Q3 2013 Earnings Call

Company Participants

- Catharina Hellerud, EVP Finance, CFO
- Helge Leiro Baastad, CEO
- Janne Flessum, Head of IR
- Jostein Amdal, Chief Risk Officer

Other Participants

- Daniel Do-Thoi, Analyst
- David Andrich, Analyst
- Gianandrea Roberti, Analyst
- Jakob Brink, Analyst
- Matti Ahokas, Analyst
- Per Gronborg, Analyst
- Vinit Malhotra, Analyst

Presentation

Operator

Good day, ladies and gentlemen and welcome to the Q3, 2013 results conference call. For your information, today's conference is being recorded. At this time, I would like to turn the conference over to Janne Flessum, Head of IR. Please go ahead.

Janne Flessum {BIO 19368607 <GO>}

Welcome to this presentation of the Third Quarter results for Gjensidige. As you probably have seen, we have also released today our new capital strategy and therefore, our CFO, Catharina Hellerud, will very briefly comment on the key takes from the Q3 numbers first before our CEO, Helge Leiro Baastad, spends most of the time commenting on the new capital strategy and updated financial targets.

Then we will open up for the Q&A session afterwards. In addition to Helge and Catharina, we have also our Chief Risk Officer here today, Jostein Amdal, and our EVP for Strategy and M&A, Mats Gottschalk, and they are present in the room to answer your questions afterwards.

But first, I'll leave the word then to Catharina Hellerud.

Catharina Hellerud {BIO 17276650 <GO>}

Thank you. I will start with some brief comments to the numbers. The insurance operations delivered strong results in the quarter. The underwriting results ended at a solid NOK853 million, which is the best underwriting results ever for Gjensidige in that quarter.

This is an improvement in profit performance of NOK73 million compared to the corresponding quarter last year and, as you remember, the Third Quarter last year was a very good quarter.

The improvement in profit performance is primarily due to fewer large losses amounting to NOK111 million less in this quarter than in the corresponding quarter last year.

There is also slightly higher run-off gains this quarter. There is a good underlying profitability in the portfolio, but with underlying claims' costs that are in a more normal level compared with what we saw last year.

It is particularly pleasing that the good profitability is combined with a solid increase in earned premiums. At Group level, premiums increased by 6.5% in the quarter; 4.1% of the premiums are measured in local currency.

The retail bank continues to improve its good profit performance. The retail bank continues to show good volume growth which, together with reduced funding costs, resulted in higher net interest income.

At the same time, operating expenses are under good control in a period of increased activity, which resulted in a reduced cost ratio for the bank.

Pensions and savings also developed in a (profitable) direction in the quarter as a result of good growth. Together, the retail bank and pensions and savings contribute a profit before tax expense of NOK63 million in the quarter, compared with NOK28 million in the corresponding quarter last year.

The investment portfolio yields a satisfactory return of 1.5% in the quarter, on par with the corresponding quarter last year.

Together, this has resulted in a profit before tax expense of NOK1.7 billion for the quarter compared to NOK1.6 billion in the Third Quarter last year.

The combined ratio for the general insurance operation was 82.5% in the quarter, compared to 82.9% in the Third Quarter last year.

The cost ratio ended at 14.8%. This is unchanged from the corresponding quarter last year.

The loss ratio was 67.7%, which reflects what I have already commented about the good underlying profitability level for the portfolio.

Adjusted for fewer large losses and slightly higher run-off gain, the underlying loss ratio in this quarter was 2.5percentage points higher than in the corresponding quarter last year and is now within what we characterize as a normal level for a Third Quarter, where we have very good figures and low claims frequency levels in 2012.

Some products stood out in the quarter, however. Within property, the quarter was characterized by some large losses, especially within the western part of Norway as well as fires. This resulted in a slightly weaker start of the quarter. This also applies to agriculture, where we also saw a larger portion of large losses or -- sorry, of fires in the quarter.

These are random effects that can arise from one quarter to the next. Our perception of the long-term trends remains unchanged.

And with that, I will leave the word to Helge Leiro Baastad to comment over our new capital strategy.

Helge Leiro Baastad {BIO 5865247 <GO>}

Thank you, Catharina. Then I continue on page 16 and, as a start, I want to remind you that Gjensidige's strong capitalization of today is a result of focus on operational efficiency and reasonable priorities or allocations through the past decade.

In 2002, the equity was NOK4.7 billion, so we have had a (value taking) journey the last ten years.

Good capital management has been high on the agenda. The listing in 2010 gave us access to a capital market that enables us to have different capital structure, going forward.

We are finally ready to present today a new capital strategy and an update around our financial targets and, as you can see on slide 16, the Board has adopted four important main elements related to this.

First and foremost, the new capital strategy and proposed extraordinary dividend; new dividend policy; new return on equity targets; and, finally, redefinition of Storebrand, as you maybe understood last week when we sold 4% in Storebrand.

Then moving on to page 17. Let me take this opportunity to remind you what we have achieved since being listed on the stock exchange late in 2010. Good operations as the result of increasingly efficient processes and good and increasing competitiveness, and our average combined ratio of (88.5%) during this period.

The underwriting result increased from around NOK800 million, in the years prior to the listing, to NOK2.2 billion in the last 12 months.

The return on equity has been above the target of 15% before tax expense, and we have paid total dividend to our owners of more than (NOK8 billion), corresponding to a distribution percentage of around 80%.

The total share return in the period has been (NOK111 billion) closing yesterday.

We know our taking result in a more expedient capitalization of Gjensidige and will strengthen the basis for further value creation in the time ahead.

Moving on to page 18, the Board proposes, as you have seen, that NOK3 billion of excess capital should be distributed as extraordinary dividend in May 2013. Any further excess capital over and above the capitalization target will be paid to the shareholders, over time, in the form of extraordinary dividend.

By capitalization target, we mean capitalization that is adapted to Gjensidige's strategic targets and appetite for risk at all times. The Group shall maintain its financial freedom of action, but without this being at the expense of capital discipline.

S&P A rating target will still be the most binding capital requirement for Gjensidige. We will, obviously, continue to monitor the capital situation from all possible perspectives and we will adapt accordingly if one or the other requirements becomes more binding.

The Board has decided that capital corresponding to 5% of the rating requirement shall be retained as a technical buffer in addition to the capital that must be retained in order to secure an A rating. This shall compensate for short-term fluctuation in the capital situation.

(Above) that a strategic buffer shall also be retained to secure financial flexibility relating to changed framework conditions, organic growth, and minor acquisitions that are not financed by retaining earnings and the stabilization of ordinary dividends over time.

You have maybe seen that we also, in the Third Quarter, acquired a small company in Sweden called Solid, or a part of Solid with motor and home insurance. So this is a good example, in addition to Gouda which we acquired in the Second Quarter. And if you look at what we have done the last eight years now, it's in average one acquisition every year.

It's important, in this context, to underline that Gjensidige's growth strategy, as you understand, remains unchanged and that there will still be a lot of flexibility in Gjensidige's balance sheet that can be utilized easily.

Some comments related to our largest owner, Gjensidige Foundation, on page 19. The Gjensidige Foundation, our largest owner, have endorsed the proposal of the extraordinary dividend. The customer dividend model continues and is strengthened after the distribution of the dividend.

Firstly, the Gjensidige Foundation will continue to pass on its share dividend from investments in Gjensidige to their members, which is our general insurance customers in Norway.

Secondly, the Board of the Gjensidige Foundation have adopted that extraordinary dividend from Gjensidige will be managed to strengthen the value creation in Gjensidige and contribute to increased stability in future customer dividends. This is related to the extraordinary dividend in the Spring 2014, and also extraordinary dividends in the future.

Customer dividend model distinguishes us from our competitors and contributes to strengthening loyalty among our customers in Norway and our attractiveness in the market in general.

A new market research from Third Quarter this year tells us that 9 out of 10 our customers are familiar with the customer dividend model, and as many as 3 of the 4 existing customers say that the customer dividend is something that makes them want to continue to be customers in Gjensidige. If only 4 out of 10 non customers are not familiar with the model, we see an increased potential for it attracting new customers.

Then to the second point on page 20, new dividend policy from the accounting year 20014.

The Board has adopted a new dividend policy that shall apply from, and including, the 2014 accounting year. The main target of the policy is that Gjensidige shall pay high and stable ordinary dividend to its shareholders. We must accomplish that at the same time that we operate in an industry in which major fluctuations in performance may occur. The dividend level cannot, therefore, be entirely separated from underlying developments.

We have increased the lower dividend level to 70% of the profit after tax expense over time, in order to support more stringent capital discipline in the time ahead.

At the same time, we have removed upper ceiling so, in other words, Gjensidige shall not build unnecessary capital buffers. Any new excess capital that is generated will, therefore, be distributed in the form of extraordinary dividend, going forward.

On page 21 some comments regarding the accounting year 2013. For the accounting year 2013, we propose an extraordinary dividend, as you have heard, of NOK3 billion and NOK6 per share. In addition, there will be paid an ordinary dividend based on applicable dividend policy.

We have previously distributed as much as 80% of the result after tax, as a consequence of our strong capitalization. Given the proposed extraordinary dividend, it can be expected that the ordinary dividend for 2013 will be lower than previous years, but within the range of 50% to 80%.

Once again, the calculation will be adjusted for impairment loss on Storebrand in the First Quarter, which was NOK611 million.

Thirdly, on page 22, new return on equity targets. The Board has adopted a target for the return on equity after tax expense of minimum 15% from, and including, 2015. The target takes into account Gjensidige's chosen business model. As you know, we have a broader platform in Norwegian market with our own pension and saving business and our own bank for the private market. Secondly, still a robust capital situation and thirdly, our ambition to secure a stable and predictable value creation.

Apart from the return on equity and dividend policy target, the other financial targets remain unchanged, including the combined ratio target of 90% to 93% and the cost ratio target of 15% by 2015.

Finally, on page 23, some comments regarding our shareholding in Storebrand. As you know, we reduced our shareholding in Storebrand to 20.11% before the weekend and redefined our investment from strategic to financial investment.

Gjensidige's strategy is, first and foremost, being a profitable general insurance company in the Nordic countries. Our risk appetite and willingness to invest is, first and foremost, within our core business. In Norway, this strategy is supported by targeted distribution of products within bank, pension and savings from our own platform. Our investment strategy is, first and foremost, meant to support our general insurance business and shall not be a basis for added risk exposure.

We make it clear that the client contribution and guaranteed products are not products that we have strategic or financial appetite for. We see that the changes in the traditional pension market will take a long time and that defined contribution will continue to represent a large part of this market, going forward. Storebrand is no longer regarded as a strategic investment for us. Again, with a basis of what is Gjensidige's strategy.

(We have done well) as a financial investment. We managed with focus on optimization, value creating. Going forward, the direction is clearly communicated with the down sale on Friday. However, we are not in a hurry.

And with that final word, we can start with questions.

Janne Flessum {BIO 19368607 <GO>}

Operator, we are then ready to take the questions.

Questions And Answers

Operator

(Operator Instructions) Jakob Brink, ABG.

Q - Jakob Brink {BIO 7556154 <GO>}

Just a few questions regarding capital. First of all, could you maybe highlight or give us a bit more details on the level of the strategic buffer, i.e., why did you end up at this number?

Secondly, what made you change your view on Storebrand to change it into a financial investment?

Then thirdly maybe, if I try and backtrack your capital buffer level, I might be a bit greedy but, after all, you do promise a NOK3 billion extraordinary dividend but still it seems like you're left with quite a lot of capital also as you might end up a bit lower, I understand, on the ordinary dividend for this year. And also, I understand that you could still issue a lot of subordinated capital within the S&P requirements. So why exactly did you end up with this rather conservative capital buffer level still? Thank you.

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

Jostein Amdal will start with the capital questions, and I will finalize with your question regarding Storebrand.

A - Jostein Amdal {BIO 19939645 <GO>}

Okay. I think your first and third questions need to be seen together. It's correct that there still want to be fairly solid and robust capitalization. Gjensidige has always had this position and we think it's value creating to have the sort of muscles that you need to have to be direct also in a downturn. And I don't think you should be afraid that we'll end up too high because we imposed this capital discipline on us; also true the return on equity target, which we raised to 15% of the tax.

We're not going to disclose specifically how we arranged that -- arrived at that number or any ranges for the strategic buffer, but it's there to be a protection, both against a regulatory environment that might change, either the (order) regulators or the rating agencies. And also to be a source of financing for small acquisitions that we are not able to finance through the retained earnings every year. And thirdly, as a buffer against the larger (volatilities in the) capital position than a technical buffer can handle.

Also for your question about the subordinated debt or otherwise, we're not going to comment specifically on that but, again, defer to the return on equity target which we will do what is required to reach.

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

Regarding Storebrand, we had commented Storebrand through several years now and it's a long journey actually. Our first investment was back in 2006.

The situation today is completely different, compared to the situation in 2006, and Storebrand is a different company today. They have increased their position outside Norway when they bought SPP in 2007. It's a completely different macro situation, different interest level and the risk of Storebrand is completely different today, compared to what it was some years ago.

Why? Just why now? We had been waiting for more visibility related to regulation and we see that, in EU and also in Norway, they're postponing their changed regulations. So we wanted -- and the capital strategy are linked up to our position in Storebrand so we, in addition to the capital strategy discussions in the company, we saw that it was necessary. We had to reclassify, redefine, Storebrand as a clear financial investment and we did that now during this fall together with the Board of Directors.

So today, Storebrand is a clear financial position run by (or with the) Chief Investment Officer. So it's out from the Boardroom and out from my desk; it's into the financial Chief Investment Officer to handle that position, going forward.

Q - Jakob Brink {BIO 7556154 <GO>}

Just a small follow-up then. Is it then fair to assume that, in the strategic capital buffer, there are still some buffer left to cover the last 20% exposure to Storebrand which will then be reduced, over time?

A - Jostein Amdal {BIO 19939645 <GO>}

No. That's not part of the reasoning.

Q - Jakob Brink {BIO 7556154 <GO>}

Okay. Thank you.

Operator

Per Gronborg, Danske Markets.

Q - Per Gronborg {BIO 15910340 <GO>}

I'll continue a bit along the same lines, also on the strategic capital buffer. You're now paying out an amount. The remaining part, is that basically what you need as of today for regulatory or for S&P, plus the 5% buffer, plus your buffer capital for potential acquisitions, or will there still be room for maneuvering within this one?

My second question, on your 15% return on equity, you're not saying it's your return on equity -- so you're not saying it's your combined ratio target. Does this imply that by 2014 you will have divested (technical difficulty)

A - Jostein Amdal {BIO 19939645 <GO>}

In the logic of how we built up the capital target, it's like you described. It's a buildup of the S&P requirement, the technical buffer to handle short-term volatility, and then the strategic buffer which, in addition to what you mention as preferred for acquisitions, it's also for to meet regulatory uncertainty and (distributing) dividend, over time. I think that's the answer to your question there. I lost you a bit on the last part, some connection problems.

A - Janne Flessum {BIO 19368607 <GO>}

Can you state the other question once again, Per? I believe you can move on, operator.

Operator

Matti Ahokas, Handelsbanken.

Q - Matti Ahokas {BIO 2037723 <GO>}

Two questions, if I may? Following the sale of the Storebrand stake, will there be an impact on the S&P capital requirement or not, and what kind of impact would that potentially be?

Then just to clarify, the capital gain from Storebrand, I seem to remember, it was like (NOK32.5 million), that was the book value, so is that the correct figure and should we be using that in the Fourth Quarter?

And also, if I may, looking at still the dividend side, you say high and stable dividends, but you don't say rising dividends. How should one look at this? Is that any kind of -- is that a statement that you don't state that the dividends would preferably be rising, or how should I interpret this statement on the dividends after 2014? Thanks.

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

(Jostein) will take the first one, and I'll try the last one, Matti.

A - Jostein Amdal {BIO 19939645 <GO>}

I'll do the first one on S&P effect. The capital charge effectively of an affiliated company in the S&P model is 27% of the market value of the company and, of course, we need to reinvest the proceeds of the sale, so the net effect will be around NOK130 million from that disposal.

The second question regarding the book value of the shares I think Catharina should answer.

A - Catharina Hellerud {BIO 17276650 <GO>}

Yes, I can give a comment to that. Of course, if you look at the portfolio of Gjensidige in our books today, there are some elements that have been booked directly towards equity, in prior periods.

And when you look at the gains and losses on transactions, going forward, and also, this transaction, there are some elements that are reversed in the same way, and it will not have the effect directly on the P&L.

Q - Matti Ahokas {BIO 2037723 <GO>}

So how much will the effect on the P&L then be?

A - Catharina Hellerud {BIO 17276650 <GO>}

On this transaction, it's around NOK40 million.

Q - Matti Ahokas {BIO 2037723 <GO>}

Okay.

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

Regarding our new dividend policy, we state high and stable, and you're asking if we're not using the word, growing. What I would say connected to that is that, based on our business model and our growth target, the consequence should also be growing.

But bear in mind that we state clearly still growth, or profitability before growth. We operate in a mature market, which indicates not highly growth, going forward. But based on what we see today regarding growth, and what we expect for the future, it will be growth in the business model. And of course, as a consequence of that, you will also see growing dividend.

Q - Matti Ahokas {BIO 2037723 <GO>}

Great. If I just may, finally, to follow up on that? Why did you come up with this policy now, because we've been talking about it many quarters? And at least in the summer, you seemed to be pushing it a bit forward. What was the main reason that you were able to clarify the capital policy so much sooner than originally anticipated?

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

We had a discussion after Second Quarter, and we started to work with this. And when we then saw the picture, we wanted to release that sooner or later, instead of waiting to Fourth Quarter or a Capital Market Day in the spring next year. Better to celebrate (Christmas) also when you have it behind us.

Q - Matti Ahokas {BIO 2037723 <GO>}

That's great. Thanks a lot.

Operator

Gianandrea Roberti, Carnegie.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Helge, I'm sorry, I just go back on the dividend question. Sampo and Tryg, two of your key competitors, target, clearly, an increase in dividend year after year. Sampo has been increasing it for five years in a row now, and Tryg has started last year with this policy.

I just want to fully understand what you're saying, because the press release doesn't say that, but you now use this word. Is it a commitment that we should look at dividend per share growing, leaving aside extraordinary dividend, or how you see that? That's my first question.

The second question, it's actually more operational. Your top line continues to grow pretty nicely. Can you give me a clue of what we should expect going into 2014, what kind of price hikes you're planning, particularly on the private lines?

And actually, also the outlook for the Nordic segment, because I continue to see, quarter after quarter, you're taking in a lot of clients here in the Danish semi-commercial segment. And it would be great with some more comment. Thanks.

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

Thank you, Gianandrea. I will start up with the first question, and Catharina is preparing the second one. Jostein will also help me out.

The commitment you can read from the statement, the dividend policy as from 2014. It's stable and growing, and secure -- no, it's high and stable. And to secure a high and stable dividend, we also commented that related to the strategic buffer. So that's a strong commitment.

What I said is that, with the growth we see now and the growth we expect, going forward, a consequence of that will also be growing dividend. But the commitment is high and stable, and it's not (a roof), it's 7% as a ceiling.

So we haven't looked too much actually on what If and Tryg, and the others have done; we have actually seen what's sustainable over time for our Company.

A - Jostein Amdal {BIO 19939645 <GO>}

I could fill in (a comment on that), it's related to the capital discipline or capital optimization we're talking about. That means that if we continue to deliver the results on the top line growth that we have done, then that will also feed through to the dividend. And I think that's the same for If and Tryg, these results need to be produced before they're shared with (shareholders).

Q - Gianandrea Roberti {BIO 6786731 <GO>}

If I'm allowed to follow up on that, it's slightly more complicated than that. Because at the moment, let's make the assumption, just for the sake of it, that in 2014, you pay out whatever is remaining of excess capital, and you're in a normalized capital position. What happens if you have one year of a couple of storms, or if capital markets drop substantially, then obviously your P&L will be hit. And if your dividend policy, it's reflective of your earnings power, meaning your reported earnings, then obviously your dividend will fall pretty sharply in a situation like that. While some of your competitors are, more or less, telling us at this point that they will do whatever they have to do to grow the dividend. And that's a bit of a different statement, if I'm allowed to say so.

A - Jostein Amdal {BIO 19939645 <GO>}

We'll prioritize to have a solid financial position also after such an event. That is part of the dividend policy. But given the risk management, or including the reinsurance program we have in place, we are fairly confident that we can deliver the profit targets that we have stated.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Okay. Thanks.

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

I think Gianandrea should have one answer.

A - Catharina Hellerud {BIO 17276650 <GO>}

You had a question regarding the top line or the premium growth. We do not guide, of course, on premium growth, going into 2014. But what we look at, and what we have been doing now for some years, is to have price increases which are in line with what we (see as) underlying claims inflation. And that's the same kind of thinking that we have going into 2014 as well.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

And the underlying claims inflation, is it still a fair assumption that we're talking about 4%, 5% then for motor and housing contents, which was the case for this year?

A - Catharina Hellerud {BIO 17276650 <GO>}

That's the case for this year, Gianandrea. We will, as I said, not give any specific comments on what we're looking at for next year, at this point.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Okay. Thanks.

Operator

Vinit Malhotra, Goldman Sachs.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Sir, two questions on capital, and one on the operations. Just going forward, the potential for -- there's a slide where you mention that, going forward, you would continue to pay excess capital above the target capitalization at extraordinary dividend.

And so, how would you guide us towards thinking about that, if I can ask? Because at the moment, it looks like the NOK4.6 billion S&P capital excess over a buffer. Then, you've taken out NOK3 billion, leaving you with NOK1.5 billion, roughly, and then, you obviously pay out a large portion of your regular earnings. So I just wanted to understand how much more upside there is on that. So that's the first question on capital.

Second question on the new ROE target, if you could please clarify again any comments that you have made earlier in the call. Also, on what were the thoughts around leveraging the balance sheet? Because obviously, the ROE is higher than in the past, but it's not as high as some of the peers, also, given where the price to book ratio is. So please can you comment on leveraging?

And lastly, just on frequency in commercial lines, which we've been hearing from your peers. I'm just curious that you haven't mentioned something about agriculture claims in the Third Quarter, but in the previous quarters, you've also written a bit about municipalities and those lines which you are pruning. So if you could comment on the operational claims frequency on the commercial side, it will be great. Thank you very much.

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

Okay. You're asking the three questions. And the first one, as I understand, is a question how to create new excess capital. Secondly, the return on equity targets. Jostein, maybe trying on the two first ones, and we have to think of the last one. I don't think we understood your final question 100%. It was about agricultural claims in the Third Quarter?

Q - Vinit Malhotra {BIO 16184491 <GO>}

It was about commercial claims frequency in general, but I picked up the comment you mentioned.

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

Okay. Then, Jostein, start off with how to create new excess capital.

A - Jostein Amdal {BIO 19939645 <GO>}

You need to go back to the way we built up capital targets. The first two items is the capital requirements from the S&P model and the technical buffer. They are clearly fixed, although there are things that influence the capital target, of course, depending on the level of risk we're taking on the balance sheet.

But then, (the thoughts), to answer your question really, in the reasons behind the strategic buffer, where we say these are related to regulatory uncertainty, to acquisitions and the (smoothening) of the dividend. And our dividend decision regarding extraordinary dividend will always be forward-looking. It will be based on our assumption of the future. It will then be changed, so the different strategic buffer. I think that's --

Q - Vinit Malhotra {BIO 16184491 <GO>}

Sorry, just to clarify; in a year's time, if when you've paid your NOK3 billion which you have planned, and assuming that you are out of the 20% of Storebrand, what should be the excess capital, then?

A - Jostein Amdal {BIO 19939645 <GO>}

I won't comment on that (at this stage).

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. All right. Thank you.

A - Jostein Amdal {BIO 19939645 <GO>}

Second question, leverage. It's again the return on equity target. We will do whatever it takes to settle that return on equity target, given the other limitations there on the capital situation, which is focusing on a solid capital position also, going forward. I think that's enough on that one.

A - Catharina Hellerud {BIO 17276650 <GO>}

You also asked about the loss ratio or the frequency level within the commercial line. (On a capital basis) I would comment that (over the year) as I also commented earlier, that we have a good profitability level in our (commercial segment).

So there are no specific comments regarding frequency. We have a more normal situation than we saw in 2013 -- 2012, sorry. But two comments. One is that the level of large losses are on a very low level this quarter, compared to what we expect.

And of course, the commercial segment is, of course, the segment where you will expect a large portion of the large losses. And (also), as you've said, in the agriculture segment we saw some random effects now regarding some large fires in this quarter.

Q - Vinit Malhotra {BIO 16184491 <GO>}

All right. Thank you very much.

Operator

Gianandrea Roberti, Carnegie.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

I forgot to ask you before, I think Jostein was making the example before that if you would have to dispose completely of the Storebrand stake, and then reinvested it in whatever kind of asset, it would have free up around NOK130 million of capital, if I understood correctly.

But I'm just -- (I mean, quick and dirty), I was looking at the value of the stake right now in the market. At NOK35 per share it's around NOK3.2 billion. If I take 27% of that, I'm around NOK850 million, which should be the total free-up. And I guess I need to net that off, because you're going to reinvest it in whatever kind of other asset. But how do I go from NOK850 million to NOK130 million? it seems enormous. I'm not quite sure if I follow that.

A - Jostein Amdal {BIO 19939645 <GO>}

I'm sorry if I was unclear about that. The effect I mentioned was related to the down sale on Friday only.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

All right. Would it be fair to assume that -- do you have appetite for having more equities on the balance sheet? Because if not, if you just reinvest this money in either cash or some high-rated securities, most of this NOK850 million ought to be available capital, if I could use these words.

A - Jostein Amdal {BIO 19939645 <GO>}

That's our future investment so it's really not part of this disclosure.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Thanks a lot.

Operator

(Operator Instructions) Per Gronborg, Danske Markets.

Q - Per Gronborg {BIO 15910340 <GO>}

Back to your financial targets to deliver 50% return on equity by 2015. Your combined ratio target is unchanged. If I look at your figures, if you make a 10% profit on your underwriting, make 3% on your investments, make some NOK300 million on your other assets, that will leave you slightly south of NOK4 billion, meaning it would generate 50% return on equity that only allows for a capital base of NOK15 billion -- sorry, of NOK20 billion.

Does that math seems reasonable, or are you assuming a higher long-term investment returns than 3%? What might I be missing in this equation?

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

Don't think we should comment on that.

FINAL

Bloomberg Transcript

A - Catharina Hellerud {BIO 17276650 <GO>}

These are financial targets that we have launched with the market. Not that we do not guide on (results or whatever you get) when you ask about investment returns (multiple speakers).

Q - Per Gronborg {BIO 15910340 <GO>}

(multiple speakers)

A - Catharina Hellerud {BIO 17276650 <GO>}

We are very committed on delivering on this target.

Q - Per Gronborg {BIO 15910340 <GO>}

May I rephrase my questions? Previously you had a target of generating 15% pre-tax; now you have a target of generating 15% after tax. Your combined ratio assumption is the same. What has changed?

A - Catharina Hellerud {BIO 17276650 <GO>}

The capital base, of course, has changed, paying out the NOK3 billion in excess capital.

A - Jostein Amdal {BIO 19939645 <GO>}

We also see growth in profitability in the support activities, and we'll do whatever it takes to deliver on the remaining part of the 15% after tax.

Q - Per Gronborg {BIO 15910340 <GO>}

Okay. Thank you.

Operator

Daniel Do-Thoi, JPMorgan.

Q - Daniel Do-Thoi {BIO 17019775 <GO>}

Just three questions from my side here. Firstly, on the development in written premiums, up 6.5% year on year in the private line. I just wanted to know if that was as a result of strong underlying sales, or if there was any effect for acquisitions within those numbers?

Secondly, the amortization charge, at double the normal run rate; just wanted to see where that was coming from.

Then lastly, my third question was on the match portfolio return. Just wanted to know what the reinvestment rate was on that portfolio, and whether the higher run rate was just the result of realizations during the quarter. Thanks.

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

First question was related to growth in private, was that?

Q - Daniel Do-Thoi {BIO 17019775 <GO>}

Yes. Premium written in private. I have that at about 6.5% year-on-year growth.

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

You're talking about private segment in Norway?

Q - Daniel Do-Thoi {BIO 17019775 <GO>}

Yes. The private segment, yes.

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

The growth in the report, reported for the whole segment, is 6.5%. But the private segment in Norway, it was 4.8%. So was your question related to the private segment in Norway?

Q - Daniel Do-Thoi {BIO 17019775 <GO>}

Yes, I'm looking at the key figures on page 28 of your report, of the premiums written, rather than the premiums earned are just the underlying trends in the private business in Norway, yes?

A - Catharina Hellerud {BIO 17276650 <GO>}

There are no acquisitions included in those figures, no. That's (correct). It's organic growth.

Q - Daniel Do-Thoi {BIO 17019775 <GO>}

Okay.

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

Okay. That was the question. Sorry.

A - Catharina Hellerud {BIO 17276650 <GO>}

And you also had a question regarding the amortization that were increased by around NOK30 million this quarter. It's about a final impairment of trademarks that we had in Denmark, which is now booked at zero. It's a one-off.

And if you look at the match portfolio, and the bonds that are (capped) at amortized costs, the reinvestment rate, or the average reinvestment rate, during the Third Quarter was 4.2percentage.

Q - Daniel Do-Thoi {BIO 17019775 <GO>}

Sorry? 4.what, sorry?

A - Catharina Hellerud {BIO 17276650 <GO>}

4.2%, up from 4.1% in the Second Quarter.

Q - Daniel Do-Thoi {BIO 17019775 <GO>}

Thanks.

Operator

(Operator Instructions) David Andrich, Morgan Stanley.

Q - David Andrich {BIO 15414075 <GO>}

Just a follow-up question on one of the ones asked earlier. In terms of keeping the combined ratio targets the same, and increasing the return on equity target, and deployment of capital and returning it to shareholders, how does that factor into your decision, in terms of redistributing excess capital to shareholders?

Then just a quick second question on the corporate center reinsurance line. It turned positive in this quarter, and I was just wondering what was driving that. Thanks.

A - Jostein Amdal {BIO 19939645 <GO>}

(I'll) take the first part of the question, and the dividend, or the returning of the money to shareholders is based on the capital target, and the dividend policy that I have stated.

So it's not that the return on equity (goes down) the dividend policy as such, it will be the dividend policy as we have stated. But the effect will be that a high dividend will increase the return on equity, going forward. I guess that's (it on that).

Q - David Andrich {BIO 15414075 <GO>}

Okay. Thank you.

A - Catharina Hellerud {BIO 17276650 <GO>}

If you look at the corporate center and the reinsurance, you know that we are a seller of reinsurance through the Norwegian Pari Mutuel; that's a part of Gjensidige's distribution model, and we are also a seller of reinsurances through the Norwegian (Pari approved).

And the net effect this quarter was profit, and that's also, of course, due to very large losses, and no large losses hitting the corporate center this quarter. So there are no large losses that were affecting the results in the corporate center.

Q - David Andrich {BIO 15414075 <GO>}

Okay. Thank you.

Operator

(Operator Instructions) It appears there are no further questions. I would now like to hand back to our speakers for any additional or closing remarks.

A - Janne Flessum {BIO 19368607 <GO>}

Okay. Thank you for participating, and we hope to see many of you at the lunch presentation in London tomorrow, arranged by Goldman Sachs. Thank you. And goodbye.

Operator

That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.