Q1 2015 Earnings Call

Company Participants

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

Other Participants

- David T. Andrich
- Gianandrea Roberti
- Jakob Brink
- Jonny Urwin
- Matti Ahokas
- Niccolo C. Dalla Palma
- Paris Hadjiantonis

MANAGEMENT DISCUSSION SECTION

Operator

Good day and welcome to Gjensidige Q1 2015 Results Presentation. Today's conference is being recorded.

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

Janne Merethe Flessum {BIO 19368607 <GO>}

Thank you, and welcome to this first quarter presentation for Gjensidige. As always, our CEO, Helge Leiro Baastad will start by commenting some of the highlights from the quarter, before our CFO, Catharina Hellerud, will comment the numbers in more detail. And then we will, of course, then open up for Q&A at the very end.

Before we start, I want to remind you that you can download the presentation from our website, gjensidige.no/ir.

And with that, I hand over to you, Helge.

Helge Leiro Baastad {BIO 5865247 <GO>}

Thank you, Janne. Good morning, everyone. And thanks for listening in today. I'm pleased to present a strong set of figures once again and a solid start to the year. I will comment very briefly on the results and then give one update on the largest segments Private in Norway, Commercial in Norway and then the Nordic segment.

If you turn to Page 2 in the presentation, we reported solid profit before tax expense of NOK987 million and underwriting result of NOK417 million. The premium growth was 4.3% in the quarter and the combined ratio was 91.9%, and this is discounted 89.9%.

The profitability was a bit better than can normally be expected in the first quarter. This is mainly as a result of a favorable weather situation. The financial result was NOK521 million and annualized return on equity then was 13.5% after-tax. Catharina will come back to the financial results afterwards.

Then turning to Page 3. I'm very pleased to confirm that we have continued our strong competitiveness in the Norwegian retail market. We are able to combine good profitability with a high degree of customer satisfaction. And as you can see, Gjensidige's total market share in Norway in the past three years has stabilized at around 25% in a competitive market with a steady increase of new players. And the Gjensidige continues to be the insurer contacted first by most for a quote. Within the retail market in Norway, we experienced the same stability in market shares. We report an underlying to a 2.5% growth in premiums in the private segment.

As previously communicated, premium increases continue in line with long-term claims inflation, but selective market initiatives in an attractive segments mean that average premium increases are lower at the moment. And as we have communicated before, the long-term claims inflation estimate is between 1% and 3% for motor, and around 4% for property.

Every day, we do targeted initiatives towards selective customer groups, such as the (03:24) customers and families with small children among other things through value adding services, ensuring that Gjensidige is relevant in the customers' everyday life. And this builds loyalty and preference.

Furthermore, strategic cooperations with partners such as the Norwegian Automobile Association and Toyota strengthened our distribution power. We have taken a big step together with the bank in the car dealership markets, where we are now the largest player within insurance products in that channel.

Then moving to the Commercial segment on Page 4. We experienced a somewhat increased competition. In general, over time, we expect organic growth to be more or less in line with GDP growth in our markets. According to statistics in Norway, the growth in the Norwegian economy is expected to slow somewhat down throughout 2015, with some increase in unemployment.

There is increased cost focus among companies, and unemployment rate appears to be increasing somewhat faster than first predicted by Statistics Norway. This is no dramatic shift neither in the unemployment rate, nor GDP growth in the years ahead. As for Gjensidige's business in the Commercial segment, I'm pleased to report a solid growth of 4.5% in the first quarter. The macro environment, however, leads to somewhat lower growth expecting going forward within workers' comp and group life insurance, also driven by lower growth in the national basic amount for social welfare, the GE.

In general, we note considerable and broad competition as regards accident and health insurance. We also see a general price pressure on the large accounts. Gross premiums written grew by 1.4% in the quarter and this is an indication of somewhat lower growth going forward.

This said, profitability continues to be more important than growth in the Gjensidige. This is a statement you have heard over time. Pricing discipline combined with measures to further streamline operations are key priorities. We've focused on our core segments – SMEs, agriculture, partnerships, continuing to develop robust and profitable customer portfolio.

And then finally, turning to Page 5, I will address the development in the Nordic segment. I'm very pleased with an underlying growth of 4.4% combined with strong profitability in the marketplace, where competition also is tough. The positive signs we see in the Danish property market are good news for Gjensidige, given our distribution model in Denmark.

House sales in the first quarter were 36% higher in 2015 compared to last year. And in addition to the cooperation with cooperation with Nykredits our agreements in the real estate agent channel cover about 45% of the market. So the signs we see in the Danish property market are very good news for Gjensidige going forward. As far our Swedish portfolio, profitability is weak. Focus now is on re-pricing the portfolio and gradually shifting to less volatile exposure, in addition to improving distribution, integrating smaller portfolios acquired during the past years, and realizing synergies.

And with that, I leave the word to Catharina.

Catharina Elisabeth Hellerud {BIO 17276650 <GO>}

Thank you, Helge, and good morning to everyone from me as well. Please turn to Page 7. I will start off by commenting briefly on the main elements contributing to the first quarter profit before of NOK987 million. First, to our general insurance business. The underwriting result ended at NOK417 million, which is a solid result for our first quarter. Top line growth combined with higher run-off gains are the main explanation for the improvements from the first quarter last year. In absolute terms, the results was better than normally expected from our first quarter, mainly driven by good risk selection and pricing and a favorable underlying frequency claims development.

Moving on to our Retail Bank, volume growth and lower financing cost resulted in 26% increase in profit before tax compared with the first quarter of last year. In a highly competitive market, GJENSIDIGE Bank managed to increase its lending by as much as 19% in the last 12 months. The profit performance in pensions and savings was flat in the quarter. Finally, the investment result was NOK521 million in the quarter, down from NOK762 million in the first quarter 2014, mainly driven by a weak return on private equity.

So, let's move on to the combined ratio on the next slide. The group combined ratio ended at 91.9%. Two main drivers positively affecting the combined ratio was the good underlying frequency claims development as well as somewhat higher run-off gains. The cost ratio ended at 15% in the quarter and the loss ratio was 76.8%, down 0.8 percentage points from the corresponding quarter last year and this can be explained by higher run-off gains.

Apart from the two large storms in January and February, we have experienced favorable weather conditions in the first quarter. This contributed to a level of profitability for multi-private above what should be expected in a more normal mid-quarter and on par with a good profitability in the first quarter last year. The property product shows a better frequency claims developments than in the first quarter last year due to fewer hires and other medium-sized claims. While the two storms affected the overall loss rate for the property product this year, the ratio last year was affected by two large fires. And the accident and health product continues to produce good and stable results as they have done for several years now.

On the next slide, Page 9, I will focus only on cost development as Helge has already commented on the solid premium growth. All segments have demonstrated good cost control in the quarter. There are two main explanations for the nominal increase in cost of NOK21 million. Firstly, there was somewhat higher sales commissions in the commercial segment in the quarter. And secondly exchange rate effect for the Nordic segment, which also is the case in Baltics.

The next Slide, Page 10 shows that large losses are slightly higher than expectations. The total proportional large losses in the quarter amounted to NOK297 million. This corresponds to 5.8 percentage points of our combined venture (11:05), which is slightly higher than the expected figure of NOK283 million. The two storms mentioned earlier accounted for around NOK235 million an effect of the combined ratio of 4.6 percentage points. In the corresponding quarter last year, large losses amounted to NOK291 million with commercial being affected the most.

Now, please turn to Page 11. This slide shows the run-off gain of NOK149 million in the quarter. This corresponds to a positive effect on the combined ratio of 2.9 percentage points compared with 1.3 percentage points same period last year. As you can see, the run-off results in the individual segments are about the same in this quarter as the corresponding quarter in the last year. The run-off results mainly driven by continued adjustments to our accident and health product.

I'd like to turn (12:09) capital position which is summarized on Page 12. Our strategic buffer amounted to NOK1.8 billion at the end of the quarter. This represents an increase of NOK500 million since the end of 2014, driven by lower capital requirements. It's main drivers was reduced requirement of NOK900 million due to the quantitative credit effect, partly offset by an increase requirement NOK400 million mainly due to growth.

Adjusted for the allocation of NOK800 million made the two acquisitions that not yet implemented, the strategic buffer amounted to NOK1 billion. Remember that total comprehensive income year-to-date is not included in the calculation of the available capital.

These results that we in the second quarter will change the currency hedging strategy or investments in subsidiaries and branches abroad. Previously, we have been stabilizing equity and return of equity. While going forward, we will reduce the volatility in the strategic buffer.

Finally, I'd like to comment in some detail on our investments returns that is on Page 13. The investment portfolio yielded a return of 0.9% in the quarter and amounted to NOK58.1 billion at the end of the first quarter. The decrease from the corresponding quarter in 2014 where they yielded a return of 1.3% was mainly due to a combination of the low interest rates and a weak result in the private equity portfolio. First let me comment on the match portfolio. The portfolio amounted to NOK35 billion and yielded a return of 0.6% in the quarter, the same level of return as in the previous quarter.

Norwegian interest rates remained stable during the quarter while Danish interest rates continued to fall across the whole curve. This reinforces the challenges relating to the return on the match portfolio going forward. We will continue to look for good investment opportunities that's within the same risk appetite and the same risk limit as before. And in the Danish part of the portfolio, we are looking at increasing liquidity and credit risk somewhat to increase the running yield somewhat going forward.

We have made one small investment in Norwegian held-to-maturity portfolio during the quarter. As a result, I don't have statistic for you for the average reinvestment rate for Gjensidige in the quarter. However, we see a return of around 2% to 2.75% for bonds of the same credit quality and the duration we invest in.

At the end of the quarter the excess value of the held-to-maturity portfolio amounted to NOK2.1 billion, about the same as year-end 2014.

Now, I'd like to move on to the free portfolio which amounted to NOK23.1 billion and they yielded a return of 1.3%. Credit yielded an acceptable return driven by a slight fall in international interest rates and somewhat lower credit margins. Current equities delivered well and were positively affected by the development in the value of the shares at the bank, notably NOK99 million.

Our private equity portfolio showed a weak development in the quarter that is due to substantial fall in the net asset value of some of the funds, particularly those exposed to the oil and oil service sector. Other funds have developed satisfactorily. Adjusted for a bankruptcy in one of the funds in the first quarter, the fall in the net asset value was approximately 10%.

The property portfolio delivered a satisfactory result. There have been no changes in the yield in the quarter, but we have seen a slight increase of around NOK10 million overall in the value of the properties as a result of adjustments made to certain properties.

Before opening up for questions, let me simply repeat three main messages. First, Gjensidige delivered a solid start to the year, better than that can be expected for a first quarter. Two, Gjensidige's well positioned in all segments, but competition is tough and the macro environment (16:4) somewhat lower growth throughout 2015. And three, low interest rate continued to be a challenge as we continue to look for growth opportunities within our existing risk appetite.

And then we open up for questions. Operator?

Q&A

Operator

We will take our first question from David Andrich of Morgan Stanley. Please go ahead.

Q - David T. Andrich {BIO 15414075 <GO>}

Hi. Good morning. Thank you for taking my questions. Two questions from my side. First of all, it sounds like there's a bit more pricing pressure in the Commercial GI and I guess I was just wondering for the other lines, are you – in terms of the pricing environment, do you see some room for increasing underwriting profit to offset the pressure on investment income that you're seeing? And I guess where do you see that potential and I guess where do you see a bit more competition coming through?

And then I was just wondering if I could get a bit more color on the Baltic area. It seems like you're focusing on profitability, writing more profitable business, reducing volume a bit. But it also sounds like the reduction in volume is impacting the profitability. So I was just wondering if you could maybe give a little bit more guidance on how you see that developing and what you're doing to turn that business around? Thank you.

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

I can maybe start and Catharina can fill me out regarding the investment portfolio afterwards. As we commented, long term, we see unchanged potential for GDP growth organically. So what I commented related to commercial business in Norway is more short-term effects of slightly increased unemployment rate and its related to group life and personal products.

In the other areas, it's more or less the same type of competition as we have seen for many quarters, actually. In the private segments, of course, it's competition all over the area, but we have a very good competitive position. As I commented in the private lines, we have stable market shares. We've managed to increase prices long term in line with inflation, short term slightly below and that's tactically and we have done that for some quarters now.

I also commented long-term inflation in private model, it's more between 1% and 3%, and in property I commented 4%. The same type of competitors as we have seen before, it's the large companies (19:36) it's not that much bank insurance as we have seen a year ago. Within group life and the personal policies also the life companies. Regarding Baltics, I can take that after your answer on the second question, Catharina.

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

Yes. If I understood your question correctly, you asked if decreased return from the investment portfolio with the increased underwriting profit or the focus on underwriting profit...

Q - David T. Andrich {BIO 15414075 <GO>}

Yes. Yes.

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

Yes. Yes. And I think at least from our side, when we see that – or when we comment that we are concerned about the profitability in the investment side, our response is to be even more discipline on the underwriting side. And what we have said before and it's the same situation today, we have a combined ratio target of 90% to 93%. Our aim though is to be in the lower part of that range. We are also looking at taking down the cost further and we have a cost ratio target of 15% just to remind you about that And when we talk about taking down the costs further, the underlying costs, what we do is that we create room for investing into our business and make sure that we can increase relative of all the strong competitive position that we have in the Nordics, so it's important for us to invest into the business and investing to our competitive position, but I think the overall answer is that, yes, at least from our side lower investment return means that we are even more disciplined on the underwriting side.

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

Regarding Baltics, it's – as you can see also from the report and the figures, it's tough competitions, especially within the motor area. And we do now work with the plans for integrating the PZU business and the main takes of the first quarter is that it's encouraging what we see and we will use their IT systems. We have met a very professional organization. So it's actually a very positive thing from the dialog with PZU in Lithuania. It's rigorous integration and synergy plan, and we will take over this in I think more September third quarter. And we have used, I would say, more resources from the group's side into the Baltics area over the last six months compared to what we had done actually several years before. So it's actually positive thing from the Baltics area, but the competition within the motor area is tough.

Q - David T. Andrich {BIO 15414075 <GO>}

Okay. Thank you very much.

Operator

We will now take our next question from Matti Ahokas of Danske Bank. Please go ahead.

Q - Matti Ahokas {BIO 2037723 <GO>}

Yes, good morning. It's Matti Ahokas from Danske. Two questions, please. Firstly, I know it's probably difficult, but could you try to quantify especially in Private Norway, well, how much more favorable in terms of claims was the first quarter compared to a normal quarter, if we exclude the storms?

And then the second question is regarding the Nordic segment. It's actually generating now underwriting profits almost as big as Commercial Norway, I know there was some FX effect there, but how much better than a normal or how much better is this that we should expect as a normal run rate going forward on this segment that seems to be doing extremely well?

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

Matti, you commented the question yourself, it's quite complicated. I'll pass it to Catharina.

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

I think we don't quantify it on the quarterly basis. What we communicate is that we have a combined ratio target of 90% to 93% that is an annual target. We see that especially first quarter it normally hits the most by winter effect and it could be above the corridor and that could also happen in the fourth quarter while usually the third quarter and then the second quarter are the most profitable quarters. But we do not quantify within the year what a normal combined ratio every quarter should be like. But we see that the frequency – the typical winter frequency is lower this quarter than that we expect and that was more or less the same picture that we saw first quarter last year as well.

Q - Matti Ahokas {BIO 2037723 <GO>}

In Nordic...

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

Yes. Again, the combined ratio target is a group target. We do not specify at segment level. So, it's again – it's a group target and I'm not detailed into targets for each of the segments.

Q - Matti Ahokas {BIO 2037723 <GO>}

As a follow-up, may I just continue, was it that Helge mentioned that the Swedish business is still loss-making in the Nordic segment or did I understand it correctly?

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

That's right. It's loss-making. Small part of the Nordic segment. If you look at first quarter, we had premiums of NOK1.250 billion in the Nordic area and NOK250 million of them was in the Swedish area. What we do there is actually to try to, of course re-price contracts and also gradually turn the portfolio to less volatile business, meaning less large claims exposed portfolio if you want.

Q - Matti Ahokas {BIO 2037723 <GO>}

So the Danish part of the business was then extremely profitable in the first quarter?

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

We are very satisfied with the Danish operation in the first quarter, yes. What we are going to do, going forward, I commented that we have used more group resources into the Baltic area. We will do just the same type of process related to the Swedish business, use more of an expertise from Norway and group level. And we will also be more coordinated into Sweden and look what we have to do to secure that this will be in line with our other Nordic business going forward.

Q - Matti Ahokas {BIO 2037723 <GO>}

Great. Thanks.

Operator

We will now take our next question from Jakob Brink of ABG. Please go ahead.

Q - Jakob Brink {BIO 7556154 <GO>}

Thank you. I have two questions, please. Firstly, could you maybe talk a little about the run-off gains? It seems to be have been sort of above what I would say is a normal level for the past three quarters. This is pretty much what we are seeing at least from your Danish competitors as well. Is this something we should expect going forward as well?

And second question, I've got three questions, please. The second question is about the Norwegian price increases. And I know Tryg was out talking about higher claims inflation in Norway and hence the necessity to raise prices. How you're looking at the spread in Norway? I know, we discussed it already, but a bit more detail, please.

Then secondly, just a small one regarding your free portfolio and the private equity funds. I know it's a relatively competitive group pre-tax profit for full year small number, but I think you've said before that your exposure to oil and gas was pretty limited. So I was a bit surprised to see this loss. Could you maybe just give me the number of what is the exact exposure to the exposures like the ones that caused a loss in Q1. Thank you.

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

I can start with the second question regarding the competition in Norway in pricing and Catharina can take the first and third question afterwards. And what we commented, we have had a favorable frequency development both in the first quarter this year and also last year. We haven't seen any signs as we saw that both D&D (28:07) commented and Tryg regarding the frequency developments. It's favorable frequency development going forward.

Regarding price increases, I would say that the communication from our side is just what it has been for many years now, actually. We have to increase prices in line with claims inflation. And the starting point is the long-term claims inflation. And as we commented at the Capital Markets Day, the long-term expectations now is more between 1% and 3% and before we had 3% to 4%. Shortly, on the short-term, we also have some market initiatives in very profitable segments meaning that we can see slightly lower price increases in the short-term. But long-term price increase expectations from Gjensidige is in line with claims inflation. And we do not see the same type of signals as we saw from our competitors.

Q - Jakob Brink {BIO 7556154 <GO>}

Okay.

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

Yes, turning to the run-off gain, yes, it was 2.1 percentage points effect on the combined ratio this quarter, which is high. What we have said that of course in the long-run, you should expect it to be zero. We have for some period now seen positive development especially within the personal products.

And also there are certain vintages within the Norwegian Commercial segment that we have especially seen (29:47). At least there has been fewer claims filed than we expected when we set the reserves originally. We don't see that – at least in the short run, we see that it's possibly, slightly higher possibility that there will again run-off gains going forward than run-off losses. But again in the long run, this should be zero expectation and the level. So, there is no change in that. But short term, we have been surprised by few – much fewer claims being filed than expected.

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

If we compare a one-off in the first quarter to first quarter last year and adjust for the loss in corporate sense, it's more or less just the same.

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

And I think it's also relevant to refer to the total size of the reserve, which is NOK33 billion. So, compared to that, it's a minor adjustment, actually. Back to the free portfolio, the private equity. If you look at the report, you can see that the book value for the private equity portfolio is now NOK1.4 billion, which is – it's only in the private equity portfolio where we have the oil exposure around 50%, around NOK700 million is exposed towards oil and oil-related service out of our portfolio of NOK58 billion. So, it's actually relatively limited exposure.

Q - Jakob Brink {BIO 7556154 <GO>}

Okay. Thanks a lot.

Operator

We will now take our next question from Paris Hadjiantonis of KBW. Please go ahead.

Q - Paris Hadjiantonis {BIO 19703051 <GO>}

Hey guys. Hi, good morning from me as well. If I go back to your free portfolio, I've seen there that the average duration of your fixed income investments in that portfolio and I do anticipate that it's quite small compared to what you're doing in your match portfolio, but that part of that portfolio has increased duration from about 0.6 years in the full year stage to 2.9 years. So there's an obvious increase in duration for fixed income in your free portfolio. I was wondering if you can explain that.

And then second, more general question would be about your stake in SR Bank. That stake now account for about NOK1.5 billion. If and when you're going to sell that, what do you expect to do with those funds, are those funds going to be useful to do add-on acquisitions or do you plan to return those funds to the shareholders through a special dividend or some other way? Thank you.

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

Yes. If we start with the duration in the free portfolio, remember that in the free portfolio, that's where we do the overall risk management for the group and that's also where we do technical adjustments or allocation and where we can to market bets to technical allocations. So that's the answer. And these positions can change very fast based on our view on the market.

The second SR Bank, well, it's the same communication regarding that it's up for sale. We will sell that one if the timing and pricing is correct. When it comes to how we will spend the fund that is something that I expect that the board in Gjensidige and will discuss normally during the ordinary or Special (33:43) that is done once a year. It's part of the total discussion of the capitalization of the group, which is done again on annual operation – our discussion in the board.

Q - Paris Hadjiantonis {BIO 19703051 <GO>}

So when you say timing and pricing is correct, can we assume that the price constraints are not too different to what they were last time, so about – so February 2014 we tried that thing at NOK63? Thank you.

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

No comment to the pricing.

Q - Paris Hadjiantonis {BIO 19703051 <GO>}

Okay. Fair enough. Thank you.

Operator

We will now take our next question from Gianandrea Roberti of Carnegie. Please go ahead.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Yes. Good morning from me as well. I have three questions. The first one is back to the Swedish business, Helge, where you mentioned before that basically you're trying to move the portfolio towards less large claims expose. I'm just wondering perhaps it's a silly question, but when you book this business, did you know exactly what it was in there, it seems like it's more exposed to commercial lines as opposed to being private lines and how easy it's for you to move around this business basically at this point?

And the other two question is basically literally just some comment that I pick up, and I just want to understand that, Catharina, there was something on the capital position where you say that you proceed some – or you have done some quantitative assessment, which has freed up some capital, but I didn't capture the number. So if you can just elaborate on that that would be great. And also the last question on the – you mentioned something on the reinvestment rate right now, which I didn't pick it up. So if could also elaborate that would be great. Thank you.

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

Yes, Sweden first. Yes, I think we knew what we bought, Gianandrea, when we bought Tennant. The situation today is that we have a limited total premium in the Swedish market, it's 50-50 between Commercial and Private. And as you know, we do not have the same type of distribution system or model in Sweden compared to what we have in Norway or Denmark. We have also bought some small retail portfolio lately in Sweden, which is very important for us to build up a retail distribution system with partners.

But the 50% we have within Commercial it's broker business more or less only. And then, we have to look into this portfolio and try to one, re-price the contracts and two, maybe tilt towards less volatile business. So that's what we are doing. And it's many years since we bought the Tennant business. So it's also organic growth, since we bought the Tennant business until the situation we have today.

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

Yes, first question was to elaborate on the figure. It's NOK900 million at the end of the first quarter. It's – we commented last quarter that we were now able to use part of the internal model when we calculate the capital requirements under the S&P model. So that figure is now NOK900 million, it was NOK800 million last time we gave this figure. The reinvestment rate today as we see it now and within the credit quality and the duration that we normally invest in the Norwegian held-to-maturity portfolio, just to specify that, it's around 2% and 2.75%

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Sorry, between 2% and 2.75% you just said, right?

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

Yes.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Okay. Can I have a follow up on capital? How are the discussion with S&P going on, meaning should we expect something more apart from this NOK900 million or is there anything changed in there or...

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

This is something that they look into I think once a year when they do their adjustment, so their ordinary rating adjustments and that's the only communication. They are kind of – they don't disclose too much about this and the effect. So we hope that this is stable going forward.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Thank you.

Operator

We will take our next question from Jonny Urwin of UBS. Please go ahead.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi, good morning. Thanks for taking my question. Just a quick follow up on a couple of previous questions around pricing and claims inflation. It's helpful to know that pricing increases are matching off claims inflation; the underlying margin is broadly stable. I'm thinking sort of hypothetically two years, three years out, do you think you need to go further than allowing the combined ratio to the lower-end of the target range and do you think you need to put more pricing through to offset the step down in investment returns to achieve that 15% ROE target by 2018? I mean it – all my numbers are rolled out, the current reinvestment rate and current pricing trajectory it looks like that, that comes under a bit more pressure. So any comments around that would be much appreciated.

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

Yes. I comment that. Of course looking at the financial targets is something that we – relative to every year and we have to take into consideration what we see going forward, and of course both claims inflation and macro environment interest rate level will be taken into consideration, but as of today our financial target is set and was revised by the board in October last year.

Q - Jonny Urwin {BIO 17445508 <GO>}

Okay. Thanks.

Operator

There are no further questions in the phone queue at this time. We will now take a follow-up question from Gianandrea Roberti of Carnegie. Please go ahead.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Yes, hi. Just one final question on the natural perils pool, do you have any update on the situation or when can you expect some communication from the FSA?

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

Unfortunately, we don't have any update. I think it's probably the Department of Finance that will comment on it. FSA they will come up with the final ruling, but unfortunately, as I said, we don't have any more information about the timing.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Okay. Thanks.

Operator

We will now take a question from Niccolò Dalla Palma of Exane BNP Paribas. Please go ahead.

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

Hi, good morning. Just a quick follow-up question on the private equity exposure. You mentioned it's now around NOK700 million of NAV. Is there any update you can give of how this performed after the end of the quarter and what kind of risk you see for the remainder of the year – clearly returned to the oil exposure? Thank you.

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

The NAVs are set at the end of each quarter, so I don't have any updated figures relating that private equity portfolio.

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

Okay.

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

It's normally – the NAV always are set with one quarter – or they are delayed with one quarter. What we do is that we – we also adjust for non-events and we also test for impairment and that's how we value the private equity portfolio on an ongoing basis.

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

Okay. Very clear. Thanks.

Operator

As there are no further questions in the phone queue, I would like to hand the call back to the speakers for any additional remarks.

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

Thank you. Before closing the line, I would just like to remind you that we do road shows in London, Milano, Lugano, Geneva, Zürich, Paris, Stockholm and Helsinki this quarter. So thank you again 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.