

Q4 2013 Earnings Call

Company Participants

- Jarmo Salonen, Head
- Kari Stadigh, Group CEO, President
- Peter Johansson, Group CFO
- Torbjorn Magnusson, Head

Other Participants

- Blair Stewart, Analyst
- Daniel Do-Thoi, Analyst
- Gianandrea Roberti, Analyst
- Hakon Fure, Analyst
- Matti Ahokas, Analyst
- Paavo Ahonen, Analyst
- Thomas Seidl, Analyst
- Vinit Malhotra, Analyst

Presentation

Jarmo Salonen {BIO 1860650 <GO>}

Ladies and gentlemen. welcome to this call on Sampo Groups 2013 Full Year Results. I'm Jarmo Salonen, Head of Investor Relations at Sampo, and with me here at this call I have our Group CEO and President, Kari Stadigh; Head of B&C Insurance, Torbjorn Magnusson; and Group CFO, Peter Johansson.

Let me remind you that you can follow this call at sampo.com/result, and also see the slides that Kari is using, and a recorded version of the call will later be available at the same address. As has become tradition, we'll start with Kari's presentation. Kari will highlight the developments in 2013. Kari, please.

Kari Stadigh {BIO 1504152 <GO>}

Thank you. Welcome to the conference call on my behalf as well. When I look back at 2013, I really see a continuation of 2012. In a way, we have a market which is not really favorable for the financial sector. We have low interest rates. We have slow growth. We have that regulation tsunami still coming on us.

However, even in this environment, Sampo was able to produce excellent results. And contrary to the normal practice, I will walk through a few slides with you. And I call those

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slides best ever slides, and there are, of course, many more, but I will show you only the ones I like most.

If we start with the Group results, I think it's worthwhile pointing out that its results in euros, EUR929 million, was an all-time high result. And I think also it's worthwhile noting that the combined ratio was the lowest ever, and also the cost ratio. For me all these all-time high numbers are something to be proud of, and for our team to be proud of. But in each case, I think it's even more important for our owners that the volatility of our earnings is so low. So I feel that the quality of the earnings of the long performance, or for high performance for many years, is really is something we can be all proud of at this end.

(Profit from) life also improved last year, and the underwriting result in Mandatum I think is interesting, because this was a year when the insurance result, and here I mean the cost -- the sum of the cost and risk result was EUR38 million, and that was also an all-time high number.

In Nordea's case, you see the flat development throughout the year, and we could see an all-time high number in their share price in January this year. I think that now the market in Nordea's case sees that the shareholder base has become much clearer when the Swedish State sold out their share holding last year, and uncertainty, which was actually an overhang for the Nordea share disappeared. Also, I think that the market appreciates now a determined approach in Nordea's management when they announced their cost-cutting plan. You will remember that the previous plan was cost-cutting program of EUR450 million, where they had implemented so far EUR200 million, and that was raised now to EUR900 million.

I think the important number in Nordea's case is that the management has committed themselves to lower the cost from 2013 until 2015 by 5%, when the earlier guidance was flat cost development. And of course in the traditional of Nordea, all this will be done without sacrificing anything on their franchise. So a very positive situation on all three areas.

If we look then at the outcome from a sample share perspective, our NAV of EUR22.15 is also an all-time high number. Here, of course, the Nordea share price has significant influence.

On the combined ratio, I already commented to you that the lowest ever full-year number was 88.1%, and the cost ratio, 22.8%. And I also commented that we really take pride from the low volatility in these numbers.

Mandatum continued as planned and is significantly more exposed, or concentrating on the unit-linked market, and unit-linked, as it's under management at EUR4.6 billion, were also an all-time high number. Unit-linked sales were also at EUR880 million, an all-time high number in Mandatum Life's case.

The valuation differences in Nordea are at EUR1.5 billion, that's an also all-time high number, and I also want to remind you that our acquisition value for Nordea is -- or was

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EUR5.6 billion. The book value is now EUR6.9 billion. The market value is roughly EUR8.8 billion, and we have received cumulative dividends during our ownership of EUR1.2 billion. So the EUR5.6 billion investment has turned into EUR8.8 billion, plus EUR1.2 billion. That's around EUR10 billion.

A few words about the dividends. You know that we are committed to being a dividend stock, and given the strong cash flow in our business, we increased the dividend to EUR1.65. You always ask us about the payout ratio. That payout ratio in this case was 63.7%.

But what I think is more important is that before we pay out the dividend, if we look at the cash flow to the parent in the six months prior to the dividend distribution, we can see an internal dividend from last December of roughly EUR485 million. Then we have announced that Mandatum will distribute the dividend in the First Quarter of EUR100 million, and then we will receive EUR370 million of dividends from Nordea.

That's altogether in the six months prior to the dividend payout, that the cash flow to the parent of EUR955 million, and the EUR1.65 dividend is altogether EUR924 million. So well in line with our practice to payout most of the cash flow we received to the parent.

And after the dividend payout, the debt in the parent will be roughly EUR1.5 billion, which is also a very healthy number, indeed.

That was my best ever list, and I finish here and give it back to Jarmo.

Jarmo Salonen {BIO 1860650 <GO>}

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

Questions And Answers

Operator

(Operator Instructions) Our first question comes from Mr. Gianandrea Roberti from Carnegie. Please go ahead, sir.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Yes. Good afternoon. A couple of questions for me as well. I'll start with non-life. I'll be interested in hearing your view on competition in general, but not much on competition, but more of what's going on in the Danish market, where we've seen sort of a mushrooming of several different players that are starting up in the market, and even then our first real aggregate, or some of them seem to be fairly aggressive on the pricing strategies. If you have any question, I know Denmark is pretty small with you, but at the same time, you own more than 25% total Denmark. So I'm just curious to hear your view.

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The second question is related to -- I'm not sure how should call it, I stumbled recently on a company that is called WaterCircles, and I understand that it is a sort of a If shop brand, or something like that. I just would like to hear what is this new initiative.

And the last question, although you already partially addressed (inaudible). The dividend growth of 22% year-on-year, it's not really that gently as you describe it previously, but I suppose just really a function of the different cash flow, and if we continue to expect Nordea to increase its payout ratio, well, there's only one way up on the dividend, and then let's see how much about the growth in that point. Thanks.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Okay. Generally up, in competition general, got very little to say, there's been little change in the past year. Denmark mushrooming, as you call it, I think what people tend to forget is that non-life changes gradually and slowly, and we've seen a number of initiatives in all markets, maybe with the exception of Finland, over the past 10, five years. Now you see a few in Denmark they have been able to gain lots of publicity. Let's see if they actually have 1% market share in a year's time, and discuss them then.

WaterCircles is indeed an If brand, and as you may know, we have probably around about a dozen different brands used in different situations, most of them in the car dealer channel. WaterCircles is a brand that we use on price comparison sites mainly in Sweden.

A - Kari Stadigh {BIO 1504152 <GO>}

Gianandrea, don't get really too exciting so quickly. We announced the dividend today, and now you are already extrapolating a few years ahead. So calm down. I think that we are committed to being a dividend stock, but don't start to interpolate logarithmic curves or so. I think that our ambition is to regularly increase the dividend as we have done, but then let's wait 12 months and see what kind of year we have behind us.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

I appreciate that, Kari. No logarithmic calculation. Thanks a lot.

Operator

Our next question comes from Mr. Hakon Fure from DnB Markets. Please go ahead.

Q - Hakon Fure {BIO 16623060 <GO>}

Yes, hi. Good afternoon. Two questions for me. First on the M&A activity ongoing in Finland with the Mutual now trying to take full control of Pohjola. Do you expect this to have any impact on the P&C markets in Finland going forward? And secondly, on your running yields, with the reinvestment rates you're seeing now, do you see further pressure on your running yields going forward, or have we seen the trough now? Thanks.

A - Kari Stadigh {BIO 1504152 <GO>}

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Well if I start off with the running yields, you have seen that If's running yield is at 2.9%, and somehow you get the feeling that there we could have seen it bottoming it out, and if there is a fluctuation up or down, it will not be that significant anymore. On Mandatum where the running yield is 3.7% there is still room to go down in the present environment. So I would expect the running yield to drop significantly more in Mandatum, and whether it goes up or down in If remains to be seen during the year.

On the M&A I will be (inaudible) but before that I would like just to state that competition is always fierce, and when someone makes a bigger acquisition, especially if it ties up lots of capital, normally that calms down the situation, at least for a while, until the entity in question has regrouped. But I don't know if Torbjorn shares this view, or how do you see it?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

To avoid speculation, let me state the obvious, the OP banks subsidize Pohjola's personal lines customers by 15%. It can hardly get any worse at least.

Q - Hakon Fure {BIO 16623060 <GO>}

Okay. Thank you.

Operator

Our next question comes from Mr. Matti Ahokas from Danske Bank. Please go ahead.

Q - Matti Ahokas {BIO 2037723 <GO>}

Yes. Good afternoon, two questions from my side as well, if I may. Continuing on the dividend front, when I look at the calculation part of your view made basically in the previous years, it's been a kind of cash flow or dividend, internal dividend, payout ratio, roughly 90%. And this year with the holding company funding cost, I get to almost 100%.

So the question is here that should one expect that the 100% is more the run rate, or the 90%? Maybe if you could kind of bit shed of light on the fact that is the higher payout ratio for (two then a third bin) more a reflection of the increased share price, or something else?

Then a question I've asked a couple of times in previous quarters, Swede and on the non-life side seems not to be improving, apparently industrial, Torbjorn, could you shed some light on what's happening there, and potential future actions you're going to remedy the situation. Thanks.

A - Kari Stadigh {BIO 1504152 <GO>}

I still think that you can't really draw mathematical conclusions from our dividend. I think that, I just repeat my earlier statements, we are committed to being a dividend stock, and some of us like these graphical and beautiful linear things. And if they a little bit jump up and down, we don't really think that disturbs the linear view. So let's see what kind of cash

flow we reach this year, and let's make new decisions next spring. But the underlying commitment is still there.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Sweden, we managed very well in the second half of 2013, and I'm rather pleased with the outcome. As you remember, we have announced price increases on personal lines, and basically, we got them through as planned with the sales that we wanted to have.

The other area that has been problematic was industrial lines, where we have been able to implement price increases. They are not bad. They're quite alright. We had a good one-one renewal where we had high retention rates, and were able to increase prices by some 3%. A little bit more is needed, but the second half in Sweden was actually quite good.

Q - Matti Ahokas {BIO 2037723 <GO>}

So all-in-all, Sweden should do better this year compared to last year?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Yes.

Q - Matti Ahokas {BIO 2037723 <GO>}

Super. Thanks.

Operator

Our next question comes from Mr. Paavo Ahonen from Nordea. Please go ahead, sir.

Q - Paavo Ahonen {BIO 6531806 <GO>}

Still a question on the internal dividends, because you have earlier stated the potential to release capital from Mandatum Life, and then of course now you are saying Mandatum will pay a dividend of EUR100 million in Q1. So should we understand this is all in terms of dividends by Mandatum this year, or are you planning still additional dividend from the life company for 2014?

And the second question is also on Mandatum Life. In your report you are indicating improved expense result for this year. So just wanted to check, what kind of potential you see there during the next years? Are we talking about increment of some millions, or how do you see the potential? Thank you.

A - Kari Stadigh {BIO 1504152 <GO>}

Well first of all, we have no other plans for Mandatum's dividends this year. I think EUR100 million in the First Quarter is good example of the level we think that it can generate. On the expense (in quarter show) some of you remember that when I have described

Mandatum Life as a hedge fund, I have said that the big profit pool cash asset pool is roughly EUR5 billion.

We have been sometimes discussing a 2% margin on that. That's a EUR100 million. Then we had said that the expense and cost result could produce 10 each. Then we had said that when the years go by, the management task is to increase that to 20 and 20. Well we are now at 38, so they have reached what we asked them to deliver.

Here on, of course, their task has not come to an end. They're should improve that, but we are talking small numbers here. So don't get exaggerated.

Q - Paavo Ahonen {BIO 6531806 <GO>}

Okay. Thank you.

Operator

Our next question comes from Mr. Blair Stewart from Merrill Lynch. Please go ahead, sir.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you. I promise not to ask questions on the dividend, you'll be glad to know. A couple questions, though. The first is on the non-life side. It looks normalizing for, as I know you like to do Torbjorn, normalizing for large claims, and whether it looks like the published result was pretty close to the underwriting, which is obviously a very strong figure.

I just wondered, given the various movements in pricing and claims costs if it is possible to improve the underwriting result going forward from here. You've said in the past as long as the top line is growing you should be able to get the expense ratio down. I just wonder on the claim side what more can be done.

Then the second question is on the capital position of the company. The economic capital ratio is very strong, and it's been quite stable as (well carry). And note that the results -- they know that Solvency II is becoming somewhat more clear. I wonder if you're prepared to take a stab at the excess capital position in the company, and what if anything, you're willing to do about that over the next couple years?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

On normalization, yes, I don't slight that, that's correct, and (hand) you are correct. I think the normalized result is not far from the published one. Then with a combined ratio, for instance, full year in Sweden of 93.5%, you asked me whether we can improve the underwriting result. Yes, of course. And we will continue to work with that, and I will continue to work with that until I retire.

A - Peter Johansson {BIO 20728335 <GO>}

Yes, you're right on the capital side, and if it's actually at all-time high level, which could be added on Kari's list. But partly also when we look at the internal dividends, we decide what the cash need is on the parent company level. So there's a bigger part of the excess capital marked down in it.

A - Kari Stadigh {BIO 1504152 <GO>}

And I could add that I'm not really considering the excess capital as such. That's not on the table. I think that our main task is to secure the position as a dividend stock, and then I think that we want to be strong, because historically we have seen opportunities to act when we have a strong position, and we are not going to streamline this in that sense that we would like to increase the leverage significantly from what we have today, unless there is some opportunity which meets our expectations, and those kind of opportunities, we don't see them at all for the moment.

The M&A activity in that magnitude of M&A is non-existent. People are still looking at the regulation, and people are still hesitant in this low-interest environment.

So let's stay put, and keep the war chest in place, and secure the dividend stream. And also commit us to growing dividends.

Q - Blair Stewart {BIO 4191309 <GO>}

Peter, can I follow up on the economic capital, is there anything that you've seen in the Solvency II proposals that would lead you to recalibrate your economic capital calculation anyway?

A - Peter Johansson {BIO 20728335 <GO>}

Not at least in this case, because the more limiting factor will definitely be the single A rating requirement, because there we have to use a higher confidence level than 99.5. So for If it's more a technical exercise, and additional burden on the regulatory side, but for Mandatum the situation is a bit more different.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay, super. Thank you.

Operator

Our next question comes from Mr. Thomas Seidl from Bernstein. Please go ahead, sir.

Q - Thomas Seidl {BIO 17755912 <GO>}

Thank you. Good afternoon, everyone. A couple of questions. Number one, on reserve releases noted, it's quite a bit lower than usually. Perhaps you could comment what is driving this. Do you see changes in claims inflation, for example? Secondly, although referring to the capital situation, which looks like (comp double). Do you plan to replace the expiring debt in 2014?

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And finally, Kari, you mentioned the underlying improvement in life, would you hence see better life earnings going forward, and raise the guidance? I think it was usually around EUR100 million net per year. So do you now expect a better performance of Mandatum?

Peter Johansson Reserve releases, once upon a time we thought that 3% and 4% reserve releases were high. They will always vary a little bit over time. This time I think it's 1.7% on the combined ratio. They come this time mainly from workers' comp in Norway, and they will vary a little bit over time. As long as we are more -- have a higher inflation of something, the reserves than the actual inflation in society, there will be releases on average.

A - Kari Stadigh {BIO 1504152 <GO>}

On the capital side, actually, the EUR300 million senior bond that is maturing this year, it doesn't really impact our capital position, but we most likely will issue a new one when it matures. On the life company, the underlying EUR100 million from the (with) profit business, I shouldn't expect it to increase, because you have some megatrends, which are against us. One is that our with profit liabilities are shrinking, and then you have the low interest rate environment.

The management activity is actually there to increase the fee-based business, and the insurance margins and risk margins in order to compensate for the with profit business. The decrease of the with profit is not only bad news, because of course that ties up capital, so actually the fact that the with profit liabilities shrink by some EUR200 million per year, that gradually is caution for us to maintain our dividend stream from the life company. So both good and negative, but let's be in the middle of the park, and continue with the same round number.

Q - Thomas Seidl {BIO 17755912 <GO>}

Okay. Well thank you.

Operator

Our next question comes from Mr. Daniel Do-Thoi from JP Morgan. Please go ahead, sir.

Q - Daniel Do-Thoi {BIO 17019775 <GO>}

Hi. Good afternoon. Two questions from my side, both on the non-life business. Firstly, you mentioned in your report that you benefited from mild weather during the quarter. Just wanted -- you to help me quantify the (fujis). Talk us through maybe the impact that this had across the different geographies, specifically in Norway and Sweden.

Then secondly, if I look in the presentation on slide 34, the gross written premiums in local currency. Can you just give us a feel for how much of this is driven by price increases, and by (inaudible), please? Thank you.

A - Kari Stadigh {BIO 1504152 <GO>}

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Mild weather. We actually have -- we've had a number of mild weather Q4s, so it's difficult to compare, and this time what one can say is that we had some bad weather in Denmark. The Danish numbers are affected by bad weather. The biggest storm is mentioned in the report when it triggered EUR24 million. Apart from that, it is slightly beneficial in all markets.

Then when it comes to volumes, most of the volume increases are from price increases with the exception of Finland, where half of the increase comes from the acquisition of Tryg here in Finland.

Q - Daniel Do-Thoi {BIO 17019775 <GO>}

Okay. Thank you very much.

A - Kari Stadigh {BIO 1504152 <GO>}

Some market shares there, therefore, are roughly stable for us.

Q - Daniel Do-Thoi {BIO 17019775 <GO>}

Yes. Thanks.

Operator

(Operator Instructions) There are no further questions registered on the telephone. Please go ahead, speakers. Oh, hold on a second this came in one question. We have a question from Mr. Vinit Malhotra from Goldman Sachs. Please go ahead, sir.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you. Very quickly a housekeeping thing. The holding company, obviously, the main (photo time to go to the slops) and could you just remind us if there is any guidance we can use to model that little better?

And secondly, on the discounting effect on the Mandatum Life, could you just remind us what you're thinking is, because you do it a little bit every quarter. There's obviously Finnish assets having, I mean, have it on mind. But why don't you do it one quarter that we know gives us a view, because if you do it every quarter, then we don't know what's going on there. Just clarify that, please. Thank you.

A - Peter Johansson {BIO 20728335 <GO>}

On your first question on the holding company, if I understood, you wanted to know the specialties that we had on the funding side, because we reported a positive result in Q4, if we had Q4 standalone for the holding company, and actually did. The direct interest costs is EUR50 million per quarter if you take across that. And the moving part (you send) that we have KKR4 billion worth of loans issued in Sweden, and that brings certain fluctuation with -- and we haven't hedged that because we are long in kronos on the asset side.

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So basically, there was a EUR11 million positive effect coming from those loans in Q4. At the same time when we had another (comprancing) income a negative effect from the FX in the book value of it.

The other EUR4 million in the FX results, or the total FX results was EUR15 million positive, and the other EUR1 million comes simply for trading the If dividends that we received, so part of them were sold for -- what, we made an extra EUR4 million of those. And the movement in the derivatives position was quite small. That is what we mark-to-market that's we have swapped out bonds to floating, floating rate. And there was another EUR2 million positive in Q4. So net-net, the funding cost was actually EUR2 million positive.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thanks, because I asked because I was expecting (slopes) movement to be small, and so I was surprised. Thanks for clarifying.

A - Peter Johansson {BIO 20728335 <GO>}

The other part on the discount rate, yes, we have lowered now again. This is something that we have been rolling forward, and this is completely voluntary from our side. So there hasn't been any regulatory pressure. So it's more or less simply because we have higher liquidity allocation. Our cash position on the fixed income side is growing. So then simply to bring down the yearly rate for investments to make money also in the coming years.

That's the reason why we have lowered the discount rate. And the discount rate is now at 22.25% for this year, and 2.75% for next year. And most likely, as long as we stay at this low interest rate environment, you will continue to see us doing this.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you. So this is expected to be a quarterly thing, because most companies otherwise tend to take one hit for a few years, and then say -- oh, the benefit change every quarter, I just wanted to know the thinking behind quarterly was this, a medium term hit, if you like. Thanks very much. Thank you.

Operator

(Operator Instructions) There are no further questions at this time. Please go ahead, speakers.

A - Jarmo Salonen {BIO 1860650 <GO>}

Thank you, operator. Ladies and gentlemen. thank you for your attention, and have all a very good evening. Thanks.

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