

FY 2012 Earnings Call

Company Participants

- Lars Moeller, IR Director
- Morten Hubbe, Group CEO
- Tor Loennum, Group CFO

Other Participants

- Gianandrea Roberti, Analyst
- Hans Pluijgers, Analyst
- Jakob Brink, Analyst
- Per Gronborg, Analyst
- Simon Christensen, Analyst
- Unidentified Participant, Analyst

Presentation

Lars Moeller {BIO 18028603 <GO>}

Good morning, everyone. Welcome to this presentation of Tryg's 2012 results. Today with me I have my CEO Morten Hubbe and we have our CFO Tor Loennum. So please, Morten.

Morten Hubbe {BIO 7481116 <GO>}

Thank you, Lars. Welcome to all of you both here in Copenhagen and live on the webcast. I guess that, traditionally, the Fourth Quarter is, earning-wise, the low point of the year. But I guess, with a combined ratio of 87.4% in the Fourth Quarter 2012, we've seen a quite strong development, some 7percentage points better than the quarter the year before, helped, to a large extent, by a strong development in our Private Lines business, also in our Swedish business. And I guess the year-on-year comparison helped by the fact that the combined ratio in Corporate in Fourth Quarter the year before was quite high at 98%.

We also see a significant improvement in our cost ratio in the Fourth Quarter, starting to be impacted by the general efficiency program that we have launched. All in all, more than a doubling of our technical result for the quarter to some DKK648m, clearly helped by the fact that we've seen very few winter claims in the Fourth Quarter and we've seen no windstorms.

If you look at the investment income on the other hand, that is for the Fourth Quarter lower than for the previous quarter in 2011. We chose to write down the value of our headquarters in Ballerup by some DKK200 million in the Fourth Quarter. Some of you

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remember also a write-down of DKK150 million in the Second Quarter, which was related to a new rental contract with Nordea Life and Pensions. The write-down in the Fourth Quarter was due to the fact that we're currently doing our efficiency program of DKK1 billion where we need more ability and more flexibility to adjust, also, our premises. The previous value was based on a rather long lease contract and that to achieve more flexibility we've chosen to write down the value by at least DKK200m.

If we look at the full year 2012, we've seen a strong improvement by some six -- some DKK920 million in the technical results, or roughly 60% for the full year, largely driven by the improvement of some 5percentage points to the combined ratio, which actually means that 2012 had the strongest combined ratio in a five-year period. And when you add to that an investment income which, including the write-down of premises, was more than DKK500 million higher than the year before, we saw, in total, a pretax result that increased from DKK1.6 billion to a bit more than DKK3b.

When we look at the full year, there's no doubt that all four business segments contributed significantly. I'm very pleased to see that, by now, after many years of losses, our Swedish business has a profit of more than DKK100 million in the full year. But I think it's very important to bear in mind that, while we've seen strong improvement in this result, we also had a lot of tailwind helping the result. For instance, we had some 10,000 fewer weather claims in 2012 which, in isolation, carried a helping hand of some DKK370m, year on year.

We also had a positive development in our run-off and we had positive development in reinsurance. Then, I guess, if we could ask for roughly the same investment result in 2013, that would be great but I guess we shouldn't really expect that. We've had significant gains on equities and, of course, with the dropping interest rates, we've had capital gains on bonds in 2012 that will not be repeated again in 2013.

On the other hand, 2012 was the first year where we saw our efficiency program, which is to give us DKK1 billion of efficiency gains by 2015 annually, have its first important step in 2012 with an impact of some DKK175 million while, in 2013, we have a plan to achieve an additional DKK375 million from this program.

And I guess, all in all, this has allowed us to suggest a rather generous dividend in line with the new dividend policy where we will suggest to the General Assembly to pay out DKK26 per share or some DKK1.6 billion in total, expecting that to be stable and grow nominally in the years to come. And as Tor will get back to, also restructuring of our sub debt, following which we will make an extraordinary share buyback of DKK800 million in 2013. And as you can see, an ROE of 22% after tax, which is actually higher than our target but also helped by this tailwind from investments and from the weather claims.

Clearly, 2012 has been a year with lots of activities; we've shown some of them here. Very important that we've displayed our new financial target; 90 and below on combined ratio, 15 and below on the cost ratio, 20% post tax on the ROE.

I think, clearly, the savings program of DKK1 billion is what will drive the improvements in the coming years and really we've only just started that in 2012.

A new agreement with Nordea that is expected to increase our earnings. And also, I think, a good solution to our business in Finland that didn't turn a profit. And very importantly, a more solid and more predictable yield and dividend policy for the coming period.

The new business areas to create these odd, strangely looking cars on track[ph]. This is supposed to show how are we supposed to improve the operations further in the coming years, and there is a large number of areas that we need to improve further. We have, in 2012, stepped up significantly our efforts to improve our work on price differentiation, on utilizing the maximum value of the data we already have to strike the exact right amount of risk and price, to attract the right customers and to become more profitable in that sense.

Clearly, we feel strong improvement in our Commercial business in 2012; result had improved by DKK300m. Thus to improve Commercial further is extremely important as our costs, our distribution and our processes still need significant improvement.

Our Swedish business has progressed well in 2012 but, clearly, that needs to be built upon much further also in 2013.

Then, finally, our savings program of DKK1 billion is where we put a lot of our effort and resources in the current period and in the coming years.

Cleaning up products and systems sounds very unsexy but really there is a huge amount of value and avoided costs potential in cleaning up all old products and thereby making the systems cheaper and more flexible.

And I guess, and Tor will elaborate on this, but it's important to see in 2012 a significant improvement in all four business areas. Clearly noteworthy is Sweden, which has produced losses in a number of years and produces a positive income of DKK100 million in 2012. You may notice that the Fourth Quarter looks rather odd and the full year looks more straightforward. I guess the story is in 2011 we were reserving the expected claims and towards the end of the year we got negative surprised on run of losses within the current accounting year. Whereas, in 2012, due to the improvement in risk segmentation and the higher pricing, towards the end of the year we saw that we had clearly been too conservative in reserving for claims in Sweden.

So don't pay too much notice to this number, which is clearly impacted by the year-end adjustments. But the 95% combined ratio in Sweden is more in line with where we are currently as a run rate for the Swedish business, but that is also a significant improvement.

Clearly, Commercial, on the face of it, has very strong improvements to the combined ratio and an improvement of DKK300 million in that business is extremely important. But it is important to emphasize that we still have a number of structural issues that we need to

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improve in Commercial. For instance, Commercial still has a cost ratio of more than 20%; our Private Lines business is approaching 15%. We need to make significant further improvements to the cost ratio in Commercial.

Secondly, we have a drop of some 2percentage points to the top line in Commercial, and there are a number of processes that needs to be more efficient, both in distribution, in administration, and we further need to improve on our risk segmentation and pricing.

So really the strongest improvement is in Private Lines. You see an improvement of some 5percentage points on the combined ratio, which actually means that we're making more than DKK1.2 billion in Private Lines, an improvement of DKK0.5b, year on year. And in the same time, the cost ratio in Private has been reduced from 16.4% to 15.7% in the year. And furthermore, we have a positive development on the top line.

Corporate is moving in the right direction but, clearly, we still see the pricing in the corporate market being challenging. But in our portfolio it's moving in the right direction and the January 1 renewal this year has actually been better than the year before.

I won't dwell much into these numbers but, clearly, when we look at the technical results there's not much doubt that the fact that we have four solid legs to stand on is much more sound and one of the reasons why the results have improved together, of course, with the tailwind, as we discussed, from weather claims, etc.

But if we look across the board, the Swedish result has improved by DKK100m, the Corporate result by DKK150m, the Commercial result by DKK300 million and the Private Lines result by almost DKK500m. And clearly, that is a much stronger platform than in previous years where mainly Private Lines was driving the results.

Tor has explained many times during 2012 how the savings program is the biggest driver of improvements in the coming years and, clearly, you see the expected reduction of DKK1 billion in annual savings by 2015. We have reported here the achieved savings in expenses and claims in 2012, all in all, some DKK175m. And if you look at the target for 2013 and for 2013 on claims we see, all in all, that we need to step that up by a further DKK375 million in 2013 to continue to improve operations even in a year where we probably should expect less tailwind than in 2012.

And I guess, finally, before I hand the word to Tor, clearly an important announcement in December on the new dividend policy. You remember we debated that actually historically the payouts have been fairly handsome but extremely unstable. We announced in December the new dividend policy to pay out between 60% and 90% of current year's earnings, with an aim to have nominal, stable and growing dividends. And in the light of that, we have suggested to the General Assembly this DKK26 per share or some DKK1.6 billion in total dividend payout, expected that to grow nominally stable in the coming years. And the adjustment further of buybacks to handle the capital adjustment expected to buy back some DKK800 million worth in 2013.

Then I will hand it over to you, Tor. Quite a good picture of you on this slide.

Tor Loennum

Thanks, Morten. I guess, when you look at the numbers in terms of the premium growth, clearly it's a low premium growth and even a negative growth in Q4. And of course, that is an issue for us but we have clearly stated that we prioritize the profitability side over the premiums side.

I guess what's important is really that you can still see here in terms of the average premium level that we continue to grow in terms of average premium. In particular, following the Norwegian portfolio, you can see that there is an above 4% growth year-on-year on Norwegian motor -- sorry, on Norwegian house, which I think is necessary. It's a more flattish development in terms of the Danish prices.

If you look at the retention rate, clearly you can see that both in Denmark and Norway on the private line. It's leveling out so it looks fairly stable. That means that when you look at what is going on in terms of the portfolio clearly it's the number of new policies that becomes an issue when you look at the premium development.

Looking at the commercial segment, you can see that it's leveling out here in terms of the Danish book, which is good and it looks good for the renewals as well. We still have an issue with the Norwegian book and clearly that's a part of the business where we need to improve our efforts.

If we look at the Swedish book, I think Morten has commented a lot related to the development here. But I guess in our mind it's important to say that even though you had a drop in terms of retention levels, clearly that is correlated to the improvement that we have here in terms of the profitability which I think is really good. It's also a very healthy growth there in terms of premium levels. So I guess it underpins the focus on the profitability side.

If we talk a bit more about the level of claims, clearly 2012 has been a good insurance year. It's been a good insurance year as Morten mentioned in terms of the level of claims. I will get back to it, but if you look at the level of large claims, it's a small drop but a significant drop if you compare to the 2011 figures. It's related to the weather. But all in all, if you look at the broad picture of the business, 2012 has been a very good insurance year.

If you look at the level of large claims you can see here that this is on a gross basis. There is a drop on a gross basis. If you look at it on a net basis it's still a drop of 0.4percentage points in terms of impact of large claims.

If you look at the weather claims you can see here that we have a drop in the level of DKK370 million on a net basis, which is roughly slightly less than 2percentage points.

Then if you look of the run-off net here, it's a small increase, about 0.4percentage points. So overall you can say that in terms of level of improvement, slightly less than

3percentage points comes here from the level of large claims, weather claims and run-off.

If you look at the investment book, I guess Q4 has been a relatively good quarter, both in terms of returns on equities, in terms of returns on bonds, both on local bonds, but also on high yield bonds. The high-yield index for instance in Q4 was slightly higher than 3%, so quite a good quarter.

So you can look here that totally a pretty strong investment result but clearly impacted by the write-down of the domicile property. I guess it's important just to underpin what Morten said initially, what we have done is increased our flexibility and we have roughly half the length of the lease period on the property on the domicile. But it's still a relatively, what should we say, it's a number of years still in terms of the lease agreement but it has been reduced and thus increasing our flexibility.

In terms of the assets allocation there is no significant changes.

Talking a bit more about the subordinated debt. I guess what the really important part here is when you look at what is going on what we are planning to do and we are going to market in the next few days is a new subordinated loan of DKK800 million which will be perpetual and with a non-call of 10 years.

Clearly that means that in principle we are substituting equity for subordinated debt which has the same quality on the individual solvency. So we are maintaining the level of solvency with the new subordinated debt. That is a shift because the old loan here of DKK500 million from Tryghedsgruppen has not been perpetual and as such that means that it could not count as capital on the individual solvency regulation.

Yes, I guess that concludes my part. Morten.

Morten Hubbe {BIO 7481116 <GO>}

Just one slide to summarize. Clearly we are pleased with the combined ratio of 88.2% for the full year. And clearly we are pleased by an increase of 60% in the technical result. I guess a pre-tax result of DKK3 billion is also more than we had expected.

It is important to distinguish between the expected underlying improvements, the strengthening or the beginning of the efficiency program helping by DKK175 million and then the helping tailwind we've seen from weather claims from run-off and from large claims and particularly from investments.

It clearly shows we have taken yet another step in the right direction. If we look at the coming years and 2013, we've shown again our target to be consistently at or below 90%, below 15% on cost ratio and above 20% post tax ROE.

And clearly if we only had years with a tailwind we could lean back and relax. But I guess we should all expect also to have future years with a headwind instead and that is why this step up of our savings program where we need to achieve an additional DKK375 million in 2013 and then further improvement in 2014 and 2015 will be extremely important.

It's extremely important that we, through that, continuously lower our claims cost, lower our cost ratio and further improve our efficiency on that mark to allow us to deliver 20% ROE despite the very low interest rates, and also deliver improvements to the technical result in a year where we should expect less tailwind than we saw in 2012.

So clearly a step in the right direction and a lot of further improvements needed to handle the more difficult years as well.

I guess, Lars, that opens the floor for questions.

Questions And Answers

A - Lars Moeller {BIO 18028603 <GO>}

Yes, now we are ready to take questions. I think we will start with inside and then afterwards we will change to the conference call. So Per, please.

Q - Per Gronborg {BIO 15910340 <GO>}

Yes. Thank you. Two questions in the first round. The first if you look at the country figures, Norway comes up with combined ratio close to 98. Prior year gains are still positive. Can you give some explanation?

The second one, DKK800 million buy back, where does that figure come from? It is DKK500 million 1.5[ph] any thoughts why? I guess the figure is just not plopping down from the sky.

A - Morten Hubbe {BIO 7481116 <GO>}

I guess to the first question, Per, it's important to say that the contract figures will always be impacted by the level of large claims. So you can say that there has been large claims in the Norwegian business in Q4 and that's, I guess, the most important single explanation to the difference between Norway and Denmark.

To the other question in terms of where the figure DKK800 million comes from, you can say that the calculation related to the individual solvency is based on the old Solvency I Regulation. So it's the basis on the maximum level of subordinated debt that can be utilized under the current regulation. Then it's rounded down. It's not the exact figure of DKK800m, it's slightly above but it's the maximum level.

Q - Per Gronborg {BIO 15910340 <GO>}

I guess it doesn't take into account the exit from the Finnish business?

A - Morten Hubbe {BIO 7481116 <GO>}

Well you can say that it doesn't really have anything to do with the Finnish business at all. Because the most important part is when you look at the total equity, how can we utilize the capital in the best possible way. That's one issue. That relates to the Finnish business as you say.

But then if you look at the subordinated debt isolated, it's important to say that it's the Solvency 1 regulation that sets the standard on how much subordinated debt you counted into your capital.

A - Tor Loennum

I guess, Per, if what you're really asking is have we maximized the potential payout and buyback. I guess the answer is, no, we haven't maximized that. But if we look back at what we said in the dividend policy, the aim was to achieve something that was high, attractive but that would also be sustainable and we would be able to aim for a nominally increasing dividend.

And from time to time adjustments to the capital base. Because I think we've seen also historically rather high peaks of payout. We're really having high peaks in one year and then significant reductions in the following year it doesn't create any sustainability or stability from a shareholder point of view.

So we have tried to achieve a high payout, high dividend or higher share buyback, but at the same time, a platform that will allow us to grow that and provide stability in the years to come. So that is very deliberate on our side.

A - Lars Moeller {BIO 18028603 <GO>}

Additional questions, Jen[ph]?

Q - Unidentified Participant

Yes. A couple of questions from me as well. Just to go back to Denmark Norway, what Per just asked. If I understand correctly the large claims in Norway were around DKK140 million or something which is 700 bps on the combined. So not discussing run-off, but then from 90.5% we end up at 91%. Denmark, so it would be just interesting to have a bit more of a flavor on the Q4 performance in Norway and at the same time also in Denmark because in Denmark you are at 77.7% which is extraordinarily the other way. I guess there's a lot of run-off in Danish business, but has everything gone in your direction in the last quarter in Denmark or what? That's the first question.

Secondly, more in general, it's quite interesting because I continue to read and look in newspapers and it's all over, customers disgruntled with insurance companies, price hikes, people can't take it anymore. First of all I thought the price hikes more or less, generally at least were ended quite a few months ago. So I don't know if people are realizing later or what the heck is going on.

But I don't see in your retention figures, there's no sign of all these customers leaving you. I'm not sure how to square this few kinds of information.

A - Morten Hubbe {BIO 7481116 <GO>}

Well if I take the second question first, Jen. I think you are right in that observation. I think there's probably a trend currently that the financial sector is in the easy area to beat up on in the press. I think particularly that goes for banks. But to some extent insurance companies as well.

I think the way we look at it when we have a target of 90% combined ratio or below that is equivalent to saying that every time we have a top line of 100 we want to keep 10. When we set that target if you look back to 2010 we kept 1. No one would accept that.

And clearly when you look at what we're currently doing is we have adjusted the pricing to higher levels of thefts, break-ins, higher levels of weather claims. There are 35% more break-ins, stealing more valuable stuff which means our expenses have increased now by more than 50%. Weather claims have increased by more than 80%. Of course we've had to adjust prices to that.

But when we look at what is going on currently, the main drivers to improve our result is the efficiency measures and not pricing. That is why we're going through this program of DKK1b. And you are exactly right but if you look at our retention numbers they are, if anything, improving slightly.

So we don't recognize either that there should be a huge number of customers wandering off. I think the area where we have said goodbye to customers mainly is in corporate lines. There we have been very clear that we wanted pricing in corporate lines to increase and clearly when you do that you should accept to lose a few customers.

But we are seeing improvement in the retention of private clients and commercial lines, which I think is important and I think really it shows the difference between what you read in the newspapers and what is actually going on.

And I guess finally, not to make it too long, what also happened in 2012 was that Tryg in Norway was rewarded the best company to produce high quality claims handling by customers of the larger companies. In Denmark in 2012 Tryg was again rewarded, the large company with the highest customer satisfaction overall. And clearly those factors are important for us to continue to nurture and keep alive and further improve. Because of course they are important for the customers, their loyalty and ultimately our earnings as well.

A - Tor Loennum

Yes, I think to the first question it's important to say again that when you look at the level of claims in Denmark it has been a very benign quarter. We've seen a drop in terms of the level of claims related to the motor business, we've seen a drop in the level of claims related to the housing content business, so, yes, it has been a very benign quarter.

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On the other hand, you can say that the Norwegian book or business is also the book where you will typically see a higher number of claims in Q4 because you have higher impact of winter-related claims. So to me at least it does make sense that you do see a slightly higher combined in Q4.

A - Morten Hubbe {BIO 7481116 <GO>}

I guess we've seen on house and on commercial property, we've really seen for four or five years that the claims ratio was too high in Denmark and not in Norway. That number is starting to reduce considerably in the Fourth Quarter. And we did need it.

A - Lars Moeller {BIO 18028603 <GO>}

More questions from inside here? Per.

Q - Per Gronborg {BIO 15910340 <GO>}

Let me take a couple more. If I look at slide, let's see where are we, on slide 12. You have the average price on house insurance. My question is that you have made quite significant price increases last couple of years in Denmark. The price though is flat. Have those prices not come through, what is the reason behind that?

A - Morten Hubbe {BIO 7481116 <GO>}

(technical difficulty). I think where it says house it should say car. And where it says car it should say house. Sorry about that confusion. Typo.

Q - Per Gronborg {BIO 15910340 <GO>}

Then another question. You addressed on Sweden that you had significant negative one-off in the Fourth Quarter last year and positive adjustment this year. I guess that's interest (multiple speakers) it is effectively the run-off results.

A - Morten Hubbe {BIO 7481116 <GO>}

That is completely right. If you look at the run-off line, you cannot find it because it's actually adjustments to previous quarters of the given year. Correct.

Q - Per Gronborg {BIO 15910340 <GO>}

Then turning to Norway, 80% the last two quarters, now close to 100%, maybe 91% to the large claims. Any of the same sort of adjustment in Norway?

A - Morten Hubbe {BIO 7481116 <GO>}

No not really. So as I say, one important factor is related to the large claims again. Then I would say normal seasonal pattern.

Then I guess it's important also to say that we are talking about quarterly numbers here. So it is after all volatility between the quarters which is not sort of -- can't be pinned down to exactly this or that.

A - Tor Loennum

I think that you can clearly see that in Denmark you either have winter or you don't. In Norway if you do the analysis five or 10 years back you see more consistent difference between the winter quarters and the summer quarters. And when we think we've had a rather green winter, there's been snow throughout the entire winter in Norway and quite cold. So you should really expect that in the future as well.

A - Lars Moeller {BIO 18028603 <GO>}

We would like to switch to external list now. So operator please.

Operator

Thank you. Your first question comes from Hans Pluijgers from Cheuvreux. Please go ahead.

Q - Hans Pluijgers {BIO 16245530 <GO>}

Yes. Good morning, gentlemen.

A - Lars Moeller {BIO 18028603 <GO>}

Operator, do we have any questions?

Q - Hans Pluijgers {BIO 16245530 <GO>}

Yes, can you hear me?

Operator

Please go ahead. Your first question comes from Hans Pluijgers from Cheuvreux. Please go ahead.

Q - Hans Pluijgers {BIO 16245530 <GO>}

Yes. Good morning. It's Hans Pluijgers. Two questions from my side. First of all, coming back on Norway, and of course now looking at the graphs on page 12 a little bit different, but still. For the housing segment you indicated a 2.5% increase in average premiums. But if I understand also that the underlying inflation in Norway is higher, so if the real, let's say, excluding of course the impacts you take to reduce claims, the underlying cost inflation is the 2.5% in line with that, or could you a little bit talk about what's happening there.

And secondly on the renewals on the corporate side, you say that the renewals were quite well with respect to pricing as I understand, but how did volumes develop there? You already gave some indication that you were getting rid of some clients, or were not -- unhappy that some clients would leave. So could you give some feeling what the volumes did in the renewal season in beginning of this year?

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A - Morten Hubbe {BIO 7481116 <GO>}

I think if I take the second question first, you're right that the renewal season for corporate January 1 is important, because it's roughly 70% of our corporate book that renews January 1. And correct we saw again this year the second year in a row increasing prices in our corporate book.

And when it comes to volume as you ask we see that the renewal January 1, '13 was stronger than the renewal January 1, '12. And I think really the worse renewal was January 1, '11 so we are sort of continuing a positive trend in the market that is the most challenging from a pricing point of view.

Q - Hans Pluijgers {BIO 16245530 <GO>}

But do you mean that you didn't lose any volume in --?

A - Morten Hubbe {BIO 7481116 <GO>}

I think if we didn't lose any customers January 1 that would be the first time in history. We would usually -- the usual turnover is somewhere between 10% and 15% in a given year, and then we would add new customers to close that gap. That is the usual annual movement. And I guess renewal season January 1 was actually slightly more positive than we expected, so less customers leaving than we saw in the two previous years.

Q - Hans Pluijgers {BIO 16245530 <GO>}

But net/net effect was still negative (technical difficulty) I assume.

A - Morten Hubbe {BIO 7481116 <GO>}

But only very marginally.

Q - Hans Pluijgers {BIO 16245530 <GO>}

Okay, clear.

A - Tor Loennum

I think in terms of the question related to the house insurance product in Norway and the average premium clearly that's an area where we are following, monitoring the situation very, very closely. We have talked about the fact that the risks are very high level of, let's call it, pressure in the Norwegian economy. And clearly that's an issue and that's why I say we need to monitor the situation and look at the development in terms of the premium level. And clearly that means that there is price increases again January 1 this year. But at least so far the development in terms of the premium level has been sufficient to take into consideration the underlying inflation.

Q - Hans Pluijgers {BIO 16245530 <GO>}

Maybe a last follow up question. Looking at the run-off gains again this year very good. You always give an indication, but could you give again some guidance on what you

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expect going forwards? Do you expect a tremendous level or do you expect some leveling off in the coming years?

A - Tor Loennum

Do you want me to answer?

A - Morten Hubbe {BIO 7481116 <GO>}

Yes.

A - Tor Loennum

I guess it's important to say that when you look at 2012 as you say, Hans, it has been a good year in terms of run-off gains. Clearly we have stated that the long-term sustainable level should be in the area of 2.5% to 3percentage points. When you look at the development over the recent years at least it has been higher. And I guess what we have said at least for the last six/nine months is that we do expect a slightly higher level of run-off gains in the next few quarters. But the long term sustainable level should be at around 3%.

A - Morten Hubbe {BIO 7481116 <GO>}

And I guess we can add, Tor, that if we look at our total claims to sales on the balance sheet it's our impression that the strength of that has not been weakened during 2012.

Q - Hans Pluijgers {BIO 16245530 <GO>}

Okay. Thank you.

Operator

Thank you. Your next question comes from the line of Simon Christensen from Nordea Bank. Please go ahead.

Q - Simon Christensen {BIO 16977812 <GO>}

Yes. Good morning. Two questions. The first one is related to the sub debt issue that you are conducting now. What is your ambition relative to the rate you paid on the Moderna loan.

And secondly could you share with us what is the rise or fall in your average claim on motor in Denmark in 2012 against '11. Thank you.

A - Tor Loennum

In terms of the ambition related to the subordinated debt clearly it's -- the ambition is that we will -- should be able to improve the current rate with the loan that we have from -- related to the Moderna acquisition.

But I don't want to be specific in terms of how many bps we are going to save, because we are as I said we are starting to marketing the loan in these days. So we'll have to wait and see.

A - Morten Hubbe {BIO 7481116 <GO>}

I guess on the motor side we can say that we've seen a positive development on motor both in terms of frequency and in terms of averages in Denmark, and then a higher inflation in Norway. Clearly the frequency of motor claims has been reduced and most notably in the Q4.

We also see that there is this outer[ph] tax system that allows us to compare our average cost on motor claims in Denmark precisely to our peers. And we see that the advantage we have to our peers on average motor repair costs has been expanded during 2012.

In addition, we've run a rather large program to improve our claims handlers' ability to send our customers to our preferred garages, and that amount has been increased also during 2012. So clearly motor is in a positive development from a claims point of view.

Then of course from a premium point of view impacted by the extent to which more and more small cars are being bought in the Danish market, typically with a lower premium.

Q - Simon Christensen {BIO 16977812 <GO>}

Okay. Thank you. And just a follow up how do you see the movement from (inaudible) in terms of premium cuts. Do you see any increased risk of competition from the smaller players?

A - Morten Hubbe {BIO 7481116 <GO>}

Well it's hard to say. I guess if you look at our motor premium in Denmark in reality they have been reduced the previous years if you allow for inflation.

I have a hard time seeing that there is a general trend towards lower prices, but I don't -- I'm not surprised that in some areas prices are slightly lower on motor, they are slightly lower on our portfolio as well.

Whether there is an increased trend towards price competition, I don't see that but clearly the smaller players are more volatile in changing their prices than the big players. I don't think that's a new issue. I think it's been like that forever.

Q - Simon Christensen {BIO 16977812 <GO>}

Okay. Thank you.

A - Tor Loennum

I think it's important in terms of the competitive landscape to say that what we can say, what we can do is to work on our internal efficiency, to work on our products, to work on

the internal improvements. And that's what we strive to do every day, and I guess that's the most important part of being able to compete both here in Denmark and the other countries.

A - Morten Hubbe {BIO 7481116 <GO>}

And I guess if you look at, Simon, most of the small players are competing with our private lines business. And if you look at our private lines business for a second that is where in 2012 we've reduced the cost ratio from 16.4% to 15.7% which brings us to be one of the most efficient private lines players in the Danish market.

And we expect to improve that further in the coming three years while at the same time our savings on the claims procurement program will allow us to have significant savings on the claims purchasing that these small competitors to do not have.

So clearly I think we are moving our efficiency in both cost and claims in a direction that will allow us both to be competitive and have strong returns at the same time.

Q - Simon Christensen {BIO 16977812 <GO>}

Okay. Thanks.

Operator

Thank you. Your next question comes from Jakob Brink from ABG. Please go ahead.

Q - Jakob Brink {BIO 7556154 <GO>}

Hi, it's Jakob here just a few questions on the capital. I know Per already asked about it, but just, Morten, you said that you had not yet maximized what you could do. How do you think about this in concern with your return on equity target in 2014 of 20%? Wouldn't it be good to get the beginning of the year equity further down? Is that something you will maybe be doing later on or should we think that this is it?

I mean, like Per also mentioned you have sold the Finnish operation which should give you some capital relief. Also you do not pay out 100% of the profits, i.e. if you include the DKK800 million extra subordinated debt you're basically saving up capital. Why is that, especially now when you need to get to 20%? I don't know if you could give a bit more flavor on that it would be helpful.

A - Tor Loennum

I guess I can start and you can supplement, Morten. I think it's important to say again, Jakob, when you look at the new dividend policy and what we stated in December clearly it will be slightly less transparent in terms of the capital side granted the fact that we want to aim for a more stable and growing dividend. And as such it means -- it does mean that you should allow for slightly more flexibility in terms of the capital base.

On the other hand, clearly the ambition of delivering a 20% ROE should be -- should install discipline with management in terms of making sure that we don't become very highly over-capitalized so to speak.

So I guess we are trying to find a balance here between making sure that we can deliver a stable and growing dividend going forward, making sure that we can deliver on the targets in terms of the return on equity on the combined ratio and trying to adapt the capital base to that situation.

Q - Jakob Brink {BIO 7556154 <GO>}

I don't know if it's realistic, but could it be that -- I guess another problem for you is that nowadays your cash flow is so strong that when you actually do pay out the dividend then start to actually do the share buybacks you are already heavily over-capitalized again. Couldn't it be an idea to maybe do like Denmark and buy back for current year instead of having to wait for one year? I mean that would also improve the profitability of course.

A - Morten Hubbe {BIO 7481116 <GO>}

Well it sounds -- I think you are right that in isolation both a higher buyback or using current year's earnings, etc. would lower the equity and thereby help the ROE. But actually I think we've put ourselves in a position as Tor says where we need to strike very high discipline in many areas, because we want to create savings of DKK1 billion that requires discipline. We want to be below 90% on the combined ratio. That requires discipline. We want to be above 20% ROE in a period where interest rates are rather low.

And I think we want to strike the right balance between those, while as Tor said at the same time allowing a stable and normally growing dividend. And that will require that we work very hard on all parameters. And I think we will strike that balance as best we can.

And I think that follows well the dividend policy that we announced in December. And of course we always listen to good ideas, but we haven't made a dividend policy in December expecting to change it in February.

Q - Jakob Brink {BIO 7556154 <GO>}

No, no, that's not what I meant I was more meaning of the buyback I guess you could have done more of that. Okay, that's fine thank you.

A - Morten Hubbe {BIO 7481116 <GO>}

Thank you.

Operator

Thank you. There are no further audio questions.

A - Lars Moeller {BIO 18028603 <GO>}

Do we have any additional questions inside here?

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Sorry just a couple of quick ones, maybe I should have read it somewhere but I didn't. The buyback that you start, it starts after the AGM I guess right? And it's the idea that the DKK800 million is going to be completed the calendar year '13 or Q1 '14 as well.

A - Tor Loennum

It starts before the AGM because we have an empowerment from the AGM already and -
- yes.

Q - Unidentified Participant

The idea is that we model it in.

A - Tor Loennum

Yes.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

The second question is something that I've asked before, but now you start with a dividend, dividend per share is DKK0.26. So it's relatively high compared to expectations let's put it like this. Then you set yourself an ambitious target that you want to grow this DKK26.

And when I look at your asset mix I know it's not a lot but you still have high percent of equities. We live in a volatile world. If I make terrific -- if I make very negative assumption on equity markets well this would surely threat once again the idea of growing the dividend going forward. So not why sell it off or reduce it, I mean really minimize the asset risk of the company. What does prevent you to do that let me put it like this.

A - Tor Loennum

You want to leave that to me? Well I guess, yes, you can -- of course you can argue is the asset mix still -- or the risk exposure still too high. I guess we are trying again to strike the balance between various considerations, and after all the equity ratio that we have or the equity percentage that we hold in our balance sheet is relatively low. So I guess after all we do think that, let's call it, the exposure risk is acceptable. And that's all I'll comment to that.

A - Morten Hubbe {BIO 7481116 <GO>}

I guess I can complement only by saying that the ambition to have a stable and normally growing dividend will mean that in most areas we will be more cautious and slightly reduce our risks.

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And it also means that we've done a tremendous amount of work testing various potential shocks to the capital base, for instance, drops in equity pricing. But only amongst many other scenarios to test what shocks could impact us and how would that impact dividends.

And that's one of the reasons why we were rather long with the dividend policy in 2012 to test the various scenarios to be aware of what could threaten potentially the dividend.

A - Tor Loennum

But you are quite right, Gianandrea, clearly that's the highest risk in terms of the earnings, so yes.

Q - Unidentified Participant

A question related to the same topic what is most important, getting a flat to rising nominal dividend or not going above the 90% payout ratio in a year where we might see equities drop 10%, 20%.

A - Tor Loennum

Yes, I think the range of the dividend policy is at least thought to be the threshold, so I guess that will over[ph] on the nominal dividend if it comes to that.

A - Morten Hubbe {BIO 7481116 <GO>}

Well I guess it's -- you actually asked the question that we hadn't prepared any answers for. I guess you should see that the purpose of the dividend policy is to be predictable and stable. And the exact reason why we don't maximize the payout in one given year and the reason why we test various shocks is to be well managed or prepared to manage shocks in a good way and still be stable and growing.

Can you create scenarios where we cannot be stable and growing? Of course you can I think we are all know that. But we are well prepared to make that as seldom as possible.

A - Tor Loennum

But I guess going back to the initial comment as Morten said when we have discussed the dividend policy clearly the fact that you would see a significant impact of some sort in the financial markets this -- that is what one would call a shock or a event that we should be easily explainable in terms of the development in the dividend, there is something for you to read out of the papers so to speak.

A - Lars Moeller {BIO 18028603 <GO>}

Yes? Further questions from inside here? Operator, a last chance if you have external with some questions.

Operator

There are no audio questions.

A - Lars Moeller {BIO 18028603 <GO>}

Thank you, operator. Yes. To then finalize our presentation here this morning and as you can see here we are around in the next couple of weeks both in Europe, London and -- yes, London is part of Europe sorry, but in the US and in Canada. So we are looking forward to seeing you around there. So thank you for taking time to see you here this morning.

A - Morten Hubbe {BIO 7481116 <GO>}

Thank you.

A - Tor Loennum

Thanks.

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