Q1 2017 Earnings Call

Company Participants

- Kjetil Ramberg Krøkje, Head of Investor Relations
- Lars Aasulv Løddesøl, Group Chief Financial Officer
- Odd Arild Grefstad, Chief Executive Officer

Other Participants

- Ashik Musaddi, Analyst
- Blair Stewart, Analyst
- Jonny Urwin, Analyst
- Matti Ahokas, Analyst
- Paul De'Ath, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good afternoon, ladies and gentlemen and welcome to the Storebrand Analyst Call. My name is Dave and I'll be your coordinator for today's conference. For the duration of the call, your lines will be on listen-only, however, at the end of the presentation, you'll have the opportunity to ask questions.

I will now hand you over to Kjetil Krøkje to begin today's conference. Thank you.

Kjetil Ramberg Krøkje

Thanks and good afternoon, ladies and gentlemen. Welcome to Storebrand's first quarter 2017 conference call. My name is Kjetil Ramberg Krøkje and I'm Head of Investor Relations at Storebrand. Together with me today, I have Group CEO, Odd Arild Grefstad, CFO, Lars Løddesøl, Finance Director, Sigbjørn Birkeland, and Head of Economic Capital, Trond Finn Eriksen.

In the presentation today, Odd Arild will give us an overall view of the development in the first quarter 2017 and Lars will give some more details on some elements in the result and economic capital developments. 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 in to the conference call.

I will now leave the work to Storebrand's CEO, Odd Arild Grefstad, who will start the presentation on slide 2.

Odd Arild Grefstad {BIO 5483351 <GO>}

Thank you, Kjetil. Let's turn then directly to the results. The Group results before amortization and write-down was NOK 671 million for the quarter. This is a strong result, driven by strong underwriting results and good financial results.

The growth within savings continues while the guaranteed products are in long-term run-off. This is illustrated by our asset growth of 17% within Unit Link and growth of 32% within retail loans.

The underlying solvency position is increased by 3 percentage points during the quarter, 347%. Since first quarter 2016, we have resumed dividend payments and increased the solvency position with 30 percentage points. This represents a normalization of our capital situation and the real value creation for shareholders. The solvency ratio including transitional rules is 159%.

The real value creation is also reflected in our disclosure of the group economic capital of NOK 88 per share. Lars, will relate to this measure later on.

Then let's move to slide number 3. This slide illustrates the two-fold strategy we have been implementing consistently through this last five years. The two-fold strategy will continue to be important going forward, with capitalized growth within savings and insurance and capital released from the guarantee's back book, which now have reached its peak capital consumption level.

Then we move to slide number 4. Looking at Storebrand's solvency position, investment allocation and segmentation together with strong returns and good results, strengthened the solvency position without transitional rules with 3 percentage points from 144% to 147% in the quarter. With transitional rules, it's 159%.

It is also equally important to be aware of the sensitivities. EIOPA has announced changes in the estimate forward rate, UFR methodology. It will fall from today's level of 4.2% to 3.65% over the next four years. This weakens, everything equal, the solvency position with about 7% points when it's fully implemented. This is without transitional rules. And please note that of course this change is very sensitive to the interest rate levels. The change will gradually be phased in by 15 basis points a year and we expect between one to two percentage points effect from next year.

Then let's move to slide number 5. Looking at the changes in the solvency position in the quarter, there are three factors worth mentioning. One, it's model and assumption changes that causes a 3 percentage points reduction in the quarter. This is mainly due to reduced volatility adjustment and increased equity stress, both of which are calculated by EIPOA (05:22).

Number two, Storebrand has had good results in the quarter, which has contributed to increase solvency position in addition to strong growth in defined-contribution pension. Storebrand has now completed its resource strengthening for longevity, which means that we have been able to further address our investment portfolios to Solvency II. This contributes to strengthening their solvency position. On the contrary, the increase in the paid up portfolio reduces their solvency. Overall, we see a strengthening of the solvency position of 3 percentage points from operations.

Number 3 there has been good financial markets in Q1. This means that, we have not only achieved the expected risk premiums in the markets, but also achieved returns billings, what we can normally expect in the quarter. We (06:31) to look at this as economic variants and equity, real estate and reduced credit spread has yield returns in the quarter.

If we then move to slide number 6, to give some more comments around the peak capital statements. As we enter 2017, more than 50% of our assets under management are from non-guaranteed products.

Taking a longer view, we see that the proportion is expected to increase to more than 80% in a 10 years' time. This has very positive implications for capital requirements, quality of earnings, free cash flow and dividend capacity. We work to significantly increase the latter and see strong increase in free cash flows going forward.

Growth in Savings and Insurance going forward is capital efficient. So, we will be able to combine growth and strong dividend capacity going forward.

Then let's move to slide number 7, and let's go a bit deeper into the growth part of our strategy. The growth in the Unit Linked business and Asset Management continues. The Unit Linked business grew by 17%, and the Asset Management business grew by 6%. The growth within Insurance was lower than we want to see. This is caused by our shift from expensive external distribution to more cost-effective internal distribution. This together with a transition to our new disability pension product in Norway, implies a lower growth rate in 2017.

Last, but not least, we still grow (08:34) our retail mortgage portfolio. We grew the lending portfolio by over 30%. The new loans are mainly placed in the Life balance sheet.

So by that, I'll leave the word to Lars.

Lars Aasulv Løddesøl

Good afternoon. Please turn to page 10. NOK 463 million in operating profit is somewhat weaker than the market and we ourselves expect. It is the result of the speed of conversion from defined-benefit to defined contribution, as well as lower transaction fees and somewhat inflated operating cost in the quarter.

The Group result of NOK 671 million is strengthened by a good financial returns, we've had a good return on our investments benefiting both, customers and shareholders. With a book (09:29) return in Q1, we have for all practical purposes finished the reserve strengthening for longevity. The formal completion of this will happen at the year-end. We also strengthened our buffers, especially in Sweden.

Please turn to page 11. Fee and administration result is down by 1%, currency adjusted in the quarter, we've had a strong Insurance result with fewer large claims and reduced payouts and claims already reserved for. The cost level is slightly up in the quarter, but approximately NOK 30 million relates to issues that are non-recurring, relating to expenses from 2016 or otherwise, say, one-off nature. Other costs are related to double expenses as we continue the transfer of operations to Cognizant.

We reiterate our stated objective of lower costs in 2018 compared to 2015. The number of employees is down by more than 10% since the beginning of 2016 and will go down further. We expect full impact from ongoing cost initiatives by the end of this year. The financial results are strong and lead to a profit split in the Swedish Guaranteed portfolios, as well as a good return in company portfolios. Tax is estimated at 19% in the quarter.

Please turn to page 12. The lower table shows the same results as we saw on the previous page. Savings non-guaranteed shows declining results. The revenue is flat, but allocated costs are up as a result of the strategic shift in the Group. The development is positive in all four underlying business areas or business lines within non-guaranteed Savings and we do expect improved results going forward. The Insurance results are satisfactory, despite low growth. Guaranteed shows a significant improvement from last year due to profit splits in Sweden and lower allocated costs. Over time, this result will be declining.

Please turn to page 20. Storebrand has for the last 15 to 20 years published economic capital figures. Previously this was done according to the embedded value method. Last year, we changed to the Solvency II method, but with a few specific amendments. The amendments look at the specific situation for the Group, realistic market expectations, and a method closely linked to the previous Market Consistent Embedded Value methodology.

Please note that the numbers are as of year-end 2016. According Solvency II, we have NOK 42.1 billion in capital. However, Solvency II does not include the value the life company generates in the rest of the Group. Under embedded value, we can include the net present value of the value generated in Storebrand Asset Management from managing the Storebrand life assets. This is called look through value and adds NOK 2.7 billion to the capital.

Under Solvency II, we can only include the value of existing business. Under embedded value, we can include future premiums on existing contracts. As corporate pensions is a legal requirement in Norway, we have included future premiums on existing contracts, and the profit they will generate, and the cost of collecting these premiums. And thirdly, Solvency II requires a harsh stress from customer lapse. 70% lapse in corporate market and 40% lapse in the retail market is not realistic in small markets like Norway and

Sweden. We have adjusted these stresses to 20%. This gives us an economic capital of NOK 46.8 billion by the end of 2016.

If we move over to page 21, we can see the movement in reconciliation reserve from 2015 to 2016. First, we have made adjustment to assumptions and model changes. Improving modeling and updated operational assumptions reduced capital by approximately NOK 600 million. Secondly, we have the profitable growth in the business combined with the reduced costs, good returns, and reserve strengthening minus margin pressure and an increased number of paid-up policies makes operational changes which positively impacts the capital of NOK 3.5 billion. Thirdly, changes in the interest rate level, volatility and volatility adjustment, reduces capital by NOK 200 million. In addition a new – we subordinated loan as well as retained earnings increased the economic capital to NOK 46.8 billion by the end of last year.

With this we have a total economic capital of NOK 46.8 billion. By deducting what is related to subordinated loans, we get an economic capital which belongs to the shareholders of NOK 39.6 billion or NOK 88.4 per share. And I take the liberty of mentioning that before 2008 and the financial crisis, group like ours were typically valued at embedded value times a multiple. In addition, value of new business was often added to that by a factor of 10 or so. And the value of new business written last year was approximately NOK 0.5 billion.

That's all I was going to go through now, but I would also like to mention to you that there is a lot of good Solvency II capital information in the appendix this time, and I'm sure some of you have a particular interest in looking into that and we'd be happy to take questions on that topic as well.

And with that, I leave the word back to Kjetil.

Kjetil Ramberg Krøkje

Thank you, Lars. The operator will now open up for questions, please.

Q&A

Operator

Thank you. The first question is from Paul De'Ath from RBC. Please go ahead.

Q - Paul De'Ath

Yeah. Hi there. And thanks for taking my questions and a couple please. Firstly, just looking at margin pressure and it seems to be coming through in the non-guaranteed Savings business, and also to some extent in the banking business line, just – and I'd interesting to hear kind of where you think that's going? Are we at a point where it's not going to go – margin is not going to go down any further or essentially what direction is (16:54) that?

And then the second question is on the capital run-off. And so, you've very helpfully given the chart on slide 6, which gives an illustration of the assets under management, which looks to me at least that the high capital consumptive guarantees are running off pretty slowly over that period. And would it possible to have any kind of indication of what is the lifetime of those capital consumptive guarantees, because those are presumably the ones that will be releasing the most capital over the future period, that would be great. Thanks.

A - Lars Aasulv Løddesøl

Okay. If we start with the margin pressure, on Unit Link, if you go into the supplementary, there seems to be margin pressure on the Swedish business, that's more of a technical issue, that's quite stable. In Norway, there is some margin pressure on defined contribution contracts. However, there is also a shift in the balance sheet from defined contribution contracts to – or the growth in paid-up policies is much higher – sorry, pension certificates is much higher than in the defined contribution contract, which is a positive shift in the total developmental margins in the Unit Link business. So, overall, the Unit Link business has a fairly stable margin development, and also what we see in the market now is fairly stable.

On the Bank side, I would like to refer you to page 14 in the booklet, where we have a picture showing that the margin during the last five quarters went down from 120 basis points to 103 basis points, and up again in the last quarter at 109 basis points. We were extremely competitively priced and has a low margin in the end of last year. We re-priced the contract in December last year, with an effect from February and we haven't seen the full impact of that during the first quarter. During March, the margin was 117 basis points, which should combined with the additional funds under mange – or additional lending should improve margins and revenues in the next quarter. (19:38)

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

Yes. And quickly on the capital run-off on slide 6 in the presentation, you are right that the guaranteed liabilities runs off quite slowly. But fortunately as we've also discussed before, what also happens is that the capital requirements runs off faster than the actual reserves, and there is a couple of reasons for that. One is that the duration gap, which exists in this book of business gets lower every year since this is a closed book. Second, as the old policies gets paid out to customers as pensions, the average interest rate guarantee goes down in the book, also releasing capital from the book. So, what we have said is that (20:30) on capital requirements from the guaranteed back book. It will start to rundown slowly in the first couple of years, and then it will accelerate in run off after the first two to three years.

Q - Paul De'Ath

Okay. Thanks.

Operator

The next question is from Jonny Urwin from UBS. Please go ahead.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hey, guys. Thanks for taking my question. Just two quick ones. So firstly, now the longevity reserves strengthening has finished, does that change anything for you in terms of what you can remit (21:12) i.e., does that open up any entities that perhaps you haven't been able to remit cash from before?

And secondly, the customer buffers in Norway fell, was that because of the – like finishing off the longevity reserves or anything – or is there another reason for that? Thank you.

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

Yeah. Just to start off with the – on the longevity reserves, it's – wherein most of you say here, during the period, we have been doing longevity reservation strengthening. We have not been able to take up a dividend from the life insurance company to the holding company. Now, in our opinion that during this year, of course, the life insurance company will also be able – possible to give dividend to the holding company.

A - Lars Aasulv Løddesøl

When it comes to the buffer capital situation, we've released some market value adjustment reserve during the first quarter. That's also very much due to asset allocation changes based on, early in the quarter, due to segmentation of the portfolios. So, we changed the segmentation and changed the asset allocation somewhat under lease. Some of the markets have adjustment reserve attached to them and that was used for longevity reserves, I think.

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

And you also saw that this change in allocation on segmentation also gave a very good impact on the solvency capital.

Q - Jonny Urwin {BIO 17445508 <GO>}

Yeah. So, on the – just to follow-up quickly on the cash remittances, can you give us an idea of the quantum, is it going to be a material number?

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

You mean the result in relation to our life insurance company?

Q - Jonny Urwin {BIO 17445508 <GO>}

Yeah.

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

Of course, the life insurance company is also the owner of SPP. And so, it's the main contributor of results, and therefore for cash flows in the Group. Last year, it had a profit after-tax of NOK 1.5 billion.

Q - Jonny Urwin {BIO 17445508 <GO>}

Great. Thank you.

Operator

The next question is from Ashik Musaddi from JPMorgan. Please go ahead, Ashik.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Hi. Thank you and good afternoon. Just couple of questions. First of all, you have given the capital that has been generated in the quarter, 3 points operating earnings. Does that include any sort of capital release from your guaranteed book or not yet? And once it starts releasing some capital, I mean, how should we think about the projection of this number 3%, once capital is getting released from the guaranteed book? That's number one.

Secondly, in terms of cost, can you just give a bit more color about what happened to the cost? You mentioned that there were some one-off, and then there were some strategic allocation changes in the Savings business which led to be increase in cost. Can you give us some color what those are and where do you actually think that the cost will be going towards in the future, i.e., is it – are you looking for a flat cost base in the Savings non-guaranteed business or are you looking for declining or increasing? So, any thoughts on that cost would be great.

And thirdly, can you just remind us about what is the duration mismatch in the Norwegian life book and the Swedish book? Thank you.

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

Let me start with your first question regarding the operating earnings and the solvency movement from Q4 to Q1. Actually, we have an increase in the paid-up policies, which was somewhat above from what we expected. So actually, this quarter, we had a launcher (25:00) or we had the balance sheet working somewhat against the numbers. Lot of (25:07) them was helpful on the numbers, so of course the longevity reserve strengthening and the good returns that allowed for more buffer capital, which actually took down the net capital requirements on the Guaranteed products in total.

On capital generation, we have said that we expect to create up towards 10 percentage points of capital each year, now for the first years. And then, as we talked about earlier in the call, we do expect capital requirements from the back-book to run-off after that period and that should increase capital generation from that level.

A - Lars Aasulv Løddesøl

And on the cost in the first quarter, there were certain items relating to bills that were simply should have been paid in 2016, but were paid in 2015. That accounts for approximately NOK 10 million. Then we had some people working on a technical change in Norwegian disability law, and could be changes (26:19) taking place in our product and how we manage our customers in that transfer. That led to an additional cost for the quarter of approximately NOK 10 million as well, and those costs are now behind us, so they won't be repeated. And there were certain other elements, which were the non-recurring item or non-recurring nature, which means that you can deduct about NOK 30 million if you want to look at the underlying cost.

Then in addition to that, we still have double cost from the transfer, or lot of things to Cognizant, where we have people employed in Storebrand to teach people in Cognizant to do a number of manual tasks that will be done out of India in due course. Those double costs will gradually go away during this year. And by the end of the year, we should see that a lot of these tasks are only done in India, with no additional cost in Norway. And that's part of the cost program that we have communicated earlier and will bring down cost during the year and into next year. And as I said previously, we'll get the full effect of these current – the current things taking place by the end of this year.

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

Yes. On the duration, it's much in the Norwegian portfolio on the paid-up policies. It's roughly around four years. It's lesser than that when you include the other products. In Sweden, we are more or less duration matched.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Thank you. That's very good. Thank you.

Operator

The next question is from Matti Ahokas from Danske Bank. Please go ahead.

Q - Matti Ahokas {BIO 2037723 <GO>}

Yes. Good afternoon. It's Matti Ahokas from Danske. A couple of questions please. Firstly, just to confirm that, is it possible to upstream all of 100% to the profits from the Life Company in 2017 in theory?

The second question is more of a detailed one. Thanks for a lot of interesting slides in the back of the slide package. I'm just looking at the Insurance capital allocation. And, obviously, the return on equity in the Insurance division which is extremely high, this is the same slide you had at the Capital Market Day in May, but I'm just looking here at the capital allocation for the Insurance business looks fairly low. What's the basis of this NOK 1.3 billion, I know it's a bit of detailed questions? Sorry for that.

A - Lars Aasulv Løddesøl

Could I start with the last question, Matti. Actually, what you are asking for is a number on cash flow on the slide 30. And actually what you need to take into consideration is, what you see on slide 27, where you see that on the Group level, there is a tremendous risk diversification from the P&C into other risk elements, bringing down the SCR from Insurance on the Group level.

Q - Matti Ahokas {BIO 2037723 <GO>}

How much is the figure on slide 27, I'm looking here. Where can I see the diverse...

A - Lars Aasulv Løddesøl

You see therefore the risk diversification factor from P&C is 76% and from health, 67%. So all other equal 100% increase of capital charge from those products on a standalone basis on there, then 30% goes through to the Group level.

Q - Matti Ahokas {BIO 2037723 <GO>}

So without the diversification, this should be roughly double?

A - Lars Aasulv Løddesøl

At least a lot higher. Yes.

Q - Matti Ahokas {BIO 2037723 <GO>}

Great.

A - Lars Aasulv Løddesøl

When it comes to up-streaming capacity from the Life Insurance Company, in theory, of course, you can be able to upstream. We have to look at the local elements to do so. We have to look at the solvency situation and everything. But, so it will be very much based on solvency position and how we are able to upstream to the holding company at year-end.

Q - Matti Ahokas {BIO 2037723 <GO>}

But looking at the solvency position now, do you think that's a too aggressive thinking or isn't the solvency position good enough already in the Life Company to upstream the profits of the year?

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

I think, we've to look into that in more detail by year end. I think it will be aggressive to say that we upstream everything from the Life Insurance Company. But there will be, of course, a new source of up streaming from Life Insurance to the holding company by year-end this year.

Q - Matti Ahokas {BIO 2037723 <GO>}

Great. Just a quick follow-up on the paid-up policies, the operating costs were down quite a lot. Is this a function of the new cost allocation system or was there something special in the first quarter on the operating cost in the paid-ups?

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

Yeah. That's correct, Matti. That's part of the cost allocation. We're also doing a lot of measures across the group, obviously, including in the paid-up policies space to automate as much as possible and bring down cost and Cognizant is the source to cost savings as well, but cost allocation is a main factor.

Q - Matti Ahokas {BIO 2037723 <GO>}

Right. Thanks a lot.

Operator

The next question is from Blair Stewart from Bank of America. Please go ahead.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you. Good afternoon, everyone. First question just on economic capital as you define it. Does that include the USR (32:19)? Do you assume that, that's part – is that part of your economic capital definition?

And as a follow-up to that, or as a the second part to that question, what do you think the return on economic capital is for the business, given that you're talking already a lot (32:35) about how we should be valuing the business – be certain of what the return is?

Second question, looking at the slide that you've produced and it was slide 30, where you give the solvency capital allocation per segment. Just looking at it very quickly, I noticed Guaranteed book has an SCR of around 6% of the technical provisions or the guaranteed reserves. And the savings book is broadly the same. I know that includes some of the banking reserves as well, but it struck me as strange that the two are broadly the same in terms of capital intensity. I wondered if you could comment further on that please.

A - Lars Aasulv Løddesøl

First of all to the UFR, SCR using the same UFR for economic capital calculations that has to do (33:35) for Solvency II i.e. we are using the ultimate forward rate of 4.2% currently. Then on slide 30.

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

Should I just comment on return on economic capital? I was not telling you how to value the stock there. You know that very well. I was just reminding you that this used to be an important measure for the analysts market. So that's all I want to do.

Q - Blair Stewart {BIO 4191309 <GO>}

Yeah. Yeah, of course but I know you accept that, but the point about the multiples embedded value would be the – we trade on a multiples embedded value depending on the return on embedded value. So, if you're putting forward an NOK 88 per share economic capital, equity capital value, what's the return on that NOK 88, because that will determine what the multiple is, sort of that that multiple is 0.5% or 1.5%?

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

That's correct. I don't want to go into a discussion on that. I think you can do that calculation yourself. We are measuring this on return on equity and the objective of the group is the return on equity of the IFRS equity on 10%, and we're about at 9.5% currently, and we're working hard to get that up to 10%.

Q - Blair Stewart {BIO 4191309 <GO>}

Just on sorry to (34:52) follow-up again. But, if you're suggesting that you can generate 10 points of economic capital a year that would be about NOK 2.7 billion based on today's SCR, so which should suggest a return on that economic equity of about 7%?

A - Kjetil Ramberg Krøkje

That's fair, but we can look into that a little bit more later. Let's go to the capital allocation front.

A - Lars Aasulv Løddesøl

Yeah, it's a good observation there, as you said you need to subtract the bank from the Savings account (35:28) and then, I think you are on the 5% SCR on the (35:34) product. Remember, although that these profits are also generating capital, so in total, these profits are actually contribute with capital to the group.

Q - Blair Stewart {BIO 4191309 <GO>}

Yeah.

A - Lars Aasulv Løddesøl

As far as the Guaranteed business, you have the SCR of 6%, all these products have very small capital contribution. So in fact, they are a negative capital contribution to the group asset total.

Q - Blair Stewart {BIO 4191309 <GO>}

Yeah.

A - Lars Aasulv Løddesøl

Looking at the net SCR and then I define another net SCR, as the SCR less the own funds contribution. The capital requirements from the Guaranteed business is between 4% and 15%, so quite substantial still on some of the paid-up policies. Also do remember that the SCR are very different in characteristics, while the SCR attached to the Savings business is first of all not a capital requirement for future earnings to disappear. The capital requirements on the Guaranteed business is linked to the risks of a losing buffer capital and shareholder equity. So, it's quite different, the kind of SCR, as such.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Good. Thank you.

Operator

I have a question from Jonny Urwin from UBS. Please go ahead.

Q - Jonny Urwin {BIO 17445508 <GO>}

Yeah. Hi, there. Thanks for the quick follow-up. I just had a query on the level of operating earnings in the quarter because It feels like this quarter is relatively normal sort of environment for you guys. So do you think the operating earnings for NOK 630 million is sort of normalish run rate? I know it's difficult to answer, but any color would be appreciated. Thanks.

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

Okay. What I think I mentioned a little bit earlier, within the savings non-guaranteed, we see a very positive development, maybe we could look at page, if you look at page 13, you have the profit per product line within savings (non-guaranteed). You see Unit Linked Norway, that's where we had 23% (37:53) AUM growth from last year, we expect that AUM growth to generate a stronger earnings going forward.

Unit Linked Sweden 20% AUM growth, also should generate increased earnings going forward. The Asset Management segment, we said that NOK 98 million, did not include any transaction fees or other fees that usually would come through. Also with a strong development in assets under management in this unit, we should expect to see increased earnings from this area as well.

And in the banking part, retail banking, we mentioned that there was a one-off cost in the first quarter which was incorrectly allocated to this quarter instead of paid last year. And we also talked about the margins and the volume growth within the bank. So, in all four of these areas, I foresee a stronger or a positive development in fee and administration income which should positively impact the operating earnings going forward.

In the other areas, in Insurance, we did have a good result, so that's a fair result this quarter. In Guaranteed, we had a very good result this quarter but primarily due to financial effects which comes under the line. And the transfers between defined benefit and defined contribution, typically happens more in the first quarter than it happens in the following quarters. So that shift in earnings from the defined benefit business has happened, will happen to a lesser degree in the rest of the quarter this year.

Q - Jonny Urwin {BIO 17445508 <GO>}

Great. Thank you.

Operator

At the moment we have no further questions, so I hand you back to your host. But we have a question now, sorry to interrupt. Blair Stewart, Bank of America. Please go ahead.

Q - Blair Stewart {BIO 4191309 <GO>}

Hi. Thanks for taking guys. Just one follow-up, on slide 27 where you gave a breakdown of the SCR, the risk absorbing capacity of tax is about NOK 5.1 billion, could you just give me a bit of color as to how that is calculated?

I think it's at least 10 years worth of tax that goes through the P&, and you told me you actually paying any tax at the moment given you've got into fair tax assets. So, just trying to get all those moving parts, I'm trying to understand how that NOK 5.1 billion is arrived at, please?

A - Lars Aasulv Løddesøl

When it comes to the tax, what we do is first and foremost we look at difference on the values of assets and liabilities in the IFRS account and then in the solvency account and that creates actually NOK 2.4 billion of deferred tax in the solvency calculations.

The next thing we do is, of course, to see what happens to the cash flows in the different stresses and what happens then is of course that we are increasing the liabilities quite significantly in some of the stresses and we are actually then see if you have other sources of income that come against these losses from all the parts of the business.

And then, we are moving in terms of our economic capital level where we are measuring both new premiums and risk premiums on the assets, et cetera. That creates alternative sources of the income which we can use them to both deferred tax from the opening balance and/or assets – useful assets and we can also utilize what we create of tax credits. So, all-in-all, we are generating enough income to reduce the SCR with the tax rate.

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

And I would also like to add as a comment that this level of deferred risk or absorbing capacity of tax as a percentage of gross SCR is in line with other European life insurers.

Q - Blair Stewart {BIO 4191309 <GO>}

Yeah. It's just about 14%. But just given the company's tax situation, I just wondered how that fitted together. Thank you.

A - Lars Aasulv Løddesøl

Thanks.

Operator

And that's all the questions coming through. So I hand you back to your host. Thank you.

A - Kjetil Ramberg Krøkje

Thank you all for joining the call. We will be at the Threadneedles Hotel tomorrow morning at 8'o clock. If anyone wants to join that Analyst Meting, please drop us an email if you want to join the meeting and have a nice afternoon.

Operator

Ladies and gentlemen, thank you for joining today's call. You may now replace your handset.