Conference call transcript

Third quarter 2008 results

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Corporate participants

Stine Bosse
TrygVesta – CEO

Morten Hübbe
TrygVesta – CFO

Ole Søeberg
TrygVesta - Head of IR

Conference call participants

Jakob Brink
Handelsbanken

Duncan Russell
J.P. Morgan

Per Grønborg
Danske Markets

Jesper Brydensholt
FIH Kaupthing

Will Morgan
Goldman Sachs

Simon Christensen
SEB Enskilda

Giulia Raffo
Citigroup

Gianandrea Roberti
Carnegie

Peter Eliot
M.F. global

Presentation – Q3 2008 highlights

Ole Søeberg – TrygVesta, Head of IR

Good morning and welcome to TrygVesta's third quarter 2008 webcast and conference call. On the call today, we are Stine Bosse, CEO; Morten Hübbe, CFO; and Ole Søeberg, myself, Head of Investor Relations. With my short introduction, I'll hand it over to Stine.

Stine Bosse – TrygVesta, CEO

Thank you very much, Ole, and also welcome from me. Now TrygVesta's results year-to-date or in Q3 are still proven to be okay. We have of course also felt the financial crisis, and we will return to that issue during this presentation, and that is of course on the investment side. We also still see that there are some issues on the claims rates. These issues that we are addressing and also that we will come back to during the presentation. Finally, I would just like to mention that the growth is still proven very strong and of course also return to that in this presentation making sure that we go through the business areas and explain the growth how it adds up. Also, an interesting feature for this quarter is of course the fact that we have now redone the agreement with Nordea, so it runs until 2013. We also have a lot of activity in place to improve the combined ratios, and we will come back to that.

If we turn to the next slide, here you can see very clearly that one of the issues that we're looking into is of course the rising of the claims ratio. Now the claims ratio is still very strong if you look at it from a historical perspective and if you look at it from an international perspective. But, as we have mentioned many times, and we will still focus on this, we want to show also mid-term very prudent and strong technical results. Of course, the financial crisis calls for us to make sure that we will meet these mid-term targets, and this is why we have initiatives in place to make sure that we will do so. Now the expense ratio, of course here it is good to see that we can still keep our expense ratio at a level like last year, even though we have seen also wage inflation coming through in the Nordic area. We have worked with our cost ratio during many years, and we will continue to do so, and you can see that we're actually now funding the expense ratio increase of the activities in Finland and Sweden, and we intend to do that continuously.

Now if we look at the next slide, 6, you can see that this is quarter-to-quarter comparison and of course here you can see that the premium growth is significant. Throughout the Nordic area, we expect to have the largest premium growth. If you look at the combined ratio, you can see that what is pictured here yellow is large claims and you can see that we have been hit by more large claims in this third quarter than the third quarter of 2007. Now on the other hand, we will also tell you and explain to you that on the weather-related claims, we have seen less weather-related claims; so therefore, of course, we do not hide things away and we do explain to you showing this also on this slide that there has been an increase from 67.6 to now 74.9 in claims ratio. But please bear in mind that the third quarter of 2007 was of course also a very strong third quarter for an insurance company.

If we turn to the slide no. 7, you can see that the average price for cars has come down slightly. The average price for house is up but not enough. This is for the Danish marketplace. Of course, this is why this calls for further increases in price in the Danish housing market. In the next slide, I will show you the development in frequency, and especially in average claims, and these developments do call for us to be cautious and to increase premiums. Now in Norway, we have started the premium increase already last year significantly by in the area of 5% to 6% and we also did this year, in the beginning of 2008, and also mid next year we expect to further increase the premiums in Norway. Talking about premium increases, please also pay attention to the fact that also somewhat in our Swedish and Finnish portfolio, we're looking into increasing the premiums. This is expecting all Nordic actors to follow the same route. It is impossible these days to have any kind of interesting financial income on your investments, so there is only one way to look forward and that is to make sure that we do prudent underwriting and that there is a good combination of premiums and risks carried.

Now if we look at slide no. 8, as promised, here you can see the Danish frequency jumping a bit up and down; but, as we have also mentioned, by the second quarter results, we expected to see this frequency in housing -- house insurance come back, and it has done so, and this is of course what we have expected and why we are increasing premiums. The development in cars is not significant, and you should just see that as a flat and slightly increasing frequency for cars over the last quarters. Then to the average claim, and you can see here that in Denmark, as we also discussed at the second quarter, now the average claim is flattening out. Now had we not worked with this as part of what we're looking into also when we increase premiums, we should've increased premiums further. That is quite obvious that if the average claim had travelled further up, we should've done even more to the price increases in Denmark. We're increasing the price for house in Denmark in the average of 11%. Average claim for motor in Denmark is nice and quiet. In Norway, a development in frequency that is not dramatic in any way, looking a bit into the development in house insurance in Norway, especially development in large claims, when houses burn in Norway, they burn all the way down, of course pretty dramatic and also shown in our figures. Average claims in Norway, same development as in Denmark for house insurance and of course that calls for us to make sure that we do increase premiums also in Norway and quite significantly. In Norway, it goes for both product lines, both motor and house insurance.

If we look at slide 10, you can see that premium drivers, gross premium drivers is of course now still significantly Finland and Sweden, but also Corporate still participating and Private & Commercial Norway, a bit less Private & Commercial Denmark. But if we look at the last quarter, we have seen increasing growth also from the Danish Private & Commercial, and we expect that to continue during the fourth quarter and also travelling into next year.

In slide 10, you can see the drivers for the technical result and you can see that Corporate is a very, very strong book, and you can see that the Private & Commercial of Denmark is a bit less participating than in former years; but please bear in mind, we come from very, very strong results in former years. So even with a setback of DKK 126m, we still show a very strong insurance result from the Danish Private & Commercial market, and even showing that we are still increasing premiums to make sure that we will maintain these strong results also in the future. Goes also for the Private & commercial of Norway; and as you can see here, it does call for further premium increases in Norway, more than in the Danish book, and that is of course what we have in place already and what we are planning also travelling into next year.

Finally before I hand over to Morten, just a couple of words on the outlook, and we have serviced you also with a sensitivity analysis on the return assumptions for the investment side for the rest of the year making sure that we do headlight to you that the assumptions are pretty positive on this side. We have taken down the expectations for the technical result after run-off to DKK 2,200bn and we have taken down the investment result to now minus DKK 1,100bn. That adds up to pre-tax result of DKK 1.1bn, that is our expectations. Now had we not adjusted our asset mix in the beginning of the year and taken down our equity exposure to 4%, we would have guided by this time a zero result. So we still feel comfortable with what we have done. We feel very comfortable with what we are doing, and we also feel very comfortable looking into next year and also there we will still show very strong technical results, of course a bit different on the financial side and very difficult to predict at these times.

Now over to you, Morten.

Morten Hübbe – TrygVesta, CFO

Thank you, Stine. If we turn to our claims development on slide 13, we show that we see an increase of almost 3 percentage points in our year-to-date claims ratio, which is primarily related to the continued high claims inflation in Danish housing, as you mentioned Stine, and the primary reason for our increase of 11% in average prices. Furthermore, we see that our Norwegian motor book has marginal increases in the claims frequency and a 5% increase in claims average, which will also affect this development. Finally, we see in our personal injury lines, like accident and health care, we see an increase in the underlining claims inflation; and therefore, we have planned price increases in these areas.

Now if we turn to slide 14, we see our development in large claims, which year-to-date is lower than 2007. When we look at the third quarter, we see a development that is higher than expected, the large claims in Q3 of just short of DKK 300m relative to an expectation of DKK 125m. Particularly Private & Commercial Norway have seen a third quarter of DKK 90m of large claims compared to DKK 5m of large claims last year. Now if you look at our outlook, as Stine described for the full year, we now expect DKK 600m of large claims for the full year relative to DKK 500m previously. When we look at weather-related claims, Q3 is in line with our expectations, but significantly lower than Q3 of last year.

Turning to slide 15, we see the development in our run-offs. We've seen run-offs of DKK 202m in the third quarter, which is roughly 4.6% of combined ratio compared to 5.9% effect in Q3 of 2007. In Q4, we're likely to see a run-off development, which is fairly similar to what we have seen in the third quarter. On the right-hand side of this page, you see the development in the technical result, which is some DKK 200m lower than last year, year-to-date. There's no really doubt that when you look at our technical result over the past four or five years, having technical results of DKK 2 to 2.5 bn provides a very nice cushion in periods where financial markets are giving very high volatility.

If we turn to slide 16, our expense ratio is slightly down compared to third quarter last year at 16.0. If we look at the year-to-date numbers, we are at the same level of 16.7; but beneath that, we see accident development in Denmark and Norway from 15.4% in cost ratio to 15.1%, as you mentioned, Stine, actually financing our expansion in Sweden and Finland.

Turning to slide 17, we show the split of our asset mix. We've had an investment income of 0.2% in the third quarter and 1.1% year-to-date. Of course, this has been positively impacted by the fact that we've taken our equity exposure down to 4.5% from the 16%. It was at peak last summer and thereby we have avoided an additional investment loss of between DKK 1 and 1.2 bn in 2008. On the other hand, we've seen that our matching of insurance liabilities in one portfolio has been less efficient than normal and than expected due to the widening of spreads both towards Danish government bonds, but also towards Danish mortgage bonds.

On slide 18, we have reiterated our conservative approach to our investment exposure. We have lowered the particular in Norwegian part of non-rated bonds. We have a very short duration of two years in our bond portfolios. If you look at the right-hand side of the graph, you see very global diversified equity book. Now contrary to normal when we've given the outlook for the full year, we've included investment results for October month with a negative impact of DKK 300m; and also we've seen that a couple of weeks ago on a European basis, IFRS 39 opened the opportunity of not dong mark-to-market on the investment assets. We have chosen not to use that option. First of all, we believe that showing the correct market values is the most transparent picture. Secondly, this doesn't fit with a matching principal of Danish companies; and thirdly, when it comes to deciding our payout ratio, it wouldn't be possible to do payouts on the basis of values that are not actually market value.

If we turn to slide 19, there's been a change in the yield curve used for Danish insurance companies in this period. The Danish FSA has together with the General Branch Organisation initiated a change to the effect that now also mortgage-backed bonds are part of the yield curve. This has given a positive effect in the longer end of the yield curve, while the quite abnormal picture or composition of the yield curve in the very short-term has given a negative impact. But the total of this change is a positive of DKK 57m for TrygVesta in the month of October.

Now we if turn to slide 20, on capitalisation, finally, we show as always the positive development in our actual capital base. Now I believe it's correct to say that a number of companies have experienced a deteriorating capital basis on the basis of negative results. As you see from this graph, our positive capitalisation has continued to increase shown as the green areas, and currently we have an 18% buffer to the A range rating compared to what we require, which is 5%. Of course, we see this is a lower increase than what we would've experienced the year before, but the fact that the capital base is strong and increasing means that we are holding on to the carrying out of the remaining part of our share buyback programme where we have another DKK 500m to go for this year.

Over to you, again, Stine.

Stine Bosse – TrygVesta, CEO

Thank you very much, Morten. Just summing up, we have the initiatives in place to make sure that we will meet our mid-term targets. Morten has gone through the main features on the premium increases. We still have a lot of programmes running for further cost reductions. We have a very strong capital base, as Morten just showed, and of course maintaining our strong market position in the Nordic area. Now of course we have felt the financial crisis, but compared to what we could've felt had we not done what we have done and had we not in early years also made sure that our technical results are strong and are still going to be strong, we would've seen very, very different results from what we're now showing.

And finally of course also, we think it is good and solid that the growth profile of TrygVesta is based not on price competition but on good solid growth that we do towards the markets and our customers and of course also in good companionship with Nordea.

Finally, I just want to add one thing to the outlooks, and that is please bear in mind that we have added to the outlooks an extraordinary cost for this year of DKK 150m. That is due to some of the redoing of the buildings here in Bergen and Ballerup, and that would be viewed as a one-off situation for DKK 150m this year.

Okay, we will be ready now to take your questions.

Jakob Brink – Handelsbanken

Hey, it's Jakob from Handelsbanken in Copenhagen. I have three questions. The first one regarding, you're right about Denmark that there's been a mixed change leading to higher average claims in housing in Denmark. Can you explain a bit about that? Secondly, you're talking in the Corporate segment about a major competitor that is acting more restraint than before. Who is that, and what's happening in the Corporate segment? We have heard, as you pointed out before, that Allianz has entered the business. Then thirdly, the Norwegian market seems quite weak. Now you and Sampo have reported quite weak combined ratios for a number of quarters. So what is the outlook here? Is it likely to expect that this negative trend will reverse in coming quarters? Thank you.

Stine Bosse – TrygVesta, CEO

Yeah, on the mix, Jakob, for the Danish book, I think you must have mixed up a couple of things. Where the mix change is in some of our Corporate lines. That is why we are communicating that we have had a trend upwards for the cost ratio in Corporate lines. There's no change of mix otherwise in the Danish book as such. Hopefully that answers your question.

On the Corporate lines and competition, the main competitor who has been acting quite aggressively, especially pricing on personal lines up to recently, was actually AIG, and they are of course for good reasons acting a bit differently nowadays.

Then of course Norway, as also we communicate quite clearly, health has seen a set back on the level of earnings during the last two or three quarters. Now we and Sampo, as you mentioned, are seeing the same developments and we have communicated clearly what we're going to do about it, and I think that Sampo will follow the same route and make sure that we do see premiums come up. If you view a competitor like Gjensidige, they're actually acting very prudent in the Norwegian market and they are not in any way stressing price competition.

Morten Hübbe – TrygVesta, CFO

You might add, Jakob, that when you look at the pipeline of price increases during the past 12 months, we've carried out significant price increases already both in Norwegian house insurance. We're showing this period as more than a 10% price increase and also in cars, which we will start to experience as a positive to the results in 2009, and then as you mentioned, Stine, the subsequent price increases as high as 7%/8% or so in house and another 5% or so in cars will be done in '09 and of course help the later part of '09 and the earnings in '010, so pipeline to some extent has already taken care of some of it.

Jakob Brink – Handelsbanken

Just to come back on Denmark: If I'm not totally mistaken, it says, "But also to change the mix which has resulted in more expensive claims for TrygVesta." It says that on page 8.

Morten Hübbe – TrygVesta, CFO

Then we know what you're asking about. When you look at the average claim of a Danish house repair, it is roughly DKK 900 per claim. When you look at claims that has to do with waters and pipes, they are very different in size; but on average, their size is roughly DKK 2,100, which means that whenever we have more of those claims as a claims mix, not a customer mix, but a claims mix, then that increases the average dramatically; and we have seen more claims of pipes, for instances, in areas where the municipalities are carrying our repairs of the roads, then during those repairs they also see and monitor claims or damages to the private pipes, which then gives more pipe claims on our book and that increases the average. That is what we refer to.

Jakob Brink – Handelsbanken

But isn't that something that is expected to go on for a number of quarters still? I mean TrygVesta yourself has been pushing the government to start doing new pipes and water systems around in Denmark, so isn't that something we should expect for a number of quarters?

Stine Bosse – TrygVesta, CEO

You might say that, but this all adds up to: You can't do everything at the short-term. Now we have spoken about premium increases, and the premium increases that we're now addressing will also take care of some of these rising and changing of the mix in claims. But of course it is important on the long-term, when we view the long-term, that we do have municipalities that will keep the sewer system and the draining system of Denmark in place; otherwise, you will expect very large situations, and we don't want that. So please don't mix it up too much, Jakob. There is a short-term view and then there's a longer-term view.

Jakob Brink – Handelsbanken

Thank you.

Duncan Russell – J.P. Morgan

Good morning. Thank you very much. The first question is: Could you just again go over the tax over the fourth quarter, the difference between the pre-tax and the net profit, why you have the big tax? I didn't quite understand that. Second question is: On my numbers, it looks like the retention ratio or the difference between the net rate of premiums and the gross rate of premiums spiked up quite a bit in the third quarter. Is that right, and can you just talk about why that is, please? Then finally, given what you were saying about the competitive environment and the fact that some of your competitors' capital basis have been weakened, could you just update us on your M&A appetite, and then also on how you see the whole kind of region developing? Thank you.

Morten Hübbe – TrygVesta, CFO

Good morning to you as well, Duncan. If we take the first question regarding tax, there's no doubt that 2008 is a very unusual year when it comes to tax. The sort of overall reason is that when we have a loss for the full year on equities of around DKK 1 bn, then there is no tax deduction on that, meaning that when you look at how the average tax rate effects the pre-tax result, it becomes very skewed, and that is the reason for our guidance of 44% tax rate for the full year. Then you can argue: Then why is the tax rate in Q3 so much lower, roughly 23%? That is firstly because it doesn't include all of the equity losses, which came in October as well. Secondly, because we have had two positive effects from two tax cases where we got a positive impact of roughly DKK 100m because we're always conservative when we do our taxes; and then when we get agreement on what we've done, we can post that as a positive to the P&L, and that was a DKK 100m in Q3.

Your second question, I'm not sure I heard that correctly, but did you ask about the question between the written premium and the earned premium, was that it?

Duncan Russell – J.P. Morgan

No, maybe my numbers are wrong, but it's the difference between the growth written premiums and the net written premiums, the retention ratio, that seemed to increase quite a bit or the difference narrowed quite a bit in the third quarter. Maybe I've got something wrong here, but I don't know if there was an issue there or anything like that.

Morten Hübbe – TrygVesta, CFO

Maybe you should contact us and we should discuss that specifically, but overall I would say that there are very few changes to our reinsurance programme in 2008. Generally when we get more weight into Sweden and Finland where reinsurance use is very little, that will trend the reinsurance use and the difference between the two numbers downwards. But overall, I wouldn't say that there are any significant changes to that in Q3. You're very welcome to contact us on that and we can go through your numbers specifically.

Duncan Russell – J.P. Morgan

Great.

Stine Bosse – TrygVesta, CEO

On your final question, Duncan, on the capital position and possible M&A situations, I don't think there will be any doubt in anybody's minds that these troubled times that we're going through will show possibilities for strong companies with strong growth profiles and strong earnings profiles and of course in combinations with strong capital basis compared to companies that perhaps from the starting point had weaker capital positions and more aggressive highbred positions as well. Now what that will sort of add up to at the end of the day, I don't know, but I think that everybody will have to act very, very cautiously in these times and be very sure that whatever you do is done at a low risk range and low risk profile. But of course as has been seen historically, when things start to become just a bit more settled, there will be possibilities for strong companies and there will be weaker companies that will see themselves sold either in one or in several pieces.

Duncan Russell – J.P. Morgan

Thank you.

Per Grønborg – Danske Markets

Yes, good morning. It's Per from Danske. Two questions; the first on dividend. Now your EPS looks like it will come down quite significant. Still you have a rather robust capital situation as you address yourself. What should we expect in cash dividend, still 50% of EPS or any other thoughts that dividends should not drop as dramatic as that might indicate? The second question is: On your mortgage bond exposure, you have a given a guidance based on probably the very lower of the market end of October. Since then the Danish mortgage bonds spreads have input quite significant. Taking into the account the new discounting rate, are you net long or are you net short the Danish mortgage spreads? Related to that, this change to the discounting terminates on the current rules at the end of 2009. Is it fair to assume that you will suffer basically a loss when you convert back to the old discounting curve at the end of 2009, or how should we look at that? Thank you.

Stine Bosse – TrygVesta, CEO

Let me take the first question, and Morten can answer the second one. We do not plan to do anything extraordinary towards dividend, so you can use the same calculation and the same methods that you have done for the recent years, including of course the possibility of a buyback also for next year. It is not times, these times that cause for aggressiveness towards our capital base, so therefore you shouldn't expect something extraordinary. You can calculate as mentioned on the back of last year's model.

Morten Hübbe – TrygVesta, CFO

On your last two questions, Per, regarding discounting, and when we look at the new yield curve, it's assumed that duration beneath two years is parallel to duration of two years which effectively means that the discounting we've used underneath two years is significantly or discount rate used now is significantly lower than the observed market rates, which effectively means that when we see in subsequent months that the short rates beneath two years will come down again, we will not have the negative impact on the discounting because we've already used the lower rates, but we will have the positive impact from how that affects the pricing of those short papers. So effectively, if the short end of the curve comes down, then on a net, that will be positive to our P&L.

Your second question regarding that this temporary yield curve will end towards the end of 2009 that is correct. I believe that there's been a loss of dialogue as to the sort of the longer-term composition of the yield curve, and I think it's fairly likely that during 2009, changes will be made to also the permanent yield curve and furthermore there have been discussions as to whether or not companies could do their own composition of a yield curve. So I think that it is too early days to conclude that end of 2009 we will just go back to the old yield curve. It's clear that having a yield curve with no elements of mortgage-backed bonds will potentially drive a situation where institutional investors will have little appetite for mortgage-backed bonds, and I think that the FSA and the financial system in

Denmark in general would not benefit from that. So I think it will change further, but we'll see.

Stine Bosse – TrygVesta, CEO

Even if it doesn't, I mean you can't have the upside and not the downside. I mean that just doesn't fly. So I think what has been done from the Government's point here in Denmark has been very okay. Of course, also the industry we have participated all to make sure that this is possible in very difficult times; and if it should end up that there isn't a long-term solution here, I mean the world doesn't sort of go under from that point of view. We just have to see. Morten is right that there is a good logic to have a long-term change; but even if it doesn't happen, we'll have to take the good with the bad.

Jesper Brydensholt – FIH Kaupthing

Yes, hello. I have a couple of questions relating firstly to your change guidance and combined ratio from 88% to 90% and that you have given us some of the details on whether or not claims, renovation, and run-offs and also the total change, but could you give us the remaining details of how much of the underlying claims deterioration has impacted your change guidance? Also, on the discounting, what affect has been on our assumption for discounting the guidance relative to when you guided 88%? If you could also just say briefly whether the new agreement or prolonged agreement with Nordea has any kind of change as to sales or to compound ratio impact with a cost related? Then if you could also give us some information on the price increases that you are coming with 11% in Denmark and these 5%/6%/7% in Norway, how that will impact the compound ratio in 2009 when you're stating 90% for guidance, how would that have been without these price changes? Thank you.

Morten Hübbe – TrygVesta, CFO

Good morning to you as well, Jesper. If I take the first question, we've guided that pre run-off technical result is guided downwards by DKK 600m and that included the run-off of Q3. The net difference is DKK 400m. If you break that down to the various components, we've described that DKK 163m is the higher large claims of Q3, DKK 150m is our changes to our buildings and they're one-offs of taking that in expected Q4. Roughly DKK 70m is Q3 and 4 effect of lower interest rates than we had at the year-end when we did the previous outlook, and then roughly DKK 230m is underlying deterioration due to claims inflation and also strengthening of claims reserves in the areas where we've seen this claims inflation, and I think that was your first question.

Stine Bosse – TrygVesta, CEO

On the Nordea question, Jesper, there hasn't been any change, a substantial change to any of the terms between us. It is very positive for us and I guess also for Nordea that we now have another five-year agreement, and it gives a nice room for further development. As you can also see, we are in the middle of developing the working together further now including also some of the Nordea cards, and you will see more of that down the road.

On your last question, the price increase, please bear in mind that we still where we are this early, we haven't even entered the year, we guide of course with a zero for run-off, so you have to look at these figures very carefully. Had we not done the price increases that we're now looking into, we would not be able to meet our mid-term expectations for combined ratio and we would not be able to say to you that without any run-off gains for next year, we will guide you with around the area of 94 combined ratio for next year. I cannot come any closer than that, Jesper, unfortunately.

Morten Hübbe – TrygVesta, CFO

Well I guess you can add that this a period of where it's wise for everyone, including us, to be slightly cautious because the claims inflation we've seen how and exactly will that develop in 2009, also the volumes given the macro development we see currently, et cetera, there's several reasons why we should be cautious in our approach and expectations for 2009, and we are doing that.

Stine Bosse – TrygVesta, CEO

It's a greater pleasure to come up with better results than what we guide.

Jesper Brydensholt – FIH Kaupthing

Just on the price increase, I also see that the 11% price increase on house in Denmark that will have effect as of second quarter and running into 2010, how much effect will around 6% price increase in P&C Norway have in 2009?

Morten Hübbe – TrygVesta, CFO

I think you can argue, Jesper that the price increases in Norway that we're doing as of 1 January '09 and first of July '09 will primarily affect Q3 and Q4 2009, whereas Q1 and Q2 next year will be positively impacted by the price increases already done this year. So I think you will see more of an even pattern of improvement in Private & Commercial Norway because its two years of price increases, to some extent they affect in 2009; where in Denmark, you will see a later effect because most of the price increases are done as of 1 January '09.

Stine Bosse – TrygVesta, CEO

I guess, Morten, also to guide Jesper and others a bit more specifically, the one percentage points out of the two that we now increase the guidance with actually flows out of the extraordinary DKK 150m that we are taking on the cost side. So still as we see it a pretty good outlook also for next year.

Jesper Brydensholt – FIH Kaupthing

Thank you.

Will Morgan – Goldman Sachs

Hi, good morning. I've got a few questions. The first one I might start first to get an initial response before I sort of delve a little bit deeper, but on the change in discounting now accounting for some of the mortgage bond yields, you talk about a DKK 57m positive impact in October, is that kind of a monthly run rate of P&L impact, or should we be thinking about this differently?

Morten Hübbe – TrygVesta, CFO

I think that when you look at what has happened over these past quarters that the run rate of discounting increased by Q2 due to the higher interest rates, then it fell back again during Q3 to something lower than expected due to the rate reductions, and then we've seen the fact that the difference using longer end yield curve from mortgage backs increases the run rates again. So I guess it's correct to say that it doesn't improve the longer-term run rate of discounting, but that is after significant reduction of that same component in Q3.

Will Morgan – Goldman Sachs

I suppose the question is that if I take DKK 57m against what would be roughly speaking kind of a monthly level of premium, it looks like you're probably getting a benefit to a combined ratio of maybe 3.5 to 4 points. Now I may be completely wrong about that; I don't know. But based on that, I mean is that in your guidance for next year with the 90 combined ratio because presumably you were getting quite a significant improvement in the report combined from this discounting effect, and I just wondered if that's in your guidance or not.

Morten Hübbe – TrygVesta, CFO

I would say that we've been slightly conservative in the extent to which we've taken that higher run rate into our guidance, but it wouldn't be correct to take it DKK 57m monthly amount double it or multiply it by 12 and then say that is the change the combined ratio. I think we've guided that expect - - compare to what we said on the half year, we've deteriorated the impact from lower interest rates on the discounting by DKK 70m, so that is a net negative prior to this change, and the DKK 57m is the total impact of implementing the completely new yield curve which comprises a number of smaller components. So to get down to the actual run rate improvement, you will find a smaller number than 57. We haven't published what that number is. We consider whether we'll do it or not, but taking DKK 57m and multiplying it by 12 is definitely not correct.

Will Morgan – Goldman Sachs

I suppose just following up from that then, I suppose two questions related to that. Number one is: Can you tell us what the effect is going to be in terms of the immediate effect on your reported book value? The second question is: What effect would have it on your underwriting if now you're discounting reserves using a real that actually is not purely risk free? Doesn't it give you the risk that you're going to start taking outside investment yield assumptions into your underwriting calculations? Then I guess my other questions are: First of all, on the slide, I think it's slide 20, where you show your surplus capital, am I right in thinking that is surplus capital over required capital level, which it seems your equity holdings are actually a lot higher than where they currently are, or is that surplus capital you have based on the capital you required to hold equities where they currently are, because I know you've been running some slight discrepancies in the models? I just wondered in terms of whether or not you have to… I'm sorry, I'm probably not being very clear, but I guess whether or not there's possibility to expand that surplus by keeping your exit exposure low or whether that is the current surplus as it currently stands based on your current equity holdings.

Morten Hübbe – TrygVesta, CFO

Let me comment on the first part of your supplementary question. I think also as Per Grønborg mentioned, given that the current discounting yield curve is temporary and it hasn't been decided how it affects the longer-term, then you can rest assured that we won't use that higher discounting to take lower margins on the underwriting side. I think we have hopefully indicated very clearly that rather the underlying claims inflation and the investment development, which really calls for having stronger low combined ratios, if anything calls for us to increase margins, and we're in the process of doing that, so rest assured that the other will not be the case.

Do you want to take the second question, Stine?

Stine Bosse – TrygVesta, CEO

Yeah, I'll take the second question. Will, this is my favourite question; I can tell you that. The slide 20 guides on the surplus capital issue with the former equity position. We have said very clearly that we will not during these times take into full consideration where the sort of ongoing level of our equity exposure will be. We are working on this. It has to do with the solvency regime that is coming, and now nobody knows when it's coming because probably some of these financial turmoils are going to put some question marks out there. Of course also there is the rating issue, S&P's weight of capital regarding equity and how that ends; and before all that sort of adds up, then we will come back to the question of where we are going to settle long-term for our equity exposure; and then of course if there is any surplus, we will of course show it and give it back.

Will Morgan – Goldman Sachs

Great. Sorry, just relating to the question I had earlier about the effect of the change in discounting on your reported book value, I don't know if that's a number you're able to give.

Morten Hübbe – TrygVesta, CFO

We haven't published that; and to be honest, the new yield curve arrived last week as it was a new phenomenon with new data from a new supplier. We got a couple of different yield curves over a couple of different days. So to be honest, I don't think it would be right for us to give any details of how it hasn't changed the book value of October; and of course, we also discussed, was it too risky to take so recent data into account. But on the other hand, we thought that while investment market had been so volatile in October, we should include it in our guidance. So, no, I don't think we should publish that.

Will Morgan – Goldman Sachs

I'm very sorry, could I just jump in with a very, very quick data question, a very boring one? But could you possibly tell me on nine months on nine months, the effect on the combined ratio that any change in interest rates has had and also the same number for 3Q and 3Q?

Morten Hübbe – TrygVesta, CFO

The change on the nine month is from the top of my head just short of 1.34% or so on a year-to-date basis. I cannot give you the Q3 number, but that is then the nine month number.

Will Morgan – Goldman Sachs

Great. Thank you very much indeed.

Simon Christensen – SEB Enskilda

Yes, good morning. I only have one question which hasn't been answered. If I look at your 2009 preliminary guidance here of a combined ratio of 90 roughly, what kind of thought have you done regarding the growth in average claims in house in both Denmark and Norway, and what kind of development in the claims frequency in motor in Denmark are you expecting given your guidance of 90? Thank you.

Morten Hübbe – TrygVesta, CFO

Well I think it's fair to say that when we did our Q2 statement and outlook, we saw this higher claims inflation namely in house than we expected. We've seen that again now, and we are very cautious in our expectations for the development of that into 2009. Stine has showed how frequencies have developed. They jump up and down from quarter-to-quarter, and they should do that. But the overall trend seems fairly stable and that is what has been building to 2009. But there's no doubt that when we do the 11% price increase on houses and we do our assumptions for 2009, we are of course cautious. I don't think anyone can really say how rapidly we will see the average repair cost and salaries go down again. We see it start to wear off, but there's really no cause to be optimistic on that in 2009, so we are conservative in that assumption.

Stine Bosse – TrygVesta, CEO

I guess to be very specific in just that area, we have sort of flattened it more than taking it down; and had we not flattened it, we should've further price increased; and we had taken it down, we should've less price increased. So we've sort of chosen to be conservative and just taking to considerations the developments that we actually have seen.

Simon Christensen – SEB Enskilda

Thank you, very clear.

Giulia Raffo – Citigroup

Thank you very much. I have three questions. First of all, I was wondering if you could kindly re-mention again your answer to Will's last question on the interest rate impact because I couldn't catch that. My second question is also if you can clarify what is written in your report about the Corporate segment in the sense that one page it seems to mention less a large claims incidence; but then on the following page, it seems to mention a higher impact in the combined ratio stemming from large claims, so I was wondering if there was a typo in the statement, and if you can tell us what has driven the deterioration in the claims ratio there in Q3? Then the final question is: It seems that the goodwill has increased quite sharply since the start of 2007. The intangible moved from 335 to 453. Could you please tell us what has driven that? Thank you very much.

Morten Hübbe – TrygVesta, CFO

I'll take a couple of your questions, Giulia. The answer I gave to Will on the question as to how combined ratio have been impacted by discounting, change in discounting year-to-date, was a rough from the top of my head number of around 1.3 percentage points, and I didn't give any numbers on the Q3. Of course that was higher towards the end of Q2 and then that it has been lower again in Q3 due to the lower interest rates.

Your second question, when it comes to large claims in Corporate, the picture varies whether you look at the quarter or the year-to-date. If you look at the year-to-date and we have 260 million of large claims in Corporate last year and 160 million this year, so significantly lower large claims number, whereas if you look at the Q3 in isolation, we had large claims of just above 100 million in the Corporate this year and just short of 60 million in Q3 last year, so I think that the wording difference there is whether we look at the quarter or the year-to-date.

Your third question regarding intangible assets, you're correct that the number of intangible assets has increased. The main reason behind that is that we have been driving a very large IT development programme, particularly in Norway where we have altered the way our sales force and our policy issuance is carried out where we have done a straight through process with significantly less back office handling and significantly best customer experience; and in that process, we have taken out roughly 65 people in that process, so to in effect it is actually the finalising of that project which then leads to subsequent years of write-offs in an orderly fashion.

Giulia Raffo – Citigroup

Thank you.

Gianandrea Roberti – Carnegie

Yes, hi. I have actually three questions; I'll try to be brief here. In the guidance of 90% for next year, can you just confirm me that you still expect a rough run of level around 4 percentage points? The second one is on the health business, if you can just give us a bit more comment on trends that you're seeing there because I've read throughout the report that claims level are spiking up in there. Finally, just elaborating more on the question that has been asked previously on the equities exposure, correct me if I'm wrong, but at the end of last year in the S&P modelling you had located a DKK 1.5bn charge for the equities exposure. This should be roughly be around 600 at the end of this year, and I know the longer-term, you have planned to have 7%/8% equities exposure, which should roughly translate in a billion charge, but there seem to be 4/500 million there that could at some point potentially be released. Can you just confirm me if I'm right or wrong in my thinking? Thanks a lot.

Stine Bosse – TrygVesta, CEO

Let me try and answer some of your questions. Now first of all, yes, as mentioned, on the guidance for combined ratio for next year around 90, we do not guide with any run-off gains. As we have earlier mentioned, there is a profile if you look at it from a historic perspective where your discussion around the 4% is not completely out of the perspective.

Now on health insurance, yes, there has been a development and we are looking into premium increases also in this area, in the area of 15%; and we will expect the prices for health care to go up also in the years to come, so there will be further increases also in this area.

Finally, on your calculations on the equity, I think it is prudent to say that if you calculate it the way that you do, you come to these figures and they're not completely out of the question. But as mentioned many times, it is not something that we are at the moment viewing to do. We do need to have much more certainty around us to come to these conclusions. If we ever do so, we are of course ready and prepared to give back what we should not have.

Gianandrea Roberti – Carnegie

Thanks a lot. I appreciate that.

Peter Elliot – M.S. Global

Hi. Good morning. Just one remaining question actually, and it's just on your share buyback. You're sort of below the run rate for the year-to-date and of course the amount that you might buyback next year is uncertain, but it's likely to be lower than this year. Can you just tell us what you're thinking in terms of sort of smoothing the buyback from '08 to '09 or whether your still expecting to complete the '08 buyback?

Morten Hübbe – TrygVesta, CFO

Yes, and the answer to that, Peter, is that we see a strength in being able to carry out the buyback programme as planned. We set out to carry out DKK 1.4bn. We've carried out roughly DKK 900m so far, and the remaining DKK 500m will be carried out. There's no doubt that investment income being as it is, the one-off that Stine mentioned of DKK 150m and the underlining claims inflation means of course that the P&L will not be as strong for 2008 as it was for 2007; and consequently of course, the dividend will be lower and the buybacks will be lower But we really see no reason to try to smoothen this out between this year and next year, rather we believe that it is more prudent to stick to what we have initiated and indicated to the market and remember that our buybacks in 2008 are carried out on the basis of 2007 earnings only and not financed partially by the current GS earnings, so we're sticking to the plan.

Peter Elliot – M.S. Global

Thanks.

Ole Søeberg – TrygVesta, Head of IR

So let me finish the call. Thank you, everybody, for lots of good questions; and if you have more questions, Lars and will I be in the office until late evening if you want. If you want one-to-one meetings, we're in Copenhagen tomorrow followed by New York where Lars and Morten will go actually tomorrow afternoon; then a few weeks out, we're in London, Edinburgh, back for the FIH Conference in Copenhagen on December 1st and then the Citigroup's Speed Dating Conference in London on December 10th. Look forward to seeing you there, and thanks for today.