Q4 2012 Earnings Call

Company Participants

- Catharina Hellerud, EVP, Finance
- Helge Leiro Baastad, CEO
- Janne Flessum, IR
- Kim Rud-Petersen, EVP, International General Insurance
- Martin Danielsen, EVP, Product & Pricing
- Unidentified Speaker, Unknown

Other Participants

- Gianandrea Roberti, Analyst
- Matti Ahokas, Analyst
- Per Gronborg, Analyst
- Vinit Malhotra, Analyst
- Will Hardcastle, Analyst

Presentation

Janne Flessum {BIO 19368607 <GO>}

Welcome to the presentation of the Fourth Quarter and preliminary full-year results for Gjensidige. My name is Janne Flessum. And I'm Head of Investor Relations. Today, our CEO, Helge Leiro Baastad, will start with presenting the headlines for the full year, 2012, before our EVP for International General Insurance, Kim Rud-Petersen, gives you some insight into our activities outside Norway.

Then our CFO, Catharina Hellerud, gives us some more details on the financials, both for the Fourth Quarter. And the full year. And finally, we will open up for a Q&A session, as always. Before we start, I'd like to remind you that the presentation can be downloaded from our website, gjensidige.no.

Helge Leiro Baastad {BIO 5865247 <GO>}

Thank you, Janne. Before I start on page 4, I would just say regarding the Fourth Quarter, that it was a very strong conclusion to a record year for Gjensidige. But, as Janne said initially, Catharina will comment the Fourth Quarter afterwards.

2012 was a historically strong year for Gjensidige; and you can follow on page four now. The preliminary profit before tax expense, was NOK5.6 billion, corresponding to a return on equity of 23.8%. And the profit per share was NOK8.56.

The underwriting result was NOK2.6 billion, corresponding to a combined ratio, 85.3%. If you discount the reserves, as they do in some countries, for instance Denmark, the discounted combined ratio for the Group, in 2012 was 81.7%.

Our premium increases have been in line with underlying claims inflation. And we experienced increased competitiveness in general, in 2012. This is reflected in a positive development in the loss of customers.

At the end of 2012, we have almost the same amount of customers in the Norwegian business, as we had year-end 2011. And the quality of the customer portfolio is generally better than a year ago.

When we are to summarize these results for 2012, there is no escaping the fact that the loss frequency was unusually low seen from the perspective of Nordic General Insurance Company. This was especially the case in the Motor and Property Insurance. You have also seen this, when you have looked into the figures from our peers, reporting before us. We had no major weather-related events in 2012, unlike what we saw in 2011.

The return on the investment portfolio was NOK3 billion, corresponding to a return of 5.4%. And given the appetite risk and risk portfolio profile in our portfolio management we are very satisfied with this return. These figures mean that we have achieved our financial target also in 2012.

The Board proposes a dividend of NOK3.4 billion, corresponding to NOK6.85 per share. This corresponds to a distribution percentage of 8% of the profit after tax expense, which is at the high end of the stipulated range of dividend, between 50% and 80%.

Talking about dividend, I want you to look at page 5. And if we look at the distribution percentage for the last three years, it has been at the high end of the stipulated range; 80% in '10, 83% in '11. And now 80% in '12. We wish to remind you that we had unusually terrible tax situation in 2010, as a result of the conversion of the Company. This contributed to listing the nominal dividend somewhat in relation to a normal level. We had, as you maybe remember, 9.3% tax level in 2010.

And as mentioned, we had an unusually low loss frequency in 2012. But given the Group strong capital situation, the Board of Directors proposes a distribution at the high end of the stipulated range. So the arrows indicate extraordinary result, also regarding the dividend, as you can see from the chart, related to 2010 and 2012.

On page 6, you can see some of our main focus and events during the year. We have presented some of these tasks before. One main take-away from this presentation is development in the loss of customers in the Norwegian private segment has been doing worst.

It is very important. And a very important trend shift actually, in 2012. Our multi-channel distribution has contributed on the Commercial side, to a significantly more efficient customer dialog in the Commercial segment, in 2012.

The call center though, serves 15% more requests, with increased service level. And unchanged number of employees, compared with end 2011. In addition web requests have increased have increased significantly in 2012.

We have had focus on cost efficiency throughout the organization also in 2012. But, at the same time, we have managed to invest into the future. And in three Group-wide initiatives for achieving the goal of both profitable growth and more customer loyalty and satisfaction, we have been presenting the tariff rate in project before, the brand initiative and simplification and automation program.

New tariffs have been implemented in large parts of the Norwegian portfolio and we look forward to starting the rollout in the Nordic segment later this year. This is long-term work that will include continuous improvement of existing tariffs. If you have more specific questions related to the tariff development and tariff project we are so pleased today to have EVP, Martin Danielsen together with us. So he can answer more specific questions afterwards.

Secondly, simpler internal work processes, automation and self-service solutions will be decisive in the organization for good customers in the time ahead. In 2012 one out of the 10 material damage claims and one of the five travel claims in the Private segment in Norway were reported online and by mobile phone. The settlement of one out of the six frequency claims was automated. A joint Nordic system platform with a flexible service architecture means that we are well-positioned for taking a leading role in this area going forward; important key words are easier for the customer and easier for Gjensidige.

Finally, the development of the new brand strategy is about real changes in our relations with the customers and a more modern whistle profile adapted to digital channels.

Finally, the Gjensidige Foundation approximately in -- we had last tranche of these bonus shares in December. And it was approximately 3 million bonus shares and were -- that were distributed to about 40,000 shareholders.

We're also pleased that the Gjensidige Foundation had a massive marketing campaign in 2012 to create familiarity with our unique model, whereby the Foundation's share dividend is distributed directly to our Norwegian General Insurance customers in the form of customer dividend. They will continue with this massive market campaign also in 2013.

And finally, before I give the word to Kim Rud-Petersen, I would say that also a very important achievement in 2012 is the fact that we have increased significantly our customer satisfaction in the Norwegian market. So, we had a trend shift related to customers in both Private line and Commercial line. And we had also a trend shift related to customer satisfaction and that, in combination with a strong result for 2012, we are really satisfied with that combination.

As you know, we took the first step from being a Norwegian General Insurance company to becoming a Nordic General Insurance company back in 2006. And since then we have been on an exciting journey. And I will now leave the floor to -- not the floor, the table here to Kim Rud-Petersen, Executive Vice President of International General Insurance, who will tell you about this journey and give you an account of our International operations; so please, Kim.

Kim Rud-Petersen

Thank you, Helge. I'm struggling a little bit with my throat. So I apologize if I have to pause during the session here.

Growth outside Norway shall be achieved in General Insurance, primarily through acquisitions. Carefully selected transactions and good operations have given us a profitable business and a strong position in Denmark. And I'm proud of the fact that the Nordic segment delivers a result of nearly NOK500 million for 2012. This corresponds to almost 20% of the Group's total General Insurance result.

As Helge just mentioned, Gjensidige's international journey started back in 2006 with the acquisition of Fair Insurance in Denmark. Our most substantial acquisition was Nykredit Forsikring in 2010, which was a perfect match for our operations in the Danish market. We doubled our market share and Gjensidige is now the sixth largest player in the General Insurance market.

We now have critical mass to ensure rational and efficient operations going forward. We have a balanced portfolio now, half of the premiums come from the Private market; 35% comes from Large Corporate and municipalities; and the rest from our Small/Medium Enterprises and Agriculture.

Distribution in the Private market is a multi-channel model combined with strategic corporation with selected distribution partners. We have access to more than 50% of the property distribution in Danish market through our cooperation with Nykredit and EDC, Denmark's biggest estate agent.

The Nykredit Group is our biggest partner in our Private segment. And that part of the portfolio is operated and branded under a Nykredit insurance brand. We have a continuous good dialog with Nykredit to further strengthen the cooperation in order to realize our ambitions, setting new standard for customer service.

In the market our distribution model towards small/medium enterprises and agricultural customers is the multi-channel model. While when we look at the Commercial customers and the Municipal segment these are primarily shared through brokers. Gjensidige is market leader in the municipal insurance market in Denmark.

We focus on profitable growth, profitability overgrowth and have delivered an improvement in our combined ratio from 102% in 2010, 96 -- 97.9% in 2011. And now 86.5% in 2012. The most important measures have been reductions of risks; price measures; systematic re-underwriting; and optimization of our Commercial portfolio in particular, getting rid of the bad apples.

In the Danish market we have established a sound foundation with a scalable, profitable business model. And this is geared for further profitable growth; first and foremost, through acquisitions. But also through organic growth where we find it possible.

We have a solid track and a competence for integration, a sound capital situation. And financial flexibility on which we can capitalize when attractive opportunities arise. In a consolidated market it's, however, a question of being rational and patient.

We have one common Nordic IT platform. And we can easily integrate new portfolios. Helge also mentioned we're focusing on gradual automization and the simplification of work processes for customer service and our staff; and self-service solutions for our customers. And this will also help us to achieve both profitability and customer satisfaction targets.

During 2013 we will start implementing new tariffs based on the Norwegian model, starting with the motor insurance tariff in the Private segment. We expect the effect on the loss ratio in the Danish operations to be positive. This indicates a significant potential in the years to come. We assume that over time new tariffs can be implemented in 60% to 70% of the Danish portfolio. But, I would like to emphasize this is a long-term project.

This year, implementation of our new brand strategy marketing initiative, a new customer portal, on the Internet will further strengthen our position.

Over time we expect organic growth in line with GDP growth. However, it looks, as the fall in the market -- the housing market has stagnant in the Danish market. (Technical difficulty).

We are starting to see positive tendencies in the property sales in several areas around the biggest cities in Denmark. We have a unique position in the market, as I mentioned previously, which can take relative -- which we can take relative advantage of when the housing market starts picking up again.

To look a bit deeper into the Baltic business, Gjensidige is the fifth largest player in the market overall. The market is quite fragmented, with a market share of approximately 70% divided between the five biggest companies. The biggest share is related to international companies, such as Gjensidige.

The market is immature and with good potential for growth. The insurance penetration is very low in all three countries. The distribution is inefficient. And there are high expectations for the future economic development and general living conditions and standards.

In Gjensidige, as for the general market, motor insurance is by far the biggest product, representing 62% of our premiums. We have yet to deliver profitability in line with the Group's target. So far we have delivered a relatively stable profitability, also during the macroeconomic crisis.

The relatively high cost ratio for this segment, which is in line with the market, is related to the current distribution model in an immature market; with a broad broker network, direct distribution through local sales offices. We will incorporate the Baltic into the Nordic model, focusing on our operational efficiency, using the same tools and expertise as we have used in the rest of the International business. Overall, we benefit from a structural capital in Norway. But we also have highly capable employees at a local level, both at management level but also professional expertise.

So to sum up I think there are three things I would like you to take with you from this presentation. We have gained a position as one of the largest insurance companies in Denmark; a scalable business model and a strong partner network, which makes us well-positioned for growth. We have a good basis for playing a bigger role in the Baltics as the market matures in time ahead. And, last but not least, profitability is our main target over growth in the Nordic segment, as well as for the rest of the Group. And I will now give you Catharina Hellerud for a detailed presentation of our figures.

Catharina Hellerud {BIO 17276650 <GO>}

Thank you, Kim. I assume that you have seen the reports. So, I will try to run through the figures rather quickly.

The Insurance operations have delivered very strong results through 2012, which is also the case in the Fourth Quarter. All the Insurance segments show an improvement in financial performance, both for the quarter, seen in isolation and for the year as a whole.

An important explanation for the good results in the quarter, in addition to good underlying profitability, lays a very low proportion of large losses and the major weather-related events in the quarter.

The Bank also recorded a positive performance in the quarter, while the result in Pension and Savings was negatively affected by a strengthening of claims provisions for disability risk related to different pension products. In addition to the fact that the return on financial assets for the year, above the guaranteed interest on the paid up policy portfolio was allocated for a buffer for longer life expectancy.

Turning to page 14, the combined ratio for the General Insurance operations, ended at a strong 86.4%. The cost ratio was 16.0% in the quarter. The costs for the quarter include an investment relating to the brand initiative of NOK34 million, corresponding to an effect of 0.8 percentage points on the cost ratio. This includes the launching of the new visual profile, new signs on offices. And new customer portal.

The cost ratio was 15.5% for the year as a whole. The ambition is to have a cost ratio of 15% within 2015. And we continuously work to be even more cost effective. And investing in solutions to secure more efficient internal processes, automation and sales servicing. This also includes the recent investment in the Group's brand, which adapts LTV's visual profile to a digital channel.

The loss ratio was 70.4% in the quarter, to give underlying profitability in the portfolio. An important driver for the profitability is the modernized tariffs. And the more analysis-based pricing.

In relation to the frequency development we are seeing a more normalization of the frequencies for the motor insurance product, compared with the first three quarters of 2012. On the other hand, the figures for the quarter do not include any typical winter frequencies that you normally see in the Nordic region.

The same applies to the property product. There have also been a few fires the in the quarter, which normally accounts for some medium-size claims in the range of NOK1 million to NOK10 million. However, the loss ratio for the quarter was also positively affected by the leisure and accidents. And large losses and weather-related events.

Turning to page 15, earned premiums for the Group increased by 1.1% in the quarter, with an underlying increase of 2.6%. If you adjust for the agreement with the Norwegian Auto Federation, NAF, that expired in 2011 and that we have commented earlier, in addition to the negative change rate effect in the Nordic segment.

Turning to page 16, as you can see from the figures, even a big portfolio there will be elements of random variation as regards the scope of large losses, from quarter to quarter, which the figures for this quarter clearly illustrate.

Large losses in the quarter had an effect on the combined ratio of 0.3percentage points, far below the expected value for the quarter of 5.4percentage points. And also for the year 2012, the actual effect of large losses was below the expected value.

Turning to page 17, you can see that there was a run-off gain of NOK75 million in the General Insurance segment in the quarter. The largest part of the run-off gain comes from the Nordic segment. And there was still a positive development in the occupational injury portfolio. And in addition some large losses were adjusted during the quarter.

Reserving is done on a best estimate effort, implying that the expected run-off level is zero. The level of run-off will, of course, vary between the quarters. But, over the last 13 years, the run-off results have, on average, had a positive effect on the combined ratio of 0.9percentage points.

Turning to page 18, there was a decrease in nominal operating expenses in the quarter of NOK21 million. The segments were positively affected by the fact that the cost of the bonus was charged to the Corporate Center as owner expense in late 2012, while it was charged to the segments in 2011. So the Corporate Center then shows the negative development in the quarter due to the bonus scheme, as well as the cost relating to the brand initiative that I commented earlier.

Turning to page 19, the illustration shows the breakdown of the internal risk-based capital requirement. There is an annual audit of internal and that was carried out in this quarter. This has not led to any material change in the total capital needed for the operational segment. There have been large changes between the segments. The capital requirement for Commercial Norway has increased, while the capital requirement for the Nordic segment has been reduced.

And the total risk-based capital requirement amounted to NOK10.7 billion at the end of the quarter, reduced from NOK11.3 billion at the end of the Third Quarter.

Turning to page 20, it is still the rating requirement from S&P, the A rating, that is the most binding of the three capital perspectives that we examine. And taking account of this capital requirements, the (inaudible) excess capital amounted to NOK5.3 billion at the end of 2012, that's an increase of NOK1.4 billion during the quarter.

The increase in excess capital is largely due to an increase in available capital; that is the gross profit for the year. During the year it's nothing -- or profit for the period is not included in available capital during the year, while at the end of the year the retained earnings are included; that is the total comprehensive income minus the proposed dividend.

Turning to page 21, the Investment portfolio amounted to NOK56.3 billion at the end of the quarter. And, as you know, it is divided into three separate portfolios; it's Match portfolio, that is the biggest part of the portfolio, the portfolio is invested in fixed income instruments whose duration is adapted to the provisions.

The Free portfolio is also, to a large extent, invested in fixed income instruments. But does also include investments in equities, private equity and property. Then there's Associated Companies, we're then on SR-Bank had a book value of NOK5 billion at the end of the quarter.

Turning to page 22, the Investment Portfolio, you see it had a good result, both for the quarters seen in isolation and for the year. The Match portfolio yielded a return of 1percentage point. The largest part of the Match portfolio is valued at amortized cost and had a recognized return of 1.0% in the quarter.

At the end of the Fourth Quarter the end realized excess value from bonds valued at amortized cost amounted to just above NOK1 billion, reflecting the decrease in interest rate level. The decreasing interest rate level also affects, of course, the reinvestment rates in the bond portfolio. And the average reinvestment rate for the bonds, classified as amortized cost, has been around 4.5% in the quarter on average, compared with approximately 4.6% in the Third Quarter.

The return on bonds classified as short term bonds was 0.7% in the quarter. This item includes also the interest expense or the unwinding of the discounted insurance liabilities in Gjensidige's adverse cover, the annuities in the relative portfolio.

The Associated Companies yielded a return of 1.6% in the quarter and part of the profit is due to a positive deviation of NOK10 million from the previous quarter.

The Free portfolio yielded a return of 2% during the quarter. Both equities and directly-owned properties made a positive contribution, while the return on the property fund was practically zero.

All in all, a good return on the Investment portfolio, both in the quarter and for the year as a whole. Then I leave the word to Helge to sum up.

Helge Leiro Baastad {BIO 5865247 <GO>}

Thank you, I think the last page is page 24 (sic), Priorities and Outlook. And what I would just say there, we have commented that based on best practice in Norway we'll start rolling out new tariffs, work processes and new tools in the Nordic segment in 2013.

We will also implement the multi-channel distribution model, as we have implemented in the Commercial business in Norway, gradually into the Nordic segment.

We have signed the biggest new affinity agreement since early '90s with DNT, that's the Norwegian Trekking Association. And they have more than 246,000 members. So that's also a very attractive customer group. And based on our experience regarding working together with affinity agreements or groups, we look forward to working together with DNT as well.

We will continue to explore opportunities for growth, both organically and structurally. As you know the Nordic general insurance market is mature and consolidated. And we will continue to be patient and rational. And prioritize profitability of growth. And you also heard Kim Rud-Petersen said that for the Nordic business.

Related to new regulations, as for the Solvency II to regulations, we now expect that they will not be implemented in Norway until 2016.

Regarding Life, the Banking Law Commission submitted a Norwegian official report in January 2013, which describes the rules that apply to the transition from the defined benefit pension schemes to the new group occupational pension insurance. So-called hybrid model.

The report proposes a transitional period of three years. And the Commission also proposes higher maximum rates for defined contribution pension schemes. So that they enjoy equal status as new group occupational pension insurance.

When it comes to Gjensidige, we will consider offering the product. But await reaching a decision to see what the enterprises will do and the actual profitability potential of the product. It is likely that several enterprises will convert their defined benefit schemes into defined contribution occupational pension schemes, a product that will continue to be the most important pension product offered by the Group going forward.

So the new Norwegian pension legislation is intending to enter into force in 2014. So with that final comment I think it's okay now with some Q&As.

Janne Flessum {BIO 19368607 <GO>}

Yes, operator, we are ready to take the Q&A session.

Questions And Answers

Operator

(Operator Instructions) Will Hardcastle, BofA Merrill Lynch

Q - Will Hardcastle {BIO 16346311 <GO>}

, Can I ask a couple of questions on capital, please? I'm looking at the diversification benefit on the capital chart and it looks like it's reduced from NOK1.8 billion to NOK0.8 billion quarter on quarter. And was just really wondering what the driver of that was as well as the move in the additional binding capital requirement, that actually looks like it's gone up from NOK5.1 billion to NOK6 billion?

And the second question is relating to the frequency of normal losses. You talked about that quite a lot in the call and I remember it being lower than normal in Q1 and Q2 on motor and property. But can I just understand from what you said on the call, was motor more normal in Q4. But property was perhaps a little less than normal as well still, is that correct?

A - Catharina Hellerud {BIO 17276650 <GO>}

Maybe I should start with the question regarding the economic capital allocation that I -- that you asked first. What we have done in this quarter is to change the model based on our annual audit and there are different effects that lead to the changes that you see on slide 19.

It's we have increased correlation between the products, which has increased the capital requirement for businesses Private and the Commercial Norway segment. We have also we recalibrated the Norwegian inflation assumptions, which have then reduced the capital need for the Norwegian segment. We have also improved the databases by including more data in the model. And we have also changed our capital requirement related to operational risk.

The net effect of these changes leads to an unchanged capital requirement for the Private segment, while the capital requirement for the Commercial Norway segment has increased.

And in addition to the management effect, there has also been an improved model for the damage work with compared products, which leads to a reduction in the capital requirement in the Nordic segment. So, all these changes in the model have changed the capital requirements and the diversification between the segments.

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

Related to the second question we have Mr. (inaudible) here. So --?

A - Martin Danielsen {BIO 16715872 <GO>}

It's Martin Danielsen, Head of Product and Pricing, I think your comments -- your understanding of the motor is right. But we have a slightly more normal development towards the end of the year. Obviously, 2012 was a very good year for motor insurance. But to the extent we see any the difference between the different parts of the year, it was especially the first half of the year, which was the very best for motor.

When it comes to property frequencies, one quarter is a very short time period to look at. Obviously, there were no extreme weather incidents; it was hardly any large claims at all. And as Catharina stated, we had very few medium-sized claims, typical fires; so, yes, it was a good quarter for property.

Q - Will Hardcastle {BIO 16346311 <GO>}

Great. Thanks. And I know this is an extremely difficult thing to quantify. But do you estimate, for example, that for the specific division that that that's in, that it maybe saved an extra 1percentage point than normal or a bit more or a bit less?

A - Martin Danielsen {BIO 16715872 <GO>}

We don't flag too much numbers there, because it's also a mix of different types of claims and so on. But it was a fairly good quarter and also -- but no extreme movement.

Q - Will Hardcastle {BIO 16346311 <GO>}

Okay, thanks.

Operator

Matti Ahokas, Handelsbanken.

Q - Matti Ahokas {BIO 2037723 <GO>}

A question -- or two questions, please. First on the dividend, a lot of your peers have actually recently started to focus more and more about steadily rising dividend. And it seems, at least in my opinion, that you guys are focusing more on the payout ratio.

Obviously, if the development within claims next year or this year will be less favorable than previous, the earnings will probably fall. So how do you feel about the kind of level of dividend as opposed to the payout ratio going forward?

The second question is regarding the tax rate, which was pretty high in the Fourth Quarter. Was there something special? And what should we expect for the coming quarters? Thanks.

A - Catharina Hellerud {BIO 17276650 <GO>}

Well, I'll start with the first question regarding the dividend. Well, we have a dividend policy, which states that the dividend should be between 50% and 80% of the Group's net profits. And that is the current dividend policy of Gjensidige. And we have for the last three years paid a dividend in the higher range -- or in the highest range of the dividend range, reflecting our strong capital position.

But we have also, as you see on the slide in the package, illustrated that there are some special effects both in 2010 and 2012, reflecting -- or affecting the dividend level, of course, in the nominal numbers. But, again, the dividend policy is to payout between 50% and 80% of the Group's net results.

When it comes to the tax rate, there is nothing special this year or this quarter; so effective tax rate of 24%. The corporate tax rate in Norway is 28%. But there are some, as you know, some effects regarding losses and gain on shares or equities, Norwegian equities and European equities; but, again, no special effect in 2012.

Q - Matti Ahokas {BIO 2037723 <GO>}

Great. Thanks.

Operator

Gianandrea Roberti, Carnegie.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

I have a couple of questions. One, it's a bit nitty-gritty. But I was looking at your investment return. I'm looking at the full-year number, which is slightly over NOK3 billion. There are three segments where you made a really very, very high return, probably well above what is normalized.

I can see on the other bonds, which is, if I remember correctly, it's mostly a corporate bond portfolio, you have around 15% return. But also on convertible bonds and private equity, the returns were very, very high. And I was trying to back out how much capital gains you had. And it seems like, if I've done the math correctly that the number is around NOK300 million to NOK400 million. But I'd really like to have an idea of what was a more normalized investment income this year. That's the first question.

And the second question, it's more related to the payout. And what is asked before. But I'm more thinking like you're making enormous amount of money. So in a way, even with an 80% payout ratio, you are keeping NOK1 billion of profit for your shareholders' equity, which seems really very high, considering the low growth.

Is there any thought at all to increase this 50%/80% to 50%/90%, or just to go a bit somewhat higher than the current level? Thanks.

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

Hi, Gianandrea. I can comment the last question. And Catharina can give you some more information related to the first question.

As Catharina said, our payout ratio, which we have communicated to the market, is 50% to 80%. And you are right, we had an excess position. It's still a significant part of the result left. But as we have this structurally 50% to 80%, we think it's right now level to deliver in the high end of that range.

And as we have said several times before, when we have visibility related to regulation, both for ourselves and the life sector in Norway, we will look into this capital situation, in more detail. I think we'll look into this during 2013. And then we can take a new type of communication after that.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Okay. Thanks.

A - Catharina Hellerud {BIO 17276650 <GO>}

And now your first question about the normalized investment income level. Of course, it's not possible to give you a normalized level of investment income. But I think what's important is to bear in mind that the asset allocation -- or the asset management is not a profit of Gjensidige; it's there to support the technical -- or the Insurance operation. So, of course, the main part of the Investment portfolio is the Match portfolio; reflecting a very -- or a long investment risk profile.

Of course, have some -- as we have the strong capital position of Gjensidige, we have risk capacity; which is reflected in the Free portfolio, where we do have, amongst other, convertible bonds and equities, etc. But I think, again, it's also a rather conservative portfolio with a large degree of interest rate income -- investment -- instruments in the Free portfolio as well.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Yes. Well, I wasn't really trying to say that it's an aggressive mix. But there are these three categories in there, where the returns are clearly significantly above the normal. So I was trying to get an understanding, how much with the current asset mix you are making a normal year, because some of your peers give us that kind of information. But it doesn't matter, that's helpful. Thanks a lot.

Operator

Per Gronborg, Danske Markets.

Q - Per Gronborg {BIO 15910340 <GO>}

Two questions, a bit on the nitty-gritty part. But first on the Bank, your loan-loss rate is coming down quite materially in the Fourth Quarter. We have seen that you have built up your loan losses quite extensively, over a period of time. Any chances that you will not build as much loan losses up next year, as you have been doing the last couple of years? That was the first question.

And the second question, related to Kim's presentation on Denmark. And the growth prospects. It seems now you're focusing a lot on the Danish residential property market getting some life back.

Isn't the key issue that your key distribution partner, Nykredit, they are providing a lot of residential mortgages. But they're not providing it themselves, they're providing it through their partner banks, which are typically cooperating with Krogen on the P&C side. Any chance, any ambitions to get into that deal. And take that deal away from Krogen, related to the -- to take the Bank? That was the two questions.

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

I think Kim can think about the second question. And maybe Catharina can comment the Bank, Per.

A - Catharina Hellerud {BIO 17276650 <GO>}

If you are looking at the write-downs and losses in percentage terms, for the Bank it has come down from 2011; 0.65% to 0.43% in 2012.

I think it also reflects the fact that the unsecured lending part of the portfolio decreases as the secured lending part of the Bank actually increased in size more than the unsecured lending part of the business. So there are no major changes in the portfolio as such, or any specific events or trends in the portfolio.

Q - Per Gronborg {BIO 15910340 <GO>}

But I guess the actual realized losses, they are still extremely low?

A - Catharina Hellerud {BIO 17276650 <GO>}

Sorry?

Q - Per Gronborg {BIO 15910340 <GO>}

The actual losses, the realized losses in the Banking portfolio, they remain pretty low, I guess?

A - Catharina Hellerud {BIO 17276650 <GO>}

It's -- if you look at the secured lending portfolio, it is, I suppose, a portfolio with a very -- what we think a conservative risk profile; as you can see, on average, the loan to asset value ratio of around 60%. So these are many quarters of low risk lending.

Q - Per Gronborg {BIO 15910340 <GO>}

I'm thinking more about the consumer part of the portfolio.

A - Catharina Hellerud {BIO 17276650 <GO>}

The consumer part of the portfolio is relatively lower than the secured part of the portfolio, as the secured part of the portfolio then increased in a higher percentage than the unsecured part of the portfolio.

A - Kim Rud-Petersen

Per?

Q - Per Gronborg {BIO 15910340 <GO>}

Yes.

A - Kim Rud-Petersen

Kim here. I was just wondering, where are you from in Denmark?

Q - Per Gronborg {BIO 15910340 <GO>}

I'm from Denmark, from Danske, I'm living in the Copenhagen area.

A - Kim Rud-Petersen

Okay. Thank you. I'm not sure if I understand -- understood your question right. But related to our distribution power through real estate agents, due to our partnership with Nykredit. But also EDC, I don't know if you caught that one. Well, EDC is the largest, as you know, real estate agent in Denmark.

Q - Per Gronborg {BIO 15910340 <GO>}

But no ambition, no opening to actually get a cooperation with the banks that are selling the Nykredit product, because I guess that would be the key entrance point to clients, to be a better entrance point than (multiple speakers).

A - Kim Rud-Petersen

So you're asking if we in Gjensidige would sell Nykredit bank products?

Q - Per Gronborg {BIO 15910340 <GO>}

No. I'm talking about getting or -- targeting the banks that are selling the lion's share of Nykredit's mortgage loans.

A - Kim Rud-Petersen

Okay. You mean through Totalkredit?

Q - Per Gronborg {BIO 15910340 <GO>}

Exactly.

A - Kim Rud-Petersen

Well, it's difficult for me to have creative thoughts on what future initiatives we can take. But I think I can reveal that I want to explore as much of -- all the opportunities we can get through the cooperation with Nykredit and EDC. I think -- as the situation is right now, I think there are some restrictions for the distribution and cross-selling from Totalkredit.

Q - Per Gronborg {BIO 15910340 <GO>}

Okay. Thank you.

Operator

Vinit Malhotra.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Two things, first of all you mentioned that you will be looking at this excess capital position during the year; at least that's what I understood. But is there potential for the ROE target to be also reconsidered, maybe a higher number on a post-tax basis or something on those lines, which even if you say to me that we are reconsidering that also. I just want confirmation.

And second thing is on the normalization again. Because all the -- all of the Nordic companies are reporting all-time low combined ratios, one question that often comes up in mind is that as a cycle is nearing its peak or -- and which is probably nearing. But then what would be the rate of normalization?

So if you could comment on just that thought because this is the first time and the Fourth Quarter normalization. But I'm wondering if the normalization has continued and at what pace, or do you expect it to continue?

And just very lastly, very last question, in the Denmark presentation there was a lot of mention of -- I think, twice or thrice a mention of how the IT system is ready to incorporate any new portfolios. And just now there was a question as well. So are you deemed to go in organically as well in Denmark? Thank you.

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

I can comment on the first question. As you know, the present capital situation, the present dividend policy and the present ROE target are closely linked together. So when we look into the whole capital discussion, we will, of course, look into all the related targets.

And the ROE target today, it's a pre-tax target of 15%. It's related, of course, to the excess position and the capital position we have today. So yes, of course, we will look into combined set of targets when we will take this discussion with the Board of Directors in Gjensidige. Did you catch the second question, Catharina?

A - Unidentified Speaker

Normalized levels of combined ratio.

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

Normal combined rations, okay. I can start on that question as well. Today we have an overall target of 90% to 93% combined ratio. As you remember, we delivered 91.9% in 2011. 1.9% was related to extreme weather. And we had a run-off gain of 2.1%.

When we operate with 90% to 93%, it's given that we had best estimate for run-offs that means zero. It's also given that we have a normalized situation related to large claims. So when you adjust the 2011 figures, with the extreme weather, 1.9% and the fact that we had 2.1% run-off gain, we are just in the middle of that corridor 90% to 93%.

If you take the same exercise for 2012, we reported an 85.3% combined ratio. And if you add 1.9% run-off gain. And we also had 1.5% less large percentage, related to less large claims up against the normalized level, it's 88.7% and that's below the corridor 90% to 93%. But what we have commented. And this is in line with what we have seen from Tryg and Sampo as well, it has been a very low frequency during 2012.

So the normalized combined ratio we really think that's in our corridor 90% to 93% for the moment. That's the normalized situation related to the frequency. That's the normalized situation related to large claims. So 90% to 93% is our best estimate going forward.

A - Kim Rud-Petersen

Then you had a question regarding Nordic related to the fact that we now have a common Nordic IT platform and we now easily are able to integrate new portfolios. As I believe I mentioned, we are focusing on profitable growth. And then primarily through acquisitions. But however, we feel it's a question of being rational and patient. With other words, we don't want to pay too much for any portfolio.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. And when you say portfolio, you mean business from seeded clients or you mean companies? That was my question really.

A - Kim Rud-Petersen

I was talking about companies.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay, that's fine. Thanks very much, really appreciate. Thank you.

Operator

(Operator Instructions) There are no further questions.

A - Janne Flessum {BIO 19368607 <GO>}

Okay. Thank you, very much for participating and have a nice day. Hope to see some of you in London tomorrow. Goodbye.