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SAMPO.HE - Q1 2026 Sampo Oyj Earnings Call

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PRESENTATION

Mirko Hurmerinta - *Sampo Oyj - Investor Relations Manager*

Good morning everyone and welcome to Sampo Group's conference call on first quarter '26 results. My name is Mirko Hurmerinta, and I am the Interim Head of Investor Relations at Sampo. I'm joined on the call today by Group CEO, Morten Thorsrud; and Group CFO, Lars Kufall Beck.

The call will include a short presentation by Morten and Lars, followed by Q&A. A recording of the call will later be available at sampo.com.

With that, I hand over to you, Morten. Please go ahead.

Morten Thorsrud - *Sampo Oyj - Chief Executive Officer of If P&C Insurance Holding Ltd, Member of the Group Executive Committee*

Thanks, Mirko, and very good morning, and welcome to the Sampo Q1 conference call on my behalf as well. Sampo had an excellent start to 2026 with continued strong operational momentum in all our segments, both in the Nordics as well as in the U.K. We deliver a strong underwriting result, supported both by cost ratio improvements and favorable underlying risk ratio development.

Our balance sheet remains robust in a somewhat volatile financial market, and we are increasing our full year guidance for the underwriting result as well as launching a new EUR350 million buyback program. But starting with the top line. Our insurance revenue increased with 8%, fueled by excellent GDP growth over the last 12 months.

Reported GDP for Q1 isolated is a bit softer, however, largely affected by a mix of different factors, which I will cover more in detail shortly. Whilst the underlying trends continue to be highly supportive. On the claims side, the Nordics saw a entry start of the year, followed by an early spring and markedly more benign conditions towards end of the quarter.

This led to weather claims outcome being more favorable than we had anticipated at the beginning of the year. Driven by robust operational momentum, favorable claims experienced and continued positive underlying development.

Our underwriting results increased by 9% on a like-for-like basis. Our operating EPS strengthened by 19%. This was driven by higher underwriting results, but also supported by certain technical factors related to currency hedging. Over time, you should expect an operating EPS that is more in line with the underwriting result growth.

I also would like to highlight the resilience of our balance sheet amid elevated market volatility, which Lars will elaborate on later in this call. On top of this, I would like to emphasize our resource strength where our prudent approach allows us to expect that we could cover the negative effects from the Danish worker comp case within our existing reserves.

Following the favorable start of the year, we have raised our financial outlook for 2026. And at the same time, enabled by our strong balance sheet, we have announced a new EUR350 million buyback program. Let's take a closer look then at our different segments.

Starting with the largest business area, Private Nordic, we saw a continued strong top line growth of 6%, supported by positive development in all countries and product lines. Norway continued to stand out with 13% growth, largely driven by rate increases. We also saw strong development in Finland driven by increasing customer count and new sales growth.

In Sweden, the soft new car sales continue to be a drag on our white label motor insurance. However, our if branded motor portfolio continued to develop well, and we saw 10% growth in the quarter. In the U.K., the motor insurance market saw a modest increase in prices during the quarter.

However, overall, the market remained competitive, but rational. We continue to find pockets of growth, which translated to 3% policy growth over the quarter and helped to offset the effect from lower average premiums.

I would say that the market in the U.K. is still in a wait and see mode, and our focus remains on underwriting discipline and securing the portfolio quality which has translated into our stable and strong margins during this somewhat softer part of the pricing cycle. Moving to corporate business lines, where the competition landscape is a bit more mixed.

The SME portfolio, which represents the majority of Nordic commercial continued to see good top line growth of 4% fell in line with Q1 last year, and supported by digital sales and increase in the number of customers. On the large corporate side, on the other hand, the market environment is more price sensitive.

This affected Nordic Industrial as well as the upper part of Nordic Commercial, where we did lose a few larger clients. However, both corporate segments reported strong underlying margins, and we saw another quarter of favorable large claim outcome, partly supported by the de-risking actions that we've done to reduce the large property exposure.

Here, we also benefited from lower reinsurance prices at the first or first reinsurance renewal. Moving to top Denmark and the integration. After faster-than-expected synergy realization in 2025, we have now updated the phasing of the top 10 denoric synergies.

We have almost doubled the expected outcome for 2026 and now expected to achieve a run rate of EUR105 million for this year and correspondingly EUR125 million in 2027. We remain firmly committed to reaching at least the EUR140 million target by end of 2028.

Going forward after 2026, we expect synergy realization pace to be more stable as we shift from more corporate center synergies towards more operational benefits. Before letting Lars dive into the financial results and the balance sheet, let me make some few remarks on the inflationary risks related to higher oil prices caused by the disruptions in the rate of Homes.

Firstly, our operational exposure to the Persian Gulf region is, of course, very limited and zero exposure to Iran. In the Nordics, claims inflation continued to come down over the last 12 months, but is still a bit elevated in some countries and with notable variations between the countries. In particular, Norway continued to see higher claims inflation.

We naturally carefully monitor any potential uptick in claims inflation and remain disciplined in pricing. In the short term, inflation and risk from this situation primarily affect motor insurance through higher freight costs for spare parts. The property sector, on the other hand, is more labor-intensive and less affected short term.

Our scale and diversified profile with long-term agreements with suppliers, repair shops and other partners help us control costs and to take early actions on the pricing side when ever needed. In the U.K., the inflation risk is somewhat higher, both as a result of our business mix as well as a result of larger exposure to total losses and bodily injury losses. Consequently, our pricing in the U.K. already factor in an expected uptick in inflation.

So with that, over to Lars.

Lars Kufall Beck - *Sampo Oyj - Chief Financial Officer*

Thank you so much, Morten. And talking about our investment returns. As you know, the first quarter was very volatile in the capital markets. And it was actually somewhat unfortunate that uncertainty peaked right at quarter end. Of course, our investment portfolio is not immune to market volatility.

And in particular, the flattening of the yield curve where the short end increased more than the longer end, impacted our results negatively. However, if you take a closer look at the drivers behind the investment returns, you will see that our negative investment income was primarily driven by our legacy assets, NOBA and Nexi.

Excluding these, our investment return was broadly flat in a quarter of significant uncertainty and volatility. Meanwhile, our portfolio continued to provide a stable interest and dividend income. And thanks to our relatively short duration on the fixed income side, we are now able to benefit from the increase in interest rates by reinvesting at higher rates.

Turning to our balance sheet. I'm very, very pleased that amid all of this volatility, our solvency remained robust, underscoring the strength and resilience of our balance sheet with low sensitivity to various market shocks. Excluding NOBA, which had a net positive impact on solvency, market movements had only 4 percentage points negative effect on our solvency for the quarter, more than offset by the continued strong operational performance.

In late March, we received the approval from the Swedish FSA to extend the partial internal model to cover our Danish operations that formerly were under top Denmark. This had around a 6 percentage points positive effect on solvency in Q1. And yes, including our U.K. operations is the next phase from an internal model point of view, but that will be a long project as it means extending the model into a new market.

It does require more data, use case experience, et cetera, et cetera. Our strong solvency and balance sheet, of course, allows us to continue delivering attractive capital returns. As you can see, there's two accrual bars in the chart. The first one is the regular distribution accrual.

And starting from Q1 this year, we are deducting a full 90% of our quarterly operating results as distribution accrual following the update of our distribution policy. This reflects the commitment to return to around 90% of our operating results through regular dividend and buybacks to shareholders in a typical year.

The second bar is the new buyback program, EUR350 million that we announced today. Of this, EUR250 million -- approximately EUR250 million is based on the 2025 operating result, and EUR100 million on the proceeds from the NOBA (inaudible) we did in February.

With the latter, we have now delivered half of the up to EUR500 million communicated at last CMD in terms of distribution from legacy assets. And we are, of course, committed to remain committed to deliver the other half, but timing, of course, depends on the NOBA sell-down process. Then finally, before I hand back to Morten, some words on the Danish Supreme Court ruling on workers' compensation last week.

I'm sure that you're all well aware of the ruling by now, so I will not recap the background of the case. Firstly, this is, of course, an adverse outcome, not only for the Danish insurance industry, but also for the state and municipalities in Denmark, which are self-insured.

Sample, in line with the industry expects the state of Denmark to take responsibility for the retrospective financial consequences. Regarding the impact on -- potential impact on sample. Disciplined risk management is in our DNA. And this applies also, of course, to our reserving practices.

For many years, a significant part of our research for Danish workers' comp has been allocated to what we call our ENID reserve, which stands for events-not-in-data to cover for exactly this type of risk and exposure. We have established a number of scenarios for the impact of the ruling and continue to analyze it.

Our current best estimate based on our conservative assumptions is that the potential impact on Sampo is expected to be covered within our existing reserves. And hence, we do not need to book an additional provision for this, meaning the effect on net profit and solvency is naturally expected to be limited and our financial outlook, which was raised today, remains unaffected from the ruling as well.

So with that, I hand back to you, Morten.

Morten Thorsrud - Sampo Oyj - Chief Executive Officer of If P&C Insurance Holding Ltd, Member of the Group Executive Committee

Thank you, Lars. As mentioned, after an excellent start of the year, we have raised our financial outlook for 2026. We now expect 6% to 8% insurance revenue growth with an updated range from EUR9.6 million to EUR9.8 billion and a 3% to 9% underwriting result growth with an updated range of EUR1,525 million to EUR1,625 million.

The increase in underwriting result outlook is mainly attributable to better-than-expected weather and large claims outcome in the first quarter. To sum up, our performance in the first quarter provided a solid foundation for attractive value creation for 2026, which is also the last year of our current strategic period. Therefore, we have now circled November 17 in the calendar for our investor update.

And I look forward to updating investors and analysts on our financial and operational ambitions for the next strategic period.

Mirko Hurmerinta - Sampo Oyj - Investor Relations Manager

Thank you, Morten and Lars. Operator, we are now ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Vash Gosalia, Goldman Sach.

Vas Gosalua, your line is now unmuted. Please go ahead.

Mirko Hurmerinta - Sampo Oyj - Investor Relations Manager

Next question and get back to us in a moment.

Operator

Youdish Chiccoree, Autonomous Research.

Youdish Chiccoree - *Autonomous Research - Analyst*

Good morning, everyone. Thank you for taking my question. My first question is on the top line development in the Nordic segments. Obviously, in private, the growth is still solid even it's lower than last year. But in commercial, there has been quite a big step down and you mentioned the loss of a few large clients. I was wondering if you could comment on the on the competitive environment, who are the competitors?

And what is the outlook for this segment? That's my first question. Secondly, on the U.K. market, you described the pricing environment rational in Q1. But to my mind, rational pricing would have been price increases that much inflation at least, so 5% more. So can you elaborate exactly what -- why would you say the market is rational currently. And again, if you could just tell us a bit about what are your expectations for the coming quarters. Thank you.

Morten Thorsrud - *Sampo Oyj - Chief Executive Officer of If P&C Insurance Holding Ltd, Member of the Group Executive Committee*

Yeah, good. I'll try to answer these two questions. First, on top line in the Nordics. Yes, we continue to have a really excellent performance in the private segment, 6% growth, 7% if include exclude the headwind that we still have from the white label motor insurance in Sweden. On the SME side, also good development, 4%, roughly in line with what we saw last year, maybe a 5%.

And then we did see some loss of larger customers in the upper commercial and industrial. This is, as I would say, sort of just normal volatility. I mean sometimes you win a few large customers, sometimes you lose a few large customers. On the large corporate side, some of these losses are more on a gross level than net.

So we actually have a much better net written premium development than gross written premium development in the industrial segment. And then sure also bear in mind when looking at reported gross written premium that this reflects in a way, renewal patterns.

And a very large part of the industrial book is being reviewed in the first quarter, very large part of the commercial book, in particular, upper commercial book is renewed in the first quarter, which means that you kind of technic a little bit of a drag in the beginning of the year, whilst the areas where we see strong growth, private SME is more renewing throughout the year.

So there are also some effects like this that makes Q1 a little bit soft on the outset. To the U.K. market, yes, it's rational, and that includes also slight price increases. I think as I said in my introduction, it's probably too early to say that it has changed totally.

But we definitely see slight price increases and Hastings is also now gradually including more pricing for inflation and is able to get that through in the market. So positive -- slight positive development, I will say, on that front.

Youdish Chiccoree - *Autonomous Research - Analyst*

All right. Thank you.

Operator

Hans Rettedal Christiansen, Danske Markets.

Hans Rettedal Christiansen - *Danske Markets Equities - Equity Analyst*

Good morning, and thanks for taking my question. Just firstly, on the sort of better the very good results this quarter on weather. Could you just explain, is there sort of frequencies that are more favorable? Or is it the claims mix that has been kind of better than budget for the quarter?

And then secondly, on your premium growth in the Private Nordics segment, I guess, it's still at a very high level, but trying to understand the step down on perhaps private property and also older from the previous quarter and from 2025 and sort of how we should think about that developing here going forward?

And just relating to that question, you had a very interesting chart on Page 11, I think, in the presentation where you're showing the average motor repair costs across the countries. So I was just wondering if you could kind of touch upon that one against the sort of pricing as well on the private Nordics segment?

Morten Thorsrud - *Sampo Oyj - Chief Executive Officer of If P&C Insurance Holding Ltd, Member of the Group Executive Committee*

Yeah. I'll see if I managed to answer these ones as well. When it comes to weather, I guess, it was a little bit surprising. I mean, given how hard the winter was and definitely felt in January and February. It was a very cold winter in the Nordics, but it was also a very stable winter.

And typically, is more when you have large variations in weather that you see an uptake in claims frequency. So what we've seen is that the frequencies are more benign than what we expect in a, say, a normal winter. And then also the winter came almost overnight, and it also disappeared almost overnight. So March was a very benign month from a weather perspective.

Then, of course, on top of this, also a positive large claim outcome. That is, of course, also driving a favorable underwriting result development. On the Private Nordic growth, yes, we continue to see good growth momentum. And as I said, 6%, 7%, excluding the white label insurance in Sweden. And that part, of course, is what's driving down also the growth in motor overall a little bit.

And then I think looking at growth on property and motor on a quarterly basis, it can always be a little bit of volatility. Then, of course, price increases in motor has clearly been more elevated than price increases in property, partially because you have a repair cost of repairing new cars being higher than sort of the somewhat older cars.

So there is more inflation elements, I would say, into the motor market and in the property market. And then repair cost and inflation country, the country that really stick out there, I guess, is Norway, where inflation has been clearly elevated over the last few years, even.

Of course, underlying inflation in Norway is higher than the other Nordic countries. Wage increases in Norway is higher than in the other Nordic countries. But then also the share of new electric vehicles are higher in Norway than in other countries. And again, this technology development, the cars makes it more expensive for us to repair cars.

And again, is increasing the underlying inflation in a way, in the motor market. So there's perhaps some comments on the repair cost or sort of rather inflation in the different clonic markets.

Hans Rettedal Christiansen - *Danske Markets Equities - Equity Analyst*

And just as a follow-up, could you perhaps say what the Y axis on that chart is? To get an understanding of what the sort of inflation is that you're expecting for 2026?

Morten Thorsrud - Sampo Oyj - Chief Executive Officer of If P&C Insurance Holding Ltd, Member of the Group Executive Committee

That's just inflation in percentages, and we kind of got carefully sort of not disclosing the exact percentages. I think it's something that we look upon as information we would like to keep for ourselves and not share with our competitors in particular.

Hans Rittedal Christiansen - Danske Markets Equities - Equity Analyst

Got it.

Morten Thorsrud - Sampo Oyj - Chief Executive Officer of If P&C Insurance Holding Ltd, Member of the Group Executive Committee

-- estimate of the information in the different countries.

Hans Rittedal Christiansen - Danske Markets Equities - Equity Analyst

Yeah. Thank you very much for the answers.

Operator

Vinit Malhotra, Mediobanca.

Vinit Malhotra - Mediobanca - Analyst

Yes, good morning. Thank you. So my two -- or maybe two and a half questions, let's say is, firstly, on the weather, encouraging comments you made about frequency and how the weather was not so bad eventually. I'm just wondering if given -- I mean, sometimes weather also affects frequencies, as you mentioned, should the underlying loss ratio not have been a bit stronger than because -- or was there something else and we noted the 20 basis points year-on-year improvement in the underlying constating just curious if there was something else that you think is worth flagging?

My second question is on the top Denmark synergies and you mentioned, please correct me if I'm wrong, but I think you -- I haven't heard that at least in the 140 million. This faster run rate should investors get more excited about the ultimate level of these synergies as well and what could drive that? And lastly, my quick follow-up on just a question just now on Slide 11.

The 40 basis points, that's a very interesting number. Thank you for that. Could you just say what is the assumptions about the actual conflate or is it big demand or I don't know, I don't want to put a number. What's the duration you're expecting for the contract that will lead to 40 basis points? Is it based on the data from the Ukraine last time? It's a little bit more on that 40 basis points and the underlying thought would be magic. Thank you.

Morten Thorsrud - Sampo Oyj - Chief Executive Officer of If P&C Insurance Holding Ltd, Member of the Group Executive Committee

Yeah. When it comes to weather and the 20 basis points underlying improvement, we do our best in really assessing the weather effects, large claims effects and factor that in when we calculate the underlying improvement in the risk ratio. You might remember in Q1 last year, we even said that where there was clearly more favorable than the normal winter and therefore, sort of adjusted for that.

So the weather development is already, in a way, taken care of when we have the estimate of 20 basis points. So that's our kind of best estimate of the real underlying improvement in the risk ratio. Top 10 market synergies. Yes, we are realizing the synergies quite a bit faster than anticipated. Would you bear in mind this is run rate synergies.

So there's sort of not yet sort of materializing fully in the P&L, but this is sort of the run rate synergies that we have achieved so far. And when we set the target and in this case of EUR140 million, of course, we want to reach at least that target. We have not done any new bottom-up estimate of the synergies.

So we still have the EUR140 million as a target, and of course, are really firm on delivering at least that. On the inflation assumption related to the current situation in the Persian Gulf, this is, of course, extremely difficult to estimate, and it's a moving target. It's kind of almost changes on a daily basis. What is important for us to communicate is that we are able, of course, to price for this.

We are always looking ahead and pricing for inflation. And it's also quite likely that this will creep in quite gradually into our business. Since we do have long contracts with suppliers, body shops and so forth, and also in particular, in the Nordic region, salary processes is a yearly process. So we have a lot of visibility, of course, on the salary part of inflation also for the next year.

And again, 40 basis points is the best estimate so far. We are, of course, pricing ahead of this in our motor pricing and it's mainly coming from increased cost of spare parts. So we've done sort of a modeling of what spare parts on what brands are being transported on a long distance and would it be sort of more impacted and so forth. But again, of course, the situation is very uncertain, and this is sort of stat which changed more or less on a daily basis.

Vinit Malhotra - *Mediobanca - Analyst*

Thank you very much.

Operator

Ulrik Zurcher, Nordea Markets.

Ulrik Zurcher - *Nordea Markets - Analyst*

Thank you for taking my questions. I have to -- I don't know if you said it, but the SME growth or commercial growth without this loss of clients, roughly what would that be? And then secondly, I was just wondering with this updated top time mark, synergies in the Middle East and might add some revenue, I don't know.

But how does this affect your 40 bps improvement sort of target in a Nordic cost ratio? Will that be more front-end loaded or just continue roughly at that level for some years? Thank you.

Morten Thorsrud - *Sampo Oyj - Chief Executive Officer of If P&C Insurance Holding Ltd, Member of the Group Executive Committee*

Yeah. SME growth, 4% in the quarter. So that's -- that's the answer to that. And the top 10 market synergies are will that impact us I think what we are committed to is the 40 bps improvement year-on-year throughout the years -- the few years to come in our period as we have committed to. As said, we now do see a flattening of the speed or acceleration as the IT part is still ahead of us.

So we stay committed to the 40 bps improvement in our Nordic cost ratio that we've stated

Ulrik Zurcher - *Nordea Markets - Analyst*

That's great. Thank you.

Operator

Nadia Claressa , JPMorgan.

Nadia Claressa - *JPMorgan Chase & Co - Analyst*

Hi, morning. Thanks so much for taking my questions. I have two. First is just on the impact from the Danish ruling, clearly a positive on the current view. But I think you mentioned that you established a number of scenarios and that you will continue to analyze this.

So what key variables really drive the difference between, I guess, the low and high end of the range? I think I'm just trying to understand how sensitive the current estimate could be to changes in assumptions and under what circumstances could we perhaps see a revision on this front? That's my first question.

And my second was on the share buyback and timing going forward. given that the Danish ruling impact appears to be contained and assuming you'll be able to sell off more of NOBA sometime this year. Is a buyback top-up later in 2026, something you would consider? Or should we take this off the table and assume that you will stick to the once every 12 months time line?

Morten Thorsrud - *Sampo Oyj - Chief Executive Officer of If P&C Insurance Holding Ltd, Member of the Group Executive Committee*

I'll leave these two questions to Lars. It's not only the CFO, but also the Danish Worker's Comp expert.

Lars Kufall Beck - *Sampo Oyj - Chief Financial Officer*

Thanks, Morten, and thanks a lot for the question, Nadia. As you rightfully say, we do not disclose our best estimate for the impact as we believe it is covered within our existing reserves. I think secondly, let me just make this very clear. It's no surprise to us that we are exposed to this kind of risk when underwriting Danish Workers' comp.

And that is, as I said earlier, exactly why we, over a number of years, have been building up and allocating quite a significant part of our Danish Workers' comp liabilities to an in reserve, i.e., events, not in data.

If you do want to compare with competitors out there, we have been analyzing the case in great detail and establish, as you said, a number of scenarios and the comparable expected net of tax impact from those scenarios range somewhere between EUR80 million and EUR 160 million with our best estimate falling into that range.

As you said, there are many, many variables in this. I mean, I think the simplest one may be taking market share even in non-life insurance, a lot has happened in the market over the last 30 years. So just taking last year's market share does not reflect the exposure correctly, we believe.

However, when you look into that, analyzing the market share data, that's actually complicated because official market data statistics only go back to 2008, and this covers back to 1996. But as you know, we are a data-driven underwriter. And in our data pool, we actually have very good data and proxies for not only our own portfolio but also market data going back to well before 1996 actually.

Another key variable, just to mention it, is the pickup rate of those that are now eligible to have their case reopened. Here, we don't have much, I would say, empirical data to go by. But one data point we do have is the so-called 17A ruling from the Supreme Court that came out early 2025, i.e., more than a year ago.

And based upon that, we do see that the pickup rate for those eligible to having their case reopened following that ruling after more than a year now is only about 5%. And I would say some of the market impact estimates you see out there and also the higher end of our internal scenario building actually assumes a 20% pickup rate from the recent ruling.

And as you have seen probably also both public or public info on ranges for the market impact that are out there, ranges from billions of kroner to the estimate that was actually put forward in the Supreme Court by the plaintiff of DKK235 million. So just to give you view of where the ranges are.

Finally, let me just say that we still believe that the state of Denmark should intervene and should take the cost for this recent ruling. Not because of the size or potential size of the bill, but because the AES or the labor market insurance is a public authority who by law is responsible for claim settlement in the relevant cases here.

A public authority, which we now know have not been acting in accordance with the law for the last 40 years. And the consequence of that should not end up with the risk carriers, being that the private insurance sector as ourselves now the self-insured municipalities and similar. So I hope that answers the question on the workers' comp.

When it comes to buyback, I mean, the new buyback is -- that we just came is in line with our distribution policy. And as I said, we are committed to deliver up to EUR500 million of buyback or release from our legacy assets.

Normally, as we also communicated earlier, we believe Q1 is actually a good opportunity to discuss capital structure and buyback following the annual results for last year. And I said with that, we have announced -- we have announced that we will have an investor update in November and that is where we would then return to this.

But as I said earlier, I just want to reiterate, we are still committed to delivering up to -- returning up to EUR500 million from the disposal of legacy assets. But the timing, of course, depends on actual sell-down of NOBA.

Nadia Claressa - *JPMorgan Chase & Co - Analyst*

Thank you very much for the very comprehensive answer, Lars. Just a quick follow-up on the potential for a top-up in the share buyback, if I may. I mean, clearly, it depends on the timing of further NOBA sell-downs. But could we also expect some of the benefit from the PIM expansion to be returned as well?

Lars Kufall Beck - *Sampo Oyj - Chief Financial Officer*

I think I would approach it a little bit from a different angle here. I think not saying anything about the impact -- positive impact from the PIM approval this time around is a result of us looking at the world around us, we are in we are going through, I believe it's fair to say and have been going through a very stormy waters throughout the Q1 in the financial markets and in the world surrounding us.

And hence, at this point in time, we believe it is better to be a little bit safe rather than risk of being sorry late. So I think having a little bit of conservatism business and not maxing out on our buyback potential. That has been our approach for the Q1 closing. Depending on what happens, of course, in the world surrounding us, we might change that view or our view on that later in the year, but that remains to be seen.

Nadia Claressa - *JPMorgan Chase & Co - Analyst*

Understood. Thank you so much again for the very clear answer.

Operator

Carl Lofthagen, Berenberg.

Carl Lofthagen - *Joh Berenberg Gossler & Co KG - Analyst*

Hi, morning. Thank you for taking my question. Two, please. The first is on the Middle East impact, are you seeing any early frequency benefits in your motor from people perhaps choosing to drive less as a result of high fuel prices?

And then the second is just on pricing in the U.K. and just trying to understand the changes throughout the quarter, whether as we kind of reach the tail end, whether you saw kind of accelerated pickup in pricing compared to the start of the year? Thank you.

Morten Thorsrud - *Sampo Oyj - Chief Executive Officer of If P&C Insurance Holding Ltd, Member of the Group Executive Committee*

Yeah. Very simple answer to the first one, no. We don't see any changes in driving pattern so far. One could, however, expect if inflation increases a lot, then you could expect that, that potentially could be the situation. But so far, we haven't seen changes in driving patterns despite high fuel prices.

Pricing in the U.K. throughout the quarter, I think we're already on the full year conference call, mentioned that price has been slightly down at the very beginning of the year, following a favorable reinsurance renewal for probably most insurers, and part of that was brought forward to the customers then. And after that, we've seen a gradual uptick in the pricing in the U.K.

Operator

Vash Gosalia, Goldman Sachs.

Vash Gosalia - *Goldman Sachs Group Inc - Analyst*

Hi. Hopefully, you can hear me this time around. I have two questions and one quick follow-up. The first one is just following up on the Danish workers' comp. I just wanted to clarify something. So you mentioned that you've been reserving for this issue for many years.

But as I understand in the context of the case that this only became an issue last year, post the January 2025 ruling. So just trying to understand what did I miss over there? And how is it that you've been sort of reserving for this for many years? That's the first one.

The second one is just on your guidance for the underwriting profit for the year versus the synergies that you have accelerated for the year? So you have around EUR50 million benefit from synergies that you expect in 2026, but then your underwriting guidance only moved up by roughly EUR 25 million as you stated, that's driven by weather and large losses.

So can you just help us understand the bridge between both these numbers because I would have expected in that case, your increase in underwriting profit or guidance to be much higher than what you have done today? And then the last one, just on U.K. Are you able to share with us to what is happening between renewal pricing and new business pricing?

Because I'm just trying to understand here what is keeping the prices low or what basically, what could be one of the reasons why pricing does not increase at a faster rate.

Lars Kufall Beck - *Sampo Oyj - Chief Financial Officer*

Sure. I'll take the first one, Raj, in terms of workers comp. Sorry, it was misunderstood. What I did say was that this case was not -- has not been known to us for many years. But what I did say is that the exposure to these kind of risks and court rulings, et cetera, is no surprise to us.

And that is why over a number of years, we have been building up and allocating, as I said, a significant part of our Danish workers' liabilities to this in reserve, so for inventor in data. So no, we have not known about this case for many years, but we have known and we are very aware of the risks that you take on when you underwrite workers' comp. And that is why we also have the prudent reserving principles in our balance sheet.

Vash Gosalia - *Goldman Sachs Group Inc - Analyst*

Makes sense. Thank you. And then on the other two, please.

Morten Thorsrud - *Sampo Oyj - Chief Executive Officer of If P&C Insurance Holding Ltd, Member of the Group Executive Committee*

On the underwriting profit, first of all, synergies, of course, are already included in the 40 basis points expectation for the coming few years. We have now realized them somewhat faster than expected. But what we're reporting is a run rate synergies.

So it's not yet sort of fully materializing in the P&L and at the same time, it allows us also to do some of the investments in terms of digitalization of the Danish business a little bit faster. So we stick to our 40 basis points cost ratio improvement for the Nordic business for the coming few years and again, largely supported by exactly these synergies.

When it comes to renewal price versus new business price in the U.K., of course, with the GP reform, this is more or less 1:1. We need to price new business just in the way -- same way as we price renewal business. I'm not really surprised about the development in the market. If you look at the large motor insurers, you see that they are sort of typically reporting a fair profit for 2025.

Then, of course, pricing was clearly higher at the first half of the year, sort of where we saw kind of really the reduction then being more flat towards the second half of last year and now it's starting to creep up a little bit. So I kind of remain optimistic about the U.K. market.

And I think, of course, over time, we will need to price for inflation, and we do that, and the competitors will need to price for inflation. And again, as I already mentioned, we are even adding on slightly more price increases now given the inflation outlook that we have in the U.K. market and see that we managed to get that through in the pricing.

Vash Gosalia - *Goldman Sachs Group Inc - Analyst*

That's really helpful. Thank you so much.

Operator

Youdish Chiccoree, Autonomous Research.

Youdish Chiccoree - *Autonomous Research - Analyst*

Thank you for taking my follow-up questions. The first one is a technical question on the workers' comp charge that you're not taking actually. I just wanted to understand like this event, not in data buffers that you hold, as you use those up when the claims come in, in the coming years, does that mean that ultimately, you have to replenish them?

So basically, it absorbs the initial post. Ultimately, you will have to actually reserve more in the future. So that's the first question, which is a technical one. The second one is just on the Nordic segment underlying risk ratio. I mean in pricing in the Nordic region peaked maybe last year and your repricing actions are largely complete. Should we expect a more stablish trajectory going forward as opposed to improvements we've been accessed to in recent years. Thank you.

Lars Kufall Beck - *Sampo Oyj - Chief Financial Officer*

Thanks for the question. Youdish, if I take the workers comp part first. Yes, as I said, the current unit reserve we have is something that has been built up over many, many years. So it's clearly not something that you just all of a sudden wake up a quarter and say, let's put this in our balance sheet. So it has come over many, many years.

And hence, any drawdown on this that would be taken out from the recent ruling, we would, of course, have to build up the (inaudible) reserve again. But again, that will be done over time. it would not be something that will be done from quarter-to-quarter or even year-to-year, it is something that has been built up over more than 10 years.

And as I said, replenishing it. would also happen over a longer time horizon as we do not fortunately see these kind of rulings every year. So I hope that answers the question.

Morten Thorsrud - *Sampo Oyj - Chief Executive Officer of If P&C Insurance Holding Ltd, Member of the Group Executive Committee*

Yeah. And to the Nordic underlying risk ratio improvement. We are at a combined ratio level now that is highly attractive in the Nordic region and typically, in all countries, all segments. So I think it's fair to expect that the improvement in the underlying risk ratio will be somewhat smaller, at least going forward. I still think there is some potential for improvements in pockets of the business.

But again, we have a very attractive combined ratio. And of course, there is a limit for how many years and how far down you can push a risk ratio. So a bit more moderate improvement going forward, I think, is fair to expect.

Youdish Chiccoree - *Autonomous Research - Analyst*

Thank you.

Operator

Simon Brun, ABG Sundal Collier.

Simon Skåland Brun - *ABG Sundal Collier - Analyst*

Yeah. Thank you. Good morning, Martin and Lars. Just a couple of questions, starting with Denmark and the premium growth in Denmark seems to be a nice uptick and somewhat of a trend shift in the premium growth. And I appreciate that there's always some element of volatility here. But does it also reflect sort of revenue synergies from the top 10 Mark merger.

I just wonder if you could comment briefly and whether you see sort of strength and relevance in new or existing markets that now translate into accelerating premium growth? Or am I reading too much into it? That's my first question.

Morten Thorsrud - *Sampo Oyj - Chief Executive Officer of If P&C Insurance Holding Ltd, Member of the Group Executive Committee*

Yeah. I think an integration process is, of course, never an easy process. And as you see, sort of from the synergy estimates, we've done quite a lot of changes to the Danish organization starting to change the business model. Of course, that is always creating a bit of varies sort of internally and also can create some turbulence sort of towards the customers externally.

We did see a small drop in retention rate in the private business throughout 2025 in Denmark, which was exactly as expected. Again, when merging two companies closing down top Denmark as a legal entity, when we notify 750,000 customers about the change of insurance provider so forth, that will have an effect. So that was as expected.

And then we've seen that this is now gradually improving. And even starting to see a slight uptick in retention rates. And at the same time, we've been rebuilding a little bit the distribution capacity, both in private and SME in Denmark during this process. So I'm at least very optimistic about the outlook for Denmark. I think the most difficult part of the integration is now behind us.

And that the customers now also will start to see really benefits of being part of a larger group with even better processes, better services, more digital tools in particular.

Simon Skåland Brun - *ABG Sundal Collier - Analyst*

Yeah, thanks. Thanks, Morten. Second question, continuing in Denmark, I guess, and on the workers' comp. Maybe not looking so much into or in the -- to the -- maybe looking more to the future, looking for the -- just curious to hear your thoughts on the sort of the sustainability of that you're staying in that segment, obviously, you have a pretty big market share. Is this segment still attractive to you?

What needs to be done on the pricing to sort of cover the -- what seems to be clearly a wider scope of future claims? How long will it take to adjust prices, where do you see them going? And could this be sort of a short-term boost to the premium growth as you reprice this quite meaningfully, I assume?

Lars Kufall Beck - *Sampo Oyj - Chief Financial Officer*

To start out, yes, we still believe Workers Comp Denmark is a highly attractive segment. We are the market leader, not only in terms of volume, but I would claim also in terms of knowledge when it comes to underwriting, when it comes to claim pending and when it comes to our actuarial skills. So yes, it's definitely an attractive segment to us. I think it's clear that, as always, we price for risk. So it's natural.

If risk change, then it's natural to expect prices to change accordingly. I think it's important to note that actually, there is a fairly high degree of flexibility in here in the Danish Workers Comp wordings in the sense that changes in law and ruling like this, you can actually adjust prices in the middle of a policy term or policy period.

However, we are not doing anything yet. We are, of course, analyzing and then we are waiting to see what will happen, both in terms of what the state of Denmark will ultimately do before we make any final decisions. But of course, we are prepared. We will change or we will price according to risk. And yes, we believe Danish Workers comp is an attractive segment and market.

Simon Skåland Brun - *ABG Sundal Collier - Analyst*

Okay. Thank you very much, guys.

Operator

Emil Immonen, DNB Carnegie.

Emil Immonen - DNB Carnegie - Analyst

Hi. Thanks for taking my question. Just maybe one more on the workers' comp and the decision in general. How does that impact your outlook on the insurance market or all, does it change it in any way? And what kind of decisions this court take? Or is it kind of as expected, this is normal business to you?

Morten Thorsrud - Sampo Oyj - Chief Executive Officer of If P&C Insurance Holding Ltd, Member of the Group Executive Committee

Say this is normal business. We do have some line of businesses, some products that are exposed to changes like this. Workers' comp some of the bodily injury claims, you have a motor, there are risks, new rulings, changes in, say, pension age, base of calculating loss of income. And this is sort of normal business risk to us.

And this is exactly also why we are reserving for this type of risk, which is what Lars explained with these events, not in data. If you have a reserve model that just look at data, it will be backward looking. And of course, our reserving needs to be forward-looking.

And that's why we try to factor in these things. in our reserving and in our pricing. So this is normal business for us, and that's also why we are able to cover the effect of this case within our existing reserves.

Emil Immonen - DNB Carnegie - Analyst

Okay. Excellent. Thanks for clarifying that.

Operator

I hand the conference back to the speakers for any closing comments.

Mirko Hurmerinta - Sampo Oyj - Investor Relations Manager

All right. Thank you very much. That concludes the call for today. Thank you for listening in.

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