

Q2 2011 Earnings Call

Company Participants

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

Other Participants

- Gianandrea Roberti, Analyst
- Giulia Raffo, Analyst
- Hans Pluijgers, Analyst
- Matti Ahokas, Analyst
- Per Groenborg, Analyst
- Peter Eliot, Analyst
- Vinit Malhotra, Analyst

Presentation

Jarmo Salonen {BIO 1860650 <GO>}

Ladies and gentlemen. welcome to this conference call on Sampo Group's January-June 2011 results. I'm Jarmo Salonen, Head of Investor Relations at Sampo, and with me here in the studio I have our Group CEO and President, Kari Stadigh, Head of P&C Insurance Torbjorn Magnusson, and Group CFO, Peter Johansson.

We will start with a few words from Kari, and after that, try to answer any questions you may have. Before handing over to Kari, let me remind you that this transmission can be followed on our website, Sampo.com, and a recorded version of the call will later be available at the same address.

And I think that's all from me, and I'll now hand over to Kari for his presentation. Kari, please?

Kari Stadigh {BIO 1504152 <GO>}

Thank you. Welcome to the conference call on my behalf as well.

Sampo had a strong Second Quarter and reports for the first half year a profit before taxes of EUR 756 million, up 22% compared to the same period last year. You have all seen our

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numbers, and as they are good, and very transparent, I don't want to spend more time looking at historical data, but instead, I would like to take a closer look at some Sampo fundamentals, given the present turbulence in the equity markets.

This time, distrust stems from the public sector, unacceptably high budget deficits, and an unwillingness of investors to continue to finance states at the rates they used to. There is no trust in politicians and their ability to decide and implement corrective actions.

This is really not a crisis of the private sector. This is not a question of over-leverage in the financial sector or households.

In our main market, the Nordic countries, state finances are in a completely different shape. Actually, in a pretty good shape, compared to many other European countries. Especially Norway and Sweden stick out as best in class, and as you know, two of our main businesses, namely If Insurance and Nordea, are actually headquartered just there, in Sweden.

The volatility of the results of our P&C operations and Nordea are, and they were throughout the previous crisis, lower than their peer groups. Always profitable. For our non-Life operations, we guide a combined ratio 92% to 94% for the year, and we have really no reason to change that guidance, even if we see an increase in volatility in the equity markets.

Nordea's fundamentals are the same. It is active in countries with a healthy macroeconomic position. It has a strong, growing customer base, and reported a clear decrease in loan losses. Nordea has also significant economies of scale, and has just shown flexibility in adapting costs when it announced its New Normal plan. And last but not least, Nordea has an excellent funding position based on its AA rating.

Mandatum Life has made well in advance significant reserve strengthening, and brought the discount rate to 2.5% for this year, and to 3% for 2012. In the present turbulence, we can now enjoy the benefits from these decisions.

The general investment market has been miserable for a while. We were net sellers of equities in our insurance operations during the spring, and have now very cautiously started to buy small amounts of equities, mainly Nordic names that we know and feel that they are, in our opinion, oversold. Nothing really dramatic, but this is a moment to act.

We have also decided to start share buybacks of our own share. Given our strong capital position and stable cash flow, I hope the present turbulence opens good opportunities for our investment team to act.

I think that's all this time that I have to say.

Jarmo Salonen {BIO 1860650 <GO>}

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Thank you, Kari, and Operator, please, we will be ready for the questions.

Questions And Answers

Operator

Thank you, sir. (Operator Instructions) The first questions come from the line of Per Groenborg. Please go ahead with your question -- announce your company name and location.

Q - Per Groenborg

Yes. Good afternoon. It's Per Groenborg from Danske. I have three questions, the first one related to the market meltdown which you are addressing yourself. My question is, are there any hedges we cannot see? Have you taken any actions besides what you are saying now, that you have started to accumulate, or should we assume that as the end of Q2 balance sheet, you have run into this (meltdownward)?

My second question is for Torbjorn, related to the P&C volumes. We're starting to see quite nice growth in Finland, but what's happening volume wise, especially in Norway, where it looks like in local currency, it's been trending downward? Are we seeing any light at the end of the tunnel in Norway?

And my third question may be a bit tricky. You have announced the buybacks today. Should that be seen as a signal that you find your own share more attractive compared to adding additional to your stake in Topdanmark, that now is trading some 20% below what you last have paid for shares in Topdanmark. That was the three questions. Thank you.

A - Kari Stadigh {BIO 1504152 <GO>}

Well maybe I start with Topdanmark, because that's the easy one. I don't think that we can buy any volumes in Topdanmark that are of any significance. And of course, our policy towards our shareholders has always been that we are a dividend stock, and on top of that, we are willing to do share buybacks when we feel that it increases our share -- the shareholder value.

So I think you are comparing apples and pears there. They are not the same stuff. Let's stick to Sampo share. It's much more interesting for us.

On the market meltdown, I think that that's just a word which has caused this behavior. I don't expect to see a meltdown. When we had the Lehman crisis, I think that when you worked in the financial sector, you could see signs of meltdown in certain areas of the globe, or in certain countries. This time, I think this is a crisis of the public sector, and I expect to see prolonged slow growth. But I don't share the view of the market, of a meltdown scenario.

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And of course, that is the reason why we are announcing a share buyback, and we are also gradually starting to buy equities, even if we have been net sellers during the spring.

So I don't see a meltdown scenario as that probable. If there were a meltdown, against our belief, our strong capital position, of course, gives us a position to sustain that, but I don't feel it's at all probable. I think that we are now in the lower quartile of equity values. I don't know, of course, where we are there, but we are definitely in the lower quartile, and now, if we start gradually buying shares, I think that we will see that this is a good investment stance.

A - Peter Johansson {BIO 3902189 <GO>}

Per, this is Peter, on the question on hedges. So basically, you can look at the sensitivity table, so if there are any hedges, it's reflected in the sensitivity table.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Finally, volumes, Per, just as you, I think I am pretty problem-oriented, and try to solve problems. But let me just for one second be a bit upbeat, and say, yes, we have growth in Finland. Yes. We have growth in Denmark, more than 10%. Yes. We have growth again in the Baltic countries. Yes. We have growth in our car dealer and trade union agreements, and actually, our Internet site is also very successful at the moment.

So the overall picture, as you can see, is good. In Norway, we actually do have growth, albeit less than in the other parts of the organization, and it is a tough market.

There is one light in the tunnel, though. In the last quarter, the Norwegian FSA has ruled that the cross-subsidizing that the banks, and particularly, DnB Nor does, is too big to be allowed in the Norwegian market. So that is, we expect that to be decreased, and that will, of course, help us a lot in these markets.

Q - Per Groenborg

(inaudible), thank you.

Operator

Our next questions comes from the line of Vinit Malhotra. Please go ahead, announce your company name and location.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes, hi. Good morning, (inaudible), Vinit, Goldman Sachs. Just two or three points here. Firstly, I remember Torbjorn talking about the EUR 38 million (inaudible) in 1Q looking rather high at that point. Then you again had a quarter with a similar number, if I can see here. If you could comment on that, it will be great, because in this quarter, it doesn't look like it's coming from the one-off industrial kind of lines.

Second thing is, in the Norwegian Commercial, you seem to have -- your comment suggests that it's not going very well over there. Any feedback there on that, for the (P&C figure?)

And the Life, I do remember there was a conversation around how 1Q '10 was a very tough quarter, because of a large one-off transaction. But again, we have seen some volume pressure. Now, at least one or two years ago, the main thing was that Life was getting -- was generating very strong investment returns, and still attracting volumes again. Is there something going on here, because the (unit linked) market share also keeps going down. Is it (inaudible), or is it just banks competing for the customers' wallet?

So that's the three things, really. Thank you very much.

A - Kari Stadigh {BIO 1504152 <GO>}

Maybe I start with the Life question, on market volumes. Sampo was -- or, Mandatum Life was maybe the first to introduce capital redemption policies, and they used them as wrappers for good investment ideas. I think that one reason for the decline in growth has been that there hasn't been that many good investment ideas to sell to the customers, as historically, we have mainly been now selling active management of portfolios, but no real themes. And always, when you have themes to sell, you sell more aggressively. That is one reason.

Then the second reason is that our colleagues in the industry have now also started to buy -- to promote capital redemption policies, and therefore, market share has declined, because they start from very low numbers.

As you know, we don't target any volumes, so -- market share volumes. So First Quarter this year was a disappointment to us, but the Second Quarter was already according to plan.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Then on the reserve releases, we have, over some time, built up a tradition of conservative reserving in the large corporate lines that I mentioned the last couple of quarters, and this quarter is no exception. We have some reserve releases, but almost two thirds of that, just as last year, came out of settlement of large losses where we usually win the settlement and have a lower reserve in the end that we have reserved for in the -- at the beginning.

Norwegian Commercial, if I felt that that was not very good, I would sound a lot more depressed than I do. We have a tough market. We have around about zero volume increases. But the premium levels that we write are adequate, and the price increases that we get through in the market are also adequate. So I have no reason to see a problematic development of the combined ratio. I believe that we can keep the profits where they should be also in the Norwegian Commercial.

Q - Vinit Malhotra {BIO 16184491 <GO>}

No. I just asked because the slide 46 had a comment very clearly. But I appreciate -- I appreciate (inaudible). Thanks. Thanks, (inaudible).

Operator

Our following questions come from the line of Giulia Raffo. Please go ahead, announce your company name and location.

Q - Giulia Raffo {BIO 7573856 <GO>}

Hi. Good afternoon, Giulia Raffo from Autonomous in London. Just one quick question first, on numbers, one. I was wondering if you can confirm that the If investment income was depressed in Q2 by about EUR 89 million because of the effect of the change in accounting in Topdanmark.

Then my second question, regards to, if I compare the video and the statement that you made in the call so far, in regard to the outlook for the year, and I compare that with the line you put in your Q2 accounts I can see that the caveat that you put for extraordinary items doesn't seem to be concerned. Is that fair? Because I think -- you know, you put it there, it's the first time that's the (convert) is there. But you sound very, very confident, and clearly decide that you are prepared to buy (10 million) share. Would make me think that I shouldn't read too much in that caveat.

A - Kari Stadigh {BIO 1504152 <GO>}

You read me correctly. The caveat is there just for the auditors, and as a safety. I am -- I have no reason to take it any more seriously than I do.

A - Peter Johansson {BIO 3902189 <GO>}

And Giulia, on the investment income, the EUR 89 million, that's the accounting change in Topdanmark.

Q - Giulia Raffo {BIO 7573856 <GO>}

So it's correct that -- as you note the change in accounting, your investment income in P&C would have been EUR 89 million higher, and your pre -- profits before tax would have been roughly -- because 90 minus 3, would have been higher.

A - Peter Johansson {BIO 3902189 <GO>}

Yes. The gross investment income in If P&C, and the accounting change was done in May.

Q - Giulia Raffo {BIO 7573856 <GO>}

Yes. Thank you.

Operator

The next questions come from the line of Gianandrea Roberti. Please go ahead with your question -- announce your company name and location.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Yes. Good afternoon. This is Gianandrea from Carnegie. I have four very quick questions, if I can. The first one, maybe it's only technical, maybe I'm missing something. But on the buyback, why is it that you can only start it on August 24? I'm -- I would have thought that you could start this straight away after the numbers. But if you can just explain me that one, that would be great.

Then the second one, the fair value reserve in non-Life is down quite a bit on the quarter. I'm just trying to figure it out if it's me, that I've been too optimistic ahead of the number, or if you had some sort of hit on some specific stocks that you can share with us, or you see all normal there.

Then in non-Life, two things. There is (inaudible) and some alliance in its Swedish business continue to release an enormous amount of -- continue to book enormous amount of reserve releases quarter after quarter, and it looks like mainly in (children) insurance in Sweden. I was wondering if you, Torbjorn, have an idea what's going on, or what is your presence in that segment.

Then secondly, if you can, remind me how much of claims handling is done by Internet in the different countries. I think it's around 40% in Finland in the (inaudible) line, but I was interested in the other countries as well. Thanks.

A - Kari Stadigh {BIO 1504152 <GO>}

Maybe I start with the compliance issue. We cannot start until 24th of August because we have the pricing of the incentive system in the Group going on, and it's not prudent to do share buybacks when the pricing is out. So it's a pure compliance issue. The shortest time we could do it is, if this was not the case, in a week. There is always a moratorium for at least five working days before we can start.

So we got five extra days thanks to this, but this is not material.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Okay. Thanks.

A - Peter Johansson {BIO 3902189 <GO>}

And Gianandrea, on the second question, on the fair value of reserve in equities in Top, so that is really, explain why the accounting change in Topdanmark.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

That's the most of the things, really, nothing else?

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A - Peter Johansson {BIO 3902189 <GO>}

Yes, yes. That's the big item, yes.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Okay.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Starting with the Internet, then, claims handling in Finland is about 45%, Sweden between 20% and 25%. Norway, I think, is 10% to 15%. Denmark is a number that I can't recall off the top of my head at the moment. Probably similar to Sweden.

What RSA -- and of course, these are claims notifications, and then there will be an e-mail conversation sometimes, and sometimes the customer can actually settle the claim himself entirely over the Internet.

RSA, in Sweden, have released, I think, about EUR 300 million in reserves over the past three years. That's from personal accident and motor third party, according to their filings. We have looked at that with some interest, and of course, I have no idea what lies behind it. We have no similar numbers in our organization at all.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Okay. Thanks a lot.

Operator

Our next questions come from the line of Hans Pluijgers. Please go ahead -- announce your company name and location.

Q - Hans Pluijgers {BIO 16245530 <GO>}

Yes. Good afternoon, gentlemen. It's Hans Pluijgers of Cheuvreux. And actually, two questions, if I may. First of all, on Norway, the impact from the flooding, I understood was about EUR 5 million on your claims ratio, but you saw a bigger increase in your combined ratio year on year. Could you give some feeling what the other (hypes) were there for driving this combined ratio year on year?

Secondly, on the equity portfolio, could you a little bit, make it -- give some feeling, because since the end of June, the equity portfolio -- the equities in most of your markets has been down about 20%, looking at your, actually, breakdown of your portfolio, on page 34 of the presentation. Could you look at, say, first, also a feeling how precisely your impairment policy works? I understand it's gone down 20% below the purchase price. And you really have to take an impairment. But it's for a longer term, below a certain level, how -- what level is that, before you will take a charge? I assume it's about nine months, but what level you're going to take a charge?

And also, look at the current share prices. Do you expect, based on current share price, any impairments, major or significant impairments in Q3?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Increasing in Norwegian combined ratio, we had -- last year, we had reinsurance recoveries after the winter, and a much better loss -- large loss outcome. That's the main explanation. The combined ratio is, of course, still below 90, so that's very satisfactory.

A - Peter Johansson {BIO 3902189 <GO>}

Second question, on the equity portfolio, so the change in the investment, how we report the investment portfolio, that's now excluding Topdanmark again.

Q - Hans Pluijgers {BIO 16245530 <GO>}

Yes. But currently, you have 70%, let's say, a positive (inaudible) still in your equity portfolio. But currently, the share prices, on average, looking at your breakdown of your portfolio, about 70% also down, compared to the end of June. So that imply that any risk that you should take, any major impairments, already, on that portfolio in Q3, based on current share price. So could you give some feeling on that?

A - Peter Johansson {BIO 3902189 <GO>}

So basically, you can -- if you look at the equity investments, we did impairments around EUR 21 million in Q2 in the Life company. And I don't think there was any -- or if there was any impairments in the P&C operation, they were insignificant.

Then Q3, I would say that your guess is as good as mine. You can look at our sensitivity table on equities, but what will happen in the market?

Q - Hans Pluijgers {BIO 16245530 <GO>}

Okay.

Operator

Our next questions come from the line of Matti Ahokas. Please go ahead, announce your company name and location.

Q - Matti Ahokas {BIO 2037723 <GO>}

Yes. Good afternoon. Matti Ahokas, Handelsbanken, Helsinki. Couple of questions here as well. Firstly, regarding the weather, in the Third Quarter, we've had a pretty tough weather in the Nordic regions, especially in Denmark, but in other places, regarding the storms. Has this had a material impact on the claims in the Third Quarter so far?

The second question is regarding the buyback as well. Can you confirm that the buyback and the dividend are totally uncorrelated, and the buyback is just an additional thing on

top of the buyback, so we should not expect that this would, in any way, impact the dividend payout of -- for 2011?

And the third one, just a detail question. Was it so that it was EUR 21 million of reserve releases or prior year gains in the Industrial division in the Second Quarter? Thanks a lot.

A - Kari Stadigh {BIO 1504152 <GO>}

On the buybacks, Sampo is a dividend stock. The -- it's a Board decision, what dividends are, but (inaudible), as you are well aware of, the management loves track record in dividends. Yes. This is on top of dividends, the share buybacks. They don't influence our dividend capacity, and nor decisions.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Then on weather, in Q3, weather in Copenhagen was troublesome on the 2nd of July. We have present estimates of that to be EUR 10 million to EUR 15 million, which is, of course, less than what we can have in one large loss, and in fact, less than we had in the summer storms in Finland last year for Q3. So that is business as usual for us.

EUR 21 million seems to be right. I don't have the number in euros, but that's roundabout right for the Industrial in Q2.

Q - Matti Ahokas {BIO 2037723 <GO>}

Great. Thanks a lot.

Operator

(Operator Instructions) The next questions comes from the line of Peter Eliot. Please go ahead, announce your company name and location.

Q - Peter Eliot {BIO 7556214 <GO>}

Thanks a lot. It's Peter Eliot from Berenberg. Three quick questions, if I may. I'm sorry if the first one is partly going over ground covered, but my first question to start, but just on the share, the share buyback, in terms of the timing on that decision, am I right in understanding that it's basically driven by your view of the value of your shares, and that this is the right time to step in, or is there anything else going into that decision?

Secondly, on your stake in Topdanmark, I think I'm right in saying that you haven't participated in Topdanmark buyback to date. Are you able to say anything on your approach to Topdanmark's buyback going forward, whether or not you might participate?

Then thirdly, very quickly, a numbers question. On the -- I was -- the financing costs in the holding company came in slightly lower than I was expecting. Are you able to give us guidance on how we should look at those, going forward? Thank you.

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A - Peter Johansson {BIO 3902189 <GO>}

On the financing costs, yes, it was slightly better, because we have also swaps and some currency, open currency positions on the funding. So from quarter to quarter, it can fluctuate. We had slightly higher in Q1, if I remember correct. Yes. We had a slightly higher -- and now it was slightly better in Q2. So there's some valuation movements.

But on average, the guidance is roughly -- because we have 3.5% funding costs, so that you use around EUR 15 million to EUR 16 million. That's roughly the normalized.

Q - Peter Eliot {BIO 7556214 <GO>}

Thanks.

A - Kari Stadigh {BIO 1504152 <GO>}

On Topdanmark, we have nothing to do with Topdanmark's buyback program, except that when we have been buying ourself Topdanmark's shares, we are well aware that Top is not distributing dividends, and they are giving us an indirect yield through their share buyback. So they have not communicated anything else. We assume that they continue with offering their shareholders this indirect yield, and our shareholding and their buybacks are two completely separate issues.

Then on our share buyback, you had a question. Now I already forgot it. But you -- what was your question?

Q - Peter Eliot {BIO 7556214 <GO>}

It was just in terms of the timing of that decision, whether that was solely driven by the value you perceived -- you saw in your shares in the moment, or whether there was anything else going into that decision.

A - Kari Stadigh {BIO 1504152 <GO>}

Yes. When we do a decision on share buybacks, we have done this decision several times, but we have very seldom been really successful. The only time when we were really successful, when -- was when the Icelanders were selling down. Then we were heavily in the market.

When we do the decision, it's -- you can really say that it's clear that we feel that it's a valuation issue on the share price. Actually, in our business, it's so that many times, because of compliance reasons, we are not able to buy shares back when we would like to, because we are active in the market. And many times, there are insider issues. We have something going on which stops us from buying.

This time, there is a window of opportunity for us to buy, and we executed.

Q - Peter Eliot {BIO 7556214 <GO>}

Okay. Thanks a lot.

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Operator

We have no further questions at this time, so I hand the conference back to you.

A - Jarmo Salonen {BIO 1860650 <GO>}

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

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