Q1 2012 Earnings Call

Company Participants

- Catharina Hellerud, CFO
- Hege Yli Melhus, EVP
- Janne Flessum, Director

Other Participants

- Karl Morris, Analyst
- Kevin Brenner, Analyst
- Matti Ahokas, Analyst
- Per Gronborg, Analyst
- Peter Eliot, Analyst

Presentation

Janne Flessum {BIO 19368607 <GO>}

Welcome to the presentation of the First Quarter results for Gjensidige. My name is Janne Flessum and I'm head of IR. At this time, our CFO, Catharina Hellerud, will start with presenting the headlines for this First Quarter, before our EVP for Private Norway, Hege Yli Melhus, gives you some more insight into her segment. And I will come back and go through the financials in more details for you before we open up for the Q&A. Before we start, I would like to remind you that the presentation can be downloaded from our website, gjensidige.com. Then I'll leave the floor to you, Catharina.

Catharina Hellerud {BIO 17276650 <GO>}

Thank you, Janne. The First Quarter 2012 has been a very strong quarter for Gjensidige. (inaudible) this year. We recorded a profit before tax expense of NOK1.428 billion, which is a historic performance.

The underwriting result was NOK506 million. This strong result can be explained by good premium growth and a very good development in claims incurred. The growth in earned premium was 3.1% compared with last year. The growth is driven by the Norwegian segment and it is particularly pleasing to see that the commercial division is continuing to develop in a positive direction the growth of 4.3% in the quarter.

Gjensidige has undergone big changes in recent years and carried out a series of measures to ensure its efficient operations and high quality in the customer portfolio. The measures have led to considerably increased activity at the same time as we have managed to price our products more correctly.

We now feel that Gjensidige has a strong competitive position, and this is demonstrated through, among other things, a marked reduction in the loss of customers in Norway. The net loss of customers is now at the very low level, which we are very pleased to see. Having said that, Gjensidige continued to act rationally in the markets, focusing on profitability over growth in the time ahead, which will attract and retain good customers.

Significant claims incurred, we had an exceptional mild winter in 2012 with no prolonged periods of frost and we had fewer large losses than at the same time last year. In combination with (inaudible) this has contributed to a low loan loss ratio and a strong quarterly profit. The underlying (inaudible) and the higher premium volumes contributed to our reduction in the cost ratio. Our goal of combined ratio of 90 to 93 on a yearly basis remains unchanged.

The return on the investment portfolio of NOK909 million was positively influenced by strong development in the stock market during the period in addition to a good return on corporate bonds. The return on equity for the quarter was 24.1% before tax expenses.

And moving to the next slide, the four general insurance segments worked every day to create good customer experiences and increase our competitiveness at the same time as we continuously work on streamlining processes of our strategic (choices) and long-term (inaudible) results.

In the private segment, we have worked on the communicated restructuring of this channel. The work on ensuring efficient operations is paying off in a reduction of costs with a cost ratio of 30.7 in this quarter. As mentioned, the focus on retaining customers has seen results, which (inaudible). We'll come back to later in this presentation.

As part of our presentation last quarter, our Executive Vice President, Sigurd Austin, in charge of the commercial segment, he described the major restructuring that took place in the commercial segment during 2011. So far in 2012, we see good results following the restructuring with growth in premiums and increased activity. The combined ratio for the quarter was 84.4 in the commercial segment, which is very strong. This segment is working continuously to adjust to multi-channel model and make it even more professional.

In the period of challenging macroeconomic conditions, in particular in Denmark, we are focusing on profitability in the Nordic segment and on streamlining the organization and creating a strong Nordic model. A combined ratio of 92 in the quarter, compared with 102.5 for the corresponding period last year, shows that we are on the right track.

Gjensidige Bank is currently re-launching its customers financing initiative under their new brand name (of Sparebank). The pension and savings business is amongst few players left since the mandatory occupational pension was introduced in Norway five years ago and we are well positioned for further growth within defined contribution.

Then, moving on to the next slide. Before I leave the floor to Hege, I want to remind you of Gjensidige's unique model based on relations with our biggest owner, the Gjensidige Foundation. The Gjensidige Foundation will receive 52.8% of the 2011 dividend from Gjensidige of almost NOK3.3 billion, corresponding to NOK1.4 billion at the Gjensidige Foundation. The number of the foundation are over in the Norwegian general insurance customers.

This year and last year, the Gjensidige Foundation will distribute all of their received dividends of that NOK1.4 billion to our Norwegian general insurance customers. This means that the customers who receive customer dividends corresponding to the 10% and 11% of the premium paid last year. This is a very strong model all saying that it ensures professional and a rational approach from the foundation with regard to the management (inaudible) in Gjensidige, completely and on par with the shareholders.

This model is unique to the Company. We are not found any of the companies with a corresponding model. This represents a unique strength for us, although it represents the bridge between Gjensidige's strong history of mutual insurance company and the modern (lease) company that we are today.

In order to receive customer dividends for 2011, the customer has to still be a customer in Gjensidige as of the end of April 2012, which in itself generates (inaudible). We see that already (within) model strength in customer relations contributes to retaining customers, and that will have a positive effect on Gjensidige's activities.

The Gjensidige Foundation will in 2012 significantly increase in their investment compared with 2011. The Gjensidige model will be highlighted in more media than before and the campaign period will run for six months. This will assure considerable attention on and around this, all customer dividends, in the market, which we hope and believe will be noticed not only by the existing customers, but also generate interest from potential new customers. And with that, I leave the floor to Executive Vice President of the Private Division, Hege Yli Melhus.

Hege Yli Melhus {BIO 16125517 <GO>}

Thank you, Catharina. I'm going to tell you about a journey that has resulted in considerable profitability improvements in our main business area, Private Norway, and I will, of course, talk a bit about the road ahead.

First, if you turn to the next slide, Gjensidige is the market leader in the Norwegian private market, and my division is responsible for the distribution and relations with our 750,000 retail customers. The Gjensidige brand is among the best known and most respected in Norway. The Group is nearly 200 years old and our Watchman logo, which you see on the top left, has been with us for 80 years and represents security to our customers.

We operate in an insurance market characterized by increasingly tough competition, price aggregators, and automation, and we are convinced that our brand will become even more decisive in the years ahead. That is why we're currently (messing) brand renewal, which we will come back to another time.

As you see to the top right, we have very many loyal customers. More than 70% of our retail customers are either members of one of our loyalty programs and/or organizational agreements. What these customers have in common is that they on average have more than four products each and a customer relationship with Gjensidige that goes back more than 10 years.

For the portfolio as a whole, we see that the customers who stay with us have more insurance products than those who leave, and the customers who leave us have a 20percentage point higher loss ratio than the customers who stay. This shows that the quality of our customer portfolio is significantly better and more robust today than previously.

At the previous quarter presentation, you heard the commercial division has basic multi-channel model on positive experience from the private division, here illustrated with a self-service solution for mobile fund to the bottom left.

Our strategy is to serve customers or enable them to serve themselves through the channel he or she wishes at all times, whether it's online, by mobile phone, at local branches, or via phone, or through a combination of these. We shall ensure seamless transition between the channels. This is one of the preconditions for being perceived as generally consumer-oriented insurance Company in the time ahead.

It is important to underline that although we're becoming increasingly efficient and our processes and customer service are becoming more automated, our core competence -- for example, risk assessment, accurate pricing, professional advice service, and good settlement processes -- will be as important in the future as they are today.

The Private Norway Division generate almost 50% of Gjensidige's annual earned premiums in general insurance. We are a complete supplier of insurance products and services in the private market and have a balanced product composition, as you see at the bottom right side. This is a big advantage, which is also reflected in the large proportion of loyal customers with multiple products in our customer base.

We are well positioned to seek opportunities as they arise. We have a good store input for further growth, both within product groups and through increased sales of our wide range of products. Our strongest position is in the motor vehicle insurance, where at the end of this First Quarter 45% of earned premiums came from this segment.

When we look at important market drivers, there is a good development in sales for new and used cars in the Norwegian consumer market in general, and we're in a good position for growth in both segments.

Property insurance products represent 28% of earned premiums this quarter, and there's a good turn in rising housing sales, which supports growth opportunities here as well. Accident and health products accounted for 19% of earned premiums. These are products that typically contribute to increase customer loyalty, and we see the potential for both additional sales with existing customers and new sales in the time ahead.

If you change to the next slide. The private segment has been a considerable improvement in profitability in the recent years. As mentioned, we have worked on tariff rating and optimal risk pricing, and we're now using many more parameters in our customer risk selection, which ensures more correct pricing of risk than previously.

In other words, it's not just a question of increasing premiums, but also about adjusting premiums so that each individual risk is optimally priced. One example is the motor insurance tariff, as you see to the top right, which was launched in 2009. During the period, 2008 to 2011, the loss ratio improved by as much as three percentage points. This is also connected to premium increases as well as new tariffs that have made it possible to increase pricing without seeing the same customer churn as before.

We have implemented new tariffs for other major products in the private segment, too. For property insurance, we expect to see the effect towards the end of the year; and for travel insurance, towards the end of 2013.

Combined with more accurate tariffs, we have succeeded in our strategy of repricing the portfolio. We increased the premiums for motor insurance earlier and more rapid than the market, as you see to the top right. Our pricing strategy has contributed to an increase in our competitiveness significantly.

In the future, increases in premiums will be on par with (cranes) inflation, which is expected to be about 4% to 5%. We will continue to rationalize distribution at the same time as we will increase accessibility for our customers.

And as you see on the bottom left, we have had a growth in productivity per full time employee, matching by premium volume by more than 20% since 2008. The number of branch offices have been reduced from 70 in 2008 to 36 by the turn of this half year. We now have offices in the largest cities in the most important region centers. Sales and customer service are concentrated in larger centers. Expertise has been centralized, and training and follow-up are high on the agenda of managers at all levels.

We are very happy to report that customer satisfaction has been maintained during the period of significant restructuring and rationalizing measures. And in general this year, Gjensidige was rated best in the insurance category in TNS' Big Customer Service Survey for 2011 and we achieved the best score on all criteria.

And employee satisfaction is very good, especially at our sales and customer centers, where the staff were evaluated in relation to new sales, additional sales fixes in customers, and on customer feedback, down to the individual customer advisor, to mention but a few of the parameters.

The areas that I've just talked about represent the most important drivers of underlying growth and profitability and the improvement in combined ratio achieved by the private segment in recent years. We've reduced the combined ratio from 92 in 2009 to 85.3 in 2011. This continues into 2012, the mild winter of this quarter notwithstanding.

A considerable improved combined ratio provides a good starting point for increased competitiveness in the years ahead. We made it clear that we have prioritized profitability over growth in recent year. As a result, we have, as expected, experienced some loss of customers.

Last year, we implemented a range of measures to reduce customer churn, from which we've seen very positive effect. The net loss of customers in the First Quarter 2012 was down as much as 80% compared to the same period last year, a trend we saw already at the end of last year. The initiatives to increase customer retention will be continued and enhanced.

If you'll turn to the next slide. Going forward, profitability will still be more important than growth and the activities in the private market shall support the Group's goal of an annual combined ratio in the range of 90 to 93. Due to targeted efforts in recent years with a considerably improved CR, this gives us leverage in the time ahead and allows us to be even more competitive and effective.

I want to mention certain areas that we're doing an effort. The work on retaining customers will continue unabated in the future. We shall see the opportunities for both additional sales and new sales based on the current portfolio composition. There is still 30% of our customers who are not loyalty customers, and a high turnover rate in both motor vehicles and properties in Norway creates opportunities for profitable growth.

We're developing a new office concept for the largest cities, focusing on advice in relation to both insurance, banking, pension, and savings in order to increase the number of products per customer, which enhances loyalty. And third, we will launch a new and more intuitive customer portal. One of the main goals is to direct traffic (inaudible), contributing to increased sales and sales service in digital channel.

When it comes to self-service, we have launched several new solutions which are already in place. If I can mention two concrete examples, the settlement for motor vehicle glass claims were more than 80% of the settlement process. Following glass claims, they are handled online, automated, from report claims to compensation. This makes the process more effective for our customers.

Secondly, we have reason to launch self-service solution for travel claims, online and by mobile phone, where the goal is faster claim settlement and an increased degree of self-service. The solution means that the customer via their mobile phone can access our core system directly, report the claim, and receive compensation within a few days.

I can tell you that the American insurance giants were very surprised when our CEO, Helge Baastad, demonstrated this just before year-end in the US. If you would like to see, you can log onto our webcast from this morning for a demo.

Today, 10% of claims are reported online or by mobile phone, and we're seeing a significant potential in this and similar solutions in the time ahead. Self-service means increased service for the customers and increased efficiency internally.

I hope you have gained insight into Gjensidige's operations in the private market. We're at a very good starting point continued good profitability and further growth. And on that note, I'll give the floor to Catharina Hellerud, our CFO.

Janne Flessum {BIO 19368607 <GO>}

It's Janne Flessum here. And you can now turn to page 11. As you probably understand, we are very pleased with the profit for the First Quarter of 2012. The development in general insurance operations in Private Norway, Commercial Norway, and Nordic shows that the improvement measures we have implemented are starting to have a positive effect on profit.

These measures includes increased sales and distribution coverage through, among other things, the reorganization of the distribution model in Commercial Norway. This has led to good development in premiums this quarter. The measures also include new and more precise tariff rates and cost-efficient operations with a higher degree of self-service and automation. In Nordic, we also have a stronger focus on profitability, which has led to good bottom-line results this quarter.

Even though we are very satisfied with the result, you need to bear in mind the unusual mild winter without prolonged periods of frost. This has resulted in considerably lower claims incurred compared to normal First Quarter. Both average claims and claims frequency was lower than normal in this quarter.

For private motor products, the claims frequency for the most important claims categories was approximately 10% lower than in the same quarter last year. And for private properties, even slightly better. We also saw a favorable development in the claims incurred within the commercial motor products. In addition, the proportional large losses was slightly lower than for the same quarter last year and considerably lower than expected.

In total, this gives an insurance result for the quarter of NOK506 million -- ten times the result for the First Quarter last year. Private Norway is still doing very well with an insurance result of NOK286 million and a combined ratio of 85.2. But we're also delighted to see Commercial Norway and Nordic delivering very good insurance results during the quarter of NOK212 million and NOK72 million, respectively. The return on financial assets of NOK909 million corresponds to a return of 1.6% during the quarter. In total, this amounts to a profit before tax expense of NOK1.4 billion, which is historically good for a First Quarter.

Turning to page 12. Earned premiums increased by 3.1% during the quarter, with positive growth in all segments apart from Nordic. Nordic had a decrease in premiums of 1.5% and earned premiums were, however, negatively affected by an exchange rate effect corresponding to NOK21 million. In local currency, there was therefore a positive though modest growth in premiums during the quarter. This is despite ongoing restructuring and repricing of the portfolio, which has led to a loss of customers.

Private had an increase in earned premiums of 1.8%. Efforts to retain customers continued unabated and, as Hege has said, we are not seeing a turnaround of the negative development in the number of customers and that the net loss of customers in the First Quarter was very limited.

And there was very good development in earned premiums in the commercial segments during the quarter, with an increase of 4.3%. In connection with the previous quarterly report, our EVP for Commercial Norway discussed the reorganization into multi-channel distribution model, the use of analytical CRM, and new tariff rates for the segment. This has led to increased sales power and a very positive development in earned premiums.

Turning to page 13. The combined ratio for the quarter ended up at a strong 88.4 and the cost ratio ended at 15.7 for the quarter, compared to 17.1 in the same quarter last year. The loss ratio accounted for 72.6% and, as already mentioned, was affected by unusually mild winter and a large proportion of large losses.

For Nordic general insurance companies, the First Quarter is normally the quarter with the poorest result as winter is associated with poor driving conditions, more fires, and frost-related problems. This quarter is not representative for a normal First Quarter; however, it is only two years ago that we experienced the winter in the Nordic countries that fell outside our definition of normal, but then on the other side of the scale. Having such a good First Quarter and partly as a result of the unusually mild winter, I would like to remind you that our long-term financial goal for the insurance business is still a combined ratio of 90 to 93 on a yearly basis.

Turning to page 14. As mentioned, the effect of large losses is lower than expected, with a 1.9% effect on the combined ratio compared with the expected 4.8%. From and including this quarter, we had decided to also include weather-related frequency claims in the large losses figures. This means that major natural events in the time ahead will be included in the large losses figures, including expected values. There have been no natural events in this quarter and large losses mainly relates to the Commercial Norway and Nordic segments.

Turning to page 15, run-off gains for the quarter are more or less in line with our own run-off gain in the corresponding period in 2011 with a positive effect on the combined ratio of 2.7%, compared with 2.9% in the 2011. Developments in the Norwegian accident and health products are stable and positive, which they have been now for quite a while.

The occupational injuries portfolio in the Nordic segment is also showing positive development in addition to a few large losses being adjusted down. There has also been a change in the model for calculating IBNR for motor vehicles, leading to a run-off gain in the Nordic segment. There are otherwise no special factors or development trends that affect the provisions during the quarter.

Turning to page 16. Nominal operating expenses have developed positively compared with the First Quarter 2011. Most of this positive development is, however, due to the new model for the reclassification of indirect claims settlement costs from administration costs to claims costs. This effect accounts for approximately 1% of the Group's cost ratio. Adjusted for this, the development in nominal cost is virtually unchanged. Due to the premium growth, cost ratio ended at 15.7, versus 17.1 in the same quarter last year.

Then, turning to page 17. Demonstration shows the amount of economic capital allocated to the operational claims segments and is based on Gjensidige's internal model. To clarify, operational risk and counterparty risk are based on the standard model. The total allocated capital to operations has increased from NOK7.3 billion at the end of Q4 to NOK7.4 billion at the end of Q1. This is not a big change and the increase is mainly the result of increased allocations to pensions and savings and banking, where capital is allocated in accordance with the capital (allocation) regulations, with 8% for pensions and 12% for the banking.

Turning to page 18. The total allocated capital for the operational segment has, as mentioned, increased by NOK100 million from the previous quarter and the asset risk is unchanged at NOK4.3 billion. In this quarter, as before, it is the rating requirement from S&P that is the most binding of the three capital requirements. Taking into account this capital requirement, the calculated excess capital amounted to NOK4.7 billion and this is adjusted for the dividend of NOK2.3 billion, which was adopted at the recent general meeting.

Bear in mind that interim profits and losses are not included in the S&P model when calculating available capital. This means that the profit for the period of NOK1.1 billion after tax expense has not been taken into account in the excess capital.

Turning to page 19. The investment portfolio is divided into three sub-portfolios -- a hedging portfolio, a free portfolio, and associated companies. The hedging portfolio totaled NOK31.4 billion at the end of the quarter and shall mainly correspond to the Group's actuarial provisions. The portfolio is invested in fixed income instruments, whose duration is adapted to the actuarial provisions.

A total of 12.4% of the hedging portfolio is now invested in real interest bonds. In geographical terms, most of the exposure is in Norway, Sweden, Denmark, and the Baltic countries. There is still a little exposure in the PIIGS countries, which accounts for 0.9% of the hedging portfolio, unchanged during the quarter.

Allocation of assets in the free portfolio must have been in connection with the Group's capitalization and (pertaining) risk capacity. At the end of the quarter, the portfolio totaled NOK20.1 billion. The associated companies, (Storebrand and Sparebank), have (abit) value of NOK4.6 billion at the end of the quarter.

To sum up, in our opinion, this is a robust investment portfolio. It is largely exposed to Norwegian and Nordic financial markets, and the emphasis is on assets that are stable and income-generating in combination with a certain amount of market risk in the model of risk/loss mechanism.

Then turning to page 20. Return on financial assets for the total portfolio in Q1 amounted to NOK909 million, corresponding to financial return of 1.6% in the quarter, which we consider satisfactory. The hedging portfolio made a stable contribution of 1% during the quarter. Bonds valued at the amortized cost constitutes the biggest ISM and has contributed a return of 1.3% in the quarter.

The free portfolio made return of 2.3% during the quarter. Here, the strong development in the stock market made a particularly strong contribution to the good result as well as the return on corporate bonds. Profit from associated companies amounted to NOK124 million, corresponding to return of 2.7% during the quarter.

In summary, Gjensidige's performance in the First Quarter was very satisfactory, delivering the best ever result for the Group. Then I'll give the floor back to Catharina for some concluding remarks before we open up for the Q&A.

Catharina Hellerud {BIO 17276650 <GO>}

Thank you, Janne. I will conclude with a few comments on outlook and priorities. We're still facing great uncertainty relating to the international economic situation and the financial challenges in several key economies. These generate uncertainties for Gjensidige, too; however, Gjensidige has a robust investment strategy, is financially sound, and has a significant part of its business in the Norwegian general insurance markets.

The macro situation for the Norwegian general insurance operation, seen in isolation, is considered to be good. In Denmark, the property market is still weak and future increased activity in these markets will have a positive impact on the Company's earned premiums. In the Baltic's, the economy is still developing in a positive direction, which is also expected to have a positive effect on earned premiums (inaudible).

There is also still uncertainty attached to the changed framework conditions for the financial sector in Norway and abroad. Work on the Solvency II regulations is continuing in the EU and Gjensidige is preparing for an implementation of the Solvency II regulations to be in effect for the Company from the first of January 2014.

The result in the First Quarter was influenced by the unusual mild winter. Gjensidige's profitability growth remains unchanged and profitability is prioritized over growth. We will continue our (distant) approach to the opportunities that arise.

WE have a unique relationship with our policyholders and we now have a high quality customer base that we need to take good care of. We continue our efforts to retain the customers, combined with training of employees and continuous work on further developing price models, new customer-oriented improvement measures, and our expected results in more satisfied customers gives competitiveness in the time ahead. This will also help us to win new customers, high quality customers.

Janne Flessum {BIO 19368607 <GO>}

Okay, then we are ready for the Q&A, and we will kindly ask you to ask only one question at a time, please.

Questions And Answers

Operator

(Operator Instructions)

The first question?

Q - Peter Eliot {BIO 7556214 <GO>}

Peter Eliot, Berenberg Bank.

Operator

Go ahead, please.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you very much. If I'm limited to one question, of course, I'm going to ask quite a high level question. But by my reckoning, of the sort of six quarters you've had since your IPOed, there have been four quarters where we as analysts have been very positively surprised by the good underwriting result and perhaps a couple of quarters where we've been slightly disappointed. Maybe that just says that we're very bad forecasters.

But I was wondering whether you could shed any light, perhaps, on why I think it's probably fair to say that your underwriting results to be slightly more volatile quarter-on-quarter than some of your peers, even taking into account the differing weather conditions. Perhaps specifically I noticed that your comment on part of the improvement this quarter being due perhaps to better tariff pricing and risk selection.

I could understand how in commercial with a lot of policies renewing at the start of the year, that can come through quickly, but (just thought in private that would take some time to float through to the result. So perhaps if you could just comment on the very big swing quarter-on-quarter. Thank you.

A - Janne Flessum {BIO 19368607 <GO>}

Hello. I will give some comment to the results. I think that if you look at 2011, if you look at the results, it's to a large degree affected by weather-related claims we have in the Nordic region within our weather in the Nordic region rather strongly between the First Quarters. Then we had some (slopes) in the Norwegian segment in June in 2011. We had the heavy rainstorm in the (martinum) in July and we also had the storms in the Fourth Quarter in Norway.

So it is a response to a large degree affected by weather-related claims and it is not easy to operate -- to estimate the effect on all future weather-related claims. But if you look at the large losses -- in this slide, on the large losses, we have tried to now include also weather-related large losses in the expected levels of large losses, and it has been from around 3.5% to now 4.8%. But of course, some large losses and weather-related losses, expect it to affect our -- the combined ratio, it's 4.8%. It is, of course, nothing that you -- you have to look at it in a longer perspective and not so much (inaudible; multiple speakers).

Q - Peter Eliot {BIO 7556214 <GO>}

Yes. No. I appreciate all of that. But when we sort of back out large losses and run-off gains and various other effects, it still seems -- I appreciate (that maybe you can't find), but it seems to me that the underlying, perhaps it's like more volatile than we see from others. But thank you for those comments anyway.

Operator

The next question?

Q - Matti Ahokas {BIO 2037723 <GO>}

Matti Ahokas, Handelsbanken.

Operator

Go ahead, please.

Q - Matti Ahokas {BIO 2037723 <GO>}

Yes. Thank you. Good afternoon. A question on the bonds held to maturity or amortized costs running yield. You said it would be -- it was 1.3% in the First Quarter. When do you expect to see a bigger redemption? So I would assume that this running yield will start to fall at some stage. Could you give us some view on when this is happening? Then I'm just looking at it. It looks like the running yield has actually gone up slightly, which is kind of counterintuitive, taking into account that bond yields have fallen quite a lot. So could you shed some light on that? Thanks.

A - Catharina Hellerud {BIO 17276650 <GO>}

I can. My comments on the whole majority of the portfolio. If you look at the First Quarter 2011, you also have to take into consideration that we had an impairment loss of NOK40 million on one of our accounts in the PIIGS part of our portfolio. So if you take off the NOK40 million, I think you'll find that it's more or less in line with this year's result.

Of course, we live in the same interest rates that the rest of our peers and the rest of Europe. But I think we are still able to get investment in the credit markets. But yes, we see the rates coming down. But also, we have had some lower yielding bumps leaving the portfolio.

Q - Matti Ahokas {BIO 2037723 <GO>}

So there will be no significant change in the running yield in place during 2012?

A - Catharina Hellerud {BIO 17276650 <GO>}

It takes time before the new rates (inaudible) in the total portfolio, it's around NOK18 billion.

Q - Matti Ahokas {BIO 2037723 <GO>}

Great. Thanks.

Operator

The next question?

Q - Kevin Brenner

(Kevin Brenner) from Morgan Stanley.

Operator

Go ahead, please.

Q - Kevin Brenner

Yes. Thank you for taking my question. I had a question on the capital position. If you go on slide 18 of the presentation, I see the excess capital dropping from NOK5.3 billion to NOK4.7 billion (at this point). So just wanted to understand what has caused this significant drop in the excess capital. Thank you.

A - Catharina Hellerud {BIO 17276650 <GO>}

Thank you. If you looked at the excess capital, it's in -- (it's nowhere) of the S&P model that is the most binding capital model. And the major change there is a bit higher asset risk in the S&P model. So it's mainly due to a change in that risk.

Q - Kevin Brenner

Okay. So if I understand that, it would be allocation towards riskier assets has caused this change?

A - Catharina Hellerud {BIO 17276650 <GO>}

There are some -- if you look at the equity portfolio, it's a bit higher this quarter than the end of the Fourth Quarter last year. So it's mainly due to asset risk, yes.

Q - Kevin Brenner

Okay. Thank you.

Operator

The next question?

Q - Karl Morris {BIO 7154573 <GO>}

Karl Morris, KBW.

Operator

Go ahead, please.

Q - Karl Morris {BIO 7154573 <GO>}

Hi. Good afternoon. My question is on excess capital as well. Obviously, you've got NOK4.7 billion after paying the NOK2.3 billion in dividends. And I just wanted to confirm again what you said earlier on the call, that the net earnings of NOK1.1 billion for this quarter aren't include in that. Then, I presume, assuming that you make over NOK3 billion this year, you will -- excess capital at year-end mostly likely would be approaching NOK8 billion.

So I just wanted to have; if you could give us an update on how you're thinking about excess capital. In the past, you spoke about share buybacks, but I think you may have linked that to maybe Solvency II or having a finality in terms of your capital position there. So if you could give us an update as to how or if you were -- are looking to deploy that capital in some other form, just effectively holding it on the balance sheet. Thanks.

A - Catharina Hellerud {BIO 17276650 <GO>}

I can just confirm that in the economic capital in the S&P model in the interim results is not (inaudible). Looking at the excess capital on the communication regarding this going forward, there are no change in what we have communicated. And what we have said earlier is that we need more clarity on the Solvency II regulation before we are ready to take a discussion with the board of directors as to the right level of capitalization over Gjensidige.

We feel now that the Solvency II regulation -- we still expect it to commence the first of January, 2014. But we also feel that there are some changes in the whole EU plan the implementation of Solvency II, but again -- we expect or we hope that they're able to have more clarity on the solvency issue hopefully during this autumn before the end of 2012.

Q - Karl Morris {BIO 7154573 <GO>}

Okay, so presumably then -- towards your end you will be communicating if you have some clarity on Solvency II as to what your plans are for the excess capital or how you'll deploy it potentially?

A - Catharina Hellerud {BIO 17276650 <GO>}

We will then be ready to take the discussion to the board of directors (OEMPDS).

Q - Karl Morris {BIO 7154573 <GO>}

Okay. Thanks.

Operator

(Operator Instructions)

Next question?

Q - Per Gronborg {BIO 15910340 <GO>}

Per Gronborg, Danske Markets.

Operator

Go ahead, please.

Q - Per Gronborg {BIO 15910340 <GO>}

Yes, hello. Just a single, pretty simple question on your amortization of intangibles is coming down. Is that due to currency movements versus Danish currency, or is there any special reason?

A - Janne Flessum {BIO 19368607 <GO>}

Could you please just repeat the question?

Q - Per Gronborg {BIO 15910340 <GO>}

The amortization of intangibles is coming down from one rate last year around 45 to 32.5.

A - Catharina Hellerud {BIO 17276650 <GO>}

Yes.

Q - Per Gronborg {BIO 15910340 <GO>}

What is driving that run down besides the strong Norwegian currency versus the Danish?

A - Catharina Hellerud {BIO 17276650 <GO>}

It's actually assets that have been written down to zero, so not; (inaudible).

Q - Per Gronborg {BIO 15910340 <GO>}

Okay. So this is the new run rate we should look for going forward?

A - Catharina Hellerud {BIO 17276650 <GO>}

This is the current level.

Q - Per Gronborg {BIO 15910340 <GO>}

Okay. Thank you.

Operator

The next question?

Q - Peter Eliot {BIO 7556214 <GO>}

Peter Eliot, Berenberg Bank.

Operator

Go ahead, please.

Q - Peter Eliot {BIO 7556214 <GO>}

Thanks for the opportunity. I was wondering if I could ask specifically on the expenses, just looking forward, is there anything that we should sort of consider one-offs in these expenses or is it sort of safe to say that the current level is a sort of reasonable level going forwards? And specifically in Q1, I think in the past it's been seasonally a bit higher than other quarters. (So again) we could perhaps even expect a drop over the subsequent quarters of this year? Thank you.

A - Catharina Hellerud {BIO 17276650 <GO>}

There were no one-offs in the costs in this quarter. Our mission is to have a cost ratio of 15, but in 2015, and we still are working very hard to achieve that.

Q - Peter Eliot {BIO 7556214 <GO>}

And on seasonality, would it be fair to say that Q1 should be a bit higher than the other quarters or --?

A - Catharina Hellerud {BIO 17276650 <GO>}

No. I wouldn't say that.

Q - Peter Eliot {BIO 7556214 <GO>}

Okay. Thank you.

Operator

(Operator Instructions)

Next question?

Q - Karl Morris {BIO 7154573 <GO>}

Karl Morris, KBW.

Operator

Go ahead, please.

Q - Karl Morris {BIO 7154573 <GO>}

Sorry, could I just clarify that point on the expenses. You did reallocate expenses to claims this quarter. Is that right? The one percentage point on the combined ratio?

A - Catharina Hellerud {BIO 17276650 <GO>}

That's from the First Quarter. Yes. That's right.

Q - Karl Morris {BIO 7154573 <GO>}

Okay, right. So that would explain the drop in the expense ratio.

A - Catharina Hellerud {BIO 17276650 <GO>}

Yes. It's expense -- it explains NOK41milion in total, so it's actually flat if you just put NOK41 million, which is the reclassification effect.

Q - Karl Morris {BIO 7154573 <GO>}

Correct. Okay. And sorry, my final question is, again, the Storebrand stake. Again, I assume nothing's changed there. But I just wanted to get a sense if at some stage they would be required to undertake a capital raise, would you guys presumably support them?

A - Catharina Hellerud {BIO 17276650 <GO>}

I cannot comment on the questions regarding those kinds of hypothetical questions.

Q - Karl Morris {BIO 7154573 <GO>}

Got it. Thanks.

Operator

At this time, no further questions.

A - Janne Flessum {BIO 19368607 <GO>}

Okay. Thank you for participating and we look forward to hearing from you again, then, we present our Second Quarter results on the 17th of July. And hopefully, we'll see some of you in London already next week. Thank you. And have a nice weekend.

FINAL

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