Webcast and teleconference

Q1 results 2011 – 12 May 2011

Ulrik Andersson - Tryg, Head of IR

Good morning and welcome to this presentation of Tryg's Q1 figures. I am Ulrik Andersson, Head if IR and I am joined this morning by CEO, Morten Hübbe, who will do a presentation of the results and afterwards we will open for questions. With this, I hand over to you, Morten.

Morten Hübbe - Tryg, CEO

Thank you, Ulrik. We report in the first quarter of 2011 an improvement in our combined ratio of 12.7%. At the same time an improvement of roughly 630 million in our technical result, of course significantly helped by the fact that the winter in Q1 this year was a normal winter compared to a very extreme winter last year. We had conservatively planned for a more extreme winter also this year but in the absence of that, we are pleased to see an underlying improvement in our technical results. We see the first quarter as a step on our three-year journey towards our 90% combined ratio target. Our premium has increased by more than 5%, which is a bit higher than estimated, which reflects the fact that prices are increasing as planned and that our customer loyalty remains at a high level. More specifically, we see in the Corporate segment less absence of business than we actually planned and than we saw in 2010. Our cost ratio is lower than planned and significantly lower than last year, which of course is positive. And when we look at the underlying claims, we see a tendency that our Private and Commercial business are significantly better than last year whereas we see an increase in our Corporate business and we will revert to that.

Slide 3

If we turn to slide no. 3, the general trend is an improvement in 2011 compared to 2010, but we also see that the combined ratios are not yet at the levels of 2009 or 2008 or 2007 for that matter. And that is why we see this not as having reached our goal but more as a first step towards our three-year goal. Private lines are not far from the goal with a combined ratio of 95 and particularly, we are pleased to see the Danish private lines have a combined ratio of 85 in the first quarter, which also includes run-offs gains but having 93 before run-offs is also a good improvement in the Danish private lines. Also in Private lines, Finland has seen a combined ratio of 94.5, which means that we also see an improvement there. Growth in private lines of around 9% reflects mainly significant increases in prices in Denmark and Norway and of course some volume growth in Sweden and Finland. Commercial has a combined ratio improvement of 32% but despite that still a total combined ratio of 105. We are pleased to see that the Danish combined ratio in Commercial is 97 in the first quarter. Corporate has a combined ratio in the first quarter of 89, which I guess at first hand is quite satisfactory, but at the same time we do see less large claims in the first quarter and some increase in the smaller and medium-sized claims.

Slide 4

If we turn to the next slide, what we try to address there is the question of what are the main drivers in the results from last year to this year? And how satisfactory do we see that? Well, it is clear that the winter has improved the results by roughly 15% compared to last year. But our main focus is of course: Do we start to see that price increases are larger than the current claims inflation? And we do see that. Price increases are up 5% compared to the total group combined ratio. And claims inflation is roughly 2.5%. So we are clearly building margin improvements in this period. Also, we see that the expense ratio is improved compared to last year. On the other hand, we do see that storms were a bit more costly, 57 million in the first quarter this year, and then we see a higher combined ratio in Corporate compared to last year.

Slide 5

If we turn to slide no. 5, you see that the first quarter is usually the highest in the year, particularly in Norway. But we do see an underlying improvement in our Private and Commercial business, which is three quarters of our total book, of around roughly 4 percentage points to the combined ratio and that of course is a reflection of the fact that price increase is roughly double what we see in current claims inflation. And we see that that trend of improvement will continue throughout the year. It confirms that we are on the right track. Of course, there are areas where we perform better than planned and areas where we are slightly more worried. We see an area like contents insurance where improvements are a bit more rapid than planned whereas house insurance we still want to see a clear improvement and we have not seen that fully yet.

Slide 6

If you turn to slide no. 6, we address the question: When we see an increase in Corporate combined ratio, should we be worried about that or not? Well, you can see at first hand that the corporate claims ratio on slide 6 is up 20 percentage points, which of course is a very high number. But if you look at 2010, Q1, as the comparison period, we actually had a claims level of around 50%, which you can see from historical comparison was extremely and unusually low. And if we look at the total combined ratio in Corporate in Q1 this year: 89% that is of course satisfactory, but we also have to remind ourselves that we do see some claims inflation in Corporate, more smaller claims, more medium-sized claims and we have seen some pressure also on rates during the last year or so. So we do see the need for us to look at price increases in the Corporate segment during 2011.

Slide 7

If we turn to slide no. 7, I guess we have a slightly more technical slide which addresses the challenge in workers' comp. That is not because in this quarter we are more worried about workers' comp. than in the last quarters but just to illustrate this as an area where we are slightly worried that the risk is on its way up whereas we see some downward pressure on pricing. We have tried to illustrate in this graph the reward of disability and how that plays out from an underwriting year. If we take 2004 as an example and you look at the red bar, we see that after 2 years of underwriting year 2004 we know about only 200 claims with disability. Seven years later, underwriting year 2004 has 1,800 claims so actually we are trying to use the initial information to estimate the ultimate number of awarded disability claims. If you look at the red bars again and you look at the trend from 2007, 2008 and 2009, you see that in underwriting year 2009 we have almost 600 rewarded claims compared to 200 claims in the same period in 2004. Now the big question is: How much of that can we attribute to higher speed in the government body that treats these claims and how much is actually an underlying threat. We believe that we can attribute a very large proportion to increased speed in the government body but at the same time we do choose to be quite conservative in our assessment that there is some reflection of upwards trends in the claims as well. And that is why we have increased prices in workers' comp. and we have let go of some business in that segment. And back to you again, Ulrik.

Ulrik Andersson - Tryg, Head of IR

Slide 8-12

Yes and I will talk a little bit about the premium hikes and the premium initiatives that we have launched two years ago and which have been a focus area for Tryg in the period and if you look at page 8 you will see an overview of the implemented price increases across the four countries and as we have dwelt a lot on this in our previous presentations but just to confirm that we are talking substantial price increases across the product lines and across the countries and I think especially if we look at Norway and I think that one example that is very interesting is the motor portfolio where we see a claims development now that is picking up and especially in glass claims and we see that some of the price increases that we have implemented are definitely needed in order to cope with that. And as said before, the annual impact in 2011 from price increases will be around DKK 1 billion and in 2012 0.6. So then what happens when you increase the premiums? Yes, premiums go up but customers might leave and when we look at the development in the premium per product we see the increase is having an effect – it is not that it is discounted away in the sales organisation, we make sure that the price increases are going through to the portfolio. And as I mentioned, motor in Norway being a focus area where you see an increase in the premium after a period where the average premium had actually declined from 2005 to 2007. We see that we continue the development in increase in premium on that product. In house insurance in Denmark and Norway have both been very prone to claims inflation the last couple of years and then we see that the price increases are getting through to the portfolio and especially in Denmark we have had quite a satisfactory development in the average premium, 13.7% as is stated on page 9. Then of course the next issue is if premiums go up will the cost then stay and if you look at page 10 we have shown the retention rates on Private customers in Denmark and Norway and first of all it is very satisfactory to see that the retention rate in Norway is picking up again after a dive in the beginning of 2010 and we see that the competition that we saw at that point in time from small, very price focused competitors has taken off in a way that we expect that the most price sensitive customers have left, so what we have in our portfolio are the customers that focus on exactly what Tryg aims to deliver. In Denmark there has been an extraordinary retention rate in 2010 but that has stabilised now and if we try to look a bit more in detail on that it is done in the bottom chart where you see that it is actually the customers with only one product who have the largest drop in retention rate. Actually, they constitute most of the decline. And that is in our view a positive development since the customers who Tryg is aiming at attracting and retaining in the portfolio are customers who collect and gather all their insurances with Tryg and single customers are generally less loyal and less profitable. So that development is good. And again, I will note that the level - if we look at the level – is very high. If we look at the customers with more than two products we are quite stable above 90% retention rate. That is quite good. Then of course some factors are affecting the general picture from the outside and if we look at page 11 we have shown some macro drivers for claims inflation in the two main markets. And I think generally, with Denmark having a tougher time on the growth side than Norway right now we see that inflation in Norway is picking up. We see that salary negotiations in Norway are resulting in wage increases that will flow into repair costs both for our house insurance and in motor repair and I think that if we look for instance at motor repair costs even though there was a drop in 2010 it is still at a very, very high level compared to the general growth in the economy. So what we have done here is to illustrate where we expect or the indicators to develop in the future and we expect that in both Denmark and Norway we will see an increase in inflation, but mainly a Norwegian problem. Besides the initiatives on the premium, raising premiums, we have focused on claims handling and we have tried to show that on page 12. Some of the large initiatives we have launched, and of course optimising claims handling is a very different matter than raising premiums. You need to work with processes, we need to work with organisations, procurement and so on, and if we just look at some of the points on this list, we focused more on recourse, when other insurance companies owe Tryg money. We have recourse claims from other companies – more focus on that in the organisation getting all employees to focus on getting the recourse back. We have looked at glass claims in Norway. I mentioned that a minute ago. We have seen that, generally, people tend to change their windscreen if there is a scratch in it. And we try to incentivise the repair shops to repair the windscreen rather than replace it and have quite good results on that. Furthermore, there is some procurement work on purchasing claims repair in building insurance in both Denmark and Norway and, of course, it is always difficult to measure exactly the effect on this, but on this kind of measures we can see gradually that they are changing the way the claims organisation works and increasingly we see a positive effect on the result from this. And the figures are shown on the slide.

Morten Hübbe - Tryg, CEO

Slide 13

I guess, Ulrik, we can add that on the E-auction process, we look forward to getting the result from that. We initiated that during the spring where we have got quite good experience in Norway on auctioning on the net larger repairs and we are now taking that to Denmark as well. And we do expect to see some strong benefits from that over the coming years.

And if we turn to slide no. 13, it is quite clear that the first quarter has benefited from the fact that only 50 million in large claims is less than normal. On the other hand we saw 57 million higher costs for storms in Denmark than we did last year so that offsets it to some extent, but of course clearly the avoidance of the extreme weather last year is helpful this year. And speaking of help, if we move to slide no. 14, of course we are quite pleased to see that interest rates are picking up. If you make a year-on-year comparison, you actually do see it is quite close to status quo because we saw a drop during 2010 and now we see an increase again to a level where Q1 interest rates and therefore discounting are quite similar to Q1 last year. But clearly, compared to the low point we are quite pleased to see the upwards trend and we do see a potential upside in that in the coming years and remind you that if we see a 1 percentage point increase generally in interest rates that will improve pre-tax earnings roughly by 300 million and then it will improve combined ratio by roughly 1 percentage point.

Slide 15

If we turn to slide no. 15, I guess we have set a quite steep and ambitious target for the cost ratio in 2020. I guess we have informed you that some of it will be quite frontloaded with investments before you get the benefits and other initiatives will have a short-term positive impact. We are very pleased to see a group cost ratio of 16.6% compared to 17.2% last year. Denmark and Norway are now at 15.5% in the first quarter, which we are quite pleased with. But we are also pleased to see that in Sweden the cost ratio drops from 30 to 23% and in Finland the cost ratio drops from 28 to 21% so we are definitely on the right track there.

Slide 16-17

On slide 16, briefly on the invested assets. We are very pleased that our matching works. A mismatch of only 4 million in the quarter or 0.01%. I think that is clearly within acceptable limits and also that our free portfolio where we can take more risk has a return of 2.1% or what is roughly 8.5% p.a. Of course, equity is not a main driver of that and we see a positive performance of roughly 80 million compared to our benchmark. So to summarise from slide no. 17 clearly when combined ratios improve with 12.7% and the technical result improves by 630 million we do get a lot of help from the more normal winter compared to last year. On the other hand, we think that it is extremely positive to see that Private and Commercial 75% of our business improves the underlying claims ratio and combined ratio by roughly 4 percentage points. And that confirms that we are clearly on the track in a period where price increases are carried out successfully and are roughly double what we see in current claims inflation and when at the same time we see a strong improvement in our cost ratio. We start to see further and further improvements from our claims initiatives. Then we are very confident that we are on the right track and on our journey towards a 90% combined ratio in three years' time and a 20% post-tax ROE.

Ulrik Andersson - Tryg, Head of IR

Thank you, Morten. And with this, we end the presentation of Tryg's Q1 results and we will open the floor for questions.

Christian Hede – Jyske Bank

Yes, good morning, this is Christian Hede from Jyske Bank. I have a couple of questions. One is on the retention rate issue where you show that customers with more than one product have a much better retention rate than the others. This leads me to two questions. One is: Which portion of your customers has one, and which portion has got more than one product? And also, which portion will it be in terms of premiums? And finally what are you trying to do to convince people to have more than one product? That was the first kind of question. The second question is short, I guess. We see the number of employees has now gone down again. How low can you go in this – are we now, kind of, reaching the bottom because as you said you have some front-end loaded cost initiatives where we see the number of employees go up again? And finally, the Finnish and Swedish business. You are now closing in a combined ratio of 100. Could you give us some update – just like a rough outlook in terms of profitability when we will see the businesses actually break through the 100? Thank you.

Morten Hübbe - Tryg, CEO

And good morning to you, Christian. I guess on the first question if we look at the retention rate, the types of customers who have had only one product of course across different segments, but mainly in the Private lines segment, we have seen some customers having only for instance a change of ownership policy because that was sold through house dealers. We have reduced that significantly. We saw that a year ago, we initiated cancelling out all of our policies of unemployment insurance. There were examples where people had only one policy. But we also see a tendency that particularly younger customers would tend to buy mainly one product at the time and of course the challenge is if you face a younger customer who is buying their first station wagon and sort of starting to get ready to create a family they will buy more products and they will become more loyal whereas if it is more single young men buying a car insurance then the likelihood that they become loyal and profitable is very low. And of course when we – we have to write quite strong bundling programmes and that is why more than two thirds of our customers in private lines have multiple products. But we have been more successful at that in Norway than in Denmark and of course when we see in a period like this that it is the single product customers who leave, we will spend even more resources to incentivise customers to bundle more products and in effect become less attractive for the one-product customers but as I said this is mainly in private lines. On the employee side, you are right that we are slightly down in number of employees. In many areas we will continue to reduce the number of employees over the coming years, both because we have a lot of people retiring but also because we have made a number of automatic processes but there areas where we do expect to increase the number of employees. We see for instance in the sales force that there are areas where we will in the future probably have a few less of the more expensive sales force and in some cases actually more head counts but with a lower salary to do the course interactivities so there actually an increase in full-time employees will actually improve profitability. At the same time, there are areas and claims where we do see the need to be closer and in better control of managing claims and making sure that they are not too costly and too high. And that is why in some areas we are increasing the number of head counts in claims so I would say: A nuanced picture where the broad solution is to reduce the number of claims, but actually investing in more people in some areas. We have also increased the number of people working in business intelligence product and pricing because we do see that we want to be even stronger in that area in the coming years. So in total I would not be surprised if the total number of employees increases a bit over the coming period but relative to top line clearly it will reduce the cost to premium. And your last question on Finland and Sweden. I guess I will split the answer into two because in Finland we are very pleased to see the combined ratio of 94.5 in private line even with still a cost ratio of more than 20%. And in Private lines it does mean that we are - when we have improved cost ratio further we will sort of approach a low-end 90s combined ratio. The challenge is to get commercial lines further improved and that we will see but that will take a couple of years' time. So private lines are very close and will continue further improvements. Commercial lines will take a bit longer. In Sweden, I guess we have to be honest and say that our niche segments, boat insurance, motorcycle, car insurance, product insurance - we see combined ratios clearly below 90 whereas in our broader private lines segment in Sweden we are still above 100 and significantly above 100 in combined ratio. And that is why you will see somewhat lower growth in Sweden this year compared to last year as we focus more on getting pricing and risk selection better, but clearly within the next couple of years we will see positive earnings also in the Swedish market.

Jakob Brink, Handelsbanken

I have two questions, actually; actually both of them are regarding the corporate segment. You talked about that you want to increase prices in this segment. Can you maybe elaborate a bit on this, is that possible given the competitive environment? So just a bit on the pricing here. And then secondly you mentioned also that you think the weak profitability in workers' compensation could be related to an increased speed in the government body dealing with these workers' compensation claims. Could you maybe tell us a bit more about this as well? Thank you.

Morten Hübbe - Tryg, CEO

And good morning to you, Jakob. Well, I guess you are completely right that in the corporate segment we see a quite tough competitive situation, of course, and that opens the question on how difficult is it to carry out price increases. Within the last year and a half, we have been able to increase prices 6-8% in our general Norwegian corporate business, and we do see that it is necessary to implement further price increases and we also believe it is possible. We see for instance that there is a tendency towards commercial and corporate motor insurance to require higher prices. It is a segment which has been under pressure, I guess, during the financial crisis, but it is also a sector where the current claims ratios clearly require some price increases. Also we see property as a segment that still requires some price increases, that we have already to some extent done in Norway, but we need to do a bit more, and I think I would imagine our competitors need to do the same thing. I think you are completely right but the difficult question is will the market allow higher prices in workers' comp? In some segments we believe it is necessary and I guess at some point also new players in that market have to turn a profit, and you know, if they continue to have 30% lower prices in some cases, then they will win the customer in the short term but I guess in the longer term they will have created a challenge for themselves. On workers' comp I guess it is fair to say that the government body has historically had a sort of very long period of actually treating claims and it was not unusual to have sort of several years' backlog in their systems. They have made new guarantees to the market on how rapidly they could actually treat claims and they report that on their website as well, and that is why we have seen in some cases a significant pickup in speed, in some cases we would see a workers' comp. claim previously being treated only after a year and a half, now being treated within the first 5-6 months, but there is also the tendency that when you do increase speed they maybe treat the more simple claims first so there is a change in the pattern of which claims are treated when, and then at the moment we have just noticed that the government body has laid off a large number of their employees again, so the question is whether we will swing back to a new trend as well. So I guess you can say that in this rather uncertain environment we choose to be very conservative in our assumption on workers' comp., maybe too conservative, who knows, but clearly we believe that a combination of noticing the higher speed and at the same time being more conservative in our reserving is the right combination.

Ulrik Andersson - Tryg, Head of IR

And I think that the slide in the presentation showed it quite well, that the number of the awarded loss of abilities in the first year after claims year, the accident year, has increased dramatically, and we know it is to a high degree temporary loss of ability awards that have been given and how that development will go forward is very uncertain and I think that just underlines that workers' compensation these years is still an area where the uncertainty is very, very high.

Morten Hübbe - Tryg, CEO

But we are pleased to see that while, as you said, Ulrik, the temporarily awarded claims increase significantly then the permanently awarded disability claims have not had the same trend. So clearly there is an element of timing.

Jakob Brink, Handelsbanken

So just to understand you correctly, you are basically reserving as if this increased frequency is sustainable?

Morten Hübbe - Tryg, CEO

Well, I guess you could say, if you just take the sort of very simplistic approach to that and of course that is perhaps overly simplistic, but if you merely follow the pattern of the data we show on the slide, then you should assume that the ultimate number of awarded claims should triple compared from 2004 to 2009, and of course we don't reserve for a tripling in the number of claims but there are competitors who seem to believe that the increase will ultimately be zero and therefore just assume that everything is timing, and what we have done is simply to say yes, there is an element of timing but we have increased our reserving as well. But clearly we have not tripled our reserving, that would be absurd.

Gianandrea Roberti, Carnegie

Yes, hi, good morning from me as well, I have three questions as well, I will keep it brief. There is a slide in the presentation where you show the combined ratio drivers from Q1 last year and Q1 this year, and if I really take out the most important of this driver a year moving from the 108.6, you are taking out the extraordinary winter, then you have the price hike of 5%, claims inflation of 2.5 and then you are saying that a combined ratio in Corporate in Q1 last year was basically 5% too good in a way. And I was looking at the numbers again and I noticed that the combined ratio in Corporate in Q2 last year was even better than Q1, so maybe it is premature but I am just thinking your Group combined ratio was 92.5 in the second quarter last year. If the percentages of premium hikes and claims inflation are still 5 and 2.5 but they are offsetting again because of a too good combined ratio in Corporate, then this year the Q2 combined ratio is 95. I don't want to really push you in commenting on that but I am just trying to understand if in Q2 last year in Corporate you saw some exceptional as well. Then the second question is that if the underlying combined ratio excluding most of what we have seen last year, one-offs or whatever you want to call it, it is 92,5 for 2010 or around that. It seems to me that after a Q1 like this you are probably on line for a rough kind of level of that, I mean roughly the same kind of level in 2011 which basically makes me feel the acceleration towards the 90% in 2013 is really coming in 2012 and 2013, and I know you only guide on 2013 at this point but I would like to get a comment from you on this one, and finally where are you in the process of hiring the new CFO as well, if you can have a comment? Thanks a lot.

Morten Hübbe - Tryg, CEO

Thanks a lot, Gian. Well, I hope you find the combined ratio drivers slightly helpful because we believe it is important to try to distinguish what really drives the results. We see, as you mentioned, Gian that the fact that we increase prices comparable to 5 percentage points the combined ratio and we see inflation of 2.5%. Improving margins by 2.5% is really what we spent 90% of our time achieving and that is what is most important for the coming periods. With regards to your question on Corporate, I guess if you look again at slide number 6 you can see that whereas Private and Commercial will typically have seasonal patterns that we can actually recognise again and again, year after year. Then you can see from slide 6 that a quarterly claims ratio in Corporate, it is all over the place, you know, in a very, very strong quarter it is 50, in a difficult quarter it is 80 or even higher and to be honest, there is really no seasonal logic in when that happens and that is why we are trying to say that Q1 last year in Corporate with a claims ratio of 50 was unusually low. But as you can see from slide 6, we do have unusually low claims ratio quarters from time to time, so I would really hesitate to try to take Corporate in the second quarter last year and then try to make some assumption about what does that mean in terms of Corporate in the second quarter this year, because there is no sort of pattern in seasonality. I would rather look at sort of across the quarters on Corporate and try to figure out a normal level of claims and then know that Corporate will always be the segment that has the highest volatility around that number.

On your second question you are trying to, I guess, figure out what is the likely combined ratio for the full year, and I guess it is fair to say that we currently see a clear trend that Private and Commercial lines are improving the combined ratio strongly and as planned whereas the pricing pressure and somewhat claims inflation in Corporate is actually pulling in the opposite direction. Now if we look at analyst assumptions for the first quarter, it varied between 91% combined ratio and 98% combined ratio and I guess if we thought that we would get very close to 90 in one year's time, we would not have set a three-year target to get to 90%, but we are very pleased to see the improvement, 2.5% between price increases and claims inflation and the underlying combined ratio improvement in Private and Commercial of 4 percentage points. And then the question is what will be the weather pattern throughout the rest of the year? Will we see rain claims in the third quarter again or not and how do we see this combination of pricing pressure and some claims inflation in Corporate, how do we see that play out throughout the year? But clearly our target is a three-year target and we will move stably towards that, it is not a one-year target.

And then finally on your CFO question, we have actually decided that we can avoid that salary expense and live without it, no, we expect to be able to announce within the next couple of weeks who is the new

CFO, so we are actually very close to finalising that and of course I look forward to getting that new person on board.

Gianandrea Roberti - Carnegie

Great, can I just follow up one thing quickly, the claims inflation of 2.5, do you have a precise definition on that? Because I have tried to do a lot of calculation on your claims reported quarter on quarter adjusting for this and that but I was not able to arrive at 2.5, or how should we look at that?

Morten Hübbe - Tryg, CEO

I think you are completely right, Gian, that assessing the claims inflation precisely for you is very difficult. What we do internally is that we go through every single business segment and every single line of business, then we look at the development from the first quarter last year and previous years to the first quarter this year. Then we try to differentiate, what do we believe is more stochastic, volatility in that claims number in that specific cell and what do we believe is more of a trend of underlying claims inflation? And then we try to summarise that for the entire line of business, the entire segment and ultimately the entire Group and there is no doubt that the variation is quite high, we have areas where we now see negative claims inflation. We see positive development, as I said, in Contents Insurance for instance and then we have other areas like house Insurance in Denmark and car Insurance in Norway, as Ulrik said, where claims inflation is clearly higher than 2.5%. So I guess you cannot calculate that number because you are not able to take out what is the stochastically coincidental element of claims development.

Giulia Raffo, Autonomous

Hi, thank you very much. I have two questions. The first one is on the 250 million pricing impact that you mention in your quarterly statement. I was wondering if you could please clarify that 250 million benefit from the price hikes, whether that is your estimate of the impact at the net premium line and if that is the case, what we should expect to be the full-year impact as taking into account the ways of price increases, I would expect that 250 million that quarter to accelerate, particularly in the second part of 2011. And my second question is on the Corporate segment. I understand the swings and the volatility. If I take your Q1 combined ratio, they are at 89.3 when I read the statement I notice you flag 12.5 percentage points positive from prior years. Does this suggest an actual year combined ratio close to 102, which is clearly too high? I was wondering if you can comment a bit more on what pricing do you think that you need to do in that specific segment and what would you see as a medium-term target combined ratio in that segment?

Morten Hübbe - Tryg, CEO

And good morning to you as well, Giulia. You are completely right on the 250 million in the quarter and as Ulrik said we expect that number to be a billion during the year. You can actually assume that that more or less travels into the same impact on net-on-premium. In private lines that link is quite clear, and in most of Commercial lines that link is clear as well. When we look at Corporate lines for instance our working assumption is that if we increase prices by 50 million then we will lose 50 million worth of exposure as well so clearly there is a lapse ratio in that but I guess you can say that if we just back 1 billion into growth that alone would correspond to 5 percentage point growth at the group level. And at the same time we have argued that the growth would rather be lower than that, and that is of course because we have assumed both a lapse in Corporate, as I just mentioned, and also a drop actually in the retention rates in Private and Commercial and so far we have seen less drops than we expected. If we look at the Danish Corporate book, for instance, we had a drop of business of more than 11% in the first quarter last year. In the first quarter this year the drop was only 2% and for Corporate on a Nordic basis it was actually zero, so I think you can back the 1 billion into growth expectation but then we do subtract an expected lapse in Corporate and some drop in retention rate in Private and Commercial lines but as I said so far it has actually been less than we expected. On Corporate, I guess your logic is completely right if you take the 89% combined ratio in Q1 and you add the run-off gains then you are close to, you are actually slightly higher than 100% and is that now the new level of earnings in Corporate? Clearly not. I guess if you look at slide no. 6, you can clearly see that Q1 2011 in Corporate was not a good claims quarter. When we look at the coming periods, there is no doubt that a significant proportion of our reserving margin is on older years, workers' comp. as one of the longer tail lines so that is natural and that is why it will be natural also in the coming period that an overweight of run-off gains will be in workers' comp. so it will clearly be higher than the group and it will be high. We believe that the first quarter was a bad quarter in reality with the underlying claims so clearly stochastically it will drop again but at the same time we do see that, for instance, in Commercial and Corporate motor there are segments that need up towards 10% price increases and there are single customers that need more than that. But we are doing that on a customer by customer basis and not broadly throughout the portfolio. So clearly no, 100 is not the new current level and the target is for Corporate to be around the 90% mark and in a good period it should be below 90% in combined ratio and then in some periods up in the sort of mid-90s so continued high run-off gains, stochastically a bad first quarter and then a need implement price increases particularly in motor and to some extent property.

Giulia Raffo, Autonomous

Thank you. Can I just follow up quickly on your 1 billion net premium impact; I was expecting a bit more on that in a way considering that presumably we are also seeing the price impact that you were doing in 2010 which was roughly 900 million, that was done on a gross basis last year but which had not come through in the net earned premium line fully?

Morten Hübbe - Tryg, CEO

I guess you should always be quite cautious on how you communicate timing on price increases. When we have communicated 900 last year, 1 billion this year and then 600 next year, we have been quite careful not to communicate when the customer sees the price increase, but rather when the price increase is expected to hit the P&L and the split I just gave is when the numbers are expected to hit the P&L, and then of course the big question is: What is the same period's claims inflation? And what is the net/net of that? But the 900 in 2010, the 1 billion in 2011, etc. and the 600 million in 2012, it is the period where it will hit the P&L. That is the concept of how we have made that communication and then of course ultimately the 2012 number will grow. I would imagine that the 2012 number would end up being more than 1 billion because in reality we would make price changes during 2011 and 2012 in addition to the already planned and we are in the phase of planning that and will decide it before the summer holidays. And then that will be carried out during this year and the beginning of next year and then it will impact the P&L of next year.

Ulrik Andersson - Tryg, Head of IR

I think if you look in the report, I don't remember the page exactly but we state that the average premium for commercial customers in Denmark has increased 4% year-and-year and that is quite aligned with the fact that the price increases we implemented in the autumn 2010 will have an effect gradually increasing during 2011 so as Morten said it is difficult to communicate price increases as they hit the P&L at a time that is very different from when you decide to implement them due to the renewal being spread across the year.

Morten Hübbe - Tryg, CEO

But the conclusion is that the periods we have announced are when they hit the P&L.

Vinit Malhotra, Goldman Sachs

Yes, hi, good morning. Just if I could just get some more clarity on the claims inflation, and I am sorry going back on that, you already have clarified it in one question, but it seems to me that 2.5% looks closer to where the CPI is sitting just now and you also highlighted in one of your slides in the summary that there is uncertainty around the claims inflation and is it a fair sense that this uncertainty is basically workers' comp. or even in Corporate lines, those kind of things, so that is my first question: What is the uncertainty? How worried are you about that? And why I really ask is that because the 5% price increases will flow into the bottom line only if the claims inflation is really 2.5% and not 3 or 4% and that is going to have an impact so if you could clarify on that, really, and the second thing is that in the report in the Corporate segment you talked about part of the result really is coming from continued strength of reserving and could you shed some light on - and you may not want to give a number but just some light on the confidence interval or something, some more colour on that by that over there. Thank you very much.

Morten Hübbe - Tryg, CEO

And good morning to you, as well. I guess when you are completely right of course that a 5% positive from price increases is great if claims inflation is less than 5% and otherwise it does not really matter. What we see currently is clearly that in some products claims inflation is negative. We see currently that contents insurance for instance has negative claims inflation. We see that in some segments of property insurance we can get negative claims inflation through our claims procurement. Then we see an area like motor insurance in Norway where we are still border lining 5-6% in claims inflation so it is a very sort of – the picture is very diversified. That is why, for instance, in motor insurance sales in Norway we increased prices 10% in the car dealer channel 1 January, which is of course a lot more than the 5% on average. I guess you are right, the uncertainties when you look at what is driven by, for instance, competition, then the uncertainties are mainly in Corporate, but when we look at the next sort of 2-3 years we do have some worry about the Norwegian mass market particularly because it does seem that Norway compared to most of Europe has higher inflation risk. And that is why in the coming period we will be very focused on whether we need higher price increases in Norway to capture that potentially higher claims inflation, but Norway is the country where I guess our process of implementing price increases is the strongest. We always change prices every six months. We have very strong mechanisms of handling that and the market is used to it. So clearly a point of observation or worry on future Norwegian claims inflation, very confident with the current Danish claims inflation, and then some competitive worry point on Corporate, as you said. When it comes to reserving and strength, I guess what we are trying to say is, with only three years' duration on average in our books then we are very conscious that we continuously both benefit from run-off gains from previous years and then we install the same level of certainty in new underwriting years. And what that basically means is that we try to make the cushion an ongoing issue. In Solvency II there is a suggestion that you should use a cost of capital methodology to assess whether your reserving cushion is high enough and that will point to, in a business like ours, a requirement for a reserving cushion of around 7%. We are significantly higher than that and when we assess our level of comfort in reserving at the end of Q1 compared to for instance at the beginning of Q1 our assessment is that the certainty has increased and as we said last year when we assessed the reserve margin at the end of 2010 compared to at the beginning of 2010, again our judgment is that the certainty has increased so I think that we are in a very comfortable position both in terms of being able to take ongoing run-off gains and making sure that our total margin does not decrease - rather the contrary.

Adrienne Lim, Morgan Stanley

Hi there, good morning everyone. I had three questions as well. The first one was on your Commercial Nordic segment. I just want to understand a little bit more what is actually causing the underwriting loss in the quarter, you know, the last year there were just large losses and also the workers' comp. issue but just a bit more colour on what is driving this quarter's loss will be very helpful. My second question again is just a clarification on your medium-term target. Does this assume any pickup in interest rates? And if we see an improvement in interest rates, just will you revise your sort of target lower? I am sorry, a better target? And my last question I will try to come back on inflation, maybe if I could ask it in another way: What have you assumed for your overall claims inflation in your portfolio and what should we assume when sort of trying to come up with a good underlying combined ratio number? Thanks a lot.

Morten Hübbe - Tryg, CEO

Good morning to you as well. Well, I guess when we look at Commercial in the first quarter and we see a combined ratio of 105 we do not really see that as a quarterly challenge. We see that as more of a structural challenge. We see that our general claims level in both Danish and Norwegian Commercial business is too high. We started price increases in Danish agriculture in the autumn of 2009. Then we continued with broad price increases in Commercial property which is the biggest segment from 1 October 2010 in the range of 10-15% price increases. We have not yet seen the sort of P&L positive impact from that. We have just decided that we need to implement further price increases in Danish agriculture which is a segment which is under a lot of pressure earnings-wise and at the same time when you look at the cost ratio in Commercial that has typically been around 23-24% compared to our Private lines cost ratio which is dropping systematically and is on its way down towards 15%. And we are investing quite heavily in 2011 in improving our processes in Commercial and at the same time continuing these higher price increases and in reality the majority of the Commercial customers only got their price increase 1 January this year so we are really waiting to see the P&L impact of that. We will see some of it during this year, but we will see also the biggest improvement in 2012. You may have noticed also that we have reduced the salaries of our sales force, which is mainly in the Commercial and in the Corporate segment. In Commercial a decrease in salary of around 6%, in Corporate a decrease of closer to 10%, and in the sales force that sells pension insurance a decrease of more than 20% so you can hear a number of initiatives which will reduce the structural combined ratio challenge in Commercial and really it is not a one quarter challenge. On the medium-term target I guess we can say on interest rates.

Ulrik Andersson - Tryg, Head of IR

Yes, I think generally people are expecting interest rates to go up and I don't think we have a better view on that than anyone else. The medium-term target was set in 2010 with the interest rate level which we had at that time. So targets will follow the interest rates movements going forward. I think if we look at this quarter the level of discounting which of course is the flip coin of the interest rate is at the same level as it was in Q1, 2010, but if the development continues from where the interest rate was at the beginning of the 2010 definitely that will have an impact going forward.

Morten Hübbe - Tryg, CEO

So I guess you can say that it is a potential upside compared to the target we have set. And of course depending on how large the rate increases would be and how much that would impact competition but clearly an upside. And then lastly on your inflation question. I guess if you work with a sort of 2-3% average inflation assumption you would not be too far off but I guess it is also fair to say – as I said before – that when we look within the portfolio the diversity of claims inflation per segment and product is very, very high. Some of it is in fact negative and clearly we are building margin quite rapidly in those areas and in other areas as we said before - for instance motor in Norway - we could be looking at inflation numbers of 5-6% so a very diversified picture but on average if you work with an assumption of 2-3% I would not think that you are too far off.

Giulia Raffo, Autonomous

Hi, just a follow-up question. We have seen the running year has not been fairly stable in the last two quarters. I was just wondering given the bounce that we did have particularly in Danish short-term interest rates. Are we at the stage now where new money yields are likely in excess of the portfolio, the average, and so should we expect a slow pickup in the regular financial income?

Morten Hübbe - Tryg, CEO

Well, I guess it is as we take both the ongoing interest rates and the change in unrealised benefits or gains and losses to the P&L we see a more or less instant impact of improvement in our total results from bonds as interest rates increase. So clearly we would say it is positive when interest rates increase and then you just have to of course realise that it will also increase the discounting and it will increase the technical interest rate so you just have to work out the components right, but if before you start discounting and before you start moving parts of the investment income to the technical result, clearly we will more or less instantly start to see the pickup in interest income together with unrealised gains and losses so clearly that is a positive.

Giulia Raffo, Autonomous

You know I was trying to understand we are at the stage where the new money investment is now in excess of the current portfolio. Only the fixed income side.

Morten Hübbe - Tryg, CEO

And now is a question on us as a company or in society as a whole?

Giulia Raffo, Autonomous

You as a company so is your fixed income new money right now like in excess of your running yield which is roughly I think 2.5% on the fixed income side.

Morten Hübbe - Tryg, CEO

Well, there is no doubt that it is significantly higher than when we made our budget assumption. I guess, maybe you are trying to ask whether already now we are higher than the average running year on last year. Was that your question?

Giulia Raffo, Autonomous

Yes, I am trying to see if you know the running yield, if I look at your Q1, the running yield on the fixed income side, I mean, it is roughly around 2.5% on an annualised basis. I would like to see if your new money rate is now in excess of that across the board.

Morten Hübbe - Tryg, CEO

We can get back to you on that specifically but sort of from the hip I would say that already now we must be at higher running yield than we were on the average last year. But when you make the year on year comparison you don't get a lot of help because the Q1 was actually high last year as well but if you look at the average of 2010 and then compare to today then clearly today's yields are higher than the average of last year.

Giulia Raffo, Autonomous

Yes, thank you, that was what I was trying to get a sense of. Because I think we have probably touched the low point of that U-band, let's say, yeah

Morten Hübbe - Tryg, CEO

And that is very positive and as we said before clearly that is an upside for the future. As we see it, if we see some sort of rather slow pickup in the yields it will benefit the combined ratio if we see dramatic increases. Of course, some of that will settle in pricing. But I think in the shorter term and in the medium term this is bound to be an upside, as we see it. Hard to quantify the timing, etc. but really an upside.

Peter Elliot, Berenberg Bank

Thanks a lot, there is just one remaining question. And it is on the expenses and we have seen this positive development across the Group but when you look at the geographical split the one that stands out is Norway where it has picked up from 16.4% last year to 17.4% in Q1 this year, I was just wondering if you would just comment on that? Thanks.

Morten Hübbe - Tryg, CEO

If you look at the split of the business, what we see is that it is predominantly our Corporate business in Norway that has a pickup in cost ratio. The premium development in Norway is slightly less than we planned and therefore the cost level is slightly higher relative to premium than we planned. If you look at the total Corporate business we had an ambition in 2011 to reduce the total number of employees by roughly 10%. That has largely been carried out in Denmark because that was where we saw the drop in portfolio and now as I said we have seen a bit less premium in Norway in Corporate lines than anticipated and then I would also say that as we have more commission and variable salaries in the Norwegian market generally costs in Norway tend to be higher in the first quarter than throughout the year and more stable in Denmark between the first quarter and the year.

Vinit Malhotra, Goldman Sachs

All right thanks. This whole thing of customer retention being higher with people who have a bundled product or more products, are they retaining more or is that because they are not lapsing because they have, they are also getting discounts and I am guessing the 5% is net of any discount but just wanted to sound you out on that. Thank you.

Morten Hübbe - Tryg, CEO

Clearly the 5% is net of any discounts and we measure on a weekly basis that we get price increases carried out and as Ulrik said they don't just get discounts in a way. Clearly the bundling customers have a higher package of discounts but that is a structural solution that we have had for many years. I think the logic is more that if you have customers with 3 or 4 or in Norway often 5, 6, 7 products then that customer thinks for a longer period of time before potentially moving their insurances and if you get a competitor with a lower offer on one product you will be less inclined to be motivated to move and if you get a significant price increase in one product you will be less inclined to move. Whereas if you have only bought a house insurance or you have only bought a change of ownership insurance and we change prices dramatically and that is your only product then you will be inclined to move so I guess in periods where we don't increase prices significantly there is not a big lapse ratio difference between the two but we really see that accelerate in a period where we put pressure on prices and as I said that, I guess, confirms that we should have even more focus on nurturing and incentivising the multiple product customers.

Gianandrea Roberti, Carnegie

Hi, sorry, it is me again. Just one thing on the price side. Did I understand you correctly before when you mentioned that perhaps there will be something more in the pipeline particularly for 2012 and you are reviewing the situation and that is something that you will be deciding ahead of the summer? Is that correctly understood?

Morten Hübbe - Tryg, CEO

That is completely correct, and completely as planned. When we said that our 90% combined ratio was a three-year target, it was largely driven by the fact that 2011 and the early part of 2012 will be impacted by things we have already done and where we will see the P&L impact. Then we knew that we would want to evaluate what was the current claims inflation and in what segments would we want to take further initiatives in order to reach our three-year target? And that was one of the reasons why it was indeed a three-year target, so completely as planned. One of the last things we do before the summer holidays is to decide what price changes will we carry out over the next 6-12 months subsequent to the summer holidays and that will then impact mainly 2012 and of course 2013 so clearly yes, and that is why the 600 million price hike for 2012 is only the impact of price changes that we implement and have already decided whereas what price changes we will add before the summer holidays will then be in addition to that 600 million, so yes that is completely right.

Ulrik Andersson - Tryg, Head of IR

Then I will just add up. Thank you for participating this morning and for a lot of good questions. Have a nice day to all and thank you. Thank you.