Tryg – Q4 2017 results

Audio cast and Q&A 23 January 2018

Transcript

Presentation

Gianandrea Roberti, IR Officer

Good morning, everybody. This is Gianandrea Roberti. I'm Head of Investor Relations at Tryg. We published our Q4 full year results this morning.

And so I have here with me the Group CEO, Morten Hubbe; and Group CFO, Christian Baltzer, to discuss the numbers. A few words, over to you, Morten.

Morten Hübbe, CEO

Thank you, Gian. And good morning to all of you from my side as well.

Starting from Slide 3 with the highlights of Q4. We show a Q4 pretax result of DKK 685 million compared year-on-year to DKK 650 million adjusted for one-offs in Q4 '16; a technical result for the quarter of DKK 622 million compared to DKK 564 million year-on-year adjusted, driven by a combined rate of 86%, clearly underlying a strong improved trend in claims ratio and expense ratio. And bear in mind, when it comes to adjustments, that there are no adjustments in Q4 '17, only adjustments in Q4 '16. And most of you probably remember, but they relate to the property sale in Q4 '16 and the IT and Securator write-downs in Q4 '16 as well.

In Q4 '17, we have investment income of DKK 86 million compared to DKK 98 million adjusted last year and primarily boosted by equities in the free portfolio.

Dividend per share for the quarter of DKK 1.6, accumulating to a full year dividend per share of DKK 6.4. And then, of course, bear in mind the extraordinary dividend of DKK 1 billion, as announced at the Capital Markets Day and to be approved by the upcoming AGM.

On solvency ratio, of course, an unusually high number of 281 due to the capital increase; 196, adjusted for that capital raising for Alka, and then expected approximately 170 when the deal is approved and payment has been carried out. Finally, on this slide. The Alka acquisition announced in December will strengthen our Danish market share and our most important business segment, Private lines Denmark. General market share in Denmark will increase by 4%; Private lines, roughly 6%. And we expect to create significant value for both customers and shareholders.

Now if we turn to Slide 4, we elaborate on the customer highlights. NPS targets for the full year achieved. And we see our new measure, transactional NPS, increasing to 62 from 59 in Q3. We see that the full 3-year targets for 3-plus products has been achieved for Denmark and also now starting to improve in Norway, better late than never, by the significant jump now towards the end of 2017.

Retention rate target has been achieved for Denmark. It's fair to say that, that number has been challenging in Norway during the spring. The churn of entire market increased from 14% to 19%; a lot less for us. And now towards the end of '17, we're now starting to see our general customer loyalty increase again.

And then important to see that in both Denmark and Norway, a continued increase in the number of claims reported online, important for our future efficiency measures.

On Slide 5, we elaborate on the technical result by business area. Improved technical result by more than 10% for the quarter compared to year-on-year and 6% for the full year adjusted. Continued strong performance in Private, we see both underlying improving, and then weather being quite helpful and benign. Commercial has strong results, but they're impacted by higher level of large claims, whereas Corporate show improved results but are helped also by lower level of large claims. We are actually still not satisfied with the underlying development in Corporate lines, and we see several areas where rates need to go up, particularly in Norway and Sweden. And we are seeing the first signs of that in the 1st of January renewal, particularly in Norway. Sweden Private delivered slightly higher results year-on-year and quite satisfactory given the size of the business.

Slide 6 shows a very strong shareholder progress on track. We see historical strong development in valuation, particularly from 2011 until now, compared to the general industry. We have a very strong focus, remaining on stable and increasing ordinary dividends. But you should expect that we - assuming normal business and the Alka integration, you should, not surprisingly, not expect extraordinary dividend for 2018. We will have one-off charges during that year, and we will have a limited period where we get the positive earnings from Alka and only a limited proportion of the synergies. Of course, we do not know exactly yet when we get the authority approval, but just before the summer holidays would be a qualified guess.

On Slide 8, we elaborate on the premiums. Satisfactory growth in local currency of 1.9% for the group. There is positive top line growth in all business areas. And for the first time in more than 10 years, we see a slight growth in the number of customers in both Denmark, Sweden and Norway in both Private and Commercial lines. Clearly, the mother-ship of Private lines Denmark carries the biggest weight, with the growth of more than 3%. Sales in general, but more importantly, the sales of packages that allows us a broader share of wallet, and also the customer bonus is starting to help both retention rates and sales.

As mentioned, Norway was more challenged, particularly during the first half of '17, but we're starting to see some improvement during – particularly Q4 '17. Commercial shows a growth of 2.3%, significant improvement year-on-year, but of course, helped by OBOS, roughly DKK 20 million. But also, we see improved underlying customer development in both Denmark and Norway.

Corporate growth seems high at 3%. But bear in mind that the fronting business in Sweden pulls up the numbers, which is really something that increases our general income with no additional risk. In Sweden Private lines, we see a positive premium development. Bear in mind that at previous quarters, we're helped by the inclusion of Skandia. That is now no longer the case, so 5% is actually organic. And we see particularly that our small niche of pet insurance in Sweden has developed very strongly.

On Slide 9, we elaborate on price development. As in previous quarters, we continue to see an increase in average premium for all products. We're quite happy to see, for instance, a 3.1% increase in Danish motor. And of course, this shows our focus on profitability. And we spent a lot of resources monitoring development in claims inflation to react as early as possible, both on claims measures and adjusting prices accordingly.

On Slide 10, we elaborate on retention rates. We see a very positive development in Private lines Denmark, with the retention of 90.2%. Clearly, we're starting to see the early signs of the customer bonus scheme helping. But also, this focus on packaging and broadening share of wallet means that more and more products are getting sold to individual customers, so the relationship gets stronger, and that helps retention.

As I mentioned, the general market churn in Norway has been increasing; less so for us. And we are pleased to see now that after decline in retention rate, Private lines Norway now has a positive trend in Q4.

In Commercial Denmark, we see a positive development in retention. We have been testing in 2017 a new customer service concept, with a lot more frequent contact to our customers. This is helping our customer satisfaction. It is helping our customer loyalty. And in many cases, we see customers liking products like cyber and other products as well, so that has been very positive. Commercial Norway saw a slight drop due to the general market trends but also some price adjustments. On the other hand, sales has increased a bit.

So over to you, Christian.

Christian Baltzer, CFO

Thank you, Morten, and good morning, everybody.

So like Morten already mentioned, we have seen an underlying improvement trend for Q4 2017 and the full year 2017. As communicated in the beginning of the year, we were pleased to see the underlying improvement of our business. On group level, for Q4, we are seeing here a 0.4 percentage point improvement and specifically driven by the improvement in our Private business of 0.6 percentage points. Now for 2018, we expect a 3% price increase across the book that will broadly offset inflation for 2018. We anticipate 2018 underlying improvement to be improving, yes, in 2018.

Going to Page 13. We, as Morten mentioned, are spending a quite a lot of time focusing on our auto book to see how claims frequency and claims severity is developing. And we have here updated the comprehensive claims frequency graph that we showed before and are seeing a slight trend downwards compared to the increases before. Now this does show still a little increase in frequency. The increase in severity is somewhat in line with inflation. However, this is an area that we continue focusing on and are offsetting by price increases.

Turning to Slide 14. Now 2017, in general, has been a very good insurance year from a weather and large claim perspective for Tryg. We are roughly having a DKK 500 million better technical result compared to an average year on large claims and weather-related claims. Interest rates maintain low, and we have a runoff level in 2017 that has been at 5.4 percentage point.

Turning to Page 15. As mentioned before, our 14% expense ratio target has been reached, as we also communicated at our Capital Market Day.

This has been done predominantly due to some of the efficiency programs or through the efficiency programs that we've put in place and has also helped us reach our strong financial target. FTE development in the fourth quarter is a little bit up, and this is due to our acquisition of OBOS and the FDM portfolio.

Turning to Slide 17. Asset allocation is broadly unchanged. There is an increase of DKK 4 billion from the capital increase, which you will find mainly in the match portfolio Danish part. Bear in mind that the property exposure currently is still under our target, left in our target, and where we have a target of investment in property around 20%.

Turning to Page 18. Morten already mentioned that we, for the Q4, has a result of DKK 86 million investment return, which is coming mostly from our free portfolio. Bear in mind that in Q4 '16, we had a DKK 500 million gain from selling of properties. We've seen the result on the free portfolio mainly driven by equity of just below 5% and on our inflation-linked bonds. The match portfolio is broadly 0 or close – it’s DKK 13 million. Bear in mind that the match portfolio, on a guided basis, is around 0 in returns.

Turning to Page 19, on our Solvency position. There has been some movements here in the fourth quarter. And as mentioned on our Capital Market Day, we have improved our workers' comp model and have gotten this approved by Danish FSA, which is giving us

DKK 160 million reduction in the SCR. There's a good amount of currency development in this, and you broadly need to summarize all and have this DKK 160 million is a net figure of the -- both currency and the workers' comp improvement. On the own funds, we're seeing some movements from the capital raise of about DKK 4 billion and the result of 2000 - fourth quarter 2017, and the dividend is shown here as movements.

Turning to Page 20. Just a single highlight from this is basically our Tier 1 potential. Bear in mind, our Tier 2 is fully utilized. On the Tier 1, after – or post acquisition of Alka and closing of Alka, our Tier 1 potential will be around DKK 650 million. And as mentioned at the Capital Market Day, we are issuing a Tier 1 debt - subordinated debt of DKK 500 million - partly to fund the Alka acquisition.

Morten, back to you.

Morten Hübbe, CEO

Thank you, Christian.

And finally, on Slide 22, we repeat our targets and outlook, not a lot of surprises there. We expect the top line growth between 0% and 2% in 2018, excluding Alka. Now some of you may think that the top line growth expectation seems overly conservative given that FDM and OBOS will add approximately 1.5%. But bear in mind that it is likely that our corporate exposure would shrink somewhat during '18. We are quite keen to see that our need for rate increases in Corporate, particularly in Norway, is carried out, and we will see what is the customer reaction to that. But it is likely that there will be an impact, and that could shrink the Corporate exposure while improving the bottom line. So clearly, worthwhile from a shareholder point of view and a sustainability point of view, but that is the negative we have put on the top line outlook for the year.

When it comes to the acquisition of Alka, bear in mind that we have elevated our technical result target for 2020 to DKK 3.3 billion on account of Alka. We have a return on equity target of 21% post tax. And then bear in mind that in the coming 5 to 7 years, you will see an annual depreciation of customer relations of approximately DKK 100 million to DKK 150 million annually pretax. It will be posted other -- on the other income and costs, similar to what we did on Securator and therefore not included in the technical results. And bear in mind that customer relations is already deducted, from a capital point of view, in old funds, and therefore, the annual depreciation will not impact the dividend potential.

And then just to repeat that 2018 will be an intermediary year when it comes to one-off costs and the integration beginning of Alka. And as such, not surprisingly, you should not expect extraordinary dividend for 2018.

And then, of course, finally, on Slide 23, we repeat our preferred John D. Rockefeller quote on dividends because that is an extremely important part of our business model and our focus. And we look forward to making sure that in the future, we harvest the benefits from Alka and actually improve our long-term dividend potential.

And I think with that, we will start taking your questions.

Questions and answers

Asbjørn Mørk – Danske Bank

A couple of questions. First, on Norway and the Corporate, Commercial segment. Morten, you said that you've seen prices come up 1st of January. And you've also talked about sort of a need for general sector repricing the last couple of quarters. So could you elaborate a bit on what is it that is really changing 1st of January? And this is just a short-term effect, or is it more fundamental?

Morten Hübbe, CEO

Well, I think, first of all, important to distinguish between Commercial and Corporate as they are in quite different scenarios. Commercial pricing has been reasonable, whereas Corporate pricing in Norway has been declining over the past 4 or 5 years. During the autumn of '17, we communicated in writing to the Corporate markets that we would be carrying out price increases 1st of January, both directly to customers and directly to brokers, which is a quite unusual step. We have seen subsequently that several other players in Norway have communicated also plans to increase prices in corporate, also in writing. And if you look at the general statistics for the Norwegian corporate market, there is really no doubt that the entire market needs price increases. Our highest price increases 1st of January are in the fish farming, where we have a significant 2-digit price increase. Then we have a single - mid-, high single-digits price increases in a number of other lines, whereas we're still struggling to get the prices on workers' comp to move much above 0. So we should see a positive impact from that 1st of January to the bottom line, while probably negative to the top line. But I would expect that the general market moves in this direction, and I would expect it to continue into 2018. But of course, bear in mind that it could have a negative impact on the top line.

Asbjørn Mørk – Danske Bank

Okay. If I then go to your motor insurance, the combined motor insurance. I sort of calculated the combined ratio, that is around 110 basis points lower in '17 versus '16. And it doesn't really seem to fit with the sort of the slides you have on how you're seeing claims come up here. I know that you've said that in Q4, you've seen an improvement. But still, could you elaborate a bit on this and maybe also if there's any differences between the Norwegian and the Danish market here right now?

Christian Baltzer, CFO

Asbjørn, this is Christian. I think when you're looking at some of our reported numbers, you have to bear in mind that, first of all, this is combined with all our different covers. And what we have seen is an increased frequency in comprehensive, which is kind of like the core of the auto book and can see that from 6 - or from 2014 to 2017, there has been an increase in the frequency in this area, which has been kind of subjecting needs for price increases. What we noticed is that over the last 3 years, frequency has come up both in Denmark and in Norway, but the most significant increase has been in Denmark and has been more flat over the last 2 years in Norway. So there is a difference between Denmark and Norway in these numbers.

Asbjørn Mørk – Danske Bank

But also, if I look at the comprehensive, there seems to be 70 basis points of improvement in '17, so maybe just touch upon what is sort of the repricing potential from here as you see it.

Christian Baltzer, CFO

I think from - as you can see on the average prices, we're carrying out about - a little over 3% price increases on the auto book in Denmark and has been a little bit less in Norway. I think we can continue seeing that auto should be a place where we'll be able to have a potential for repricing. With respect to this 70 basis point that you are mentioning, there is also windshield coverage, there's a lot of other coverages going into the overall figures that you're looking in our annual accounts compared to where we're trying to clean out the comprehensive part when we're showing the statistics in our slides.

Morten Hübbe, CEO

I mean, fundamentally, Asbjørn, you're right, that the development in '15 and '16, you could have argued, should have catered for even higher price increases, whereas the development in '17, to some extent, pulls it in the opposite direction. But all in all, we see the slightly longer trends and attempt to pull the pricing of motor slightly upwards. And as we know, change on our attitude on that, regardless of '17, looks a little bit better.

Asbjørn Mørk – Danske Bank

Okay. Then on the intangible write-down, the 5 to 7 years and the DKK 100 million to DKK 150 million, if it's sort of at the mid range here, you're sort of guiding for DKK 750 million of total write-down. It seems to be somewhat higher than at least what I thought you communicated after the closing of the announcement of the Alka deal. Are you - have you been surprised by the level, or is there something changed here? I know that you reiterated your ROE guidance, but just maybe a little bit clarity here.

Morten Hübbe, CEO

Well, I think, Asbjørn, that first of all, when you do an acquisition, you have to carry out the purchase price allocation, and you need the information to do that. And it's not unusual that in a speedy process, the purchase price allocation has not been carried out prior to communication. So to be honest, I don't think there's anything surprising or unusual with the amounts, but we didn't actually know the size -- precise size of the amounts at the point of time and communication. And to be honest, you can hear from the range of DKK 100 million to DKK 150 million pretax, that is actually not fixed yet either. We just thought that it was better for all of you to understand that this was a part to include in the modeling and then rather wait for the precise agreement with the auditors on this number. So not surprising but not something we have clarity on at the point of time of communication either.

Asbjørn Mørk – Danske Bank

Okay. Then a final question from my side. On the newspaper yesterday, on the 50% stake that you've taken in Ondu, the insurance agency. Now you will be selling, through this agency, insurance prices -- or insurance at prices of 25% to 35% below Tryg's prices. And now you're also going to do the dual-brand strategy with Alka, with lower price at least in some areas. So how do you see this in the longer term? Is this a net neutral or positive or negative? Is it first sign of sort of a disruption in the market? And do you think you will be able to do sort of a different pricing in different categories going forward?

Morten Hübbe, CEO

Well, I think, first of all, it's important to say that if the pricing elasticity in our markets was enormous, then people would always flock to the carrier with the lowest price. And I guess, if that was the case, then when we introduced our 8% membership bonus, everyone should travel to our company. And I guess we all know that, that did not happen. So I think we should just bear that in mind because it tells you something about how high or low the interest and pricing is. I think when it comes to Ondu, what is important to see is that, if you look at young individuals below 24 years of age, 40% of these young individuals have no insurances today at all. So if their bicycle is stolen, their computer is stolen, their apartment is emptied, there's no insurance. If you look at Lemonade in the U.S., what has been shown is that you could start selling, for instance, content insurances to young people who've previously never bought an insurance. So that is not cannibalization. It is actually expanding a market which was not previously there. If you look at the actual cover, it's not the same cover. There's a number of covers which is included in a normal content insurance, which is not included in the Ondu content insurance because it has been narrowed down and sharpened to precisely the need of very young individuals that has a lot of less value and a lot of less things that needs cover. So it is not a comparable product at all. So for us, you should really more see this as a concept of testing how far can we go on online sales and how can we go - far can we go on online processing, taking out the processing costs; and how far can we get in getting young people to buy insurance, which they would otherwise not buy. So we do not fear the cannibalization, and we do not see, from other historical experiences of differences in product and pricing, that there has been a strong cannibalization. So that is really not a worry point. It's really more catering to various segments in the market.

Wajahat Rizvi - Deutsche Bank

Waj Rizvi from Deutsche Bank. I have 3 quick questions for you. Firstly, I appreciate that you have provided clarity on 2018 extraordinary dividend. Can you also talk a little about how you think about dividends longer term after integrating Alka's business? And secondly, as the Alka deal has reduced debt capacity and increased the leverage ratio quite a lot, does this change your thinking about the Swedish business longer term? I'm thinking more in terms of relation to participating in potential M&A to gain scale there longer term. And finally, I would just like to have a point of clarification. On Slide 20, you have shown that potential Tier 1 capacity would be DKK 650 million after the deal. Is it also after the DKK 500 million RT1 issuance? Have you also taken that account? Thank you very much.

Christian Baltzer, CFO

It's Christian. Let me start from the back. The DKK 650 million is including the A tier 1, so that is - sorry, that is before the Tier 1 issuing. We're basically saying once you have deducted the capital we're using to acquire Alka, there is DKK 650 million left. We're using DKK 500 million to issue Tier 1. And you could basically argue there is DKK 150 million left in capacity. With respect to your second question, I think I need that one, one more time. I'm not sure I've really caught the...

Morten Hübbe, CEO

Swedish M&A.

Christian Baltzer, CFO

The Swedish M&A, Morten, do you want to take that?

Morten Hübbe, CEO

Well, well, I guess...

Wajahat Rizvi - Deutsche Bank

Yes, I just wonder if there's the capacity to do further M&A in Sweden.

Morten Hübbe, CEO

Yes. I think to be honest, the history books are full of insurance companies that are making the wrong acquisitions, so I think we should always be quite disciplined when it comes to potential M&A. And I think it has to be with the return targets we have on combined ratio and ROE. We need to be very, very disciplined when it comes to M&A. There's no doubt that the capacity has been reduced. I think if there are very small transactions, with which it would typically be someone that has a product that we don't have or something where we are buying R&D or a very small portfolio, we have fine capacity to do that if it does create shareholder value. If we're talking about larger potential transactions, we would need to come to you for the capital, which would mean that we would need an excellent business case, and that is the kind of discipline we should always have. So I actually kind of like that situation. I think when it comes to dividend capacity, we've seen the run rate earnings of Alka and published those. And we see that we will achieve DKK 300 million of synergies at peak in 2021. So that's why we can see that our overall dividend capacity will grow during these years with Alka. But I guess the challenge with year '18 is that we get the one-off costs of starting the integration, we get maybe 6 months of the earnings, and we get very little of synergies because we cannot start anything before we get the authority approval. So, I think if I were you, I would look at '18 as an intermediary year, no extra dividends and starting to move back to normal from '19 and then grow the dividend potential during '20 and '21.

Per Grønborg - SEB

A couple of questions from my side. Starting off on the investment income, negative return on your mortgage bonds this quarter. Can you put a few words on this? I guess it's not the Danish mortgage bonds that have given you the challenge. The same question related to investment income is properties. Booking you - or the issue of booking you - investment properties is up 0.2 percentage point, doesn't that seem overly conservative in property market, where yields are coming down?

Christian Baltzer, CFO

Per, with respect to the property side, I think that we are slowly moving into the property market and rebalancing after our sales in the fourth quarter 2016. And we want to have a target around 20% on the property market, but it's taking some time to enter into that market.

Morten Hübbe, CEO

But if your question was the return on property, was that correctly understood?

Per Grønborg - SEB

That was it.

Morten Hübbe, CEO

Whether the yields coming down should have allowed us to increase the value more. Was that the question?

Per Grønborg - SEB

Exactly.

Morten Hübbe, CEO

Well, I think that if you take a sort of empirical test, it would show a general conservative attitude towards the timing and size and write-off of property in our book.

Per Grønborg - SEB

I assume new property investments will be at a yield that is far below the 7% yield properties are booked at. Is that a fair assumption?

Morten Hübbe, CEO

That is a fair assumption.

Christian Baltzer, CFO

In respect to the covered bonds, we have seen some slight increase in the interest rates that is giving us the covered bonds development in the fourth quarter on our free portfolio. That is not matched to any liabilities.

Per Grønborg - SEB

No, of course not. Is that Danish bonds and Norwegian bonds, or is this somewhere outside your core markets?

Christian Baltzer, CFO

It's a -- I think pretty much a mix of Danish and Norwegian bonds.

Per Grønborg - SEB

Okay. My second question, the 2018 renewal. Last couple of years, you have complained about a Norwegian guy selling the unrelative prices into

the broker market. How have you seen the 2018 renewal, especially in the high SME segment and the low industrial segment?

Morten Hübbe, CEO

I guess it's fair to say that the first signs of the 1st January renewal looks quite promising. We have seen a less silly competition in both Denmark and Norway than we've seen in previous years. We have seen a high customer loyalty in the Danish Private market Corporate - sorry, direct market Corporate, slightly more movement in broker Corporate Denmark but less than the year before and a fairly stable development on pricing. I think in Norwegian Corporate, we've actually been able to carry out price increases as some of the early movers in the market. We have lost some business on the back of that. But as I mentioned earlier, we are seeing other Corporate players in Norway reacting with price increases, and we have seen a lot less aggressive competition on Corporate pricing in Norway, although with the caveat that workers' comp is still a challenge. And as a result of that, we are reducing our workers' comp exposure for the - in Corporate Norway.

Vinit Malhotra – Mediobanca

So just, sir, 2 questions, please. One is, if you look at the underlying trend in the fourth quarter, it doesn't read very different from the third quarter. And actually, the Private lines of 50, 60 bps is also not better from 2Q. Sir, I'm just curious then, is it that some of the easier "to do" things have been done? And then is - could you comment a bit about whether this trend should remain in this kind of area or should accelerate a bit based on all the initiatives that are lined up? So that's the first question. And second question is that, on the runoff, the - I mean, now seen 3 quarters that you are in the

5% roundabout range already, whereas the guidance was 3% to 5% gradually by 2020. Is there anything to comment? Because it seems that, at least in this quarter and even in the previous quarter, some of the liability side, reserves in Sweden, for example, I understand, have caused this lower runoff. So I'm just curious whether you view this current level as a sort of a one-off which affected trend? Or is it something to be more like this is the new runoff level to look at?

Morten Hübbe, CEO

Well, if I take your second question, Vinit, and Christian will take the first one. Well, I think overall, you should remain unchanged with the message of a gradual transition to the 3% to 5% range, exactly as we communicated at the Capital Markets Day. So how should you interpret the slightly lower level in '17? It is, of course, a pure coincidence, but you can see that we have lower weather claims, and we have lower large claims. And in the same period, we have lower runoff gains. And I think that creates less volatility than in a scenario where we have, for instance, seen a 7% one-off gain in '17.

Christian Baltzer, CFO

With respect to the underlying, I think that the trending of the [0.3, 0.4, 0.5, 0.6] basis is where we're actually pleased to see. You don't - we don't want to have too many bumps up and down, from our perspective. And when we are kind of looking to what kind of initiative we can do, it is in that range that we expect '18 also to be at. Bear in mind that on the group level, of course, you can have more fluctuation. But on the Private line, we're pretty pleased to see the trend and the rate that we're getting the underlying improvement with.

Morten Hübbe, CEO

As you can hear, Vinit, we're not big fans of volatility. We like longer-term smoother movements and not too many surprises.

Christian Baltzer, CFO

You could argue that, that has an impact on the run-off level that we've had, an area where we would need to put up extra reserves, yes.

Jakob Brink - Nordea

Just a few questions, please. If we're actually coming back to the question from Vinit on the runoff gains, I didn't quite catch what you said, Morten. But I think you said something about runoff gains being lower due to large claims and weather claims having been lower. That was also the case the year before. And should we - given that you're now guiding for lower runoff gains in the next few years, should we then also start to assume that the DKK 550 million and DKK 500 million large and weather claims might be slightly too high going forward? That was the first question.

Morten Hübbe, CEO

Well, let me take the first question, Jakob. It's fair to say that we saw a benign large and weather claims development in '16 and even more so in '17. Now of course, if we could order that every single year, including '18, that would be great. But of course, there's really no empirical evidence to support that, that is new normal, so we remain with the same attitude when it comes to normal weather and large claims in '18. But I guess we will see during the year. When it comes to runoffs, the fact that we have taken only closer to 5% runoff gain in '17 means that we leave the year '17 with an even stronger balance sheet on claims reserves than expected. And I guess, by all measures, that is a comfortable place to be.

Jakob Brink - Nordea

Okay. And second question, on the investment income, I see that consensus expectations have moved up around DKK 50 million for 2019 from the Q3 consensus and hereto now, where I guess people have put in Alka. I would have thought it was slightly less. But could you maybe give us an update on what should we actually expect for investment income post Alka?

Christian Baltzer, CFO

This is Christian. Jakob, I don't think you should expect quite significant increases on the investment income. We are a business that wants to run on our primary operating technical results, where we're going to make our earnings, and investment income for us is not core. So don't anticipate an increase in investment income, so I would go for the lower numbers.

Morten Hübbe, CEO

We will share your view that you shouldn't increase consensus on investment.

Jakob Brink - Nordea

And then, finally, just could - I didn't actually hear what you said, Christian. I think it was you saying about what [inaudible] of price increase and claims inflation did you expect for 2018? And could you maybe also just break it up into the most important segments, please?

Christian Baltzer, CFO

I don't think you didn't hear me because I didn't say anything about inflation or the segments. I've said 3% was the overall broad... On the portfolio. I think Morten has already alluded to the fact that Corporate Norway is pulling its weight a little bit higher than the 3%. With respect to inflation, we didn't really guide on inflation, but I think it's very often normal for us to look between the 2 and 2.5 range of inflation, like we've seen in the previous years. And bear in mind that inflation here can also be frequency that you see pick up in frequency and not just the ordinary kind of inflation terms.

Iain Pearce – Berenberg

Just one from me. It's on Slide 19, the Solvency capital requirement walk. I'm just trying to understand what the 2 big movements are: so the DKK 300 million reduction in the Solvency capital requirement in the health segment; and then where that diversification benefit as well is coming through and why that's increased so much from Q3? So if you could just talk about those 2 things, that would be great.

Christian Baltzer, CFO

Iain, I think I was trying to explain it during the walkthrough that you almost need to look these numbers as a combined because when – once we've implemented the model updates, it's also taking out some diversification. That's one thing. But there is also a good amount of currency effect on these numbers, the Norwegian currency kind of reducing. I think we might want to try to illustrate currency effect maybe better going forward because it is quite significant, the movement currently in this graph. So look at the DKK 303 million and the DKK 152 million more as a net number in total.

Iain Pearce – Berenberg

Okay. So that's the Danish workers' comp, DKK 100 million, and then the currency movements of DKK 60 million, sort of net off to the DKK 150-ish million improvement?

Christian Baltzer, CFO

Yes, exactly, that's correct.

Steven Haywood – HSBC

I just wanted to see - you obviously had a very good low large claims and low weather claims this year and in the previous year as well. I was wondering if anything has structurally changed in your terms and conditions, your risks, or your selection process or in your reinsurance and – or whether it's just been a relatively lucky year. I'm trying to see if this sort of change - or structural change could come through in the future years.

Morten Hübbe, CEO

I guess it's - Steven, every time we have a large claim, we go through the large claim and try to see if there's any learning points to take from the exposure from the conditions and the policies, from the precaution measures required, et cetera, et cetera. So of course, we'd gradually try to make the large claim risk smaller. On the other hand, the bigger commercial companies are doing more just-in-time production, which increases particularly the business interruption, the large claim risk. So we don't really see any structural argument why large claims and weather claims would be lower. I guess on the weather claims, it seems that the frequency is not very high, but the severity, when it happens, is actually stronger when it comes to flooding and it comes to windstorms or it comes to the impacts of that in Denmark and Norway, so we might have a number of years where there is no impact and then single years where the impact is actually quite high. And of course, we've tried to buy more sideways reinsurance to capture those particular years to protect the P&L. But I guess the only real structural change we've done on reinsurance for '18 is that we've been buying more reinsurance for the guarantee business, which means that with the new program of guarantee business, we need a claims ratio of more than 220% before the combined ratio elevates above 100%. So that is really the only structural change we've done for '18. So I guess we're saying that you should expect that '18 is as likely as any other year to have normal large claims and weather claims, but also that we will see a number of years where that is not the case.

Christian Baltzer, CFO

And I think, just to support that, Morten, and I think if you've lived in Norway, they wouldn't feel that it's been less windy this year than others. For some reason, if a windstorm hits Norway versus Denmark, there's just a significant difference in the claims that we do see. And I think might also just color this a little bit with -- on our reinsurance program, we actually have been able to maintain our reinsurance program at a flat fee, so we have not seen the significant price increases on our reinsurance program that some anticipated.

Steven Haywood – HSBC

Okay, that's helpful. And if I can just ask another question. In your P&L, where you have the other financial income expenses, for the full year, it was negative DKK 298 million for 2017. This is kind of larger than I was thinking, and I think, previously, you said the run rate is around the negative DKK 200 million level. So what was driving it this year? And is the - that sort of run rate expectation right correct going forward?

Christian Baltzer, CFO

I think that around DKK 200 million is correct. But what -- bear in mind that what Morten was mentioning was once we are starting to having the depreciation of the customer relation on Alka, that number will increase between DKK 100 million and DKK 150 million post closure.

Steven Haywood – HSBC

Yes, okay. And is -- and was there any specific impacts in 2017?

Christian Baltzer, CFO

No, not really. No specific.

Morten Hübbe, CEO

But just one final complementing, Steven, on the question of large and weather claims. When we get into the half year or something like that and we start to get the keys to Alka, then, of course, we will just have a new set of eyes on the combined exposure to large claims and weather claims. So we will probably update our expectations to those 2 at that point in time.

Steven Haywood – HSBC

Okay, that's helpful. And if I can just follow on from that, sorry, Morten. Does Alka have a different reinsurance program? So they reinsure – they cede more to the reinsurers because of their -- smaller size of their business?

Morten Hübbe, CEO

Generally, no. I guess, so the fact that they have almost entirely Private lines business means that they need a lot less reinsurance than we need. But of course, we see that there are synergies to be achieved by buying that as part of a bigger group.

Jan Erik Gjerland - ABG Sundal Collier

I just wanted to just look into some details for Norway. And I looked at the underlying combined ratio has been reduced from [100 comp point 8] to 99% from - in Q4 '17 versus Q4 '16. I'm just curious to understand how much of that improvement stems from the increased prices in Commercial and Corporate, as you had talked about, and how much is from the Private side.

Morten Hübbe, CEO

I can start. I think that the increased prices we are seeing in the high-end Commercial, in particular, the Corporate, is really something you should expect to impact next year or '18, not something that has had any significant impact in '17.

Jan Erik Gjerland - ABG Sundal Collier

Okay. So the improvement, in general, benefit us from the Private lines? Or is it - where is it then?

Christian Baltzer, CFO

It -- but you have to bear in mind, Jan, that when you talk about the underlying performance, you're not really being able to track large claim, midsized claims and those. So it is not kind of like the same underlying as when we tried to really rinse off the numbers to have a comparable side-by-side. But there are improvements in --

specially on the large claims in Norway that has given us some of this combined ratio improvement that you're mentioning.

Jan Erik Gjerland - ABG Sundal Collier

Okay. Is it any difference in the product structure, motor, fire, workers' compensation that you mentioned? Any particular that has been dragging out one way or another during 2017?

Morten Hübbe, CEO

No. I would say that whenever you try to do a real underlying, and you take out the large claims and weather claims and runoff, then you can talk about the mix changes within the portfolio. But when you look at the reported numbers, it is, particularly for Commercial and Corporate, really more a stochastic issue, how many large claims and weather claims do you get. I guess, structurally, we are reducing our workers' comp exposure year-on-year, but I wouldn't say that the change in '17 would be significant enough to really impact this number. So I would put the changes in Corporate lines more down to stochastics and then, of course, an underlying longer-term trend pulling the earnings in Private lines more and more into the positive territory. And then I would expect for '18, again, an improvement, where the vast majority of the improvement will come from higher pricing in Corporate, which will start to produce underwriting year, more positive results in Corporate. That is really an '18 issue and not a '17 issue.

Ida Melvold Gjosund - Carnegie Investment Bank

Ida from Carnegie here. I just had one follow-up question left. Morten, you mentioned that you have seen an increasing number of customers in the Private business in Norway this quarter. Is that also excluding the OBOS acquisition?

Morten Hübbe, CEO

Well, actually, the number of customers in Norway grow in both Private and Commercial. I guess you can argue -- and the answer is that they grow also excluding the OBOS acquisition. But what you should bear in mind is that when we purchased the OBOS portfolio, it was a predominantly Commercial lines portfolio we took over but with a lot of leads to organically sell Private lines. So for instance, we have -- we've seen a growth of almost 5,000 Private customers organically but on the back of the OBOS leads, if you will. So the increase includes new OBOS sales but excludes the portfolio taken over. Does that make sense?

Ida Melvold Gjosund - Carnegie Investment Bank

Yes, sir, clear.

Morten Hübbe, CEO

And so we're actually quite pleased that we've seen this long period of growth in Eastern Norway and Oslo and decline in Western Norway. And with OBOS leads, we now have a much better chance at taking part of the Eastern Norway, Oslo growth, and that is starting to impact our numbers. And in Commercial lines, we're seeing 2 important trends: one, our franchising network has been better and better at selling lower-sized Commercial business; but also, our cooperation with Nokas, which is larger than us in Commercial Norway, selling a combined offering of claims prevention and security and insurance, that is giving us higher hit rates in sales, it is giving us higher average premiums, and it is giving us higher loyalty and better bottom line. So those are the trends that have sort of gradually improved during the autumn. I don't think we are, by any means, finished with working on customers and sales in Norway, but it's quite positive to see that the trend in the second half, and particularly Q4, is much stronger than in the first half, and it is much stronger in an organic way.

Niccolo Dalla-Palma - Exane BNP Paribas

A couple of follow-up questions. So on the SCR movements from here, you pointed at the Capital Markets Day to a 10% optimization. So is that still valid? Also, with the Alka inclusion coming up, so should we expect the base of DKK 4.7 million to improve by 10% over the coming years as a consequence of model optimization still? The second question, on reinsurance, you mentioned that renewable flat fee. Was that a flat fee on an identical program, or did the program slightly change, just to understand exactly the dynamics? And last question, on Norway Corporate, who are exactly the peers who need to follow you on pricing? Is this a market where the non-Scandinavian players play a significant and important enough role to impact pricing in the market? Or it's really the local peer that need to follow, just to understand how different it is in market shares compared to the other markets?

Morten Hübbe, CEO

Well, I will start by the last question. Norway Corporate, of course, we do see international peers, but really, the bulk of the business is local. So the biggest players are If, us, Gjensidige and Protector. So really, those are the biggest drivers of the market. And I guess we've seen now a number of years where Protector has been pushing lower prices. We've now started to see - and in some cases, pricing that was 25%, 30% lower than ours. And we've now seen a slowdown in their aggression, and we have seen examples where Protector has been out increasing prices. And of course, that is a more meaningful position to take in a market where high-end Corporate has an underwriting year combined ratio of more than 100%. And that is why I'm saying that the entire market needs the underwriting combined ratio could come down, which is really only achievable through higher rates. But it is predominantly the local players.

Christian Baltzer, CFO

And if I should take the 2 other questions. Yes, the 10% that we talked about at the Capital Market Day of model optimization is still valid. Bear in mind that the workers' comp is part of this up to 10% improvement on the SCR. With respect to the reinsurance, the cover is broadly the same. I think Morten already alluded to that on the guarantee and surety, we have increased our coverage. And I think we - in general, our [inaudible] programs are pretty much covering the same as they were before, broadly. Just one comment. I think, Steven, when you asked the question about the other financial expenses, I think I actually misunderstood your question, and I answered something else, so I just want to correct myself. The DKK 298 million that in 2017 in other financial expenses has been affected by

some of the sales of the property to lawyers and on whatnot and also have some effect of our swap on currency protections. The rate level should be in the rough DKK 250 million plus/minus range. 2016 was positively impacted by also the sales of the property - our properties in Copenhagen, just to correct myself.

Jan Erik Gjerland - ABG Sundal Collier
Just 2 follow-up. Looking to the Western Norway economies, it seems it's sort of picking up again with higher oil price and more efficiency, having the currency being down some 20% to 30% from the peak. When should we expect that premium growth to peak up again on a normal basis? Is it sort of during '18, or is it just into '19, not the first, because of the lag on the premium growth? What would you expect? That's the first one.

Morten Hübbe, CEO
Well, I guess, it's a slightly tricky question because we - a lot of external factors driving that. But if you look at what has happened during the autumn of '17, it seems that the actual willingness to buy insurance, to employ new employees, buy new trucks, et cetera, is starting to grow again, so it seems that the underlying trends will improve during '18. But then bear in mind that a lot of the new sales and expansion of products we do during '18, you will get that as earned premium towards '19. So I think we will see a gradual improvement already during '18, but I think we will be in '19 before we see the bigger improvement to the actual top line. It seems that Private lines will move first, and then Commercial lines will follow. And then the dark horse is how will the

customer reaction in Corporate lines be to the price increases we've done. I think we have decided to stand tall and say we need these price increases in Corporate lines Norway, and then if that means slightly lower top line, then we will live with that. But of course, if we're seeing more players increased prices in high-end corp, we might end up with more top line and higher prices, but we are preparing for a scenario with lower top line in Corporate Norway, which is really not a macro driver but a micro driver that we see that rates need to come up. So don't be surprised if the trend between Private and Commercial is different to Corporate.

Jan Erik Gjerland - ABG Sundal Collier
Perfect. And finally, your guarantee business, you say that you're increasing your reinsurance part to it. What is a typically combined ratio for a guarantee written business when it comes to financial guarantees, which I know you are big at?

Morten Hübbe, CEO
Well, it depends a lot on which year you're looking at. But it's not unusual to have combined ratios of 50% to 60%. Then it can vary. It can be lower, it can be higher, but those are not unusual numbers.

Jan Erik Gjerland - ABG Sundal Collier
And why are you increasing then your reinsurance part of it? Is it because it's even cheaper, or is it expensive to your SCR, or what is the main reason, please?

Morten Hübbe, CEO
I think our main competitors in the guarantee business is really the banks. And what you see is that the banks generally have slower processes, so a lot of them have cost ratios of around 30. We are below 10, so our margins should be higher. But the model

of the banks is that they make more money in the normal years. And then if you get to cyclical negative financial periods, where you have more losses, then the banks could have negative bottom lines in those periods on the guarantee business. What we do is, by buying a lot of reinsurance in all of the good years, we have a slightly higher combined ratio. But then in the years where there is negative cyclical development, we have the protection of the reinsurance program. And consequently, we do not have a negative bottom line. And that is why you might almost compare our guarantee business to a broker business, where we take the risk, and then we pass on a very high proportion of the risk. I think you might go to Page 27 on our Capital Markets Day material, where we showed a combined ratio of 61. And then we showed how we did not lose money in the financial crisis due to this ongoing acquisition of reinsurance being extremely conservative to protect the P&L in negative years.

Gianandrea Roberti, IR Officer
Thanks a lot to all of you for all the questions. You can see in the presentation our next roadshow destination, starting from London tomorrow. If you have anything else, just feel free to contact IR, and thanks again for your time.
