrand delivered a group result of NOK 632 million for the third quarter, and NOK 2,110 million year-to-date. The result is marked by growth in income and results from our main focus area, savings. The result growth is 64% year-to-date. There is an ongoing forceful shift in the earnings mix where savings increased, while guaranteed income is decreasing according to plan.

In addition, we have brought down costs with 3.9% nominally year to date, in line with our cost program. The balance sheet has been strengthened during the year, and in the quarter. The Solvency I ratio is now 182%. And reserves for increased longevity are increased by NOK 2.7 billion, whereof NOK 0.4 billion in this quarter. Falling interest rates has led to buffer building in the hold-to-maturity bond portfolio. An excess of balance sheet values in this portfolio is now above NOK 10 billion.

Moving to slide number 4, Lars will go through the result in more detail, so I skip this slide number 3, and go directly to slide number 4. We have been working with a strategy to adapt and reduce our guaranteed back book for a while. At the same time, we are growing our non-guaranteed occupational pension business and our private financial products to our 1.9 billion (02:58) pension customers.

Let me give you a quick update on both parts of our strategy, and start with turning to slide number 5; managing the balance sheet. Let me give some comments on our implemented measures in the third quarter. When it comes to capital and product optimization, we have continued to build on capital-intensive products, with NOK 5 billion moved out of the balance sheet this quarter.

This is mainly public sector defined benefit plans in Norway. And added together, it sums up to NOK 12.8 billion year-to-date, and NOK 27 billion for the last two-and-a-half years. And this is before we opened up transferring paid-up policies into investment choice.

At the same time, we have success with our closed pension fund solutions to the public sector. We have now sold our administration and asset management solutions for NOK 9 billion, after winning a new large contract in this area in the third quarter.

The work on risk management is proceeding with full force. Targeted segmentation of portfolios to better adapt to longevity reservation's strengthening and Solvency II are under full implementation. The cost reductions are, as you see, according to plan, and amounts now to NOK 349 million year-to-date. And I am confident that we will reach our NOK 400 million target at year-end.

Let's then turn to slide number 6, longevity. It is well known that Storebrand has a need to strengthen its longevity reserves with a total of NOK 12.4 billion within seven years, starting in 2014. As of the third quarter, the reserves amount to NOK 6.3 billion, which is based on the earlier reserves and at NOK 2.7 billion in excess above the guaranteed rate of equity contribution year-to-date.

I would like to emphasize that all contracts have been calculated in accordance with the FSA's no solidarity principle, and that previous reserves now have been reduced by NOK 0.5 billion, as we have earlier noticed you to.

Other buffer capital has strengthened during the quarter. The market value adjustment reserves are now NOK 3.8 billion. And as mentioned, the surplus value of bonds at amortized costs are now amounting to a total NOK of 10.1 billion.

Then, let's turn to slide number 7. During the third quarter, we had an important regulatory clarification. At the 8th of September, the Norwegian FSA proposed permanent and transitional measures for Solvency II. The proposal is in line with the proposal from the European Union and in line with the industry recommendations from Finance Norway.

We are satisfied with the suggestions of transition rules, which help secure a robust transition to Solvency II. At the same time, it's important to emphasize that there's no excuse to reduce the activities in transition our business model and the business mix.

Let me then turn to slide number 8. October the 15th, we launched a product of system solution for replacing the guaranteed paid-up policies with paid-up policies with investment choice. This will, for many, generate higher expected return on their policies.

On Monday, one-and-a-half week after the solution were implemented, 700 customers, amounting to NOK 160 million, in reserves have transferred their funds to paid-up policies with investment choice. Half of these transfers are done using our Internet solutions only.

Then, Lars will go into the results in a bit more depth before we open up for questions. Lars?

Lars Aasulv Løddesøl

Thank you. I'd like you to turn to page 10, where we look at the key figures. And you see in that result development, that result before profit sharing and loan losses, the stable contributor to earnings here, continues to deliver more than NOK 600 million per quarter.

Earnings per share is down compared to last year, and that is primarily – this is earnings per share after-tax, and the main difference between the numbers last year and this year is that we have a normalized tax level of 19% year-to-date and 23% in the quarter, while last year we did not have any significant tax payments or tax cost due to the fact that we sold some properties with tax-deductible losses. I would also like to make sure that – or to emphasize that we're not actually paying any taxes yet; that we still have tax carry loss forward from previous years.

On the solvency ratio, you see that the solvency ratio is up to 182% under the Solvency I rules. The falling interest rate in Sweden has been a negative contributor to the development since last quarter, while result – withheld result and created result in the period has contributed positively.

Solidity capital has continued to build, and that's all the capital protecting all the shareholders and is now up to almost NOK 62 billion. And if you look at the customer buffers, they remain at a healthy level. And the main difference between the Norwegian and Swedish market is different product rules in the two countries.

Moving over to page number 11, we see the results broken down by type and by business line. And let's start by type. Fee and administration income is slightly up year-on-year, but it's nicely up in the third quarter after a slightly weaker second quarter.

If we take away the corporate bank, as well as the municipality pension business, which are both actively run down, the underlying growth in fee and administration income is 5%, despite the fact that we are transferring from defined benefit schemes to defined contribution schemes with lower margins.

Looking at the operational cost line, I – like Odd Arild was saying a moment ago, the cost continues to go down; and down nominally 3.9%. The financial result is significantly up from last year, and strong in the third quarter as well.

The result – or the strong results from the financial result line comes as a consequence of good returns and policy now in company portfolios; as well as in the quarter, we have a one-off hedging effect positive of NOK 20 million. So basically, we've hedged a euro loan into Norwegian kroner. And the way this is accounted for, we get a NOK 20 million profit in the quarter.

The net profit sharing and loan losses is very strong year-to-date, primarily from the Swedish business, where they have booked returns of between 10% and 12%, which gives a profit split in those portfolios, in addition to the indexation fee that we take when these portfolios have a reasonable consolidation.

Going over to the next box on result per line of business, we see there's a very significant growth in earnings from savings, non-guaranteed, which is up 65% quarter-on-quarter, and 64% year-on-year. That shows the strong growth in both – or that's based on strong growth both in assets under management and premiums and profitability from this business line. In reality, we're able to take on new funds with very low marginal cost. So, despite the fact that we have margin pressure in this business, we're able to grow in a profitable way – in a very profitable way, I should say.

On the insurance business, we have seen some big fires in the third quarter, as well as a slight increase in disability, both in Norway and in Sweden. As a consequence of the slightly higher disability experience, we have decided to strengthen disability reserves by a total of approximately NOK 100 million across different business lines.

In guaranteed pensions, the profitability is still rather strong, despite the fact that we are in this line, setting aside NOK 90 million per quarter, NOK 270 million year-to-date in non-life (12:43) provisions for the cost of the shareholders. And in the line Other, we have decreasing costs in the ASA – sorry, in the holding company, and also good returns in the company portfolios.

So that concludes a general overview of the numbers. And do you want to...

Odd Arild Grefstad {BIO 5483351 <GO>}

Yes, I'd like to then go to slide number 19, actually, and show you also that we have done some changes in our pension scheme for our own employees in Storebrand. Yesterday, the board decided to change the pension plan for all Storebrand employees in Norway over to a DC plan from January 1, 2015. And I'd like to show your attention to note number six in the third quarter report, to also have some guidelines on what this means for financial effects in the fourth quarter. And they are positive, of course.

Then, I'd like to move to slide number 20 to sum up, before I open up for questions. The sum-up is that there is a strong increase in fee and administration income in savings, and compensates the reduction in the guaranteed pension area; 64% increase in the result from savings year-to-date, and the cost control is strong, 3.9% nominal cost reduction year-to-date. Thank you.

Trond Finn Eriksen {BIO 17132188 <GO>}

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

Q&A

Operator

The first question comes from Peter Eliot from Berenberg. Please go ahead. Your line is now open.

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

Thank you. I'll try and limit myself to three at this stage. Thank you very much. The first question, in-force DB reserves have fallen pretty significantly, but I guess the more problematic paid-up reserves are still increasing at sort of NOK 2 billion to NOK 3 billion per quarter. I'm just wondering whether you could give us a view on – so going forwards, whether you think you might be able to sort of combat that rate with transfers out, or whether we should expect the paid-up reserves to continue increasing for the next couple of years.

The second question was just on the disability reserve strengthening. I think we've seen there's a bit of volatility in those over the last couple of years, and so both directions. But I'm just wondering, perhaps if you could say sort of how comfortable you are with the sort of positions now, and what we might expect in terms of the risk profits from there going forwards.

And then, perhaps, the third question on unit linked. We saw a very strong increase in fee income, much more than the growth in assets under management. At the same time, costs also took a big drop. I'm just wondering how sustainable the very strong margins we've seen are, both sides of that equation. Thank you very much.

A - Lars Aasulv Løddesøl

With respect to the paid up policy growth in assets under management, I think you've seen the experienced development in that portfolio as a consequence of the guaranteed return, as well as the creation of new paid-up policies coming out of defined benefit plan.

It's too difficult for us to – no, sorry, it's too early for us to say anything about the trend of paid-up policies with investment choice. We've only been open for a week-and-a-half. But my guess is that you would still see some growth in this portfolio in terms of assets under management. But the exact size of that growth, we really need to see some more trend figures on the paid-up policy with investment choice before we can give any firm guidance on that.

On the second question, disability reserve strengthening, the actuarials try to measure the actual level of disability and reactivation, i.e., how many disabled people are returning to active duty where they work on an ongoing basis. This happens in Norway and in Sweden. It happens in the defined benefit portfolios, and the defined contribution portfolios.

And I wish I could steer them to be more stable, but there will be always somewhat adjustment of reserves here. But obviously, we don't expect any big changes as we go forward. This is an ongoing adjustment to experience that we see in the market.

And in terms of unit linked fee income and cost level, the fee income, there are certain one-offs that strengthen the quarterly result. And there are certain cost elements that are benefiting positively in this quarter.

The underlying trend you see in the year-to-date numbers, I would say, is a good indication as to how this develops going forward. And in any one quarter, you will have – around the trend line, there will be some ups and some downs around that trend line. I think the trend line is quite clear. However, this quarter was exceptionally good, both on cost and income, for certain smaller items.

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

Great. Thank you very much.

Operator

The next question comes from Daniel Do-Thoi from JPMorgan. Please go ahead. Your line is now open.

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

Hi. Good morning. I just have a couple of question around paid-up, and then one on the corporate bank. In terms of paid-ups, you mentioned NOK 160 million relating to 700 customers. And – I mean, from the (19:01) that you've disclosed, I guess I can see that you've managed to convert quite sizeable accounts, and by that, I mean larger than the average on the back book; and secondly, that they appear to be fully or at least very well reserved for longevity, given – while no obvious – no visible P&L impact. So I was just wondering whether, firstly, if that was the case; whether you could confirm that.

Secondly, if you could maybe give us a bit more – I know it's only been two weeks, if you could give us a bit more detail on the characteristics of those early convertors, I mean, even if just qualitatively.

And thirdly, I mean, do you expect this – how do you expect this run rate to change over time because I mean, are we just seeing sort of low-hanging fruits and shall we see sort of smaller contracts and more costly conversions going forward? Or should we expect the pace to be sustainable, even pick up, as more customers build up longevity reserves from which you can then target customers? That was on paid-ups.

And the second one was on the corporate bank, where you've had another quarter of very large transfers of loans to the life company. Can you just comment, maybe on a net basis, how you expect that to impact the running yield going forward, given that yields have come down quite a bit over the course of the quarter and also, what the net impact of that is on capital requirements? Thank you.

A - Lars Aasulv Løddesøl

Thank you. Let's start on the paid-up policies. We had NOK 160 million in transfer based on 700 customers for the first one-and-a-half week. And you are right, they are larger accounts than in the average, say, in that transfer. And you will see that our sales force, of course, targets customers that has a very good value proposition, that is large accounts, and that also has quite a good situation when it comes to reservation for longevity. And that is one part of the transfer.

Another part of the transfer is that is what is done through Internet directly. And half of this transfer is done by people directly, without the help from our advisors. And obviously, that is more early adaptors. That is they understand the financials very well. They are very well aware of what they have in paid-up policies and have been waiting to do this transfer. We have not been very massively out in the market yet. There has been limited activities from our side. So this is really people that has picked up that we have opened up and starting to move their assets as soon as possible.

But we see, on a daily basis, that there is flow of people that really changed their paid-up policies into investment choice on a daily basis. So this is not something started over

(22:13) the first days and then leveled (22:15) out again. It seems to be a quite stable transfer going forward. And you are right also that there is quite a limited need for longevity reservation in these contracts. I think it's somewhat around 3% in top-up that is needed, something like that, to get these transfers going.

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

But you won't see that in the third quarter numbers, obviously, because this is happening in the fourth quarter.

A - Lars Aasulv Løddesøl

Yes. And it's also taking account for that in the NOK 90 million – part of that for the NOK 90 million we already use as a run rate on the equity charge in the life insurance company.

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

Yes, and on your question on the corporate bank, there has been NOK 1.9 billion worth of corporate loans sold to Storebrand Life in the third quarter. And if you look at that in the context of a portfolio of almost NOK 200 billion, obviously, that's a fairly small amount. So the exact impact on the yield is negligible, but it's one of many things that we do to enhance the yield and to use our capital in a more efficient way. So it's difficult to give an exact number, but it's going to be negligible in the big picture.

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

Okay, thanks. And just one follow-up, on the paid-up policies, what was roughly the split of the NOK 160 million between self-service and targeted?

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

The split between?

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

Self-service converters and targeted converters, i.e., those that you actively targeted through your sales force.

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

I think I have it on the number of people that have transferred. And half of it is transferred directly on Internet, and half of the numbers are transferred through help with our advisors.

A - Lars Aasulv Løddesøl

But I think also that you should assume that the average contract, by itself, is somewhat smaller than the advised ones.

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

Okay. All right, understand. Thank you.

Operator

The next question comes 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. First of all, I think you mentioned that you've strengthened the disability reserves by about NOK 100 million across the different business lines. Could you kind of give a breakdown between I guess the DC and DB, how that was split? And just as a follow-up to that, just wondering if you – what impact you anticipate the new disability cover that's expected in 2015 to have? And then, just to follow up on the earlier question around unit linked margins and the one-offs coming through in the quarter supporting that, just wondering if you could maybe quantify what the net impact was. Thank you.

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

Can you repeat the last question?

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

Sure. You mentioned that there were some – that the unit linked margin was benefiting from both some one-offs in terms of revenue as well as cost benefits in the quarter, and I was just wondering if maybe you could quantify what that impact was.

A - Lars Aasulv Løddesøl

Well, David, on the disability reserve strengthening, I think very roughly, you can divide the NOK 50 million that hits the risk results in the guaranteed pension and NOK 50 million which hits the insurance segment, as such. However, you should be aware that in the insurance segment, you have also some releases in the Swedish business, which compensates, to a large extent, the reserve strengthening.

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

Okay.

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

And with respect to new disability rules in Norway, that's the publicly financed disability support, which basically removes the need for disability insurance for low paid people. So that is expected to reduce the level of premiums and coverage for basically the blue collar part of the population. But on the other hand, there is no – it's basically a fixed amount in disability coverage, which means that the need for disability coverage for white collar and well-paid people is increasing.

As it seems right now, the rules are a bit delayed, so we don't know exactly when they will come about. And there will be a transition period, most likely, of some years. So that, in itself, it should reduce premiums within disability, and especially for blue collar, low-paid people.

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

Okay. And that's related to the DC plan, right?

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

No, that's the public sector, what we get from the public – for disability in Norway, regardless of what kind of occupational pension plan you have.

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

Okay.

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

And with respect to your last question, there are many moving parts in the result. And there was one fee that is – has been generated within unit link for basically when you send out invoices by paper, that we were able to include this quarter; and also, with a periodic – that we also charged in the second quarter. But that wasn't included in the second quarter, so that gives us a positive one-off of a couple of a few million for this quarter.

On the cost side, there was, within asset management, certain bonus reserves that were not used for the program of – with the restructuring program that were released; that decreased cost a few millions again in the quarter.

So it's not the unit linked margins as such, but it's certain one-offs that hit – or that, well, impacted the income line, as well as the cost line, in a positive way in the quarter. But I repeat my guidance comment that these things tend to go up and down on a quarterly basis. And the underlying strength in the earnings from savings is quite good, although they were – they got a positive impact from these single effects in the quarter.

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

Okay. Thank you very much.

Operator

The next questions come from Gianandrea Roberti from Carnegie. Please go ahead. Your line is now open.

A - Gianandrea Roberti {BIO 6786731 <GO>}

Yes. Good afternoon from me as well. I have three quick questions. The first one, it's on this new academic contract that you disclose here in this presentation. I'm not sure if I dial in a bit too late, but I just – I'm trying to understand what the financial impact of this. Is it correctly, I assume, these are mostly DC schemes? How much are reserves and how should we model it going forward?

Then, my second question will be on this transfer possibility that you open up a few days ago for you. I spoke briefly to DNB Investor Relations team this morning, and the numbers that they are giving me out are very, very, very low compared to the 700 clients and the NOK 160 million that you mentioned. I'm just trying to figure out if – of course, this is a key area for you, and it's probably less of a key area for them, but I'm just trying to understand if there are two very different strategy around this, or if they are being too cautious. I'm not sure how much you can add because you have already spoken a bit about this, but any input would be useful.

The final question, it's on your insurance segment, I appreciate you split it in three. And the most growth is coming from the PC segment. But if I look at forward, leaving aside the 2014, wouldn't be fair to assume that, I mean, if I look at the insurance segment as a whole, premiums are probably growing 5% or so? Thanks. That would be very helpful.

A - Lars Aasulv Løddesøl

Okay. Thank you. I'll start with the academic and also the paid-up policies. Well, academic is a very important agreement we have made with some trade unions in Norway. It's 11 – umbrella of 11 different organizations, and they have more than 110,000 employees that are highly skilled, high education, and is in a very attractive area for us to give insurance products to.

And we have made a deal that this corporate pension, this corporate insurance product, will be moved into Storebrand by January 1, 2015. And that is approximately NOK 220 million in annual premiums. And then, it's also a lot of individual products here, individual insurance products, a whole range of them. They will be individually contacted by us to make an offer to transfer from today's provider, DNB, into Storebrand for all of these insurance products. So that is the potential we are seeing. And altogether, it's the same level I think on the individual (32:29) potential that will be transferred to us.

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

And if I can just add on that, Gianandrea, there you already have 5%, 6%, 7% growth in the insurance premiums going into next year.

A - Lars Aasulv Løddesøl

So that was the academic. Now, when it comes to paid-up policies, I think it's fair to say that we have a different strategy, the different providers in Norway. We have been very clear that we open up to all our paid-up policyholders an opportunity to move into investment choice. And that means that you can go into our net solutions and do your process by yourself, while most of our competitors has a more targeted process. And some of them just go also to the contract that is truly reserved before the transfer into investment choice. And of course, that different attitude towards these clients also lead to very different results when it comes to transfer from paid-up policies to investment choice.

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

And with respect to your last question on insurance growth, we'll talk a little bit more about that on Capital Markets Day. But as Trond just said, we'll have a head-start with the academic that are coming into the portfolio at year-end.

A - Gianandrea Roberti {BIO 6786731 <GO>}

Thanks a lot.

Operator

The next questions come from Matti Ahokas from Danske Bank. Please go ahead. Your line is now open.

Q - Matti Ahokas {BIO 2037723 <GO>}

Yes. Good afternoon. It's Matti from Danske here. Two questions, if I may. Firstly, more of a kind of a philosophical one, and regarding the buffer capital and the guaranteed basis, obviously, we're at very high levels at the moment, partly because of the declining bond yields. But how should we look at the buffer capital going forward? Any kind of target levels and what should one think about this overall? Second question is if you could give me an update on how much was the – how many of the current paid-up policies are fully reserved for longevity. Thanks.

A - Lars Aasulv Løddesøl

Yes, maybe start on the philosophic one then. Well, as you say, when we have declining interest rates, that leads in our balance sheet to increase in buffers for policy – for our held-to-maturity bond portfolio. And that is a very direct and a good match towards our guaranteed portfolio.

A large part of our guaranteed portfolio today has an asset mix with around 50% of this kind of held-to-maturity of products. And it's an important, of course, part of our risk management strategy, as we see that the guaranteed products will have a run-up phase, that we will have lower guarantees over time, and that we are able to match that run-off of our guaranteed products with also a large part of healthy maturity bond portfolio, with a high annual running yield. And that is a direct match between, of course, the interest rates and the surplus values in this portfolio. And there is no targeted level on that.

Then, of course, it's also important for us to have as much a high level of value adjusted – market value adjustment reserves. And that is the most flexible buffer we have. It can be used on a rainy day, if we fall below the guarantee level in some portfolios to realize some gains. And it's also a very important buffer for us to utilize, if needed, when it comes to the longevity reservation as an additional buffer. And it's on a high level today. And of course, we hope for good markets and opportunity to build that even further, going forward.

Q - Matti Ahokas {BIO 2037723 <GO>}

Is it fair to assume that the market value adjustment is probably going to be lower in this quarter than in Q3, providing that the markets stay where they are?

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

Providing that the equity markets falls, then we will automatically use some of the market value adjustment reserve. On the other hand, as some of – some other elements on the credit spreads (37:14) are moving, we wait and see. But the automatic way this work is that when equity markets fall, well, then the market value adjustment reserves falls. But as the markets grows, then these reserves also grows.

A - Lars Aasulv Løddesøl

It is also a fact that they have quite a limited asset mix when it comes to shares into our guaranteed portfolio. It was even reduce that end of the third quarter. So, the direct impact on our guaranteed products from preparations in equity is very limited to what it used to be some years ago.

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

And with respect to the paid-up policies being fully reserved, I think it was NOK 5 billion that we announced last quarter that was fully reserved. And at the same time, we said that there was a high – or a good value proposition to move into better policies with investment choice for approximately NOK 30 billion worth of paid-up policies.

Q - Matti Ahokas {BIO 2037723 <GO>}

Great. Thanks a lot.

Operator

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

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

Thank you very much and good afternoon. I've got a couple of smaller questions. The first one is just on fee and admin income in a couple of the segments. The first one is in the Norwegian DB book, where I think the fee and admin income figure was NOK 270 million. Now, that's higher than it was in Q1 and Q2, despite the fact that you've got significantly lower reserves, so just wondering what's going on there. Is there anything one-off?

And I'm sorry to return to this, Lars, but just a question on the fee and admin income in the unit linked book in Norway. It was NOK 118 million in Q3. And I realize that there is some volatility, but NOK 118 million is about 40% higher than it's been averaging the last six quarters before that, so it's an outlier. I know you've talked about a few millions here and there, but it wouldn't quite explain why it's so high. So, apologies for going back to that, but I wonder if you can think again if there's another answer you can give.

The second question is on the performance fees in asset management. From time to time, you do give an indication of what has been accrued but not yet booked by way of performance fees and asset management for Q4. I wonder if you've got anything to say there.

And finally, just a small point. You talked about in the insurance business, obviously you had the disability reserves, but you also talked about higher-than-expected fire costs. And I wonder if you could put a number on the fire costs. Thanks.

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

If I can start with the performance fee in the asset management, I think it's in the interim report as well. There, it's recognized but not booked NOK 51 million as of Q3.

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

NOK 51 million? Thank you.

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

When it comes to the fee and admin income on the unit linked business in Norway, I just can confirm what Lars has said. It's really a smaller item, but where you get two quarters of approximately NOK 5 million a quarter into this quarter. So the run rate in itself will be higher. Due to that, you should expect approximately NOK 5 million additional revenues every quarter. But this quarter, you got an additional NOK 5 million on top of that, so that's why this seems maybe a bit higher than what it used to be.

A - Lars Aasulv Løddesøl

And with respect to fee and administration income in the defined benefit book, you are quite right, that the charge that we have booked, or the fee that we have booked for the interest rate guarantee and risk margin is up in the quarter, which also surprised me a little bit when I saw it the first time due to the fact – it's exactly as you say, that this business is run down and also the public sector and the municipalities are moving out.

However, that is due to two things. One thing is that we booked slightly too little risk margin in the first half, which is made up for now. And the second is that because of salary increases, you have one-off premiums on the people still in defined benefit plans, which also carries an interest rate guarantee and a risk margin. And those were booked in the third quarter – or a larger proportion than normal was booked in the third quarter. So salary increase and defined benefit books, as well as a periodic effect on risk margins (42:22) between first half and the third quarter.

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

Okay, great. And the fire loss?

A - Lars Aasulv Løddesøl

I don't have an exact figure, but there were lots of thunderstorms in Norway, and that hit us, as well as the other insurance providers in the Norwegian market in the third quarter.

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

Okay, that doesn't sound...

A - Lars Aasulv Løddesøl

It's a limited number compared to...

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

I thought you were saying (42:48) significant, yes.

A - Lars Aasulv Løddesøl

Compared with what we discuss around disability, that's of course a very limited number compared to that.

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

Yes, okay, that's great. I think that's fine. Thanks very much. See you tomorrow.

Operator

The next question comes from Peter Eliot from Berenberg. Please go ahead. Your line is now open.

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

Thank you for the opportunity to follow-up. I just want to focus quickly, first of all, on your answer – one of your answers to Gianandrea's question on the transfers. It sounded like anybody who wanted to transfer into paid-up with investment choice could do so online. I'm just wondering whether there are, in fact, sort of controls in place for policies that are not well-reserved for longevity. Perhaps, you could just clarify whether there is any risk of literally anybody transferring.

And then, perhaps, if I could come back with two more quick questions of my own. You mentioned in the report some competition emerging in the health insurance space. And I note that your underwriting results in 2014 have been sort of significantly worse than the last couple of years. I'm just wondering, perhaps, if you could sort of talk about your view of the underwriting results there, going forward, and whether that's a sort of 2014 phenomenon.

And then, sorry, perhaps, I could also just ask on the cost development. And I note your chart on slide 5 shows those costs sort of flattening out in line with your plan. But I'm just trying to square that with the sort of 4% reduction that you're reporting, and also sort of going forwards, with the sort of NOK 50 million run rate you expect to get sort of by the end of the year. Just to clarify whether that should come through – whether we should see that in Q4 earnings? Thank you. Sorry, that was a bit more than a couple of short ones.

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

That's fine. Starting on paid-up policies, you're absolutely right. We have made it clear that we are open for everyone that likes to move from today's paid-up policies into investment choice; although we of course monitor this on a daily basis. And we very well know what kind of clients (45:18) that is moving from paid-up policies into investment choice. And we also use our own multi-channel sales force on targeted groups, based on of course a very green situation when it comes to value creation by moving, but also taking into account the level of longevity reservation in the contract.

Altogether, so far, we see that this moves in a very good direction with good control. But we have the opportunity, of course, if we see that this is moving into a wrong direction, to put some boundaries on that. We don't see any reason why we should do those, so as we speak, but we monitor it and follow it tight. And it's a very important value proposition for our clients, and we also stand out as a very customer-friendly company in Norway by offering this opportunity for everyone that wants to move from a low guaranteed into an opportunity to free choice when it comes to investments.

A - Lars Aasulv Løddesøl

With respect to the health insurance margin and competition, I don't have any specific answer to your question. There is no strategic change in the market, as such. We continue to have a healthy market, which is growing, and we continue to have a healthy development in that business. There was some strengthening of the reserves earlier on also that had some impact on top margin, and we expect healthy margins on health insurance going forward.

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

And on the cost program, we initiated the cost program with many hundred different initiatives. And some of those initiatives did not conclude within the period that we said, but we are not closing them despite that. So they will continue into the fourth quarter and into next year, with a full year effect in 2015 and even in 2016. But what we are saying is that the – where we haven't been able to conclude one initiative, we have found another initiative that will be concluded in time. So, overall, the cost program that we put in place, having NOK 400 million nominally, will be delivered by the end of this quarter. However, the aftereffects or the tail of that is going to positively impact the cost level in 2015 and 2016.

A - Lars Aasulv Løddesøl

And I think that's also the reason why you see the picture on slide 5 being flat. Although you see in our accounts that the costs are continuing down, because what we have implemented so far gives full effect in the Q3, while there are still some more effects to be implemented in Q4.

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

Great. Thanks.

Operator

And the last question comes from Daniel Do-Thoi from JPMorgan. Please go ahead. Your line is now open.

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

Hi. Thanks. Just got two more questions. The first one is on DB scheme closures. And the second one on the financial result. I'll start with the DB.

You mentioned that you'll be switching your employees over to DB schemes at beginning of next year. But I just want to hear from you what your sense is in discussion with customers of the level of urgency in doing similar (48:53) because one of your peers estimated a decline in their DB funds by about a third or so by 2016. Just wondered if that's sort of in line with your expectations or your thinking.

And then, on the financial result, I know that you received an uplift this quarter from falling yields and from tightening credit spreads. But what should we expect to be a normal level here? And to what extent can you improve that, given you're able to refinance your debt at a lower cost? Thank you.

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

Okay. I can start on the first question. You're absolutely right. We close our own DB schemes starting off this year, schemes from January 1, 2015. And there are some, of course, quarter-by-quarter, companies that are doing that. I don't see a trend shift in the market. It's still the same mechanisms as I've talked about earlier.

You see typically that the companies with a large portion of their employees in DB book have a better opportunity to move into defined contribution. And you also saw significant higher savings rate in different contribution, as we are doing when we move into the DC scheme; while companies that have done their soft close a while ago will then have also to give a large uplift in savings rate from the ones that has been coming into the company for maybe the last five, six, seven, eight years.

So there is individual views in every company. While they are doing soft closes or hard closes, there is individual discussion based on a lot of elements. So, there is no clear trend shift in that, as I view it then. The level we have now of transfer from defined benefit into defined contribution, it's a one-way train, of course, but it's not a massive change in the activities, as we view it in the market.

A - Lars Aasulv Løddesøl

The last question, can you repeat that, please?

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

The last question was just on the financial result. So basically, my question was what do you see as a normalized level, given that you received a benefit or a tailwind from tighter spreads, falling yields, et cetera, this quarter? What should we expect on this line going forward in 2015? And also, what's the opportunity to further reduce that, given you can refinance at lower yields?

A - Lars Aasulv Løddesøl

We don't have a financial results, as such, in the guaranteed pension, and not to the owners, if you look at the graph. But are you talking about the running yield on the guaranteed portfolios?

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

No. So just in your summary P&L, the financial result, which, if I understand correct, is the return on your corporate portfolio, your interest expense and your return on your...

A - Lars Aasulv Løddesøl

(52:08)

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

Yeah.

A - Lars Aasulv Løddesøl

In the third quarter, there was a one-off effect (52:18) approximately NOK 20 million. I think if you subtracted that from the result, I think you're pretty close to the underlying (52:31). You're not – they're probably somewhat too strong in the insurance this quarter as well. So if you deduct roughly NOK 30 million or so, then you start to – it really depends a lot on how you are viewing – or talking into next year is somewhat difficult.

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

What we can say about next year is that, first of all, we have had good returns due to falling interest rates. So there's a short-term bond portfolio there, which has given more than normalized returns this year. Next year, we have a very expensive loan in the Storebrand Life company, which is running at LIBOR plus 775 basis points, which was refinanced back in 2008 – in the summer of 2008, which we will repay. And obviously, we can borrow much cheaper than that now. So that should reduce borrowing expense, which will impact positively the net figure in this line.

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

Okay, that's clear. Thank you.

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

And the last question you had?

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

That was my last question. Thanks.

Operator

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

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

Then, we'd like to thank everyone who was joining the call today. Have a nice evening.

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

And welcome to the Capital Markets Day on November 26, in London.

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

Yes, see you then.

Operator

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