Q2 2016 Earnings Call

Company Participants

- Kjetil R. Krokje, Head of Investor Relations
- Lars Aa. Loddesol, CFO
- Odd Arild Grefstad, CEO
- Trond Finn Eriksen, Head of Economic Capital

Other Participants

- Blair Stewart, Analyst
- Jonny Urwin, Analyst
- Matti Ahokas, Analyst
- Paul De'Ath, Analyst
- Peter Eliot, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen, and welcome to Storebrand's Second Quarterly Call. For the duration of the call, you will be on listening-only. However, at the end of the presentation, you will have opportunity to ask questions. (Operator Instructions)

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

Kjetil R. Krokje {BIO 20060140 <GO>}

Good afternoon, ladies and gentlemen. Welcome to Storebrand second quarter 2016 conference call. My name is Kjetil Ramberg Krokje and I'm Head of Investor Relations at Storebrand. Together with me, I have Group CEO, Odd Arild Grefstad; CFO, Lars Loddesol; Finance Director, Sigbjorn Birkeland and Head of Economic Capital, Trond Finn Eriksen.

In the presentation today, Odd Arild will give an overview of the development in the quarter, and Lars will give some more detail on some elements in the results. The slides will be similar to the analyst presentation released this morning and are available on our webpage. After the presentation, the operator will open up for questions. To be able to ask questions, you will need to dial into the conference call.

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

Odd Arild Grefstad {BIO 5483351 <GO>}

Thank you, Kjetil. The Group results before amortization and write-downs was 798 million for the quarter. This is a strong result, which is affected by good returns, strong financial results, profit sharing in SPP, and reduced costs. The result is also positively affected by some special items, in particular, effect on operational costs of 98 million related to a change in Storebrand's own disability pension scheme, and 25 million in proceeds from the sale of Visa Europe to Visa Incorporated.

The shift from guaranteed pension to savings continues. Fee and administration income in savings grew 4% compared to the first half of last year. The top line growth has been dampened somewhat by turbulent financial markets. However, we still see a good underlying growth in savings, illustrated by a 17% growth in unit-linked premiums, 24% growth in retail banking lending and 7% growth in insurance premiums. Both results and solvency showed a robust development, despite Brexit and turbulent financial markets. The solvency position at the end of the second quarter was 172% and 122% excluding transitional rules.

Slide number three. This is a well-known slide, although still relevant. The value creation in Storebrand comes through growth in non-guaranteed savings and insurance, and through handling of the guaranteed balance sheet with -- which is in a long-term run-off.

Let's turn to slide number four. It has been a turbulent quarter in the financial markets compounded by the surprising result in the British-EU referendum towards the end of the quarter. The exchange rate effect has been substantial. We are well hedged in Storebrand against these movements. Credit spreads came out, but quickly came in again, and are in fact in for the quarter overall.

Equity markets are fairly flat over the quarter. Norwegian equities have increased somewhat and Swedish equities have decreased slightly.

Interest rates have moved substantially. Short interest rates are not much affected, but long interest rates have continued to fall. 10-year swap rates are down 8 basis points in Norway over the quarter and 40 basis points in Sweden. In total, this has only had a limited effect on our quarterly results, and the risk management has worked well. The isolated effect on solvency is negative. However, good returns and own measures more than compensate for this. The development after the quarter has been characterized by further interest rate reductions and increased equities. In sum, the effect on result is positive and the estimate of the solvency position is unchanged, up till today.

If we then move to slide number five, we can look at the effects on our guaranteed portfolio. First, I'd like to touch upon expected returns for the paid-up polices after the movement and risk management in the quarter.

We have divided our guaranteed paid-up polices into four sub-portfolios. Based on risk-bearing ability, these portfolios have a 60% to 90% allocation of the bonds held at amortized costs. In today's low interest rate environment, the hold-to-maturity portfolio secures a long-term expected return above interest rate guarantee. In fact, the excess value of these bonds is now at 12.5 billion, which contributes to increased booked return in the years ahead.

We are also still able to grow the portfolio even in today's low interest rate climate. And during the quarter, we availed 3.1 billion in new investments at 3.1% yield and 11 years average life. With this, we estimate that the return in the paid-up polices will well exceed the interest rate guarantee levels towards 2020 and that reinvestments we are able to place in the market also secure return above the guarantee after 2020.

If you look at slide number six, on Solvency II, the falling interest rates and turbulent markets have affected the solvency ratio negatively. However, this is more than compensated for by good results and buffer building in the quarter. We have also conducted active risk management with adjustments in portfolios and asset allocation, which combined have contributed to a strengthening in the underlying solvency ratio of 5 percent points from 117% to 122%.

Transitional rules have been reduced with 8 percentage points for the quarter. This is due to a normal run-off of the transitional, so about 2 percent point each quarter in addition to a 2 percentage points reduction in the equity transitionals. Increased longevity strengthening and strong results within defined contribution and capital certificates further reduced the transitionals by 4 percentage points.

On the right-hand side of the slide, you see the sensitivities. It is worthwhile to notice that we now expect the solvency margin to be at 113% even after a 50 basis point parallel downward shift in the interest rate levels from the end of that quarter.

Let's then move to slide number seven and have a more quantitative look at the movement in the solvency without transitional rules during the quarter. We have implemented changes in asset allocation and model improvements, which contribute about 1 percentage point to the solvency position. We have a very good group result in the quarter. In addition, we have built further buffer capital through strong value adjusted returns. Combined, this has contributed with a 5 percentage points increase.

In the solvency model, there is somewhat lower equity stress relative to last quarter, which further contributes with one percentage point. The turbulent markets, and in particular, the lower interest rates have reduced the solvency margin with about 2 percentage points. After the quarter, interest rates have continued to fall somewhat, while credit spreads and equities have strengthened. In total, the 122% is a good estimate for the solvency margin today as well.

If we then move to slide number eight, the growth within non-guaranteed savings and insurance continues. The growth in unit-linked reserves was 9% compared to second quarter last year, dampened by weak equity markets. However, the underlying premium growth is strong at 17%. Naturally, the challenging market conditions have also affected the reserve development within asset management. However, the underlying operations and institutional sales are strong.

The growth within insurance was 7%. This is lower than our long-term ambition of 10% and is caused by our shift from expensive external distribution to more cash cost effective internal distribution. However, we expect to return to a 10% growth rate during 2017. Last but not least, the growth within retail banking is very good, and the retail lending portfolio grew 24% from the second quarter in 2015.

Slide number nine. The sum of all this is that we continued to shift from guaranteed products to non-guaranteed savings and insurance. Our clear ambition is to replace the decline in guaranteed income with increase in income in savings. Because of the market development, we have not been able to achieve the necessary savings growth to fully substitute the declining guaranteed income. However, we expect to be able to do so going forward. In periods like this, cost control, cost reductions are even more important, and we have been able to reduce our nominal costs over the -- with over 40 million so far this year.

And with that, I'll leave the word to CFO, Lars Loddesol.

Lars Aa. Loddesol {BIO 3969188 <GO>}

Thank you, Odd Arild. I would like you to turn to page 10. Storebrand has a strong underlying result with 615 million before profit sharing and loan losses. The result is lifted by a good return in company portfolios. Special items of 123 is comprised -- is a consequence of the 25 million in profits from sale of Visa Europe, as Odd Arild mentioned, and also a resolution or a change in the pension plan for own employees related to disability pension and pensions for dependables. That's part of the modernization of our own pension plan and an adjustment to new disability plans in the public pension system.

In the Swedish operation, we have profit sharing from the guaranteed portfolios, which is positive of 60 million in the quarter. Earnings per share adjusted for amortization is strong at NOK1.83 in the quarter, as a consequence of good results, the special items that I've already mentioned and a positive tax income, which I will refer to in a moment. Buffers and solidity capital is maintained at a strong level.

Turning over to page 11, I'll briefly go through some of the most important lines. Fee and administration income is down 2.5% in the quarter or 5% adjusted for currency movements. As Odd Arild mentioned a moment ago, as a consequence of the growth in the non-guaranteed savings, not quite making it up to the foreway [ph] of the guaranteed pensions income declining according to the strategy.

Within insurance, there is still a strong growth. However, lower than the objective of 10%. That's a consequence of changes in our distribution model as well as changes in the public disability pension system and consequential changes in the disability coverage that we have in defined benefit schemes in the Norwegian market. Our ambition is to get back on 10% growth during next year.

The costs, as shown in this table, are significantly down, but in that, there is the result of the 98 million saved from the pension -- the internal pension schemes and changes that I just mentioned. This change in the disability and coverages that we have internally will save 15 million to 20 million annually from here on, and that's part of our cost program that we have mentioned on Capital Markets Day of 300 million to 400 million additional cost savings. The cost is down, adjusted for currency effects of 44 million or about 5% compared to last year.

The financial result in the quarter is strong with a return on company portfolios of 0.8% in Norway and 0.4% in Sweden and times 23 billion that makes a good result in the quarter. In this, you can also find the Visa profits from 25 million.

Net profit sharing and loan losses shows a positive results from profit split in the Swedish operation. Especially, we've had a good return within the fixed income and -- sorry, in credits -- the credit portfolios and the property portfolios in this quarter. As you are well aware, our -- the owners contribution to provision for longevity has been canceled out by the reserve we made in the fourth quarter last year and this line will gradually disappear.

As a -- we have a positive tax result or tax contribution in the quarter. That's a consequence of the sale of a large property in the first quarter, and when we sold that property, we also got rid of tax liability at the same time. In total, that gives a 153 million in a tax contribution, which should be netted against normalized taxes, which gives you a net tax contribution of 31 million.

This picture contains a lot of information and we have an aim that -- we aim to make it more simple by making the following changes and you can find those on page 12. We will combine the risk result life and pensions, which will be approximately zero from now on anyways with the financial results in the company portfolios and the net profit sharing and loan losses, which is primarily net profit sharing from the Swedish operation, in one line called financial items. And we will combine the insurance premiums and claims in one insurance result. And as you see on the right-hand side on this picture, that will significantly decrease the number of figures on this table and will make it easier to follow the operational profit and the financial items in a single table. Also, as I mentioned, provisions for longevity will be taken out by the end of this year when the history of longevity provisions are gone.

Finally on page 13, I'll just mention very briefly that in the -- sorry, on page 14, I will mention just briefly that there is a cost reallocation between the different result elements in our setup. We -- due to the fact that we are -- that the focus is now on the front book and we have had to reallocate some cost to the front book away from the back book, which is in run-off that leads to a year-to-date increase in cost, all else equal, of 30 million in savings, non-guaranteed, 10 million in insurance and reduced cost of about 40 million in guaranteed pensions.

Finally, I will just sum up good results, built profits and buffers in the quarter to reduce result volatility and secure returns to customers and owners in the years to come.

And then, we will open up for questions.

Questions And Answers

Operator

Thank you. (Operator Instructions) And the first one is from Peter Eliot from Kepler. Go ahead. Your line is now open.

Q - Peter Eliot {BIO 7556214 <GO>}

Hi, thank you very much. Three questions please. The first one is on the property sale you did that gave you the positive tax one-off. Obviously you had something similar in Q4 last year. And I'm just wondering whether there is much more to come of this in the pipeline and whether it's an essential [ph] thing where we can expect more of that.

The second question was on the -- the reinvestments that you made. I was wondering if you could give us -- very impressed that the held-to-maturity investments you made at 3.1%. Could you give us the average reinvestment rate across all your investments you made or was that the bulk of it? And then the third item, you mentioned in your report some tax reforms to come in in 2017. I was wondering if you could just mention what impact those might have. Thank you.

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

On the property sale, that was a large development property that was sold in the first quarter and it had a tax liability connected to it, which is now gone, and therefore we could -- we could get this positive tax impact in the quarter. We don't have any program to neither sell down, nor increase significantly the property portfolio that we hold. However, we obviously sell and buy properties on a regular basis and they can -- they may have real [ph] tax consequences as a result. That's part of the norm or it's quite technical, but there are -- the tax system treats tax benefits and liabilities different for the life companies than other kind of companies and that creates these kind of movements from time to time.

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

Yeah. If I answer on the reinvestment, you know that on the guaranteed area, it's very much the development from defined benefit into paid-up policies that has a need for reinvestments more or less as we speak. And so the bulk of the reinvestment for the guaranteed portfolios that altogether is in a long-term run-off is into the paid-up policies. So when we are talking about reinvestments here on 3.3 billion in the second quarter, it was also at that level in the first quarter. That is the bulk of that investments. And we are over this first half been doing that to an average return above 3%, that is above the guarantee level at 2020 as we estimated in this -- this slide I showed you. So that is very much what we are talking about when it comes to reinvestments.

If I also try to answer on your tax reform, there has been a discussion in Norway about VAT on financial services and it's a different part -- different angles to try to find the solutions to include the financial services one way or another into the VAT regime. And that is very much what the discussion goes around. They have been very clear that they want surplus from the financial industry altogether of NOK3.5 billion as income on taxes. But it's quite unclear so far if that is coming into a VAT type of solution or if it's other type of taxation that will be used to get this surplus into the state so to say.

Q - Peter Eliot {BIO 7556214 <GO>}

Okay. Thank you.

Operator

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

Q - Matti Ahokas {BIO 2037723 <GO>}

Yes, good afternoon. It's Matti Ahokas from Danske. Question on slide number seven, which is very helpful to bridge on Solvency II movement, and I was a bit surprised that the financial market impact is only 2 percentage point here. Could you clarify a bit where this comes from and why is the financial market impact smaller? And on the same note, why has the sensitivity to interest rates gone down? As you pointed out in the sensitivity, in such a short while it seems like interest rates are not really that much of a driver -- driver after all.

And then the second question is regarding the tax gain you had in the fourth quarter. Have we finally got the ruling that this is final that you -- this 1.5 [ph] billion tax gain is approved or is there still some uncertainty regarding that? Thanks.

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

Yeah. I can start on the Solvency and get help on some of the sensitivities here, but if we look at the sensitivities, the 2 percent points, of course, it's a combination of all financial elements in here. And as I showed you on the Brexit slide, the impact on the long-term interest rates in Norway has been just 8 basis point for the 10-year swap rate of the quarter. And actually it's been even lower under the short end of the curve, has even been somewhat [ph] up and some elements. So you have seen a quite limited effect on the Norwegian swap rates altogether.

It's more effects in the Swedish market that you have 40 basis points, but we are also very much better matched in the Swedish business. So the impact from Swedish interest rates is much lower and that also stabilizes, of course, the whole group to be having operations both in Sweden and Norway in that respect. And with that, Trond Finn, if you'd like to add something on that?

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

I think that's quite -- yeah, quite accurate.

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

Okay. And on the interest rate sensitivity, you are correct that the interest rate sensitivity has gone down, and that we are seeing in the context of the stress test in Solvency II, stress is rated down to 0%. And as the rates approach 0%, the stress becomes lower on certain duration than the 50 basis points. Did you get that?

Q - Matti Ahokas {BIO 2037723 <GO>}

Yeah. Okay.

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

It's actually the model that makes it that way. And obviously you would see in and around the world that interest rate can fall below 0%, but that is not captured in the stress in the model as such. And on your last question on the tax gain, we have handed in our tax returns now, and we expect the tax authorities to look at the tax returns in the fall. We have, as we previously announced, looked at the effects that we announced by year-end and we have both internal and external opinions that they are well-documented, but it hasn't been through the tax authorities yet.

Q - Matti Ahokas {BIO 2037723 <GO>}

All right. Great. Thanks a lot.

Operator

The next questions come from Jonny Urwin from UBS. Please go ahead. You line is now open.

Q - Jonny Urwin {BIO 17445508 <GO>}

Guys, thanks for taking my questions. Just a couple from me. So firstly, it'd be very interesting to get your view on what is a normal level of quarterly profitability. Obviously we've had a few quarters with some one-off fee today. So looking through those, where do you see the sort of run rate of PBT? I mean, if I look at the underlying picture, we can see a bit of pressure on unit-linked policies in Norway from a margin perspective. The net interest margin is coming under pressure from the retail bank and the combined ratio is suffering a bit from the sort of disability trend. So I'd be interested to hear your views there.

And secondly, I see that you're -- you're talking a lot more about cross-selling pension policyholders, retail banking and P&C products. So I'd just be interested to hear how you're doing that, what's the process and what are your plans there going forward? Thanks.

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

Yeah. We have previously talked about the line result before profit sharing and that has been -- we have said that that is going to be around 500 million a quarter, that that's a normalized result. And of course, then you have some more volatile elements coming into the profit sharing and loan losses, which will naturally fluctuate with markets. So I think that's at least some idea where the normalized result is. Yeah.

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

If we then look at the cross-sales and the retail banking, you know that a lot of our customers are employed in the corporates where we have our pension schemes. And we have a very strong market share, it's now up to 35% market share in these markets. We engage with this end consumers through Internet solutions. We are able to give them good rates on loans and we also see that we are able to, through dialogue with them, also have the opportunity to cross-sell into savings, into insurance products and the banking product is a very good one to ensure that it's tied to their customers and build cross-sales on, and we see we have a very good overview of this by customer values and we follow that very tight to ensure that we have values on the sales we are doing in the retail banking area.

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

If I may add a couple of points on normalized earnings, the unit-linked growth in terms of assets under management was 9% in the last year. And although margins are under pressure, you see a continued strong growth expected in assets under management in this area, and that combined with cost reductions should make sure that we will be able to increase earnings over time as we get the leverage effect of the investments we've done in this area and the strong market position as well as the further growth. And that combined with the cross-sales into the retail products should ensure that -- that normalized earning will gradually grow from the levels we see today.

Q - Jonny Urwin {BIO 17445508 <GO>}

Just a quick -- quick follow-up on the unit-linked margins. I mean, so you make your comment today that there is a bit more competitive pressure in Norway, but Sweden is largely stable. I mean, what's your outlook there? Is it for continued margin deterioration in Norway and continued stability in Sweden?

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

We are prepared for the worst at all times and by being very cost efficient and digitalizing our solutions, we expect to maintain profitability and competitiveness in these markets. And it's not like we are becoming complacent, if there is no margin pressure in the market one single year because we can expect that to come in the following year. So we try to invest and to stay very competitive in all the markets.

And the margin pressure that you saw in the first quarter in Norway within the unit-linked business is partly a result of the increased cost allocation to this area, which is just an internal cost allocation, which should go down again when we reduce these costs incorporation [ph] with the cognizant corporation that we have.

And furthermore, it's a consequence of the repricing of the whole industry in Norway portfolio, which is the largest part of the overall book, which was repriced to a lower level during the second quarter, but that has not been repriced and we have a very long contract with this industry association at these prices. So there will not be further repricing of that portfolio in the five or six years to come.

Q - Jonny Urwin {BIO 17445508 <GO>}

Okay. Thanks very much. Pretty useful.

Operator

And the next questions come from Blair Stewart from Bank of America. Please go ahead. Your line is now open.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you. Good afternoon. I've got a couple of questions left. As usual all the good ones have been asked. The question number one was, in the asset management segment, you sometimes give an indication as to how -- what performance fees have been accrued year-to-date. I wonder if you could comment on that.

Secondly, in page seven or on page seven rather, when you give the -- the walk between the starting and ending solvency, I just wonder how much of the -- of the 5 points is coming from one-off actions, please. And finally, thirdly on the paid-up book. Was the Q2 growth in the paid-up book more or less in line with what you expected and have you had any reason to change your view as to when that book might stop growing? Thank you.

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

Yeah. The asset management fees are below what they were last year. I think they are at 25 million at this stage, but that will obviously change from quarter-to-quarter and it's (inaudible) in the full year.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay.

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

When it comes to the one-offs, so there was a one-off (inaudible) last year almost 100 in cost term and 25 in the channel, which represent 125, that represents approximately 0.5 percentage points out of those 5 percentage points. Yeah.

Q - Blair Stewart {BIO 4191309 <GO>}

Was there no other impact from any of the changes that you made?

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

You would also see the tax -- the tax gain with 150 million also at the solvency build-up. And I think we also will -- there has been a very strong result in this quarter based on also very strong return in the company portfolios. And you can discuss what is normal item, what is special items. And I think we have to revert to our capital markets there where we are clear that we expect to see a 5% to 10% decrease in the solvency ratio year-by-year.

Then on the paid-up policy, we see that there is most of the large companies now has already moved into defined contribution and have closed the defined benefit schemes. There is a couple of large corporates left that we are in close dialogue with, but overall, I would say that there is no trend shift in this. It's something around the disability changes that is on this year that will increase in itself the paid-up policies with 2 billion this year. That is a part of what you have seen so far this first half and will also have some effect in the second half.

But I would say that going forward, we also expect to see that a lot of the corporate that has tons of closes is smaller, medium-size companies that has a lot of their employees now of defined contribution and are also prepared to use the time to completely move into defined contribution with the end of the defined benefit schemes. So I would say it's quite normal situation we have seen in the third quarter, and going forward our estimates will be 10 billion a year reimbursement from defined benefit to defined contribution and then into paid-up policies is very much what we expect to see going forward.

Q - Blair Stewart {BIO 4191309 <GO>}

And the difference between hard and soft close is quite important, I guess. Is the low interest rate environment likely to encourage more companies to hard close and is it possible to say what proportion of your 50 billion DB is reflecting books that have already been soft closed?

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

I don't have that breakdown now, but as I said, almost all the large companies now has made a decision on soft close and hard close. There is no companies left that is expected to, that still are on defined benefit altogether. So -- and of course, it's been a low interest rate level for quite a long time. I don't expect to see that preparations that we have seen in the second quarter and the half year, we have seen now to have a significant impact on their ability or expectations to move into defined contribution. That is not what we hear when we have dialogue with these clients anyway.

And it is important, as you say, the combination now with defined benefit and defined contribution that a lot of companies have with soft close schemes. Of course, every year you will have less impact on defined benefit schemes in these companies and a lot of them are very clear that they want to more or less sweat out these defined benefit schemes and get into defined contribution altogether, but let old-timers in the company stay in the defined benefit scheme for the next five to maybe 10 years.

Q - Blair Stewart {BIO 4191309 <GO>}

And sorry, final question. It's possible for a company that has soft close to then decide to hard close in the future, is that right?

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

Yes, absolutely. They can do that anytime. Storebrand did that ourself a couple of years ago where we for all newcomers have an open defined contribution scheme, but we then decided to do also a hard close of the rest of the defined benefit scheme. But there is an element here of course because it typically had lower savings rate on defined contribution schemes.

And when you hard close the defined benefit schemes, you'd need to give quite the highest savings rate to compensate for the defined benefit schemes and you cannot have different saving schemes from different parts of your employees. So that will also increase the cost for your younger or new employees. So that is also something that you have to think about, and that maybe reduced the focus on shifting soft closes into hard closes.

Q - Blair Stewart {BIO 4191309 <GO>}

Interesting. Thank you.

Operator

The next questions come from Paul De'Ath from RBC. Please go ahead. Your line is now open.

Q - Paul De'Ath

Yeah. Hi, and couple more questions from me. Thanks. And just continuing on the paid-up policies, and I just wonder if you could give us an update on how you're getting on with converting people from the -- from the guaranteed paid-up policies to the non-guaranteed options. I saw that the balance of the more unit-linked, style paid-up policies had increased during the quarter, so -- and just an update on how that kind of process is scaling along would be good.

And then the second question is just on the net profit sharing number. Obviously it was a bit of a surprise to most people, I think, and there was a positive there. And any -- is there any more detail you could give on kind of where the -- where the gains have been made? I think you said profit -- property and credit portfolios. So just kind of anything you can give us that would help us forecast that better going forward would be great. Thanks.

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

On the paid-up policy and investment choice, we had an objective to reach within [ph] the 5 billion by the end of last year and then we did practically nothing in the first quarter. In the first year -- in the first half of this year, we've done about 300 million. We expect that to be significantly lower on a quarterly basis than it has been in the end of '14 and during 2015. So about 300 million was done in the second quarter this year, and we are aiming to do a few hundred million every quarter, but significantly lower than the initial movement we saw during 2015.

That's basically because we've called most of the people that this is relevant for and the ones that have chosen to switch have done so, and fewer people are expected to do so in the future. However, when we do have conversions of defined benefit schemes to define contribution schemes, it's still relevant for people to consider (inaudible) investment choice.

On the net profit sharing in the Swedish operation, we have had an interest rate fall that gives good book returns and the good book returns creates profit split. However, in some of the portfolios, there is not enough -- debt liabilities and assets go up, but the same time, when interest rates fall, we need to inject some of the surplus back into the contract.

However, during this quarter, we had a surplus return over and above what is a consequence of the fall in interest rates and that comes from especially infrastructure fund that has been de-priced [ph] during (inaudible) that fund and also credit contraction has additional returns over and above the movements in interest rates. So we do invest in and we take some liquidity risk and we take some credit risk and we take some other risks to get a return higher than the swap rate return and this has been positive in the quarter.

Q - Paul De'Ath

Okay. Thanks.

Operator

We have one more question, and this will be the last questions for today. For those that did not have the chance to ask the question or had a follow-up question, please if you can contact Storebrand directly. And the next question comes from Peter Eliot from Kepler. Please go ahead. Your line is now open.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you. I just had one follow-up question actually on Matti's where you said that the interest rate sensitivity had decreased due to not modeling negative rates. I was just wondering if you could just give us an indication or share anything with us in terms of what the impact of modeling negative rates might be. Would that be possible?

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

We don't have that, Peter. Another thing is that when we are giving the (inaudible) we are calculating that doing a parallel shift to the whole curve, i.e. So we will yet reduce own funds of course because some parts of the curve will then be below zero. However, we do not stress the part of the curve which is below zero due to the methodology in Solvency II. So I guess the answer will actually not change before the Solvency methodology -- methodology changes as such.

Q - Peter Eliot {BIO 7556214 <GO>}

Okay. Thanks.

Operator

I would like to ask the host of this meeting, there is one more coming through, and that's the last question in the meeting. Would you like to take that one or should I end the call?

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

Absolutely, take the query.

Operator

I will then introduce Blair Stewart from Bank of America again. Please go ahead. Your line is now open.

Q - Blair Stewart {BIO 4191309 <GO>}

You'll probably regret that when you hear what the question is.

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

No, go ahead.

Q - Blair Stewart {BIO 4191309 <GO>}

It's extremely pedantic, but just your change in reporting, just why did -- why would you put risk result in with the financial items? I would have thought risk result is far better in with insurance result because it is an insurance result rather than a financial market related result.

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

Yeah. Blair, thank you for the question. We expect the life risk result to -- to be closer to zero in the coming -- coming quarters due to the fact that this portfolio is in a mature and long-term run-off. And that's the reason why we put it together with the financial items, and we have split out the insurance elements that are -- that is actually in the front book. Those are reported net under the -- or over the operating profit line. That was our thinking.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Fair enough. Thank you.

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

Okay.

A - Kjetil R. Krokje {BIO 20060140 <GO>}

All right. Thank you all for joining the call. And I hope to see some of you tomorrow at the 1400 EST at the May Fair Hotel in London for our meeting there. And other than that, we will just wish you all good day. Thank you (inaudible). Goodbye.

Operator

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