Company Participants

- Helge Leiro Baastad, Chief Executive Officer
- Janne Merethe Flessum, Head of Investor Relations, M&A and Capital Management
- Jostein Amdal, Chief Financial Officer and Executive Vice President for Finance

Other Participants

- Vinit Malhotra, Analyst
- Youdish Chicooree, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day and welcome to the Gjensidige Q4 2017 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>}

Good morning and welcome to this fourth quarter presentation of Gjensidige. My name is Janne Flessum, and I'm head of Investor Relations, M&A, and Capital Management. As always, we will start with our CEO, Helge Leiro Baastad, giving you the highlights from the quarter before our CFO, Jostein Amdal, will run through the numbers in more detail. And of course, we will have plenty of time for Q&A at the end.

So, Helge, please.

Helge Leiro Baastad {BIO 5865247 <GO>}

Thank you, Janne. Good morning, and welcome from me as well. Starting with the fourth quarter on page 2, we delivered a satisfactory result. The profit before tax expense amounted to NOK 1.2 billion and the underwriting result was NOK 555 million, while the financial result was NOK 489 million.

The combined ratio was 90.7% in the quarter. Growth in premiums was 5%. We see a higher claims level in Norway in particular to this quarter, which can partly be explained by variations in winter weather but also an underlying increase in the loss ratio for motor Norway as seen and discussed over the past quarters.

When it comes to weather-related issues, Q4 and Q1 are, as you know, winter quarters in our region, which normally leads to higher claims ratios as seen also in the past. Q4 2017 was a quite typical winter quarter in our region overall, but there will always be variances from year-to-year with regards to temperature and the frequency of snow falls, et cetera. This can lead to variations in frequency levels. For instance, we experienced more slippery roads this quarter especially around Christmastime leading to higher motor claims frequency.

In addition, we had two larger natural peril events in Norway in the quarter affecting large losses with NOK 199 million. As for the underlying development in motor in Norway, we see the same trend as before, but we also experienced the somewhat high competition this quarter related to bonus initiatives from some players.

Motor insurance profitability is still high, though, which allows us to have a balanced approach to price measures to stay competitive in this important market. This means price increases, on average, are currently somewhat below expected claims deflation. Outside Norway, the profitability development was positive and according to plan.

Then, turning to page 3 and looking at the year as a whole. We, once again, reported a solid pre-tax profit of NOK 5.8 billion. We met our financial targets on all metrics as shown to the right. Return on equity was 21.3%, well-above our above 15% target. Remember that this includes the bank and the pension operations, and the isolated return from our general insurance operations was close to 25%.

The combined ratio was 85.4%, better than our target range of 86% to 89%, or 90% to 93% exclusive runoff.

Based on the new actuarial review, annual run-off gains are now expected to be around NOK 1 billion on average over the next three to five years, still related mainly to motor TPL and workers' comp in Norway, and the same (00:04:16) as before. But also workers' comp in Denmark is contributing to the increased release expectation. Based on this, the targeted 86% to 89% combined ratio corridor is reconfirmed for the slightly longer period. The full-year cost ratio was 15.3%, and this is around the area where we would like to see it. Adjusted for the Baltics segment, it was 14.5%.

As for the dividend, let's turn to the next page. Based on the full-year result, the board has proposed a dividend of NOK 3.55 billion, corresponding to NOK 7.10 per share. This is in line with our dividend policy of distributing high and stable nominal dividends and at least 70% of profits after tax. A dividend of NOK 7.10 per share corresponds to an increase in the nominal dividend of 4.4% from 2016 and the payout ratio of almost 79%.

For our customers, this bodes for a solid customer dividend once more. Including the proposed dividend, total dividends from (00:05:39) since the IPO in 2010 has been NOK 32.5 billion and total shareholder return has been around 360%.

Then, moving to page 5. Standing at the beginning of the New Year, I would like to spend the few minutes summarizing our operational performance in 2017 and our priorities moving into 2018. No doubt, digitalization and innovation will still be high on the agenda. At the CMD in 2014, we listed a set of KPIs, which we have regularly given status updates of. You can see from the overview that we have already delivered on most KPIs.

And I'm particularly proud to see that customer satisfaction once again reached a record-high level. Further, it is worth mentioning that we have outpaced several other targets, both in magnitude and time. One of the reasons we stay competitive in the Norwegian market is our ability to constantly take down underlying costs to give room for modern digital solutions, representing win-wins for our customers and for us. We will define new and updated operational targets, which will be communicated on the Capital Markets Day on 28th of November this year.

Overall, our three strategic priorities are still valid. We need to provide the best digital customer experiences, we need to develop our analytical use of data in all parts of the operations, and we need to continuously develop the organization to meet the future in an optimal way. To achieve this, we'll continue to take down our underlying cost base and create room for investments.

Then, turning to page 6. Looking closer at our operations, both in Norway and abroad, we are confident we are well-positioned. In Norway, we hold our position as the number one player. Our customers are increasingly satisfied and they are loyal. Retention among our loyalty and affinity group customers is 92%, which is very strong. This is supported by our unique customer dividend model which is well-known among 90% of our customers. Competition is fierce and profitability is high, allowing us to have a balanced approach to price measures.

In the Private segment, we are continuously working on improving our multiple (00:08:41) products and tariff to be even more competitive in the right segments going forward. As communicated last quarter, we see signs of improvements in the Commercial segment and we are satisfied with the renewal season so far.

The operations outside Norway developed according to plan. We start to see effects on measures taken and more is expected. We are continuously working on cost reductions, price adjustments to a new tariffs and re-underwriting of Commercial business, the transfer of our best practices to streamline the operations, and we are still working on merging some of the latest acquired companies and portfolios.

In the Baltics segment, there is also a large initiative with regards to distribution. This level of agent distribution has traditionally been high in this area, which is reflected in the high cost ratio. We are now in-sourcing more of the distribution, which will have a positive effect on the cost side going forward.

In the upper-right chart, we have illustrated the development outside Norway through the 12-month rolling combined ratio for Denmark, Sweden and the Baltics.

Denmark is profitable and improving, and considering the ongoing re-underwriting in the commercial lines, we are satisfied with the renewals in Denmark also so far. You can also see a clear trend in the Baltics throughout 2017 and a positive development in Sweden towards the end of the year. Both the Baltics segments and Sweden contributed positively in Q4.

We expect to be profitable in both these areas for the full year 2018 as previously communicated. Starting next quarter, we will report Denmark and Sweden as separate segments.

So, to summarize, we are confident with our position in Norway and our ability to utilize our insight and competitiveness to secure and develop this position further. The operation outside Norway is gradually improving and it's expected to increasingly support the dividend capacity from 2018.

I will now then let Jostein talk you through the figures in more detail.

Jostein Amdal {BIO 19939645 <GO>}

Thank you, Helge, and good morning, everybody. I'll start on page 8, where you can see that we report a solid profit before tax of NOK 1.2 billion in the quarter. All-in-all, we continue to see a high level of profitability in Norway, but the development outside Norway is more positive this quarter. The Private segment was affected by higher frequency losses, which are partly due to variations in the winter weather. The underlying claims ratio in motor has also continued to increase as we have seen for a period now. This, combined with lower runoff gains than the corresponding quarter in 2016 and after that development in premiums, resulted in a contribution of NOK 393 million from Private segment in the quarter.

Commercial also reported a slightly lower underwriting result than the corresponding quarter of 2016. Increased premiums and significantly lower large losses were more than offset by increased underlying frequency claims and lower runoff gains. The increase in frequency claims was mainly driven by accident and health and motor. The increase in motor insurance can partly be explained by variations in winter weather.

The Nordic segment showed a positive development and contributed NOK 73 million to the underwriting result. This is mainly driven by a significantly more favorable underlying frequency claims development in Sweden and a reduction in operating expenses in Denmark. The underwriting result was positive both in Sweden and Denmark.

The Baltics segment also contributed positively. At a total, we report an underwriting result of NOK 555 million, which is satisfactory for a winter quarter. The bank contributed with NOK 248 million to the result and is positively affected by the NOK 117 million runoff due to a sale of a nonperforming loan portfolio, which was announced in November. The financial result was satisfactory given the interest rate regime we operated in.

On page 9, you will see two waterfalls illustrating the development in the underwriting result from Q4 2016 to Q4 2017. I have already talked through the development in each segment in the right-hand chart. Looking at the left-hand chart, in fourth quarter of 2016, we had two one-off provisions, which took NOK 67 million off the underwriting result. Taking this into account, development is a result of the NOK 77 million high large losses and NOK 121 million higher frequency claims impact.

Now, turning to page 10. We report a premium growth of 5% in the quarter compared to the corresponding quarter in 2016. Adjusted for currency effects, the growth was 3.6%. In the Private segment, premium development was relatively flat. The growth was negatively affected by one large contract that was not renewed January 1, 2017. Adjusted for this growth was 3.3%.

In Commercial, property insurance, in particular, contributed positively to the premium devolvement. The main part of the group's premium growth was due to the Mølholm acquisition, which is part of the Nordic segment. Mølholm contributed NOK 133 million. Underlying premium development was positive in Sweden, while in Denmark, it was negative, mainly due to ongoing re-underwriting of the Commercial portfolio.

The development in the loss ratio is found on page 11. Large losses were 1.1 percentage points higher than in Q4 2016. Frequency claims loss ratio was 2.6 percentage points higher than the corresponding period last year. This was mainly driven by variations due to winter weather in Norway, affecting motor and property, and a lower profitability in our Norwegian motor insurance. We still expect motor claims inflation around 5%, but it is uncertain what the impact of changes in the bonus system will have on this estimate. We are increasing prices to mitigate the effect from claims inflation. And keep in mind that there is a delay from the increase in prices until this is fully reflected in the accounts.

Through an analytical approach, we are balancing price and volume. The development in the loss ratio is partly contracted by a positive development in the Nordic and Baltics segments, where in particular saw a favorable underlying frequency claims development in Sweden. We are confident that the positive development in these segments will continue in 2018.

On page 12, you can see that large losses amounted to NOK 259 million, which corresponds to 4.3 percentage points on the combined ratio. This is somewhat lower than the expected level but higher than the corresponding quarter in 2016.

The large losses are impacted by two natural perils claims, a flood in Southern Norway in October and a storm in Norway in November. They had a combined impact of NOK 199 million, of which most is recognized in the Corporate Center.

On page 13, I'd like to comment the run-off gains. We had run-off gains of NOK 301 million in the quarter, which is somewhat higher than the current expected level. This has a positive effect if 5.0 percentage points on the combined ratio.

Moving to page 14. The cost ratio was 15.8% in the quarter, showing a continued good cost control. Cost ratio excluding the Baltics segment was 15.1%. The nominal cost reduction is due to mentioned one-off provisions in Q4 2016, which affected the Corporate Center with NOK 64 million.

Page 15 shows some highlights from bank and pension operations, which continue to serve their purpose as important retention tools in relation to our Norwegian general insurance customers. Gross lending in the bank was NOK 46 billion at the end of the year, and measured by lending volume, 75% of the bank's customers are also customers with the general insurance operation with a higher share of mortgages and a significantly lower share for consumer refinance.

The bank reported a pre-tax profit of NOK 248 million in the quarter, as mentioned, affected by the sale of a nonperforming loan portfolio. Return on equity for 2017 was 14.2%. The pension company recorded a profit before tax of NOK 28 million. Assets under management in the pension operations amounted to NOK 29 billion.

The share of shared commercial customers with the general insurance operation is close to 70% and the return on equity was 11.0% for 2017.

Now, turning to the investment portfolio on page 16. The investment portfolio of NOK 55 billion yielded a satisfactory return of 0.9% in a quarter. The match portfolio continued to make a stable contribution to the financial result with a return of 0.6%, which is similar to the previous quarter. The portfolio amounted to NOK 36 billion.

A large part of the match portfolio consists of bonds at amortized cost, which yielded a return of 1%. The running yield in this portfolio was 4% at the end of the quarter and the average reinvestment rate so far this year has been 2.95%. Unrealized excess value amounted to approximately NOK 1.2 billion. The free portfolio, which amounts to NOK 19 billion, yield a return of 1.4% in the quarter. The positive return was primarily driven by the development in equities and property.

Last but not least, on page 17, our solid capital position is presented. The rating model is still the most binding perspective. And taking into account the proposed dividend for 2017, the excess capital was NOK 800 million. The group's solvency margins, according to the Partial Internal Model and Standard Formula, were 169% and 137% respectively. The solvency margins do not reflect the communicated reserve leases, which would increase the margins significantly.

Eligible capital decreases mainly as a result of the proposed dividend. Throughout the year, we adjusted eligible capital for a dividend payout ratio of 70%. And hence, in Q4, we adjust for the actual proposed dividend. And as the proposed payout ratio is higher than 70%, we do see a reduction in eligible capital.

In addition, an increase in the pension liability due to updated longevity assumptions reduced the eligible capital by NOK 300 million. The capital requirement increases in the standard formula and rating perspective. In the internal model, it is stable. The increase is mainly due to market risk as a result of an increased balance. Due to updated model parameters, market risk is unchanged in internal model. And for a better comparison versus our Nordic peers, the solvency margin was 194% for the general insurance operation based on the internal model.

Going forward, we will on a quarterly basis present the capital position based on the standard formula and partial internal model only. This does not mean that we have revised our rating target, but rather, we like to emphasize the capital position in the legal perspective.

The A rating is still important for the group and will still be prioritized. Through 2018, we've been looking at further initiatives to optimize our balance sheet and capital structure. This means that we look into other parts of our operation to make sure we optimize the use of capital, in the perspective of our growth ambition and financial targets.

Currently, we still have capacity to issue Tier 1 capital in the range of NOK 1.5 billion to NOK 1.9 billion, the amount depending on the use of proceeds. We have still not received any clarification around the guarantee scheme, and we will make a new evaluation on this during 2018.

And with that, I give the word back to Helge for some concluding remarks.

Helge Leiro Baastad {BIO 5865247 <GO>}

Thank you, Jostein. Then to sum up, we delivered solid growth and profitability in 2017, well within our financial targets and with the return on equity well above the target. Over time, we still expect growth in line with nominal GDP growth and the combined ratio target corridor is unchanged.

We experienced overall good competitiveness and good progress in operations overall and balancing cost efficiency measures with strategic investments is high on the agenda also into 2018. As for our dividend capacity, going forward, we are confident our operation outside Norway will contribute in absolute terms to a higher degree than before.

Our capital position is strong. And as Jostein just said, during 2018, we will look at opportunities to optimize our capital structure and balance sheet further. So, thank you very much. We will now open for the Q&A session.

Janne Merethe Flessum {BIO 19368607 <GO>}

Operator, we...

Q&A

Operator

Thank you. We'll take our first question by Vinit Malhotra from Mediobanca. Your line is open. Please go ahead.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. Good morning. Sir, two topics for me, please. First one is the comments around the motor claims persisting from previous one-and-a-half years. Just going back to your annual report of last year, I can see a comment that a 1-point permanent frequency change is 3 to 4 loss ratio points in Norwegian motor. I mean, what's your view about this persistence in motor frequency that we are witnessing at the moment? Is it still a view that it is temporary, will go away in one or two years? Or if you could just enlighten us as to the causes of the frequencies, I'll be very grateful. And second thing is just on the fact that there is no special dividend, which the market had expected.

Could you just help us understand the walk from the S&P NOK 1.4 billion excess capital to NOK 800 million now? The NOK 1.4 billion was in September, and I appreciate you would have taken – you do pro rata the dividends. So that should not have been such a big surprise. And then there is obviously the NOK 300 million pension, but was that the main driver as well of this decision to not pay a special, please (00:24:39)? Thank you very much.

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

Thank you very much. It's Helge. First, regarding frequency and motor in Norway, and just to remind you, we have been through a journey where we came from, as you said, 1% to 3% to 4% and now the claims inflation expectation is around 5%. Then it's extremely difficult actually to be very concrete regarding the future. I will not repeat the background for the development, but as you know, it's a combination of flattening out regarding MTPL, the decrease curve from before. And we have also seen increased frequency regarding more frequency claims, less severe (00:25:32) drivers and more horsepower, more technology in bumpers, et cetera, et cetera.

What we also experienced in Q4, I commented the bonus system. We saw some more competition related to the product itself. And it has been changed bonus from some competitors. And it has been a common industry system in Norway for decades, incentivizing customers not to use their insurance for smaller damages by gaining bonus after X years of claim-free driving. And when the insurance is used, it has implied loss of bonus at given terms and level. And as I said throughout Q4, a new dynamic has evolved in the market, probably resulting in the whole bonus system disappearing at the end of the year. That's our hypothesis.

And this is – actually, this will gain the large players, long term, with high amount of data. But, short term, this can also affect the frequency situation in the market. But our best estimate now is around 5% going forward. And as you also know, we have some volatility regarding fourth quarter and first quarter.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you.

A - Jostein Amdal {BIO 19939645 <GO>}

Yeah. It's Jostein for the second part of the questions. I'll start in the latter half of the question and then walk from Q3 to Q4. I thought this is kind of more technical. And as we try to explain there, from Q3 to Q4, there is a slight increase in capital requirement due to just increased market balances in the S&P perspective. And then, there also, there is a reduction in eligible capital because we assume just from like 70% dividend ratio throughout the year. And when we do the actual ordinary dividends for 2017, we end up at 79% dividend payout ratio. In addition, we have this onetime effect on the pension liabilities. So, that explains the change from NOK 1.4 billion to NOK 0.8 billion.

On the first part, why not extras? It's important to emphasize that our dividend policy remains firm. Over time, excess capital will be paid out to the shareholders and that is over time. Our current capital position is within all our stated targets or events (00:28:17). So, as we completely find out that. And as we also said, we are, in 2018, looking at kind of all parts of the business to optimize the capital position and we remind you that we still have not used the capacity for subordinated or Tier 1 debt. And that is something that might happen going forward.

We think that the dividend capacity of this business is unchanged, and that means that given that we grow in profits over time, we will also grow in dividends.

Operator

We will take our next question from Youdish Chicooree (00:29:13) from Autonomous Research. Your line is open. Please go ahead.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Good afternoon, everyone. I've got two questions, please.

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

Operator, do we have more questions?

Q - Youdish Chicooree {BIO 17430923 <GO>}

Hello? Hello?

Operator

Please go ahead, sir. The line is open.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Yeah. Thank you very much. I've got two questions, please.

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

Did we lose you?

Q - Youdish Chicooree {BIO 17430923 <GO>}

Firstly, on capital. I mean, you mentioned you've got NOK 1.5 billion to NOK 2 billion in Tier 1 in debt capacity and you would look to optimize in the future.

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

Hello?

Q - Youdish Chicooree {BIO 17430923 <GO>}

I was wondering whether there were any reasons why you have not done this so far. Hello? Hello?

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

Hello? So it seems we have some technical problems. Sorry about that. Let's just double check and keep holding on the lines if you can hear me.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Yeah. I can hear you.

[Technical Difficulty] (00:30:19-00:30:29)

Operator

Janne? We have a question from...

Q - Youdish Chicooree {BIO 17430923 <GO>}

Operator?

[Technical Difficulty] (00:30:39-00:31:07)

Operator

We can hear you, Janne. You can proceed.

[Technical Difficulty] (00:31:10-00:31:24)

I get some messages here that you can hear us. Unfortunately, we cannot hear you. But I'm on my PC. Can I please ask you to post questions on my email and we'll try to just take the questions from there? I'll give you a few minutes.

[Technical Difficulty] (00:31:46-00:36:45)

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

...to all kind of areas where we can optimize the capital position and we have to balance – when we're looking into this, we have to look what kind of purpose do the different kind of areas give us and can we have that purpose in a different way without the same capital binding. And I won't continue on that any further.

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

Okay. Then we have a couple questions from Ian in Berenberg. The first one, what is the impact on capital from the updated reserve release guidance?

A - Jostein Amdal {BIO 19939645 <GO>}

We have not included any effect of the stated reserve release guidance in our capital translations.

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

Which means that it could be significantly higher than if we included them.

A - Jostein Amdal {BIO 19939645 <GO>}

If we're including it, (00:37:39) then, of course, it would increase the capital surplus.

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

And the second question, could you give us some more detail on the issues in Danish Commercial? I thought the problems in Commercial were mainly related to Norway?

A - Jostein Amdal {BIO 19939645 <GO>}

No, I think we communicated earlier also that within commercial property in Denmark, we've seen challenges in terms of profitability. And as a result of that, we have tested our criteria for taking on new business. And as a result of that, we have lost some customers deliberately, I would say. But that is in line what we've previously tried to communicate at least.

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

And regarding Commercial Norway, as I said, we are satisfied with the renewals and it's signs also that it's less soft market at the moment and going forward. So, actually, we have a positive view regarding Commercial Norway going forward.

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

Okay. And then, we have some questions from Youdish in Autonomous. The first one, you still have around NOK 1.5 billion to NOK 2 billion in Tier 1 debt capacity and you mentioned you were looking to capital optimization in the future. I was wondering whether there were any reasons why you had delayed this decision, especially considering there was an expectation for a special.

A - Jostein Amdal {BIO 19939645 <GO>}

I don't want to comment specifically on kind of filing of any RT1 (00:39:20) issuance. I think we'll do that when we think the timing is right. Well, the effect on the capital position will be the same and (00:39:34).

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

And the next one then is, would you prioritize optimization over investment for growth, organic or M&A?

A - Jostein Amdal {BIO 19939645 <GO>}

No, I would say that if we see a good M&A opportunity, reasonable price within our core business there, that is the higher priority than extraordinary dividend. But it all depends on the game here is to create good dividend capacity over time. That's no surprise, I think.

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

And the last one from Youdish. Have you looked into using a less onerous credit rating agency even Moody's? One of your peers, Tryg, has done that.

A - Jostein Amdal {BIO 19939645 <GO>}

Yeah. We're fairly well familiarized with what Tryg has done there, and we've fought with the - it's a question we can look at from time-to-time and have done. There are no specific plans of changing credit rating agency.

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

Okay. Then we have a couple of questions from Steven in HSBC. The first one, can you quantify what you mean by fierce competition in motor insurance?

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

I think as I said, we - just to go back to fourth quarter, we have not seen any significant increase in churn in our portfolio. But as I said, we have seen more competition regarding the product itself, regarding bonus, et cetera, et cetera.

So, what we actually saw during Q4 was a slightly tougher competitive situation regarding new sales and outbound. So, the portfolio is stable, but churn and retention level is good, and we have seen more dynamic related to the product itself, more advertising related to that and somewhat more competition outbound.

I wouldn't say that this is dramatic at all, but it's a very profitable segment, it will be lots of initiatives, and we are on the alert to look at product, tariffs, everything to remain our strong position. And as I also said and this is important, we did an ordinary dividend of NOK 7.10. It will be a very strong customer dividend during the spring.

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

And the second one from Steven, I think, is already covered, and what opportunities would you look at to optimize the balance sheet or capital structure.

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

I think we commented that.

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

Yeah, I think we have commented on that as well, yeah.

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

Combination of Jostein and myself.

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

Then, we have a question from Philip in Berenberg. For the Retail Bank, the sale of the nonperforming loans was obviously a positive for bottom line. But given the vast majority of customers of the bank are well-known, would you not expect to have very low levels of nonperforming loans?

A - Jostein Amdal {BIO 19939645 <GO>}

I think if you look at the bank's portfolio and kind of divided into three areas that we talk about, mortgages, car loans and consumer finance, you see that we have extremely low delinquencies or nonperforming loans within the (00:43:23) part. But within the consumer finance, there is, of course, a higher - as more risky loans. And within that portfolio, we do have nonperforming loans, and that is from the - it is from the consumer finance portfolio that this nonperforming loan portfolio has been sold.

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

And the second one, do you expect any changes to the bank's strategy in future, for example, expanding more into the open market? Or will this continue as serving mainly the insurance customers?

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

Just to give a short answer on that. The main purpose of the bank was to secure the insurance operation. And I think you also have recognized what we have said regarding all kind of initiatives to balance the capital structure going forward. So, we will not look into more expanding of the bank, no.

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

Okay. And then, from Jan Erik in ABG, what did you see on new sales on electrical cars versus ordinary cars premium?

A - Jostein Amdal {BIO 19939645 <GO>}

It is a fact that we've had slightly lower market share on the hybrid electrical segment than, at least, from up in 2017. But it's close to, say, around 20% instead of 25%. And we are aiming to be competitive all through the market and that means we need to be competitive also in this segment, which is the fastest-growing segment of the car market.

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

And then from Claudia in Barclays, first, comment on no-claims bonus, did I understand it correctly, the no-claims bonus system completely disappeared for the market as a whole? Is this effectively a price competition in the squeeze and how do you plan to tackle that?

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

Our hypothesis is that the bonus system, which has been, as I said, a system for the industry for many decades, will disappear. And I also said that medium, long term, this will be - the large player will gain from that because we have lots of data, claims data, and we can build new systems to secure loyal customers and good risk selection going forward. Short term, it will be lots of dynamic in the market, as I said, and we saw that also late 2017. Yeah.

A - Jostein Amdal {BIO 19939645 <GO>}

If I can elaborate a bit on that. The bonus system, as we all know it, is something where the customer actually kind of own his or her own bonus and takes it with them to the next company, and that have the information value to the receiving company because you knew how many years your customer actually have been driving without claims and that part disappears. Within each company, still, there will be systems where you give rewards to customers that has been driving without claims, but it won't be exchanged between the companies.

So, each and every company, it's now up to itself to develop its own kind of tailor-made system of no-claims bonus, and that's the important change. It's not that there is no bonus system within each company, but it won't be exchanged between the companies.

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

And then, a question also from Claudia on capacity for Tier 1. Would rating agencies be happy to see an increase in financial leverage?

A - Jostein Amdal {BIO 19939645 <GO>}

Yes. We're happy. I won't speak their sentiments, but we have a capacity from a financial leverage point so there's no – there wouldn't be an issue with S&P if we were to use the capacity that we have told you about.

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

And then, last from Claudia. If I understood it correctly, you no longer will disclose the S&P capital position going forward, but S&P view still remains the binding constraint on capital framework. How is the market supposed to deal with this disconnect between management framework and disclosure?

A - Jostein Amdal {BIO 19939645 <GO>}

I think the reason why we decided to not make public every quarter this one figure is that this is one of several criteria which S&P uses to evaluate whether we continue to deserve the A rating that we've had since 1999, and it was a bit misleading to focus just on that number.

So, that's why, in the future, we will make public the legal capital requirements. And whether it will actually be the most binding, it's possible that that could vary from time to time, given that we have set internal targets of a solvency margin, which is higher than just the legal 100% requirement.

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

And then, I just got the message. We lost out Roy in the start of this session, so I just will repeat Roy's questions. Firstly, are we able to quantify the impact of weather on claims? Just a short answer to that. We have a transcript also why just so you know. This is a short answer to this.

A - Jostein Amdal {BIO 19939645 <GO>}

As I answered earlier, we are not able to quantify that precisely but just from capital observation, we see that it has a significant impact in the fourth quarter and that's worse than in the fourth quarter of 2016.

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

I added also, regarding that question, the fact that here in Norway, during this week actually, we had – from Wednesday to Thursday, we had 440 motor claims during 24 hours. And that was related to the change from good solid winter weather to milder weather and freeze (00:49:46). So, we can see rapid changes from one day to another.

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

And also just briefly on the internal model approval process, Jostein.

A - Jostein Amdal {BIO 19939645 <GO>}

Yeah. It is within the hands of (00:49:59) FSA, and (00:50:01) control.

FINAL

Bloomberg Transcript

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

And the last question, I believe you have already answered and you heard about that when it comes to optimizational (sic) [optimization] (00:50:09) of capital and balance sheet. And then, let me see, I have also – Jan Erik is back with a question. Is this bonus scrapping agreed upon among the different players?

A - Jostein Amdal {BIO 19939645 <GO>}

No. This is something that each and every company has decided for themselves. There has been no – there is no industry effort in this way.

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

Okay. And then it seems also Matthi's questions lost out a little bit. I will just go back to them, Matthi, very briefly. Helge mentioned that (00:50:55) just the capital during the course of the year. Is this decision dependent on the approval of the internal model?

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

And the short answer was no.

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

No. Right. And again, we will put out or there will be a transcript put out, of course.

It seems then I have received no more e-mails. We're sorry about these technical problems. Please come back to Anette and myself. If you have any follow-up questions, we will be both on our telephones and the e-mails.

Thank you for listening in. I will just remind you also to – where we are doing road shows this quarter. We are going to London, Frankfurt, Boston, New York, Montreal, and Toronto next week, and also Paris and then Edinburgh late this quarter. And as you saw, we also now announced our Capital Markets Day for 28 of November in London, so save the date. And, of course, we hope to see you before that and, of course, in November as well. Thank you very much and good-bye.

Operator

That concludes today's conference. Thank you, all, for participating. You may now disconnect.