

Q3 2012 Earnings Call

Company Participants

- Jarmo Salonen, Head IR
- Kari Stadigh, CEO and President
- Peter Johansson, CFO
- Torbjorn Magnusson, Head P&C Insurance

Other Participants

- Blair Stewart, Analyst
- Gianandrea Roberti, Analyst
- Hans Pluijgers, Analyst
- Matti Ahokas, Analyst
- Olivia Brindle, Analyst
- Per Groenborg, Analyst

Presentation

Jarmo Salonen {BIO 1860650 <GO>}

Ladies and gentlemen. welcome to Sampo Group's January to September 2012 Results Call. I'm Jarmo Salonen, Head of Investor Relations at Sampo. And with me at this call I have our Group CEO and President, Kari Stadigh; Head of P&C Insurance, Torbjorn Magnusson; and Group CFO, Peter Johansson.

We'll start with Kari's introduction.

But before handing over to Kari, let me remind you that you can follow this call on our Website, Sampo.com/results, and a recorded version of the call will later be available at the same address.

I think that's all from me before going into Q&A. I'll hand over to Kari.

Kari Stadigh {BIO 1504152 <GO>}

Welcome to the conference call on my behalf as well.

Once again, we report an excellent result for the quarter, an EPS of EUR0.56, up more than 150% from a weak corresponding quarter last year. Our EPS for the first nine months, at EUR1.79, was up by a strong 33% from last year.

Also, our non-life operations performed really well. Operating profit up significantly quarter on quarter and an improved combined ratio of 89.3% for the quarter. The combined ratio for the first nine months, at 89.4%, is the best-ever result.

It is clear that, by and large, the Nordic P&C industry has understood the consequences of slow economic growth in Europe and, subsequently, adapted well to the low interest rate environment. Hence, we have adjusted our combined ratio guidance downwards from 89% to 91% for the year.

Nordea's operating profit was up 25% quarter on quarter, excluding the restructuring provision made in Q3 2011. Net interest income in the quarter was the second-highest ever, despite the low interest rates. Our share of Nordea's profit was EUR140 million.

Nordea's result was a minor disappointment to the market. As the Swedish retail market is, at the moment, one of the most profitable market segments in Nordic banking, it is clear that Nordea suffered compared to its Swedish peers, who have a larger share of their business in Sweden. At the same time, the Danish retail market continued its weak performance, and new, stricter impairment rules influenced Danish losses for the Second Quarter in a row.

Despite this, the core tier 1 ratio improved, clearly, to 12.2%. However, from Sampo's perspective, our investment case is intact, and we see the management performing well, with good progress on several fronts.

In life, the positive development continued. Premiums were up 10% for the quarter, mainly driven by good sales figures from our cooperation with Danske Bank. The profit before taxes grew by 46% to EUR33 million. The profitability was burdened by reserving EUR80 million to bring the discount rate down to 2.5% for the remaining year, as well as for the whole year 2013.

On the investment side, the mark-to-market return for Mandatum Life was 7.5% and, for If, 5%. We run our investment portfolios, as you are well aware of, with a short duration. Mandatum Life is now at 1.9 years and If at one year.

We are still able to maintain good running yields in our fixed income portfolio, 5.2% in Mandatum Life and 3.6% in If. However, it's clear that it is increasingly difficult to maintain these levels going forward. And we will see running yields coming gradually down.

This week, we also announced the acquisition of a fixed, non-life portfolio in Finland. For me, this is clear evidence of how difficult it is for new entrants to become profitable in the Nordic P&C market. We run our businesses with a high degree of automation, clear benefits of scale, underwriting based on huge amounts of detailed data, and with very low cost ratios in general. There is very little room for error for those without the advantages. The strong will prevail.

Our capital position is strong, and we will receive in December on the Group level (SEK4.6 billion) in dividends from If. So we are well prepared for the dividend payment next spring as well. We are a dividend stock.

Jarmo Salonen {BIO 1860650 <GO>}

And ladies and gentlemen. we are now ready for your questions.

Questions And Answers

Operator

(Operator Instructions) Matti Ahokas, Handelsbanken.

Q - Matti Ahokas {BIO 2037723 <GO>}

Two questions, if I may; firstly, on the premium growth. Actually, quite surprisingly, If seems to have the highest premium growth in the market compared to your peers, especially if taking into account that you have a bigger exposure to motor insurance, and, especially, new car sales have been fairly weak. So I was wondering what's explaining the high premium growth. And how do you see it developing going forward, especially taking into account the car sales situation.

The second question is regarding large losses in Q3. You said that you had a lot of large losses in Q2 in Sweden, mainly. But how much were the large losses in the Third Quarter? Thanks.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

As usual, much of our premium growth comes from rate increases. But there is a small market share increase for us this quarter and this year. And new car sales has been, actually, surprisingly good in the Nordic region for the first six months of the year, while it's weakened in Q3. So that's helped us.

We have done rather well in retaining our customers in all business areas, so all business areas have this round about 3% to 4% growth. But as I said, this is not focused on market share growth. This is a fair degree of premium increases combined with some small market share increases.

Then, on large losses, the main proportion of these large losses are very -- EUR64 million in excess of the budgeted amount came in May and June, and we have some, I think, EUR15 million in Q3 in excess of the normalized amount.

Q - Matti Ahokas {BIO 2037723 <GO>}

Great. If I just may follow up on the car sales situation, obviously, Q3 has been slower. But how do you see this impacting the figures for the Fourth Quarter and 2013? The growth should come down Q4.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Well it depends on how we do in retaining customers, and it depends on how we do on working with other channels as, for instance, used cars. So we will see. But we had -- it would be natural to see some slowing down of growth because of this. Yes.

Q - Matti Ahokas {BIO 2037723 <GO>}

Great. Thanks.

Operator

Blair Stewart, Bank of America Merrill Lynch.

Q - Blair Stewart {BIO 4191309 <GO>}

I think I've only got three questions. The first one is coming back to the investment yields. You touched on this, Kari. We've seen in P&C the running yields go from 4.1% down to 3.6% over the last 12 months. What would be the expected trajectory from here in terms of the speed of the decline which you talked about? That would be very useful. Thank you.

The second question relates to the premium increases that we've seen, and I guess it's for Torbjorn. It would appear that those would be exceeding claims inflation. And therefore, is part of that still to be earned through into the next financial year?

And the third question relates to a comment that you made, Kari, about dividend up-streaming. I think you said SEK4.6 billion, but I just want to clarify that with you. And a more general question would be -- what is your expectation for up-streaming from the subsidiaries in the coming few months? Thank you.

A - Kari Stadigh {BIO 1504152 <GO>}

If we start with the dividend, it was (SEK4.7 billion), which we expect to receive from If the first week of December. Other dividends next year -- this is the dividend that we will receive for If from this year. We see no need to take out any dividends this year from Mandatum Life. Then dividends going further, next year, we have to come back to that and see what the board decides.

On investment yields, I know that it's useful for your purposes, Blair, to have some kind of guidance on our running yield. However, we can't really give that because it's so dependent on the development in the investment market, as well as how well we are able to find new, interesting investment objects. But it's clear that, with the durations of 1.9 and one years, it will gradually come down.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

And on the premium increases, yes, they have, clearly, by definition, almost, been in excess of claims inflation. It depends on claims inflation whether that is true in the early part of next year.

I think I would like to point out, though, that there has been one extraordinary development this year, and that is the claims inflation in Norway -- actually, not the claims inflation but the number of losses. The frequency has been very low. And I think you can see the entire Norwegian market benefit from that, not only us. I would not expect that to continue next year.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Very good. Thank you.

Operator

Hans Pluijgers, Cheuvreux.

Q - Hans Pluijgers {BIO 16245530 <GO>}

One follow-up question on your last remark with respect to the Norwegian market. What was the main driver for the very, very low frequency? Could you give maybe some indication of what's happening there?

Secondly, coming back again on the investment yield, could you give maybe some color on what part of the portfolio on the P&C side of the EUR12 billion will come up for reinvestment in the first half of next year?

And thirdly, you already indicated that -- Kari, you indicated that the market is really adapting to the lower interest rate environment. Does it have any implications for your long-term guidance on the combined ratio? Will there be any change on that side in 2013?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

I'll start with the simple one then, the Norwegian frequencies. I think it's the weather times two. The insurance weather has been very benign this year. Then, secondly, the insurance weather was so bad the years before that with the winters we had that I think the entire market maybe overestimated the frequency development a bit. So this is both in motor and in house and home. On top of that, the large losses when it comes to private business, which is fires in homes, have been, randomly, good this year.

Q - Hans Pluijgers {BIO 16245530 <GO>}

But coming back on your first remark, you said that maybe the (technical difficulties) estimated the impact. Do you see then, let's say, already indications for some changes or reductions in pricing there?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

I think the market has been divided into two in Norway. The largest incumbent appears to have been rational and seemed to be acting and saying that stable premium development is also good for the customers. So no big moves on rates. Then, the new

entrants in this market from the past five years -- most of them have, rather, poorer results than the large insurance, so they couldn't afford rate cuts.

Q - Hans Pluijgers {BIO 16245530 <GO>}

But that's something probably you've seen over the last four or five years, so there's not really a change you see there.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Well we have seen the small companies get into the market shares of the big ones, but that is not happening anymore since the past 6 to 12 months.

Q - Hans Pluijgers {BIO 16245530 <GO>}

Okay. But your first remark was mainly, let's say, relating to (inaudible) better on this year. So you don't see any reaction on that for next year yet.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

No.

A - Kari Stadigh {BIO 1504152 <GO>}

On the investment yield, Hans, the only guidance I can give to you is that the average maturity is two years. Then, if we have piled up cash now -- I think we have roughly EUR2 billion in cash. But then you must remember that EUR500 million out of that will come as dividends. So this will influence the numbers.

Q - Hans Pluijgers {BIO 16245530 <GO>}

Over the last few quarters, I've seen an increase also in the money markets; relatively, from 9% in Q1 to 11% in Q3. Is that something that we could expect to see increase further as you, let's say, maybe want to wait before you get more clarity on which direction the interest rates will take?

A - Kari Stadigh {BIO 1504152 <GO>}

At this moment, our money markets are roughly EUR500 million in Mandatum and EUR1.2 billion in If. Then, from If, you have to deduct the dividend we are going to pay in December.

I think that it's clear that we don't want to pile up cash. This is just an expression of how difficult the reinvestment issues are. So we are, of course, hunting for suitable investment objects all the time, but, given our risk appetite, we are very careful and patient hunters. So in 2007, I think, or 2006, we had a similar situation when we had high cash portions, and so we don't get nervous if our cash portions pile because we are not finding anything that fulfills our risk appetite. So we have no investment pressure in that sense.

But you will see -- with the average maturity of two years, it's natural that you will see the yields gradually coming down. We are not falling off any cliff.

On the guidance, I would say so that the basis for our guidance is the return on equity targets that we have. And I don't want to go into next year. We have just made the guidance for this year now. There is a big chance that we start, like we always do, with 95%, and then we take our way down. But we haven't discussed this with Jarmo yet.

Q - Hans Pluijgers {BIO 16245530 <GO>}

Okay. Thank you.

A - Jarmo Salonen {BIO 1860650 <GO>}

To me, it sounds like a very good start.

Operator

Per Groenborg, Danske Markets.

Q - Per Groenborg

Just a single question from my side. You lowered your discounting rate to roughly zero. But that, I guess, is (inaudible) adjusted for Sweden. For Finland, 3% discounting rate looking at the current interest rate level, both swap plus government bond, is this still exceptionally high? I have forwarded this question to another Finnish company without ever being given a reasonable answer, as far as I see it. What's your view on your discounting rate for the Finnish part of your book and comparing that off to what you discount your Danish part of your book?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

(inaudible) this Finnish society. But these liabilities are very, very long-tailed. We have now exactly the same discount rate as the rest of the market. So in that sense, it is not exceptional.

Q - Per Groenborg

No. But is it prudent?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Yes.

Q - Per Groenborg

Yes. Okay.

Operator

Gianandrea Roberti, Carnegie.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

I have three. I'll try to make it very quick questions, two on life and one on dividend.

In non-life, Torbjorn, can you actually add some color to the new bank assurance agreement with Nordea? What do you expect out of it, in particular, in Sweden and Finland, as opposed to the impact on the Baltics that's relatively smaller?

The second question is on the corporate business in Finland because one of your competitors, Pohjola, is growing a lot in private lines, but it's growing a lot in corporate, as well, which, to me, is somewhat more blurred, the picture. Can you just tell us a bit about it?

And the last question, on the dividend, it's more in a perspective, I guess, in a couple of years. If one makes the assumption the Nordea payout ratio is going to be high, well, in a couple of years, you may have around EUR1 billion to distribute to shareholders. And I just would like to hear if I'm being too aggressive here or what kind of thoughts you might have. Thanks.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Okay. A couple of aspects on the Nordea agreement. We are, of course, excited and happy that we now have the biggest bank as a partner in Sweden and Finland and the Baltic countries. First of all, it is a very different agreement than the one that Tryg has had or, at least, has rumored to have had. Secondly, we will aim to do something that is different also to the customer. So the volumes that Tryg, for instance, has achieved in Finland in ten years, EUR85 million, is something that we expect to surpass. But finally, this is not a game-changer, so I'm talking about tens of millions of premiums, not any -- this will not change the entire market.

Corporate business, Pohjola, they actually grew more last year than this year. And they grew more at the expense of Tapiola than us. And in the -- there's been a very recent -- every year, there's a big renewal on the worker's comp business in Finland that takes place at the end of September. And we grew in this renewal, which is very important in this market as well. Worker's comp is as big as property as a product here.

A - Kari Stadigh {BIO 1504152 <GO>}

Okay. On the dividend, you are now talking, as you are well aware, to the management. The dividend is a board decision. Our view is that we are a dividend stock. And in an ideal world, we would like to see the dividend gradually, in small steps, to increase over the years. We wouldn't like to see high volatility. But an increase in dividend is our preference.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Okay. Thanks.

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Operator

We currently have no further questions coming through. (Operator Instructions) Blair Stewart, Bank of America Merrill Lynch.

Q - Blair Stewart {BIO 4191309 <GO>}

I can tell you before I even ask it, Torbjorn, you're going to hate this one. But just to get a feeling for the underlying level of the combined ratio for the first nine months and just picking up the bits and pieces of commentary, you said EUR100 million of reserve releases, EUR64 million of bad luck through higher large claims, the EUR37 million of adjustment from the discount rate. So those basically cancel each other out. So one could perhaps argue that the underlying is similar to the reported. But is there anything else that I'm missing in there? You said in the Q&A there that the claims frequency in Norway was very low. So if I did want to get to this mythical, underlying combined ratio, is there anything else I should be taking into account? Thank you.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Okay. What can I do? It depends on what you mean by underlying, if it's historical or going forward. If you want to adjust going forward, you have to take into account that frequency development in Norway. It has been exceptional, and you can see from all companies in Norway that that's the case. When will that stop? Well it depends on the weather and other things. I don't know.

Q - Blair Stewart {BIO 4191309 <GO>}

Is it possible -- sorry to interrupt. Is it possible to give an idea of what the impact of the lower frequency in Norway has been in the year to date?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

No. But I'm going to give you a different answer. I'm happy to see that our peers in the Nordic market have adjusted, as Kari pointed out in the introduction, to the financial environment. And for many of them, and us, a combined ratio target must be lowered by 3% to 5% to achieve the same thing it did two years ago. And that's not very far from where we are now, is it?

Q - Blair Stewart {BIO 4191309 <GO>}

Yes. Okay. So that's all I'm going to get from you. Thank you.

Operator

Olivia Brindle, Barclays.

Q - Olivia Brindle {BIO 17273762 <GO>}

Just one question from me on the discount rate decrease, just to get your thoughts. Presumably, in the current environment, we could potentially see scope for this to happen again. How realistic do you think this is? And maybe, how worried are you about this?

Potentially, what's a worst-case scenario on this front, just to get your thoughts around that at the moment?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

I'll give you an answer around our reserving. Then maybe one of the Fins can decide on what the Finnish discount rate would be for the next ten years.

These are very long-tailed liabilities. They are part of our entire provisioning for claims. We reserve fairly and prudently. And what is important here is, of course, the overall reserving level, and I'm very happy with that. I don't expect to see prior-year losses in any one year going forward.

A - Kari Stadigh {BIO 1504152 <GO>}

On the discount rate in Finland, historically it has been so that the mutuals have been behind the listed companies. And now the difference has been narrowing. But in our relationship with supervisors, we have never felt any pressure. I think that the listed companies have always wanted to be transparent and be ahead of the pack and also ahead of the regulator. I think that, as we have done the last discount rate adjustment so recently, I wouldn't foresee any immediate need for any new movement.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

And in case we did, we would, of course, review the overall reserving level of the portfolio, just as has happened this time.

A - Peter Johansson {BIO 20728335 <GO>}

And maybe the last thing is that we have never treated this as extraordinary, even if some of our colleagues have done that. So for us, these are business as usual.

Q - Olivia Brindle {BIO 17273762 <GO>}

Okay. Thank you.

Operator

Hans Pluijgers, Cheuvreux.

Q - Hans Pluijgers {BIO 16245530 <GO>}

One follow-up question on your dividends stream. You already mentioned, for Mandatum Life no dividends. Is that looking also at the low interest rates and the reduction in discount rate you've already implemented? But we're looking at, 2014, still relatively high level discounting rates. Do you expect, let's say, (inaudible) that, going forward, at least, next year and, maybe, the year after, no dividends should be expected from Mandatum to be upstreams?

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A - Kari Stadigh {BIO 1504152 <GO>}

I think that Mandatum's dividend -- we have a very high solvency. I think it was 26%. And we all know that solvency, too, will not come before 2016 and 2017. So I would say it's more a combination of several issues, one of them being that there is no immediate need in the parent company for capital, and we deploy it now in the life company with the investment mix that we have there. We prefer this situation.

Q - Hans Pluijgers {BIO 16245530 <GO>}

Okay. Thank you.

Operator

Matti Ahokas, Handelsbanken.

Q - Matti Ahokas {BIO 2037723 <GO>}

Since we have time, a couple of follow-up questions; firstly, a clarification on the Finnish technical result. That is including, I presume, the EUR23 million discount rate adjustment, and you still had a combined ratio of 85%. So without that, it would have been almost phenomenal. Is that correct?

Secondly, regarding the Tryg acquisition, is there any structural reason why that book would have a lower profitability in terms of combined ratio or return on equity than your existing book in Finland, or could it potentially be higher?

Then, I can't resist. Torbjorn, you mentioned that the agreement with Nordea is better than what has been rumored regarding Tryg. How much better could you say it is?
Thanks.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Yes. The technical result for Finland includes this, and, yes, the result would be phenomenal were it not for the fact that -- and this is for -- who was it? Blair maybe -- large losses, if you want, as if or normalized, have been very good in Finland. Yes. We have a very good result in Finland, but there are a number of factors.

The structure -- Oh, yes. The cost structure for Tryg Finland does not benefit from any benefits of scale that we will have in Finland, of course.

And for the third question, the new agreement that we have with Nordea is at a level which makes me think that we will have good profitability for the Finnish, old Tryg book. That way, I can avoid answering the third question, I think.

Q - Matti Ahokas {BIO 2037723 <GO>}

Fair enough. Thanks.

Operator

We currently have no further questions coming through. (Operator Instructions) Blair Stewart, Bank of America Merrill Lynch.

Q - Blair Stewart {BIO 4191309 <GO>}

Sorry to bug you again. Just a couple of small ones, one for Peter, if he's around. I noticed economic capital available -- sorry -- available economic capital, rather, went up by EUR500 million in Q3. Obviously, that's a good bit more than the profit number. Is the additional amount -- ? Is that just the full mark-to-market effect coming through there, please, Peter, just to understand that?

And for Kari, we've talked a few times about the investment income. You talk about looking for opportunities to invest out of the money market into an acceptable level of yield. Just to get a feeling for what your view of an acceptable level yield in this environment and what -- Can you perhaps share some experiences of what you've been investing in in terms of yield that you deem as acceptable? Thank you.

A - Peter Johansson {BIO 20728335 <GO>}

On the adjusted capital, it's correct that it's the full mark-to-market effect, including also the increase in deferred tax liabilities on unrealized gains. That's the reason why the number is so big.

A - Kari Stadigh {BIO 1504152 <GO>}

On the investments, I think that you can't give a number on the yield which is acceptable because yield is tied to risk, of course. Maybe it's easier if I say what we are not -- where we are not finding value. I think that we can't find any value in sovereign debt, so that is out. Cash is cash. The spreads on bank debt are also coming in strongly.

So where are we hunting for yield? I think it's mainly corporates. And as the appetite for corporate risk has grown and everybody's coming in the same way, we have had to invest more time and legwork to find the suitable objects. And we are finding them, but, unfortunately, every time we are interested, our allocations are quite low. And so it becomes many, many small streams where we have to collect it, and, therefore, the cash has been piling up.

I can't give you a number on yields because it's not an absolute yield number that we are talking about.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Thank you.

Operator

Thank you. We have no further questions coming from the phone lines.

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A - Jarmo Salonen {BIO 1860650 <GO>}

Thank you, operator. Ladies and gentlemen. thank you for your attention, and I wish you all a very nice Friday evening and weekend. Thank you.

Operator

Ladies and gentlemen. thank you for joining. You may now disconnect your lines.

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