Q4 2011 Earnings Call

Company Participants

- Jarmo Salonen, IR
- Kari Stadigh, CEO and President
- Peter Johansson, Group CFO
- Torbjorn Magnusson, Head of P&C Insurance
- Unidentified Speaker, Unknown

Other Participants

- Blair Stewart, Analyst
- Gianandrea Roberti, Analyst
- Giulia Raffo, Analyst
- Hans Pluijgers, Analyst
- James Shuck, Analyst
- Matti Ahokas, Analyst
- Mika Koskinen, Analyst
- Robin Buckley, Analyst
- Thomas Seidl, Analyst
- Vinit Malhotra, Analyst

Presentation

Jarmo Salonen {BIO 1860650 <GO>}

Ladies and gentlemen. Welcome to Sampo Group's full year 2011 results conference call. I'm Jarmo Salonen, Head of Investor Relations. And with me at this call, I have our Group CEO and President, Kari Stadigh, Head of P&C Insurance, Torbjorn Magnusson. And Group CFO, Peter Johansson.

We will start, as always, with a few words from Kari on the developments in 2011. But before handing over to Kari, let me remind you that you can follow this call directly on our website, Sampo.com/result. And a recorded version of the call will be later available at the same address. And I think that's all from me. I now hand over to Kari. Kari, please.

Kari Stadigh {BIO 1504152 <GO>}

Thank you, Jarmo. Welcome to the conference call on my behalf, as well. Sampo reports an EPS of EUR0.50 for the Fourth Quarter. It is worth noticing the strong mark to market

EPS in Q4 of EUR0.94, which was up EUR0.12 from the corresponding quarter a year earlier.

All three areas of our operations rebounded nicely in Q4. This combined ratio of 90.2% was an excellent achievement. And as gross written premiums grew in all business areas with an overall growth of 4%, the big picture is actually very good.

Nordea finished the year with a strong quarter as well -- volume wise, their best quarter ever. Our profit share of EUR161 million was up 6% from the corresponding quarter in 2010.

In Life Insurance, we saw volumes come down in line with the market in general. However, as a sign of good performance, Mandatum Life's market share in the quarter was as high as 28%.

The profit before taxes was down to EUR30 million for the quarter. However, this is in line with our long-term expectations.

As you all are well aware, we sold equities in the beginning of 2010 and increased our equity rate back to neutral during the year. This was too early. However, in Q4, we gained back some of the momentum. Our total mark to market return for all of our insurances' investments was up 1.9% for the quarter, bringing our total return into black figures for the year, at 0.8%.

In the month of January, we have seen a strong recovery in Nordic equities, as well as in Nordea. I think our NAV has increased significantly. I don't have an exact number. But if we look at Nordea's share price, roughly -- probably our NAV has increased by around EUR2.00 per share or something.

The strong Q4 development in our operations brings the result to over EUR1.2 billion for 2011. Based on this. And given our strong capital position, the Board proposes an increased dividend of EUR1.2 per share. We continue as a dividend stock, as always.

Our outlook for 2012 is very stable. Combined ratio in non-Life below our long-term target of 95%, Nordea's strong volume development and cost initiatives give comfort that their contribution to our profits will be significant.

Mandatum Life's result is more dependent on the investment income overall. We are confident and ready to meet the challenges of 2012.

Jarmo Salonen {BIO 1860650 <GO>}

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

Questions And Answers

Operator

Thank you, sir. (Operator Instructions) And the first question comes from the line of Matti Ahokas. Please go ahead, announcing your company.

Q - Matti Ahokas {BIO 2037723 <GO>}

Yes. Good afternoon. Matti Ahokas, Handelsbanken, here. Two questions on the non-Life side, if I may. Firstly, on the EUR53 million reserve increase that you did regarding the Finnish mortality model change, that was quite a lot higher than what some of your competitors have done. Why was it as big as EUR53 million? Did you increase it even further?

And the second question is more of a general nature, also on the non-Life side. I'm a bit puzzled, because it seems like the normal weather-related variation is not holding. And if I look at your combined ratio. And exclude the EUR53 million, get to kind of EUR85 million. And that's a very, very strong figure for a Q4. What am I missing? Has the normal variation disappeared, or is it just that -- a very, very favorable frequency quarter for you guys? And what should we expect going forward? Thanks.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

All right. On the EUR53 million mortality change, you need some acuity, actually. We started increasing the mortality reserves last year by EUR29 million. And then added EUR53 million or EUR54 million this year. POILA did a change of -- in excess of EUR30 million last year. And then another change this year.

If you go back and look at market shares over a very long period, from the '90s, you would expect their increase to be to the tune of 80% of ours. And that is actually roughly what it is, if you add the two numbers from 2010 and 2011 together.

Secondly, on weather, the weather in Q4. The weather in Q4, with the exception of one day, was very favorable to non-Life insurers. We had a windstorm, as is rather well known, at the end of December. But we actually didn't get any snow in the Nordic region until very late this year. So you wouldn't expect a high degree of losses in Q4, which we didn't have. And also, if you go back in history, our Q4s haven't really had a strong degree of weather or seasonality in them.

Q - Matti Ahokas {BIO 2037723 <GO>}

If I may just continue on that note, Torbjorn, how much was the -- excluding the one day, the weather related claims, better than a so-called normal Q4?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

That's -- I can't give you the number for that, Matti, because that is really impossible to say. We've had very good weather. What you're going to compare to, what is a weather related loss? Is it a car crash? How do you know whether that's weather related or not? It's impossible.

Q - Matti Ahokas {BIO 2037723 <GO>}

I leave that to you. But maybe if you just can give me one figure, it would be really great.

A - Unidentified Speaker

He's blushing. But he's not giving any numbers.

Q - Matti Ahokas {BIO 2037723 <GO>}

Okay, fair enough. Thanks.

Operator

Our next question comes from the line of Blair Stewart. Please go ahead, announcing your company.

Q - Blair Stewart {BIO 4191309 <GO>}

Thanks very much. Good afternoon, everyone. It's Blair Stewart from BofA Merrill's. I've got two questions. The first is with regards to the dividend. You say it's -- you aim to be a dividend stock, Kari. And I think you've shown that today. But just looking forward, with arguably lower dividends from Nordea, perhaps some volatility around dividends from your own Life subsidiary, could you perhaps comment on your ability to maintain this strong dividend growth track that you want to stay on?

And secondly, with regards of the shape of the balance sheet, I just wonder if you can comment on how comfortable you are with the balance sheet shape at the moment. I noticed you've got a senior bond up for maturity in the next few weeks. I just wonder if you could comment on that. And your plans around that. Thanks very much.

A - Kari Stadigh {BIO 1504152 <GO>}

Yes, we are definitely committed to being a dividend stock. And we have already received some questions about what will Nordea's dividend affect our dividend going forward. We received last year EUR250 million in dividends from Nordea. This year, we will receive EUR225 million. So, doesn't really affect our future plans for dividend, the change is so marginal.

Then if we look at the P&C business, we have, over the last, I think, seven years, received dividends, almost EUR500 million per year from If. I have no such information that If's cash flow would be any different this year from all those previous years.

In Life, you are quite right, that it has been more volatile. And we are all waiting to see what will happen with Solvency II. The latest information we now have is that it's postponed once again, we really don't know for how long. I still think that Mandatum has a good capacity to distribute a dividend of EUR50 million to EUR100 million per year. So no big change there either.

On the long-term track, I would love to see our dividend inch upward slowly year after year. That is, of course, something I can't promise. But that's my wish. Let's see how this year goes. Maybe that's all I want to comment on the dividend at this moment.

I think that on the balance sheet, we have a bond maturing in April. The outstanding amount is a little bit over EUR600 million at this moment. I think Patrick will start road-showing in the next few days for a new 5 year bond to replace that. We have also other backup facilities. So we feel very comfortable on the cash position.

Long-term, I think at this moment, I think we have the view that we would like to have a net debt level of EUR1.7 billion roughly, after dividend has been distributed.

Q - Blair Stewart {BIO 4191309 <GO>}

Thanks, Kari. If I can just follow up, the bond that's maturing, the senior bond, will you be replacing like with like, or would you like something that could possibly give you more capital credit?

A - Peter Johansson {BIO 3902189 <GO>}

I think that we are looking for a five year bond in the same volume, roughly what that we have now.

Q - Blair Stewart {BIO 4191309 <GO>}

So a senior bond.

A - Kari Stadigh {BIO 1504152 <GO>}

Yes.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Thanks very much.

Operator

Our next question comes from the line of Hans Pluijgers. Please go ahead, announcing your company.

Q - Hans Pluijgers {BIO 16245530 <GO>}

Yes. Good afternoon. Hans Pluijgers, Cheuvreux. Three questions, if I may. First of all, with respect to Life results, you said that the EUR30 million in Q4 was in line with long-term expectations. Is it a little bit of guidance for the long-term quarterly normalized, let's say, income you are looking for, the EUR30 million? Could you elaborate on what you see there as a normalized level?

Secondly, on impairments, did you take any impairments in Q4 on equities? And could you maybe, if so, also stipulate by operation? So, by in the Life and non-Life. And thirdly, of course, the question on the outlook of the pricing on the non-Life. Could you a little bit elaborate what you're seeing there? One of your competitors is saying that maybe for next year still, some additional price hikes. But on the longer time, they see more in line with inflation. What are you seeing in the market?

A - Kari Stadigh {BIO 1504152 <GO>}

Thank you. I don't really think it's a guidance on Life, because we only have one guidance. And that is the one we give, that Life results are dependent on the investment climate.

Maybe it's worthwhile to look a little bit closer to it anyhow. We have two, three, four components of -- forming the results, which are of interest. One is the risk result. And the risk result in the Life company this year was high, it was above EUR20 million. I think that our actuaries feel comfortable with a result between EUR15 million to EUR20 million long term, with the portfolio we have today.

On the cost side, we have been looking for a cost result of EUR10 million. The management should be able, going forward, to improve it. Then we have a wealth management business which has broken even at the end of the year. And the rest is coming from the investment income.

So, if you were to take this EUR30 million per quarter as a guidance, then that would mean that roughly EUR20 million, EUR30 million would come from the insurance results. And EUR90 million from the investment income in the with-profit portfolio. And that would mean that it would be a little bit less than a 2% margin on those assets.

These are very rough numbers. But they are no guidance. But I just wanted to open it up for you a little bit on the earnings model of the business.

The management is, of course, focusing on increasing the risk result and cost result. And margin on the wealth management. And as we all know, the with-profit business is in semi-runoff. So we can't expect any higher investment income going forward. And that's the volatile part.

A - Peter Johansson {BIO 3902189 <GO>}

And on the impairment side, it's roughly EUR15 million, both in Life and P&C. And all the additional impairments we did in Q4, they were on stocks and equity funds that already had been impaired previously. So none of them were because of being over 20% negative additional -- or, new equities being over 20% negative.

Q - Hans Pluijgers {BIO 16245530 <GO>}

Just -- sorry, could you please repeat the number? Because you were a little bit far away.

A - Peter Johansson {BIO 3902189 <GO>}

So it was EUR15 million, both in Life and P&C.

Q - Hans Pluijgers {BIO 16245530 <GO>}

Okay, thank you very much. And last question, pricing?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

On rate hikes, by and large, we're able to -- or, we're seeing price increases in line with claims inflation. So they're, on average, maybe 3% in the Nordic region. The exception would be Denmark, which has been better. And we've seen some improvements on the large corporate side lately.

The -- Norway has had lower inflation than expectations. So therefore, our price increases have been in excess of claims inflation. And then there's a small disappointment on SMEs in Sweden, which is not a big line for us, where we don't see our competitors increasing pricing as much as is necessary. And is stated by them in the various contacts we meet them.

Q - Hans Pluijgers {BIO 16245530 <GO>}

Okay, thank you.

Operator

Our next question comes from the line of Mika Koskinen. Please go ahead, announcing your company.

Q - Mika Koskinen {BIO 1557965 <GO>}

Ah, afternoon. It's Mika Koskinen from SEB Enskilda. I'd just like to ask, the -- could you just explain a bit more in detail the high financing cost that you had in the holding company? I know that you refer it both foreign exchange and interest rate hedges that you mark to market. But clearly, the cost level or the profit level was clearly lower than, I guess, the consensus was looking for.

How much was this kind of one-off. And what should be a normalized -- if we can talk of anything normalized in this world -- level going forward?

A - Peter Johansson {BIO 3902189 <GO>}

Mika, the biggest item is the SEK 4 billion Swedish loan that we had. So that's unhedged, because on the asset side, we get fairly big value gains in the other comprehensive income if Swedish krona appreciates. So that impacted EUR70 million. And then there was a marginal, negative losses on the swap side. So this is basically a one-off that causes some volatility.

Going forward, I think that the -- because the spreads have moved up somewhat. So the finance cost from -- previously, we have talked about EUR15 million now. It's pretty much closing up to -- or, EUR15 million to EUR20 million per quarter. Now it's probably closer to EUR20 million per quarter.

Q - Mika Koskinen {BIO 1557965 <GO>}

Okay. And then, just a -- to double check if I got you right, the investment income in the P&C portfolio was, I guess, a bit lower than people were expecting. Did you say that you had EUR15 million, 1-5 million of writedowns in the Fourth Quarter, which basically dragged the reported investment income?

A - Peter Johansson {BIO 3902189 <GO>}

Correct. 1-5.

Q - Mika Koskinen {BIO 1557965 <GO>}

1-5, okay. And otherwise, it was basically plain sailing?

A - Peter Johansson {BIO 3902189 <GO>}

Exactly, yes.

Q - Mika Koskinen {BIO 1557965 <GO>}

Okay. Thanks.

Operator

Our next question comes from the line of Gianandrea Roberti. Please go ahead, announcing your company.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Yes. Good afternoon. It's Gianandrea from Carnegie. A couple of quick questions from me as well. One, it's on non-Life, I guess for Torbjorn. In Norway, two quarters in a row where your combined ratio, it's spectacularly low. And it's even more striking in the last quarter of '11, I guess, when I look at the numbers from -- again, Citi and (inaudible) reported yesterday and today. And I appreciate your comments on the weather. I'm just trying to figure out if large claims experience was much better than expected, or why did you come out so strongly?

The second question, it's more nitty gritty, probably for Peter. I was expecting, when I look at your fair value to share moments, Q4 versus Q3, I was expecting some positive on the fixed income part of it, which really didn't come out. It's basically stable. I guess interest rates should have -- I mean, they have come down slightly also in Q4. But perhaps there's something else that pulled it in a different direction. Thanks.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Gianandrea, on Norway, actually, let me take this opportunity to give you a little bit more information than you asked for, for once.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

For once, great.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

We have a number of reserving changes this quarter. And as you are well aware, we have the mortality change in Finland of EUR54 million. We also have a change of discount rates that affects the annuities in Sweden of EUR60 million.

On the other hand, we have been more or less pushed by our auditors to release some reserves in Norway, which helps the combined ratio that you've noticed. And that was in workers' comp and personal accident, very long tail lines, very old years. And that was about EUR30 million. At the same time, we have also released very old year reserves on workers' comp in Finland, round about EUR20 million. And also, as many companies in Sweden, we have seen the frequencies of Swedish traffic losses, Swedish motor third party losses decreasing for a period now. And we have released round about EUR60 million.

So, quite big reserve changes that would affect normalized calculations. And not least in Norway, the combination of low inflation, low claims inflation, decent price increases. And this reserve release produced the very good combined ratio that you commented.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Okay.

A - Peter Johansson {BIO 3902189 <GO>}

This is Peter. So, on the fixed income, actually, both in If and Life, the fixed income unrealized gains were flat. And the explanation is really the short duration in the portfolios. So basically, the unrealized gains that we have are gradually running off. So even if the credit spreads came down somewhat, it didn't impact the unrealized gain.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Okay. Thanks a lot.

Operator

(Operator Instructions) And the next question comes from the line of Vinit Malhotra. Please go ahead, announcing your company.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Oh, yes, hi. This is Vinit from Goldman Sachs. My questions have been answered, on the Norwegian business. But I was -- I just picked up. And just to clarify, the EUR110 million out of reserve releases that Torbjorn just mentioned, that's in the Fourth Quarter? And in the press release, I can see EUR135 million for the year. So is that a net number or something, or are those not exactly the releases, the 113 just brought out, or (inaudible) that we can see it in the statement? I was just wondering. Thank you.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

These are full year numbers. And the full year number of EUR135 million is then, in a way, maybe that's what you're driving at, net, because it includes the mortality change and discount rate change in Sweden.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay, fair enough. All right. Thank you, very much, Torbjorn.

Operator

Our next question comes from the line of Thomas Seidl. Please go ahead, announcing your company.

Q - Thomas Seidl {BIO 17755912 <GO>}

Hi, there. This is Thomas Seidl from Sanford C. Bernstein. Two questions, please, one on capital. And one on the Life business.

On capital, I wonder if you could give us a bit more detail on the sensitivity of the movements on page 18 of the supplement. I think the available capital moved by 10%. And they required. And I just want to understand, what is the driver of this?

And the second question is around unit links. I noted that there is, let's say, mark to market losses of some EUR300 million. And typically, I would expect them to show up later on the reserves as a unit link. But it doesn't play to the full extent right. And so the question is, to what extent are the EUR300 million borne by policyholders versus shareholders? Thank you.

A - Peter Johansson {BIO 3902189 <GO>}

Did you say slide number 18? I don't have numbers on my slides. Is that the sensitivity table or the capital --

A - Kari Stadigh {BIO 1504152 <GO>}

Which one is the -- what is the title of the slide, Thomas?

Q - Thomas Seidl {BIO 17755912 <GO>}

Group Capital Minimum Requirement as of 31st of December. Just a water flow -- waterfall chart on the capital.

A - Kari Stadigh {BIO 1504152 <GO>}

Yes.

A - Peter Johansson {BIO 3902189 <GO>}

Yes, okay. But if it -- actually, for you, the best way for you to look at the sensitivity on the capital is, is if you look at -- on the investment side. We have a slide, Sensitivity of Sampo Group Investment. So basically, the biggest sensitivity on the Group capital comes from the investment side. So mark to market changes on equities.

And there, basically, you see that the biggest item is plus/minus 10% in equities, is plus/minus EUR250 million. And we have close to EUR1.9 billion of buffers. The -- and that's on the Solvency I. And the consolidated Solvency capital number.

One item that has affected on the consolidated capital is, if you look at the Nordea slides. So basically, Nordea, the risk weighted assets, actually due to Basel 2.5 rules, increased by EUR4.5 billion. And when we calculate our consolidated capital number, we have to use the transition rule. So we didn't get any -- more or less, any benefit from the impact that Nordea has done on their more efficient capital use.

So basically, we're halfway into Basel 3. And we're still also stuck with the transition rules. That's one of the main reasons that the Solvency capital actually didn't improve in Q4.

Q - Thomas Seidl {BIO 17755912 <GO>}

Okay. So you expect a better position once the transition period is over?

A - Peter Johansson {BIO 3902189 <GO>}

Yes, after the transition period, the capital requirement on Nordea will be significantly lower.

A - Jarmo Salonen {BIO 1860650 <GO>}

Then there was a question on unit link.

A - Kari Stadigh {BIO 1504152 <GO>}

Sorry, I missed the unit link.

A - Jarmo Salonen {BIO 1860650 <GO>}

There was a question on unit link, that there is a loss in the P&L of EUR300 million. And the question was, who bears the burden for it?

A - Peter Johansson {BIO 3902189 <GO>}

That's the investors. So basically, in the -- on the unit link side, we don't have any guarantees.

A - Kari Stadigh {BIO 1504152 <GO>}

And with investors, you mean policyholders in this case.

A - Peter Johansson {BIO 3902189 <GO>}

Policyholders, yes.

Q - Thomas Seidl {BIO 17755912 <GO>}

(inaudible), on the -- in the statement, you typically show the liabilities. And they change only by EUR17 million. So I didn't -- let's say, I didn't -- I won't be able to reconcile. That was too --

A - Peter Johansson {BIO 3902189 <GO>}

So basically, on the unit link side, you can see that if you look at the amount of premiums coming in to unit link. And then you have to include the value chains. And that goes to the policyholder also.

Q - Thomas Seidl {BIO 17755912 <GO>}

Okay. Thanks a lot.

Operator

Our next question comes from the line of Giulia Raffo. Please go ahead, announcing your company.

Q - Giulia Raffo {BIO 7573856 <GO>}

Hi, thank you very much. It's Giulia Raffo from Autonomous. Just have a few questions, one firstly for Kari. It's a follow up on the statement you made before in answering Blair's question. You said that you see the net debt position for the Group to be okay at EUR1.7 billion after the dividend is paid. If I look correctly on page 15, you disclose a net debt position of EUR1.2 billion at the end of 2011. And that is before the dividend payment, which then would suggest that post-dividend, you were close to EUR1.9 billion.

If that's correct, then you will ideally like to have EUR200 million less in the debt, or the two numbers should not be linked.

A - Kari Stadigh {BIO 1504152 <GO>}

Giulia? Giulia, may I answer this directly?

Q - Giulia Raffo {BIO 7573856 <GO>}

Yes. Yes, of course.

A - Kari Stadigh {BIO 1504152 <GO>}

You should add the dividend that we pay and deduct the dividend which we will receive from Nordea before this -- the time is used. We will receive also, in this calculation, a dividend this spring from Nordea before we pay out our own dividend.

Q - Giulia Raffo {BIO 7573856 <GO>}

Okay, fine. So basically, you are pro forma at EUR1.7 billion?

A - Kari Stadigh {BIO 1504152 <GO>}

Exactly.

Q - Giulia Raffo {BIO 7573856 <GO>}

Okay, thank you very much. My other question is on the Life side. If I am reading page 11 correctly, seems that you have taken further prudent strengthening on the provision to reflect that interest rates have fallen further. Can you quantify what has been the impact on the Q4 Life profits from the lowering the discount rate. And preparing for low rates? And do I read it correctly that basically, your breakeven point for 2012 is 2.75. So to the extent that your assets are backing out with profit yield in excess of 2.75, you will be able to make profits?

And then, my final question. I was surprised to see that the run yield in P&C went up in Q4. So, I was wondering whether you can give some sort of sense of what did you do -- you know. And if you can give us a sense of what are -- so where new money is invested?

A - Peter Johansson {BIO 3902189 <GO>}

Giulia, the -- you are correct, 2.75, that's the breakeven for the three coming quarters on -- if we make money in Life insurance. So the 25 basis -- 2.75, did I say?

A - Unidentified Speaker

Four quarters.

A - Peter Johansson {BIO 3902189 <GO>}

No, three. Three.

A - Kari Stadigh {BIO 1504152 <GO>}

This one and three --

A - Peter Johansson {BIO 3902189 <GO>}

No, no, because we have reserved down to -- no, sorry, four quarters.

A - Unidentified Speaker

Four quarters.

A - Peter Johansson {BIO 3902189 <GO>}

Four quarters. Thanks, guys Yes. So basically, because we reserved EUR10 million, we reserved EUR10 million, we already -- yes. So four quarters. So basically, we're down at 2.75. And from the beginning of next year, we will go back to 3.5.

And on the running yield in P&C, that actually surprised us also. But it's more a technical one, because If paid the dividend in Q4. So there was a fairly big reduction of SEK 3.7 billion on the money market side.

Q - Giulia Raffo {BIO 7573856 <GO>}

Okay. And -- sorry. So, am I right in thinking on the Life side that your profit in Q4 suffered from EUR10 million? So it would have been EUR40 million without that (multiple speakers)?

A - Peter Johansson {BIO 3902189 <GO>}

Exactly. So EUR10 million --

Q - Giulia Raffo {BIO 7573856 <GO>}

(multiple speakers) basically moving profits to 2012 --

A - Peter Johansson {BIO 3902189 <GO>}

2012.

A - Kari Stadigh {BIO 1504152 <GO>}

Yes.

Q - Giulia Raffo {BIO 7573856 <GO>}

-- in a way.

A - Peter Johansson {BIO 3902189 <GO>}

Yes. Yes, correct.

Q - Giulia Raffo {BIO 7573856 <GO>}

Can you give us a sense -- sorry, why you are investing new money in both Life and P&C still, Norwegian financial paper, covered bonds, on the fixed income side, if that is the case?

A - Kari Stadigh {BIO 1504152 <GO>}

Corporate credit covered bonds. There has been a -- not so much available corporate credit. But luckily, there has been some bank senior papers coming to the market.

Q - Giulia Raffo {BIO 7573856 <GO>}

And new money rates would still be between 3.5% and 4%?

A - Peter Johansson {BIO 3902189 <GO>}

3% to 3.5%, maybe.

Q - Giulia Raffo {BIO 7573856 <GO>}

3% to 3.5%. Okay, thank you.

Operator

Our next question comes from the line of Robin Buckley. Please go ahead, announcing your company.

Q - Robin Buckley {BIO 3596512 <GO>}

Yes, hello, it's Robin Buckley from Deutsche Bank here. Just a couple of questions on capital, please. If I go to slide 20, which is the Group Economic Capital and Solvency slide, you detail, I think for the first time, EUR428 million coming from Finnish equalization provisions.

Is this just new disclosure that you're giving related to this. And has it always previously been included in the available capital? And can you just talk around that?

And then secondly, just picking up your point on the required capital for Nordea that you disclosed, of EUR2.5 billion. I mean, your comments about it will come down in the future. On my numbers, I think I'm working that out at around -- about a 5% of risk weighted assets as your minimum requirement. Can you just talk around whether -- why you see that as a suitable minimum requirement in the context of regulators pushing for higher levels of capital within the banks? Thank you.

A - Kari Stadigh {BIO 1504152 <GO>}

If we take the equalization provision, the plus EUR400 million. So that's simply the -- in Solvency I, we have to deduct that from Group -- adjusted -- Group -- consolidated capital, because it's so-called non-transferrable capital.

If Solvency II comes into force, that means that the regulator. And also the Ministry of Finance in Finland, has said that it will be Tier 1 capital. And it can also be used to the Solvency capital requirement on a Group level. This equalization provision is purely in the Finnish -- If P&C Finland.

On the economic capital calculation, the EUR2.5 billion, that is -- that comes directly from Nordea's economic capital model. They use a 99.9% confidence level. And they have actually scaled that to Basel 2 and Basel 3 levels. Basically, we simply adjust that back to a 99.5% confidence level, which will be the confidence level on Solvency II.

Q - Robin Buckley {BIO 3596512 <GO>}

Okay, thank you. So, just coming back to the equalization provision, that was a regulatory -- or, clarification of a regulatory change that is now included in your economic capital that wasn't previously? Is that the way to interpret it?

A - Kari Stadigh {BIO 1504152 <GO>}

That's correct. So we -- under present rules, we cannot include that into our Solvency capital, with present rules. But whenever Solvency II comes into force, then it can be included in the Group Solvency as Tier 1 capital.

Q - Robin Buckley {BIO 3596512 <GO>}

Okay, fantastic. Thank you, very much.

Operator

(Operator Instructions) And our next question comes from the line of James Shuck. Please go ahead, announcing your company.

Q - James Shuck {BIO 3680082 <GO>}

Hello. Good afternoon. It's James Shuck from Jefferies here. I just had one question left. And it was on capital once again. Just on the Life business. So the economic capital is slightly below 100. And in the past, you used to give market consistent embedded value, or -- actually, you didn't give MCV, you gave EV. And that gave us some quite useful sensitivities for the lower interest rates risk free, or equity markets. And I was hoping you'd be able to give some sensitivities on the economic capital for, say, a 50 basis point reduction in risk free rates. And say, a 20% fall in equity markets.

And associated with that question, I'm also interested in at what stage would you sort of be required to recapitalize the Life division? It's obviously very volatile in terms of its economic capital. And what I'm wondering is, if it sort of gets down to -- at what level would you actually yourselves want to recapitalize it? Because as it stands, you can just wait until Solvency II comes in without having to take any action. But obviously, below a certain level, you'd want to do something about it. Thank you.

A - Kari Stadigh {BIO 1504152 <GO>}

Yes, capitalizing the Life company, there is -- with present rules, there is no need to capitalize, because we have 5 times Solvency I capital. And actually, Mandatum Life has probably the strongest Solvency capital in the Finnish Life market.

Then, if and when the Solvency II rules come into place, basically, we would use hybrid capital. Now we have pretty much used maximum hybrid capital under Solvency I rules. We can put in EUR110 million. We have already EUR100 million. But under Solvency II rules, we could increase the amount of hybrid. And that would be simply done from the parent company level.

Then, the sensitivity on -- the biggest sensitivity, actually, on the Solvency level, comes again from the equity sensitivities in the Solvency calculation. Our intention was actually to put in exact the sensitivity also on the economic capital. But you can use as a proxy the Life insurance company sensitivity to equities. So that keeps the biggest volatility also on the Solvency capital.

Then, the discount rate factor, interest rate yield curve is already so low. So it's unlikely to assume -- or, I don't know if anything is unlikely in this world. But it's unlikely to see any massive movements on -- to a lower yield curve that would further put pressure on the adjusted Solvency capital. So the biggest hit has already been taken.

Q - James Shuck {BIO 3680082 <GO>}

If I could just return on that quickly? You have a very big duration mismatch in the Life business. And you have quite onerous guarantees. So, 2%, 3%, 4% that have a long duration themselves. So I'm starting to see why equities would be the biggest impact. I realize equities is about 25% of the portfolio now. But if you just have a 50 basis point reduction, albeit we're at low levels anyway. But if you have a 50 basis point reduction in risk free, though, I would have thought that would have a very strong impact on your economic capital.

A - Kari Stadigh {BIO 1504152 <GO>}

But it's pretty much already priced in. So it has the yield curve shift, which has been much bigger than 50 basis points, has already wiped out the adjusted buffer that we had from discounting the liabilities.

Q - James Shuck {BIO 3680082 <GO>}

Yes. But -- yes. But we could still move down another 50 basis points?

A - Kari Stadigh {BIO 1504152 <GO>}

Yes. Then if we move another 50 basis points down, actually, then on the other hand, actually, equities have moved up quite significantly in the beginning of the year. So that has, again, given us additional capital.

But still -- still, under Solvency I rules, this is a non-issue.

Q - James Shuck {BIO 3680082 <GO>}

Okay. Thank you, very much.

Operator

And we appear to have no further questions at this time. I hand the conference back to you.

A - Jarmo Salonen {BIO 1860650 <GO>}

Okay, ladies and gentlemen. Thank you for your attention. And have a very nice evening. Thank you.