Company Participants

- Gianandrea Roberti
- Jarmo Salonen
- Kari Henrik Stadigh
- Peter Kristian Johansson
- Torbjörn Magnusson

Other Participants

- Andrius Budnikas
- Blair T. Stewart
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MANAGEMENT DISCUSSION SECTION

Jarmo Salonen {BIO 1860650 <GO>}

Ladies and gentlemen, welcome to this conference call on Sampo Group's Second Quarter 2015 Results. I am Jarmo Salonen, Head of Investor Relations at Sampo. And with me at this call, I have our President and Group CEO, Kari Stadigh; Head of P&C Insurance, Torbjörn Magnusson; and Group CFO, Peter Johansson.

Before handing over to Kari for his summary of Q2 developments, let me remind you that this call can be followed on sampo.com/results and a recorded version will later be available at the same address.

And now, Kari, please.

Kari Henrik Stadigh {BIO 1504152 <GO>}

Thank you, Jarmo. Welcome to the conference call on my behalf as well. Sampo had a very strong second quarter and reports profit before taxes of €528 million, up 13.5% compared to the same period last year. An EPS of €0.82 for the quarter is the best ever second quarter EPS. In our previous conference call three months ago, you could already hear how confident we were with our non-life operations. The first half year numbers are impressive. The return on equity above 31%, combined ratio best-ever first half year at 85%.

In general, we don't like one-offs and we especially don't like to explain our performance by excluding one-offs. We don't – and if the one-offs had a positive impact, so we don't mind excluding them that much this time and even at 82%, i.e., without one-offs the combined ratio is the best ever for the first half year.

Based on these strong performance, we have adjusted our guidance for the full year combined ratio to 87% to 90% excluding the positive effect of the Norwegian pension reform and the change in the discount rate for Finnish annuities.

Also, Nordea performed well, as you all already by this know. The operating profit at €2.6 billion for the first half year was highest ever, as was the net fee and commission income at roughly €1.5 billion. One can also see the results from the efficiency measures taken already and ongoing as the cost income ratio improved to 45.3% for the first half year. Core tier 1 ratio at 16% is also a best ever number.

I think it was pleasing news for all Nordea shareholders, Sampo included to see how well planned and execute the CEO succession was. It is always good news and less risky when the best candidates are found internally and the company can continue full speed ahead.

Mandatum Life's pre-tax profit was €42 million, up 70% from the corresponding quarter last year. However, an even more impressive number was the €96 million used to lower the increased rate used for all -- to discount all with profit liabilities. They are now discounted at 1% in the latter part of 2015 at 125% for 2016 and at 1.5% for 2017. Also, half year premiums for Mandatum Life reached a new highest ever level at €676 million and expense ratio was best ever at €30 million.

On the group level, our net debt is roughly stable at €1.7 billion and our cost for the debt is at the moment roughly 1.5%. All-in-all, I'm confident that we will deliver as guided also going forward, with the low interest environment being the only real headache for the moment. And of course, I'm pleased to inform you, as always, that we are and we intend to be a dividend stock also going forward.

Jarmo Salonen {BIO 1860650 <GO>}

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

Q&A

Operator

We have the first question coming from Andrius Budnikas from Citi. Please go ahead, sir.

Q - Andrius Budnikas {BIO 18952195 <GO>}

Hello. This is Andrius Budnikas, from Citi. Two questions if I may, both are on Mandatum Life. Could you please explain how the new Solvency II capital ratio could impact the dividend distribution to the group, given that the ratio is significantly higher than the adjusted capital ratio?

Is there an internal target at which you would want to see Mandatum Life of transitional rules? And has the local regulator indicated anything regarding the distribution of dividends from Mandatum Life? Quite long one.

Secondly, could you please tell as how sensitive Solvency II capital ratio at Mandatum Life is to the changes in interest rates? In other words, how much of the 114% ratio excluding transitional rules could be explained by the development in interest rates till the end of H1 2015. Thank you.

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

These are quite technical and detailed questions (06:07) we received the approval last night at 5 o'clock.

Q - Andrius Budnikas {BIO 18952195 <GO>}

Okay.

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

So we haven't made any specific decisions yet on what the specific targets are for the transition role, and we probably are building some kind of traffic light on capital and dividends, what kind buffers we want to maintain, but hopefully we have more details, when we have the Capital Market Day now in September. And there is also some other technicalities that we have to work through, but still it's very comforting that we got the approval because now we can continue business as usual on dividend ending (06:52) up also money from Mandatum Life.

A - Jarmo Salonen {BIO 1860650 <GO>}

The transition period is (07:00) and as our profit/liabilities melt during the 16 years, we feel that we are adequately and actually strongly capitalized even in Solvency II environment.

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

On the liability side adjustment, the impact of higher interest rate was spotted at €700 million in Q2, so it was a significant improvement on capital.

Q - Andrius Budnikas {BIO 18952195 <GO>}

Thank you.

Operator

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

Q - Jakob Brink {BIO 7556154 <GO>}

Thank you, and good afternoon. I have three questions on Sweden actually, and the first one is regarding the combined ratio in the second quarter. I don't know if you could give us some details on how we should – I mean, if you just take the €43 million discounting impact as a positive, it's sort of a not that good combined ratio in Sweden, but I guess you've had something going the other way, so could you please guide us to what is sort of the underlying improvement in Sweden?

Secondly, also on growth in Sweden, you're growing roughly 4% year-on-year in local currency. Last quarter, I think you said that we should continue to see some rate increases being above claims inflation in Sweden for the coming period of time, is that still the case or are we getting to an end?

And then, finally, also on rates in Sweden, how should we look at this going forward, I mean, obviously it has a rather big positive impact on the combined ratio when rates go up, and given that they are still rather low, should we see that more and more to sort of the gross runoff gains in the group will start to actually hit the P&L and maybe even be boosted by the higher discounting in Sweden? That was my three questions please, thank you.

A - Jarmo Salonen {BIO 1860650 <GO>}

We've been able to increase rates by long period in Sweden coming from an unsatisfactory situation. Yes, I have said a number of times, the (09:16) or situation in combined ratio in Sweden is now maybe 90, 91. There are still some rate increases coming through above the inflation. But given the length of the tail in Sweden, this is not far from our targets.

We have growth from new distribution and also from car sales in Sweden, which is good – has been good for this year. And as I said, the rates are coming – the right rate increases are coming to an end since we are reaching our targets also for Sweden as you can see from the numbers this quarter or (09:59) I don't think – you don't expect me to give.

Q - Jakob Brink {BIO 7556154 <GO>}

Okay. Thanks a lot.

Operator

Next question is coming from Mr. Matti Ahokas for Danske Bank. Please go ahead, sir.

Q - Matti Ahokas {BIO 2037723 <GO>}

Yes. Good afternoon. It's Matti from Danske. Could you be a bit elaborate about these large losses that you had apparently clearly in the Norwegian part of the business? What type of losses were these, and especially if you compare your performance to some other peers, the combined ratio in Norway is good, but not clearly as good as we have seen in the other peers. Is this clearly a result of the higher margin loss experience, or is there something else behind it as well? Thanks.

A - Jarmo Salonen {BIO 1860650 <GO>}

These are really boring losses to Norwegian companies. Some of them you could have seen in the media fires to -- with these Norwegian companies. There's little else to be said. You've seen our combined ratios over a period of time in Norway. We have had very strong such combined ratios and we think that we have a satisfactory level, if you normalize for these large losses. I don't think there is much else to say. They are not unusual for us.

Q - Matti Ahokas {BIO 2037723 <GO>}

If I may, just a follow up on that, as Kari also pointed out, you don't like positive one-offs. Clearly this has been a very favorable quarter especially in Norway in terms of at least retail markets. Could one say that maybe you are a bit front-loaded in taking some of these losses from the corporate side in order to show a stable result rather than a fantastic result.

A - Jarmo Salonen {BIO 1860650 <GO>}

No, I don't think we've done anything special about these losses. There's very little else to say about them.

Q - Matti Ahokas {BIO 2037723 <GO>}

Fair enough. Thanks a lot.

A - Jarmo Salonen {BIO 1860650 <GO>}

The largest loss that we've had is to the tune of €210 million. It's not fantastic large reinsurance losses as you may know, our reinsurance net retention is €25 million, but we've had several of them in four Norwegian customers. So we don't feel we have to adjust numbers for any such reason.

Q - Matti Ahokas {BIO 2037723 <GO>}

Thanks.

Operator

Next question is coming from Mr. In-Yong Hwang from Goldman Sachs. Please go ahead, sir.

Q - In-Yong Hwang {BIO 18784369 <GO>}

Hello, this is In-Yong Hwang from Goldman Sachs. Two questions. Firstly on the fixed income running yield, there was a bit of decline this quarter, both in P&C and Mandatum. Could you just explain what drove this, I thought the rising interest rate environment in the second quarter might have helped you a little bit, given the short duration position you've got in your bond portfolio?

And the second question is on Mandatum Life. You mentioned the €96 million negative impact from lowering the discount rate. Presumably, there are other kind of positive effects in the business as well to get to the pre-tax number of €42 million. Could you just give us details of what they are and what you see as sort of the underlying level of earnings in the life business going forward, please?

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

The fixed income running yield, I think fixed income running yield have been coming down as we have been stating all the time. So it's – they came down in If to 2% and in Mandatum to 2.9%.

I can't give you any projection on how this will develop, but there is pressure on running yield. That is very clear and it's completely dependent on what kind of bond issues there are in the market and our appetite and the allocation we get. So, but still there is downside pressure on these numbers, that's clear.

Q - In-Yong Hwang {BIO 18784369 <GO>}

So, you haven't seen a positive impact from some of the increases in the year that we had in the second quarter?

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

Our duration is so short that, even in the long-term, the yields have been picking up. So, there is no big difference. We have still more bonds maturing than what we are able to invest and therefore, cash has been piling up.

Q - In-Yong Hwang {BIO 18784369 <GO>}

Yes.

A - Jarmo Salonen {BIO 1860650 <GO>}

€6 million. So, we'll of course have some realized gains and other factors that -- FX volatility and also interest rate volatility creates P&L effects and this was quite significantly positive, because it's not all -- derivatives are always mark-to-market through P&L and assets. Value changes in assets go directly into fair value reserve.

Q - In-Yong Hwang {BIO 18784369 <GO>}

Sure. Can you give us a number of what you regard as sort of the underlying pre-tax numbers for the Life business this quarter?

A - Jarmo Salonen {BIO 1860650 <GO>}

The underlying, what?

Q - In-Yong Hwang {BIO 18784369 <GO>}

The pre-tax number, is €42 million roughly is kind of the right ballpark?

A - Jarmo Salonen {BIO 1860650 <GO>}

Well, we don't calculate any actual underlying profits, but ...

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

I don't think you will have an underlying profit.

A - Jarmo Salonen {BIO 1860650 <GO>}

Yes.

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

It of course depends on how much we realize unrealized gains.

A - Jarmo Salonen {BIO 1860650 <GO>}

Yes.

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

So, there is no real trend. You can more or less think that what is the mark-to-market yield, and in Mandatum's case, the half year mark-to-market yield without the segregating portfolio was about 6%. So that is the yield, and then you have your sales to calculate expense ratios and risk ratios on top of that.

Q - In-Yong Hwang {BIO 18784369 <GO>}

Sure. Thank you.

Operator

We have the next question coming from Mr. Christian Hede from Nordea. Please go ahead sir.

Q - Christian Hede {BIO 18642300 <GO>}

Yes, good afternoon. Few questions from me as well, most of it answered, but one would be a question on the possible sale of RSA. Do you see any dynamics to the Nordic region, the Nordic insurance market? And the other one is, on the holding result, is it fair to assume that the size of the loss this quarter was significantly above what we can expect for a normalized also going forward? Thank you.

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

I think that it's always -- if there is big M&A deals, because that someone pays a high price for an asset and then he needs [Technical Difficulty] (16:44-16:52) market leader in the industry.

On the parent company loss, sorry, we booked order pre-tax loss of €90 million, FX is the reason that it was somewhat higher. So minus €12 million would be roughly a normal loss on the parent company level.

We have a funding cost of €2.3 billion, which is 1.5% and then we have a fairly sizable fixed income portfolio, with roughly 4.5% running yield on the parent company. But it's the effect of net debt plus then also the running cost on the parent company.

Q - Christian Hede {BIO 18642300 <GO>}

Thanks very much.

Operator

We have the next question coming from Mr. Blair Stewart from Merrill Lynch. Please go ahead.

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

Thank you very much. Good afternoon, gentlemen. I have three questions if I can. The first is on the combined ratios, just on the Finnish combined ratio. Obviously, the headline figure distorted by the one-offs, it looks like on an underlying basis, it was pretty good though and I wonder if you could just quantify was any significant moving parts there in the Finnish combined?

And then just clarify, Torbjorn, if possible just comment on Sweden, you said €90 million to €91 million, I didn't quite catch what that was referring to, was that an underlying run rate or something else? And secondly, maybe one for Kari, the fair value adjustment reserve is a big number and a lot of the gains set in equity, I just wonder is that really a consequence of the other side of your asset allocation stance, which is heavy in cash, should we see the same -- these things in some ways together? And I guess, what's your plans for that fair value adjustment reserve, are you going to bleed that through into numbers over time?

And finally, probably for you Kari again, just an update really on your expectations for dividends into the hold company this year, I know you already had a nice dividend from Nordea, what do you expect in the second half of the year please? Thank you.

A - Torbjörn Magnusson

So on the Finnish combined ratio, there were no other big effects than the change to the discount rates, large losses were not far from normal, they were a bit beneficial. So, yes, you can do a simple calculation to see that the combined ratio, underlying combined ratio was very good. And then, on Sweden, yes, underlying run rate sort of being €90 million to €91 million, yes.

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

Thank you.

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

Okay, Blair, even if the non-life businesses in the Nordics is not very cyclical in recent markets and global are cyclical. So I think that we have enjoyed an excellent equity market for a long period now and of course, we want to build up buffers during that time, that's only prudent. How these buffers will be used will completely of course depend on the capital market cycles, how they develop going forward.

At the moment, we see that we have a full allocation, full risk in equities and I would say that our risk appetite guides us more than anything else. So if there is a time to scale down the equity weight, then of course part of these gains, if they are still present at that moment will be realized into the result. So, there is no real policy on that. I think it's more common sense.

On dividends, I see very little happening. The Solvency II transition rules was very well received and I think that the dividend capacity in Mandatum is there. I see very – no real change in If's dividend capacity and Nordea has made their own communication on that, so no real news.

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

Okay. No news is good news, and I respect. Thank you very much.

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

Thank you.

Operator

We have the next question coming from Mr. Gianandrea Roberti from Carnegie. Please go ahead, sir.

A - Gianandrea Roberti {BIO 6786731 <GO>}

Yes. Good afternoon from me as well. I have three questions. The first one on Mandatum Life, Peter, I think at the beginning, you were asked the sensitivity of these numbers that you are publishing today. I am just wondering, if the solvency margin is 114, excluding transitional rules, what would the number be in a situation where rates go up or down 100 bps? I'm not sure if you have the answer but, if you do, it would be quite interesting.

The second question is that I was looking at the – in your capital slides for the group, and I think if I punch in the numbers correctly, between Q1 and Q2, the liability side adjustment, has actually improved for more than €1 billion which is a very big number. I just want to double-check the number and if you can add some comment on that. I'm sure it's very sensitive to raise, but it still means a very big jump.

The last question is more for non-life really and I was wondering if you can add some more, some potential growth activities that you might be working on or some maybe selected niche that you are targeting in top of just normal business? Thanks.

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

Yes, you are right that the sensitivity is very big to the yield curve. So, I don't have an exact number on 100 basis points, because you would have to do it with the yield curve, plus then the – what's in the Solvency II rules on – because they, you don't actually use the swap curve in the longer end of the maturity. But, sensitivity is big and the reason why – and the liability side adjustment improved significantly in Mandatum, is mainly driven by higher interest rates. But at the same time, because we increased by €96 million our reserves, so that's shown as a positive in the liability side adjustment.

The same thing goes with If because we lowered the discount rate in Finland by 50 basis point. So, that €110 million is a positive in the liability side adjustment and higher rates.

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

And then, I think that if we forget the modeling for a moment, Sampo as a Group is of course positioned to benefit from rising interest rates or steepening yield curve, because not only with a short duration is it good news for us, then very big part of our fixed income portfolio is floating rate papers. And then of course, bank will earn a lot more if interest rates ever increase.

A - Torbjörn Magnusson

And well, first of all, second quarter was of course a lot better than the first, coming back into growth. Secondly, the only growth issue we have is really Norway, where there is a structural problem. In Finland, the problem is GDP developments, not market shares for us. Sweden grows well. Thirdly, we have better growth in mass markets as usual than in large corporate business, which is important and our strategy. And then when it comes to the work we do, we have actually renewed the most important affinity agreement that we have in the second quarter; that's with Volvo and the Volvo dealers in Sweden, which is now a new agreement until the end of 2018. And furthermore, as part of the business as usual, we of course invest a lot in the web development and have 30% growth in web sales and improve our – already leading web services all the time.

A - Gianandrea Roberti {BIO 6786731 <GO>}

Perfect. I'm just asking on the structural issue in the Norwegian market. I suppose you're referring to mostly the known top-four players in the market which have been quite aggressive for a number of time now, how do you see that? And specifically, I guess DNB which has rapidly grown its market share, is it something that bothers you particularly or do you think you will still be able to produce the results that you have been doing for the recent period? Let's put it like this.

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

DNB was a very aggressive competitor some time ago and that that has passed, or at least has not been the case this year. There are number of small insurers in the Norwegian market that use perfectly traditional distribution means with what it seems very high combined ratios and one of them has already run into capital difficulties. And yes, we – it is of course a nuisance, but I am not entirely sure that they will all survive the next few years.

A - Gianandrea Roberti {BIO 6786731 <GO>}

Thank you.

Operator

The next question is coming from Mr. Thomas Seidl from Sanford C. Bernstein. Please go ahead, sir.

Q - Thomas Seidl {BIO 17755912 <GO>}

Thank you. Good afternoon, gentlemen. First question on the P&C side. I am not sure if I get the underlying performance, if I get it right from the report, you had a €43 million benefit from the increased discount rate and that is worth about 12% to 13% combined ratios – the underlying combined ratio in the quarter in Sweden is more in the range of 97%, if I'm not wrong. And so, I wonder how you get to the underlying of 90% to 92% you're mentioning, Torbjörn.

Second question on life. First a technical question. On the available capital, your own model such as 1.5 owned funds, the transitional 2.1 and without – sorry, your internal model is 1.8, with transition 2.1, and without 1.5, then what are the differences explaining the movements here on the own front side on the life?

And thirdly on the life strategy. Kari, in the past, you mentioned that the life business has maybe not sufficient scale on a standalone basis in Finland. With the recent momentum you have in Finland, has that changed your view? And if not, what are your further plans with your life business?

A - Torbjörn Magnusson

On the Swedish normalization, there are the mid-reserve moments than the discount rate.

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

On the solvency capital requirements, the biggest difference with and without the transition period is really the discount in the liabilities. So, the full – it releases huge amount of capital, when we don't have to discount, take the fully effect of the discounting. And the other factor then on the capital requirements, so that's reflected in the capital available. And then, the other side is the capital requirement, is that you have a six-year transitional rule on your assets. So, the risk charge gradually goes up during six years. And then, the market risk increases and that's the reason why capital consumption is then bigger, if we have the same balance sheet or roughly the same allocation after five years or six years.

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

On the life strategy, I think that not very much has changed. You are all aware of the fact that for the last 5 years to 10 years, the with-profit business has been on the sideline and we have not really had any new sales there. And we foresee that the with-profit liabilities are slowly melting away. And of course, from the with-profit, the major part of our investment income or the investment excess return stems from that. Therefore, the management has had that duty to increase other types of business, mainly unit-linked, wealth management, personnel fund business and so on.

And as you can see from the expense ratio, that starts to payoff now. And so, the first half year expense rate was €30 million and of course, this is not a big number but going forward from this, the margin is very high as you are now in black numbers, and you have covered the investment.

We feel that we are in a defensive mode, so as the investment income shrinks, we have to develop these other asset – other valuable parts of the business. And we have been very successful with that. But, on a whole, the value of Mandatum has not grown.

However, Mandatum is a valuable asset for someone one day because it's also the market leader in the corporate pension sector and that is attractive to many players, to be a market leader in the corporate pension sector.

And then, of course, we have an exclusive distribution agreement with the number-three bank in Finland, which is Danske, and that's also valuable for someone. And the third part is, of course, the fund business where we are concentrating on our high network customers' personnel funds. And then as you know, we have just created a fund company Luxembourg, which now as €100 million of assets there. So, the PCs are small, but together they are interesting and we will certainly find a way to create shareholder value with this asset going forward.

Q - Thomas Seidl {BIO 17755912 <GO>}

All right. We understood. Thanks, Kari.

Operator

Next question is coming from Mr. Chris Esson from Credit Suisse. Please go ahead, sir. Well, Mr. Esson your line is open.

Q - Chris J. Esson {BIO 16208369 <GO>}

Hi, good afternoon. Thanks for taking my questions. I have two if I may, please. Firstly, with respect to dividends and could you just provide a bit of a sense of what you see as an equilibrium for the business in terms of the level of growth and the level of payout ratio, and what factors if any could provide some flicks for that to be higher in terms of payout ratio in the near-term?

And secondly, with respect to solvency and future dividend capacity, just looking at If and I noticed that you have 2-times cover on your economic model and that regulatory – that capital requirement does incorporate ALM risk. Given the consistency of profit and therefore capital formation, just wondered if you could make a comment on whether this figure needs to be 2-times? And also, if you can provide some comment around potential sensitivity of P&C capital with respect to interest rate as well, that would be welcome. Thank you.

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

Okay. I'll start off and then Peter will continue. I think that you know our dividend story, as we are a dividend stock. All this modeling is very nice and fancy, but our Board will not make the decision based on that. Our Board will make the decision based on the proposal from the management and in that case, the driving force is that we want to try to increase the dividend every day and that the historical development our dividend forms graphically beautiful curve. So this overrides all other things. And therefore, I feel that we are still a dividend stock and we still foresee a possibility to increase the dividend going forward. In If's case, the payout ratio has been, historically, around – correct me – 85%?

A - Torbjörn Magnusson

Around 85%, yes.

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

Yes. And as If has a rating, and it's A rated, there is no real need to have any different capital structure from what it has. As a group, we have always stated that we are overcapitalized and that is, I think, still the fact because it's a comfortable position to be in. And of course, if something happens ever in the M&A market, it gives us room to maneuver. At this moment, we don't see any attractive deals out there, but this is more of a tactical issue.

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

And on the solvency side, so there will always be significant buffers above the economic capital requirement, because economic capital numbers are scaled.

With Solvency II, confidence level, which is 99.5% confidence level, and that's in the border line of being an investment-grade company or a high-yield investment grade. So, you have to have significant buffers, so the limiting factor will be really the single A rating capital requirement from the S&P model.

Q - Chris J. Esson {BIO 16208369 <GO>}

Thank you.

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

Excess capital in If, and then normally we pay out a big part of that excess capital in December.

Q - Chris J. Esson {BIO 16208369 <GO>}

Great. Thank you very much.

Operator

Next question is coming from Mr. Jonny Urwin from UBS. Please go ahead, sir.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi, there. Thanks for taking my questions. Just two for me please. Firstly, just to be clear, I was just wondering if you're pricing out claims inflation at the group level. And if there is anything you would like to highlight by division or geography that would be welcome.

And secondly, I appreciate your comments on the M&A and I appreciate you wouldn't want to say too much. But, I was just thinking if you'd had any thoughts specifically around one of the bigger European multi-lines potentially coming into the Scandinavian markets, and what your thoughts are in there. Thanks.

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

Claims inflation is low basically everywhere in the Nordic region, thus rate increases are the same.

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

So, big entry, I see it inevitable. I think it's clear that one day, one of the big global players will enter the Nordic financial market. I think this will happen in banking; I think this will happen in P&C; and I think this could also very well happen in life. I find it a little bit surprising that they have not done it yet. They have invested in very odd countries with political risks and things like that.

Sure, there has been growth that has been higher than in the Nordics. But, if you look at the volatility of the earnings here and the ROEs here, this should have been a very attractive and of course, they can produce scale benefits here, especially in the corporate sector, which many others can't. So, the problem for the big entries, of course, that there are so few assets for sale because many of the assets are co-operative or mutual, and they are not for sale. Many of the assets have a core shareholder foundation or some kind of cross-ownership, so you can't get hold of them.

And actually, if you do this analysis, you'd end up in a situation where the Nordic market is very special that the only assets which are for sale, they are the best assets – normally, the crappy assets are for sale in every market. And even more surprisingly, all the best assets are in the stable of Sampo. So, if you want to enter this and you are one of the global big players, you have to knock on our door.

Q - Jonny Urwin {BIO 17445508 <GO>}

Very interesting. Thank you.

Operator

Our next question is coming from Mr. Daniel Do-Thoi from JPMorgan. Please go ahead, sir.

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

Hi, good afternoon. Two very quick questions for me, both on Mandatum Life. The first one was on lowering the discount rate to 1% and whether we should be thinking of this as the new hurdle rate that you'll also be targeting going forward?

And then, secondly, just wondering whether you have a sensitivity at times as to whether it would cost you to take the discount rate down to say 1% or even down to 0% for the entire with-profit book at Mandatum? Thank you.

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

If I take the first part and Peter will answer the second part. I don't think you can draw any conclusions. This is our market view, at least, for the moment and it's completely dependent on what happens in the interest rate environment. We have earlier stated that the low interest rates in Sweden were a surprise to us. We didn't expect the interest rate to go – what is it now, minus 0.35% or something. We never thought that would happen.

And of course, they have now reached what they wanted and devalued their currency at least temporarily, but we have to play, so related to [Technical Difficulty] (39:19-39:24) just from this.

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

On taking the whole or all – over the maturity down to 1%, I would say that 100 basis point lower in the discount rate from 3.5% to 2.5% on the entire book, that would probably cost around, we have 8-year to 9-year duration. So that would be around €360 million. But it becomes, because of the complexity, it becomes more expensive the lower you go, like you can see also when we lowered the discount rate in Finland. But, it wouldn't make any sense to go down all the way down to 1% in the longer end of the yield curve because there you actually apply higher discount rates under Solvency II, especially when we have the transition measures. We already report a surplus on the liability side adjustment.

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

And you must remember that this is not anything carving in stone because we are also all the time doing measures with our book where we give reasons for early buybacks if the interest rates are high and so on. So, I think that, with the history we have in Mandatum Life, we have been able to handle the low interest rate in environment extremely well. But, you must remember that we are not fully asset liability matched, as many of our Central European peers.

So now, when equities have been performing well, we have been enjoying that performance. And I think that in our insight, this has been exactly the right way to go forward. I think that the more interesting situation is what will the Central European life insurers do with their books, because their approach has been so different and their equity rates have been so low. If we see the long interest rate curve moving upwards and they have much duration, that will be real firework.

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

Great. All right. Thank you very much.

Operator

There are no further questions registered at this time. Please go ahead, speakers.

A - Jarmo Salonen {BIO 1860650 <GO>}

Thank you, operator, and thank you all participants for your attention. Thank you.