Company Participants

- Catharina Elisabeth Hellerud
- Helge Leiro Baastad
- Janne Merethe Flessum

Other Participants

- Gianandrea Roberti
- In-Yong Hwang
- Jonny Urwin
- Matti Ahokas
- Paris Hadjiantonis

MANAGEMENT DISCUSSION SECTION

Operator

Good day and welcome to the Q2 2015 Results Conference Call for Gjensidige. Today's conference is being recorded.

At this time, I would like to turn the call over to Janne Flessum, Head of IR. Please go ahead.

Janne Merethe Flessum {BIO 19368607 <GO>}

Good morning, everybody, and welcome to this second quarter presentation for Gjensidige. As always, our CEO, Helge Leiro Baastad, will start by commenting some headlines for the quarter, before our CFO, Catharina Hellerud, will comment the numbers in more detail. And, of course, there will be time for Q&A at the end. So, please, Helge.

Helge Leiro Baastad {BIO 5865247 <GO>}

Thanks, Janne. Good morning everyone. Thanks for calling in today once again. Gjensidige has reported a record-high underwriting result of NOK 1.1 billion for the quarter with a combined ratio of 79.4%. And if you discount the reserves, the combined ratio is 77.9%. I'll comment the results briefly before I give you a few examples of campaigns we are doing in the Norwegian markets, as well as some examples of the market's response to our competitive offering.

If you would please look at page two in the presentation, you can see some key figures for the second quarter. The group reported a premium growth of 2.5% which supports the strong underwriting results, and I'd like to elaborate on this. In the Private segment, we saw 1% premium growth with underlying premium growth of 2.3%, when we adjust for changes in the partnership agreement. The increase is mainly driven by premium increases. As for the competition, there are no significant changes. We see continued (01:53) competition in the Private segment.

In the Commercial segment, all the products contributed to the growth of 4.3%, in particular the property and motor products. In May, after first quarter, I commented that we had seen a slight increase in competition in the Commercial segment as a result of generally weaker macroeconomic conditions. There hasn't been any significant changes in the competition since then. As I also mentioned, when we reported our first quarter, we expect that this will result in somewhat lower growth in workers' comp and group life, but this is not dramatic.

The Nordic segment reported a growth of 3.9% and the underlying growth was 1%. The growth rate had come down somewhat in the Danish commercial portfolio, and the focus on profitability contributes to a lower growth in Sweden. In the retail market in Demark, we continue to see good competiveness which corresponds to the development in the housing market, also commented after first quarter. The claims ratio of 64.4% was positively impacted by a low level of large losses, 1.2%, and the run-off gains. Combined with the cost ratio of 15% and financial return of NOK 511 million, we reported a solid pre-tax profit of NOK 1.6 billion.

Moving then on to page three, I'd like to give you two examples of campaigns we have been running in Norway lately which have been quite visible. Gjensidige is the largest travel insurer in Norway. We have a very well-known brand name and logo, and it's important to constantly remind the market about our presence and our value proposition in order to capitalize on the strong brand and to strengthen our competitiveness.

Firstly, I'd like to tell you about an innovative, interactive campaign that we launched together with the Norwegian Council for Road Safety in June. The aim of the campaign is to prevent the use of mobile phones while driving. We did a survey, which showed that one out of every three drivers in Norway focuses on other things than driving while at the wheel. That's alarming. The campaign spread rapidly on Facebook and Twitter and attracted a lot of media attention. The immediate effect among those who have been seen the campaign is that one of the three now say that it has changed their attitude of using a mobile phone while driving, and one out of three had a more positive view of Gjensidige. We hope the campaign will result in lasting changes in attitude. This campaign is also an example of how we exercise our social corporate responsibility in the Norwegian market.

This year, like previous years, the Gjensidige Foundation passes on the share dividend received from the 62% shareholding in the Gjensidige to all the customers. The total amount returned to the customers is NOK 1.8 billion, and each customer gets back 13% of the premium they paid for 2014. The marketing campaign contributes to knowledge about the customer dividend model which contributes positively to both loyalty and preference. Seven of the 10 customers say that the customer dividend is contributing factor to their staying within Gjensidige, and the number of non-customers who know about the model is increasing.

Then turning to page four. I would like to share some further examples with you. These are examples of achievements and developments, which tell us that the service we offer are competitive and it contribute to customer loyalty and attracting new customers going forward. Firstly, we recently renegotiated the agreement with the affinity group, Tekna, which is the society for professionals holding a Masters of Science degree. Tekna serves 67,000 members and 67% are already customers of Gjensidige. We have had this long-term cooperation with this affinity group, which now runs until the end of 2018.

The bank offering is an important part of the agreement with Tekna, which like other affinity groups, wants to offer its members both insurance and banking services. This leads me to my second example which is the value for the group of the combined bank and insurance offering. The rationale for starting the bank back in 2007 was to offer a broader range of financial services for our private customers. During the past year-and-a-half, we have had an initiative towards the car dealer channel in which it is clearly important to offer financing in combination with insurance. I'll tell you why. Buying a new car, how to finance it is the first practical question thought that comes to us. (07:10) When choosing Gjensidige (07:11) car financing, the insurance price is also generated while the sellers answer data about the car and the customers. This means that the question about insurance comes up much earlier than usual.

We can see that the combined financing and insurance offering is attractive. The development of loans and the insurance distributed by the car dealer channel is shown in the middle of part of page four. We can see that the lending portfolio for car financing has grown for about zero to NOK 1 billion in about one year. At the same time, as we have experienced a solid growth in the number of car insurance policies, more than 60% of those who choose financing from Gjensidige in the car dealer channel also take out insurance with us.

My third and final example relates to an award for best customer service in Norway. This is based on an annual test of customer service centers in Norway, and I'm very pleased to say that both Gjensidige Insurance and Gjensidige Bank were best in their categories in this year's test. This is an important recognition for all the work, all of (08:22) in every day, and it's a result of the efforts we put into training and measuring customer satisfaction at the advisor level.

With that, I leave the word to Catharina to go through the results in more detail.

Catharina Elisabeth Hellerud {BIO 17276650 <GO>}

Thank you, Helge, and good morning everyone. I'd like to start by commenting the figures on page six. The underwriting results ended at a very strong NOK 1.1 billion, which is our best ever underwriting result in a quarter. I would again like to emphasize the strong results, it's primarily due to our having good tariff that contributes to strong profitability in the portfolio.

In addition, we have had a significant development in the quarter that has been significantly better than can normally be expected. The Pension and Savings business and the Retail Bank continue to improve their profit performance. Together, these two areas now contribute more than NOK 100 million to the profit before tax. And in total, this means a profit before tax of NOK 1.64 billion.

So, moving on to page seven. You can see that the combined ratio was 79.4% in the quarter and corresponding then to 77.9% at a discounted basis. The cost ratio ended at 15% and the loss ratio was 64.4%, that is 1.9 percentage points stronger than in the corresponding quarter last year. The proportion of large losses was 1.5 percentage points lower than in the corresponding quarter last year. In addition, the run-off gain was marginally higher. Adjusted for these two factors, we still see that the underlying frequency claims development in the quarter is very strong and at the same level as the last year, which was also better than we would normally expect.

Multi-private (10:13) has had yet another quarter with a very good underlying development and on par with the second quarter last year. Property has also shown good profitability in the quarter and substantially better than in the corresponding quarter last year. Fewer fires this year is one of the reasons. We also have strong results in the Norwegian Commercial segment in the quarter. The frequency claims development was good but at a more normal level than what we saw in the second quarter in 2014. In the Nordic segment, we saw an underlying development similar to that in the Commercial segment in Norway.

On page eight, you can see the premium growth. The total reported premium growth for the group was 2.5% in the quarter with an underlying growth of 2.2%. Helge has already commented on growth in each of the segment. I can add that, in the third quarter, the effect from the acquisition of Mondux and PZU Lithuania will be included in the figures. The Mondux group had premiums of around DKK 250 million in 2014, while the acquired business from PZU Lithuania had premiums of around €50 million. However, we do expect some loss of customers in both portfolios in connection with the integration.

Turning to page nine, you can see the development in operating cost. There is still good cost control in the segments and the cost ratio was 15% in the quarter. The nominal increase in cost was NOK 24 million. This primarily comes from increased sales in the partner channel in Commercial, and currency effect and higher IT cost in the Baltics segment. As previously communicated, we expect to have a cost ratio of around 15% going forward, which will reflect underlying improved cost efficiency in combination then with increased investments in technology competence and brand.

Now, moving on to page 10, large losses in the quarter amounted to NOK 64 million, affecting the combined ratio with 1.2 percentage points. This is far below the expected level of NOK 283 million, which corresponds to 5.5 percentage points from the combined ratio. As you can see, it's only the Commercial segment in Norway that has had a few large losses in the quarter.

Turning to page 11, you can see that the run-off gain was NOK 104 million, which corresponds to the positive impact on the combined ratio of 2 percentage points. The impact in the second quarter 2014 was 1.8 percentage points. The Commercial segment recorded a run-off gain of NOK 92 million, which is due to a number of minor adjustments in most product groups, of which, about a third are related to accident and health products. This is counteracted by a run-off loss of NOK 53 million in the Corporate Centre, which relates to upward adjustment of provisions related to the large loss event, previously large loss event.

On page 12, we present the group's capital position. The strategic buffer was – is now at NOK 1.9 million, an increase of NOK 100 million since the end of the first quarter. The available capital has been reduced by NOK 350 million in the quarter. And this was actually primarily due to the fair value of the hold-to-maturity portfolio, having (13:53) more than the increased effects of discounting of liabilities as a result of different interest rates being used in the calculation. I would also like to remind you that the total comprehensive income of NOK 2.5 billion for the year-to-date is not included in available capital. And return profit is not taking into account until the end of the year.

At the same time, the capital requirement is also reduced by around NOK 400 million. Insurance risk shows a small reduction of NOK 100 million, while asset risk is reduced by NOK 300 million. That is mainly as a result of a somewhat lower balance sheet after the payments of dividends and the lower market value of the shares in the – on the SR Bank. The reduced capital requirement also means that the technical buffer is reduced by NOK 100 million in the quarter from NOK 800 million to NOK 700 million. So, in total, these effects mean that the strategic buffer has increased by around NOK 100 million in the quarter then to NOK 1.9 billion.

I would also like to remind you that we have allocated NOK 800 million to the two acquisitions that we made in the first quarter, and that will be closed in – during the third quarter. Adjusted for this, the strategic buffer now amounts NOK 1.1 billion.

And the Ministry of Finance issued a consultation paper in May this year proposing that the tax value of the technical provisions should be calculated according to Solvency II valuation principles. If applied, this will entail a significantly lower technical provision in the tax account, and it is proposed that the whole reversal of the provisions should become taxable in 2016. We find the consultation paper unclear and inconsistent with regards to assessments related to the premium provisions and whether they accept part of the proposal or not. I will not go into details that's in our response to the consultation paper. We have our views against changes of the tax regulations as we strongly disagree with the proposed changes.

When presenting the third quarter results last year, we estimated a total effect on the strategic buffer to be around NOK 1.2 billion. Among other things, lower interest rates have led to these estimates coming down to currently less than NOK 1 billion. But if the premium provisions contrary to our expectations, it would be affected by the potential change, the estimate will be closer to NOK 1.4 billion. However, there is still uncertainty around this. The tax effect will depend upon final regulations, approval of the internal model, the discount rate and also the tax rate.

This said, one of the purpose of the strategic buffer is to meet this type of regulatory uncertainty. In addition, the strategic buffer and technical buffer can (16:54) more innovation, since we, during this quarter, changed the strategic or the strategy for currency hedging of subsidiaries and branches outside Norway. And, hence, reduced a significant source for short-term volatility in available capital.

Then finally, on page 13, I will give you some more details on the investment return. The investment portfolio was NOK 55.8 billion at the end of the quarter and yielded a return of 0.9% in the second quarter. The match portfolio of NOK 33.5 billion yielded a return of 0.9% in the quarter, that is up from 0.6% in the first quarter. The hold-to-maturity portfolio achieved a relatively high return in the quarter of 1.5%, and this is because one of the bonds in the portfolio was redeemed before maturity which resulted in a released price gain of NOK 71 million in the quarter. Adjusted for this effect, the hold-to-majority portfolio continues to yield a stable return of around 1.1%.

There's been an upward shift for Norwegian interest rates during the quarter even though the shift has been most (18:09). We have made some investments in the Norwegian hold-to-maturity portfolio during the second quarter around NOK 1 billion, and the average reinvestment rate has been 3%. (18:20)

Danish and Swedish interest rates also saw an upward shift during the quarter, even though short-term interest rates continue to be very low. This has had a negative effect on the result in the part of the match portfolio that is recognized at fair value. At the same time, the Danish portfolio has been made a positive contribution of NOK 18 million as a result of under hedging assets in relation to liabilities.

The free portfolio amounted to NOK 22.3 billion and yielded a return of only 0.9% in the quarter. The increase in interest rates continued to be – or contributed to the bond portfolio yield, yielding a negative return. The current equities from (19:07) influenced by the fall in the value of the shares in SR Bank. The private equity, on the other hand, delivered strong results with a positive return of 7.5% in the quarter, and the property portfolio also delivered a satisfactory result.

With that, we're ready to open up for Q&A. Operator, please open up the Q&A session.

Q&A

Operator

Thank you. Now, we come to the first question for today. And it's Matti Ahokas from Danske Bank. Please go ahead.

Q - Matti Ahokas {BIO 2037723 <GO>}

Yes. Good morning. It's Matti Ahokas here from Danske. My question on your outlook statement, taken into account that your profitability has been so good, I think the outlook statement sound relatively bearish and I was hoping if you could elaborate a bit on why do you expect that the growth rate will slow down and the profitability might go down.

Also, with that note, if you could say that what is the kind of expected market growth in Norway and where do you expect that to slow down when you say the growth state is expected to slow down especially on the Commercial segment, I guess? Thanks.

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

Good morning, Matti. I can start and maybe you can fill me in, Catharina. And I don't think we are bearish in the report. I think it's important every quarter to remind you that you have the seasonality in the Nordics non-life, you have typically the best quarters with the second quarter and the third quarter.

You know our overall targets and as we presented at the Capital Markets Day, the combined ratio (21:15) 90% to 93%. And it's important to then mention that this is given normalized large losses. And this quarter, it was only 1.2%, and normalized, it should be around 5.5%. So, when you take them to normalize the large losses for a full-year 5.3% and use the run-off (21:39) to zero, which is the long-term estimate for run-off. Then you have 12-month normalized combined ratio of 89.8%. We have also stated that in short, medium term, you should more expect run-off gain versus losses.

Talking about growth, well, much the same as of the first quarter. We have a situation where we actually managed to, in a dynamic, analytical and more segmented way, to price – increase prices in our private portfolio. We have stable volume. We have had that for quarters. And you can also see that we have growth in all the other segments. As I commented, it's the competition and the macro situation regarding our Commercial business in Norway, just the same comment as after the first quarter.

So, I don't think it's the bearish outlook. It's just to remind you that both seasonality, large losses and that we have had very strong second quarter both last year and this year. But we are confident and we have strong value proposition in our markets.

Q - Matti Ahokas {BIO 2037723 <GO>}

What is the market growth in your opinion at the moment in general insurance in Norway to get a feeling on (23:18)

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

If you take both Private and Commercial and the market growth, you have a good estimate for that. We have now seen Protector, it's a DNB, they had 1.9% growth. They released their figures for the Nordic business with minus 1.4%. And you can see our figures. And Sampo is coming in, in August. So, estimate around, in Norway 1.5% maybe, market growth in average.

Q - Matti Ahokas {BIO 2037723 <GO>}

So, you haven't been losing market share, actually – you've been actually gaining?

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

I would say that our market share is quite stable. It has been for several quarters now. And that's a good performance actually, up against main players.

Q - Matti Ahokas {BIO 2037723 <GO>}

Great. Thanks a lot.

Operator

Our next question comes from In-Yong Hwang from Goldman Sachs. Please go ahead.

Q - In-Yong Hwang {BIO 18784369 <GO>}

Good morning. This is In-Yong from Goldman. Two questions. One, firstly on the strategic buffer. You mentioned that one of the reasons for having the strategic buffer is obviously regulatory uncertainty. So, should we expect kind of a lower run rate of strategic buffer from the current NOK 1 billion level once the Solvency II uncertainty is clear at the start of 2016?

And second question is just on your private line. It was very strong this quarter both in retail and house. Could you give us an idea of how the average premium frequency has developed in the quarter? I think, last quarter you said that in certain lines, you're targeting price increases slightly below your long-term expectations. And I guess, in that context, it'd be good to see if the frequency benefited from the slowdown in the Norwegian economy as well. Thank you.

A - Catharina Elisabeth Hellerud {BIO 17276650 <GO>}

I can start by commenting the strategic buffer and the price. As you remember, there are three purposes that a strategic buffer should cover. It's a very rigorous practice. So, of course, one of them, as you've mentioned. But it's also to be able to do smaller M&A as we did in the first quarter, where we allocated NOK 800 million of strategic buffer to the acquisition we did in Denmark and the Baltic. And it's also there to be able to maintain high stable business stream going forward. But in isolation, yes, we expect the amount that we need to meet regulatory uncertainties to come down when we see the final solution attached on the tax (26:15) during, hopefully, this autumn. That's (26:18).

Q - In-Yong Hwang {BIO 18784369 <GO>}

Sure.

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

I would just go back to Matti's question there regarding the market growth in Norway. And we have looked at the market share reporting from finance Norway, and I was more focused on the main players Tryg and Sampo, Matti. So, actually higher. We reported 2.5% in second quarter. We reported a higher growth in third quarter. And after first quarter, the market grows. It's more like 4% I think, largely from second quarter 2014. So, it was slightly higher actually compared to what I commented.

A - Catharina Elisabeth Hellerud {BIO 17276650 <GO>}

In-Yong, you had a question about the frequency development relative to the pricing.

Q - In-Yong Hwang {BIO 18784369 <GO>}

Yes.

A - Catharina Elisabeth Hellerud {BIO 17276650 <GO>}

Helge, (27:19) if you could elaborate on that, I guess.

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

The pricing going forward, yeah, starting with Norway as it has been for many quarters actually, it's pricing largely in line with expected long-term underlying claims inflation. As I commented, and this is typically in – of the Private segment in Norway, we have an analytical and dynamic segmented approach to price adjustments balancing profitability with growth. And our system is more and more advanced actually.

So, we are constantly monitoring frequent developments and effects from pricing initiatives. And at the moment, increases in average – now I'm taking about Private in Norway, in average, it's below long-term inflation in 2015. And now inflation, our estimate for Private motor is down from historically 3% to 4% to more 1% to 3% going forward. And we are slightly below that in average in Norway now regarding price increases.

Private property, also a very important product group in Norway, inflation expected going forward, 4%. This is very volatile. It's normally reflect in building index over time. We have higher underlying inflation and wages and increased standards so we have higher inflation expectation for Private property going forward.

On the Commercial side, it's more – it's slightly different. For the personal products, price increases is in line with the G, (29:12) the national basic amount for 2015, that is increased by 7%. Going forward, it's 1.9%. So, that's lower than expected, but okay given the claims development. On the property side, it's the index again. And in Denmark, you know that (29:41) price increases slightly below what we are seeing in Norway.

Q - In-Yong Hwang {BIO 18784369 <GO>}

Great. Thank you very much.

Operator

From Carnegie, we got Gianandrea Roberti on the line.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Yes. Good morning from me as well. I have three questions. The first one really is on the results today because as I look at it, you beat the (30:08) numbers pretty sharply versus consensus. But really the reality seems to be that if I strip off the NOK 220 million or so of difference between your own guidance in terms of large claims, which if I remember correctly, includes weather claims as well and what you have reported, well, the results is largely in line. And if that's correct, I'm also noticing, if I punch in the numbers rightly in my model, then you're basically beating your own large claims guidance for several quarter. I would say, 85% to 90% for the quarter, if I look at just the last three years to four years. I'm just trying to understand if you are a little bit too conservative in this guidance in terms of large claims or what's going on in there? That's the first question.

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

Yeah. Catharina, are we too conservative on the large claims side?

A - Catharina Elisabeth Hellerud {BIO 17276650 <GO>}

Oh, we're not. But even though we have a large portfolio, we use the internal model to calculate the expected large losses. And even though we have a large portfolio, of course, it's randomness when it comes to large losses. We have had quarter where we have had the losses above the expected level. And yes, we have also had quarter where we have been – at this quarter much below the expected level. It's – the expected level is the same every quarter. As I've said, randomness. And it also included as you've said large natural peril events. That's correct. It's part of the expected level of 5.5 percentage points.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Okay. If I move on to another topic on capital, you have a total available capital in this quarter. It's – at the end of the quarter, it's NOK 17.6 billion, and I think, Catharina, you said that that doesn't include year-to-date profits, right, which has always been the case? That's correct?

A - Catharina Elisabeth Hellerud {BIO 17276650 <GO>}

Yeah.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Okay. What about the – with the capital requirement because I think you're showing here somewhere the total capital requirement right now is NOK 14.9 billion, but it was NOK 15.8 billion at the end of 2014, and I can see you have lower assets on the balance sheet, but I'm just wondering if there is something more than that. I'm trying to project that NOK 15.8 billion towards the year-end of this year and I mean my assumption was that, I mean, I should take the year-end number in 2014 and add like 3% to 4% in line with your top-line growth, but can you add some thoughts on this?

A - Catharina Elisabeth Hellerud {BIO 17276650 <GO>}

Just a question back to you. Have you concluded – or included the M factor in your calculation because that was included as from this year actually? We now are able to use part of – we get the credits for the internal model when we calculate the capital requirements under that S&P model as well.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

I mean, that's the NOK 900 million that you're showing, right?

A - Catharina Elisabeth Hellerud {BIO 17276650 <GO>}

That's correct.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Okay. Okay. So, basically, basically, the NOK 15.8 billion at the end of last year, adjusted for this, should have been NOK 14.9 billion, is that correctly understood?

A - Catharina Elisabeth Hellerud {BIO 17276650 <GO>}

Yeah.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Okay. So that's basically – basically it's flat on that basis, roughly reported. Okay. Thanks for pointing that out. I think, Helge, you were quoted on an interview a few minutes before we started this call, talking a little bit about M&A, and saying that you are mostly interested in Denmark, Sweden and the Baltics. And I guess there isn't nothing new in that statement compared to what you said before, but considering just the stream of acquisitions that you have done recently, I'm just wondering if you can add a little bit more of your thoughts on this.

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

Sorry, it's just what you've heard before, Gianandrea. It's consolidated all over the place, less maybe in Denmark. We are looking constantly if you can find portfolios and small companies fitting into our business. So, it's just the same communication as before. It's no change actually.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Okay. Can I just ask you because I was rereading what you said when you closed – well, not when you closed, but when you bought PZU Lithuania, and there is a sentence there that says the structural changes that have taken place in the Baltic last year will contribute to a necessary shift towards a more rational and profitable industry. And do you mind reminding me on what are these changes and why are you – where were you at that point anyway more confident than before on the Baltics?

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

I think this is a comment maybe related to a more long-term prospective for the Baltic area, where the main players now, it's Sampo, as we know, that's a very rational player from Finland, it's PZU, large player in the Baltics also listed company from Poland, and they acquired RSA at a decent price, if you can use that word. And we have also (35:19) and we are a rational player.

So, I think we can see maybe more rationality based on the fact that it's more consolidated climate, it's listed players and the players with experience from other markets. And we can - I think we can see more multi-channel distribution going forward. We can see a shift in the cost level going forward. And I surely hope and I expect also that you can see more rationality given the fact that these main players are listed.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Great. Thanks a lot.

Operator

And now we come to Jonny Urwin from UBS.

Q - Jonny Urwin {BIO 17445508 <GO>}

Thanks very much. Morning, all. I think all my questions on the numbers today have been answered, but just thinking about your key priorities towards 2018, and in particular, the strategic priorities, I was just wondering if you could perhaps give us a couple of examples on any developments since the last update on sort of enhancing multi-channel distribution and digitalization and such, if there's any tangible things you could tell us about, that would be much appreciated.

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

I don't think it's (36:42) any tangible things since the Capital Markets Day and the last update. Do you have more?

A - Catharina Elisabeth Hellerud {BIO 17276650 <GO>}

Yeah. I think what we're doing, we are working on improvement every - yeah, continuously. And that's - the latest new development is that we have opted our Internet shop in the Norwegian market. I think this is a long-term - or these are long-term strategic priorities, so we work long-term with this, but, of course, continuously, there are small and larger development that we put into the market. So, I think it's - really since the Capital Markets Day where we had a large update, there hasn't been any big event coming to the market.

Q - Jonny Urwin {BIO 17445508 <GO>}

Okay. Thanks.

Operator

From KBW, we've got Paris Hadjiantonis on the line.

Q - Paris Hadjiantonis {BIO 19703051 <GO>}

Yes. Good morning. Thank you very much for taking my questions. The first one would be on the Swedish portfolio and if you could possibly talk about the underlying development of the combined ratio there. If I remember correctly in the first quarter, that was above 100%. So, if you could give us an idea of what you are seeing in that portfolio, it would be very helpful. And then on capital and coming back to the comments you made, Catharina, about the treatment for the saturated (38:24) provisions and what the tax changes could mean for your capital? Did you say NOK 1.4 billion could be the provisional hit on your S&P capital position or did you say NOK 1 billion and I didn't get that correctly? Thank you very much.

A - Catharina Elisabeth Hellerud {BIO 17276650 <GO>}

Yeah. I can start by Sweden, commenting that. It's still unprofitable in total the Swedish portfolio, but as we have commented in report this quarter, we see more property development within the

Private part of the book. But we're still working on the portfolio. We're still working with the repricing of the portfolio as such. So, we expect some, as we also commented, some losses in the portfolio, and it still has, as I said, a combined ratio above 100%, but some positive effect especially within the Private part of the portfolio.

When it comes to the tax changes, I've commented that. We gave you figures in connection with our third quarter report last year, and we said that the effect was around NOK 2.2 billion. And due to reduced interest rate, that amount is now below NOK 1 billion.

But in addition, there is still the new elements which is the premium reserve. We think, as I said, that the proposal from the Ministry of Finance is very unclear and inconsistent on this point. We are actually not quite sure whether a payment reserve is a part of the proposed changes or not. But if not, as the worst case, also part of the change, it should be closer to NOK 1.4 billion. But again, there are a lot of uncertainty relating to this estimate. I commented the interest rate level whether the internal model is approved or not, and also the tax rate in 2016. So, it's a lot of uncertainty, but worst case today given today's interest rate level, almost NOK 1.4 billion.

Q - Paris Hadjiantonis {BIO 19703051 <GO>}

Okay. So, the way I understand, if it's only security and claims, it's below NOK 1 billion. If it's also premiums, then it's about NOK 1.4 million. Is that correct?

A - Catharina Elisabeth Hellerud {BIO 17276650 <GO>}

Yeah. That's correct. But again, there's lot of uncertainty.

Q - Paris Hadjiantonis {BIO 19703051 <GO>}

Sure. Yeah. Thank you.

Operator

As there are no further questions in the queue, I would like to turn the call back to the speakers for any additional or closing remarks.

A - Janne Merethe Flessum {BIO 19368607 <GO>}

Thank you. I'd just like to remind you that we will hold a Group Lunch in London tomorrow. I hope to see many of you there. Thank you for participating and have a great summer holiday.

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

Yeah. Good summer to all of you.

A - Catharina Elisabeth Hellerud {BIO 17276650 <GO>}

Thank you. Bye.

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

Bye.

Operator

And that will conclude today's conference call. You may now disconnect.

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