STANDARD & POOR'S

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Gjensidige

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Gjensidige

Major Rating Factors

Strengths:
- Very strong capitalization.
- Strong domestic competitive position.
- Strong technical operating performance.

Operating Company Covered By This Report
Financial Strength Rating
Local Currency
A/Stable/--

Weaknesses:
- Acquisitive management strategy into noncore markets and products execution risk, integration risk, and potential for management stretch.
- Concentration in domestic non-life market, which is competitive and limited in scale.
- Recent volatility in value of strategic stakes.

Rationale

The ratings on Norway-based non-life insurer Gjensidige reflect the company's very strong capitalization, strong and defendable competitive position, and strong, albeit somewhat volatile, operating performance. These positive factors are partially offset by Gjensidige's concentration in the relatively small and competitive Norwegian non-life market. Additionally, Gjensidige's significant corporate activity presents execution and integration risks and the potential for management stretch.

Gjensidige has very strong capitalization. Extremely strong risk-based capital adequacy, an absence of financial leverage, adequate reserving, and adequate reinsurance protection combine to make capital strength a key rating factor. Acquisitions to date have impaired capital strength only slightly.

Gjensidige has a strong and defendable competitive position, with an approximate 28% share of the Norwegian non-life market in 2009. Gjensidige's recent technical results have been strong and stable, averaging a 94% combined ratio over the last five years. We anticipate continued focus on pricing discipline and cost containment to achieve underwriting profitability targets. We believe that investment income is likely to remain a major contributor to group bottom-line results, which may expose Gjensidige's earnings to volatility of the financial markets. Nevertheless, the rebalance of the investment allocation to less risky assets implemented in 2008 and 2009, together with the reclassification of the holdings in Storebrand (Storebrand ASA: Storebrand Livsforsikring rated A-/Stable/--) to an investment in an associated company, are likely to reduce published volatility in the investment returns.

Gjensidige has recently developed a broader domestic financial services range and has expanded into the non-life market in Denmark, the Baltics, and Sweden. Seven acquisitions, of relatively modest scale, have been made since 2005. On 28 June 2010 Gjensidige converted itself from a mutual to a Public Limited Liability Company (ASA), all shares currently being owned by the Gjensidige Foundation. The group intends to list the securities on the Oslo Børs and float a minority stake in the group. Standard & Poor's Ratings Services believes that the continuing corporate strategy introduces concerns over execution and integration risk, as well as the potential for management stretch given the finite resources available to management. A partial floatation would not in itself change our assessment.

Despite recent acquisitions, Gjensidige is still heavily concentrated in, and exposed to, the relatively small Norwegian non-life market. This market has in the past been cyclical and is increasingly showing signs of price competition. In our view, both factors may potentially threaten future operating performance.

Outlook

The stable outlook reflects Standard & Poor's anticipation that Gjensidige will at least meet its target combined ratio of 97% for 2010. Furthermore, we expect capital adequacy to remain a key rating strength. We believe that Gjensidige will maintain its leadership position in the Norwegian non-life market. We do not anticipate that investments in banking, healthcare, life and pension activities, or foreign insurance operations will significantly affect capitalization.

There is potential upside to the ratings should Gjensidige generate consistently strong operating performance over a period of time or if the competitive position materially diversifies. Positive rating action is unlikely before the corporate activity has slowed and overseas operations have been successfully integrated and consistently produced a material contribution to group earnings, however.

Negative rating actions may occur if operating performance, competitive position, and capitalization are adversely affected by Gjensidige's active expansion strategy and other corporate activity.

Corporate Profile: Large Norwegian Non-Life Insurer, Expanding Internationally Through Acquisitions

Gjensidige is the largest non-life insurer in Norway, with a market share of 28% in 2009. The company has developed domestically from a non-life insurer to a broad financial services provider through the creation, in 2006, of two pension and savings operations (Gjensidige Pensjonsforsikring AS (not rated) and Gjensidige Investeringsrådgivining ASA (not rated) and the 2007 launch of an online retail banking operation, Gjensidige Bank (not rated). The retail bank had 81,000 customers at June 2010 and the pension and savings operation 64,500. Cross-selling opportunities between different parts of the group's customer base are being pursued.

In April 2010, Gjensidige purchased Danish non-life insurer Nykredit Forsikring A/S from the Nykredit financial services group for Danish krone (DKK) 2.5 billion, including DKK1.2 billion of goodwill. Nykredit Forsikring is consolidated in the group's accounts as from May 1, 2010. While Standard & Poor's considers that Gjensidige's capital strength is slightly impaired by the purchase, we continue to view Gjensidige's capitalization as very strong overall and supportive of the rating. Operationally, the purchase of Nykredit Forsikring strengthens Gjensidige's diversification outside of its home market and doubles its market share in the Danish non-life market. Although Nykredit Forsikring's net premiums earned were only 9% of those of Gjensidige in 2009, its operational performance--with a combined ratio of 85.4% in 2009--and stand-alone capitalization were stronger, in our opinion, than those of its prospective parent. We consider that it would make a positive contribution to the Gjensidige group's future operating performance, especially given that it will retain access to the distribution facilities of the Nykredit group in Denmark and its current branding.

In November 2009, Gjensidige purchased Lansforsakringar AB's operations in Latvia and Lithuania. The purchase included negative goodwill of NOK14.7 million, reflecting the poor track record (135% combined ratio in 2009) of the operations, which are 95% motor by premium. The Baltic markets suffered a 25% premium contraction in

2008-2009, although Gjensidige's own operations (71% motor) returned a combined ratio of 94%, and costs were cut as premiums declined. The Lansforsakringar purchase should strengthen the group's regional position in the long term, although in the near term they could be a drag on earnings from the sector.

Other acquisitions in 2009 were of two portfolios: a NOK2.7 billion consumer finance portfolio from Citibank and a transfer of the Handelsbanken pension portfolio, effective from 2010. The latter also adds 48 distribution outlets and represents 20% of the Gjensidige pension portfolio, which in 2009 comprised 13% of the Norwegian defined contribution market.

In March 2009, Gjensidige and Storebrand announced that negotiations for a potential merger of the two companies had ceased. Gjensidige is the largest shareholder in Storebrand, having increased its stake to 24% in October 2008. Gjensidige also took a NOK877 million stake in fellow Norwegian financial services group SpareBank1 SR-Bank in September 2009.

Competitive Position: Strong And Defendable Position In Norwegian Market; Small Presence In Denmark, Sweden, And Baltics

Gjensidige has a strong competitive position, with a leading position in the Norwegian non-life market. Despite the recent acquisitions, Gjensidige remains concentrated in and exposed to the relatively small Norwegian non-life market. This market has been cyclical in the past and is showing signs of pricing pressure owing to increasing competition. Both factors may, in our view, threaten future operating performance. We view the expansion into banking, life, and pension products as being defensive, but should both strengthen the relationships with Gjensidige's existing and target new clients.

Table 1

Gjensidige/Competitive Position

	--Year ended Dec. 31--				
(Mil. NOK)	**2009**	**2008**	**2007**	**2006**	**2005**
Gross premium written	18,276	17,429	15,727	13,787	13,640
Annual change in gross premium written (%)	5	11	14	1	8
PC: Gross premium written	16,198	15,866	15,727	13,787	13,640
PC: Annual change in gross premium written (%)	2.09	0.89	14.07	1.08	7.64

NOK--Norwegian krone.

Gjensidige had a 30.6% share of the Norwegian commercial market and 27.5% in personal lines at December 2009. Its overall market share of 28.4% is just ahead of If with 27%. It is the largest or second-largest player in the Norwegian market for all of its major lines of business although its market shares have been declining gradually in recent years as price competition intensifies and new entrants and smaller competitors gain market share (the share of insurers outside the "top 4" growing to 17% in 2009 from 10% in 2007). While Gjensidige is keen to retain its market position, it is not prepared to do so at the cost of profitability. Due to increased competition, the total number of general insurance customers in the core Norwegian market declined to 977,000 in 2009 from 980,000 in 2008. Rate increases of between 3% and 10% by line were both the source of this and also the reason for total premiums still showing an increase despite the fall in customer numbers.

Historical

Gjensidige's competitive advantages include its brand, comprehensive local distribution capability, and claims handling service. The main risk to Gjensidige's competitive position is competition at uneconomic rates--from either a key domestic competitor or an overseas player. The Norwegian non-life insurance market is highly concentrated with the top three companies sharing 73% of the market in 2009. We believe that expense ratios in the market are low by international standards. While Gjensidige's distribution agreements currently serve to buttress its market position, the development of new direct channels, notably the Internet, may erode this advantage.

Private insurance continues to account for the majority of domestic business. The total private portfolio, historically weighted toward motor insurance, is now more evenly balanced with motor accounting for 43% in 2009, Property 20%, and Accident & Health 17%.

In our opinion, a great strength for Gjensidige is the loyalty of its personal lines customer base. The policyholder churn rate is low and the average number of policies held per customer is high at 3.6. This is particularly marked for policyholders who are sold through partner distribution channels. It is this degree of cross-selling that is key to Gjensidige's profitability, despite multi-buy discounts of up to 18%.

Commercial lines have a higher turnover than personal (17% churn) and are sold chiefly through direct channels (62%), 20% through brokers (mainly to large clients), and only 18% through partner channels, tailored methods being used for different sized clients. 2010 rate increases for commercial products were more marked than for personal, varying between 5% and 15%.

In addition to developing new subsidiaries in the domestic market, Gjensidige has acquired several other non-life insurers in the Nordic region in the past few years. Due to the size of these operations, however, the overall impact on Gjensidige's competitive position and operating performance is not yet significant. Gjensidige's market share in the Baltic region reached 9.2% in 2009, but this is the largest non-Norwegian market share. That the Danish and Baltic markets are more diffuse than the Norwegian non-life sector means, however, that while Gjensidige may not enjoy significant market power (6% in Denmark), nor is it subject to that of overwhelming competitors.

Assets under management in the Pensions & Savings unit continued to grow rapidly in 2009, further bolstered in 2010 by the acquisition of the Handelsbanken defined contribution portfolio. Pension & Savings business saw a 50% increase in customers in 2009 and assets under management more than doubled to NOK6.1 billion, although the unit remains a small player in its sector. It also realized a loss of NOK108 million (2008: loss of 133 million) as growth remained the focus for the operation.

The banking operation also remains small in the context of its market, if continuing to grow rapidly. The acquisition of the Citibank Consumer Finance portfolio added NOK2.7 billion of assets under management, but also contributed to the changing nature of the portfolio toward more unsecured lending and credit card business. This change in emphasis is reflected in the rising liability: asset ratio, 177% in 2009 compared with 110% in 2008. The very strong bank (capital adequacy ratio 17.8% in 2009) offsets this increased risk to an extent.

Prospective

We believe that Gjensidige will maintain its strong domestic competitive position with a non-life market share of about 30%, while non-life market shares in other territories are likely to stabilize in the short term and increase over the longer term. In our view, 2010 full year general insurance gross premiums written (GWP) is likely to grow slightly mainly as a result of acquisitions and the ongoing impact of rate increases working through the book. The high weather-related claims of early 2010 are likely to give a first-quarter claims ratio of up to 9% higher compared with 2009 although premium increases should limit the impact on underwriting profitability, as should more normalized weather-related losses over the remainder of 2010.

Norwegian banking and life insurance operations will, in our view, develop to strengthen Gjensidige's domestic competitive position. The domestic mix of business is anticipated to remain similar, although slight variations are likely to materialize annually as Gjensidige maintains profitability over market share.

In our view, future acquisitions are likely to be similar in scale to recent acquisitions and in territories and product lines where Gjensidige currently operates. Any expansion into products where Gjensidige lacks experience is likely to be in partnership with other providers.

Management And Corporate Strategy: Changing Corporate Structure; Clear Financial Strategy And Targets

Strategy

The stable and experienced management team has successfully moved Gjensidige's mindset to that of a proprietary company from that of a mutual. Performance measures are clear and challenging, reflecting management's determination to operate consistently well over the underwriting cycle. The key target is to achieve a 15% pre-tax return on equity (15.2% in 2009). This is given precedence over keeping up top-line income. Management intends to pay 50%-80% of net profits out in dividends to policyholders and EC holders. NOK1,650 million or 72% of distributable profits was paid out in respect of 2009.

Underwriting performance in recent years indicates that management is successfully implementing its strategy. In the medium-to-long term, we believe that Gjensidige intends to become a key player in the Nordic region insurance market, expanding its existing operations by acquisitions and organic growth. In our view, Gjensidige's merger discussions with Storebrand, which ceased last March 2009, would have significantly changed the business and financial risk profile of the company.

Operational strategy

Recent strategic developments have strengthened Gjensidige's domestic position and diversified the non-life business outside of the competitive domestic market. The variety, size, and continuing number of corporate developments do introduce concerns over execution and integration risk, however, as well as concerns over management stretch given the finite size of the management team. Of recent acquisitions, for example, Nykredit currently carries high commission rates compared with the rest of the Gjensidige group. We believe this will require redress, as will developing a new sales network in Sweden to replace the tied agency network that is being discontinued.

We view the start-up operations in the domestic market as being defensive, but these are being undertaken in a market where insurers and banks are increasingly offering a range of financial services and where distribution and client relationships are increasingly important.

Although the overseas expansion strategy introduces some concerns, the strategy appears sound and will in our view help Gjensidige to achieve critical mass in expertise, revenues, and cost benefits.

Financial strategy

In 2009, Gjensidige revised its target combined ratio to 90%-93% from 2011 onward, which, in our view, is challenging but achievable. It is intended to double assets under annually management within the Pensions & Savings segment between 2008 and 2010, a target achieved (albeit through acquisitions) in 2009 with 126% year-on-year growth. The key target of the bank operations is to break even, which was achieved in H1 2010.

Enterprise Risk Management: Strong Modeling And Monitoring Tools Allow For Adequate Risk Management With Positive Trend

We consider Gjensidige's enterprise risk management (ERM) framework as adequate with a positive trend overall. Standard & Poor's believes that it is unlikely that Gjensidige will experience losses outside its risk tolerances. The main factors supporting the score are a strong risk management culture and strong risk controls for the main risk areas. This is offset by the fact that not all risks across the business of the group are assessed and managed on consistent basis. The group is continuously improving its ERM capabilities and we expect Gjensidige will achieve greater consistency in assessing risk reward across all its businesses in the medium term. As the group consists of non-life, pension, health insurers, and banks that operate in several countries, we consider the importance of ERM to the rating as moderate.

Standard and Poor's views Gjensidige's risk management framework as well structured, with well-defined responsibilities and overall risk tolerance. Investment risk controls are assessed as strong, supported by Gjensidige's dynamic risk management framework, which limits the impact of investment risk on the profitability of the group. We believe that underwriting risk controls are strong, reflecting the strong pricing processes and clear underwriting authority limits.

We consider strategic risk management as adequate, reflecting the importance of risk return optimization in the group's risk management framework. Risk return optimization is explicitly applied in capital allocation, dynamic asset allocation, and reinsurance purchases. This is offset by the fact that risk optimization is not applied consistently across the various businesses and geographies of the group.

Accounting: Reporting Under IFRS

Gjensidige is regulated by the Norwegian Financial Supervisory Authority and has historically reported consolidated accounts under Norwegian generally accepted accounting principles (GAAP). As a result of the planned stock exchange listing, consolidated accounts from 2007 onwards have been reported under International Financial Reporting Standards (IFRS).

In fourth-quarter 2008, the holdings in Storebrand were reclassified from an investment at fair value through profit and loss to an investment in associates. In our proprietary capital model we consider the Storebrand Investment, valued at NOK2.9 billion at July 2010, as an unconsolidated investment.

Operating Performance: Strong, Albeit Volatile, Earnings; Dominated By Domestic Non-Life Operation And Significantly Influenced By Investment Performance

Historical

In 2009, the investment market revival powered the recovery in profitability to NOK3,167 million from NOK307 million in 2008. While the combined ratio was stable at 94.8% (94.4% in 2008), leaving the underwriting result only slightly lower, net investment income was NOK2,788 million compared with negative NOK259 million in 2008. The combined ratio has been very stable and below 100% consistently since 2003, with volatility having come from variable investment performance. The expense ratio was stable in 2008-2009, but has been in longer-term decline, and the Nordic markets have enjoyed low expense ratios overall.

Table 2

Gjensidige/Operating Statistics

	--Year ended Dec. 31--				
(Mil. NOK)	**2009**	**2008**	**2007**	**2006**	**2005**
Earnings before interest and tax (EBIT)	3,166	308	3,020	4,231	3,854
Post-tax return on equity (%)	11.09	1.82	12.61	25.98	35.63
PC: Net loss ratio (%)	77.08	77.41	78.62	75.91	71.16
PC: Total net expense ratio (%)	17.70	17.04	18.04	19.42	20.77
PC: Net combined ratio (%)	94.78	94.45	96.67	95.33	91.92

NOK--Norwegian krone.

Total non-life gross premiums rose by a modest 2%. Danish and Swedish operations were the fastest growing sector, while Baltic and Norwegian Commercial income fell with Norwegian Personal lines largely flat. Claims increases were a significant factor over 2009-2010. Overall claims inflation was more measured with 3.7% and then 3.4% in the two years. Child Insurance was the line facing the greatest overall challenge in 2009. Run-off gains were marginal and largely confined to Nordic operations.

Prospective

The severe winter of 2009-2010 saw claims of three times the norm for that time of year, an additional loss of NOK371 million. Nevertheless, we believe that, given normal weather-related loss patterns for the remainder of the year, the combined ratio for personal lines will remain in the low 90%s, and that for commercial lines in the higher 90%s, but below the current target of 97%. Although there may also be some slippage in the Baltic sector, given the region's economic problems, we expect that the overall combined ratio for the year will remain in the range of the 94% achieved in both 2008 and 2009. The nontechnical result should be more stable given the treatment of the Storebrand stake as an associate and the lower-risk investment portfolio.

Investments: Well Managed Through Dynamic Asset Allocation; Sizable Strategic Stake In Storebrand

We regard Gjensidige's investment strategy as slightly aggressive as it is generating volatility in results. This is partially mitigated by the company's extremely strong capital adequacy, as measured by our proprietary capital model, and by reduced exposure to equities and more volatile assets, however.

Table 3

Gjensidige/Investment Statistics					
	--Year ended Dec. 31--				
(Mil. NOK)	**2009**	**2008**	**2007**	**2006**	**2005**
Total invested assets adjusted	67,959	57,447	50,699	41,776	37,057
General account investment return (%)	3.02	4.00	4.62	4.30	2.05
Illiquid invested assets / Total invested assets (%)	37.89	29.95	22.87	21.14	22.69
Investment yield before expenses (%)	3.27	4.27	6.54	6.71	4.63
Net investment yield (%)	3.02	4.00	4.62	4.30	2.05
Net investment yield including realized capital gains/ (losses) (%)	3.21	6.20	7.95	9.07	7.15
Net investment yield including all capital gains/ (losses) (%)	4.44	(0.48)	6.10	9.42	8.52

NOK--Norwegian krone.

Assets are in part managed by external asset managers based on Gjensidige's allocation limits that are determined using the company's strategic asset allocation tool. We regard the control of investment performance and risk by such tools as a positive indicator of risk management.

The bulk of insurance invested assets at December 2009 consisted primarily of fixed-income (FI) securities split in tradeable bonds (22%), held to maturity (HTM) bonds (33%), and money market instruments (20%). The quality of the bond portfolio is high, with 67% rated 'A' or higher. Gjensidige's more cautious approach to asset allocation was in response to the turmoil in the financial markets in 2008-2009. The subordianted-debt allocation is low at 2% as sub-debt issues are illiquid in Norway. The recovery in investment values over 2009 increased the equity proportion of the portfolio; however, it is management strategy to limit equity exposure to a maximum of 12% (excluding strategic stakes). The NOK2.9 billion holding in Storebrand and the NOK900 million investment in SpareBank1 SR-Bank together comprised 66% of total equity holdings and represented between them 7% of total investments.

Liquidity: Strong, Positive Cashflows, And Liquid Portfolio

We regard Gjensidige's liquidity as strong. Gjensidige has positive cash flows and a high proportion of liquid assets compared with the maximum net underwriting exposure for any single claim of NOK100 million. Gjensidige operates to strict liquidity guidelines, at year-end 2009, bonds (including held-to-maturity) and money market instruments accounted for 72% of total assets (or NOK36.5 billion).

Table 4

Gjensidige/Liquidity Statistics					
	--Year ended Dec. 31--				
(Mil. NOK)	**2009**	**2008**	**2007**	**2006**	**2005**
Liquidity ratio (x)	3.28	4.67	5.93	9.49	7.56
Invested assets / Total assets (%)	91.06	88.16	87.69	89.46	89.75
Invested assets / Loss & unearned premium reserve (%)	204.14	179.84	175.40	182.59	191.61

NOK--Norwegian krone.

Capitalization: Very Strong and A Key Rating Factor

Gjensidige has very strong capitalization, despite recent acquisitions and investment volatility. Extremely strong capital adequacy (as measured by our risk-based capital model), an absence of financial leverage, adequate reserving, and adequate reinsurance protection combine to make capital strength a key rating factor.

Table 5

Gjensidige/Capitalization Statistics					
	--Year ended Dec. 31--				
(Mil. NOK)	**2009**	**2008**	**2007**	**2006**	**2005**
Economic capital available	18977	18792	19280	18430	17603
Total adjusted capital	17470	17029	17855	17873	17301
High risk assets / Total adjusted capital (%)	115.21	96.37	98.66	111.11	89.95
PC: Net loss reserves / Gross loss reserves (%)	99.12	98.58	98.71	97.77	97.19
PC: Loss reserves / Total adjusted equity (%)	117.64	129.31	112.73	90.40	112.93
PC: Loss reserves / Net premium written (%)	162.81	162.89	147.89	127.76	105.99

NOK--Norwegian krone.

Capital adequacy

According to Standard & Poor's risk-based capital model, Gjensidige's capital adequacy is, and is likely to remain, extremely strong. Start-up operations could require additional capital over the rating horizon before reaching profitability, and additional non-life acquisitions are likely to be small-scale. Neither is likely to have a significant impact on Gjensidige's very strong capitalization. Capital adequacy reduced in 2008-2010 by the accrual of dividends of NOK1 billion and NOK1.65 billion, respectively.

Even after allowing the purchase of Nykredit, which slightly impaired our assessment of group capitalization, Gjensidige remained very strongly capitalized on the Standard & Poor's insurance capital model. Subsidiary operations are all extremely strongly capitalized, with statutory solvency ranging from 178% to 378% of the required minimum.

Quality of capital

We regard Gjensidige's quality of capital as strong. Gjensidige Forsikring ASA does not have any outstanding debt and total adjusted capital now comprises, share capital, premium reserves and other equity reserves.

Reserves

A reserve review has been undertaken and reserves were judged as adequate. We do not expect significant reserve strengthening over the rating horizon. Technical reserves were 193% of net written premiums in 2009.

Reinsurance

Gjensidige's reinsurance usage is relatively low, with only 2.5% of premiums ceded in 2009. The reinsurance program is considered adequate, with the 2010 maximum net exposure unchanged at NOK100 million for any single claim, equivalent to about 0.4% of total adjusted capital. The reinsurance strategy is coordinated centrally across the group and is set annually using Gjensidige's economic capital model to assess cover to judge whether economic value is added. Reinsurers must have a minimum rating of 'A'.

Financial Flexibility: Very Strong Capitalization. Listing Offers Enhanced Access to New Capital

We view Gjensidige's extremely strong capital adequacy as sufficient to meet any expected capital calls. Management has recognized that Gjensidige's previous corporate structure restricted financial flexibility, relying on high levels of retained earnings to meet any capital demands. If the decision is taken for the Gjensidige Foundation to sell, and list, a minority of its shares in Gjensidige Forsikring ASA then we expect the group's financial flexibility to improve. Gjensidige Forsikring ASA has not issued any debt instruments and this is also a potential source of future capital.

Needs for extra capital and liquidity are, however, limited: Gjensidige is unlikely to make any significant acquisitions in the short term; peak claims are covered by reinsurance; and the investment portfolio is managed to meet all liquidity needs.

Ratings Detail (As Of August 23, 2010)*	
Operating Company Covered By This Report	
Gjensidige	
Financial Strength Rating	
Local Currency	A/Stable/--
Counterparty Credit Rating	
Local Currency	A/Stable/--
Domicile	Norway

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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