Company Participants

- Jarmo Salonen, IR
- Kari Stadigh, President, CEO
- Peter Johansson, CFO
- Torbjoern Magnusson, Head
- Unidentified Speaker, Company Representative

Other Participants

- Blair Stewart, Analyst
- Gianandrea Roberti, Analyst
- Giulia Raffo, Analyst
- James Quin, Analyst
- James Shuck, Analyst
- Matti Ahokas, Analyst
- Per Groenborg, Analyst
- Spencer Horgan, Analyst
- Vinit Malhotra, Analyst

Presentation

Jarmo Salonen {BIO 1860650 <GO>}

Ladies and gentlemen, welcome to this conference call on Sampo's 2010 results. I'm Jarmo Salonen, Head of Investor Relations at Sampo. And with me at this call, I have Kari Stadigh, our Group CEO and President; Torbjoern Magnusson, Head of P&C Insurance; and Peter Johansson, Group CFO. We will start with Kari's introduction into the developments in 2010, after which we will try to tackle any questions you may have.

Before handing over to Kari, let me remind you that you can follow this transmission at sampo.com/ir. And a recorded version of the call will later be available at the same address. With these words, I'll hand over to Kari. Kari, please?

Kari Stadigh {BIO 1504152 <GO>}

Welcome to the conference call on my behalf as well. Sampo Group had an excellent performance throughout the year 2010. All the three operating areas performed well. Our EPS was almost EUR2 and an increase in NAV of more than EUR3 to EUR17.8 per share, an all-time high number. Based on these facts and given our strong capital situation, the Board proposes an increase in dividend by 15% to EUR1.15 per share.

Our P&C operations performed excellently. Profit before taxes was over EUR700 million, up 10%, and gross retail premiums at EUR4.2 billion, an all-time high number supported by premium growth in local currencies as well as favorable currency development. Our combined ratio target was beaten for the seventh year in a row and ended at 92.8% for the year 2010. Focus on underwriting paid off on scale as well as diversification mitigated possible winter effects.

Nordea, our associated bank, contributed by EUR523 million to our result. Interestingly, the EPS contribution of EUR0.93 by Nordea was exactly the same as its contribution to Group EPS. Last week, we increased our shareholding in Nordea by 30 million shares to 21.3%. Our average purchase price is now EUR6.46 per share.

Mandatum Life gross written premiums in 2010 grew by an impressive 38%, exceeding for the first time ever EUR1 billion. Sampo Bank, as our main mass distribution channel, had its second best year ever and contributed roughly a quarter of the total gross written premiums.

The wealth management unit continued to grow according to the plan. And our proprietary corporate sales maintained its market leader position with an above 50% market share in key segments. Mandatum Life result increased by 17%. You have all seen our guidance for 2011. And in fact, I don't have anything to add but my general feeling. I'm very positive for the future prospects of our Group.

Jarmo Salonen {BIO 1860650 <GO>}

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

Questions And Answers

Operator

We have a question from the line of Per Groenborg. Please go ahead with your question, announcing your company name.

Q - Per Groenborg

Yes. Good afternoon. It's Per Groenborg from Danske. Two questions, both related to Eve[ph], first of all, we have seen Poela[ph] already some times ago announce that they are doing reserve strengthenings on their finished book to change more the mortality tables in Finland. Give us an update where your book is in this context.

The second question is related to the industrial book, where you are delivering once again quite good figures. Could you give us any indications about what has happened in the 2011 renewal, where some market participants have talked about fierce competition, probably more in the south of the region, where you are less exposed? But still, how have you seen this renewal season go to your books?

A - Kari Stadigh {BIO 1504152 <GO>}

Hi, Per. On the first question on the mortality tables, we have, of course, the same information as Poela. We have therefore strengthened our reserves for Finnish annuities by EUR29 million. That's in the Q4 results.

On the second one on industrial renewals, Denmark is a difficult market, more difficult than the rest of the Nordic region. However, we've done well in the renewals. Rates are by and large upheld. And that goes for Denmark as well. And we've had positive renewals all over the Nordic region for us.

Q - Per Groenborg

Okay. Thank you.

Operator

Have a question from the line of Vinit Malhotra. Please go ahead with your question, announcing your company name.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes, hi. This is Vinit from Goldman Sachs. Just I wanted to understand the combined ratio calculation in the Fourth Quarter. So in the line other expenses in the P&C, EUR156 million, a fairly large portion was in -- a larger than in the past portion wasn't taken into consideration for combined ratio calculation. Could you comment on that, please? So that's the first question. And second thing is just on the EUR108.4 Denmark Fourth Quarter combined ratio, is it all weather related? Or is there some workers' comp there as well? Thank you very much.

A - Kari Stadigh {BIO 1504152 <GO>}

The second one, Denmark is mainly the -- yes, the weather effects and the winter in Denmark. We've also had large losses and due to our relative growth in Denmark higher expense ratio than what is normal. I'd like to ask you to repeat the first question. I didn't quite understand it.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. So I mean, we can take this offline as well. But when I do the calculation for the combined ratio from the consolidated P&C segment results, I've always seen the difference of around 0.5% to 1% between that number and the reported number. But this time, we saw a 3.5% difference. And I was just wondering if there is any particular movement in the other expense line of EUR156 million which you would like to flag off as different in the Fourth Quarter.

A - Kari Stadigh {BIO 1504152 <GO>}

Are you -- Vinit, are you looking at the annex 13 when you do the calculation because if you look at the consolidated figures, you don't end up with the right combined ratio.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes, yes, I'm familiar with that. But I was just wondering if the other expenses line has something different in Fourth Quarter. Maybe that's -- if I ask that way, then --

A - Kari Stadigh {BIO 1504152 <GO>}

The other expense line does indeed have a different -- an unusual or extraordinary item. That is the change in Finnish legislation that moves the collective guarantee item from capital to liability. That effect is EUR25 million before tax.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay.

A - Kari Stadigh {BIO 1504152 <GO>}

However, the reason I had to ask about your question is that that is not included in the combined ratio.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. True. That I agree with. That's fine. That's the number I was looking for. All right. That's clear. Thanks.

A - Kari Stadigh {BIO 1504152 <GO>}

There has been an untaxed reserve and is now a provision.

Q - Vinit Malhotra {BIO 16184491 <GO>}

And it is linked to the Finnish non-life guarantees.

A - Kari Stadigh {BIO 1504152 <GO>}

Change in law. It's a change in law from the 1st of January in Finland and, for instance, is the same as Poela. Poela has treated it differently. But Poela has had to take that into account from year one or from this year as well.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. Brilliant. All right then. Thank you very much.

Operator

You have a question from the line of James Quin. Please go ahead with your question, announcing your company name.

Q - James Quin {BIO 3878205 <GO>}

Hello, James Quin from Citigroup. A couple of questions, please, the first one's just on the unit link business, which is making no money. And I'm just wondering what you see as the root causes of that and also I suppose what you think might lead to a change in that as well. So is it -- obviously, I recognize there's no DAC[ph]. That's one potential distortion. But it seems to me that even if you did have DAC, it still would be making a pretty low return.

The second question is on the amount of equity in the life business itself, which is obviously in a very different place to where it was two years ago. And I'm just wondering how much of that you would consider to be genuinely excess in the sense that you could happily pay that out as a dividend up to the holding company because, if I start looking at your life business on a standalone basis, and you take the sort of run rate of operating profits and taxes, it's looking like a very low ROE part of your business now. And the third question is just on the P&C business. How much of the equity in that business do you -- would you consider to be a distributable number at the end of 2010? Thank you.

A - Kari Stadigh {BIO 1504152 <GO>}

Okay. If I start with the unit link part, you rightly commented that unit link, we don't have an DAC. So that, of course, makes the numbers a little bit different from what you normally see in a unit link business. The other difference is that we have built up the wealth management, which two years ago made -- it was an investment of roughly EUR9 million. And last year, it was roughly EUR6 million. I would expect that to break even this year. I'm not at all worried about the return on equities number on our unit link business. It's going according to plan. And of course, we wouldn't invest in it unless we had had clear plans and expectations that it will reach our long-term target of 17.5%. Our return on equity in life for last year was 36.2%.

Q - James Quin {BIO 3878205 <GO>}

I guess that's including all the mark to market. I mean, I guess the way we would ordinarily think about it is more the operating earnings.

A - Kari Stadigh {BIO 1504152 <GO>}

Yes, you're quite right. But in unit link, it will tie up solely to capital that when we have the assets under management on the level we plan to have it, I'm not at all worried about the return on capital in that business.

Q - James Quin {BIO 3878205 <GO>}

Sorry, I'm probably confusing up two different things. It was more about the absolute level of profitability of unit link and then the ROE of the life business as a segment on its own, including the traditional and unit linked combined.

A - Kari Stadigh {BIO 1504152 <GO>}

Well I would say that the unit link has a very high return on equity when we get it up and running. So I repeat that I'm not worried about that. Within the with-profit business, you have areas where the expected return on equity is lower than our target. And what we have been doing there is that we have been making offers to our customers to take out their money earlier if they have business which is discounted at 4.5%. So we are doing different measures all the time to improve the return on equity.

So far, our return on equity has significantly been above our return on equity target. Long term, this business has returned -- Peter, help me out with this -- over 20% in the last ten years. And I don't see any reason why we couldn't do that. If we just lay low and do nothing, I think in the with-profit business, we are having areas which don't meet our targets. But of course, as management, we then act on this, take down the reserve levels, pay back money to customers, do changes.

On equity, you said -- I don't have any good number. I will turn it over to Peter. But our plan this spring is to take out EUR100 million by paying back the hybrid from Mandatum to the parent. We haven't had really need for excess capital in the parent. So therefore, we have left the capital in the life company as we have been waiting for some clarification on the Solvency II.

A - Peter Johansson {BIO 3902189 <GO>}

Yes. That's correct. So we had -- historically, the solvency situation is high. But there hasn't been more cash needs from the parent company. So that's simply the fact that we haven't taken a dividend. And if we need cash on the parent company level, the first thing to do is to payback the hybrid.

Q - James Quin {BIO 3878205 <GO>}

And I mean, if it's -- do you have a figure which you could give us, which would be the -- I guess the sort of the dividend you could pay out of life and non-life and still be comfortably capitalized? I mean, I guess that might or might not be the number you might payout. But I'm just wondering what -- how much could you payout if you actually really wanted to and still leave those businesses in a very secure position?

A - Kari Stadigh {BIO 1504152 <GO>}

Yes, I would expect the life company on average over a longer period to pay dividends of EUR100 million. I think that's a safe number. We have -- if I remember out, the historical number in the last ten years, we have taken out EUR1 billion in dividends. But I'm not really sure if this number is exact. But that's my feeling. So I don't see any reason why we couldn't take out the EUR100 million per year if we want.

Q - James Quin {BIO 3878205 <GO>}

And in the P&C business?

A - Kari Stadigh {BIO 1504152 <GO>}

The P&C business is rated. So that's, of course, based on rating. Torbjoern, would you like to elaborate on that one?

A - Torbjoern Magnusson

Well we have a strong capital position, the 79% solvency margin, the (inaudible) A rating Standard & Poor's. And that is the bottleneck that we use.

Q - James Quin {BIO 3878205 <GO>}

And what sort of capital comfort would you have over that level of capital requirement?

A - Torbjoern Magnusson

That's not an exact numerical science with Standard & Poor's, as you know, so I'd like not to answer that question, if I may.

A - Kari Stadigh {BIO 1504152 <GO>}

I can only give you the historical number in six -- in the last six years, it has paid just about EUR3 billion in dividends. So that's roughly EUR500 million per year.

Q - James Quin {BIO 3878205 <GO>}

Okay.

A - Torbjoern Magnusson

One way to guide you without saying too much about the Standard & Poor's model would be to say that the lowest solvent[ph] margin that I recall over the past five years that we've had is 66%. And we were A rated at that time as well.

Q - James Quin {BIO 3878205 <GO>}

Okay. Perfect. Thank you. That's very helpful. Thank you.

Operator

We have a question from the line of Matti Ahokas. Please go ahead with your question, announcing your company name.

Q - Matti Ahokas {BIO 2037723 <GO>}

Yes. Good afternoon. Matti at Handelsbanken here. A couple of questions, if I may, firstly, in Q1, you quantified the impact of the kind of unusual weather-related claims. Wonder if you could give me the figure this time around for Q4 as well. The second question, I'd like to a bit hear Torbjoern elaborate on the rate of renewals. Or you mentioned that rates upheld in Denmark, but I guess the word was positive in other parts of the region. Could you a bit elaborate more in terms of different customer segments and also geographic lines?

And the third one is partly related to the previous question regarding the internal dividend. Have you in 2011 so far paid internal dividends out of Eve and Mandatum Life? And is the kind of old plan of EUR500 million per year from Eve and then EUR100 million from life still what we should expect going forward? Thank you.

A - Kari Stadigh {BIO 1504152 <GO>}

Yes. We haven't paid any dividends. Christmas holidays are just over. So don't rush us now here.

Q - Matti Ahokas {BIO 2037723 <GO>}

Well it's already almost Q1 is over.

A - Kari Stadigh {BIO 1504152 <GO>}

Okay. But no, we haven't paid anything yet. And there is no reason for you to think that we would change our philosophy on this. But Torbjoern, more the real points.

A - Torbjoern Magnusson

We had a recently good Christmas as well. The unusual, as you put it, weather events in Q4 were much more benign than in Q1. They were of the same order of magnitude as one large loss and ran about EUR10 million in unusual weather losses for Q4.

When it comes to rates and rate renewals, the -- of course, the big renewal is for corporate lines on 1/1. And that's about half the Company and half of that, about 40% of the business, is renewed on 1/1. On average, for large corporate business, which is where we have the exact numbers, rates have changed very, very little, as I said, maybe slightly negative in Denmark -- but that's 1% or so -- and slightly positive for other parts of the business. And all in all, we were very pleased with that renewal for our own book.

Q - Matti Ahokas {BIO 2037723 <GO>}

If I may just a bit come back to what Kari mentioned about the net debt or if you could quantify the net debt situation in the holding company at the moment and basically our -- is that what we should be expecting at the end of the year? Or could you see that coming up or down maybe?

A - Kari Stadigh {BIO 1504152 <GO>}

Our net debt after dividends is roughly EUR1.7 billion, after we have paid the dividends and after we have acquired 30 million Nordea shares, net debt roughly EUR1.7 billion. What our net debt situation will be at the end of the year, it depends, of course, on what we do. But at this moment, we don't have any big news from the table. So that's it.

Q - Matti Ahokas {BIO 2037723 <GO>}

Thanks.

Operator

We have a question from the line of Blair Stewart. Please go ahead with your question, announcing your company.

Q - Blair Stewart {BIO 4191309 <GO>}

Thanks very much. Good afternoon. It's Blair Stewart from B of A Merrill Lynch. I've got three questions that are all related to P&C. The first one, just cutting through some of the currency movements, it looks like perhaps the book has been shrinking a little bit in Sweden market share wise and perhaps increasing a little bit in Norway. I just wondered if that was right and what you're seeing in terms of your competitive position in those markets.

The second question is on the impact of rising rates and perhaps any influence that's got on your asset allocation in P&C and what we should be expecting by way of an investment income figure in the coming year. And finally, on your below 95% combined ratio guidance, clearly, over the last five years, I think you've averaged 91%. So 95% is quite some way away from that. Is there anything that you're seeing in the market at the moment that would lead you to expect the significant deviation from what you've reported over the last year or two? Thanks.

A - Torbjoern Magnusson

I'll start with question number one and three then. The significant market or volume changes that have happened in, let's say, the last six months is that Swedes in particular have started buying cars again. We have an exceptional collaboration with the car industry. And therefore, our private lines business in Sweden has grown a bit.

In Norway, as has been mentioned over the past year, distribution capacity is large. There's a large number of small companies. And competition is intense on distribution capacity. There has not been a price war. There are no rate cuts as such. But it's an intense situation. And we have not grown in Norway over the past six months or past 12 months.

P&C guidance going forward, I covered Sweden and Norway on market. Sweden hasn't changed much, Finland no changes whatsoever in the market. Denmark has seen rate improvements over the past almost two years now. And I think that's the simple story of rate guidance.

A - Kari Stadigh {BIO 1504152 <GO>}

Interest rates and asset allocation, I think that as a Group, we are really well positioned to rising interest rates because, inherently, we have a fantastic hedge that if interest rates would go up, it would be inflation. Of course, Nordea would earn much, much more on deposits than it is doing now. I think Nordea's own guidance is that 1% increase in the interest rates would increase their result by more than EUR500 million. That effect could even be higher when after a long period. You have had a long period of low interest rates that I think that's a conservative valuation to that.

Also, our asset allocation, we are really well positioned to rising interest rates. We have a duration in Eve for 1.7 years and in Mandatum Life for 2.7 years. And actually, we have seen our running rate flattening out so that one could speculate that probably this was the time when the interest rates bottomed out. And if our running rate is now 5.2, that's 0.1, 0.2 up from its lowest point. And Mandatum Life for 5.2 and in Eve it's 3.9, that's 0.1 higher than at the lowest situation. So the short duration EUR2 billion in cash, the hedge with the big bank being an associate, I think all of this makes us actually expect some interest rates hopefully to come through, interest rate increases.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Very clear. And I guess your take on the P&C guidance, Kari, is a conservative one?

A - Kari Stadigh {BIO 1504152 <GO>}

Well I think that if we have a good system which the market has approved, why would we change it?

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you.

Operator

Would you like to go to the next question? Hello, sir, would you like to go to the next question?

A - Jarmo Salonen {BIO 1860650 <GO>}

If there are further questions, yes, please.

Operator

All right. We have a question from the line of Giulia Raffo. Please go ahead with your question, announcing your company.

Q - Giulia Raffo {BIO 7573856 <GO>}

Hi. Thank you very much. Giulia Raffo from Autonomous. I just have two quick questions, one actually following up on Blair's question. I just want to ask you on the improvement that we saw in the fixed income yield, both in P&C and in life. Can you try to tell us what has driven that increase in Q4? I assume it's mainly no way for P&C. But I'm just trying to understand what is driving that, given that at the short end of the curve, interest rates have not moved yet that much. Then the second question is I would like to ask you the detail on how much capital gains and ForEx moved, kind of like what was the full-year impact of those in Eve investment income?

A - Kari Stadigh {BIO 1504152 <GO>}

If I start off with the fixed income, I think that actually rates have moved up, yes, even in the short term. And you must remember that we are talking long term[ph] here now. So there has been a significant movement. Then we have switched a lot of our fixed income assets into floating rate notes. So these are the main reasons for when we make extensions, floating rate notes. And as you have seen also, the current bond market, you can now get for a five-year paper about 4% yields. You have a margin of 120. So yes, interest rates have gone up already.

Q - Giulia Raffo {BIO 7573856 <GO>}

Yes. But I guess interest rates have gone up more at the five-year end. So I'm trying to have a sense, even your duration in Eve is 1.7. Are you actually progressively realigning the asset duration to the liabilities one?

A - Kari Stadigh {BIO 1504152 <GO>}

We haven't really yet started to prolong the duration. As I mentioned, the duration's 1.7, 2.7. So there is not a big change yet. We are waiting for the moment. I think interest rates should go up further. However, maybe I'm too excited about it. But I think that our running yields have bottomed out with the measures we are doing now, even with these short durations. Of course, it's not a big number. We are talking of 0.1%, 0.2%. But now we have very good run yields in the portfolio already. I don't know if this is really an answer for what you're looking. Are you looking for assets? Have we done something else in the fixed income portfolio?

Q - Giulia Raffo {BIO 7573856 <GO>}

No. I was wondering if you changed something because of like duration extension or you still have a high weight in cash. So it seems that you are still opportunistic and you prefer to wait. I was surprised to see 20 basis points higher yield when the new money rates are still around 3.5% I suppose in P&C. Or has something changed there?

A - Kari Stadigh {BIO 1504152 <GO>}

No. I think you're correct. We are still opportunistically waiting. And we have done extensions into floating rate notes. Then interest rates have gone up somewhat, especially in Sweden. Giulia, also when Eve paid a dividend of SEK4 billion in December. So that, of course, lowers the cash amount with low yields.

Q - Giulia Raffo {BIO 7573856 <GO>}

Yes.

A - Kari Stadigh {BIO 1504152 <GO>}

But if you talk about the realized gains, so the full-year realized gains on the fixed income side actually for it, you can see them on the slide number 29. For Eve, for the full year, they were 77. That's both realized gains and losses net. And in Q4, there wasn't anything exceptional. So there was only EUR11 million of realized gains.

A - Unidentified Speaker

And there was -- Giulia had a question on ForEx.

A - Kari Stadigh {BIO 1504152 <GO>}

Well the full impact of ForEx actually, I don't have the exact net number. But I think the total Group number is somewhere around EUR80 million to EUR90 million if I remember correct.

Q - Giulia Raffo {BIO 7573856 <GO>}

Okay.

A - Kari Stadigh {BIO 1504152 <GO>}

Okay?

Q - Giulia Raffo {BIO 7573856 <GO>}

Thank you very much.

Operator

Have a question from the line of James Shuck. Please go ahead with your question, announcing your company.

Q - James Shuck {BIO 3680082 <GO>}

Thanks very much. It's James Shuck form Jefferies in London. I had a couple of questions related to the capital position. I think you've always said that 2012 is the day which you would communicate on the excess capital that you accumulated following the sale of Danske Bank. You've obviously invested most of that in Nordea. I guess I'd just like to understand like what is your position regarding excess capital as it stands today. How do you view that distributable excess? Can you actually quantify it?

Then a related question on the same thing is to do your capital flexibility because your debt level of EUR1.7 billion, you obviously have a lot of debt capacity to gear up against that in Nordea stake. And the flexibility allows you to make quite a lot of movement between now and 2012.

So I guess when it comes to 2012, will you actually give resolution on that debt capacity, i.e. will you move to a more sustainable long-term capital structure by 2012? Or will you keep that capital flexibility going forward? Thanks very much.

A - Kari Stadigh {BIO 1504152 <GO>}

I'm not familiar with the number 2012. I have seen it in some analyst reports. But I have not been present when anyone has communicated that. So I don't think that you will -- can expect from me at least any big news in 2012 on our capital position.

On the capital position now, I think that, yes, we are clearly overcapitalized. We like to be that in order to have flexibility to maneuver. We like to be that because we have said that we are still interested in slightly increase our shareholding in Nordea, especially to facilitate further selldowns by the Swedish government. We also want to see how Solvency II and Basel III really come out in the end. So yes, we are overcapitalized. But we are not going to give any new resolution on anything in 2012.

Q - James Shuck {BIO 3680082 <GO>}

Yes, I'm just following up on that. I mean, why -- you have a lot of debt capacity. And to some extent, you're undergeared. And if I think about your capital structure, it's not optimal at the moment. So I don't see why you still need to carry that capital flexibility. And perhaps I'm wrong, but I did think 2012 was the deadline when you would communicate on that. But regardless of that fact, I mean, why do you need to carry that kind of capital flexibility going forward?

A - Kari Stadigh {BIO 1504152 <GO>}

Well I think that the main reason is what -- the reasons that I just stated, that we want to have room to move. We want to see what Solvency II and Basel III really -- how they really turn out. Then we have always felt that it's nice to be a little bit overcapitalized. We are active. We can increase our dividends going forward. We can start share buybacks. We can increase our shareholding in Nordea if the price is right to the levels I mentioned. So it doesn't really bother me at this moment, the overcapitalization we have.

Q - James Shuck {BIO 3680082 <GO>}

I mean, the way I look at it, I mean, it seems to me that, if you've got enough equity capitalization to cover for Solvency II and to cover to increase your Nordea stake and buffers on top of buffers. And the key point, though, is on the debt leverage. And you do seem to be undergeared for what would be an optimal kind of medium-term structure.

A - Kari Stadigh {BIO 1504152 <GO>}

Yes, I think also that we are undergeared. But we haven't yet made any decision how we want to finance the parent. Now we are short in our financing. We could go long. We could increase it. In the previous conference call, I was asked what -- how high could we go. And maybe EUR2.5 billion to EUR3 billion is the maximum we would look at, at this moment. We haven't done anything. You're right on that. You have to be patient.

Q - James Shuck {BIO 3680082 <GO>}

Okay. Thanks very much.

Operator

We have a question from the line of Spencer Horgan. Please go ahead with your question, announcing your company.

Q - Spencer Horgan {BIO 4241901 <GO>}

Thank you very much. It's Spencer Horgan from Deutsche Bank. Two things, firstly, I mean, just to come back on Blair's point on the combined ratio target, I mean, basically what you are saying is that the market appears to be fairly stable. We haven't had a particularly benign year. You've beaten the combined ratio target of 95% for seven years I think you said and beaten it by quite a long way actually I think in all of those years. So I guess the point is, is the 95%, that doesn't seem a very ambitious target. I mean, are you just going to keep a sort of fairly easy-to-beat target there? Or should it become more ambitious?

Then the second point is, in terms of the economic capital view, obviously, you've produced the buildup of economic capital quarter by quarter. But if I look at the Nordea piece of the economic capital requirement of EUR2.5 billion, I think if my maths is right, it translates to a Tier I ratio of about 5.5% or something like that, which, I mean, is that very realistic as a capital requirement from Nordea in the emerging market conditions? Thanks.

A - Kari Stadigh {BIO 1504152 <GO>}

On the combined ratio, the combined ratio is actually not the real target. The real target is the return on equity. And so I think that we have -- the important target is that we want to beat 17.5% in return on equity. And in the present interest rate environment, then we should make a combined ratio which is below 95%. And I think it's good to open a year with a little bit of a relaxed target and then make it tighter over the coming quarters. That is the way we have been doing it. And maybe it's a good thing for us to be relaxed in the beginning of the year and then get a little bit more serious when months go. But I wouldn't like to change the philosophy of having the 17.5% return on equity at the main target.

A - Torbjoern Magnusson

And you can rest assured that the target on me is not 95%. 95% is the outlook, not the target.

Q - Spencer Horgan {BIO 4241901 <GO>}

What is your target, just of interest?

A - Kari Stadigh {BIO 1504152 <GO>}

Let Torbjoern be relaxed still a few months before we make our outlook more tight.

Q - Spencer Horgan {BIO 4241901 <GO>}

Fair enough.

A - Kari Stadigh {BIO 1504152 <GO>}

Spencer, actually, I would also add to that that I think it's pretty ambitious target compared to also to the other Nordic players because it's a not discounted combined ratio.

Q - Spencer Horgan {BIO 4241901 <GO>}

Yes.

A - Kari Stadigh {BIO 1504152 <GO>}

That's a good point. I think that when you compare apples to apples, we are in a non-discounted environment. On the economic capital, I fully agree that, if you look at the economic capital, so basically these numbers are scaled down to the Solvency II confidence level. So it's 99.5%. So in practice, the regulatory requirement will be higher for Nordea, which would be closer to EUR3 billion if you look at full Basel II. Or if you look at Basel II with transition rules, then it would be EUR3.5 billion.

Q - Spencer Horgan {BIO 4241901 <GO>}

Okay. Thanks.

Operator

You have a question from the line of Gianandrea Roberti. Please go ahead with your question, announcing your company name.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Hi. This is Gianandrea Roberti from Carnegie. Actually, all my questions have already been asked. So thanks a lot.

A - Kari Stadigh {BIO 1504152 <GO>}

Thank you.

Operator

(Operator Instructions)

We appear to have no further questions at this time. I'll hand the conference back to you, sir.

A - Jarmo Salonen {BIO 1860650 <GO>}

Thank you. Ladies and gentlemen. thank you for your attention. You may have noticed at the moment the several releases we've given out today. We had changed the Q1 reporting date. So we'll be having this call one day later on the 5th of May 2011 instead of the 4th. Talk to you hopefully before that. Bye, bye.

Operator

Ladies and gentlemen, thank you for your participation. This concludes today's conference. You may now disconnect your lines. Thank you.