



Conference call transcript

H1 2007

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Corporate participants

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Conference call participants

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Presentation – H1 2007 highlights

Ole Søberg

Good morning and welcome to TrygVesta's conference call related to the H1 results 2007. In the studio today is Stine Bosse, CEO; Morten Hübbe, CFO; and myself, Ole Søberg from Investor Relations. Before we start the presentation, let me mention that after the results we'll have investor meetings in Copenhagen and London, as well as in the Nordic region, and throughout September and October we'll participate in several conferences. If you want to know more about this, you can either consult our web page or call Investor Relations. Also, if you have questions after the conference call, you're more than welcome to call Lars and myself in Investor Relations for further questions. With this short introduction, I'll hand over to Stine.

Stine Bosse – TrygVesta, CEO

Thank you, Ole, and good morning everybody. The H1 of 2007 has shown improvements in results close to DKK 400m. The outlook pre-tax we therefore upgrade 15% to now DKK 3.1bn; and another upgrade on the growth side, we now expect on the full-year 4% growth and that is mainly driven by three factors. One is a much higher retention in Private & Commercial Norway and Denmark. It is also driven by our New Markets, especially Sweden is performing very well; and it's also driven by very good sales in our corporate business. Now you can see that the number of customers and policies have increased with 135,000 and 71,000 of these policies actually come from New Markets.

What is also worth mentioning is that we have a good pipeline of new initiatives in our business. We have introduced LEAN just this spring, and that of course is going to give us better performance in the years to come. We have also reduced prices for young female drivers in Denmark. I think we've mentioned this before, but it is in our pipeline; and as always when we

reduce prices, it's always driven by better underwriting, better risk qualities. Premium increases in workers' comp in Denmark and also in selected areas of Norway, and we will return to that in some detail later. What is also worth mentioning is that the number of large claims held in H1 is quite significant. It's just above the number of last year and despite that we show very strong improvement of the result.

If we turn to Slide 2, there's just one thing I want to mention and that is the expense ratio. If you look at the composition of our expense ratio, you will see a decrease in the expense ratio for our mature markets, Denmark and Norway, from 16.3 to now 15.8 and 1.2 for our New Markets. Then of course you have to look at it as an investment, we of course focus very much on increasing the number of policies and the volume in the New Markets to take down the cost ratio. But when we start up of course there is some investment in there.

If we turn to Slide 4, the gross premium drivers, you will notice that only one area is actually not participating in the growth of gross premiums and that is Private & Commercial Norway. But you have to notice that underlying here we do see an increase in the number of policies and we do see that if you compare us to the Norwegian market this also covers for a decrease on the rate overall in Norway but also based on a very, very high performance in that area. So we foresee that we will have growth coming in during the last half of 2007 and definitely when we go into 2008 also from this area.

If we turn to Slide 5, you will notice Private & Commercial Norway and here again please pay attention to the relativity to the Norwegian market. If you compare that you will see that the performance here is actually relatively strong. What I also want to highlight is of course our corporate business. Not only do we see a very strong growth, we saw that on the last slide, but also we see actually a very, very healthy and good business. This of course also includes the increase of the large claims that I mentioned earlier.

If we turn on to Slide 6, you will notice that the frequency of car claims in Denmark has gone up

with 9%. The three key drivers for that are increasing vandalism, glass and burglary. Of course we are watching this very carefully, but you will notice that we are still performing very on the claims ratio even with the slight increase in frequencies. If we stay in Denmark and in the frequency, you will see that on our house insurances, the frequency is up with 9%. Water-related claims and fungus are also participating in increasing the frequency. If we still stay in Denmark and we look at the average claim, it is good news to see that the average claims on house insurance is only up with 1.4%. That is actually slightly below the index, so that is very good news. The average claims in the motor area are slightly up. Of course we are watching that and we are looking into initiatives if this goes on that will actually flatten this or decrease it.

If we look at the frequency in Norway and we start with motor again, frequency in motor is down again by 2.3 percentage points. We do still think that this is due to the much more modern and up-to-date profile of the car portfolio in Norway. The welfare in Norway in financial terms is very high and therefore people do buy new cars. If we look in the house areas, it's up 2.4 percentage points. That is of course still okay. It is not dramatic and it is water-related claims and it is also burglary. If you look then at the average claim development of Norway, you can see that the house is still developing slightly upward; it is still due to the overheated labor market and of course also here we are looking into initiatives to make sure that this either goes flat or decreases. In all these areas, I would like to mention that if we see the frequency or the average claims rise to an area where premium increases are needed, we will of course do what we are doing in Norway at the moment.

If we turn to Slide 7, you can see that the large claims of H1 are DKK 473m of cost on the claim side. We have also guided that a normal full-year is in the area of DKK 410m, so we actually exceed a normal year, and we then have new expectations for large claims in the area of DKK 673m to be very accurate. Also here just mentioning that you can see actually H1 2006 is a similar pattern with also very high numbers (inaudible). It is the nature of our business. With a lot of Corporate business we do of course

expect some large claims, but please pay attention to the fact that even with these large claims, our Corporate business does perform very good.

Now weather-related claims, we have an expectation for full-year of DKK 225m. We have seen in H1 DKK 85m and we also guide you in our release that we have seen in July another DKK 90m in weather-related claims and we still think that we will be in the area of a full-year expectation, but also of course knowing that we still have the autumn to wait for. The run-off situation is close to last year with net run-offs of DKK 322m and gross run-offs of DKK 306m.

If we turn onto the next slide, just mentioning the weather and how it is actually affecting us. We have just showed you that for the year-on-year to date we have had weather-related claims in the area of DKK 175m. That is of course now what we usually have seen. We do expect these weather conditions in the Nordics to continue. It will result in higher premiums over time if we do not see that initiative that's taken to actually drain the water better. We have in Denmark seen that certain areas are more infected than others and that is due to the fact that the systems that should actually drain the water away are not up-to-date. We will of course address this ongoing and also of course citizens in these areas are obviously not (inaudible) to the fact that not a question of finances and looking into perhaps an increase in premiums, but also the fact that when they come home and the rain has been there, they come home to a house where everything is floating around, which of course is not acceptable. But we are monitoring this carefully and we will not hesitate to take action in rising premiums if necessary. It is not something that we think is necessary at the moment, but we will do so if necessary.

On Slide 9, a couple of comments on the Finnish operations, another good growth period of 32.2%, 23,000 new policies; our claims ratio still very good, for the new portfolio extremely good and the cost ratio, you should view that in two bits. One of the private lines that we started years ago, which has come down from 44% same time last year to now 27% and then of course the investment that we have done in now

also growing commercial lines in Finland and that takes the cost ratio up no doubt.

A couple of comments on the Swedish operation, Slide 10, please bear in mind that the premiums come in very gradually here. If you look at all the premiums that we have now in our books, it takes to SEK 160m. If you look at the profile of the new markets growing, you can see that we outperform our Finnish operations by far and where there's still a steeper increase of our sales in Sweden. We are now still in the area just slightly above 2,000 new policies a week.

Over to you, Morten.

Morten Hübbe – TrygVesta, CFO

Thank you Stine. If we turn to our three largest business areas starting from Slide 12, it's clear that our largest business area Private & Commercial Denmark has achieved a significant improvement both in terms of growth and in terms of combined ratio this quarter. Growth has been 3.5% in Q2 after a somewhat lower growth in Q1. It has been significantly supported by a very good improvement in our customer retention, but also new sales have been developing strongly in Q2 and in the full H1 it has developed by 38,000 new policies. We have seen a combined ratio of 82.1% in Q2 despite a significant increase in weather-related claims, as you mentioned Stine.

If we turn to Slide 13 and look at Private & Commercial Norway, we see that our combined ratio has been impacted by some DKK 54m in Q2 of large claims and some DKK 79m of large claims in H1. In terms of growth, we've seen a negative growth in Q1 and also in Q2. But we do see a significant trend shift in that area. Our renewal rate has improved by 1.7 percentage points in the first six months of 2007. Also, our number of policies has grown by 24,000 in that period and we also see that we have carried out price adjustments in a number of different lines of business from 1st of July 2007, most notably in motor line with an average price increase of 4.8%. It is our impression that compared to (inaudible) Norwegian market has also increased prices as from 1st of July and generally these trends point to the fact that the second half and particularly 2008 will have

positive premium development. The cost ratio has been reduced by 1.6 percentage points in the first six months of this year, which is of course very satisfactory, and there's a number of larger initiatives in place which will also influence the cost ratio positively in the coming period.

If we turn to our corporate business area on Slide 14, this is the one of our three largest business areas that has had the strongest balance in improving both the top line and our bottom line in these first six months of 2007. Growth has been 6.6% in local currency in Q2 and 5.5% for the first six months. This reflects also an improved tendency in the customer retention but also a very strong development in sales. While we're particularly pleased to see quite many cases, where we have achieved new accounts despite being somewhat higher in price than our competitors but still getting the accounts because of our strong customer service and our strong claims handling, we've some DKK 350m of large claims or 14 percentage points on the combined ratio in the first six months. It has really been an unusually high number of large claims in the first six months. Nevertheless, the combined ratio has been improved both through an improved cost ratio but also by an improving and strong underlying development of our corporate business. We've had a combined ratio of 81.9% for the first six months and just 80.4% in Q2 2007.

Now if we turn to our investment portfolio from Slide 15, we've had a strong investment result in the first six months and particularly Q2 has had investment results that are almost DKK 440m higher than Q2 in 2006. We've seen strong equity returns in March, April, and May. We have seen increasing interest rates in Denmark, but also slightly higher than that in Norway. That has of course impacted capital losses on bonds, which for the first six months is a loss of DKK 309m. But our increased discounting due to the high yield curve and this has then had the opposite effect of DKK 282m leaving just a net effect of negatively DKK 28m of the including interest rates. Generally performance relative to benchmarks has been very strong in bonds. In equity they've generally been good, but we've seen continued underperformance in the investment in Danish equity. While seeing a very

small proportion of our total investment portfolio, we are currently looking into restructuring our exposure to Danish equity. In our release we mentioned that we sold 10% of our total equity exposure during June. The timing was quite good and of course we could have sold slightly more, but it was in line with what we told you after Q1 wanting to reduce our equity exposure slightly.

If we turn to Slide 16 and our outlook for the full-year, Stine has mentioned that we've increased our outlook for earnings before tax by 15%. Growth expectations were originally 3% for the full-year. At our Capital Markets Day we increased that to 3.3% and now, as Stine mentioned, we're increasing our outlook for top line growth and local currency to 4% reflecting both of a good development in customer retention, also the new strong development in sales in New Markets, particularly Sweden and Corporate, but also the price adjustment that are carried out in workers' comp in Denmark from 1st of July and a number of general price increases most notably in motor in Norway. Of course the run-offs in Q2 are affecting the combined ratio outlook positively and the investment income in Q2 is doing the same. We have of course also been affected by the turbulence in investment markets in Q3, but obviously that reminds all of us that we need to concentrate on making money on our core technical results and our core business. Finally, I could mention that we have no investment in CDOs or CLOs, and of course when we look at our general outlook not only for this year but also the coming years, we are positively affected by the new tax regime in Denmark which has taken the official corporate tax rate from 28% to 25%. It is taking our expected efficient tax rate this year from 26% to 23% and in the years to come it changes our expected efficient tax rate from 26% to 24%.

If we turn to capital on Slide 17 briefly, we are mentioning that we now have an equity of DKK 9.1bn. Hybrids unchanged at 11% and you might have noted that Moody's upgraded our rating in Q2 from A3 to A2.

As you may recall at our Capital Markets Day we also announced a change to our dividend model, which is illustrated on Slide 18. Our increase of

expected earnings full-year to DKK 3.1bn before tax and DKK 2.4bn is illustrated left on this page 18. Our growth of expected 4% will have an incremental capital requirement of DKK 300m. With our new dividend and buyback model, DKK 1.2bn in dividends and that's the 2007 earnings will support DKK 900m of stock buybacks totaling an 88% payout ratio which we believe supports our strong commitment to capital repatriation and of course support a very high yield for our stock.

Finally, on Slide 19, just a short overview of how our CAR ratio is developing throughout this period. At 144% our CAR ratio is somewhat higher than it was at the same time last year. This is described in more detail on our web page. Of course this has been helped somewhat by the good results and obviously also by the sale of 10% of our equity exposure. The potential changes to how discounting is handled in the CAR model has not been resolved in Q2 and we're looking to resolve that in Q3. But you can read more about this on our web page.

Now having concluded our presentation, we should hand over to you and we are ready to take your questions.

Operator

Operator instructions.

Ben Cohen from UBS is on line with a question.

Ben Cohen - UBS

Good morning. Hi. It's Ben Cohen at UBS here. I just had a question on the corporate results and what your view was of the underling combined ratio. I guess there're two things here, one given the frequency of very large claims that you've had, and I guess you gave the number on a group basis, does that guidance really hold going forward? But also I think even if you split that out, you're looking at a combined ratio somewhere in the high 60s, maybe low 70s. How sustainable is that and maybe you could just say something as to why you're able to make that kind of margin? Thanks.

Stine Bosse – TrygVesta, CEO

Okay, I'll try and answer that question. I think that generally speaking it is obvious that, yes, the Corporate area is a very strong business nowadays. We can see that the way that we actually address this market with our risk concept, the way that the Corporate clients nowadays actually value not just discussing price but also discussing the quality - how much effort do we put into a situation, for example, with large claims do we actually cater for the interest of the customer and so on and so forth. That sort of thing is much more top-of-mind nowadays with our Corporate customers and here of course we stand very well. We have very good and very professional safe handling and that gives us a very good position. We have seen from time-to-time foreigners trying to come into this area of the market. We have not seen any yet with very great success. I think I've mentioned earlier that in many cases, if anybody really wanted to come in, I would see it much more as acquisition than starting up or doing something sort of from the bottom in this area. So we do see that this is going to be sustainable. It does not come on its own. It does demand quite an effort from our side in actually handling our customers in a way that they prefer. But having said that, I think we do have a very good position, and I do see that this is going to be the same, not necessarily quite in the area we see today, but definitely not close to back to what it was earlier on.

Morten Hübbe – TrygVesta, CFO

Might add that you also see the significant improvements around the cost ratio in Corporate. That of course also affects both the low cost ratio and the continued improvements there that we know that's been very efficient by (inaudible) customer oriented and at the same time is one of the things we can do to insure having very strong margins and stronger margins than competitors in the corporate segment also in the future.

Ben Cohen - UBS

Sorry, did you have a comment on the large claims and whether what you described as a normal year still holds given the record over the last 3 ½ years?

Stine Bosse – TrygVesta, CEO

No, it is the nature of that kind of business. Bottom line, it's also nature of insurance. You do see some quarters where you just have a higher frequency. If you look at a 10-year period, you will see it happens sometimes. It does seem to cluster and there's no good reason. It's not weather-related. It's not any special segment or anything. It is actually just coincidence and that is the nature when you've got a lot of corporate business. What is of course obviously very important and what wasn't the case earlier on is that you have to continuously tell your customers in this area that they actually pay for these large claims, that you don't look away from them when you underwrite. But you actually address the fact that they pay for each other and that I think in that sense it is very good that we do see occasionally large claims come like this. It just reminds us that we have to underwrite bearing that in mind.

Ben Cohen - UBS

Thank you very much.

Stine Bosse – TrygVesta, CEO

You're welcome.

Operator

Will Morgan from Goldman Sachs is on line with a question

Will Morgan – Goldman Sachs

Hi. Good morning. I have a few questions if I may. The first one is on your reserve releases.

Looking at Q2 you seem to have had about 4.7 points of benefit from releasing reserves. I know it's in your (inaudible), so I just want to get a gauge on how sustainable this might be. I mean looking historically you've probably had reserve releases about two points on the combined on an annual basis. I guess are we seeing some change going forward in terms of the run-off profitability of your book? Any comments on that would be very useful.

Also, if you could just give an idea of how that splits up and whether or not some of that is coming in the corporate division that would be very useful. My second question is on growth. I suppose the very quick question I wanted to ask of a high level was: If we were to ignore the effects of the workers' compensation change, what premium growth would you be forecasting for the year? But also within that, I mean looking at your Danish business that seems to be performing quite well despite the drop in motor premiums. I suppose I have slight two-prong question on that. The first is: With the strong growth in the health insurance policies is that something you think is sustainable at the kind of levels you're seeing at the moment? The other question is on the motor side, I think you had mentioned that you were about to implement some kind of pricing cuts. I just wondered given the pricing cuts that have gone through, are there signs of increasing competition there or do you think the market is generally stabilised on that front?

Oh yeah, sorry my final question is just on the buyback front. What sort of time would you think about starting share buybacks? Are you going to wait till the end of year, assess where your capital position is and then start buying back in 2008 or is this something that you will happily start in the midway, well, ongoing through H2 of this year? Thank you.

Morten Hübbe – TrygVesta, CFO

Good morning to you, William. If we start by your first question, we'll split the questions between us. The reserve releases, you're completely right but in Q2 this has affected the combined ratio by 4.7 percentage points. For H1 it has affected the combined ratio by 4%. Generally if you look at

the assessment of the size of our reserves, we see a likely means of approximately DKK 400m in a year. Of course what you see is that we're higher than that in H1. DKK 400m would (inaudible) a combined ratio effect that is somewhat higher than what you mentioned but below 3%. Of course we will see variations around that expectation. If I were to model somewhere around DKK 400m per year is a reasonable amount.

Your question also, to what extent that related to Corporate and it would take this most recent Q2 of our total run-off of just below DKK 200m, approximately DKK 100m of that is from Corporate. We see the same tendency as in previous years that it is from motor. It is from property and it was from liability and general that trend has continued.

On the growth, your specific question on the price increase in workers' comp over 12 months here in Denmark will increase premiums by roughly DKK 120m. Half of that unfortunately we'll be earned in 2007, i.e., approximately 60 million cases for 0.2/0.4 percentage points of the total 4% growth.

Stine Bosse – TrygVesta, CEO

You can actually take that back to when we raised our expectations at the Capital Markets Day, we raised it from 3% to 3.3% and that was due to the workers' comp situation, and now it's up to 4. Your question on the Health Care area, we do see very good growth there and we do expect that growth to continue. We see now also the market situation in Norway is changing considerably on actually wanting to do Health Care. So we see that as a very, very sustainable and big growth area for us in the years to come. We also of course are very sure that we only do year-on-year policies in this area, and I think overtime you would also see that the price level you see nowadays is a price level of the beginning of a new market and over time you will see also here that prices will rise slightly. But it is a very, very interesting area and the demand in this area is only going one way and that is up.

For motor pricing, you questioned, and we have seen somewhat more aggressiveness in the

motor pricing. Normally that kind of aggressiveness goes away rather quickly when you see the results running in. We haven't participated in any way in aggressive pricing on motor, and we will not do that. What we have done is where we have seen that on a basis of good underwriting and risk selection that there is a basis to lower premiums and of course we have done so. We have lowered our premiums and that is in these results by running 12-month 6% in the motor area. We think that (inaudible) is going to give us a very good and interesting book, and I think our results nowadays show that. I don't think that there's going to be increasing price competition in motor. I think all companies still remember times where people have burned their fingers significantly in doing that. On the buyback, Morten, are you going to comment on that?

Morten Hübbe – TrygVesta, CFO

Yes. When from the very beginning of our listing, we want a further clear and transparent view to capital repatriation, a high capital repatriation, changing from announcing in June adding a buyback program to the high total capital repatriation. We of course discussed the timing of starting that. We concluded that we will start buying back shares as from March 2008. The reasoning behind it was that some investors might have bought the share looking for only a dividend and for those investors we wanted to make sure that they had ample time from June 2007 to March 2008 to adjust to our new program and therefore it's a good continuity in communication and in process. Of course it could've started in the autumn but that would've been a more abrupt or (inaudible) in terms of (inaudible), but from March '08.

Will Morten – Goldman Sachs

Could I just follow-up with one quick question on Denmark. I mean you're mentioning that the health business is going to help you sustain growth. I guess could you just help me because in Q1 you only had around 2% growth in Denmark and now you're looking at about 3.5%. It's just quite a big swing to have in a quarter. Is there something structurally in the numbers on

the health side that I should be aware of that is suddenly making you grow 3.5%? I just want to get an idea of where the kind of sustainable level is in your mind in this area.

Stine Bosse – TrygVesta, CEO

No, I think that what has changed from Q1 to Q2 is retention. That is actually the key driver of the better growth in the Danish book, as you mentioned, and on the health that's much more steady, but you should expect to continuously give us double-digit and pretty good double-digit growth in this area. It is we just see sort of endless numbers of new products in our pipeline actually taking for a very, very big demand.

Morten Hübbe – TrygVesta, CFO

You could add also that when you compare to the very low growth in Q1, that was also effected by the fact that premium discount to larger groups depending on the very strong results were unusually high in Q1 and part of that was really an adjustment to 2006 and that's why 30.2 for Q1 was really lower than the underling business development.

Will Morgan – Goldman Sachs

Actually you wouldn't be surprised if you grew something in the region of what you're doing in Q2 for the rest of the year?

Morten Hübbe – TrygVesta, CFO

I think that is a right assessment, yes.

Will Morgan – Goldman Sachs

Great. Thank you.

Operator

Anders Hornbak from Carnegie is on line with a question.

Anders Hornbak - Carnegie

Yes, hello. It's Anders Hornbak from Carnegie in Copenhagen. Congratulations with the results. I have a few questions. The first, could you give us some insight into your corporate division, how much makes (inaudible) of this strong result for Q2 and for the first six month.

The second question also relate to the motor line. In your Q1 report you said auto premiums would bounce 6% in Q1 2007 versus Q1 2006 and now you're stating it's down 3% in H1 2007 versus last year. Do you see any changes on the motor area in the last couple of months? That's the second question. Thank you.

Morten Hübbe – TrygVesta, CFO

Good morning to you, Anders. If I take the first question, generally we don't publish (inaudible) numbers quarter-by-quarter, but the results from (inaudible) have been very strong again versus H1. We have a result of just below DKK 40m for the first six months, so generally (inaudible) contributing well to our corporate earnings in H1 and they have done so for many years really.

If we take your second question on motor, I think it's fair to say that if you look at the timing of our price changes to motor, it is clear that it is the negative impact of the price reduction carried out in 2006 is starting to wear off and that's why you see less of an effect in Q2 and you will see most of the effect having worn off towards H2 of this year. That is one of the reasons why we see higher growth in Q2 and we will see also a high growth in H2. But one remark of caution, though, to that question is that we have also as part of our price adjustments last year adjusted for the fact that newer cars with better equipment have less risk and therefore slightly less price. Of course that would also impact us in the coming year slightly that newer cars coming into the portfolio will have a slightly lower price. But it is the effect from 2006 is starting to wear off.

Anders Hornbak – Carnegie

Do you see any risk of further significant rate reductions in the market?

Stine Bosse – TrygVesta, CEO

I don't think that. I mean we can always complain about the weather. I don't think we've ever done so because I mean we're here to support people when they are affected. But the good thing about the weather and also for the corporate line, as mentioned earlier, large claims is that it reminds that we do have to pay attention to our underwriting. We do have to make sure that we can actually make money on our insurance business and then of course also, as Morten mentioned earlier, the sort of volatility of the market shifts at the moment still is making us pay 100% attention to what should be our main focus, mainly the insurance business. I think that keeps a steady outlook on the rates for insurance. I think you will see from time-to-time and sometimes I guess people overact, people wanting to have more appetite, be more aggressive on the pricing. But as I said earlier, it normally goes away very quickly when you see the results running into your books.

Anders Hornbak – Carnegie

Thank you.

Operator

Matti Ahokas from Handelsbanken is on line with a question.

Matti Ahokas - Handelsbanken

Yes, good morning. Matti Ahokas from Handelsbanken. Two questions if I may, first on the corporate business you state that the performance is very strong. Is this a kind of strategic shift in your business or is it just business opportunities arising; and if you could describe in terms of geography, where have you

got most new business and new clients and also in terms of clients sector.

The other question is Norway. If I interpret you right, you sound a lot more optimistic regarding Norway than a quarter ago. What is based on more specifically where you expect the growth to come from in 2008? Thanks.

Stine Bosse – TrygVesta, CEO

I think on your first question, Matti, What we have done in our corporate line, and that has been a strategic decision, is first of all that we will not go back to undisciplined underwriting. So that means that we do say no to business. Second, what we have done is this risk concept that we have also communicated earlier, and that means that when we address a customer in the Corporate market, we address the customer with a whole team, not just a sales person but also the underwriter and also the claims handler and so the customer gets sort of a whole team and buys into a whole team of TrygVesta employees and that has really had a good effect. Making sure that the customer realises from day one that it's not just a question of price, it will always be to some extent of course that you have to be competitive. But it's not only the price; it is also the claim handling. It is also how you can actually down risk for the customer.

Matti Ahokas - Handelsbanken

Is that different from your competitors?

Stine Bosse – TrygVesta, CEO

I guess you might say that everybody does that, but I guess at the end of the day it's a question of how efficiently you do it. What we see and when you ask me, I can only tell you what we have done differently. We have done this more you can say severe, you can say more determinately than in the previous years. Back to the question: Is it a special segment that we've grown and it is on a board line all segments of the corporate business. It is more Norway than Denmark in H1, but also it is both Denmark and Norway, but if anything a bit more Norway. Then

I think that brings on to the next question on Norway, I think you should comment on that Morten.

Morten Hübbe – TrygVesta, CFO

I think that there's no doubt that the changes we did in terms of our business in Norway last year has been significant. You know that we have changed our pricing model. First we took away the introductory discount. That has significantly increased our new retention rate. 1.7 percentage point retention rate increase in only six months is a huge number.

What we also did in the autumn of 2006 was that we introduced our bundling discount which is a package that supports the value proposition that we have give to customers with many products. Parts of that concept was also to give a higher discount to these high number of product customers, but also to give a number of loyalty building features into that product. Of course that had a negative impact to the average price during the autumn of 2006 and the spring of 2007, but a huge positive impact to the customer retention. That's why when we look at the coming period; we see a discontinued high level of customer retention. They're wearing off of these price changes and our new initiatives which include, for instance, sales in (inaudible) but also increasing sales through the bank. All of that supports a higher and good development in premium in the coming period and after a period where we've seen some price reductions generally in the Norwegian market, we think it's very important to note that 4th of July there's been several changes of an increasing price and most notably for us an average price increase in motor in Norway of roughly 4.8%, of course a very important element of the largest proportion of our portfolio. So all of those support a positive future development.

Stine Bosse – TrygVesta, CEO

First of all, I think the main thing is that we have, as earlier mentioned a pipeline of new initiatives for running smoothly all the time. New products; new concepts; new features. Making sure that we still pay attention to our existing customer,

they always get the news first and then second of course making us increasingly better to attract new customers. That is the main driver and that goes of course on a board range. Then on top of that of course our New Markets with a growth rate definitely catering for in the area of between 1 and 2 percentage points looking forward of our overall growth.

Matti Ahokas – Handelsbanken

Yeah.

Stine Bosse – TrygVesta, CEO

I think your last question was generally on the growth expectations and what is going to drive growth also in 2008, is that correct?

Matti Ahokas – Handelsbanken

Great. Thanks.

Operator

Jesper Brydesholt from FIH Capital Market is on line with a question.

Jesper Brydesholt – FIH Capital Markets

Good morning. I have a couple of questions, one related to your S&P model where you say that the discounting has increased, so I just wanted to get kind of insight on a little bit better now that (inaudible) whether you think it's going to sustain in this model. You said you're in discussions with S&P, but could you give a little bit more flavour to do you see the outcome being that this discounting will go away? It has increased the capital requirement by almost DKK 300m in Q2. Also, the reasons behind the very strong increase on the movements in interest rates, how they can come to this high increase in discounting? Also on the same note, the increased volatility in the financial markets, will that have any kind of negative impact on your capital requirement in H2 2007 you think? On the capital model here on the slide show, you

have total repayment of DKK 2.1bn as an example. Is that including or excluding the DKK 624m in discounting charge? Then lastly a little bit on the purchase side, on this improved rating from Moody's, if you see the same kind of improvement from S&P to straight A, would that mean that you would lower your 130% target to lower less than that? That's a little bit on the capital side.

I also would like to ask if you had to revise your investment income outlook for the rest of 2007, how much deduction would you have on your DKK 700m outlook today?

Lastly on your health insurance, which has been discussed a little bit, could you give an indication of what the compound ratio is today and whether that would going forward have a kind of negative impact on the compound ratio? I know you said they would have on yearly basis renewal but still what kind of impact would that have going forward? Thank you.

Morten Hübbe – TrygVesta, CFO

Good morning to you, Jesper. If you look at the discounting and the effect it has on the capital model, first of all of course when interest rates change, the discounting changes and always changes will then impact discounting in two ways. You will have a one-off effect that effects the total recalculation of the balance sheet of claims reserves. So when we have DKK 23b of claims reserves, then that will be recalculated by the new yield curve and the discounting will be recalculated as it's done every single month. That has been happening at the same time as we see the capital gains or losses in bonds and that is why we've had DKK 300m in capital losses and bonds in this period and DKK 280m approximately of increased discounting to the balance sheet. That is the first effect. The second effect is then obviously that when we do new claims and we reserve new claims then that of course will be reserved with a slightly higher interest rate and a slightly higher discounting. Your question on whether or not the capital model includes changes to our discussions with S&P on how discounting should work in the capital model, there are no changes in the second quarter. Fundamentally the discussion

is that the S&P model as a standard used a 10-year quite arbitrary discount rate, then it takes 33% of the discounting out again as what they call a haircut, again, a rather arbitrary way of doing it. I think it's likely that in the standard model of S&P in the future that will remain somewhat like that, but S&P is also announced that in the future there we will work with two models for each company, both a standard model and one with corrections for each customer. There we are still discussing that we believe the Danish yield curve model without a haircut is more reasonable model. But to honest, we've calculated that amount and we've made that (inaudible) as well, so I think we cannot conclude whether S&P agrees on that or not. It's being discussed, and we expect to conclude that discussion in Q3. I'm just trying to keep track of all the questions.

Stine Bosse – TrygVesta, CEO

(Inaudible)... so that was on the question of if we were upgraded by the rating agencies. I think that would be very nice if or when we are so then of course we will address that situation. As we have mentioned earlier, we of course are also aware the fact that we can work with our capital in also a different way than we do nowadays. But as I said on the Capital Markets Day, I mean there should be some reason for us. I mean at the moment we're still showing very nice returns on equity and as long as that is the situation there is no sort of dramatic demand for us to be very aggressive or just more aggressive than we are today on working with the capital. On the question of whether or how we would view the situation today, I mean our policy is not to comment sort of year or day-to-day on the financial development, but of course the situation has changed and we also sort of slightly suggest that in our release today. Things can change even tomorrow or the day after and so on and so forth. So we're not going to tell you any specific figures just of course mentioning that the volatility has gone up and on an overall basis so I think have come down the end of Q2.

Morten Hübbe – TrygVesta, CFO

I think you can say Jesper that we've given enough information on our equity exposure to allow you to calculate on a daily basis what a likely effect is and I think all of us know that if you just take the most recent week, it has been going up and down dramatically every single day. So the answer to that question would depend hugely on the specific timing on the answer. So I think rather you could monitor that on your own. We're generally saying that over time we believe that a 7% annual return on equity exposure is reasonable and that is also what we have assumed for H2. Of course there's a rather large period of the second half left. I think you also questioned whether the DKK 2.1bn for potential payout either through dividends or buybacks, whether that included an adjustment for the discounting of the capital model, and the answer to that is no.

Stine Bosse – TrygVesta, CEO

I think your financial question was on Health Care and combined ratios. I don't foresee that going more significantly into the healthcare and having that as a growing area is going to anyway deteriorate our combined ratio. I think I also insinuated that if at anytime premium increases were necessary in this area, it is not just possible for the (inaudible) that we would do.

Morten Hübbe – TrygVesta, CFO

We can add that we do know of competitors who lose money on Health Care. Our combined ratio allows us not to lose money on Health Care.

Jesper Brydesholt – FIH Capital Markets

Thank you.

Stine Bosse - TrygVesta, CEO

You're welcome.

Operator

Rodney Alfven from Chevreux is on line with a

question.

Rodney Alfven – Chevreux

Yes, Rodney Alvin from Stockholm Chevreux Nordic. I have a few questions on your outlook. When you say that you expect 4% in local currencies, the spread for local currencies in DKK was 1% in H1. Should we expect the same trend also in H2? Then also given that your growth number for the first six months was only 2.5% approximately, that means it was the higher growth in H2. My question is: am I wrong in my assumption that you will end 2008 with a higher growth rate than 4% all other things equal?

Then can you also say on your financial income or investment returns have you taken the last week's turbulence into account in your guidance? Then technical question on your equity investment (inaudible) the second half, it seems like you had almost 30% return in the second quarter on equities and can you say whether that is right or wrong and how could you have so good return basically? I'm jealous. Thank you.

Morten Hübbe – TrygVesta, CFO

So your last question first, Rodney, I think that we would like to have had an equity return of 30% in the second quarter as well, but I think you must have miscalculated that. I think we've shown here that our, what our equity return is for the first six months of the year and that equity return was also positive for the first quarter. So I'm quite sure you must've miscalculated that.

Rodney Alfven – Chevreux

I just took the 275 dividend by 598.

Morten Hübbe – TrygVesta, CFO

Let us give you the specific number on that, Rodney, afterwards. But I'm quite confident that the amount is now anywhere near that high. But

if we take your two other questions, the outlook, you're completely correct that we're now expecting a growth for the full-year which is higher than what we've had for the first six months. But the two quarters of the first six months have been rather different. You see that our second quarter in isolation had a growth of 3.9%, which is quite close to the announced 4% for the full-year. You're correct that the second half of this year will then have a higher growth than 4% in order to make the full-year reach 4%. That is where of course the more than 12% increase in workers' comp prices in Denmark as from 1st of July will affect the second half positively by some 60 million and also the price (inaudible) you've done in the our Private & Commercial Norway will affect it positively. Furthermore, as Stine mentioned, we have also seen some more corporate customers in our portfolio from 1st of July. Regarding the difference from local currency to good currency, hopefully either one percentage point's difference from the first half, something like that will be the case for the second half. But to be honest, it's extremely hard for us to predict how currencies develop. Your second question on investment return on the last week's turbulence, no, we have not explicitly included last year's, last week's turbulence in our guidance. What we have said is that our guidance is 7% annually and we're guiding half of that to the second half of 2007 and of course we're lower than that at the moment and we will see whether that recovers during the remaining part of the second half 2007.

Rodney Alfven - Chevreux

Do we have any hedge strategy for the equity exposure?

Morten Hübbe – TrygVesta, CFO

No, generally we have an equity exposure which is very global and very diversified and very little exposure to the sort of more (inaudible) regions and very little exposure that is local and generally we don't hedge our equity exposure. You saw that we sold 10% of our equity, total equity portfolio in June, but other than that we don't use a hedge strategy for equity.

Rodney Alfven - Chevreux

Thanks.

Ole Sæberg – TrygVesta, Head of IR

Operator, one last question.

Operator

Gianandrea Roberti from Danske Equities is on line with a question.

Gianandrea Roberti – Danske Equities

Yes, hi, this is Gianandrea Roberti from Danske. I have three questions; one is regarding the arbitration case. I saw on the Page 4 I think in the report that you mention a pending arbitration case which you expect to be resolved in Q2 07. If you just give us a clue about that. Then (inaudible) in Denmark, I think you mentioned the fact for claims frequency that there is an increased vandalism and then I think you mentioned blast and burglary. I don't think it's the first time that you mentioned this issue on (inaudible). Can you just tell me how much you see it as a recurrent theme or how much is a temporary situation? Finally, there was a question on the rating as well. Am I correct in saying that if Standard & Poor's upgrade you from A minus to A plus, this means that the capital requirements from you should go up which means in terms that obviously your CAR ratio requirements would be higher? Thanks a lot.

Morten Hübbe – TrygVesta, CFO

If I take the first one and the last question, Gianandrea. Regarding the arbitration case, this is a case that relates to disputes on reinsurance, reinsurance from '94 to '99, so a rather old period. We have an arbitration case with one larger insurer and then we have a number of smaller reinsurers that are likely to follow the outcome of that arbitration. The case has been

carried out before the summer holidays and we expect the conclusion from that arbitration case towards the late part of August. What you can say is that we have been fairly cautious in how we have handled this arbitration case in our accounts, so we do believe that there is a higher likelihood of a positive outcome to our financial result than the opposite, but we can never know. It relates to workers' comp and accident insurance in that period and we will be the wiser in a few weeks time. Regarding your last question on rating, you're right that fundamentally a higher rating would point to a higher CAR ratio. We've been very clear in our discussions with S&P that we see a CAR ratio of 125% to 130% as being sufficient. We've also been clear that over time we expect that our diversification, which is not in the model at the current time, should help us generally in assessing our size of our capital. So I think it is not likely that if we are upgraded that we should then revisit our target capital upwards. I think that is more or less out of the question. Back to you, Stine, on the second question.

Stine Bosse – TrygVesta, CEO

Yes, just on the motor, Gianandrea, the situation is that motor is good business, so even with the developments that we have seen, and yes we have spoken of them earlier, it is still very good business. One thing that we have seen changed a little bit in Q2 is the frequency also in traffic related incidents. I think everybody in this area has noted that we've also been in the papers that the affect of this clip in the driver's license seems to have gone with the wind. We never believed it. We never put it into our considerations and in our (inaudible) or anything, so in that sense that is sort of built in our expectations on the pricing.

Gianandrea Roberti – Danske Equities

Thanks a lot.

Stine Bosse – TrygVesta, CEO

You're welcome.

Ole Sæberg – TrygVesta, Head of IR

Thank you a lot. If you have more questions, you're more than welcome to call Lars Møller or myself, Ole Sæberg, in Investor Relations and then we hope to see a lot of you on the road during the next few months. Thank you.

Stine Bosse – TrygVesta, CEO

Thank you.