Company Participants

- Morten Huebbe, Group CEO
- Tor Magne Lonnum, Group CFO

Presentation

Morten Huebbe

Welcome to Tryg's First Quarter webcast. The First Quarter really marks another step in the right direction, another step in the direction of continuous gradual improvement in our results towards our mid-term target of 90% combined ratio and 20% post-tax ROE.

The First Quarter, we have seen a doubling of the bottom line, really driven by an increase of 37% in the technical result and then, of course, an unusually high investment income, which I guess will benefit most players in this insurance industry.

On slide 4, we show the development in the combined ratio, which has improved 2.2 percentage points, positively impacted by the price changes, the working on the claims and efficiency side, positively impacted by slightly lower weather claims and slightly higher runoff, but actually very importantly negatively impacted by 1.5percentage points from the lower discounting rate.

If we look at slide number 5, we show the key figures. The top line is up 1.2%, really reflecting a reduction in the portfolio and commercial lines. The technical result, as I said, is up 37% and the pretax has doubled to DKK721 million. And when we see the development in the top line and the cost ratio, it really does show the need for us to focus more on reducing the costs as such and also further address that during the year to the market.

On slide 6, we show the development in our various segments, private lines, an improvement of 1.7 percentage points to the combined ratio. We did have some profit-sharing negatively impacting the quarter and some volatility between the quarters and we do expect slightly further improvement to private lines during the year.

Corporate lines improvement of 1percentage point in the reported numbers, but bear in mind that is including a 5percentage points lower runoff gain than the same quarter the year before and I think it is really positive to see that for the first time in three years, we see a positive development in the portfolio pricing as adverse or opposite to three years of actual price reductions. That is really important for the future years' underwriting results in corporate.

Commercial, the first really clear sign of positive earnings in this area, a combined ratio of 91%, a strong improvement, of course, helped by higher runoff gains and also we do see that the slightly higher or lower top line actually impacts the cost ratio negatively. So we need to focus more on that and we do need to further improve the claims ratio before runoff gains, but a good step in the right direction.

Sweden and Finland, of course, we are not satisfied with a combined ratio of 107 or 106, but we do see that last year the First Quarter was positively impacted by the release of unearned premium reserve in Sweden and we do expect to be able to show improvements in Sweden and Finland during the year.

On slide 7, we show how the segments contribute to top line and technical results and most importantly, we see a strongly improved balance between the segments where not only private lines, but now also corporate and particularly commercial lines contribute to the technical result. Now we only need to get Sweden and Finland on board that train as well.

If we look at slide number 8, we see the development in pricing in two of our core private lines products. You see an increase in Norwegian motor lines pricing, which is also necessary when you look at the inflation and then you see that house insurance pricing is up in Norway and particularly in Denmark. And for 2012, we really see that also commercial, corporate and Sweden Finland contributes to the increased prices for the group as such.

On slide number 9, you see that despite the price increases we have as more stable, we have a stable development in the retention rates in the private lines and as expected, we do see an impact on the commercial lines retention rate. And I guess you can say that we are really doing a turnaround on the profitability of the commercial lines. And in that process, we do need to get rid of some unprofitable customers and we do need to except and expect reductions in the retention rates. But when we look at the resulting improvements of the combined ratio, that is a positive trade-off. But it does, of course, mean that we need to focus more on adapting the costs in this segment to the slightly lower top line.

Then over to you on claims, Tor.

Tor Magne Lonnum {BIO 16534375 <GO>}

Thank you, Morten. Looking at slide number 10, you clearly see some more in-depth on the claims side and clearly, there is some underlying improvement in the claims ratio. However, the gross claims ratio is significantly impacted by an updated estimate on the Copenhagen cloudburst last year where we have actually added as much as DKK300 million to the reserves, thus impacting the loss ratio by 5.8 percentage points.

If you look at the underlying claims ratio, as mentioned by Morten earlier, clearly, we see an improvement in terms of the corporate and the commercial segment, whereas the private segment continues to improve, but for this quarter, isolated. It seems like more or less in line with last year.

If we move on to the next slide, looking at the weather-related claims, clearly, there is a lower impact of large and weather-related claims this quarter compared to what we had expected, but the impact is still more or less in line with last year, slightly lower and the impact in this quarter is about 1.1percentage point lower than last year.

Moving on to the runoff. As Morten said earlier, we do continue to see solid development in terms of our reserves. We continue to see a favorable development. We have a slightly higher runoff gain this quarter than the same period last year and the impact is about 4.6 percentage points on the combined ratio.

If we move on to the expense side, clearly, as Morten said, we do have a slight increase in the nominal expense base. The expenses increases by 2.2%, which is slightly higher than the increase that we see in the premium level and it clearly underpins the need to be able to adjust the nominal cost base to the lower development in premiums.

If we move on and look at the investment side, as Morten said initially, clearly a higher investment return than last year and in particular sort of driven by the positive returns on the riskier assets in this period. We had an investment return in total of DKK360 million, which is, as I said, significantly higher than last year. Clearly, the gains is driven by the favorable development in equities, but also we have seen a positive development in terms of high yield and also bank-related debt here in the Nordic area. We also have a gain from a realization of an investment property in this period.

If we look at the development in terms of the asset allocation, it is more or less stable. However, you will see that there is some adjustment to the figures and the reason being that we have omitted our own property from the investment portfolio. And as such, the weights have been changed slightly. We have also increased our exposure to riskier assets slightly; however, not significantly.

Finally, looking at the capitalization, clearly, we have a solid capital situation. Our capital buffer have increased to 9% in this period measured against the S&P A; benchmark or threshold that we use. The buffer is now at DKK887 million, which means that about 65% of the profit after tax is added to the buffer capital in this period.

Morten Huebbe

I guess we can say, Tor, that if we look at the quarter as such, we are very pleased to see a continuation of the ongoing improvements in our results. Of course, First Quarter, the doubling of the bottom line is flattered by the unusually high investment income. But really the most important is that we improved our technical result by 37% despite the 1.5 percentage points lower discounting impacting the combined ratio negatively by 1.5 percentage points. And we need to see this continuous gradual improvement is what we are searching for quarter after quarter and what will take us to our mid-term target of 90% combined ratio and 20% post-tax ROE.

We are not changing that target despite the lower interest rates. Of course, the lower interest rates are not helping. It does mean that we have to work harder not only on the premium side, but also on the cost side and on improving our ability to work with claims and claims procurement, both themes that we will address with you during the year. But clearly, we are pleased to see the direction continue and we expect to follow that same road in the coming quarters.

And finally, on the last slide, we show where we might meet you on the road in the coming weeks and thank you for listening to our webcast for the First Quarter.