Q1 2012 Earnings Call

Company Participants

- Jarmo Salonen, Head of Investor Relations & Group Communications
- Kari Stadigh, CEO & President
- Peter Johansson, Group CFO
- Torbjorn Magnusson, Head of P&C Insurance
- Unidentified Speaker, Unknown

Other Participants

- Blair Stewart, Analyst
- Gianandrea Roberti, Analyst
- Giulia Raffo, Analyst
- Hakon Reistad Fure, Analyst
- Hans Pluijgers, Analyst
- Per Gronberg, Analyst
- Unidentified Participant, Analyst

Presentation

Jarmo Salonen {BIO 1860650 <GO>}

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

We'll start with a short introduction by Kari into the Q1 developments and after that we will answer whatever questions you may have on those numbers. Before I handed over to Kari let me just remind you that you can follow this transmission on our website www.sampo.com/result and a recorded version of the call will a later be available at the same address.

I think that's all from me and I'll hand over to Kari. Kari, please.

Kari Stadigh {BIO 1504152 <GO>}

Thank you. Welcome to the conference call on my behalf as well. When looking at our operations in general and especially our First Quarter numbers, I must say I like what I see; a very strong operational performance.

We report an excellent result for the quarter. And EPS of EUR0.57 well in line with the corresponding quarter in the previous year; however, the mark to market EPS of EUR1.17 was a very good number indeed and significantly higher than the previous year.

Our non-life operations performed really well and the First Quarter combine ratio 92.4% was the best ever First Quarter results. The profit for the period was EUR191 million down 30% from Q1 in 2011. However the previous year figure includes sales gain of EUR75 million which at least the major part should be considered a one-off.

In the First Quarter, Nordea strong business momentum continued. Total income for the quarter was highest ever comparing First Quarter of the year. Net interest income increased by 7% and at EUR1.420 billion was a very good achievement. The core tier 1 capital ratio also increased during the quarter by a healthy 0.4% to 11.6%. We booked a dividend of EUR224 million from Nordea. And now have a book value of EUR7.21.

Also life insurance performed well and according to plan. Gross written premiums grew by 20% and the profit was EUR33 million, this after EUR70 million was used to lower the discount rate to 2.5% for this year and to 3.25% for 2013.

The solvency ratio of Mandatum Life Group increased to 24.8%; a very good number as well. So all in all a very strong quarter for the Group. And as I stated off in the beginning, I like what I see. Looking at the outside world and especially Europe, I don't like what I see. The environment is not favorable for banking in general. Low interest rates, sluggish, or no growth in general economy and lots of regulatory changes in process or pending.

Still Sampo Group that performs well and stays ahead of the pack. In many areas, the market-leading position was further strengthened, especially smaller players seem to struggle in our home targets.

What to invest in this type of environment -- or what to invest in this type of environment? It's easier to say what not to invest in. We avoid all type of sovereign risk and long duration in general. We continue to invest selectively in corporate bonds and see value in equities, even if our patience is tested every day.

On risk in general, we stay on hold and do not add risk. We focus on reinvesting the fixed income portfolio as papers mature. Our outlook is as always in the beginning of the year cautious, even if operationally we are better positioned than ever.

Sampo Group is today a proxy to the financial market in a geographical area which will perform significantly better than Europe on average.

Jarmo Salonen {BIO 1860650 <GO>}

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

Questions And Answers

Operator

(Operator Instructions).

Our first question is coming from the line of Hakon Reistad Fure from DNB in Oslo. Please go ahead.

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

Hi. Good afternoon. Two questions, if I may. Firstly, on the optimum research strengthening, it appears that when you realize pace strong return in investment you cease opportunity to strengthen the reserves and lower the discount rates. Given the substantial spread between the current running yield and guaranteed rates, should we expect that you will continue to strengthen your reserves going forward or are you comfortable with the current levels?

Secondly, on European see premiums. You've seen a very strong development in the premium growth lately. I'm looking at it from a countrywide country basis in the growth rate in premiums are up by 5% both in Norway and Sweden year on year.

Looking at your peers it appears to be substantially stronger than most of them. And I was wondering if this reflects purely price increases, or are you seeing positive volume development as well. Thank you.

A - Kari Stadigh {BIO 1504152 <GO>}

(inaudible). I think that our attitude is of course very dependent on what kind of interest rate we see going forward but we had discounted our or we had lowered our discount rate also last year so at levels between 2.5% to 3% I think we feel comfortable each year going forward.

So if interest rates stay at these exceptionally low levels I would like us to afford to lower the interest rates for next year at some suitable moment as well.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

On P&C growth a few factors at the same time work in the same direction. First of all I think the major achievement this quarter has been that we have been able to increase segmentally premium levels more than claims inflation which is a positive and contributes to growth.

On top of that, we are very strong in the car dealer segment and in spite of the general economy, Scandinavia has over the Nordic region has seen record car sales this quarter. On top of that had good renewals basically a good retention in all countries this quarter.

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

Thanks. That's very clear.

Operator

Thank you. Our next question comes from the line of (inaudible). Please go ahead.

Q - Unidentified Participant

Yes. Good afternoon. A couple of questions on the non-life side as well. Firstly, regarding the discount rate change in the annuity reserves in Sweden. I guess that was mainly due to the rising rates in the First Quarter but actually if I look at it quite the opposite has happened in the Fourth Quarter so the yields are down quite a lot. Should we expect that you will reverse this discount rate change going forward and also if you could give us a breakdown of the run-off gains per geographic region if possible?

And, thirdly, from a -- on the economic capital (inaudible) is actually up quite a lot, what is due to and that was basically it. Thank you.

A - Unidentified Speaker

The discount rate is based on the real rates in Sweden and we have had uniquely low such that increased slightly in this quarter. We of course took out the small gains from that and you will see that that is actually most of the run-off gains that we have so most of the run-off gains come from Sweden this time.

A - Peter Johansson {BIO 3902189 <GO>}

It's Peter, I'm checking the economic capital. The main item, I think, is increasing market that but I can't find the right slide for the time being.

Q - Unidentified Participant

Okay. If I may continue just on the discount rate topic. I can't remember which quarter when you did this and how much was the total amount. Could you remind me of that?

A - Unidentified Speaker

We did that continuously actually from 2010 sometime mid-2010 or late 2010 over five or six quarters. And the total amount was to the tune of EUR60 million to EUR70 million. I cannot give you the (inaudible) off the top of my head.

Q - Unidentified Participant

Okay, fair enough.

A - Kari Stadigh {BIO 1504152 <GO>}

(inaudible) -- bring this slide with me on the economical capital increase. But I can come back to you with that.

Q - Unidentified Participant

Great. Thanks.

A - Unidentified Speaker

Many market risks, I remember that.

Operator

Thank you. Our next question is going to come from the line of Blair Stewart, Bank of America. Please go ahead.

Q - Blair Stewart {BIO 4191309 <GO>}

Hi, there. Good afternoon, everyone. Blair Stewart here. Thanks very much for a straightforward set of numbers. Two questions though both on P&C. Given the result in Denmark, you taking any raking action or is the pickup in large claims purely bad luck?

And secondly, also on (inaudible), just looking at the cost increase you're saying that the nominal cost increase by 5.6%. I just wonder if you see some scope to get the cost ratio down in the year or two ahead given that you are growing the top line quite nicely. Thank you.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Blair, I tried at all costs to avoid saying bad luck. I don't like that and we don't do as ifs and things. But if you have to ask a question on Denmark, I have to say bad luck.

We've had two simple, usual kind, run-of-the-mill fires between EUR5 million and EUR10 million in Denmark. There's nothing special about them. They are risks that are typical to our portfolio so unfortunately I can't say bad luck and the underlying development for us in Denmark has been good but it comes to risk (inaudible) and result this quarter. I'm satisfied with our Danish development.

Secondly, cost increase, the cost ratio which is what is important is unchanged. Actually if you look at the development last year we had a relatively fast development in the First Quarter. The spread of the year varies a bit depending on exactly when we invested systems, to marketing campaigns, et cetera. So I stick to my usual statement that every year we should reduce the cost ratio by a few decimal points.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Thank you, very much.

Operator

Thank you, our next question comes from the line of Gianandrea Roberti from Carnegie Bank. Please go ahead.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Yes. Good afternoon, from me as well. I have actually just one simple question. My fellow (inaudible) of If [ph] at the end of the quarter is more than EUR2.8 billion. Would it be fair to assume that a good working assumption for a Single A Rating is that you should have around EUR2.1 billion, EUR2.2 billion?

I guess what I'm trying to say is that I see at least EUR600 million of excess in top of the single a rating at the moment. Is this something you can probably confirm?

A - Unidentified Speaker

Gianandrea, it depends also on how much you have investment risks and of course in the past we have probably sometimes operating with EUR2.21 billion, EUR2.2 billion but for example we have now the top Denmark state and overall equity exposure is higher. So I would say that your number is at EUR2.1 billion, EUR2.2 billion is a bit low.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Okay. 100? 200 million more than that. Is that a fall target?

A - Unidentified Speaker

You start the bargain here. I think that the profitability of If is such that there is no need to worry about internal dividends. We can quite well handle the needs of the parent to continue to be in dividend stock.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Super. Thanks a lot.

Operator

Thank you. The next question comes from the line of Giulia Raffo from Autonomous. Please go ahead.

Q - Giulia Raffo {BIO 7573856 <GO>}

Hi. Good afternoon. I have a few very quick questions and apologies if some of them have already been asked. But I had problems getting into the conference call. Quick one on If, the combined ratio was very, very strong particularly for winter quarter. If you compare Q1 2012 with Q1 2011, can you tell us how much the Delta is due to better weather as opposed to underlying improvement?

The second question is on the life [ph] side. I have seen in the supplement a footnote that suggest that you took some costs for some pension initiative. I just wanted to check whether you can tell us how much were those costs and if we should expect them to continue the rest of 2012?

The third question is whether you can give us some indication about what your expectation of running yields involve life and P&C for the rest of 2012. Thank you, very much.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

I'll give you some very round numbers that might be useful. The winter this year is roughly 1.5% on the combined ratio better than what we expected on average or budgeted or planned.

The large losses as a round number, 1% worse. And we have roughly 1% in the discount rate runoff gains that I answered in the previous question. So that's the more substantial deviations from the plan.

Q - Giulia Raffo {BIO 7573856 <GO>}

Thank you, very much.

A - Unidentified Speaker

On the pension side it's actually a new business imitative we bought a small operation called INOVA Pension [ph]. If I remember right the cost was something around EUR1 million.

Yes, that is a (inaudible) pension that the company because it's not a pension company.

It's not a pension company, yes.

Maybe I clarify this a little bit --

Q - Giulia Raffo {BIO 7573856 <GO>}

Should we expect that to carry on or not, the EUR1 million? Or, was it just a Q1 hit?

A - Unidentified Speaker

It's a one-off.

Q - Giulia Raffo {BIO 7573856 <GO>}

Okay. Thank you.

A - Unidentified Speaker

Yes, we bought the consulting business and this is related to that. The consulting business should be profitable in the future and it has to do with personal funds, which is a growing market.

The importance of this acquisition will come later on because as it's a personal fund it takes time to fill in the products, the companies, because also the union members are allowed to be involved in decision-making.

You also asked on the fixed income portfolio running years. We have as you have seen in the material a 3.9% running yields in the fixed income portfolio and If -- and a 5.3% running yield in Mandatum Life.

I can't give you any answer what will happen during the year. We are of course in a very defensive mode. We try to maintain these in an environment where they are gradually going down. How this curve looks like, that depends on what kind of reinvestments we find.

We actually at this moment we are mainly participating only new issues and unless there are enough attractive new issues on the market that will fill our criteria if that is not the case then we will allocate more money to cash and that will drive our running rate lower. But how this will develop, it will be very dependent on the market and how well the market receives and what kind of margin the market is willing to pay for the new issues.

Q - Giulia Raffo {BIO 7573856 <GO>}

Excuse me, can you give us a sense of what was your average new money reinvestment yield in Q1 2012?

A - Unidentified Speaker

The new corporate bonds that we participate in the fair, yield has been 4% to 5% however we have not been able to find enough materials so our cash has lately in the last months been increasing.

Q - Giulia Raffo {BIO 7573856 <GO>}

Thank you.

Operator

Thank you. Our next question comes from the line of Hans Pluijgers from Cheuvreux. Please go ahead.

Q - Hans Pluijgers {BIO 16245530 <GO>}

Yes. Good afternoon, gentlemen. If you questions from my side. First of all, on the industrial side, you show an increase in the combined ratio can you relate what was happening there? Was it one specific or a few specific issues or general trends?

Secondly, a follow up on that because I see the premium income rise in the additional (inaudible) 5.7%. Can you maybe give a breakdown of volume of price there?

And then coming to the capital, economic capital increased and was correctly the main issue was that a market risk discretional [ph]. Is that mainly driven by an increase in equity prices could you give some reason for the slow increase in the market risk?

And, thirdly, on the life side, you saw a quite strong increase the market share in Mandatum in Finland. Could you give maybe some background to that?

And lastly, with respect to P&C, last year you turned quite significant investment gain which you said partly was a one-off. But I assumed also looking at let's say your change in your breakdown of your investment portfolio, you have taken some (inaudible) gains on your portfolio -- material gains in the P&C investment portfolio or can you give some feeling of what was the normalized level there?

A - Unidentified Speaker

I didn't catch the first question. You saw combined ratio increase where specifically?

Q - Hans Pluijgers {BIO 16245530 <GO>}

In industrial segments. You discussed in Denmark it was commercial with also an industrial segment you saw an increase on year-on-year. What's happening there?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Okay. In industrial the combined ratio increase is driven by the change in large losses. The development in general for our book is good. The rate to development is good for our book. I have no -- I have good expectations for the rest of the year.

The income increase I gave some factors to that earlier. The record car sales, the high rate increases and some segments notably property in Sweden and Finland. Some degree also in Denmark, property, private lines, we are able to get through the premium increases that we want then they are in excess of claims inflation and good retention levels in all markets not least in Norway where we have had strong competition from bank insurers previously but that seems to have abated and we have a good exchange rate to the bank insurers of Norway at the moment.

A - Unidentified Speaker

The economic capital so it's mainly driven by the increase in markets recently and that's partly because equity prices have gone up and partly because of the spread risk.

It looks like in Mandatum Life that the market risk has not increased that much but it's partly due to the fact that again, the concentration risk is down in Mandatum Life. But that's the main driver in the increase in economic capital.

You also asked about Mandatum Life's market share. I also saw that our market share increased but as you are well aware, it's not a target or KPI for us in any way.

We don't live on market share so really we should ask what our colleagues did. The market in Finland is such that it's divided almost exactly into four parts. It's us, OP Povula [ph] Life or OP Life Company and Nordea and the market segment Other. They are roughly the same size and so it's more question of how the other bank distributors how they allocated their distribution resources and I don't really follow that much.

Mandatum's progress was very positive at 20% increase in gross written premiums and of course Sampo Bank which is now owned by Danske. And is our exclusive distribution channel, they performed really well in this quarter. That is noteworthy.

Q - Hans Pluijgers {BIO 16245530 <GO>}

But there was no let's say marketing (inaudible) in Q1?

A - Unidentified Speaker

No, we live our own life and we try to earn as much as possible and we don't really follow the market share. It was just the result of good work in Sampo Bank and in our own sales organization.

Q - Hans Pluijgers {BIO 16245530 <GO>}

And on investment gains in P&C, what do you see as normalized level and what are let's say was Q1 in line with normalized levels in P&C?

A - Unidentified Speaker

Real life gains were fairly small in Q1 both in Mandatum Life if the exceptional item last year was the one-off EUR75 million sales gain that we had from one individual stock.

I think you could interpret this as a pretty normal uneventful quarter in a way.

Q - Hans Pluijgers {BIO 16245530 <GO>}

Okay, thank you.

Operator

Thank you. We currently have no questions coming through.

(Operator Instructions).

We have a question coming from the line of Per Gronberg from Danske. Please go ahead.

Q - Per Gronberg

Yes, it's Per of Danske. Single question. You reported quite good figures also from your Norwegian operation. But we saw one of your peers on Friday last week report outstanding figures. Don't know how willing you are to comment on peer performance verses your own. But can you give us some insight into what's driving your Norway business at that homeland? Are there any special items we should be aware of looking at your Norway country [ph] result for this quarter?

A - Unidentified Speaker

Not really. I'm not -- I have no insight into what (inaudible) numbers mean so I can't compare us to them. We are happy with the development. The winter in Norway was mild, I would say better than plan or budget, if you can have a plan for winter.

We were able to have good retention numbers, increase prices as we wanted to and that will benefit our numbers going forward also. I can't really say anything compared to (inaudible).

Q - Per Gronberg

No special items in your figures? No past claims or --?

A - Unidentified Speaker

No. No.

Q - Per Gronberg

Thank you.

Operator

We currently have no further questions coming through. So, just a final reminder.

(Operator Instructions).

And we've got a follow up question from the line of Hans Pluijgers from Cheuvreux. Please go ahead.

Q - Hans Pluijgers {BIO 16245530 <GO>}

Yes, one small follow up question with respect to tax rates. They were relatively low in Q1, if you could maybe could give some reason why it was low. It was about 13% or at least are you going forward with respect to tax rate?

A - Unidentified Speaker

The reason why the tax rate looks low is simply because we take the net profit from our data and that of course is not taxed twice so its reported as pre-tax profit. But then when you calculate the tax on the reported profit both from Mandatum Life and If you can apply roughly 25%.

Q - Hans Pluijgers {BIO 16245530 <GO>}

Okay. Thank you.

Operator

We've got no further questions coming through from the telephone lines.

A - Jarmo Salonen {BIO 1860650 <GO>}

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

Operator

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