Tryg - Q1 2012 result
Webcast 14 May 2012 at 7 p.m.
Q&A

Good evening every one here. This is Lars Møller from Tryg and welcome to this first quarter conference call. Tonight we have Morten Hübbe, our Group CEO, with us and our Group CFO, Tor Magne Lønnum, with us. I just want to add that you can actually find a pre-recorded webcast on our webpage. So with this introduction, I will just hand over to Morten.

Morten Hübbe, CEO
Thank you, Lars, and I will just make a few brief statements before we go and hand over to your questions and answers. I guess you can say that we are very pleased that the first quarter takes another step in the right direction. We have seen in the first quarter a continuation of the positive trend that we saw during 2011.

If we compare the first quarter 2012 to the same quarter the year before, we have doubled our bottom line both pre-tax and after tax. Of course to a large extent driven by an unusually high investment income and therefore we are more focused on the fact that we have improved our technical result by 37%. We have improved our combined ratio by 2.2 percentage points despite the fact that the declining interest rate in isolation has increased and worsened the combined ratio by 1.5 percentage points.

If we look at the larger business segments, we have seen an improvement in the Commercial business segment by almost 10 percentage points, which is flattened by the fact that run-off gains are just short of 5% as opposed to a negative run-off loss in the same quarter last year.

Corporate has an improvement of roughly 1 percentage point, which has actually been negatively impacted by the fact that run-off gains are roughly 5 percentage points lower than the year before so clearly a stronger underwriting year result. And we see for the first time now in three years that the average pricing in our renewed portfolio as of 1 January is an increase as opposed to three years of subsequent reduction in average pricing.

In Private lines, we see an improvement in the combined ratio, but actually if we look at the underlying change ratio numbers we had expected a stronger improvement. We see some degree of higher profit sharing with affinity groups than expected. Some degree of higher car claims in Denmark and house claims in Norway, but we also do expect to see further improvement in Private lines in the quarters to come.

In Sweden, we see an impact by various technical factors including our new premium reserve released last year but generally we do expect to see a significant improvement in the predominantly Private lines segment in Sweden during 2012.

If we look at the country by country numbers, a combined ratio of just above 90 in Denmark, a combined ratio of around 94 in Norway and a combined ratio of around 104 in Sweden is the rough distribution. So clearly, all in all a good continuation of improvements in the technical result despite the negative impact from interest rates and of course a result that is dominated by the high investment income in the first quarter.

I think that is all for the initial comments and then I think we should actually move on to your questions and we will give some answers to those.

Operator
Thank you. Our first question comes from Jakob Brink from Handelsbanken

Jakob Brink - Handelsbanken

Hi, it is Jakob from Handelsbanken. Just a few questions please and the first one is, I was just listening to your webcast and it seems like when you talk about the cost cutting programme that you are going to announce in the second quarter you say in connection with that rates have become lower, etc. and there is pressure on premiums so it is necessary for you to act on cost. You say it quite a lot of time so I don't know, should this be read as if the cost cutting you are going to do is basically necessary to reach the 90% or should that come on top of it? Maybe if you could also just put a few words on that cost cutting programme and then secondly I was just when you mentioned that the underlying claims ratio has improved by 200 base points compared to last year is that including the winter impact because when I look at your Q1 presentation from last year the impact from weather was only 1.1% but now you are talking about almost 4% so what has changed compared to the Q1 presentation last year? That was it, thank you.

Tor Magne Lønnum, CFO
Yes, I can kick off at least. In terms of the cost cutting, I think what we want to do is to be more precise in terms of the cost programme later in Q2 as previously announced. I guess at that point in time we will try to be more precise as to the interest of well, I guess – I think we have said all along since Q3 last year really that the continued focus on profitability will have an impact on the top line growth and as such it will become more important to focus on the development in terms of the nominal expenses.

Morten Hübbe, CEO
And I guess you can add, Jakob, that if you look at the timing of the cost target those will have a longer time horizon than the 90% combined ratio target so I think we expect to see that the cost initiatives will have some impact on the combined ratio target but also that the peak of those cost measures was a part of that target period. But I guess if you look at the continued decline in interest rates we are very keen on sticking to our 90% combined ratio target but clearly as the interest rates drop further we need to continue to make sure that we just run that must faster on cost and on claims to offset the negative impact from the lower interest rates.

Tor Magne Lønnum, CFO
To the second question, in terms of the weather related text, I think the comparison is not correct or rather last year we gave only figures related to - let us call it - other weather related phenomena while this year we try to include all sort of winter impact to sort of combine both the winter impact and other weather related events to give you one figure and one number.

Jakob Brink – Handelsbanken
What is the difference between the weather and the winter?

Tor Magne Lønnum, CFO
Well, for instance if you talk about the cloudburst, if you talk about the storm.

Jakob Brink – Handelsbanken
I mean here in the first quarter. I mean since you had, I think, was it DKK 30 or something million last year impact and now you have revised it upwards to DKK 184m I believe. Well, I mean what is the difference? The reason that I am asking is of course that it does have an impact on your underlying claims ratio.

Tor Magne Lønnum, CFO
Yes, in principle you can say that what we have tried to do is to include what we expect of winter related claims in the quarter in the numbers. And when you – you probably remember that after Q4 we announced what will be the expectation for weather related claims full-year 2012, which includes both winter and other weather related events.

Morten Hübbe, CEO
So for instance the difference could be you have more motor claims in a winter quarter than you have in other normal quarters so trying to take all weather related claims into one.

Jakob Brink – Handelsbanken
Okay. Thank you.

Operator
Our next question comes from Håkon Fure from DnB Markets.

Håkon Fure – DnB Markets
Good evening guys. I just have one question related to your 90 % combined ratio target. Do you see any sort of premium adjustment? I am thinking maybe a special house and content in Norway. Or do you expect cost initiatives and incidentally a rise in interest rates will suffice? Thanks.

Tor Magne Lønnum, CFO
I think when you look at sort of the underlying development in terms of the house and content in Norway clearly we need to pay close attention to the development in that product line and to make sure that we have at all times price increases in order to meet claims inflation so yes we are following the development and yes it is just like we need to look at prices.

Håkon Fure – DnB Markets
OK, thank you.

Operator
Our next question comes from Peter Eliot from Berenberg Bank.

Peter Eliot – Berenberg Bank
Thank you very much. Two questions please and sorry my first one is on expenses again. I don't want to pre-empt anything that you might want to say at the Capital Markets Day but just, it is a couple of years ago I guess you probably would have hoped to perhaps have had a lower expense ratio than 16.8 % at this point and I am just wondering whether there is any one-offs, significant one-offs in this result or any elements that we could perhaps expect to fall away sort of reasonably quickly.

The second question was just on the retention rates, I mean, I note the slight drop-off in Commercial retention and I was wondering perhaps if you could just comment on what you – whether you feel that might continue, whether you think there is any sort of feeling on what has happened since the end of Q1 or perhaps some vague comments about where – the impact that you might expect on your market share as a result of your profitability measures. Thank you.

Tor Magne Lønnum, CFO
I think in terms of the expense ratio there is no one-off in terms of the Q1 numbers so I guess in terms then of the development in expenses as we have already said it is something that we will have to get back to later in Q2.

Morten Hübbe, CEO
And the link between the two questions in the sense that as you point out the retention rate in Private lines is roughly stable. The drop in retention rates is in Commercial lines and Commercial lines is also the area where the cost ratio is increasing so I guess, as expected, we do see a drop in retention rates in Commercial lines, particularly in Denmark. I would say that the drop in retention rates in Commercial Denmark is actually slightly less than expected whereas the drop in retention rates in Commercial Norway is actually slightly higher than

expected. I do believe that the macro economic environment in Norway will allow us to improve the current development in retention rates whereas the negative development in Danish Commercial retention rates we would expect to continue. And when we are trying to move the combined ratio in Commercial from significantly below or above 100 to around 90 there will be some casualties along that route. Both because of the customers that we are throwing out and also because the customers that do react to the rather large changes we have made in pricing and in segmentation and I think to be honest that that trade-off is worthwhile. We just need to make sure that we adapt the cost ratio to that lower top line in Commercial.

Peter Eliot – Berenberg Bank
OK, thanks a lot.

Operator
Our next question comes from Hans Pluijgers from Cheuvreux

Hans Pluijgers - Cheuvreux
Yes good evening gentlemen. Four questions. First of all looking at the cloudburst in 2011, it gave some additional cost but mainly after the reinsurance but still a small impact on the combined ratio in Q1. Could you give some feeling what is your suggestion, talking about 10 or 20 base points or another number.

Secondly, on the expense ratio – it has increased by 20 base points and then of course I assume by wage inflation and normal cost price inflation, could you give us some feeling what you see there going forward, what kind of calculation do you make with respect to work inflation and cost inflation going forward? And for the expense ratio on that one, where do you believe the main cost savings are still possible, I know it is a little bit ahead of your more detailed indication on the cost measures but where do you believe you can still make the biggest steps? Can you give some feeling there?

Thirdly, on the Private side, if I just for the run-off gains and the technical interest you see a DKK 26m lower profitability in the Private lines. Of course that is 250 base points I think explained by the discount rate, but still a very increase and if you just in the Private lines despite the fact that you have increased prices quite significantly. Could you give some feeling what is happening there, why the improvement adjusted for everything is quite small?

And lastly on the Finnish operations, in one your indicators the target for the Finnish operations does not support the target of the 90 % I think a little bit different phrasing which you did in the past. Does that mean that you do not expect that you can reach the 90 % target without any material changes in Finland or divestment of Finland? Could you give some indication there, how you look at that?

Tor Magne Lønnum, CFO
Well as we will try to cover your questions. First of all in terms of the cloudburst you are right we have adjusted the estimate upwards to DKK 1.5 billion. The impact is less than DKK 10m Danish so it works in that region. In terms of the wage inflation, I guess it is fair to say that and I think the comment on that loss was as well that we do expect a relatively low wage inflation in Denmark, sort of in the area between 1 and perhaps 2%; in terms of for the Norwegian market slightly higher, sort of in the area of perhaps even as much as 4% and of course you all know that the Norwegian economy is running at high speed so I think you have a lot of uncertainty going forward whereas it looks, at the moment at least, perhaps more stable here in Denmark.

Morten Hübbe, CEO

With regard to the expense ratios, I guess we should save the more detailed comments for the Capital Markets Day, I guess we can give the overall comment that clearly supporting staff functions will be an area that should apply the cost reduction and also that head count will be an area that should apply cost reduction.

On your Private lines questions, you are completely right. Actually, we have expected a better underlying improvement in Private lines than we have seen. If you look at the first quarter last year we had a positive contribution from profit sharing from the year before so the profit sharing in 2011, in the first quarter of 2011 was a positive income because we set aside too much in 2010. In the first quarter of 2012, we have had a negative adjustment, i.e. higher profit sharing than the year before so there is a net negative in those two numbers of more than DKK 20m. We also see that we have slightly high claims numbers on houses burning in Norway. I think in Norway you will see that companies that have their strength in Oslo and in the eastern part of Norway will report a lot lower winter numbers whereas our strength is in Bergen and in the more western and northern part of Norway where we have seen more winter claims. Also, I think that our reported quarterly claims numbers on Danish motor look a bit high. Whether that will cause us some adjustment in the subsequent quarter, or it is just a matter of a bit of quarterly volatility. All in all, we do expect that the subsequent quarter in Private will show more improvement than we have seen in the first quarter.

When it comes to Finland, clearly we are still in the process of deciding the strategic review. You can argue that we are seeing now below 100 combined ratio in Finland and the portfolio is enormous so for instance selling the Finnish portfolio is not a prerequisite for reaching the 90 but of course it will help the total equation but you will not find us excusing not to reach the 90 because we did not sell Finland or do something else with Finland. Really not.

Hans Pluijgers - Cheuvreux
OK, yes, thank you.

Operator
Our next question comes from Gianandrea Roberti from Carnegie.

Gianandrea Roberti – Carnegie
Yes, good evening. I have three short questions as well. If you can comment a bit on the top line growth not that I am interested as a key driver here, but if I look at the 1 billion of price hikes including indexation that is around 500, a bit from the top line but in the first quarter you are growing 1.2 % in local currency, around 2 % in DKK. I am reading your statement where you say that the growth is expected to be somewhat lower than last year but the Q1 2011 is actually quite a bit lower than last year so I guess should I implicitly assume that you expect growth to pick up a bit, probably to see that some of these price hikes are going to stick a bit more up there or how do you see that?

The second question and I hate to be very precise, but when I look at your investor presentation, slides 7 and 8, you show the prime premium hikes and combined ratio and in there you are actually pointing the mid-term target clearly sort of 2014 although it is not said in the text while in the slide after that it seems like you are in the middle of 2013-2014, it is not really clear, and I appreciate that it is difficult to comment. I would just like to have two words.

My final question it is on the investment income. I was a bit surprised before your numbers to see that consensus was an income of DKK 338m in 2013 and DKK 356m in 2014 so let us call them two clean years, right? The last time you were guiding on that investment income in general in 2009 and if I took the midpoint of that guidance was it DKK 250m? Six months ago you sort of implicitly agreed with the discussion in the call centre. You were probably around

DKK 200m in the clean years and rates have continued to drop so if you make some clarity on this point I think it would be highly appreciated.
Thanks a lot.

Tor Magne Lønnum, CFO
In terms of the top line growth I think you are right, I mean I think you should expect that the growth will continue to stay low, i.e. that you probably assume, Gianandrea, that there would be some pick-up but I think the focus on the possibility in the portfolio means that the growth will continue to be low and I think that that is what we have tried to indicate as well.

Morten Hübbe, CEO
I guess we can say that if you look at Private lines of the growth of around 2 % in the first quarter which has been negatively impacted by this higher profit sharing which is deducted from the growth so there is reasonable growth there but in reality we do expect negative growth in Commercial. And that will continue. In Corporate, slightly less negative growth but still negative growth and I think after 3-4 years of negative price reduction, we are now achieving positive price development in all Corporate and as I said we think that trade-off is worthwhile to growth.

And also if you look at Sweden which has flagged a fair bit of the growth in the last couple of years, particularly in the motor and the house segment we are effecting significant prices changes. There are segments that are getting 30-35 % price increases. And I think that our retention rate for instance in Swedish motor at the moment is extremely influenced by this shift in pricing and segmentation on Swedish motor so as Tor said: Expect as we are adapting the portfolio to higher profitability we are making adjustments in both Commercial, Corporate and in Sweden and we do expect that should pull down the growth and then of course on your slides 7 and 8 question I think understandably you have asked several times on which exact quarter do we reach the 90 % target. And I guess when we set the target in the beginning of 2011 we were staring at a combined ratio of around 99 stating that we wanted to take it to 90 and to be honest at that point we weren't really focused on exactly which quarter we would reach the 90 but we knew that we would do it within a 3-year period. That is still the unchanged plan. I think I have seen this slide where the dot was almost in the beginning of 2013 and I have seen it where it is touching 2014 and to be honest we don't know exactly which quarter it is but there is no changed signal during this quarter at all and we will make sure that we don't sort of move that dot around in the graph because there is no, you should not read any signal into that at all.

Yeah and then I guess the investment income question.

Tor Magne Lønnum, CFO
Yeah I think you are right, Gianandrea, I think we indicated a lower number in the last call. There are some adjustments in the investment income as you know and there we have also told you that we have moved the inflation hedge but other than that I think we don't have any other guidance on the investment income than the calculations that we normally give, i.e. expectations in terms of the return on equity since the return in terms of real estate.

Gianandrea Roberti – Carnegie
OK, thanks.

Operator
Our next question comes from Giulia Raffo from Autonomous

Giulia Raffo - Autonomous
Hi, good evening, just a few questions. If I look at your reported combined ratio and I take into account the discounting effect on interest rate, your run-off impact, the weather and large

losses impact I come up with the view that out of 2.2 point improvement reported in the combined ratio the underlying is about 1.4 better and that does not really match slide 14 where you seem to suggest 1.8 points. I guess if I look the loss ratio I get 2.6 so the 1.4 combined ratio is split into 1.6 loss ratio and 0.2 expense ratio and it does not really match your slide 14 it is only 0.2 % but I just wanted to check if there is any other item to be taken into account.

And the second point still looking at the slide 14, if I look at the slide correctly it seems that actually on your number the underlying claims ratio net of reinsurance for Private line has deteriorated and has not improved in Q1 2012 relative to Q1 2011 so I was wondering if you can comment on that too? Then on pic 7 on your interim statement you seem to flag then – you know correct me if I am reading it wrongly but a bit of inflation risk in your Norwegian business so I was wondering if you can give us some more colour there and then my final point is that I saw that you might be selling 200,000 shares of the ones that you bought back for the option plan so I just wanted to check whether should we then expect the number of shares to increase by 200,000 from the next quarter? Thank you very much.

Tor Magne Lønnum, CFO
To the last question you mean the number of shares in the float or?

Giulia Raffo - Autonomous
It is just on page 5 you are saying that you are going to sell 200,000 of you own shares that you bought back to cover for the option planned for senior management so I assume when you use your share count to calculate earnings per share you deduct the shares that you bought back so should we expect the number of shares to go up by 200,000 as you sell those shares back to the market?

Tor Magne Lønnum, CFO
Yes, implicitly it will be more shares in the float, that is why..

Giulia Raffo - Autonomous
Yeah, I am just asking for the purpose of EPS and tangible book reserve calculations. Thank you.

Tor Magne Lønnum, CFO
OK, then you had a question about the inflation risk in the Norwegian market I think. The overall picture in our mind is that clearly there is higher inflationary pressure in the Norwegian market and we have tried to take that into consideration in terms of the premium and the premium increases that we are making and clearly we need to monitor the situation very closely since you have an economy that is running very strongly, you have an economy where the unemployment rate is extremely low and clearly that calls for, as I said, having close monitoring of the development in the market.

Morten Hübbe, CEO
And I guess you can say that in Norway our usual business model is that in both Private lines and SME lines we evaluate the pricing of all call products and make price adjustments on both 1 July and 1 January so twice a year so we are fairly well equipped to make sure that we catch up with inflation and the ongoing price adjustment so it was just flagging that we need to be alert that clearly the salary and other inflation is a lot higher in Norway but we will capture that in the six months ongoing price changes. I think on the comment, I think you made the statement that when you do the underlying claims ratio calculation you come to the conclusion that it has improved by 1.6 percentage points and we come to the conclusion that it has improved by 1.8. I would suggest that you – if you wish – forward your calculations to the IR team and then they will help you find out what is the difference.

Giulia Raffo - Autonomous
Yes, because basically I am just looking at 0.6 from lower large claims, 0.7 from lower weather claims as per your disclosure so those two together are basically 1.3. Then you have one more point of ??? so that is 2.3 but then I need to deduct 1.5 of interest rates and net I am left with your 0.8 and if you want after the 2.2 point improvement that you have reported so I am left with 1.4 net, of which there is a negative 0.2 on expenses so mathematically I am left with 1.6 improvement.. on the loss ratio, sorry.

Tor Magne Lønnum, CFO
I think that is as Morten said perhaps you can just take that deflation. I will find out the rest if that is OK by you.

Giulia Raffo - Autonomous
Yes that is OK, and can you just comment on slide 14 because you seem to… Yes, because you seem to comment on still the Private segment as showing an improvement whereas when I look at slide 14 it looks like the underlying claims ratio has gone worse.

Morten Hübbe, CEO
You are completely right. The reported combined ratio in Private lines has improved, but you are completely right that we show that if you look at the underlying claims ratio number it is actually higher and clearly we do expect the different quarters during 2012 to show clearly lower underlying claims ratios also in Private. As I said part of the explanation is that the first quarter last year had a positive run-off or adjustment to prior years' profit sharing. The first quarter this year had a negative impact from the same adjustment so that was a swing of more than DKK 20m. Then we saw as I said a negative development in the number of house fires in Norway and we saw a slightly too high compared to expected claims ratio in Danish motor. There is a fair element of reserving in the ongoing underwriting here in motor so that might be adjusted in subsequent quarters or it might just be a more volatile impact that we have seen in one quarter so it does not really change our expected underlying claims ratio improvement during the year in Private.

Giulia Raffo - Autonomous
Thank you.

Operator
Our next question comes from Vinit Malhotra from Goldman Sachs

Vinit Malhotra – Goldman Sachs
Hi, good evening. Just two main topics. One is on claims inflation of the.. you mention DKK 600m of claims inflation you are expecting of the 1 billion price increases in your report and I was just wondering when I read through the various sections this claims inflation seems to be more a topic for Personal lines, Private Norway and Private Denmark and I am just wondering if that understanding is correct because it is coincidental that in Private Norway and Denmark the retention is also high and that business has also seen a worsening in underlying which you have just explained and also is that the area where claims inflation is more a concern or is it just a coincidence that it is not mentioned in other businesses? That is the first question.

The second question is only on the cloudburst claim which is at a gross level increase by DKK 300m and net only DKK 10m. I am sure if there is ... is it pre-presumed that there is no other restatement of the instatement cost or anything else and the DKK 10m is the only thing that impacts because usually when a reinsurer is claimed upon there will be some kind of reinstatement cost. OK, thank you.

Tor Magne Lønnum, CFO

I think to the latter, I mean, you are quite right, we adjusted the estimate upwards by DKK 300m and as I said before it is the reinstatement is less than DKK 10m for the upward adjustment of the asset so I did not say DKK 10m, I said less. So you have a correct understanding.

In terms of the first question, I think that a general answer is that claims inflation is an important issue. If you have claims inflation for instance in terms of house and content clearly you will also have an issue of claims inflation in terms of the property claims, for instance, or similar if you have a motor claim in Private. There it will be an issue in terms of a motor claim, either it is Corporate or Commercial so I think that your comment is very valid we can expect claims inflation as an issue across the line but of course if you move into a situation where you have more price behind the number of policies of course that would mean that it will also have an impact on the underlying risk that you are assuming.

Morten Hübbe, CEO
I think you found it right, you were trying to combine the claims inflation with mainly the Private lines and with the development in the underlying claims ratio. That did not sound right to be honest and I agree very much with Tor's comment that the inflation drivers are most of them similar in Commercial and Corporate compared to Private lines so I don't think that your assumption was right.

Vinit Malhotra – Goldman Sachs
OK, that is fair. I just wanted to clarify the percentage of reported loss. It is mentioned too many times in Private lines. Thank you very much. Thank you.

Operator
Our next question comes from Per Grønborg from Danske Markets.

Per Grønborg – Danske Markets
Yes, good afternoon, also a couple of questions from my side. The first one is related to Norway where clearly your Norwegian performance is lagging quite clearly behind the market leader in the first quarter. You are addressing out of your result as one of the reasons. I guess you have some pretty good business insight into the market leader. Do you see any structural reasons why you should lag as much behind the market leader in your ability in Norway as you are doing currently?

My second question is a more technical issue. You have removed the DKK 1.8bn approximately in domicile properties. Can you give some indication about what runway we should look at for the other financials after this factor now is removed?

These were my two questions.

Morten Hübbe, CEO
Well, I guess maybe I should answer and make sure that you sort of not talk about Gjensidige which is probably not appropriate. I think it is fair to say that the result again we have achieved in Norway this quarter is fantastic. I don't think there is much doubt that while we have had in the previous 3-4 years too high a focus on trying to grow in Norway, Gjensidige has been closing down offices, they have been improving their distribution and they have been quite tough on their pricing as well as having reduced their overall market share significantly.

I guess in those respects Gjensidige Norway is ahead of us in terms of focusing on profitability and improving profitability in Norway. I would argue that structurally we would be able to advice profit focus in much the same way as Gjensidige. You can argue that of course the fact that Gjensidige is larger than we are in Norway should allow them to have a slightly lower cost ratio and should allow them to have slightly more efficient claims procurement than us but by and large a couple of years down the road I see no reason why the lagging should be significant. I think it is more a matter of them preparing for an IPO streamlining and improving all of their processes and their cost and their pricing while we were chasing too high growth in the same period and so I think that is the main driver of the current lagging which should be reduced within the coming couple of years.

Tor Magne Lønnum, CFO
Then the last question, Per, I think – I am not sure if I understood it correctly but you should make the same assumption in terms of return on real estate, but just with a lower portfolio number.

Per Grønborg – Danske Markets
But then previously you deducted two items, other financial items, not investments. The net of those two – can you give any guidance on where we should expect those – I know these are very volatile Q over Q. Can you give some indication of where they structurally should be long term as a quarterly or annual run rate?

Tor Magne Lønnum, CFO
I think then that is something that we would like to get back to if there should be some more guidance on that.

Per Grønborg – Danske Markets
OK. Thank you.

Morten Hübbe, CEO
We will call you afterwards on that.

Operator
Our next question comes from Claus Therp from SEB Enskilda.

Claus Therp – SEB Enskilda
Yes, good afternoon every one. I have three small questions. The first one goes to the investment portfolio. In the end of the fourth quarter, you increased your exposure to high-yield fixed income securities. Could you elaborate to what extent the very benign investment result in the first quarter has made you more cautious in your overall exposure to equities and fixed income? That was the first question.

The second question is in relation to and a follow-up question for the last regarding Norway. Are there any structural reasons why the western and northern part of Norway should be lower profitability than the more eastern part of Norway? And the last question goes towards expenses. You have made a new expense or salary agreement with some of your salesmen lowering their salary by 5 % from the beginning of 2012. How come we don't see that in the expense number?

Tor Magne Lønnum, CFO
Yes, I think to the first question in terms of the investment portfolio you are right. We did increase the exposure somewhat, the high yield and also collect this so I think that if you look at the numbers you can see that has sort of been ongoing for the quarter although we are talking about relatively small amounts and I guess the principal approach has been that riskier assets are sold. You can get some more return from riskier assets and I think there is no major change in the approach in terms of the portfolio.

In terms of the…

Morten Hübbe, CEO

yes, the western and the eastern part of Norway. We don't see any data to suggest that the eastern part is structurally more profitable than the western part. Our data suggest that the retention rate and loyalties are stronger in the western part of Norway but that might be part of our market positioning and that might look differently compared with the... I think what you should expect is that the western and northern part of Norway almost always has winter impact in Q4 and Q1, but what we see in almost all years then is that is offset by stronger trends in Q2 and in Q3. If you have a portfolio which is structurally bigger in the eastern part of Norway and particularly the Oslo area there will be more difference from year to year on whether that is hit by winter or not. But structurally over time no, there is no data that suggests higher earnings potential in the eastern versus the western part of Norway.

Claus Therp – SEB Enskilda
I think what they are really trying to say here is that there are differences in terms of weather patterns from the west coast and over to the east so that may be a part of the explanation why you cannot just take sort of the figures and compare them to the numbers.

Morten Hübbe, CEO
Yeah, but I guess it is fair to say before we take the sales force question that we see our winter claims in Norway being roughly the same in Q1 this year compared to Q1 last year, but I think if you look at the difference between us and Gjensidige in Q1 colder weather is part of the explanation but I think a bigger driver is that they have been focusing mainly on improving profitability in Norway for a longer period than we have. And that is the core driver of the difference.

Claus Therp – SEB Enskilda
Thanks.

Tor Magne Lønnum, CFO
In terms of the question about the commercial portfolio and the salary agreement you are quite right in your comment. I guess sort of the way we look at it at the moment is that we have seen a drop both in terms of portfolio and so we need to make further adjustments in terms of expenses as Morten commented earlier.

Morten Hübbe, CEO
And trying to develop the Commercial business line where the reduction in agent salaries has been the biggest, actually the business area's own cost ratio is actually slightly lower than the year before but when you include cost that they are the part of supporting staff cost that they cover. Then the total cost ratio increases and that is why we expect that our cost ratio - our cost improvement during this year and the coming years will to a large extent be driven by the supporting staff numbers because they are the ones prohibiting currently the cost ratio reduction, for instance in Commercial.

Claus Therp – SEB Enskilda
OK, thank you.

Operator
We have no further questions at this time. Thank you.

Morten Hübbe, CEO
Then I think we should thank all of you for spending another late evening with us. We hope that at some point the reporting rules have changed so we can report in the morning instead. But thanks a lot for your questions and we expect and hope to see a continuation of further improvement for the technical results in the quarters in the years to come. Thanks a lot, hi.