Conference call transcript

Half-year 2008 results

19 August 2008 at 09:30 CET

Investor Relations

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Presentation – half-year 2008 highlights

Ole Søeberg – TrygVesta, Head of IR

Good morning and welcome to TrygVesta's first half 2008 conference call. Before we conclude the conference call today, we'll go into a still picture when we do the Q&A session. After the call, we'll have meetings in Copenhagen tomorrow, and then we've actually postponed all the international meetings until mid September. There will be a slide in the conference call deck today explaining where we're going during September.

With this short introduction, I'll hand it over to Stine.

Stine Bosse – TrygVesta, CEO

Thank you, Ole, and good morning to all of you. The first half of 2008 TrygVesta has shown a growth of close to 5%, namely 4.9, which is the best that we've seen until now by the Nordic competitors. We have seen an increase in the technical result of 3.4%, which is good. Underlying tendencies, though, I will come back to, show that we need to do something on the premium side. On the investment side, despite all the turmoil, we have shown a 0.9 return on the investments. The outlook for 2008, we pretax remain with an unchanged outlook. We've added close to 200,000 policies in the first half year and lots of them come out of the Finnish and Swedish operations. But mind you, we also see growth in our industry, in our Corporate business; and we also see growth in our Personal/Private & Commercial in Norway. So all in all, good growth, and the claims ratio is infected, definitely, by claims inflation, and I'll come back to what we're going to do about that. The cost ratio is maintained. Here we also see with the growth profile we have for Sweden and for Finland. We have seen a decrease in the growth in the cost ratio for both Norway and Denmark, and I'll return to that. We have also presented news to the marketplace. In Denmark, we have now roadside assistance as part of our insurance policies, which is new to the market, and there we have some offers to the customers that are significant and different from others. On top of that, I'm happy and pleased to tell you that we have now a distribution agreement with DLG. It's a large distributor of insurance in Denmark and also here we now have distribution agreement for Sweden along side of course with our distribution agreement that we have with Nordea.

Now if we look into slide no. 5, you can see, and I just want to point out to you the fact that the expense ratio remaining at a steady level, but of course with an increased impact from our growth in Sweden and Finland. Here you can see the decrease of the cost ratio for Denmark and Norway coming down from 15.8 to now 15.3.

If we look at the second quarter on its own, and you can see that on Slide 6, here we start to see, and if I point out to the claims ratio, here we start to see what I'm talking about when I'm saying that there is claims inflation going on. Of course, claims inflation needs and calls for premium increases and that goes for Norway and that goes for Denmark as well.

If we look at slide no. 7, you can see that the premiums grew nice and steady and in all areas of course we have seen premium growing; and I'll return to the Private & Commercial of Denmark. But if you see Private & Commercial of Norway, we see a very good growth; and we're very pleased with the growth of 4.1, and for the Corporate business also still a very good growth and a very, very well performing business underneath. Technical result of Corporate is also very, very good. For the Private & Commercial in Denmark, as we have talked about earlier, there has been somewhat price competition going on in the market. Now our expectation is that this is going to definitely decrease, we have seen results from some of our competitors, definitely, also communicating that the price competition that they introduced is not at in any way agreeable to the underlying tendencies of the products. We've communicated this earlier and it's, as I will return to, it's very obvious that we need to look into the premiums, definitely on houses in Denmark. But otherwise, a very good balance also in the premiums between the three different business areas and, as mentioned, growth everywhere and, as you can see on the right side of slide 7, of course now Finland and Sweden are participating nicely to the growth story of TrygVesta.

If we look at slide no. 8, you can see here the average prices for Denmark on the left-side and you can see here that the average prices for motor, for car insurance have come down. Of course these are our figures but also in the market as such, and therefore it's good news to all of us that some of the competitors who have been using price as the only competition feature now are going to take this off the template because of course the underlying tendencies cause for, definitely a stop off of that for cars and an increase of a premiums on houses. In Denmark, you can see a slight increase in prices for houses, but with the underlying development on the claims with inflation going on in the community goes both on the resources and goes also on the wages for repairmen, of course we need to increase prices more than the normal index tells us that we should do. If we go to Norway, you can see that prices have come up. That goes for car; it goes for house insurance as well, and we will see further increases also of the prices in Norway coming up around the year end.

If we go to slide no. 9, here is the story that I was pointing to all the way through that we do need to look carefully on the development underlying on the frequency and on the average claim. If we start in Denmark, and we start on the motor side, you can see that frequency is increasing. It is mainly partial theft that is going up, but also we see other claims coming through the rapid higher pace. Of course still remaining, a very good business, you can see that in the figures as well, that car insurance is still a good business, but definitely not calling, as we have also earlier communicated, for any kind of price competition. If you look at the frequency for house insurance in Denmark, you can see that it has come down quite dramatically. Now you shouldn't be fooled by that because that is because weather-related claims have been close to nothing and of course had that not been the situation, it would have been even more obvious that premium increases on house insurance in Denmark are needed. You can definitely see that when we go to the average claim development for house insurance Denmark, you can see that it's coming up and that is due to the inflation going on in the society in Denmark that we haven't seen for years, but it's coming through now and it is also visible in our books. Going on to Norway, no worries about the frequency apart from the fact that we have seen an increase of burnings or sort of total burn down of houses in Norway, something that of course also definitely tells us that the prices should be adjusted according to that for Norway. That of course is what also affects the average claims development for houses in Norway and a slight increase also in average claims for motor, but nothing that we are too worried about at the moment.

Now if you look at slide 10, you can see that we haven't seen a lot of large claims and that of course also is part of the story about the very good technical results and also, you can see that the weather-related claims, as many of you already have spotted, the weather has been very pleasant in our area for the first half of 2008.

Now turning on to slide no. 11, you can see that the run-off is at a steady pace, same area, same level as last year, slight increase. But if we level out the full year of 2007, you can compare the two and there's actually no increase in the run-off results.

So finally, or getting close to finally, the technical result on slide 12, you can see here what I mentioned, a very, very strong technical result coming out of our Corporate business and a slight decrease in the technical result of Private & Commercial in Norway. Here again pointing out to the fact that we will see premium increases and also in Denmark slight decrease in the technical result and also back to the point that this is indicating that we need to see premiums come up at a higher pace than what index is showing at the moment.

If you go to the outlook, I would like to point out that we are now increasing the outlook or taking the outlook up for the technical result full year by 200m. On the other hand, we're taking the investment results down from zero to now minus 300. I will return to that in a moment in more detail. The pretax result is at exactly the same level as last time we communicated, and because of the mix of the result now going from results on the investment side to results on the insurance technical side, of course that affects the tax as you're very much aware of and that takes down our outlook after tax by 100m full year. The outlook now for the combined ratio full year is 88, so still remaining a very strong and very healthy business with very strong combined ratios; and with the plans that we have already in the books for premium increases, we have no fear that we are going to leave this good level and steady level of high earnings.

I would like to point out to you before I go to slide 14 that the fact that we have now for many years started to actually showing strong results on the technical side and leaving the investment side for, let's say, happy days is now showing its strength. Had we not been very focused on prudent underwriting, high quality delivery towards our customers, high retention rates, which Morten is going to come back to, good cost control, had we not done this for the last many years, the results would have been, I guess, pretty devastating. Now the minus 300, as we have shown you in Slide 14, are composed by a lower return than anticipated on equities. Now everybody has experienced that. I mean the financial markets have not just been turbulent but exceeding turbulent and higher transfer to technical interests due to higher rates is an obvious. It might be difficult for some of you to predict that, but it is actually quite obvious that with higher interest rates, more come over to the technical side from the investment side, here taking down the investment size by 100m, but of course we gained that on the technical side. Then there is a case of mismatching between the bonds and the claims provision, now that accounts for 120m of the now less expected investment results.

Then over to you, Morten.

Morten Hübbe – TrygVesta, CFO

Thank you, Stine. If we turn to the results of our main business lines from slide 16, we see that our premium growth in Denmark has been impacted by the reduction of roughly 2% in prices on motor. However, we see a very positive underlying trend where our real growth is increasing through the second quarter. We see an increasing number of new policies, which amounted to 26,000 new policies in the second quarter. Also, we see a very positive market response to our new roadside assistance coverage, as you mentioned Stine. Most recently we see June, the month of June as the most positive performance in respect to net inflow of customers. Now we see a continued strong technical result at 300m, but, as Stine mentioned, impacted by higher house claims. House claims are some 60m higher than expected and of course the underlying claims inflation leads us to look at claims or price increases.

If we turn to slide 17, we are pleased that we're able to maintain our customer retention level at a very high level, around 91%, despite a first half year where there has been competition from the smaller competitors on price. But the high customer loyalty confirms our strong market position and the belief in delivering quality to our customers. We are confident that our new roadside assistance will continue to improve our tendency during the second half of this year.

If we turn to slide 18, we see the strongest performance in many years in our Private & Commercial Norwegian business with very strong premium growth of more than 4%. This is a result of a healthy combination of both increased loyalty, of price increases, and of 27,000 new policies during this first half year. If we look at the technical result of 102m, it is impacted by several factors, but the two largest of which are house, similar to Denmark, but there we see roughly 30m more of large house claims and also we see the run-offs being roughly 20m lower than the year before. We are clearly expecting that the price increases that we've carried will improve the combined ratio also in Norway during the second half.

If we turn to page 19, you see the very positive trend in our customer renewal and of course that is driven both by initiatives throughout the country, but also specifically our approach to Oslo has increased renewal in Oslo and also increased the number of new customers in the Oslo region. If you look at the charts of price development, we see a continued trend of price increases. If we look at house, prices were increased by roughly 7% 1 January and another 2% 1 July, both of which will help our earned premium and our combined ratio in the autumn and, as Stine mentioned, with the inflation we're still seeing, we are also in Norway looking at more price increases in the house area. In cars, we have increased prices by another 3% 1 July and, as you may recall, in insurance there's always a time lag from increasing the prices to actually earning the premium, but that will then help both top line and combined ratio in the coming periods.

If we turn to slide 20, we've had again strong development in our Corporate business with a top line growth of more than 7%. Now to a large extent that had to do with the net inflow of customers during 2007. But it is clear that particularly in the second quarter, we've seen an increase again in the net inflow of customers, and particularly in Norway we've seen a good development in Corporate in new sales. Our technical result, as Stine mentioned, is very positive and satisfying in this quarter. It has been helped though by run-offs of roughly 9 percentage points and also large claims for Corporate are roughly 120m lower than the same period last year.

Now if we turn to slide 21, it is clear that both Finland and Sweden are starting to play a bigger role in our Group accounts. We have a portfolio in Finland now of more than 400m; and we have achieved 47,000 new policies during the first half, corresponding to almost 30% of the new Group policies during this period. In the second quarter of this year, we also carried out a larger analysis of our claims research in Finland. Finland has now reached a level of maturity where we are very confident that our reserving in Finland are at the same confidence as the Group level, which means that for the first time, we are showing some run-off gains in Finland in the second quarter, and we expect that to be a trend to continue. It confirms the very high quality of our portfolio, particularly in the Finnish private market.

If we turn to slide 22, we also see a continued good development in Sweden. We have been able to increase number of policies by 64,000 policies, which is almost 40% of the net inflow of policies on a Group level, and the second quarter amounted to almost 44,000 of those 64,000, so continued strong development that confirms our target of reaching 8% market share in 2012.

If we turn to slide 23, as Stine mentioned, if we were to rely mainly on the investment income, this would've been a dry season. Investment result has been 346m before a transfer of technical interest and minus 500m after transfer of technical interest. Now of course the first quarter has been impacted by the reduction in share prices resulting in a loss of 400m, whereas the second quarter was mainly impacted by the steep increase in interest rates, mainly in the short end of the yield curve. That resulted in losses on bonds in our portfolio of roughly 500m in the second quarter. But having worked for several years with matching to the discounting of our liabilities, we had an offsetting gain of slightly more than 400m in the discounting, leaving a net negative mismatching of 120m, but that I guess is to be preferred to having just a gross loss of 500m on bonds. The fact that we reduced our equity exposure to 4.5% in January and throughout the autumn last year means that we have only been impacted by roughly 40m by the equity drops in May and June.

Finally, if we turn to slide 24, we see the development in our capital base where we now have a raising capital of 9.5bn, which of course excludes the DKK 1bn which is still remaining to be carried out as share buybacks during the remainder of this period. The 9.5bn corresponds to our traditional 5% buffer and additional 10% buffer through the earnings that we have carried out and of course also the lower equity exposure and this is of course with the unchanged hybrid capital of 1.1bn.

Over to you, Stine, for the summary.

Stine Bosse – TrygVesta, CEO

Thank you very much, Morten. Okay, finally, just pointing out to you that growth is definitely above market. It's remaining with our expectations at a 5% growth for the full year. Claims inflation has an impact. We're aware of it and we are ready to raise prices where needed. We still have very strong combined ratio, also compared to our Nordic competitors. We definitely have a strong growth position and a true growth story with our new markets coming on and still also on the growth side, we are compared to our competitors very strong. However, also the investment results, as mentioned all through the presentations, are going to have an impact also for TrygVesta, even though, as Morten pointed out, much less than you would have seen had we not done what we have done with our portfolio. It will have an impact and of course also for the full year outlook. But still the technical results, we upgrade by 200m for the full year. The outlook before tax is maintained, and still we do think that the position of TrygVesta is strong and clear and we know what we need to do.

Thank you very much.

Matti Ahokas – Handelsbanken

Yes, good morning. It's Matti Ahokas here from Handelsbanken Capital Markets. Two questions, if I may. First of all, Slide No. 9 where you talk about the frequencies in Denmark and Norway. Could you give us the same picture regarding Finland and Sweden? The second question is on the Corporate side, large Corporate business, is there a trend of some kind of businesses that you've been adding as new customers or is it across the board on especially taking into account the fairly high growth that has remained that for some time? Is there some kind of special sector that you've been adding business to or, as I said, is it across the board? Thank you.

Stine Bosse – TrygVesta, CEO

Okay, I'll take those two questions. First of all, on Finland and Sweden, we don't disclose that kind of detail for Finland and Sweden, so I can't give you any more details on that

For the Corporate business and what we're doing there is that, yes, we have been more focused on taking onboard customers and interacting with customers that are ready and interested in actually doing some kind of risk consulting. Our risk advisory setup definitely helps us target customers who are interested in also taking their own risk down and that has definitely taken the profitability of our

Corporate book up, and also it gets then to be a growth story because of course it attracts customers who want to engage in that kind of discussion. Of course at the end of the day, it boils down to also becoming a price issue as well as a risk solution issue.

Morten Hübbe – TrygVesta, CFO

I might add that I think when we published data on claims frequency and claims inflation, not many companies do that and you need a significant portfolio size for that to become a stable and actual sensible communication. The sizes of our portfolios in Sweden and Finland are not large enough yet to do that.

Matti Ahokas – Handelsbanken

As you just mentioned that the Finnish portfolio was reaching a size where you could kind of assess the reserves, I just thought if some kind of indication of how would it look let's say if we take Finland in particular, would it look more like Denmark or Norway?

Stine Bosse – TrygVesta, CEO

But I think that the point is that we do disclose quite detailed information here in Denmark and Norway and when we're ready to do so, we will also do that for Finland and Sweden, of course.

Matti Ahokas – Handelsbanken

Thanks, looking forward to that.

Ben Cohen – UBS

Hello there. Can I ask a few things? Firstly, in terms of the outlook, am I reading it right? The technical result before run-off is unchanged. But if there were sort of no movement in the underlying, you should have an uplift from the impact of the higher interest rates. So is that sort of a downgrade underlying that would relate to higher claims inflation? Would that be sort of where you would ascribe that? Secondly, in terms of the Finnish business, could you quantify the size of the reserve release there please? Thirdly, in terms of the pricing in Denmark, I think in the first quarter you indicated that you thought that pricing would sort of start to improve it. It would seem that actually competition got a bit tougher in the second quarter. Could you maybe just say something in terms of what your competitors were doing and why they didn't respond in a way that you thought that they would?

Stine Bosse – TrygVesta, CEO

Let me take the first question, and Morten can take perhaps some details on it. If you look at our guidance now, we don't guide with any run-off gains for the second half of 2008. That is one point to take into consideration. Of course, when we look at the run on the total situation for the full year of 2008, we also here have to point out, you should be aware that the guidance is based on that we expect an interest rate for equities of 7%, bonds 6.1, and real estate 5.9.

Morten Hübbe – TrygVesta, CFO

Of course, you're correct that with a higher interest rate expected for the second half, we will have slightly higher discounting in the second half which will amount to roughly DKK 70m. So I think it's correct to say that the technical outlook is increased by DKK 200m because we've had the good development in the second quarter. But it's also clear that the development that Stine mentioned of claims inflation in house in Denmark and Norway eats away slightly on the outlook and that is why the DKK 70m of increased discounting doesn't flow through to another DKK 70m higher technical outlook for the second half and that is why it's important for us to work with prices on these claims inflated areas.

Stine Bosse – TrygVesta, CEO

Ole can tell you something about Finland. But let me just point out to you the fact that, yes, we did communicate that we saw less price competition or we probably would see less price competition because of the underlying tendencies. Now we have seen that only sort of really occurring in the marketplace late in the second quarter, but definitely, yes, now we have seen it. There has been a definitely step up of some of the more aggressive players on price competition. I guess because they can see of course exactly the same tendencies as we see that was definitely significant on motor. On house insurance, we haven't been seeing price competition significantly. What we have seen is due to the inflation in society a definitely rise in claims costs and there is only one way through that and that is by increasing prices, and we're ready to do so.

Ole Søeberg – TrygVesta, Head of IR

Then regarding research in Finland, you can actually find it on page 30 in the release. There are DKK 167m for the claims reserves and on premium reserves there are DKK 105m.

Ben Cohen – UBS

Is that not quite a large number in the context of the overall book? Could you maybe say a little bit more in terms of the lines that that's coming out of and the duration of experience you have to work on them?

Ole Søeberg – TrygVesta, Head of IR

We find that sufficient and even as Morten mentioned in the call, now we gave run-offs for the first time.

Morten Hübbe – TrygVesta, CFO

I think then just to be clear, those were accumulated numbers. If you look at the actual run-offs that that impacted, the combined ratio, we are talking about in the private lines area an impact of roughly 10 percentage points or so to the combined ratio in this period, the first half year.

Ben Cohen – UBS

Thank you very much.

Christian Hede – Jyske Bank

Good morning. This is Christian Hede from Jyske Bank. I have a fairly broad question on the corporation agreement with DLG. How much do you expect to gain from this? A follow-up question to that would be: Do you see prices on the agricultural segment come under pressure due to you more or less upgrading your stake in this business? Thank you.

Stine Bosse – TrygVesta, CEO

We do expect a lot from the agreement with DLG. We do see that it is a very good distribution channel both for agriculture and definitely also for private lines in Denmark. I'll come back to Sweden. What you should know is that we don't go into these kind of agreements without looking very closely also to the profitability, and we expect a good profitability also within this agreement, even though, I would have to add that we definitely do have to look at all property products for making sure that we don't see claims inflation eating out the earnings. But what we don't expect - we don't expect that to happen with the DLG arrangement. We have clear deals on that. Now taking that into Sweden is interesting because DLG is a growing international company, and they have chosen to work with us because of our Nordic perspective; and we see a very good opportunity to have a combination of distribution together with Nordea in Sweden and also distributing together with DLG to a targeted set of customers where we can actually distribute products in a good way for the customer and of course also in a good way for us, so high expectations for the overall DLG agreement, yes.

Christian Hede – Jyske Bank

Thank you. Also another question regarding to car insurance in Denmark: You were saying earlier that you expected prices to stabilise. Do you also see the average premiums actually going up going forward within the next year or something?

Stine Bosse – TrygVesta, CEO

I would say for car insurance, it is probably, I mean we index, as everybody knows, we also index the car insurance area, so definitely there will be an indexation of the premiums going into next year. What I would expect overall is to see the same level of premiums running into next year. That is taking away the decrease of premiums that we have seen in earlier years. I wouldn't expect it to actually accelerate the premium growth in car insurance. To be honest, the underlying technical result for TrygVesta, I'm not talking about competitors, but for TrygVesta does not call for that. We have a very, very strong and good healthy motor book and even going on from now with just the index running through is definitely a strong position.

Christian Hede – Jyske Bank

Thank you very much. Have a nice day.

Jesper Brydensholt – FIH Capital Markets

Yes, good morning. Jesper Brydensholt from Kaupthing Bank. A couple of question, which the first one relates to also your premiums in the housing in Denmark and in Norway: You have hiked some premiums 1 July in Norway. How come it is that you can see the claims inflation increasing significantly over some time and especially in second quarter and still has not yet done a price increase on this in the Danish area? If you would follow-up on that, and how much is needed to compensate for the claims inflation that you see and when we will see it? Also on run-off gains, it seems that you are now again reaching a new high level on run-off gains and you're of course fueled a little bit by the Finnish side which at least 9%/10% of the gross premiums, which is quite significant. Is this a new level that we're entering or is it on a high level so we should not expect this kind of level for the second half of 2008? Then also, it might be that what you said earlier, Morten, but on the discount rate, how much is the discount effect on the second quarter compound ratio and how much is your discount rate assumption in the guidance? Thank you.

Stine Bosse – TrygVesta, CEO

Okay Jesper, yeah, I appreciate your questions. It would be very, very - now this is my personal view, I have to add that. It would be very, very intriguing to have the Norwegian model for premium increases with a high inflation profile in society. In Norway, we increase premiums when it's needed. In Denmark, we have this I would say from an international perspective, funny habit of this index that everybody just uses the index. Now that is okay if you're in a low inflation society on environment. But when you have high inflation, it is probably easier to maneuver in the Norwegian model. But anyway, we have seen this in the second quarter and to be honest, we just need to see the quarter sort of fulfill itself to be aware of the fact that sort of the significance of the claims inflation and that it actually calls for premium increases. I think it is quite obvious that you don't want to see one month. You need to see three months sort of before you decide something like premium increases. But now we have seen it and it is obvious to us that we need to increase premiums. We have in our plans to do so in the third and fourth quarter. So running into next year, you will have seen us introducing premium increases to the marketplace. Now the rapidness of this and how it's going to flow into our business and so on and so forth, I think it is wisest to remain that kind of information to ourselves. It would be wonderful for other people to know that, so I'm sorry but this I cannot share with you.

Let me just give you a comment on Finland, and then Morten will take the run-off position sort of more overall. For Finland, the point we are making here is that now we are at a state where the Finnish book has been looked through very, very carefully. We have seen run-off gains. You should not of course expect run-off gains of the size of 10% of the portfolio ongoingly, but you should see that the position we have in Finland now also regarding reserves is healthy. It's steady, and it is in line with what we see in the rest of the business.

Morten Hübbe – TrygVesta, CFO

Back to your question on the pattern of run-offs on the Group overall, you're correct that the run-offs of the first half this year are larger than last year. Last year we had run-offs of roughly 4%. This year we've had run-offs of 4.6% in the first half. But you may recall that last year the pattern of run-offs were rather uneven and the full year last year ended with an influence on the combined ratio of 4.5%. So you can say that what we have delivered in this first half is roughly corresponding to what you saw last year, and you should not see this as a higher level than what you've seen in the past, but rather a more even distribution than what we saw last year. Having said that, it is more or less a coincidence because it does vary over time where the run-offs come from. We've seen most of delivering run-offs also in this first half, but we've seen very positively for the first time in many years, we've seen personal lines like workers comp, particularly in Norway, delivering run-off gains after many years of the opposite, whereas we've seen the claims inflation amongst other things delivering some run-off losses in house and in property, which is rather unusual compared to what we've seen historically.

When it comes to your question about how does discounting impact our results, in our outlook for the second half, we see that we expect discounting to reduce the claims by roughly 70m, which on the full year effect would correspond to roughly 0.4 percentage points of the combined ratio. Of course, you're right that both the second quarter and the first quarter have been helped by higher interest rates. I don't know the second quarter number by heart. But if you look back a year or so prior to 1 July, we are at 0.8/0.9 percentage points helped to the combined ratio due to higher discounting when the interest rates are higher.

Jesper Brydensholt – FIH Capital Markets

Thank you.

Joakim Ström – Nordea Markets

Yes, good morning. Joakim Ström, Nordea Markets here. I have a few questions as well. The first one is regarding the Nordea strategic partnership and considering you have a very strong growth now in these new markets and you're getting more and more reliant on this partnership, can you just give us sort of an update on where you are on the prolongation of this contract and whether you started or if you're about to start renegotiating? The second question is regarding Oslo New Markets, but you also mentioned before that the Baltic market would be quite interesting. Could you just give us your view on how you see that now and also considering where Nordea is from a branch perspective perhaps in the Polish market, would this be a market that would be interesting going into as well? Third question regards the workers compensation and we've seen competitors of yours due to the inflation rate have increased their reserves in this segment. How do you feel you stand on claims yourselves on workers compensation? Thank you.

Stine Bosse – TrygVesta, CEO

Thank you, Joakim. On the Nordea agreement, without giving you any detail, we feel confident about the position and the renegotiation of the agreement. Also of course, we are very well aware of the fact that the growth that we see together with Nordea is good and it's fine and also it has sort of the left-side of it is that we also need to have other distribution platforms working for us. This is also why, of course, pointing out again to the agreement with DLG is very good for us also in that sense.

Now regarding the Baltic area, I mean our view on the Baltic area hasn't changed. I'm aware of the fact that the growth of the economies in the Baltic areas is definitely stepping up. But if you see sort of the penetration rate of insurance, how much of the value over there is now insured, there's still a pretty good growth story going on. So our view on the Baltics has not changed, and I cannot give you any more details on that issue either.

For Poland, I would say might be interesting. Again, here of course well aware of the fact that Poland is also interesting from a Nordea angle. But I would say that definitely I would look into the Baltics before Poland.

Morten will give you some details on workers comp.

Morten Hübbe – TrygVesta, CFO

Yes, you're correct Joakim that claims reserves on workers comp will always be tricky. The mere fact that quite a few of them have a duration of close to ten years and on average six to seven years makes it an issue. You may recall that we have had many of these webcasts where we have announced that we have taken run-off losses in workers comp and that we had strengthened that area. Of course when we see our overall claims reserve position having a positive margin of 7%/8%, then of course a long tailed line like workers comp needs to be positive. We're now happy to be in the position where we have positive claims reserve margins also in workers comp. As I said, for the first time in many years, we see positive run-off gains in workers comp, particularly in Norway. I'm not surprised that we see some competitors that in the same period have to strengthen their reserves because I think we have been earlier in our process in strengthening claims reserves in workers comp historically. But it's comfortable to be at the level where we're at now, but of course workers comp will always be a line that could potentially cause worries on the claims reserves.

Joakim Ström – Nordea Markets

Thank you.

Per Grønborg – Danske Equities

Yes, good morning. Per Grønborg from Danske. I have a couple of questions, many of them quite small questions. The first one on the DLG agreement, just to confirm, as far as I remember prior that deal was with Topdanmark. Is this an exclusive deal or are you running along side Topdanmark?

Stine Bosse – TrygVesta, CEO

Just answering that, this is exclusive; and you're right; it used to belong to Topdanmark and now we've got exclusivity with DLG, yes.

Per Grønborg – Danske Equities

What will happen to the existing portfolio?

Stine Bosse – TrygVesta, CEO

I mean the existing portfolio sits with Top and it's a question of I guess don't do this in a day or two, but it's a question of time and the portfolio will gradually be turned to us.

Per Grønborg – Danske Equities

Then on your claims issues, when I look at the combined ratio adjusted for run-off large claims and weather, your underlying combined ratio, we normally see a quite significant improvement in the second quarter versus the first quarter. We don't see it this year. When I read the text, it looks like you're very much blaming Denmark. When I look at the figures, it looks like it's more Norway that is the problem. What are you seeing on the underlying figure where is that claims have remained high in the second quarter, not come down as they usually do to seasonality?

Morten Hübbe – TrygVesta, CFO

You're correct, Per, that usually we would see a stronger trend of claims coming down in the second quarter to the first quarter. When we are blaming house in Denmark, but also house in Norway, it is because that is where we see the clearest trends. One thing that sort of influences the Q1/Q2 split in Norway is that we were taking slightly by surprise about the extent to which the Easter period in Norway influenced claims, meaning that during the second quarter our claims reserve positioning for Easter, which was at the end of first quarter in Norway, had to be strengthened in the second quarter, meaning that we saw some impacts that in the accounting was reported in the second quarter. But if we look at the sort of full half year as such, the overall trend is that it is house in Denmark and to some extent house in Norway. But you're correct, the other issue does disturb the Q1/Q2 split slightly.

Per Grønborg – Danske Equities

So it's also fair to say that if you look at Q2 isolated, it's more Norway than it is Denmark issue?

Morten Hübbe – TrygVesta, CFO

Yeah, that's fair to say.

Per Grønborg – Danske Equities

Then on your investments, we have seen other financial institutions being burnt by being invested in the cap floaters in the Danish mortgage market. Is this some of the reasons for your investment return or haven't you been exposed to that segment at all?

Morten Hübbe – TrygVesta, CFO

To be honest, I think we said that many times that our investment portfolio is rather unsexy, and I'm sure it will remain that. We have traditional Danish government bonds. We have a large proportion of traditional real estate, mortgage-backs in Denmark, and we haven't had any exposure to sort of more sexy segments. But of course we have some exposure to the fact that the spread between the swap yield curve and the mortgage backs have widened somewhat and that of course has given us some impact, but it's clear that the largest impact to our investment income in the second quarter is the fact that when we have 30bn of bonds to match roughly 20bn of insurance liabilities, the insurance liabilities have duration of three years, which means that we need a duration of roughly two years in the bond portfolio. Having had them at steepest rate increases in the short end of curve has resulted in the mismatch that Stine mentioned earlier of DKK 120m.

Per Grønborg – Danske Equities

Thank you.

Torsten Bech – LD Markets

Yes, hello. It's Torsten Bech from LD Markets. Just a few questions left: First on the claims frequency within the Danish division on housing, you state that the frequency is down by 7% year-on-year, which is due to mainly weather-related claims. If you adjust for this weather-related thing, what would the growth or the slowdown in frequency on housing be in Denmark? Secondly, you keep your weather-related costs in your guidance, could you give us an update of what you see on the weather-related areas in July and August since you keep your guidance firm? That was it. Thank you.

Stine Bosse – TrygVesta, CEO

Just on the first question there, Torsten, it's disclosing too much detail. But this is why we mention it to you. We point out to the fact that if we had just seen a sort of normal development in the frequency, say flat development, that would definitely have pointed out even further to the fact that increase of premiums in this area is needed and that is of course also back to the fact which we have communicated in different ways for quite awhile that the weather-related claims for our area and here with all the wind and the rain, especially for Denmark, is going to affect premiums over time. So we will not see this very good weather development. We do not expect that to be sort of ongoing. If we look into the third quarter, what we have seen of it without again disclosing any kind of detail, yes, of course we have seen more rain. We have seen more heavy rains than we did in the early summer and that of course, as everybody knows, has an impact on insurance results, not saying that it is in any way sort of really devastating. But of course, I mean, I guess this is the kind of information that is disclosed for insurance just by looking out of the window.

Morten Hübbe – TrygVesta, CFO

I guess you can say, as you pointed out, Torsten, that we only had these 57m of weather claims in the first half, leaving 170m in the outlook for the second half. Of course, historically that has been most heavily in use in the fourth quarter if we had seen storms or wind and of course some of the showers uses some of that amount, but I guess it's fair to say that having 170m in the outlook for the second half for weather-related claims is a comfortable position.

Torsten Bech – LD Markets

Thank you.

Giulia Raffo – Citigroup

Thank you very much. I have two questions. The first relates to your outlook in slide 13. If I'm not wrong, you now have a large claims budget for the year which is DKK 100m lower than it was the case in May. So if I take that into account in addition to the 70m improvement in the technical results due to higher interest rates, is it fair to say that your guidance on the technical results before run-off is effectively roughly 200m worse than was the case in May? Then the second question relates to the loss ratio in the first half of 2008 vis-à-vis first half 2007. If I done the math correctly, you had open 6-point higher prior year, you also had about 2 points less large losses and about half a point of less weather losses and slightly less than 1 point from higher discounting. So if I take all this factor into account, I come up with a accident year loss ratio which is about 4.5 points worse. Is that correct?

Morten Hübbe – TrygVesta, CFO

Turn to your first question, Giulia, you're correct that expecting lower large claims for the second half than we did in May of course helps the overall outlook. It's fair to say that when you add that feature to the 70m on the discounting that both points to the fact that we are expecting the underlying development to be slightly worse. But if you look back to what we discussed earlier, if you look at housing alone in Denmark and Norway, that alone is more than 120m in underlying worsening. Then there are several other factors which if you count all of them means that you cannot amount or add them up to 200. But the logic of the thinking is correct and I think it's fair to say that we are in a region where underlying house and surrounding areas means that we have worsened the anticipation on that by around 150m where it's of course positive that we are able to see that our historical and current prudence helps us on the run-off side and gives us stability and timing to actually get our pricing adjusted to the higher claims inflation. But overall, the thinking that you mentioned there is correct. Now if you try to add up what has happened both on large claims, on weather claims, on run-offs, and on discounting, I think you miss out on the changes to reinsurance and the math you're doing, which means that your calculation of the 4.5 is too high. But you are correct that as our current communication mentions large claims, weather, and run-offs have been positive and that has of course helped the overall technical result be at a similar level to last year despite these underlying tendencies. But keep the reinsurance change in mind also when you do that math.

Hadley Cohen – FPK

Hi. Good morning. Most of my questions have actually already been answered, but just one final question. You say I think it's on page 4 of the report that you have additional measures in place or to be scheduled coming through to combat the claims inflation. Is that purely price increases, or is there anything else that might be coming through, like new cost saving initiatives for example? Thanks.

Stine Bosse – TrygVesta, CEO

Yeah, thank you very much for that question. I mean it's quite obvious for us that the claims inflation is calling for premium adjustments and that is the main feature that we are talking about just now. But of course here we're also looking into other areas that we should actually be more worried about risk-wise. The new tariff that we 're introducing to the market in Denmark is definitely taking into consideration much more clear the fact that in some areas it is actually higher rain falls than in other areas, so in that way it's also risk adjusting initiatives that this actually calls for. But the main thing is and the main communication is that we need premiums to go up in house insurance and that goes both for Denmark and Norway.

Apart from that, as usual, and you can also see some of the initiatives that we haven't even been mentioning today, we have always cost reducing initiatives in place and it's part of our sort of ongoing way of conducting the business that we always work on the cost side. Now had we not done that with the wage inflation that we see nowadays in our societies, you would've seen definitely rising cost ratios on top of rising claims ratios. So we're very pleased and happy with the fact that we always and steadily work with our cost ratio and normally we would communicate this we will always see a decrease of 0.1 year-on-year even with our growth initiatives in place. I guess I would be a bit more careful on that side, but I would not expect rising cost ratios. But if we did not work with reducing costs ongoingly, we would have had to communicate that, yes.

Ole Søeberg – TrygVesta, Head of IR

Thank you everybody. We will be on the road, as I mentioned at the beginning, the next, actually tomorrow in Copenhagen and then mid September at several conferences and individual meetings. We look forward to seeing you then. Thank you for today.