Company Participants

- Idar Kreutzer, CEO
- Lars Aa Loddesol, CFO/COO
- Trond Eriksen, Head of IR
- Unidentified Speaker, Company Representative

Other Participants

- Ashik Mussadi, Analyst
- Blair Stewart, Analyst
- Farooq Hanif, Analyst
- Karl Morris, Analyst
- Matti Ahokas, Analyst

Presentation

Trond Eriksen {BIO 17132188 <GO>}

Good afternoon, ladies and gentlemen. Welcome to Storebrand's First Quarter 2012 conference call. My name is Trond Eriksen. I am the Head of Investor Relations at Storebrand. Together with me I have Group CEO Idar Kreutzer, Group CFO and COO Lars Aa Loddesol and Group Finance Director Sigbjorn Birkeland.

As we have notified, the slide presentation will be running on the webcast available on storebrand.no/ir. The slides are similar to the analyst presentation released this morning.

Mr. Kreutzer will now present the Q1 results. After the presentation the operator will open up for questions. (Operator Instructions) Let us now turn to slide number two as I give the word to Group CEO Idar Kreutzer.

Idar Kreutzer {BIO 1510584 <GO>}

Thank you, Trond and welcome everybody. Storebrand has presented a robust set of figures for the First Quarter of 2012. The Group result came in on NOK667m. That is NOK165 million up from the same quarter last year and about NOK400 million above the result from last quarter.

The returns on all portfolios are good. We have very competitive returns; the best in Norway for defined contribution portfolios and the defined benefit portfolios. Also, very adequate returns in the Swedish portfolios in SPP.

Storebrand Insurance is continuing its strong performance with a combined ratio for the First Quarter of 85%. This is stronger than what we normally expect from a First Quarter and stronger than we expect going forward. We are targeting a combined ratio of 92%, but are very satisfied with the strong performance in the insurance activities, in particular seen in the context of the underlying growth.

Premium income is up 11% in the quarter compared to same quarter last year. We have strengthened the buffer capital in all parts of the Group during the First Quarter with NOK3.8 billion both in Sweden and in Norway.

In the Third Quarter in 2011 we contributed capital to strengthen the solvency capital in SPP. We gave a statement saying that when the solvency situation normalized, the loans and the capital contributions would be paid back.

After First Quarter, SPP has a solvency ratio of 226%, and we are starting the repayment by SPP paying back a loan of SEK500 million and this will happen in May this year. Turning to the next slide, the Group result. NOK667 million for the Group result is about NOK100 million about analyst's forecasts.

Looking at the different parts of the business, Storebrand Life Insurance came in with NOK197 million compared to NOK174 million being the forecast, or being the market expectation. It is in particular a stronger risk result that explains the deviation between the market expectation and the result we've presented.

SPP came in with NOK355m. Market consensus was NOK289m. Stronger return, stronger financial result partly due to indexation fee on the DB portfolios and partly due to deferred capital contribution reversal in the First Quarter.

Storebrand Asset Management lower than consensus estimates, NOK31m. It's negatively affected by a one-off of NOK10m. And we see the effect of the lower than expected assets under management by the end of last quarter and also the reallocation in customer portfolios by our customers away from equity-based products with relatively high margins into interest rate fixed income products with relatively lower margins.

In the First Quarter we have seen this partly being reversed. Assets under management is up by NOK11.8 billion in the quarter and we have seen customers starting to reallocated back from fixed income products to equity-based products with higher margins. The income effect of this however will be seen in the quarters ahead.

Storebrand Bank comes in more or less in line with expectations in net interest rate margin of 1.18 and relatively low loan losses which leads to a positive loan loss allocation for the quarter.

Turning to the next slide, the Life Insurance operations in Norway. The guaranteed portfolios had a value adjusted return of 2.1% which is better than competition in the Norwegian market. The DC portfolio also produced the best return among the Norwegian competitors during First Quarter.

The risk result of NOK50 million is significantly up compared to the risk result after the First Quarter last year which was negative -- more negative than expected. The NOK50 million this quarter is somewhat higher than we see as sustainable going forward. The price of the interest rate guarantee increases as expected due to the price increases that was presented and decided in the Fourth Quarter.

When it comes to longevity reservations, we have an ongoing reservation plan for individual and paid up policies. As we stated after the Fourth Quarter, the reservation plans for paid up policies was finalized after the fourth -- in the Fourth Quarter in 2011. We expect to finalize the reservations for longevity in the individual portfolios in 2012.

In the First Quarter we have reserved NOK42 million according to plan. The remaining reservation needs, according to plan, is NOK125 million for the full year. The reservations in the First Quarter has been allocated from the customer return above interest rate guarantees.

In addition to the reservation plan, we have started to reserve on the Group portfolios as stated in the Fourth Quarter in the -- when we presented the Fourth Quarter in February.

To help the market to analyze the consequences of a potential need for higher reservations going forward, we have included in the presentation on slide 15 our sensitivity looking at the consequences of reservation needs between 3%, 5% and 7% and a reservation up -- reservation period of three, five and seven years.

The conclusion of those senses -- and we have tried to describe the necessary hurdle booked return in the portfolios to be able to increase the reserves based on customer returns on the portfolios.

And looking at the sensitivity we see that the hurdle rate return varies from 3.8% in the lower corner to 5.4% in the higher corner. We are of course prepared to answer questions and discuss this in the Q&A. And we are prepared to refer to this.

Going back to Storebrand Life Insurance in Norway, we have decided to stop accepting transfer on new paid up policies to Storebrand awaiting the new law for paid up policies to be active in Norway. This is the same decisions as the other key players in the Norwegian market for paid up policies as done previously.

Last but not least, the buffer capital is increased and strengthened during the quarter. And the market value, adjustment reserve is up to now NOK2 billion after the First Quarter.

Turning to the next slide very quickly, it is -- the return on the defined contribution portfolios are very strong and very competitive and they have been able to deliver the best return in the Norwegian market in First Quarter.

Turning to SPP, the administration result is up. If you look behind the administration result you will see that administration cost is flat. Administration income is up primarily due to increased customer funds.

Risk result is in line with expectations. Somewhat lower release of previous reservations as expected, but still relatively strong underlying risk results in particular on the sickness leave area in Sweden somewhat higher than the market expected.

Financial result is driven by good returns on the customer portfolios. This leads to increased buffer capital, indexation, a fee of NOK27 million on the DB portfolios and a reversal of conditional capital contribution in the First Quarter. The financial result is somewhat stronger than the market expected.

Turning to the next slide very quickly, we are working very focused to transformate the business in Sweden away from the traditional business over to unit linked business. This is very well illustrated by looking at the premium income figures from 2008 to 2011. And I would also take the opportunity to confirm our ambition to increase the administration result going forward in SPP.

Turning to Asset Management, I've already commented on the key drivers. First of all, a one-off of NOK10 million that has negatively affected the First Quarter. It has to do with the allocation between quarters. And Fourth Quarter was somewhat higher than it should have been and the First Quarter is somewhat lower than it should have been.

The second effect is assets under management effect that is lagging from the second half. We are -- we do see assets under management increasing by NOK12 billion in the First Quarter, which should lead to higher expected income going forward.

When it comes to net performance fees, as you are aware, or we are allocating the costs of performance-based bonuses every quarter, that we are allocating the income performance fees in the Fourth Quarter. That is a negative or a low figure during the year.

Normally we inform about earned but not booked performance fees, and after First Quarter earned but not booked performance fees is NOK28 million in Storebrand Asset Management.

Then we are skipping the slide with the fact that we have won some awards for best Norwegian equity fund among other things. And we turn to the Bank. The Bank has a very stable development. The loan book is growing slightly in the quarter, but a lower growth rate than the market.

It is important for us to focus on profitability and we are maintaining an adequate net interest rate margin of 1.18 in the First Quarter. Loan losses are low, and we are -- have a positive loan loss allocation of NOK6 million in the quarter.

Then finally turning to Storebrand's Insurance. We have stated a couple of objectives when it comes to Storebrand Insurance. One is our objective to grow the premium income by between 10% and 12% annually. First quarter this year the growth was 11%.

Secondly, we are trying to achieve a combined ratio of 92% or lower. And this quarter it was lower. And that is due to lower than expected winter claims that normally comes in the First Quarter and also lower than normal large claims in the First Quarter.

The cost ratio is stable on 19%. We expect the cost ratio gradually to be reduced, and we have stated an objective of reaching a target of 16% in two years' time. The development in Storebrand Insurance is strong and satisfactory. That concludes my remarks to start with, and then we are prepared for questions and comments.

Questions And Answers

A - Trond Eriksen {BIO 17132188 <GO>}

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

Operator

Yes. (Operator Instructions)

Q - Karl Morris {BIO 7154573 <GO>}

Karl Morris, KBW.

Operator

Go ahead please.

Q - Karl Morris {BIO 7154573 <GO>}

Good afternoon, everyone. I just have a few questions. The first one is in terms of the SPP, the reversal of DCC reserves during the quarter. If I look at page 28 in the quarterly report and I look at the DCCs, the evolution of DCCs, it seems to have fallen from about NOK2,905 million to NOK2,642 million a positive move of about NOK263m.

Yet in the supplementary pack that you've got it's showing about NOK205 million in terms of the profits or reversals in SPP's profit. So I'm just wondering what the difference is between those two numbers is.

And secondly on the tax charge, the NOK47 million in the quarter, could you give us a little bit more information on that? And clearly, obviously, you've said in the report that you haven't applied the new proposed tax legislation to the accounts.

Presumably would -- will we be expecting that in the second or Third Quarter? And I assume therefore that there is going to be some sort of catch up in the tax charge, a big tax charge during the Third Quarter. Those are the first two effects.

A - Idar Kreutzer {BIO 1510584 <GO>}

Right, thank you very much. Trond is happy to answer the first question and Lars will comment on the tax charge.

A - Trond Eriksen {BIO 17132188 <GO>}

When it comes to the change in DCC Karl, I think I will need to revert to you on that and have a closer look at the numbers. I can't give you a precise answer right now.

A - Idar Kreutzer {BIO 1510584 <GO>}

We only partly have his answer. Okay, Lars.

Q - Karl Morris {BIO 7154573 <GO>}

Fair enough.

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

On the tax charge, it's a little complicated because we have to follow the current tax legislation and the current tax legislation gives us a tax income in this quarter because we have seen a rise in equities in the EA area. So therefore, implicitly there is a tax income.

At the same time we also have to charge as if we -- for what we think is the most appropriate tax for the rest of the year. And this gives us, the way it's reported according to what the accountants and tax accountants tell us that we have to do, an 8% tax charge in the First Quarter.

However, as we've said before we think that the effective tax charge over time with the new legislation when it's put in place will be between 20% and 25%. However, I would also like to remind you that these are non-payable taxes at this stage as we have a big tax carried loss forward that we will continue to use for a number of years before we start paying actual taxes.

So you are -- and when are we going to get the correct tax charge? That is likely to come sometime in the summer. And if it comes before our Second Quarter results are announced, we will include it in the Second Quarter results. And if they come in the Third Quarter, we will have to include it in the Third Quarter results. But that is up to the authorities to finalize the tax gearing.

A - Trond Eriksen {BIO 17132188 <GO>}

If I may revert to your first -- the first question Karl, the reason why you will see a deviation in those two numbers from quarter to quarter is (one mark or two). One is movement either in or preferably out of that portfolio. Or it will be a contract of a (reorganization). That means that the DCC is no longer a DCC but has been allocated to the contract with the final solution.

Q - Karl Morris {BIO 7154573 <GO>}

Okay. And just a couple of other ones. In terms of the average guarantee on the paid ups, when I look at the supplementary disclosure it seems to have risen during the quarter to 3.7% and 3.8% in the individual book. Again, I expect those average guarantees to be coming down over the time, so I was quite puzzled that they seem to have risen during the quarter.

A - Trond Eriksen {BIO 17132188 <GO>}

We will have a closer look at that Karl and I will come back to you on that one.

Q - Karl Morris {BIO 7154573 <GO>}

Okay. And just the final, I see you've included a slide in terms of the regulatory landscape over the year -- over this coming year. Is there anything else that you can add in terms of that?

A - Unidentified Speaker

Karl, (Zack here), no. I would highlight two things that has happened since we spoke when we presented the Fourth Quarter. And the first thing is that the Hearing concerning the paid-up policies with Investment Choice is now finalized. And the Ministry of Finance has stated that their ambition is to put forward legislation for parliament to see that the legislation will be active from January 1, 2013.

We have looked at the comments from the Hearing and we do not see anything in those comments that should prevent such a timeline. So we still expect the paid-up policies with Investment Choice to be active in the market from January 1, 2013. That implies that we will present our product solution to the market and to our customers during the fall of 2012. And we are in process -- in line to be able to do that with a good margin.

The second thing is the next phase of the Government Law Commission's proposals. They said in their January report that they expected to finalize their work on the proposed new group pension product by -- before the summer. They have said May/June.

What they are saying now is that they are confirming their timeline that they will finalize their work before the summer, but they're also saying that they expect to be able to present their work to the Ministry of Finance and the Finance Minister in August. Then you can speculate is that in line with what I have said earlier, or is August later than before the summer. Did they comment on when to present or when to finalize?

We have digged a little bit into that and, as you know, we are members of the Working Committee and as far as we understand and see they are working in line with the original plan and they just have to present it to the Finance Minister before they can announce it. So it has to do with the practicalities more than being late in the process. So that is what we know now.

Q - Karl Morris {BIO 7154573 <GO>}

Great. Thank you.

Operator

Next?

Q - Farooq Hanif {BIO 4780978 <GO>}

Farooq Hanif, Morgan Stanley.

Operator

Go ahead please.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi. Good afternoon. I've got quite a lot of questions so I might just ask a few and then come back. My questions are mainly on the longevity reserving. I just want to understand the slide that you showed. I think it's slide 15 in the analysts' presentation that came this morning.

So if we take the mid point and we say you have five years to complete reserving and the additional reserving is 5%, so the book return you use to cover the reserve therefore is 4.2%. I just want to understand correctly, so that 4.2% is what you need to be able to cover the reserving, but it means you take zero profit share and, therefore, you have to generate more than 4.2% to start getting profit sharing? If you could just explain that.

And what is the range? From 4.2% up to what level do you think there is the range where you start getting back to a normal level of profit sharing? That's the first question.

The second question is what is the risk that you see realistically now that some of this reserving you'll be asked just to take upfront for shareholders for political reasons or other reasons? And what proportion of that reserve is in the DB fee base and then what proportion is in paid-up and individual? Thank you.

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

Okay, let me start with your first question. You will remember from our alternative profit P&L setup that the profit that we get from the annual interest rate guarantee is a core and a low volatility number in terms of profit creation in Storebrand and that continues regardless of us meeting the interest rate guarantee or not. We don't have -- we do not have profit split in the defined benefit portfolios any more, but we take this all from fee instead.

However, we do have profit split in the paid-up policy book, but we are not expecting and have not announced to the market any expectations about a large part of profit split from this book. And indeed, with this reservation requirement there is not likely to be a high profit split in the paid-up policy book.

However, you, as an investor, should look at this as -- the possible profit split in the paid-up policy book as icing on the cake, but not the cake itself. The profit in Storebrand is, to be a much lesser extent, dependent on profit split now and in the future.

And yes, 4.2% is what we need to generate, which is then 0.7% above the 3.5% annual -- or average guarantee in order to create the necessary result to be able to make the total reservation of NOK5.6 billion out of the running return.

And I should emphasize also that -- which is also shown on the slide on the lower right-hand side, that we also have some buffers in terms of market value adjustment reserves and also, if need be, over value at bonds at amortized cost that could be used to shield any lower returns in this period. Which means that 5 -- NOK4.6 billion out of the NOK5.6 billion is already available in buffers if need be.

So we feel quite comfortable that we should be able to meet such a return requirement and, therefore, shield shareholders from participating in a direct contribution for longevity risk.

Q - Farooq Hanif {BIO 4780978 <GO>}

But we should assume no -- unless you outperform 4.2% in the paid-up, we should assume not likely to be much profit sharing if that scenario comes?

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

Yes. But -- that's correct. But profit splaying -- profit split in the paid-up policy book shouldn't be a big part of your profits going forward regardless, so this should dent a little bit on the future earnings, but not to a big extent.

A - Idar Kreutzer {BIO 1510584 <GO>}

When it comes to your question, Farooq, on the risk, the risks for, for instance, -- requirement for upfront reserving, I can reason a little bit with you on that.

First of all, Storebrand started -- was the first life insurance company to start the reserving. We started in 2010, reserved rather heavily in 2011 and we have given a statement today to our customers that they should expect that their excess return above interest rate guarantee to a large extent will be used to strengthen longevity reserves.

But my point is that on the average we are in a better shape, better position than the life insurance sector in Norway as such.

Secondly, if you look at this from a prudence perspective, the new tariff and tables will require that we are pricing our products based on expected mortality assumptions in 2028. It's very hard to argue from an actuarial standpoint that this has to be reserved in one year, two years, or less than three years. In our opinion, it's more than prudent to have a reserving period of five years for this kind of reservation.

My third reasoning or point is that the reservation requirement will be affected by the new product which is about to be proposed from the Government Law Commission.

It is an expectation that the Government Law Commission will propose a similar adjustment mechanism for longevity in the new product as has been implemented for the public pension scheme. In effect, that is transferring the longevity risk from you start working until you retire to the policyholder away from the insurance company.

This will not take away historic longevity risk, but it will reduce longevity risk going forward. And it will reduce the total reserving requirement, which would be prudent to await the new regulation to be able to calculate the effects on that before the requirement for a reserving period starts.

So at least we see a strong argument for what we see as a reasonable timeline for doing these reservations. Can we give you any guarantees? Of course not. We are not making the rules and we are not deciding the principles. But we will argue very hard along the lines I just referred to you.

Q - Farooq Hanif {BIO 4780978 <GO>}

And just to follow up, can we assume that roughly half of the reserves refer to DB fee base and half to paid-up?

A - Idar Kreutzer {BIO 1510584 <GO>}

Lars has the actual figures.

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

The book is NOK142 billion all together, of which NOK65 billion is paid-up and NOK85 billion approximately is guaranteed -- or the defined benefit portfolio.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay.

Operator

Next.

Q - Matti Ahokas {BIO 2037723 <GO>}

Matti Ahokas, Handelsbanken.

Operator

Go ahead, please.

Q - Matti Ahokas {BIO 2037723 <GO>}

Yes. Good afternoon. Actually, my questions are on the same slide as well. First of all, regarding the market value adjustment reserve, you increased it quite a lot. And how much of that has to do with this longevity issue all together? So should we expect that you will continue to increase the market value adjustment reserve, or, actually, all the customer buffers so that you will have buffers to potentially cover for the longevity issue?

And the other issue is regarding what is the cost? How should I calculate it? If you don't make the 4.2%, if you make 4%, assuming the 5% reserving need, what would be the cost for the shareholder as a calculation? Thanks.

A - Idar Kreutzer {BIO 1510584 <GO>}

On your first question, there is no direct link between the market value adjustment reserve and longevity. It's a result of a strong equity market in particular, to some extent also credit markets in the First Quarter which has allowed us to build up market value adjustment reserves. And these are the most flexible kind of reserves throughout the year.

However, by the end of the year when we've closed the book and have to distribute between owners and customers that is when we make final contributions between additional statutory reserves, market value adjustment reserves and what we book in a booked return.

So on the quarterly basis, the important point is that we're building reserves in a strong (bias) to market which indeed was quite to important in the Third Quarter last year when we had built significant buffers in the first half and the Third Quarter started in a turbulent way, to say the least.

Q - Matti Ahokas {BIO 2037723 <GO>}

So we shouldn't expect that the 4.4% level is an indication of the future? It's just a consequence of the good financial markets.

A - Idar Kreutzer {BIO 1510584 <GO>}

We have all the time said that we are aiming to have approximately one-year interest rate guarantee in most portfolios as a buffer and that the rest can be used to distribute between owners and policyholders.

However, as we did in 2010 and also in 2011, when there was an excess return over and above the booked return -- sorry, over and above the guaranteed return, instead of distributing that on an unconditional basis, we built some into statutory additional reserves and the rest we put aside in order to be able to use it as a buffer for the expected longevity reserve strengthening that we see coming forward.

And therefore we have allocated what should -- I guess you could call it the surplus over and above what is needed to cover existing guarantees and liabilities has been put aside in order to be able to deal with longevity reserve strengthening when that comes. And that's why we've already had NOK1.5 billion reserve and, indeed, if we have one -- if we have a very strong return this year we can, therefore, put aside more to reduce the needed booked return in future years to cover this reservation.

And what will happen, then, if we have a 4% return rather than a 4.2% return? Well we will -- first and foremost we will use the MOR and statutory additional reserves that we have to build up to the booked return so that the booked return is in line with what is needed to build these new reserves.

And if all our buffers are exploited and we have no more buffers left then there will be a hit to shareholders. However, the way we manage our portfolio and the running yield we have in the portfolio we feel quite comfortable that we will avoid such a situation.

Q - Matti Ahokas {BIO 2037723 <GO>}

Okay. Great. Thanks.

Operator

Next.

Q - Blair Stewart {BIO 4191309 <GO>}

Blair Stewart, B of A, Merrill Lynch.

Operator

Go ahead, please.

Q - Blair Stewart {BIO 4191309 <GO>}

Hello. Good afternoon, everyone. It's Blair Stewart here. A couple of questions. One of them is very easy. What's the consolidation ratio in SPP DB book, please? Just how sustainable is that NOK27m?

The second question is just relating to something you were just talking about, Lars. What are you doing in terms of new money allocation? How's that being invested at the moment and what's the expected yield?

And are you tempted to try and increase the certainty of achieving the required yields, perhaps, at the expense of some opportunity, let's say, if markets are strong? So to what extent are you trying to reduce the dependence on markets? Because clearly you don't want to be dipping into the gains you've got on bonds held at amortized cost.

And thirdly, at the risk of opening up a real can of worms, I wondered what -- if you could just update us on some of the discussions that you're having with your customers.

You said at Q4 that you'd already started to communicate with customers with regards to the possible changes that were going to be happening in the long-term savings market in Norway. And I wonder if you can just update us on what's been going on in Q1 in that respect and what sort of feedback you're getting in terms of what customers are looking for and what they want. Thank you.

A - Idar Kreutzer {BIO 1510584 <GO>}

We can do that, Blair. Lars can comment on the stability versus the short-term opportunistic asset allocation. And the way I'll formulate it I think you can imagine what he will answer. But Lars will comment on that.

The consolidation ratio is one of 108.5 in the DB book. And that's the easy part of your question. To be clear on how robust that is is, of course, very, very difficult for us to say. But at this point you know the hurdle rate is 107 -- is 108.5.

It has been robust for the development we have seen in the market so far in the Second Quarter. But we know that if you have market fluctuations as massive as we saw in -- just after the turn of the Second Quarter, the Third Quarter last year, of course, that is also going to affect the consolidation ratio. So far so good.

When it comes to the customer communication I think it's two -- probably two key things to say. One is that we are seeing a somewhat slower transfer market, or less active transfer market in Norway and this is in line with the advice we give our customers.

Timing of the new proposal for the new product is getting closer. And we think that it is good advice to tell our customers to await the new legislation, the new proposals before they make any decisions of a transfer from a defined benefit to defined contribution, and also making decisions on transferring large books of business between players. So you can see a slower transfer activity.

And what we would not like to see is, of course, the opposite; that a number of players are starting now to convert from defined benefit to defined contribution because that would release a large number of paid-up policies, which would increase the problem instead of reducing the problem. So the development we see in the market is in line with both our advice and our expectations and in line with what we see as a positive development.

When it comes to the discussions and the expectations concerning the new product, I think there are two key elements. One is that people are occupied with and focusing on the ability to convert without releasing paid-up policies from the old product legislation, the defined benefit, into the new product.

The second thing is that the new product generation will be based on a defined contribution logic and we see that it is necessary to increase the savings rates available under the tax law to be able to offer insurance products of the quality that the employers, organizations would like to see.

And we expect that to happen. So we expect the tax limits -- current tax limits of 5% and 8% to be rather significantly increased as a part of this process. And this is also in line with the market expects and what the market would like to see. I guess that is the two key areas in the customer dialogue. Lars, when it comes to asset allocation.

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

Very briefly, I think on page 16 and page 19 of the books that we've presented you see a very consistent build out of bonds at amortized cost in order to stabilize the income and returns and to reduce risk and fluctuation. And that really answers your question in terms of how -- what we concentrate on, i.e., being able to predict future earnings to the largest extent possible.

A - Idar Kreutzer {BIO 1510584 <GO>}

And the re-investment level, Trond, have you said anything about that?

A - Trond Eriksen {BIO 17132188 <GO>}

No. We haven't commented on that side. It has been some -- I guess it will still be in the levels that we communicated after Q4, in the area of between 4.5% and 5%.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Thank you very much for that.

A - Idar Kreutzer {BIO 1510584 <GO>}

Thank you, Blair.

Operator

Next.

Q - Ashik Mussadi

Ashik Mussadi, JP Morgan.

Operator

Go ahead, please.

Q - Ashik Mussadi

Yes, hi, thank you. So basically I have three questions all on Sweden and Swedish business. Now the first question, I can see that you have raised your expected return assumption for all the guaranteed book in your Swedish business, so it is B250, B520 everything, by roughly 50 basis points. So what is driving that? Is it just high interest rates?

Now a second question just follows from that. Now if, suppose, higher interest rate is driving that and interest rates are back to the similar level as it was at the start of the year, so should we expect this to revert back to the same level as of -- as it was in 2011? So basically, you will lose the money what you gained this quarter. So that's my first and second question.

Next, can you give us some update on the remaining NOK400 million inter-company loan that SPP still has? And when should we expect that to be released from SPP? Thanks.

A - Idar Kreutzer {BIO 1510584 <GO>}

Thank you. Trond will answer your first questions and Lars the last one.

A - Trond Eriksen {BIO 17132188 <GO>}

When it comes to expected return in the SPP, that has increased from end of last year to the end of the First Quarter due to -- first of all, two different elements, the first one being higher interest rates, which is the most significant one.

The other one being somewhat higher allocation to equities with a higher expected return. Please bear in mind that the expected return that we are giving in these tables are quite straightforward risk-free interest rates at the bottom with some risk premiums on top of it, so it's not that sophisticated. But it's regular risk premiums on different assets and it's the risk-free interest rates that have increased as well during the quarter.

Q - Ashik Mussadi

So how much equity proportion have you increased?

A - Trond Eriksen {BIO 17132188 <GO>}

On average it has increased 5percentage points.

Q - Ashik Mussadi

Sorry, how much?

A - Trond Eriksen {BIO 17132188 <GO>}

5.

Q - Ashik Mussadi

5percentage points, okay. And yes, I can --

A - Trond Eriksen {BIO 17132188 <GO>}

And just to comment, if I may, on the allocation, you know that we are following the dynamic hedging program in Sweden, the -- where it is the level of the customer buffer capital that decides the level of the equity portion. And this is just a consequence of the very strong development of customer buffers in Sweden during the First Quarter and of an active decision from the management in SPP to increase equity position.

Q - Ashik Mussadi

Okay. And should we expect part of this would reverse back, basically, to a mid range of, say, 25 basis points by the -- because of, again, interest rates coming down as of today, let's say?

A - Trond Eriksen {BIO 17132188 <GO>}

Both -- yes, it should -- expect return should come down somewhat as the interest rates are coming down. It will also somewhat depend on the slope of the curve. But the short answer is yes, you should expect the return to come down as the interest rate comes down. But you should also bear in mind that the expected return of your liabilities should also come down when interest rate comes down.

Q - Ashik Mussadi

That's really the discount rate?

A - Trond Eriksen {BIO 17132188 <GO>}

Yes.

Q - Ashik Mussadi

Yes. Thank you. And the last question was can you give some color on the NOK400 million inter-Group loan? When can we expect that to be released from SPP?

A - Idar Kreutzer {BIO 1510584 <GO>}

As you see, we have -- exactly like we said when the solvency margin in Sweden improved, we were able to take back the first installment of the loan and we will take back the next installment of the loan when the solvency margin in Sweden is at the level which makes that a sound thing to do.

Which could too -- at the levels we see today we're not far away from where we can do that, but I think we want to see that the solvency position continues to be strong for maybe another quarter or so before we make the next step.

Q - Ashik Mussadi

Okay. Thank you.

Operator

Next.

Q - Karl Morris {BIO 7154573 <GO>}

Karl Morris, KBW.

Operator

Go ahead, please.

Q - Karl Morris {BIO 7154573 <GO>}

Hi, it's me again. Just a quick follow up on slide 15 please. Your biggest competitor, Vital DnB NOR reported earlier this week -- basically, talked about their expectation of a 5% to 7% of reserves required.

I don't know why you're -- you're basically talking about 3% to 7%; why the 3% is in the mix. But presumably if we work off a 5% and five-year period you've got 4.2% required return. That's 0.7% above the guarantee. If I take the total reserve that you've got, about NOK85b, that equates to, I think, NOK600 million in excess of the guarantee.

Now, 5% over five years, that's -- basically, you state here in the slide NOK5.6b. Maybe my maths don't seem to work here. NOK600 million over a period of five years is roughly NOK3b.

Then finally, when you're talking about the MVAR of NOK2b, previous slides, I don't think all of that is allocated to the defined benefit book. I think it's more like NOK1.4b. Would that be right?

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

Can I just clarify the math calc? If you add on NOK1.5 billion of the reserves to the NOK5.6b, then you get to NOK7.1b.

Q - Karl Morris {BIO 7154573 <GO>}

Yes.

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

And that is 5% of NOK142b, which is the reserves that needs strengthening. Those NOK142 billion is a combination of Group defined benefits fee-based portfolio and the paid-up policies portfolio.

Q - Karl Morris {BIO 7154573 <GO>}

Okay. Okay, that's -- okay. So the requirement for the defined benefit book will be between NOK4 billion and NOK6b, then?

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

It stays at 5% out of NOK85b. Then you can -- but actually, out of those NOK142b, it's a little bit less than NOK85 billion coming from the DB scheme because some of that is also public schemes, which don't have the same longevity need to it.

Q - Karl Morris {BIO 7154573 <GO>}

Okay.

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

But again, we'll give you those details later.

Q - Karl Morris {BIO 7154573 <GO>}

Okay. Thanks.

A - Idar Kreutzer {BIO 1510584 <GO>}

And Karl, the reason why we have a slightly wider scale than DnB is because we, first and foremost, have already reserved some in 2010 and 2011, so our expectations on our book is generally lower and there is a larger -- or there is an uncertainty around the different processes here, which gives the precise goal here impossible to make at this stage.

Q - Karl Morris {BIO 7154573 <GO>}

Perfect. Thanks.

Operator

Next.

Q - Farooq Hanif {BIO 4780978 <GO>}

Farooq Hanif, Morgan Stanley.

Operator

Go ahead, please.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi. Hello again. I just wanted to return on this new product that we're all hoping for in -- to be announced this summer, at the end of the summer. It seems to me that it's quite likely that you get some kind of product like the one that you've discussed before, very similar to other products that exist today in Norway, with a DC logic, bit of a guarantee and a link to mortality tables for the annuitization.

But it seems also to me -- obviously, I'm not Norwegian, but I would have thought that -- if I was a member of the public, I would feel bad that my money was being taken out of a high guarantee -- or not high guarantee, but 3.5% guaranteed policy and put into something which essentially is zero guarantee framework.

Now, I understand that in reality, if you transfer the existing liability you're not losing any value. I understand that concept. And the customer, actually you're probably better off.

But to the public, maybe that doesn't seem that obvious. So I'm just wondering what do you think the probability is today that they create a new product but they don't have a wholesale forcing of existing customers to get into the new product. If that happens, what are you guys going to do?

A - Idar Kreutzer {BIO 1510584 <GO>}

I understand the question. This is -- we are now moving into relatively detailed territory, Farooq, but let's have a quick go.

What you could foresee is that the old 3.5% guarantee is transformed into two sets of guarantees, seen from the employee's point of view. One is a 0% guarantee, taking care of the basic customer fund, seeing to it that their pension does not disappear due to a financial crisis or anything close before they retire.

The second thing is an adjustment mechanism that sees to it that the employer has to adjust the pension fund in accordance with, for instance, the increases in -- the average salary increases.

So there are additional pieces to the pie in this process than just the guarantee and the guarantee structure offered by the pension company. So to understand the total picture, you have to see the different elements. And unfortunately, you don't have that detailed information, Farooq. But what I can say is that there are additional elements in this to see to that the pension rights that has been given will be taken care of and transferred into a new regime.

Then you asked the question which at this point of course is hypothetical, and that is what if the new regulation does not allow for a continuity from a defined benefit product into the new product without issuing new paid-up policies. Well then the whole exercise has had very limited effect in preparing the Norwegian legislation for Solvency 2. And that is very much back to the drawing board, which nobody would really like to see happening.

So at this point, both the insurance companies, the employers' organizations and the employees' organizations are focusing very strongly together with the authorities to find a solution which enables such a conversion. But the brutal answer is that without an effective conversion mechanism, the new legislation will have a limited positive effect on the Norwegian transformation to Solvency 2.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. That's quite clear. Thank you.

Operator

Next.

Q - Matti Ahokas {BIO 2037723 <GO>}

Matti Ahokas, Handelsbanken.

Operator

Go ahead, please.

Q - Matti Ahokas {BIO 2037723 <GO>}

Yes. Sorry, me again here. Actually, my questions were still on slide number 15, but they were already answered so thanks a lot.

Operator

Next.

Q - Karl Morris {BIO 7154573 <GO>}

Karl Morris, KBW.

Operator

Go ahead, please.

Q - Karl Morris {BIO 7154573 <GO>}

Hi. Me again. One follow-up question. If nothing changed on the regulatory front, how much extra capital do you think your business would be required to hold under a Solvency 2 regime?

A - Idar Kreutzer {BIO 1510584 <GO>}

That's very speculative, Karl, and speculative around that would mislead more than lead both the market and all the players. So we have not spent very much time on either -- on communicating out that kind of possibilities.

What we have said is that there is no alignment between Norwegian regulation and Solvency 2, in particular when it comes to better policies. And we have clearly stated both to the regulatory and to the market that Norwegian regulation has to change, and that is the standpoint. So no changes will imply no introduction of Solvency 2 in Norwegian life insurance companies.

Q - Karl Morris {BIO 7154573 <GO>}

Is the regulator sympathetic to the plight of the Norwegian life insurance industry?

A - Idar Kreutzer {BIO 1510584 <GO>}

The short and sweet answer is that the key regulator in charge of developing the new product regulation, namely the Government Law Commission, they were extremely precise in describing the problem in their January report. In fact, we could have written parts of that report ourselves, based on the language they used.

So it's very, very clear that they have both understood the issues and that they have communicated it to the public, and clearly have communicated the requirements and the needs for changes in the regulation to the Minister of Finance and to the government, which is their -- which has appointed the Committee. So there are no doubts that the regulator understands what the issues are.

And on a more personal note, I can also confirm that based on the meetings we have had with the regulator and the Minister of Finance they confirm that they understand the issues.

Q - Karl Morris {BIO 7154573 <GO>}

Well I'm sure they understand the issues, but I suppose the real question is whether -- it's a question of whether they require you to go out and raise capital or whether they'll give you the relief that you're looking for.

A - Idar Kreutzer {BIO 1510584 <GO>}

It's very, very important to not misstate the issue as a question of the size of relief from the insurance industry. The issue here is to develop a forward-looking, modern, well-functioning legislation for the Norwegian private sector pension -- corporate pension schemes.

That's a very, very important part of the total pension scheme in Norway. And as you know, we had a pension reform a couple of years ago, decided by Parliament, and this is also a part of adapting the private pension schemes to the new pension reform in accordance with the changes that has been made on the public pension scheme.

So we are not going around with our hat asking for charity. We are actively participating in a process to develop a future oriented pension system, and that is as far as we see it and experience the process. That is the focus of all involved parties.

Q - Karl Morris {BIO 7154573 <GO>}

Understood. Great. Thanks.

Operator

At this time, no further questions.

A - Trond Eriksen {BIO 17132188 <GO>}

Then I would like to thank everyone for participating in the call today. We will also be present in London tomorrow, at 14.00, at the Chartered Insurance Institute. We hope to see many of you there for a good discussion around the topics we have discussed today. Thank you very much for joining the call.