Teleconference

Q2 and H1 results 2011 – 17 August 2011

Ulrik Andersson - Tryg, Head of IR

Good evening and welcome to this conference call presenting Tryg's second quarter results of 2011. I am Ulrik Andersson, Head of IR, and I am joined this evening by Morten Hübbe, CEO, and the programme for tonight is that Morten will do a short presentation of the results and after that we will hand over to questions from all interested parties. So Morten, please.

Morten Hübbe - Tryg, CEO

Yes, thank you Ulrik. And for those of you who haven't seen it, we have on our website a pre-recorded webcast where you might hear a more thorough description of the quarterly results; that is for those of you who haven't seen that yet. Very briefly, we have reported a second quarter combined ratio of 91.5, which means that the second quarter has been the best quarter in the last two years. We have increased our quarterly technical result from just short of 400 million in the second quarter last year to just short of 500 million in the second quarter this year, which is an improvement of roughly 25 %. And we see an underlying improvement in the claims ratio in all three major business areas: Private lines, Commercial lines and Corporate lines. And now also a positive result in all those three segments. No doubt that the start of the third quarter has been difficult. In Denmark, we saw a very significant cloudburst or heavy rain showers in the beginning of July. Our current estimate is that the number of claims reported to us has been roughly 18,500 claims and an estimate is that the ultimate claims before reinsurance for us could be in the region of DKK 1 billion. Now of course as most of you know our reinsurance structure means that we carry the first 100 million in claims and then reinsurers carry the rest of the claims and then we have to pay an estimate of roughly 90 million in reinstatement premium. Of course, that will have an impact on the third quarter, but with the ongoing underlying improvement on the earnings of the core business we believe that also the second half of this year will be clearly and positively influenced by those improvements despite the rain showers in the third quarter. Of course, also the tragedy in Norway has happened in the third quarter and that has been an extremely tragic event and it has caused some difficult claims to handle, but not claims that are financially of a significant size. I think, with that brief introduction and a reminder that there is a more thorough webcast on our home page, I think we should move on to your questions.

Jakob Brink – Handelsbanken

Hi, it is Jakob from Handelsbanken, Copenhagen. I have three questions, please. The first one is regarding the rain as you briefly touched on, Morten. Now for two years in a row, you have had quite significant gross claims related to rain. Your guidance for weather related claims is still around 350 million, I believe. How do you expect this to be going forward, also considering potential increases in reinsurance premiums? Then secondly my question is regarding workers' compensation. I remember last quarter you talked quite a bit about the frequency on workers' compensation and how it has, I think, tripled since a few years back. Have you seen any change to this? Any improvement or deterioration? My final question, you mentioned regarding the Corporate segment that you are planning on some premium initiatives in 2012. Could you maybe give us a bit more detail on that please? That was it, thank you.

Morten Hübbe - Tryg, CEO

Hi Jakob, well I guess that you remember that we increased our expectation for both large claims and weather related claims for 2011. I guess it is quite clear that what we saw in July was the biggest event in terms of rain showers we have ever seen. And if nothing else is done to prevent such impact in the future we would have to expect higher claims for that in our future results and that is why we are going through a rather large programme of making sure that we reduce the risk of that reoccurring. We see in our numbers that roughly 14% of the customers with rain shower claims in July this year have also had rain shower claims within the last five years and that is why we are going through very thoroughly with each of these customers reductions in the coverages, demands for securing their basements technically a different demand for them not to use material that is more vulnerable in those basements, etc. etc. but I guess ultimately we will need to see also investments in improving the sewerage systems in order to really manage this problem so I guess that we will continue this work of demanding more focus on claims avoidance amongst the customers. We will continue the work to differentiate pricing more and we are in the process of implementing a completely new content insurance policy whereby the coverages and the prices are more differentiated. So this is a challenge that continues. I don't expect huge increases in the reinsurance payments next year because this is also within the calibration of the models, but we are likely to see some increase.

In terms of workers' comp. we have been very worried about two things. First that frequency has been increasing and secondly that pricing has been dropping and I guess what we can say after this quarter is that we are less worried about the frequency developments. We see upsides in the current reserving position of workers' comp. and clearly there are more positive signs on workers' comp. in the second quarter than we have seen in previous quarters. I am unchanged in terms of being worried about the current pricing, particularly on Danish workers' comp. but clearly positive signals from the claims development. We have also seen less reopening of claims regarding this High Court ruling but we do believe that it is too early days to conclude that we will not see more reopening of cases. But so far we have clearly seen less reopening of old cases than we had anticipated.

And I guess in the Corporate segment we are generally seeing a trend where we are still worried about pricing but we do see that our underlying claims ratio also for Corporate was actually positive from Q2 last year to Q2 this year. Would you recapitulate what your question was on Corporate?

Jakob Brink, Handelsbanken

I think it said something about that you were – that further action …

Morten Hübbe - Tryg, CEO

Ah, OK, sorry… Well what we have decided before the summer holidays is both to effect general price increases mainly on property insurance but the bulk of the price increases in the Corporate segment is individual price increases but clearly with property insurance as being one of the key drivers of those initiatives with fairly substantial numbers but carried out on a customer by customer basis. There are areas where the prices on Corporate property insurance is quite close to the pricing we saw in 2002-2003 and clearly that level is too low so some of our Corporate customers will see fairly significant price increases, but as I said on an individual basis.

Hadley Cohen, Macquire FPK

Hi, good evening thank you very much. Just one technical question if that is all right. On your other financial income and expenses in the investment activities, can you explain the volatility of that number, please, I mean, I appreciate that on a half and half basis that number is pretty flat but on a quarterly basis it seems quite volatile now. I understand that the interest payments go through that but is the volatility purely explained by FX or, I mean, what else is going on there? Thank you.

Morten Hübbe - Tryg, CEO

The serious question of the day I think. No doubt that this is a difficult area. We have very clear and stable elements in other financials like for instance payment of rents, we have payment of interest on the mortgages we have, we have portfolio management fees and the like. They are quite stable. More typically, the unstable element is two things, it is our inflation hedges where we try to hedge the inflation exposure in workers' comp. annuities with a market inflation hedge. The correlation between those two is quite far from perfect and it means that we do have net movements from that in and out of each quarter and that is one driver of volatility and we have the FX swap element that can have quarterly volatility. Quite often if we look at a half-year period or a 12-month period they will often net out, but from quarter to quarter those are the two drivers.

Håkon Fure, DnBNOR

Hi, good evening guys, three questions if I may, firstly on the Commercial segment. Could you rake out how much of the year-on-year improvement is driven by lower large claims levels? Secondly, you make some statements regarding government bonds. Are we to understand that you have no PIGS exposure, based on these statements? And thirdly, the competitive situation in Denmark, is this affected by the high frequency of major claims events that we have seen recently? And in addition, the financial market turmoil? Thank you.

Morten Hübbe - Tryg, CEO

Could you repeat your third question again?

Håkon Fure, DnBNOR

Yes, I was wondering regarding say all these smaller Danish mutuals and so forth, given the high frequency we have seen of major claims events in Denmark and in addition the financial market turmoil, has this in any way changed the market situation in Denmark?

Morten Hübbe - Tryg, CEO

Well, I guess if you look at the Commercial segment we have an improvement to the combined ratio of more than 8% and of course we are quite pleased with that. I guess, if you want to rake out only what is explained by large claims then actually large claims alone explain roughly 10% difference. Then what you have to bring into the same equation is the difference caused by one-offs. Last year we had positive run-off gains in Commercial of 35 million in a quarter. This year we had a run-off loss of 18 million in a quarter. So that is 53 million difference, which is roughly 5 percentage points to our disadvantage in this quarter. So you can argue: 10% advantage from the lower high claims, 5 percentage points disadvantage from the run-offs position and underlying that is a good and strong improvement in the underlying developments. In terms of government bonds you are completely right that we have zero exposure to PIGS sovereign bonds, we have nothing in Italy, nothing in Greece, nothing in Spain. We did historically have a small position in Spain. We sold most of that last year and the small remaining part was ultimately ran out in February so we have zero exposure. We also do not have exposure to US government bonds. We do have it within our investment mandate that we could invest in those countries, but we have zero current exposure. In terms of the mutuals, there is no doubt that some of them will be hit quite badly by these major claims. Some of them are hit badly the current drops in equities of course and also you might have seen a report from the Danish FSA stating that - I think there were only like 8 companies that could not comply with Solvency II, but was a significant, roughly a quarter of the companies were actually more than halved in their buffer to solvency requirements from the old solvency regime to the new solvency regime and getting quite close to the borders, so I think that the combination of those does mean that there are more mutuals that are heading for trouble and therefore being less aggressive in pricing and what we saw in the Danish market was that in the second quarter actually our customer retention rate increased and I guess that also is because there are fewer players out there being aggressive in terms of pricing. Clearly in Private line and of course again Corporate line is a different discussion.

Per Grønborg – Danske Markets

Yes, good afternoon, Per Grønborg from Danske, I have two questions, the first one related to Sweden, Finland. I think a lot of us are making a more clear improvement. What are your expectations time-wise to reach a combined ratio level of 100 in each of these markets and probably more importantly, what is the time frame of reaching a mid-90s where they could start to repay some of the losses you have had historically? The second question is related to the other items on your list that you addressed a bit earlier. My question is can you be a bit more specific? What are the other assets? How much of that is coming from the stable part and how much is coming from the volatile part? Now you have reported two quarters in a row with a pretty stable level of the total of around minus 70.

Morten Hübbe - Tryg, CEO

Well, I guess Per that we would also like to see a more clear improvement in Sweden and Finland. I think we are clearly the closest to that in Sweden. If we look at the last 12 months it is our assessment that our reserving position in Sweden has actually improved roughly 90 million which in effect means that we have during the course of delivering ongoing results also stabilised and strengthened our reserving position quite clearly. That process has now come to an end and we are comfortable with our reserving position in Sweden, which means that Sweden is clearly the closest to delivering combined ratios well below 100 and I think it is within the next couple of years period that Sweden will be sort of mid-90s% combined ratio and quite soon below 100. In Finland we are below 100 on Private lines but only marginally so and still Commercial line is significantly above 100 and to be honest we do see now a process where we are integrating more clearly our Finnish and our Swedish organisation and we are seeing which of the concepts from Sweden that have worked well could we move to the Finnish market but no doubt the perspective of getting to clear positive earnings in Finland is further away than it is in Sweden.

Per Grønborg, Danske Markets

You addressed additional cooperation with Nordea. Is that not something that just will hurt your cost line even more than it already is hurt?

Morten Hübbe - Tryg, CEO

It depends on the structure of that cooperation and we are for instance testing bundling ideas where in fact the commission payment in Nordea is lower than normal and we try new concepts of bundling their bank products and our insurance products and I guess as long as we combine them more clearly and for instance as is the case in this example the commission payment is actually less. It is not more hurtful to the cost ratio. But you are right that if you just continue with the same agreements and the same commission rate and you increase sales then it would hurt the costs. But actually that is not the case in this scenario. On your other financials, I don't think I can put numbers on specifically - do you have the numbers that we could give out. There is no doubt that the volatile elements are clearly on the inflation side and on the currency side and we have of course a specification of all of those numbers but maybe we should as it is a volatile element in this quarter make sure that we put it out tomorrow so that you can see it in more detail. I don't have the details to be honest.

Claus Højmark, ABG

Yes, hello, this is Claus Højmark from ABG in Copenhagen. Three quick questions. The first one also relating to cloudbursts. You write about the obvious big cloudburst in Copenhagen, but it is also, we have also had a couple of other cloudbursts here through August. Could you maybe give us some sort of indication on what costs we should expect for that? Secondly, in terms of frequency, one of your peers mentioned in their Q2 report that the claims frequency had been unusually low in Norway in Q2. I was wondering if you could elaborate a bit on how you have seen claims frequency in Q2 in Norway and whether we should expect that to be an unusually low level for you? And lastly, a quick question on the running yield on your bond portfolio in your free bond portfolio, is it fair to assume that the level of income in your bond portfolio in Q2 here was pretty close to what the running yield would have been? Those were the three questions.

Morten Hübbe - Tryg, CEO

OK. You are right that there have been rain showers also after the beginning of July. Last week we saw the night between Sunday and Monday, I believe, where currently we have between 250 and 300 reported claims for that period and sort of comparable to the 18,500 claims I described earlier and also that rain shower we saw last was a low number of claims. It hit a different region of the country. There was a bit in the Greater Copenhagen area but the majority was in Funen and in what we call Falster, sort of south of Copenhagen or way south and the reported number of claims is dramatically lower and also typically the values insured in those areas are significantly lower. So we don't expect any sizeable numbers from those claims and what you may also see from the early July period was that as it hit the Greater Copenhagen area the difference to previous and also subsequent events was that it actually hit almost 4,000 Commercial and Corporate customers. And the 50 largest claims alone cater for roughly 300 million in the 1 billion estimate so that is why the number is high and so far we don't expect higher claims from the subsequent events. But we have bought more reinsurance than before. Previously we could in effect – as you know we have 100 million in self-retention on these events, in theory we could previously have as many DKK 100 million events during a year as you could imagine but we have now bought reinsurance cover extra from 1 July which handles that if we have more than 4 DKK 100 million events in a given year then this reinsurance treaty comes into play. So we have better coverage there than before.

I guess on the running yield I am not quite sure what the comparison to the accounting number is, but the ongoing running yield at the moment is around 1.5 %.

Ulrik Andersson - Tryg, Head of IR

I can add something there. I think that the bond portfolio in the three investment portfolios gave a yield of 84 million in the same quarter and that is a bit higher than you would expect probably, just looking at a duration of 1.3 years but as you might know there is a part of the portfolio that is a high yield portfolio and it gave a remarkably good result this quarter. So the bond result for Q2 is a bit better than you would expect. On the other hand, the equity result was a bit lower than you would expect if you looked at the MSER index which is the benchmark for the equity portfolio. So summing up, you have got very stable results from the real estate, you have a bit negative result on the equity and a positive result on the bond portfolio in Q2.

Claus Højmark, ABG

And now also an ongoing yield of 1.5% is that right?

Ulrik Andersson - Tryg, Head of IR

Yes if there is a duration of 1.3 years as the starting point and then you can do your own assessments on how would translate it. But 1.5-2% would be – probably be OK.

Claus Højmark, ABG

OK, and then finally the frequency in Norway?

Morten Hübbe - Tryg, CEO

The frequency in Norway I guess we can also see a lower frequency in the first half and in the second quarter than we saw last year both in cars and in houses but what we do still see is a worry point on the average claims particularly on cars, but not only on cars so for us, I mean, our combined ratio in Norway this quarter is 90.6% so that is a good, strong figure in the second quarter and we are pleased that the frequencies are slightly down but I think, to be honest, I am more worried about the fact that the average is up and that we have now more salary negotiations in Norway with the results between 4 and 4.5% salary increases and in effect we could be headed for a period where the salary-driven inflation is quite high whereas the interest rates are unusually low and that is why we still in our assumptions for 2012 a quite steep inflation in Norway and therefore also price changes to cater for that.

Ulrik Andersson - Tryg, Head of IR

And then, Claus, if you read Norwegian newspapers I think last week there was a headline about the cost of repairing a car has gone up 6.3% in the last year and of course that flows directly into our claims costs in motor insurance.

Claus Højmark, ABG

But you feel you can compensate this with your current premium initiatives?

Morten Hübbe - Tryg, CEO

Clearly and also I would add that if you look at our Danish car claims procurement we are 600 million or roughly 6-7% cheaper in repairs than average in the market whereas in Norway we are doing at the moment a lot more to improve our claims procurement on cars so with the combination of the price increases we have effected - largely it was 1 January in the car dealer channel where we increased 5-10% - a combination of that and the claims procurement initiatives in Norway we are comfortable that we can manage that within our planned and proved result.

Gianandrea Roberti, Carnegie

Yes, this is Gianandrea, good evening from me as well. I have three questions if I can – relatively easy, I guess. The first one is actually not on your Q2 number per se, but it is more on the net investment income and I don't know if you are able to help me because it is required that you sort of give out a bit more of a precise number, but I was looking back on you Annual Report 2009 published at the end of February in 2010 so 1½ years ago and at the time you were saying that in a clean year obviously at the time was meant 2010 you were making 250 million on that line. I think you say between 200 and 300 but I am just taking a mid-point and it is my impression that rates are significantly lower now so I would actually expect an amount quite a bit lower than in a clean year, be it 2012 or whatever. If you can just give me a comment on that then that would be very helpful I think. Secondly, obviously you are increasing the price hikes next year. It was 600 million before – it is 1 billion now. I think in the report it is quite interesting because you mention minor adjustment, but I mean it is almost doubling up these price hikes but if you can just share a bit more comment, I don't stop to be amazed by the fact that your customer leakage is very small and these price hikes in the Norway region seem to be very, very sticky compared to everywhere else in the world, I would guess. And then the final question it is more on a comparison Q2 versus Q3, I was just trying to figure out historically if one of the two is a relatively better quarter for you, I guess in the last couple of years the numbers are blurred by lost of one-offs so it is a bit difficult, but if you can just have some comment on that, that would be helpful. Thanks

Morten Hübbe - Tryg, CEO

I think I will take a pause on the first question and get back to that in a second, but if I take your second question, I guess you are right. The DKK 1 billion number for price increases next year is very substantial and I guess the increase from 600 million to 1 billion is also very substantial and actually on top of that increase of 400 million we have all of our claims initiatives and we also have what we call our pruning initiatives so there are a number of customers that we will change conditions, pricing or throw-outs in addition to the 400 million. If we look at what is within the 400 million, one of the biggest areas that we are changing is in Danish agriculture where we make a broader increase in pricing. Other than that clearly Commercial lines in both Denmark and Norway are a main driver of the price changes we are effecting. Secondly, we are still effecting price changes in Private lines in Denmark but more in different nuanced segments and less in sort of very broad across-the-board terms and then thirdly we are particularly on property effecting price increases for individual customers in Corporate so I guess when we use the wording that we are adjusting and more nuanced price changes it is not that the numbers are not fairly chunky, it is more that we have passed the points where we give broad and very unnuanced price increases and more now hit specific segments to make sure that we keep the customer retention high and also that we continue a good trend of keeping the right customers. We have just made a recent analysis in Commercial lines showing that within the last – if we look at the customers who have left us this year and we compare their combined ratio in the last five years to the rest of the existing portfolio then the Commercial customers leaving have a substantially worse combined ratio than the ones staying so I think the () works well and we have good data now on the fact that it is actually the right customers leaving us.

Ulrik Andersson - Tryg, Head of IR

But I think Gian, it is important to remember that 400 million that is 2% which is I would say a normal adjustment of prices in business, life and non-life insurance and the 600 million they are in a way leftovers from initiatives that re-initiated last year and the year before so in a way this, I think, shows that we are back in a more normal price adjustment environment where we of course look after our portfolio and see if there is a reasonable relationship between premiums and claims and adjust premiums accordingly and I don't think that the 2% increase next year is a dramatic change.

Morten Hübbe - Tryg, CEO

Also the combination of that and then the fact that we now get the rest of the accounting impact of the price change that we have already effected add to the 1 billion and of course that is a more substantial number.

On your third question, historically if we don't have significant rain showers in the first quarter then quite often the third quarter will be as good as the second quarter so more often they would be competing with each other to be the best quarter of the year but we have clearly seen that the trend has been that if we see heavy rain showers it is more often in the third quarter and less often in the second quarter but if we don't see that they are competing with each other to be the best quarter. Did we have an ongoing number on the net income of the free portfolio as of today?

That was the first question

Gianandrea Roberti, Carnegie

It was really about the net investment income, now I know I appreciate now you split it out so that may be a bit more complicated but if I go back to the Annual Report for 2009 that you published in February 2010 at the end of February 2010, I think, at that point you were guiding for the entire year 2010 250 in total net investment income without any split and I have the impression the rates are actually quite a bit below that so I would guess that that amount right now if I take a clean year, obviously, right leave aside market to market and whatever, should actually be lower than that.

Morten Hübbe - Tryg, CEO

That is correct, I mean we have not given out a specific number but I guess if you look at the historical number of 250 and even up to 300 we are clearly below that at the moment so if you are using 250 as a number you are clearly too high.

Vinit Malhotra, Goldman Sachs

Yes hi, thank you. This is Vinit from Goldman Sachs. Just, I remember there was a big discussion as well in 1Q around how the price increases were around 5% in claims inflation, was it around 2.5% leaving you a net 2.5% to play with for the underwriting and this time I notice that the Danish housing you mention quite a few times that the claims inflation is quite high. Now is this 2% that we are talking about on top for next year is that somewhat driven by this Danish claims inflation on housing? Or what's the view on claims inflation if just this on, thank you. Just that one point?

Morten Hübbe - Tryg, CEO

Yes, you are completely right and as we have commented now at the moment we have seen price increases this year of around 5% and claims inflation on average in many areas of around 3% which I guess fits well with the underlying improvement we see in the combined ratio in the second quarter of around 1.7 percentage points. You are right that on Danish houses we are actually worried. We still see a claims ratio in the 90s in Danish house insurance. We still have a significant pipeline of price increases we have not seen in the accounting yet and there is no doubt that Danish housing is still part of the price increases we are carrying out also in 2012 and to be honest I think it is likely that we will end up changing our house policy concept more dramatically to make sure that the new claims or weather pattern is fitted better with the coverages we have but the first step will be to change the contents insurance but you are right that part of the explanation for the price increases being spoiled is also Danish house but I guess it is one of the few products where there is still some doubt whether what we have done and have planned to do is enough or not. And that is also a question of how there is a play out with the claims avoidance initiatives we are taking, etc. etc. But that is part of the price increase in 2012.

Vinit Malhotra, Goldman Sachs
And that is not like change of ownership insurance

Morten Hübbe - Tryg, CEO
No, it is not.

Vinit Malhotra, Goldman Sachs
That is not the driver OK and just before I sign off, just one thing. You mention 3% claims inflation or was it.. you really put 2.5 in 1Q is that as negative as that

Morten Hübbe - Tryg, CEO
Well actually, there are areas where the year was numbers around 2.5% and we are closer to 3% where I guess as a starting point Norway is pulling up the average and Denmark is pulling down the average. And in Denmark the main area that is a worry point is Danish house insurance and in Norway the worry point is more generally on the wage increases.

Ulrik Andersson - Tryg, Head of IR
And I think it is important to remember that the wage increases of course spill into our claims both on motor insurance and on house insurance as, of course, a large part of the compensation for claim in building and in housing insurance is having the house rebuilt by builders so the wage element is quite heavy in those kinds of business.

Vinit Malhotra, Goldman Sachs
Sure and lastly then the Danish, you said, was pulling it down. That is somewhere outside housing -... probably I believe that thing.

Ulrik Andersson - Tryg, Head of IR
Correct, I mean the wage increases in Denmark are clearly way below the Norwegian numbers. We see many areas with wage increases only of around 1% so clearly that is pulling down the general inflation but we still see claims inflation in Danish houses, not wage-driven inflation but more sort of weather pattern also repair of houses from the 60s and 70s driving that inflation but it is not broad on all products it more narrowed to Danish house insurance.

Giulia Raffo, Autonomous

Hi, good afternoon, thank you very much. I have a series of questions for you all very quick given the time at your end. The first one on, I think I have seen in the interim statement that you had a negative run-off in your Commercial line segment and also a small item that I was wondering if you can give us a bit of colour as to which line within Commercial lines did trigger that negative development. The second question I have is that I think in the slide you mention that your 20% medium-term ROE target holds even with current interest rates, I mean you know clearly in the last 5-6 weeks we have seen some sharp downward fall now, insurance rates in Denmark as a matter of fact are below 1%. Can you just confirm that even with rates where they stand you will still be confirming that 20% ROE target and my final point is a follow-up on what Gianandrea asked before and if I am correct at the end of the day assuming that the matching works the financial income, the net investment income in the P&L would be simply the product of your free portfolio. Now I think you have about 9 billion of free portfolio. I am trying to think – you said that 250 million is too low but a large part of that free portfolio is

Morten Hübbe - Tryg, CEO

too high

Giulia Raffo, Autonomous

Yes, yeah, sorry, If I look at the mix you have the good half nearly 50% of it is in property where you should probably, you know, I assume you are having a yield of 5% or 6% so I was trying to have a sense as to why 250 million would too high against a 9 billion portfolio.

Morten Hübbe - Tryg, CEO

On the first question on run-offs you are completely right, we had a run-off loss of 18 million in Nordic Commercial in this quarter compared to a 35 million run-off gain last year so 53 million difference or some 5 percentage points to the combined ratio. The 18 million is a handful of individual sort of medium to large claims in Commercial where we have ultimately settled those claims at higher expenses than we thought and that is the driver of the negative run-off. If we look at sort of the perspective of likely future run-off gains our analysis suggests that our reserving position at the end of the first half is better or more positive than at the beginning of 2011 so if anything we see the likelihood of future run-off gains as having increased. Not specifically on Commercial lines but more broadly. When it comes to our ROE, I guess you are right that the interest rates could compound so low that they could jeopardise our medium-term target of 20% ROE but we do expect that we are able to deliver 20% post-tax ROE in two years' time even with the interest rates we are seeing now but of course the question is: How much lower could they get potentially and then of course that discussion could be a new discussion but where we are currently we are comfortable that we can deliver an ROE of 20%. As far as the question on the free portfolio and why 250 to 300 million would be too high. I guess what you have to make sure you take into account if the other financials which would hit that line, which means that the ongoing interest payments on debts, the investment management fees, etc. etc. would also hit that line. So the combination of lower running yields, even though we have short duration in that book and then of course ongoing also this other financial item would point to a lower total number than 250-300.

Giulia Raffo, Autonomous

All right, thank you very much but just one follow-up, quickly – I noticed, you know, in the slide and in your speech you sound more confident now on the progress that the group has made and also on the trajectory of the combined ratio. Do you share or is it just me thinking that you sound more confident or is it a fair interpretation.

Morten Hübbe - Tryg, CEO

Maybe it is late in the evening and I am tired, I don't know. No, I guess that there is no doubt that we have all along been quite confident that we are able to carry out the price increases planned. I guess where we have more confidence now than for instance a quarter ago is that we see now a pick-up in customer loyalty so we lose less customers than we thought, we have more precise data in Commercial lines, for instances, that the customers leaving us clearly have a substantially higher combined ratio than the ones staying. We did not have that evidence a quarter ago. And also, this is the first quarter where all three business segments are showing clear improvements in the underlying claims ratio. So I guess as move into more and more quarters where we see the trend turning and the underlying development improving we get more and more confident but of course, I mean, if you look at a segment like Commercial lines the improvement to 96.5% is great but there is still fair bit of ground to cover from 96.5 to 90 so I still think we have a fair bit of work ahead of us but I think we are progressing well but it does not fundamentally change my view that we have set out a three-year target and not a one-year target and I guess if you look at year-to-date we are still at 93.7 so yes a great second quarter but still there is a fair bit of ground to cover from 93.7 to 90, but yes, we are probably more confident than a quarter ago.

Claus Therp, SEB

Yes, I have one question and that relates to the Corporate segment, the very large run-off gains you have there, could you elaborate a little bit why you have that big run-off gains and maybe also in your Retail or Private lines it is said that your reserve position becomes better and better than on the Private side the run-off gains did not seem as high.

Morten Hübbe - Tryg, CEO

That is correct. If we look at the bulk of our run-off gains in this second quarter, it is in workers' comp. and a very significant proportion of that is in Denmark and a very significant proportion of that is in Corporate. And I guess that close with the comment I made earlier that we have seen more positive trends from workers comp. in the second quarter than we saw during the winter. My comment on the general reserving position is probably that we are more confident with the reserving on current year and also on the year 2010 than we have been before and we have a broader balance in the reserving margin now than we had say six months and I think we would see also in the future a fairly high volatility in which business segments have which run-off gains in which period, but from a company point of view we are more confident with the reserving position now also including Retail than we were say 6 or 12 months ago, and I guess it is not hard to understand because if you look at the period where the claims inflation for instance in house insurance and contents insurance kept surprising us it was hard to get the right balance in the reserving margin of those products and we are more comfortable with that now than we were, say, 6 months ago.

Adrienne Lim, Morgan Stanley

Hi there, my first question on run-off in the Commercial lines has already been answered actually and my second question on the Norwegian terrorist attack, I don't know if I missed it earlier but are you expecting a loss for that in the third quarter?

Morten Hübbe - Tryg, CEO

We have had a number of claims on the Norwegian terror attack but those have been claims of the nature where for instance people that had planned to travel to Oslo wanted not to travel and therefore we should cover their expense or people outside, Oslo people who were at the time travelling somewhere in the world wanted to go back to Oslo to help out so we had to carry the expense of things like that. Then we have had claims like covering psychology treatment for people who were somehow involved or have family that was involved so we have a lot of, call it, difficult and traumatic claims but in effect we had none of the buildings exposed and we have had no claims where the numbers were material in terms of expenses.

Adrienne Lim, Morgan Stanley

OK, so it is not going to be a material number.

Morten Hübbe - Tryg, CEO

No, no clearly not.

Gianandrea Roberti, Carnegie

Yes, sorry, it is just to come to back to one thing that was discussed before. I think it was Giulia asking – it is more the relation really between your 90% target in 2013 and the interest rates here because I saw in the slide obviously you mentioned the possible upside from higher interest rates but the volatility of interest rates in the last two years it has just been a bit mind-blowing and I am just wondering here you are with these current rates I am just making an assumption here, right? In the middle of 2013 you are right in line to have your 91 then rates drop 100 bps lower - it is hypothetical but just to make the point and then you miss it by 100 bps or so. So I guess what I am trying to say is that with all these price hikes and all the measures that you are trying to put in place would it be fair to assume that you are trying to put a buffer in there meaning that if there is something wrong particularly on the rates which at the end of the day is only accounting for you on the combined ratio, well that is what people look at it. Then you would still be able to make it or am I sort of wishful thinking here.

Morten Hübbe - Tryg, CEO

I guess, a reply to you on the wishful thinking aside, but what we saw was that during this spring when we saw interest rates picking up and also the likelihood of them picking up further during the next 1-2 years and starting to do our more detailed planning for the year 2012 and 2013, of course, we discussed should we further strengthen our demand with respect to the combined ratio? Should the 90% target for instance end up being an 89% target because interest rates would move up? And I guess what we have seen now is that that trend has stopped again so we are back to a level where the 90% mark is more likely but we are not building up a big buffer to make sure that we could handle whatever interest rates, but clearly we did not use the - call it - the outlook for higher interest rates, we did not use that to soften our price changes. And that is why I do not feel that we have a problem with that now that the outlook for higher claims has vanished again. But of course if interest rates move substantially lower we would run into trouble. Or at least run into a requirement to further strengthen our price initiatives. And of course that is a bit late, we would then have to have then, if interest rates drop a lot further.

Steven Haywood, KBW

And good evening there. I just want you to focus on your expense ratio. You had some one-offs for redundancy payments. Do you expect any more of these to come through in the rest of the year and then also on this new organisation you have implemented in May this year, what kind of impact do you hope it will have on the combined ratio?

Morten Hübbe - Tryg, CEO

Well, I guess three out of four people who were in the redundancy payments left the management board and I hope I am not leaving the management board any time soon so I hope we are not expecting more of that but we had those costs for that in the first quarter and in the second quarter and actually on a year-to-date basis we had roughly DKK 40 million expenses for redundancy but we do not expect anything sizeable to reoccur in the rest of this year. When it comes to - what was your second question again?

Steven Haywood, KBW

Sorry, it is on the new organisation you have implemented.

Morten Hübbe - Tryg, CEO

The new organisation from May, right. I guess that what we are expecting is that as we have the new organisation with clear responsibility for Private, Commercial and Corporate we expect that the ones responsible for Private lines will have a firm hand in taking Private lines the last bit of way towards the earnings target and in reality they are not very far from the target. The toughest job is clearly in the new management team responsible for Commercial lines where we are making clear improvements but we have more substantial steps to take so clearly I expect in this part of the new organisation more sizeable changes to the way we work, our processes, etc. and that is where we will be investing heavily also in resources and processes within the next – call it – 12-18 months and as I think I have said before that is also the business segment where we will see the last improvement, the latest - I think to be honest when we have a three-year target for the total combined ratio for the group, in three years' time the combined ratio of Commercial will still not be satisfying. Not completely. So they will be rather late in the process but clearly improving in the coming years and then I think that the last thing I would mainly expect to achieve is that we get a firmer and firmer grip on Sweden and Finland. Sweden and Finland are now for the first time a part of my management board with one responsible for those business areas only and to be honest I don't think we have historically spent enough time on those two specific markets in the management board and that has fundamentally changed and clearly I think also that is necessary for us to be successful in those two markets. That was just some of the main changes I would expect to achieve.

Ulrik Andersson - Tryg, Head of IR

OK, but then it is just for us to say thank you for all the questions and thank you Morten for answering a lot of them and of course our team is always available if you have any further things you would like to clarify so with this I will just say thank and good night to all of us.

Good night.