Q3 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
- Jonny Urwin, Analyst
- Matti Ahokas, Analyst
- Paul De'Ath, Analyst
- Peter D. Eliot, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good afternoon, ladies and gentlemen, and welcome to the Storebrand Third Quarter Analyst Call. My name is Anna, and I will be your coordinator for today's conference. 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.

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

Kjetil Ramberg Krøkje

Yes. Good afternoon, ladies and gentlemen, and welcome to Storebrand's third 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; and Head of Economic Capital, Trond Finn Eriksen.

In the presentation today, Odd Arild will give an update on the two acquisitions in the quarter. And CFO, Lars Løddesøl, will give an overall view of the development in Q3 2017. 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.

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

Odd Arild Grefstad {BIO 5483351 <GO>}

Thank you, Kjetil. First of all, it's great pleasure for me to present very strong results for the third quarter. I'm very pleased especially with the strong operating results, close to NOK 600 million, actually NOK 596 million and an overall strong development also in the financial results. The front book is developing very good on all different elements. But the most important news this quarter is of course around the acquisitions that we made clear this morning and also yesterday. It's the acquisition of the management company, SKAGEN, and also the acquisition of the individual pension provider, Silver.

I will give you a brief introduction to this. Also (00:02:27) of course, this is really the story we have been telling for the last five years. So it's a twofold strategy. It's all about creating growth and value from the front book in Savings and Insurance, and combined with that, that's the capital life of the growth. Combine that with capital release from the currencies back book which now have reached their peak capital consumption level.

We have used this quarter very much on development of the organic growth. We are also very great to do that this quarter. But in this quarter, I've also added substantial growth in the Savings and pension of our fee-based business, our capitalized business through the acquisitions of SKAGEN and Silver.

And if we just jump to slide number 7 to give the highlights from the acquisition of SKAGEN, this is a asset management company. You have the details in the previous slides. It is a company that has a leading position in Norway when it comes to (00:03:37) and it's a leading provider for retail savings in Norway. And that is a very complementary strength compared to Storebrand that has a leading position when it comes to pension in the Norwegian and the Nordic markets.

Together, we combined our market share in (00:04:00) markets up to a number two position, moving from Storebrand's today's position of 4% market share up to 17% market share with this acquisition. We also see a lot of opportunities when it comes to distribution, distributing Storebrand's products through the retail bank distribution network and also on the institutional area. We have a lot of possibilities to work together in Norway and in Sweden (00:04:39) our presence, but also with a strong presence that SKAGEN had in Europe when it comes to distribution.

And of course, adding this acquisition and also the acquisition of Silver together, we move up to a better scalable business, now up to about NOK 720 billion assets under management. SKAGEN in itself has NOK 80 billion assets under management.

The final benefits are quite clear. It's that increased scale in asset management in itself that is good opportunities for our cost synergies but also for scalable business in different segments and markets. We said that we had our fee-based business shift our total business to one (00:05:38) nonguaranteed income streams and revenue streams. And that there are cost synergy opportunities both cost synergies and more income-based synergies going forward.

The transaction are accretive in the market and we see that although they together will reduce the solvency ratio with together 3% points. It creates a long-term good income and it also increases our dividend capacity.

If I then just move to slide number 15, that is the summary of the transaction of Storebrand. It's NOK 1.6 billion in payment. It's 75% in shares in Storebrand and 25% in cash. There is some (00:06:40) mechanisms and also a split of profit sharing, a split of performance fees going forward. And I just want to say that we will really like to see these coming through because if they do, that will create top results (00:06:58) for Storebrand. The ground payment is NOK 1.6 billion for the underlying result stream in SKAGEN.

Just also briefly then on slide 17 and 18 on the acquisition of Silver. This is close to 20,000 customers in Norway that will be remove a from guaranteed product into a fee-based non-guaranteed product. In this transaction, we will have close to NOK 10 billion in paid-up policies with the investment choice, the non-guaranteed part – or the non-guaranteed product. And we already have our systems, our solutions in place to take care of this on-boarding of this portfolio.

And as you see on slide 18, (00:07:57) portfolio, the company portfolio in the life insurance company paid NOK 620 million and expect an increase in the administration results of approximately NOK 60 million in the years to come based on this transaction.

Lars Aasulv Løddesøl

(00:08:14)

Odd Arild Grefstad {BIO 5483351 <GO>}

NOK 517 million (00:08:15) Yes. Thank you, Lars. And with that, Lars, I think I give the word to you.

Lars Aasulv Løddesøl

Thank you, Odd Arild. I'm proud to present – and I'm starting here on page 18. I'm proud to present the strong numbers this quarter. NOK 596 million in operating results is a new record as far as I know. I guided last quarter that the operating result is expected to land somewhere between – or somewhere above NOK 500 million for the quarter on a normalized basis. I repeat the guiding, and these results are somewhat above what we can expect going forward.

There is, however, no specific items that improved the figures significantly by themselves, rather a number of smaller positive contributions from across the business. At the same time, good returns allow us to continue with buffer building. The EBIT is strong due to good results and a low tax rate in the quarter.

Turning to page 19, the solvency position is impacted by three main elements – margin improvement, technical adjustments and operating value creation. Starting with the first movement on the left hand side, model improvements of this quarter contributed a negative 1 percentage point. We're constantly working to improve our models and this time it has led to a marginal negative 1 percentage point. Over time, model improvements have contributed positively.

On a more technical nature, volatility adjustment was reduced by 3 basis points to 18% in Norway and by 1 basis point to 3 in Sweden. This led to a 1 percentage point fall in the solvency margin. The steepness of the interest rate curve around the 9- to 10-year point impacts the forward curve beyond 10 years even without a change in the interest that (00:10:09). This contributed another negative 1 percentage point.

The third element is that the equity stress factor increases when equity markets go up. This led to the volume of negative 1 percentage point for combined negative contribution of 3 percentage points from primarily technical factors. Importantly, the operating earnings and asset return contributed positively 3 percentage points, in line with previous guiding on ongoing operational capital integration. Add to this in the transitional capital of 10 percentage points for a regulatory solvency of 160%.

Turning the page to page 20, this movements give us a solvency overview, a picture into the sensitivities related to movements in rates, equity market, spreads, and UFR. The sensitivities are more or less unchanged from the previous quarter.

Turning the page once again to page 21, it is satisfying to see that the growth in the top line is picking the speed. The top line growth adjusted for changes in currency rates between Norwegian krone and Swedish krona is up 5%. That is driven by an 11% front book growth more than making up for the decline in the back book revenues.

Insurance resulted (00:11:32) the quarter and year-to-date despite low growth in premiums. Cost control remained satisfactory. Financial results are done from last year, but still at the satisfactory level. The tax rate for the quarter is negative, i.e. we had tax income due to a sale of a property which has released the tax liability. Our expected long-term tax rate remains slightly above 20%.

And with that, I finish the run through of the numbers, and we open up for questions.

Q&A

Operator

Thank you. The first question comes from Paul De'Ath from RBC. Please go ahead. Your line is now open.

Q - Paul De'Ath

Yeah. Hi there. And thanks for taking my questions. A couple please. Firstly, looking at the SKAGEN acquisition kind of going back to one of the questions (12:42) the presentation this morning, really, can you tell us anymore about why as you think that Storebrand as an owner will help you turn around the fortunes of SKAGEN and ultimately you're keeping the business quite separate from Storebrand. So there's not that much kind of in the way of synergies to come through from combining the entities? That's the first question.

And then the second point, just more broadly on M&A as a strategy, you've obviously done two acquisitions today. Were these just kind of opportunistic given the situation that the companies were in or is going through M&A more of a longer-term strategy for you? And if so, are there more opportunities out there that you can see? Thanks.

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

Yes. Thank you. Start with SKAGEN. I think we strongly believe in the quality of the investment processes in SKAGEN. We see that there has been strong turnaround from the today's management in SKAGEN. We also believe that Storebrand has a goal toward stable (14:08) as SKAGEN will be a very good factor to also calm down the markets around ownership in SKAGEN in itself. We (14:24) that we will keep SKAGEN investment strategies, the product functions (14:31) and the brand independence. But also very clear that we will work together when it comes to distribution, when it comes to operating platform and to make this that scalable, I think, the (14:48) that is possible to take you out in that respect. And we are starting that journey now in close relation with the top management in SKAGEN, and we're looking forward to engage into that and to work together with the SKAGEN management on that point going forward. So to sum that up, we're very clear about what is independent and very clear about what we should work together on.

When it comes to M&A strategy, I think I will say that looking at Storebrand's business, we have a very attractive front book that is growing very steadily this quarter with 20% in (15:29) and 10% in asset management. We don't need to have a very active M&A strategy to keep our business growing forward. That has been a very clear statement from me. For a while, (15:42) on that.

What you saw here was two very clear opportunities in the market where we have directly in our core strategy growing asset management and savings (15:59) opportunities and additional assets in an equity way for our shareholders. We saw that we can switch that balance from guaranteed business into fee-based nonguaranteed business, in the way that we create stronger results and also stronger dividend capacity going forward. And it's also an opportunity we use and you should not expect those to be coming on a quarterly basis back to the market with this kind of acquisition. This was the opportunity that was very close towards (16:38) and we are very pleased to see that we were able to (16:44) that opportunity and create this values as we see it.

Q - Paul De'Ath

Excellent. Thanks.

Operator

The next questions come from Peter Eliot from Kepler Cheuvreux. Please go ahead. Your line is now open.

Q - Peter D. Eliot {BIO 7556214 <GO>}

Thank you very much. I've got ton of questions. I'll try to limit myself to three initially. The first two on the Silver portfolio. When I tried to do my sort of back of the envelope sums, I think I mean to get to the NOK 60 million, I basically need to assume that you make roughly the same revenue margin on the acquired assets as you're doing your existing assets and that there's basically almost no increase to the cost base. I'm just wondering if that's sort of in line with your assumptions or whether I'm missing something there, perhaps you could just share a little bit what your assumptions are around that.

The second thing was on the – could you say something about this sort of ALM in the acquired portfolio, whether there is a duration gap, for instance, et cetera? And then, perhaps final question, different subject. I just wondered if you could say a little bit more about why the modeling changes had a negative impact on the solvency ratio? I guess, my very lay and ignorant view is that model improvements usually lead to a requirement to be less conservative. But I mean, generally – I guess they generally tend to increase the ratio. I just wondered if you could put me straight there. Thank you very much.

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

Hello, Peter. Let me start with the first question. The Silver portfolio will be converted to better (18:41) with investment choice. We are assuming the same price on those products as we are doing on our current paid-up policies with investment choice. And as you look at the vendor mix of (18:58) unit-linked portfolio, there is a substantial part which is occupational pension with general lower margins and (19:09) you have on the personal products. So, that's an expense that these have somewhat higher margins on average.

A - Lars Aasulv Løddesøl

Shortly just on question number two, these are – or the NOK 8.5 million is non-guaranteed product. So there's no ALM – no liability-driven asset management there. It's actually more about customers (19:33) preference and life cycle portfolios.

Q - Peter D. Eliot {BIO 7556214 <GO>}

(19:38).

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

And then the last question there on the model improvements (19:44). It's important to remember that work and what we do every year is that we are using Q3 to update all assumptions regarding the total business also (20:02) regarding the small changes in different assumptions and small loan changes and (20:10). And we do not expect (20:14) on a quarterly basis, but that's what we showed this quarter.

A - Lars Aasulv Løddesøl

And as I said initially as well, this has led to significant improvements in the solvency over time but there are adjustments done every quarter, and in this quarter it was also a negative effect.

Q - Peter D. Eliot {BIO 7556214 <GO>}

Yeah. Great. So just quickly on that last point, I presume the minus 1% is the net of some positives and some negatives.

A - Lars Aasulv Løddesøl

Correct.

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

That's correct.

Q - Peter D. Eliot {BIO 7556214 <GO>}

Thank you.

Operator

And the next questions come from Ashik Musaddi from JPMorgan. Please go ahead. Your line is now open.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Hi. Good afternoon. Ashik here from JPMorgan. Just three questions I have. First of all, I mean can we get some color about the SKAGEN assets under management. It has gone down for last four years in a row. So, what was the reason for that? Can we get some color on that? That is one question I have.

The second is the non-life combined ratio, especially claims ratio has improved quite a lot, 7 percentage point, in past one year and I can see that on slide number 26 that it has been consistently getting better. So, is this the right number 68% or are these numbers driven by resolved releases? So how should we think about normalized number and what is the reason for such an improvement because 7 percentage point improvement in one year seems quite a lot.

And the third question is how should we think about this capital generation because you were doing around 3% in the last two quarters and then this quarter was around 2% operating earnings capital generation. So how should we think about that number? What is the normal run rate? I remember, your past guidance is 5% to 10%. So, what should we think about that? And just related to that is, the model changes has been there for the past three quarters which are negative items, minus 2, minus 2 and minus 1. So shall we continue to model a negative number going forward as well or do you think that this is just a timing issue? Thank you.

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

Okay. I'll start with SKAGEN and (22:34) the question was around development in asset management within SKAGEN. It of course has been a tremendous journey from the start of the company in 1993 and they have some fantastic years when it comes to performance and also we're starting in asset management and 2013 was really top year of SKAGEN. We have seen for the last couple of three years that there has been outflow from SKAGEN, mainly has been institutional clients that has – that's the company. And we believe that it has to do also with some hurdles around the ownership of the company. We of course feel the processes around investment are now in place. Strong management is taking this going forward.

We will add on with our competence, rather we can of course spot SKAGEN and we also of course will work with long-term incentives for the key (23:54) we make sure that we have a stable development with growth going forward.

A - Lars Aasulv Løddesøl

On non-life for claims, I guess we've said we're going for a 90% to 92% combined ratio. We've had some reserve releases within (24:16) product. We also have some seasonally good results in health insurance this quarter that are far better than the results. So I think 90% to 92% combined ratio is still in our guidance on that.

Q - Ashik Musaddi {BIO 15847584 <GO>}

So you would say that this quarter was exceptionally strong – last three, four quarters has been exceptionally strong and we should revert back to 90% to 92%.

A - Lars Aasulv Løddesøl

That's our best guess and we look forward, yes.

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

If you look at the movement in solvency, I think you're right that we have seen very strong (24:57) earnings on asset returns over the last quarters which are led to improve the solvency margin, so above what is typically expected on a normalized basis. At the same time, we have seen a drag on the solvency ratio from interest rate curve (25:19) on equity. And especially this quarter, we have 1 percentage point negative impact from decreased wholesale (25:30) adjustment and 1 percentage point negative impact from increased equity stresses. At the same time, those are increasing or decreasing depending on movements in the capital markets. We have very strong returns in the equity market as well, which have materialized on our buffer cash flow and have enhanced that to good asset return and (25:57) higher capital generation from assets return this quarter, but (26:03) negative impacts from increased equity stress on the other hand.

A - Lars Aasulv Løddesøl

When we sum up the guidance on the capital generation, we still look at 6 to 10 percentage points each year coming from operational and (26:21) returns.

Q - Ashik Musaddi {BIO 15847584 <GO>}

That's after dividends.

A - Lars Aasulv Løddesøl

Sorry?

Q - Ashik Musaddi {BIO 15847584 <GO>}

The 6 percentage point you flagged was after dividend, I guess.

A - Lars Aasulv Løddesøl

Yes. We have 6 to 10 percentage points before dividends (26:37) given on the last Capital Markets Days. We have delivered more than that. But that's correct.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. Thanks a lot.

Operator

And the next questions come from Jonny Urwin from UBS. Please go ahead. Your line is now open.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hello. Good afternoon. Thanks. Just two questions for me. So firstly, I just wondered you talk a bit about how the Solvency II ratio has developed and there has been (27:17) by you guys over the last two years or so. I mean, it's clear you guys as the management team have done a good job in optimizing the model, improving the Solvency II ratio and it has now stabilized above the increased target range of 150%. From the outside, it just seems like now you got a much better footing. We are seeing more sort of action in other areas, i.e., M&A, a bit of negative model change coming through perhaps unwinding some of the positives that have already been actioned. And also giving back a bit of the transitional benefit. I mean, I just wanted to gauge how we should be thinking about the Solvency II ratio from here. I mean, do you have like an upper bound in mind? Is this actually a sort of good level to be running the business too? Or do you think we should still go higher from here? Should we expect you to sort of use the additional firepower that you've got if you're generating capital over and above that 150%? And what are the priorities? I mean, is it M&A? Is it cash return? I guess that's the key (28:26) after the deal is done today. That's quite a long question.

Secondly, I just wanted to pick your brains on the SKAGEN deal. I mean, what do you see as the addressable cost base for us to form our own view on synergy potentially? I guess the chunks of the business is going to be kept separate, but I mean the NOK 50 million to me seems like when you say it's fast-paced, but it does seem a bit conservative. So, any color there would be great. Thank you.

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

Okay. Thank you for your questions. First, to talk about the solvency ratio, we have (29:06) around over the solvency ratios. We like to be although we see a normal span of solvency to be between 150% and 180%. And we have also stated in our dividend policy that you should expect extraordinary dividends if we move in the – well, up in the upper scale or above this 180%.

Today, we are at 160% (29:36) with the transitional rules and 150% without, we expect to continue to build (29:48) capital less. Also, always, you have to address (29:52). And we intend to do that to create the (30:03) and give the solvency ratio going forward based on our normal business, but we see that we have (30:12) extreme capital life growth in the front book combined with situation, obviously, that the back book has turned the corner and it's on (30:24) for the back book. So this will be capital positive and solvency creative business going forward. And we want to be in that span as we have talked about and that we assure the market on our latest Capital Markets Day.

Q - Jonny Urwin {BIO 17445508 <GO>}

Just a follow-up on that quickly, I mean – I guess if the back book has now peaked, as you all reached peak levels as you're saying and we're going to start to see a lot of capital being spun off, then what – I mean why did you have to issue equity to do the deal today? Surely, there'd be plenty to come and maybe you'd be able to bridge it by doing something else.

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

We didn't have to do that before doing the deal today. That was – we see that the deal is accretive with this equity portion in the market. We also see that is a good alignment between outsized buyers and the sellers, and that really like the story and like it'll also be carryover in Storebrand going forward. That's together with the split of the performance on fees and so on. Makes a good alignment with the sellers and the buyers in that deal. So we felt that this was a very good way of financing the deal altogether. But it's not based on that we have to do it that way. We feel that we have a good solvency position as we expect to increase that also going forward.

A - Lars Aasulv Løddesøl

And then on the SKAGEN synergies and cost base.

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

Yeah, on the SKAGEN synergies, I think, well, you, Lars, have all the numbers. But on top of my mind, it's around above NOK 400 million in cost base in the SKAGEN company. And it's also around NOK 600 million in cost base in our own management business. So together, it's something slightly above NOK 1 billion in total cost base for these two businesses.

Q - Jonny Urwin {BIO 17445508 <GO>}

Thank you very much.

Operator

And we do have a question, one more from Ashik Musaddi from JPMorgan. Please go ahead. Your line is now open.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah, hi. This is Ashik here again, sorry. I mean can we get some color about the cost base of your business compared to SKAGEN because if I look on slide number 33, it looks like your external assets under management is NOK 136 billion, but your total cost base including distribution is only NOK 500 million, whereas SKAGEN is roughly, say, two-thirds of your asset base, and their cost base is NOK – how much, NOK 700 million? So, pretty small relative asset under management third-party, but pretty high cost base. So why are you giving this NOK 50 million guidance on savings and not more? Is that something to do with in-house internal transfer of revenue in Storebrand which is not there in SKAGEN? So how should we think about that? And again secondly, if I go back to the capital generation, you continue to have this asset re-risking benefit in solvency ratio. So till what time can we expect that number, that positive number to continue?

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

Starting with SKAGEN and the cost base, of course it's a very good brand business we are running in Storebrand, very much based on what we do for our life insurance companies in Norway and Sweden. We leverage on that and do external business mainly in institutional markets. And of course, with much lower cost base, but also much lower fees compared to the active business we do and (34:54) of SKAGEN. So the cost structure is very different in these two companies. And I also like to add that of course there is significant cost base, but the main focus for us now is to leverage on the different platforms that right opportunities we'll see in our combined pension and savings market that we see going forward will be more and more of the same markets in especially Norway. And taking this position, taking a part of this growth together is really what is driving us in that field and not cost reductions (35:35).

Q - Ashik Musaddi {BIO 15847584 <GO>}

I just have a follow-up question on that as well. I mean it looks like your revenue margin is pretty high in SKAGEN. I mean 120 basis points versus your own revenue margin is around 70%, 80%. So is it driven by asset mix because 120 basis points seems a bit large compared to what typically it would be for an asset manager in Europe?

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

It's driven by both asset mix and also by the fact that it's a pure outlook in SKAGEN.

A - Lars Aasulv Løddesøl

I think we can add also that the SKAGEN business, you should view that not only as an asset management but also as a wealth management business, combined with an asset manager. So the distribution cost is a lot higher than it is with us. We have mostly digital and captive distribution, while here you have a big distribution network. So, that's an important part in order to understand the differences in cost base.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. That's clear. Thank you.

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

Well, I think (36:45) your second question regarding capital generation and our Solvency II. I'm not sure that (00:36:53) you have some – you mentioned something about reducing SCR through re-risking.

Q - Ashik Musaddi {BIO 15847584 <GO>}

No. I mean, it could be asset re-risking as well because if I look on slide number – where you have the split of the solvency ratio, slide number 19, there is something called asset return business mix change has 1 percentage point improvement in the solvency ratio. I guess you mentioned that in past as well that you see this regularly. So how much more room to do asset re-risking is there or business mix change? So any thoughts on that would be great.

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

Actually, this quarter there are actually taking more risk than they have done – or increased risk due to (37:37) markets. This is really that you have had strong returns which has created more buffer cash flow which is a very good under Solvency II. (37:55) we could of course increase Solvency (37:58) today with taking more in scope. But what we are trying to do with the Solvency or the cash flow mix or the asset mix is really to evolve at that level of (00:38:11) capital. It's we are trying to see (38:14) solvency capital as well as the volatility in that number. So there are different (38:21) but at the moment, we are just trying to (38:28) level on capital generation. As such, those are these things need to be viewed in connection with (38:34)

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. That's clear. Thank you.

Operator

And we have another question. And the question is coming from Matti Ahokas from the Danske Bank. Please go ahead. Your line is now open.

Q - Matti Ahokas {BIO 2037723 <GO>}

Yes. Good afternoon. Two question please. Just to clarify on the SKAGEN acquisition. If we assume that the current profitability does not increase, will that also mean that there will be no further earn-out, so this would be the final price paid for it. The second question is also on the capital generation and from a slightly different angle, the 6 to 10 percentage point increase that you've guided on, how much of that – or how much is the impact of the lower SCR in the guaranteed business in 2018 and 2019? Just trying to get a feeling of how much of a relief could we expect to see in terms of – in capital next year and in 2019. Thanks.

A - Lars Aasulv Løddesøl

If I start with the SKAGEN acquisition and the earn-out model, if SKAGEN does well and perform well in terms of better performance fees as well as increase in assets under management, we will be extremely happy to pay a little more in the earn-out. We will still get the bulk of that value creation. However, if we are not able to turn it around and the business does not perform well, this is the limit to how much we have paid. So we have (40:15) deal where we share some of the upside but where we have basically looked the downside.

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

Well, (40:27) your second question, we have (40:29) down in back level because (40:36) portfolio is still growing, although the average interest rates are coming down in that portfolio as well. But I don't think that's something that we will have to revert (40:49) on a later stage.

Q - Matti Ahokas {BIO 2037723 <GO>}

Please do. That's really interesting. Thanks a lot.

Operator

There is no questions coming through. I will now hand the call back to you. Thank you.

A - Kjetil Ramberg Krøkje

Okay. We would just like to thank you all for joining in the call and wish you all a pleasant afternoon. Thank you very much.

Operator

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