

## Q2 2014 Earnings Call

### Company Participants

- Jarmo Salonen, Head-Investor Relations & Group Communications
- Kari Henrik Stadigh, President & Group Chief Executive Officer
- Torbjörn Magnusson, Chief Executive Officer

### Other Participants

- Blair T. Stewart, Analyst
- Daniel A. Do-Thoi, Analyst
- Gianandrea Roberti, Analyst
- Jakob Brink, Analyst
- Matti Ahokas, Analyst
- Paris Hadjiantonis, Analyst
- Vinit Malhotra, Analyst

## MANAGEMENT DISCUSSION SECTION

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

Ladies and gentlemen, welcome to Sampo Group's Second Quarter 2014 Conference Call. I'm Jarmo Salonen, Head of Investor Relations at Sampo. And with me at this call, I've got our Group CEO and President, Kari Stadigh; Head of P&C Insurance, Torbjörn Magnusson; and our Group CFO, Peter Johansson.

You can follow this call on our website, [sampo.com/result](http://sampo.com/result), and a recorded version will be available later at that same address. And as our normal practices, Kari will start with an introduction to the Q2 development. Kari, please.

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

Thanks. Welcome to the conference call on my behalf as well. Sampo Group had an excellent performance throughout the first six months. All three business areas had good results. Our first half year mark-to-market EPS was €1.41, up 36% from last year and Q2 NAV at €23 was an all-time high Q2 number.

Non-life operations report excellent results and the best ever first half year combined ratio at 88.3%. Focus on underwriting paid off, and claims development in the first six months was generally benign. Nordea, our associate, contributed over €300 million to our first half year result. Given the fact that this number contains our part of a restructuring charge of €190 million; it's a very good result indeed.

Nordea's cost efficiency program, as such, is progressing as planned.

Client intake and cash generation are strong. Focus on initiatives to regulate the risk exposure amount, the divestment on Nordea Bank Polska; all these together decreased the risk exposure amount significantly. Following all these increased Nordea's fully loaded Basel III Common equity tier 1 capital ratio to a healthy 15.2%.

Mandatum Life continued to increase volumes and its profitability. The unit-linked reserves reached an all-time high at about €5 billion. And we were able to lower the discount rates for 2014, 2015 and 2016. The consent for the €1.3 billion group pension portfolio transfer from Suomi Mutual to Mandatum Life was also received during the second quarter and the transfer is scheduled to take place by year-end.

Good overall investment result for the first six months as well. In If, the mark-to-market return was 3.1% and in Mandatum Life, 3.9%. As I have stated already for a few quarters, our main headache in investments is the declining running yield.

I must admit that the decision by Riksbanken (03:34) to lower the spread in Sweden by 50 basis points was a surprise to me. So there are no free lunches (03:42) left in the Nordic area when trying to protect the running yield in our fixed income portfolio. It is evident that the cash portion of our portfolio will continue to grow.

You have all seen our guidance for the rest of the year and in fact, I don't have anything else to add but my general feeling. We are well prepared and are in a very good position for the future challenges that our group will face.

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

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

## Q&A

### Operator

We have the first question from Mr. Gianandrea Roberti from Carnegie. Please go ahead, sir.

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

Yes, good afternoon from me. I have a couple of questions mostly referred to non-Life to be honest. Can you describe in your view there's been a change in your reserve position in the second quarter versus the first one. I suspect I know the answer but it would be very useful to just hear it from yourself?

And the second question on the reserve is that I've noticed last week one of the Nordic competitor has booked a £19 million (05:12) reserve strengthening in the Nordic bulk

justifying it with an upcoming Swedish motor review, industry review, which I wasn't aware of. And I'm just wondering if this is detected by the FSC or what? If you have any comments on this, as well, that would be very helpful. Thanks.

### **A - Torbjörn Magnusson**

Change in the reserving position, Gianandrea, no we haven't changed the reserving position. This quarter we took a charge of SEK 130 million against the Swedish annuity reserves as they change continuously with the interest rates in the market. So, without that we would have had a run-off gain as usual, I almost said. Like we don't have a policy and that we should have gained some, we haven't changed the reserving strength at all in the group.

Then RSA took a charge for longevity changes and again, as usual, we don't do it that way. We reserve continuously for the projected changes in longevity that we see every quarter, which is a different way of doing it but we have already taken the same charges gradually and continuously.

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

Just hold on. Just on that one. This industry review, is it dictated by the FSA or what?

### **A - Torbjörn Magnusson**

It's normally done by a body in the insurance federation but I haven't seen that that there's a firm share – a firm time that that will happen. But it was some time since it was done that is prudent to increase the reserves if you haven't done that but we have.

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

Super. Thanks a lot.

### **Operator**

The next question comes from Mr. Vinit Malhotra from Goldman Sachs. Please go ahead, sir.

### **Q - Vinit Malhotra** {BIO 16184491 <GO>}

Thank you very much. Good afternoon, everybody. Just two things I want to clarify from some earlier comments going out (07:16) on the team. One is if you could just clarify, you seem to indicate that you're not happy with the provision (07:24) in Sweden and again they could be translation of other issues I just want to clarify, what has happened? We know this Swedish energy charge (07:33) is reviewed every quarterly and even the last what it seem to be in line. So, I'm wondering why you mentioned this if you just point context there please.

And second thing is if you could just clarify, again a clarification, if you just clarify the exact – the current status on this 33% cut off for Topdanmark? And what exactly is the regulatory view that you understand today? Thank you very much.

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## A - Torbjörn Magnusson

On Sweden, on the contrary, I'm quite pleased with the Swedish development. But it's been commented in various reports that development is not good. But the underlying development in Sweden, I'm quite pleased with the rate increases that we have had to carry out in the past 12 months, more so on private lines than industrial lines.

I think there's still some room for improvement on the industrial lines, but the problem is much smaller now than 12 months ago. So good development and then now and then you have a large loss and that's as it is.

And as we just mentioned, the interest rates have come down. The annuities had to be increased somewhat, but that will, in the end, come up again.

## Q - Vinit Malhotra {BIO 16184491 <GO>}

Sure. Thanks. (08:52)

## A - Torbjörn Magnusson

And then on Topdanmark, the 33% cut-off point, I think you called it, is only valid if you buy shares, not if that is surpassed by repurchasing of shares by the company.

## Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. Thank you very much, Torbjörn (09:12).

## Operator

Next question comes from Mr. Daniel Do-Thoi from JPMorgan. Please go ahead, sir.

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

Hi. Good afternoon. Daniel Do-Thoi here. Just wanted to follow up on Torbjörn's (09:23) comment on the Swedish Danske business, particularly if I look at the premium development in your supplementary pack on slide 31. Swedish premiums tend to go very strongly. Are you continuing to scale back in industrial line? Am I correct in understanding that premium growth in Swedish private lines has accelerated quite a bit? And if so, can you perhaps comment as to what is driving this? Whether it's purely the rate increases that you alluded to earlier or whether there is any market share gains, et cetera. And also, on the combined ratio of 94.1% in the quarter in Sweden, if I take your comment on the Swedish annuity reserve, €130 million that you mentioned, I guess that's around 4%, 5% of the combined ratios. So, if I adjust the combined ratios, then I'll get to around 88%, 89%. And then I'll take your comment also in your report that large assets were certainly higher in the Swedish business. So, am I correct in, sort of, thinking that things have improved quite a bit in the Swedish business? I mean, is that a fair comment? And also, if you have any favorable offsetting effect that may have occurred in the second quarter. Thank you.

## A - Torbjörn Magnusson

Premium increases in Sweden were, yes, they were mainly in the Private (10:52) lines. Some rate increases, notably in car insurance, new channels contributed, there's Nordea, that's another new alliance agreement and also the Internet. And, yes, mainly Private (11:10) lines.

Car sales are up.

Car sales. Thank you. Yes, car sales are up in Sweden by 17%, which benefits us as the main car insurer. And then like, what like your expression, yes, combined ratios improved quite a bit in Sweden. But of course, there are a number of things you have to adjust for. So, for instance, the weather also in Q2 was quite good in Sweden. But, yes, they improved quite a bit, which you can also see from some of the competitors' results.

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

Okay. But your comment that the weather was good in 2Q could equally apply to all the other regions as well or was it particularly good in Sweden?

**A - Torbjörn Magnusson**

It was probably more so in Sweden and Finland than Norway but now I think it is; we're speculating a bit.

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

Okay. Great. Thanks very much.

**Operator**

Next question comes from Mr. Jakob Brink from ABG. Please go ahead, sir.

**Q - Jakob Brink** {BIO 7556154 <GO>}

Yeah. I just have a, I guess, a follow up on sort of the normalized long-term combined ratio, even though I know you don't like to work with that, but now I also know we discussed that at the Capital Market Day but now I guess it's the fourth quarter in a row where you write something like this. This is the best quarter ever or best half year ever, best year ever on the combined ratio. Sweden seems to be progressing well, which has been doing this sort of key problem area for - if I may. Could you maybe give us some details on why should we expect it to go up significantly for the next year apart from, I mean, I agree that weather has been good, but are you seeing any sort of negative trends? That's the first question, please.

**A - Torbjörn Magnusson**

No, I haven't seen any substantial negative trends so I don't know what to say. But may I remind you then that the challenge that we see is that the Norwegian market is different than three years ago with much more distribution power and more insurance companies there than before. The companies are behaving rationally, so this is not a pricing problem but there's more distribution capacity.

FINAL

**Q - Jakob Brink** {BIO 7556154 <GO>}

And then just a final one. I don't know if you have anything to say on that one either. But the Swedish virus, have you got any closer to know how big of a problem that could be?

**A - Torbjörn Magnusson**

Yeah. It depends on whether it's finally put out or not. But as it looks today, it may be a loss that could go into our reinsurance program, may or may not. But it's not going to be as it looks today, one of our top 10 losses in the past decade.

**Q - Jakob Brink** {BIO 7556154 <GO>}

Okay. But still it could reach the SEK 250 million. Is that what you said?

**A - Torbjörn Magnusson**

That may happen and SEK 250 million is 0.6% on the combined ratio.

**Q - Jakob Brink** {BIO 7556154 <GO>}

Sure. Okay. Thanks a lot.

**Operator**

Next question comes from Mr. Blair Stewart from Bank of America. Please go ahead, sir.

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

Thank you. Good afternoon, everyone. Two questions. The first one is just looking at the entire P&C business for the first half of the year. I think you've said that reserve releases were very small. You said that large claims experience was broadly in line. But I wonder if you could comment, Torbjörn, on how favorable claims frequency has been for you in the period. I guess it's been quite favorable.

And secondly, for Kari, I guess, you've talked about the challenges on the investment income side. Interest rates are remaining stubbornly low probably for longer than most people expected. You talked about the cash building up in the group. I wonder what's the response from the company there? Is the quite happy to let cash build up? Eventually, that's going to be a drag on your returns. And do you think you've got enough flexibility and power, I guess, to start to increase prices to reflect a lower investment income over the longer term there? Thank you.

**A - Torbjörn Magnusson**

How favorable claims experience? Well, Norway continued as it has done for the past almost two years now. I think favorable applies mainly to Finland this quarter where we didn't plan to have a combined ratio of 84%. And I suspect that Pohjola didn't either having seen the results. So the claims experience in Finland was more favorable than - somewhat more favorable than expected.

FINAL

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

Is it possible to talk about the entire business and how much more favorable, if at all, lower frequency has been over the half year period, Torbjörn, or is that just too difficult?

**A - Torbjörn Magnusson**

Then you got the weather in the first quarter that was much better than last year, et cetera, and that's going to be difficult.

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

Yeah. Okay. Thank you.

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

On cash piling up, I think that you have been following us such a long time that you know that we have been in situations like this earlier when cash is piling up and we can stand that situation. We will not lose our nerve. However, it's evident that given the low interest rate environment, it's quite evident that the fixed income running yield will continue to come down.

On the other hand, we have a very high risk exposure in Mandatum Life. We have now, if you count together, equities and alternatives and all that riskier assets. They are roughly 40% of our investment portfolio. If the situation continues like this, we have a little bit of a room to increase equity weights in If, but not significantly from a group perspective. So, I would assume that when Europe's military conflicts, geopolitical conflicts settle, we will see value in riskier assets. I think that it has become clear that in these interest rate levels - with these interest rate levels, certain assets are not correctly priced, for instance, some financial share equities but also others. They should be revalued given that we have no geopolitical risks around.

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

And maybe if I can ask another one, how should we think about the fair value adjustment reserves? A throwback (18:30) number is 1.1 billion equally split between bonds and equities. In the event that perhaps rates have trough and start moving up at some point, would you be tempted to start to crystallize some of that into the earnings. How do you feel about the equity portion as well?

**A - Torbjörn Magnusson**

I think with that we do that gradually. We always take in something from our fair value reserves to the results. And it depends on our market for you. We are, of course, different from many, many other financial institution that our duration is so short that if interest rates go up, we would not be hit there. That would open us - for us an opportunity to grow a longer duration gradually.

On equities, you have seen our changes in our equity rates. They are not that significant. But certainly in a very strong market, we would probably take home some of the goodies

that are created there.

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

Yeah, yeah. Just wondering if you thought that rates are more likely to go up and down if you might think about your salary, think some of the gains in the fixed income part of the fair value adjustment reserve, you take profit essentially?

**A - Torbjörn Magnusson**

I really don't have anything to say to that.

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

Okay. Thank you.

**Operator**

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

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

Yes. Good afternoon. It's Matti Ahokas from Danske. Two questions, if I may. Firstly, on the discount rates. Obviously, in Sweden, it's automatic process that the discount rate is lowered but Q2 last year took a fairly big charge on the Finnish annuity discount rate, and now yields have fallen even further. How big do you see a risk that you might have to actually cut the Finnish discount rate in the third quarter or fourth quarter?

Second question is regarding the Swedish plans outlook. Torbjörn, you mentioned that the underlying development was actually pretty good. We've heard some of your competitors, especially in the Swedish press talk about the storm claims in general and not the forest fire itself, and saying that the claims frequency has been extremely high. Is this something that you have seen or is this more of a factor of your competitors? Thanks.

**A - Torbjörn Magnusson**

I just can't rate for annuities and Finland is an interest rate that should be valid for more than 10 years, so it'll be a careful process to change it and it's often also in lawsuit, the authorities here in Finland. And then I was slightly surprised to see the comment in Sweden in fact, but we have very different books, of course. The comment from (21:17) reflects their high exposure to forestry, agriculture business and the like.

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

I may just to follow up also on the running yield. We saw a quite significant decline on the running yields even though the Swedish rate got and the Swedish declining into states (21:36) came on in the third quarter. Was this a reflection of redemption of higher yielding bonds or why was the jump so much higher than in previous quarters?



**A - Torbjörn Magnusson**

Yes. It was exactly that.

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

Great. Thanks.

**Operator**

Our next question comes from Mr. Paris Hadjiantonis from KBW. Please go ahead, sir.

**Q - Paris Hadjiantonis** {BIO 19703051 <GO>}

Yes. Hi. Good afternoon and thanks for taking my question. I just have one general one. I would be interested to know your approach and views regarding the Norwegian FSA's opinion to such as the non-inclusion of the (22:26) in the available capital under the Solvency II regime. How much for an issue (22:32) that will be for your available capital in If P&C? So, that's my only question.

**A - Torbjörn Magnusson**

Well, if it's not regarded as tier 1 capital, which we don't know yet then it would mean roughly SEK 3.2 billion. So, around - worst case would be the €350 million approximately.

**Q - Paris Hadjiantonis** {BIO 19703051 <GO>}

Do you have a view whether this should be allowed or not because some of your peers actually have very strong use about that?

**A - Torbjörn Magnusson**

Well actually, so far, it's a proposal from the Norwegian FSA. But we don't know what the final outcome will be from the ministry (23:12) - because the decision making and the law comes from the Ministry of Finance.

**Q - Paris Hadjiantonis** {BIO 19703051 <GO>}

Okay. Thank you.

**Operator**

There are no further questions registered at this time. Please go ahead speakers.

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

Thank you. Thank you all for your attention and have a nice evening.

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