

Q2 2019 Earnings Call

Company Participants

- Jarmo Salonen, Head of Investor Relations
- Kari Stadigh, Group Chief Executive Officer and President
- Knut Arne Alsaker, Chief Financial Officer
- Morten Thorsrud, President and Chief Executive Officer

Other Participants

- Blair Stewart, Analyst
- Christoffer Adams, Analyst
- Jan Erik Gjerland, Analyst
- Jonathan Denham, Analyst
- Matti Ahokas, Analyst
- Michael Huttner, Analyst
- Niccolo Dalla Palma, Analyst
- Per Gronborg, Analyst
- Sami Taipalus, Analyst
- Youdish Chicooree, Analyst

Presentation

Jarmo Salonen {BIO 1860650 <GO>}

Ladies and gentlemen, welcome to this conference call on Sampo Group's January-June 2019 Results. I'm Jarmo Salonen, Head of Investor Relations at Sampo. And with me, here in the studio, I have Kari Stadigh, our Group CEO and President; Knut Arne Alsaker, our Group CFO, and Morten Thorsrud, CEO for If P&C. As always, we'll start with Kari's presentation, where he will highlight the most important things in the first six months of this year. But before handing over to Kari, let me just remind you that you can follow this transmission live at sampo.com/result and a recorded version of the call will later be available at that same address.

And that's all for me. Now I hand over to Kari. Kari, please.

Kari Stadigh {BIO 1504152 <GO>}

Thank you, Jarmo. Good afternoon, and welcome to the conference call on my behalf as well. Sampo Group reported a profit before tax for the second quarter of EUR506 million. This is lower than the Q2 last year. But we should remember that the second quarter of 2018 benefited from a recorded profit related to Mandatum's deal with Danske of EUR197

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million, as well as one-off gains in Nordea from divestment of shares in UC and sale of their life and pension business in Denmark, which combined added EUR74 million to last year's second quarter profit in Sampo.

So adjusted for these three one-offs, our Q2 profit improved actually by EUR69 million or 16%. The insurance business in Sampo is performing excellently. If had a Q2 combined ratio of 83% and the first half year combined ratio of 84.7%, an improvement of 2.1 percentage points and 1.1 percentage points respectively. And both were best ever combined ratios. Growth in If is also really, really strong with a growth rate of 4.3% in local currencies in the first half year compared to last year, even though new car sales slowed down in the beginning of this year.

All business areas as well as number of clients in all countries grew. The strong investment results for the first two months -- actually first two quarters contributed to giving If their best ever operating profit for the first six months of the year. Anecdotally, in their own reporting currency, Swedish krona. Topdanmark also improved their underwriting result and reported combined ratios according to our reporting principles below 80 percentage points for both Q2 and the first half year. Another clear sign of the great P&C operation, which the management of Topdanmark is running. The life business in Topdanmark performed also very well and doubled its profit for the first half-year compared to 2018.

P&C business is today already more than 60% of Sampo and insurance altogether, roughly 75%. We are apparently back to our origins. So we are really an Insurance Group. P&C Insurance is an excellent business. We continue to have world-class underwriting. Our cost ratios are extremely competitive. If's online offerings are now advanced compared to market as well as winning rewards.

All of this contributes to strong growth and very strong profitability. And with investment yields that will be lower for longer, the attractiveness of Sampos' high underwriting profitability has increased even further. Mandatum's unit linked reserves were at -- an all-time high by the end of Q2. The Company's own sales force continues to perform well and towards the end of Q2, we could see some signs that sales from our distribution partner, Danske was peaking up.

I am optimistic, when it comes to Mandatum's continued growth going forward as well. When looking at Nordea, I want to divide the approach into two different parts. As a client, I'm happy. I'm a client of four -- five banks. But I'm really happy with Nordea's offering and competitiveness compared to them. No need for me to change. From an owner's view that picture is different. Nordea did not surprise positively in Q2. Although the development in the last quarter was not very different from what I expected.

The most important news from Nordea was that they are now working on setting new targets. We as a shareholder appreciate that Nordea now calls a spade a spade. The environment around Nordea has changed compared to when the previous targets were set. The bank has changed, the Board has changed, the Chairman has changed, There is a new CEO on the way in. This is the right time to set new targets, new ambitious targets based on a detailed business plan. There are no targets without a business plan. Nordea

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needs to improve both revenue and cost and it is our view as a shareholder, that the cost targets in particular should be more ambitious than the ones Nordea is now communicating. It is essential for Nordea to operate on a clearly lower cost-to-income ratio in their retail business. As well as it's clearly important for them to meet higher ROE targets in their wholesale and commercial banking divisions.

When it comes to Nordea's dividend, let's see how the communication will look when released but I am confident that cash flows from Nordea will continue to be a significant part of the buildup of Sampo's own dividend, which brings me to my last point, Sampo's dividend. I have just told you that Sampo's P&C operations have record years. This means that I expect dividends from this part of our business to be record high as well.

We are also about to generate excess capital by changing the calculation basis for our solvency. So even if we would receive less dividend in the short term from Nordea, there is absolutely no need for Sampo to change the existing guidance of moderately growing dividend payouts. This is no news to many of you. Sampo continues to deliver a high dividend yield as one could expect from a dividend stock.

Jarmo Salonen {BIO 1860650 <GO>}

Thank you, Kari. And operator, we are now ready for the questions, please.

Questions And Answers

Operator

Thank you. (Operator Instructions) And our first question comes from the line of Youdish Chicooree from Autonomous Research. Please go ahead. Your line is now open.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Good afternoon, everyone. I've got two questions please. The first one is on your combined ratio guidance, which has improved two percentage points relative to the first half of 2018. Roughly speaking, how much of the improvement would you attribute to better weather compared to last year and how much would you say is more structural in nature and sustainable going forward? That's my first question.

And the second question is on the dividend, you just gave us two sources of potentially higher dividends, should Nordea review their dividend policy, namely higher dividends from P&C and your excess capital? I was wondering, if there are other specific actions you could take to offset the impact of a lower dividend from Nordea. Here, I'm specifically thinking of the EUR700 million in liquidity buffers, you have at the HoldCo. Do you have any other plans, specific plans for those buffers? Or could these be used to actually make up for a shortfall from Nordea? Thank you.

A - Morten Thorsrud {BIO 16111627 <GO>}

Okay, Morten Thorsrud, here. I will answer your first question about the combined ratio guidance from If. It's correct, we have improved the guidance and are giving a guidance of 84% to 86% in combined ratio for the full year, which is, I think the best guidance we ever given. I would say that the major part of this is attributable to -- to more structural improvements. Weather is on a Nordic scale, not having that big impact. It might impact more on individual countries. So it's more the underlying improvement that we see in the business that is causing the improved combined ratio guidance.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Okay, thank you.

A - Kari Stadigh {BIO 1504152 <GO>}

On the dividend, I, of course, our toolbox includes many other instruments as well. One obvious one is to issue hybrids in the subsidiaries and upstream more capital. But also you ask about how to deploy the cash in the -- or the funds in the parent. We -- let's see what kind of investment objects we find. But I think as you remember, we deployed EUR1 billion last year and on the existing investments, we have actually mainly good news because Saxo which was roughly a quarter of the investment, they announced that they are successful with their EUR400 billion bid on BinckBank.

And therefore, we are going to maintain our shareholding and the bid will be financed with equity and debt. So we will inject EUR20 million more into the big project. And even if the trading platform market as such has not been very benign. The fact that they can acquire Binck is really positive because they get significant amount of new assets under management and it's also a synergy and a cost savings play. So good news on Saxo in that sense.

And of course you all saw the announcement on Nets yesterday, where they sell their corporate business to MasterCard, and I'm here only referring to public information that they will receive roughly half, of what they paid for Nets, when -- and they sell a business which is roughly a third of their volume. So if a private equity group, so early after the investment exit something, I interpret it as very good news. Interim of course, they have solved mainly -- their funding issue and reported good numbers. And you could see in Nordax, the profit share -- positive profit share.

So good news on the parent company investments and if there are new investments that we find we are, of course, going to deploy more capital from the parent as well.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Okay, thank you. But it sounds like in the near term, you don't have -- you're not committing to spending materially more from what you already have. So that still leaves you with significant flexibility at the parent company.

A - Kari Stadigh {BIO 1504152 <GO>}

I think that the flexibility is always good to be there. We -- if you look at historically how we have created shareholder value, it has been by being contrarian. And in these volatile times, it's good to be well capitalized than have buffers to do things that create shareholder value. Knut Arne, do you want to add something?

A - Knut Arne Alsaker {BIO 18730318 <GO>}

Just a small addition in terms of the liquidity and flexibility in Sampo plc, the holding company, the current liquidity buffer, Youdish, which you referred to will increase even further later this year, when one of the assets ATI SEM [ph] in Nordea is maturing, which will bring that liquidity buffer to slightly above EUR800 million, everything else equal. So liquidity is not a big concern in terms of our internal cash flows.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Okay, great. Thank you for the clarification. Thank you very much.

Operator

Thank you. Our next question comes from the line of Matti Ahokas from Danske Bank. Please go ahead. Your line is now open.

Q - Matti Ahokas {BIO 2037723 <GO>}

Good afternoon. Two questions, please. Firstly, a more general question on the interest rate outlook. Now, we've seen a fairly dramatic deterioration of the interest rate outlook, bond yields falling quite a lot. How much of an impact for earnings will this have, in your opinion? And what are the main tools to mitigate potential negative impact of this? And more specifically, if you look at Mandatum Life, the solvency margin excluding the transition rules was below 120. If ATI [ph] is at these levels, is there a risk that you cannot take the kind of normal EUR150 million that you've previously taken in dividends from Mandatum Life? Thank you.

A - Kari Stadigh {BIO 1504152 <GO>}

Well, I think that the interest rate development has been especially dramatic in the last few months. So it has partly taken us by surprise that the decrease is so rapid. And therefore, of course, we have to see what kind of measures we have to mitigate that development. It will not be one issue that has to be done, we have to look through our whole operations, we have to become more cost efficient, we have to look at the terms of our products and pricing. So, it's a combination of many things. On the investment side, we have to see how this plays out.

Now, it's very unclear. I don't personally believe that the quantitative easing will work the way the central banks want unless they find a way to force banks to have negative deposit interest rates. Otherwise, the consumers are not going to consume and invest the way the bank hopes and we will not see the inflationary targets. But it's too early to say as the development has been so recent. I don't know, Knut Arne, if you want to add something?

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A - Knut Arne Alsaker {BIO 18730318 <GO>}

Mandatum solvency, Matti as you referred to is the -- part of our business which has been most impacted and most sensitive to the current yields. And we have activities ongoing to try to strengthen further the solvency ratio of Mandatum. Obviously, the sort of high rate guarantees are running off fast, and has been doing so over a period of time. And we work proactively to reduce that even further. Also, to look at other measures to reduce the risks and increase the solvency ratios somewhat to secure the dividend capacity of a really well performing business currently in the first half of the year.

Q - Matti Ahokas {BIO 2037723 <GO>}

So we shouldn't expect any changes from the kind of normal streams?

A - Kari Stadigh {BIO 1504152 <GO>}

I think, it's too early to say but as we look at it today, we see no reason for that, but let's see how this interest -- how the interest rates really play out and where they finally settle. Also the hybrids are one of the things we have in our toolbox because, of course, if you issue hybrids in this environment, their interest rates are much lower than we earlier thought. So it becomes pretty attractive.

Q - Matti Ahokas {BIO 2037723 <GO>}

Thank you.

Operator

Thank you. Our next question comes from the line of Jon Denham from Morgan Stanley. Please go ahead. Your line is now open.

Q - Jonathan Denham {BIO 19972914 <GO>}

Good afternoon. Thank you for taking my questions. Just thinking about excess capital in If, what proportion of If's profit is from business which requires a credit rating? Is it all of the industrial business? And then I know you can't speculate too much on Nordea. However, if they move to a policy of dividends and buybacks, would you participate in any buybacks even if it meant realizing losses? Presumably, you'd be forced to participate, or at least dividend out additional Nordea shares to keep your ownership below 20% and the capital requirement down? Thank you.

A - Kari Stadigh {BIO 1504152 <GO>}

I think that if Nordea would start to do buybacks, we would sell out pro rata. But as we today see a significant upside in Nordea, we wouldn't like to sell and therefore, I don't think we are too positive on buybacks at this moment in Nordea. But the proposal has to come to the owners from Nordea and we haven't seen any proposal of that nature so far.

A - Knut Arne Alsaker {BIO 18730318 <GO>}

In terms of If dividend, I don't see the rating to be restrictive on the dividend capacity of If in 2019 versus what the owner would like If to upstream. There's flexibility (Technical Difficulty) absolute lower boundary. On the part of the rating sensitive business, Morten.

A - Morten Thorsrud {BIO 16111627 <GO>}

Yes, it's clearly in business -- or industrial that is, of course, an issue. And it doesn't go for all of the industrial clients. But clearly, kind of the larger ones in particular, the clients having captives are concerned about rating of an insurance company.

Q - Jonathan Denham {BIO 19972914 <GO>}

Okay. Thank you very much.

Operator

Thank you. Our next question comes from the line of Christoffer Adams from Kepler Cheuvreux. Please go ahead. Your line is now open.

Q - Christoffer Adams {BIO 15217428 <GO>}

Good afternoon. Two questions from me please. Firstly, the currency adjusted premium growth in If was a healthy 4.3% in the first half. Could you please break that down by price changes and the change in number of policies? And secondly, you report staff costs up 6% in If, what's driving this and how should we expect these figures to develop going forward? Thank you.

A - Morten Thorsrud {BIO 16111627 <GO>}

Yes, on your first question on growth, I would split it roughly 50-50. And we have a clear growth in number of customers in basically all business areas and regions. And then we do have price increases that are somewhat above expected inflation going forward. So I've expected roughly 50-50 between those two effects. And the staff cost is going up due to in sourcing. In particularly in Sweden and Norway, we have in-sourced some of the external distribution capacity that we had. So that has gone over from being kind of other cost to being staff cost. And then we also in-source some IT functions, where we have used consultants previously. So I would not expect the staff cost to continue to increase like that. This is more kind of one-offs driving the cost increase on staff cost this time.

A - Kari Stadigh {BIO 1504152 <GO>}

And on total cost, you are as committed as ever.

A - Morten Thorsrud {BIO 16111627 <GO>}

On total cost, we are still committed on continuing and reducing the cost ratio going forward. And as you see the report, 21.7% year-to-date compared to 21.8% last year.

Q - Christoffer Adams {BIO 15217428 <GO>}

Great, thank you very much.

Operator

Thank you. Our next question comes from the line of Blair Stewart from Bank of America, Merrill Lynch, please go ahead. Your line is now open.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you very much. And good afternoon, everyone. I've got three questions, please.

A - Kari Stadigh {BIO 1504152 <GO>}

You are the first one with three.

Q - Blair Stewart {BIO 4191309 <GO>}

Yeah.

A - Kari Stadigh {BIO 1504152 <GO>}

Yeah. Okay, go ahead.

Q - Blair Stewart {BIO 4191309 <GO>}

Don't panic, Kari, it will be fine.

A - Kari Stadigh {BIO 1504152 <GO>}

Yeah, thanks.

Q - Blair Stewart {BIO 4191309 <GO>}

On the Nets disposal. Is it too early to assess what they might do with those proceeds. But I guess, just looking at the proceeds as a proportion of your stake, it would be, I think more than EUR100 million coming back to you, if they decide to distribute. So I just wonder, if there is any indication from Nets, what they might do with the disposal proceeds. And secondly, with regards to the P&C business, is there with a very low interest rate and low inflation environment ? Is there an argument for excess levels of reserves in the Company given the reserve to premium ratio is high particularly versus some of the peer group. Just wondering, again, if that's possibly a source of additional income as we go through the next few years ? And finally, I had to ask this, Kari, but what would it take for you to cut your dividend, some aspects of consensus are looking for a 50% [ph] dividend cut at Nordea and that would leave you a shortfall that I think will be more difficult to plug, and of course, the market will not really give you credit if you're paying your dividend out of additional debt, for example. So I just wonder, if you've got any further thoughts that you can share on that particular aspect.

A - Kari Stadigh {BIO 1504152 <GO>}

So if we -- net disposals, we have no -- Nets disposals. We have no information. It's a significant number because with this deal, they get back 50% of their purchase price. But I don't want to speculate how they will treat it. We are happy to receive it. But if they don't

give it back to us then they have found something fantastic to deploy it with and we wouldn't mind that either. So we are neutral on that.

A - Morten Thorsrud {BIO 16111627 <GO>}

On the reserving side on the P&C business. As you know, we are always having a reserve level that we assume to be appropriate. And it's of course estimated every month. We do have a run-off profit which is historically on a fairly high level these days, and I think, we already communicated that is mostly driven by benign development on bodily injury claims in motor insurance in Sweden, where we see less bodily injury cases developing. Then, of course, we do not speculate in sort of whether this will be continue. It kind of depends on whether we see the trends continuing.

When you try to compare reserve ratios if versus competitors, you need to bear in mind that there is quite a different business mix between the different competitors. If in particular have a large exposure to Swedish motor that is extremely long tailed and but therefore naturally have a higher reserve ratios than many other kind of peers in the Nordics.

A - Kari Stadigh {BIO 1504152 <GO>}

On the dividend speculation, I don't really want to speculate on this. Let's see what Nordea communicates. I'm absolutely sure that we will continue with our guidance and moderately increase our dividend. So I see no reason to change that view. If we take a longer view, I think that -- at the expectation is still that even if there would be a dividend cut, it would be a dividend cut, which forms a new floor and then it would start to climb up again. So then it would be a question how to bridge it. So I'm not worried on this part and the liquidity is there. So we will continue moderately to increase our dividend, that is what we will propose to the Board.

Q - Blair Stewart {BIO 4191309 <GO>}

And you would do that, Kari, even if the dividend was uncovered from ongoing cash flows ?

A - Kari Stadigh {BIO 1504152 <GO>}

Temporarily, I could do it because the world is such that if it's for one year or two years, so I wouldn't mind if I am confident that I'm back on track after that period. Yes.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay, thank you.

Operator

Thank you. Our next question comes from the line of Michael Huttner from JPMorgan. Please go ahead, your line is now open.

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Q - Michael Huttner {BIO 1556863 <GO>}

Fantastic, thank you so much. And back to dividends. So two on the dividend and one on the combined ratio if I may. And on the dividend, so you said, high dividend from If or I think highest or whatever. But figure I have in 2016, they paid up an EUR179 million [ph], which includes a one-off. And I'm just wondering, whether your kind of statement or views is relative to that say high figures, it relative to the more normal kind of recurring dividend, to me [ph].

And second is similar question for Mandatum, so Mandatum's two years has had what I perceive or maybe I am wrong here, a kind of EUR150 million a year, positive adjustment probably related to the Danske deal. And I just wondered if you would see that as a kind of semi recurring. You alluded to the reducing reserves. Any help on this would be very, very gratefully received.

And then finally, just going back to that amazing combined ratio. And here, I know you don't like giving anything looking forward, but you kind of alluded to low interest rates, it means you have to focus more on the combined ratio and things. Where do you see 83% or even 84.6%? It's just an amazing number. Is there any kind of limit to this on the way, in terms of how much you can improve? Thank you.

A - Kari Stadigh {BIO 1504152 <GO>}

There is very little, I can add actually to the dividend discussion. I just repeat that we are committed to the moderate increase so our dividend and we have to see how, what we upstream from which entity and how much. So let's come back to that when we get more clarity on the Nordea plan because it will affect our internal upstreaming and the issue also that if we issue hybrids, what will that have an -- as an effect.

We are strongly reserved in If and then we of course will receive dividends from Topdanmark as well. Mandatum, whether 150 is the right number. Also there, I would not this time of the year, go out and speculate. Is it that -- exactly that number or other. But the total sum of all these dividend streams give and take the scale or the magnitude, I feel comfortable with my statement.

Q - Michael Huttner {BIO 1556863 <GO>}

Thank you.

A - Morten Thorsrud {BIO 16111627 <GO>}

On your question on the combined ratio, of course over many years now, we have been adjusting the combined ratio target of If to reflect a low interest rate environment. So that is what is pushing down the combined ratio requirement for If as well as the P&C industry in general. But of course there is a trade-off there. And there is always a trade-off between profitability and growth. So of course we have -- we're trying to make a good assessment of that when we put up our actual targets for the different business areas, different products, different markets.

So it's -- it will be at the end of the day a trade-off between the combined ratio and also the competition kind of where you want to see also growth in the market.

Q - Michael Huttner {BIO 1556863 <GO>}

May I just ask a follow on just on this trade-off point. So growth, 4%, of which say 2% or 2.5% is volume and this amazing combined ratio improvement of somewhere around 1% or 2%, depending how you look at it. If you were -- if you look at this trade off environment, which way you incline to move or you've been saying well, would you be more inclined to say we'll actually, Saxo's [ph] excellent combined ratios more growth would be welcome or would you rather say, well actually, I would like to grow more and -- sorry, improve the combined ratio more. So just to get a feel. I think, you have the amazing flexibility to do what you like, but -- I see, any kind of view would be helpful. Thank you.

A - Morten Thorsrud {BIO 16111627 <GO>}

I don't think I will answer that directly, but I think of course we are extremely happy about the growth that we see, 4.3% first six months, 4.8% in Q2 standalone. And in particular, sort of, if you also bear in mind that car sales in the Nordics have been rather low so far this year. It kind of makes the growth numbers even more impressive and it's purely organic- driven. So -- but I will not speculate sort of on the exact sort of -- exact trade-off there. It's something that we do sort of on the more granular basis kind of down on the product and segment sort of per country basis.

Q - Michael Huttner {BIO 1556863 <GO>}

Good, thank you very much.

Operator

Thank you. Our next question comes from the line of Per Gronborg from SEB. Please go ahead, your line is now open.

Q - Per Gronborg {BIO 15910340 <GO>}

Yes, thank you. Couple of questions from my side. First of all, a technical accounting question on your distribution of Nordea shares, those shares booked at EUR8.24 currently, I assume you're distributing them at market price to the shareholders that must imply an accounting loss of some EUR140 million, EUR150 million. How should we expect that to show up in the Q3 report on equity or somewhere in the P&L. My second question is on the solvency, you addressing that you'd be willing to increase levers [ph] in the holding company. Any views on -- after the Nordea transaction solvency of 170? How far you would accept that one to go? You have any lower limit on the new way you are calculating it or how do you see the solvency ratio worst case developing going forward?

A - Knut Arne Alsaker {BIO 18730318 <GO>}

Good afternoon, Per, on your first question, the number you have is of course correctly calculating, that will show up in the Q3 P&L, so not booked directly to equity, but in the

P&L. And on the solvency, the 170, we don't have a policy with a -- with a limit stated. You saw us take action with the current solvency situation, where, when we were approaching 140 in solvency ratio. And I think you could consider around that level to be what we would consider to be a minimum on a running basis.

Q - Per Gronborg {BIO 15910340 <GO>}

Okay, perfect. Just on the loss on the Nordea stake, would that be booked on the Nordea line or somewhere else or is that too early to say?

A - Knut Arne Alsaker {BIO 18730318 <GO>}

No. It's going to be booked there.

Q - Per Gronborg {BIO 15910340 <GO>}

Okay, perfect. Thank you.

Operator

Thank you. Our next question comes from the line of Jan Erik Gjerland from ABG. Please go ahead, your line is now open.

Q - Jan Erik Gjerland {BIO 5346031 <GO>}

Good afternoon. Some couple of questions from my side as well. I just wanted to check the -- on the premium growth in the If side. Could you -- what are your expectations going forward versus product and geographically growth in customers. Is it so that this transition in ongoing trend, which you have seen for last -- some couple of quarters and you expect it to continue or how should we elaborate then on that? That's my first one.

A - Morten Thorsrud {BIO 16111627 <GO>}

Yeah, of course, we try to avoid speculating too much about the future. And, but we've seen a good growth rate now in If over the last few quarters. Part of this is driven by improved retention in most business areas and that's -- that is something that is not turning around totally overnight, at least. We expect that to give us some support also going forward.

Q - Jan Erik Gjerland {BIO 5346031 <GO>}

So that the competition has increased or decreased in that sense?

A - Morten Thorsrud {BIO 16111627 <GO>}

I think on a Nordic total scale, it's -- not very changed. Total in the Nordics, it's very much the same players.

A - Kari Stadigh {BIO 1504152 <GO>}

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Isn't it Morten also saw that -- that we saw this excellent growth, especially in our biggest market in Sweden. Despite the fact that car sales were down and wasn't it so that the cut date for the -- very good cut -- car sales was the tax issue in Sweden.

A - Morten Thorsrud {BIO 16111627 <GO>}

Yeah, I guess, most of you remember that there was this quite a special year last year. Tax change in Sweden as of 1st of July, which means that there was a record high number of new cars being sold up until that date. And then the second half of last year was, of course, much more modest. And of course that's also going to give us some support now in Q3 and Q4, where we expect more normal sales levels to the car sales in Sweden and comparing them to quite weak Q3 and Q4 last year.

Q - Jan Erik Gjerland {BIO 5346031 <GO>}

Okay. On the combined ratio improvement. Could you shed some more light into where the improvement has come from product sides and geographies?

A - Morten Thorsrud {BIO 16111627 <GO>}

We see an improvement basically in all business areas. If you look at sort of somehow and the underlying trend. As you see, kind of we report 2.1% improvement, Q2 this year versus Q2 last year. 1.1% improvement for the first six months compared to last year. I think, all of you know, that sort of there were quite some price actions in the commercial segment in quite many countries. So, of course, we do see then some improvement there. And then also in motor. We do see improvement in Norway and Finland.

Q - Jan Erik Gjerland {BIO 5346031 <GO>}

Yeah the -- especially Finland was very good. Is that something that you were going to see -- expect continue going forward. That is this decrease, which was quite heavily for some years, is the one behind us.

A - Morten Thorsrud {BIO 16111627 <GO>}

I think, Jan, to understand the Finnish development, you need to remember that quite big changes that was done to the Motor TPL bonus systems in Finland, and that was reducing Motor TPL premiums quite a lot going back in time and of course that has now kind of been fully earned into the premiums. So now, we expect a more normal sort of development going forward.

Q - Jan Erik Gjerland {BIO 5346031 <GO>}

Okay. Thank you. Just two more on the Life side. We have seen an investment result of some 60-plus over the last two quarters. Is this how that you should expect to coming down to well around 40-plus-ish or is that 60 of the non -- now new recurring level? And finally, on the capital side, how much capital can you really release from your old back book is now running off?

A - Kari Stadigh {BIO 1504152 <GO>}

I think that the -- what the quarterly results will be for If -- for Mandatum, you have to wait and see. So that will, that is of course always dependent on the capital market development. On how much the old book decrease is.

A - Knut Arne Alsaker {BIO 18730318 <GO>}

The EUR200 million is roughly, it depends a little bit on what kind of reserves, but roughly EUR50 million in capital and release.

A - Kari Stadigh {BIO 1504152 <GO>}

In a quarter or in a year?

A - Knut Arne Alsaker {BIO 18730318 <GO>}

For full year. So it's -- EUR200 million in a year is roughly EUR50 million.

A - Kari Stadigh {BIO 1504152 <GO>}

Yes.

A - Knut Arne Alsaker {BIO 18730318 <GO>}

It doesn't matter sort of which time period it's run down but EUR200 million lower windfall -- reserves is roughly EUR50 million per year, and EUR50 million capital.

Q - Jan Erik Gjerland {BIO 5346031 <GO>}

Yes, in fact, so EUR50 million on capital potential release off of those EUR200 million reduction in sort of underlying reserves

A - Kari Stadigh {BIO 1504152 <GO>}

Yes.

A - Knut Arne Alsaker {BIO 18730318 <GO>}

Yeah, and it -- of course that EUR50 million will change if the -- if it's run down at a quicker pace during the year, and it will be a little bit more, it can be big.

A - Kari Stadigh {BIO 1504152 <GO>}

Yes.

Q - Jan Erik Gjerland {BIO 5346031 <GO>}

Thank you.

A - Knut Arne Alsaker {BIO 18730318 <GO>}

Per, just I'm sitting, thinking myself on your question, where it will show in the P&L, this accounting loss of 140, it is a part of the share of associate profit and loss, but I think we

will decide to actually specify it explicitly this time in the profit and loss. Just to have a continuity going forward. The comparison for the back -- for the back on that particular associated profit and loss line for your model. So I correct myself, that we will -- it is a part of that -- part of the P&L, but we will make that an explicit item in the Q3 report.

Operator

Thank you. Our next question comes from the line of Sami Taipalus from Goldman Sachs. Please go ahead, your line is now open.

Q - Sami Taipalus {BIO 17452234 <GO>}

Yeah, good afternoon, everyone. Just a couple of quick ones actually. First one is a bit of a follow-up on the last question on Mandatum Life, you say EUR50 million or EUR200 million per year from the run-off of the back book, could you say a little bit, you talked a little bit about new business at the start of the call.

Could you give us a little bit of a sort of indication of what sort of level of capital generation you'd expect from new business value in Mandatum Life. And also I appreciate, obviously, the actual investment result is going to be volatile of that business, but what would sort of a sensible number be to think about in terms of a -- sort of plan or budget investment income contribution to capital generation. That's question number one.

And number two, you're talking a bit about debt issuance. Can you just remind us what the upper limit for debt issuance? What you see is the upper limit for debt issuance within the Group. Are you thinking about debt leverage ratios or interest cover, or how far, could you go on this? Thanks.

A - Kari Stadigh {BIO 1504152 <GO>}

The actual investment result going forward that you can see our investment mix, how much equity risk, how much fixed income, we have. You can see our running yield. So unfortunately, you have to figure out that yourself because I have no clue where the markets will go. So your guess is as good as mine.

On the Mandatum back book. Yes, it runs off with EUR200 million plus per year and releases this EUR50 million on the new business, it doesn't really tie up that much capital because as you know, we are -- we have changed the Company to do more fee-based business. And especially, the main products that it sells now are alternative asset management products. And as it say -- when you go into private equity or infrastructure and such and you sell it to your customers. What you really do is you sell it on a commitment basis.

So actually, I don't know if we have published the commitment-based numbers, but we are talking of premiums. But we can see that the committed capital is increasing faster than our booked sales. So we are building a buffer on top of the premium sales that we have today, because we are selling at alternative asset products. However, it's, there is an

additional good news here and that is that when you sell commitments, clients start to pay fees on the commitments even before it comes into premiums.

So that's I think important to realize. Then when we look at the Danske deal, even if they are small numbers, we must remember that part of the business, that's risk products that's mainly loan insurance to mortgages. And there the topline is extremely small, but it's so high ROE business, and that is also picking up and that you will then see in an improved risk ratio going forward. On debt issuance...

Q - Sami Taipalus {BIO 17452234 <GO>}

Sorry, just to follow-up on that briefly, I mean my question wasn't so much about how much it's of a burden to the SCR, it was more about the amount of own funds it generates. Is it possible to -- I mean, I appreciate you might not want to give the exact numbers here, but is it possible to say anything about the order of magnitude of this capital generation?

A - Kari Stadigh {BIO 1504152 <GO>}

Well, I think that you -- then you should look at our fee income and that you can see in our expense ratio, risk ratio and you can start to analyze that, how much could we improve our risk ratio on an annual basis and there, I think we have room of improvement. On our expense ratio, we have clearly stated that the new deal that we have done with Danske is not as favorable as the old one. And therefore, we got the EUR197 million compensation last year and therefore, we have seen a drop in the expense ratio and now it should then start to improve, once the fee income grow slowly. So this is -- these are the parameters you have to work around.

Q - Sami Taipalus {BIO 17452234 <GO>}

But I guess, these -- some of your policies, so it's quite difficult to get to those numbers from your P&L disclosures. Are we talking single-digit million, low double-digit million? Is it possible to give any sort of steer...

A - Kari Stadigh {BIO 1504152 <GO>}

I think on one part, we are talking single-digit and on the other part probably low double-digit numbers, but not significant numbers on an annual basis. Yet, but it's so high ROE business. Now, I'm talking of the improvement from the present levels.

Q - Sami Taipalus {BIO 17452234 <GO>}

Okay.

A - Knut Arne Alsaker {BIO 18730318 <GO>}

We're actually just -- we're looking into how to optimize even a contract wording to optimize also the capital generation and own funds generation, which you are referring to. So let's revert to that a little bit later when we have gone through this possible positive effect on the Mandatum's own fund, which you bring up an important point.

A - Kari Stadigh {BIO 1504152 <GO>}

On the debt issuance.

A - Knut Arne Alsaker {BIO 18730318 <GO>}

Debt issuance, the theoretical, sort of course it's 50% of SCR, 20% of in terms of Tier 1 on the own funds. And in a sort of new world, where after we have changed the calculation basis of -- on Nordea that would mean a theoretical capacity of more than EUR2.5 billion, little bit more than EUR2.5 billion, which is five times what the Sampo plc has, and then the Group has a few hundred millions more in If. So it's to the tune of an additional EUR2 billion theoretically, of course, that's not the realistic issuance capacity, but we certainly could use parts of that, but at the same time also probably look at the scene here that if were to issue more that we have to try to not significantly increase the leverage ratio from here.

Q - Sami Taipalus {BIO 17452234 <GO>}

Sorry, just a follow-up on that. I didn't quite understand your comments there about theoretical versus realistic. Are you saying that you could actually issue that much or are you saying that that's theoretical capacity, but you would never quite issue that much ?

A - Knut Arne Alsaker {BIO 18730318 <GO>}

Theoretic capacity in terms of Solvency II, I don't think we have plans to issue 50% of our SCR in hybrid capital.

Q - Sami Taipalus {BIO 17452234 <GO>}

But how much would you be comfortable with actually issuing it? I mean in terms of total debts, both senior and hybrid combined from current levels.

A - Knut Arne Alsaker {BIO 18730318 <GO>}

I think we're fairly comfortable with the level we currently have.

Q - Sami Taipalus {BIO 17452234 <GO>}

Yeah. So you wouldn't want to go much further than we currently have?

A - Knut Arne Alsaker {BIO 18730318 <GO>}

Not much further, but of course we could over time change the composition of that debt, with the majority of the debt we have issued is not hybrid capital and not accounted towards our solvency capital and excess capital base. That was my link to only sort of shy of EUR1 billion in the Group and then EUR4 billion in senior or EUR3.5 billion in senior.

Q - Sami Taipalus {BIO 17452234 <GO>}

Perfect. Thanks very much.

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Operator

Thank you. Our next question is a follow-up from Blair Stewart from Bank of the America Merrill Lynch, please go ahead, your line is now open.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you. I just wanted to follow up on the comment you made earlier, Kari, about this being a good time or an appropriate time for Nordea to undertake a review of its targets, et cetera. And I know that's a call for Nordea but you know do have the chair at Nordea. So I think it's fair game to ask. I'm just not clear, why if there's a good time, the actual timing ahead of a new CEO joining seems rather strange to me from the outside. A new CEO is going to inherit a set of targets, you might want to say is on target. I just wonder, if you could be able to comment on that at all.

A - Kari Stadigh {BIO 1504152 <GO>}

I think that if we look at how Torbjorn as the new Chairman, works. He is planning things really carefully. So I think that all new targets would be such that he would have them well aligned with the management, the present and the future management and I think this is a very good time to do it because they have announced that they will change the CEO. There is a new CEO on the way in. And because of the recent development, we have seen on interest rates and because of the modest development on their results. So they need to -- and because all the targets that they are going to present, they must be based on the new business plan. There are no targets without a business plan. So I think actually the key is the plan that they are preparing internally, what they want to deliver because that is then the way you will transfer it into actions. And Nordea needs -- as a client, I'm really happy but as a shareholder, I think that Nordea really needs to improve its internal efficiency and deliver more shareholder value. And that we will -- that also has to improve -- include a more ambitious cost plan than what they have communicated so far.

Q - Blair Stewart {BIO 4191309 <GO>}

Yeah. I certainly hope, they're not going to deliver less shareholder value.

A - Kari Stadigh {BIO 1504152 <GO>}

I agree with you once again.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you.

Operator

Thank you. Our next question comes from the line of Niccolo Dalla Palma from Exane BNP Paribas. Please go ahead. Your line is now open.

Q - Niccolo Dalla Palma {BIO 16052945 <GO>}

FINAL

Hi, good afternoon. Couple of questions from me on the investment portfolio of If. I wondered if you could share us the -- if there's currently any significant or (inaudible) mentioning hedges in place that mean that the economic exposures may be slightly different to what we see, particularly interested on the equity side is 10% of the portfolio, the real exposure or is there any significant hedge that means, it's actually slightly different at the moment? And the second question on the portfolio is, you have 1.3 years duration on the asset side.

So you run a short duration mismatch. What's the solvency cost of that and what would it take for you to change your view and have a closer matching of assets and liabilities on that book. Thank you.

A - Kari Stadigh {BIO 1504152 <GO>}

We invest all our assets, all the float in a way, as it would be our own money. So we don't do anything exotic. So we have no hedges of the kind that we would not have disclosed to the market. What -- the second question was, what would we think of matching? I think, this is the -- completely the wrong moment to go along on the yield curve, now after the drop we have seen. It would have been wiser to do it earlier but there we have been wrong because we could not foresee this exceptional drop in interest rates, but the timing would be wrong. So we are not even contemplating or matching that. We have the reserves to maintain the mismatch.

Q - Niccolo Dalla Palma {BIO 16052945 <GO>}

And that the mismatch have a significant impact on the solvency ratio of the entity or is it marginal?

A - Knut Arne Alsaker {BIO 18730318 <GO>}

In Mandatum, it has an impact on the solvency ratio and if it's more marginal.

Q - Niccolo Dalla Palma {BIO 16052945 <GO>}

Thanks.

Operator

Thank you. And our next question is a follow-up from Jan Erik Gjerland from ABG. Please go ahead. Your line is now open.

Q - Jan Erik Gjerland {BIO 5346031 <GO>}

Thank you. Very short one, if I may. Your discussions with the Finnish FSA about your solvency situation. Could you give us some insight to the discussions and how fruitful they have been?

A - Knut Arne Alsaker {BIO 18730318 <GO>}

It's been a good discussion. It's been going on. As you know, Jan Erik, for a long time since the start of the year. It's been a good discuss. The Board has made a decision today on distributing the dividend based on that discussion, and it is -- and I feel personally very confident that the regulator understands our position and will handle the matter in a way which has been made a basis for me -- for the Board to make the decision it did today.

Q - Jan Erik Gjerland {BIO 5346031 <GO>}

Thank you very much.

Operator

Thank you. (Operator Instructions) Our next question is a follow-up from Michael Huttner from JP Morgan. Please go ahead, your line is now open.

Q - Michael Huttner {BIO 1556863 <GO>}

Thank you very much. And it's really to ask again, because, I am really sorry, I didn't follow the points about the debt and the limits. I'm sorry, I got confused. Would you be able to maybe just say it again? Or say it in -- just the main bits. I think the question was originally, how much capacity you have and how much willingness you would have to, and my perception, the answer was, it was more changing it to the edges, so maybe replacing some of the senior with hybrid but rather than issuing what I think, I heard was a kind of limited at the parent level of next to EUR2 billion. But any clarification, would be very helpful. Thank you.

A - Kari Stadigh {BIO 1504152 <GO>}

I think that Knut Arne has said that we are happy with the debt level that we have today. And I remember when this question has been put forward many times during the years. I have said that we can't really have a fixed number because it also depends on the attractiveness on where we would deploy it because if you take on more leverage, then you take one more risk and then the investments have to be attractive. We have more capacity than we need. That is I think the main point, but if there -- and we have no intention to take on more debt on a gross basis at this moment. But if there was something unusually attractive, we could use this firepower for that, but we have no such plans at this moment, maybe this clarifies.

Q - Michael Huttner {BIO 1556863 <GO>}

Brilliant. And the figure on the capacity. Did I understand right, was EUR2.5 billion?

A - Knut Arne Alsaker {BIO 18730318 <GO>}

Yeah in excess. So it will be, it's 50% of the SCR which will mean for the Group in excess of EUR2.5 billion after we change the calculation basis for Nordea and we have shy of EUR1 billion. So we have roughly EUR2 billion in hybrid, what I called theoretical hybrid capacity, additional hybrid capacity.

Q - Michael Huttner {BIO 1556863 <GO>}

Thank you very much.

Operator

Thank you. And as there are no further questions registered at the moment, I will return the word to the speakers for any closing comments, please.

A - Jarmo Salonen {BIO 1860650 <GO>}

Thank you, operator. And thank you all for your attention. Have a very nice evening.

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