Company Participants

- Lars Moller, IR Director
- Morten Hubbe, Group CEO
- Tor Lonnum, Group CFO

Other Participants

- Daniel Do-Thoi, Analyst
- Gianandrea Roberti, Analyst
- Hakon Fure, Analyst
- Jakob Brink, Analyst
- Per Gronborg, Analyst
- Simon Christensen, Analyst
- Vergard Eid Medias, Analyst
- Vinit Malhotra, Analyst

Presentation

Lars Moller {BIO 2301941 <GO>}

Good morning, everyone. Welcome to this presentation of Q2 results here and the half-year results of Tryg. With me today, I have our CEO, Morten Hubbe, with me, and our CFO, Tor Lonnum. After the presentation, we will, of course, have a bit of time for Q&A, both from people participating here inside and from people listening to the conference call. So with these words, I will hand over to Morten.

Please, Morten?

Morten Hubbe {BIO 7481116 <GO>}

Thank you, Lars. And thanks to all of you for joining us for this live webcast which is roughly a month earlier than the usual schedule. So people have been running a bit faster this quarter. And I guess we can say that we are reporting a strong result for the quarter, with a pre-tax of just below DKK700 million for the Second Quarter and just about DKK1.4 billion for the first six months, despite the Second Quarter reporting the highest level of large claims in the four years, totaling for weather and large claims, some DKK185 million higher in claims than in the Second Quarter last year.

We reported a combined ratio of 86.7%, clearly with a very strong positive impact from our efficiency measure program which has totaled almost DKK100 million in positive impact in the Second Quarter and actually shaving off almost one percentage point of the cost ratio to 15.6% for the Second Quarter despite actually a lower top-line premium.

Now, clearly, a huge proportion of our focus is currently on -- is on ensuring our efficiency measure program which is on track, and we've now, by now, we have roughly a third of the DKK1 billion planned efficiency measures by 2015, and we are very much on track.

We are also spending some time on new customer concepts, and one of them to ensure and enhance the incentive of our customers to secure their houses against flooding, fires, and burglaries. We are also -- we've done a new customer concept in Sweden to enhance the cross-selling process in the Swedish market and general, these new concepts is of course, to support and further enhance our customer loyalty.

But as you may recall, we have also talked about a huge focus on enhancing our pricing differentiation and risk selection. And in that process, we've now offered four new products in the Second Quarter, all of which have more pricing parameters and a clearer pricing differentiation.

We have also added a new customer scoring concept in our Norwegian portfolio in the Second Quarter, something that we will enhance and develop further and really in the coming three years, we expect to enhance and improve all of our pricing and tariffs and further improve our risk selection.

If we look at the four business segments, we see that our Swedish and our Private Lines business have an improved combined ratio year on year, whereas our Commercial and Corporate business have a slightly higher combined ratio due to the larger claims.

In Private Lines, we report a combined ratio of 84.9% despite flooding in Norway particularly, and our underlying claims ratio is improved by a bit more than 2 percentage points.

Now, if we look at the Commercial business, we report a combined ratio of 89.9% which is heavily impacted by one Danish large claim, which contribute some 8 percentage points to the combined ratio of Commercial, but very important to see that one of our focus areas for Commercial has been to reduce the cost ratio and we are shaving off 2.2 percentage points in the Commercial cost ratio in the quarter.

Corporates, despite a 6% increase in large claims, reports a combined ratio of below 85%. And also here, we have shaven off almost 1 percentage point on the cost ratio.

Now if we continue to this slide, clearly, we feel that we are on track and are delivering strong results from our savings program, roughly DKK95 million of savings measurement in the Second Quarter, totaling now, DKK160 million year to date. And if you look, since the beginning of the program last summer, we have now totaled DKK335 million or roughly a third of the targeted DKK1 billion in impact by 2015. So we will very much keep our focus on this area also for the remaining two-year period to make sure that we reach the full DKK1 billion program.

On the claims procurement side, clearly, motor has been the area with the biggest achievement. We're now starting to see achievements also in the house content area, and in the coming year, the building and house area as such, will contribute more to savings.

We have in the last quarter, made customer surveys with the new solutions on motor and new solutions on content, showing very positively that we both have significant savings, but also our customer satisfaction within these two areas have actually improved.

And clearly, a significant impact on the cost side from the savings program. As I mentioned, we have reduced the expense ratio 0.9 percentage points year on year in the quarter, to now, 15.6% and worth mentioning clearly is that our nominal expenses are actually down DKK57 million with a drop in the three largest business segments and you see from the lower left-hand graph that in the last year and a half, we have reduced the number of full-time employees by roughly 260 people. So clearly, a strong improvement in a period where the topline doesn't grow.

And over to you, Tor.

Tor Lonnum {BIO 16534375 <GO>}

Thanks, Morten. Good morning. If we move on to the technical results, clearly, you see that the technical result is down by DKK150 million in the quarter. However, as Morten mentioned initially, when you look into the fact that we have had large claims and weather-related claims for DKK185 million in the same period, in my mind, it's a relatively strong performance related to the technical result.

And if you look at the Private segment isolated, you can see that we actually have an improvement of the technical results of 4% despite the fact that we had Norwegian floods in the quarter, which I think, is quite good. Of course, it's a lower technical result in Commercial and in Corporate; that is again due to the large claim this quarter.

If we look at the topline development, clearly you see that there is a drop in the topline. However, if you look at the Private segment, you can see that it's almost a flattish development, if you correct for the profit sharing agreement that has had an impact of about DKK40 million this quarter.

If we move on to the customer retention, it's a positive development in Private Norway, and it's a positive development in Commercial both in Denmark and Norway and it's a slightly weaker development in Private Denmark and the drop -- the small drop that we see there is due to the competitive pressure that we see in the Danish market. However, if you look at the retention rate in Private Norway, it has actually strengthened quite nicely and it is up about 0.7 percentage point this quarter.

If we look at the development in terms of the average premium, it's a healthy development -- it's a positive development in both Denmark and Norway in the main products.

I think it's important to note that when you look at the average premiums in house insurance in Norway is up 3.2% which is good. However, we also look at and monitor very closely, the situation related to claim sensation as we have talked about before. And one of the measures that we have introduced there is actually a new housing product in Norway in June with a more granular pricing which we think will actually improve our competitive situation in the market.

If we look at the developments in Sweden, you see that there is a drop in the retention level here in the last quarter, which is due to the termination of the Nordea agreement which has had some impact. However, as we mentioned last quarter, we have introduced new customer retention programs, customer loyalty programs, in Sweden, which we think will have an effect. It will simply just take some time.

And I think it's important to actually bring forward the profit improvement that we are seeing in the Swedish segment.

If we move on to the claims side, there is a strengthening in the underlying claims ratio of about 2.4 percentage points, which is quite good, to 72.2. I think it's important to note also that we do see an improvement in terms of the underlying claims ratio for Commercial which is up 3.6%.

If we look at the 2.4 percentage point improvement in the underlying claims ratio in the top level, of course, it is heavily impacted by the DKK75 million in savings from our procurement efficiency program which Morten mentioned initially.

Finally, when you look at the bottom graph there, you can see that the net claims ratio is at the -- is in this quarter, lower than the gross, and of course, it's influenced by the fact that we have had some significant large claims in the quarter.

If we look at the large claims development, we have had an impact of 4.2 percentage points this quarter which is also slightly higher than our estimates. You do know that we have an annual estimate of DKK450 million in terms of large claims.

In terms of weather-related claims, of course, it's impacted by the Norwegian or the Norway floods; however, it's only 1.3 percentage points in the quarter which is not really that significant.

If you look at the reserve situation, you can see that we have reserve releases of 5.2 percentage points this quarter which is significantly down from the same quarter last year, 1.7 percentage points. But of course, it is due to the fact that we had some gains on our sideways cover in the same quarter last year. The 5.2 percentage points run-off gains on a standalone basis really reflects a healthy level of reserving.

If we look at sort of the weather claims and I know that the weather claims has been -- it has been some discussion about the weather-related claims this quarter and particularly due to the fact that we had this flooding in Norway. And of course, as you can see from the graph, there is an increasing trend in terms of weather-related claims. We have seen isolated in this quarter, both the flooding in Norway and also the fact that we had some cloudbursts in Oslo in the same period. However, as you can see from the numbers, the total impact on Tryg is relatively low.

I think it's important to state the fact that of course, it creates some debate in both in Norway and at an earlier stage, in Denmark as well, about sort of the impact of weather-related events. And one of the debates that we have actually gotten in Norway is the fact that when people will have to relocate due to the flooding exposure, it has become a discussion as to whether the insurance companies will have to cover for relocation of policy holders, not only sort of rebuilding their houses. This is a part of the ongoing debate related to the weather-related claims.

If we move on to the investment side, we have an investment result of DKK30 million in the quarter, and we had a significant negative result, same quarter last year. The most important difference is, of course, related to the write-down of our domicile in Copenhagen of DKK150 million last year.

If we look at this quarter, isolated, we have seen some movement in the interest rates, we have seen some increased interest rates, and that has lead to a negative return on the bond portfolio. We have had a very nice development on the equity side and we have had returns on the real estate in line with our expectations.

We do see that there is a small negative mismatch in the period, which is due to some differences between the development in the swap curve and the discount curve.

If we move on to the capital structure, we have had a healthy development in terms of the capital. The buffer to the minimum requirements on individual solvency increased by 11 percentage points this quarter, and it is up to 67%. And in principal, you can say that it underpins a stable capital situation.

We have performed buybacks in the quarter of about DKK240 million and that will continue for the rest of the year, as you know.

And with that, I will leave it back to you, Morten.

Morten Hubbe {BIO 7481116 <GO>}

Yes. And I guess before we take (technical difficulty) just to summarize, we are very pleased with the combined ratio of 86.7% in also, where we have the highest level of large claims in four years.

That just shows that we have achieved by now, a level of robustness in our quarterly earnings that allows us to capture significant degree of headwinds and still deliver strong results.

I think the progress of almost DKK100 million of our efficiency measures in the quarter alone is very strong and enhances the results but clearly, as we still have two-thirds of our total program of DKK1 billion of efficiency measures outstanding, we clearly have our work cut out for us also in the remaining years until 2015.

And as you have seen, we also continue to work on improving our price differentiation and our customer selection. So clearly, all in all, we are very confident that we will reach our financial target which is to be at or below a combined ratio of 90%, to be below a cost ratio of 15% by 2015, and to continuously achieve an ROE of more than 20% post-tax.

I think that finalizes our slides and we are ready to take your questions.

Questions And Answers

A - Morten Hubbe {BIO 7481116 <GO>}

Vinit?

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thanks. Hi, Vinit from Goldman. Just -- I noticed slide number 10 very carefully because last year's First Quarter was literally the trough for the retention levels, and now you've seen -- so any comments on why the retention levels could have improved?

And further to that, the question is also the large claims, the listed[ph] building you mentioned in your report, is there some -- because one of the things that we always hear is that when you retain more and you end up having large claims in that line of business, then did you retain the wrong people or -- I think that is the key question in this sake?

A - Tor Lonnum {BIO 16534375 <GO>}

But I guess what is positive to see that we've done enough to secure that the customer loyalty has increased. Again, this winter, there was an external survey in both Denmark and Norway on cost and the satisfaction across the industry and Tryg came out as having the highest customer satisfaction amongst the bigger players in both Denmark and Norway.

And while we have done the majority of the needed price adjustments in 2011 and 2012, clearly, our customer loyalty starts to increase in '13 where the main gains to the results are through our own efficiency measures.

And I guess you may have seen also, significant outwards attempts towards our customers on concepts and products, etc., which I guess, from an analytical point of view, seems smaller per cases[ph]. That is we have done what we call Tryg Plus, which is a customer concept where, for instance, we introduce Tryg Housing, which makes it very easy to get fire alarms, water alarms, burglar alarms into your house.

We introduced what we call, Tryg ID Theft, because we see a lot of private individuals getting their IDs stolen on the internet and finding nowhere to get help. We are helping them with that. And we've introduced what we called Tryg In Life[ph] which is a lifeline support that you can contact when you are struggling individually. So I guess, a lot of softer customer-oriented initiatives which all in all, together with I think, a very high quality claims handling enhances the customer loyalty. I think that's very important.

And I guess, on the large claims, and the older buildings, it is something where you always need to be careful about the quality and the risk. It is not our view that we are above our market share in older buildings and we have spent a significant amount of time, for instance, helping farmers and bigger estates checking out their electrical systems because that is more often what causes the large claims.

But one of the biggest large claims we had in this quarter was actually a big estate, several hundred years old, where they were rebuilding one of the side buildings and they had a steel construction outside the building which was struck by lightning, and then the whole building caught fire. So really, it had very little to do with the conditions of the house as such. But clearly, it is an area where you continuously have to monitor the quality and the risk, but we believe we have enough risk to diversify it and manage it.

I think I'd just add two comments to what Morten is saying and one is I think it's very clear that there is no sort of particular trend in any direction related to the large claims. On the contrary, you can say that when we have commented on the large claims in previous periods, clearly, there is no normal distribution of large claims and as such, it will sort of hit you hard sometimes and less at other points in time. And so I think that's really important and, as Morten is saying, that when we look at the large claims, we don't see any significant trend in any direction.

Then I would just add to the retention that in particular, when you look at both the commercial and the private development, clearly, there is a an increased focus in the organization, in the sales organization about broadening the number of products per customer, which I think, is really important when you look at the loyalty and retention levels.

A - Morten Hubbe {BIO 7481116 <GO>}

You can actually see in the headcount numbers, that we are further down in the staff function and so we've actually added some more sales staff to do cross sales and add-on sales to existing customers.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Perhaps my second question on the interest rate impact on the combined ratio, one of the questions we have been thinking about this morning with investors as well is whether the very strong result today had any uplift already from the June uptake in yield. I guess not but I just wanted to hear it from you.

A - Tor Lonnum {BIO 16534375 <GO>}

You know, as you probably will recall, we had an interest rate drop through 2012. So if you compare quarter on quarter, it is actually slightly lower than the same quarter last year, I think it's about 0.4 percentage points related to the interest rate actually.

A - Morten Hubbe {BIO 7481116 <GO>}

Actually, a slight negative (multiple speakers) slight positive.

A - Lars Moller {BIO 2301941 <GO>}

Other questions from inside here?

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

Hi, it's Daniel Do-Thoi from JP Morgan. Just two questions. One, Tor, you mentioned the competitive situation in Denmark, could you just elaborate on that? Premium is obviously down, what part of that is due to improved risk segmentation, what part of it is due to competitive pressure?

Then secondly, on capital, you've shown a strong growth in your surplus capital. Going forward and with the developments in Denmark, what kind of level would you be comfortable with? What kind of solvency ratio are you targeting?

A - Tor Lonnum {BIO 16534375 <GO>}

Yes. Thanks. I can start with the latter, and then we can join forces on the first. In terms of the capital, it's fair to say that when we introduced a new dividend policy in December last year, we clearly said that what you gain here is sort of more transparency on the dividends that it will be between 60% to 90% of the results, and I think that we will aim for stable and growing nominal dividend. What you will lose is transparency on the capital.

So in principle, what we are saying here is really that, yes, we do have a stable situation -- a couple of situations. We are, at the moment, building a capital base as you can see. What we can offer to the investors is really confidence that we will look at the capital situation very thoroughly in light of sort of our 20% post-ROE target. So that is really the, call it, the cocktail that you get in terms of capital from us.

A - Morten Hubbe {BIO 7481116 <GO>}

And I guess on the first question, the mix between the topline development and composition, particularly in Private Line, first of all, it's important to remember that year to date, 2013, our profit sharing is almost DKK80 million and for the quarter alone, is around DKK40 million which actually means that our -- which is great because we are making money. So that is sort of backs some of that. But it also means that the actual topline development in Private Lines, adjusting for that is rather flat.

Then if you look at the competition which you asked, I guess it is fair to say that we saw in the autumn of 2012, that our sales was too low, and we see now in the -- both first and Second Quarter of this year, that our sales is picking up slightly. But of course, reported premium is mainly a result of the sales last year, so we also see that perhaps we pushed down on number of headcounts in sales slightly too far, and that is why we have added some sales staff particularly the cross selling and add-on sales to existing customers and to our bank customers in Denmark and Norway.

I guess we do see that also because of the economy in Denmark, and the better result from Private Lines, we do see that sales is higher with some of our competitors and that competition is slightly higher than it was with the same period a year ago. Nothing of significant changes, but a slight move to slightly bigger emphasis on sales at reasonable pricing.

A - Lars Moller {BIO 2301941 <GO>}

Do we have questions here? Operator, then we are ready to take questions.

Operator

(Operator Instructions) Your first question comes from Per Gronborg. Please go ahead.

Q - Per Gronborg {BIO 15910340 <GO>}

Yes. Good morning. It's Per from Danske. I have a couple of questions. The first one, the DKK65 million you have in weather-related claims, how much of that was related to the flooding in Norway? Give us a more specific figure on that one?

My second one is to your four new initiatives to retain clients, one of them being the burglary alarm. Will this be a discounted product? Will this in anyway, be a product where you will get the Tryg (inaudible) to co-fund the initiatives towards lives[ph]. I guess this is something that really could improve your retention that already is very high. It probably could improve it further.

And my final question is related to the interview that was in the Danish newspaper last week with the new Chairman of the Board, indicating that medium-term, which basically could be in a year or two, that your company should re-enter the acquisitive growth strategy that the Company was pursuing on until two years ago. What is your views on that? Has it been strongly (inaudible) or how should we look at this potential development of Tryg? Thank you.

A - Morten Hubbe {BIO 7481116 <GO>}

Good morning, to you, Per. I will take your second and third question, and Tor can take the first one.

Clearly the new plan on alarms for burglary and for water and for fire in housing is not something we are funding. There's a cooperation between us and Felke[ph] which is a very strong brand in the region, which ensures that we use our customer database and Felke's expertise to deliver a very, very competitive alarm function to our customers. And they then get a potential 10% discount on their content insurance, because of the lower risk. So there's actually no funding expense on our side at all, that is one of the advantages of having a big customer database.

On your third question, yes, it's fair to say that there was an article with our Chairman on the M&A front. And I guess if you -- you can always get confused by the headline chosen by the journalist, but not be confused by the content of the article. And the content of the article was very clear; we are in a market that does not grow, so we do not believe that we will be able to attain organic growth, neither short term nor longer term.

But what was also said was that if you look at the history of Tryg, our Swedish business was bought a couple of years ago, our Norwegian business was bought 14 years ago. Our Danish business is part of -- or the result of a big merger between two players in the Danish market almost 20 years ago. So clearly a big part of what we are today has been happening through mergers and acquisitions.

And what we've said is that there's a good likelihood that that would happen in the future as well. And clearly if you look at the markets, Sweden is the market where we are smaller than we would like to be and therefore clearly the market where we survey potential acquisitions the most. But having said that there's no doubt that plan A is to improve earnings through our efficiency measures.

Then of course we survey potential acquisitions, not organic growth, but potential acquisitions. We've done that for the last many, many years, and our 60% shareholder has been holding capital in reserve to support that. But we would never do an acquisition if we did not strongly have evidence that it would enhance earnings per share for shareholders. So in reality I see very little new in that argument.

Q - Per Gronborg {BIO 15910340 <GO>}

May I add one thing to that question, you say enhancing EPS? And at the same time you are now building up capital, which of course is mainly due to your new stable dividend policy, but you are still building up capital on your own balance sheet. Do you see that acquisition will be a very cheap funding way if you look at EPS calculations? I think the market would be more comfortable if you were not building up that capital and actually would be market funding your acquisitions. What hurdle rate would you use for acquisition these days?

A - Tor Lonnum {BIO 16534375 <GO>}

I think, Per, just to clarify, that it's important to say that on the short term, short to medium term, as Morten said relatively explicitly, we are not the aggressive M&A player in the market. I think it's fair to say that we are focusing on fixing the engine room, as we have said before, and the plan runs up until 2015.

However, I think we have said all along that that does not exclude us from saying that we will look at things if someone says to us that there is something that we -- that they would like to sell. So I think it's important to stress again that the core strategy is about fixing the engine room and that's the route that we are pursuing at the moment.

So I guess to your comment about the capital situation, it's fair to say that, as you indicate yourself, it's less transparency on the capital. However the control mechanism that you've got in place, so to speak, is the 20% post-tax ROE, and that's really important for me to stress again.

A - Morten Hubbe {BIO 7481116 <GO>}

Because I guess it really -- a 20% post-tax ROE target with the current interest rate environment really rules out the likelihood of building up a war chest to do acquisitions quite efficiently, and it should be like that.

A - Tor Lonnum {BIO 16534375 <GO>}

Yes.

A - Morten Hubbe {BIO 7481116 <GO>}

Because clearly if we do a transaction, at some point we would have to approach the market for that, and that would install the necessary discipline which is in all parties' interests.

A - Tor Lonnum {BIO 16534375 <GO>}

Yes. I think to the question about the weather-related claims of DKK65 million as you mention, Per, I think I'd like to answer it by saying that there hasn't been any major weather-related event in Denmark through the period. However, I think it's important to note that if you take the DKK65 million and do the math for the entire Norwegian market you will find some differences, because not all the claims are filed through the natural perils pool, so at least you need to use some caution if you're going to apply this number for the entire Norwegian market.

Operator

Your next question on the line comes from Hakon Fure. Please go ahead.

Q - Hakon Fure {BIO 16623060 <GO>}

Yes, morning, it's Hakon from DnBNor. Firstly on -- in the motor claims frequency in Denmark, the market data seems to indicate that the claims frequency picked up quite significantly in Q2. Did you see this in your portfolio as well? And if so, what were the offsetting factors?

And secondly, on IAS19 from your report there doesn't seem to be any significant capital impact this quarter despite the rising yields we're seeing at the end of Q2, is this a fair observation, and why is that? Thanks.

A - Morten Hubbe {BIO 7481116 <GO>}

Well I guess on the frequency side, Hakon, it's the only area where we've seen a pickup in frequency that's sort of worth mentioning, aside from the large claims, have been the frequency on motor claims in Norway in the Second Quarter. And actually we do not see any significant tick-up in frequency in Denmark or in other products. See we don't recognize an up-tick in the frequency numbers and we monitor that very closely, market by market and line by line, yes.

A - Tor Lonnum {BIO 16534375 <GO>}

And I guess on the capital question, I'm not quite sure if I caught your drift there, Hakon?

Q - Hakon Fure {BIO 16623060 <GO>}

Yes, no, it's on the IAS19, we've historically seen that you've had a negative capital impact from rates coming down, especially so on the pension liabilities in Norway with the up-tick in the yields we saw at the end of Q2.

A - Tor Lonnum {BIO 16534375 <GO>}

Yes, yes, okay, sorry, I didn't quite catch it. Now in terms of the pension, you can say that we had some positive impact in Q1, not significantly so in Q2, but some of it has been offset by an increase in longevity. So you can say that the overall positive impact for the first half is around DKK50m, so not really significant.

Q - Hakon Fure {BIO 16623060 <GO>}

Okay. Thank you.

A - Tor Lonnum {BIO 16534375 <GO>}

Sorry for being a bit slow this morning.

Operator

The next question on the line comes from Jakob Brink. Please go ahead.

Q - Jakob Brink {BIO 7556154 <GO>}

Yes. It's Jakob from ABG, I have three questions please. The first one is regarding what you call the competitive pressure in Denmark, could you maybe try and elaborate a bit on this? I mean, we look at the retention levels, it doesn't seem alarming in any way, also the average prices seem pretty healthy. So what do you exactly mean with competitive pressure in Denmark? I think this is quite new words from you.

Then secondly, Tor, you mentioned, and I quote, healthy level of reserving being the reason for the 5.2% run-off gains, what do you exactly mean with this?

Then thirdly on page 20 in the conference call presentation, you have this return on equity -- no, sorry, the combined ratio target bridge. Could you maybe try and talk a bit more about this? It seems like -- there's a great likelihood that we could end significantly below the 90% level. That was it, thank you.

A - Morten Hubbe {BIO 7481116 <GO>}

Good morning, to you, Jakob. I think if I start out with your first question on competition. You shouldn't hear any big signs or big alarm bells going off. I think the biggest change we can see is that one of the bigger bank assurance corporations in Denmark between Top and Danske seems to be selling significantly more than a year ago, and I guess that is the biggest change in the market. Then I guess we've seen EIK selling a bit more as well. But clearly we see reasonable pricing and we see strong results and we see pricing developing with inflation. So we don't see any foolish competition but we have seen a slight step up in the areas I just mentioned.

A - Tor Lonnum {BIO 16534375 <GO>}

Yes. And I think just to add to what, Morten, is saying is of course the fact that you always need to look at this on a relative basis. And in principle you can just say that on a relative basis it has increased slightly.

Now, you're quite right in your quotation about the healthy level as I said of reserves, and in principle you can say that, yes, it reflects that we feel that -- we feel confident in our reserving level and thus we have seen reserve releases slightly higher than perhaps expected at around 5. or 5.2% actually for the quarter. So I guess that is simply -- as simple as I said, that we feel confident in terms of our reserves.

In terms of the discussion about the bridge in the last slide, I don't know if that's something that you want to do, Morten, or anything?

A - Morten Hubbe {BIO 7481116 <GO>}

I don't think we've updated that bridge since the Capital Markets Day last summer. But I guess we can all do the math that having said that we want to reach below 15% cost ratio by 2015, having said that we want to continuously have a combined at or below 90 and an ROE above 20, then clearly with the current interest rate environment either the combined ratio has to be somewhat below 90, or the capital base has to be significantly smaller, otherwise the numbers do not add up. And I guess you're right in pointing out that that points to a likelihood of the combined ratio being below 90.

But as I said we have the capital option as well. And I think you've got us by the balls, having those three targeted numbers, and that is the way it should be. And we can work both with the combined ratio number and with the capital number. I think you're probably pointing to a reasonable question.

Q - Jakob Brink {BIO 7556154 <GO>}

I know it's not new in that sense, but I'm just -- now we're getting closer and closer to the quarter where you should be below 90, and already this quarter which -- where you're hit by two sort of larger issues, the flooding and the fire, and still you're way below 90 and you're also saying that the healthy reserving level, I guess that could help you going forward as well. We are basically down to 80 -- below 86 here if you just take the green first bar and the rest of them seems like something you've basically just made up so that it gets closer to 90. It's basically now what we are getting close to Q3; I mean there's nothing that indicates that we should be getting close to 90.

A - Morten Hubbe {BIO 7481116 <GO>}

I think, Jakob, it's important and Tor can supplement on that. But I guess it's important to say that if you look at the last 10 years of history, seasonality pattern is that the Second Quarter and the Third Quarter always have stronger combined ratios than the first and Fourth Quarter. So the below 90 is a consistent year or annual development and not just something we want to achieve in the summer quarters.

And clearly as we've said with the low interest rate environment we have to work with lower combined ratios to achieve the ROE. And you will not hear us whining and saying that we cannot achieve the ROE because of the interest rate environment. But we don't want to be very specific on the trade-off between lower than 90 versus working with the capital base, we want to be able to work with both options, which I hope you can appreciate.

Q - Jakob Brink {BIO 7556154 <GO>}

Actually just one follow-up then, on interest rates there was a question before as well, but, the rates did pick up but only one and a half week before the end of the quarter. What will be the impact of this in Q3 if they stay where they are?

A - Tor Lonnum {BIO 16534375 <GO>}

Well you're quite right there is, as we have said before, there is a link, a very clear linkage between the interest rate level and the combined ratio, so, of course if the interest rate level stays at a higher level that will have an impact basis point by basis point really on the combined ratio, all other things equal.

Q - Jakob Brink {BIO 7556154 <GO>}

But is it correct that it's around 30, 40 basis points?

A - Tor Lonnum {BIO 16534375 <GO>}

Yes. But I guess it's -- I don't want to stand here today and sort of do a prognosis on what is going on with the interest rate for the next quarter. So I think we'll have that discussion after Q3, Jakob.

Q - Jakob Brink {BIO 7556154 <GO>}

Okay, fine, thank you.

A - Lars Moller {BIO 2301941 <GO>}

Operator, do we have any questions?

Operator

Your next question comes from Simon Christensen. Sir, please go ahead.

Q - Simon Christensen {BIO 16977812 <GO>}

Yes. Good morning, one question. If I take your first-half topline and adjust for the profit sharing both in '12 and in '13 we end up at around minus 0.7% premium growth relative to 1.4% down on a reported basis. Practically just what I wanted to hear your thoughts on was -- I mean, what are your thoughts on growth in '14? Is this negative topline development just started, or are we in the middle of this process? Or what do you foresee for the next, let's say, six to 12 months? Thank you.

A - Morten Hubbe {BIO 7481116 <GO>}

Well I guess, Tor, we can say that first of all our priority is and has been to enhance our earnings and not to work with top line growth. In Sweden, for instance, we had two significant growth drivers in previous years, one was the bancassurance sales and the other was our call center to new customers in the northern part of Sweden. We have closed down both, because neither of the two actually created any earnings, and that is one of the reasons why our topline is significantly down in Sweden. We are now building up a call center in southern Sweden instead, which will focus on cross selling to existing customers. And we're working to find potential new partners in Sweden where we can actually create a profitable business.

If we take Sweden as an example, we actually believe that we will be well into 2014 before we start to see positive topline numbers in the Swedish market. I guess in commercial and private lines in Denmark and Norway we actually saw that the low point of our sales was in the autumn of 2012. We actually see that our sales currently is higher than it was in the autumn of last year. That points to an improvement in the top line of those two areas during 2014, whereas as the majority of 2013 will be decided upon the sales that happened last year. So I guess for Sweden it could actually be slightly worse before it's more positive, which is in '14.

I think for Denmark and Norway we have started to see a pickup of sales that will help us in 2014. But having said that, we've also become significantly more strict on which risks we want to attract in the sales process, and working more significantly with scoring models, with price differentiation, on ensuring that the quality of the risk we take on board is higher than the quality we have significant -- we have previously taken on board. And working with that needs some calibration and if that for a period shows slightly weaker top line, we're perfectly willing to work with that.

So don't expect a better top line in '13, but expect a gradual improvement in '14, particularly in the Danish and Norwegian numbers.

Q - Simon Christensen {BIO 16977812 <GO>}

Okay. Thank you.

A - Tor Lonnum {BIO 16534375 <GO>}

But just to qualify on the latter, I think you should at least look into the second half of 2014 and it will not be sort of any significant changes, so.

A - Morten Hubbe {BIO 7481116 <GO>}

No. And the basic belief is still that we're in a market that doesn't grow. So also longer-term high scale organic growth is not likely or something we target.

Q - Simon Christensen {BIO 16977812 <GO>}

But did I interpret you correctly on the previous question on acquisitions that this would only be done in Sweden, but you would not rule out anything in the other markets?

A - Morten Hubbe {BIO 7481116 <GO>}

I think the primary distinction was between organic growth, which we believe is not realistic and then M&A, where clearly as you say the focus would be on looking at Sweden. If something happened in Denmark or Norway we would of course look at that. But I guess, I've been with the company for 13 years and we've done only very few acquisitions in that period, so I guess we've shown that we're not exactly very trigger happy in that sense. And as we've discussed before we're not exactly building up a war chest to finance acquisitions. So priority for Sweden, and if it was something in Denmark or Norway it would have to be a very strongly positive EPS accretion case for us to look at it.

Q - Simon Christensen {BIO 16977812 <GO>}

Okay. Thank you.

A - Lars Moller {BIO 2301941 <GO>}

Operator?

Operator

You have two further questions on the line sir, are you happy to take them?

A - Lars Moller {BIO 2301941 <GO>}

Yes please.

Operator

Okay, your next question comes from Gianandrea Roberti. Please go ahead.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Yes. Good morning from me as well. Three very quick questions, one on capital. The S&P rating remains the most binding requirement for you, right? I just want to check to clarify any doubts on this. Hello?

A - Tor Lonnum {BIO 16534375 <GO>}

Yes. The answer is, yes, Gianandrea. Good morning.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Okay. Thanks, sorry I couldn't hear that. The second question in terms of large claims, can you just add for me, I don't know if it's possible, but could you actually split it out between Denmark and Norway the numbers that you publish for large claims in the Second Quarter. Did you have a lot in Norway or it's mostly in the Danish part of the business?

A - Tor Lonnum {BIO 16534375 <GO>}

It's actually, it's spread out between Denmark and Norway.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Okay.

A - Tor Lonnum {BIO 16534375 <GO>}

So if you look at the geographical numbers you will see that there is an impact of large claims both in Denmark and Norway.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Okay. Thanks. The last question about this interview last week, I may be pushing it a bit too much, but I found it extremely unhelpful, to the point that it almost can come back and harm you. I'm just curious if this interview was actually agreed before or what's going on? It doesn't really seem to me that you're in a pattern that should be diverged from this kind of discussion at this point. I'm just a bit puzzled by that. Thanks.

A - Morten Hubbe {BIO 7481116 <GO>}

Well it's -- I think we're puzzled a bit as well. But if you look at the previous articles from the same newspaper they voice very clearly that our customers were furious and angry and frustrated about increasing prices, and at the same time we were able to show that external surveys clearly show that we have the highest general customer satisfaction amongst the big players in Denmark and Norway. So it's like if you've got millions of customers you find a couple of furious customers, then all of a sudden all of the customers are furious, but the proof is that we have the highest customer satisfaction.

And in an interview like this where we say M&A has been a part of our past, has been a part of making us who we are, and at some point that is likely to happen again; it happened a few years ago in the Swedish market, that's one of the reasons why we're now making money in the Swedish market, and it will probably happen again at some point. That creates a headline in the newspaper saying now we're buying the whole world. To me, I see a pattern of exaggerating the wording a bit in that newspaper.

A - Tor Lonnum {BIO 16534375 <GO>}

And I think it's fair to say, Gianandrea, that, yes, clearly, of course, you're right that you don't want to make too much disturbance in terms of the market. On the other hand, you can say that in terms of focus in the Danish press in the Danish market it is actually helpful. So we actually try to combine both concerns so to speak. But I think the most important to be left behind from this conference call is really that there is no major change in our strategy, on the contrary we are focusing on fixing the engine room and that is our plan up until 2015. And we have said all along, of course, that if someone comes along and offers us a portfolio, it's something that we will look at, but at the moment we are prioritizing fixing the engine room, and there's no change in that strategy.

A - Morten Hubbe {BIO 7481116 <GO>}

And I guess the capital buffer that the 60% shareholder keeps in place to support potential acquisitions at some point, that is a capital buffer that they've been keeping in place since 2015 -- 2005. So that's a sort of eight or nine-year-old story to be honest.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Yes, yes, that's pretty clear, thanks. Thanks a lot for clarifying this, thanks.

A - Morten Hubbe {BIO 7481116 <GO>}

Good.

A - Lars Moller {BIO 2301941 <GO>}

Operator, did we have a last question?

Operator

Your last question comes from Vergard Eid Medias. Please go ahead.

Q - Vergard Eid Medias

Hello, this is Vergard Eid Medias from Pareto. I just have one question for -- just to see if I read your report correctly. You have no further significant re-pricing in the quarter and you have added on people in your sales division. Does this mean that there are sentiment change towards growth? Or am I also reading too much Danish newspapers?

A - Morten Hubbe {BIO 7481116 <GO>}

Well I guess it's fair to say that there are two factors impacting the number of customers, one is customer loyalty and the second is sales. If you look at the 2012 development we reduced headcount by almost 200 people, both in sales and in other business functions and in staff functions. And what we saw in the autumn was that our sales level was slightly lower than we planned. And what we've done is simply to squeeze the staff functions a bit harder and then to adjust the sales staff slightly upwards, but only for outbound call center staff, only doing cross sales to existing customers, not doing any new sales.

And also due to the fact that our new bank assurance agreement with Nordea allows us to do cross sales to the Nordea banking insurance customers who often would buy a car insurance together with the financing of their car, or house insurance together with the financing of their house. And thereby is left not fully covered in the full pallet say of products from an insurance point of view. So don't read any change sentiment on top line into that, but I think a healthy adjustment and a healthy focus on cross selling to the existing customers.

Q - Vergard Eid Medias

Okay. Thank you very much.

A - Lars Moller {BIO 2301941 <GO>}

Thank you. Do we have any additional questions from here, inside?

Operator

We have no further questions on the line, sir, please continue.

A - Lars Moller {BIO 2301941 <GO>}

Thank you.

A - Morten Hubbe {BIO 7481116 <GO>}

Well then I guess we should thank all of you for participating.

A - Lars Moller {BIO 2301941 <GO>}

Maybe just a final remark from my side, thank you to, Morten and Tor, here. I just wanted to point out that as you know we are probably the first company, insurance company in the world to report here our half-year figures, means that we can leave for our summer holiday in a couple of days. We will be around in London today road showing, and in Copenhagen tomorrow, otherwise we will be around in August again. So limited access, but of course if some extraordinary event should happen of course we will be available 24-7 as usual.

And I think it's a pretty good idea for you analysts, investors also maybe, to look into our Twitter profile, because basically the discussion here today about this interview with the Danish Chairman in the Danish newspaper is actually a link that we pushed out on our Twitter profile. So that would be an easy way to get this kind of information if you want to know that. And if some kind of a big world related event should happen during the next four weeks we will also use Twitter to maybe just outline the principles so to help you on that side.

Yes. But with these remarks, thank you very much for joining us today and have a nice day.

A - Morten Hubbe {BIO 7481116 <GO>}

Have a great summer.

A - Lars Moller {BIO 2301941 <GO>}

Yes. And a great summer to all of you, thank you.

A - Morten Hubbe {BIO 7481116 <GO>}

Thank you.

A - Tor Lonnum {BIO 16534375 <GO>}

Thanks.