

Q1 2017 Earnings Call

Company Participants

- Christian Baltzer, Group Chief Financial Officer
- Morten Hübbe, Group Chief Executive Officer

Other Participants

- Anna Hui, Analyst
- Asbjørn Nicholas Mørk, Analyst
- Ida Melvold Gjøsund, Analyst
- Jakob Brink, Analyst
- Niccolò C. Dalla Palma, Analyst
- Per Grønborg, Analyst
- Vinit Malhotra, Analyst

MANAGEMENT DISCUSSION SECTION

[Abrupt Start]

...Gianandrea Roberti. I'm Head of Investor Relations at Tryg. We published our Q1 numbers earlier this morning. And I have here with me Group CEO, Morten Hübbe, and Group CFO, Christian Baltzer, to discuss the results. So after a few words, over to you, Morten.

Morten Hübbe

Thank you, Gian, and we turn directly to slide 3, where we show a significantly higher pre-tax result of DKK 779 million against DKK 563 million in first quarter last year, primarily driven by high investment returns, due to high equity returns, and also a positive metrics of this quarter.

We are particularly pleased that the underlying claims level for both Private and the group is back in line with Q1 last year. It might not sound very ambitious to be back in line, but remember that we saw a number of quarters last year with deteriorating underlying claims. So we're now pleased to be back in line, and we expect improving underlying claims from here on. Q1, this quarter, is also the first quarter with quarterly dividends, which, of course, will benefit our shareholders, but also benefit our customers through the membership bonus model.

On slide 4, we show that the NPS continues to be above target, and this quarter we see particularly an increase in Denmark and a slight decrease in Norway. And with a TNPS of 57, we show the high commitment to customer loyalty.

New this quarter is a successful implementation in Denmark of a package concept towards customers, and we see that now the number of products per customer in new sales have increased 11% in the past two months. We expect, looking forward, that the bonus model will be more and more important and improved, and support our customer targets.

On slide 5, we show that, in general, the results are good across the business areas. Of course, some volatility across the areas, but really no significant changes in trends. We have a strong focus on profitability in all areas. And in all areas, we've worked with efficiency measures and price adjustments to make sure we handle claims inflation and support the financial targets.

On slide 7, we show a very satisfactory development in our premium of positive 1.6%, particularly Private lines Denmark, which is our strongest and most important business, increases by 2.8%, which is the strongest quarter in five years and shows both that our new products and concepts are working, and also that the new bonus model starts to have a positive impact.

Norway slightly more challenged. We saw a drop in premium income. We have a strong focus on profitability, and there is weaker Norwegian macro, particularly in the western parts of Norway, where we are stronger. We do expect the premium increase – that the premium will increase in Norway after the acquisition of OBOS and after the introduction of new products also in the Norwegian market.

Sweden is positively impacted by the acquisition of the Skandia child insurance, which is a very profitable area with further growth potential. And the source of the new children's product we've taken to Denmark as well.

On slide 8, we show that our focus on profitability also puts a strict focus on securing that claims inflation is offset by gradual price adjustments on all our main products. And also, we see that when we are upgrading and converting to new products, our customers choose additional covers.

We think particularly important this quarter is the line on the bottom of the lowest graph, which shows that the average price level for motor in Denmark is actually ticking upwards after a long period of decline. And particularly, as we see the somewhat higher claims inflation for this product, which we really see across Europe, it is important that we see now new trend also in pricing.

On slide 9, we show generally high and quite stable retention levels. But as we expected, we do see a bit of movement, as we have a very high number of product conversions and also some price adjustments across the products.

Over to you, Christian.

Christian Baltzer {BIO 19705595 <GO>}

Thank you, Morten. And Morten, as you mentioned, we are very pleased here in the first quarter of 2017 to fulfill the previous communication we had of an underlying improvement, or at least a par on underlying development of our business, both on group level and on Private.

As you said, Morten, it's been more or less six quarters where we have been showing a negative underlying deterioration, and the efficiency programs on claims, our initiatives on trying to control some of the pipe claims, and also our price increases have made us where we are now, where we can actually post flat development on the underlying loss ratio. We expect full year 2017 to be an improvement, and going forward, especially on Private, we'll see this improvement and do bear in mind that on the group level, we could have some volatility from quarter-to-quarter.

On slide 12, where we have reiterated some of our concerns that we've had on our motor insurance book. We've started to see the number of accident just for January and February, which are very few months of the data, that there is almost a little bit of a flattening out in the number of accidents.

Looking at our own portfolio, we still see some slight increases in the frequency, and do expect that we need to have a very close eye on the motor insurance book over the next couple of quarters to make sure that we have initiatives to offset any type of claim inflation. Bear in mind that the motor book does come from a very, very profitable level and we do want to keep that going forward.

If we turn our heads to some of the components of the combined ratio, which is both the large claims, the weather claims, and run-off and discounting, we are actually seeing most of our parameters and on large claims, we had a very benign quarter with large claims, pretty much in line with 2016. The weather has been with us here in Scandinavia with fairly mild weather and not too many winds.

Our discounting rates is starting to see some sort of improvements and we're coming from a very low level of 0.7% to now 1.1% on the discounting part. We do expect that to be somewhat flat, but depending on where the interest rates will go. On our run-offs, we had a Q1 2016 that was very elevated at 8.6%. We move to now a more normal 6.4% level for this strategy period, where we've been talking about a elevated level of run-off.

Turning our heads to the efficiency programs. We do want to reiterate our 14% cost ratio. We do believe running a efficient business is critical to be competitive in this market. We have DKK 375 million in our efficiency program that we need to cash in on this year. Bear in mind, some of this FX are actually hitting some of our prior year's development, as will be shown (7:47) in elevated runoffs.

We have a FTE development that currently actually is flat and we do expect over the next couple of quarters to actually increase slightly to again, at the end of 2017, to start decreasing. Some of this is due to the fact that we're trying to change some competencies within our organization. We have hired, for example, 30 new trainees in our call center. And this will give us some tick-up in the FTEs over the next couple of quarters until we kind of get back down to the right track.

Turning our heads to the investment side. I think one - only a couple of notes on the investment. If you see this makeup of our portfolio, we're actually showing a fairly low level of the investment in property this quarter. Bear in mind that this number should be around 20%. Due to our sales of some of our retail assets last quarter, we're in the process of reinvesting this into some property funds.

In general, we have had - on slide 17, where we are showing some of our returns. We've had a very good quarter on our match portfolio. About DKK 67 million of this coming from performance, so a good performance for our portfolio managers. And then, DKK 31 million of this is coming from regulatory deviation on this mismatch. This DKK 31 million, you would have to expect to kind of - as (09:24) spreads, they widen again to be offset somewhat. So we do expect the long-term regulatory mismatch to be close to zero or negative. And on the equity margin, we're somewhat in line with MSCI.

Just a few comments on our solvency position on slide 18. We're showing a tick down in the market risk of DKK 120 million, and this is actually - comes from the lower level of property investment that we have. This will be offset - as we reinvest our money from the bonds into property investment, this will be offset somewhat. So the 202% solvency ratio that we have currently will actually have a couple of percentage point down once we have reinvested this and have increased our market risk somewhat.

Now, I think that it's important to just - on the next couple of slides there, some slides in our sensitivity and on our solvency position. I'm not going to go into details on this. I do want to actually mention one thing now that we are talking about market risk. Back on slide 17, we actually have tried this quarter to show what is our market risk as a percentage of the total investment. We have for many quarters talked about having a somewhat low risk portfolio, but it is actually a way for us to show that if you take Tryg and look at our market risk on a standard formula basis under Solvency II and compare it to some of our Nordic peers, our market risk as a percentage of total investment is at a lower level, indicating this lower risk we want to have in our investment portfolio.

So back to you, Morten

Morten Hübbe

Thank you, Christian. Just finally on slide 22, we reiterate our unchanged 2017 financial targets for a return on equity, post tax, at or above 21%, combined ratio at or below 87%, and the expense ratio at or below 14%.

And then finally on slide 23, we quote John D. Rockefeller again and repeat our strong focus on dividends. And for the first time now, we pay out dividends quarterly, supporting our shareholders and, as we know, also creating the foundation to pay the bonus to our Danish customers, paid by TryghedsGruppen, whereby they get 8% back of last year's premium.

And with that, I think we should turn to your questions.

Q&A**Operator**

Thank you. And our first question comes from Ida Gjørund from Carnegie. Please go ahead. Your line is now open.

Q - Ida Melvold Gjørund

Yes, good morning. Thanks for taking my questions. Two questions from my side. Firstly, on your underlying claims ratio, it has been no improvement year-over-year in spite of the price increases you have undertaken. I was just wondering if you need to increase prices more to actually offset the negative trend that you have seen the last quarters.

And the second question is on the decline in the retention rate on the Danish Commercial business. Could you say something about the dynamic here, specifically about how customers have responded to price increases versus the new bonus model? Thanks.

A - Christian Baltzer {BIO 19705595 <GO>}

I'll take the first question, and hand it over to Morten with the retention. Underlying performance, I think we have been communicating that the beginning of 2017, we will start seeing the deterioration kind of diminish and start seeing improvements. I think we are very much - when we look at our prognosis, very much in line with our expectations. We reiterate our 3% price increases for 2017. We don't see currently a necessary need to take that upwards more than what we already have planned. But as I also mentioned, if we continue seeing some deterioration in our auto portfolio or other places, we will take the necessary measures to make sure that we get our underlying development not just on par, but actually as an improvement for full 2017.

A - Morten Hübbe

Yeah. And on your second question on Danish Commercial retention, I think we see a drop of around 0.4% after a number of years, where we've generally seen a slightly upwards trend. I think it's fair to say that we've become more and more qualified in the way we adjust pricing in Private, more and more segmented, more and more individual, and more and more gradual to disturb the customers the least.

I think on Commercial lines, we have been less sophisticated, meaning that the price changes we've done in the previous year has been more broad and less intelligent, and therefore we also see slightly more reaction from that. I think we have generally seen that while we have a strong development generally in our Private lines, we are less strong in our Commercial SME area. And we have currently approved a number of investments in IT processes pricing. We've initiated a new service program in Commercial Denmark, where we will service all customers on an annual basis.

So, I actually think you should see this more broadly as a slightly weaker position and setup in Commercial SME, where we want to copy a number of initiatives from Private lines. So I think longer term, the combination of the bonus model and the stronger structural improvements will benefit our Commercial line. But I think to be honest that that might take a couple of years, and this is not the last quarter where we will struggle a little bit without the initial Commercial lines.

Q - Ida Melvold Gjørund

Okay. Thank you very much.

Operator

Thank you. Our next question comes from Jakob Brink from ABG. Please go ahead, your line is now open.

Q - Jakob Brink {BIO 7556154 <GO>}

Thank you very much. Three questions, please. The first one [Technical Difficulty] (15:46) expect you to be back on sort of the 20% property exposure. Is it Q2 or later? Then my second question is regarding the underlying claims ratio coming back to that. In the Q1 2016, you reported the 77% and that's flat year-on-year. However, I do seem to recall that you back then blamed an unusually high level of business and Corporate underlying claims, but I guess that must then have been unchanged into Q1 2017. So what exactly happened there?

And then my [Technical Difficulty] (16:27) in Norway, as you point out, they're roughly flat in Norway, slightly up due to changed [indiscernible] (16:40). But looking at Gjensidige's comments in Q4, they said that motor claims inflation is now up at 4% from 1%, and they would be needing to increase prices. Don't you see the same need in Norway? That was my three questions, please.

A - Christian Baltzer {BIO 19705595 <GO>}

There was a little bit of atmospheric interference, I think, in some of your questions. So if we didn't pick up all of them, then please reiterate them. But the first question was on the property exposure, and the second one was on the underlying with some Corporate is my understanding, and then the third one was price increases in Norway. Is that correctly?

Q - Jakob Brink {BIO 7556154 <GO>}

Yeah. The second question was just - yeah, exactly. Yeah. I think that was pretty correct.

A - Christian Baltzer {BIO 19705595 <GO>}

Okay, cool. I will try - we'll try to get through them. On the property exposure, for us having a investment in some of these property funds will give us better diversification and liquidity. Now, it is a new asset for us to kind of invest in funds, so we are taking our time to find the right funds that are performing well to put our investments in there. I think you'll see a slight tick-up over the next couple of quarters to this, and I think as we end 2017 we should be back up to our 20%.

On the last one - Morten, I'll give you the second one. On the last one, we have also seen that the price increases in Norway is at 4% on auto and we are also having price increases above 3% on our order book. I think when we communicate our 3%, it is on the full book on pretty much all our lines and all our business areas, and there are also areas where we don't see a need for 3%. So you're right that on auto, where we had adverse development both in Denmark and Norway, the price increases are above the 3% that we guide for the total company.

A - Morten Hübbe

And I think on your second question, Jakob, you commented on how last year first quarter we commented that claims in Corporate property impacted underlying claims. And I guess, the way

we see it internally actually calculating underlying claims in Corporate has limited value, but we do it only to be able to calculate underlying on a group level.

In our own internal management, we place great emphasis on underlying development on claims in Private, because there you really - that mirrors quite well the real underlying development. And that is why we see that we return to flat on underlying Private as the strongest indicator of leaving the deteriorating trend of 2016 and 2015 behind, and then improving it from where we are now.

I think we will continue to see that the property claims in Corporate, also the medium-sized property claims, will be all over the place. So if I were you, I would look a lot at the underlying for Private and less of the underlying for Corporate.

Q - Jakob Brink {BIO 7556154 <GO>}

Thank you. I do understand your answer there, Morten. I was just wondering since it's - and I know it's also just two quarters, but still it's a fairly high level. So that was just - I wanted to check if there was any sort of change other than normal volatility? But it sounds like not.

A - Morten Hübbe

But bear in mind, Jakob, that in the past two years we've seen areas like pipe claims, (20:16) claims, et cetera, increasing 15%, 20%. We've seen motor claims increasing 5% over a period, et cetera. So it's been quite high increases that we have been working to massage down again. And I think, to be honest, during 2016 we struggled more with that than we had planned. But for us, reaching the same par again is sort of a milestone, and then improving from thereon, and we're actually very pleased with that.

Q - Jakob Brink {BIO 7556154 <GO>}

Okay. Many thanks.

Operator

Thank you. Our next question comes from Asbjørn Mørk from Danske Bank. Please go ahead. Your line is now open.

Q - Asbjørn Nicholas Mørk

Yes, good morning. Asbjørn from Danske here. A couple of questions. I think it's probably easy to take them one at a time. If I can go back to the retention, could you maybe on the Private side elaborate a little bit on how retention is developing on a product level? So how is, for instance, motor insurance developing relative to the general average for the country?

And in connection with that question, if I understood your answer on the last question on re-pricing in Norway on the motor side, you said above 3% price hikes, so just a question on that in terms of the development that we've seen there in Q1. Does that mean that the impact from mix changes on cars is so great that basically you weren't getting through around 0.6%, or is there more to come later in 2017? Those are the first two questions combined.

A - Morten Hübbe

Well, I think we can start, Asbjørn, a little bit on the first one. I don't think we've ever published retention rates on products, and I don't think we're going to either. So forgive a slightly blurry answer. But I think if you look at it from a sort of more general angle, I actually think our retention development on motor is quite strong, and I generally see that our development on motor is strong both in terms of sales retention and pricing and new coverages.

What has surprised us, perhaps, a little bit of what we didn't plan for was that every time we convert products, then on products like travel, but also other products, there are some customers that are reminded that maybe they don't need this product anymore. So, for instance, we see in the elderly segment people saying, I don't travel a lot anymore, I might as well cancel part of my traveling policy. So those are changes that impact – and I think changes that will occur in a period where we convert a lot more products than we would usually do in a given year. But, sorry, we don't give the retention rates on product.

A - Christian Baltzer {BIO 19705595 <GO>}

And to the question on the Norway auto pricing, I think in our portfolio we actually pushed through – definitely on a direct line we pushed through more than 3% price increases. We also have some partner agreements where the mix with the prices are different. Whereas when we report a combined average price, we've seen the partner area kind of tick up a little bit more over the couple of quarters. And so one thing is a mix of the car types, another thing is also the mix of our partner direct group (23:42).

A - Morten Hübbe

And typically, Asbjørn, we have an agreement with some of our partners as to what should be the earnings level on a given product. And in some cases, in Norway, the earnings on motor has been higher than agreed with the partners, and subsequently the pricing development is then less strong than our typical direct pricing development.

Q - Asbjørn Nicholas Mørk

Okay. Is it the same that goes for the Danish pricing of 1%?

A - Morten Hübbe

On motor?

Q - Asbjørn Nicholas Mørk

Yeah, on motor, yeah.

A - Morten Hübbe

Well, I guess – no, I just think the story on the Danish motor is quite different in the sense that the journey towards smaller cars with substantially lower risk and substantially lower – smaller engines, et cetera, et cetera, has been pulling down the average for a long period of time. In addition, the earnings on Danish motor has been higher than Norwegian motor, so the market pressure downwards has been higher. And I think we show on slide 8 that now we're ticking up on Danish motor.

I think, to be honest, if you go through most of the other Danish insurance companies, their motor pricing is continuing downwards. So I think the combination of the new additional coverages we've done and the working with pricing means that we are probably the first company to make this number tick up a bit. And we actually think that is necessary, given that the frequency of motor claims has been increasing for a rather long period now. So I think a somewhat different picture than what we see in Norway.

Q - Asbjørn Nicholas Mørk

Okay. Fair enough. Then if I can come back to the one on the motor claims, you were referring to the sector statistics saying that they were flat year-to-date versus last year. I think we couldn't hear – Christian, you were saying something about your own numbers, maybe you can just tell me what was it exactly you said at that point.

A - Christian Baltzer {BIO 19705595 <GO>}

Yeah, great. When we are looking at our own frequency numbers, we're seeing a tick up of a couple of percentage point on the frequency. And again, we are talking about a couple of months, so there are also (25:59) volatility within those numbers. But my point was basically that one thing is looking at market statistics, which we do on a monthly basis. Another thing is also making sure that our own numbers are either following the market or if they're above market, that we actually also take initiative or activities to mitigate that.

Q - Asbjørn Nicholas Mørk

Okay, very clear. Then my final question on Norway. If I look at the total premiums from Norway in local currencies, they seem to be down something like 2.5% year-over-year and your retention is declining in Private and Commercial. Now, if I remember correct, in Q4 you seem to say that this was - you expected some deterioration in Norway beginning of 2017, and then an improvement in late-2017. Is there anything that has changed that view looking at the Q1 numbers from your side?

A - Morten Hübbe

I think we're punished a bit by, I would say, mainly two factors. One factor is that we are clearly stronger in the western part of Norway and less strong in the eastern part of Norway. And if you look at Norway from a macro point of view, clearly, eastern part and Oslo is developing as usual and nicely, whereas the western part of Norway is slightly more depressed from a macro/oil price influence or fewer employees, fewer lorries, fewer things to insure. And that hits us more negatively than, for instance, Gjensidige, who is more present in east than we are.

Secondly, we've seen structurally, a bit like Denmark, that our weakest point has been Commercial SME, the smaller ends (27:36) in Norway, where we saw a year ago and two years ago that our sales were too low. And that's also one of the areas where we see our premium drops in Q1. But what we have seen is that for the past four months in Commercial SME Norway, our monthly development of portfolio of premium has actually been neutral to positive, which is sort of the lead indicator for what happens to premiums 12 months from now, where we do expect an improvement and the current run rate is sort of reiterating that. And then, of course, the acquisition of the smaller portfolio of OBOS is mainly centered around the eastern part of Norway and will strengthen our position there and allow us to work more with the eastern part of the market as well.

Q - Asbjørn Nicholas Mørk

Okay. Thank you.

Operator

Thank you. Our next question comes from the Per Grønberg from SEB. Please go ahead. Your line is now open.

Q - Per Grønberg

Yes, good morning. It's Per from SEB. Two questions from my side. When I look at your headline growth, which by the way is rebounding quite nicely, when I look at the growth in earned premiums and the growth in written premiums, it looked like your written premiums is almost 1 percentage point higher. Does this reflect growth that we should see it filter through into the earned premiums later in the year or is there a technical solution for this?

My second question is related to your prior year gains. When Gjensidige was out with their Q4 numbers a couple of weeks after your numbers, they were out talking about Norwegian reserve releases being higher than previously expected, guiding up on run-off gains for the coming years. Are you seeing a similar picture in your Norwegian book, where you continue to book quite higher prior year gains? That was the two questions. Thank you.

A - Christian Baltzer {BIO 19705595 <GO>}

All right. I'll try with both of them. I think on the written and the earned, as Morten was saying, when we started looking out at some of our current month written premium, for example, in Norway, we're seeing some positive development, which would then in upcoming quarters become more of the earned premiums, so that should give us a certain amount of positive flow on the earnings. So you are right that the written premium are some lead indicators that we are seeing some positive in our portfolio in general.

With respect to the prior year gains, I think that we've seen the same thing as Gjensidige that there are some - especially in the workers' comp area been some - showing some improvement in the underlying risks. So our prior years reserve levels has been too high compared to the actual risks development. It doesn't make us want to guide a different elevation. I think we've already talked about elevated run-offs. But, of course, when we talk about our run-off going forward and it's slowly going towards the long-term average, we feel more confidence that that period can be extended.

Q - Per Grønberg

Okay, very clear. Thank you.

Operator

Thank you. Our next question comes from Vinit Malhotra from Mediobanca. Please go ahead. Your line is now open.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Good morning. So three, if I may; two on Commercial and one on the dynamics of underlying interest rate risk - interest rates. So on the commercial, the first point would be, Morten, you are not - you are still sounding a bit less comfortable with Danish Commercial, and I remember there was this project to improve the pricing tools. Could you just comment a bit about where we are and whether even I understood you correctly that you were less happy with Danish Commercial.

Second, on the Norwegian Commercial, from the slide you represented on a Y-o-Y retention, it's probably the only - or it's the only segment which shows a stable retention. It's a bit of a surprise to me as well. Could you just comment a bit about Norwegian Commercial?

And lastly, although it was mentioned that the interest rates are not key driver, but 2Q, 3Q last year, which are supposed to be your best quarters, were rather low on the bond yield side. If - I mean, how should we think about the coming quarters? Because I can imagine the adjustments you make for interest rate to the Corporate and maybe even Commercial would have some bearing on the headline underlying numbers. If you could just help us plan for that, please. Thank you.

A - Morten Hübbe

I will try to start your list, Vinit. I think your reading of my less satisfactory view of Danish Commercial is correct. I just think that our staff in Danish Commercial is doing great. I just think that the starting point is weaker. So for instance, we have just approved a project, whereby automated policy issuance processes that we've had in Denmark for five years, but still happens manually in Commercial, now becomes an automated process, as an example.

We have, as you mentioned, implemented a number of new pricing initiatives in commercial. But these are initiatives that we took in Private lines three years ago. Subsequently, we have done customer lifetime value modeling, price sensitivity modeling, portfolio management modeling, et cetera, et cetera, in Private lines Denmark that we have not yet at all done in Commercial lines Denmark.

So I would say in terms of pricing, sophistication, methodology; in terms of digital and automated solutions, Commercial is a couple of years behind Private. And that is we are working very hard to make sure that we get up to the speed of Private. The positive thing is that we can see proof-of-concepts from the Private line solutions, and then copy them at least for the lower end of the SME space. So pleased with the current movement, pleased with the current improvement of top-line as well, but recognizing that we're still a couple of years behind Private in level of development and sophistication. That is what you should read.

I'm not sure I fully understood your question on Norwegian Commercial customer retention, which seems stable, at 87.2%.

A - Christian Baltzer {BIO 19705595 <GO>}

I think if I understood you right, if you look at the graph, you see a little bit of a curve down the last two quarters and the numbers, the same numbers. The thing is that the numbers that we are writing is Q-on-Q numbers, and the graph that you see shows every quarter. So you could actually expect that if we did not move our numbers on Norway retention, we would post a negative Q-on-Q in next or the coming quarter.

So, did that answer your second question?

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yeah. It was more about - I mean, Norwegian Commercial, there's a one way probably, I would have imagined, would have been the weakest, because you don't even have the bonus support there and still you're holding on.

A - Morten Hübbe

Yeah. But I think actually the - back to the question before, Vinit, the structural historical lack of focus on Commercial SME is both a Danish and Norwegian challenge. But I would say if we look at the Norwegian Commercial, the fact that for the past four months we've seen stable to slight positive net monthly development on our premium portfolio is actually a slightly stronger development than we thought. So you could argue that Norwegian Commercial is actually developing slightly better than we thought, say, a year ago. But more structurally, we are starting at the same slightly weaker point than in Private lines.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Fair enough.

A - Christian Baltzer {BIO 19705595 <GO>}

And you have a third question on the underlying, Vinit. Can you just repeat that? I don't think I fully understood where the question was going.

Q - Vinit Malhotra {BIO 16184491 <GO>}

I apologize. Sorry, it was a bit confusing to me as well. I mean, the fact that interest rate adjustments do play a reasonable measure, when we measure your - or when you publish your headline underlying loss ratio, which is important for the share price as well, there is a difference coming from interest rate movement. And I would just point into the fact that 2Q and 3Q last year were rather low on the interest rate level, a level even compared to 1Q, for example.

So when we move through the rest of the year, this interest rate adjustment will play a bigger part. And I was just wondering, although you don't focus on that because you're focusing on Private lines, which don't show that effect from it, but the headline group will show the effect. Is there any guidance for us? Is it - I mean, is it a tailwind that will help you naturally or...

A - Christian Baltzer {BIO 19705595 <GO>}

Let's see if we can box our way through this, Vinit. I think that on the underlying that we're posting, it's net of interest rate. So we try to take the interest rate element out of it. So if that's what - so our headline underlying should be without interest rates, in general. So shouldn't have an impact on our underlying numbers, but will have impact on our gross numbers, of course.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. Maybe I'll follow this offline if maybe, but - I mean, it's just that there was a very sharp dip in bond yields in 2Q and 3Q, which are your best quarters really. So, fine, I think I get the message. You will be adjusting (37:42). All right. Thank you.

Operator

Thank you. Our next question comes from Niccolò Dalla Palma from Exane BNP Paribas. Please go ahead. Your line is now open.

Q - Niccolò C. Dalla Palma

Hi. Thank you. Actually I had a question on - exactly on the topic Vinit just asked on the discounting effect. Maybe the other way of asking it is, if I take slide 11, where you helpfully break down exactly the calculation of the underlying number, the 0.7% for Q1 2016 and the 1.1% for Q1 2017 in terms of the discounting impact, the question would be can you help us already (38:18) guessing how much that number is in 2017 full year compared to 2016 if we keep interest rates where they are? The reason for asking it is just we are, of course, looking at underlying, but just to make sure we get the headline reported number right as well, which is, of course, important. So that...

A - Christian Baltzer {BIO 19705595 <GO>}

We don't have a guidance necessary for where the discounting rate would be. But you say it was 0.9% in 2016 and with the 1.1% in Q1 2017, I said nothing else changes, you could expect it to be around 1% to 1.1%.

Q - Niccolò C. Dalla Palma

Okay. Okay.

A - Christian Baltzer {BIO 19705595 <GO>}

But it's not something we guide on.

A - Morten Hübbe

But I guess the challenge is...

Q - Niccolò C. Dalla Palma

Okay. No, no, but just for the magnitude, that's really very helpful.

A - Morten Hübbe

Yeah. Hopefully that gives a little bit of guidance, but I guess this is a complete mirror of market fluctuation in interest rates. So I think if we knew how that would develop for the next nine months, we would make a business out of investing in that I think. So really, we cannot predict, but I think hopefully the 0.9% to 1.1% gives you one indication of what the starting point is and how that is different to 2016.

Q - Niccolò C. Dalla Palma

Yeah. And the second question I have is on the Atier 1 capacity, could you just refresh our memory in terms of what your intentions are in terms of using or not that additional Atier 1 capacity that is now DKK 1.1 billion?

And if I can stay on the Solvency II topic, in terms of the upcoming SFCR disclosures, is there anything that you'd highlight upfront in terms - to make sure that we don't misread information in this first exercise of public disclosure? I mean, there's a lot of reports coming to us, so any upfront help in terms of avoiding misreadings would be very helpful. I guess you expect to publish this on the 20th or close by that date.

A - Christian Baltzer {BIO 19705595 <GO>}

That's correct. I think guiding you not misread this long piece of paper will probably be - we should spend a couple hours on that. But I think in general, if you look at the SFCR from Tryg's perspective, we feel that we are a fairly transparent company in a lot of our public disclosures. So I don't think you will find much new information in the SFCR that will come out.

So once you have read it, you might even be disappointed and say, we knew everything about Tryg before, and I don't know much more now. But I think that, to me, the SFCR is more of a European standard so that everybody actually has this type of disclosure of their business. So I hope you won't misread too much into that.

A - Morten Hübbe

I think, in short, you can spend more time reading the other people's report and less time reading ours.

A - Christian Baltzer {BIO 19705595 <GO>}

With respect to the Atier 1, we currently have no plans of - and it's more just showing that there is a capacity if need be.

Q - Niccolò C. Dalla Palma

So this is not something that you would use for optimization way (41:30), but more if you had an opportunity to acquire something, that was something you would be looking at at using, is that the way to think of it?

A - Christian Baltzer {BIO 19705595 <GO>}

You can think of it as a possibility to finance either acquisition or more gearing in the future, but currently there are no plans of that.

Q - Niccolò C. Dalla Palma

Okay, very clear. Thank you very much.

Operator

Thank you. Our next question comes from the Anna Hui from RBC. Please go ahead. Your line is now open.

Q - Anna Hui {BIO 19762795 <GO>}

Good morning. Just two quick questions from me. Apologies if this has been covered, but there was some disruption during the call. In the full year, you estimated 2% to 2.5% claims inflation for 2017. Is that still the case?

And my second question is on the bonus model, how well do customers now understand that does exist? Thank you.

A - Christian Baltzer {BIO 19705595 <GO>}

Hi, Anna. Well, that was very clear and short questions. Thank you very much for that. The 2% to 2.5% inflation is still our projection going in on claims inflation, so that's great. We maintain that kind of view.

With respect to the bonus, I think that we haven't seen huge movements in the number of people who actually knows about it. We are about 50%, 60% that are aware of this membership bonus. We are planning on more campaigns, some more public relation - PR elements on this over the next coming quarters. And we kind of have looked to Norway with Gjensidige, how long did actually take them to make this a very common knowledge in the marketplace. And it took them two, three, four years to get it to become part of the market DNA. So we don't want to wait five years, so we do try to push really hard on the media side. But it is also something that as people don't really - are that interesting in their insurance on a daily basis, that is something we need to remind them about on a continuous basis.

A - Morten Hübbe

And just, Anna, for benchmarks purpose, when our customers currently, a bit more than 50% of them are aware. In Norway, again, Gjensidige has actually now reached that - more than 90% are aware. So that is the benchmark. We've actually now agreed with (43:47) on four-year branding program, because we think it will take four years to fully get the knowledge with most of our customers. So that's the timeframe we're working with.

Q - Anna Hui {BIO 19762795 <GO>}

Okay. Thank you.

Operator

Thank you. Okay. As there appear to be no further audio questions, I'll return the conference to you.

Well, thanks a lot again for all your very good questions. Happy Easter to everybody. When it comes to it (44:28), we will be around after Easter in London and few other cities. And if you have questions, just call us at any time. Thanks.

A - Morten Hübbe

Thank you.

A - Christian Baltzer {BIO 19705595 <GO>}

Thank you.

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