Q1 2021 Earnings Call

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Company Participants

- Jarmo Salonen, Head of Investor Relations and Group Communications
- Knut-Arne Alsaker, Chief Financial Officer
- Morten Thorsrud, If P&C Insurance AS - CEO
- Torbjorn Magnusson, President and Group Chief Executive Officer

Other Participants

- Blair Stewart, Analyst
- Jakob Brink, Analyst
- Jan Erik Gjerland, Analyst
- Jon Denham, Analyst
- Michael Huttner, Analyst
- Per Gronborg, Analyst
- Steven Haywood, Analyst

Presentation

Jarmo Salonen {BIO 1860650 <GO>}

Ladies and gentlemen, welcome to this conference call on Sampo Group's First Quarter 2021 Results. This is Head of Investor Relations, Head of Investor Relations and with me here in Helsinki I have Group CEO Torbjorn Magnusson and Stockholm we have Group CFO, Knut Arne Alsaker and Chief of Strategy Ricard Wennerklint and in Oslo Morten Thorsrud.

We'll start as always with to the presentation, after which we will take your questions. Please let me remind you that a recorded version of this call will be later available at the same address sampo.com/results.

And that's I think is all from me, I'll hand over to Torbjorn. Torbjorn please.

Torbjorn Magnusson {BIO 1863476 <GO>}

Thank you. Jarmo. Good afternoon, everyone. I have a very satisfactory set of figures to present today. And even more so, considering that they have for that they to a large degree arise from sustainable business trend from rational markets. Our Q1 profits before taxes are up to EUR632 million and the comparison period is of course one well stock markets were in a completely different place than today.

Nevertheless, both the EUR0.82 per share reported earnings and the one EUR1.39 mark to market earnings this year are amongst the highest in Sampo's history. It is especially pleasing to be able to report consistent progress in all our operations. The core of our results is of course the P&C underwriting result which even when excluding the COVID-19 effects clearly meets our growth targets.

Similarly, the combined ratio for If P&C is well below our ceiling of 85% with a higher COVID-19 effect than last year, but on the other hand also, with the higher negative winter effect.

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Spending a little bit more time on If P&C the strategic progress follows our plans and results this quarter are excellent. We continue to be able to increase rates selectively when needed, which is mainly for the corporate segments. Markets are rational and we have not seen any new entrants for some time after the failure of the group of making Norwegian once a few years ago.

We estimate the positive effect of the pandemic to be roughly 3% on the combined ratio and the mainly Norwegian winter this time to make up 2% in the opposite direction compared to last year. Large claims were close to normal.

On the next page here, we have a simple waterfall chart showing the main differences compared to last year. From the bars on the right hand side, you can also deduce the obvious that the remaining needs for rate increases are more pronounced corporate lines and more way than the other countries. Maybe the main conclusion though is that we see rational markets receiving these rate changes and of course that having a large book in Norway, relatively speaking at the moment helps growth numbers.

The next slide is an attempt to follow the effects of the pandemic on motor insurance in the Nordic countries with our mix of geographies. This is no exact science, but we are trying to be transparent about the types of facts we are using for our estimates. In our outlook for If P&C for the rest of the year we're assuming that the pandemic effects on the motor frequencies will fade during the second quarter and that the second half of the year will be back to normal.

As you can see from this page, we still have healthy growth from our operations in Sweden and Norway and this is all the more satisfactory as in the rises to a large degree from our digital channels. Also, the general digital interaction with our customers is increasing and roughly a quarter of all private lines policies are now sold online making this one of our biggest channels together with the call centers and the car industry collaborations.

If P&C rise the fifth of its business in Finland where GDP and growth has been very low for a few years only partly due to COVID-19 then. Rate increases also have been very low and more of the insurances are renewed one, one than the other countries. So we continue to see healthy growth in Scandinavia then, especially in the digital channels as I mentioned.

Another way to look at the same thing, possibly is customer satisfaction and retention. On the left hand side, this graph customer satisfaction shows that has been even increasing during the pandemic. And on the right hand side, the less emotional retention numbers have been stable at a very high level.

Then to our new friends at Hastings since we mainly write motor insurance the COVID effect is substantial but even adjusting for that, we are handsomely meeting our targets for the operational ratio. Live customer policies are stable the market is quite competitive now, we growing in home insurance and we have rapid progress in the strategic work both internally in Hastings, as well as the synergy work within our group.

The synergies in claims management, in digital pricing and in fraud prevention or work are higher than we expected when we started this process.

Finally, both the underwriting profits and investment returns have translated into very strong solvency position and our leverage also meets our targets, our target of being below 30%. As you are all aware, the Board is proposing a EUR170 dividend to the AGM in two weeks time and to make sure that we don't overstate our numbers we have accrued a quarter of that in the solvency calculation on the left hand side here also for next year.

All in all a quarter that contains very few technical market or strategic surprises and shows a lot of strength for the future. And with that, I'll pause and open up for questions. Jarmo?

Jarmo Salonen {BIO 1860650 <GO>}

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

Questions And Answers

Operator

Thank you. (Operator Instructions) Our first question comes from the line of Jakob Brink from Nordea. Please go ahead, your line is open.

Q - Jakob Brink {BIO 20303720 <GO>}

Thank you and good afternoon everyone. The first question, Torbjorn, I know you set and I agree that it's not an exact science with the COVID impacts so I fully acknowledge that, but still looking at Denmark it was 1.4% in the quarter Tryg 1.3%, (inaudible) with 1.9% Sweden only 0.5% so.

And I see your calculations. But, but of course if the other ones are right, then of course you are understating the underlying profitability of If this time. So could you see anywhere where maybe you could be more cautious or where you might have been adding too much to the COVID impact this quarter.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

The non-humble answer would be. No. Of course, but this is not an exact science, there are differences between the companies we write quite a lot motor business, not least in Sweden. Where the effects have been quite pronounced. So proportion of business in different countries is one thing that will differ and that we, this is certainly a very honest attempt from us to show the correct number. As far as it's possible.

Q - Jakob Brink {BIO 20303720 <GO>}

Fair enough. On a different question on the discount again impact of discounting. I see that the impact of higher rates in Sweden was SEK170 million in the quarter you had a 26 basis points change. So basically looking at your historical impact of rate changes, it seems to be somewhat larger typically then than it has been this time. Is there any reason for that or is it just yeah. It's just a different sensitivity than it used to be?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Knut, do you have an answer to that?

A - Knut-Arne Alsaker {BIO 20741452 <GO>}

Yes, good afternoon. Jakob. There is no changes in our modeling in Sweden. One of the reasons why these sensitivities vary a bit now with rates tick up where it seems that the nominal rates for the discounting has been floored at zero. While the inflation of course have been adjusted to inflation environment at any time. But the nominal rates a bit floored at zero. So you don't -- you get some asymmetry in the discounting when rates now take off from the very low level our parts of the curve has been below zero if you look at the actual market rates.

Q - Jakob Brink {BIO 20303720 <GO>}

Okay. But that probably explains it. Thank you. And then my last part of the questions actually a few questions in one but about Hastings. So for the first time now give us a quarter number the EUR108 million net earned premiums seems a bit low compared to the full year. Premiums of last year of Hasting. Could you maybe give us some more detail is Q1 always lower than the rest of the year or is this the new run rate. Secondly, other revenue seems to be quite high compared to the sort of old level of other revenues in Hastings is that also the new level? And then finally, I was

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listening to the direct line call earlier today and they were talking about market average price reductions of around 8% (Technical Difficulty) motor, that has been decline for Hastings in Q1 please.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Knut the first two, I think we should see as technical questions probably and then let me just comment that the direct line 8% is probably more than we've seen from a number of other insurers in the UK.

A - Knut-Arne Alsaker {BIO 20741452 <GO>}

Yeah, if I understood you correctly Jakob, whether or not the split between underwriting and retail income this quarter was a new normal level was that your question?

Q - Jakob Brink {BIO 20303720 <GO>}

I'm just -- basically just trying for my modeling to understand what is to run rate of premiums and other revenues in Hastings. So as I said, I think the premium income in the Q1 was somewhat lower than I had expected looking at full year numbers of Hastings historically and the other revenues for somewhat higher than I would have expected given the history -- so is there are some if have you move income from one line to the other or is this the new run rate levels?

A - Knut-Arne Alsaker {BIO 20741452 <GO>}

Yeah, that particular split is not accounting technicality. I mean obviously with your reference to sort of the direct line call, GDP a such for our motor insurance in the UK has probably been lower this quarter than in a normal quarter. So that's one explanation. Then, Hastings is of course doing smart decisions to optimize and maximize profitability on a customer basis, whether or not that income on individual customers is coming from underwriting technical income derived by premiums or from retail income is not the first port of call let's it's the totality that matters. That's also why we have for Hastings a combined operating ratio targets, which includes both those type of revenue streams. Both from the insurance company and from the retail division.

Q - Jakob Brink {BIO 20303720 <GO>}

Okay. Fair enough. Thank you very much.

Operator

Thank you. Our next question comes from line of Blair Stewart from Bank of America. Please go ahead, your line is open.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you. Good afternoon, everyone. I've got a couple of questions. I wonder Knut Arne whether you might be able to give us an update on the impact on capital requirements as you exit the non-insurance businesses. I think at the Capital Markets Day, you said that EUR5.7 billion of capital requirements went down to EUR4 billion. Things have moved along. I know the capital requirements overall has gone up with market. So maybe an update on that calculation, would be very helpful.

Similarly, going back to slide the now famous slide 35 of the Capital Markets Day, where you talked about the EUR5 to EUR6 per share of excess capital. Again, I wonder, given the various movements, particularly in the market value of Nordea whether you could provide an update to that number that would be great.

And finally just on the Hastings question I suspect you may not have the answer to this or may not be willing to give the answer to this, but I just wonder what was the impact on the premium figure year-on-year. What was the year-on-year movement in premiums and are you able to quantify the impact of COVID rather than just significant. So I guess the question there to the latter part is far away from your -- from your targets operating ratio are you in underlying terms, good or bad? Thank you.

A - Knut-Arne Alsaker {BIO 20741452 <GO>}

Let's see if I start with the first two I guess Torbjorn, and see who takes the last. But on the capital requirement, Blair, it's roughly the same number given that what we talked about what that was a pro forma situation where we have reduced the market risk from Nordea and the PE portfolio and basically are less with our insurance operations and capital requirements for our insurance business has not significantly changed. There is also always of course a little bit of volatility on a quarterly basis, but with a nice round number of EUR4 billion. I would still call that EUR4 billion.

Obviously, what has changed and will change and could go up and down is excess capital in the situation that we monetize (inaudible) funds from Nordea in one shape or form. And when the market value of those assets are going up that monetization will also lead to approximately a similar increase in the excess capital. Because, right we're still left with the same capital requirements. Meaning again that when looking at the indication of how much capital do we need to retain for use of solvency purposes, we gave a range of 40% to 60% that range still holds. But it's more closer to 40% than 50% now compared to the end of 2020.

Q - Blair Stewart {BIO 4191309 <GO>}

Great. I think just looking at Nordea that EUR5 to EUR6 per share is going up by around two or a bit more than two.

A - Knut-Arne Alsaker {BIO 20741452 <GO>}

That would be an approximate correct number. Yes.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Maybe then to just reason a bit of Hastings. Adjusting for COVID 19 I said in my introduction, that they are well below the operating combined ratio target 88 the number of policies is roughly constant slightly up rates are down this quarter and at the end of last quarter. In the UK market. However, there are now mixed signals in the UK market about where rates are going for the rest of the year when we all expect the Corona effects to fade. So that's probably as good as guidance that I can give you for where Hastings is going at this point in time.

Q - Blair Stewart {BIO 4191309 <GO>}

No. That's excellent, thanks very much. Torbjorn just wanted to. I've got you and to save me coming back I wonder if I may ask you a question with your Nordea hat on come September when the dividend plan is expected to be lifted. Is it your expectation that would also allow of companies to start to reduce excess capital through additional capital returns over and above dividends. Is that a fair assumption?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Nordea has stated publicly, which is of course the only thing that I can say here that they intend to apply to use dividend -- I'm sorry you to use buybacks, but that -- there are no indications from the ECB that I'm aware of on this nor is there any application yet from Nordea.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay, super. Thanks for your time. Thank you.

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

Q - Jon Denham {BIO 19972914 <GO>}

Good afternoon. Thanks so much for taking my questions. And firstly, I think the Nordea lockup ends at the end of this week. And are there any reasons why you wouldn't look to do another block shortly after and maybe more broadly and how do you think about the scope to outperform the 18-month time horizon set out at the CMD given the current market conditions?

Secondly, you spoke a bit about the increase in excess capital as a result of your Nordea state going up in value. Should we expect all of that to be returned to shareholders or would you expect to do more on reducing leverage or the M&A front?

And then just finally, you've had a bit more of an appetite for industrial business than peers for a couple of years now, and I think you previously mentioned substantial rate increases in industrial that Jan 1. However, the premium growth was pretty low in 1Q. I was just wondering what was driving that and what the outlook for the business? Thank you.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

I think I'll start with the one that I can answer that the appetite for industrial business. First of all, remember that even though the Nordic market for industrial business is nothing like the UK or the US market. Industrial business for us is companies with more than 500 employees, which is really SMEs in UK terminology. But we are a much bigger player in that market than most and than Terveystalo and Gjensidige or other indeed the mutuals.

So our appetite hasn't increase but the rates have and that's very helpful of course and we have been able to increase rates along the lines that we needed to and wanted. Last year -- at the beginning of last year we wrote a number of policies on project insurance where the gross written premium as we publish is a multi-year premium. So from an earned perspective the growth last year was slightly overstated, and this year understated because in the gross written premium we don't get any premiums from those project insurances is from last year. That's that and then when it comes to exactly what and when is going to happen with our Nordea stake of course our board, and this is the only answer I can give you. Our Board will constantly evaluate the opportunities that we have to realize the strategy statement that we made in February to materially reduce the holding within 18 months.

So, and you also stated what we going to ask what we going to use the proceeds for and we could use them for in theory, we could use them for dividends or giving back money to shareholders, we can use them for on bolt on acquisitions as we have limit ourselves to or to reduce debt or any combination of those and that will of course also be part of the board deliberations and that is as much as I can say.

I think Knut do you wish to add anything to that?

A - Knut-Arne Alsaker {BIO 20741452 <GO>}

No, that was a good summary, Torbjorn. The only thing I would add is of course we're still sticking to our balance sheet targets, which we gave at the CMD as well. To have solvency range between 117, 119 and the leverage below 30%.

Q - Jon Denham {BIO 19972914 <GO>}

Thanks very much guys.

Operator

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

Q - Michael Huttner {BIO 21454754 <GO>}

Thank you very much and good afternoon. And I have lot of questions and apologies if you say that too late let's just say. On the -- you mentioned quite hardly the 61% customer satisfaction. I just wondered how does this compare to (inaudible) we've got 75% NPS, it feels like you mentioned it on a different basis. But I'm not quite sure. So just asking with your figures better quality than what your peers use. And on the Mandatum so this reorganization feels like Mandatum in is more of many holding company now, which is a holding company. And it feels like you almost ready to sell it in the same way that there have been stories in the market and I think concern that they open for offers or some kind of stuff for their life business. Is that part of your thinking?

And then on the combined ratio you improve the target range which is fabulous. It's feels like, unlike my expectations last year when I sort of the discipline change within this is as wonderful as ever this 82% to 84% target range should we -- is it, would it be okay to kind of think well, this is something you could sustain over many years not just this year?

And then the three very little questions on Hastings, one is the 75%. Do you have a comparative for Q1 last year. It's just a question. And then I think there is an incentive payment we still either EUR18 million or EUR19 million and I just wondered is this -- what is this for, I mean you've just bought Hastings, what is the incentive for?

And then the final question and (inaudible) if there is a cash return is there preference of among your shareholders so how it is done, whether it is cash or I mean like a special dividend or buyback? Sorry if it is many questions. Thank you.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Customer satisfaction is certainly not standardized between companies is difficult to compare, but the time series within each company is important more than. Knut, you have probably have more to say on this.

A - Knut-Arne Alsaker {BIO 20741452 <GO>}

Yeah, no, that's correct Torbjorn, this is actually why we have been a bit reluctant to sort of start publishing these type of numbers, but there has been clearly an interest in this. Customer satisfaction we cannot compare it between companies there are large variations on how you do this, what questions you ask what type of scale used. This is a net promoter score and so it also depends on what you actually classify as promoters and the tractors depends on whether you do it on per transaction or relationship. It depends on whether you do it on the claims or touch point. So there is a myriad of different ways of doing this. So I think the only thing that makes sense, is to look at the development of each and every company. And I think what we've seen sort of within If is it's a very good development now quite a period where we see that customers become more satisfied throughout all touch point. And perhaps that I can also comment on the combined ratio the 82% to 84% that is the current outlook for this year. And you asked, is this sustainable well, our long-term target is to be below 85% for our three-year targets. And then of course, that is sort of the level below 85 where we expect to be.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

More than Mandatum. So maybe just to say that it's a company that performs really well even in a little bit to my surprise even in these pandemic times sales have been good. The unit linked and wealth management businesses in is increasing the assets under management, investment returns have been excellent solvency margin is high in this company will support dividend ability going forward. So if I haven't been positive enough for Mandatum I promise to change.

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Q - Michael Huttner {BIO 21454754 <GO>}

And if I may. And this is -- as you might service as a place, but you know you have an excellent opportunity to be even more positive by using that same a sailor with wells in it.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

And then the the Hastings questions. I didn't actually catch all of them. And, but no, we haven't got a Q1 number of 75%, we got a lot of new other things in the report at this time if we haven't produced that and the other of course the other companies in the UK only produce trading updates in Q1. What was the other question?

Q - Michael Huttner {BIO 21454754 <GO>}

There is an incentive payment. I can't remember way to size that is either EUR18 million or EUR19 million and I was surprised, because you've just bought it. I couldn't understand how management could have so quickly delivered and be paid so quickly.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

And we can tried to take this offline. Neither of us here can agree what your referring to. We tried to find it and come back to you.

Q - Michael Huttner {BIO 21454754 <GO>}

No worries. And the cash return?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

And then there is no simple answer to your -- there's no simple answer to. Yes. Everyone wants the cash return or yes everyone wants buybacks or anything else like that.

Q - Michael Huttner {BIO 21454754 <GO>}

Okay, thank you.

A - Knut-Arne Alsaker {BIO 20741452 <GO>}

The EUR19 million remuneration in the first quarter, that is not Hastings only that's the (Technical Difficulty).

Q - Michael Huttner {BIO 21454754 <GO>}

Okay. Okay. Okay. So, yeah, well then that other than more than thats really clear. Thank you.

Operator

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

Q - Per Gronborg {BIO 15910340 <GO>}

Yes, thank you. Two questions from my side. First which turning to the commercial line where clearly your growth is more muted this year than it was last year. What have you've done in the renewal on pricing and sort of retention are you seeing? This context talks to a player like Tryg you have the perception that yes they hiking prices a lot, but the outflow of clients are also visible. Are there new players coming in taking these clients, so how do you see the trends in the commercial market by doing industrial marketing?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Sorry. That's an easy one. So, Morten, you can have it.

A - Morten Thorsrud {BIO 16111627 <GO>}

Yeah. While the commercial lines we do see quite large price increases in certain part of that segment sort of in Norway in particular in commercial lines and then basically throughout the board on the large corporates, what we call an industrial. Retention is fairly stable then explanation by the somewhat low growth on commercial stems from the development in Finland in particular. Workers' comp market there is actually shrinking a bit due to low employment in Finland as a result of the pandemic and all of that business is basically renewed first of first. And since we report on the gross written premium you get all of that effect then on the Q1 result. For Finland and effect in commercial in particular so that's the main explanation for sort of the 0.6 growth on commercial.

A - Knut-Arne Alsaker {BIO 20741452 <GO>}

This point also the -- what was addressed earlier about single project contracts with multi-year premiums from last year. This indicates that earned premium should actually continue to grow reasonably okay this year in this segment. Is that fair to assume.

A - Morten Thorsrud {BIO 16111627 <GO>}

Yes, yes, we are one of the few that report on the gross written premium most other players report on some form of gross premiums earned and of course do you -- the good thing in gross written premium is that you, you get a bit more fresh figures, so to speak, but they also get a bit more volatility in the topline then.

So yes project insurance for instance would of course be earned over a number of years. So you will have more stability on their own figures for sure.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Going back in my initial statements on growth, I'm pleased with the progress that we have and there are some technical things that make the Q1 number look bit more subdued than it really is, we have, we have good growth in Scandinavia, we have good growth in the right channels and that's the main conclusion here.

Q - Per Gronborg {BIO 15910340 <GO>}

Okay, perfect. My second question, when I look at your mark-to-mark bond returned in a world where most bond funds have yielded negative returns in Q1, you seem to have, we've been able to generate quite solid, positive returns. Of course, you have been good, but can you add some more color to it.

A - Knut-Arne Alsaker {BIO 20741452 <GO>}

Maybe we have been good payer we're are trying our best, but of course in an environment where interest rates take off the base of course it's beneficial for us at least compared to some others. I'm not sure who you compare us to to have shorter duration, then we have a possibility to reinvest as they slightly higher running yield and obviously on the mark-to-market basis get less sort of negative impact from the higher rates.

Let's see how that develops and those possibilities to reinvest at higher rates continue going forward. But that might be one of the differences that's compared to other is longer duration in their bond portfolio.

Q - Per Gronborg {BIO 15910340 <GO>}

The impact you addressed from discounting rate on slide 104 is there any way influencing your investment income or where does that pop up in your P&L.

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A - Knut-Arne Alsaker {BIO 20741452 <GO>}

Slide 104

Q - Per Gronborg {BIO 15910340 <GO>}

I cut all the way to the back of the slide deck.

A - Knut-Arne Alsaker {BIO 20741452 <GO>}

Yeah, my apologies. I just have to see what you referred to that would be a part of prior year gains and losses in the claims ratio.

Q - Per Gronborg {BIO 15910340 <GO>}

Okay, perfect.

Operator

Thank you. Thank you. Our next question comes from the line of Steven Haywood from HSBC. Please go ahead, your line is open.

Q - Steven Haywood {BIO 15743259 <GO>}

Thank you very much. Good afternoon. Just looking at your for If P&C the underlying claims ratio. I think if you look at slide 6, you can work out that potentially the underlying claims ratio is about 1% better than last year, but could you tell us if it's, this is mainly due to a considerable amount of lock or is it due to risk selection or is the 1% underlying improvement and even higher than the first quarter 2020. This is on a normalized basis excluding all the additional impacts of COVID and weather at large losses etc.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Simple answer is there is some small rate increases, on average, but 1% is a small number in non-life insurance. Morten do you want to give some more color.

A - Morten Thorsrud {BIO 16111627 <GO>}

No, I think that's correct. It's I mean, first of all you know that we don't really like the term of underlying sort of improvement. There are so many sort of effect coming in all directions but if you do the simple calculation just, that would be roughly right sort of that we do see an improvement. It's mainly of course pricing slightly above inflation in certain segments, of course the risk selection always being important but again, these things are more important and relevant to look at over the long term, not always that meaningful to calculate the underlying improvement sort of quarter by quarter. But we definitely see strong development in our portfolio and good profitability in all parts of our book of business.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

And Morten maybe to add one piece of information voluntarily. There is no major segment where we see difficulties in increasing prices in parallel with inflation or in excess of claims inflation at the moment. is there.

A - Morten Thorsrud {BIO 16111627 <GO>}

No, we are satisfied with the underlying profitability that we have in all business areas, all geographies. There are only smaller adjustments here and there. And so, quite a good situation.

Q - Steven Haywood {BIO 15743259 <GO>}

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Okay, thank you very much. That was very helpful. And if you're not liking the underlying claims ratio then you may not like my next couple of questions. You obviously now disclosing your large claims above expectations. But can you tell me what your yearly expectation of large claims is can you give me a nominal amount or even a percentage of the combined ratio and maybe the same for the weather claims. Can you give your estimated normalized expectations in a nominal amount again?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

We could, but it wouldn't be helpful because we change it as the portfolio changes and the exposure changes. So we would have to update that all the time and you wouldn't be able to use it.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay. No, I appreciate that. And then just a final question from me, on the solvency and you've provided 189% Solvency II ratio, but it also provided one that is accruing the dividend to 186% and I think that is probably the more appropriate ratio to use, but can you just clarify what level you're accruing the dividend, that is 70% payout ratio?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

In that number this is more last risk and I think 170 is used, also for this year. To just to pick a number, so that you know that we're doing, what we're doing. There is no indication that the dividend will be 170, but that's the number that has been used in that particular graph.

Q - Steven Haywood {BIO 15743259 <GO>}

I'm sorry.

A - Knut-Arne Alsaker {BIO 20741452 <GO>}

It's the quarter of last year's dividend.

Q - Steven Haywood {BIO 15743259 <GO>}

Perfect, thank you very much for your help.

Operator

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

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

Yes, good afternoon. It's Jan Erik from ABG here. Just a couple of questions as well. Since you can't talk too much about your Nordea position. Could you just remind us about your tax situation below and above the 10% threshold, we should talk about the Capital Markets Day has there been any changes to that or how should we look at from that when you're thinking about taking your position down?

A - Knut-Arne Alsaker {BIO 20741452 <GO>}

Yes. Good afternoon Jan Erik. No there is no change compared to what we have described before and just to remind what that is, it's treated as the so-called fixed assets as long as we are be above 10% holding and we have owned it for long as we have, meaning that if any sales gains or losses will be tax-exempt and also dividend from Nordea is tax-exempt then consolidated profits, we consolidated met basis so that's also not a part of our tax line in the P&L. Then if we go below 10% there will be a similar treatment for 12 months, meaning that if we have any shareholding after

12 months of dropping below 10 then that will be subject to tax, both in terms of realized gains and any direct investment income meaning dividend received.

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

Perfect. That's very clear. Secondly, Morten, could you just elaborate a little bit of this premium growth, potential above inflation, is there so that to try to price above inflation to improve your book or is it so that you're happy with your current pricing and just try to price, according to inflation currently?

A - Morten Thorsrud {BIO 16111627 <GO>}

Yeah, what we do is that we always look forward and try to estimate how we look upon the future sort of claims development severity, inflation and so forth and price and according to what we need in order to reach our financial targets and that sort of if the risk doesn't change then of course and they don't need to improve the combined ratio than you would price basically according to expected inflation development. Then you might have certain books of business where you need to do slightly more than that. Currently, as I said, sort of, I think we have a good underlying profitability in our, all of our business areas and all of the different countries. So broadly speaking, there is not many areas where we need to price for more than inflation.

The exception to this has been and still partially continue to be commercial lines and the Industrial lines, in particular Norway. But, yeah it's -- again the price according to expected future risk development including inflation compared to sort of our financial targets.

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

No you know uplift sorry if you didn't have sort of a competitive price you can actually add business your competitors are still pricing above inflation in some areas.

A - Morten Thorsrud {BIO 16111627 <GO>}

Nonetheless sorry if I got your question there really. I think but of course, I mean it's...

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

Can you gain business now as you're sort of happy with your profitability as you say, and you not need to improve your combined ratio so much anymore? So you can then gain market share gain business even though that is not on your agenda. Is it sort of easier year to gain business these days because your peers or competitors are pricing still above the expected claims inflation level?

A - Morten Thorsrud {BIO 16111627 <GO>}

Well, it all depends on what the peers are actually doing but always. I mean we only see a situation where we gained market share instance certain segments, certain product, certain geographies and then you might lose market shares in all of the segments. Very much because of this dynamic and hard to predict, sort of what's going to happen. In terms of development and so, and of course, I mean it's, that is essentially what will drive them. And one of the elements that we drive market share developments.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

That's an internal game and it also has to do with how strong the distribution capacities are in the areas where your pricing is correct or competitive, of course.

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

Okay. Just two technical questions at the end that your funding cost of EUR26 million and you can say 1.6% to 1.7%, but I couldn't get that back to my EUR6 million to EUR7 million So just, what's the

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difference between the EUR26 million reported on the EUR16 million, EUR17 million expectations so to speak?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Knut?

A - Knut-Arne Alsaker {BIO 20741452 <GO>}

Was it for me. I didn't really hear what you aware referring to Jan Erik. I also the claims handling calls.

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

No. You're sound great.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

It had to be for you.

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

It's funding costs in the question -- in the quarter on the holding company was EUR26 million, it says in the report. But it also says it was from 1.6% or 1.7% actual cost, but just given square equation between both EUR16 million, EUR17 million as I was referring to and the EUR26 million you reported.

A - Knut-Arne Alsaker {BIO 20741452 <GO>}

The 1.7% that's right that the average funding cost for the holding company with the debt at the holding company has and that gives on a annual basis roughly a cost of just about EUR70 million, let's say EUR70 million on an annual basis, so divided that by four, you have the quarterly number. And then there are some derivatives positions not as much as we had before, but some derivatives position that makes the financial result in the holding company a little bit higher and a little bit lower from time to time depending on interest rate and by developments compared to that nominal cost. If you like 1.7% average which I refer to.

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

Yes, Perfect, that's really is to helping out a lot. Thank you. Just finally, just a wish. Thank you so much for your improved disclosure on If everything that's great and we hope you can do some similar on Hastings because those numbers, we cannot still square as much as we can to get a better estimates going forward. So that will be highly appreciated. That's all from my side. Thank you.

A - Knut-Arne Alsaker {BIO 20741452 <GO>}

Thanks, Jan Erik.

Operator

Thank you. (Operator Instructions) Our next question is the follow-up question from Blair Stewart from Bank of America. Please go ahead, your line is open.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you. Knut Arne just one for you. You commented earlier that you're sticking to your balance sheet targets, and I just wanted to check clarification on the 170 to 190 solvency ratio target. I think, and correct me if I'm wrong, I think you said that you will review that as and when you have sold your non-insurance holdings. Is that correct? And if so, what would you be looking at in terms of peer group targets for example that might be more appropriate for a business that is significantly less risky than it is today. Thank you.

A - Knut-Arne Alsaker {BIO 20741452 <GO>}

Thanks, Blair. We're certainly speaking to 170 and 190 because we, we sort of set that target in February we have currently, more or less the same balance sheet so it makes sense to stick to it. And it also makes sense to review it when we have materially less market risk.

In terms of the peer group. I wouldn't say that the peer group it's the first port of call. What we will base our valuation is then our risk appetite. What we would like to have in terms of comfort level within that target range.

But of course what I referred to earlier, that if we have material let's market risk on our balance sheet compared to today, where we think 170 and 190 is appropriate, it would naturally be so that target range would be somewhat lower not materially lower. But somewhat lower, how that compares to certain other companies who might have a little bit different balance sheet or a little bit different view of the world, it would be less important.

Q - Blair Stewart {BIO 4191309 <GO>}

Yeah, I mean, it makes perfect sense. I think every 10 point reduction will be about $400 million impact. Based on what you said earlier.

A - Knut-Arne Alsaker {BIO 20741452 <GO>}

I know I stick to my my EUR4 billion there Blair so that's.

Q - Blair Stewart {BIO 4191309 <GO>}

Yeah. I'll now go away into the maths on 10% of $4 billion. Thank you.

Operator

Thank you. We have a follow-up question from Michael Huttner from Berenberg. Please go ahead, your line is open.

Q - Michael Huttner {BIO 21454754 <GO>}

Thank you very much. On the If dividends so last year, EUR600 million. I think the year before slightly more can you say what given the -- based on If result results if you could this year. And then you mentioned inflation, I just wanted a fixed say word about this, to pick in the US I know it's very far away. But maybe not and then on Norway industrial, I'm actually quite surprised because I saw the rates very jumped really hugely last year, so I'm surprised it's still an issue is Norway a very risky country because they have different standards or something?

A - Knut-Arne Alsaker {BIO 20741452 <GO>}

If I start with. I'm sorry.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Go ahead.

A - Knut-Arne Alsaker {BIO 20741452 <GO>}

If I start with the dividend Michael, you shouldn't expect anything on dividend really but that's mine, but you should expect, the insurance dividend of samples, it's progressive going forward with the starting point of EUR160 per share, which then originates back to all our insurance businesses, both

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then on life businesses, the life business that we have. And how we fund that with cash flows from various balance sheet that will be our job to do.

Q - Michael Huttner {BIO 21454754 <GO>}

Excelling.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

And on inflation and Norwegian industrial.

A - Morten Thorsrud {BIO 16111627 <GO>}

Yes, in terms of inflation it's a bit unclear what your question was. And Michael, but inflation in the Nordic, typically up towards -- up to as 3%. Of course, the inflation that is relevant for us is quite different than sort of consumer price type of index. This is more than inflation in spare parts labor and off-related to body shop at the car industry, and so forth but it's been sort of 2% towards 3% sort of lately more towards the 3% and then the question about repricing in Norway. I think what happened was that we saw in the total Norwegian market, quite a bit of claims development and yeah, two years, three years back in time on the commercial segment as in particular and the whole Norwegian industry has been pricing toward that then over a couple of years. Then lately, sort of the last more last two years, we've seen also a trend in industrial which is actually more of a global trend where you see sort of rates for large corporate going off in particularly in property more across the board. So that's sort of irrelevant for all of our industrial business, not only in Norway. So I've had I think there is something special about the Norwegian risk landscape more.

Q - Michael Huttner {BIO 21454754 <GO>}

Okay, thank you very much. Thank you.

Operator

Thank you. Our next question is a follow-up question from Jakob Brink from Nordea. Please go ahead, your line is open.

Q - Jakob Brink {BIO 20303720 <GO>}

Thank you. Just a follow-up here. You've previously mentioned that samples not interested in life insurance outside Finland. Does that include that you're not interested in Topdanmark having a life company and that was my first question. And then on one other sort of more structural thing Nordex and NOFI there was an increased bit yesterday. So I know you're not going to, as far as I understand you're not going to inject more money into this, but could you maybe just give us a bit more detail since of course it's may be a bit contradictory to what you said at the CMD about exiting the PE stakes. And then lastly, sorry Knut, I don't think I've ever heard about that 12 months rule and tax. Could you just repeat. I'm sure I understand.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

First of all, life insurance in Topdanmark they have a wonderful and very efficient and successful Life Insurance Company, which is well integrated with non-life, which is run on the same building for the people in the same place and distribution overlaps and it's all unit-linked.

So while we, it's doing well. But we wouldn't expand the question has been would we expand Life business would be in trying to integrate life business between the Nordic countries and the answer to that is still no. We don't see any synergies at all between life insurance business in different Nordic countries.

Nordex we're not running that as we've said many times, and so it is not a contradiction, we don't intend to expand that group of investments. And the third question was.

Q - Jakob Brink {BIO 20303720 <GO>}

It was on the 12-month rule and such. You just mentioned something with 12 months. I'm not sure I understood that part.

A - Knut-Arne Alsaker {BIO 20741452 <GO>}

It's still when we -- if we drop below 10% shareholding in Nordea that would go for other companies as well, if we own more than 10% for a longer period of time, you have a period of 12-months before, let's call it for simplified purposes normal taxation and all that as it related to capital gains treatment and income treatment comms seem to force to put it very plainly, meaning that if we sit on Nordea shares for more than 12 months after we have, so below 10% in a hypothetical situation, any capital gains we would make after that period would be subject to capital to gain stocks in Finland and also revenue dividend from Nordea would be subject to tax.

Q - Jakob Brink {BIO 20303720 <GO>}

Okay. Fair enough. I understand how. Thanks a lot.

Operator

Thank you. We have a last question from Jon Denham from Morgan Stanley. Please go ahead, your line is open.

Q - Jon Denham {BIO 19972914 <GO>}

Thanks very much. Just on top and obviously the solvency increased substantially at 1Q was not cash. How should we think about the board's desire to return top solvency to a more normal level via dividends. I'm just thinking from the Sampo side Q1 or do you even need the extra cash from the business and just coming back to Knut's point on the progressive insurance dividend. Would it trigger an unwanted step up in Sampo's progressive insurance dividend or would you seek to hope money back at Mandatum or If for example? Thanks.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Knut it is your money. So even though you're not on the board.

A - Knut-Arne Alsaker {BIO 20741452 <GO>}

First and foremost wish for any company that we have an interest in to run the prudent balance sheet then I'm sure the board of Topdanmark will consider that and the profitability that Topdanmark will generate during this year when they set and propose the dividend to the AGM next year. So obviously to make changes since solvency calculation. I don't expect that to have been done, just because of samples insurance dividends. That probably wasn't thought about at all. So it's not because of that just be very clear. Then our insurance dividend this of course linked to the profitability of our insurance operation. How we handle cash management and cash flows within the group that's a part of our day job. So you should first and foremost concentrate on the earnings. That our insurance operation generate when thinking progression in the insurance dividend from here and then of course it's progressive. So we need to have a reasonable view on what is the normal profit for the year and what will be a normal profits for next year when setting that insurance dividends. But it's not primarily driven to individual cash flows, we have sufficient cash flow potential to fix in the group. It's the earnings that of course we need to concentrate on.

Q - Jakob Brink {BIO 20303720 <GO>}

Fantastic. Thanks, Knut.

Operator

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Thank you. We have one more follow-up question from Jan Erik Gjerland from ABG. Please go ahead, your line is open.

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

Yeah, just one follow-up on the Nordea stake. It is so that you are allowed to participate in the direct buying back if that should occur either by the board of Nordea or is that something you would consider to do if that should be an opportunity either as a sole and buyback to you or in those sort of a complete buyback program?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

We don't know that yet. And we have heard from Nordea in the market that if they seem to think that would be technically possible, but we've had no contact with them. We have not discussed it. As I've said far as I'm aware Nordea has not applied for any buyback game with the ECB.

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

Perfect, thank you. That was all from my side. Thank you.

Operator

Thank you. We have no more questions from the line, I will hand it back to us because for closing comments.

A - Jarmo Salonen {BIO 1860650 <GO>}

Thank you. And thank you all for your attention, and have a great evening.

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