

Group CEO's Review



A Good Year in Spite of Political Surprises

Many people were taken by surprise in 2016 – including us at Sampo. However, in spite of this, we were able to report very good results.

In 2016, the investment market was something of a bumpy road indeed. At the beginning of the year, stock prices crashed following weakened growth expectations in China. Meanwhile, in the summer, markets were hit by the Brexit referendum results which also pushed sterling on a downward slide. In the fall of 2016, stock markets were shaken by fears regarding the results of the US presidential election and when the votes were cast and the result announced, markets plunged although they then swiftly recovered. Finally, investment markets returns were good during the last quarter of the year.

As big a surprise as it was, the US presidential election result did spark a glimmer of hope for the financial services industry. The hope is for deregulation in the sector or at the very least the postponement of new plans for additional regulation. The outcome of this potential deregulation is yet to be seen. However, it is

clear that if the United States will begin revoking regulations, the European Union will also have to take similar action in order to maintain a level playing field.

Europe should respond in such a manner as it would be imprudent to give American banks a clear competitive advantage through there being stricter regulations in Europe. This would be an absolutely necessary action as our industry has become clearly overregulated in many areas following the political bidding game of the past few years. As a first step in deregulation, financial services companies should be given clear incentives for strengthening their capital bases. As an example, why not reward the industry for capital generating by releasing those banks with the strongest solvency levels from some of the current regulation? Without an explicit mechanism and goals for deregulation there is not a chance for Europe to get rid of the current overregulation that exists.

The New Solvency II regulation that was applied with

effect from 1 January 2016 did not affect our business operation as we had been preparing for it for many years. Furthermore, our solvency level clearly exceeds minimum regulatory requirements. Consequently, no changes were needed to our investment allocation following the new regulation coming into effect.

If P&C's Combined Ratio Hits New Record Level

Predictable and stable earnings are important for us at Sampo. However, it is underwriting excellence, in other words risk assessment and fair pricing that is the cornerstone of our property and casualty insurance operations. In addition to this, significant investments in digitalization and the automation of claims handling have improved our efficiency.

During the past year, climate conditions were pleasingly on our side and both the cost ratio and combined ratio reached new record levels. The combined ratio amounted to 86.1 per cent without non-recurring items.

Our property and casualty insurance customers want a comprehensive online service. More than one-third of claims are currently reported via our online channels and an ever increasing share of our claims handling takes place online. In addition, an increasing share of sales is internet based: Our online sales increased by 25 per cent last year. In summary, our insurance subsidiary If P&C is the indisputable forerunner in taking advantage of internet in its own sector in the Nordic countries.

Nordea's Financial Strength Is Very Strong

Our associated company Nordea once again proved its ability to generate capital. The Group Common Equity Tier 1 ratio (CET1) was higher than ever before at 18.4 per cent at the end of the fourth quarter of 2016. Nordea was also able to slightly increase its dividend proposal. Being the largest shareholder in Nordea, we value this greatly.

Nordea's new CEO appointed his team during his first full year in office. The next step is to move from planning into the execution phase. In regard to the bank's transformational change agenda, the new IT platform project is proceeding on schedule and the first product was already launched on the new core banking platform. We can expect significant gains from IT investments during the coming years.

Furthermore, a new legal structure was created for Nordea by merging the subsidiary banks in Denmark, Finland and Norway into the parent company Nordea Bank AB at the start of 2017. The banking businesses

in Denmark, Finland and Norway are now conducted via local branches. This increases agility and reduces bureaucracy – two characteristics that customers appreciate.

Strong Growth in Mandatum Life's Premium Income During the Fourth Quarter

Profit before taxes for our subsidiary Mandatum Life increased to EUR 210 million and this was especially due to its excellent investment results. The life insurance company is now well positioned to generate good profits in the future as well.

Premium income development in life insurance was strong towards the end of the year. During the fourth quarter of 2016, premium income increased by 46 per cent. Premium income in the main focus area of unit-linked insurance reached a new record, while unit-linked technical provisions also achieved a record level.

In the fall of 2016, Mandatum Life agreed to sell to Danske Bank the insurance portfolio sold through Danske Bank's branch network in Finland. The portfolio almost exclusively consists of unit-linked and loan insurance products. The technical reserves related to the portfolio amounted to EUR 3.2 billion at the end of 2016. Meanwhile, the transfer of the portfolio is estimated to take place during the fourth quarter of 2017 at the earliest.

Mandatory Offer for Topdanmark Proved to Be Successful

In September 2016, we made a non-premium mandatory offer for the Danish P&C insurer Topdanmark. The bid was made after we had crossed the applicable threshold for the mandatory offer. It proved to be successful: As a result of the offer, our ownership exceeded 41 per cent of the total of Topdanmark shares.

After the end of the reporting period, we proposed to Topdanmark's Annual General Meeting of April 2017 a change to the company's distribution policy. Based on our proposition, Topdanmark should move from share buy-backs to dividends only. Simultaneously, we proposed that three representatives of Sampo Group, which would make up half of the total number of Board members, be elected to Topdanmark's Board of Directors.

Prepared for Interest Rate Increases

Interest rates remain at record lows. Especially in

Sweden, current rates are abnormally low considering the relatively good economic growth of the country. Indeed, as I write this review in February 2017, the interest rate gap between the US and Europe is larger than ever before.

We at Sampo are well-prepared for potential interest rate increases: The duration of our fixed-income portfolio is shorter than that of our competitors and the technical provisions of our insurance subsidiaries have in many areas been discounted with lower discount rates than those of our peers. Furthermore, higher rates would benefit banks, including Nordea. Thus, in the event of rising interest rates, we should outperform our peers.

Our Dividend Will Increase for the Eighth Consecutive Year

At Sampo, we have been aiming at steadily increasing profit distribution. To this end, we have managed to increase the dividend every year since 2009 and this

spring will see Sampo's dividend proposal increase for the eighth consecutive time. The Board's dividend proposal for the AGM is EUR 2.30 per share. The dividends to be paid amount to almost EUR 1.3 billion in total, which makes this our biggest ever dividend proposal. All in all, we have paid out dividends totaling EUR 10.9 billion so far in the 21st century.

Increasing shareholder value will also be our main task at Sampo during 2017. And whilst I naturally do not want to predict the level of future dividends, we will continue to aim at steadily increasing profit distribution.

Last but not least, I would like to thank our employees for their efforts and dedication. At the same time, I also want to thank our customers – many of whom are also our shareholders – for your continued support and trust. It is very much appreciated.

Kari Stadigh

Group CEO and President