Y 2015 Earnings Call

Company Participants

- Catharina Hellerud, Executive Vice President and Chief Financial Officer
- Helge Leiro Baastad, Chief Executive Officer
- Janne Flessum, Head of Investor Relations

Other Participants

- Blair Stewart, Analyst
- Jakob Brink, Analyst
- Jonny Urwin, Analyst
- Matti Ahokas, Analyst
- Niccolo Dalla Palma, Analyst
- Steven Haywood, Analyst
- Vittorio Sangiorgio, Analyst

Presentation

Operator

Good day, and welcome to the Gjensidige Q4 2015 and Preliminary 2015 Results Presentation. Today's conference is being recorded.

At this time, I would like to hand [ph] the conference over to Janne Flessum, Head of IR. Please go ahead.

Janne Flessum {BIO 19368607 <GO>}

Thank you, and good morning from me as well. As always our CEO, Helge Leiro Baastad, will start by commencing the headlines for the quarter before our CFO, Catharina Hellerud, commence the numbers in more detail. And then we will, of course, have the time for a Q&A session afterwards.

Before we start, I would just like to remind you that you can download the full presentation from our website, gjensidige.no/ir. Please, Helge?

Helge Leiro Baastad {BIO 5865247 <GO>}

Thank you, Janne. Good morning to all of you from me as well. We delivered yet another very strong fourth quarter and Catharina will take you through the details later on, so I will not use the first slide.

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So if you turn to page three in the presentation, we can comment the whole year. For the year 2015 as a whole, we delivered another record high underwriting results and the financial targets were achieved by the wide margin. Profit before tax, NOK5 billion; the underwriting result, NOK3.5 billion, and that corresponds to combined ratio of 83.7%. With discounted reserves, it's at 82.3% for the whole year.

We had growth in premiums of 4.3%, and underlying growth if you, among others, adjust for currency and new businesses, it's 2.2%. The whole year we had a favorable underlying frequency claims, also in fourth quarter development and the runoff was 3.4% for the year.

The proportion of large losses was lower than expected for the year, 4.1% versus 5.2%, and the cost control still remains good. We are around 15% in cost ratio. We had a financial result of 1.5 billion, and that corresponds to a return on financial assets of 2.6% for the year. This gives us a return on equity of 17.4% for the full year and a profit per share was NOK7.57. As you have seen, the proposed dividend of 4.2 billion corresponding to NOK8.40 per share.

Let me give you some more details related to our dividends, so if you turn to page four. Based on yesterday's closing price, the proposed dividend corresponds to a dividend yield of 6% and it's in line with our dividend policy. The dividend consists of two elements NOK6.40 is the sense the dividend flow is stipulated on the basis of the profit for the year and the dividend capacity resulting from our earnings expectations. This corresponds to an increase in the nominal dividend of 8.5% from 2014 and the payout ratio of 84.5%.This element shall remain high and stable in nominal terms and also grow in periods with earnings growth as we expect going forward. NOK2.00 represents the distribution of excess capital as part of ensuring an optimal capital structure.

So let me remind you of what I commented also of the third quarter. The dividend flow based on earnings generation will be calibrated, so that we can avoid a downward shift in the curve of three to five years, when we will be back to normal in terms of run-off. In addition, we will continue to free up potential excess capital over time. We will look into further measures to optimize our capital structure among other things, further issuing of hybrid capital within the Tier 1 criteria of the Solvency II regulation. And this is something we will actively be looking into during 2016.

Let's then turn to the operational targets, if you look at page five, I can comment on the operational situation. Firstly, we are pleased to have strengthened our absolute and relative position in the Norwegian market despite a somewhat more challenging macroeconomic situation and intense competition. The competition is -- as it has been for some quarters. It's nothing new actually related to the competition. We are though satisfied with the renewals from 1st of January, in line of the market conditions and it's actually better than we could here. We have among other things, signed a new commercial agreement in Norway, with the premium volume of NOK195 million with effect from 1st of January.

If I continue on the Norwegian situation, the customer satisfaction was record high at the end of the year, which is reflected in the market share development. Gjensidige has

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experienced a stable development, as you can see from the chart and we have strengthened our position relative to our main competitors in the Norwegian market. And this is achieved in a year where we report 4.3% growth in combination with a combined ratio of low 83.7%.

There were two reasons for this. First and foremost, it's about good customer and risk selection. This is a continuously improvement process and it has been that for years. We delivered a good customer experience through our capable employees, efficient digital solutions and relevance in our marketing. We have a strong brand and the bank and the pension and saving business contribute to loyalty and broad range of products. And of course, the customer dividend model in Norway contributes to loyalty and with the proposed dividend, it will be another year with a significant customer dividend to the Norwegian P&C customers.

We will continue our efforts to ensure profitable growth in the Norwegian markets going forward. Further, in 2015 if we move outside Norway, we have strengthened our position and our basis for further profitable growth also outside Norway. We have acquired two companies, Mondux in Denmark and PZU in Lithuania. 30% of earned premiums now comes from markets outside Norway. If you start with Denmark, we have consolidated our position in Denmark and continue growing with good profitability. We have also implemented measures in Sweden and the Baltics to ensure the implementation of best practice and good profitability in the long-term.

And with a rational and disciplined approach, we will also continue to seek new opportunities for growth, both organic and structural in our market area. Towards the end of 2014, in connection with our Capital Markets Day, we introduced six overriding KPIs with clear targets towards '18. And as you can see from the table at right, we are on track to deliver on these.

I guess I will give the word to Catharina Hellerud.

Catharina Hellerud {BIO 17276650 <GO>}

Thank you, Helge, and good morning, everyone. I will start by commenting the figures on page seven. The underwriting results were strong, the best underwriting results we have ever delivered in fourth quarter and the same goes for the year as a whole. There was relatively little snow and winter weather during the quarter and this led to a favorable frequency claims development. This affects the profitability of the motor and property products in particular. The profit performance of the retail bank and the pension and savings have shown positive developments.

Profits are better in both areas this quarter than in the fourth quarter 2014. This is primarily due to good underlying profitability, but the comparison is also tested by some non-recurring items both in the fourth quarter 2014 and 2015. The bank continues to grow. Lending has increased by 33% in the last 12 months, most of it loans affinity group members and in the current feeder channels. 77% of the lending volume represents insurance customers. The bank is also an important part of Gjensidige's focus on the

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youngest [ph] segment. The investment portfolio yielded a return of 1.1% in the quarter. The profit before tax expense was 1.5 billion and 5 million [ph] for the full year.

Let me run through the results in some more detail. Moving to page eight, you will see that we reported a strong combined ratio of 84% in the quarter, corresponding to 83.2% from a discounted basis. The cost ratio was 16% compared to 15.3% in fourth quarter 2014. The increase is partly because the acquired business outside Norway have the higher cost ratio and partly because we have increased efforts to fit into the Baltic business.

The loss ratio was 68% which is 1.2 percentage points lower than in the corresponding quarter in 2014. Correcting for a somewhat lower one-off gain and a higher proportion of large losses in this quarter compared to fourth quarter 2014, the loss ratio was 2.5 percentage points lower this quarter.

I would like to comment to [ph] private groups in particular. Firstly, for private motor in Norway, the profitability was very good. This was actually affected by little snow and winter weather, but also due to a continuous good underlying trend. The provision for motor in Norway was realized during the third quarter. Expected lower claims inflation going forward means that the level of commissions is somewhat lower than before, which contributes with a positive effect on the short-term profitability. Lower expected claims inflation will, however, also be reflected in the pricing of these products going forward.

Secondly, property in general in Norway also showed good underlying profitability. The profits in the quarter were better than in the corresponding quarter in 2014 and as a result of fewer fires and water damage claims, both frequency and average claims are lower than expected.

Turning to page nine, you see a breakdown of the premium growth. We report a solid 5.4% premium growth in the quarter, with underlying growth of 1.4%, when currency effects and acquisitions are excluded. Our competitiveness in Norway is regarded as good and we maintain our market share. Thus, the Norwegian insurance market is characterized by strong competition and a somewhat decreasing growth rate. Private has an underlying growth of 0.8% in the quarter, while commercial has grown by 1.4%.

The Nordic segment reports a growth of 10.1% [ph] and 1.4% when adjusted for currency effects and of the acquisition of Mondux. Mondux contributed 64 million to growth in the Nordics this quarter. An increased growth in the damaged property market will be a positive growth driver going forward in the Nordic segment. The Baltic segment reports growth of 95.6%, after the acquisition of PZU Lithuania. Adjusting for currency effects and acquisition, the growth was 3.6%. PZU Lithuania contributed with earned premiums of 110 [ph] million in the quarter.

So page 10 shows a breakdown of the cost development. Most of the nominal increase in costs come from the Baltics, and it's due to the acquisition of PZU Lithuania and an increased investment relating to [ph] the Baltics business with regards to IT, tariffs, CRM and distribution. In the other segment, the nominal increase in costs was virtually at practically zero during the quarter. The corporate center is, among other things, affected

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by the fact that we have made some investments in IT and security solutions, in order to ensure that we can now integrate the Baltic business into our Group's joint IT platform in an efficient and secure manner.

So if you turn to page 11, you will see that large losses in the quarter amounted to 261 million, slightly below the expected amount of 283 million. Around two-thirds of the large losses are related to natural peril claims.

On page 12, I will give you some details on the run-off. The run-off gain of 231 million corresponds to a positive effect on the combined ratio of 4.2 percentage points. The run-off gain is primarily related to the two Norwegian segments and confirms the two product groups that we commented on last quarter, motor TPL and workers comp. As mentioned then, we expect to see one-off gains in these two product groups in the next three to five years. In addition, you can see that we have had a substantial runoff loss in the Baltics this quarter. This concerns the provisions in motor TPL. There were increased claims levels and made it necessary to strengthen the claims provisions. But we do not expect any further strengthening of provisions in the Baltics.

So moving on to the investment portfolio on page 13. The investment portfolio yielded a return of 1.1% in the quarter. The match portfolio yielded a return of 0.8%. The held to maturity portfolio, which is a large part of match portfolio, yields are stable and still relatively high return of 1.2% in the quarter. The average reinvestment rate for the investments in the Norwegian held to maturity portfolio for the year was 3.5%, while the running yield is 4.7%. A further widening of credit spreads means that the excess value in the held to maturity portfolio fell by around 100 million in the quarter to 1.4 billion.

The free portfolio yielded a return of 1.6% in the quarter. The widening of credit spreads, which included for the high income, contributed to the portfolio yielding a negative return in the quarter. Current equities also yielded a negative return, affected by the development for the shares in SR Bank. And so for the rest of the current equities were affected by losses on derivatives used as hedging instruments. And PE, hedges (inaudible) returned 1.2% in the quarter.

The property portfolio had a very strong result in the quarter with a return of 10.7%. This is, of course, affected by the sale of our 50% of the shares in Gjensidige's property company, Oslo Areal, in October. The sale resulted in a gain of 379 million, of which 250 [ph] million concerns the reversal of deferred tax. Our intention is to keep property exposure at around the level before the sale by reinvesting the concentration in property through Oslo Areal.

Turning to page 14, you will see a table summarizing our capital position in the three relevant perspectives. I will cover quickly on each of them.

The rating model is still in the most binding capital perspective. The actual capital requirement is almost unchanged from the previous quarter, increasing from 15.1 billion [ph] to 15.2 billion. Available capital is reduced by 1.7 billion, and this is largely because labor costs and dividends for 2015 financial year is more than the 70% of the profit that we

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take into account when calculating capital during the year. And this gives a capital adequacy ratio, from the rating perspective of 106% at year end, which then corresponds to a strategic buffer of 900 million.

But for us, the fact that the regulatory uncertainty relating to Solvency II has been reduced, the main intention behind the statutory buffer is to ensure sufficient financial flexibility to carry out minor M&A transactions. In addition, it should also support a high and stable ordinary dividend.

We are planning to apply for approval of internal model [ph] during the first half 2016. Until the application has been granted, the standard formula will be used to calculate the statutory capital requirement. And at the end of the quarter, the solvency margin is based on the standard formula of 145%. The figures for the internal model perspective are set up in accordance with the reversal of the internal model, for which we will apply for approval. It is therefore our best estimate of the statutory solvency position, once the internal model has been approved. At the end of the year, the solvency margin, based on the internal model, was 187%. As is clear from our review, we have a solid capital position in all perspectives.

In 2015, we have, for practical purposes, achieved a clarification for inclusion of the natural perils fund as part of the Tier 2 capital. We also expect the guaranteed provision to be assigned to the Tier 2 capital. And this means that the capacity to issue further Tier 2 capital is limited. The capacity for issuing Tier 1 capital was 2.7 billion at the end of 2015. And it is then natural for us during 2016 to consider this further capital efficiency metric to using part of this capacity. Naturally, the market terms will need to be considered reasonable.

And for the sake of the good order, on page 15, we also show our view of the remaining regulatory uncertainty related to Solvency II. For most of the outstanding issues, there has been a positive development during 2015. One exception is the guaranteed scheme provision, where there has been no clarification. The asset base starting point is that the provision should be classified as a liability for solvency purposes.

At the end of 2015, the provision was 600 million. We still assume that the provision will be part of the Tier 2 capital, but if FSA position is reflected in the final regulation, however, the solvency margin will be 181% in the internal model perspective and 141% in the standard formula perspective. That is based on the figure as at the end of the year, 2015.

Helge Leiro Baastad {BIO 5865247 <GO>}

Yeah, okay. Well, we have now the whole 2015 behind us, I've used the opportunity to remind you our financial targets and our operational priorities going forward. So if you move to page 16, you can see that our five key priorities are towards 2018, the same as we presented back in 2014, and our financial targets remain unchanged. Our everyday digital, and we will have to adapt and change in line with the development. The balance

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between preservation and innovation and between thoroughness and agility, I think will separate winners from losers going forward.

However, the use of technology will be more and more important and in 2015, we joined our development technology and IT resources in a single effective entity, technology and development it's named. This entity is intended to be the driving force in Gjensidige for the realization of projects in the five key priorities, as you can see on the chart and ensure relevant and competitiveness going forward as well. Among other things, it will be about more pilot projects and shorter time to market, testing and launch of products and services based on better insights and the Internet of Things within health, motor and property. And of course, also projects related to testing on the robot technology for simple business processes and back-office functions.

I'll give you a couple of examples, where we are already well on our way among lots of examples actually. One is use of mass data in the Norwegian market. It's using publicly available data for geography and buildings across all processes in the company. This is a continuously improvement process as well. We have done this for years. And of course, we achieve better pricing, customer and risk selection and more efficient claims handling as well.

Also, what we have defined as risk management in the Norwegian corporate division, we launched a new solution for risk selection both in physical distribution and in the self-service channel one year ago.

And during the second half of 2015, for example, around 9,000 customers in the commercial Norway business, underwent the systematic risk scoring based on the industry specific digital models. And this risk scoring is a consumer valuable insight into their risks and companies, while also providing Gjensidige with the information about the risk situation and loss prevention possibility.

Going forward this will help to make us better at predicting customers' profitability and to ensure that we attract and retain the most attractive customers. This gives us also a continuously improvement type of work and we will continue with our concept called risk management in the commercial lines. Put in other words, we are well prepared. And we continue over (inaudible) to take the position at the most customer end, the general insurance companies in the Nordic region in parallel with creating further substantial value for the shareholders.

And finally turning to page 17, we will this year 2016, also take the time to celebrate our 200 years anniversary. And the anniversary will be celebrated by internal and external activities throughout '16. And as you can see here, we add a crown on the night watchman for this celebration. So thank you.

Janne Flessum {BIO 19368607 <GO>}

Operator, we are then ready for questions, please.

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Questions And Answers

Operator

Thank you. (Operator Instructions) Our first question today comes from Matti Ahokas from Danske Bank. Please go ahead.

Q - Matti Ahokas {BIO 2037723 <GO>}

Yeah. Good morning, Matti Ahorkas from Danske Bank. Two questions if I may, firstly on slide number four on the dividend policy, a bit of a clarification, please. So if I understand you correctly, you plan to grow the ordinary dividend. And what should we expect regarding the NOK2 excess distribution? Is this a kind of normal run rate level or how has the NOK2 been determined? And as said, what should we expect going forward? That was the first question.

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

It was ordinary dividend and expectation going forward and extraordinary, okay. We expect EPS growth going forward and the EPS should then also grow nominally. As you know from our policy, first priority, however, is high and stable, and at least 70%, given an okay capital situation. So after third quarter, we presented a program for run-off gains for the next three to five years. And when we look into our management forecasts and take into consideration the development of run-off gains, we expect, as I said, the EPS will grow in line with EPS going forward. And that we will have EPS growth going forward.

And the starting point now is 6.40. Last year the starting point was 5.90. Related to extraordinary dividend, I think the right communication there is that we will not build unnecessary capital. The return on equity target is 15%. And as you have seen now, the surplus above the most binding capital requirement is NOK900 million. And that gave us the opportunity to pay out NOK2 extraordinary. I will not guide on a specific number going forward. But as we also said during the presentation, the Tier 2 capacity is fully utilized.

We will, in 2016, look into Tier 1 capacity -- Tier 1 debt and the capacity there is 2.7 billion. We will consider issuing Tier 1 in 2016 to optimize capital structure further. But we will not utilize the full capacity and it's important for me to say that. We need to hold back an adequate buffer. But, of course, it's about a reasonable size. I'm not sure, Matti, if I answered your questions now. But if I didn't, you can try once again.

Q - Matti Ahokas {BIO 2037723 <GO>}

No, I think it was much clearer. But so to round it up, you could basically say that the NOK2 is probably a good working assumption for at least 2016, 2017 as well.

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

I think it's not right for me to give you your working assumptions. So my object is to be very clear and have the same communication quarter after quarter related to the specific

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policy actually.

Q - Matti Ahokas {BIO 2037723 <GO>}

Fair enough. The second question is regarding the Baltic and Nordic business. What should we expect regarding the premium growth and also profitability going forward? Now you have a pretty big difference between the Norwegian business and the rest of the Nordic business, how long would it potentially take for these units to maybe reach profitability more in line with the Norwegian unit?

A - Catharina Hellerud {BIO 17276650 <GO>}

If you look at the Baltic units first, of course, they have during this quarter integrated their portfolio, that's been bought from PZU in Lithuania this quarter. And when we communicated the acquisition back in the beginning of 2015, we said that the plan was to integrate this business into our existing portfolio and that we would spend 2016 and 2017 to do the integration work. We expect the Baltic business to have a negative profit in '16 and '17 due to this integration work. But we expect to see profitability from 2018. That has been the plan since we communicated the acquisition. And that is still the plan that we are working according to. And we see that's easily according to the plan so far.

If you look at the Nordic segment, it's a profitable business. But we have also communicated that we are now looking into the Swedish part of the Nordic segment. We are working to re-underwrite part of our commercial business in Sweden. We look at taking down some of the larger accounts, some of the large loss exposure. And we are seeing positive effects from the work that we have been doing. But we continue to spend more effort into our Swedish corporation also during 2016, but it's also working according to plan. And we expect to see good results from the measures that we have implemented.

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Q - Matti Ahokas {BIO 2037723 <GO>}

Is the Swedish business still loss making or was it still loss making in 2015?

A - Catharina Hellerud {BIO 17276650 <GO>}

It was loss making in 2015, but it's now -- it has improved substantially since 2014.

Q - Matti Ahokas {BIO 2037723 <GO>}

Great. Thanks a lot.

Operator

We'll now take the question from Jakob Brink of ABG. Please go ahead.

Q - Jakob Brink {BIO 7556154 <GO>}

Hi, it's Jakob from ABG, with two questions, please. Coming back to Matti's question on dividends and capital, and what you just said, Helge, I think you said the maximum capacity was 2.7 billion. Could you just confirm that this would be at the maximum -- sort

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of solvency ratio of 175%? If I do at the minimum level over the internal requirement, I get a maximum capacity of only 1.6 billion. And then I guess you want a buffer from that as well. So it's an AT1 issue of around 1 billion. Is that likely or should it be closer to the 2.6 billion [ph] as you highlighted?

The second question if I understood you correctly during the presentation, you said that you're seeing a quite strong claims inflation in motor Norway. So we should expect short-term positive profitability here. But that you would adjust pricing along the way. What is actually the claims inflation on the -- sort of house and motor in Norway and what should we expect on pricing here? Thank you.

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

I can start, Jakob. We do not see claims inflation in motor in Norway. As we have communicated for several quarters now, it has been a very strong frequency development. And it has been a downward trend. So I don't think I said claims inflation in motor. I said that the capacity, true capacity was 2.7 billion. And you ask if that's right because your calculation is saying 1.6 billion. And then I think I will ask our CFO to maybe elaborate on that question as well.

A - Catharina Hellerud {BIO 17276650 <GO>}

When we look at the capacity to use subordinated debt, we have to consider all different perspectives, so the S&P perspective and also, the Solvency perspective. And it has to be considered both on Group level and on Solvency level. And the most constraining or the most binding, when it comes to Tier 1 capacity is the S&P model. And the capacity, the maximum capacity is 2.7 billion. That's correct. And as I commented, we will look at using part of this capacity by issuing Tier 1 capital during 2016.

Q - Jakob Brink {BIO 7556154 <GO>}

But isn't it correct that what you do is -- I mean you can maximum have 20% of your Tier 1 capital in Solvency II as being AT1s. Isn't that correct?

A - Catharina Hellerud {BIO 17276650 <GO>}

Yeah. If you look at page 33, you can see, actually, how well we calculate the capacity. That's correct.

Q - Jakob Brink {BIO 7556154 <GO>}

Okay, I'll check that one.

A - Catharina Hellerud {BIO 17276650 <GO>}

Yeah. Yeah.

Q - Jakob Brink {BIO 7556154 <GO>}

And then, sorry, just coming back on the claims inflation. Maybe I didn't express myself correctly, but what is actually development on pricing then in motor, going forward? Is it, I

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guess, negative, then?

A - Catharina Hellerud {BIO 17276650 <GO>}

What we comment when it comes to motor or underlying health inflation in motor in Norway, we say that it has been reduced from last year, or in beginning of 2015 -- or actually 2014, it was between 3% and 4%. And then we have now guided from the last quarters, third quarter 2015, that you should expect -- or we expect then for inflation to be more in line with 1%. And when we think about the pricing, we are looking at prices that reflect underlying claims inflation. So this is a -- as I commented, this is part of the explanation around the important explanation, actually, why we see lower growth rates within especially the private segment in Norway.

Q - Jakob Brink {BIO 7556154 <GO>}

Okay. Okay. Thank you.

Operator

We will now take a question from Blair Stewart of Bank of America.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you. Good morning, everyone. I've got a couple of questions left. Just coming back on the dividend, if I can. Clearly, there's going to be a three to five year period where your profits will be boosted by the reserve releases that you expect to book. And I just wonder what your thinking is for what you'll do with the dividend after that. Should we expect the regular dividend then to drop, to reflect the lower contribution from reserve releases or how do you think you've got scope to increase the payout ratio, to ensure that the dividend does not drop after that impact disappears?

And just be clear and this would be the second question, just to be clear on the -- as and when you do issue more hybrid debt. Is the intention to then simply repay that out as a special dividend to shareholders? And finally, probably the most boring question you'll get today, what's the expectation for the tax rate going forward, please? Thank you.

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

Hi, Blair. The two first questions, and then Catharina can take the tax finally. I think we also after third quarter commented what we will do after three to five years. We said, and we still say, that we will calibrate the dividends green, the ordinary dividend related to annual results, to avoid a cliff after three to five years. That means that we have to calibrate this between the ordinary dividend and the extraordinary dividend going forward. And the short answer to your second question is yes.

Q - Blair Stewart {BIO 4191309 <GO>}

Sorry, could -- Helge, could you just explain the first part of the question again? I didn't quite understand what you said, in terms of what will happen once the impact of the --

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

So we will avoid a cliff down after three to five years. So we will calibrate the ordinary dividend stream going forward, that you will avoid a situation with a reduced ordinary dividend after three, four or five years. Therefore, we have to see this --

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Okay, so you'll have to avoid that.

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

You will see these two dividend streams together, actually.

Q - Blair Stewart {BIO 4191309 <GO>}

Yeah. Okay, understood. Thank you.

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

And to your second question, related to Tier 1, that's the short question and a short answer is, yes.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you.

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

That meaning that we will pay this out to our shareholders to optimize the capital structure.

Q - Blair Stewart {BIO 4191309 <GO>}

Yeah, I thought so.

A - Catharina Hellerud {BIO 17276650 <GO>}

Yeah. Yeah, and when it comes to tax rate, the corporate tax rate now as from 2016 is 25%. We expect that the Norwegian authorities are looking at taking their corporate tax rate down further, to 22% as from 2018. And that remains to see, but that is the thing that the authorities are communicating. So it's a -- so it should come further down over the next couple of years.

Q - Blair Stewart {BIO 4191309 <GO>}

So 25%, trending down to 22% if the changes take place over time?

A - Catharina Hellerud {BIO 17276650 <GO>}

Yeah, that's the signal from the Norwegian authorities. They're looking at being more in line with Sweden and Denmark.

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Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Thank you very much.

Operator

(Operator Instructions) We'll now take a question from Niccolo Dalla Palma of Exane BNP Paribas.

Q - Niccolo Dalla Palma {BIO 16052945 <GO>}

Hi. Just a couple of questions. Sorry to follow-up again on Blair's question on the dividend, but you're reassured on the fact that you don't expect a cliff on your ordinary dividend after three, five years, when the runoff gains diminish? Could you -- do you think the NOK6.40 ordinary dividend leaves room for any growth in the ordinary dividend over the next three years? Is that the way we should think about it or could that well be relatively flattish until the end of this three, five years' period?

And secondly, if you could just remind us your direct exposure to your oil sector, both in the private equity funds and in any other asset classes, specifically the corporate bonds? Thanks.

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

It's -- I think we commented that we expect earnings growth going forward. And I also said that we expect growth in the dividend -- ordinary dividend going forward. So yes, we expect growth in ordinary dividend for the next few years. But when you look into expectation for dividend growth, you have to take into consideration that after three, four, five years, we'll have a different situation related to run-off. So you have to calibrate -- you have to look into the dividend split between extraordinary and ordinary. But to your questions, yes, we expect growth in the ordinary dividend for the next few years as well.

A - Catharina Hellerud {BIO 17276650 <GO>}

And with the oil exposure, the oil exposure in our investment portfolio is within the PE portfolio. So it's around 50%, half of the PE portfolio, which is exposed towards the oil and oil service sector. So that is it. It's around then 700 [ph] million which is the exposure.

Q - Niccolo Dalla Palma {BIO 16052945 <GO>}

Okay. Thanks for both answers. Very clear.

Operator

Thank you. We will now take a question from Jonny Urwin of UBS.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi. Good morning, all. Thanks for taking my questions. Firstly, we saw from one of your competitors a couple of weeks ago that they're trying to put through some price increases

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across the book, just to get ahead of the curve on claims inflation. I was just wondering what you think about that. And -- I mean it doesn't sound like claims inflation is any major issue at all, but are you planning to put through any price increases? And in which case, on which parts of the book in particular? That would be very interesting.

And then secondly, I guess it's a bit of a more qualitative question, but on the customer satisfaction, you're doing very well against your targets and it's all moving on. I was just wondering how that's translating into retention and cross-sell. You helpfully mentioned that it's helping you from a market share perspective in Norway. But I'd just be interested to hear a bit more about the levels of retention and are you actually managing to sell customers more from higher satisfaction levels. Thanks very much.

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

Your first question, I guess you think about the presentation from Tryg related to claims inflation and I think that was related to the Danish market. We see the same development as Tryg on property and travel insurance in Denmark. And we expect price increases in line with claims inflation. In addition, you can also expect from Gjensidige that we will continuously implement new tariffs in Denmark. So this is a combination of pricing based on what we see in claims inflation in Denmark and the introduction of new tariffs. Tryg claims that they will increase prices around 3% across the portfolio. I think our comment on that is that we maybe have been earlier with price increases in travel insurance especially. We will not comment a figure, but we see the same trends in Denmark as Tryg communicated.

In Norway, just to complete the different situation, it's volatile related to property insurance with fires, freeze and natural events, so it's more volatile. But on the motor insurance side, Catharina commented that, it's a very favorable frequent situation and we price in line with the very low expectation for claims inflation going forward.

Your second question is related to customer satisfaction and (inaudible) of churn rate and product per customer. I think the short answer and maybe Catharina could add some few comments there as well, but the short answer is that we, on the Capital Markets Day in 2014, presented figures from our private business and SME business in Norway. And we had the same strong situation.

I do not want to claim that we have increased our position, but, as you maybe remember, it's an extremely unique situation with more than four products for 70% of the customer base with a duration of 15 years. So that I hadn't heard about similar figures anywhere in Europe actually. So more than 70% of our private book in Norway, customers with more than four products, non-life products and they have a duration of 15 years. And that's still the situation.

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Q - Jonny Urwin {BIO 17445508 <GO>}

Okay. Thank you.

Operator

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We now have a follow-up question from Matti Ahokas of Danske Bank. Please go ahead.

Q - Matti Ahokas {BIO 2037723 <GO>}

Yeah, a brief follow-up. I just thought, as you mentioned there is a 200 year anniversary of the company, is it totally unfair to assume that you might potentially pay an extra, extra dividend to celebrate it?

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

Matti, that was a very good -- when you have anniversary, someone should give you presents.

Q - Matti Ahokas {BIO 2037723 <GO>}

Exactly.

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

I can't comment that, Matti. It's a good question actually.

Q - Matti Ahokas {BIO 2037723 <GO>}

Well you should suggest that to the Board at least. Thanks a lot.

Operator

We now have a question from Steven Haywood of HSBC.

Q - Steven Haywood {BIO 15743259 <GO>}

Hi. Good morning. I just wanted to clarify on your dividend and your Solvency II ratios, how much of the proposed dividend is excluded or included in the Solvency II ratios that you're currently presenting? Thank you.

A - Catharina Hellerud {BIO 17276650 <GO>}

When we look at the ratios that we are presenting, it also includes the effect of the proposed dividend. So it's included that we assume that the dividend will be paid out.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay, I understand. Thanks.

A - Catharina Hellerud {BIO 17276650 <GO>}

Was that clear enough. Yes, it's less than the dividend -- proposed dividend.

Q - Steven Haywood {BIO 15743259 <GO>}

Yes, that's fine. Thank you very much.

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Operator

We now have a question from Vittorio Sangiorgio of Twelve Capital.

Q - Vittorio Sangiorgio {BIO 20732870 <GO>}

Hi. Good morning, everyone. I had a question on the difference between the partial internal model and standard form because there are more than 40 points difference of coverage, and which is pretty material compared to other European peers. And I was wondering whether you could just give a little bit of visibility of what are the key drivers particularly in the capital requirements would make it such a difference.

A - Catharina Hellerud {BIO 17276650 <GO>}

I think if you look at page 29 in the presentation, you will see where the difference comes from. It's a lot different. So if you look at capital charge for non-life and health underwriting risk, you have the main difference there. But there's also some difference if you look at the market risk and it is -- there is a combination. It's a partial internal model, which means that part of the capital requirement is calculated by using a standard formula. But the main difference is within the insurance risk, but also, some within the market risk. So I think, looking at page 29, hopefully you will get more clarity on the differences.

Q - Vittorio Sangiorgio {BIO 20732870 <GO>}

And out of the differences, which one would be the most -- you think the one that could be the most challenged by the regulator when approving the partial internal model?

A - Catharina Hellerud {BIO 17276650 <GO>}

I think they will always like to start discussing the diversification effects. That's probably where they will start. That's my -- at least I think that will be the assumption from our side.

Q - Vittorio Sangiorgio {BIO 20732870 <GO>}

Thank you.

Operator

(Operator Instructions) We now take a question from Blair Stewart of Bank of America.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you. It's possibly more of an observation than a question, but what we've seen over the past few years, we've seen significant excess capital being returned to shareholders. In Q3, you identified an excess of the reserving position in the company again would be distributed to shareholders. You're now talking about increasing the leverage at the company to give back to shareholders. So there's invariably a reduction in conservatism at the company. I just wonder, Helge, probably a question for you, is there a risk that that goes too far?

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

We have been in this business for 200 years and the management has been here for many, many years. We are still, I would say, a conservative company. We have a strong brand name. We will not go too far.

Q - Blair Stewart {BIO 4191309 <GO>}

I guess you don't want to be remembered as the CEO for a 200 year history that gave away all the family silver.

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

No, I won't. I won't have that legacy. Thank you for the reminder, Blair. We will know if it came from you.

Q - Blair Stewart {BIO 4191309 <GO>}

Thanks.

Operator

There are currently no further questions.

A - Janne Flessum {BIO 19368607 <GO>}

Okay. Then, thank you very much and just before we end the call, we remind you that we have an analysts breakfast meeting tomorrow in London and also, an investor group lunch meeting in London tomorrow, so we hope to see many of your there. And we will also visit Edinburgh, Montreal, Toronto, Boston and Chicago this quarter. So once again, thank you for participating and have a nice day. Thank you.

Operator

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

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