

## Q3 2013 Earnings Call

### Company Participants

- Jarmo Salonen, Head of IR
- Kari Stadigh, CEO
- Peter Johansson, Group CFO
- Ricard Wennerklint, Deputy Head of P&C Insurance

### Other Participants

- Blair Stewart, Analyst
- Daniel Do-Thoi, Analyst
- David Andrich, Analyst
- Gianandrea Roberti, Analyst
- Hakon Fure, Analyst
- Jacob Brink, Analyst
- Matti Ahokas, Analyst
- Paavo Ahonen, Analyst
- Per Gronborg, Analyst
- Peter Eliot, Analyst
- Thomas Seidl, Analyst

### Presentation

#### Jarmo Salonen {BIO 1860650 <GO>}

Ladies and gentlemen. welcome to this conference call on Sampo Group's Q3 2013 results. My name is Jarmo Salonen and I'm Head of Investor Relations at Sampo. And with me at this call I have our Group CEO and President, Kari Stadigh; Group CFO, Peter Johansson; and Deputy Head of P&C Insurance, Ricard Wennerklint.

We have the same procedures as earlier; Kari will start with some highlights on the Q3 developments. But before handing to Kari, let me remind you that you can follow this transmission on our website, [sampo.com/results](http://sampo.com/results), and a recorded version of the call will later be available at the same address.

And I think that's all from me now. I'll hand over to Kari.

#### Kari Stadigh {BIO 1504152 <GO>}

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

This time, the good performance is more evenly distributed within the Sampo Group than ever before. All areas of operations, as well as all geographies, are performing as planned, and delivered solid numbers. I would like to single out a few specific areas of strength.

In non-life insurance, the first nine months' combined ratio at 88.2% was the best ever result.

In Nordea, one could clearly see that the focus of capital and costs starts to pay off. Core Tier 1 ratio reached 14.4%, and credit losses continued to decline.

In life insurance, unit-link assets under management reached an all time high at EUR4.4 billion, and the weak profit liabilities are now discounted at 2.5% for 2014, and at 3% for 2015. Also, the cost and risk ratios improved significantly.

On the Group level, the post-tax unrealized gain in the insurance company investment portfolio reached an all time high of EUR893 million.

Turning to the standalone Q3, it is worth noting that even if we are facing slow general economic growth, the operating profit grew steadily in all areas; If plus 9%, Nordea plus 3%, and Mandatum Life plus 3% as well.

Given these solid numbers, If will certainly distribute in December as usual an internal dividend of SEK4.3 billion. That is roughly EUR500 million.

Also, one can expect that Mandatum Life with a solvency ratio of 28.5% is well positioned to distribute in the First Quarter of 2014 an internal dividend at the same level as this year. That's roughly EUR100 million.

Also, of course, pointing -- or after pointing out these areas of strength, based on the operational excellence customary to our management team, I would also like to comment on things that keep me awake at night.

Actually, there are no such operational major issues at the moment, but on the investment side, the same -- it's the same old issue. Our decreasing running yield, that's the main issue that keeps me awake at night.

We saw interest rates increase in September, and we used the opportunity to increase our covered bond position by buying more than EUR500 million worth of covered bonds. However, now yields are falling again.

In If, our running yield, including cash for the whole fixed income portfolio, is now at 3%, down from 3.6% at the beginning of this year.

In Mandatum Life, our running yield, including cash for the whole fixed income portfolio, is now at 4.1%, down from 4.8% since the beginning of this year.

So our investment stance remains the same. Cash is king until we see a steepening yield curve.

There is not that much left of this year, but as you all have seen, we have narrowed our combined ratio guidance to 88% to 90% -- between 88% to 90% for the full year 2013. And even if we saw exceptionally strong wins in Denmark and Southern Sweden, we see no reason to change this. All in all, confidence prevails.

**Jarmo Salonen** {BIO 1860650 <GO>}

Thank you, Kari. And operator, we are now ready for the questions.

## Questions And Answers

### Operator

(Operator Instructions) Peter Eliot.

**Q - Peter Eliot** {BIO 7556214 <GO>}

I have two questions, please. Kari, you mentioned the windstorms just now. I was wondering if you are able to comment any further on the impact of those at all. One of your competitors put out some numbers this morning. I was just wondering if you were able to do anything in the way of quantification of roughly what we might be looking at.

Then the second thing, being very picky on the numbers, but if I look at the net premium earned in Norway in non-life, that's been falling slightly quarter on quarter for the last three quarters. I know there's some currency impacts there, but nevertheless, if I try and strip those out on my numbers, I think in local currency, Q3 was down maybe 2.5% on Q2, and I was just wondering if there was anything that you wanted to highlight there.

Thank you.

**A - Kari Stadigh** {BIO 1504152 <GO>}

I think, Peter, I'll turn this over to Ricard.

**A - Ricard Wennerklint**

Yes. When it comes to the windstorms, our current estimate is that we will end below our net retention, which is roughly SEK250 million; so we don't see any major impact during the Fourth Quarter. And as Kari mentioned, it means that we remain with the current outlook of 88% to 90%. So not that big effect of the windstorm.

Secondly, on the premiums in Norway, if you look at this in Norwegian kroner, we have a 2.3% growth in Norway during the first nine months. So I think it's mostly currency effect that you see, actually.

**Q - Peter Eliot** {BIO 7556214 <GO>}

Okay. Thanks a lot.

**Operator**

Hakon Fure, DNB.

**Q - Hakon Fure** {BIO 16623060 <GO>}

Two questions from me, please. Firstly, Kari, you touched on the internal dividends from If and Mandatum. If we then look at Nordea, consensus expectations for Nordea's dividends is for them to be up by more than 30% year on year. Given your capital position, is there any reason why we shouldn't expect you to pass this on to your investors?

Then secondly, on the Swedish combined ratio this quarter, is this solely due to a high degree of large claims in Sweden this quarter or is there anything else happening?

Thanks.

**A - Kari Stadigh** {BIO 1504152 <GO>}

On Nordea, I don't really think you expect me to answer your question, so I think that we'll stick to the communication that Nordea has given. And Clausen has clearly stated that you will see an increased dividend, but he will come back to this later this year.

**A - Ricard Wennerklint**

On the combined ratio in Sweden, it's not at satisfactory level, but it's mainly due to volatility in large claims. On the underlying business, we continue to see a need for premium increases in the private business and that is taking place as we speak.

**Q - Hakon Fure** {BIO 16623060 <GO>}

Okay. Thank you.

**Operator**

Matti Ahokas, Handelsbanking.

**Q - Matti Ahokas** {BIO 2037723 <GO>}

Two questions, please; a bit on the details from Ricard. What was the total impact of large claims in the Third Quarter? I remember that you previously said that the normal level is roughly EUR70 million.

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And also, if you could tell me what was the impact of the -- I guess you change also the real discount rate in Sweden. If you could give me the figure, I would be very happy.

**A - Ricard Wennerklint**

Let's take the interest rate in Sweden first. I think it's at 0.94% discount level in Sweden. On large claims, we have said that during the first nine months, we're I think SEK70 million above normalized, and that is what we give on the large claims. Nothing really to add on that.

**Q - Matti Ahokas {BIO 2037723 <GO>}**

But the impact of the Swedish discount rate, could you give me that in euros for the Third Quarter?

**A - Ricard Wennerklint**

No. We don't disclose specifically the number in euros. The rate that we use, 0.94%, is of course slightly higher than what was in the Second Quarter, but I don't have the specific impact of that change during the Third Quarter, no.

**Q - Matti Ahokas {BIO 2037723 <GO>}**

Right. And while I have you on the line, a follow-up question regarding the Swedish situation. Would you regard the weaker profitability that we've seen in Sweden more of a cyclical or structural factor? You mentioned that you're going to target some premium hikes, but is this more of a cyclical or a structural problem that we're seeing in Sweden?

**A - Ricard Wennerklint**

I would label this as a very normal fluctuation in the business.

**Q - Matti Ahokas {BIO 2037723 <GO>}**

Thanks a lot.

**Operator**

Jacob Brink, ABG.

**Q - Jacob Brink {BIO 18967018 <GO>}**

So much about this quarter, but I was just wondering how you're going to treat Nordea now where I guess Nordea's going to stop -- capital-wise, how are you going to treat Nordea when --? I assume Nordea's going to stop transition rules risk-weighted assets. Are you going to use Basel III fully loaded, or some kind of in-between? Or what kind of level are we looking at?

Thank you.

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**A - Peter Johansson** {BIO 3902189 <GO>}

This is Peter. So basically, if you look at slide 15 where we have the conglomerate capital rules actually, with transition rules that we use now, Nordea consumes capital EUR3.6 billion.

If I would exclude the transition rules, Nordea would consume EUR2.7 billion. And if I take from the Claussen's fully-loaded core Tier 1 ratio that he said on the CEO review, the number would be EUR2.9 billion.

**Q - Jacob Brink** {BIO 18967018 <GO>}

Okay. That would be somewhat less than your economic capital from Nordea, so which maybe consider doing something to get up towards the old level, or would you actually then use a lower level of capital for Nordea?

**A - Peter Johansson** {BIO 3902189 <GO>}

That would actually be the regulatory capital requirement, but we would continue to take our share of Nordea's economic capital, which is the higher number.

**Q - Jacob Brink** {BIO 18967018 <GO>}

Okay. Thank you.

**A - Jarmo Salonen** {BIO 1860650 <GO>}

And the slides that Peter is referring to are the supplementary package slides that you'll find on our website.

**Operator**

Blair Stewart.

**Q - Blair Stewart** {BIO 4191309 <GO>}

A couple of questions. Kari, you talked about buying some covered bonds in the quarter. I just wondered what the yield on those investments was, please, just to get an idea of what you think is attractive.

And secondly, the EUR893 million fair value reserve that you talked about as well, I just wondered what's the strategy with that. Is that purely an investment management decision as to when that gets crystallized? Or will you use that over time to help smooth the earnings of the Company?

Thank you.

**A - Kari Stadigh** {BIO 1504152 <GO>}

Well if we start with the buffer, I think the buffer is there because we see value in the underlying assets. And if our view on the value of the assets would change, then we would sell them and then we would realize the profit. So I think that's the basis why we have -- they are roughly pre-tax, Peter? They are EUR900 million and EUR300 million, roughly?

**A - Peter Johansson** {BIO 3902189 <GO>}

Yes.

**A - Kari Stadigh** {BIO 1504152 <GO>}

EUR900 million in equities and EUR300 million in bonds; a little bit less than EUR900 million.

Then on covered bonds, I think the (tenure) was three to five years and the yield was roughly plus/minus 3%.

**A - Peter Johansson** {BIO 3902189 <GO>}

Exactly. It was a total of SEK5 billion, roughly.

**A - Kari Stadigh** {BIO 1504152 <GO>}

Yes. So it's a little bit more than EUR500 million. It was EUR560 million probably in euros.

**A - Peter Johansson** {BIO 3902189 <GO>}

Yes.

**Q - Blair Stewart** {BIO 4191309 <GO>}

And the yield was about 3%, did you say?

**A - Kari Stadigh** {BIO 1504152 <GO>}

Yes. Roughly plus/minus 3% depending on the tenure.

**A - Peter Johansson** {BIO 3902189 <GO>}

The fixed income, of course, the unrealized gain of EUR300 million, that will run off within two or three years.

**Q - Blair Stewart** {BIO 4191309 <GO>}

Yes, of course. Yes. And just one other comment, Kari. I'm pleased that they managed to persuade you to stay off the golf course for a few more years and stay on at the Company, so thanks for that.

**A - Kari Stadigh** {BIO 1504152 <GO>}

Thank you for the support.

## Operator

Thomas Seidl, Bernstein.

### Q - Thomas Seidl {BIO 17755912 <GO>}

Two questions, please, on the P&C business. Page 33 of the presentation, you show the gross written premium by market. I wonder if you could give me a flavor by each of these markets what is rate driven versus what is market share driven.

And the second question is about capital management. I think you are now at EUR4 billion excess capital, 184% solvency ratio. What is your target capital level? And can you think about using some of those excess capital to pay down debt, or even share buybacks?

### A - Ricard Wennerklint

Start with the gross written premium. I think the way to think about this number is that it's basically flat market share if you think about the retail business and the SME business (versus) probably a fall in the market shares in the industrial market, and that is a general truth for all the markets.

### A - Kari Stadigh {BIO 1504152 <GO>}

On capital, I think that we have always been in a way over-capitalized with a strong cushion, and I think that in these times, that's a sensible way to run this also in the future.

For us, we have not been that keen lately on share buybacks, even if we have that in our toolbox. We are more here to secure that we can build a dividend history.

So I have said it many, many times that we are a dividend stock and we like to be able to show to you slightly increasing dividends year on year.

### Q - Thomas Seidl {BIO 17755912 <GO>}

Okay.

### A - Peter Johansson {BIO 3902189 <GO>}

On the regulatory side, we don't have specific target for the time being because it's a moving target due to the changes in regulation.

### Q - Thomas Seidl {BIO 17755912 <GO>}

Okay. Thank you.

## Operator



Per Gronborg, Danske Markets

**Q - Per Gronborg** {BIO 15910340 <GO>}

Two questions from my side, just a clarification. You're lowering the discounting rate once again on your life business by 0.5percentage point. What has the cost been in euros for doing that for a single year?

The second question is on the (technical difficulty) (allowance). You have (technical difficulty) (market share). One of the other big Nordic industrial insurance (groups) has also been giving up quite material market share. Who exactly is the ones that are gaining on that part of the market? Do you have any comments on that. Is it Nordics? Is it national players in the Nordics that is doing it?

**A - Peter Johansson** {BIO 3902189 <GO>}

On the cost (there), it's roughly EUR18 million to EUR19 million every -- for 50 basis points lowering.

**A - Kari Stadigh** {BIO 1504152 <GO>}

Per year.

**A - Peter Johansson** {BIO 3902189 <GO>}

Per year, exactly. EUR 18 million to EUR19 million.

**A - Kari Stadigh** {BIO 1504152 <GO>}

And on market share industrial?

**A - Peter Johansson** {BIO 3902189 <GO>}

This is, of course, we define the industrial market in different ways in different companies; impossible to answer. But I would guess that the customers that we are losing are going both to domestic players and to international players.

**A - Kari Stadigh** {BIO 1504152 <GO>}

I have a small comment, Per. We are not really giving away or taking market share because that's not the way we work. We price risks and then we see the outcome. So I think that's always remember to -- always worthwhile to remind of our culture that market share is secondary to us. For us, it's primary to price risks correctly and then earn my money for shareholders.

**Q - Per Gronborg** {BIO 15910340 <GO>}

Sorry for phrasing my question slightly wrong. I understand, yes.

**Operator**

Gianandrea Roberti, Carnegie.

**Q - Gianandrea Roberti** {BIO 6786731 <GO>}

The first question, I think is for Peter. I was looking at the economic capital model, and if, it seems like your models show a EUR160 million roughly jump from the second to the Third Quarter. And if you can give us the explanation for that, that would be appreciated.

Then a couple of questions on non-life. Ricard, is there any chance at all you can be a bit more precise on the windstorms. I'm surprised -- well, you actually just say it's below your net retention, which is (SEK250 million). Did I understand you correctly, right; two, five zero? It's because the (RSA) number this morning are quite a bit out of proportion compared to the market share and compared to what the other players have been saying.

And the final question would be on the non-life business in Norway. It seems like a trend that started in the middle of last year is continuing. Can you add anything on the market, and especially on the smaller players and how they're behaving.

Thanks a lot.

**A - Kari Stadigh** {BIO 1504152 <GO>}

Gianandrea, on the economic capital, it's EUR150 million, like you mention. EUR50 million is roughly model calibration, and the rest is then higher market risk.

**A - Ricard Wennerklint**

On the windstorms, this is still a moving target. So let's say that we are definitely below (EUR250 million). Let's see where we (ended) there. It was only a few days ago.

The Norwegian market, very calm during the Third Quarter. I have nothing new to report, so can't really add much to what has been said before about the Norwegian market.

**Q - Gianandrea Roberti** {BIO 6786731 <GO>}

All right. So nothing -- I still hear that the smaller ones are being very aggressive and chasing market share right and left. There's nothing new on that point?

**A - Ricard Wennerklint**

That would not be the way I would describe the Norwegian market currently. There has definitely been an inflow of competitors during the last couple of years, but last nine months, at least, a fairly calm market.

**Q - Gianandrea Roberti** {BIO 6786731 <GO>}

Thank you.

**Operator**

Paavo Ahonen, Nordea Bank.

**Q - Paavo Ahonen** {BIO 6531806 <GO>}

A question on dividends and on internal dividends. Firstly, on If, you are saying you are planning dividend of around EUR500 million in Q4, and this, I guess, would imply maybe somewhat lower payout there than on average recently. Are there any specific reasons for this?

And secondly, on Mandatum, you are saying you are planning a dividend of EUR100 million for Q1 next year. So should we expect this will be included or have an effect in some Sampo's dividend payment from this year, or how would you handle this?

Thanks.

**A - Kari Stadigh** {BIO 1504152 <GO>}

The EUR500 million should be in line with previous years. That's the SEK4.3 billion, it shouldn't be out of line from what we have been distributing in a good year from If.

The EUR100 million is actually higher than we communicated at one moment when we said that the with-profit balance sheet is shrinking by EUR200 million per year. We said that maybe there is a good basis to assume EUR50 million per year and maybe more in a good year. So I think this is a sign. When we assume now that we could be distributing EUR100 million early next spring, that's a sign that the year has been good.

On our dividends, I have nothing new to communicate. Of course, we want to increase the dividend gradually, and you have just to wait until our Board is ready to make the decision or proposal for next spring.

**A - Peter Johansson** {BIO 3902189 <GO>}

Technically, of course, if we take in December EUR500 million from If, that means actually a pre-dividend from If. So it's this year's profits will be distributable capital only after the full-year numbers when they have been audited.

**Q - Paavo Ahonen** {BIO 6531806 <GO>}

Right. Okay. Thanks.

**Operator**

David Andrich, Morgan Stanley.

**Q - David Andrich** {BIO 15414075 <GO>}

I was just wondering, other than the Swedish private line, are there any other areas where you're putting in significant rate increases and we might see an improvement in the combined ratio going forward?

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Thanks.

## A - Ricard Wennerklint

I'm not sure I would use the word significant. Remember that we have a combined ratio of 87.2% in the Third Quarter. I'm saying that we're working on (premium) increases in the private market slightly above claims inflation. And the same, of course, goes for the industrial business throughout the Nordics. Other than that, it's mainly in line with claims inflation.

## Q - David Andrich {BIO 15414075 <GO>}

Okay. Thanks.

## Operator

Daniel Do-Thoi, JPMorgan.

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

Most of my questions have already been answered, so just one then on Mandatum Life. The accelerated strengthening of the reserve, lowering the discount rate, does that change the way you think about asset allocation and capital risk going forward; (thus) that's the unchanged at EUR50 million per year?

Thank you.

## A - Kari Stadigh {BIO 1504152 <GO>}

It does not affect our allocations. That's market driven based on our investment view, and we have the capital to have the allocation we want.

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

Okay. Thank you.

## Operator

There are no further questions at this time. Please continue.

## A - Jarmo Salonen {BIO 1860650 <GO>}

If there are no further questions, then thank you for your attention and have a very nice evening.

Thank you.

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