

Q1 2014 Earnings Call

Company Participants

- Jarmo Salonen, Head-Investor Relations & Group Communications
- Kari Henrik Stadigh, President & Group Chief Executive Officer
- Peter Kristian Johansson, Group CFO & Investor Relations Contact

Other Participants

- Blair T. Stewart, Analyst
- Daniel A. Do-Thoi, Analyst
- Gianandrea Roberti, Analyst
- Håkon R. Fure, Analyst
- Jakob Brink, Analyst
- Matti Ahokas, Analyst
- Mika Koskinen, Analyst
- Niccolò Dalla Palma, Analyst
- Peter D. Eliot, Analyst
- Thomas Seidl, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, welcome to this conference call on Sampo Group's First Quarter 2014 results. I am Jarmo Salonen, Head of Investor Relations at Sampo and with me in this studio I have our Group CEO and President, Kari Stadigh, Group CFO, Peter Johansson and Deputy CEO of If, Ricard Wennerklint.

We will start as always with Kari's introduction into the first quarter events and then open up for any questions you may have. And let me remind you that you can follow this on the Internet at sampo.com/results and a recorded version of the call will later be available at that same address.

With these words, I hand over to Kari. Kari, please.

Kari Henrik Stadigh {BIO 1504152 <GO>}

Thank you, Jarmo. Welcome to the conference call on my behalf as well. Once again we report very good numbers and EPS of €0.63 is up 10% compared to corresponding quarter last year. Our NAV reached 24 year €24.06 an all-time high figure as such.

Our non-life operations had an excellent start for the year and delivered the best ever first quarter combined ratio at 90.3%. Noteworthy is also the healthy gross written premium growth of 5% in the private sector.

In the first quarter, Nordea strong business momentum continued. Operating profit at over €1.1 billion was also a best ever result. Nordea has promised to publish during the second quarter more details on their efficiency programs. These are needed in order to meet the target of lowering costs with 5% by 2015 compared to the 2013 cost level. From an owner's perspective, I feel very confident that they will deliver on their plan.

In Life the result was on the same level as last year and once again we were able to lower the discount rate this time to 2% for this year to 2.25% for the year 2015.

During the quarter Mandatum Life distributed €100 million in dividends to Sampo Plc maintaining its solvency ratio post dividend at a very strong level of 28%.

As we have clearly communicated in earlier calls, our main challenge is now the low interest rate environment in general, resulting in a gradually declining running yield of fixed income – or our fixed income portfolio. This quarter we were able to defend our running yield levels and they stayed almost unchanged and if they were lowered by 1% – 0.1% to 2.8% and in Mandatum Life, they stayed at 3.7%.

Our investment income in If was at the good level at 1.7% given the strong performance of Swedish equities in our portfolio. And in Mandatum Life, a weaker 1.1% burden by our emerging market equity exposure.

During the quarter, we have increased our equity exposure by €170 million and it's now roughly €3 billion altogether. All-in-all, a very strong quarter and we are well-positioned in all our business areas to continue to deliver as planned.

Jarmo Salonen {BIO 1860650 <GO>}

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

Q&A

Operator

Thank you. We have the first question from Mr. Håkon Fure from DNB. Please go ahead, sir.

Q - Håkon R. Fure

Yeah, hi. Good afternoon. Two questions on the premium growth in the quarter and one on Mandatum for me. Firstly, on slide 31 you show a 4% negative growth year-on-year in

Denmark and 1% in Norway, does this reflect intensified competition or do you have a different interpretation to offer?

And secondly, if you would be obliged - could you split that trend down in terms of, if it's primarily volumes or primarily price. And thirdly on Mandatum, the transfer of Suomi Mutual, will this in any way affect internal dividends from Mandatum next year? Thank you.

FINAL

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

Let's start with the question about Danish growth that's primarily reflecting a few individual large accounts. And in no means does it reflect a loss in price power or in average price. The Norwegian growth is to some extent reflecting additional distribution power coming into the Norwegian market. But primarily the gross written premium number is due to large accounts. So in terms of number of risk it's fairly stable.

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

Mandatum Life, actually, I think it's worth mentioning that their Annual General - or General Meeting is ongoing right at this moment. And we need a confirmation from that meeting that this deal goes through. We assume that we will get the positive response may be already during this call.

You asked about the dividends, short-term it will have no effect on the dividends and longer term I hope it will improve our dividend capacity.

Q - Håkon R. Fure

Excellent. And then just a quick follow-up if I may on the additional distribution capacity coming into Norwegian market. Are you talking about smaller local players or are there international players reemerging?

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

I'm talking about local distribution power both smaller and larger competitors.

Q - Håkon R. Fure

Okay. Thank you.

Operator

Our next question comes from Mr. Peter Eliot from Berenberg. Please go ahead, sir.

Q - Peter D. Eliot {BIO 7556214 <GO>}

Thank you. First question was just - I was wondering whether you could sort of comment on your feel of the results versus sort of underlying combined ratio. There are two reasons are for that, and one, I guess your guidance or your outlook you set is (7:07) the 89% to 92% is the same guidance that you set last year. But it looks like your underlying is a bit better than last year and last year you end up below the lower end of that range.

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So I am wondering whether that's sort of just conservatives or whether there (7:22) is anything else built into that? And I guess specifically, your comment on two large Swedish claims, but I guess, it's relatively normal for industrial to have some large clients coming through that so? Yeah, I guess, I just wondered if you could comment on how you see that relative to the ongoing underlying.

Second thing I wanted talk about was on Mandatum Life, you've mentioned that you lost a little bit of market share and the weakness seems to have come from the sort of Danske Bank channel there. So I was wondering if you could just comment on whether there is anything in particular going on there and whether that might rebound or yeah.

And then thirdly, just on the staff costs, which you comment on briefly, Kari, but they were significantly down on last year and that's ahead of the cooperation procedure which I think is due to start or maybe tends to (8:18) start, sorry. But I was wondering whether you could sort of comment on the likely sort of short term development from here? Thank you.

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

Lets start with the results, there are really no extraordinary to comment on for this quarter. So, I don't want to use the term underlying, but the results are as they are and I wouldn't point in any direction to sort of explain that they should be either lower or higher. So, they are what they are.

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

Mandatum Life's market share, you are well aware that market share is not the target for us, and you're right in pointing out that the decline in volume is mainly due to Danske.

Last year Danske had their all time high result, now they have been scaling down their branch network. I think a few years back they had 85 branches, now they are at 45 something plus, minus. This of course means that their distribution power has decreased.

I can't comment on the future. I think that the present level is more reflecting their true distribution power than the development last year.

Then you had a question on staff costs, was it staff costs in general or in one of the companies or what was it?

Q - Peter D. Eliot {BIO 7556214 <GO>}

(9:51) specifically?

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

Sorry, I couldn't...

Q - Peter D. Eliot {BIO 7556214 <GO>}

Within If specifically.

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

In If?

Q - Peter D. Eliot {BIO 7556214 <GO>}

Yes.

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

Staff costs and staff number is down slightly in the first quarter, some 30 people. And I expect that to continue to scale down staff somewhat, costs will reflect just normal salary inflation for the rest of the year, which is not really significant in Nordic region at the moment.

Q - Peter D. Eliot {BIO 7556214 <GO>}

Okay. Thank you very much.

Operator

Our 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. Just a few questions from my side. Firstly, relating to Sweden P&C and cycle on capital (10:37). With regard to Sweden, the combined ratio of 97.7% seems to look fairly weak, whichever way you look at it? You mentioned in your report large claims of 7 percentage points affecting the industrial lines, but if I allocate that entirely to Sweden that's still a very small impact. I am just wondering if perhaps any other moving parts which I am missing here?

And then related to that, the 2.6% year-on-year growth in the top line in Sweden, can you just give a bit of color on to what extent that is relating to the price increases that you put through last year and to what extent that is from higher sales perhaps from the distribution agreement with Nordea?

And then lastly on capital, you've reported for the first time the adjusted solvency ratio at a 125% (11:36), I guess, if I just very simply project that ratio going forward, you've gotten very flattish developments in terms of RWA at Nordea, limited top line growth at If and a declining with profits (11:52) booked at Mandatum zone (11:53). I am just trying to see what - or can you give us any indication as to what is a targeted level with regards to this adjusted solvency ratio? Thank you.

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

Okay. Let's start with this Swedish combined ratio. Yes, it's a weak combined ratio. Yes, it can be to a large extent explained with large claims in the large corporate segment. But even if we take that away the combined ratio is still too high and has been for some time

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and we're working with primarily premium increases to come to terms where that still need (12:33) premium increases in the Swedish combined.

Second, on the top line growth, it's partly done premium increases that I just explained, it's increased sales in the car (12:50) segment, and it's also good sales through the Nordea partnership. So there are several reasons for the top line growth in the Swedish P&C.

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

In CapEx.

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

On the capital side (13:01) if you look at the - previously, we reported - until first quarter of this year we have reported the regulatory capital minimum using the Nordea's Basel II, the transition rules, so basically that has been Finnish rule, and then used also the Solvency I numbers for Life and P&C, but now of course Nordea doesn't publish any - after the CRD IV they don't publish any Basel II numbers with transition rules. We actually took a conservative approach on this one. So we took the Nordea's Basel III numbers including the Swedish transition rules. So I am not quite sure that we could probably use the number without the transition rules because for example other banks in Finland that use Basel III numbers they don't have any transition rules. But that's something that we have to check with the regulator.

Then the full adjusted solvency capital and targets for the adjusted solvency capital, we will still wait to set any targets on that before we know what actual Solvency II outcome will be.

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

Okay. All right. That's good. Thank you.

Operator

Our next question comes from Mr. Blair Stewart from Bank of America. Please go ahead.

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

Thanks very much. A couple of questions left for me. Kari, I think in the Q4 call you described the investment income problem as probably having reached the bottom and I just wonder if that's still the case that you do expect some stabilization and the decline in your investment yield?

And secondly, you've got I think around €1 billion in fair value adjustment reserve now. I just wonder how we should think about, how you expect to use that over time or that just gradually filter through the result as you crystallize those gains?

And thirdly, I won't give Ricard the pleasure of not answering my question on underlying combined ratio. So I just wondered if instead you could talk a little bit about the early

progress in the Nordea distribution agreement. Thank you.

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

The investment income bottoming out, I don't remember I said that. I said that I think that in If's case because of If's portfolio being in Norwegian Krone and Swedish Krona, we are close to bottoming out. But then I think I also continued that there is still a chance or not even a chance, it's quite clear that Mandatum running yield will continue to come down. And my stance has not changed on that statement.

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

On the fair value reserve, Blair, we have gross €1.3 billion and of course the fixed income unrealized gain will gradually run off. Now it hasn't run off because the credit market is so crazy that credit spreads keep coming in.

But on average if we look at the average maturity of If we have 2.2 years; Mandatum Life, we have 2.1 years. So, it should gradually come down using those average maturities.

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

And then more than half as in equity result will be driven (16:28)?

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

And equity depends on when our Chief Investment Officer decides to sell them and depending on how profitable the new investments are, so what happens with the fair value reserve.

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

Yeah, okay.

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

And the Nordea Corporation, we are doing fine in Sweden on the Baltics, settling appropriately at the level that we expected. We still expect more from the corporation in Finland. The total book of business is still fairly small, so no numbers to report on that one or on the profitability.

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

And just following up on one of your previous answers, what level of price increases are you been able to book through in Sweden at the moment?

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

Price increases are larger than claims inflation, so we expect them to have a positive impact on combined ratio throughout the year.

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

Okay, great. It's probably as good as I am going to get. Thanks a lot.

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

Good try.

Operator

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

Q - Matti Ahokas {BIO 2037723 <GO>}

Yes, good afternoon, Matti Ahokas, Danske Bank Markets. Two questions, if I may. Firstly, regarding the tax rate, we've obviously had the tax rate adjustments in Finland, but also in the other countries. And it looks quite low in the first quarter, I was just wondering, could you give us some guidance, what is the kind of actual tax rate level we should be looking at now or what are the kind of moving parts that can move this tax rate from quarter to quarter?

The other question is continuing on the running yield discussion, obviously the running yields in Mandatum Life were still unchanged even though they were supposed to come down. So what was the reason for this? And I understood, Kari, you said that you expect this to decline but what was the reason that they didn't decline in Q1? Thanks.

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

On the tax rate Matti, of course Mandatum, it should be fairly close over time at 20% of course which is the Finnish corporate tax rate. Then on the holding company, basically we don't have taxable income, so there we have make a taxable loss, so it's basically losses carried forward. But we don't defer - deferred tax assets on the holding company at all. But we can of course use the tax losses in the future if we show profit on the parent company level.

Then Nordea, zero tax rate, because that's taken from the net profit. If is trickier in a sense because we have - If has a daughter company in Finland where If applies a 20% tax rate and then in Sweden the tax rate is 22%. But then branches in Norway and Denmark are taxed with their rates and I think in Denmark we talk of- Danish tax rate. If I remember right, I think it's around 26%, 25% somewhere there. But the profit share of course in Denmark has been much smaller. But Norway, the share of profits coming from Norway, there we have a higher tax rate, which if I remember correctly is 28%.

So the tax rate can fluctuate slightly in If from quarter-to-quarter depending where the profits come. So it's actually fairly hard to forecast it on a quarterly basis, the tax rate. We actually talked about this suit (20:08), Knut Arne, CFO of If a few days ago and came to the conclusion that our guess is as skewed as your guess.

Q - Matti Ahokas {BIO 2037723 <GO>}

Okay.

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

So on the fixed income run yield, cash is included in the calculation, and as we have taken out dividend of €100 million that has decreased the amount of cash which had a low yield. Then the investment decisions or investments that have been done, they are more of the ordinary nature, tilted a little bit towards some new high yield investments mainly loans, but the dividend is the main factor here.

Q - Matti Ahokas {BIO 2037723 <GO>}

Great. Thanks.

Operator

Our next question comes from Mr. Mika Koskinen from SEB. Please go ahead, sir.

Q - Mika Koskinen {BIO 1557965 <GO>}

Thanks. Just two quick questions on my half. First, you booked fairly low run off gains in this quarter and even though we talk about, let's say, we talk about small numbers that are clearly below last year and also clearly below what some other Nordic companies have been booking in the first quarter. Is this an indication of a lower run off gain level going forward as well?

And then secondly, my question would relate to Mandatum Life and you reduced the discount rate by 25 basis points in the quarter. And given the strong reserve levels that you have, do you think you will be adjusting the discount rate in prospective quarters as well going forward this year? Thanks.

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

The level of run off gains really indicates nothing. It's normal volatility in prior year gains. So you shouldn't read anything into that.

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

On discounting, I think that 2% is very conservative level. I wouldn't expect us to bring that down. If there are some extra income which we could use or reserve releases which we could use, we could probably extend in to next year and so on lower that, but that depends completely of course on the development in the market.

Q - Mika Koskinen {BIO 1557965 <GO>}

All right. Fair enough. Thanks very much.

Operator

We have the next question from Mr. Jakob Brink from ABG. Please go ahead, sir.

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Q - Jakob Brink {BIO 7556154 <GO>}

Yeah. It's Jakob from ABG. Just have follow-up question regarding If, I guess now you upgraded your guidance already in Q1 just like you did last year. So bit earlier than normal, still just looking for around 89% and higher, last year we came in at 88%. We are seeing some positive price momentum in Sweden.

So the reason why you are not giving more bullish (23:11) on the combined rate, I know it's early in the year. But is that because of the weakened development on premiums is somewhat of a worry or exactly how you're thinking about those price developments and then the combined ratio guidance? Thank you.

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

I am not prepared to change the guidance already today. We have the 89% to 92%; it's early in the year. The increased distribution capacity into the Norwegian market really hasn't played a role when thinking about the guidance.

Q - Jakob Brink {BIO 7556154 <GO>}

But I guess the - we have been waiting for about a year or even more for Swedish premium side (23:57) to start to tick up and I guess this is the first quarter where it sort of really shows. So, isn't that a positive or how do you look at that?

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

It is positive, but still the factors that you mentioned wouldn't make me change the guidance that's already in the year.

Q - Jakob Brink {BIO 7556154 <GO>}

Okay. Fair enough. Thank you.

Operator

We have the next question from Mr. Thomas Seidlton (sic) [Mr. Thomas Seidl] (24:32) from Bernstein. Please go ahead, sir.

Q - Thomas Seidl {BIO 17755912 <GO>}

Yeah, thanks. Thomas Seidl from Bernstein. Two questions, one on the P&C side, I think we discussed this earlier, there are basically - voice is (24:43) saying that, it's (24:44) increased competition in Norway and particularly in the industrial lines and for sure we kind of observed (24:48) that RSA is gaining market share in Norway. So I just wanted to get a flavor for how you see the Norwegian market evolving. And also beyond Norway we see of course a lot of capital strong players, is it basically true that each of this players is now reaching out to the other regions in Scandinavia to broaden their business base?

And secondly, on the capital side, I think you touched already on that. I wonder what is the big uncertainty around Solvency II. Frankly, we are like 1.5 years before the start. I

guess the main rules are clear and company should be well advanced in implementation, so what is sort of the timeline you think until final clarity is on those rules and is it that you expect it to be incrementally negative for Sampo?

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

Let's start with the competition situation, when I say increased distribution capacity in Norway, I am thinking about the private business, the SME business, not really large corporates. In the large corporate segment, we have seen increased competition in the last two years. We have said also for the last one to two years that there is annual (26:09) premium increases in that market and we have said during the last year or so that we will stay away if we don't see the profitability that we expect, as you cannot (26:21) see in our top line growth in the industrial segment. I haven't seen any special - any significant move when it comes to large corporates in the Norwegian market. That doesn't really play a role in that market.

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

On the capital side, you are correct that there is enough information on the transition rules and so on. But then should we start to calculate them with including the transition rules, or with full Solvency II. Most likely will - our numbers reflect the full Solvency II numbers. So we wouldn't take the hassle of starting to run the transition rule numbers at this point of time.

But on the other hand, we can as well wait for the final outcome because, we are not in a hurry in a sense because we have like you can all see from our numbers what - that we have significant buffers above the requirement if you use - look at our internal model numbers even if we wouldn't use an internal model in Mandatum Life and because we don't have any plans on distributing extra dividends or using the excess capital.

Q - Thomas Seidl {BIO 17755912 <GO>}

Okay. And then when exactly are you planning to sort of start publishing on the full Solvency II basis?

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

We haven't talked about that when we will start to publish on full Solvency II basis.

Q - Thomas Seidl {BIO 17755912 <GO>}

Okay. All right. Thanks a lot.

Operator

The next question is from Mr. Roberti from Carnegie. Please go ahead, sir.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

FINAL

Yes, good afternoon, for me as well. I have a couple of question. Something that Ricard has been touching upon before, but I was wondering how would you see your reserve position at this point, if there is anything that change compared to one year ago, how do you feel about that? I actually realized, I should have asked this before, but at some time, you don't publish any more this fantastic slide what you were showing the reserve strength of If which was just going upward and upward on a quarterly basis, that's (28:32) my question.

The second question is mostly a curiosity, I am just wondering if you have learned anything very interesting on Topdanmark after Torbjörn has been nominated on the Board and if you really wanted to share it with us? Thanks a lot.

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

On reserving, reserve strength, I would put at exactly the same level as one year ago and exactly the same level as one quarter ago. There are no good KPIs and measures that we can publish to describe reserve strength, but no significant changes to last year.

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

Topdanmark is not a black box. It's a very well run transparent company and we are now taking the owner responsibility, in that sense that we nominate one of our key executives on its board. So this is not 100 meter hurdles. This is a marathon. So there are no news that would surprise us coming short term. We are -- this is more of taking the owner responsibility as the main owner.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Thanks a lot.

Operator

Our next question comes for Mr. Niccolò Dalla Palma from Exane BNP Paribas. Please go ahead, sir.

Q - Niccolò Dalla Palma

Hi. Good afternoon. First, a bit of a boring technical question on the holding cost, if you could just help us with the kind of running quarterly cost that we should expect to see normally given the interest rate swap had a bit of an impact here during the quarter just to remind of what the run rate is year-on-year or quarterly basis?

And secondly, just curious on the Mandatum Life to know - because the - even if the Suomi Mutual deal - even if it wasn't enormous it was on very good terms and just wondering if you think there is anything else possible on a similar basis or if it was just a one-off opportunity? Thank you.

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

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On the holding company as - I keep repeating myself, that we are the normal running cost is roughly €50 million on the gross debt plus then €5 million on the operating cost. And normally the quarterly result on the holding company fluctuates back and forth.

The special items this quarter was coming from swaps, because interest rates came down so when we have swapped the euro loans to floating rates, so we're receiving fixed rate from the swaps and the mark-to-market value of these went up €4.5 million. We don't use hedge accounting on those swaps because in a situation if interest rates start to move up at some point of time then we can unwind them.

The other part came from - another €4.5 million came from the 4 billion krona loans that we had in Sweden. So that gave altogether FX plus swaps €9 million and then on top of that we have on the income side, we have €6 million.

And actually this starts to play small role also on the number. So going forward you can probably assume between €4 million to €6 million a quarter on investment income because we have about €350 million of hybrids on the parent company level where a majority is Mandatum hybrids. And then there are some other high yielding assets. So altogether €380 million, so this gave roughly a €6 million income on the parent company level.

And that explains why the net funding cost including derivatives, FX and investments was plus, minus zero. So the only cost item was the operating cost from the parent.

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

There are other similar deals at Suomi, there are no deals like that pending. It's always when you have a stagnating market or a run-off market. It's a classical business case which improved the position, so both parties is to consolidate. So I think this is a typical deal where both parties benefit and there are no existing run-off portfolios within the same segment available in the Finnish market.

Q - Niccolò Dalla Palma

Okay. Very good. (33:23) Thank you very much.

Operator

There are no further questions on the telephone. Please go ahead, speakers.

A - Jarmo Salonen {BIO 1860650 <GO>}

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

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