

Q3 2012 Earnings Call

Company Participants

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

Other Participants

- Gianandrea Roberti, Analyst
- Karl Morris, Analyst
- Matti Ahokas, Analyst
- Per Gronborg, Analyst
- Unidentified Participant, Analyst
- Vinit Malhotra, Analyst

Presentation

Lars Moller {BIO 2301941 <GO>}

Good morning, everyone here. Welcome to this presentation of Tryg's Q3 results. As you probably have seen, it's the first time -- it's a long while that we actually published our results in the morning, so hopefully that's appreciated from your side as well.

This morning, we will -- well, morning; it's almost noon in Denmark but still morning in London, I guess. But this morning we will spend like 15 minutes, something like that, where Morten, our CEO, will -- together with the CFO, Tor, on my right-hand side, will take the presentation, and then afterwards we will take your questions. It's a live webcast we have here today, so we will also have questions, or the possibility from questions, from outside.

So with these first remarks, then I'll hand over to Morten.

Morten Hubbe {BIO 7481116 <GO>}

Thank you, Lars, and thank you all for joining us. As Lars said, the first time in London and the first time doubling the physical meeting and live webcast as part of our efficiency measures. Next measure will be no meetings at all, but we'll see. But thanks a lot for joining us.

I think it means, as you said, Lars, that we will do the questions after the presentation so the streaming is a bit easier, and probably do the questions from this room first and then

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the phones afterwards.

I think, overall, we can say that Q3 is a quarter where we've done a lot of progresses in many areas. First of all, we have progressed well in our financial result. Secondly, we've done a number of new initiatives towards our customers. And thirdly, we've done important structural changes, amongst others selling Finland and doing a new long-term agreement with Nordea in Denmark and Norway. And we can come back to why not in Sweden.

If we return to the financial questions, as we see it, a strong financial result in Q3, of course carried by a technical result of some DKK650m, which is an improvement of roughly 35% to the same quarter the year before. When you add to that a high investment income, you get to a pre-tax result of almost DKK1 billion for the quarter and a year-to-date pre-tax of almost DKK2.4b.

Now, of course we don't expect many points for the investment gain and I guess we all know that investments will move all over the place also in the coming quarters and years. But the most important is the improvement of almost 4percentage points in the combined ratio, which has some tailwind from having fewer weather claims, which helps the result, on the other hand has some headwind from having more large claims and lower interest rates, which increases the combined ratio. And as we'll see, this is driven from an improvement in almost all areas, although not in Corporate where we've seen the large claims of the quarter.

It's also a quarter where the accounts are impacted by these bigger structural issues. We show you that the sale of Finland has an impact, both on the actual sales price but also on the write-down of intangibles on the balance sheet. We have also taken up a reserve for restructuring in connection with our change program to achieve DKK1b, and in that sense we've done a number of things to make sure that we are well equipped to handle the future. But let me get back to that.

As you probably recall, we said back in February 2012 that after 10 years of presence in the Finnish market we were really not pleased with what we had achieved. We had worked very hard, but at the same time we had a subscale position where we had no ability to drive out positive results and positive gains to our shareholders, and therefore we wanted to revisit our strategy in Finland.

Now, our priority number one, all along, was to sell the Finnish operation. At the same time, we knew that Finland is a concentrated market with very few players, so we needed to keep open the option of having to do other solutions than just a straightforward sale. And we're very pleased now to have achieved a sale of our portfolio to If. It means that we get a payment of some EUR15m, or DKK112m. At the same time, we write down intangible assets, which is namely IT assets of roughly DKK100m.

We also have a few transaction transition costs, which means that the total P&L impact will be slightly negative. But more importantly, we release DKK250 million of capital supporting the Finnish operation. And even more importantly, we can move our

management focus to Denmark, Norway and Sweden and create a lot more investor value from that.

Of course, it still needs approval from the supervisory bodies, the FSAs in Denmark and Finland, but that shouldn't really be an issue. And we're pleased that the customers and the employees move to this new purchaser.

At the same time, we have signed a new five-year agreement with Nordea in Denmark and Norway, meaning that they will distribute onwards our non-life products; we will distribute onwards their life products; we will continue an asset management operation. But we have not signed an agreement in Sweden.

And I guess the story behind that is that both for Nordea and us we have created a lot of value together in Denmark and Norway, while in Sweden we have created a lot of top line, but in reality we've never created any bottom line in Sweden. We've had a negative result in Sweden in our Nordea portfolio from the very first day. I think if you accumulate it, it's more than DKK600 million all together in the negative result. And we quite rapidly came to the conclusion, together with Nordea, that it made no sense for us to try to continue a cooperation in Sweden which created no value.

On the other hand, we have a lot of strong belief that the new agreement in Denmark and Norway will improve our results further. We have significantly reduced the upfront commission to the bank on the non-life sales. We have changed the structure to align their incentives to our incentives, which means that it is linked to the claims ratio, it is linked to a profit sharing, which means that when there are strong profits there's a sharing of that and a significantly lower upfront commission.

At the same time, we expect the average distribution costs to be reduced, because we now have access to the customer database in the sense that if Nordea, for instance, have sold one product, our outbound call center can contact the customer and sell add-on products, which means that we can full sell the customer at considerably lower cost than before. And having aligned the interest and the commission payment and getting access to cheaper distribution will create more value in this agreement.

At the same time, we have more favorable conditions on our distribution of life and pension, and we have more flexibility and better pricing on our asset management agreement as well.

So for us, this is a much stronger value-creating agreement than the old one. Of course, it means that we will have to revisit distribution channels in Sweden. It means that we will have to fill a gap when it comes to the top line in Sweden. And it will probably mean that in one to two years' time we will see a slightly lower top line development in the Swedish market. But at the same time, actually, our profits in Sweden will improve because we let go of new negative result contribution customers. And of course we keep the old portfolio.

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In the Capital Markets Day, Tor explained our program for the next three years to take out efficiency measures of roughly DKK1b, DKK300 million plus DKK100 million relating to costs and DKK600 million in relationship to claims procurement. What we've done in this quarter is to set aside DKK88 million of restructuring reserve, to make sure that when we carry out changes in the composition of the headcount we have this pool of DKK88 million to do agreements and packages, for instance with employees who choose to retire a bit sooner than planned, and for instance to close down offices where we have to pay extra rent, etc., etc. And we've tried to do a split of how much of that will impact the costs and the claims. As you can see, there are claims staff in this process as well.

I guess if we return to the actual result, it's very positive to see how all four large business areas contribute well. Of course, a strong contribution from the big Private lines area, with a combined ratio of around 84%. Also, this is the business segment where the balance to the top line is the strongest, and there's a growth of 1.8percentage points in this business area.

Combined ratio of 79% in the Commercial segment, but there is quite a lot of tailwind in that in the sense that we still have very few medium-size claims. We have positive run-off gains. And there are still large structural changes that we need to carry out in our Commercial business. But after a number of years where we've made almost no positive income at all from the Commercial business, we have now exceeded DKK400 million in one year, so definitely we're on the right track in Commercial.

Corporate you can see is the only area where the combined ratio has actually increased compared to the year before. If you look within the numbers, the cost for large claims and weather claims increases from 9% last year to 14% this year, so there's a 5percentage point difference alone from that area. And I think, in a quarter where we have high large claims, still to have a combined ratio of 92.6% shows that our Corporate business is on the right track as well.

Then I think it's very positive to see Sweden with a combined ratio of 90.8%, clearly the strongest quarter ever in our Swedish business. Now, if we could just expect 90% onwards in all quarters that would be fantastic. That will not be the case. Clearly, the Third Quarter is the best quarter in Sweden. That's where we get the most income from our boat business and our motor cycle business, and that's where we make a lot of the income. But clearly the trend to get more and more positive earnings in Sweden will continue, and this is a strong indicator of that.

And I guess you really see the same in this slide, where we see how the different business areas contribute to the total earnings. And you can see that Private Lines deliver some 62% of the total technical earnings, and then positive to see how Commercial starts to contribute as well. And Sweden starts to be noticeable, with almost DKK50m. Then, of course, the negative restructuring reserve with the DKK88m, which will help us in the coming periods. But I think a strong and positive composition and contribution from all areas.

Yes, Tor?

Tor Lonnum {BIO 16534375 <GO>}

I think perhaps we should start off by saying that if you take the former picture, Morten promised the Commercial organization a party if there is earnings of more than DKK500m, so I guess they are running hard now to try to reach that level.

Just a few comments here on the retention rate. You can see that it's relatively stable, actually slightly increasing here in Norway, which we think is favorable. I think also, if you look at the last quarter here in the Commercial segment, as Morten said, we still have some challenges in terms of the Commercial segment. We still need to change our distribution mix. But at least it seems like it's leveling out here in terms of retention.

Also, one key comment here related to the average premium. You can see that there's still significant growth in the house product and also in the motor product in Norway, whereas if you look at the Danish motor product you can see that there is a small decrease in terms of average premium. And I guess it's worth saying, and this has been commented before as well, that we do see relatively high new sales of cars in Denmark but we still see that the customers are changing from relatively expensive cars to smaller and cheaper cars, and that's a major driver here in terms of the average premium.

If you look at the Swedish segment, which Morten commented has a very favorable development here in terms of combined ratio, clearly you see the effect when you raised prices, and you can see here on the house product almost 30% over the last two years. Clearly, that has had an impact here in terms of the retention rate.

It's important to add that when you compare the retention rate between Sweden and the Norwegian and Danish market, there is a structural change as well, or structural difference, because the turnover of products in the Swedish market is naturally higher than what you see in Denmark and Norway.

If you look at the motor insurance business here, you can see that we have also had significant growth in terms of average premium, but you can see that it's a more -- it's a curve that isn't increasing steadily like this one. And the reason being that we have changed the composition of the customers in the motor product, i.e. trying to have a better tariff for the lower risk customers, and that's reflected here in the development you see.

In terms of the underlying, I think it's worth saying that, as was mentioned by Morten, we see an improvement in all segments. It's worth making a comment here related to the run-off, the fact that we have a relatively high run-off on a net basis this quarter. And what we actually see is that we have had still some tailwind related to the sideways cover that was established June 1 last year. And you can see that that had an impact of almost 3percentage points on the run-off on a net basis this quarter.

In terms of large claims, I think that was commented as well. I guess we said -- after Q1, we said after first half there is natural underlying volatility related to the large claims, which means that we had a relatively low impact here in the first half and then we see a higher

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impact here in the Third Quarter. And this is a picture of a large fire that happened in Denmark in Q3 and is one of the major contributors to the large claims here.

In terms of weather claims, it's fair to say that we have had a relatively low impact this quarter.

Going back to the savings that was mentioned to Morten initially, it's worth saying that when we look at what we have achieved here in terms of savings, we are moving in the right direction. If you compare to this what happened on the average premium in Denmark on the motor insurance, clearly you see that almost 60% of the savings is related to the motor product. And clearly you can see here what is happening in terms of the average repair price, which is moving in the right direction, and of course that is a large contributor here to the savings we see.

If you look at the expenses, clearly you see that we had a higher impact of savings here in the first half. But of course that is a natural effect, because you will get a higher impact once you take down the employees, once you take out the FX, and then it will level out a bit. Then, of course, when you have the next wave of efforts, that will continue to increase.

I guess if you look at the nominal expenses this quarter and you compare the nominal expenses this quarter to the same quarter last year and you adjust for the restructuring expenses, you will see that there's a significant drop in terms of nominal expenses. And of course it's supported here by the development in terms of number of employees.

In terms of the investment income, clearly there is a relatively high investment income this quarter. The major driver is here on bonds and on equities. In terms of bonds, it's particularly related to high yield and emerging market debt, which has contributed significantly. Of course it's also a consequence of the drop that we have had in interest rates in the quarter, so both are contributors.

If you look at the equities, it's slightly behind our benchmark. Equities has developed good but it's slightly behind on benchmark. And it's particularly impacted by the fact that we have a relatively defensive equity approach.

In terms of asset allocations, there are no major changes, but the fact that we have made some money, the fact that we have had small reduction in our premium reserve has increased the free portfolio, and that's why you see some changes in here in the percentages.

In terms of the capitalization, of course it's supported by a strong Q3 result, and of course that helps the buffer situation. We have had another interest rate drop in Norway, which has increased the pension obligation even further, about DKK60 million pre-tax. The fact that we have had a good run on the equity portfolio increases the charges related to the equity portfolio somewhat. But clearly, as you can see, there is a stable build-up here of the buffer over the year. And I guess almost 75% of the result this quarter is attributed to the capital position, so it's pretty good.

I guess just to do a preemptive in terms of -- because it's natural here to mention the dividend policy, and there will be -- we will come back with a dividend policy in Q4. As you can see, we didn't come out with anything now at Q3, but it will be before yearend in 2012.

Morten Hubbe {BIO 7481116 <GO>}

And I guess, before we open for questions, I guess just to summarize, we think that of course achieving the best quarterly result in six years is worth mentioning. But more importantly, the 35% improvement in the technical result shows that we're on the right track and that there's a broad support of that improvement in all business areas.

We think that selling Finland takes away a focus that is misled and takes away a drag on our results. We believe that a stronger and incentive improved agreement with Nordea and Denmark and Norway, taking away a loss developing agreement in Sweden, will also further strengthen our result.

While improving the result, we have also done a number of things towards the customers in this quarter. We've worked very hard to avoid claims. We have visited a large number of private customers, giving them what we call a Tryg bolig check, which is offering them a free-of-charge walk through their house, advising them of how to secure their house and avoid future weather and water claims. We have visited a very large number of agricultural customers, going through all of their electricity, because we see that as where the short circuits create fires and large claims, to avoid that.

We have now created a new house content product, which we will start selling from this Monday, where -- I guess a product that is immensely important for all private individuals, where, for instance, we take away the sum insured of that product, because the cornerstone question for all companies on the content insurance is what is the total value of everything you have in your house. And the truth is that no-one has a clue, so they just put up whatever number they figure out and that number is almost always too low.

We have restructured now completely the product, so that we take on board that responsibility. But we then ask the customers what are the single items worth more than DKK50,000 in your house, per item, because people know that. Then we're taking into account what is the burglary risk, what is the water flooding risk, and a number of the other increasing risks, we take that much, much more clearly into account. And we increase the number of parameters used to set the price significantly, so the pricing will be a lot more precise while at the same time being more customer friendly.

And as Tor showed, the initiative to take out DKK1 billion in efficiency gains on cost and claims is progressing well, and that is what should support further result improvements in the coming three years, because clearly investment will not be as supportive as it was this quarter.

So all in all, we believe that we are on the right track to sustainably deliver below 90% combined ratio, not just in the tailwind quarters but in all quarters in general.

I think, by that, we should open for your questions. And Lars, you will try to manage that?

Lars Moller {BIO 2301941 <GO>}

Yes.

Morten Hubbe {BIO 7481116 <GO>}

You will take the difficult questions as well?

Questions And Answers

A - Lars Moller {BIO 2301941 <GO>}

I'll try to do that. Thank you very much, but I think we will start with a question from the audience inside and then switch to external questions.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thanks. Can I just ask on the Nordea deal? So when you mentioned DKK600 million was the cumulative loss on those policies, is it fair to assume that this is a zero sum game, so Nordea would have made some of -- so Nordea would have got a better deal so far, so they're giving up DKK600 million of cumulative profit?

A - Morten Hubbe {BIO 7481116 <GO>}

Well I think it's important to distinguish between the commission element and the claims ratio element, because in reality in Sweden we've paid a high commission while at the same time having fairly lousy quality in the pricing and therefore the claims ratio. So in reality, the fact that we were not mature enough in the Swedish market means that we've paid a high distribution cost for low quality business. And I guess the majority of the DKK600 million losses had to do with the too high claims ratio and at the same time we than paid a higher distribution cost to get the business. So I think that takes care of Sweden.

I think in Norway and Denmark, if we do this right, I hope that both Nordea and we will make more money than before, because in reality there's a large number of single-product customers who've taken out, for instance, a house mortgage. They were sold a house insurance policy in relationship to that, but that's it; they have no other insurances. And of course, for our distribution staff to be able to contact that customer and do add-on sales will clearly be cheaper; it will give a more strong quality customer relationship. The stickiness and the loyalty will be higher, and we will make more money from that.

So I think that the -- and if the quality of the portfolio is not strong and doesn't develop strongly, then the commission just falls. And that's where we like the new commission structure a lot more than the old commission structure.

Q - Vinit Malhotra {BIO 16184491 <GO>}

And just to be clear, this new potential cost savings is not part of the DKK300m, or is it --?

A - Morten Hubbe {BIO 7481116 <GO>}

It is not part of, no. No. We try to be very clear that the DKK300 million nominal cost target is not changed because of Nordea and it's not changed because of the sale of Finland. These are clearly designed structural initiatives in Denmark and Norway, and to some extent Sweden.

But I think it's important to say that if we do this right and we distribute more and the quality is right, I would like to pay more to Nordea, as long as we make a lot more as well.

Q - Unidentified Participant

And a couple of questions from me as well. On the restructuring reserves, are you trying to figure out that this should be enough, or is this just part of the way in terms of what will happen, actual restructuring costs?

And the second question would be on your 90% combined ratio target on a stable level and you're saying per quarter. Would that mean that when we reach 2014, if we were to have the same weather as we had in '10, would you then be able to do 90%?

A - Tor Lonnum {BIO 16534375 <GO>}

I guess I can answer the restructuring reserve first. And I guess the approach has been how many -- as Morten said, there is a clear list of initiatives that will give the savings that we have stated as a target. And clearly what we have looked at is what number of employees does this affect, how many employees can we actually solve through, call it, natural turnover in the organization and how many redundancies will that give, and that's the attributable basis for the calculations. So there is -- in our mind, clearly, this should be sufficient.

There is also -- I think Morten mentioned that, but there is also we have made an assessment in terms of office leases and expenses related to terminating any office leases that we see fit, so there is a very clear and good calculation.

A - Morten Hubbe {BIO 7481116 <GO>}

And at the same time, we could probably add that while we expect the DKK88 million should be sufficient, we're trying to estimate a process that will take the next three years. So clearly bear in mind that there is a number of uncertainties as to the position of those three years, but the expectation is that the DKK88 million should be enough.

Then I guess you're trying to ask, I think, a relevant question on how lousy a weather can we manage and still be at or below 90%. I think that we're trying to achieve a situation where we can manage fairly lousy weather and still be consistently below 90%. Clearly, it will depend upon what happens to large claims at the same time, what happens to interest rates and their impact to the combined ratio at the same time. But clearly we've designed a process where the claims procurement, the cost reduction and the efficiency

in general will generally push the combined ratio in the right direction, being able to manage more difficult claims development as well.

So I don't think I would want to put numbers on how difficult weather we can manage below 90%, but I guess you can see we're trying to design a robustness to be below 90% also with bad weather.

A - Tor Lonnum {BIO 16534375 <GO>}

And I think it's just worth mentioning that -- I guess the question was also about below 90% on a quarterly basis, and I think what we're trying to aim for is a below 90% on a sustainable basis, on an annual basis, but it will mean that there will be some volatility in the quarters, among other things due to the seasonality. So it's important to --

A - Morten Hubbe {BIO 7481116 <GO>}

I was -- already four weeks ago, when I was in Oslo, when I went out of the airplane there was snow. So I think bear in mind that we always see winter claims in Norway in Q4 and Q1, and of course they have a higher combined, usually at least, than Q2 and 3.

Q - Per Gronborg {BIO 15910340 <GO>}

Yes. A couple of questions from me as well, the first one related to your exit from Finland. Looking at the price, 17% goodwill of premiums, I can't remember over the last 10 years to have seen anything priced as low as that. Your business was not fantastic, but it was only one buyer to negotiate with and did Nordea have a big saying in that context? That was the first question.

The second more related to Tor. You improved quite a lot in Norway. You are catching up towards Gjensidige. There's still some room. How far delayed are you in -- or how many years are you behind Gjensidige in improving your pricing models in Norway?

A - Morten Hubbe {BIO 7481116 <GO>}

I'll take the first question; you take the second question. I like your question, Per. Clearly, we informed Nordea before we started the process in Finland, so they knew about the process before February's announcement. Clearly, you wouldn't want to catch a business partner by surprise doing something like that. And we've been very clear from the very beginning that they had no say whatsoever in our choice in Finland, while at the same time, of course, we had a mutual interest in handling the customers in a decent way.

If you look at the structure of the Finnish market, I guess you can see quite rapidly that there's not a huge forest of potential buyers. So needless to say, the number of companies we could negotiate with was very narrow. It was more than one, but it was very narrow. And when you've run a portfolio for a large number of years, never creating positive bottom line, then getting a very high goodwill price for that is difficult. In the process, it was a serious consideration whether, for instance, we should put the business into run-off, which is not a scenario that looks great but you can actually create value from a run-off scenario.

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I think that we were able to lift the goodwill price to EUR15 million despite some initial value signals from the market that was considerably lower than that. And I think, all in all, whether we had achieved EUR15 million or another number wouldn't have changed it a great deal. I think it's more a matter of showing the employees and our shareholders that we want to be in a market where we can create value for both customers and shareholders, and we couldn't in Finland.

Would we have liked a higher price? Yes, of course. I think that would have been unrealistic. So I think we're very pleased with that process and with the fact that there's no strings attached, so we don't have to look at the reserves for many years or manage a run-off for many years. We can leave it nice and neatly for customers and for employees as well.

A - Tor Lonnum {BIO 16534375 <GO>}

And I also thinks it's worth adding to what Morten said that if you look at the in-market players, of course there is a few players which could be interested, as Morten said. But if you look at the Finnish market in total, it seems like the interest from other parties around is less for the Finnish market than perhaps what you see here in Denmark or other places.

A - Morten Hubbe {BIO 7481116 <GO>}

We could add that if you look at the competition currently in the Finnish market, it's extremely fierce. My expectation is that most players in the Finnish market currently loses money on the new customers and make money on the old customers. And pricing competition is extremely fierce, and of course that has an impact on the value as well.

A - Tor Lonnum {BIO 16534375 <GO>}

I guess, to the last question, I'm not going to make any comments about Gjensidige. I'm just going to say that we have made -- we have said that there are a couple of top priorities. One is to improve our price differentiation ability -- capability. And of course, if you look at our portfolio, if you place it into the Swedish portfolio, the Danish portfolio and the Norwegian portfolio, I would say that we are most advanced on the Swedish portfolio; then we are also relatively advanced on the Norwegian portfolio. And our ability to introduce new parameters to change the products is -- well, they are relatively agile in that respect. So we are more advanced in the Norwegian market than what we are in the Danish market.

So I am not going to say that we are two years behind or three years behind or something like that, but I'm just going to say that we have said price differentiation is our top priority. We have a three-year program, and we are going to get in a relatively good shape over that remaining now two and a half years or three years.

Q - Karl Morris {BIO 7154573 <GO>}

Hi. Just a couple from me. With regard to your dividend policy, could you give us an idea of what options you are looking at? I'm not asking you to tell me what you are going to be announcing in the Fourth Quarter, but what considerations are you giving, what kind of options are -- basically have management looked at?

Then I suppose secondly, with regard to Finland, obviously you've been willing or shown to be willing to divest part of your business. With regard to Sweden, I think you talk a lot about the barrier to entry in the Nordic markets and obviously scale is important. Obviously, trying to launch a business in Finland from a Greenfield start has been quite difficult. Are you happy with the size in Sweden or do you think it's subscale? Is it something that you would potentially also look at divesting some time in the future? What is in terms of the strategy towards the Swedish business?

A - Morten Hubbe {BIO 7481116 <GO>}

I think firstly, on dividend, clearly I was ready to announce the dividend policy at Q3 but Tor didn't want to, so blame him. No, you can comment on dividend, if I take the Swedish question. I understand the question, because of course our Swedish position is a lot smaller than our Danish and Norwegian business. On the other hand, our Finnish business had a DKK600 million portfolio, mainly distributed through one partner, namely Nordea. Our Swedish portfolio is approaching DKK2b. It has a large number of distribution channels. In boat insurance, motor cycle insurance, etc., we are market leader with more than 30% market share. We have a large number of partner agreements where we make very good money.

Clearly, if you look at the longer term, are we satisfied with staying at DKK2b? No. If we didn't believe in the future of Sweden, we would have tried to sell Sweden at the same time as trying to sell Finland. It would have been a lot easier to sell Sweden, I think. Clearly, a lot of our size in Sweden is attributable to the purchase of Moderna Insurance.

I think that we are trying to find a process in Sweden where we make the foundation in Sweden stronger and stronger, we improve the cost, we improve the pricing, we get rid of the bad customers and we improve earnings. We grow small numbers, 5% or something like that, per year. Then we try to look out for other portfolios out there over a period of time that we could potentially acquire.

But in reality, when we have a strong portfolio in Denmark and Norway, we can live with a small portfolio in Sweden with positive contribution to earnings, whereas I think if you were a new entrant from outside and you only had a DKK2 billion position in one country it wouldn't make sense at all. But of course we realize that we are in a transitional area with the Swedish portfolio. But if you look at this quarter, it's doing 90% combined ratio and a positive bottom line of DKK50m. We can live with that, even though it's structurally not where we want to be long term.

And clearly I think that history has shown that if you try to grow too much in a market, it's just disaster. So we'd rather have sound combined ratio, small gradual growth, and then see if there is a new Moderna out there some day. That might be next year; it might be in six years' time. But as long as we have positive earnings while we wait, that's okay.

A - Tor Lonnum {BIO 16534375 <GO>}

Yes. I guess to the question, Karl, about the dividend policy, it will be about shareholder value. So I guess it's a fairly simple question. No, but to be serious, clearly -- I think I said

the same thing on the Capital Markets Day. Clearly, we have come from a situation where the dividend policy is a model which is transparent but is also supportive in terms of growth. We are now moving into a situation where we will have a relatively low growth on the top line, but we will have higher cash conversion, we will have higher profitability.

And thus we think it's important to look at a dividend policy that will support that kind of, let's call it, change in terms of what happens on the profitability side. But we will -- we are now in the beginning or middle of November, and I guess it's not that much left of the year, so we will make an announcement.

Q - Unidentified Participant

Just to follow up on the dividend, what's the Board saying, or the TryghedsGruppen? What are they saying about dividends? That was the first question.

A - Tor Lonnum {BIO 16534375 <GO>}

Well I guess TryghedsGruppen is -- they are an owner which is -- they are concerned about dividend. That's a part of their -- important part of their cash flow, so they are as concerned about dividend as any other shareholder or investor. They are concerned about it.

A - Morten Hubbe {BIO 7481116 <GO>}

They just restated the other day their strategy for the coming years. Part of their strategy is to pay out roughly DKK550 million per year for public good activities. What is financing their DKK550 million per year? It's the dividend they get from us. So clearly -- and then of course the yield from their investment portfolio. But I think they are like, as you said, all other shareholders. They like good results and high payouts. Perhaps they are a bit more patient than you guys, but basically they want the same thing.

Q - Unidentified Participant

Then my final question about the large corporate segment. I see that premiums are down slightly compared to last year, but I kind of get the impression that a lot of your global competitors in the Nordics have scaled down quite a lot recently. Is that something you're seeing? And should we be looking for more growth, or are you happy with the size of your book?

A - Morten Hubbe {BIO 7481116 <GO>}

Well I guess what we've seen clearly, that AIG charges has been down in terms of volumes and presence on workers' comp. The pressure we saw on workers' comp two years ago has been relieved significantly. The minus 30% on pricing workers' comp almost doesn't happen anymore. We do see that NEMI and Alfa Group still is crazy in pricing workers' comp, but they are fairly small.

I guess generally we see -- I think we still see fairly fierce competition on the bigger property accounts, but we saw January 1 a price increase on average in our book and we still during the year have seen price increases in our book. We don't generally see the

corporate market increasing prices yet. The most foolish of competition on workers' comp seems to have been reduced. So I think, all in all, the corporate business is -- and the corporate market is more healthier today than two years ago, but it's still not where we would like it to be.

And having said that, I don't expect our volumes in corporate to grow in the next six, 12 months, but I expect the continuation of improving the results. Then I think it might be another year or two down the line before pricing for the general corporate market is where it should be.

A - Tor Lonnum {BIO 16534375 <GO>}

And I think, just adding to that, I think it's fair to say that we will have to accept, actually, a high volatility on the top line in the corporate segment, simply because if we want to stay focused on the profitability side there will be more volatility in that segment. And I guess that's something that we need to live with, as long as we have, let's call it, the structural engine in the bottom that can support the segment.

A - Morten Hubbe {BIO 7481116 <GO>}

You can actually say that if we look at it longer term, we think that private and commercial should be able to have very high stability both on the top line and the bottom line, and stability should be stronger in commercial than now on the top line, whereas structurally longer term on corporate we do expect a general situation where we should allow the top line to go up and down more with the market sentiment and the aggression of competition.

A - Lars Moller {BIO 2301941 <GO>}

I think we'll just try to switch to external. So operator, do we have any questions?

Operator

(Operator Instructions) Gianandrea Roberti from Carnegie is on line with a question.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Yes. Good morning, from me as well, I guess. A couple of questions on what has been discussed before. There was a question on the combined ratio target. Am I correct in just repeating that the target at this point is more on a 20% after tax ROE, which basically with the current level of interest rates requires that you have 89% combined ratio, otherwise you won't be able to make it, and this should be really the cornerstone for your targets, and particularly as we move towards the full year '14 as the target is an unsustainable basis from Q3? Is that correctly understood?

A - Morten Hubbe {BIO 7481116 <GO>}

Yes. It's correctly understood. I think that we've tried to communicate the below 90% and the 20% ROE as equal targets, but you're right that with the current interest rates we would need to be below 90% to reach the 20%. And clearly the 20% is a sacred target.

We wouldn't say hooray we've reached 90% but we didn't reach 20%. So of course everything can happen to future interest rates, but the 20% is sacred and currently that requires below 90%.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Okay. Great. The second question is on the dividend, but I -- at this point, I am not interested really in what you're going to say in one month. I just am kind of puzzled by the decisional process here, because this discussion has been going on for, what, six, seven, eight months, and I would have thought that at this point you would have made your mind up. It doesn't seem like an extremely complicated solution. So I'm just wondering, what is the decisional process here, why you didn't come out now and now you will be coming out in a few more weeks? Is there a precise reason for that?

A - Morten Hubbe {BIO 7481116 <GO>}

As I said, that's -- it's Tor's fault, and he is new and he is Norwegian so you never know. No. I think -- I don't think it's very complicated. We have spent time on this at every Board meeting since the Capital Markets Day, and we are making good progress. I guess if you look at the structural changes on Finland, on Nordea, etc., we've had quite a lot of other big projects running. And to be honest, finalizing those has been a higher priority than announcing the dividend policy exactly now.

As Tor said, it's just another month and half left of the year, so I think it's just around the corner. And we try to make sure that when we make a change we make a change to something that is sustainable and that we can hold onto for a number of years, so we don't take the process lightly either. So I think if we can ask for your patience just for another month, month and a half.

And I think, in all honesty, that is precisely what we said at the Capital Markets Day. We said within the calendar year 2012 we will come with a new policy. And I think some of you would have liked it to be Q2 and some would have liked it to be Q3, but that's not what we said. So hopefully that will play out as planned during the remaining part of this year.

A - Tor Lonnum {BIO 16534375 <GO>}

Just to add to what Morten said or perhaps underline it, the fact is that there has been a relatively busy quarter and we have been able to, let's call it, solve the Finnish situation. We have been able to make changes to the Nordea and land the Nordea agreement. And we have also made good progress on the savings. So I guess in all fairness we have made the prioritization.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Okay. Thanks a lot.

Operator

(Operator Instructions) Matti Ahokas from Handelsbanken is on line with a question.

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Q - Matti Ahokas {BIO 2037723 <GO>}

Yes. Hi. It's Matti here from Handelsbanken. A question on the dividend as well, but mainly reflecting how much does the sale of the Finnish operations, the DKK250m, impact the situation? How should we look at the exit from Finland and the DKK250 million capital release?

And I was also wondering, what kind of diversification benefit did actually Finland have from an economic capital point of view? And obviously, that being gone, I'm just curious about the magnitude of that, in your opinion. Thanks.

A - Tor Lonnum {BIO 16534375 <GO>}

Yes. I guess I can -- in terms of the diversification effects, it's relatively low so no major impact. I guess when you look at the capital relief, it's important to take into consideration that this is mainly a private portfolio, and of course that is the most important impact in terms of what happens.

I guess in terms of the capital buffer discussion and what is the impact of the DKK250m, it's fair to say that we have taken this into our accounts as at Q3. But there are -- we are still -- we still need approval from the competition authorities and from the FSA. And we do think that that shouldn't be a problem, but of course it means that we need to have that in place.

A - Morten Hubbe {BIO 7481116 <GO>}

Then I guess that the capital release in Finland, of course, helps the total capital position and thereby the payout. But we are trying to achieve a longer-term payout policy that is sustainable over years and not just in year one where there is a DKK250 million release from Finland. So it doesn't really impact the general work on dividend policy.

Q - Matti Ahokas {BIO 2037723 <GO>}

Great. Thanks.

Operator

We have no further questions at this time.

A - Lars Moller {BIO 2301941 <GO>}

Is there a couple of more questions here?

Q - Unidentified Participant

Yes, I have two questions. One is again on Finland. You say DKK250 million capital relief. As I remember, you have already deducted intangibles from the S&P model. And the DKK250 million includes the price paid, so that would take the capital relief to something like below 20% of earned premiums. Isn't that quite low, and why?

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And secondly, you have a subordinated loan from Moderna -- or sorry, from the Moderna acquisition, which was issued to you by -- or you issued it to TryghedsGruppen. Do you think it would be possible to replace that with something cheaper? And why haven't you done that yet, since I think there was a call on it some while ago?

A - Tor Lonnum {BIO 16534375 <GO>}

I guess the latter question is relatively easy to answer. You're right; the first call was at June 30, but it can be called every quarter. And that's why we want to look at our capital structure before we do anything about that, the subordinated loan. But clearly you are right; you can refinance it in the market today at a lower price. But as you know, if you want to do something on the subordinated debt, it's important for us to look at the total structure since it's really a long-term decision. And that's the reason why we are still considering options and alternatives.

A - Morten Hubbe {BIO 7481116 <GO>}

And I guess it's fair to say that the rules on the Solvency II -- Solvency I, Solvency II and S&P on what capital quality and length do you have on such a mortgage in order to qualify are very different. So I think you should come away with a message that we are planning to do a replacement, but we want to make sure that we have the right replacement.

A - Tor Lonnum {BIO 16534375 <GO>}

In terms of the first question related to the capital relief, yes, you're right; it's a relatively low impact. That's why I said that of course it reflects the fact that this is mainly a private portfolio.

A - Morten Hubbe {BIO 7481116 <GO>}

But I think the logic you were trying to do I didn't quite capture that, because if you take the intangibles, the intangibles are already out of the capital base. So the intangibles were not part of -- they were deducted previously from capital, and now you take them out of the P&L as well. So that doesn't change the capital.

So I guess the DKK250 million -- I think the logic is more that you could compare the DKK250 million to a percentage of the volume in Finland, which gets you to, what, 30% something, close to 40%, right? That's probably the logic. And I think if you look at our general capital to premium, that is above 50%, where corporate pulls that up and private is towards the 40% mark. So I guess that logic is roughly right, isn't it?

Q - Unidentified Participant

I thought DKK250 million minus the price, which if paid would take it down to DKK250 million minus DKK112m.

A - Morten Hubbe {BIO 7481116 <GO>}

I try to take the goodwill into account as well.

Q - Unidentified Participant

Okay. No. It's the right calc. Anyway, doesn't matter.

A - Morten Hubbe {BIO 7481116 <GO>}

Yes.

Q - Unidentified Participant

Yes. Two questions. In terms of investment policy, you have a very handsome return from high yield investment. Could you elaborate whether, going forward, you will keep your current mix of investment? That's the first question.

And the second question goes to the new policy that you will introduce in Denmark. Do you think you will capture market share with that new policy?

A - Tor Lonnum {BIO 16534375 <GO>}

Well I guess to the first question, there is -- there are no plans for major changes in terms of the investment book. I guess you can say generally we are -- we do think that the markets will be turbulent; it will be difficult going forward as well. So there is no major plans for changes in terms of the investment book.

I am not quite sure if I catch the last question (multiple speakers).

A - Morten Hubbe {BIO 7481116 <GO>}

Was that on content, whether the new product would result in more market share?

Q - Unidentified Participant

Yes (multiple speakers) okay.

A - Morten Hubbe {BIO 7481116 <GO>}

If you look at our total market share on the content, I think the likelihood that we can increase that a lot is fairly low. But I think what we can achieve is a more healthy mix of which customers we do get. We will start selling the product on Monday. We will start converting all customers in the middle of next year. And I think it will be more a combination of easier understandable and higher quality for the customers, stronger mix of customers and thereby stronger earnings for us, taking into account that break-ins is going through the roof and water claims are going through the roof, so taking into account the two new big changes in the risk picture.

I think, to be honest, in the Danish market in general, increasing our market share a lot in any line of business is very difficult and probably not very wise either. I think, across Denmark and Norway, the only segment where we can really increase our market share in a meaningful way is in the SME market in Norway, where our market share is only around 9%, and really an area where we haven't spent enough time compared to private and

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corporate. But even there, I think that is a very slow, gradual, say, 10-year project, something like that. So bullish views on market shares I think is a bit far away.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Sorry for coming back. Vinit from Goldman's. Just three slightly operational questions, just following up from the investor day meeting we had. Firstly, on the Swedish motor, I was quite surprised, sort of surprised, to see their uptick in the average premium, because I think there was some photos of Ferraris being replaced by other cars. And I'm just wondering if that mix had actually been in place, or working towards it. So that's the first question. Shall I shoot the other two or --?

A - Morten Hubbe {BIO 7481116 <GO>}

Yes.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. Easy answer. Okay. The second one is the -- there was also this whole chat around 65% of your customers needing to move to your preferred partners for car repair. And I am just wondering if the DKK60 million improvement you mentioned on that slide on that, has that got a role to play or is that something that will still happen in future years and will show in the 250 per year claims? So that's second.

And third question is, corporate, I've also heard a lot about things like Danish municipalities, things like oil exposure, and you are trying to reduce some of that as well. Is that something that will still happen over time? Is that -- because you clearly mentioned that it's been large claims hitting 3Q, but is the portfolio mix still a story for future years already? Thanks.

A - Tor Lonnum {BIO 16534375 <GO>}

I guess, to the last question on the corporate book, what we have mentioned is the power utilities in the Norwegian market and the municipalities, as you mentioned, and clearly we have made those changes. And I guess you can say that if you look at the large claims that we had in Q3, it's related to, let's call it, an ordinary exposure that we have in our book, so that exposure has been downsized.

A - Morten Hubbe {BIO 7481116 <GO>}

I guess, Tor, we can add that the municipalities were mainly in Denmark, and I think we've actually seen subsequently these customers with -- we don't work with anymore. And I think we've seen subsequently that that decision was right, because in reality we've had negative run-off losses from those customers from the rain showers in July last year. So actually what we saw was the negative municipality development on claims has actually been worse since last year. And it means that we'll see no new claims from that area, but still we are paying off some run-off losses in that business, so I think that decision was right.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Did it happen in this quarter or (multiple speakers)?

A - Morten Hubbe {BIO 7481116 <GO>}

In this quarter as well, we had negative run-off losses from municipals in Denmark. I guess on Sweden I don't think we can say that we are through the change of the motor mix. We just saw the other week a status on how many new customers on cars have high horse power, low horse power, high pricing, low pricing, high weight, etc., age of the driver. And we can clearly see that the mix of new customers is changing dramatically. So we are getting a lot more boring cars in Sweden and a lot less sexy cars. But I think the transitioning of the accumulated portfolio is still going on.

A - Tor Lonnum {BIO 16534375 <GO>}

And it's important to understand that you will have some customers that will have a relatively high price increase and will still stay with us. So that's the reason why you -- and that's why I tried to explain that the curve was a bit wavy, so to speak. It's not a kind of steep development. And I guess what happens, of course, is that when you introduce a new product and a new tariff, you will tend to use a floor and a roof on the price increases in order to try to stabilize your portfolio. And that's why, as Morten said, it will take some time before it will flow through the portfolio.

A - Morten Hubbe {BIO 7481116 <GO>}

But I think it's fair to say that two, three years ago Sweden was a country where our mispricing was the broadest. Today, we are actually getting close to a situation that Sweden is the area where the largest number of products is priced exactly where we want them. So our staff in Sweden has been moving very rapidly on turning around the portfolio. And you may recall that we hired a number of very senior actuarial staff from some of the largest competitors in Sweden two years ago, and that is really starting to pay off on the quality.

A - Tor Lonnum {BIO 16534375 <GO>}

And that's why I said to Per's question earlier that in fact we do think that in terms of price differentiation we actually have the best stability -- agility now in the Swedish portfolio, Swedish book of business.

There was another -- there was a final question. What was --?

Q - Vinit Malhotra {BIO 16184491 <GO>}

The car repairs.

A - Tor Lonnum {BIO 16534375 <GO>}

The car repairs, right. Right. Yes. That is something that will continue to flow into the numbers in the coming years. Clearly, you saw that a major impact this year in terms of annual effect was related to the fact that we have been able to renegotiate agreements

with a lot of the car repair shops in Denmark, but you could also see that there was a significant number.

So of course for us it's important to make sure that you get contracts with the right car repair shops, that you get it at -- with an agreed quality level and at an agreed price. But it's also important to look at, over time, do we actually need to have that many or can we scale down and achieve more economies of scale in terms of procurement.

Q - Vinit Malhotra {BIO 16184491 <GO>}

So the DKK60 million had something to do with that?

A - Tor Lonnum {BIO 16534375 <GO>}

Yes.

A - Morten Hubbe {BIO 7481116 <GO>}

I guess you could say, Tor, that actually our initiatives on car and procurement is slightly ahead of plan, whereas, for instance, house and building and procurement is slightly behind plan. So there are variations within the project. But generally it is moving along the plans we set.

A - Lars Moller {BIO 2301941 <GO>}

Any further question from inside here? Operator, do we have any further questions?

Operator

(Operator Instructions) There are still no further questions.

A - Lars Moller {BIO 2301941 <GO>}

Thank you, operator. Yes. Then I think I will say thank you to all of you for participating this morning here with the Q3 presentation, and with these words. And you can see here that we have the road show plan up here for the next couple of weeks, where we'll be a little bit around all over, I guess. But with these closing remarks, thank you for joining us and have a good day.

A - Morten Hubbe {BIO 7481116 <GO>}

Thank you.

A - Tor Lonnum {BIO 16534375 <GO>}

Thanks.

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