Q1 2014 Earnings Call

Company Participants

- Odd Arild Grefstad
- Sigbjørn Birkeland
- Trond Finn Eriksen

Other Participants

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

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, welcome to the Storebrand Analyst Conference Call. My name is Jacob (00:07) and I will be your coordinator for today's conference. I will now hand you over to Trond Finn Eriksen to begin. Thank you.

Trond Finn Eriksen {BIO 17132188 <GO>}

Thank you and good afternoon, ladies and gentlemen. Welcome to Storebrand's First Quarter 2014 Conference Call. My name is Trond Finn Eriksen, Head of Investor Relations.

Together with me I have our group's CEO, Odd Arild Grefstad and Finance Director, Sigbjørn Birkeland. As we have notified a slide presentation will be running on the webcast available on storebrand.no. The slide presentation and Odd's presentation was released this morning.

In the presentation today, Odd Arild will first give an overview of the development in Q1. After the presentation, the operator will open up for questions.

Over then to the group's CEO, Odd Arild Gregstad.

Odd Arild Grefstad {BIO 5483351 <GO>}

Thank you, Trond, and welcome to the conference call. I'm starting on slide #2. And the group results is a strong one in the first quarter of NOK728 million and this after we have allocated NOK90 million to the longevity reserve strengthening according to the plan. There is an increase in the earnings especially in the segment savings and interims. And we also this quarter recognized a cost savings reduction according to the program and they have a reduction in cost by 5.4% compared to the first quarter in 2013.

During this quarter, there has also been a lot of regulatory elements that has fallen into place. On the 2nd of April, the guidelines for longevity reservation was finalized. This seems that we now have a better picture of the costs allocated – cost associated with the longevity reservation going forward and I will revert to that later on in the presentation.

I'm especially very pleased to see that we also in this quarter was able to find an undistributed profit above the guaranteed level of NOK1.9 billion. That will mainly be used to strengthen the longevity reservation by the end of the year.

Also we recognize that the transformation of the balance sheet continues. Occupational defined contribution premiums increased by 16% and a guaranteed liability is reduced by NOK7 billion in the quarter. The reduction is mainly from the public sector transfers out in Norway and Sweden.

It's also satisfying to see that the corporate starts to use the new and higher savings rates within defined contribution in Norway. This was opened with higher opportunities for savings rates from the 1st of January 2014 and we already see that more than 130 companies has taken this new savings rate into act. And we expect to see a development going forward where more and more companies actually use higher savings rate into the defined contribution.

Moving to the slide #3. As I said, it's a strong result for the quarter. There is some major special items I'd like to comment on. It's not one of as such but it's mostly a part of our day-to-day operation. But it helps explain the development in the quarter. At stated, there is a strong risk result. NOK70 million out of this result can be attributed to non-recurring items and that is from the Swedish operations in SPP.

The financial results are also very good partly due to what we consider one-time effects by nature. So it includes the total if we try to combine it. NOK40 million in profitability from the sale of the SPP commune as stated before and on top of that the strong development in the financial markets, especially the bond portfolio also give a high booked return. That gives approximately NOK70 million in a result above what is normally expected.

Then we have a negative impact from loss provision in the bank higher than expected in the quarter, it's a loss of NOK60 million in one single loan. And if we take all this together, I would say that this is around NOK150 million in elements that can explain the higher than normal result in the quarter. Part of this was known by the markets before, that is to say that would be Public Sector Pension Company, and that also explains the difference between the expectations in the market that is around NOK100 million lower than what we actually delivered.

If we now move to the next slide, it has an introduction of our strategy into what we actually do on the balance sheet quarter by quarter, and I will move to slide #5 to see the development in the first quarter. If you start at the top left corner we see the development in downsizing the corporate, guaranteed portfolio. NOK7.3 billion has been transferred out in this quarter, NOK5 billion is Public Sector, Norway, NOK1 billion is Public Sector, Sweden, and on top of that we also have especially in the Swedish market, conversion from guarantees to non-guarantees public as an ongoing business.

If we then move on the top right-hand size regards risk reduction, based on extensive work in Storebrand these days to segment the portfolios, especially within paid-up policies in terms of reserve requirements for increased life expenses, and also to prepare the portfolios to the market for paid-up policies with investment choice.

Down on product optimization we have been concluded the sale of SPP Pension Service this quarter, and we also see that the fact that we have new mortality tables in all contracts leads to better risk results quarter by quarter. And that is already recognizing the results for the first quarter 2014.

Last but not least we see that the cost reduction comes through in the results, and that we now have realized NOK335 million of the total cost plan. And that is an increase from NOK272 million by the fourth quarter of 2013.

If we then move to longevity reservation, the final reservation plan is now clear. It will be a longevity reserve strengthening that can have a maximum duration of seven years, that will, say, up to 2020. The reserves may be funded through (8:30) Holding from customer service, but the return on both the interest rate guarantee on one contract cannot be used to strengthen reserves in another contract. In other words, there is no solidarity allowed. And the company contribution should be at least 20% of the increased reserves, and that should also be allocated on that contract level. The reserve strengthening must at minimum be linear during that period.

It's been very satisfying to see that we have a high booked return in Q1, a booked return that allows NOK1.8 billion above the guaranteed rate, which will primarily be used for longevity reservation at the end of the year. In addition, the shareholders (9:19) we have allocated NOK90 million direct, and there is estimated NOK149 million indirect through forgone profit sharing for the period.

We then have NOK6 billion in total longevity reserves and a reserve strengthening need of NOK12.4 billion. As we have communicated previously, we are in the process of allocating longevity results down to each contract, and we will finalize that work during the second half of 2014.

In that process we estimate that some of this NOK6 billion will move from the longevity reservation into other reserves, such as additional statutory reserves. But we estimate that to be at around maximum NOK500 million as such due to the fact that some contracts already have the full reservation for longevity, and there will be then allocated reserves used for other buffer capital building in that respect. We also have other buffers that can be used for longevity reservation, including NOK2.8 billion in unrealized gains and NOK6.7 billion of assets on bonds held at amortized costs.

Moving to slide 7, the asset allocation of the portfolio is shown on the left-hand side, and that is also the basis for the estimated return in the portfolio of NOK4.4 billion. Very important here is, of course, our running yield at bonds at amortized cost of around 4.8% and also the real estate running yield around 5.2%. This leads to an estimated expected return of something above (11:20) 4.4% during the period, and that is also a return that does not take into account unrealized gains in the beginning of the period.

Moving down to slide #8. That will be that last slide I actually talk around before we open up for questions. It's about paid-up policies with investment choice. We now have clarity around the rules for longevity reservations and the industry is now waiting for the final rules around paid-up policies. And as I said earlier, we expect that to be clear before summer.

Three elements has been for discussion but we have now finalized the hearing period around it, so I think it's fair to say that we have quite a clear picture around how these regulations will fall out. There will, of course, be regulations around financial advice in this product. Also it's positive to see that there is come-up (12:36) solutions for pay out profiles for paid-up policies that will give opportunity for good customer values going forward. Finally, we expect that there will be a regulation saying that the paid-up policies will have to be fully paid also for longevity reservation before prior to conversion.

When we take these elements into account and we work here with the segmentation of our portfolio, we see that we have approximately NOK30 billion that is available for a very good and sound advice and have a very positive value proposition for our customers moving from paid-up policies into paid-up policies with investment choice.

Around NOK3 billion of this is already fully paid-up for longevity. When we do our segmentation going forward, of course, we take into account the necessary use of buffer capital realization and also a possible equity use and we segment the portfolios to make sure that we have a sustainable portfolio that can be allocated and used for starting this market during 2014. And of course, we have ambitions when it comes to converting paid-up policies into paid-up policies with investment choice.

So by that I will conclude and say that there is a strong results for this quarter, very pleased to see that we have been able to also build on the longevity results quite substantially with NOK1.9 billion. The cost was reduced by more than 5% in the quarter and you also see that we are able to convert from guaranteed pension into non-guaranteed savings. This is, of course, reflected in the balance but also in this quarter we see that reflected in which areas we really increase our results on the savings and insurance side while we see a reduction in the results from the guaranteed pension area. Okay?

Trond Finn Eriksen {BIO 17132188 <GO>}

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

Q&A

Operator

The first question comes from the line of Peter Eliot from Berenberg. Please go ahead.

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

Thank you very much. I have three questions please. First of all on the longevity reserving where you estimate you've got NOK12.4 billion in total and at 4.4% return it should a NOK330 million run rate of cost, my understanding from your previous disclosure was that after the transfer out of the public schemes, the full amount that you would estimate it at about NOK12 billion net of that NOK0.5 billion change and a run rate of 360 (16:05). I appreciate you say you've been able to (16:11) and you've got a better understanding now, but I'm wondering if there's anything you can say specifically that's caused that change. And I guess good booked return Q1 has probably helped the run rate, but I'm just wondering if that's the main reason there were the specific things you could give us on the changes to your assumptions or whether I interrupted it wrong in the first place.

And the second thing was on the cost savings, I may be taking this far too literally but on slide 5 you showed a bit of a plateau in the targeted savings going forward, I'm wondering if you could just outline whether you expect to see cost savings coming through over the next few quarters or indeed whether there might be a slight lull given the very strong achievements to date.

And then thirdly, I was just going to ask on the fee based, appreciate you've had some transfers out, but nevertheless it was a bit of a decline in the overall profitability in that business in the quarter and I'm just wondering whether what we're seeing is a run rate or whether there's anything in particular going there? Thank you very much.

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

If I may start answering your first question, I think you're correct Peter, that when we reported Q4, we said that there was NOK7.5 billion of reserve strengthening in it. That was after taking into account that some of the municipalities that have transferred away out in Q1 was transferred up. It ended up being actually NOK12.4 billion. But they are also correct that there are more municipalities left (18:00) final total reservation need at that time would be somewhat below the NOK12.3 billion. But will you first be able to comment (18:10). So I think that's a discrepancy in risk numbers.

A - Sigbjørn Birkeland

If I then comment on the cost savings and the fee based. Cost savings first. This slide 5 is quite accurate actually when it comes to the different measures and plans we have for cost reduction. So it's concrete costs that is spread out in the process and over the quarters. And you are right that we expect a more flat development in the next couple of quarters, while we expect to also see the effects (18:57) of cost reductions at the end of the year. And, of course, we still expect to meet the NOK400 million and the cost level of NOK3.5 billion in total by the year-end.

When it comes to the fee-based business, I would say that the fee-based DB platforms, of course, we see a conversion from DB to DC in Norway. That is the same level and the same pace I would say as we have seen the previous years. By the first quarter this year, this will be around NOK4 billion that has been transferred from DB into paid deposits, and then started off with the DC savings. That was very much the same level that we saw in 2013 in the first quarter. And also typically we see that around half or more than half of the total transfers from DB to DC [20:01 - 20:17]

Operator

Ladies and gentlemen, we have momentarily lost the line of the host. Please stay on the line while we recover the host line.

Music (20:34 - 21:34)

A - Sigbjørn Birkeland

Hello? I suppose we are back in the conference now?

Operator

Yes. The line from the host has been reconnected to the call.

A - Sigbjørn Birkeland

Okay. Thank you. Sorry for that. We continue. I think was on the end of the question around the fee based. Summing up that the conversion that we have seen this year is very similar that we saw last year and that more than half of the transfer from DB to DC typically happens in the first quarter. So the conclusion is that we don't see any increased speed of conversion from DB to DC. It's very much the same pace that we have seen over the last couple of years.

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

Okay. Thank you very much.

Operator

Thank you. The next question comes from the line of Matti Ahokas from Danske Bank. Please go ahead.

Q - Matti Ahokas {BIO 2037723 <GO>}

Yes. Good afternoon. Matti Ahokas, Danske Bank Markets. Two questions if I may. First regarding the Savings business, we've seen a bit of a slowdown in the growth of the unit-linked reserves both in Norway and Sweden. Is there any seasonal effect here or is the market just slowing? And also if you could shed a bit light on what kind of growth ratio should we expect going forward? They, of course, have been very high now in the beginning but kind of into 2015, what kind of growth rate in unit-linked Sweden and Norway should we expect?

The other question is regarding the paid-up policies with investment choice. This NOK29 billion figure is a bit higher than you've previously said. What is the reason that this has increased and during what time span do you expect that this NOK29 billion will be converted into paid-up policies with investment choice? Thanks.

A - Sigbjørn Birkeland

If I may cover the first question, Matti. I think if you see where our growth comes from within the unit-linked, it's from premium growth and it's from these assets returns. And what you see in the first quarter it actually had quite healthy growth in premiums, so 16% when it comes to the occupational pension line, somewhat lower on the private lines but still healthy growth in the premiums.

Then the second element is, of course, the asset return, and the asset return in the first quarter this year has been lower than it was the last – or the average last year. And due to weaker equity markets amongst other, the first quarter this year than for the average of last year. So I think that is no seasonality in that, but it's more dependent on – or the growth of reserves are very dependent on the financial market development.

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

When it comes to paid-up policies, the NOK29 billion is really when we segment the total portfolio and looks into who we are able to give a very clear advice that it will be comfortable for them to move from today's paid-up policies into investment choice, and that's very much to do with the time length before you move into pension age, and also it has to do with, of course, expected return that would be higher in the investment choice product in itself. So that is quite an objective in a way segmentation of the portfolio.

Then, of course, it's all about the final regulations that we have to wait for, but it will take time before we have moved and talked to all these customers and really being able to give them the advice around moving from paid-up policies into investment choice. We are segmenting these portfolios now, and it's also very different how much reservation there is in these different buckets. What I (25:55) was saying was that already today there is NOK3 billion that is already through the reserves. And there is, of course, also quite a number that is almost fully reserved and that with some use of buffers and also slightly use of equity can be ready for transfers into investment choice. We don't have a use of equity in moving them from paid-up policies into investment choice. So to be really taking all this portfolio that will take years. But my main message was that it's possible for us to start up as we see it now in the autumn and with a substantial portfolio to work with and to move from paid-up policies into investment choice.

Q - Matti Ahokas {BIO 2037723 <GO>}

Okay. Great. Is there a specific date you could give us when you talk about autumn or do we just have to wait and see?

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

Well, it's always very dangerous, of course, to give timelines that you don't control yourself. It's very much about the regulator but we have been told by the regulator that day before summer and I view that as between June and July should be clarity in the final regulations around this. And then it's very much up to us and how much we need to change in our setting for paid-up policies with investment choice. But we expect to be in the market let's say around October with this product anyway.

Q - Matti Ahokas {BIO 2037723 <GO>}

Great. Thanks a lot.

Operator

Thank you. The next question comes from the line of David Andrich from Morgan Stanley. Please go ahead.

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

Hi. Good afternoon. Two quick questions on my side. First of all in terms of the contribution from shareholders to longevity reserving, I was wondering how should we think about that going forward. You guys are you thinking about trying to keep it a fairly stable number and then trim it (28:14) up end of year based on the actual returns throughout the year or should we expect some variations from quarter-to-quarter based on the annualized return?

And then my second question, I'm just wondering now that we have a bit more clarity around the longevity reserving, how do you feel about your economic capital position ahead of Solvency II in particular in relation to your dividend policy? Thanks.

A - Sigbjørn Birkeland

Okay. When it comes to the contribution, direct contribution from shareholders to the longevity reservation, we have stated in the press release that it will be between NOK80 million and NOK100 million in the quarter. In the first quarter, we booked NOK90 million. We expect it to be around NOK90 million quarter-by-quarter. Then, of course, if there are major shifts in the assumptions that are underlying this then we might have to correct it but we are aiming at keeping this stable from quarter-to-quarter.

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

When it comes to capital position and Solvency II you're absolutely right. There is more clearance now compared to what we have seen for a lot of quarters. We're still waiting for the final regulations around Solvency II and how that is implemented in the Norwegian regulations of course. And also about what we are discussing around paid-up policies into paid-up policies with investment choice. Our plan is to take all of this together, work it through our balance sheet and have a capital markets day with you during the year and in the autumn to be much clearer on all these elements. And I think it's fair to wait till that before we comment more on the capital position and dividend capacity.

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

Okay. Great. Thank you very much.

Operator

Thank you. The next question comes from the line of Daniel Do-Thoi from JPMorgan. Please go ahead.

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

Hi. Good morning. Three questions from my side. The first one is just following up on what David just asked. You mentioned the major shifts in assumptions. Just want to confirm what those are. Is it just largely the investment return, i.e. the 4.4%?

And then secondly, on the paid-up policies you mentioned NOK29 billion which have a clear value proposition from converting to investment choice. In arriving at that number, do you also consider the economics to the shareholder? And if not, what proportion of the NOK29 billion do you expect to be transferred in a way that is economical to shareholders as well?

And then lastly on costs, you mentioned the NOK3.5 billion cost target for 2014 year end. Could you just again confirm what that equivalent number is based on your new reporting format? Thank you.

A - Sigbjørn Birkeland

Okay. When it comes to the assumptions then of course the investment return is the most important and the 4.4% is what we expect of the average of the seven years. But going down couple of years then, of course, this could change. But what we do not expect it to change dramatically from quarter to quarter.

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

So quite a stable number as we assume it and we also see that we have taken into account some use of shareholders' equity to fuel the paid-up policies conversion into investment choice in that number of NOK90 million in the quarter. But to comment on your second question.

That NOK29 billion is just our view on the clear value proposition on the customer level. It has not taken into account economic considerations around use of equity to make that happen. What I said was that there's already NOK3 billion that has been through the result and, of course, can be moved out of this NOK29 billion into investment choice without any need for more reservations, either by returns or by shareholders' contribution. But we expect to have quite a much higher portfolio than NOK3 billion, maybe a portfolio around NOK5 billion to NOK10 billion as a starting point for conversions while the start is in autumn.

And that will also lead to, of course, the work we do with segmentation, make sure that we realize the gains that is needed to make this happen, and we're also prepared to have some shareholders' contribution to make this conversion happen. But very much is taken into account when we look at the NOK90 million, don't expect to have a significant change into that number in the first place based on the plans for conversion into investment choice.

A - Sigbjørn Birkeland

When it comes to the last question around the cost target, as Odd said there, the cost target for the group (33:53) have costs below NOK3.5 billion. And then that leads to somewhat different numbers from what you read off of our result of operational costs.

The operational costs to be equivalent with NOK3.5 billion should be between NOK3.1 billion and NOK3.2 billion. And just to remind you the difference is costs that goes into profit sharing, and it's costs associated with some of the subsidiaries, which is not consolidated line by line into the group results, for instance, (34:36) health insurance. So that's the difference and the difference is between NOK300 million or NOK400 million. So as the operational cost (34:46) should be between that NOK3.1 billion to NOK3.2 billion.

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

Okay. That's clear. Just on point number two, paid-up policies, can you perhaps take any initial guess at what proportion of the NOK29 billion could be economically transferred over the next – or in the near term, so to speak, without taking into consideration some of the revenue synergies that you mentioned here in your presentation? So just from a capital perspective?

A - Sigbjørn Birkeland

Well, as I said I think if we start with the portfolio, let's say between NOK5 billion to NOK10 billion, and then we actually have quite a lot of customers. I will say that that will be equal to maybe 20,000, 30,000 customers that we can work with. And, of course, that is the starting point. Then we can add on this portfolio in the segmentation of the realized gains and after we also harvest some returns in the market. And that will lead to a process where we can fill up the portfolio with customers and assets that are close to fully reserved for longevity. So that is very much the way I view it and a starting portfolio with NOK5 billion to NOK10 billion will be very much to go up with so to say for the distribution network in 2014 and I will say also in the first part of 2015.

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

Okay. And just one last thing just related to that. Hypothetically speaking if you had very strong investment returns in the second half of the year or from now going forward, would you have the capacity to convert more assuming that more than NOK5 billion to NOK10 billion of that paid-up policy of the NOK29 billion were close to being fully reserved?

A - Sigbjørn Birkeland

Yes. That's clearly in that. Of course, as more we are realizing gains making the contract by contract closer to being fully reserved, it will be easier, of course, from an economic standpoint to make sure that we can do that conversion based on very limited extra use of shareholder equity. That is something that we have the opportunity to do and that we control ourselves going forward.

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

Okay. But from a distribution point of view, so from your side in terms of your sales force, there's no limitations with regard to how many...

A - Sigbjørn Birkeland

Of course, there is limitation in that. And what we are doing now is to start out with a more targeted approach due to the fact that this is segmented portfolio where we are target directly on the customers. If we should go broad on the portfolio it will be more based on our debt functionality (38:00) and call center functionality based on it. So this is a more targeted approach compared to what we talked about when we view this and maybe what's in the situation when we thought it would be a conversion (38:21) even if we didn't have a full longevity reservation in hand.

So they will take some time to really work this through in this targeted way but then again we have put all our resources in the sales force and also in our own centers already when this product is clear to start to working with this portfolio and these clients. And we do also believe that it will lead to more sales and opportunity to really have a large part of our portfolio that today is a sleeping portfolio so to say and we will be able to get the cost saves on more activity out to the customers by this transfer. We have seen that from Sweden and hope to use that knowledge also into the Nordics markets.

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

Okay. Great. Thank you.

Operator

Thank you. The next question comes from the line of Blair Stewart from Bank of America. Please go ahead.

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

Thanks very much. Good afternoon. I've got a couple of questions following on from some of the others. Firstly, Odd Arild, on the paid-up transfers, what work if any have you done speaking to customers in advance of any conversion? And what feedback have you had from them? And I'd be interested also in what type of illustrations you're going to be giving the customers? Are you going to be talking – I know there's a potential for higher returns, but they are also giving up what could be a valuable pension guarantee. So I'm just wondering how you're going to guard against the risk of bad advice?

I'd be interested in what you think – the other NOK29 billion you've identified, what you think the reserving need is? Is there any coincidence with the NOK1.8 billion that you've transferred in this quarter? That's the first set of questions.

The second question is on the news that you expect over the summer. Do you expect a redefinition of the guaranteed within paid-up? You've talked in the past about perhaps that guaranteed being redefined as an endpoint guaranteed compared to an annual guaranteed. And if we have time, I'd be interested in the opportunity you see from increased DC contributions? You talked about the 130 businesses already using the higher contribution level. I just wonder how you expect that to continue to gear up over the next couple of years? Thank you.

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

Thank you, Blair. Starting to – we have done a lot of research with our customers, and been asking them, of course, giving them a lot of illustrations and discussions around the transfer from paid-up to paid-up with investment choice. And, of course, it's a different thing to have a theoretical research and asking them about what really is necessary for them to move from the guaranteed product to the investment choice. But when we do that in this green area where we have this NOK29 billion we see that theoretically around half of them or 40% to 50% of them said that they are willing to move from the guaranteed to the non-guaranteed.

Then again as I said that is the research and of course it's a different situation when you come to the real life. But anyway it gives some indication that there should be quite a large potential for this transfer when it comes out. And it, of course, depends on what will be the press image of the different stakeholders in the market also, add-on (42:38) comments on how this whole market really opens up when it starts.

A - Sigbjørn Birkeland

When it comes to the NOK29 billion that was portfolio customers that have a very good value proposition for changing to investment choice. When Odd Arild was referring to NOK3 billion that was part of the paid-up policies that were fully reserved so far as part of the NOK29 billion and then we are in a process of going through every contract, there are 500,000 customers in the paid-up policies and allocating the different reserves.

So we do not have the full overview of all the different parts of the portfolio, where the reserving is based on model, spread and portfolio (43:31) modeling of the entire portfolio but there are a number of groups that are close to being fully reserved as well. So we're working on it and there's really no connection to the NOK1.8 billion either. That's just excess return in the first quarter that will be allocated.

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

Yeah. And the questions about DC and the use of higher savings rates, it's very interesting of course to view and look at that for us. I think it's very early days. Three months is a very short time period. We see that larger corporates typically use 6, 9, 12 months in the process where they are changing their pensions for their employees.

So typically what we have seen now is early movers in this market, typically smaller and medium sized corporates that has been able to utilize the higher savings rate. And I was positively – well, had a positive reaction when I actually saw that almost 140 corporates already just three months after the new savings rate was ready in the market has moved into the higher savings rate. And it's also very positive to see that half of them actually have gone all the way up to the more or less maximal savings rates, and it's a huge increase as you know from 8% up to 25% in savings rates in that respect.

So it's, of course, difficult to see what happens going forward, but I have a lot of discussions with (45:17) about utilizing the higher savings rate, especially the part of the market in Norway I would say all service market, where you have award for talent, award for new engineers. Their pension is used as a part of the important elements to affect new employees in to this corporates, and you see that they typically take into use the higher savings rate in the first place.

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

Okay. Thank you. And the point about the definition of the paid-up guaranteed?

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

At the moment there is no official timeline as to whether – (46:08) white papers from the Banking Commission suggested the changes to the structure, both the industry and the FSA heard in our hearing process that (46:24). But then it was not a part of the proposal for – if an order came into force from the 1st of January this year and there is no official process as such to change it. But both the industry and as far as we know also the FSA are still talking to the Ministry of Finance to get that ball back and rolling. This is nothing that we have a timeframe for or that is very likely to happen very soon.

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

Okay. Thank you. Sorry, just to come back on the NOK1.8 billion, you say that that's excess return that will be allocated. Is there a timeline for having to allocate that? Or is that NOK1.8 billion at your disposal for as long as you need it?

A - Sigbjørn Birkeland

The process over seven years is linear. So out of the NOK12.4 billion (47:26) of that will have to be reserved every year. And we can use – of the reserve we have altogether NOK6 billion, we can use that reserve to use in the first year and second year and so on. So that's the way the process goes.

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

But presumably if you did see a pickup in paid-up transfers, conversions to paid-up with investment choice, you could use that NOK1.8 billion at your discretion, you can use the entire reserve at your discretion to facilitate those transfers?

A - Sigbjørn Birkeland

Yeah. That's correct. So we can kind of go ahead of the plan, but we talked a little bit about the reasons why we might do that and not do that and so on. But the mechanics of the reserving is once (48:11) in the bottom of the – from the regulation.

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

Great. Thank you very much indeed.

A - Sigbjørn Birkeland

Thank you.

Operator

Thank you. The next question comes from the line of Gianandrea Roberti from Carnegie. Please go ahead.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Yes. Good afternoon from me as well. I have three relatively short questions. The first one really refers to the fee and admin result, which seems a bit below expectation both in DB, Norway and in SPP, and I'm just wondering, it's somewhat complicated, because on a quarterly basis your numbers are volatile, but actually especially DB Norway has been relatively stable for the first three quarters of 2013, then obviously there were all the one-offs in the last quarter last year and now it's down quite a bit. So if you can offer some comment it would be useful?

Secondly the growth in the Insurance segment has somewhat stalled, and I'm just wondering you have a 10% long-term growth, is this still valid? How do you see the market? What are the opportunities for growing?

And the last thing, it's more a general question, do you think if I look at 2015, do you think at that point your savings result will be higher than guaranteed in a normal development obviously? Thanks a lot.

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

If I might start with your first question, Gianandrea, if you see the balance sheet development within the defined benefit portfolio in Norway, you see that that is sliding down. The same goes for the SPP guarantee products. So that you see also the top line coming somewhat down. It's a part of that.

Also when it comes to the defined benefit products in Norway, I think it's not fair to see it against the fourth quarter last year. You have some one-offs in that quarter, but see the average of the last year uninvested. We expect to see that it comes, that the top line comes somewhat down, but very much to some extent you should expect leading after the transfer houses probably. When it comes to the paid-up policies, the top line is actually growing somewhat due to the increased assets.

A - Sigbjørn Birkeland

When you are talking about growth and the conversions from guaranteed to non-guaranteed also in respect of the results I would say that's there's a large change in the balance sheet going on. And our aim is to make sure that we are doing that change in the balance sheet in a way that makes it possible for us to keep the top line on the same level as we see it.

That means that we have a very solid and strong growth in insurance and a lot of these savings. But it also means that we will see reduced results from, of course, the guaranteed products as we move forward. Compared to what we believed for well a year ago or something when we talked about the guaranteed products in Norway, we'll be by law taken down in a three years period. That is very much changed now. We see a more normal conversion from guaranteed into defined contribution products.

So I still in 2015 expect that we will see higher results from the DB portfolios especially in Norway compared to the savings and such. But the main point is that we should be able to do that in a controlled way where we see reductions in DB results and are able to maintain the growth in DC and the retail sectors that can cover up for that change in that reduction.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Sorry, but just to clarify when you say do you expect in 2015 to see higher earnings in DB Norway compared to savings as such, I guess you referred to just unit-linked Norway, right? Not to the overall savings segment?

A - Sigbjørn Birkeland

Just to understand that...

Q - Gianandrea Roberti {BIO 6786731 <GO>}

I mean what do you call savings in the reporting segment? It's unit-linked Norway, unit-linked Sweden, asset management and retail bank. And I guess the sum of these four is very likely to be higher than DB Norway standalone in 2015.

A - Sigbjørn Birkeland

Yes. I'm talking about the guaranteed result all together and that was around NOK300 million in the quarter, NOK586 million in savings. And in that respect, of course, there is a strong growth in the savings result. I expect to see that also going forward but it should be quite proportional how we are able to move with the reduction in the one compared to an increase in the other.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Thanks a lot.

Operator

Thank you. The next question comes from the line of (53:47). Please go ahead.

Hello. I have three questions, two of them on the risk results. We've got a slight different historical representation of risk results as far as I can read in the supplementary information. So therefore, I would like to have a comment on the risk result in SPP and whether the risk result we see in this quarter is something that we should consider normalized?

Also due to the new mortality tables, I was expecting a slight more uptick on the risk result for DB in Norway. But there seems to be a quite significant up tick on the paid-up policies. So if you could give us some comments or thoughts (54:42) on what you expect on those alliances, well that would be helpful?

And thirdly on the equity contribution that you have been referring to a couple of times in this call, if you are giving extra equity contribution to some contracts, will you be able to get it back at a later stage, say, within a year or even in the coming year? Thank you.

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

I think Trond will prepare for the risk result comment. I can comment on the equity proposed contribution. Yeah, if we use equity to fully make sure that the different contracts are powered for longevity reservation that is not a claw-back opportunity in itself in the coming years. But what happens, of course, is that you don't have a client on that performing fee based contract that will give you return on an annual basis as long as you have the customer in that product in the company.

So, of course, it gives good value when it comes to capital release and it also gives good value into the running results going forward. So it's just a way of looking at that full picture. But there's no claw-back opportunity in itself and it must have (56:21) used the equity to make sure that we you get the conversion.

A - Sigbjørn Birkeland

When it comes to the risk results on the different portfolios, the one benefit for the paid-up policy it's larger than the one benefit portfolio. And there's also very – the different segments there, in the defined benefit there are larger corporations and so on with different risks and disability and so on profiles. So it's not easy to from quarter to quarter to exactly say how much the effect of the new mortality tables will affect the different risk results in those portfolios.

But overall, I think we can say that the new mortality tables will contribute in the area of NOK150 million a year in better results. And half of that results would go back to the customers and to their reservation and the other half will go into the risk utilization funds to the owners. So but those are kind of rough numbers from how we see it now and that might be adjusted going forward.

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

Not to go too much into the details of the different numbers regarding the risk result in the Swedish business over the last few quarters have typically been around NOK30 million. Then you have some quarters with reserve releases that are up, for instance, the first quarter this year and third quarter last year. So the underlying, (58:14) if we look at the old reporting format while I would say normalized underlying will be maybe within of around NOK30 million. So it's also strengthened.

Then if you can look at some of the other tables behind, there are some other elements from the administration or the income on (58:40) some of the costs. Is it also transferred over to the insurance reporting? That I'll have to sit down with you (58:48) to through those figures to make them match up. I don't think – this conference call is short but we'll have to take it.

Q - Operator

Thank you. I will look forward to that.

Thank you. And we currently have no more questions coming through.

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

If there are no further questions I think we will thank you all for joining the conference call today. Looking forward to talk to you more about insurance results going forward. Have a nice day. Goodbye.

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

Bye.

Operator

Ladies and gentlemen, thank you for joining this call. You may now disconnect your line.