Q4 2012 Earnings Call

Company Participants

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

Other Participants

- Blair Stewart, Analyst
- David Andrich, Analyst
- Matti Ahokas, Analyst
- Peter Eliot, Analyst
- Robin Buckley, Analyst

Presentation

Trond Finn Eriksen {BIO 17132188 <GO>}

Good afternoon, ladies and gentlemen; welcome to Storebrand's Fourth Quarter 2012 conference call. My name is Trond Finn Eriksen, I'm Head of Investor Relations at Storebrand.

Together with me are Group CEO, Odd Arild Grefstad; Group CFO, Lars Loddesol; and 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 analysts' presentation released this morning.

In the presentation today, Odd Arild will first give an overall view of the development in Q4, before he can give an update on the operational improvements done in the business over the last quarter.

After the presentation, the operator will open up for questions. To be able to ask questions, you will need to dial into our conference call. I will leave the word to Storebrand CEO, Odd Arild Grefstad. Mr. Grefstad will now present the Q4 results, starting on slide number 2.

Odd Arild Grefstad {BIO 5483351 <GO>}

Thank you, Trond Finn. Storebrand reported a full-year result of (about) NOK1.960 billion for 2012, and the results in the Fourth Quarter was NOK498 million.

The transformation and focusing of the business continues in the quarter. It has led to non-recurring costs, which will, in turn, reduce costs going forward.

The Life Insurance business in the Group is going through a period of extensive regulatory changes. We expect any day now that the Norwegian FSA will publish new mortality tables, including also lengths of the reserve strengthening period.

Storebrand has set aside, during 2012, NOK3.2 billion; and is then a total reserving NOK4.3 billion over the last two years to meet the future reservations for new mortality tables. All reservations are made from excess return in the collective portfolios.

In a situation where customers' assets significantly contributes to the longevity reserves strengthening, it is natural also that the owner capital must contribute. Though the Company's shareholders have not received any profit sharing from these portfolios during 2012, and also there is no dividend payment for 2012.

When that it said, it is also very pleasing to note that we deliver a very competitive return in 2012. Excess return in Asset Management compared to relevant benchmark indexes is NOK2.6 billion. It has contributed to a value-adjusted return of 6.7% in the defined benefit portfolio in 2012; and an 11.7% return on the main allocation profile within unit-linked defined contribution pension.

There's been a significant buildup of buffers -- customer buffers, in 2012, totaling to NOK6.1 billion. And this is on top of the NOK3.2 billion set aside for longevity risks.

Then I move to slide number 3. As we see, all business units, except the Asset Management, show a significant result improvement in 2012, compared to 2011, even after allocation for reorganization and restructuring of roughly NOK200 million.

The Group result in the quarter is negatively affected by around NOK50 million costs in non-recurring costs, and reserve adjustments of NOK330 million for change disability assumptions in the Norwegian Life business. Taken together, these two non-recurring items explain the deviation from the analysts' consensus.

Then I'd like to draw attention to slide number 5 shortly. New mortality tables are, of course, a very important issue for the report and for the time going forward. It's still unclear what will be the final outcome from tables from the Norwegian FSA. We have looked, of course, into these different reservation opportunities, and what we present here is to give a magnitude and the standing of the reserve effects for Storebrand.

We have put in place a middle -- so-called middle alternative from a Statistic Norway, on the expected development in mortality. And on top of that, we have included a 10% security margin. All together this gives a 7% reserve strengthening, and approximately NOK10 billion in the total reserving need, if this is used for Storebrand's portfolio. And as we have said, NOK4.3 billion has already been reserved.

Norwegian FSA is expected to publish new mortality tables any day. We expect that to give a good (in-view) in the level of reservation, the reservation period and step-up plans, and also what kind of contribution from shareholders that is expected into the different plans.

I'd also like to draw your attention from slide number 5 to slide number 13, because 2012 has been a very strong year when it comes to building customer buffers in the operations. Actually, the Norwegian buffer capital, made up of wholesale accounts, has been doubled from NOK8 to more than NOK16 billion during the year.

We see the result strengthening when it comes to mortality tables as an important part, but there is also strong additional statutory reserves and excess value for bonds at amortized costs, and our market value adjustment of NOK1 billion. Of course, these buffers will be an important element, together with the future excess return, when it comes to cover (up) for the full mortality tables at the end of the day.

If we then move to slide number 14, this is a slide that I have been using for the three quarters now. And the year target managing the business without raising new equity capital is the main -- the target that also goes forward. And we have said that it's four main elements in making this happen; it's the risk reduction, cost reduction, product optimization and also capital optimization.

Now, let me give you a bit of a update of what we are doing in the business to make sure that this target is met. Looking at slide number 15 we see that there has been a significant de-risking of the portfolio during 2012.

The Norwegian Life guaranteed life portfolios has more than halved its exposure to equities, and we have also been increasing duration and working with a better match towards the liabilities in the business. And this is, of course, one of the most powerful means to reduce future capital needs, in addition to increased quality of earnings.

As we see, the equity allocation is also substantially reduced over the past year in Sweden. In addition, we build bonds at amortized costs. And I can confirm that we are buying high credit quality 10 years' bonds today with a return, a yield, around 4.5% and 5%, well above the guarantee level.

And we are, of course, also very glad to see the increase of the last month when it comes to the Norwegian and Swedish swap rates. It's actually now 0.5% point up; and almost 10 basis points up only today. And going forward, this is, of course, important to meet the solvency requirement, and also to make sure that the reinvestment is done on a reasonably higher level than the guarantee levels.

Moving to slide number 16, I'd just like to confirm that our cost program is heading according to plan. We are somewhat above the run rate level that we were expected to be at this stage, with a NOK65 million cost effect on an annual basis. And the most important element here is reduction in staff. It's also closer on strategic activities, such as hedge funds and online stock trading on the Bank, and also a significant offshoring to the Storebrand Baltic.

Moving then to slide number 17, of course a reduction in workforce is one of the real cost drivers that we are following very tight. And we're pleased to see that it is now being billed down and is expected to also go down on a quarterly basis, with a some of reduction of workforce, with NOK300 million, as established in the NOK400 million cost plan.

Moving to slide number 18, I can now confirm that the Storebrand Life Board on December 3 announced to withdraw from the defined benefit public sector market. 11 of the 25 municipalities, with NOK6 billion assets under management, have already decided to move to other suppliers. And we expect very much of the remaining portfolio to move in 2013 and 2014, and be basically out of the market when it comes to 2015.

Moving to slide number 19, we have updated you on the new regulations earlier on. Main point here is that we now see an end date for accumulating interest rate risks and longevity risks in the back book. It's also important that we see that all guaranteed products will be open for conversion to non-guaranteed products with investment choice. And that is a proposal of increased maximum savings rates within DB pension -- the DC pension schemes.

We are now in a very thorough dialog with our customers to develop solutions that are attractive to the market. At the same time, we can confirm that Storebrand will provide only a limited number of products, based on our ability to produce them and serve them cost effectively.

Moving then to slide number 20, and we are pleased to say that our work with the customers, giving information, giving advice around opportunities to move from guaranteed products to non-guaranteed products gives results.

We see that within a few months now we have actually been able to move to (NOK1 billion) guaranteed portfolios to non-guaranteed portfolios in Norway and Sweden. And this is on a very limited portfolios compared to what will be open with the new regulation, especially when the opening of the paid-up policies, the bid conversion into paid-up policies with investment choice opens up.

But it gives a good in-view in the opportunities and the possibilities to give good advice and give good value propositions for our customers in a non-guaranteed world.

If we then move to slide number 21, the Board has reviewed the financial targets for the Group. And it confirms the Solvency I target and also the rating target. Let me go more into the return on equity target on next slide, 22.

Storebrand had in the market a 15% return on equity target after tax. With the new tax regime Storebrand moves from a 0% tax company into a normal taxed company. This, everything equal, will reduce the expected return on equity with around 3percentage points.

In addition, as we have discussed around new mortality tables, combined with a relatively low interest rate level, this will reduce the profit sharing from the Norwegian guaranteed business on the next few years to come. And this will also reduce the expected return for the full Group with around 2percentage points to 3percentage points.

Of course, we are responding to this, and we have several initiatives to close this gap. But on the short term, we expect to be able, with our cost programs and also with programs when it comes to price increases, to meet around 2% to 3% of this gap. Altogether, that leaves us in a situation where we like to guide the market and say that we -- I suppose, that we will meet a return on equity target about 10% points going forward.

If you then move to slide number 23; as mentioned, the Board proposes no dividend for 2012. However, the Board maintains that the dividend payout ratio will normally amount to over 35% of the full-year profit after tax, but before amortized costs. We expect to see a continued shift from guaranteed to non-guaranteed products on the balance sheet, which will reduce required capital in the business. Storebrand will now be well positioned to pay out dividends going forward.

In 2014, new product rules in Norway will be put in place, and new mortality tables will be implemented. This represents key clarifications in the future regulatory environment that Storebrand operates in. The Board is very clear on the point that dividends shall be adjusted to ensure the right capital structure in the Group, and that the ambition is to add up to changes in the regulation without raising new equity capital.

That leads me to the summary. And to sum it up, 2012 has been a strong year in the terms of customer returns, both when it comes to the investment choice portfolios and with the guaranteed portfolios, leading to a very strong buffer capital increase in the Group, NOK6.1 billion in increased capital -- buffer capital. And on top of that we have been able to reserve altogether NOK4.3 billion to watch the new mortality tables that we expect to be in the market soon.

Our own measures to improve the business are implemented according to plan. The cost program, the closure of the DB in the public sector, price measures within the guaranteed business, de-risking of the portfolio, and transition from guaranteed to non-guaranteed products are important measures to strengthen the operations going forward. Thank you. And I now give the word back to Trond Finn.

Trond Finn Eriksen {BIO 17132188 <GO>}

Thank you, everybody. Before the operator opens up for questions, I'd just like to draw your attention to a slide 25.

I remind you that Storebrand will host an investor and analyst update in London, March 15 this year, where we will be more into the measures that are implemented in Storebrand, and the changes that you see in the regulations and, of course, how Storebrand works with the customers and in the markets to remain the leading pension provider in the Nordic region. The operator will now open up for questions.

Questions And Answers

Operator

(Operator Instructions) Peter Eliot, Berenberg.

Q - Peter Eliot {BIO 7556214 <GO>}

I guess the first question, predictably, was on these reserve increases. And in particular, I notice a sentence in your report which basically says that the reserve strengthening can come from risk profit, in addition to the excess investment returns.

And I just wanted to clarify to what extent risk profits are available to contribute. I notice they weren't used in 2012. So just if you could perhaps just clarify exactly what part of shareholders' profits is available to be used and which should not be?

And perhaps actually just related to that, your previous guidance on the reserve increases was for 3% to 7%. That's now become 7%. I was wondering if you could just explain the reason for the change.

The second thing, again probably predictably, on the dividend, the reason you give -- the additional reserve is given as the reason for this in the report, unless we have an absolutely exceptional year in 2013, that's almost certainly still going to be the case this time next year. So I'm just wondering if there's any reason we should be in a different position this time next year to where we are now.

And perhaps the third area, if I can put in another question, is just on the cost-cutting. You have made some great progress, but just looking at the quarterly costs coming through, it's difficult to see much.

Some of the costs have actually ticked up, if I look at the Asset Manager, that was running at NOK128 million in the first couple of quarters of last year; it's now at NOK143 million. The Bank was NOK86 million in Q3, underlying, it's now NOK99 million. SPP has ticked up a bit, I know, on the head office class, but I just wondered if you could guide to where the underlying costs are going? Sorry for the detail there.

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

Okay. Let me start with the reference to risk profit. As you are aware of, Peter, we have something called the risk (equalation) fund in Norway. That fund was approximately NOK640 million at the end of last year and that is what is referred to as you seeing a positive risk result.

Also, remember that is approximately half of the risk result created, then the other half is given back to the customers as a surplus return, you might say, and that will be open up for using for longevity. That's what we -- that's we refer to the risk profits as well.

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

I'll try to answer your second and third question, and then Lars will answer on the cost element.

Well when it comes to the new mortality tables, of course, this is all about future mortality and future longevity elements. And what is very important then is do you expect to see the future as you have seen the development over the last 20, 30, 40 years?

Will you see this coming through into perpetuity, or will you stop the reduction in longevity in one kind of year, or -- and on top of that, will you have security margins on top of the tables that comes out of statistics?

All these elements, of course, with long time horizons, will have significant effects on what you do for total reserving today. And this is about future development. We are right reserving for what we see in the market today, about mortality but, of course, it's all about expectation, about future development in longevity elements. And that's why we have this span from the 3% to 7%.

Then, of course, this process has been going further. There has been a lot of calculations and we also have had the signals during this process from the FSA that they like to use, more like a mill-type of element, from the Statistic Norway. And that they also will use tables that have an inter-perpetuity-type of development of longevity. And that's why we now are guiding more towards 7% of these tables, compared to the 3.7% that we stated on the earlier stage.

Then I will be very clear that this is just from our side stating what a middle alternative with a 10% security margin will give in our numbers, both when it comes to reserving needs and percentage of it. And of course, what comes from the regulator at the end of the day might, of course, differ from this number.

When it comes to dividend, of course, again, it will be important for us now to view what comes from the FSA when it comes to longevity -- risk and longevity reserving. 2013 is a very important transition year into the new regulation, both when it comes to enter into a more stable table with a number of years for reserving for longevity. And also, it is the year where we expect to be in the new products being open in the market, and the new regulations around our business.

Expect much more clarity during summer and during autumn around that. And it would be wrong for me now to be very clear on what that means for dividends for 2013. But it goes without saying that I feel that 2014 should be a much more normalized year compared to the transition we are in 2012 and 2013.

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

And to answer your last questions on costs, I totally agree with you that the numbers do not give a clear direction -- or a clear right direction on costs. But I would like to emphasize that we have used also the Fourth Quarter to continue to satisfy some money to reduce administrative expenses going forward; i.e., for example, discontinuing paying provisions for guaranteed life products, which you see highlighted in the Life insurance graph on page 4. So that's one element.

And furthermore, we have in also the Life business taken a charge of NOK9 million related to writing-off IT investments within public sector, as we are no longer going to be in the public sector in the next few years.

In SPP, there has been a high customer activity in the Fourth Quarter. There has been a transfer to new head offices, and there has been certain expenses related to product development that hits the Fourth Quarter number more than you should be -- should see going forward.

On Asset Management, I guess those are the numbers that are weakest overall here. And in those numbers, there is an additional investment during 2012 in risk management and reporting, which leads to additional IT resources and consultancy resources. Those IT expenses have been taken, and the consultants are now out the door.

Furthermore, they have been transferring some full-time employees to our office in Baltic, in Vilnius and Lithuania. In the transfer period, you need double set of people. We see that, in January, those people are leaving the organization, and the number of employees is going down.

And furthermore, you see in the Asset Management business that the sales were pretty weak during most of the year last year. It picked up towards the end of the year. And also, some of the contractors we signed were at higher margins than the contractors leaving us during last year.

And furthermore, as we have closed down some of the hedge funds that we were running ourselves, and also some of the Private Equity business, we lost the income last year, where we kept the expenses. But the expenses will disappear from year-end last year.

So we are quite comfortable that, with the measures that we have put in place, we will see lower costs going forward.

And in the full time -- on the full-year numbers for 2012, I'd like to reiterate that there is approximately NOK200 million worth of expenses related to layoffs, and discontinued operations, which, obviously, had -- will not come again, as this has been -- this was a non-recurring item.

Q - Peter Eliot {BIO 7556214 <GO>}

Okay. Thank you.

Operator

Matti Ahokas, Handelsbanken.

Q - Matti Ahokas {BIO 2037723 <GO>}

Could you, a bit, discuss your thoughts about the capital position overall and look at your business? The profits are up. The solvency margin is up. The buffers are up. Then, we've actually seen a fairly meaningful potential delay in Solvency II. So how do you look at your capital position at the moment? What is the most relevant ratio we should be looking at when assessing this?

And was the decision to scrap the dividend mainly based on this longevity charge? I couldn't read it in the report. Or the uncertainty regarding the longevity charges, or what was the key driver when the Board made the decision?

And the second question is regarding the tax rate. Is 22% the tax rate we should be looking for, going forward? You say up to 28%, but then in the slides, there's also a mention of 22%. So what is the tax rate we should be looking at, going forward?

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

On the capital position, our capital position is sound. We have -- as you mentioned, on all those numbers they are increasing and they are good and we've picked up buffers in the business.

Odd Arild said earlier during the presentation that the fact that we are putting aside all of customer excess returns in a longevity reserve strengthening bucket. It would be fair, from a Norwegian point of view, then -- or it would be very unfair, in the Norwegian point of view, to distribute high dividends to shareholders in a period where you have a combination of uncertainty as the actual mortality tables, as such. And furthermore, the way they have been funded.

So creating or paying out dividends now would not be fruitful for the process that we have in the way of finding a good solution to do the necessary reserve strengthening.

So I feel that our capital position is a good one, but there is uncertainty related to mortality strengthening. And we are increasing the likelihood of finding good solutions for shareholders and customers alike, by contributing in this way.

On the tax position, I can confirm the 22%. We have guided on 20% to 25%, and we continue to guide on those levels. Specifically, the tax rate in Norway is 28%, while the tax rate in Sweden is 22%.

However, approximately only about half of our business in Sweden, i.e., the Risk business is taxed. So therefore, the Risk is now the overall tax rate from Sweden, is lower than 22%. So in combination, we -- or in the average between the Norwegian and Swedish business, we do continue -- we continue to guide on 20% to 25%.

Q - Matti Ahokas {BIO 2037723 <GO>}

Sorry, if I just may continue on that note. When you calculate your financial target, the return on equity, is that based on 20% to 25% tax rate as well? And also, what was the actual return on equity with this measure for 2012?

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

I can confirm that when we have put in place the new return on equity target, this is the type of tax rate we have used in that calculation. If you look at return on equity for 2012, I think it's very much around 10% before tax, and around 7.5% after tax.

Q - Matti Ahokas {BIO 2037723 <GO>}

Then, the amortization would increase it to roughly 8.5%?

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

The 7.5% is after tax, adjusted for amortization.

Q - Matti Ahokas {BIO 2037723 <GO>}

Okay. Great. Thanks.

Operator

Blair Stewart, BofA Merrill Lynch.

Q - Blair Stewart {BIO 4191309 <GO>}

A couple of questions from me. I think you mentioned in your address that you were able to find some attractive bonds yielding, I think you said, 4.5%. I just wonder if you could comment around the availability of those in sufficient volume. Then, perhaps comment on what the average new money rate of investment that you're achieving is in the market today.

And secondly, could you comment a little bit about the impact of losing the business from the municipalities on the income statement? I realize it's very beneficial from a risk and a capital perspective, but what is the impact on the P&L?

And finally, you -- I wonder if you can comment a little bit about the use of the buffers, and how easy that is to do in reality. Clearly, if you were forced to make longevity provisioning changes very quickly, then you've got those buffer reserves at your disposal. But clearly, that's not without long-term cost.

So I just wonder if you can talk a little bit about your thinking on that, in terms of the use of these buffer reserves, especially on the hold-to-maturity bonds, or the bonds at amortized cost, rather, nowadays; what the impact of actually using those gains would be, when you think about the business over the long term?

And talking about earnings quality; capital requirements; the embedded value of the business would all suffer presumably, if you used those high-yielding bonds. Thanks.

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

Okay. We'll try to take it step by step here, Blair. First, when it comes to investment grades, we can confirm that we have AA/AAA bonds that define swaps from European countries into Norwegian krone. And that has a yield actually between 4.5% and 5%. And so far, we have been able to build up the portfolio with these kinds of bonds.

And it's also about how much we build-up the held-to-maturity bond portfolio out of changes -- expected changes in the portfolio, and the need to have liquidity in the portfolio. That is more limiting the way we are building up the portfolio, as we speak. So that is an opportunity, and we are tapping that opportunity here, of course.

When it comes to the use of the buffers, that is an important question, of course. We can use very straightforward realizing the market value adjustment return into the accounts. When it comes to bonds held to maturity, it's both in loan and receivables, and in real held-to-maturity bonds. Altogether, they are (that one) highest cost.

What we, of course, see is that, with the increase in the interest rates that we have been expiring during 2013, you will see a reduction in these whole values. But as you, of course, know, that is good when it comes to solvency requirements; and also, for return and reinvestment returns about guarantee levels.

But it is possible, especially for loans to receivables portfolio, to realize that portfolio and, of course, reinvestment -- reinvest it in the market, and take off that gain. But in a low interest environment, that, of course, lowers everything equal the return on the portfolio; and, of course, also then when it comes to the capital strengthening, going forward. So you can't have the cake and eat it here, that's for sure. But it is a possible buffer.

Then, of course, it's a very interesting discussion about the additional statutory reserves. When you look at what is put forward from the Banking Law Commission, it's put forward that the additional statutory reserves can be used for a longevity reserving. And NOK4.1 billion out of the additional statutory reserves comes from the collective portfolios.

But I would also like to say that this is one of the elements that is very highly discussed, when you are on a hearing process now. Of course, strong parties also feel that this is customer funds; that they should not be used for this purpose.

So it's too early to say. What we put forward here is a very strong list of offers that has been increased significantly during 2012. And that will be helpful in the process to cover up for the reserving that needs to be done, going forward. When it comes to the impact of the municipality portfolio, Trond, would you like to …

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

Now, if I can limit the answer to 2013, you know that we have a price increase in the public sector of 25%. At the same time, it's roughly 25% of the portfolio leaving us, so those two should, pretty much, even out for 2013.

And for 2014, I think it's a little bit early to give a very clear guidance, before we see how -- a development in customer transfers. Also, how good did we managed to take down the costs in the public pension during this transition period.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Thank you. It's maybe not something for today, but I'd be interested to see if there's a P&L number you can give for the municipalities business as at today. It would help us try and gauge the impact. Thank you.

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

We'll revert to that. Thank you.

Operator

David Andrich, Morgan Stanley.

Q - David Andrich {BIO 15414075 <GO>}

I was just wondering, in terms of the, approximately additional SEK5.7 billion reserving that you're anticipating you'll have to do, how much of that -- I'm assuming given your restatement of the return on equity target that you're going to -- you see profit sharing being at sustained kind of lows for quite a while. How long do you anticipate this for? And how much longer do you think it'll be -- it will take you to rebuild up those reserves at the rate you're currently going? Thanks.

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

Now we have been able to SEK4.3 billion in two years. Of course, 2012 was a very strong year, so we don't expect to have a surplus return in the magnitude of SEK3.2 billion in a normal year.

But of course, with the -- what you see in the market with the interest rates and the return in the portfolio, it should be possible to have an additional return, maybe between SEK1.1 billion to SEK1.5 billion on an annual basis.

And we (hope), 2013, that can be used for full before we are into the tables. And based on that element, of course, it will take some years, but maybe a five to -- 5-year's period or something could be a period that is needed to be sure that we are able to cover this reservation.

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

If I may just elaborate, there is approximately SEK150 billion of reserves. And if you say that you are having 1percentage surplus every year, (then we) create SEK1.5 billion for longevity. In that scenario you need four years to reserve approximately SEK6 billion.

Q - David Andrich {BIO 15414075 <GO>}

Okay. Thank you.

Operator

(Operator Instructions) Matti Ahokas, Handelsbanken.

Q - Matti Ahokas {BIO 2037723 <GO>}

Just a follow-up question if I may? Looking at the comprehensive result, and there's a SEK473 million positive item from change in pension experience, could you elaborate a bit what this is and why the increase in the Fourth Quarter is so massive? Thanks.

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

The reason being that previously you have discounted the overall pension liabilities; that means the pension liabilities for Storebrand's employees with -- using the government rate. Then throughout 2012 there has been a discussion whether or not the mortgage bond market is liquid enough to be used as a reference rate when discounting that kind of liabilities.

At the end of the Fourth Quarter there was a decision made that that will be recommended from the accounting body. And hence, the pension liabilities, our own pension liabilities, are discounted. Now you're seeing a higher interest rate than previously.

Q - Matti Ahokas {BIO 2037723 <GO>}

All right. Did -- how much of an impact this had on the solvency margin or did it have an impact?

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

Let me just take care, if you have SEK500 million that should be 3percentage points or something.

Q - Matti Ahokas {BIO 2037723 <GO>}

Yes. But that was anyway in the 162% solvency margin, so this is included in that figure.

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

Yes.

Q - Matti Ahokas {BIO 2037723 <GO>}

Okay. Great. Thanks.

Operator

Robin Buckley, Deutsche Bank.

Q - Robin Buckley {BIO 3596512 <GO>}

Can I just clarify, just on the ROE target again, in terms of the earnings you're adjusting those for the VIF amortization. But can I just check it is just for straight reported equity that you're taking that? You're not making any adjustments to that in terms of goodwill or what have you?

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

This is the full equity number, not tangible equity, no.

Q - Robin Buckley {BIO 3596512 <GO>}

Okay. Thank you.

Operator

Blair Stewart, BofA Merrill Lynch.

Q - Blair Stewart {BIO 4191309 <GO>}

I just wanted to ask if you've noticed any change in your customer behavior over the last few months since the government Law Commission details were published?

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

I will not say change in behavior in the way that we see massive changes in what kind of products they are moving towards, but there is a change in behavior that needs much more need for advice and discussion with the large customers. And of course, it has led to a massive pension debate in Norway.

Actually, if you look at the colored press in Norway you have pension on all front pages on almost a daily basis and that, of course, is very interesting for us as a pension provider, because suddenly as we move from a B2B type of operator from defined benefit into really a B2B to a C-type of a provider the attention around pension, both what you get from the public pension; what you get from your state pension; what you get from your Pillar 2-type of pension; and what you need to add on on your private savings, is a very hot topic this day.

So on the retail cost of our behavior, the need for additional savings and the focus on that I will say it's a lot of change in behavior. When it comes to the corporate I will say that they are basically still waiting for clearance around the regulations, before they make any decisions about the hybrid products versus the DC products.

Q - Blair Stewart {BIO 4191309 <GO>}

And I guess, if I may, just one follow-up. When you think about an ROE target for the business, to what extent could shifts in the shape of your book along the lines of those discussed under the government Law Commission report, to what extent could those affect your ROE target, if more of the business moves to effectively a paid-up status?

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

Well this is, of course, a target that is moving though, because we see a downward shift when it comes to guaranteed business.

We see that we have quite a good success in having dialog with our customers, moving from guaranteed business into non-guaranteed business. And on top of that we see a tremendous growth with -- in defined contribution, both in Norway and Sweden, and we are actually taking market share in that market, also during 2012.

Now, there is easy to draw a picture here where you see that we are in more or less an effective run-off when it comes to guaranteed products. And you have a strong growth in non-guaranteed products. And we like to revert on this graph when we have the meeting in London also for the investor update.

But that draw a very interesting picture, both when it comes to the market and for Storebrand going forward. But there will, of course, be a transition period here into the new regulations, where we have more back book than we have on the new products.

But when that shift really happens, of course, we move into being much more like an asset management-type of business with fee products and fee results compared to today's guaranteed books with a lot of equity needed to back the products.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Thank you very much.

Operator

David Andrich, Morgan Stanley.

Q - David Andrich {BIO 15414075 <GO>}

Yes, sorry, the conversion to products without guarantees, do you see that continuing on target? I think you had a target before -- an expectation that about 25% would convert over. In terms of how it's tracking, are you on target to meet that?

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

Yes. Actually, this is before the new products that will be converted, because still there is now opening for moving defined -- paid-up policies into paid-up policies without the guarantees in Norway. The law is clear, but there is still not an opening for it.

And I will say we expect that this will happen from 2014, maybe for the first half of 2013, but most possibly from 2014. And that is the large part of the guaranteed business that then will be able to move into non-guaranteed product, and we are well aligned to do that.

What we now see we have large success on is really the -- moving the old (inaudible) guaranteed products in the Life insurance company, so from long time ago into non-guaranteed product.

That has been open market for transfer for a long time. But when we now put effort into that market, we also see that we are able to move like EUR2 billion in Norway and Sweden in a short term into non-guaranteed product. And of course, that gives us bigger opportunities and hopes for the market when it really opens up into the paid-up policy market.

Q - David Andrich {BIO 15414075 <GO>}

Okay. Thank you.

Operator

At this time, no further questions.

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

Then we would like to thank everyone for joining the call this afternoon. And again, remind you of the investor and analyst update in London, March 15. And we will also be in London tomorrow at the Chartered Insurance Institute at 2 pm UK time. Thank you. Good afternoon.