

Group CEO's Review



Solid Result Within Insurance

Record-high result within insurance operations and a favorable market environment ensured another good year for Sampo. Based on the proposal made to the AGM, the dividend will rise again for the ninth consecutive year.

In 2017 we saw that the stimulus measures of the European Central Bank were finally bringing results. On the whole, Europe has enjoyed economic growth and the most important aspect for us is that all of the Nordic countries are on a solid growth path. Nevertheless, it is difficult to fully understand the mechanism between growth and interest rates. This is due to the fact that during this period of economic growth, interest rates have remained at a record-low level. This is particularly the case in Sweden, where the monetary policy decisions of Riksbank, the country's central bank, are rather baffling. Political risks in general caused less jitters in the market than expected. Meanwhile, in the US, tax reforms by the Republican administration have been welcomed by the markets, and the situation in Europe has calmed down, at least for the time being.

The investment market was similar to the previous year. Interest rates moved more or less sideways, but the uptrend in stock markets continued as a rule. We performed well, in spite of the fact that higher interest rates would obviously be most welcome from our perspective. We estimate that if the yield curve increased by one percentage point throughout,

Sampo Group's financial benefit would be in the region of EUR 600 million. The big question in 2018 concerns the capital markets – will the equity markets be able to achieve the tenth successive year of growth or will the rising interest rates bring the share valuations down.

Sampo Group's profitability remained at a good level in 2017. Pre-tax profit was EUR 2,482 million (1,871). Even without the non-recurring profit item of EUR 706 million this represents an excellent achievement. Especially noteworthy were the extremely low combined ratios of our P&C insurers, If and Topdanmark.

Strong Result Again From If

The number of household customers of our P&C insurer If increased in all markets, exceeding three million at the end of the year. This is a record figure. Furthermore, the growth in premiums written for 2017 was almost two per cent. This development was particularly positive in Norway, where premiums written had contracted for a number of years. The

2017 annual growth was 2.6 per cent, with the last quarter reaching as high as of 5.7 per cent. If's combined ratio was 85.3 per cent, which is the best ever recorded in the company's history. The profit before taxes was also excellent and stood at EUR 818 million.

Digital solutions are increasingly being used in insurance, which ensure even better customer experiences. As the leading P&C insurer in the Nordic countries If is at the forefront of this development. Already half of If's customers receive all of their insurance documents and invoices electronically. At present, 40 per cent of private customers' claims are filed online.

Nordea Is Going Through Major Transformations

Sampo's share of Nordea's net profit for 2017 amounted to EUR 616 million, which was less than we expected. However, future prospects are looking bright as the bank is going through several major transformations. As the biggest shareholder, Sampo is confident that the planned measures to increase operational efficiency will be implemented successfully and that the company's profitability will rise to a new level in the coming years. Nordea's balance sheet is stronger than ever before and therefore the Board proposes to the AGM on 15 March that the dividend be raised to EUR 0.68 per share. If implemented, the dividend will be the highest ever, bringing Sampo EUR 585 million.

Nordea's AGM will also decide the issue of re-domiciling the head office from Stockholm to Helsinki, which would mean it being under the jurisdiction of the European banking union. Nordea estimates that the transfer of domicile into the banking union would bring savings of some EUR 0.9 –1.2 billion, valued on a net present value basis. The financial benefits are so significant that I believe the shareholders will be voting in favor of the move.

Strong Position Established in Topdanmark

For the first time, Topdanmark was described in Sampo's financial statements as a subsidiary in the last quarter of 2017. Sampo has established its position as the biggest shareholder, and currently holds almost 49 per cent of the total number of votes.

For Topdanmark 2017 proved to be another excellent year. Sampo's share of the company's net profit without the non-recurring item due to consolidation was EUR 142 million. Meanwhile, the combined ratio was very good at 82.0 per cent. The Board proposes to the AGM on 12 April that a dividend of DKK 19 per share be paid. Sampo's share of the dividend, which will be distributed for the first time in a number of years, will be EUR 107 million. Finally, there has been a change of leadership, with Peter Hermann being appointed CEO of Topdanmark in February 2018.

Mandatum Life's Investments Performed Well

Mandatum Life's pre-tax profit amounted to EUR 236 million. The investment return was good and stood at 6.5 per cent at fair value. The expense and risk results also reached all-time records. This represents an excellent result. Mandatum Life's technical provisions were EUR 11.6 billion on 31 December 2017, of which assets covering unit-linked liabilities accounted for 61 per cent. This is the highest level ever recorded and it is based to a great extent on the increased wealth management business.

Negotiations concerning the price of the insurance portfolio to be sold to Danske Bank were concluded in June 2017, which resulted a valuation of EUR 334 million. The sale of the portfolio improves Mandatum Life's solvency and its ability to pay dividends over the coming years. The transfer is estimated to take place in late 2018.

Direct Investments Worth EUR 750 Million

In 2017, the parent company Sampo plc invested in three companies that operate in the financial sector – Nets, Saxo Bank and Nordax.

The Danish company Nets is a leading payment services provider in the Nordic countries and a pioneer in digital payments. Saxo Bank, on the other hand, is a Danish fintech company specialized in online trading. In February 2018, Nordic Capital and Sampo made a takeover offer for Nordax, which is a Swedish online bank offering consumer credit. If all of these investments are fully executed, Sampo will have invested approximately EUR 750 million in these three companies.

We have carefully analyzed the companies we are investing in and we have a great faith in the strategies that have been made together with or by our co-investors in order to further develop these companies. It is quite possible that we will continue to make direct investments in the Nordic financial and insurance sectors in the future as well.

Dividend Will Increase for the Ninth Consecutive Year

Sampo's objective, since my work as the CEO of Sampo Group started in 2009, has been to raise the dividend every year. To this end, The Board's dividend proposal for the AGM on 19 April is EUR 2.60 per share. If the AGM approves the proposal, the dividend will have increased for the ninth year in a row. Sampo has one of the longest dividend growth streaks on Nasdaq Helsinki. Our objective is to continue to raise our dividend in the future.

January 2018 marked the 30th anniversary of Sampo's listing on Nasdaq Helsinki. Sampo's success has reflected in our

shareholders' returns. In particular, during the last two decades, the total return, with the dividends reinvested, has been excellent, averaging 17 per cent a year. I would like to express my sincere gratitude to all those who have invested in Sampo, many of whom have been our shareholders for a long time.

However, a company's success always depends, first and foremost, on its customers and personnel. In this connection, I would like to thank the 14 million customers of our

subsidiaries and associates who have trusted in us over the past year. I am delighted to see that the number of our customers is steadily growing. Our personnel have been working under increasing reporting and statutory requirements in 2017. We have responded extremely well to them and I am confident that we will continue to meet all challenges in the future as well.

Kari Stadigh

Group CEO and President

