

# Storebrand

Result Q2 2012

13 July 2012

Odd Arild Grefstad – CEO

Lars Aa. Løddesøl – CFO/COO

# Highlights Q2 2012

## RESULT

- Group result of NOK 346 mill in Q2, 1 012 mill YTD
- 14% increase in result before profit sharing and loan losses YTD
- NOK 104 mill in result and 84% combined ratio in Storebrand Insurance

## OPERATIONS

- Implementation of Solvency II measures including cost reduction program of NOK 400+ mill
- Proposed changes to Norwegian product legislation
- Strong sales pick up in the quarter

## BALANCE SHEET

- Life group solvency ratio: 152%\*
- AuM increased 10 bn YTD, reduced 2 bn in Q2
- Customer buffers of 11.1% in SPP and 3.9% in Storebrand Life Insurance

\* After change in methodology for calculating Group solvency, change in methodology for calculating Solvency in SPP, but before capital reallocation within the group, which would have brought the Solvency position to 157% .

# Storebrand Group

NOK mill.	Q2		01.01. - 30.06		Full year
	2012	2011	2012	2011	2011
Storebrand Life Insurance	183	167	380	324	481
SPP	43	260	398	525	291
Asset management	40	53	71	130	293
Bank	57	61	113	112	213
Insurance	104	75	193	108	281
Storebrand ASA / other	-81	-73	-142	-138	-278
<b>Group Profit</b>	<b>346</b>	<b>544</b>	<b>1 012</b>	<b>1 060</b>	<b>1 279</b>
Amortisation and write-downs of intangible assets	-96	-99	-192	-199	-394
Pre-tax profit	249	445	821	861	885

# Storebrand Life Insurance

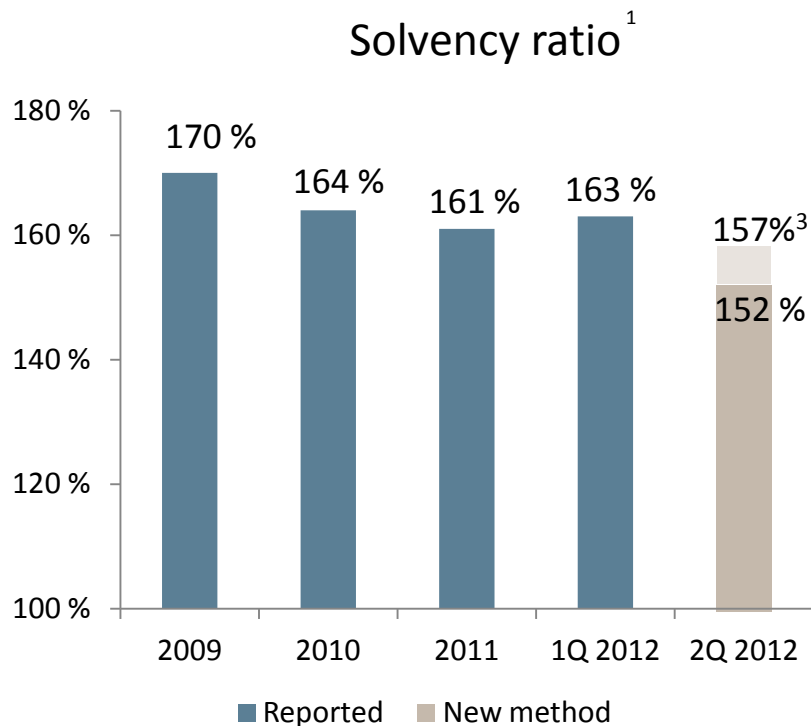
## - improved administration results

NOK mill.	Q2		01.01. - 30.06		Full year
	2012	2011	2012	2011	2011
Administration result	48	31	68	52	101
Risk result	40	31	90	31	117
Financial result*	-60	-24	-74	-18	-226
Profit from risk and interest rate guarantee	138	130	276	265	520
Other	17	-1	19	-6	-32
<b>Profit for Storebrand life insurance</b>	<b>183</b>	<b>167</b>	<b>380</b>	<b>324</b>	<b>481</b>

- Returns above average interest rate guarantee for all products
- Longevity reservation fully covered by financial return
- 20% increase in DC premiums

\* Includes profit sharing/insufficient ASR and return in company portfolio.

# Storebrand Life Insurance - group solvency ratio



- New methodology applied from Q2 2012 as stated in stock exchange notification
- Swedish regulatory floor 10 year government rates can not, for discounting purposes, fall below the level of 31st of May 2012<sup>2</sup>
- SPP has not made use of regulatory floor
- New methodology for discounting liabilities for Solvency purposes in SPP from Q2

<sup>1</sup> Solvency ratio after applying new methodology to historic figures for Storebrand Life Insurance. Due to change of methodology from 2Q 2012, historic figures are not comparable.

<sup>2</sup> Swedish FSA 27. June 2012 'Alternativa räntesatser för att beräkna försäkringstekniska avsättningar'.

<sup>3</sup> After repayment of loan of SEK 1100 million from Storebrand Holding to Storebrand ASA and capital contribution of NOK 550 million to Storebrand Livsforsikring in July.

# SPP

- reduced financial result following market volatility

NOK mill.	Q2		01.01. - 30.06		Full year
	2012	2011	2012	2011	2011
Administration result	25	31	66	62	99
Risk result	29	38	75	113	289
Financial result	-48	156	167	277	-226
Other	38	34	91	72	129
<b>Profit for SPP</b>	<b>43</b>	<b>260</b>	<b>398</b>	<b>525</b>	<b>291</b>

- Indexation fee of 5 mill in Q2
- Solvency ratio of 225%, methodology adjusted
- 62% of premium income in non-guaranteed business

# Asset Management

## - asset reallocation impacts revenues

NOK mill.	Q2		01.01. - 30.06		Full year
	2012	2011	2012	2011	2011
Operating revenue	173	171	344	336	684
Operating cost	-129	-123	-264	-241	-481
Operational result	44	48	80	95	203
Net performance fees	-5	3	-13	31	79
Net financial income	2	2	5	3	11
<b>Profit from Asset Management</b>	<b>40</b>	<b>53</b>	<b>71</b>	<b>130</b>	<b>293</b>

- 424 bn in AuM, reduction of 2 bn in Q2
- Pick up in sales to be reflected in Q3
- Cost measures under implementation

# Bank

## - improvement in net interest margin

NOK mill.	Q2		01.01. - 30.06		Full year
	2012	2011	2012	2011	2011
Net interest income	123	111	236	227	443
Net fee and commission income	19	17	35	37	73
Other operating income	16	9	31	24	32
Total income	158	137	302	287	548
Operational cost	-95	-80	-189	-175	-345
Profit before loan losses	63	57	113	112	203
Loan loss provisions	-6	4	0	0	10
<b>Profit from banking activities</b>	<b>57</b>	<b>61</b>	<b>113</b>	<b>112</b>	<b>213</b>

- Low loan losses
- Net interest rate margin 1.22% YTD
- Core capital ratio 11.3%
- IRB application submitted



# Insurance

## - consistent result improvement

NOK mill.	Q2		01.01. - 30.06		Full year
	2012	2011	2012	2011	2011
Premiums earned, net	471	466	941	891	1807
Claims incurred, net	-308	-335	-620	-671	-1314
Operation costs excl amortization	-86	-84	-171	-164	-332
Insurance result	78	47	150	56	161
Net financial result	26	28	43	52	119
<b>Profit Insurance activities</b>	<b>104</b>	<b>75</b>	<b>193</b>	<b>108</b>	<b>281</b>
Combined ratio	84%	91%	84%	94%	91%

- 18% cost ratio
- 65% claims ratio
- Strong sales within health insurance & personal lines

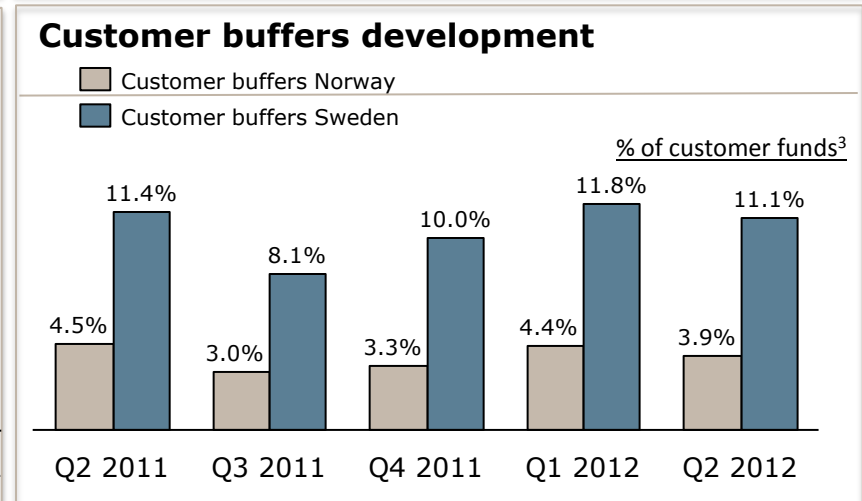
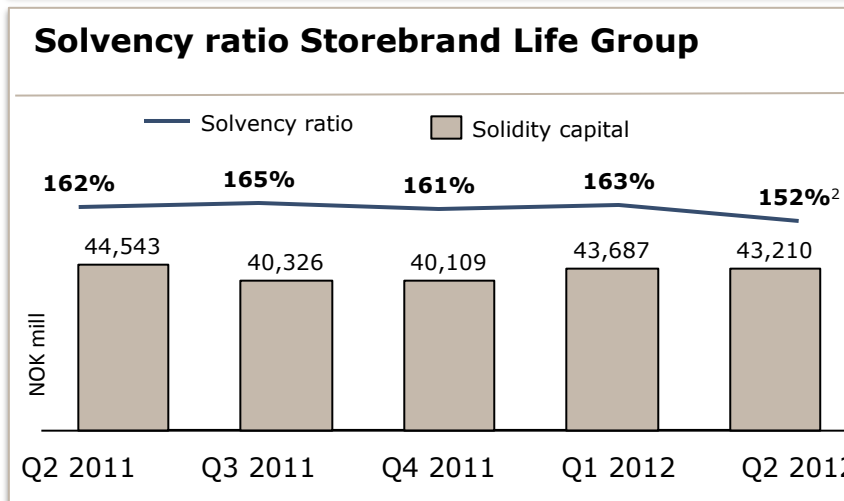
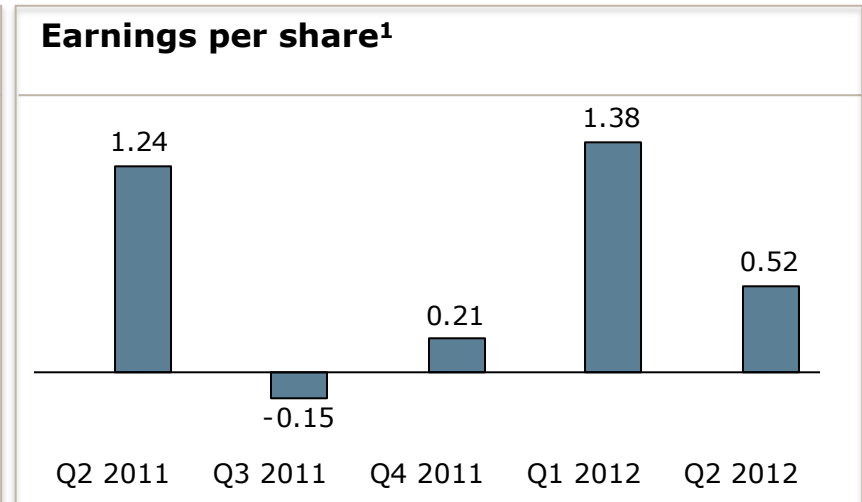
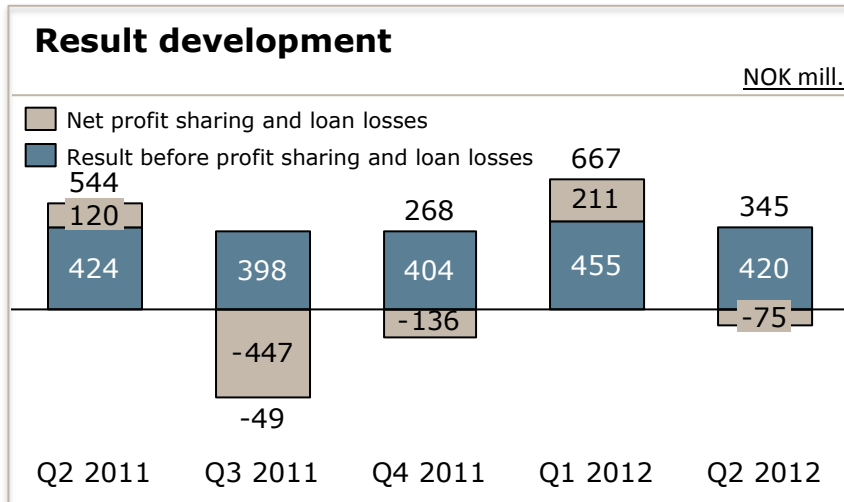
# Storebrand Group – operational reporting

NOK mill.	Q2		01.01. - 30.06		Full year
	2012	2011	2012	2011	2011
Fee and administration income	1 067	1 004	2 083	1 998	3 952
Operational cost	-726	-690	-1 446	-1 393	-2 800
<b>Fee and administration result</b>	<b>341</b>	<b>313</b>	<b>638</b>	<b>605</b>	<b>1 152</b>
Risk and insurance	173	143	358	252	686
Holding company and company portfolios	-94	-33	-119	-88	-268
<b>Result before profit sharing and loan losses</b>	<b>420</b>	<b>424</b>	<b>876</b>	<b>768</b>	<b>1 570</b>
Net profit sharing and loans losses	-75	120	137	292	-291
<b>Group profit</b>	<b>346</b>	<b>544</b>	<b>1 012</b>	<b>1 060</b>	<b>1 279</b>

Increased quality of earnings:

- Fee and adm results 9% growth YTD
- Result before profit sharing and loan losses 14% growth YTD
- Net profit sharing and loan losses negative in the quarter, positive YTD

# Key figures



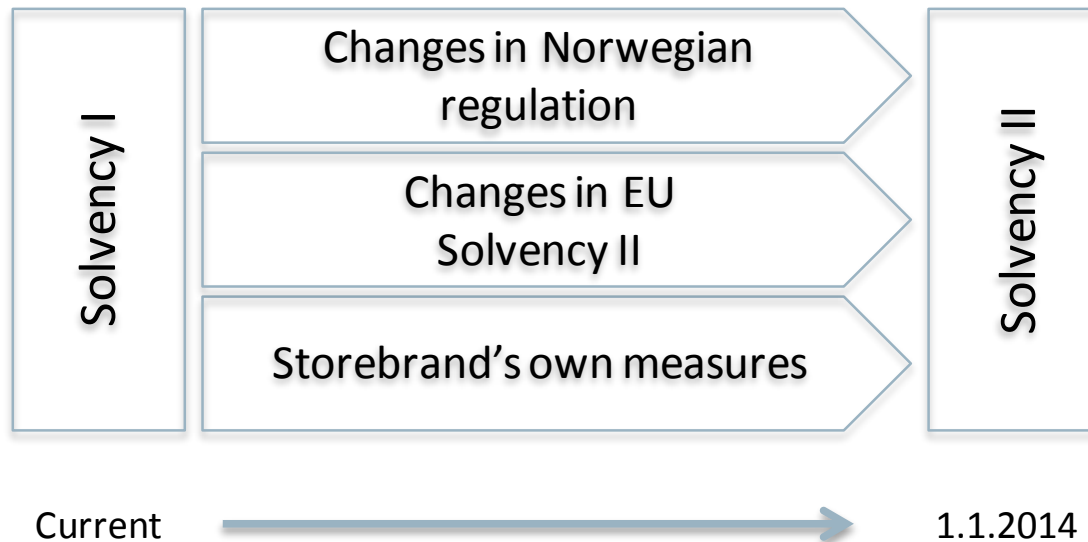
<sup>1</sup> Earnings per share after tax adjusted for amortisation of intangible assets.

<sup>2</sup> Based on changed methodology as noted in stock exchange notification dated 25 June 2012, before capital contribution of NOK 550 mill in July

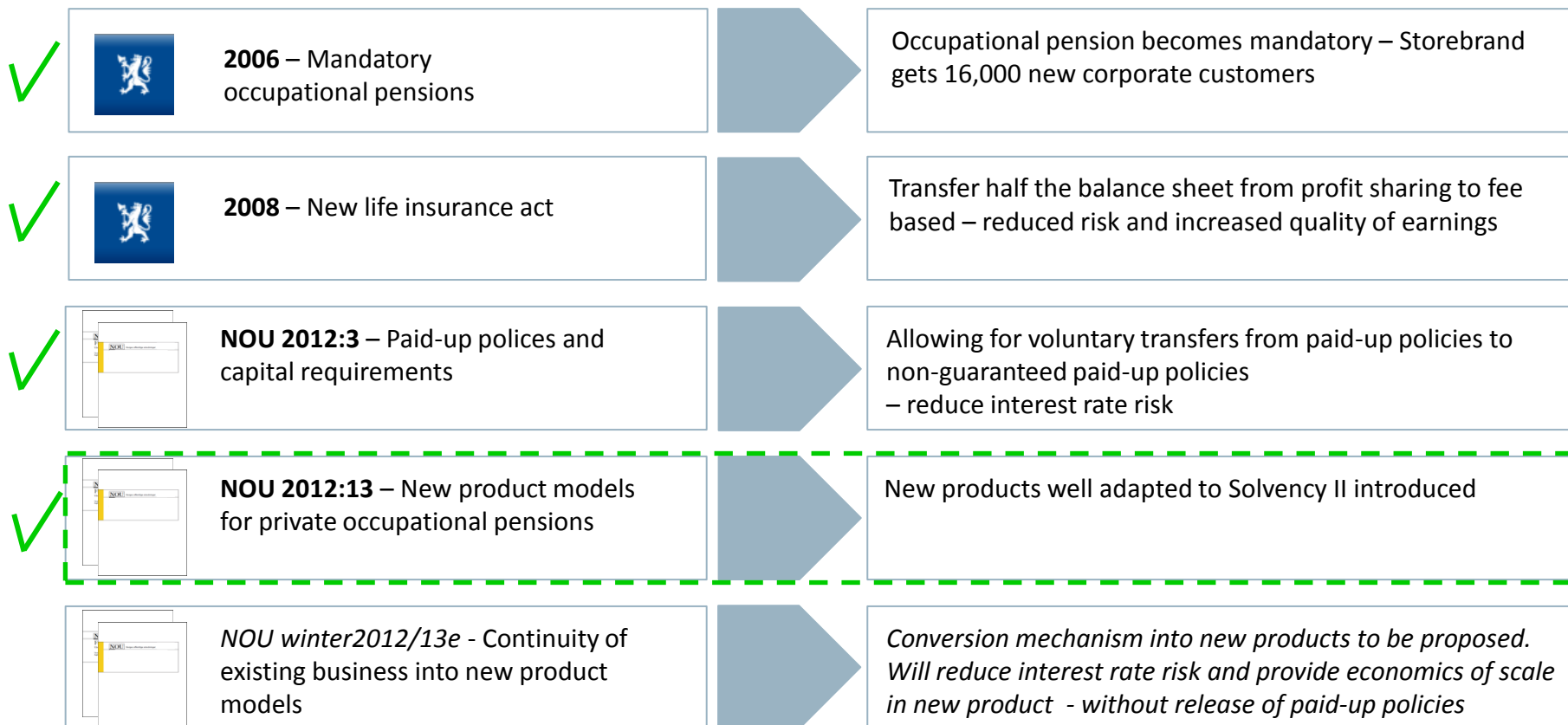
<sup>3</sup> Swedish buffer levels are restated due to sale of Benco to Storebrand Livsforsikring AS. Customer buffers in Benco are 2.7 bn.

# Storebrand towards Solvency II

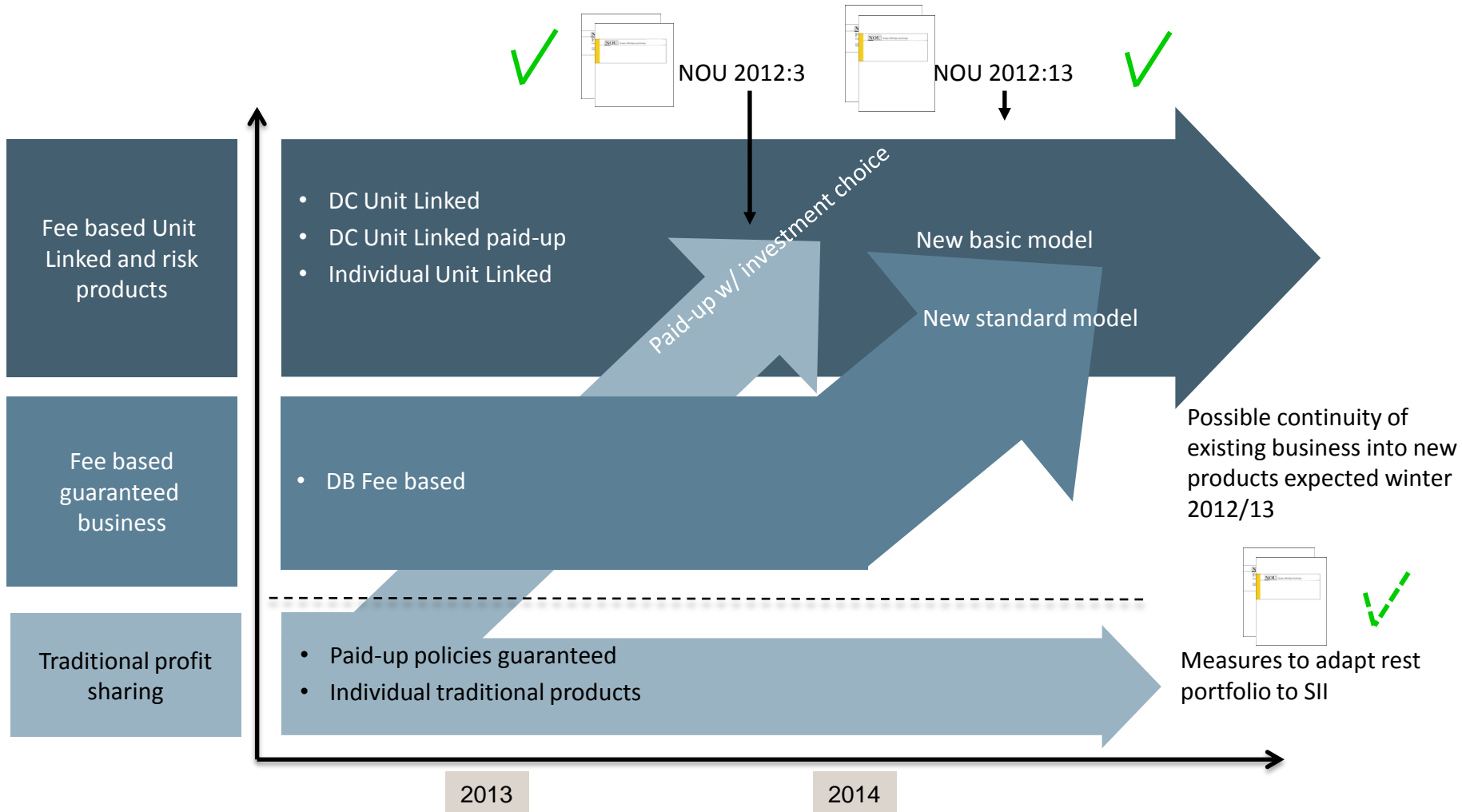
- domestic regulatory process on track, Storebrand's own measures are key



## Important changes to occupational pension legislation:



# Banking Law Commission phase III: - transfer mechanisms and transition to new system



# New occupational pension products

## Main features proposed products

Standard product	Basic product
<ul style="list-style-type: none"> <li>▪ Premiums: 2 -25.1% of wage</li> <li>▪ Pensions regulated with wage inflation (by the employer)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Premiums: 2 -26.1% of wage</li> <li>▪ Pensions regulated with investment return</li> </ul>
<b>Common features</b> <ul style="list-style-type: none"> <li>▪ Zero annual guarantee (can agree investment choice instead)</li> <li>▪ Guarantees above zero can be agreed, for a maximum of 5 year up to a guarantee set by the regulator</li> <li>▪ Life expectancy adjustments</li> <li>▪ Mortality inheritance</li> </ul>	

- Storebrand views the products attractive:
  - Well adapted to Solvency II
  - Ability to price and hedge risk
  - Longevity risk to be carried by individuals/corporations
  - Commercially attractive products
  - Generous maximum premiums (up to 26.1% of salary)
  
- Proposed products enables easy conversion from existing DB back book to Solvency II adaptable new product
  
- Conversion rules to be decided this winter

## New product – expected effects

- compared to DB under Solvency II

<p><b>Premiums and income</b></p>	<ul style="list-style-type: none"> <li>▪ Maximum premium comparable with current DB schemes</li> <li>▪ Increase saving rates in DC expected</li> <li>▪ Income elements from administration, risk and financial guarantees</li> </ul>	<p>Neutral</p>
<p><b>Costs</b></p>	<ul style="list-style-type: none"> <li>▪ All products on one technological platform</li> <li>▪ Efficient set up of operations</li> </ul>	<p>Long term positive</p>
<p><b>Capital requirement</b></p>	<ul style="list-style-type: none"> <li>▪ Storebrand able to hedge all risks, or price them</li> <li>▪ Products to be designed to have the same or lower capital requirements than under Solvency I</li> </ul>	<p>Reduced</p>
<p><b>Return on capital</b></p>	<ul style="list-style-type: none"> <li>▪ Comparable to RoE on DB product under Solvency I</li> </ul>	<p>Positive</p>



# Positive changes in regulations in Europe

- Sweden – floor on the discount rate

Förslag om tillfälligt golv för  
diskonteringsräntan



Finansinspektionen (FI) föreslår ändringar i föreskrifter (FFFS 2011:22) om försäkringsföretags val av räntesats för att beräkna försäkringstekniska avsättningar.

- Denmark – introduction of new discounting model

” It is key that insurance companies and pension funds have the ability to provide the pensioners of the future the highest returns. The regulatory environment should not force companies into short term investment decisions due to exceptional market conditions  
- Ole Sohn, Minister for Business and Growth



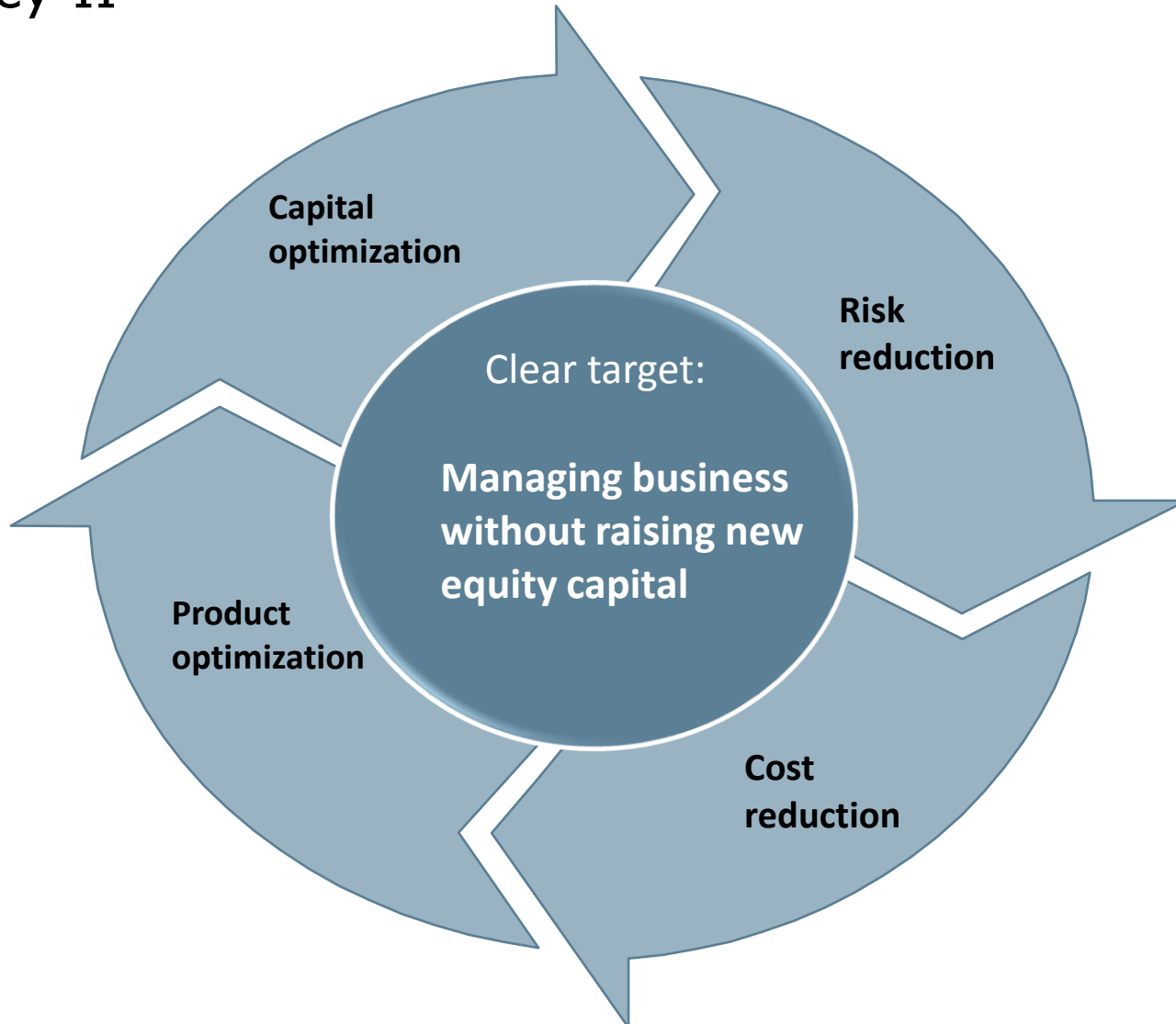
- EU – proposal of a transition period of 7 years for existing products

” For a period of seven years you can apply the existing discount rate under Solvency I while transitioning to the market discount rate, which is used to determine the value of liabilities  
- Karel van Hulle, the EC's head of pension and insurance<sup>1</sup>



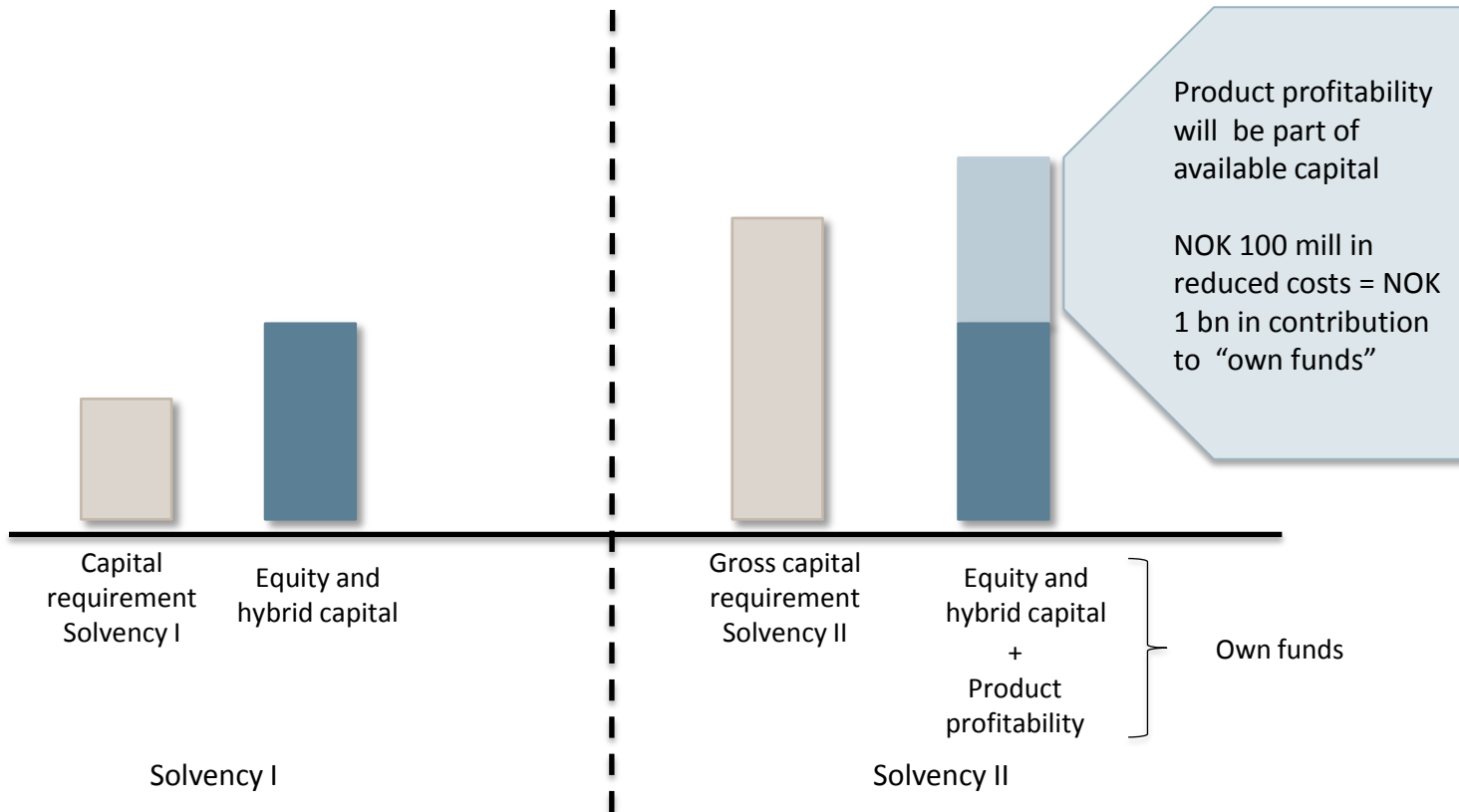
<sup>1</sup> Interview with Bloomberg Businessweek 20.06.2012

# Clear target for optimizing the operations towards Solvency II



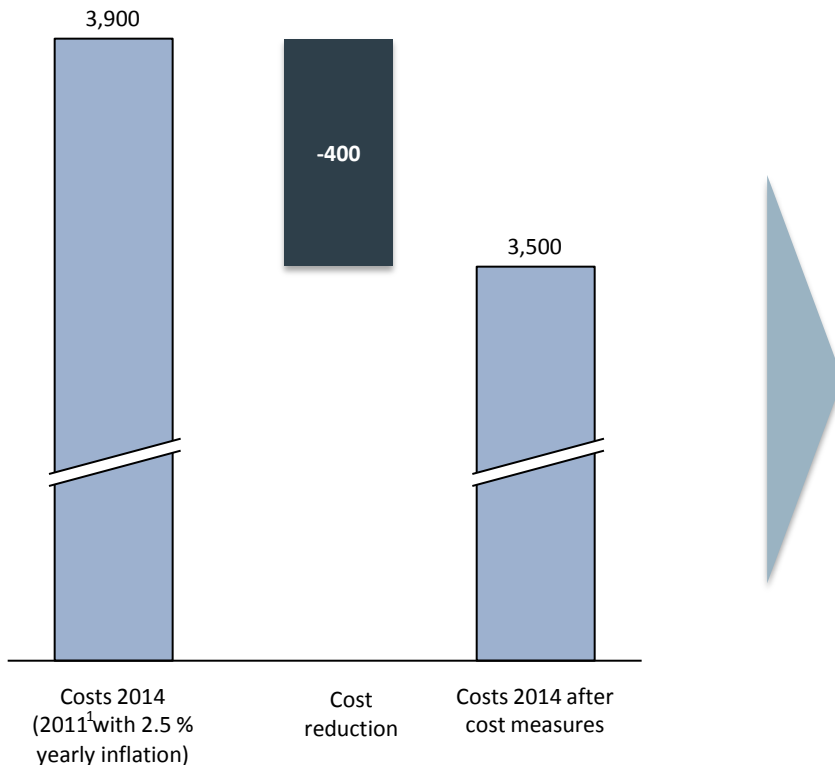


# Business margin part of capital under Solvency II





# Cost reduction: - a robust strategy



## Cost cutting initiatives:

### By process:

- NOK ~120 Increased automation and use of direct distribution
- NOK ~80 Sourcing strategy/ develop Baltic operations
- NOK ~90 Adjusted Public Sector offering
- NOK ~70 Reduce staff and support functions
- NOK ~40 Other initiatives

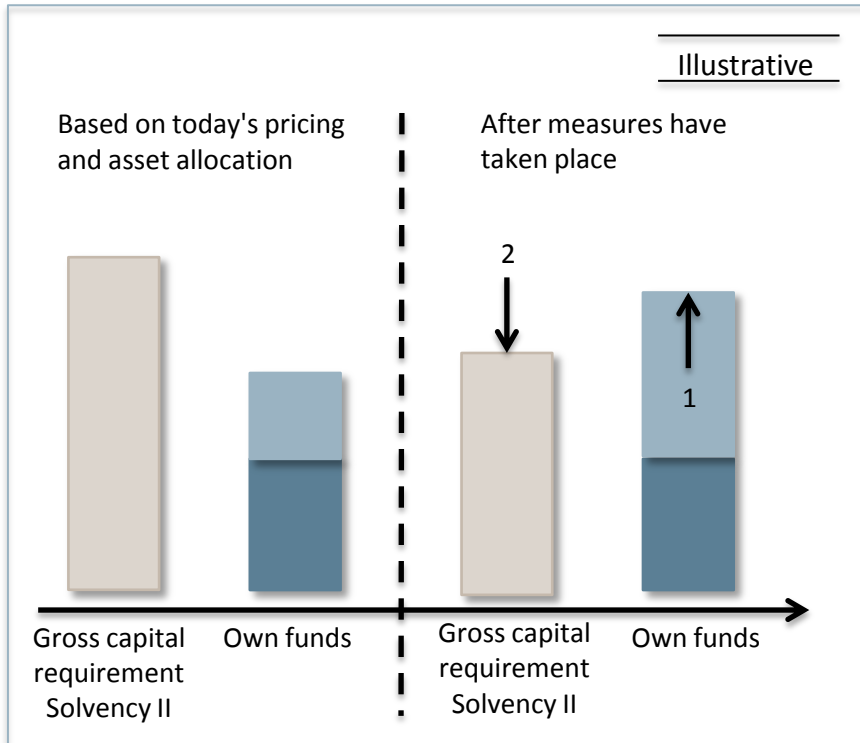
### By cost category:

- Reduce number of employees
- Renegotiate contracts
- Reduced use of consultants
- Discontinued use of IT systems

<sup>1</sup>Cost base 2011 consists of costs from operational reporting + Holding Company costs + Costs in Insurance + administration costs allocated to profit sharing products in Storebrand Life Insurance + Costs from daughter companies in Storebrand Life Insurance



# Product and risk optimization: - example: Public Sector defined benefit



- Gross capital requirement Solvency II
- Equity and hybrid capital
- Product profitability

Target: make product profitable under Solvency II

- Increase capital from product profitability
  - Increased prices ~25%
  - Offer attractive alternatives (pension funds)
  - Cost reductions
- Decrease gross capital requirement
  - Adjust asset allocation
  - Adjust portfolio duration

# Summary

- Sound underlying operations
- New occupational pension products are well adapted for transfers from DB and Solvency II
- Storebrand has identified measures to prepare for Solvency II, and is implementing them according to plan
- Managing business without raising new equity capital



# Appendix:



# Storebrand Life Insurance

NOK mill.	Group defined benefit *	Defined contribution and unit linked*	Individual and paid-up policies**	BenCo	Company portfolio	Result Q2 2012	Result Q2 2011	Full year 2011
Administration result	3	29	6	9	0	48	31	101
Risk result	40	-7	1	5	0	40	31	117
Financial result <sup>1</sup>	0	0	-9	-1	-51	-60	-24	-226
Profit from risk and interest rate guarantees	133	5	0	0	0	138	130	520
Other	0	0	0	0	17	17	-1	-32
<b>Profit for Storebrand Life Insurance Q2</b>	<b>177</b>	<b>28</b>	<b>-1</b>	<b>13</b>	<b>-33</b>	<b>183</b>	<b>167</b>	<b>481</b>
Invested assets (NOK billion)	84	25	88	14	9	220	200	213
Change in invested assets (NOK billion)	0	0	1	0	1	2	20	7

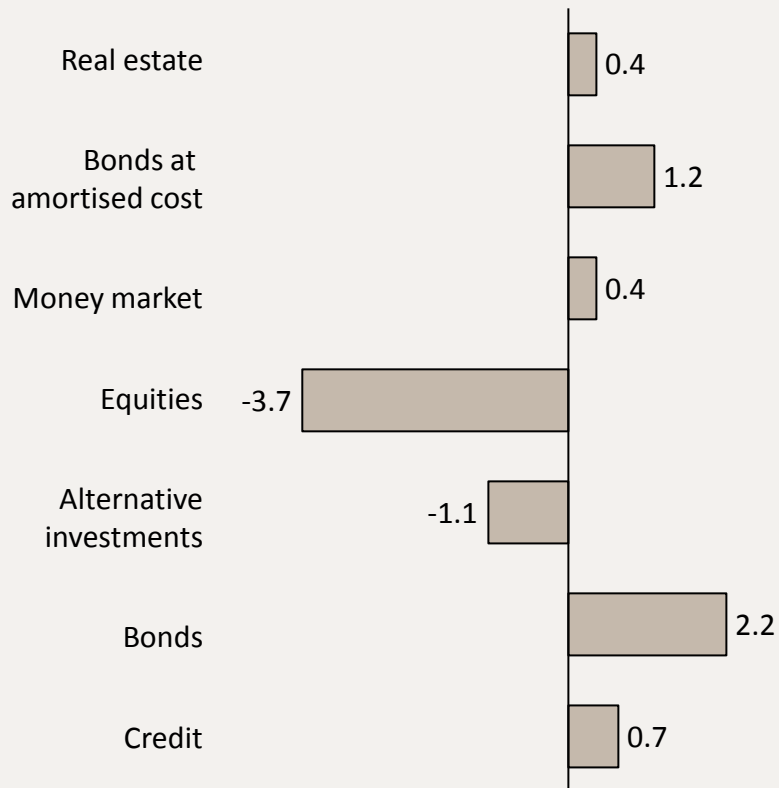
\* Fee based \*\* Profit sharing

<sup>1</sup>) Interest result and profit sharing

# Storebrand Life Insurance

## - return by asset class and main portfolios

Return by asset class Q2 2012(%)



Return Defined Benefit portfolios

	Value adjusted returns (Q2)	Booked Returns (Q2)	Equity proportion (Q2)
DB - High	-0,3%	0,8%	20,6%
DB - Balanced	-0,1%	0,8%	17,1%
DB - Low	0,8%	1,1%	8,2%
Individual	0,6%	1,0%	7%
Paid up Policies	0,9%	1,0%	7%
Total guaranteed portfolio	0,5%	0,9%	11%

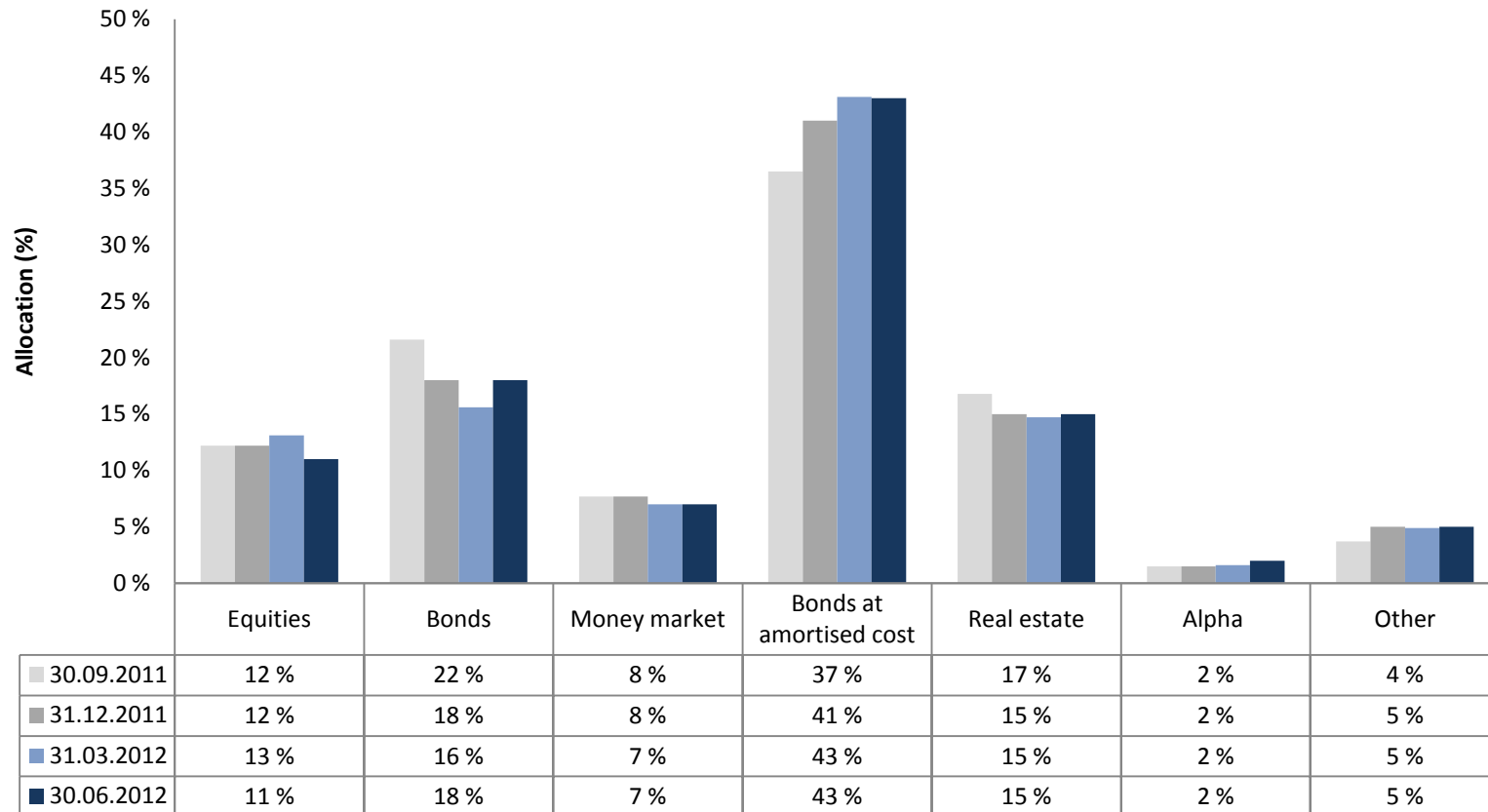
Return Defined Contribution standard profiles

	Value adjusted returns (Q2)
DC – high equity profile	-4,0%
DC – balanced equity profile	-2,3%
DC – low equity profile	0,0%

\* Average numbers, underlying sub portfolios with different asset allocation

# Storebrand Life Insurance

## - increased allocation to bonds



Asset allocation guaranteed products Storebrand Life Insurance AuM NOK 173 bn<sup>1</sup>

<sup>1</sup>The graph shows the asset allocation for all products with an interest rate guarantee in Storebrand Life Insurance Norwegian operations.

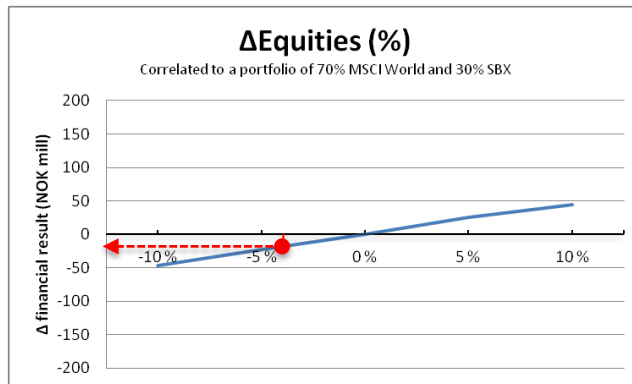
# SPP

- financial result NOK -48 mill

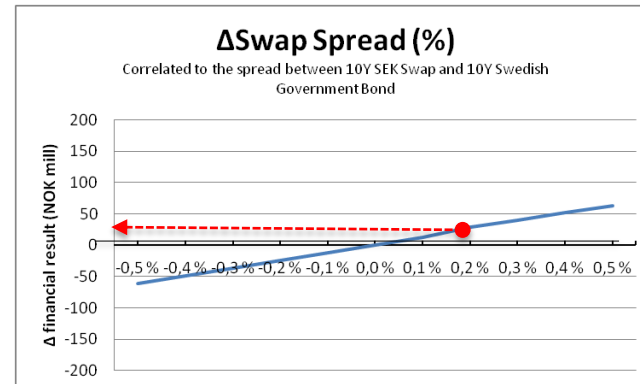
## Result development compared to disclosed sensitivities 1Q

● 2Q 2011 Anticipated development<sup>1</sup>

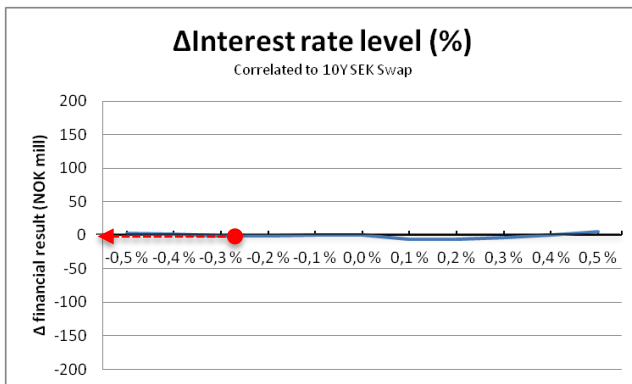
● -3,9%  
● ~-20 NOK mill



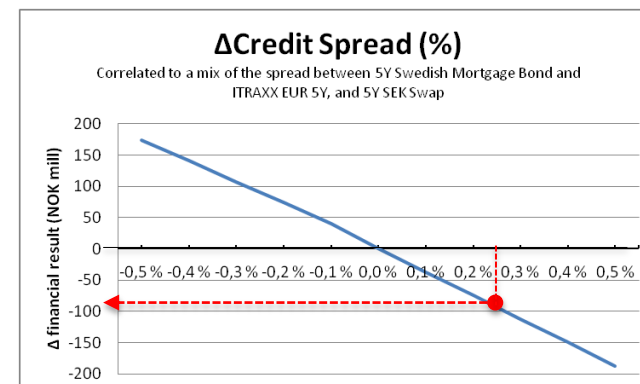
● +14 bps  
● ~21 NOK mill



● -27 bps  
● ~-1 NOK mill



● +25 bps  
● ~-95 NOK mill

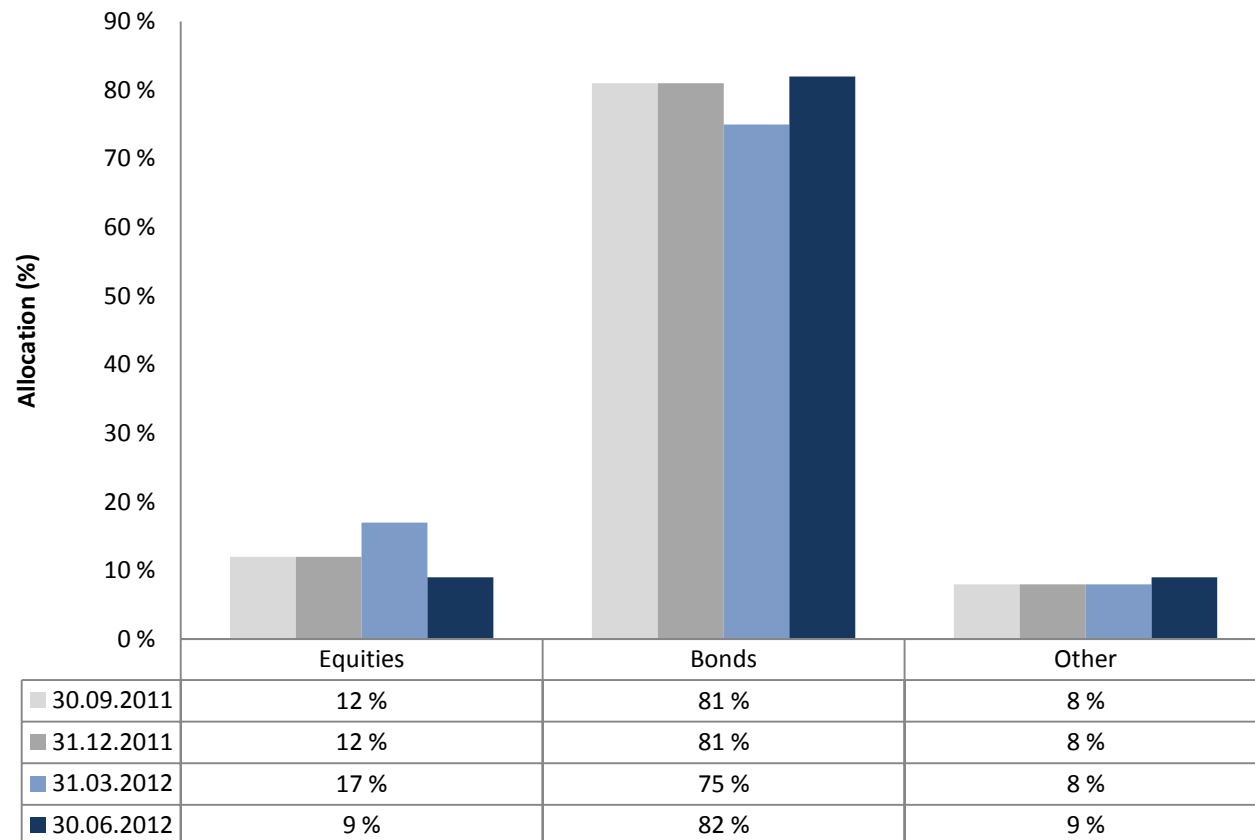


- ~+46 NOK mill other residual effects
  - ~+15 NOK mill less impact from market factors than anticipated
  - ~+31 NOK mill due change in insurance assumptions

Anticipated development is based on published sensitivities on 1Q 2012. These sensitivities are published in the supplementary information and is intended as a tool to understand the financial result generation in SPP. The sensitivities will deviate from actual result due to the dynamic nature of intra quarter movements in the financial markets.

# SPP

## - increased allocation to bonds



Asset allocation guaranteed products SPP AuM NOK 80 bn<sup>1</sup>

<sup>1</sup>The graph shows the asset allocation for all products with an interest rate guarantee in SPP.