

Group CEO's Review



A Record High Result and a Strong Market Position

Sampo performed very well in 2015 and achieved its best result ever. Based on the proposal made to the AGM, Sampo will increase its dividend to EUR 2.15 per share. This represents the seventh successive spring that Sampo will have raised its dividend from the previous year.

The financial sector has traditionally targeted economies of scale as the industry enjoys significant scale benefits. Efficiency, discipline, economies of scale, cross-border supply, risk assessment and risk management have together been the cornerstones for the success. On the other hand, there are additional factors such as agility, local presence and closeness to the customers that have laid the basis for the success of several small companies. Digitalization has removed these boundaries between operation models: a major service supplier becomes local and always accessible, if necessary, while even a minor player is able to reach the global markets more easily.

If P&C, Nordea and Mandatum Life are all in an excellent position to prevail and succeed when

digitalization further advances: they all hold market leader positions, comprehensive geographical coverage, good profitability and a great number of satisfied customers in the Nordic countries. This creates a solid base for a forerunner even when meeting the future demands of customers. Significant investments in the digitalization are already proceeding at full speed.

If P&C – Best-ever Result Achieved

If P&C's result for 2015 was excellent and amounted to EUR 960 million before taxes. The combined ratio was

the best on record – 86.5 per cent excluding the non-recurring items.

Customer satisfaction increased further in 2015 and the fine-tuning of the Nordic business model continued. The growth of efficiency in operations reflected especially in the cost ratio which reached its lowest ever level – 22.3 per cent excluding the non-recurring items.

Nordea – New Group CEO

Several significant administrative reforms were executed in our associated company Nordea during 2015, the most important of which was obviously the appointment of Casper von Koskull as the new Group CEO. Even resources in administrative and supporting functions (risk management, compliance, internal audit etc.) were strengthened in order to meet the demands of increasing regulation.

In spite of the reforms and increasing regulation, as well as the low interest rate environment, Nordea's result after taxes was its best ever, as was the dividend of EUR 0.64 per share for 2015. Nordea will pay a dividend of over EUR 550 million to Sampo this spring.

Mandatum Life - Good Performance Continued

The persevering work aimed at improving efficiency at Mandatum Life could be seen in the key figures for 2015: expense and risk results reached new record levels. Premium income also reached an all-time high: EUR 1,144 million. In addition, customer satisfaction was further improved upon.

2015 was the first full year when Suomi Mutual's group pension portfolio of EUR 1.3 billion, which had been transferred to Mandatum Life at the end of 2014, was included in the company's financial figures.

From Regulation to Overregulation

After the financial crisis it was clear that risks in the banking sector had to be reduced and better managed. The most effective and simple way of achieving this would be to increase capital requirements. This has also been done and an example is Nordea, where its CET1 ratio increased from 7.5 per cent in 2007 to 16.5 per cent in 2015. Furthermore, Nordea's Tier 1 Capital increased at the same time by

over EUR 10 billion.

Simultaneously, regulation that is applicable to the entire financial sector overlaps (as a result of there being several regulatory bodies involved) and forms various layers (the implementation from directives to national guidelines and then subsequently to rules). All of this creates a regulatory jungle made up of several thousand pages and the result is that even the best-in-class companies – in spite of good intentions – have difficulties in keeping up with the regulatory reforms. Overregulation and recurring capital requirements also come at a price: customer service becomes more complicated and cumbersome while the positive contribution of an effective financial sector to the general economic growth weakens. Increased bureaucracy also means a higher barrier to market entry and thus hinders genuine competition.

Furthermore, the ECB's quantitative easing policy – whilst it has reached unprecedented proportions – have not, at least yet, borne the desired fruit. The amount of government bonds trading at negative interest rates has doubled to approximately EUR 5,500 billion in one year. When obligations resulting from the regulation to invest in government bonds are added to negative interest rates, it goes without saying that at present we are experiencing a transfer of wealth with historical proportions – in particular, the transfer from Europe's pension savers to the public sector running into deeper levels of indebtedness.

Future Outlook

In the current quite unfavorable environment for the financial sector, Sampo's ability to generate profits is not going to change significantly in the short-term one way or the other. To improve from the present level of good profitability, the economic situation of our customers should be enhanced and their willingness to invest should grow, or GDP should get back on a growth track and interest rates should rise. Naturally, when the ongoing IT and digitalization investments are completed, product innovations and working process reforms offer the possibility of cost savings in the coming years. The objective behind the significant investments, especially in Nordea, is to further raise the current good level of results.

In closing, last but not least, I would like to thank all of our customers and employees for helping us to once again realize another excellent year for Sampo.

Kari Stadigh