

Q2 2012 Earnings Call

Company Participants

- Morten Hubbe, CEO
- Tor Loennum, CFO

Other Participants

- Claus Gron Therp, Analyst
- Gianandrea Roberti, Analyst
- Giulia Raffo, Analyst
- Hakon Fure Reistad, Analyst
- Hans Pluijgers, Analyst
- Matti Ahokas, Analyst
- Per Gronborg, Analyst
- Vinit Malhotra, Analyst

Presentation

Morten Hubbe {BIO 7481116 <GO>}

Welcome to Tryg's Second Quarter conference call. I'm speaking, as Morten Hubbe, and together with me in the room is Investor Relations and Tor Loennum our CFO. And we've done a prerecorded webcast which you may view and see when it suits you. I'll do just a very, very brief introduction on the results and then we can move straight on to Q&A.

We're pleased to see that the Second Quarter shows the strongest quarter we've combined with in five years of 84.7% which means an increase in the technical result of 65%, an increase in the pre-tax result of 45% which shows that our insurance business is on the right track to meet the target we've set from the Third Quarter next year, and onwards.

Clearly, it's important to notice that we've had significant help or a tailwind, in terms of having fewer weather claims, fewer large claims, positive net income from the insurance, which also left off on the runoff numbers.

On the negative side, the continued decrease in interest rates have had negative impact on the combined ratio. And if we move on briefly to investments, clearly equity markets have been negative in the quarter and more specifically, there's a significant positive impact from the new effort. They do occur largely designed to help the Danish life and pension sector. And on the other hand, a significant negative impact from the fact that we've been down, the value of our Danish domicile premises.

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So across these facts, we do see it as a strong quarter that continues our right direction towards our goals in the Third Quarter next year. It doesn't change those goals and we always know that the second and Third Quarter are season-wide, the best quarters in the year. And of course, luck and the tailwind will not influence all quarters, and we try our best to separate, for you to be able to see which is our doing, and which is a helping hand.

I think with those few words, we'll hand it over to your questions, and we'll do some answers to that. Thank you.

Questions And Answers

Operator

(Operator Instructions) And we do have a question from a Hakon Fure DnB Markets.

Q - Hakon Fure Reistad {BIO 16623060 <GO>}

Yes, good evening, guys, this is Hakon Fure from DnB Markets. Three questions, if I may. First, on the new discount curve in Denmark. I assume this is lowered interest rate sensitivity on your subs. What changes have you or are you planning to do to your matching portfolio? Are you ceasing opportunity to increase a share of voters in your portfolio?

Secondly, on the runoff gains. Seeing as the new discount curve allows for the lowered net present value of your long-term reserves, is the relatively high rate of gains in the quarter also driven by the new discount curve in Denmark, or is there another explanation besides the sideway to insurance.

And thirdly, on the property right balance. Am I getting this right if I say that the Danish write-downs have been booked in the P&L while the positive adjustment in Norway is booked directly to equity? Thank you.

A - Tor Loennum

Tor Loennum, hi, Hakon. I have -- you had three questions. One, if there is going to be any changes in terms of the investment portfolio related to the changes in the discount curve and these, sort of in the short run, there's not going to be any significant changes.

Question number two is in terms of the runoff gains. There is no effect from the discount curve changes in the runoff gains. We have chosen to show that there is a positive effect from the sideways coverage as you said, but there is also some positive effects from the reinsurance part which hold a positive runoff gain. And that's the reinsurance.

To question number three in terms of the property you have with -- you have read it correctly. The ME increase in property value on the domicile will be taken directly on the equity whereas any write-down is taken to the P&L.

Q - Hakon Fure Reistad {BIO 16623060 <GO>}

Okay. Thank you, Tor, very clear.

Operator

The next question is from Vinit Malhotra from Goldman Sachs.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Hi, thank you very much. Just on this line 14 of the investor pack, I noticed this 5% benefit from profitability initiative between last year's Second Quarter and this year's Second Quarter. And I think probably because from my point of view, even excluding these reserves reviews[ph] and even excluding that luck from the weather, I think you beat my number by around 4%.

And this I understand, this profitability initiative, would you break it down or quantify it because you have mentioned DKK20 million of claims, but in this 5% is a very big number. Thanks.

A - Morten Hubbe {BIO 7481116 <GO>}

I guess overall as a distinction between two different sort of time series of initiative, I think since the autumn of 2011, we've explained that there were pricing initiatives and some claims initiatives that would contribute gross, roughly DKK1 billion to 2012. And of course, if there were no inflation at all, that would include the combined ratio by 5percentage points.

Those fees are both price changes done in 2012, but also prices changes done in 2011 which had the carry-over to 2012 and then of course, we have claims through inflation, in any given year, that would typically eat some three percentage points, which would leave two percentage points net, to help the combined ratio development.

I think the DKK20 million you're referring to and which is important to debate as well is that on the capital markets day June, we described initiatives to reduce both the claims costs and to reduce the costs, admin costs as such over the coming years. And we're now withholding how they are progressing.

So you can say one is the, 2012 impact from the primarily price-increase driven effects and the second is the coming year impact from working with claims procurement and costs. So I think you need to keep both in mind.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Sure. So this in 1Q, of these, this number would have been --, this chart probably wasn't shown but would this have again been around this mark, 5%? And --?

A - Morten Hubbe {BIO 7481116 <GO>}

Well as you said, the DKK1 billion in a year is roughly 5%, and of course within the business areas, there is uneven distribution on the quarters --.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Sure.

A - Morten Hubbe {BIO 7481116 <GO>}

If you look at it from a company point of view, there is a fairly even distribution of that impact that's showing in the quarter, therefore the 5%.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Sure. Just before I sign off, on the same slide, number 14, the corporate underlying claims ratio has really fall down by a similar 5% magnitude, roughly. Is there something left that you'd like to comment on that here, or is it just, if it lingers in pricing initiative?

A - Tor Loennum

Yes, you're right, sort of, in terms of the question. So it's a good performance in the quarter segment, I think overall it's worth commenting that this is only a quarter and as such, of course there will be some natural subtraction between the quarters.

I think the general picture as we said is that we do see improvements in profitability across the business areas, perhaps with an exception of commercial, this quarter, which is in line with sort of the overall profitability improvement that they expected but also that there is significant areas[ph] around the numbers.

A - Morten Hubbe {BIO 7481116 <GO>}

And you may that that was reported, some concern about drops in corporate insurance biting our rate. And I guess we've reported that since the tenures renew, we've been able to turn around that trend and avoid reduction in rates and rather get, take ups in rates that is starting to help results.

And we've also reduced the exposure risk wise in some segments. But I completely agree with Tor, we will still see fluctuation in the corporate area but it with more positive trends than last year and the year before.

Q - Vinit Malhotra {BIO 16184491 <GO>}

So there's bit of accretion of the losses outside the large claim, which will lower probably, do explain -- apart from pricing.

A - Morten Hubbe {BIO 7481116 <GO>}

Yes.

Q - Vinit Malhotra {BIO 16184491 <GO>}

That's what I understand. Okay. Thank you very much. Sorry for the long question.

Operator

A question is from Hans Pluijgers from CA Cheuvreux. Please go ahead.

Q - Hans Pluijgers {BIO 16245530 <GO>}

Yes, good evening gentlemen. Four questions from my side. First, looking at the run off gains. You already explained the sideways reinsurance contract which you, as I understood, you also said there were some other reinsurance gains. Could you may be quantify that?

And respect to the run off gains, more in let's say, which products groups did you saw, good run-off gains again, mainly on workers comp stays at[ph] the case, and how is the outside experience there going? And what do you expect let's say, for run-off gains going forward? Could you give us some feeling what you expect for Q3, and Q4?

Secondly, on pricing, principally with the cleaning up the books with respect to let's say, yes, cleaning --- getting rid of some more bad clients, how is it progressing so far? Do you still have some cleaning up to do? Could you give us some feeling what you -- how far you are into that process?

Thirdly, on investment returns, you also mentioned a negative impact from the Norwegian Hedge, from the interest rate swaps. Could you quantify that impact on the investment return?

And lastly, just to get the clarity if I read it right, the claims initiative has about DKK20 million impact so far. That, you mean that on an annualized basis, and the same is for the cost-initiative, DKK25 million, that's on an annualized base, so not the impact that you already saw in Q2, is that correct?

A - Tor Loennum

Hans, I can start off with answering the question on run-off gains. We haven't quantified the effects in total simply because I think it would be difficult to give too much detail. But what I can say is that the claims are on the positive gains on the run-off side, it's primarily driven by the sideways color that was mentioned that also related to some sources related to natural perils. So it's the combination of effects.

Then you have the question about what our expectations going forward in terms of other, or sort of in terms -- the total various business lines. And I think what we said on the capital markets day was that the development in terms of the worker's comp, looks positive and I think that still stands and as such, of course, it should expect the positive trend in terms of the run-off gains to continue.

Q - Hans Pluijgers {BIO 16245530 <GO>}

And I guess --.

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A - Morten Hubbe {BIO 7481116 <GO>}

On the plus side, you can say that one area of cleanup has been the large claims exposed segment in corporate where, we have been cleaning up our exposure to energy factories and companies in Norway, and to some municipals in the Danish segment. That is, that work has almost been completed. There are a few energy companies where there is a longer contract, where we will be in 2013 before we completely reduce the risk, but that is largely one.

I would say that in the commercial segment, we are still very much working on changing the price segmentation and the risk assessment of customers and we're still really not very far in that process. And I expect that still to have a negative impact on the top line in commercial in the coming period.

But on the other hand, it's quite clear from our data that customers that we take out of the portfolio in commercial has a significantly higher claims ratio and therefore helps improve the bottom line. Then of course, we have to sacrifice to some extent, the development and topline in commercial. So that development will continue for a while, still.

In private line, the cleanup so to speak is more on a product basis per customer. It is typically either in the content area or in the house area, whereas other products typically are profitable for those customers. So I would expect that to have less of an impact on the numbers you see.

A - Tor Loennum

In terms of the question related to the investment returns on the impact on the mismatch, so to speak. There is, as you mentioned, a significant effect from -- or mismatch effect in this quarter and it's related to the Norwegian government bond thing, pushed even further down.

And you've seen that effect related to the pension obligation as well, and I think it is stated in the quarterly report numbers in terms of, so you can actually sort of make the calculation related to the effects of the mismatch, if you look up on the reinvestment chapter.

Q - Hans Pluijgers {BIO 16245530 <GO>}

Okay.

A - Tor Loennum

To the question number four, it's the quarterly effect. It's not annualized.

Q - Hans Pluijgers {BIO 16245530 <GO>}

So we have DKK20 million positive impact in Q2 from claims initiative, and DKK25 million from costs. Okay. Clear.

A - Tor Loennum

And you can see we are trying to show in the numbers as well the reduction in number of FTE so it should be possible to actually --.

Q - Hans Pluijgers {BIO 16245530 <GO>}

That would imply that let's say from the DKK100 million claims initiative for 2012. You already have let's say, DKK75 million already in the pocket, because if you take DKK25 million -- sorry DKK20 million, so it's like DKK60 million already in the pocket, because if you take DKK20 million in Q2, you can argue that likely will also continue into Q3, Q4, then you will leave DKK60 million in the pocket. That's what I -- is that correct?

A - Tor Loennum

Yes, yes. I'm not going to give you the guidance Hans, but of course, when we state the targets we are quite anxious that we can make sure that we reach it.

Q - Hans Pluijgers {BIO 16245530 <GO>}

Yes, I can understand that, but more let's say how I have to interpret this number. So on an annualized basis for the costs savings, you have already DKK100 million annualized, already realized. DKK25 million on a quarterly basis, this DKK100 million on an annual basis, is that correct?

A - Tor Loennum

Yes but it's correct if you take DKK25 million and plus, but clearly it's important to expect that it's not like the effects started in Q2. So you must make your calculations from --.

Q - Hans Pluijgers {BIO 16245530 <GO>}

Yes, okay, okay, (inaudible). And are there, let's say, any respect to the cost initiatives, any additional restricting costs or the layoff costs you had to take in Q2?

A - Tor Loennum

No.

Q - Hans Pluijgers {BIO 16245530 <GO>}

Any material? No, okay.

A - Tor Loennum

No but we will get back to that, I think, for the Q3 numbers.

Q - Hans Pluijgers {BIO 16245530 <GO>}

Okay. Thank you very much.

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Operator

The next question is from Claus Gron Therp from SEB Enskilda. Please go ahead.

Q - Claus Gron Therp {BIO 6011258 <GO>}

Yes. Good afternoon, and congratulations with a very strong result. A couple of questions. On the commercial expenses and the cost-ratio on commercial, I think we have discussed on various investor presentations how come that your cost-ratio is a little bit higher than some of your peers and is actually increasing in the Second Quarter, compared to the First Quarter.

Could you elaborate whether there is any one off cost in this, or whether it is because that you haven't started to take some costly reductions? Also based on the earlier comments, you said that there may be decreasing premiums in the commercial lines which could just exaggerate the issue with the expense ratios in that division.

And the second question goes towards Sweden. Can we see any positive impact on the pricing initiative or is it because of the weather and fewer large claims that Sweden is doing much better in the Second Quarter compared to in the First Quarter?

And the last question is regarding your dividend policy. In the end of your capital market day, you discussed that -- or touched upon the discussion whether you would change your dividend policy and you said that there were discussions between the management group and Tryg's board. Could you maybe elaborate to what extent there is any news there? That is all.

A - Morten Hubbe {BIO 7481116 <GO>}

I guess we'll start with the cost-debate on commercial. I think you're pointing to the challenge on your own, there's a structural challenge that our cost-rate in commercial is too high and the additional current challenge that we are reducing our top line. So the challenge is to reduce the costs further than the top line is requiring.

And I guess some of that is being managed through lower salaries in the redistribution line. But we also have to restructure more significantly the mix of our distribution which takes several years, we've started the process.

We are automating a number of processes that are manual currently, in commercial, and we'll reduce headcounts in that area. But that again, will also take a significant period of time. So I guess it's -- we started the work but the development in the top line of course isn't helping the process, and I guess it's fair to say that the structural efficiency measures we've taken in private, we still have a fair bit of way towards this goal we have the similar processes in commercial.

So we'll start to see reductions in the cost ratios, we're going[ph] to see reductions in the costs, but the challenge for the top line is sort of pushing the process a bit.

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I think on pricing initiatives in Sweden, the main challenge has been our private business on particularly car insurance in Sweden, but to some extent also house insurance. We are starting to see improvements in the claims ratio of car insurance. The first time we've actually seen a period where car insurance had a lower claims ratio than expected, clearly still not to our future targeted levels, but we're starting to see a positive development in private.

It doesn't really change the fact that if you take away the three profitable segments and look at private lines only in Sweden, it's still not profitable, but it is starting to move. So it's not weather alone.

And I guess on the dividend policy, the only thing that has really happened since we met you in June is that there's been the summer holiday, roughly. So we debated that topic with the board again today, displaying for them also how keen a focus there was on this topic, on the capital markets day. And we're continuing to work with different scenarios for the development of policies, and as we said on the capital markets day we will come back, the market, during the autumn when we have news on this.

Q - Claus Gron Therp {BIO 6011258 <GO>}

Okay, that's very nice. Thank you very much.

Operator

The next question is from Gianandrea Roberti, from Carnegie.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Yes, good evening from me as well. I have three quick questions. I appreciate the around DKK84 million, if I understood correctly, runoff gain that you have, let's call it one off in the quarter. Then obviously, one can look up on your report and seeing how much you were lucky, if I can call it like this in terms of both weather claims and large claims better than expected.

When I do this readjustment, I land on a combined ratio of around 89.5 in the quarter. Maybe I should add a few bps for the additional reinsurance one off that Tor mentioned before, but I see 89.5 to 90, already in Q2 2012. I just would like to see how -- if this is how you see it as well, and if so, that seems already a pretty decent level. Quite a bit in advance of what most of us were expecting, let's put it like this. That's the first question.

The second question, it's related to a comment you have in the private lines section there, which I thought was quite interesting, is the fact that you mentioned that there is a trend among Danish clients to I guess, sell big cars and buy small ones, which is not surprising. But also to drop the comprehensive motor insurance only remaining with TPL, with the mandatory one.

I'm just wondering how important this is? If you mentioned the report, there must be some real ones. It's just quite interesting.

The last question it's on the pension liabilities once again. I actually realized only recently that some of your peers have decided them as an off-balance sheet item, it's not heat in their shareholder's equity. And I'm just trying to understand how come you are also Gjensidige and some other companies, book it like that and some other have it off-balance sheet. This is driven by Danish accounting as opposed to IFRS or why is that? Thanks.

A - Tor Loennum

Yes. Hi, Gianandrea, I think for the first question, that wasn't really a question, I think it was more a statement than -- and I guess it's, well, it's not -- it seems like you have made an okay calculation. I think it's fair to say that, and you know this as well as me, that clearly there is seasonality in the numbers and clearly Q2 should be a good quarter, granted that seasonality.

So I think what we try to say is that we continue to improve profitability wise towards the below-90 on the sustainable basis, from Q3 2013.

I think in terms of your question number two, related to the private lines and the cars here in Denmark. Clearly that it's an issue and I think we have talked about it before, that it's a natural trend when you look at sort of what is going on in the economy.

And so I think you have -- when you look at sort of, see what happens to the average premiums and mostly that's also the effect that we see.

A - Morten Hubbe {BIO 7481116 <GO>}

Don't think we have those specific numbers on -- not ready hand, how many cars we're actually talking about. But it reduces the average premium of private cars in the Danish portfolio by a bit less than 1%. So there is an impact.

A - Tor Loennum

To the last question about the pension liability, Gianandrea, I think it's kind of difficult to answer what the peers are doing but when you talk about an off-balance effect, it may be that some Norwegian companies have chosen to postpone, to take the liability into their balance sheet, which was the previous option. So it may be that's actually -- sort of is the option they have chosen to use.

But the way that we treat the pension obligation under IFRS, I would assume would be the same for both Norwegian, Danish and also other European companies. If you'd like, that's a discussion which I think perhaps is better to take off line after the call.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Thanks a lot. Much appreciated.

Operator

Next question is from Giulia Raffo from Autonomous. Please go ahead.

Q - Giulia Raffo {BIO 7573856 <GO>}

All right. Thank you very much. Good afternoon. A few questions. One, just to follow up on the topic of runoff. I was just wondering if you can give us a sense of how much of the releases are actually coming from you -- releasing the exceptional conservative of -- you talk on areas like worker comps, primarily in the last two years.

So how much, let's say, taking aside the reinsurance are kick-backs, how much let's say, we can genuinely ascribe to you re-correcting an overly conservative view taken in the last two years in relation to worker comps.

Then my second question is on investment income going forward. We continued to see further compassion at the short end of the curve. If I'm going my numbers, I get to a normalized investment income after technical interest of no more than DKK200 million for next year. I was wondering whether the calculation pretty much matches what your simulations are refund, of piece there.

And finally, just one question on dividends, I understand you are still in the process of discussing the policy with the board, but if I look at the excess over your targeted surplus at the end of June, you were vastly at DKK850 million, so that would already put you in a position where you can pay, assuming -- no considering that the first half of the year has been better than normal. It already puts you in a position to pay 50% payout of a full year earnings power.

Should we expect you to consider to exceed a 50% payout already in 2012 or do you think the discussion with the board will take extra time, therefore is something that should have more of an impact in '13? Thank you very much.

A - Tor Loennum

I think if we start the last question, I think as Morten said, if you sort of expect to reach a conclusion sort of by the end of Q4, of course, it will come really have an impact on 2013.

On the other hand, of course, it would be difficult to take a totally different view on the 2012 numbers, but it's kind of difficult to speculate too much, I think. What you should expect is that the results will -- I think we have said before that sort of our ambition is so that when we sort of look at lower growth on the top line, it should be a high cash conversion in terms of the numbers.

A - Morten Hubbe {BIO 7481116 <GO>}

We do expect I should say to reach a conclusion with the board this year. We don't expect a sort of two or three step story.

A - Tor Loennum

In terms of the investment income under the simulation that you have made, I think clearly you're right. When you look at what has happened on the short-term interest rates, we haven't sort of given any new expectations in terms of interest that we should expect on the free portfolio so we haven't really given any new set of calculation numbers. But you make -- you can make the same observation as us in terms of the short-term interest (inaudible). And related to the --.

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Q - Giulia Raffo {BIO 7573856 <GO>}

Excuse me, excuse me, can I just follow-up here? Can you give us a sense of where your new money yield are at the moment, with regards to the pool of assets that make up your free portfolio?

A - Tor Loennum

I said that perhaps, I think perhaps it would be better than we would try to give you an update for the Q3 numbers in terms of expectations.

Q - Giulia Raffo {BIO 7573856 <GO>}

Okay, but you can't give us a sort of sense of the cash flow you've invested in the last two months, let's say, on the bond side which is back in the free surplus? What kind of new money yield have you locked in there?

A - Morten Hubbe {BIO 7481116 <GO>}

But you -- why are you concerned about the different distinctions between new money and old money. When I understand is that a yield and coupon system, but when you mark to markets the pricing and value of the bond anyway, there's no difference than the yield that you get from old money and new money, as long as you calculate the yield at the same point in time

Q - Giulia Raffo {BIO 7573856 <GO>}

Yes. That's correct, I was trying to have a sense of really, if you think about it, the free surplus has been volatile in the last few quarters. We had several swings factored impairment on your property, you had the -- in a few quarters there was some derivatives, and fluctuations.

So I was trying to have a sense of what new normal is for the investment yield, the environment.

A - Morten Hubbe {BIO 7481116 <GO>}

I couldn't take it away. If we take away a request which I think makes perfect sense, that we should do something to operate the more overall predictability of our investment income. But then view that more as a total, rather than trying to make some distinction between old money and new money.

Q - Giulia Raffo {BIO 7573856 <GO>}

Yes. All right.

A - Morten Hubbe {BIO 7481116 <GO>}

But I think that's relevant info Giulia and we'll try to do that.

Q - Giulia Raffo {BIO 7573856 <GO>}

No, because I think if you're looking at -- is one line will often consensus numbers tend to be rather wide, let's say.

A - Tor Loennum

Yes. I agree, I agree to that Giulia. But then again, I think it's important that when you look at the numbers, this is very clearly impacted by again relatively heavy inflow of money, to perhaps in particular in the Norwegian markets and the Norwegian government bonds and I think we can't really start to give you guidance on what is going to happen, under that kind of extraordinary circumstances.

Clearly, as Morten said what we can do is that we can try to update sort of the expectations on the various parts of the portfolio, but clearly, we haven't changed the expectations in terms of the real estate and in terms of the equity. So it will only be in terms of the bond part of the portfolio.

In terms of the -- the final question, in terms of the runoff of gains, the reserve releases I think in practice, what you should think is that we have said the runoff gains in the area of 3.5% to 3% and that's really what we've -- that's also what we should expect going forward.

Q - Giulia Raffo {BIO 7573856 <GO>}

Thank you.

Operator

The next question if from Per Gronborg from Danske Markets.

Q - Per Gronborg {BIO 15910340 <GO>}

Yes, hello, it's Pere from Danske. I have three questions. The first one, once again related to your one off gains. When I look at your figures, it looks like you have DKK112 million in gains on a gross level, and DKK349 billion on a net level, a difference of DKK237 million. You have only really explained where DKK80 million of those are coming from. Is this the way I can look at the figures and in that case, where the other two-thirds are coming from?

My second question is on the pension chart, on the equity. The charts you have taken, now much are you now up to date with current interest rate levels or might there be more to come if you could just tell us at which interest rate level you have adjusted your obligations.

And finally, the cost of unwinding your discounted reserves. It seems to be coming down pretty slowly. Are there any reasons why it's not coming more dramatically down in line with discounting rates? To me it seems it has only come down some DKK10 million for a quarter over quarter. That was three questions. Thank you.

A - Tor Loennum

I think to start off with the runoff gains, Per, as mentioned, yes, clearly there is as I mention FX from the private covers, which have been with us. Then there is FX related to the Norwegian natural private pool[ph]. And also some other minor FX, I guess, you've made a comment that there is a difference or an additional income of DKK234 million[ph] between the gross and the net runoff gains. And I guess that says something about the (inaudible).

In terms of the pension charge there is a 0.6 percentage points drop in interest rates, and I think what have used after this quarter is 0.4%[ph]. And bear in mind that if you take sort of development in terms of the interest rate changes for the third part, we have also, and I think I mentioned that in Q1 we had changed the life expectancy in the pension charge, so there is also an FX therein in Q1.

Q - Per Gronborg {BIO 15910340 <GO>}

Would you be able to say if there was 0.6% effect in the same quarter, and currently there would be another 0.4%, was that correctly understood?

A - Tor Loennum

No. In fact, what --.

Q - Per Gronborg {BIO 15910340 <GO>}

The FX you were booked in the Second Quarter was primarily from, if I understood you correctly, was from a 0.6percentage drop in the interest rate.

A - Tor Loennum

Yes.

Q - Per Gronborg {BIO 15910340 <GO>}

And there seemed to be -- did you say there was another 0.4% down to current levels?

A - Tor Loennum

No, no, I just made -- Per I just made the comment that if you look at sort of the development in terms of the long-term Norwegian interest rates, there was an increase from 3112[ph] to Q1.

Q - Per Gronborg {BIO 15910340 <GO>}

Okay.

A - Tor Loennum

But that positive effect was offset against an increase in life expectancy in the obligation.

Q - Per Gronborg {BIO 15910340 <GO>}

So basically what you have provision now based on this end of June interest rate levels.

A - Tor Loennum

Yes.

Q - Per Gronborg {BIO 15910340 <GO>}

Okay, perfect.

A - Tor Loennum

Then you have, the final question you have was about the unwinding effect.

Q - Per Gronborg {BIO 15910340 <GO>}

Yes. But to me it seems like in the First Quarter, that cost of DKK132 million[ph], and the same quarter, it's costing DKK123 million. The Fourth Quarter last year was DKK142 million. The figure is moving very, very slowly, is taking into account how fast the interest rate is dropping.

A - Tor Loennum

I think that's a question that we will have to get back to you, if that's okay.

Q - Per Gronborg {BIO 15910340 <GO>}

Yes, okay, that's fine.

Operator

The next question is from Matti Ahokas from Handelsbanken. Please go ahead.

Q - Matti Ahokas {BIO 2037723 <GO>}

Yes, good evening. A general question, firstly on the premium growth. Now, we're seeing a zero flat premium growth. You've talked about the profitability initiatives as an explanation. Could you somehow try to isolate the impact of the kind a bad customer lost and the underlying premium growth you're seeing, preferably on the different basis units as well?

The second question is regarding your Finish business, obviously our -- the Finnish and Swedish business, a pretty impressive turnaround. Is there something extraordinary behind it, and if not, does this somehow impact and should we see this as a kind a trend, a change in the business or the more of a one off? Thanks.

FINAL

A - Morten Hubbe {BIO 7481116 <GO>}

If we take the premium growth question. I guess we should overall expect a low growth rate in the scenario where the environment in the countries we work in having a low growth rate. But I guess some of the areas where we see a significantly lower growth, it's of course in the commercial segment.

While clearly we see a reduction in the commercial retention rate. We've done significant price increases in commercial and we're doing significant restructuring of our risk assessment of a number of commercial customers. And that is why, of course, there is negative growth in the commercial segment. And we do expect that that negative growth will continue for a while still, so both throughout 2012 and will also have a negative impact on 2013.

And another area is of course Sweden where the restructuring of our, particularly our motor pricing is very significant. I think we mentioned on the capital market day, that we currently have a retention rate in Swedish motor of around 50%, which I think is the lowest I've had any time in my 20 years in insurance.

But it basically shows how much we are restructuring the pricing matrix of our motor business in the Swedish market. Then of course you may recall that we announced quite clearly prior to viewing 2011, or 1st of January 2012, we knew that we would not accept any price deductions in corporate. And as a result of that, of course, we say goodbye to some of the brokers at closing time.

But clearly we monitor that the claims ratio development of these customers are significantly higher than the ones we have remaining in the portfolio. But of course it damages the top line, but clearly improves the bottom line, and that is the policies we've done.

I think in Finland and Sweden, one of the core derivatives that we are fewer employees in Finland. We are selling less than Finland which means improvements to the cost file and the FTE. But also that we're starting to see improvements in the claims ratios, we see in Sweden that our private line customers are improving their results, both motor and house.

But also we're now into a quarter where boats and (inaudible) insurance have profitable periods. They are mainly used during the summer period and that is where we mainly have the premium income and also the positive, net results.

It doesn't change at all our view that we are looking at our future strategy in Finland. We just announced that in February of this year, and said that we would use a 12-month period to carry out that strategic review, and they are being looked at as we speak. So I don't really see anything changing. But of course positive that we're seeing improvements, particularly in the Swedish business.

Q - Matti Ahokas {BIO 2037723 <GO>}

Great. Thanks.

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Operator

(Operator Instructions) We have a question from Hans Pluijgers from Cheuvreux, please go ahead.

Q - Hans Pluijgers {BIO 16245530 <GO>}

Yes, hello, Hans Pluijgers again. Going back on my question on Norwegian hedge and swap interest rate. If I calculated right, the increase is relatively big, it's explained almost a full negative value adjustment in change in discount rates. Is that correct? Or even more than that, considering Q1, that value adjustment was still a positive for DKK62 million, in Q2, you have down to DKK50 million positive impact from the discount rate in Denmark.

But the negative impact from the owner-occupied, so you had offers in Denmark and the majority -- the rest must have come from the Norwegian interest rate. Do I miss something there?

A - Tor Loennum

Hans, so what we're trying to say, I think, it is on page number 17, in the report. And I guess that's what you're referring to, so what you're trying to say is where we have a positive effect of DKK150 million related to the change in discount sales.

Q - Hans Pluijgers {BIO 16245530 <GO>}

Yes.

A - Tor Loennum

And that means that you have DKK110 million negative mismatch in this quarter calculated. And yes, one of the main drivers is due to the change in Norwegian interest rates.

Q - Hans Pluijgers {BIO 16245530 <GO>}

Okay, but at the same time you have the amount of DKK50 million, negative impact also from the write-down on your head office.

A - Tor Loennum

No. That hasn't come into the same line.

Q - Hans Pluijgers {BIO 16245530 <GO>}

They come into -- okay, not into the value adjustments.

A - Tor Loennum

It comes into other financial income and expenses.

FINAL

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Q - Hans Pluijgers {BIO 16245530 <GO>}

Okay.

A - Tor Loennum

So if you look further down in the table, you'll see that it's a negative of DKK258 million[ph].

Q - Hans Pluijgers {BIO 16245530 <GO>}

Okay, clear.

Operator

And no further questions at this time.

A - Tor Loennum

And I guess we should thank you all of you for listening in on this conference call. Thanks for all your questions and have a good evening. Bye.

Operator

Thank you, ladies and gentlemen, this concludes today's conference. Thank you for participating. You may all disconnect.

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