

Q3 2016 Earnings Call

Company Participants

- Jarmo Salonen, Head-Investor Relations & Group Communications
- Kari Henrik Stadigh, President, Group Chief Executive Officer & MD
- Peter Kristian Johansson, Chief Financial Officer
- Torbjörn Magnusson, Head of P&C insurance

Other Participants

- Blair Stewart, Analyst
- In-Yong Hwang, Analyst
- Jakob Brink, Analyst
- Jonny Urwin, Analyst
- Kim Bergoe, Analyst
- Matti Ahokas, Analyst
- Michael Igor Huttner, Analyst
- Mika Koskinen, Analyst
- Niccolo C. Dalla Palma, Analyst
- Paul De'Ath, Analyst
- Steven Haywood, Analyst
- Thomas Seidl, Analyst

MANAGEMENT DISCUSSION SECTION

Jarmo Salonen {BIO 1860650 <GO>}

Ladies and gentlemen, welcome to this conference call on Sampo Group's January-September 2016 Results. I'm Jarmo Salonen, Head of Investor Relations at Sampo. And with me I have Kari Stadigh, our Group CEO and President; Peter Johansson, our Group CFO; and Ricard Wennerklint, Deputy Head of P&C Insurance.

We'll start as always with Kari's summary on the Q3 developments and then come to your questions. Before handing over to Kari, let me remind you that you can follow this transmission on our website sampo.com/result, and a recorded version will also be available later on at the same address.

With these words, I'll hand over to Kari. Kari, please.

Kari Henrik Stadigh {BIO 1504152 <GO>}

Thank you, Jarmo. Welcome to the conference call on my behalf as well. Given the extremely low interest rate environment, I am happy to report a very strong result indeed. The third quarter EPS at €0.71 is exactly the same as the previous year and spot on with market estimates. The combined ratio of our P&C business without positive one-offs was 86.3% compared to 86.1% for the previous year. So in all practical matters, on the same very good level as before.

Also, volume development in the core areas i.e. retail and SME, showed decent growth at roughly 0.7%. As owners, our view on Nordea is very positive. Operating profit is up and our part of the profit increased 14% to €182 million for the first nine months of the year.

Moreover, we note the very positive strengthening of the Core Tier 1 capital to 17.9% at the end of third quarter. Noteworthy is also the very strong market position Nordea enjoys in retail and wholesale banking. However, the record level of inflows at €9.6 billion in Q3 in Nordea's asset management underlines the significant shareholder value creation going on in Nordea's third leg, the asset management business.

Mandatum Life reports a profit at the same level as in the corresponding quarter the year before. On top of this, the result has been strengthened by lowering the discount rates for 2016, 2017 and 2018 to 0.5%, to 0.75% and 1.5%, respectively. Mandatum Life also decided to terminate the distribution agreement with Danske Bank and to sell the insurance portfolio that has been sold over the years through Danske Bank's branch network in Finland to Danske Bank. We evaluate that the timing of this sale is such and the eventual valuation as well is such that this will give the best economic outcome for our shareholders. The transfer of the portfolios is estimated to take place by the end of next year.

Today, Sampo Board also decided on the intentions to propose a change of distribution policy to the next Topdanmark AGM, whereby a dividend would be reinstated and the shareholder buyback program discontinued. If approved, buybacks would end immediately after Topdanmark's 2017 AGM. As a result of the mandatory bids that we made to all the shareholders of Topdanmark, Sampo acquired altogether over €7.3 million top shares, and held at the end of October, 41.1% of all shares.

The outcomes where circa 13% of the free float was tendered to us came as a surprise to our advisors and us as well. In this new situation where our ownership has become so significant and important, we and our advisors felt it is necessary to increase transparency on our eventual intentions, and therefore the Board made this decision today. It's prudent and transparent as such, but without being anything that dramatic as you can see in today's share price reaction on Topdanmark share.

At the end of the third quarter, our NAV was €21.81. However, it is worth noting that taking into account today's Nordea share price, the group NAV is about €23 per share. Furthermore, I want to point out that Sampo will receive in December SEK 5.8 billion in internal dividends from If Insurance. And thus, the Board is well positioned to propose a minor increase in the dividend next spring. Yes, we continue to perform and are indeed a dividend stock.

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Jarmo Salonen {BIO 1860650 <GO>}

Thank you, Kari. Now operator, we are ready for the questions please.

Q&A

Operator

Thank you. We will now take our first question from Jakob Brink from ABG. Please go ahead. Your line is open.

Q - Jakob Brink {BIO 7556154 <GO>}

Thank you very much and good afternoon. I have three questions please. The first one is on non-life for P&C Insurance, both (06:22) have been talking about increasing claims inflation on motor in Norway. Are you seeing somewhat the same due to higher average claim status?

And then second question regarding to Denmark and the change to dividends. Could you - I guess I know why, but could you maybe elaborate a bit on why you think it's important to change into dividends? And then my third question regarding Mandatum and the sale back to Danske, should we read this as your sort of general appetite for life insurance has changed? Thank you very much.

A - Jarmo Salonen {BIO 1860650 <GO>}

Let's start with motor inflation in Norway. Yes, some increase compared to last year, nothing dramatic, primarily I think driven by some volatility in motor inflation generally, and of course the depreciation of the Norwegian kroner, meaning they imports= some inflation currently in Norway.

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

I think that our proposal for Topdanmark to distribute dividends is mainly based on our wish as an owner to receive dividends. Sampo is a dividend stock and we would like to have dividends. I think also that Topdanmark has been a tremendous success story. And part of the success has been based on the fact that they have been buying back their own shares.

However, the free flow, it is decreasing all the time and I feel that it is, in the long term, becoming more and more difficult to execute this very successful strategy. So these two reasons combined prompted us to - this is an intention, and let's see if we fulfill it and let's see if it's approved by the AGM. Nothing that dramatic, but I think it's important to be transparent. Life appetite, I don't think that Sampo has ever been very keen on life as such. It just has happened so that in Finland, we have had an excellent life operation. And we are a market that incorporate life insurance and we have had a distribution agreement with the number three bank in Finland.

Based on the contract that we have on the valuation of the stock that Danske Bank has been selling over the years, we feel this is the right timing to exit this business. Mandatum Life will, of course, continue with its market-leading position in corporate life, as well as continue to build up its asset management business.

Q - Jakob Brink {BIO 7556154 <GO>}

Okay. Very clear. Thanks a lot.

Operator

We will now take our next question from Matti Ahokas from Danske Bank. Please go ahead. Your line is open.

Q - Matti Ahokas {BIO 2037723 <GO>}

Hi. Yes, good afternoon. It's Matti Ahokas here from Danske. Did I hear, Kari, you said correctly that you expect a minor increase in the dividend as compared to what's previously thought for next spring? I wasn't sure, the line was pretty bad. And also, it looks like the cash pile in the holding company is now increasing from a number of sources. What should we expect you to do with this cash? Is an extra dividend out of question? Or could you share us some thoughts about what kind of cash position in the holding company should we expect going forward? Thanks.

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

I don't see the cash piling up in the holding company at all. On the contrary, the leverage is increasing a little bit in the holding company as the holding company bought shares - the Topdanmark shares from If, and had a short-term bridge for the financing. And therefore, I think that we have to consider what type of long-term financing the parent company should have.

And yes, I use the word minor increase. I think that we have always said that we are committed to increase the dividend gradually. So there is nothing new on the dividend story as such. Our intention is to gradually increase it year-by-year.

Q - Matti Ahokas {BIO 2037723 <GO>}

And just a follow-up on that, when you say that a minor increase as opposed to what previously had been or a minor increase on an absolute level?

A - Jarmo Salonen {BIO 1860650 <GO>}

Well, I'm not...

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

As you are so well aware of, I'm not the decision maker. First, the Board will make a proposal, and then the AGM will decide. So you and me, we can go on speculating on this, but it doesn't change the fact that neither of us is the decision-maker.

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Q - Matti Ahokas {BIO 2037723 <GO>}

All right. Briefly there also regarding the extra dividend. Is this purely kind of compensating for the transfer of the If shares, also Topdanmark shares from If to the holding company or - so that this is only based on that factor, or is there something else behind this?

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

No. No. As you saw from our communication, we already paid a dividend of €2.8 billion in conjunction with buying the shares. This was part of the financing informal dividend, and the other one part was that we took in some short-term financing from the market - commercial papers from the market. And this €5.8 billion is well in line with what we have done earlier. So nothing dramatic in this either. Strong cash flow...

Q - Matti Ahokas {BIO 2037723 <GO>}

All right. Thanks a lot.

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

Yeah.

Operator

We will now take our next question from Blair Stewart from the Bank of America. Please go ahead. Your line is open.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you very much. Good afternoon, gentlemen. I've got a couple of questions. Firstly, there was a small underlying deterioration in the combined ratio year-on-year. I just wonder if you can talk a little about what's causing that and if you have plans to rectify that.

Secondly, just going back to the life business post the disposal to Danske, does that restructure in any way from building up new unit-linked, unitized business on your own outside the Danske? And if I could ask what would the options be for the use of the proceeds, what's on your mind at the moment? And finally, just maybe a word, Kari, from yourself perhaps on investment strategy at this point in time. Anything magic happening, I guess?

A - Jarmo Salonen {BIO 1860650 <GO>}

Let's start with the small year-on-year deterioration ex-20 basis points. I think we see that as a flat development and nothing that makes us take any new decisions. So no, nothing new.

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

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For life, the sale or the eventual sale of the portfolio, it's not imminent, as I mentioned, it's end of next year. No, there are no restrictions for us. We are free to operate. However, the bank distribution alternatives are not really there. The industry is so concentrated in Finland but we are free to build other alternative distribution channels. However, I think it's difficult short term to compensate for the loss of this. The corporate distribution is done by our own experts, and that will continue and it's still a growing business.

Also, asset management will use insurance wrappers in their product sort of payment so that we work. On the investments, unfortunately, I have no real great ideas. What we expect to happen is that we expect the yield curve at some point to steepen a little bit and as so many institutions in the world have a long duration. It is good to have some effects in the general investment climate and market. We continue with our stance that, indeed, we're going to increase the equity risk marginally, but that's only marginal changes that we are talking about.

Q - Blair Stewart {BIO 4191309 <GO>}

Great. Thank you.

Operator

We will now take our next question from Paul De'Ath from RBC. Please go ahead. Your line is open.

Q - Paul De'Ath

Hi there. A couple of questions, please. First, just to come back on the Topdanmark, if you – I guess, you've obviously made it clear that you won't shift to dividend payments. Is it still your intention to continue buying more Topdanmark shares and increasing your shareholding further from this point? And if so, how are you looking to finance that? Can you do that just through your own cash or would you need you issue some debt or something in order to buy the rest of the shares? And that's kind of the first question, I guess.

And the second one was just looking at Topdanmark again. The shift to dividends is one thing, but do you have any specifics and/or any say in particular on how much dividend you want Topdanmark to pay or has that not reach that point of discussion yet? Thanks.

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

I think we have to be very careful here now. We have just published an intention of a proposal. So we haven't formulated a proposal or anything. So this is just an intention in order to flag this intention, and then it has to be approved by the other shareholders. So, it's a proposal.

Then about the dividend as such, if this proposal next spring is approved, then it's up to the Board to formulate the dividend policy, and that is a completely separate issue and there is a body, that is the Topdanmark Board, that has decide on that.

Then on financing, yes, of course, we are overcapitalized. So for us, it's no problem to increase our shareholding in Topdanmark if necessary. However, at this moment, we have not been buying these days at any shares because as the company will continue with the buybacks until next spring, we are actually increasing our shareholding every day all the time, as long as the buybacks continue.

If we were to buy shares in the company we are always very price-sensitive. So at the right price, there is no problem for us buying it. But we have to watch out and see how the market develops going forward.

Q - Paul De'Ath

Okay. Just a quick follow-up if I can, on the Board of Topdanmark. Now that your shareholding has increased further, do you expect to get any further representation on the Board?

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

I think we have to wait for next spring with all those type of issues. We have not - we have no decisions on what kind of proposals we would like to make. First, the Board has to do their work, and then we have the AGM and then we'll see where we go there.

Q - Paul De'Ath

Okay, thanks.

Operator

We will now take our next question from Michael Huttner from JPMorgan. Please go ahead. Your line is open.

Q - Michael Igor Huttner {BIO 1556863 <GO>}

Fantastic. Thank you very much. I have three questions. One is you mentioned the changing discount rates at Mandatum, and I was wondering if the rates hadn't changed, what would've been the consequence? Would solvency have been higher or earnings higher? I don't know.

And on the dividend at Top, if Top replaced its buyback with a dividend and you, in turn, upstreams all this extra cash to your own shareholders, I'm calculating your own dividend would grow by about 6%. So from around 2% to about 2.12%, I guess. Is this about the right order of magnitude on calculating? And then you said you were surprised that in this tender offer, you were offered and you bought more shares. I wondered, can you explain why you were surprised?

And then the final question, and I'm sorry if there are so many. I had heard in a previous discussion that you had very a small but not very profitable business in Finland. We think it was accident and that this has been reduced. And I just wondered if you can give an idea

of how much improvement in combined ratio, if my facts are right, could come from that. Thank you very much.

A - Jarmo Salonen {BIO 1860650 <GO>}

Correct on the - when we lower the discount rate, that actually burdens this result because we increased the buffer reserve that we can release later on. And 25 basis points on the discount rate for one year, the money-wise it's about €8 million.

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

On the dividend upstreaming, I think that we are at just too early out now here thinking of the dividend. First, we have to know if this proposal to become a dividend stock is accepted by the AGM, then the Board has to determine the dividend policy. And of course, we are talking of the dividend that would be distributed in 2018 for the year 2017. So I don't even want to speculate what those levels are because the decisions have not, for so many parts, been done.

Then you asked about why were we surprised that we got so many shares. The main reason is that this was a mandatory, no-premium bid. And for most of the time of the bid period, the share price traded above our bid price so therefore, we thought that we were not going to receive that many shares. And only in the last few days the share price dropped below our bid price, and therefore we were surprised. And also, the amount, it's 13% of the free float, so it's a significant amount for a mandatory no-premium bid. And this view was shared by our advisors, so it was not only us who were surprised by the amount.

A - Jarmo Salonen {BIO 1860650 <GO>}

It's true that we have canceled a small unprofitable book of business in Finland. It doesn't really affect the results of this year. But of course, everything else being equal, looking into next year, it will improve the results. But this is only a small portfolio, so nothing really that changed the world.

Q - Michael Igor Huttner {BIO 1556863 <GO>}

Thank you so much. Thank you.

Operator

We will now take our next question from Thomas Seidl from Bernstein. Please go ahead. Your line is open.

Q - Thomas Seidl {BIO 17755912 <GO>}

Yeah. Thank you. First, on P&C,. I think that after a number of impressive improvements in P&C, first time that it seems to be stagnating when it comes to margin. My question is, where do you think the trend goes from here? Flat, or do you see room for further improvement that others noted in this respect, for the first time you have increasing staff despite decreasing top line? That's the first question.

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Second then on the investment income in P&C. It's about half the level it was last year to nine months and you don't disclose at this stage, realized gains whether that's underlying. So I wonder, is it mainly much lower realized gains or is it just a new level of regular running yields bringing to a half level.

And thirdly, on the life business, you sold now half - or you're going to sell, I should say, next year half of the better part of the business. And because of the transition in Solvency II, you need to run down the spread base part. So does it mean basically you're gradually exiting the Finnish life business?

A - Jarmo Salonen {BIO 1860650 <GO>}

Let's start with profitability in P&C. Stagnating sounds a bit pessimistic. I would actually start by looking at the ROEs that we have. They have been stable. They have been above the target of 17.5%. Unless we see any change in interest rates, we are happy to stay at this level of combined ratio and we see no reason to change our profitability targets currently.

On the investment income side, if you look at our notes, the first note, net income from investments, you can actually see financial asset available for sale, the debt securities, the income has come down to €130 million from €149 million in 2015, January-September and the simple reason is the low rates and so that running yields are coming gradually down. But the biggest effect actually comes from equities where we have less realized gains. We had a fairly sizeable realized gains of €122 million in January-September 2015. And this year, we have realized only €42 million.

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

On life, we are by no means exiting life business. We are the absolute market leader in corporate life in Finland. And we have a growing wealth management business which actively uses their main product life wrappers, and then we have a risk in the life insurance business as well. It is true that we exit the main part of our retail business but we have no intention to exit life as such. And the management, of course, will do their utmost to improve the business in every possible way going forward.

Q - Thomas Seidl {BIO 17755912 <GO>}

But why would you - what makes you sell them this better part of the business 50% as the unit linked?

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

Devaluation.

Q - Thomas Seidl {BIO 17755912 <GO>}

Devaluation? Okay .

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

Yes.

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Q - Thomas Seidl {BIO 17755912 <GO>}

Because otherwise, this would be improving your margins going forward. But now you're also losing a distribution channel. So...

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

I think that we know the industry intimately and the value of the business is the net present value of the future cash flow. So I think that the timing and the model for the valuation is in the interest of our shareholders that we exit this part of the business now.

Q - Thomas Seidl {BIO 17755912 <GO>}

But the valuation will, as I understand it, only be determined next year, right, by independent actuaries. Is that what the contract says?

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

That is what the contract says, yes. But there is also small print in the contract.

Q - Thomas Seidl {BIO 17755912 <GO>}

Yeah. Of course. Thank you.

A - Jarmo Salonen {BIO 1860650 <GO>}

(27:23) again on your first question on profitability you mentioned stock increases, I want to refer to the cost ratio development, we're at 22.1% currently. If we normalize last year for the positive one-offs we had, we were at 22.3% year end. So it's still an efficiency improvement and we have not changed our strategy to improve efficiency year-on-year.

Q - Thomas Seidl {BIO 17755912 <GO>}

Thank you.

Operator

We will now take our next question from In-Yong Hwang from Goldman Sachs. Please go ahead. Your line is open.

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

Oh, hello. Thank you for taking my question. I've got two. Firstly on the dividends, you talked about your If P&C in terms of dividends going up, but that's quite a significant offset from the weaker entries going there. So I'm just wondering where you kind of get the confidence from an increase in dividends? Do you have to find more coming after Mandatum Life, or do you have kind of - do you have to depend on your liquidity buffers in the holding company? So just a comment on that would be helpful.

And secondly on Denmark, I think the premium trajectory, you've been growing for the last couple of quarters there, but this quarter seems to have gone down again. So just

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interested to hear what you've seen in the market? Is there any changes this quarter?
Thank you.

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

I think that we are quite confident that we are on track in the coming years to increase the dividend gradually in minor steps based on the fact that our internal dividend distribution policy or the - has not been 100%. So we have not felt stretched and, of course, we can if there is temporary any setback. We can, of course, issue hybrids in the subsidiaries and in the long term, we of course believe that also Nordea will increase its dividend even if, right now, we just hear their guidance that they are planning to do minor changes. But long term, if there is not growth in the society, then there is no reason for banks to consume more capital than they do now.

A - Jarmo Salonen {BIO 1860650 <GO>}

If I could add - I wanted to add if you look at the Solvency situation on If Group. So actually when you look at the profit, it's €660 million. But the internal sales gain from selling the Top shares has been eliminated in the P&C segment. But stand-alone, actually, If Group made a profit of €1.1 billion, and that you can see, if you look at the S&P capital model, the capital jump is significant on the owned funds side.

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

Sure.

A - Jarmo Salonen {BIO 1860650 <GO>}

On premium growth, Denmark, we continue to grow in the retail business, private business in the small commercial, which has been there for quite some time, and then we see some volatility in large accounts and industrial. Nothing - we haven't seen anything new in the market the last quarter.

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

Sure. Great. Thank you.

Operator

We will now take our next question from Kim Bergoe from Nordea. Please go ahead. Your line is open.

Q - Kim Bergoe {BIO 3842288 <GO>}

Hi. Thank you. Actually, my questions have been answered. I think it was mainly about - I sort of took note of the statement about Sampo never been that keen on life insurance, but you just answered the question before so thanks very much.

Operator

We will now take our next question from Steven Haywood from HSBC. Please go ahead.
Your line is open.

Q - Steven Haywood {BIO 15743259 <GO>}

Good afternoon, everyone. I just wanted to clarify and understand the fundamentals of what happened to the Solvency II ratios for if – actually, as I think obviously, you've transferred out Topdanmark from If into group Solvency II ratios, could you explain to me what sort of impact this had on the Solvency II ratio? And I can see obviously it's gone up significantly in If, but limited impact in the group as it nets itself out here.

And then could you tell me your appetite for growth versus profitability in the P&C in Norway, Finland and Sweden, whether your appetite has changed at all, whether you're seeing opportunities for growth or whether you're remaining avidly kind of focused on profitability above growth. Thank you.

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

On the Solvency II side, yes. Yes, you're correct, that the impact on – if Solvency is significant because of the sales gain and partly the capital burden disappears, which comes from Topdanmark when shares were in the holding company. Then of course, on the group level, the capital requirement is moved to the holding company and that is actually shown in the Sampo Group numbers. So basically, the effect on a group level is fairly neutral.

A - Jarmo Salonen {BIO 1860650 <GO>}

On growth versus profitability, I mean there's no reason to focus on growth in a non-growing business, so nothing has changed there. One exception possibly, and that is when it comes to distribution channels. We still want to grow in the digital channel and we're still growing in the digital channel, so that's important to us. But growth measured as market shares, not really interesting.

You want to go through this by market and there's actually only one development worth noting in the last quarter, and that is that we see development in Norway flatten out. So we have seen a better market in Norway the last quarter compared to the earlier four, five, six quarters. So that's positive news for us. But nothing is changing in our strategy.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay, thank you. Just to confirm that in saying Norway has gone from a decrease to sort of flattening in terms of premiums.

A - Jarmo Salonen {BIO 1860650 <GO>}

Yeah. I think about this as sort of the customer sales and customer attention and customer leaving us and development has been better in the last quarter than before, yes.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay. Thanks very much.

Operator

We will now take our next question from (34:21). Please go ahead, your line is open.

Q - Jarmo Salonen {BIO 1860650 <GO>}

Yes. Good afternoon. (34:26). I have a question related to your holding in Top you have long talked about your preference for dividends versus buybacks without taking any actions. My question is why take action now when a continued buyback would push your holding in Topdanmark of over 50% holding of the outstanding shares probably already mid-2018? I mean, any reasons for not passing the 50% ownership?

Secondly, you stated you would not back a buyback mandate at the AGM in the spring next year. According to Danish law, a dividend had to be post to the AGM, which means if you've not decide on the AGM after you have after Topdanmark but the AGM have decided to discontinue the buyback to instead convert the rest of that to dividend, to me this implies that cash flow from Topdanmark or shares have decreased materially in 2017 versus current expectations.

For me there's seems to something that could have materially impacted on Topdanmark's shares. Therefore, I think it will be great if you could comment a bit more on how you see this development. Also, in the light of you started the conference call by stating that Sampo needs to be more transparent on its intention on the Topdanmark stake.

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

Yeah. We don't, of course, see the 50% threshold in Topdanmark as anything special, so I think that the reason why we proposed this dividend now is the fact that we got more shares than we thought in the mandatory no premium offer. So this was the catalyst that prompted us to do it now. Of course, with the 41% shareholding, it's important for the other shareholders to know what are the intentions of this. Then your lecture on Danish law, I think that you're right in that sense that if you do buybacks quarterly or all the time, what you do is you consume the profits of the year, which is going on. And if you then want to distribute dividends from the previous years' profits, then there might be some leeway. But also, these questions, I think it's prudent to leave to the AGM and the Board to decide on.

Q - Jarmo Salonen {BIO 1860650 <GO>}

Okay. Thank you.

Operator

We will now take our next question from Mika Koskinen from SEB. Please go ahead. Your line is open.

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Q - Mika Koskinen {BIO 1557965 <GO>}

Thanks very much. I just have two minor questions. I think they will go to Peter. But Peter, first of all, did I hear you right that you said that if you made a capital gain of €1.1 billion on the - when you moved, transferred the Topdanmark shares from If to the holding company?

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

Right. I said the profit for If Group would have been €1.1 billion or was €1.1 billion. But the €440 million, which is the sales gain from Topdanmark shares, that's eliminated in the P&C segment.

Q - Mika Koskinen {BIO 1557965 <GO>}

Yes. Got it. Got it. Got it. Got it. Got it. So the total profit, including the underlying profit plus the sales gain would have been €1.1 billion?

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

Yes.

Q - Mika Koskinen {BIO 1557965 <GO>}

Yeah. Okay, good. Sorry. My confusion. And then secondly, you mentioned that at the end of the third quarter, the net debt of the group was €1.85 billion. And then I assume that that is not adjusted for the events that now have kind of been announced in October and November.

So if we were just to look at your net debt position today and also assume that you have paid or would have paid for the 7 million shares in Topdanmark that you received, what would your net debt level then be as of today?

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

The price tag on the Topdanmark shares, the 7.37 million shares, was €180 million, so we're slightly over €2 billion is the net debt now.

Q - Mika Koskinen {BIO 1557965 <GO>}

Exactly.

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

Yes.

Q - Mika Koskinen {BIO 1557965 <GO>}

Okay, perfect. Thank you.

Operator

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We will now take our next question from Niccolo Dalla Palma from Exane. Please go ahead. Your line is open.

Q - Niccolo C. Dalla Palma {BIO 16052945 <GO>}

Hi, thank you. My first question for Torbjörn is, just taking a step back, looking at the last few years of runoff results compared to where you were in previous years, it looks like you've been quite conservative in this year. Is there anything – has your sense of confidence on your reserving levels changed at all over the course of the years, i.e. is it now stronger than four, five years ago or has it always been the same, and should we therefore not read anything specifically into this?

And then a second question for Kari, and not sure how much you can comment on this, but given the number of news around the Nordea and talks with ABN AMRO. If you could comment as an owner of Nordea whether you see this type of potential mode, and I insist that's of course totally just potential. But is there something that Nordea needs to create value for shareholders or would it be on Top, or would self help be enough to generate value and this would be extra optionality to increase it even more? So just if you can give us some color in terms of how you think of this type of relatively surprising moves, I would say. Thank you.

A - Torbjörn Magnusson

Let's start with runoff development last three years and reserve development. Runoff is what runoff is. When we go through the reserves, we go through the claims development and we let (40:49) decide on the reserves. Having said that, the evaluation of the reserves today compared to three years ago hasn't really changed. We usually say that we try to be conservative. I stand by that, but it hasn't really changed the last three years. It's the same.

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

Nic, on the ABN AMRO, you have heard me many times say that Sampo is actually a proxy for the M&A in the Nordic financial scene. So people know that Sampo is overcapitalized and people know that Sampo are quick decision-makers. So I think everything in the Nordic scenery which moves is shown to us. So we have a really perfect insight into the M&A scenery in the Nordic sector. Therefore, I think that it's the duty of the Chairman of Sampo or the CEO of Sampo to sound out all the players regularly in the industry and see so that we are aware of what is going on and people also contact us to keep us posted.

On the ABN AMRO as such, I think it speaks very well into this sounding out, and Björn has publicly stated in detail the background and the outcome of the deal. So even if it's a big issue, I think it's more business as usual on the M&A part. Nordea will develop extremely well going forward with the plans that they have published, and there is no acute need for any M&A. Anyway, it's the duty of the Chairman in Sampo to – as they go in Nordea to sound out different parties.

Q - Niccolo C. Dalla Palma {BIO 16052945 <GO>}

Okay. That's very clear. Thank you, Kari.

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Operator

We will now take our next question from Blair Stewart from the Bank of America. Please go ahead. Your line is open.

Q - Blair Stewart {BIO 4191309 <GO>}

Thanks again. Just one follow-up. It maybe early to comment on this but is there any prior expectations to what you might do with the proceeds from the Mandatum part disposal? Is it of a quantum that would be considered for the return to shareholders?

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

I think that it will increase the possibilities to increase the dividend potentially long term. But on the other hand, part of it will also be needed to capitalize the life company so that they have enough ammunition and award share to develop the company. So it's a combination.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Thank you.

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

But you're early out. On that point, you are right.

Q - Blair Stewart {BIO 4191309 <GO>}

Yeah. Yeah. Thank you, Kari.

Operator

We will now take our next question from Jonny Urwin from UBS. Please go ahead. Your line is open.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi there. Just one left for me, please. I just wanted to dig a bit into the P&C business operationally. And I think we have more from your competitors around what they're doing around improving claims management processes and general operational efficiency and things of that retention. So if you could give us a bit of color on the sorts of things you're doing and how it's going, that'd be great. Thank you.

A - Torbjörn Magnusson

I think the reason why we haven't stated in detail what we do operationally is partly because we haven't changed in quite a few years now. We still have the strategy to deliver stability to deliver good service to our clients. In order to do that, we need to, of course, develop in line with the market and in line with how the customer changed their behavior.

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The only change in the last couple of years that is relevant really to talk about is the change on the digital arena. And we have talked about that many times. I know that Kari took it up on the AGM in the beginning of this year. So that's the development area for us now and I think going forward for quite some time. When it comes to the effects of these, we still look for stability and profitability starting with our ROE. And we have said many times that we try to shave off a decimal point or two from our cost ratio every year as we have done before and we're planning to continue to do.

Q - Jonny Urwin {BIO 17445508 <GO>}

All right. Thank you.

Operator

We will now take our next question from Thomas Seidl from Bernstein. Please go ahead, your line is open.

Q - Thomas Seidl {BIO 17755912 <GO>}

Yeah. Thanks for taking another set of questions. On life, just very briefly, the business you're going to sell to Danske, is it fair to assume that it is sort of the same margin as the total unit-linked and hence, you're giving away roughly 50% of the unit-linked earnings? Secondly, how quickly does this book run off? Is it like 10% per year or after 10 years this is done? And thirdly, with respect to this breadth-based business, as you started to decrease the equity exposure of this business in line with the seven-year transitional or is this yet to come?

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

Majority of the book that we're selling to Danske is unit-linked, so it's €2.8 billion. And basically, what we have provided to that is the unit in (46:45) So the retail customers, there's about 150,000 retail customers and those customers have invested into Danske's unit-link - Danske's mutual funds. So it's wrapped around Danske's mutual funds that's where we lose the fee income. Basically, then we have other unit-linked assets around €3 billion, at least the retail part we have similar margins than in the portfolio that is sold.

On top of that or part of the Danske's book contains of with profit policies slightly over €200 million. But there are policies with 4.5% guarantees, 3.5% guarantees, zero guarantees and so on. I don't have the numbers what the run-off timetable is on this €200 million portfolio, but along with the €200 million we, of course, gave Danske €200 million cash.

Q - Thomas Seidl {BIO 17755912 <GO>}

Okay. Thank you.

Operator

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We will now take our next question from Michael Huttner from JPMorgan. Please, go ahead. Your line is open.

Q - Michael Igor Huttner {BIO 1556863 <GO>}

Thank you so much. Can you - I think in previous conference call about six months results you were saying something about margins in Norway and industrial lines not being so great. Can you say - update us a little bit on that, please?

And also on the topic of digital and insurance tech and stuff, from the previous conversation I had in mind, specifically Norway, there was increased competition from smaller startups and I just wondered what you're doing to kind of deal with that. Thank you.

A - Torbjörn Magnusson

Okay. Let's talk to the Norwegian market. As I said before, we have seen some signs of improvements in the last couple of months when it comes to market pressure or competitive pressure, i.e., development of a number of customers.

And on your second question, when it comes to new competition we have seen in Norway, there has not been new in the sense of new technology or new distribution pattern. It has just been more competition, more very traditional and very expensive distribution, basically sales. So nothing new on the technology arena when it comes to competition.

In industrial lines, there has been pressure on pricing for quite some time and that's the reason why we have reduced volumes. So the downturn in industrial lines is due to price pressure. If we don't like the risk reward that we see in the market, we stay away in industrial lines and we can live with volatility in top line in industrial lines. What will happen in this year in renewal is, of course, yet to be seen.

Q - Michael Igor Huttner {BIO 1556863 <GO>}

Got it. Thank you very much.

Operator

As there are no further question, I would now like to turn the conference over to our speaker. Please go ahead.

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

Thank you, operator. And thank you all for your attention. Have a nice evening.

Operator

This will conclude today's conference. Ladies and gentlemen, thank for your participation. You may now disconnect.

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