# Q1 2016 Earnings Call





## Company Participants

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

## Other Participants

- Blair Stewart
- Iain Pearce
- In-Yong Hwang
- Jonny Urwin
- Matti Ahokas
- Paul De'Ath
- Steven A. Haywood
- Vinit Malhotra
- Youdish Chicooree

## MANAGEMENT DISCUSSION SECTION

### Operator

Good day and welcome to the Gjensidige Q1 2016 Results Presentation. This conference is being recorded. At this time, I would like to hand the conference over to Janne Flessum, Head of Investor Relations. Please go ahead.

### Janne Merethe Flessum {BIO 19368607 <GO>}

Good morning, everybody, and welcome from me as well. As always, we'll start with our CEO, Helge Leiro Baastad, giving you some highlights from the quarter before our CFO, Catharina Hellerud, gives you the details from the numbers. So, Helge, please go ahead.

### Helge Leiro Baastad {BIO 5865247 <GO>}

Thank you. Good morning and welcome, everyone. As you have seen, we had a very strong quarter behind us. The profit before tax expense became NOK1.6 billion. This is a record high underwriting result for a first quarter, NOK1.2 billion. Adjusted for non-recurring effects of NOK477 million relating to the defined benefit pension plans, but if we adjust for that, it's the best first quarter underwriting result ever. This corresponds to a combined ratio of 86%, adjusted for the one-off effect.

The growth is also strong; growth in premiums 7.7%. It's a favorable underlying frequency claims development, much driven by another favorable winter quarter, weather-wise. We have also been helped by somewhat lower large losses and higher run-off gains than expected. The cost ratio, adjusted for the one-off effects commented is 15.3% in first quarter.

The financial result of SEK324 million corresponding to a return on financial assets of 0.6%. This is negatively affected by a weak development for the oil-related investments in the PE portfolio.

Catharina will come back to details and figures after me. This gives annualized return on equity of 19%.

If you turn to page three in the presentation, I would like to emphasize that we maintain our competitiveness in a market characterized by strong and increasing competition and somewhat slower growth rate. Underwriting excellence and efficient operations, each and every day, are more important than ever, given the tough competition and challenging capital markets.

We manage to balance good profitability with continued good growth in Norway and Denmark, and we are very pleased with the development in Sweden and the Baltics. Restructuring and integration is moving according to plan, and profitability is expected in 2017 in Sweden. And we are going to break even in 2017 in the Baltics and become profitable in 2018.

As you have seen, we announced also today the acquisition of the Swedish portfolio in Vardia and a related distribution company. Closing is expected during the second quarter 2016, conditional, of course, on the approval from the regulatory authorities. This will contribute to profitability from and including 2017.

The premium volume is SEK650 million and this will rise our market share from 1.6% to 2.5% in the Swedish market. This will also strengthen distribution power and access to partner agreements in Sweden. So this kind of complementary portfolio acquisition gives us the opportunity to improve, implement and utilize best practice across the group and implement group processes over time, based on a scalable business model.

Continuous cost efficiency measures characterize the whole Gjensidige Group in day-to-day operations, creating room for innovation and increased digitalization in step with change in customer preferences.

So if you then turn to page four, we realized that technology, demography and customer behavior will drive changes, going forward, which will naturally affect our priorities. There is little doubt that the relative proportion of motor insurance will decrease in the longer term.

At the same time, there is a little doubt that accident and health insurance will become more important. The graph on the right side tells us that, in Norway, the premium volume in motor has increased by 60% over the past 12 years, while there has been several times doubling of volumes in health-related products. We believe this trend will become even more pronounced in the years ahead, in health, our strategy is to launch new products on a continuous basis in step with customer needs.

As you may know, our brand name, Gjensidige and the night watchman is related to life, health and accidents and originally launched back in 1847. So we have a strong platform for taking a proposition going forward.

The distribution models will change as the implementation increases, and new ecosystems are created. So cooperation with our partners will be increasingly important going forward. And the value-adding services we account for a larger part of our total product range.

The launch of a new accident and health insurance product called Helse (06:14) in March is one example of how we succeed with new and innovative products based on such approach. We have sold 30% more than expected so far, and it's interesting that more than 60% is also sold on the Internet.

We have to invest in technology and new ecosystems systems to utilize opportunities. The changes we are facing mean that scale will be even more important than in the past. Gjensidige has a scalable business model and is well-positioned for further growth and consolidation in our market area.

So, handing over to Catharina for more details in the numbers.

## Catharina Elisabeth Hellerud {BIO 17276650 <GO>}

Thank you, and good morning. I will start by commenting the figures on page six. The underwriting result in the quarter amounted to NOK1.251 billion, which is three times as high as the first quarter last year. The solid underlying result is primarily due to the fact that we have good tariff and risk selection, in addition to a favorable frequency claims development due to little snow and wintery weather.

The result is also, to a large degree, influenced by a positive one-off effect of NOK477 million relating to the change in the their regulation clause] for the current pension scheme. Pension and Savings recorded a good profit performance in the quarter, with an increase of just over 50% in the profit before tax compared with the corresponding quarter last year. This is mainly due to higher financial results.

Retail Bank profit before tax is on par with the corresponding quarter last year. The Retail Bank continues to grow, but the growth rate is slowing somewhat. Lending has increased by 29% in the last 12 months. The investment portfolio yielded a positive return of 0.6%. The profit before tax ended up NOK1.6 billion in the quarter.

Turning to page seven, my comments on this page are adjusted for the non-recurring effects related to pension. The combined ratio was 86%, which corresponds to 84.9% on a discounted basis. The loss ratio was 70.7%, 6.1 percentage points lower than in the corresponding quarter last year. This is partly due to a lower proportion of large losses and a higher run-off gain. The underlying loss ratio was 1.8 percentage points lower.

Profitability in Private Norway and Property Norway is good. There was relatively little snow and winter weather during the quarter. In addition, a continued good underlying situation (09:02) within the most products especially for serious personal injuries and major material damage continues.

Commercial in Norway also delivered solid results in the quarter with positive underlying business exchange (09:16) development in most products.

Looking to Denmark, commercial motor showed somewhat weaker profitability whereas profitability remains good for motor in the private market. Profitability in Sweden is still negative but it's improving.

Moving on to the premium growth on page eight, here you can see that we have a solid 7.7% premium growth with an underlying growth of 2.6% adjusted for currency and acquisitions. We are competitive in the Norwegian market but the market is being characterized by increased competition and a somewhat slowing growth rate. Private has 1.6% growth. The number of customers is stable and growth is mainly via premium increases, so mainly driven by premium increases.

In Commercial, we had a growth of 4%. One large agreement contributed to most of the growth. The lower underlying growth spread in Commercial is primarily due to a somewhat higher unemployment rate in Norway which leads to less amounts of accidents and health insurance, in particular, combined with increased price pressure.

Nordic reports growth of 12.9%, driven by currency effects and acquisition of Mondux. Adjusted for this, the premium growth was 0.4%. If you look at the Danish portfolio separately, the underlying growth was a satisfactory 1.7% in local currency. The Swedish portfolio has a slight reduction in premiums due to repricing of the Commercial portfolio's improved profitability.

The Baltic segment had an underlying growth of 12%, adjusted for the acquisition of PZU Lietuva and currency effects and with the dual effects of the adjustments that we made in the distribution in the Baltics.

Turning to page nine, I'll comment briefly on the operational costs. In the operational segment, most of the normal cost increase comes from the Baltics and is due to the acquisition of PZU Lietuva. In the other segments, the normal increase in costs was practically more or less zero during the quarter.

The effects relating to the change in regulation clause for drawing pensions have been charged to the corporate center. In isolation, the change will lead to somewhat lower costs relating to pensions going forward. This is, however, offset by a corresponding increase in costs relating to current pensions earnings as a result of the changes they have implemented in the defined contribution pension scheme in order to adapt to the new mandatory Occupational Pension Act in Norway.

If you turn to page 10, you will see that large losses amounted to NOK171 million in the quarter, which is significantly lower than the expected amount of NOK318 million. And large losses were also considerably higher in Q1 last year at NOK297 million. Approximately 40% of the large losses in the quarter, NOK68 million, are due to natural perils claims in connection with the storm that hit Norway in January this year.

In this quarter last year, natural perils claims amounted to as much as NOK235 million (12:41), and were related to storms. The increase in large losses expectation from NOK283 million to NOK318 million is due to portfolio growth and the effect of weaker and the weakening currency and claims inflation, in combination with the fact that we keep the large losses in the region (13:00) of NOK10 million.

On page 11, you will find some details on the run-off. The run-off, a gain of NOK248 million corresponds to the positive effect on the combined ratio of 4.5 percentage points, compared with an effect of 3.9 (13:18) percentage points in the first quarter last year.

Run-off gain is primarily related to the two Norwegian segments and compares to product groups, Motor TPL and Workers' comp. On average, we still expect run-off gains per quarter of NOK200 million over the next 7.5 (13:37) years and 4.5 years, but variations can occur on the up and down side in single quarters.

Page 12 gives you some details on the investment portfolio. The portfolio of NOK58 billion, yielded a return of 0.6% in the quarter. The match portfolio makes a stable and still relatively high contribution to the return of 0.9% in the quarter. The held-to-maturity portfolio is an important driver of the result in the match portfolio. The average reinvestment rate for the held-to-maturity portfolio was 3% in the quarter, while the running in is 4.9%.

Norwegian interest rates fell quite a lot in the quarter in addition to a slight narrowing of the credit spreads. This means that excess value in the held-to-maturity portfolio increased by around NOK200 million in the quarter, up to NOK1.6 billion. This will support (14:37) in the coming years.

The free portfolio yielded a zero return in the quarter. The narrowing of the credit spreads contributed to the bond portfolio yielding a good return. The exception was convertible bonds.

Current equities made a small negative contribution in the quarter. This includes the positive results on shares in SR-Bank of NOK35 million.

The private equity portfolio yields a negative return of 10.7%. This is primarily due to fall in the net asset value of the funds exposed to the oil sector and oil-related companies. At the end of the quarter, the total exposure towards the oil sector was us above 50% of the private equity investments and half of that was pure oil exposure funds.

On page 13, is an illustration of our capital position in the three relevant perspectives. The rating model is the most binding from a capital perspective. The capital requirement is virtually unchanged from the previous quarter and was reduced by NOK100 million to NOK15.1 billion. This is mainly due to a shift in the investment portfolio with slightly more money-market instruments and bonds, and a somewhat lower proportion of equities in preparation for the dividend distribution of NOK4.2 billion in April this year.

The available capital was also reduced by NOK100 million. The three main explanations for the change. Throughout the year it is assumed that the dividend corresponding to 70% of profit after tax will be distributed and that the rest of the result remains part of available capital.

In addition, there is a negative effect in the quarter like pensions, which is part of the total comprehensive income. This is due to a combination of lower discount rates for the pension liabilities and the fact that other funding relating to current pensions can no longer be written off after the removal of the regulation clause.

The amount invested in subsidiaries also increased somewhat during the quarter. The capital adequacy ratio from the rating perspective is then 106% at the end of the quarter, unchanged from the previous quarter and corresponds to a strategic buffer of NOK900 million. After six months of our adjusting this portfolio, will have a net effect on the capital of about NOK500 million and hence the strategic buffer will be reduced (17:11).

Then moving on to the standard formula and internal models. The capital requirement for these two perspectives is relatively stable. And the changes are mainly due to the same reason as explained in relation to the S&P model.

When it comes to the available solvency capital, we have implemented two changes starting this quarter in both the standard formula and the internal model. The Financial Supervisory Authority's view on the guarantee provision is reflected in all the calculations of the solvency capital. This part of equity capital (17:47) now classified as liability for the solvency capital.

We still believe that the provision will be included in the solvency capital. But this will probably not be finally clarified until the second half of 2016. In addition, we are now calculating a deferred tax element relating to all differences between IFRS values and Solvency II values, including the guarantee provision.

Previously, this was done on the solid premium provisions. Together these two changes have a negative effect on the capital of around NOK900 million. So at the end of the quarter the solvency margin based on the standard formula and the internal models were 139% and 181%, respectively.

These three basic calculations are our own understanding of the guarantee provisions. The corresponding solvency margins were 142% and 185% respectively. So to summarize we have a solid capital position in all perspectives.

As previously communicated, we will consider further improving the capital efficiency during 2016 through issuing Tier 1 capital provided of course that market conditions are reasonable.

Then I will hand the word back to Helge for a quick wrap-up before the Q&A.

## Helge Leiro Baastad {BIO 5865247 <GO>}

Thank you Catharina. Before Q&A, if you turn to page 14, I would like to emphasize three main takes from this first quarter presentation. Firstly, its continued intense and somewhat increasing competition, but we have the ability to strike a balance between good profitability and sound growth. You have seen that quarter-after-quarter for a period now.

Secondly, we are maintaining our competitiveness through good and efficient operations and underwriting discipline and cost efficiency every single day is absolutely crucial in this regard. And last but not least, we are looking to the future and are able to adapt our products and our distribution to changing customer needs and market development.

And, of course, our targets remain unchanged. And Gjensidige shall deliver superior customer experiences in parallel with high-value creation and predictable high and stable cash dividends going forward.

## Janne Merethe Flessum {BIO 19368607 <GO>}

Operator, we are then ready to take questions, please.

# Q&A

## Operator

We'll take our first question from Paul De'Ath from RBC.

## Q - Paul De'Ath

Yes hi, good morning, a couple of questions, please. Firstly, on the private equity losses in the quarter, just wondering if you could give any update on how those are looking in Q2. And what the overall outlook is for the private equity in general within the investment portfolio? That would be good.

And secondly was just on the Vardia transaction announced this morning. How does this impact the wider restructuring within the Swedish business? And you may have mentioned on the call earlier that you expect profitability in 2017. Is that including the Vardia integration as well? Or will that take further time to integrate? Thanks.

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

Maybe you could take the private equity first, Catharina.

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

Yes. The private equity portfolio consists mainly of Nordic assets and (21:59) or just above 50% are related or have some exposure towards to the oil sector. 25% of the portfolio then is directly, or is made up of a pure oil exposure. And, of course, we can't give you any guidance so far on about the Q2 results. So this is the results from the first quarter, reflecting the net assets – or the change in the net assets, year-on-year, from – actually it's one quarter delayed; and then we also do impairment testing in addition to that.

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

Yes. If you divide your question on Sweden; first, around 20% of the Nordic premiums come from Sweden. This is before Vardia. It is mix in Sweden, 40% Commercial, 60% Private. The Private business in Sweden is improving. We have positive premium growth. And we have in total for the Swedish market negative growth, and that's due to re-pricing and restructuring on the Commercial side.

We have said that we expect to become profitable in Sweden during 2017. That's based on our present business, and the fact that we announced today that we are going to buy the Vardia Swedish business is actually supporting this – that we will be strengthen this business case, that we will be profitable in Sweden during 2017. And the mix between Private and Commercial in that book was 80/20, wasn't it?

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

75/25.

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

75/25, yes. So actually it's a positive contribution to the business case, and the fact that we're going to become profitable in Sweden during 2017.

## Q - Paul De'Ath

Okay. Thanks.

## Operator

The next question comes from Matti Ahokas from Danske Bank. Please go ahead.

## Q - Matti Ahokas {BIO 2037723 <GO>}

Good morning it's Matti here from Danske. I would have three questions, if I may. Firstly to clarify on this Swedish and Baltic situation, when you talk profitable you mean – do you mean that the underwriting profits would be positive or that you would be actually meeting your ROE target in Sweden?

And then also to clarify on Helge's comment on the Baltics, the line was pretty bad, I didn't hear exactly what you said regarding the Baltic profitability, how do you expect that to go on?

The second question is on Slide 7, where you talk about the underlying change of 1.8 percentage points. Is this kind of the weather impact, or is this a net figure of everything, i.e., could you kind of clarify and give us a view on how much the weather impact – the positive weather impact, has been in Q1 2016?

And then the third question is a small detail, just on the money market portfolio. It's yielding extremely high in the match portfolio, almost NOK50 million, when the rates are down. What was the reason for this? Thanks.

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

Yes. We'll try to mix between Catharina and myself, and try to – I can start with the Baltic business. We integrate now according to the plan we established last year. We have established common name, and brand name, in the three Baltic states. We can see positive effects from the program related to distribution in the Baltic area, and we will break even and when we talk about break even and profitability, it's about underwriting results, Matti.

So we will break even during 2017 in the Baltic area and it will be profitable, underwriting-wise, from 2018. And in Sweden it's the same. As I said, the Vardia business will support our business case;

and our communication related to Sweden is that we are going to be profitable, and have positive underwriting results in the Swedish markets during 2017.

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

Yes. And then it was the question about the underlying improvement. Of course, when we talk about the weather situation and the mild winter and less snow, etc., it affects the motor portfolio and it also affects the property portfolio in each market. And if you look at the composition of the portfolio, within Private, these two products adds up around 10% (27:08) of earned premiums and for Commercial this adds up around 57% of the portfolio. So, of course, the weather affects a very large part of (27:20) portfolio and that explains (27:24) the underlying change in the loss ratio.

That said, we also had a demand (27:33) anticipation first quarter last year. So a combination but yes, good weather, of course it (27:42) explains why we have a very solid profitability in this quarter.

In combination, of course, with the – of the tariffing work of the business and we're satisfied in that in the organization that this is a positive driver. And then you had the third question, Matti. Was that the money market exposure in the match portfolio?

### Q - Matti Ahokas {BIO 2037723 <GO>}

Yes, the return was very high, NOK49.5 million.

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

Return in the money market portfolio. Yes.

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

You want to come back to that?

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

Yes. I think we will just come back to that question, to give you some more detail about the return.

### Q - Matti Ahokas {BIO 2037723 <GO>}

Sure, great. If I just may have a follow-up on the weather. If you compare Q1 to a kind of normal winter quarter or kind of your normal expectation, how much better in terms of the claims ratio was it, not comparing to maybe Q1, 2015, but the kind of normal expected Q1?

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

I would say that if you look at the normalized level of profitability, what we guide or what our financial targets are is to deliver a combined ratio between 90% and 93%. And if you take into consideration the run up (29:04) that we expect the next half year it should be around 86% to 89%. So that will give you the starting point for where you think about a normalized combined ratio and then you take out the cost ratio, around 15%.

### Q - Matti Ahokas {BIO 2037723 <GO>}

All right, great. Thanks.

### Operator

The next question will come from Vinit Malhotra from Mediobanca.

### Q - Vinit Malhotra {BIO 16184491 <GO>}

Hi, good morning. Thank you. Just staying on this very high bond income, we can see that in the free portfolio these other bonds, which probably include high yield as well, produced NOK189 million of investment income in the quarter, which is almost 60% of the total group investment income, and I understand this probably includes mark-to-market effects. But could you just help us break down a bit whether there were any major gains here, whether it's all mark-to-market?

And in the same context, I would like to also understand, because if I remember right, around NOK17 billion of your portfolio is on Level II accounting standards or sort of Level II where you observe the price and you market it to market really. So I just want to understand whether there's something we should know there.

And the second question is just on health insurance or rather, accident and health insurance, we have this really nice and helpful chart on page 4. How much of – is Gjensidige's market share very high in this? Is this part of the Private segment combined ratio? Could you give us some numbers around whether there's any very high combined – sorry, very high profitability of health? And is it in your combined ratio already? Thank you.

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

I can start with commenting on the bonds in the free portfolio. It's mark-to-market, and it reflects changes in credit spreads, mainly in the quarter. So, most of the portfolio is mark-to-market. The one big exception is the postpone (31:31) of amortized cost. And then, we also have the private equity fund which is based on net asset value as of the end of the last quarter, and then, there is also done the impairment testing to make sure that the figures are right in the quarter. So it is mainly mark-to-market, with these two exceptions.

## Q - Vinit Malhotra {BIO 16184491 <GO>}

And is it coming mostly from Level II assets or Level I? Would you be able to give a hint there, please?

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

Of the bond?

## Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes, please, because ...

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

That's mark-to-market....

## Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay.

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

It's – it's mark-to-market.

## Q - Vinit Malhotra {BIO 16184491 <GO>}

All right, all right. Thanks.

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

When it comes to the accident and health question, Vinit, if you look at the total portfolio, we have approximately 20% exposure into accident and health. We don't have the details when it comes to profitability per quarter. But actually, if you look into the notes in our Annual Report, you will see some information there divided into product groups.

### Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. All right, then. Thank you for the pointer. Thank you.

### Operator

We now take the next question from In-Yong Hwang from Goldman Sachs.

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

Oh, hello, good morning. Thank you for taking my questions. I've got two. Firstly, on the strategic buffer, I think you explained very clearly that the Vardia Sweden acquisition is going to have NOK0.5 billion impact on that. Just wondering what your thinking is for the level of strategic buffer going forward/ Would you be looking to build that back up to NOK0.9 billion, as you had at the end of last year? Or you would be happy with running that at a slightly lower level given that some of the uncertainty seems to be going away slightly including natural perils and so on?

And the second question is just on your view of the additional Tier 1 market. I think you said that you're looking to issue, as long as the market conditions looks okay, I think some of your peers have said that maybe it looks a bit expensive at the moment. So just looking for any comments around how you see that market at the moment. Thank you.

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

Yes. I will start with commenting the strategic buffer. The market content is that we are very happy that we're able to put some of the strategic buffer into – or using it for buying this portfolio in Sweden. The main purpose of the strategic buffer is to support M&A activities, more than bolt-on acquisitions. So, that's my first comment.

And, of course, the board will consider the size of the strategic buffer when they look into the capital position and it will be up to them to decide what will be the right size, given what they can see. But there are three main purposes for the strategic buffer. The – or the main – as I said, the main purpose is to support M&A activities. Then, it's to support high and stable nominal dividends. And finally also to support regulatory uncertainty, which is, of course, considerably reduced over the last half-year.

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

Can I just follow up on how often they review the level of strategic buffer? Is it once a year, once every quarter? Is there a big review (35:02)? Yes.

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

Okay. We – we report every quarter but typically they use extraordinary time once a year, related to this question.

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

Okay, sure.

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

And this is totally no actually.

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

Yes.

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

And when it comes to your question on the Tier 1, yes, we are looking into that, and on the communication around that. But, of course we also do see the same terms as others in the market. So - and we have not done anything yet, as you probably have noticed.



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

Okay, okay, that's clear. Thank you.

### Operator

We'll now take the next question from Blair Stewart from Bank of America.

### Q - Blair Stewart {BIO 4191309 <GO>}

Thank you very much and good morning to you all. I have got a couple of questions left. The first is just coming back to Vardia. Just, I wonder if you could talk a little bit about what the plan is. It's a business that has had a very high combined ratio. Do you intend to re-price the book? Is it just a case of stripping out all of their costs? And - are you confident that you'll keep the vast majority of the premium volume? So just a little bit of color around your strategy to turn that business into something that's profitable for you.

Secondly, just really a clarification in terms of the reasons for the improvement in the underlying combined ratio. I think, Catharina, you alluded to the fact it was really down to good luck or good weather. So I guess another way to ask that is really what's been the combined impact of the tariff rises you've been able to put through and the underlying claims inflation, are they broadly offsetting each other, or is there some underlying improvement from the tariff?

And yes, I think that's really - yes, there was one other question, if I can, was just coming back to the comments you made in Q4 around the likelihood that you would start to reduce motor tariffs in - as a reflection of your lower expectations of long-term inflation, I just wonder, has that happened already? And what impact has that had on the motor tariffs in Norway? Thank you very much.



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

I would start with, actually, one comment. And it's not about luck, you know. If you compare our results to our main peers it's a very strong underlying performance. You have seen that quarter after quarter and you can also see that, in first quarter, if you adjust for the weather, it's strong performance, it's improvement in tariffs, it's improvement in our distribution models, in CRM activities, et cetera. So underlying, it's very, very strong performance.

If you also look at the cost ratio in the Norwegian and the Nordic business, it's 14.3%. So it's far below 16%. But, you know, Blair, if the winters, as I said at the last quarter - if the winter comes to the Nordic area in November and it's a hard winter and it stays to April, you will have a completely different frequent situation in the area related to both the property and motor, compared to what we have seen the last few years actually in, I would say, 2012 or 2013, 2014, 2015. If you go back to 2010, it was a very harsh winter and you had a completely different frequent situation. So that's actually what we want to remind you of, that we are operating in a market with snow and ice, and winter. But if you adjust for that, it's a very strong performance, underlying.

### Q - Blair Stewart {BIO 4191309 <GO>}

Yes, the comment of good luck was really related to the fact you've had mild winters.

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

Pardon?

### Q - Blair Stewart {BIO 4191309 <GO>}

The comment on good luck was just relating to the fact you've had mild rather than severe winters.

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

Yes, – we had, of course, we had a mild winter. But you know, it's not large losses and it's not natural events which is – it's the frequent business. If you have a hard winter, you will see that on the frequent side.

### Q - Blair Stewart {BIO 4191309 <GO>}

Yes.

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

Related to the Swedish business, I can actually start, I said 25% Commercial and 75% Private. We have met actually very competent and strong people. And as I said, this business will support our business case. But, of course, we have to re-price, we have to increase prices in some areas and some products. But maybe you have more details, Catharina for the integration time, but maybe too early. Swedish...

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

Yes. If you look at the Vardia portfolio, we are – the plans for the first couple of years continue to distribute this product under the Vardia brand in Sweden. It will be integrated into our business but that will happen probably during next year.

So we don't expect to see any big integration costs. There will be – only be modest integration costs and they will probably happen in 2017, 2018. But this will be integrated into our current business over some years.

### Q - Blair Stewart {BIO 4191309 <GO>}

Am I right in thinking that you're not taking on any of the staff.

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

We are taking on the staff in the distribution company, that's correct. It's around 130 people working in the Swedish distribution. It's a very good distribution – very good distribution set up and they will be part of Gjensidige Swedish business.

### Q - Blair Stewart {BIO 4191309 <GO>}

And on the motor tariffs?

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

Yes, the motor tariffs, we have commented that for quite a long time now that we have been reduced claims inflation within motor in the Norwegian market. We have reduced our expected level for the claims inflation from around 4%, around two years ago and to around 1% now.

And, yes it affects the pricing in the motor portfolio. And that's one of the main reasons why you now see lower growth rates within the private market in Norway. It's – because when we consider need for price increases, it's related directly to what we see on the claims inflation side.

## Q - Blair Stewart {BIO 4191309 <GO>}

So, sorry what's happened to motor tariffs then?

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

Of course they have come down. The increases have come down in line with decreased underlying claims inflation, direct linked within this.

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

Are you talking about price increases, Blair, expected?

## Q - Blair Stewart {BIO 4191309 <GO>}

Yes.

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

Yes, it's the same communication. As you know, we operated 3% to 4%, historically. And at our Capital Markets Day, it's almost two years now; we need to reduce that to between 1% to 3% and currently we think the long-term claims inflation for the motor business is 1%.

So then Private increases should be around that to secure that we will be in line with long-term claims inflation. But you have the volatility due to what we discussed previous related to winter.

## Q - Blair Stewart {BIO 4191309 <GO>}

Yes. Great. Thank you very much for that.

## Operator

. We'll now take the next question from Iain Pearce from Berenberg. Please go ahead.

## Q - Iain Pearce {BIO 19522835 <GO>}

Morning. Two questions from me, please. First one, just on the pension one-off benefit, how is that going to affect the dividend, if at all? Is that something we should just include in normal earnings and apply our payout ratios to the forecasting or possibly coming back as a special?

And, secondly, just on the Nordic segment, why was run-off so low in that segment and is that something you expect to continue going forwards?

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

Yes. I can comment on the dividend level. Of course, the main target for our dividend policy is to a pay a high and stable nominal dividend per share, so that's the starting point. If there is excess capital when the board has discussed also the level of the strategic buffers that will as you have seen for some years now be distributed as excess capital.

So that's the same kind of mathematics that you have seen that being used for some years now. If you look at the run-off in the Nordic segment, what we communicate is that we expect – the expected level for run-off is zero. So we should expect to see around zero. Then, of course, that's not then taking into consideration the 800 (45:08) that we have communicated we expect to see especially within the two Nordic segments.

But the expected level is zero and there can be variation, of course, from quarter to quarter. It can be negative as it was in the Baltic segment last year. It can be a positive but long-term expected run-off level is zero.

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

The 4%, it's related first and foremost to TPO (45:33) and workers' comp in Norway. And as you may remember, we had higher run-off gains from the Danish market for some years, actually, after we acquired Nykredit in 2010. So, in addition to the estimate of 4% run-off gains for the next three years to five years, we will have our expectation levels, long-term zero. And beside this 4% it's also their own expectation and it can ,as Catharina said vary around this zero.

## Q - Iain Pearce {BIO 19522835 <GO>}

Okay. Cool. Thank you.

## Operator

We now take the next question from Jonny Urwin from UBS.

## Q - Jonny Urwin {BIO 17445508 <GO>}

Hi. Good morning. Thanks for taking my questions. I've just got one left, actually. I'm just thinking about the evolution of your Solvency II model. So, yesterday, we saw one of your peers which continues to sort of manage the model proactively; obviously, there's a bit more need to do so than Gjensidige. But I was just wondering what you've got left in the locker to sort of optimize the model?

Is this something you continue to look at and should we expect any model change going forward that could, perhaps, boost an already strong ratio? Of course, there's scope for further capital rationalization; so I'm mainly thinking about model changes of certain asset classes, et cetera. That's it from me. Thanks.

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

Yes. The first thing that will happen is of course that we will apply for approval of the model. So the application will be sent during the first half of 2016. And then we expect to get the model approved during the second half of 2016. Of course, we always continue to look at the model, to recalibrate it, to validate it, so there could be small changes there, larger changes there, based on these annual reviews.

But that's model that we apply for now is the model that we think is the best model for Gjensidige and that has been developed over many years. And also we have had the communication with FSA for some years, pre-application communication, and we expect now that the figures that we show here is the solvency capital ratio of – given that we get both models approved.

## Q - Jonny Urwin {BIO 17445508 <GO>}

Okay. And when is the annual review performed?

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

The model is reviewed, it's more or less a continuous process, which is – it's actually with the internal model team then you have validation (48:23) process which includes a lot of people. Then the model change needs to be documented, needs to be approved by the board if there are large changes to the model, after it has been approved by the FSA, of course, they also need to approve for those changes.

So it's an annual process that we will have to do every year going forward, of course. Just one comment on the available capital, I mentioned that, the available capital is reduced by the guarantee scheme. We expect that to be included in the solvency capital but that will probably be the solvency review in the second half of 2016. So this is still that reflects view so far.

## Q - Jonny Urwin {BIO 17445508 <GO>}

Okay, thank you.

## Operator

We'll now take the next question from Youdish Chicooree from Autonomous Research.

## Q - Youdish Chicooree {BIO 17430923 <GO>}

Good morning, thank you for taking my questions. I've got three questions. The first one is really just to clarify on your comment on capital and your plans to issue Tier 1 debt. I mean, earlier in the year, you indicated a capacity of around NOK2.7 billion. I was just wondering whether the volatility we saw in this segment of the market earlier this year has in any way changed the appetite you have to issue Tier 1 debt.? That's my first question.

Secondly, on your customer dividend, I was just wondering what is the scope – what scope do you have to actually increase the level of customer awareness of this dividend? And whether you could pursue probably a more active strategy that some of your peers in other countries are pursuing to drive better premium trajectory?

And thirdly, it's on your investment portfolio, or on your fixed income investments. You indicate roughly 55% as invested in banks and financial institutions. I was just wondering what proportion of that is like the safer quality investment such as covered bonds. Thank you.

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

I can start with commenting that Tier 1 appetite. As I said, we'll be looking into this during 2016. So we haven't – there's no change in that fact, it's more about timing and market conditions. So that's the comment to the Tier 1 capital.

Yes, the normal dividend and the communication around the dividend. Yes, the Gjensidige Foundation communicates about the customer foundation annually, both when the dividend is paid out in May and also they have some communication during the autumn to make sure that all the customers know that they have received the customer dividend and that they will ask to get it paid out. If they haven't registered their bank account, they will need to register to – or actually communicate to the foundation to get the dividend paid. So then they do this in two phases.

## Q - Youdish Chicooree {BIO 17430923 <GO>}

Just to follow up on that, I was more just asking about whether in terms of marketing it at the time you're actually selling insurance, whether there's scope for a bit more active marketing so that customers are aware of this and that gives you more leverage in actually while increasing customer retention or even driving better premiums?

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

We have had customer dividends for five years now and all the customers, they are more or less fully aware of this concept. So – if you look at our performance, last few years, we have managed to hold our customers, we have managed to increase prices and we have managed to combine strong profitability with premium core. And I think customer dividend is one of the reasons for that.

This year, we will have extraordinary marketing in the Norwegian market together with the foundation and that's related to the fact that we are celebrating our 200 years and we are doing. So it will be heavy communication and marketing related to the fact that we have been in Norway for 200 years and of course also related to the customer dividend, which now represents around 13% once again of the premiums paid the year before. But we do not have any figure for the influence on the retention. I think it's lots of reasons for that.

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

And then you had a question about the rating in the match portfolio. If you look at page 25 in the presentation, you can see that the main part of the match portfolio is in investment grade rated papers. So it's more or less only investment grade in that portfolio.

## Q - Youdish Chicooree {BIO 17430923 <GO>}

Okay, thank you.

## Operator

We will now take our next question from Steven Haywood from HSBC.

## Q - Steven A. Haywood {BIO 15743259 <GO>}

I just wanted to follow-up on what you were talking about with pension plan changes. I didn't quite get what you were saying about future costs of the pension and how this will impact your expense ratio going forward. Could you just clarify this for me, please?

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

Yes. What I commented lot of change in defined benefits scheme. We have – some more in place still in the defined benefits scheme. It was closed down in 2006, almost 10 years ago, but there are still some people who didn't that and lots of course pensioners that have been part of that scheme for many years.

So what we have done is that we have changed the regulation for – income pensions – pension payments. It was – we have a minimum regulation clause which we have now removed so that the pension will of course be regulated. But it will be based on the yield in the portfolio, which covers the pension liability.

But I also said that this will have a positive impact if you look at this change in isolation going forward. But at the same time, we have done changes over the time of the contributions scheme, which we had to do because there has been a change in the Norwegian law regulating this mandatory pension scheme. So in sum they will more or less even out each other, this effect.

## Q - Steven A. Haywood {BIO 15743259 <GO>}

Okay, thank you, I understand.

## Operator

As there are no further questions, I would like to hand the call back over to your hosts for any additional or closing remarks.

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

Thank you. Just coming back to your question, Matti, regarding the money markets returns in source then have been driven by the narrowing of our credit spreads.

And by that, thank you, everybody, for participating. And I just want to remind you that we do road shows this quarter in Oslo, Paris, Milan, Frankfurt, Copenhagen and Stockholm.

Once again, thank you for participating and have a nice day.

## Operator

Thank you. That will conclude today's conference call. Thank you for your participation. Ladies and gentlemen, you may now disconnect.