Q4 2012 Earnings Call

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Company Participants

- Jarmo Salonen, Head
- Kari Stadigh, President, CEO
- Peter Johansson, CFO
- Torbjorn Magnusson, President
- Unidentified Speaker, Unknown

Other Participants

- Blair Stewart, Analyst
- Chris Esson, Analyst
- Gianandrea Roberti, Analyst
- Hakon Fure, Analyst
- Hans Pluijgers, Analyst
- Jan Wolter, Analyst
- Matti Ahokas, Analyst
- Mika Koskinen, Analyst
- Per Groenborg, Analyst
- Thomas Seidl, Analyst
- Unidentified Participant, Analyst
- Vinit Malhotra, Analyst

Presentation

Jarmo Salonen {BIO 1860650 <GO>}

Ladies and gentlemen, welcome to this conference call on Sampo group's 2012 results. I am Jarmo Salonen, Head of Investor Relations at Sampo and with me here in the studio I have our President and Group CEO, Kari Stadigh, Head of P&C Insurance, Torbjorn Magnusson. And Group CFO, Peter Johansson.

We will start with an introduction by Kari and then go into whatever questions you may have. Before handing over to Kari, let me remind you that you can follow this transmission live on our website, sampo.com/results and a recorded version of the call will later be available at the same address.

With these words, I will hand it over to Kari. Kari, please.

Kari Stadigh {BIO 1504152 <GO>}

Thank you. Welcome to the conference call on my behalf as well. As you have all seen the numbers I will be brief this time. First of all, I would like to make a few best-ever comments. Our profit before taxes or EUR1.6 billion was best ever if you exclude the capital gain of the sale of Sampo Bank.

So our operational profit before taxes was best-ever. Our P&C business reported their best-ever combo ratio, 89.3% for the whole year. Nordea, on their part had more clients, more capital. And a better result than ever before.

Mandatum Life's unit-linked savings reached EUR3.7 billion and were highest ever and the sales through Danske Bank grew by 70% to their highest ever level as well.

Secondly, I would like to make some small clarifying comments. The parent company result of plus EUR10 million in Q4 must have surprised all of you. As if distributed a dividend of SEK4.7 billion in early December, we had hedged the currency already earlier after the decision was made internally and realized the currency gain of EUR21 million in Q4 in the parent company.

Also, our average interest cost for the parent company gross debt of EUR2.3 billion decreased to 2.3% by the end of the year. In Mandatum Life we continue to set aside funds, this times EUR10 million to lower the discount rate. So this year the discount rate is 2.5% and next year, 3.25%.

In the First Quarter, we are not planning for any dividends from Mandatum Life as we have already now are over EUR800 million of cash in the parent and expect to receive almost EUR300 million from Nordea before we pay our own dividend.

You are probably also going to ask me about the running yield in our fixed income portfolios. In Mandatum Life, it is 4.8% and in IF, 3.6%. In Q4, the running yield came down by 0.4% in Mandatum Life and stayed roughly on the same level and if as the dividends paid from IF to the parent helped because it reduced the amount of low yield in cash in IF.

All in all, 2012 was a very good year for Sampo. It placed a good and solid foundation for 2013. Last. But not least, I think you will all appreciate today's board proposal to raise the dividend to EUR1.35.

Jarmo Salonen {BIO 1860650 <GO>}

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

Questions And Answers

Operator

(Operator Instructions) The first question comes from the line of Hakon Fure. Please go ahead.

Q - Hakon Fure {BIO 16623060 <GO>}

Hello. Good afternoon. Just to questions from me. Firstly, on the Swedish tax rates, am I right in assuming that you had a EUR30 million positive impact of this in the Q4 results?

Secondly, on the dividends, in Nodea's Q4 presentation, they sort of indicated that we can see a shift in the payout ratios going forward. How would your thinking be in terms of your dividend policy if Nodea were to raise their payout ratios? Thanks.

A - Unidentified Speaker

Hakon I could start with the Swedish tax rate. You're right. It's EUR30 million. To be precise, it's EUR31 million plus EUR15 million from the IF tax results and then EUR15 million on the -- our share of Nodea's profit.

A - Kari Stadigh {BIO 1504152 <GO>}

Okay, on the dividend policy in general, I think that we have seen a re-rating of bank stock in general in the Nordic countries. I think that many investors are late bloomers because you could see this already earlier that the Nordic banks are able to meet all of the capital requirements and all of the increasing capital requirements that have been published from their present cash flow.

The same day when Nordea came out with their result half an hour earlier we saw Swedbank coming out and increasing their dividend policy to 75%. As an individual Nordea board member, I don't want to guide anything more than Nordea has already said. But I think that we can see a picture where the five main banks in the Nordic countries are well capitalized and can be very generous in their dividends going forward.

For Sampo's part, I don't see any reason to change our dividend policy. We have a dividend policy that more than 50% of our profits are distributed and then you must remember that part of our profits are not cash profits because we consolidate Nordea fully and then we will see how much Nordea distributes a going forward.

I think more important than our dividend guidance or dividend policy is that we want to be a dividend stock and we really like especially the management likes to see a gradual -- not anything dramatic -- but a gradually increasing dividends over the years are as you have seen for the past five years.

Q - Hakon Fure {BIO 16623060 <GO>}

Excellent. Thank you.

Operator

Your next question comes from Matti Ahokas. Please go ahead.

Q - Matti Ahokas {BIO 2037723 <GO>}

Good afternoon. Matti Ahokas, Handelsbanken here. Two questions if I may. Firstly, regarding the tax rate of the group going forward, now we've had changes in tax rate in Sweden and Finland. So I wonder if you could give me some guidance that what we should we expect for the Sampo group tax rate going forward? It's a bit difficult to estimate obviously because of the internal transactions within IF.

Second question is you've had an internal dividend payout ratio of around 85% in IF. Could you see that this could actually increase and what's the kind of restricting factor here? Is it the IF rating or how has this 85% figure -- where is it derived from? Thanks.

A - Kari Stadigh {BIO 1504152 <GO>}

I think that 85% is not a mathematical number and you are really greedy guide if you want us to start to put this small number, 86 or 84% or something like that. I think that it's more or less a situation where all excess capital from IF is distributed to the parent and you must also remember that one of IF's main targets besides combo ratio is return on equity.

So I see a situation where between 80% to 90% is the level where we are going forward but we don't have any guidance on that. We want to maintain the flexibility.

A - Unidentified Speaker

Matti, on the tax side, I guess it's easiest to look at the structure in such that Nordea of course you apply a zero tax rate because we take directly the net income and net goes also for the associate top-down marketing and its consolidated balance sheets so that they have a zero tax rate also on the net profit part. The rest of the IF tax I would use around 23% after the Swedish tax reform.

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On Mandatum you use the Finnish, 20%, 24% tax. On the holding company level because all of the internal dividends are tax-free within the holding company makes normally a loss during the year. So this Q4 was an exception and we don't differ that tax losses on the holding company level. So on a group level, the actual tax rate might fluctuate from quarter to quarter.

Q - Matti Ahokas {BIO 2037723 <GO>}

Great, very helpful. Thanks.

Operator

Your next question comes from Jan Wolter. Please go ahead.

Q - Jan Wolter {BIO 1646844 <GO>}

Yes. Hi, there. Jan Wolter here, Deutsche Bank. So two questions from my side. First, the fixed income running yield, if we look back over 2012, it fell 50 bps. Should we expect or do you expect the similar development in 2013 or are there things that you can do to keep the running yield on the fixed income portfolio more stable? That's my first question.

The other one is you are signaling that you expect a combined ratio well below 95%. Do you feel that that is a very optimistic expectation or is it reasonable? I know that you have both good and bad claims experience in 2012. Thank you.

A - Unidentified Speaker

I think I take both questions because I think on the guidance the tax is what it is. It's a prudent estimate of the best information we have today is that we are -- that because of the results for excellent results last year we believe that we can meet the long-term target by a margin. If there is no emotion in this, we are not emotional guys.

And on the fixed income side, I think your guess is as good as ours because it's a reinvestment question. How do you think the opportunities for reinvesting the fixed income portfolios are? We have seen decreasing margins and it has not been very easy to maintain the running yield. So I would expect to come down. How much, that's a wild guess.

Q - Jan Wolter {BIO 1646844 <GO>}

Okay. And one quick follow-up if I may. Is there a meaningful part of the corporate bonds maturing this year in that portfolio? Or are they running off maturing after 2013?

A - Peter Johansson {BIO 3902189 <GO>}

This is Peter. I could actually take that one. There's a bigger part maturing in 2014 so there's not so much maturing this year.

Q - Jan Wolter {BIO 1646844 <GO>}

Okay, excellent. Many thanks for that.

Operator

Your next question comes from the line of Blair Stewart. Please go ahead.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you, very much and good afternoon. Let me see. Which questions do I think will get remotest chance of getting answered? Here we go. Just to help us shape our estimates for P&C,

perhaps, I don't know if Torbjorn's on the line, he can comment on where pricing is moving versus claims inflation at the moment, just to give us a gauge of where the combined ratio might be going.

Secondly, Peter, if you can just give us an indication of the normal run rate of loss you would expect per quarter in the Hold Co. There's been a bit of volatility there. So that would be very helpful.

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A - Torbjorn Magnusson {BIO 1863476 <GO>}

Okay, Blaire. I'll do my best then. Norway dominated by in 2012 by a complete lack of fires and water claims, which I think was not predicted at least to this degree by any company. What will happen this year remains to be seen. What will happen in the marketplace based on the fact that everybody has to make a decision on pricing based on a surprise on the claims development is also difficult to predict of course.

What one can say I think about Norway is that based on markets and behavior in the markets it seems that if P&C, again ourselves have developed the tariffs a lot more than average in the market there over the past two or three years. So we are better at those protections.

Sweden is the one dissatisfaction for me. We've had claims inflation on property, on water claims. And specific higher than price increases. We did increase prices already a year ago. We are increasing prices. But we've had to increase the tempo of those increases. One/one is the big event in price differentiation and changes in Sweden. So we will know a lot more when we come to the end of Q1 here.

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A - Peter Johansson {BIO 3902189 <GO>}

Normal run rate on the parent company level is you can roughly assume around EUR6 million of course which fluctuates then of course with the incentive programs.

On the net interest cost, it's a tougher challenge because for example now in Q4 we made an extra EUR21 million from the Swedish kroner hedging of IF's dividends plus there are positive effects also coming in from swaps that we mark to market.

All in all, if you look at year 2011 and 2012 from swaps and FX trading we had a positive effect of a EUR50 million and in 2012 we had positive effect of EUR56 million. These of course will not repeat each and every year but then in general the net interest cost has come down to 2.3% that Kari mentioned. So I guess our funding costs should approach somewhere around EUR10 million maybe.

A - Kari Stadigh {BIO 1504152 <GO>}

So together, what's your estimate?

A - Peter Johansson {BIO 3902189 <GO>}

Closer to EUR15 million.

A - Kari Stadigh {BIO 1504152 <GO>}

EUR15 million, EUR16 million per quarter running rate.

Q - Blair Stewart {BIO 4191309 <GO>}

Yes, that's fair. That's perfect. I don't know if Torbjorn you want to comment on the Finnish market?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

In a way, very little has happened although very much has happened. We have seen the merger of (Lehi), Tapiola, that has not changed a lot in the market possibly because that is actually a Corporation of small companies. It doesn't necessarily have to change very much.

And then of course, we hope to get the approval of the trade transaction in the spring and we will come out with a collaboration with Nordea to the customer offering all selected this year. So a lot has happened. But it hasn't changed the market at all at the moment on claims inflation and price increases are very limited.

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Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Super. Thank you, very much.

Operator

Your next question comes from Chris Esson. Please go ahead.

Q - Chris Esson {BIO 6194371 <GO>}

Hello. My question was on dividends, it's been answered. Thanks very much.

Operator

Your next question comes from Mika Koskinen. Please go ahead.

Q - Mika Koskinen {BIO 1557965 <GO>}

Yes, hi there. It's Mika from SEB. Actually just one question left. You mentioned that you are returning basically all excess capital from IF in form of dividends to the parent company. At the same time, you have now had a pause in taking out any dividends from Mandatum Life basically because you haven't needed the money. But what is your goal? How strong -- how much do you want to build up Mandatum Life (service) and when do you expect that you will start to collect the dividend from them as well? What do you see as the optimal capitalization of Mandatum Life?

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A - Unidentified Speaker

I think that as you look at our modeling, we need a capital that we have in there now if Solvency II comes through in the present form. I think Solvency II would give us some clarity. And then on the other hand, the moving parts are that we would profits balance sheet especially the higher interest guarantees are melting away so that would have then free as capital going forward.

There is really nothing that ties more capital and then the model. On the contrary I would expect that as the balance sheet melts and then we could start to extract some dividends from there.

Then on the volatility side, you are well aware that we have a high equity weight there. But if the present levels of returns on the balance sheet are maintained or improved, then there might be a possibility for a small dividend this year.

I could add on that one, if you look at the potential of Solvency II to effect in Mandatum Life, then we can of course use more hybrids because we only have EUR100 million of hybrids -- so in a sense, you can use much more hybrids and then at the same time you can assume that roughly EUR200 million of the guaranteed business will mature every year. So that releases a lot of capital.

Q - Mika Koskinen {BIO 1557965 <GO>}

Excellent. Thank you, very much.

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A - Unidentified Speaker

Thank you.

Operator

Your next question comes from the line of Hans Pluijgers. Please go ahead.

Q - Hans Pluijgers {BIO 16245530 <GO>}

Yes. Good afternoon, gentlemen. Most of my questions have been answered. But a few questions still. Looking at the large claims, get some feeling on that, you indicated that decline on the judicial side from EUR28 million to EUR53 million. The EUR25 million difference, are those the two large claims that that you are referring to in Sweden and Denmark? Is that the number that we have to calculate with?

Secondly, on the reinsurance side, has any change, any renewal of the reinsurance contract from the structure and what the impact on the rates.

And secondly, with respect to your interest rates, swap at the holding level, has there been any change there with respect to the swap? How do you position yourself with respect to interest rate developments?

A - Unidentified Speaker

Starting with the reinsurance question, you've got to understand is that for our size of company, the amount of reinsurance that we buy these to the tune of 1.5% of the gross premiums. So whether that changes to 1.6% or 1.4% is not of consequence to our end customers.

We are renewing, we renewed one program at year-end. And we are renewing more programs in the spring in general. I think we have seen a hardening market in the reinsurance market. But as I said it, of no big consequence to our results or our end customers.

I must admit, I didn't hear the large claims question properly.

Q - Hans Pluijgers {BIO 16245530 <GO>}

You had, let's say indicated on the (inaudible) side, the (inaudible) segments there were some large claims as a result of which result declined from EUR53 million to EUR28 million. The difference is completely explained by that or let's say you refer to two significant claims in Sweden and Denmark?

A - Unidentified Speaker

Those were quite regular claims in Q2 we've obviously as usual reviewed our underwriting in the segments that we have no reason to change anything. So it's business as usual.

Q - Hans Pluijgers {BIO 16245530 <GO>}

Okay. And going back on -- I completely understand that reinsurance is not impact but there is no change in the structure of the reinsurance I assume?

A - Unidentified Speaker

We keep roughly the same net retention year on year and we do so this year as well. That one has changed when SEK200 million to SEK250 millions over time.

Q - Hans Pluijgers {BIO 16245530 <GO>}

Okay, thanks.

A - Unidentified Speaker

Or the two swaps that we have on the parent company level, they are actually in a sense we could have put them into hedge accounting because they're done exactly the same amount and precisely the same maturity as the underlying bond. So the EUR300 million bond that matures on 22nd February in 2016 we have a EUR300 million swap on and then we have the EUR500 million swap which on the bond, that matures on 27th of February 2017.

The swaps of course because we treated the mark to market, we have made mark to market gains on the fair value when interest rates have moved down.

Q - Hans Pluijgers {BIO 16245530 <GO>}

Thank you.

Operator

Your next question comes from (inaudible). Please go ahead.

Q - Unidentified Participant

It's (inaudible) from (inaudible). Just a question for Torbjorn I guess. The combined ratio in the industrial segment is clearly the weakest one on the group level. You didn't discuss that before. But how was the renewal of your premiums per 1st of January this year?

And then secondly also regarding the large corporate insurance, how do you look at this segment going forward? I guess as I said, the margins for you is fairly low and I guess the capital requirements are not exactly getting lower for this segment. So how do we look at the large corporate segment as part of IF going forward? Thank you.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

The large corporate segment is an integrated part of IF and that has held roughly the same margin as or even in excess of that compared to the average of IF over the last 10 years. We have renewal rates are not segment of above 90%. We have strong relationships to our clients and to the biggest market share in any segment that we write. So it's an important part of the Company.

Q - Unidentified Participant

And how about pricing?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Pricing is not affected very much by individual large losses as long as they're underwritten properly and one-one renewals seem to be satisfactory at this point in time.

Q - Unidentified Participant

Okay, thank you.

Operator

Your next question comes from Vinit Malhotra. Please go ahead.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Good afternoon. Several topics have been raised. But if I can just come back, I always like to ask about this Nordic combined ratio cycle and particularly in Norway now we are seeing 88 last year, 81 in 2012, that kind of combined ratio. In the past, your view has been the market conditions are still structurally very strong. Would you still remain with that view or do you think there would be some kind of normalization. That's the first question.

The second thing is that over the last two years, your views on equities which were contrary and then probably still are. But have been rewarded and now that the asset charges would be increasing as equity values keep going up, is there a debate internally about any changes for the next asset move? Thank you.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

The Nordic P&C markets are very rational compared to most part of the world. That's true also for Norway where I'm sure we will see a normalization of claims over time. Exactly where, I will not know. I could not know of course.

A - Kari Stadigh {BIO 1504152 <GO>}

On equities, we are slightly overweight and we feel that there is a lot of money on the side supporting the equity valuations and therefore we are not moving with our allocation at the moment.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. Great. Thank you, very much.

Operator

Your next question comes from Thomas Seidl. Please go ahead.

Q - Thomas Seidl {BIO 17755912 <GO>}

Good afternoon. Two questions on unit-link, I think a bit of rising this strong growth. Could you outline what is underlying this growth and how we should think about this going forward? Is there more growth to be expected, a bit against what you see out in Europe?

And then P&C, I think apart from Norway, I think Denmark is a quite attractive market. Do you intend to grow market share from this and IF or basically do you rely on your investment into Denmark to increase your market share and Denmark?

A - Unidentified Speaker

Well, if I start with the unit link question, we are as you are aware, mainly a domestic life insurer. We have a very small operation in the Baltics. But in our home market, all new sales you could say our uniquely based. With profit income out of the EUR940 million was I think was roughly EUR160 million or something. And that's mainly based on people paying into old policies. So new sales are mainly unit-linked.

Then you saw also that the big increase came from Danske distribution and I think that in Danske they value the corporation because they sell lump sum premium policies and then the money is transferred through us back into their mutual funds.

So at least my personal belief is that Danske will invest in this relationship also going forward because it is it doesn't tie capital and I think all Nordic banks are trying to get down their risk weighted assets so in order to have a good offering to the clients, I think that they're going to continue to support this.

So of course, it's completely in their hands but I think that that is our own wealth management is selling mainly capital redemption policies and there we are still subscale. So in order to have a reasonable return on our investment, we should see the volume almost double. It will take time to double it and of course the higher profitability is from products with an equity content, a big part of the wealth management products are today mainly fixed income.

So if we see a shift and if we see a more attractive investment climate and our customers have more appetite for risk, then I think this will also improve the wealth management profitability on the unit link side.

Q - Thomas Seidl {BIO 17755912 <GO>}

And as a consequence, have you increased you think market share you had linked in 2012?

A - Unidentified Speaker

We are never following market share. That is a not our -- we don't incentivize people that way. But I would assume that our market share is mainly flat or little bit down.

Nordea increased their market share significantly and the other main competitor of (inaudible), they were flat.

Q - Thomas Seidl {BIO 17755912 <GO>}

Okay.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

When it comes to Denmark and P&C, Denmark is not intrinsically better than the other Nordic markets. There are a few were large mutuals. But on the other hand, it is slightly less concentrated. You've also got to remember that Danish combined ratios are discounted so you have to knock off 1% or 2% in comparison to the other countries.

Having said that, we've had some competitive advantages in Denmark based on our Nordic strengths for instance in the collaborations with the car industry that has made it possible for us to grow in the last few years. But as the market looks today, I actually have more appetite for growth in the past two years than at present.

Q - Thomas Seidl {BIO 17755912 <GO>}

Okay, thank you.

Operator

Your next question comes from the line of Gianandrea Roberti. Please go ahead.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

I think most of my questions have already asked and answered. But I would just like to hear again on Norway because Torbjorn was talking before about the price (inaudible) versus the claims inflation. I think (Incidia) was out there saying that the push price is up 4% and 5% on private lines in motor and house while they really didn't want to talk about the commercial lines.

So the outlook seems in no way surprisingly resilient also going into 2013. Is that your impression as well? Can you just add some (tolls) on that? Thanks.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Results in Norway did differ in Q2, Q3 of lots between Incidia and ourselves and the rest of the market. We have as I said, improved the rating, the tariff structures aloft lately and you can see from the differentiation in the market that that was also true for Incidia.

That I think has helped the combined ratios for the largest companies in Norway. Then yes, we also increase prices. We try to do that to ensure the results will stay very good. The combined ratio in Norway that we feel today. I can't even promise Kari that I will deliver that every year.

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Q - Gianandrea Roberti {BIO 6786731 <GO>}

That's fair enough, Torbjorn, fair enough. Thank you.

Operator

Your next question comes from Per Groenborg. Please go ahead.

Q - Per Groenborg

Yes. Good afternoon. It's Per Groenborg from Danske. Two questions for my side. The first one is for you Torbjorn. You addressed the Danish discount and the Danish combined ratio. I just want to be sure I understand this correctly. On slide 16 of the supplementary information, you have a liability side adjustment that has been negative small numbers but are still negative for the last couple of quarters.

Doesn't this imply that if you were using the same and discounting rules as the Danes are using you would actually get roughly the same combined ratio? Or should we be nitty-gritty at slightly worse combined ratio? Or is this the wrong rate to interpret these minus (11)?

The second question is on the topic that has been discussed a bit earlier on Mandatum Life. Just note that with regard to the annual figures again on slide 49 the pretax profit from unit-linked profit, modest EUR4.2 million, you are seeing other operating expenses going quite materially up. When should we expect to see the unit linked business starting to contribute to with meaningful profits to your overall group? That was two questions.

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A - Unidentified Speaker

I can start with the life. I don't think you will ever see it contributing meaningful profits for the overall group because the overall group EUR1.6 billion in profits and you compare EUR4 billion to EUR1.6 billion and it would have to explode in order to have an impact on the whole group.

Q - Per Groenborg

I understand. But then that meaningful contribution to the Mandatum profits.

A - Unidentified Speaker

I think that for Mandatum, the talk of the town is that they have three components in reality. One is the investment income and that has been coming from the weak profit balance sheet and that's of course the main part of the profit. And let's say we have EUR5 billion and out of that tree extract EUR100 million.

Then we have two other components which are risk results and expense result and I would be happy if the expense result and risk results were both about EUR20 million which they are not today.

And then to turn this to unit link, how much from unit link is then contributing to this is another question. But I would say that the size of the operation as it is purely domestic, it is such that if the

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unit link profits are about EUR10 million, then I think they have done the decent work with the present volume.

And as you are well aware of, it's so sensitive to volume that if they are able to double the assets under management and increase the equity products inside of that then of course we could see even higher numbers. But on the envelope, I think EUR100 million plus EUR20 million plus EUR20 million is something that we would feel comfortable with.

I could add an awful unit link results that partly the cause of exceptionally good at sales from Danske last year that increased commission costs by EUR4 million. We don't defer any acquisition costs. So stronger sales means always a weaker expense result.

Q - Per Groenborg

It looks like your acquisition costs are going down by almost the same figures or a slightly smaller figure.

A - Unidentified Speaker

I don't follow you, no.

Q - Per Groenborg

Your other acquisition costs going down from (15.4 to 13.7). Is that because you have sold less for your own channel?

A - Unidentified Speaker

Probably, yes.

Probably, yes.

Q - Per Groenborg

Okay.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Then on the discounting, we -- in the combined ratio, we discount annuities but nothing else. In IF P&C, Danish companies normally discount all products or liabilities, which is a big difference. None of the practices are wrong; it's just different ways of doing it. But then in the economic capital model that we have, we discount liabilities. That's the that one you're looking at.

Q - Per Groenborg

But as you discount your Finnish liabilities at 3%, isn't that offsetting that you are not discounting all of the liabilities of like the Danes are doing? Isn't that exactly what the minus 11 or the minus plus almost (zero) indicates? This used to be a very high figure when you started publishing these figures five or six years ago.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

I cannot actually answer your question precisely because I don't know exactly what the difference is. As you said, when we started out in a different interest rate environment, the difference was 4% or 4.5%. Exactly what it is today, we try to estimate it and we come up with a number between 1% and 2%. But even the Danish companies have slightly varying practices between them. So it's impossible to give you a good answer better than that.

A - Unidentified Speaker

But you are correct that the discount rate (inaudible) is higher and that gives a negative effect on IF. But if that's the full explanation, I'm not so sure.

Q - Per Groenborg

I just think looking at it from the outside it looks like these minus 11 must be basically the accumulated account difference between your accounting standards and your reference accounting standards, which I guess is very much the Danish accounting standards.

A - Unidentified Speaker

Then when we are talking about discounting liabilities on tour the upcoming IFRS and then discounting under Solvency II, there are other differences also.

Q - Per Groenborg

Okay.

A - Unidentified Speaker

So in that sense, they are not fully comparable.

Q - Per Groenborg

Okay, thank you.

Operator

At this time, there are no further questions.

A - Jarmo Salonen {BIO 1860650 <GO>}

Thank you, operator. Ladies and gentlemen. thank you for your attention and have a very nice evening. Thank you.

Operator

That does include our conference for today. Thank you for participating. You may now all disconnect.

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