FINAL

Bloomberg Transcript

Company Participants

- Gianandrea Roberti, Head, Investor Relations
- Morten Hubbe, Group Chief Executive Officer
- Ulrik Andersson, Interim Group Chief Financial Officer

Other Participants

- Asbjorn Mork, Analyst
- Ida Gjosund, Analyst
- Jakob Brink, Analyst
- Jan Erik Gjerland, Analyst
- Jonny Urwin, Analyst
- Mads Thinggaard, Analyst
- Per Gronborg, Analyst
- Steven Haywood, Analyst
- Youdish Chicooree, Analyst

Presentation

Gianandrea Roberti {BIO 6786731 <GO>}

Good morning, everybody. This is Gianandrea Roberti. I'm Head of Investor Relations at Tryg. We published our Full Year Results earlier on this morning. And I have here with me Morten Hubbe, Group CEO; and Ulrik Andersson, Interim CFO, to discuss the figures. Over to you, Morten.

Morten Hubbe {BIO 7481116 <GO>}

Thank you, Gian, and good morning to all of you, and we start on slide three, where Tryg reports a Q4 technical result of 656 million before Alka, which is roughly 5% higher than Q4 last year. Clearly, if we see the Alka business, we see very strong performance in the full year '18 with a technical result of 342 million, but bear in mind, in the Q4 report, the technical result impact from Alka is actually net negative 60 million, as a function of only two months of earnings being in the P&L, and also as a function of the provisioning structuring [ph].

When we look at Q4, we see low weather claims and low large claims in the quarter, but also relatively, low run-offs. We also see in Q4 continues strong improvement in the underlying claims ratio, some 50 basis points for private business and some 40 basis points for the Group. Clearly, investment result was challenged by the very difficult equity market and minus some 330 million driven by equities down almost 15% in the quarter, and also a loss on most fixed income asset classes.

Pleased to pay out quarterly dividend per share of DKK1.65 taking the total dividend per share for the full year, up to DKK6.60 increasing full year dividends for the seventh year in a row. Solvency ratio of 165 impacted somewhat by the longer than initially estimated approval period for Alka and of course, also the market losses in Q4.

On slide four, we are very pleased to see a strong and continued increase in the TNPS score. The high level supports high customer loyalty, which is paramount to our business. And in financial

FINAL

Bloomberg Transcript

terms, the high level supports our low expense ratio. We saw a strong increase in the retention rate in all areas with actually record high levels. Also, we see the number of products per customer increased from 3.5 to 3.8, supporting both loyalty and profitability. At the bottom of the slide, we show that awareness of the customer bonus continues to increase, and even though awareness of customer bonus increase also for our non-customers. It's still at a low level of 21% representing a strong potential for Tryg with increasing awareness of the bonus scheme in the future.

On slide five, we show that the technical result as mentioned before Alka improved 5%, primarily reflecting an improved underlying claims ratio. Of course, to reach our financial targets until 2020, we will continue to improve the technical result in the coming years. Private as planned is the main driver of the technical results, an increase of more than 18% year-on-year, and particularly the Danish business continues to deliver strong result of course, helped by the customer bonus and of course, also helped by run-off and benign weather in the quarter.

Commercial and general delivered strong results, but we do expect to see further results improving going forward focusing on stronger segmentation and actually more focused on the lower or smaller part of the commercial segment. Corporate was impacted by a negative run-off on the couple of very large older claims. And -- and actually, we have a very significant focus on the needed profitability initiatives, you know that we have carried out price increases of Corporate Norway of 7.2% in 2018, and we've carried out even slightly higher price increases upon that on the 1st of January renewal 2019. Sweden has recovered after losing some large partner agreements and achieved a technical result of 38 million in the quarter.

On slide eight, just illustrating that we're pleased to pay out quarterly dividends of DKK1.65, as I mentioned, taking the full year to DKK6.6. Our focus on capital repatriation is unchanged and the fact that we are increasing our full-year dividend for the seventh year in a row speaks for itself in that matter.

On slide seven, we show a new reporting on progress on the four strategic themes. Tryg, as you know has defined a number of strategic initiatives supporting the financial targets for 2020. Claims excellence is clearly the main initiative, and we continue to work for higher utilization of our supplier contracts. We see now an impact in procurement of 100 million, but we also start to see significant impact from improving process and fraud, when it comes to claims.

Product and service innovation is also very important, as it helps create new sources of revenues and bottom line and offsetting potential other changes in the current portfolio. We see already now, as illustrated a number of new products, improving both earnings and top line.

Digital empowerment of customers is clearly important and on track and supporting the targets for TNPS, but also we'll see finance -- the first financial impacts, as robotics and self-service starts to make the process less salary intensive.

Distribution, as the last area is traditionally the area with the highest cost level, where we actually haven't reduced costs prior to this strategic period, and we show here, the first 30 million impact in 2018, where we are on track to improve the distribution efficiency, clearly an area to further improve in the next two years. All in all in 2018, we've achieved approximately 200 million of earnings impact from these initiatives. Of the 200 million, 150 million relates to claims supporting of course the 40 basis points improvement in Group underlying claims ratio. But bear in mind that actually these claims initiatives also support the run-off gains on older years claims.

On slide number eight, we show the strong performance of Alka. As mentioned, a technical result of 342 million for the full-year versus a -- an assumed run rate of 300 million, combined ratio of 84 and a growth of more than 4%. Of course, 2018 helped by benign weather, also stronger performance, but also taking into account that the cost have started to reduce during the year, but actually this shows that Alka is an extremely well-run company even before synergies and supports strongly our target of technical result of 3.3 billion in 2020.

On slide nine, we show an illustration on the new distribution agreement with Danske Bank, which we believe will be even stronger than the previous agreement with Nordea. Danske is the largest bank in the Danish market, where Tryg has the strongest position, and also as a new feature, we will include commercial business in the cooperation with Danske Bank, which is actually new for Tryg in bank contacts and bears a lot of potential.

On slide 11, we show that the growth excluding Alka was 4.5% on the top line, and we're pleased to see growth in all areas. As private, as you know, is the most profitable area, we're very pleased to see significant growth here. Also we see in the Commercial segment, while we saw some help from smaller acquisitions, we're very pleased to see now growth in this area, where for many years, we actually saw a reduction in top line. And as commercial is structurally much more profitable than corporate growing here is actually key for the future.

Corporate as such showed a growth of 3%, but in general, growth in top line is not a key focus area in corporate. As mentioned, we want and need to improve profitability in corporate. And as I mentioned, we've actually carried out again now 1st of January '19 in corporate Norway price increases that are even higher than the 7.2% we did in 2018, also resulting in some loss of customers in corporate Norway, but clearly on the path to improve earnings in the corporate.

On slide 12, we show the development in average premiums and of course, clearly adjusting prices in accordance with claims inflation is structurally extremely important. We see some changes in the mix of the Danish private portfolio with a stronger growth amongst bank customers, and also the Danish motor association agreement. Both of those Groups have slightly higher ages and lower risk mix than our average private portfolio, which pulls down the average price in Denmark a little bit, but actually improves overall quality and future earnings.

On slide 13, we show that our customer focus is extremely important and monitoring that you can do through the retention rate. And of course, as mentioned, we are pleased to see improved retention rates across the board in Q4 and record high levels in several areas. Of course, Denmark is helped by the customer bonus model and therefore, we are particularly pleased to see the improvement in Norway, which has happened without this help.

And over to you, Ulrik.

Ulrik Andersson {BIO 20763187 <GO>}

Good morning, and on page 15, we take a closer look at the underlying claims ratio, where as you know, we adjust for the volatile elements in the claims ratio, the large claims, weather claims and run-off. And as you mentioned Morten, we see a positive development in the underlying claims ratio, in the order of magnitude of 0.4 or 40 basis points, which is -- is in line with our expectations. Specifically, we see in the -- in the Private segment, an improvement of 0.5%, which is also in line with expectations and we expect this improvement to continue in the -- in both 2019 and 2020.

If we turn to page 16, we look at those small volatile elements in the claims ratio. Large claims, as you're seeing more or less in line with expectations around annual expectations of 550 million and we arrive at 490 in 2018. Q4 was in general a benign quarter, in terms of large claims and weather claims, and we have -- as you can see, experienced a total of 384 million during 2018.

In connection with the acquisition of -- of Alka, we adjust the -- anticipated weather claims level from previously 500 million on an annual basis to 600 million, whereas we leave the -- the expected large claims level unaltered, as -- as Alka is not generally exposed to -- to large claims.

Looking at the run-off, it was relatively low at 4.1, and was impacted by run-off -- negative run-off of some larger claims from previous years in -- in corporate. Additionally, our run-off level has also been affected by a provision of DKK100 million in connection with the bankruptcy of Danish insurer, Alpha Group. And Alpha Group's liabilities in connection with workmen's compensations are to be split among the market participants in the Danish market and with our estimate of -- of the total cost of that, it -- it might end up in a -- in a order of magnitude of 100 million. We assume this to be a conservative estimate.

Turning to page 17, we look at the expense ratio, which for the full year was 14.1 and in line with our guidance for our 2020 target of approximately 14%. You should expect some variation in the expense ratio between quarters due to -- to volatility in the booking of expenses during the year. Q4 was of course, affected by one-off costs, in connection with the Alka acquisition, as you mentioned, Morten.

Turning to page 19, we look at the investment portfolio, which stood at approximately DKK40 billion with asset mix broadly unchanged during the quarter. As you remember, the free portfolio constitutes the equity and (inaudible) in our balance sheet, our estimated portfolio is invested in accordance with the claims reserve and is used to match the -- the payment patterns of the reserves.

Taking a closer look at the investment return on page 20, we are as -- as no secret to anybody had a tough fourth quarter in 2018. We had a total investment result of -- an investment loss of 330 million in the quarter, driven by this very poor development in the equity markets. Additionally, almost all fixed income asset classes also posted negative results hitting both the free portfolio and the match portfolio. We did however also reevaluate some of our investment properties, and which added 75 million to the results in-- in Q4 on the property investments.

In the bottom section of the -- of the slide, you can see that we have disclosed and improved our disclosure on the rating category on our fixed income book and the full -- the full ratings split shown through the -- through the left and the part, which is including the free portfolio is shown through the right. I apologize for the colors might being a bit -- bit confusing at least, but is -- is hopefully possible to -- to figure out the -- the distribution.

We continue to have a low risk profile in our investment book, but in a quarter like Q4, there's of course, almost no place to -- to hide in the market. And also remember that -- that our investments are booked mark to market. In the annual reporting season, more disclosure on the result of the match portfolio, which was minus 42 in the quarter, mainly due to Danish rates widening compare -- compared to the euro rates, which is a consequence of the -- the yield curve used to discount the claims reserves is not -- it's different from the yield curve that is -- that we are able to invest our match portfolio in.

Turning to Page 21, Morten you already mentioned the solvency position at Q4 standing at solvency ratio of 165, maybe moving pass of the Own funds or the new profits and the dividends, but also the increased tangibles coming from the inclusion of -- of Alka. The SCR is positively impacted by market risk model reduction, which means that -- that volatility in the value of the equity portfolio is to somehow -- some extent dampened by -- by the -- the calculations -- in the calculations of the solvency capital requirement.

Some long-term further adjustments to -- to Alka Investments portfolio is expected to bring down the SCR from the current 396 million, in connection with Alka to the previously mentioned 350 million. The solvency ratio is of course, also affected by the fact that the approval process of Alka transaction took a bit longer than -- than anticipated. If we assume that the transaction have been approved end of June and the investment result have been more in line with the non-development, we would have seen a solvency ratio around 168.

On page 22, we look at the capital part, there is not much new in the slides. Our overall Tier 2 and Tier 1 capacity has been fully utilized, but this I think has been disclosed previously on several occasions. More importantly, the solvency ratio should -- being a function of earnings and dividends going forward, so the -- the state of the underlying business is the determining factor, in this.

Turning to page 23, we show some sensitivities on the solvency ratio, and the main sensitivity remains spread risk, which is part of our covered bond portfolio. And this is, of course, our biggest asset class by far since it constitute the largest part of the match portfolio. This should not be major surprise to anyone. Yeah, I think that's -- that was all from me, Morten?

Morten Hubbe {BIO 7481116 <GO>}

Thank you, Ulrik, and just rounding off on slide 24. We show our unchanged 2020 target, particularly the 3.3 billion technical result target of 2020, combined ratio at or below 86, expense ratio of around 14%, and the ROE after tax at or above 21%. And as explained, expecting Alka to play a strong role in those targets both with very strong current run rate and the synergies starting to flow in. Then of course, we finish with our famous and -- and favorite quote from John D. Rockefeller on dividends and with seventh year in a row of increased dividends, we're pleased, so that is our key focus.

And with that, we'll turn to your questions.

Questions And Answers

Operator

Thank you. (Operator Instructions) And the first question is from the line of Asbjorn Mork from Danske Bank. Please go ahead. Your line is open.

Q - Asbjorn Mork {BIO 17028219 <GO>}

Yes, good morning. Couple of questions from -- from my side. If I start with the Danish business, your combined ratio year-over-year, up 110 basis points, if I adjust for run-offs, it's up 180. I was just wondering if this is -- you can see technical adjustments to -- to Alka because it seemed like Morten, you're mentioning that the private business in Denmark was still developing very nicely in Q4. So is it just the technical issues or is there a part of your Danish business that has seen a slight deterioration since Q4 '17?

A - Morten Hubbe {BIO 7481116 <GO>}

We see a strong development in both Danish private business and the Danish commercial business. When we look at corporate, of course, we see a group-wide impact not addressing your question on the large claim, but of course, the -- the booking -- the booking also of the 100 million on Alpha impacts the Danish business, as a sort of coincidence or sarcastic external factor with 100 million in the quarter.

Q - Asbjorn Mork {BIO 17028219 <GO>}

Okay. Fair enough. If we then turn to your -- to your Alka slide. So basically 1% lower combined ratio for '18 versus '17, but 5% lower run-offs quite a significant improvement year-over-year. So my question really is there -- have you taken out cost or as Alka taken out costs or the measures during 2018 to -- to deliver this improvement, and then should we sort of deduct that from the 300 million of synergies you expect looking ahead?

A - Morten Hubbe {BIO 7481116 <GO>}

Well, I think, first of all, the main story is an improved performance in the business of course helped by benign weather. Should bear in mind that we have this -- this little asterisk explaining that the run-off definition in -- on this slide is actually the Danish FSA definition, which is related back to the opening reserve and not actually the premium. So it's a slightly different definition than in fact, which we of course will adjust going -- going forward. And then, you do see that there was a reduction in Alka's costs during 2018, particularly some of the innovation areas were reduced during 2018, and there is a slight overlap of that linking into the synergies, but the bulk of the synergies are unchanged. So -- so I probably wouldn't adjust for that, if I were you.

FINAL

Q - Asbjorn Mork {BIO 17028219 <GO>}

Okay. Fair enough. Then if I look at your Norwegian business, the improvement that you have year-over-year, it seems, I guess some of this is weather and large claim related, but could you just maybe touch upon, how do you see the underlying in Norway, I know that -- that you can say that your -- your corporate business is still having some issues, but -- but the underlying trends in the remaining part.

A - Ulrik Andersson {BIO 20763187 <GO>}

Well, I guess it's fair to make an overall assessment that I guess, we've been talking about the quality and the trend of our Norwegian book in the past couple of years, I think we broadly see improvement in Norway, we see it both on the claims and on the top line. We see a stronger growth and price development in both private and commercial. We see an improvement in -- in the underlying claims in private. And then, we see actually improved pricing in corporate as well, but still had a way too high claims ratio level.

So one of the interesting class -- so we're very pleased with the general improvement in Norway both in the -- in the customer section and premiums and in -- in the claims, but we're very keen to continue to improve the Norwegian corporate business, and -- and it would be interesting to see, how much this will impact the top line of Corporate Norway in 2019. You will see in Q1, a loss of top line in Corporate Norway at the 1st of January renewal, but that is particularly planned, as we need to improve earnings in Corporate Norway, but very pleased to see the improvements in private and commercial.

Bloomberg Transcript

Q - Asbjorn Mork {BIO 17028219 <GO>}

Okay. Fair enough. Then -- then a question on your slide nine, on the Danske Bank distribution agreement. If I look at sort of your indexation of the development, it basically seems as if you don't really expect a net positive impact from this until, what looks to be 2022. So basically, you expect quite a significant churn from your Nordea customer portfolio, I guess that relates mainly to Norway, or where do you see that the main risk.

A - Morten Hubbe {BIO 7481116 <GO>}

I guess, it's not working with a conservative assumption on churn would -- would be dangerous. So we've chosen to be quite conservative in that assumption. Clearly, would -- we would have a stronger hold in Denmark, given our customer bonus program, and I guess, the honest answer is that we cannot completely predict this. So it's -- I would see this as a rough indicator of (technical difficulty) trend, and of course, we've tried to be slightly conservative on the -- on the churn assumption because we don't want to get caught by surprise.

Q - Asbjorn Mork {BIO 17028219 <GO>}

Okay. Fair enough. Then on your slide seven, the strategic initiatives. So the gross figure 475 million of -- sort of improvements, you've seen so far. Could you just maybe elaborate a bit on how is the net impact from this going forward and how it has been so far.

A - Ulrik Andersson {BIO 20763187 <GO>}

Well, I guess, the -- the most important driver so far is really the -- the tangible impact on claims. And if you summarize the four categories, you get to 200 million with a number of specifications underneath that. 150 million of that relates to claims, and that is then again split to what hits the underlying claims supporting the 40 basis points. And then we see every time, we improve the claims procedures, but of course a number of the claims we handle are actually treated as run-off because they're from prior years. So actually a number of the initiatives carried out here and the 150 million would fall in the run-off category, but I guess money is money, and it basically supports our longer term high level of run-off gains. So that gives you an indication of the -- the net-net. And I guess, if you -- when you take the full function of what we do on the -- the claims procurement areas and what we do on price changes, you also see that we need to do more than the net impact, we're looking for because there is always competition, and there's always adverse development also in other areas. But here you see the sort of individualized impacts from the -- each of these four drivers.

Q - Asbjorn Mork {BIO 17028219 <GO>}

So is it fair to assume that -- that you get around one-third of the gross impact on a net basis?

A - Ulrik Andersson {BIO 20763187 <GO>}

Well that is, if you look at the -- if you look at the underlying only, but then you're missing the point of improving the run-off.

Q - Asbjorn Mork {BIO 17028219 <GO>}

Yeah, okay, but then the underlying yes, it's okay.

A - Ulrik Andersson {BIO 20763187 <GO>}

So -- so on the underlying, you're right. On the full P&L impact that number would be too low.

Q - Asbjorn Mork {BIO 17028219 <GO>}

Okay. Fair enough. Then a final question on your Solvency II ratio, the 165. Now, you also have quite a lot of -- of intangibles and goodwill on your balance sheet. How do you look at -- I know maybe it's a bit premature, but how do you look at your extraordinary dividend capacity looking ahead?

A - Ulrik Andersson {BIO 20763187 <GO>}

Well, there's no doubt when you do the math and you look at our 2020 earnings targets, if you -- if you assume stable investment returns, then it's quite easy to see how we get to a territory, where the equity grows too much, and we actually have no ambition of increasing our overall solvency level, but having -- and that would result in a return to extraordinary dividends. Having said that, I guess, it's pretty hard to predict the timing of political stability and also normalized returns in the investment book. So I would hesitate a bit to be precise on that, I'll probably leave that to you. But normalizing investments adding the targeted insurance results for the coming years, you see, how we get to a position, where we would need and want to do extraordinary dividends.

Q - Asbjorn Mork {BIO 17028219 <GO>}

All right. That was all from my side. Thanks a lot.

A - Ulrik Andersson {BIO 20763187 <GO>}

Thank you.

Operator

Next question is from Youdish Chicooree from Autonomous Research. Please go ahead. Your line is open.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Hi, good morning, everyone. I've got three questions, please. The first one is really on -- on your guidance and -- and the outlook really. I think for the past couple of years, you have guided to claims inflation in the region of 2, 2.5 and pricing of 3. So I was wondering how that changes in the coming year? And also, whether with -- now that the acquisition of Alka is complete, what -- what is your guidance really on your underlying loss ratio?

And then finally on -- again on Alka. I mean, how aligned are your capital model at this stage? And should we expecting some refinement in your capital model going forward? Thank you.

A - Ulrik Andersson {BIO 20763187 <GO>}

Yeah, I can start with the -- with the last question. As -- as I mentioned in -- including Alka in -- in the Tryg solvency capital model will -- will lead to a lower capital charge in -- with Alka being part of Tryg, as compared to -- to the previous standalone. And as you can -- seeing on page 21, we right now have included Alka with an amount of 396 and as I mentioned, adjusting the Alka balance sheet and the Alka -- adjusting for Alka in the model, so to say this amount is expected to -- should be lower to around 350 which will then translate into around one percentage point on the solvency ratio. So yes, we are still in the early stages. As you know, we got the approval in November and until November, we were not able to -- to work in detail with including Alka. So there is still some work to be done, but that will definitely result in a -- in a lower capital -- solvency capital requirement for the Alka book.

A - Morten Hubbe {BIO 7481116 <GO>}

And as far as the guidance is concerned, from a guidance on claims inflation and pricing point of view, there's really no change. But when you look within the synergies of 300 million you see of course that one of the major roles is played by procurement, and of course, procurement will ultimately hit the claims ratio. But we -- we choose to count that in the solvency bucket -- oh sorry, in -- in the synergies bucket.

We've gone through some 700 contracts in Tryg and Alka on procurement. We've started to see the early results of that procurement already 1st of January. We've negotiated reinsurance for instance, on behalf of Alka and Tryg together actually with a net reduction in reinsurance costs, which is slightly higher than assumed in our synergies plan. So the factor of the claims development should be stronger, but we have -- you will see that in the synergies counting.

I guess, you're going to argue that with the current run rate, the guidance we've given on top line seems quite low. And I guess, it's fair to say that private and commercial lines is expected to have a higher growth rate than the -- than the announced 0% to 2%. The question is, of course, what -- what happens to Corporate Norway? There is likelihood that we are too conservative on this. But we don't want a pressure to keep top line in Corporate Norway because we have a very, very keen and determined view that we need to improve earnings in Corporate Norway, including letting go off some customers and that could pull down the otherwise higher growth in private and commercial.

Q - Youdish Chicooree {BIO 17430923 <GO>}

All right. Thank you. Just one follow-up on Corporate Norway. You mentioned that the price increases at 1st of Jan this year was higher than -- than the 7.2% the prior year. I was wondering, I mean how far you -- do you think you are in terms of sorting out the profitability there.

A - Morten Hubbe {BIO 7481116 <GO>}

I think the reality is that we see areas, where the price increase should be as high as 20%. We actually see a few areas, where itself as high as 40%. So if you take fish farming, for instance, our price increases are already more than 20% in the -- in just the previous year. But when you do the math and see that we did 7% on average last year and we're doing a bit more than that 1st of

January, you are looking at a sort of three year period, and then we need to take care of also the current year's claims inflation, so it could be three years plus.

And of course, in the case of corporate, it's not just a matter of increasing prices, it's actually also a matter of -- of leaving exposure behind, where the large claim risk is too high, and we are spending a large amount of resources on securing that to create a longer term, more sustainable higher return on corporate and that will result in some loss of business and we see that 1st of January already.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Okay. Sorry. When you say it's three years, do you -- do you include last year as well or is it three years starting including this year.

A - Morten Hubbe {BIO 7481116 <GO>}

I -- I guess, if you assume serial claims inflation, you could include last year and then make a three year period, and then you could get to somewhere around 20%. Then of course the question is what happens to current inflation. So -- so all in all, it's going to be a bit more than three years, including last year.

Q - Youdish Chicooree {BIO 17430923 <GO>}

All right. Understood.

A - Morten Hubbe {BIO 7481116 <GO>}

But I guess, a big driver is how good are we at identifying the exposures, we should leave behind because that is really a much more important driver in corporate than in the retail business.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Okay. Understood. Thank you very much.

Operator

And next question is from the line of Jonny Urwin from UBS. Please go ahead. Your line is open.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi, good morning. Thanks for taking my questions. Just two from me. So just -- just focusing on the -- the capital return potential from here. So -- so obviously, the solvency ratios landed a bit below the -- the guided 170, I'm just trying to think about how -- how we think about special dividends in that context? I mean it sounded like from a previous question, you're still relatively confident in specials for 2020, but less so for 2019. Is that fair? And I guess theoretically, would you be comfortable paying a special dividends at the current policy C-level.

Secondly, still there is obviously -- so obviously, there -- there is a bit of Alka investment portfolio rebalancing to come, which will help your solvency ratio modestly. In addition, you talk another 10 point reduction in the SCR, as you announced at the Capital Markets Day and that could increase the solvency ratio further. I mean, how -- how quickly can these measures be implemented and can that help you rebuild the buffer through 2019. I'm just trying to think does -- do those actions help you sort of increase certainty around the 2019 special dividend? Thank you.

A - Ulrik Andersson {BIO 20763187 <GO>}

Yeah. Yeah, I can start with the second question. The changes as we've mentioned, the changes to the capital model correctly that -- that Alka will be included and we'll -- as I said before adjust the profile of the investment book coming from Alka to Tryg and that really in itself reduce the capital requirement. Concerning the changes that we have announced to the model, which will potentially also increase the solvency ratio, we are working on those right now. It's -- I don't think we've given any guidance on when exactly, but during the next -- the next year, we will definitely work hard on that. And it's quite obvious, as Morten said that the driver for our dividend going forward will be the result of the business and -- and -- and going back to a more -- call them a more normal investment result and -- and following the track on the -- on the technical results, as we have shown, so it's -- it's more or less the -- the drivers for -- for that.

A - Morten Hubbe {BIO 7481116 <GO>}

And I guess, on your first question Jonny was, I thought, I heard it a -- I understand what you're trying to achieve, but I guess in -- in all fairness, it's a slightly cheeky way of trying to ask what is the precise timing of specials '19, '20 or not and what is the more precise target solvency ratio level. And I guess, you know as well enough to know that the answer is that we don't give that specificity. So -- so I guess in our own numbers [ph], we look at targeted earnings, we look at normalized investment returns, and then we look at how the equity grows, and then we look at how that drives us towards the position of paying specials again.

And then, trying to figure out how far, will investment returns deviate -- deviate from that normalized path. As we said before, that is anyone's guess. So -- so I'll leave that to you. But you can see from the normalized numbers, how we grow into specials territory again. But we will not be specific on the timing or the size of that.

Q - Jonny Urwin {BIO 17445508 <GO>}

Worth a try. Thank you very much.

Operator

Next question is from the line of Ida Gjosund from Carnegie. Please go ahead. Your line is open.

Q - Ida Gjosund {BIO 19788453 <GO>}

Good morning. A few questions from me, please. Firstly, on the premium growth that you report growth of 4.5% excluding currencies and Alka. What is the number excluding all acquisitions? And then going back to your previous question on your Danish business, could you quantify the impact on the Danish combined ratio from the bankruptcy of Alpha in Q4? And then lastly, on slide 15, I can see that the underlying claims ratio seems to be picking up in corporate, is Norway still the main driver of this, a bit color here would be great? Thank you.

A - Ulrik Andersson {BIO 20763187 <GO>}

I can start with the last one, you said on page 15 was shown on the -- on the right is not the underlying claims ratio, yet which includes all the volatile elements, as I described both the run-off, the large claims and and weather claims, and we have seen some large claims in Norway. I think we talked about those in Q3, which is -- is the main driver of -- of the Norwegian part of the corporate book. So that's the -- that's the main -- that's the main part of that. It's not the underlying claims ratio that is shown on the right.

Concerning your question on Alpha. As I mentioned, we have a provision of DKK100 million. So you can calculate that's around one percentage point on the Danish -- in the Danish Group. It is of course booked under the run-offs, as it relates to prior years claims. And as I said, the amount is uncertain, as -- as the bankruptcy case is ongoing. So we've made an estimate based on the data we have -- has been made available to all companies in the Danish market to assess the liabilities of Alpha Group, and we've made this what I would regard as a -- as a conservative assessment of that liability.

A - Morten Hubbe {BIO 7481116 <GO>}

I guess, Ida, you can do the math on the quarterly impact if you want to do that. It is booked in Q4.

A - Ulrik Andersson {BIO 20763187 <GO>}

Yeah, it's booked in Q4.

A - Morten Hubbe {BIO 7481116 <GO>}

Yeah. All of it.

When it comes to premium and the underlying, you're right that the growth excluding Alka is 4.5% on the top line. We've previously commented throughout the year often underlying organic being at around 3%. If you look at the quarter in isolation on -- the underlying organic is around 2.3%. Bear in mind and that particularly in private lines when the combined ratio is so low in Q4, we have a number of partner agreements, where we share some of the result with the partner, that partners then booked as a reduction of the premium. So there is a higher than expected reduction of premium in Q4, as the combined ratio of private particularly Denmark is even lower than expected. So that is pulled out of this growth area that's why we get to 2.3. Without that the underlying would be higher.

Q - Ida Gjosund {BIO 19788453 <GO>}

Okay. Very clear. Thank you.

Operator

Next question is from the line of Mads Thinggaard from ABG (sic). Please go ahead. Your line is open.

Q - Mads Thinggaard {BIO 15369662 <GO>}

Yeah. Hi, this is Mads Thinggaard from ABG. I have just two questions left. And the first one is on the time plan for the Alka synergies in 2019, you stated 75 million in synergies. Could you kind of elaborate on which lines we should kind of see being impacted by the synergies here in 2019.

A - Ulrik Andersson {BIO 20763187 <GO>}

Yeah, well first of all, we -- we stick to the, I think we've had a number of questions on when we saw a later than assumed approval process, would that mean a later than announced synergies plan, and the case in -- or the answer is that is no. We stick to the timeframe of that. What we see already now is that there's a number of areas, where the -- the costs which would hit the cost line are lower and starts to -- to be reduced already in -- in '19. There is also a reduced reinsurance cost, which has just been -- been negotiated, which would hit the -- the claims ratio line. And then gradually during '19, you start to see the impact of the biggest driver, which will be the procurement area, but that will start to happen in the sort of latter part of -- of '19 and into '20. But already now, it is starting to be implemented and being approved and that's why this study and plan of 700 contacts across Alka and Tryg has an extremely detailed plan of that. So cost and reinsurance first, and then you start to see procurement ticking [ph] in.

Q - Mads Thinggaard {BIO 15369662 <GO>}

Okay, great. Thanks -- thanks a lot for that. And then just a small follow-up on -- I mean on the drop in one-off gains. It was just be -- it would be a bit helpful if you could kind of confirm that the things that lead to -- to the low one-off gains Q4 that is not kind of something that extends into the future, it is more I mean, kind of one-off like items that produces the drop (multiple speakers).

A - Morten Hubbe {BIO 7481116 <GO>}

FINAL
Bloomberg Transcript

We can -- we can confirm that. I mean, our longer-term communication on one-off is completely unchanged. There is -- as mentioned, the corporate order, very large corporate claims that results in one-off losses. And then there is -- there is one-off booking related to the bankruptcy of Alpha Insurance, which actually has nothing to do with Tryg at all. We just have to put a 100 million to the good of someone else and that is booked as a one-off loss. So we can completely confirm your question.

Q - Mads Thinggaard {BIO 15369662 <GO>}

Yes, great. Thanks a lot.

Operator

Next question is from Jakob Brink from Nordea. Please go head. Your line is open.

Q - Jakob Brink {BIO 20303720 <GO>}

Thank you. Just coming back to the solvency model maybe actually asking it a bit differently. So the credit spreads have widened quite significantly in the first months of the year. Could you give us some kind of status on how -- how the solvency would look now with -- with the spread widening that has already happened? That was the first question.

And the second one, Morten if I heard you correctly before also on the solvency, you said no ambition of increasing overall solvency level. Does that mean the 165 or did I mishear you?

And then finally, the 200 million that -- that you have realized on -- on efficiency gains in 2018. How much of that do you -- do you calculate actually hit the bottom line? Thank you.

A - Ulrik Andersson {BIO 20763187 <GO>}

Yeah, good morning. On the solvency, we -- we cannot comment on developments after -- after December 31st, so that's -- that's -- that will not be commented -- we will not comment on that. But you -- of course, you can look at this -- at the -- since it's related to [ph] the solvency ratio, which was shown in page 23 and do your assessment based on -- based on that.

A - Morten Hubbe {BIO 7481116 <GO>}

Jakob, I guess, when it comes to the comment, you're right Jakob, I commented and I'm of the opinion that we have no ambitions to increase the solvency level. When I talk about solvency level in my view that is not pinpointed to a specific number of 165 and in my view that represents a new level, where we came from 210, 211. So -- so we don't make our decisions based on one or two or three points on the solvency. But the general level we're at now, we're comfortable being there, and we have no longer-term plan of building a higher solvency level than that. So -- so I stand by that comment.

When it comes to the efficiency gains of 200 million, first of all, there is a split of 150 to claims and 50 to costs and we see the impact of 40 basis points of underlying for the current year on claims for the Group and then we see an improved impact also on run-off gains. You can say that it -- it varies a lot from product to product, but there is an overall sentiment to that approximately half flows to the bottom line, but there is a lot of variation in that number. And it is also important to say that a number of the efficiency measures that we carry out on the cost side for instance, is reused to invest heavily in IT, and we see for instance, if we just -- we distinguish between the IT strategy and the business IT and the IT strategy has its own investment program.

If we look at the business IT investments, the business IT investments just in the past two years period, it's actually been doubled in a number of areas. So clearly working with new digital solutions, new automation, new products, et cetera, et cetera at a much higher speed than before

FINAL

Bloomberg Transcript

requires more IT investments, which actually consumes a lot of the cost reduction carried out and that's of course why we communicated the stable 14% and not a reduced 14% because underneath that is significant savings, but also significant investments in IT. And then as mentioned be aware that claims impact both the underlying and the run-offs.

Q - Jakob Brink {BIO 20303720 <GO>}

Okay. Thanks a lot.

Operator

Next question is from Steven Haywood from HSBC. Please go ahead. Your line is open.

Q - Steven Haywood {BIO 15743259 <GO>}

Hello. Good morning, everyone. You've talked about these corporate price increases. Is there any reason why you're not telling us average, what the price increase is. Do you put through recently?

A - Morten Hubbe {BIO 7481116 <GO>}

Well, I guess, if you -- I guess, in an ideal world when you have passed 1st of January, you would push a button, and you would know the precise number. Unfortunately, if you look at the complexity of corporate policies and pricing, it's not a simple as that. So what actually happens in January is that you do a first count, which is not fully complete, and then you do an estimate on the count of that and then when you're a little bit further into Q1, you would know the final number. So that's why we've given you the precise 7.2% for last year and we'll give you a precise number for '19 as well, but if -- if -- we only have an estimate at this point. So you will hear precise number later. But the estimates shows us that we are slightly higher than the 7.2% from last year, so that gives a more practical reason.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay. Yeah, that's good to know. And on the -- on the corporate reserve additions, you did. Were -- were any of these because any cases settled finally or could there be further provisions coming.

A - Morten Hubbe {BIO 7481116 <GO>}

The majority of -- of those few cases have been settled.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay. Thank you. And on the -- on slide 16, I think you mentioned something about conservative estimates here. Can you remember what you're talking about, was it for the weather claims or large claims or for something else.

A - Ulrik Andersson {BIO 20763187 <GO>}

That was on the -- that was on the Alpha provision, for the bankruptcy of Alpha.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay. That was it. Okay. That was it. That's fine. Thank you very much. And then finally from me. On the volatility adjustment, there is some changes that EIOPA did to the Danish volatility adjustment last year. Has this impacted just solvency II ratio or is there an impact to come.

A - Ulrik Andersson {BIO 20763187 <GO>}

No, it hasn't impacted and -- and we don't expect any impacts from that.

FINAL

Bloomberg Transcript

Q - Steven Haywood {BIO 15743259 <GO>}

Okay. Fair enough. Thanks very much.

Operator

Next question is from the line of Per Gronborg from SEB. Please go ahead. Your line is open.

Q - Per Gronborg {BIO 15910340 <GO>}

Yes. Thank you. Good morning. Still a few questions left on my note probably should take them one by one, as they are pretty specific. The match portfolio is down from 33 billion to 29 billion despite, your insurance results are up Q-over-Q. What's the -- what's the background for that. Did you hike the money for Alka in the match portfolio, you know, give us a little bit background?

A - Morten Hubbe {BIO 7481116 <GO>}

Definitely, make sure. I guess, your point is say the match portfolio (multiple speakers)

Q - Per Gronborg {BIO 15910340 <GO>}

Is down from 33 (multiple speakers) no. I'm just hoping that didn't [ph] that the match portfolio is down from 33 billion at the end of Q3 to 29 billion at the end. One should expect that the acquisition of Alka would add money to the math portfolio.

A - Ulrik Andersson {BIO 20763187 <GO>}

I'll come back. We'll comeback to that, Per.

Q - Per Gronborg {BIO 15910340 <GO>}

Okay. Fair enough. (multiple speakers). Also a technicality, you're stating that you are doing some tax adjustments for the first nine months. Can you put a number on the tax adjustment for the first three months, I guess that is explaining why your tax rate is within the normal rates in Q4, where I guess, it should have been materially above the normal rates range due to losses on equities?

A - Ulrik Andersson {BIO 20763187 <GO>}

I think if you look -- if you look at the nominal figures on the tax in Q4, it's quite low. And as you know, when doing the book -- booking the year end, we do reassessments of some of the tax issues and even though the nominal is not very large. They do have an impact on the tax percentage. So the nominal amounts are quite -- quite low.

Q - Per Gronborg {BIO 15910340 <GO>}

I guess, what shouldn't -- shouldn't the percentages have been very, very high due to your losses on the equities not being tax deductible.

A - Ulrik Andersson {BIO 20763187 <GO>}

It's true. But as -- as you mentioned yourself, we are offset by some adjustments for previous quarters and the nominal amounts are quite small as -- since the pre-tax result in the quarter is quite small. So nominally these amounts -- these amounts are -- are small.

A - Morten Hubbe {BIO 7481116 <GO>}

So you -- so you -- in isolation, you are -- the driver you are looking for is correct Per. And it's fair to say, you know, I used to be the CFO and once a year spend with the guy going through the full tax return that's an interesting exercise. And when you go through the details of that there's just a lot of very small moving parts and making the predictability of tax very, very difficult, also in a year with a lot of moving parts like '18. So -- so apologies that the transparency on that has been somewhat less than we would have liked.

A - Ulrik Andersson {BIO 20763187 <GO>}

I think it sum ups to around 40 million in -- in total and it's a number of smaller items that sum up to that amount.

A - Morten Hubbe {BIO 7481116 <GO>}

Yeah.

Q - Per Gronborg {BIO 15910340 <GO>}

Okay. But the -- but the key issue remains that we should look at your taxable income, as your profit, excluding any value adjustment on equities.

A - Ulrik Andersson {BIO 20763187 <GO>}

Correct.

Q - Per Gronborg {BIO 15910340 <GO>}

Correct. Okay. Just to be sure (technical difficulty) going forward. My final question is the corporate segment is hit by some large claims. Can you give us some indication on the good case, where they have hit geographically Sweden, I guess, that's the key reason, why Sweden is coming out as bad, as it is on the country result this quarter. But also -- but also the split between Denmark and Norway?

A - Morten Hubbe {BIO 7481116 <GO>}

There's no doubt that when we look across the Nordics, we'll see on property that -- that Norway has been hit by a couple of -- of very large claims, one actually being a 2018 claim and the autumn factory in France; two, being an adjustment to a property claim, which is actually [ph] from '17. And then we've seen in Sweden, a couple of -- of very large liability claims. So -- so those have been the main drivers and Denmark has had of course, large claims as well, but less -- but less so in 2018.

Q - Per Gronborg {BIO 15910340 <GO>}

If you're talking about the fourth quarter, is that the same picture.

A - Morten Hubbe {BIO 7481116 <GO>}

Well, I was giving you the full -- the full-year. The factory in France was Q3. The adjustment to the property claim in Norway was Q4. Sweden is split between Q3 and Q4. I think if you look at corporate Q4 that it's -- the large claims ratio is 9.5 that's -- it's around DKK90 million claims and it's a number of claims, so it's none -- it's not very large claims in -- in that respect, it's claims DKK10 million [ph], DKK20 million a number and they are evenly spread across the -- the three countries.

So I guess, Per when you look at it from a sort of more helicopter perspective, the challenge in the corporate segment both in Sweden and Norway, but particularly in Norway is that the price you get for the small and medium size claims is actually okay, but the price you get on average for the large claim exposure is not high enough and that's the main driver of the price increases carried out. But also, particularly, in Sweden, we have substantially started to change our exposure. We have let go off a number of exposure types, some product types, we have left altogether and some product types, we have reduced. So -- so in Sweden, the exposure reduction has played a major role so far. And in Norway, the price increases have played the major role so far. But all-in-all, with a clear plan to increase returns and reduce large claim exposure across corporate.

Q - Per Gronborg {BIO 15910340 <GO>}

So this implies that we should expect a clearly low premium income in Sweden going forward, it sounds like that.

A - Morten Hubbe {BIO 7481116 <GO>}

Well, I guess, the -- I think the largest impact in '19 will come from Norway. I think it's likely that -- that corporate Denmark will be -- will have a more healthy development because the bonus scheme supports this segment, whereas the main negative driver on top line in corporate will come from Norway.

Q - Per Gronborg {BIO 15910340 <GO>}

Okay. Thank you.

Operator

And next question is from Jan Erik Gjerland from ABG. Please go ahead. Your line is open.

Q - Jan Erik Gjerland {BIO 5346031 <GO>}

Good morning. I'm Jan Erik Gjerland from ABG in Oslo. Just a follow-up on Per's recent question on premium hikes in Norway and Sweden. What is really the churn you're afraid of in the Norwegian Corporate, as you have fuel price hike very much?

And secondly, what kind of products are you really leaving in Sweden. Is it to this -- the small niches, you have been into or is the niches really where you find the profitability? Thank you.

A - Morten Hubbe {BIO 7481116 <GO>}

Good morning, Jan Erik. If you take the -- the Swedish question, first. We have left, for instance, a number of commercial vehicle segments in Sweden, where Europe is simply impossible to make money and all of our structural analysis suggests that it's not just a pricing issue. It's a longer term lack of quality in the market in this segment. So commercial vehicles, we have left.

And then, we have in a number of examples, of international liability exposure made clear decisions on areas that we have left as well, particularly, there are areas, where Swedish corporations have a lot of liability exposure to the US market and -- and in such cases, we have chosen not to ensure those corporates because the US liability is simply too unattractive from a large claim exposure point of view.

I think in Corporate Norway, the acceptance of price hikes in '18 was high. We see a lot of competitors increasing prices in Corporate Norway in '19 as well. But we also see some individual, very large customers in Corporate Norway, not accepting our 1st of January price increases that were very significant. And as such, the net-net top line development of Corporate Norway 1st of January has been negative, but with significantly higher prices. So hopefully that gives a bit more color to your question.

Q - Jan Erik Gjerland {BIO 5346031 <GO>}

Very well. Just who are taking these little -- unprofitable corporate customers in your view then (multiple speakers)?

A - Morten Hubbe {BIO 7481116 <GO>}

Well, I wouldn't want to -- I wouldn't want to name. Of course, we know customer by customer, who is the new carrier. I don't see a very clear trend that they are all ending up with the same customer or same -- same compared to same customer [ph]. I think if you go back a couple of

FINAL
Bloomberg Transcript

years, the growth in Corporate Norway of (technical difficulty) sector was quite dominance, but that is as much more stable or down shown at the moment. So -- so we don't see a clear trend, so that is all ends up with one provider. But we do see a trend that on average most as in Corporate Norway are increasing prices at the moment and it's clear from the base of that, that is necessary.

Q - Jan Erik Gjerland {BIO 5346031 <GO>}

Thank you so much, Morten.

A - Morten Hubbe {BIO 7481116 <GO>}

Thank you.

Operator

And that was our final question for today. And so, I'll hand the call back to the speakers for any final comments.

A - Gianandrea Roberti {BIO 6786731 <GO>}

Well, thanks a lot everybody for your good question and listening to today's call. Peter and I are around, if you have more question, and we'll be in London tomorrow. So thanks and are looking forward to talk to you.

A - Morten Hubbe {BIO 7481116 <GO>}

Thank you.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

FINAL

Bloomberg Transcript