Q2 2013 Earnings Call

Company Participants

- Catharina Hellerud, EVP Finance, CFO
- Helge Leiro Baastad, CEO
- Janne Flessum, Head of IR

Other Participants

- David Andrich, Analyst
- Gianandrea Roberti, Analyst
- Matti Ahokas, Analyst
- Per Gronborg, Analyst
- Unidentified Participant, Analyst
- Vinit Malhotra, Analyst
- Will Hardcastle, Analyst

Presentation

Janne Flessum {BIO 19368607 <GO>}

Welcome to this presentation of the Second Quarter results for Gjensidige. My name is Janne Flessum and I'm Head of Investor Relations.

This time, our CEO, Helge Leiro Baastad, will present the headlines for the quarter before our CFO, Catharina Hellerud, gives you the details on the financials; and then we will open for Q&A session, as always.

Then I leave the word to our CEO, Helge Leiro Baastad.

Helge Leiro Baastad {BIO 5865247 <GO>}

Thank you, Janne. Welcome to all of you.

Profit before tax in the quarter was approximately NOK1.1 billion and the underwriting result amounting to NOK448 million, corresponding to the combined ratio of 90.3%.

As you know we do not discount reserves. So discounted, it was 87.5%; and with a run-off gain relating to other periods of only 0.6 [ph]. Adjusted for discounting and run off, it was 88.1%. Last year the Second Quarter 2012, we had a 2.3% run-off gain.

The growth in earned premiums in the quarter was a solid 4.3% driven by a high activity level and the general increase in premiums. And we are very satisfied with growth in earned premiums. We saw signs of the claims trend returning to a more normal level in the First Quarter compared with the extraordinary situation we experienced in 2012 when the claims trend was unusually favorable. This trend strengthened in the Second Quarter.

For our two biggest products, motor and property, the loss ratio increased significantly compared with the same period last year. The property product in particular showed a relatively weaker development, among other things, due to flooding and precipitation.

The development was particularly weak at the beginning of the quarter, while towards the end of the period, we saw claims levels more in line with the strong levels we have seen during the last quarters. But the long-term trend picture is unchanged and our overall target is still 90% to 93% in the long term.

The proportion of large losses were somewhat lower overall than in the corresponding quarter last year, although it ended at the level close to what we expect as normal in the quarter. The flood we experienced in Norway in May had a negative effect on the General Insurance result in the amount of NOK113 million.

Costs still developed satisfactorily. And we had a cost ratio of 15.3% in the quarter. The financial result amounted to NOK605 million, which corresponds to a return on financial assets of 1.1%.

The lending growth in the Bank continued with true [ph] force in the Second Quarter and ended at 34.2% on an annualized basis. The Bank has shown -- developed positively over time. And it also delivered excellent results in the Second Quarter at NOK43 million. And this is 60% up on last year.

The annualized return on equity before tax expense was 13.1% year to date. And it was affected, as you will remember, by the impairment loss of NOK611 million on Storebrand in First Quarter.

Then next page, as mentioned, the growth in premiums in the quarter was a solid 4.3%. We are still experiencing good competitiveness in combination with a profitability level that is within the targets we have set ourselves.

The work of further developing our tariffs has high priority. This work is intended to ensure optimal utilization of tariffs at the point of intersection between profitability and competitiveness.

Developing tariffs and related activities that ensure good customer and risk selection is a continuous process. Scale is important in order to ensure sufficient focus and maintain a leading position in the market. This applies to both the scale of our analysis data and our capacity to build strong expertise in this area. Gjensidige is in a strong position in this respect.

The Private segment recorded growth in premiums in the quarter of 3.3% on a par with what we have seen over period now [ph]. We are pleased to note that the number of customers has remained at a stable level. The growth is largely the result of higher premiums. The Commercial segment recorded a growth in premiums of 3.2% in the quarter. The changeover to multi-channel distribution within the Commercial segment has resulted in a higher activity level in the segment. And this is now beginning to be reflected in the reported figures as a result of the fact that one of the two big contracts we let go last year is no longer part of the comparison basis. The growth is mainly within our core segment which comprises small and medium sized enterprises and agriculture.

For Nordic, it is satisfying to know that the change of tempo we saw in the First Quarter is continuing. We have been through a phase with an extensive cleanout of the portfolio. And in the Second Quarter, the segment recorded growth of 9.2% largely driven by growth in the Commercial portfolio.

The expanded agreement with Nykredit, as we commented after First Quarter, enables us to communicate directly with customers and to manage the customer dialog and activity. And we have great expectation of the effects of this in the Private market in the time ahead. The response is excellent so far. It's also nice to know that we increased unprompted [ph] familiarity with (inaudible) in Denmark.

An agreement was signed in the Second Quarter for the acquisition of Gouda Travel Insurance. And as you have seen, it's a premium portfolio of around NOK290 million. Breaks down as follows.

Approximately 50% in Denmark, 25% in Norway. And the remaining 25% in Sweden. We expect this to be part of our book at the end of 2013.

This [ph] acquisition underpins the strategy for structural profitable growth in the Nordic region. And it will provide exciting opportunities in a growth niche segment in which we are not very active at present. For Gjensidige, it is not a matter for debate. But a matter, of course, to seek structural growth in both the Nordic countries and the Baltic states.

For the general insurance industry in Europe as a whole, it was flooding that dominated the news this quarter. Gjensidige has good experience of weather events. And our contingency arrangements worked well in relation to our customers.

Almost 20% -- 70% of all enquiries by phone were answered within 20 seconds. We were quickly up to speed as regards helping customers registering claims and ordering work evaluations [ph]; and satisfied customer in crisis situations are important in relation to our endorsement to be the most customer-oriented general insurance company in the Nordic countries.

So with that last comment, I would give the word to CFO, Catharina Hellerud, to go through the figures in more detail.

Catharina Hellerud {BIO 17276650 <GO>}

Thank you. We are satisfied with the results of our operations in the quarter. And also what we regard as an acceptable return on the Investment portfolio.

Underwriting result ended at NOK448 million, a reduction from the corresponding quarter last year, which was a very strong quarter. As already commented, the reduction in the result is largely due to a more normal claims trend.

In addition, the run-off gain was considerably lower this quarter, compared with the Second Quarter last year, although this is partly contracted by a lower proportion of large losses.

The Retail Bank continues to improve its good profit performance with a profit before tax for the quarter that is 60% higher than the corresponding quarter last year. And the continued strong volume development resulted in higher net interest income. And at the same time, operating expenses are under good control during a period of increased activity. Lower write-downs and losses also contributed to the positive profit performance.

In the beginning of July, Gjensidige Bank's long-term rating was upgraded from a BBB plus to A minus. This is expected to bring further improvements to the financing cost of the Bank.

Pension and Savings are also developing in a positive direction. Together, the Bank and Pension and Savings contribute profit before tax of NOK57 million in the quarter compared with NOK37 million in the corresponding quarter last year.

The Investment portfolio yielded a return of 1.0%, somewhat increased from 0.9% in the corresponding quarter last year.

Taken together, this has resulted in a profit before tax of NOK1.1 billion for the quarter.

Turning to page 7, the combined ratio for the General Insurance operation was 90.3% in the quarter. And as you see, the cost ratio decreased from 15.4% to 15.3% in the quarter. And is developing according to plan towards a cost ratio of 15% within 2015.

Helge has already given you a detailed explanation to the development in the loss ratio and the premiums in the quarter. I will jump directly to slide 9.

As we can see on slide 9, large losses in the quarter have an effect on the combined ratio of 5.0percentage points, somewhat below the expected figure for the quarter of 5.4percentage points.

Around half of the large losses this quarter, NOK130 million, were due to the floods in Norway in May. The part of the flood claims that exceeds NOK30 million is charged to the corporate center which therefore had a high proportion of large losses in the quarter. Besides the flood, it is largely Commercial that is affected by all the large losses in the Second Quarter.

The proportion of large losses were somewhat higher in the Second Quarter last year with an effect on the combined ratio of 6.3percentage points. For the first half of 2013, the portion of large losses was almost in line with the same period of 2012.

Turning to page 10, there was a run-off gain of NOK28 million in the quarter, corresponding to a positive effect on the combined ratio of 0.6percentage points compared with 2.3percentage points in the Second Quarter in 2012.

All segments have low run-off gains in the quarter. But no special circumstances or trends appear to be behind the run-off figures. The level of run-off gain is substantially lower in 2013 than in 2012, both in the Second Quarter as well as in the first half of the year.

The provisions are made based on the best estimate principle. This implies that the expected run-off level is zero. But with technical reserves of around NOK30 billion, there will naturally be some run-off results from quarter to quarter. During the period from 2000, run-off gains have had a positive effect on the combined ratio of less than 1percentage point on average.

Turning to page 11, the nominal operating expenses increased by NOK26 [ph] million in the quarter, corresponding to 3.8%, while the cost ratio decreased from 15.4% to 15.3% as a result of higher grown in premiums.

There was a flat development in the nominal operating expenses for most of the segment.

Part of the increase in the Nordic segment concerned non-recurring costs relating to the implementation of the new distribution agreement with Nykredit.

In addition, the corporate center shows a small increase in the nominal operating expenses during the period primarily related to implementation of the new re-sale [ph] profile throughout the Group, including launching of a new Internet portal in Sweden and the rebranding of our branch offices in Norway.

Year to date, normal operating expenses increased by NOK41 million primarily due to the same effect.

Turning to page 12, the internal risk-based capital requirement for the operational segments has increased by NOK400 million during the quarter to NOK7.5 billion on a diversified basis.

For the General Insurance segment, the capital requirement has only a marginal increase by NOK100 million in all. Most of the increase is due to increased capital requirement for the Commercial segment.

The biggest increase in the operational capital requirement comes from the Bank, where the capital requirement increased by NOK300 million. This is the result of growth combined with higher requirements for the Bank's core capital that applied from July 1, 2013.

We have taken this into account in the figures by increasing the targeted capital for the Bank from 12%, which we used earlier, to 13.5% at the end of the Second Quarter.

Asset risk has also increased by NOK400 million in the quarter to NOK4.0 billion. The increase in the capital requirement is, to a large degree, due to an increased capital requirement for the stake in Storebrand [ph] as a result of higher market value.

This is, to some extent, contracted by a reduction of the capital requirement for the stake in SR-Bank as a result of a slight reduction in its market value; in addition, a somewhat lower real estate exposure result in a small reduction in the capital requirement.

The size of the investment portfolio has also decreased. But this largely concerns fixed income securities with low capital requirement. And thus, does not have a major effect on the total capital requirement. And the total risk-based capital requirement amounts to NOK11.5 billion at the end of the Second Quarter, an increase from NOK10.8 billion at the end of the First Quarter.

Turning to page 13. In this quarter, as before, it is still the rating requirement from S&P that is the most finding [ph] of the three capital perspectives that we assess, which the calculated excess capital amounted to NOK5.1 billion at the end of the quarter, which is unchanged from the end of the First Quarter. Both the available capital and the capital requirements are virtually unchanged during the quarter.

And as a reminder, the total profit for the period is not included in available capital during the year. For the first half of 2013, this amounts to NOK1.5 billion.

Turning to page 14. The investment portfolio amounted to NOK55.5 billion at the end of the quarter and is divided into three sub-portfolios. The Match portfolio is the largest part of all the investment portfolios.

There are only minor changes in the allocation between and within the separate portfolios in the quarter. In all, the Investment portfolio was reduced by NOK2.4 billion in the quarter, among other, as a result of the payment of dividend in May.

Turning to page 15. The Investment portfolio yielded an acceptable return of 1.1% in the quarter, which is slightly higher than the return in the corresponding quarter last year of 0.9%.

The Match portfolio yielded a return of 0.9%. The largest part of the Match portfolio consists of bonds classified at amortized costs. And represents a stable [ph] return for the investment portfolio. The portfolio had a recognized return of 1.0% in the quarter.

At the end of the Second Quarter, there was excess value in this portfolio of NOK1 billion, slightly down from NOK1.1 billion at the end of the previous quarter. It is this part of the Match portfolio that primarily hedges the Norwegian insurance liabilities.

During the quarter, the average reinvestment rate for these bonds has been around 4.1% compared to approximately 4.4% in the First Quarter.

The return on bonds classified as current bonds was 0% in the quarter. The bonds are recognized at fair value. And this represents the volatility in the return from the Match portfolio. This is the part of the portfolio that hedged the damage on the Swedish insurance liabilities.

The portfolio largely consists of damaged mortgage credit securities. And the return in the quarter reflects the low interest rate level in addition to a certain increase in the interest rate level in Denmark during the quarter.

This item also includes the interest expense or the unwinding for discounted insurance provisions related to the Danish workers' compensation.

Associated companies recorded a return of 4.2% in the quarter. The total profit of NOK196 million includes estimate -- a change in estimate from the First Quarter of NOK7 million.

The Free portfolio yielded a return of 0.6% in the quarter. The result for the Free portfolio is affected by the increasing interest rate level and the increase in credit margins internationally.

This will not have a negative effect on the investment grade and high yield bonds in particular. This result is also influenced by flat development in stock markets.

The result is nonetheless slightly better than last when the Equity portfolio in particular made a negative contribution to the return.

Year to date, Investment portfolio yielded a 1.4% return. However, adjusted for the impairment of the stake in Storebrand in the First Quarter, the Investment portfolio has yielded a satisfactory return year to date of 2.5%, equal to the yield last year.

Helge Leiro Baastad {BIO 5865247 <GO>}

Okay. Then we are at page 16. Shortly, priorities and outlook is more or less unchanged since the First Quarter. So we can go directly to the Q&A session. So please ask your questions.

FINAL

Bloomberg Transcript

Questions And Answers

Operator

(Operator Instructions).

Q - Matti Ahokas {BIO 2037723 <GO>}

Matti Ahokas, Handelsbanken. Two questions, if I may. Firstly, on the run-off situation, you said that there's no specific trend. But if you look at the picture on page number 10, there's actually been a quite significant declining trend from 2008 onwards. And especially during the last couple of quarters, the run-off gains have been surprisingly small and also smaller than many of your competitors. So I wonder if you could still give some light on that and is the 1% level what we should be looking for going forward.

The second question is on the dividend policy. You talked about potentially revisiting that. Could you give us an update on your thoughts about when this would happen and anything extra you could add on that?

Thanks.

A - Helge Leiro Baastad {BIO 5865247 <GO>}

Matti, the second question was related to --?

Q - Matti Ahokas {BIO 2037723 <GO>}

To the dividend policy, potential changes in that.

A - Helge Leiro Baastad {BIO 5865247 <GO>}

Catharina will take the run-off and I can comment on the second question.

A - Catharina Hellerud {BIO 17276650 <GO>}

Yes. I think I'll just come back to my comment that I made during the presentation that the provisions are made based on the best estimate principle, meaning that in the long run, the level should be zero.

What we see now is, as we do the best estimates every quarter, there is a trend now towards a lower -- if you look at the trend on page 10, you will see that, as you correctly commented, that there has been a trend downwards. But I think this to a large degree reflects what we are having communicated since we was listed in 2010, that the provisioning are based on best estimate principle. And there are no specific trends or circumstances that can -- or that explains the small run-off gains that we've seen in the Second Quarter.

Q - Matti Ahokas {BIO 2037723 <GO>}

If I just may quickly follow up on that, that the levels are still lower than what many of your competitors. I know it's very difficult for you to comment on that. But what is -- what do you think could be a potential reason for that?

A - Catharina Hellerud {BIO 17276650 <GO>}

The run-off level of our competitors, I don't think I will comment on that. I think that's for each of them to comment on their levels.

A - Helge Leiro Baastad {BIO 5865247 <GO>}

Yes. Regarding dividend policy, we commented after First Quarter that we then expected an update or a Capital Market Day within nine months to 12 months. The communication today is actually six months to nine months. So within six months to nine months, we expect to have -- to revisit our financial targets, our exit [ph] situation and our dividend policy.

So within six months to nine months, we will be clearer. And to that, we have 50 to 80 and we have said before that we expect to be in the high end of that range, as we have done since 2010.

Q - Matti Ahokas {BIO 2037723 <GO>}

Great. Hopefully, it's closer to the six months. Thanks a lot.

Q - Per Gronborg {BIO 15910340 <GO>}

Per Gronborg, Danske Bank. Also two questions from my side. First of all, can you clarify on the flooding cost? You were taking NOK30 million in the segments and the rest in the Group corporate center. That's NOK30 million for both Private Norway, NOK30 million for Commercial Norway. How is that done?

The second one may be a bit nitty-gritty. But down to the Bank, that seems to gaining quite a lot of speed. How much of the growth is mortgage lending? What sort of margins are you able to write mortgages on in Norway at the moment?

A - Catharina Hellerud {BIO 17276650 <GO>}

I can comment on the flooding costs. It's NOK30 million in total for the two segments. And the rest is charged to the corporate center.

Q - Per Gronborg {BIO 15910340 <GO>}

Can you divide up how much the charge with each of the two operating segments?

A - Catharina Hellerud {BIO 17276650 <GO>}

It's more -- yes.

A - Janne Flessum {BIO 19368607 <GO>}

It's approximately a 60%/40% split Commercial/Private.

Q - Per Gronborg {BIO 15910340 <GO>}

60% Commercial and for Private?

A - Janne Flessum {BIO 19368607 <GO>}

Private [ph] and our corporate center. What was your other question? It was on the Bank, the first question?

Q - Per Gronborg {BIO 15910340 <GO>}

It was Banking part where we are seeing a quite material lending growth. We are seeing your loan loss ratio is coming materially down. I guess it's because your mortgage book is growing quite materially at the moment. Is that correctly guessed/understood?

A - Catharina Hellerud {BIO 17276650 <GO>}

It is correctly understood that the mortgage book of the Bank is growing pretty fast. You have seen interest levels coming up in the larger banks in Norway. We are not followed yet on that and we have grown the portfolio a little bit based on that window that has opened us for smaller banks.

Q - Per Gronborg {BIO 15910340 <GO>}

What sort of margin? I would assume that the -- it must be quite natural that the mortgage book has a significantly lower margin than your old book. How far is the margin compression should we expect? Or in other words, what sort of net interest income margin are you writing the mortgages with at the moment?

A - Catharina Hellerud {BIO 17276650 <GO>}

We don't comment on the margin as such. And as you know, there is a combination of margin on the unsecured lending and the secured lending, as you can see from our accounts. It's a combination; the 2-point [ph] (inaudible) percentage, it's a combination of these differences.

Q - Per Gronborg {BIO 15910340 <GO>}

Just seeing a bank that is transforming quite rapidly at the moment, I hoped for a little bit of help to understand how to model that part of the Group going forward.

A - Catharina Hellerud {BIO 17276650 <GO>}

But it's not the unsecured part of the book that is increasing. It's mainly the mortgage book.

Q - Per Gronborg {BIO 15910340 <GO>}

Exactly.

A - Catharina Hellerud {BIO 17276650 <GO>}

And what we also comment, Per, is that we don't expect the same pace of growth going forward for the second half of this year.

Q - Per Gronborg {BIO 15910340 <GO>}

Why? Because the banks have stopped hiking margins, or --?

A - Catharina Hellerud {BIO 17276650 <GO>}

Sorry?

Q - Per Gronborg {BIO 15910340 <GO>}

Why don't you expect the same growth going forward? I guess your price advantage still exists going into the second half.

A - Catharina Hellerud {BIO 17276650 <GO>}

I think what we're seeing in the Norwegian market now, it's a window that has opened up for smaller banks due to the larger banks being very -- communicated very, what do you say, maybe aggressive on the hike increases, rate increases. So we see in the Norwegian market now some more customers changing banks than we would normally see. So it's due to the market situation.

Q - Per Gronborg {BIO 15910340 <GO>}

Okay, thank you.

Operator

(inaudible), Berenberg [ph] Markets.

Q - Unidentified Participant

Two questions from me, firstly on the claims churn that we've been discussing for the last five or six quarters really. Looking at the claims frequencies this quarter, are you now comfortable stating that what we saw in 2012 was exceptional and largely a statistical anomaly more than the emergence of a new trend?

That's the first question.

The second question is on the structural growth that you're referring to. Are you seeing any options or any portfolios that are available for sale in the Swedish markets, or are you still mainly focused on the Danish market?

A - Helge Leiro Baastad {BIO 5865247 <GO>}

I can start up, (inaudible). The frequency situation we had last year was exceptional. Yes, I think that's the conclusion. And that's based on the combination of a very mild winter. It was not any weather-related claims at all. And it was also low frequent levels, both for property and motor.

As you've heard under the presentation today. And as I commented now, the development was for the two large products, motor and property, was particularly weak at the beginning of the quarter. And we had a very strong situation at the end of the quarter.

So we still had strong profitability in the main products. But seen over a period of time, I think, 2012 was exceptionally low related to frequency.

Structural growth. I've seen the debate after our presentation today. We had some people looking at opportunities. And opportunities is portfolios. Gouda is a good example. If it's Sweden or Denmark or Baltic, I don't know. But if it arise, opportunities and portfolios that can fit into our product mix and of our position, we'll be active related to portfolios going forward as well.

Q - Unidentified Participant

Thank you. That's very clear.

Q - Will Hardcastle {BIO 16346311 <GO>}

Will Hardcastle, Bank of America. You show on slide 13 that the S&P A rating's the most binding capital requirement at the moment at NOK5.1 billion. And you also talk about that's before the buffer level. Could you discuss how you think about what sort of buffer you'd like to hold over and above. And perhaps your thinking behind that if you're unable to give a percentage or a number?

A - Catharina Hellerud {BIO 17276650 <GO>}

We have not communicated a percentage over the most binding [ph] capital requirement. But what is very set [ph], of course, there needs to be a buffer over the most binding capital requirement.

And I think, yes, this is part of the discussion that we would like to have in the senior management and the Board over the next six to nine months as part of, of course, of the cutting the policy.

But I think what -- the most precise I can be on this is that, of course, there will have to be a buffer about the most binding capital requirement.

Q - Will Hardcastle {BIO 16346311 <GO>}

Okay. But at this stage, we won't be able to get any sort of quantification on that?

A - Catharina Hellerud {BIO 17276650 <GO>}

Not for the cash number.

Q - Will Hardcastle {BIO 16346311 <GO>}

Okay.

Q - David Andrich {BIO 15414075 <GO>}

David Andrich, Morgan Stanley. Two questions; first, I was just wondering if you could give a little bit of color on the competitive environment in Norway. And particularly in the GI business.

And then second, I was just wondering in terms of the pension reforms that are going on in Norway maybe if you could give us a brief update if there's been any changes around that.

A - Helge Leiro Baastad {BIO 5865247 <GO>}

I can start off with the competitive environment. And if there's any new information regarding the pension regulations, Catharina can think about that when I start up with the competitive environment.

It's more or less same situation as the First Quarter. I commented during last year and also First Quarter that our main competitor is the large competitors. So our main competitor last year and so far this year is actually IF [ph]. And that's also the most active competitor, at least on the Private side.

TRIG [ph] is also very active by their own sales force and their agents on the Private side. It's more variable on the Commercial side.

The Savings Bank One Group [ph] is not that active this year compared to last year. We've seen small players also increase their shares, D&D [ph] and Storebrand. And, of course, Protector is still active in the Norwegian market.

So this information is more or less the same as we gave after First Quarter. But to conclude, the biggest competitors beside the Savings Bank One Group, TRIG and IF is the most active.

Q - David Andrich {BIO 15414075 <GO>}

Thank you.

A - Catharina Hellerud {BIO 17276650 <GO>}

And when it comes to the pension legislation, I think the only new information always that we expect it to come into force in 2015, not 2014 as previously expected. That's the main new information regarding pension legislation.

Q - David Andrich {BIO 15414075 <GO>}

Okay. Thank you.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Gianandrea Roberti, Carnegie. I have three questions. The first one, it's regarding the combined in the Second Quarter, 90.4%, with the large losses more or less in line with your expectation. If I look at your overall target of 90% to 93% combined in a normal year, it seems to me the 90.4% for a Second Quarter is a bit on the weak side. But I'd just like to hear your thoughts.

I understand there's been some randomness in terms of claims in this quarter. But once again, I cannot help but think 91% for Q2 it seems a bit weak.

The second question that I have, it's on the rollover of the new tariffs. If you can just remind us which sector or businesses you're really looking at and what kind of improvement you think you can get out of it. Because if I remember correctly, Norwegian motor in the Private line, you show us some slides in the past where the loss ratio improved 300 bps. And it would be interesting to hear potential possibilities there.

My last question, it's in the Commercial line; it's the growth in the Commercial customers in the Nordic segment. Because, overall, 9% premium growth in a quarter, it seems very high; and obviously, I don't know nearly enough of what I should know in terms of your product. But I have a bit of a hard time in believing that your product is so different from the others. So I'm just wondering how you're winning all these customers.

Thanks.

A - Helge Leiro Baastad {BIO 5865247 <GO>}

I can start off with the combined ratio, Gianandrea, 90.3%. As you know, the run-off gain was only 0.6% in the quarter compared to 2.3% last year. The large losses is more or less in line, also including the flood, in line with our expectations.

So, yes, compared to the previous quarters, it's somewhat on the weak side. But as I said, it was rather weak in the beginning of the quarter and it was strong at the end of the quarter. So it varies from month to month and quarter to quarter.

But if you adjust for run off -- and so it's still in the corridor and we are in the corridor. But compared to previous quarters, it's a little bit on the weak side. That's right.

The tariff program, maybe Catharina.

A - Catharina Hellerud {BIO 17276650 <GO>}

Yes, I can give some comments for that. As you know, we started the new tariffs, or to implement new tariffs in Private in Norway in 2009. And we continued on with the new tariffs in the Commercial market. That's from 2010. And they record a large part of the Norwegian business. But we're still looking at smaller projects in the Commercial part (technical difficulty) in Norway.

What we're also doing in Norway is, of course, to continuously improve the tariffs that we have already implemented. In the First Quarter this year, we implemented the first new tariff in Denmark within western [ph] motor. And there is, of course, potential for a lot of new tariffs in Denmark and also in Sweden. But this will take time. And it also takes time for implementing new tariffs. But they are implemented first and foremost for new customers or new products that are coming into our portfolio. And only gradually for current products or current customers.

So it will take time and, of course, if you look at motor in Norway, motor is the product where you'll probably have the fastest implementation on new tariffs due to customers changing cars more often of course than, for example, housing, etc.

But it's correct that we gave a number regarding the improvement in the combined ratio, the loss ratio, regarding motor product in Norway. But we did not comment. And it's six figures regarding all the new tariffs. We were able to do that on the motor product due to, as I said, the new tariffs being implemented very fast within this product especially compared to other products.

But we see of, course, that there is potential for improvement due to better risk pricing [ph] and better risk selection as a result of these tariffs.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Okay, thanks. And what about the growth in the Nordic segment?

A - Catharina Hellerud {BIO 17276650 <GO>}

The growth is mainly within the Commercial book of the Nordic business. And there's nothing especially to comment on this when it comes to what kind of product, or what kind of clients. We see now that we are succeeding with our distribution in Denmark and that's, of course, very good to see. And we also know leads to the order [ph] change in the agreement with Nykredit; expect to see positive development also within the Private market going forward.

A - Helge Leiro Baastad {BIO 5865247 <GO>}

And, Gianandrea, I also think it's important to bear in mind that this growth in the Nordic segments, or Nordic segment, it's after a period of -- where it's flat to negative development due to re-pricing in the Nordic segment. So as you remember last year, it was flat/negative development. So after a period of re-pricing and so it's the natural development, actually.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Okay. Thanks.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Vinit Malhotra, Goldman's. Just one thing on the asset side, on the Free portfolio, I notice the division has gone up in the quarter quite substantially from 0.9 [ph] to 1.9 [ph]. But could you just comment on why this new creed [ph] was put in place in this quarter? Were you anticipating some interest rate moves which didn't work?

So that's the first question.

The second thing is just to clarify this whole debate around the claims frequency. I've understood. But was there also something on the average claims time. So in other words a severity as well where there was a trend in this quarter which you'd like to highlight?

Thank you.

And just to explain [ph], my second question is excluding the Norwegian flood event, if you could possibly.

Thank you.

A - Catharina Hellerud {BIO 17276650 <GO>}

Yes. I can comment on the direction in the Free portfolio. Unfortunately, the figure in the last -- the last figure was wrong. So actually, it's more or less unchanged in the Free portfolio. So sorry about that.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. All right. And on the claims?

A - Helge Leiro Baastad {BIO 5865247 <GO>}

Yes. Your second question was related to average claims cost and development. When I commented the Second Quarter. And the development was particularly weak at the beginning of the quarter, as I said, that was first and foremost related to frequency development.

The average claims cost is more or less stable. And the development is stable as we have commented before. And it's around 4%, the increase for motor. And slightly more for property. So when we see a weaker claim development this quarter, it's first and foremost related to frequency [ph] development.

Q - Vinit Malhotra {BIO 16184491 <GO>}

The reason I ask is because, yes, it might have been a weaker quarter. But your underlying combined ratio had worsened a lot in 1Q but then came back, or improved quarter on quarter in the Second Quarter. Even ignoring the seasonality, the improvement was less. I was trying to understand whether there's something else, or maybe the end of the quarter was really exceptional improvement which offset the beginning.

But that's fine. All right. Thank you.

A - Helge Leiro Baastad {BIO 5865247 <GO>}

No, I do not -- as I said, it is -- the main shift from last year to this year is related to frequency and, of course, it's also related to floods and the more normalized winter. And if you go into the figures, it's first and foremost related to frequency.

It is also slightly more water related claims on the property side, not only related to the floods. But the change from period to period is first and foremost changes in the frequency development.

So as I said, it's nothing in the average claim cost changing from what we have seen and said and communicated before.

Operator

(Operator Instructions). At this time, no further questions.

A - Janne Flessum {BIO 19368607 <GO>}

Okay, then, thank you for participating. And we hope to see as many of you as possible on the Group lunch presentation in London tomorrow.

Besides that, we wish you all a nice summer. And thank you. And goodbye.