

Y 2017 Earnings Call

Company Participants

- Jarmo Salonen, Head of Investor Relations and Group Communications
- Kari Stadigh, Group CEO and President
- Peter Johansson, CFO
- Torbjorn Magnusson, CEO, If P&C Insurance Holding Ltd

Other Participants

- Blair Stewart, Analyst
- Ida Melvold Gjosund, Analyst
- Jakob Brink, Analyst
- Matti Ahokas, Analyst
- Michael Huttner, Analyst
- Per Gronborg, Analyst
- Steven Haywood, Analyst
- Thomas Seidl, Analyst
- Unidentified Participant
- Vinit Malhotra, Analyst
- Wajahat Rizvi, Analyst

Presentation

Jarmo Salonen {BIO 1860650 <GO>}

Ladies and gentlemen, welcome to this conference call on Sampo Group's 2017 results. I am Jarmo Salonen, Head of Investor Relations at Sampo. And with me here, I have our Group CEO and President, Kari Stadigh; Head of P&C Insurance, Torbjorn Magnusson; and Group CFO, Peter Johansson. We'll have the same procedures as always, Kari will start with the review of the 2017 and then we'll come back to your questions.

Let me remind you that you can follow this also on our website sampo.com/results -- sorry, result, without the s. And a recorded version will be later available at that same address.

Now, I'll hand over to Kari. Kari, please.

Kari Stadigh {BIO 1504152 <GO>}

Thank you, Jarmo, and welcome to the conference call on my behalf as well. Sampo had a strong 2017, particularly the insurance operations performed well and produced record

results.

Combined ratio for If in the fourth quarter amounted to 83.6%, which is the best ever fourth quarter combined ratio. It is also noteworthy that the number of customers increased in all geographies for If, which is not very common thing, however, a very positive one. Also, Topdanmark delivered an excellent result, the combined ratio at 82.1% in the fourth quarter. Based on the strong results, the Board of Topdanmark proposes a dividend of DKK19 per share, which converts to a dividend of EUR107 million for Sampo, payable during the spring.

The high payout ratio combined with the buyback that Topdanmark executed last spring before the AGM make up a total distribution ratio of 122% for Topdanmark during 2017. You have also probably all noted that Topdanmark got the new CEO, Peter Hermann earlier this month. Sampo share of Nordea's fourth quarter net profit decreased to EUR126 million, a clear disappointment. However, our confidence in the platform is still there. Nordea started to deliver on costs for the first time in the fourth quarter. Part of the weak top line was based on owner decisions such as derisking the Baltic operations into a joint venture, further taking down the volume in Nordea, Russia as well as de-risking the oil and offshore portfolio. The Nordea platform will also include becoming the gatekeeper, i.e. the preferred partner for new FinTech companies as well as for the global players like Apple Pay. And this will eventually differentiate the client offering going forward. This is not very common in the Nordics. Today, I think that the client offering between the Nordic banks is almost the same. I predict that two to four years from now, this will be a very different scene indeed and Nordea will be the leader. So all-in-all, Nordea will deliver even if it has taken more time than originally planned.

Mandatum Life's profit increased to EUR56 million for the fourth quarter. And what is even more important is that Mandatum Life was able to lower the discount rate to 0.25% for 2018, '19 and '20, as well as to 2.75% for '19, '20 -- 2021, thus, forming a strong base for good performance, also for the coming years. The buffer in total is EUR325 million. We have seen the first phase of rising interest rates in the last few weeks. Our insurance operations with a very short fixed income duration as well as a high cash position is well positioned to outperform our peers, when this development will accelerate further.

In the short term, the lower running yield we will of course burden our investment results. We are at an inflection point. We propose a dividend of 2.6 years, which is in total, EUR1.444 million. Accounting together our internal dividends, starting with EUR620 million from last December to Topdanmark, Mandatum and Nordea paying their dividends this spring. The totality exceeds the dividend which has to be paid. I think the proposal is very prudent indeed. As you all remember, we are a dividend stock.

Thank you, got it. And Operator, we are now ready for your questions.

Questions And Answers

Operator

Thank you. (Operator Instructions) We will now take our first question. Please go ahead, caller. Your line is open.

Q - Jakob Brink {BIO 20303720 <GO>}

Hello, it's Jakob from Nordea. I have three questions please. The first one coming back to what you just said, Kari, about your dividends in 2017 and the cash flow from subsidiaries. First of all, I seem to recall that in early 2017, you mentioned that we should expect a lower or more moderate dividend growth going forward, but actually, it was double the level of in 2017. So could you just put a few words on what actually happened?

And then secondly, I guess we could end in a scenario where the cash flow will be lower in 2018. So, how should we then look at your dividend in 2018? Could that come down or do you still expect it to go up over time?

And then finally, on non-life insurance, I see that both gross and net reserve releases have been somewhat higher in 2017 than in previous years. Should we still expect around 1.5 percentage point support from reserve releases going forward or has that number maybe increased a bit? Thank you.

A - Kari Stadigh {BIO 1504152 <GO>}

Okay. Maybe I'll start and Torbjorn takes then the non-life questions. Of course, we are fully committed to growing dividends. I think that our cash generation is so strong and internal dividends are strong, there is no reason why we couldn't increase the dividend also going forward. However, I want to guide the same way I did for this year and don't expect it to grow as fast as in earlier years. The absolute number is becoming so big that it will look graphically beautiful even if it starts to plateau off, but yes, we are committed to an increasing dividend.

Why was the dividend 260 this year? I think that when we made the proposal to the Board and the Board then confirmed it, we were in a good mood. We see that the future looks promising, we see that our insurance operations are stronger than ever and we believe also that the platform in Nordea will deliver in the coming years. And then, we also put some hope in the new investments in Sampo plc. So all in all, I think it was a day of confidence when we decided on this. But, as stated earlier, don't get too excited.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Reserve releases, the 1.5 that you quote was not a guidance, but rather an observation from some time ago, but with this low inflation, we will see some reserve releases around that number. And the resulting strength that we have today is at the same level as we had at the beginning of last year. So I have no further guidance to give them out.

Q - Jakob Brink {BIO 20303720 <GO>}

Many thanks, both of you.

Operator

We will now take our next question. Please go ahead, caller. Your line is open.

Q - Ida Melvold Gjosund {BIO 19788453 <GO>}

Good afternoon, it's Ida from Carnegie, and I have a few questions please. First the continued negative growth in Finland, I remember from last year that you said, that you expected a more stable development in the Finnish market going forward. Is this still the case? And if not, how do you see the Finnish market developing going forward both in private and in corporate, please?

And secondly, on the Norwegian business, you saw a significant growth in premiums this quarter. I know you have done some product developments and reorganized the sales team in Norway, but could you perhaps elaborate -- update on which products are driving this positive development and in which market? Thanks.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Finnish market, I think I was wrong 18 months ago that, that would be stable in 2017, because at the -- I think we discussed a few months -- a few quarters ago, the beginning of the year we saw some price activity in the market, and that price activity led to a lowered motor rate on average in the Finnish market. We've done well in this environment and we've been patient, we have reacted with our modern distribution channels and we have increased the number of customers at the end of the year and increased market share with continued good profitability.

But there has been some turbulence that's what you're seeing. Then in the Finnish economy of course as you know, we now, at the end of the year, see some growth and some optimism for the future and that has been reflected in the gross written premiums in the fourth quarter, the GDP growth in Finland is helpful.

Norwegian growth comes from several factors. I think the most important one being our investments in digitalization over the past few years, where we see an increased number of customers coming in the web and alliance agreements. Yeah, that's probably it.

Q - Ida Melvold Gjosund {BIO 19788453 <GO>}

Okay, thanks.

Operator

We will now take our next question. Please go ahead, caller. Your line is open.

Q - Thomas Seidl {BIO 17755912 <GO>}

Hello, good afternoon. This is Thomas Seidl from Bernstein. Three questions. First, I come back to the dividend. Kari, you said you were in a good mood. So you increased the payout from the dividends from usually 85%, 90% to -- close to a 100%. My question is now, assuming that the total contribution based on your chart on page 73, next year could be at similar level. So would you consider even going a significant above a 100% payout

based on the dividends you received to get the dividend growing or is basically a 100% ceiling on the dividend?

Secondly, and maybe related to this, can you remind us on Nordea, the renormalization to Finland. Can we expect a special dividend from this exercise from the lower capital requirement? And thirdly, maybe for Torbjorn, I think three, four years ago, you showed us a nice chart showing how underwriting margins and investment margins are sort of correlated. It was three to one relationship and I must say the Nordic markets have executed this to perfection now with investment income as Kari said in selecting should be healthy also underwriting margin now going down because the lower interest -- the higher interest rates are now priced in the P&C?

A - Kari Stadigh {BIO 1504152 <GO>}

Maybe I'll start off with Nordea. I can't of course comment on Nordea's -- for Nordea's management on Board, as a single Board member. But from the owner's perspective, we wouldn't like to see any extra dividends in Nordea. As the main owner of Nordea, I think that we would like to see and prefer a dividend history. And if I recall correctly, Nordea has guided themselves that they would like to increase the dividend gradually every year. So, we support that we don't really believe in these extra dividends. About the payout ratio, 100% or so, I don't think that, that is the main issue. Of course, we would like to receive dividends from our subsidiaries, which we then could pass on to our owners. If there was one year when we would see high volatility or some negative surprises, I don't think that, that would hinder us from continuing building the dividend history. I would turn it around like this. So with a very humble attitude, I think we are very convinced that we are able to increase the dividend also moderately every year going forward. We have ample resources, then because we are strongly capitalized and because we can of course issue hybrids in our subsidiaries if necessary.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

On underwriting margin, let me point out three characteristics of the Nordic markets. First of all, as you pointed out, they are rational. And they have been rational for a period and they are rational. Secondly, they have been even further consolidated with the Tryg acquisition of Forsikring. And thirdly, underwriting margins change slowly and gradually, not overnight. So, it is a bit early to say -- say something about changes to them at the moment.

Q - Thomas Seidl {BIO 17755912 <GO>}

But there is a possibility and there is a debate, I'm seeing a little bit that in the Nordics, you maintain those very high underwriting margins which were in a way the result of low interest rate and now, on top of that, you get rising investment income. So, like the best of two growth.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

I wouldn't like to speculate about this.

FINAL

A - Kari Stadigh {BIO 1504152 <GO>}

Yeah. And then I think that before we start to swim in money here, I think that the interest rates really have to increase a lot. So if -- let's wait and see, if we first get positive interest rates and that there is something to share, then I think that's the first phase and then let's see. You must remember that as a group, we benefit from the rising interest rates, because we are part-owner of a bank, which would then get the deposit margin and also - of course, it would affect our discounting rates. So, it's not only investments that we are talking of here, but we have to see much more movement before it affects this.

Q - Thomas Seidl {BIO 17755912 <GO>}

All right, Thanks very much.

Operator

We will now take our next question. Please go ahead, caller. Your line is open.

Q - Wajahat Rizvi {BIO 19928187 <GO>}

Hi, Wajahat Rizvi from Deutsche Bank. I have two quick questions for you. Firstly, can you please help me understand the movement in excess capital in -- on the S&P basis. I've noticed that the buffer now is only EUR300 million this year versus EUR600 million at the end of 2016. And does this have any implication for future remittances from If?

And secondly, can you please talk about the changes you have made to the no claims bonus discount structure in Norway. We have heard from other -- some of your competitors that, that may actually increase frequency of smaller claims in that market? Thank you very much.

A - Kari Stadigh {BIO 1504152 <GO>}

On the S&P model, the simple fact that the buffer shrink came down in December is that we took the dividend from If.

Q - Wajahat Rizvi {BIO 19928187 <GO>}

But -- so the dividend from If are broadly equal to like the profit after tax from the business. I was just wondering why the buffer has reduced year-on-year from 2016?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

It's still the dividend, we took a higher dividend from If.

Q - Wajahat Rizvi {BIO 19928187 <GO>}

Okay. And do you think this lower buffer, will have any implication for future remittances from If?

A - Kari Stadigh {BIO 1504152 <GO>}

Bloomberg Transcript

No, we could actually grow the dividend more.

Q - Wajahat Rizvi {BIO 19928187 <GO>}

Thank you.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

The no claims bonus change, I am a bit surprised at hearing comments about that, it's been changed by many companies in the market and has been changed this autumn. So it doesn't have any big effect at all at this point in time and it will not have any big effects going forward either.

Q - Wajahat Rizvi {BIO 19928187 <GO>}

Okay. Thank you.

Operator

We'll now take the next question. Please go ahead, caller. Your line is open.

Q - Matti Ahokas {BIO 2037723 <GO>}

Yes, it's Matti Ahokas here from Danske. Question on the partial internal model of If, now you're reporting again the figure, which I think is very nice, thank you for that. The figure is extremely high at 297, what would be a kind of good level or target level for this figure in your opinion. And the other question is regarding the investment income in If, would you say that the Q4 investment income was kind of a normalized investment income quarter in your opinion? Thanks.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

This is Jarmo, if I may start, the 297 is an error, it should 257. So, sorry to disappoint you.

Q - Matti Ahokas {BIO 2037723 <GO>}

Still very high if they are a target.

A - Jarmo Salonen {BIO 1860650 <GO>}

Yeah, it's still very high, agreed, yes.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

And let me -- yeah, the model including Finland approval before we start thanking about what is going to look like later.

A - Kari Stadigh {BIO 1504152 <GO>}

The investment income, I think, is quite ordinary in Q4. You must also count -- take into account that now the running yield is as low as it probably will get, we are at 1.5% in If. So

it's significantly lower when we started last year.

Q - Matti Ahokas {BIO 2037723 <GO>}

So, if I may come back on the internal model. So the 257 is -- assuming that the Finnish business is included in the internal model or would this figure change with the approval.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

We haven't got it approved, so we cannot say whether it will change or not.

Q - Matti Ahokas {BIO 2037723 <GO>}

What's your -- any gut feeling on that?

A - Kari Stadigh {BIO 1504152 <GO>}

Are you fishing today?

Q - Matti Ahokas {BIO 2037723 <GO>}

You know me. Thanks a lot.

Operator

We will now take the next question. Please go ahead, caller. Your line is open.

Q - Unidentified Participant

Hi there. Tough questions, please. Firstly, just wanted to touch on Topdanmark and obviously your holding there. You've kind of alluded before to the fact that you think the share price is perhaps over valued to Topdanmark. Is there a point in which it becomes so overvalued that you maybe --

you want to move out on that position? And/or what are your future plans for that business? And then the second question was just looking at, if -- and the fact that you -- we had I think record combined ratio certainly in Q4 for the whole year. And are we reaching a point where the combined ratio can't get better or is there still scope to improve that going forward? Are we kind of looking at operating earnings just coming from investment income in If going forward? Thanks.

A - Kari Stadigh {BIO 1504152 <GO>}

Our Topdanmark shareholding, maybe I take that one. We are now the main shareholder of Topdanmark and that means also that we are responsible for the company and we have allocated our top resources to the Board. We have no plans to dispose off that holding, we are a long-term owner and it's our core business. I don't want to speculate at which level we would be a buyer and increase our shareholding. At the moment, and lately, we have not been buying any shares. So that's an indication that at these levels, we are not a buyer.

FINAL

Bloomberg Transcript

A - Torbjorn Magnusson {BIO 1863476 <GO>}

I will always strive to improve the combined ratio is the simple answer. But of course, last year, it was a good year when it came to natural events. It was -- it was a very good winter that was a -- it was a very good winter, that was helpful, the lack of winter. And we had decent prior games to help the -- and combined ratio.

A - Kari Stadigh {BIO 1504152 <GO>}

I think, it was at the turbulence, so that already last year we said that we are quite defensive. We are -- given that there could be adverse winters, there could be things like that, that we enjoyed a good environment also last year.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

That's true, we said that already last year and that's what's repeating of course.

Q - Unidentified Participant

Thanks.

Operator

We will take our next question. Please go ahead, caller. Your line is open.

Q - Michael Huttner {BIO 1556863 <GO>}

Hello, it's Michael Huttner from J.P. Morgan. I had three questions, one is on interest rate sensitivities and you said it's very positive that -- and you mentioned several factors. I just wondered whether you can walk us in detail through the profit and loss accounts kind of sensitivity over the next two or three years, year-by-year, that'd be very -- hugely helpful?

And then you said the -- you benefited from mild weather in 2017, I just wonder if you can put a figure to that. What would be the normal weather cost selective to last year with it? And the final question is on Nordea. My colleague here is not as convinced as your outlook on Nordea is about to improve. And specifically, since you said, Nordea needs to invest a lot, which basically would mean lower dividends for a while. Is that what you alluded to when you said you'd be ready to grow your dividend, even if not all your subsidiaries were contributing every year? Thank you.

A - Kari Stadigh {BIO 1504152 <GO>}

I have -- maybe I'll start off with the Nordea one. I have no reason to believe that the Nordea cannot live up to its guidance, and the guidance is that Nordea will increase its dividend.

Q - Michael Huttner {BIO 1556863 <GO>}

Okay. Thank you.

FINAL

A - Torbjorn Magnusson {BIO 1863476 <GO>}

I'll try to answer the two questions without maybe going through P&L accounts over the phone. But 2017 was not an eventful year in the markets. We have roughly the same players that as we had at the beginning of the year. No newcomers, no disruptive technology, so what we're looking at going forward is low claims inflation we've had in the past few years. That's what we're seeing at the moment. We have low rate increases matching that. We have, as I mentioned earlier, the same reserving strength and no meaningful changes then to competition, and then we had a year of good weather and a little bit more large losses than expected last year. So that I think we'll have to prove enough as a guidance.

Q - Michael Huttner {BIO 1556863 <GO>}

(Multiple Speakers) You don't have a figure for what would be a normal bad weather or good weather?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Sorry?

Q - Michael Huttner {BIO 1556863 <GO>}

You don't have a figure -- would you have a figure of what would be a normal winter or normal kind of year for weather events?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

I think its helpful to give just that when there are so many things that vary overtime in non-life insurance.

A - Kari Stadigh {BIO 1504152 <GO>}

I think also culturally, when I tried to hear what Torbjorn is saying, he is in a way repeating our old message that we focus on a low -- standard deviation in our combined ratio. We value low volatility in our performance.

Q - Michael Huttner {BIO 1556863 <GO>}

I understand. Thank you. And in interest rates?

A - Kari Stadigh {BIO 1504152 <GO>}

Sorry?

Q - Michael Huttner {BIO 1556863 <GO>}

Interest rates, you alluded that there were lots of, you are very perfect, you have shorter duration, these are wonderful things, and I just wondered whether you can break it down in terms of your numbers?

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FINAL

A - Kari Stadigh {BIO 1504152 <GO>}

I think it's up to you to convert it to numbers, because if you think of other -- the interest rates, we have interests, we are discounted with interest rates that are the same as our competitors in most countries. In Finland, we have an interest rate that we have decided by ourselves and that's 1.2%, right? So that is -- those are the numbers that change and you have to assume then what would -- how would common increased rate change. For us to release something from the 1.2, that would require a big change in interest rates, but the fluctuating interest rates, they move with the market. Then the second point is our running yield, you know our duration and you know our running yield. So, then it's a question when can we deploy the cash and at what rate. So it's, again, I think you are called to calculate. And in Nordea --

Q - Michael Huttner {BIO 1556863 <GO>}

I didn't know that you published the money yield, I beg your pardon, where do I find it? Not the money yield, the duration of the assets.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Supplementary package.

A - Kari Stadigh {BIO 1504152 <GO>}

Yeah, we've --

Q - Michael Huttner {BIO 1556863 <GO>}

Thank you.

A - Kari Stadigh {BIO 1504152 <GO>}

We've published, very, very detailed information on that. And then the third thing which affects interest rates is the deposit margin in Nordea. And I haven't now lately seen what they publish, but earlier they used to say it's --

A - Torbjorn Magnusson {BIO 1863476 <GO>}

EUR700 million to EUR800 million -- 100 basis points.

A - Kari Stadigh {BIO 1504152 <GO>}

Yeah. So, a 100 basis points creates 700 million to 800 million on the bottom line in deposit margin for Nordea and our ownership part is 21%. So, I think here you have the parameters where you can -- and then we also give some sensitivity tables in the -- in the package.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

And that's also in the supplementary package.

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FINAL

Q - Michael Huttner {BIO 1556863 <GO>}

Just may I ask, because I am not satisfied with you. What's the discount rate in -- used in Sweden?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Sweden is negative.

A - Kari Stadigh {BIO 1504152 <GO>}

Minus 0.13, yes. And in Finland --

Q - Michael Huttner {BIO 1556863 <GO>}

Thank you so much.

A - Kari Stadigh {BIO 1504152 <GO>}

Minus 1.2.

Q - Michael Huttner {BIO 1556863 <GO>}

Lovely. Thanks so much for your answers. Thank you.

Operator

We'll now take the next question. Please go ahead, caller. Your line is open.

Q - Per Gronborg {BIO 15910340 <GO>}

Yes, it's Per Gronborg from SCB. A couple of questions from my side. First of all, a bit of early to a previous question on -- if you look at the top line, very strong performance in Sweden, quite a softer performance in Finland. You addressed Finland and stated that the written premium in Q4 had been recurring. When I look at the written premium on your referred numbers is still down to 5.5% Q-o-Q in Q4. So, a few comments on those two markets would be nice.

Second question is related to Mandatum. Just to get an understanding, if I look at your book return on your new available for sale bonds has now been negative for the last three quarters in row. You have a running yield between 2.4% and 2.8%. What is that is pushing the book return down to this extent?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

In Sweden, one of the factors that -- actually two of the things that help us is, first of all, we have modernized, the distribution quite a bit. Also in commercial lines, so we're gaining customers also in commercial lines. But then, we have a very strong position with the car industry and the car dealers, and Swedes are buying cars like never before. So that helps our top line. And in Finland, you are quite right. The -- as I mentioned, the average motor premium, motor rate has come down, and that is visible in our premium numbers. But

we're gaining customers, we're gaining market share and we're coming from an exceptionally low combined ratio, so we are still very profitable and we will be able to balance the changing rates with other products -- other countries just as we usually do.

A - Kari Stadigh {BIO 1504152 <GO>}

I can't answer you on the Mandatum number. So let's do so that Jarmo will talk to our investment professionals and they will come back to you, Per.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Okay, perfect. Thank you.

Operator

We'll now take the next question. Please go ahead, caller. Your line is open.

Q - Blair Stewart {BIO 4191309 <GO>}

Hey, good afternoon. It's Blair Stewart here from Bank of America. I have only got a couple left. The -- I noticed through the AGM, you've got an approval to repurchase, I think it's 9% of the shares. Is that just the ordinary approval that you normally get but seldom use or do you have firm plans to actually execute that buyback in the coming 12 to 18 months? Secondly, just on the proceeds from the life disposal later this year, and I just wonder if you could share some updated thoughts on how you might use those proceeds? And finally, just on the investment yields, et cetera, just over the last quarter or so, there has been a bit of volatility in markets. Kari, have you found anything interesting on the investment side that's interested to you enough to actually invest? Thank you.

A - Kari Stadigh {BIO 1504152 <GO>}

On the investment side, I think that the volatility peak was so short that we have time to do something minuscule, but nothing, which will change the needle. On the life proceeds, there is nothing in the pipeline, but of course Mandatum has the ability to deploy the capital, if they find some interesting M&A. If not they will repatriate the money either immediately or over time to the parent. The buybacks is completely unordinary. We have no plans at this moment to use it. However, it's worth noting that the number of shares in some points now different, it's 555 million roughly share. So we redeemed the paper shares that where we didn't find deal in there. So most of you have already noted that we have a new number of shares.

Q - Blair Stewart {BIO 4191309 <GO>}

That's great. Thank you.

Operator

We'll now take the next question. Please go ahead, caller. Your line is open.

FINAL

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Q - Unidentified Participant

Good afternoon, everyone. I've got two questions, please. Firstly on premiums, I mean, premiums grew by close to 2% after two years of almost flat premium. Can you just tell us how this splits between volume and pricing and whether you think the 2% is the run rate going forward? And secondly, just on the claims trends, I mean across the portfolio, can you still price in line with claims inflation? Thank you.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Yes, we price in line with claims inflation. And the increase of 1.8% -- no, since the rate increases are so small, it's a portion of this, but only a small portion.

Q - Unidentified Participant

Okay, cool. And can I can ask one more question just on the running yield. Because I think you mentioned that it's declined to 1.5% now on the fixed income portfolio, is that the level which is sustainable going forward or should it continue to decline slightly?

A - Kari Stadigh {BIO 1504152 <GO>}

It's difficult to say, it depends on when the interest rates will go up or the yield curve movements and what kind of opportunities there are. So it's difficult to say. We are certainly close to the bottom, but whether this is a situation where we have to bridge the pain with further decline in that, I don't really know, close to the bottom I think we are at least.

Q - Unidentified Participant

Okay, cool, understood. Thank you very much.

Operator

We'll now take the next question. Please go ahead, caller. Your line is open.

Q - Steven Haywood {BIO 15743259 <GO>}

Hello. Steven Haywood from HSBC. Two questions please. The Mandatum Life portfolio that's being sold to Danske. Could you tell us, or could you retell us, what the gain is that you'll seeing on this, the gain that actually comes through the income statement? And my second question on the M&A side of things. In terms of Nordic normalized markets, now about Tryg has acquired Alka, do you think there is any more opportunities in any of the Nordic markets for further acquisitions, further deals to be done by yourself or by any other competitors? Thank you.

A - Kari Stadigh {BIO 1504152 <GO>}

I think that the mega trend or further consolidation is always there. So the main players clearly have an appetite to consolidate further, whether there are opportunities or not, I can't really tell you. The situation is of course such that as we are very strongly capitalized and we are known to be quick decision makers, everything that moves in the Nordics is

shown to us. So for our owners, we are a proxy to that -- the Nordic M&A market within the financial sector. It's not possible to predictive of anything of the pipeline at the moment. The Danske capital gain, Peter --

A - Peter Johansson {BIO 3902189 <GO>}

About EUR320 million and then deduct -- yeah EUR334. And then we deduct a technical EUR80 million of last year, and then on depending on when the deal is closed this year, another EUR80 million.

A - Kari Stadigh {BIO 1504152 <GO>}

So 334 minus 36 is of (Multiple Speakers)

A - Peter Johansson {BIO 3902189 <GO>}

Yeah. If that would be the year-end closing, Yeah.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay. And that go through the P&L.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Yes. And it will be taxed.

Q - Steven Haywood {BIO 15743259 <GO>}

Of course. Okay. Thank you very much.

Operator

(Operator Instructions) We will now take the next question. Please go ahead. Your line is open.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes, good afternoon. This is Vinit from Mediobanca. So several questions have been answered, but just can I still clarify a few things please. One is on the equity markets, I mean your equity exposure in If and also Mandatum is quite high, and obviously, it's a good thing in rising markets, but is there any intention to hedge it, moderate it? And the reason I ask is that in fourth quarter, we saw fairly material right down in return I understand, but just trying to understand how you look at equity market risk in your balance sheet. And second question is, just on the Mandatum internal dividend, I remember the old days when you used to have 100 million in two years, and already between March to March, it will be 425 or so. I know there is a one-off into September. But is there something in Mandatum that we should think, continues to see a progressively higher internal dividend in the future as well? Thank you.

A - Kari Stadigh {BIO 1504152 <GO>}

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Well, I think that the -- it's likely that we can maintain the dividend at these levels or potentially even increase it. And why is that the case? Well the main reason is of course that we have discounted the -- this year and the next two ones, three years in a row at 0.25. So given a moderate investment income that creates value. And then as you saw from our results, the risk and cost result -- expense result, they are at all-time high 66 million -- 68 million together. And a part of that is of course lost with the Danske portfolio, but that's still a strong result.

And then as to third point, you all remember that our -- with profit portfolio is decreasing by roughly 200 million a year which releases also 50 million. So I think that dividend on these level or slightly above this level is a good prediction on how it will go. On our equity appetite, I think that we have two different animals here, one is If, where the rating is determining the appetite for risk. And yes, we are strongly reserved at this moment, our rating numbers are very strong, but I think that we maintain this level of equity risk in If. In Mandatum, I would say that this is a full equity risk, we don't foresee that we would increase the equity risk. U.S. equities seem to be higher valued than Europeans. So our expectation is to maintain as long as we see this interest rate forecast, at the present levels we would maintain our European equity levels at the present. We did a sale off in December, so we --

over a EUR150 million. That maybe shows that we are -- the exposure is where we want it to be now.

Q - Vinit Malhotra {BIO 16184491 <GO>}

And this impairment you took in fourth quarter, was it sort of a discretionary thing or you just had to take this (Multiple Speakers)

A - Kari Stadigh {BIO 1504152 <GO>}

It was one single equity, that where we did an impairment of 20 million, one single named.

Q - Vinit Malhotra {BIO 16184491 <GO>}

All right. Thank you very much.

Operator

We'll now take our next question. Please go ahead caller, your line is open.

Q - Unidentified Participant

Hello, good afternoon. My couple of follow-ups for Torbjorn on my side. In Finland is the legal case with Pohjola still unresolved? And I guess you (inaudible) reason on user? And in Norway, you said there are impact of the claims bonus, change has no big effects. Is that through more for you, the big players and maybe a bit less true for the smaller player for which is the new system is more difficult and therefore maybe should help avoiding further losses of market share of the bigger players in the market over time? And then a

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question for Kari. You -- we saw the Saxo Bank deal, I think it was Q3 if I remember correctly. And then September, you mentioned that those type of things you'd be spending a little bit more time on as way to -- as ways to deploy your capital flexibility. Is that still the case, are you still spending some time on those type -- or looking at least those type of transactions and even if maybe not executing depending on price?

A - Kari Stadigh {BIO 1504152 <GO>}

Maybe I'll start then we Saxo and those. I think that we have -- we have now deployed 500 million in the parent. And I think that we have an appetite to deploy up to 1 billion. So yes, we are still looking for investment opportunities in the Nordic financial arena. And then, your second question before Torbjorn answers about the legal case, I just want to use the right wording, we have no legal case. So, we have just ask the competitive, competition authorities, whether a colleague of ours has a dominant market share? That's question one. Then we have asked a second question, if they have a dominant market share, are they misusing it? So we have just put forward two questions to the authorities. We are part of no legal case in that sense, or a legal dispute.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

That bigger case is still open as you point out. And then on Norway, I think this -- as I hinted at, this change in the terms is receiving too far too much attention. We change the terms and conditions regularly, so do our competitors whether this is important to small or big competitors? Yes, it is possible that is more difficult for small competitors to change their IT systems, if they are a bit more rudimentary than ours. There are many ways you can change both terms and prices. So, from my side, I wouldn't pay too much attention to this change.

Q - Unidentified Participant

Very clear. Thanks very much.

Operator

There are no further questions from the phone. (Operator Instructions). As there are no further questions, I will now turn the call back to your host for any additional or closing remarks.

A - Jarmo Salonen {BIO 1860650 <GO>}

Thank you, operator. And thank you all for your attention. Have a great evening. Thanks.

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