



DNB

# TRADITIONAL LIFE INSURANCE - lunch seminar

CEO DNB Liv Anders Skjævestad  
London 13 June 2014



## Key message

- Owner's share of longevity kept at a minimum ( $\approx 20$  per cent)
- Sufficiently capitalized under Solvency II without further capital injection
- Pre-tax profits of above NOK mill 300 per quarter



# Norwegian pension market\*

- traditional products still a cornerstone

---

---

558

NOK bn insurance liabilities

---

194

NOK bn in paid-up policies

---

147

NOK bn DB contracts

---

\*Insurance liabilities as at Q1 2014  
Source: Finance Norway



# Traditional Life in DNB

- liabilities of the guaranteed back book\*

---

---

60

NOK bn on defined benefit

---

75

NOK bn on paid-up policies

---

284

NOK bn Assets under management\*\*

---

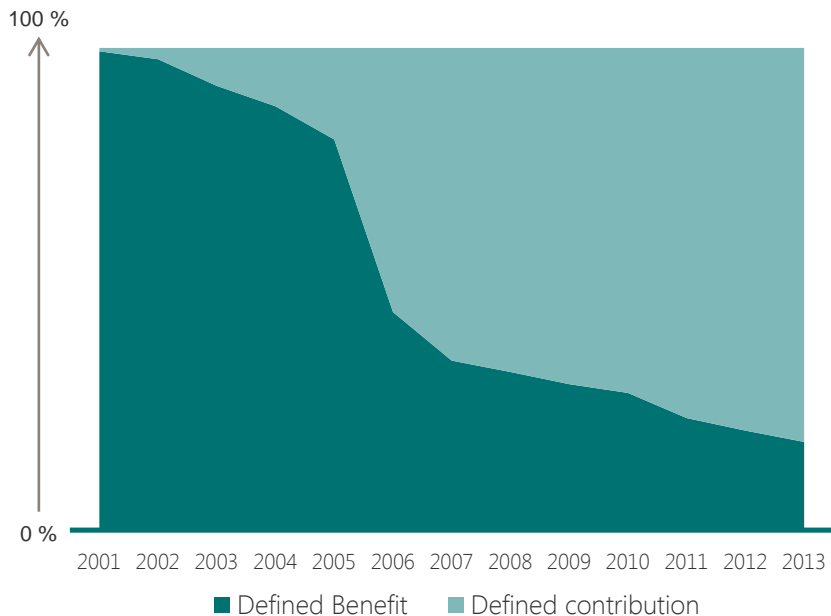
\*As at Q1 2014

\*\*Including DC and Unit Linked

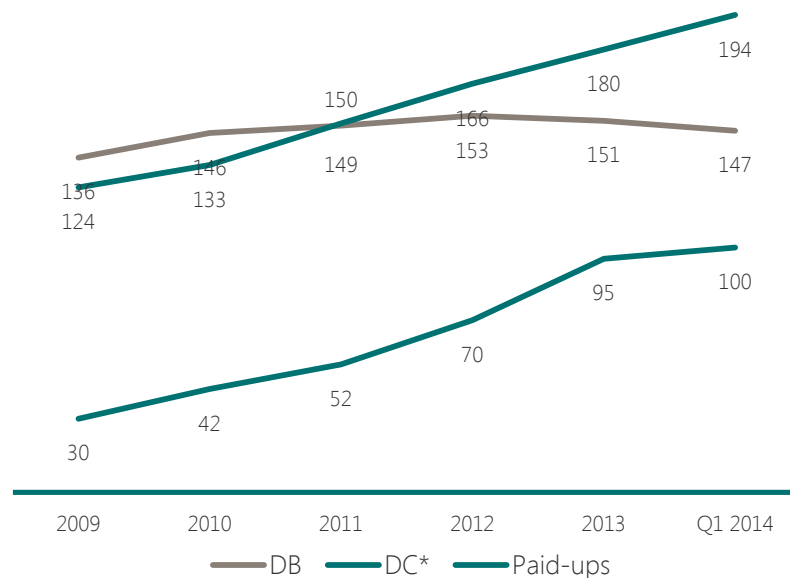


# Norwegian pension market dynamics

Active members in DB and DC pension schemes  
per cent



Development insurance liabilities DB, DC and paid-ups  
NOK billion



# Several regulatory issues resolved the last months

## Solvency II

- Agreement on the Omnibus II-directive\*
- From 2015 the companies shall report the company specific quantitative solvency capital requirements to national authorities
- The solvency capital requirements become effective on 1 January 2016

- The Financial Supervisory Authority of Norway has not yet approved use of the transitional regulatory framework in Norway

## New legal product framework

- New service pension and increased savings rates for DC pension schemes
- Paid-up policies with investment choice will be implemented in 2014
- DB pension product not dismantled
- New, modified DB pension product is being investigated

- New product regulation for paid-ups still pending

## Longevity

- New guidelines for longevity reservations
- No solidarity and seven years step-up period, starting 2014
- Surplus returns above the guaranteed rate of return can be used to finance the required increase in reserves
- Shareholder contribution should be at least 20 per cent








# Traditional Life separated from new business within DNB

- increasing competitive power and securing focused operations



# Traditional life products

- differences on profitability and capital strain

	Defined Benefit	Paid-ups	Old ind. contracts	Public Sector**
Customer Funds <sup>1</sup>	60bn/ 42 bn	75bn/ 93 bn	40bn/ 33 bn	27bn/ 0
Profitability*				-
Remaining longevity <sup>2</sup>	3.1 bn	3.3 bn	Finished	According to transfer
Capital Intensity*				
Profit model	prepaid	profit sharing	profit sharing	prepaid

<sup>1</sup> Q1 2014 / S2016 (according to financial plan)

<sup>2</sup> As at Q1 2014

\*Green bars/dollar signs illustrate degree of profitability and capital intensity. The more green, the higher profitability/capital intensity

\*\* In the spring of 2013, DNB Liv decided to discontinue its activities in the public sector due to low expected profits in this market in the coming years



# Tracking Life performance in DNB Group numbers

## Full income statement

NOK million

DNB Group	1Q14 DNB Group	1Q14 DNB Livsforsikring *
<b>Net interest income</b>	<b>7,691</b>	
Commission and fee income etc.	2,848	670
Commission and fee expenses etc.	663	92
<b>Net financial result, DNB Livsforsikring</b>	<b>(30)</b>	<b>(30)</b>
<b>Net risk result, DNB Livsforsikring</b>	<b>135</b>	<b>135</b>
Other income	277	4
<b>Net other operating income</b>	<b>4,877</b>	<b>687</b>
<b>Total income</b>	<b>12,569</b>	<b>687</b>
Salaries and other expenses	2,710	
Other expenses	1,944	
Depreciation and impairment of fixed intangible assets	538	
<b>Total operating expenses</b>	<b>5,192</b>	<b>316</b>
<i>Eliminations in the group accounts</i>		31
Pre tax operating profit	7,297	402
Tax expense	1,758	29
Profit from operations held for sale, after taxes	(19)	
<b>Profit for the period</b>	<b>5,519</b>	<b>372</b>

## Key aspects

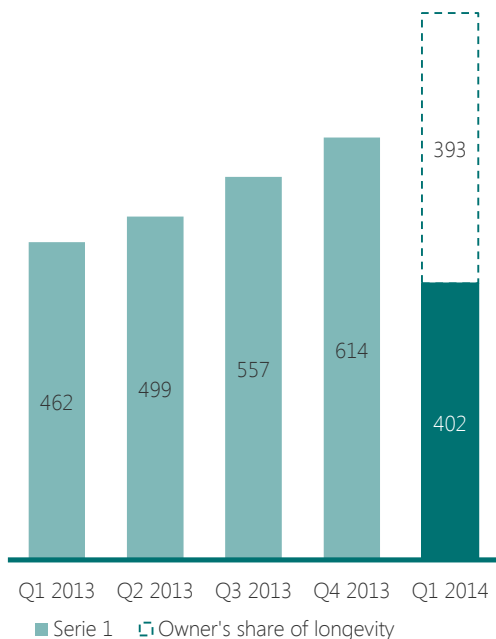
- FactBook information is essential for understanding P&L of DNB Livsforsikring
- Only the result from the insurance risk business and the investment activities is shown directly
- Prepaid fees for services rendered and interest rate guarantee are included in the groups commission and fee income line
- Expenses are included in the group's total operating expense line
- Owners share of longevity will appear in the net financial result line

\* Not explicitly included in FactBook. See appendix for details

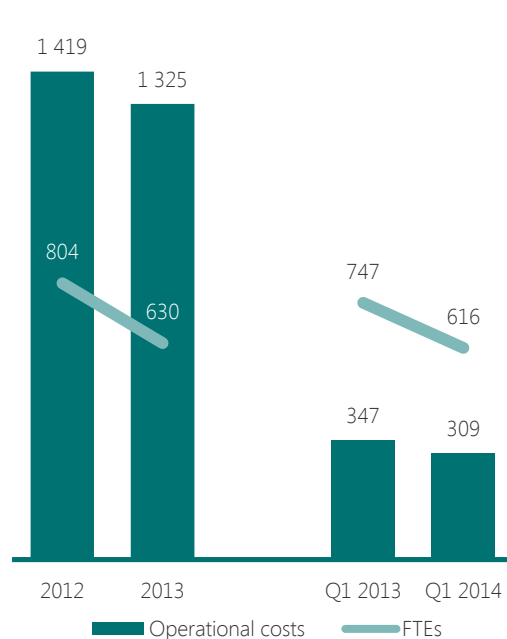
# Strong track record

- building profit and capital through cost cutting and increased quality earnings

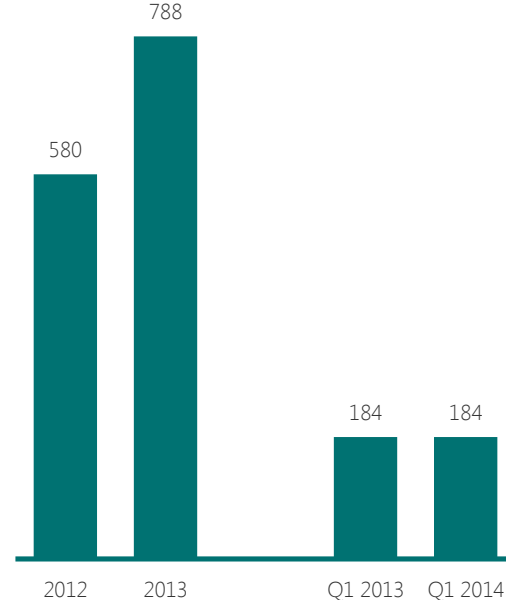
Development in profit before tax\*  
NOK million



Development in operat. costs and FTEs\*  
NOK million and number of FTEs




Pre-pricing of risk and guaranteed return\*  
NOK million

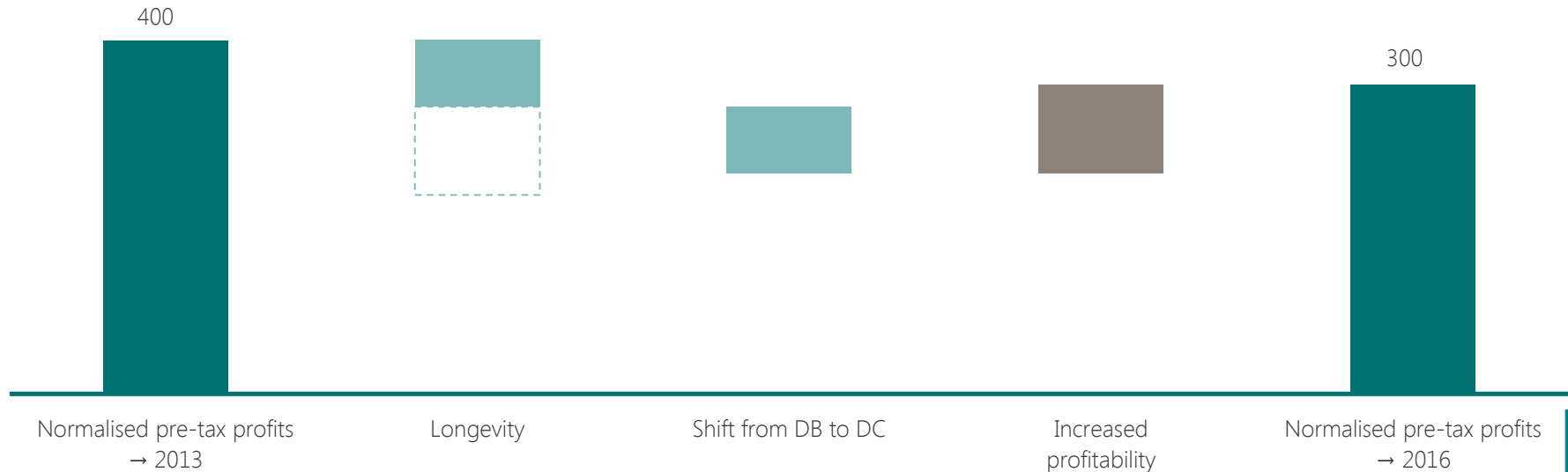


# Maintaining guiding on 300 mill per quarter

- continued focus on profitability initiatives to curb negative effects

Normalised pre-tax profits, DNB Livsforsikring ASA  
NOK million

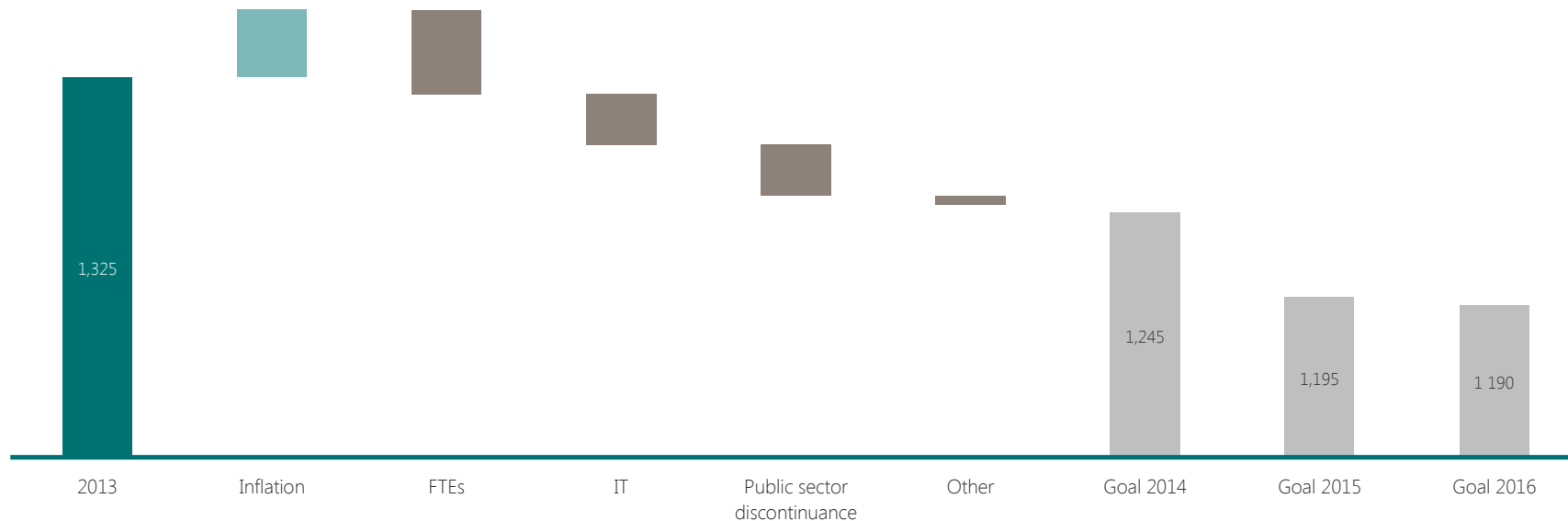
 Effect of a 36 per cent shareholder contribution



# Continuous focus on cost reductions

- net reduction in costs for five consecutive years at year-end 2013

Operational costs and actions  
NOK million



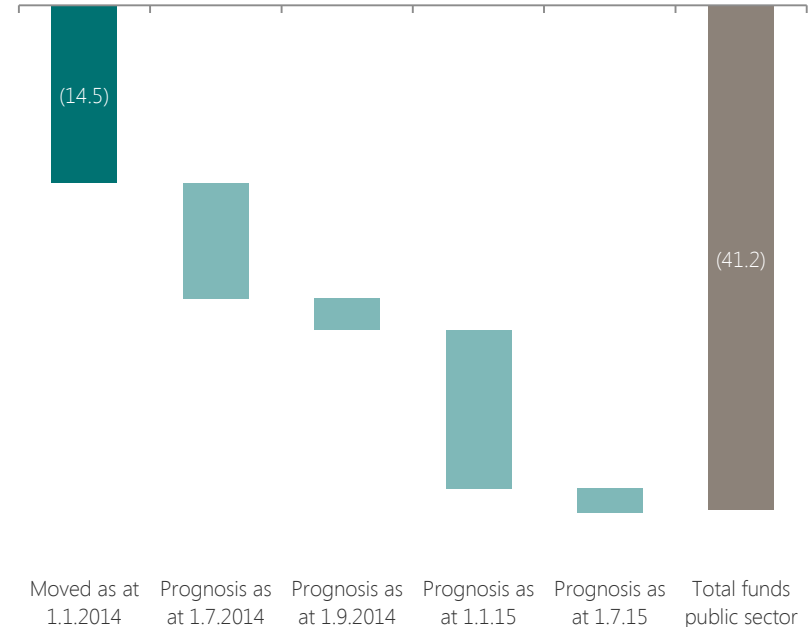
# Public sector discontinued

- wind up will finish by end of 2015 - one year ahead of plan

## Key aspects

- Discontinuation decided by BoD in June 2013
- Longevity provisions finalized according to transfer plans
- Total longevity provisioning requirement 1.7 bn NOK, only shareholder contribution remains
- Discontinuation leads to a 14 bn NOK reduction in RWA

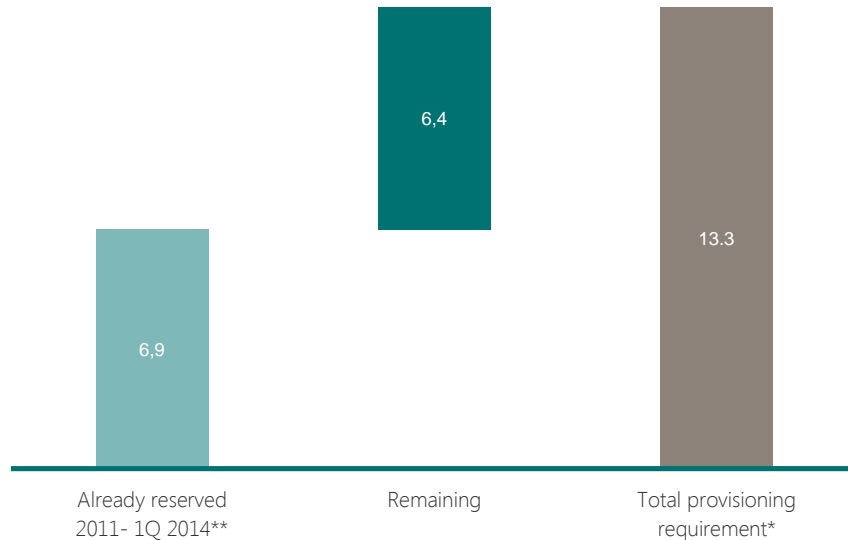
## Transfer plan public sector NOK billion



# Seven years step up period for longevity reservations from 2014

– no use of solidarity between contracts

Longevity provisions – status as at Q1 2014  
NOK billion



## Key aspects

- Reserves need to be strengthened to ensure a sustainable pension system
- To be financed by surplus investment return and shareholder contribution
  - Hits profit split in paid-ups
- For the whole pension industry the reserve strengthening is estimated at 8-9 per cent of reserves
- DNB Liv total reserve strengthening requirement is NOK 13.3 billion
- Buffers
  - Statutory reserves
  - Market value adjustment reserve
  - Overvalue bonds at amortised cost



# Longevity provisions and financing

Details on longevity provisioning requirement and financing in DNB Livsforsikring ASA  
NOK billion

	DB	Paid-ups	Public sector*	Total
Customer funds as at Q1 2014	60	75	27	162
Gross reservation requirement	5.6	6.0	1.7	13.3
Longevity provisions 2011-2013	2.3	1.9	1.6	5.8
Interest result and 50 per cent risk result Q1 2014	0.5	0.8	0.4	1.7
Allocated back to policyholders, fully reserved contracts	-0.3		-0.3	-0.6
Totally reserved as at Q1 2014	2.5	2.7	1.7	6.9
Remaining longevity provisions	3.1	3.3	-	6.4
<b>Financing, based on investment return forecast 2014-2020</b>				
Excess policyholder investment return and risk result	2.0	1.8	-0.3	3.5
Shareholder's 20 per cent	1.1	1.2	0.3	2.7
Expected shareholder's contribution above 20 per cent	-	0.3	-	0.3
Sum	3.1	3.3	-	6.4

# Keeping shareholder contribution of longevity at a minimum

Reservation plan paid-up policies  
NOK million

Total reservation  
requirement  
paid-ups  
NOK bn 6.0

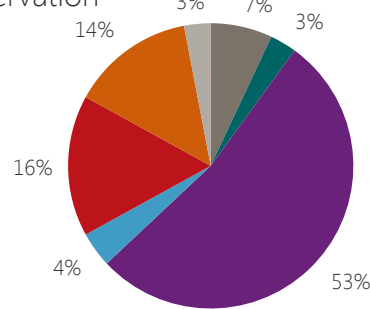


# Securing sufficient return on paid-ups

## - Strategy to both finance longevity and to de-risk portfolio

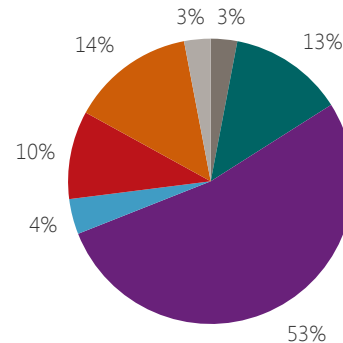
Asset allocation - portfolio under longevity reservation  
per cent

Expected return = 4.9 per cent  
Standard deviation = 2.7 per cent



Asset allocation - fully reserved portfolio  
per cent

Expected return = 4.4 per cent  
Standard deviation = 1.7 per cent

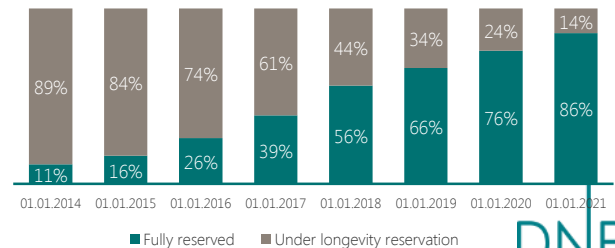


■ Equity   ■ Money Mkt   ■ HTM Bonds  
 ■ Current Bonds   ■ Property   ■ L&R  
 ■ Alternatives

Key aspects

- Matching assets and liabilities by dividing into sub portfolios
- Create sub portfolios based on the required return p.a. to cover guarantees and longevity reservations
- Optimize risk level within sub portfolios, i.e. use risk capacity where most valuable

Expected development paid-up portfolio  
per cent

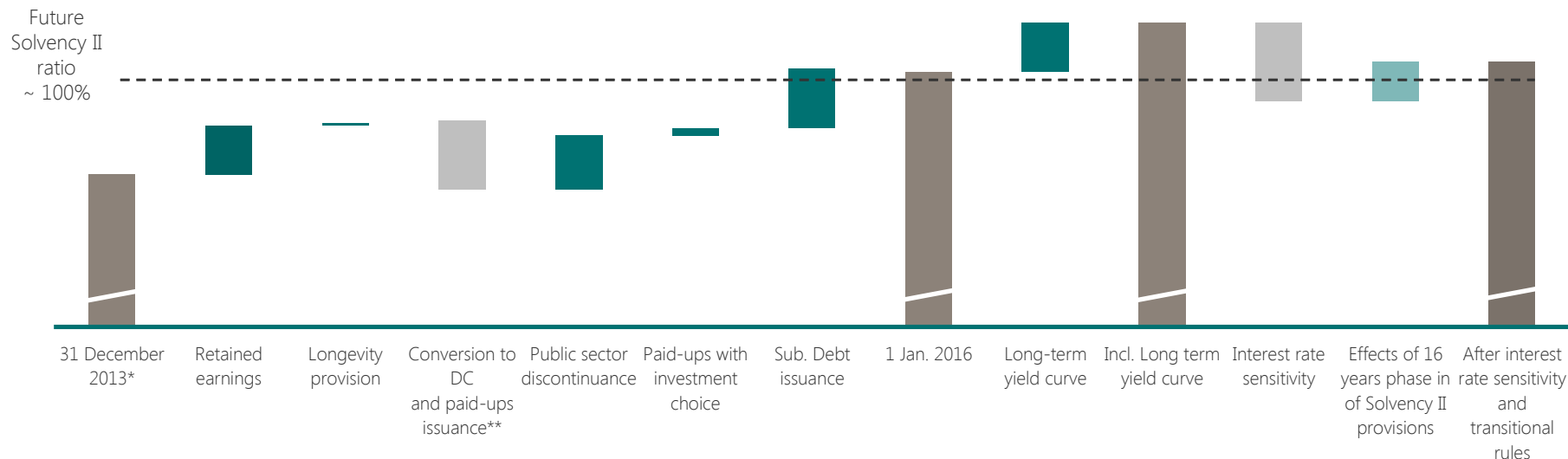


# Solvency II

– compliant before potential transitional rules are implemented

Projected Solvency II position at the start of 2016

Per cent



# No capital shortfall in life insurance

- confident to meet future capital requirements and secure optimal capitalisation

Toolbox for traditional back book

Profitability  
measures

Reduce  
growth

Balancing  
de-risk

Longevity  
provisions

Optimal  
capitalisation

Omnibus II



## Key message

- Owner's share of longevity kept at a minimum ( $\approx 20$  per cent)
- Sufficiently capitalized under Solvency II without further capital injection
- Pre-tax profits of above NOK mill 300 per quarter



A high-contrast, black and white photograph of a mountainous landscape. A winding road snakes through a valley, with a small stream visible in the distance. The sky is overcast with heavy clouds. A large, semi-transparent teal overlay covers the left side of the image, creating a diagonal split. The text 'Q&A' is positioned on the teal area, and 'DNB' is on the right side of the image.

Q&A

DNB

A dramatic landscape photograph of a mountain valley. A winding road snakes through the valley floor, surrounded by steep, rocky slopes. A large, teal-colored overlay covers the left side of the image, partially obscuring the mountain and road. The sky is overcast with grey clouds. The overall mood is somber and majestic.

APPENDIX

DNB



# Income statement DNB Group and DNB Livsforsikring

Full income statement in DNB Group FactBook  
NOK million

DNB Group	1Q14 DNB Group	1Q14 DNB Livsforsikring*
<b>Net interest income</b>	<b>7,691</b>	
Commission and fee income etc.	2,848	670
Commission and fee expenses etc.	663	92
Net financial result, DNB Livsforsikring*	(30)	(30)
Net risk result, DNB Livsforsikring	135	135
Other income	277	4
<b>Net other operating income</b>	<b>4,877</b>	<b>687</b>
<b>Total income</b>	<b>12,569</b>	<b>687</b>
Salaries and other expenses	2,710	
Other expenses	1,944	
Depreciation and impairment of fixed intangible assets	538	
<b>Total operating expenses</b>	<b>5,192</b>	<b>316</b>
<i>Eliminations in the group accounts</i>		<b>31</b>
Pre tax operating profit	7,297	402
Tax expense	1,758	29
Profit from operations held for sale, after taxes	(19)	
<b>Profit for the period</b>	<b>5,519</b>	<b>372</b>

DNB Livsforsikring Group details on result  
NOK million

DNB Livsforsikring	Q1 2014
Commissions and fees income etc.	670
Commission and fee expenses etc.	92
Other income	4
Operating expenses	316
Adm. result incl. upfront pricing of risk and guaranteed rate of return	265

DNB Livsforsikring	Q1 2014
Net financial result, DNB Livsforsikring	1
Net risk result, DNB Livsforsikring	135
<b>Net financial and risk result in DNB Livsforsikring</b>	<b>137</b>
Eliminations in the group accounts	(31)
Net financial and risk result from DNB Livsforsikring	105

# Financial result and longevity provisions

Longevity provisions traditional products in DNB FactBook  
NOK million

	Accumulated balance 31 March 2014	1Q14	4Q13	3Q13
Paid-up policies	2,167	754	18	107
Defined benefit	5,126	955	766	260
Total group pension <sup>1)*)</sup>	7,294	1,709	784	366
Individual pension <sup>2)*)</sup>	1,933	-	-	-
Total	9,226	1,709	784	366
*) Of which attributable to the owner		393	(4)	19
**) Of which attributable to the owner		-	-	-

Details on financial result Q1 2014, DNB Livsforsikring Group  
NOK million

	Customer portfolio	Corporate portfolio	Total
Financial result	3,868	227	4,094
Eliminations in the group accounts		-31	-31
Guaranteed rate of return	-1,936	195	2,127
Financial result excl. customer allocation and longevity provisions	1,932	195	2,127
Customer allocation*	-448	-	-448
Longevity provisions	-1,709	-	-1,709
Net financial result	-225	195	-30

*Customer allocation	
Administration result	29
Risk result	32
Financial result	387
Total	448

# Administration result

Administration result DNB Group and DNB Livsforsikring Group  
NOK million

	1Q14	4Q13
<i>DNB Group:</i>		
Commissions & fees income etc.	670	677
Commissions & fees expenses etc.	92	88
Other income	4	4
Operating expenses	316	390
Administration result including upfront pricing of risk and guaranteed rate of return	265	203
<i>DNB Livsforsikring Group:</i>		
Upfront pricing of risk and guaranteed rate of return	184	203
Administration result	97	54
Administration result – corporate portfolio	(7)	(44)
Costs from subsidiaries which are fully consolidated in DNB Livsforsikring Group's accounts	9	9
Administration result including upfront pricing og risk and guaranteed return	265	203

Details on administration result DNB Livsforsikring Group  
NOK million

Commissions and fees income etc.	670
Other income	4
Upfront pricing of risk and guaranteed rate of return	184
Administration income	490
Commissions & fees expenses etc.	92
Operating expenses	316
Costs from subsidiaries which are fully consolidated in DNB Livsforsikring Group's accounts	9
Administration expenses	399
Administration income	490
Administration expenses	399
Administration result	90
Upfront pricing of risk and guaranteed rate of return	184
Cost from subsidiaries	9
Administration result incl. upfront pricing	265

# Details on commissions & fees

Details on commissions and fees per quarter for product groups, DNB Livsforsikring Group  
NOK million

	1Q 2014	4Q 2013	3Q 2013	2Q 2013	1Q 2013
New pension products - adm income	171	171	154	137	134
New pension products - upfront pricing	24	30	28	25	23
Risk products - adm. income	49	33	48	48	53
Risk products - upfront pricing	-	-	-	-	-
<i>Traditional pension products</i>					
Defined Benefit - adm. Income	86	85	79	81	78
Defined benefit - upfront pricing	129	132	131	129	128
Paid-Ups - adm. Income	57	53	53	55	48
Paid-Ups - upfront pricing	-	-	-	-	-
Prev.sold Ind. Products - adm. Income	83	81	87	92	88
Prev.sold Ind. Products - upfront pricing	-	-	-	-	-
Public sector - adm. Income	40	52	40	42	40
Public sector - upfront pricing	32	40	43	40	39
Total	670	677	664	650	631



# Operational expenses

Split on operational expenses per quarter, DNB Livsforsikring Group  
NOK million

MNOK	1Q 2014	4Q 2013	3Q 2013	2Q 2013	1Q 2013
Personnel	113	105	109	167	171
Depreciation	16	20	20	19	20
Subsidiaries	9	9	9	7	10
Other	178	256	154	156	161
Total	316	390	291	349	362

# Premiums, expenses and claims

Details on premiums, expenses and claims per quarter, DNB Livsforsikring Group  
NOK million

Defined Benefit	1Q 2014	4Q 2013	3Q 2013	2Q 2013	1Q 2013
Premiums	3,208	777	1,404	713	3,103
Administration expenses	-52	-74	-67	-79	-82
Claims	-712	-599	-612	-605	-701
Paid-ups	1Q 2014	4Q 2013	3Q 2013	2Q 2013	1Q 2013
Premiums	24	20	15	19	20
Administration expenses	-33	-33	-28	-32	-36
Claims	-626	-603	-585	-572	-554
Prev.sold Ind.products	1Q 2014	4Q 2013	3Q 2013	2Q 2013	1Q 2013
Premiums	98	154	84	92	99
Administration expenses	-41	-67	-57	-62	-67
Claims	-989	-1,010	-1,047	-1,009	-1,054

