# Q1 2017 Earnings Call

## Company Participants

- Helge Leiro Baastad, Chief Executive Officer
- Janne Merethe Flessum, Head of Investor Relations, M&A and Capital Management
- Jostein Amdal, Chief Financial Officer & Executive Vice President

## Other Participants

- Blair Stewart, Analyst
- Janet Demir, Analyst
- Jonny Urwin, Analyst
- Matti Ahokas, Analyst
- Niccolò C. Dalla Palma, Analyst
- Paul De'Ath, Analyst
- Vinit Malhotra, Analyst

## MANAGEMENT DISCUSSION SECTION

### Operator

Good day, ladies and gentlemen, and welcome to the Gjensidige Q1 2017 Results Presentation Conference Call. For your information, today's conference is being recorded.

At this time, I would like to turn the conference over to Ms. Janne Flessum, Head of IR. Please go ahead, madam.

### Janne Merethe Flessum {BIO 19368607 <GO>}

Good morning, and welcome to this first quarter presentation of Gjensidige. My name is Janne Flessum, and I'm Head of Investor Relations, M&A and Capital Management. As always, our CEO, Helge Leiro Baastad, will start by giving some highlights from the quarter before our CFO, Jostein Amdal, runs you through the numbers in more detail. And then, of course, we will have plenty of time for Q&A at the end.

So, with this, Helge, please.

### Helge Leiro Baastad {BIO 5865247 <GO>}

Thank you, Janne. Good morning, and welcome from me as well. I'm proud to say once again that we delivered a strong result in the first quarter, although competition continues to be tough. We had been able to defend our strong and leading market position and at the same time, deliver good profitability.

The profit before tax expense in the first quarter amounted to NOK 1.4 billion and the underwriting result was NOK 732 million, only slightly below the best ever first quarter underwriting result last year. The combined ratio was 86.8%. The solid underwriting result reflects good customer and risk selection and pricing. Growth in premiums was 2.1% when adjusted for currency effects. The loss ratio was 71.3%, positively affected by a benign weather situation and lower large losses than normally expected. Run-off gains were in line with the expected levels. The cost ratio was 15.5%

this quarter, reflecting continued good cost control. And the financial result was NOK 566 million corresponding to a satisfactory return on financial assets or 1%. Jostein will come back to more details on the figures.

Turning to page 3. Operational excellence is key priority in the Gjensidige, and we continue to focus on profitability before growth. We are still experiencing satisfactory, premium development and good profitability in Norway.

Our competitive position continues to be strong. Growth in the Private segment was 2.3%, and profitability continues to be good. As communicated last quarter, we are increasing motor premiums to offset expected claims inflation. The effects will feed into our P&L gradually over a 12- to 24-month period after implementation.

Growth in the Commercial segment was negative at minus 0.4%. The Norwegian economy is in a recovery phase, and competition in commercial lines are still challenging. However, we are pleased with the renewal processes at the beginning of the year; although, rates has been under pressure. The good development in the bank and pension operations continues to provide good support for the overall Norwegian franchise. Growth in the Nordic segment was 4.6%. Underlying growth was 2.4% mainly driven by the Swedish portfolio, while growth in Denmark was stable.

In Denmark, the negative frequency claims development continued. This is something we, as well as other large insurers, have experienced for a while in this market. General pricing measures have been implemented for the whole portfolio and existing tariffs have been improved. Furthermore, in our most important product lines in both Private and Commercial, new and more sophisticated tariffs will be launched later this year. They will contribute to better agility, risk pricing and improved renewal processes in Denmark as well.

The effects will gradually feed in to the P&L, improved micro tariffs combined with more advanced CRM architecture and further digitalization will contribute to improve competitive strength in Denmark over time.

The restructuring process announced in third quarter last year, which will reduce number of FTEs to create room for strategic investments is still ongoing in the Nordic segments and will gradually give effects.

The acquisition of Mølholm Forsikring, the market leader in health insurance in Denmark was closed on 1st of May. Mølholm is a strong brand in Denmark. The company and the existing business model (05:22) will continue with increased focus on operational excellence and profitability. We will move staff and support functions to the group, as well as IT systems and IT development. The acquisition Mølholm will be an important part of the Gjensidige's overall efforts to grow in personal health insurance over time.

The Swedish and the Baltic operations are both on track to reach profitability according to the plan. Overall, we are continuing our day-to-day efforts to become even more cost efficient, creating room for investments in customer-oriented solutions and further competitiveness.

On our Capital Markets Day back in 2014, we communicated an ambition to reduce the underlying cost base to create room for increase in strategic investments by 44% in the next four-year period. I'm pleased to see that we have been able to hold our cost ratio at a low level, at the same time as our annual strategic investments are now at a higher level than anticipated two-and-a-half years ago.

Striking a good balance between cost efficiency and customer orientation will be crucial also going forward. And – when talking about customer orientation, I'm pleased to note that the customer satisfaction in Gjensidige is on record-high levels as shown on page 4.

And our market position has strengthened even further. Retention levels overall continue to be high. In the Private segment in Norway, 87% of premiums comes from loyalty and affinity customers. And for this group, retention is as high as 92%. Our ambition to become the most customer-oriented Nordic general insurance company applies to all customers' touch points throughout the value chain. And we are working on lots of initiatives every day to create win-win situation for us and our customers.

I would like to give a few examples today of important initiatives from our Private and Claims organization. In Private, ensuring a consistent customer experience and increasing relevance in our customer interactions is key to our customer satisfaction. Consistency is achieved by reducing the variability in the way we serve our customers. This is secured through on-the-job sales dialogue training, a systematic analysis of customer satisfaction drivers, and use of predictive models to plan manning levels to optimize response times.

For increased relevance, analytical CRM is key. Gjensidige has been able to industrialize advanced CRM. And we believe we are best-in-class in the Norwegian insurance industry in this field. For instance, our predictive churn model makes us able to reach most of our customers or churned by contacting (08:50) only 20% of the customer base. This enable us to efficiently address on a selective basis the most attractive customers with relevant messages and actions.

Predictive models are also used for increased sales efficiency. Based on our experiences from Norway, we are currently developing analytical CRM competence and methodology in our Danish and Swedish operations as well. Sharing best practice across geographical borders will be an important success factor for us going forward.

Then, moving to our Claims organization, we see that the main driver for customer satisfaction is the time it takes to settle a claim. Here, we are working systematically to become even more efficient. For instance, we have reasons to believe that Gjensidige is the first insurer worldwide to introduce image recognition technology via our app for faster and more accurate claim settlement process in motor.

We will launch this feature in our app in May, this month. We have fed the robot with 1 million pictures of motor damages, by taking captures of your damaged car and loading them into our app. Image recognition technology will lead you with A, repair cost estimate via the app and it tells you which repair shop to go to; and B, you can order a towing truck and a rental car via the app. The settlement process starts immediately. We believe this is only the beginning of using image recognition for more customer friendly and cost efficient claims processes. It has great potential. Also in the property and content, insurance area, and in the longer run in accident and health insurance area as well.

Overall for the group, we have identified 250 processes to 300 processes so far, the robots can replace manpower and we have only realized some 10% of this potential. On the one hand, such efforts enable us to become even more cost efficient while on the other hand, they meet customer needs and expectations and free-up capacity to handle more complex claims in a more optimal way. In this way, we are creating a win-win situation for our customers and our owners every day.

And with that, I give the word to Jostein for more granular information on the numbers.

### Jostein Amdal {BIO 19939645 <GO>}

Thank you, Helge, and good morning, everybody. I'll begin on page 6. We report a strong overall profit development this quarter. The first quarter underwriting results was NOK 732 million, only slightly below the result last year which was NOK 774 million adjusted for the pension-related one-offs. The positive development in Retail Bank and Pension continues, mainly driven by volume growth and improved margins in the bank. Together, they contribute a total of NOK 134 million in the quarter, up from NOK 110 million in the same quarter last year. The investment portfolio contributed a solid NOK 566 million versus NOK 324 million in the first quarter of 2016. The profit before tax thereby amounted to NOK 1.4 billion versus NOK 1.1 billion last year.

Looking at page 7, we are seeing more closely the development of the underwriting results. The left-hand chart illustrates an underwriting result close to (13:04) record strong first quarter of 2016, partly helped by lower large losses. The right-hand chart shows that the positive development in Norway was more than offset by the weaker development in the Nordic segment. This was due to highly large losses and a weaker frequency claims development in Denmark in particular.

The pension-related one-off in 2016 was recognized in the corporate center. Overall, the underwriting result was good. And on a 12-month rolling basis, we have reported a combined rate of 84.9% adjusted for one loss. And if you also adjust for our large losses and run-off expectations, we have delivered a rolling 12-month combined ratio that is in the middle of the 86% to 89% annual target corridor at 87.4%.

Turning to page 8. We had premium growth of 2.1% adjusted for currency effects. Helge has already commented on the growth in the different segments. The negative development from Q1 2016 in the corporate center line is mainly due to the Vardia reinsurance program, which is being gradually phased out over a 12-month period from takeover.

Turning to page 9. The loss ratio was low at 71.3%. The reported level is 0.6 percentage points higher than the corresponding quarter last year. Adjusted for changes in runoff and large losses, the underlying loss ratio was 1.7% higher. In Norway, most products in the Private segment showed a positive development in loss ratio, mainly driven by a favorable weather situation.

This was also an important driver behind a positive development in the Commercial segment, in particular, for property and business (14:53) lower level of large losses.

The loss ratio in the Nordic segment was higher than in the same quarter in 2016. This is due to both the higher amount of large losses and the less favorable frequency claims development, especially in commercial property in Denmark.

As Helge has already commented, measures are in place to compensate for higher expected claims inflation in Denmark. New and better tariffs are in place and will continue to be rolled off based on best practices in our Norwegian business.

The Swedish portfolio is still contributing negatively to profitability, but developing positively overall. Integration of Vardia, our Swedish business, is gradually taking place. Tariffs are being replaced and organizations merged. We still expect to breakeven this year and that 2018 will show a positive underwriting result.

The Baltics was negatively affected by several medium-sized claims. We expect profitability to improve going forward as new tariffs and claims handling processes are put in place. We expect to breakeven during this year and be profitable in 2018.

On page 10, you can see that the large losses amounted to NOK 105 million, which is equivalent to 1.9 percentage points on a combined ratio. The level of large losses was lower than expected and lower than the corresponding quarter in 2016 when large losses amounted to NOK 171 million. There were no weather-related large losses or events in the quarter.

Page 11 shows the run-off gains of NOK 240 million. This had a positive effect of 4.3 percentage points on a combined ratio in the quarter versus 4.5 percentage points in the same quarter in

2016. The gain is mainly related to motor TPL and workers' comp in Norway, and this is in line with expected level previously communicated.

Looking at page 12. The cost ratio was 15.5% in the quarter, reflecting continuous good cost control. The cost ratio excluding the Baltics was 14.6%. Recall the non-recurring income of NOK 477 million which was recognized in the corporate center in full in Q1 2016.

The increase in nominal cost in the Nordic segment is driven by the acquisition of Vardia last year. We are still working to reduce underlying costs to create room for investments in IT, skills and our brand. As we speak, we are in the process of recruiting 14 IT persons replacing consultants and ensuring we have the right skills within customer service (17:44) service, data security and robotics to meet increased digitalization and changed customer behavior. And as Helge stated earlier, we're able to invest more than expected a couple of years ago while still keeping costs at a lower level.

Turning to page 13, the investment portfolio yielded a satisfactory return of 1% in the quarter. The portfolio amounted to NOK 56 billion. The match portfolio of NOK 35 billion continued to make a stable contribution to the financial income with a return of 0.7%, the same as in Q4. A large part of the match portfolio is the portfolio at amortized costs. The running yield in this portfolio was 4.4% at the end of the quarter, and the average reinvestment rate was 3.0% in the quarter. Unrealized excess value amounted to approximately NOK 1.4 billion.

The free portfolio amounting to NOK 21 billion yielded a return of 1.5% in the quarter. The result was positively impacted by good returns on emerging market equities in particular as well as real estate and a more (18:57) bonds, i.e., high yield and convertible bonds.

Page 14 shows some highlights from bank and pension operations, which are important retention tools in relation to our Norwegian general insurance customers. They both delivered another quarter of solid growth and returns. Gross lending in the bank increased by 13.7% to NOK 42.9 billion. Isolated in the quarter, the increase was 4% or NOK 1.6 billion. 76% of the bank's customers are shared customers with insurance as measured by lending volume.

The bank reported a pre-tax profit of NOK 103 million in the first quarter, driven by portfolio growth, but partly offset by an increase in write-downs and losses. And the net interest margin improved, driven by improved funding costs and the change in accounting treatment of the deposit currency fund fee. The annualized return on equity ended up at 10.4%.

The pension company is especially important in relation to our SME customers. Assets under management in the pension operation grew by NOK 1.8 billion in the quarter to NOK 25.0 billion. The profit before tax was NOK 31 million, and the annualized return on equity was 14.1%.

Last but not least, looking at our capital position on page 15. The rating model is still the most binding perspective with a capital surplus of NOK 1.6 billion at the end of the quarter, up from NOK 1.3 billion at the end of 2016. Available capital increased in all three perspectives, mainly driven by retained earnings. The capital requirement changed only slightly. Market risk is higher in the standard formula and internal model perspectives. The largest effect comes from currency risk. The market risk shows a stable development in the rating perspective.

Underwriting risk for general insurance is stable, but it increases slightly in the internal model perspective due to updated parameters for some lines of business. Underwriting risk for life insurance increases due to the growth in the Gjensidige Pensjonsforsikring. This results in an increased capital requirement in both internal model and the standard formula perspective. And there are only minor changes in all the risk types.

The rating perspective gives us solvency margins of 111%, but is also adjusted for the pressures of Mølholm and for the planned equity increase in Gjensidige Bank in the second quarter. The strategic buffer would be NOK 1 billion, which is a margin of 107%. This is a comfortable level of strategic buffer given the purpose it is intended to serve.

The solvency margin is 144% based on the standard formula and 174% based on the internal model perspective. All perspectives are adjusted for a formulaic dividend payout ratio of 70% of net profit and adjusted 2016 dividend. (21:57) effect of Mølholm acquisitions, (21:59) planned equity increase in the Gjensidige Bank. We expect (22:04) internal model to be approved this year.

In summary, we have a solid capital position in all perspectives. We will continue to balance our capital structure in a disciplined way in order to support our target return on equity while, at the same time, allowing us some leeway for further bolt-on acquisitions and stabilization of dividend.

And with that, I give the word back to Helge for some concluding remarks.

## Helge Leiro Baastad {BIO 5865247 <GO>}

Okay. Then, to sum up, we delivered a strong first quarter result, only slightly below the best ever first quarter result in 2014. Measures are in place and more are to come to improve profitability in Denmark, and we are on track to reach profitability, as communicated before, in Sweden and the Baltics.

Overall, we are succeeding in balancing cost efficiency with investments for the future. And our capital position continues to be strong, and we are disciplined and committed to our financial targets going forward.

And with that, we will now open for Q&A. Thanks.

# Q&A

## Operator

Thank you, sir.

## A - Janne Merethe Flessum {BIO 19368607 <GO>}

Just a brief comment from our side, it will be our CFO, Jostein Amdal, and myself this time taking the questions.

## Operator

We will now take the first question from Matti Ahokas from Danske Bank. Please go ahead.

## Q - Matti Ahokas {BIO 2037723 <GO>}

Yes. Good morning. It's Matti Ahokas from Danske. Two questions, please. You talked quite a lot about the impact of the benign weather in the first quarter. I know it's tough, but could you somehow try to quantify how much this impact was altogether for the claims?

And the second question is regarding the Baltic cost ratio. It's been hovering in the 30-plus region for some time. Where do you forecast this to be in 2018? Thanks.

## A - Jostein Amdal {BIO 19939645 <GO>}

I'm sorry, Matti, we can't give you any precise answer on the weather effect. We do give you an answer on the overall amount of large losses which includes major weather events. But the (25:00) has had a positive effect on the underlying frequency claims development. And this is more an observation that something we can give you a hard number on. So, I'm sorry about that. I think it's a bit (25:16) opposite effect from the Q4. I mean we (25:17) had a more unstable worldwide situation, especially in the eastern part of Norway, where the bulk of population is, but I'm sorry I don't have the hard numbers on that.

In terms of Baltic cost ratio, the distribution setup and the structure is different there and it will have a higher cost ratio also in 2018 and going further compared to our overall cost ratio. But we are working to get that down towards – I won't give you a precise number on the target there either, but we're working to get that down, but it won't get down than the region (25:57) level.

## Q - Matti Ahokas {BIO 2037723 <GO>}

If I just may have a quick follow-up on the first question. If you look at the combined ratio or actually the claims ratio, it was 0.6 percentage points lower or higher this year than the previous year. So, it doesn't seem that if you look at, for example, 2016, there was a massive weather impact either. So, is it more of a kind of continuing situation in Europe meaning (26:28) that the weather will continue to be benign or since at least there isn't kind of big change compared to the previous year?

## A - Jostein Amdal {BIO 19939645 <GO>}

The forecast, I'll leave to meteorologists. But it is true that Q1 2016 was also okay. And as we started saying, Q1 2016 was the best ever underwriting results we've had really so, for the first quarter. But I think two quarters, two first quarters is a bit (27:02) statistical significance (27:04)

## Q - Matti Ahokas {BIO 2037723 <GO>}

Fair enough. Thanks a lot.

## A - Jostein Amdal {BIO 19939645 <GO>}

Yeah.

## Operator

We will now take the next question from Paul De'Ath from RBC. Please go ahead.

## Q - Paul De'Ath

Yeah. Hi, there. Good morning, everyone. A couple of questions, please. Firstly, on – just going back to the Norwegian motor claims inflation, you've been flagged quite (27:27) heavily last quarter and mentioned briefly this quarter. Just if we could get an update in terms of are you still seeing the same level of claims in place (27:40) seeing before and are you still able to price ahead of that level of claims inflation?

And then, the second point, similar to what I'm saying, but (27:51) just looking at the Danish business and the weakness in terms of the combined ratio this quarter, how confident are you that you can raise prices in Denmark given that you don't have quite a strong market position there? Is it because you think that all of the other major players are suffering the same things? Do you think overall prices are going up or are you likely to lose a bit of share in Denmark going forward? Thanks.

## A - Jostein Amdal {BIO 19939645 <GO>}

(28:30) the expectation is the same as we have in the fourth quarter, 3% to 4% inflation going forward. Then, (28:40) that wasn't a correct estimate, and we are pricing accordingly and hasn't seen any effects on top line that should – that we are not able to get those price increases through.

On the Danish side, you're absolutely correct that we have kind of a weaker competitive position in Denmark than we have in Norway. We have seen communication from other players that they see the same path of inflation as we do. We are going through with our price increases, prioritizing profits before volume. We haven't seen a negative effect on volume so far, but if we see that, we will try to get through with the prices.

## Q - Paul De'Ath

Okay. Thanks.

## Operator

We will now take the next question from Vinit Malhotra from Mediobanca. Please go ahead.

## Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. Good morning. So, I just wanted to follow up on the same topics and maybe I had a question on property if you don't mind. Just on – you mentioned so clearly that if price increases in motor are for expected claims inflation, could you comment on what you're seeing now on frequency side? We've heard so much about the distracted driving. Is it still continuing to be a problem? If you could please comment on that or clarify it (30:14).

Secondly, just on the Danish, just reading the report, it seems like it's commercial property that is coming up. Is there a plan to change some insurance structure, I mean, although renewals are just over but is there any thinking around that aspect as well?

And just lastly on the property, big gain we have seen in this quarter north of NOK 100 million. It seems to be coming from the termination of the derivatives forward. And also, again, could you split that up for us or could you just help us understand this gain in the one-off item? Thank you.

## A - Jostein Amdal {BIO 19939645 <GO>}

The first question on motor which is a (31:03) bit probably repeating myself from the question from Paul, but we still see the same expected claims inflation. And in a way as long as we are correct on operating expectations, claims inflation is not a problem because everyone should see the same picture and price accordingly. The profits of the Norwegian motor (31:29) is extremely strong still, they're kind of – so it's one of our best times (31:35) of business. So, yes, it's a short-term problem to get prices through and reflected in the accounts (31:46). But in longer term, it's more business volume.

On the Danish commercial property, we definitely have plans to change it, and what we're doing is improving tariffs and rolling out new and more advanced tariffs, better tariffs. It's fair to say that our tariffs have been more risk sensitive and better in (32:08). We have had a large amount of data to build the tariffs on, but they are being improved in Denmark as well.

The gains on the real estate, as you point out, there are really two reasons behind that. We have divested one large property in the first quarter, which gave us a book profit. And we terminated – a termination agreement, sorry, what you call it, yeah, a swap agreement with (32:37) real estate management company, which resulted in a profit in the first quarter, this is the NOK 1.6 billion underlying (32:46) which we have communicated in earlier quarters.

## Q - Vinit Malhotra {BIO 16184491 <GO>}

All right. Thanks.

### Operator

We will now take the next question from Blair Stewart from Bank of America. Please go ahead.

### Q - Blair Stewart {BIO 4191309 <GO>}

Thank you very much and good morning. I have a couple of residual questions. Firstly, on the business in Denmark, you talked about getting price increases through. I just wonder, are you confident that is enough as opposed to perhaps having to re-underwrite the book? The way it was described on the call, it suggests that there's an underwriting issues as well as (33:40) tariff issues, so I just wondered if you could just add a little bit of color on that.

The second question was just on Helge's comment about 300 areas where you've identified that robots can take the place of manpower. I just wonder if you can give some examples of that and what the potential impact on the cost ratio might be over time. I know that's difficult to say, but just interested in any color.

And, finally, and as a quick question on the capital increase in the bank, is that just a reflection of higher volumes or just a increase in the regulatory threshold for the bank? Thank you.

### A - Jostein Amdal {BIO 19939645 <GO>}

In Denmark first, no price increases A loan (34:31) is not enough to get the satisfactory profit level in Denmark. It's also about improving the tariffs as such. We should do from business line after business line. And there's also an element of re-underwriting, as you suggest, because we have a portfolio also which (34:50) upper part of the property segments which are more underwriting than tariff-driven.

And in that area, we will re-underwrite the portfolio assets as it comes through renewable dates. But, as you know, our large part has a renewal date of 01/01 and then the next one, the next kind of larger renewal date would be 01/07 and 01/10. So, it takes kind of time where we can actually do the re-underwriting.

One example is where we can use robotics is to handle cost of (35:31) claims assessment. That is a process that we launched in 2016 and, at the moment handles approximately 60% of all assessments. In a way, to illustrate why it's a bit hard to speak of the effect on cost ratio because this actually affects the claims ratio and not the cost ratio. Because loss adjustment expenses will fall down there and not on the cost ratio and in the accounts.

And I think it's fair to say that it is on the back-office side and almost on the claims management side, as we have identified most processes where we can actually use robotics to replace kind of manual processes. And as Janne mentioned where we can kind of move resources in more complex claims and more complex cases which also improves quality. So, it has positive thing both on cost and quality. But it won't be on the cost ratio. It will be on the loss ratio going forward.

### Q - Blair Stewart {BIO 4191309 <GO>}

Right.

### A - Jostein Amdal {BIO 19939645 <GO>}

On the other side, there are also in the distribution side on the back-office of handling policy changes, renewals and so on where we can combine self-service kind of on the outside towards the customers with robotics on the inside so that inquiries are totally automatically handled throughout the process. Yeah. I think it requires much more time to really go into detail on that one.

### Q - Blair Stewart {BIO 4191309 <GO>}

Yes.

### A - Jostein Amdal {BIO 19939645 <GO>}

And we might give you (37:04). And the last question was on the bank, and I don't quite got the detail on your question there.

### A - Janne Merethe Flessum {BIO 19368607 <GO>}

You were asking about the capital increase in the bank, right, which was...

### Q - Blair Stewart {BIO 4191309 <GO>}

Yeah, yeah. Just there is capital increase (37:18).

### A - Janne Merethe Flessum {BIO 19368607 <GO>}

Yeah, yeah. It's partly due to the increased Pillar 2 requirement for the bank and also with the expected countercyclical buffer, which will increase towards the end of the year.

### Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Fantastic. Just coming back to the re-underwriting issues and changes to tariff structure in Denmark, is that something that's already happened in the 01/01 renewal or is that still to come through in the 01/07 or 01/10 renewals? And is it possible to estimate what impact that might have on volumes?

### A - Jostein Amdal {BIO 19939645 <GO>}

No, it just – only very limited on the 01/01 renewal because at least for a lot of the customers, you need to give notice three months ahead if you are going to increase prices by so and so much. So, it has a limited effect on the 01/01 renewal. But tariffs and – prices increases have taken place and tariffs are being changed. So, on the tariff part business and the full tariff business, the renewal dates are much more evenly spread out throughout the year. So, they will have a much more gradual implementation of the price increases.

### Q - Blair Stewart {BIO 4191309 <GO>}

I see. Okay. Thank you.

### Operator

We will now take the next question from Niccolò Dalla Palma from Exane BNP Paribas. Please go ahead.

### Q - Niccolò C. Dalla Palma

Hi. Thank you and good morning. A couple of questions for me. One is on the Tier 1 capacity. I just want to hear your latest votes (38:56) in terms of your willingness to utilize the NOK 1.7 billion of spare capacity. Is this likely or not likely, what's your view today on that?

And the second one is on the investment portfolio. You have helped us with both on your report and on the call today on the amortized cost part of the portfolio. I was wondering if I could come back to the current bonds part in terms of what a normalized return is here. And the reason for asking is, if I use your benchmark you gave us on – and which is on slide 25, I think the return on the quarter was some 15 basis points. You reported some 40 basis points return in the quarter.

Is the gap structural positive returns that comes from all the technicalities of discounting effects and the hedging, is that structural, it is a 25 basis point difference or is there a – or so, what could be the normal level of current bond returns if the rates don't move in the specific quarter? Thanks.

### A - Janne Merethe Flessum {BIO 19368607 <GO>}

Should I start with the Tier 1 capacity question?

### A - Jostein Amdal {BIO 19939645 <GO>}

Yeah.

### A - Janne Merethe Flessum {BIO 19368607 <GO>}

There's really no new communication on that, Niccolò, and the capacity is about the same as before. And we have stated that we will or can consider to utilize parts of that. We will not utilize the full capacity anyway as we need to have some leeway. But there is no specific plans to utilize the capacity as of today.

### A - Jostein Amdal {BIO 19939645 <GO>}

I'll try to answer your second question, Niccolò, but I'm not quite sure if I understood all the fine details of it but, I'll give you some numbers at least and hopefully that goes some way to answer your question. As we stated, the reinvestment rate of the bonds we invested in, in the hold-to-maturity portfolio in Q1 was 3.0%. And the kind of the reinvestment rates or the running rates of the total bond portfolio is around 2.6%.

You see the interest rate levels we are operating under and then you need to remember that in Norwegian kroner and then a substantial part of the portfolio is also invested in global investment grade and global high-yield bonds both hedged in Norwegian kroner.

In the short-end of the curve, where we hedged insurance technical liabilities in Norwegian kroner, Swedish kroner and Danish kroner, you see where the interest rates curve are, we are going to talk in (41:40) plus/minus zero interest rates in that area.

I don't know if that really answers your question, Niccolò. But if not, please rephrase it, so I'll understand it better.

### Q - Niccolò C. Dalla Palma

Yes. What I'm after is, if I take the match portfolio, it's – how the bonds at amortized cost will develop is quite clear based on all the numbers you gave us. It's more – (42:07) the current bonds which I think impact the Danish portfolio...

### A - Jostein Amdal {BIO 19939645 <GO>}

Yeah.

### Q - Niccolò C. Dalla Palma

...and therefore it's a mark-to-market accounting. I was wondering if interest rates don't move in one quarter and given that these bonds probably would yield close to zero truly expect zero in a normal quarter or is there a structural positive contribution, which derives from the hedging and from the technicalities about discounting that come through (42:33) the line?

Maybe, we can take it offline (42:49) these out.

### A - Jostein Amdal {BIO 19939645 <GO>}

Yeah. But I remember that in – as you correctly point out, it's negative at least in Denmark on the short term. It's also – there are – it's a very low basis for that part of hedge portfolio is run at the

(42:54) market value there. And that - but also remember that we also have some kind of loan portfolio and so on also in the Danish hedged portfolio, which kind of helps the return somewhat. But then, the level is very low. I think for details, we'll take in a possible meeting, Niccolò.

## Q - Niccolò C. Dalla Palma

Thank you very much.

## A - Jostein Amdal {BIO 19939645 <GO>}

Yeah.

## Operator

Our next question comes from Janet Demir from Morgan Stanley. Please go ahead.

## Q - Janet Demir {BIO 19462264 <GO>}

Good morning. Thank you. I have one question left. Just when looking at the runoff, I was wondering which accident years, especially the elevated runoff is coming from and whether that's in line with your original expectations. And also, should inflation pick up, would you have to adjust your guidance for the runoff or have you already baked into that guidance some sort of buffer for inflation picking up? Thank you.

## A - Jostein Amdal {BIO 19939645 <GO>}

The runoff years are spread out, kind of, say, from 2005 to 2014, mainly (44:05). In terms of would we suffer if inflation went up, I think it is if the long-term expected inflation moved up quite substantially. We try to reserve for expected inflation, and there is some buffer for a bit of conservativeness in our judgment of expected future inflation as well. So, we wouldn't be really hit if there was an increase in inflation. If there was a dramatic shift, we need to reconsider.

## Q - Janet Demir {BIO 19462264 <GO>}

Okay. Great. Thank you.

## Operator

We will now take the next question from Jonny Urwin from UBS. Please go ahead.

## Q - Jonny Urwin {BIO 17445508 <GO>}

Hi. Good morning. Just one from me, a quick one. So, we talked a lot about claims inflation, but is this just surprising issue? Is it just something you need to increase the tariffs and the problem goes away, or is there also work you can do around sort of claims handling and claims management processes to try and contain the cost of claims a bit more. Any color there would be great. Thanks.

## A - Jostein Amdal {BIO 19939645 <GO>}

Yeah. This is a pricing issue. There is kind of nothing on the claims management side or anything that kind of could mitigate this.

## Q - Jonny Urwin {BIO 17445508 <GO>}

Okay. Thank you.

## Operator

There are no further questions at this time. As there are no further questions, I would now like to turn the call back to our speakers for any additional or closing remarks.

### A - Janne Merethe Flessum {BIO 19368607 <GO>}

Okay. Thanks a lot. And I just wanted to remind you that we are doing road shows next week in London and Frankfurt. There are some slots available if you want to participate. And we will also go to Copenhagen and Paris later this quarter. Thank you and have a nice day.



### Operator

Ladies and gentlemen, this concludes the Gjensidige Q1 2017 results presentation. Thank you all for your participation today. You may now disconnect.