Summary of significant accounting policies

Sampo Group has prepared the consolidated financial statements for 2015 in compliance with the International Financial Reporting Standards (IFRSs). In preparing the financial statements, Sampo has applied all the standards and interpretations relating to its business, adopted by the commission of the EU and effective at 31 December, 2015.

During the financial year, Sampo adopted the following revised standard relating to its business:

The revised IAS 19 *Pension Benefits* (effective for annual periods beginning on 1 Feb 2015 or after) clarified the accounting method when an employee or a third party is expected to make contributions to the defined benefit plan. The adoption of the revised standard did not have a material impact on the Group's financial statements reporting.

In preparing the notes to the consolidated financial statements, attention has also been paid to the Finnish accounting and company legislation and applicable regulatory requirements. Some of the risk management disclosures are presented in the Group's financial statements' Risk Management section.

The financial statements have been prepared under the historical cost convention, with the exception of financial assets and liabilities at fair value through p/l, financial assets available-for-sale, hedged items in fair value hedges and share-based payments settled in equity instruments measured at fair value.

The consolidated financial statements are presented in euro (EUR), rounded to the nearest million, unless otherwise stated.

The Board of Directors of Sampo plc accepted the financial statements for issue on 10 February 2016.

Consolidation

Subsidiaries

The consolidated financial statements combine the financial statements of Sampo plc and all its subsidiaries. Entities qualify as subsidiaries if the Group has the controlling power. The Group exercises control if its shareholding is more than 50 per cent of the voting rights or it otherwise has the power to exercise control over the financial and operating policies of the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group, and cease to be consolidated from the date that control ceases.

The acquisition method of accounting is used for the purchase of subsidiaries. The cost of an acquisition is allocated to the identifiable assets, liabilities and contingent liabilities, which are measured at the fair value of the date of the acquisition. Possible non-controlling interest of the acquired entity is measured either at fair value or at proportionate interest in the acquiree's net assets. The acquisition-specific choice affects both the amount of recognised goodwill and non-controlling interest. The excess of the aggregate of consideration transferred, non-controlling interest and possibly previously held equity interest in the acquiree, over the Group's share of the fair value of the identifiable net assets acquired, is recognised as goodwill.

The accounting policies used throughout the Group for the purposes of consolidation are consistent with respect to similar business activities and other events taking place in similar conditions. All intra-group transactions and balances are eliminated upon consolidation.

Associates

Associates are entities in which the Group has significant influence, but no control over the financial management and operating policy decisions. Unless otherwise demonstrated, this is generally presumed when the Group holds in excess of 20 per cent, but no more than 50 per cent, of the voting rights of an entity. Investments in associates are treated by the equity method of accounting, in which the investment is initially recorded at cost and increased (or decreased) each year by the Group's share of the post-acquisition net income (or loss), or other movements reflected directly in the equity of the associate. If the Group's share of the associate's loss exceeds the carrying amount of the investment, the investment is carried at zero value, and the loss in excess is consolidated only if the Group is committed to fulfilling the obligations of the associate. Goodwill arising on the acquisition is included in the cost of the investment. Unrealised gains (losses) on transactions are eliminated to the extent of the Group's interest in the entity.

The share of associates' profit or loss, equivalent to the Group's holding, is presented as a separate line in the income statement. The Group's share of associate's changes in other comprehensive income is presented in the Group's other comprehensive income items.

If there is any indication that the value of the investment may be impaired, the carrying amount is tested by comparing it with its recoverable amount. The recoverable amount is the higher of its value in use or its fair value less costs to sell. If the recoverable amount is less than its carrying amount, the carrying amount is reduced to its recoverable amount by recognising an impairment loss in the profit/loss. If the recoverable amount later increases and is greater than the carrying amount, the impairment loss is reversed through profit and loss.

Foreign currency translation

The consolidated financial statements are presented in euro, which is the functional and reporting currency of the Group and the parent company. Items included in the financial statements of each of the Group entities are measured using their functional currency, being the currency of the primary economic environment in which the entity operates. Foreign currency transactions are translated into the appropriate functional currency using the exchange rates prevailing at the dates of transactions or the average rate for a month. The balance sheet items denominated in foreign currencies are translated into the functional currency at the rate prevailing at the balance sheet date.

Exchange differences arising from translation of transactions and monetary balance sheet items denominated in foreign currencies into functional currency are recognised as translation gains and losses in profit or loss. Exchange differences arising from equities classified as available-for-sale financial assets are included directly in the fair value reserve in equity.

The income statements of Group entities whose functional currency is other than euro are translated into euro at the average rate for the period, and the balance sheets at the rates prevailing at the balance sheet date. The resulting exchange differences are included in equity and their change in other comprehensive income. When a subsidiary is divested entirely or partially, the cumulative exchange differences are included in the income statement under sales gains or losses.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as if they were assets and liabilities of the foreign entity. Exchange differences resulting from the translation of these items at the exchange rate of the balance sheet date are included in equity and their change in other comprehensive income.

Exchange differences that existed at the Group's IFRS transition date, 1 January 2004, are deemed to be zero, in accordance with the exemption permitted by IFRS 1.

The following exchange rate was applied in the consolidated financial statements:

	Balance sheet date	Balance sheet date
1 euro (EUR) =		
Swedish krona (SEK)	9.1895	9.3534

Segment reporting

The Group's segmentation is based on business areas whose risks and performance bases as well as regulatory environment differ from each other. The control and management of business and management reporting is organised in accordance with the business segments. The Group's business segments are P&C insurance, life insurance and holding business.

Geographical information has been given on income from external customers and non-current assets. The reported segments are Finland, Sweden, Norway, Denmark and the Baltic countries.

In the inter-segment and inter-company pricing, for both domestic and cross border transactions, market-based prices are applied. The pricing is based on the Code of conduct on Transfer Pricing Documentation in the EU and OECD guidelines.

Inter-segment transactions, assets and liabilities are eliminated in the consolidated financial statements on a line-by-line basis.

Interest and dividends

Interest income and expenses are recognised in the income statement using the effective interest rate method. This method recognises income and expenses on the instrument evenly in proportion to the amount outstanding over the period to maturity. Dividends on equity securities are recognised as revenue when the right to receive payment is established.

Fees and commissions

The fees and transaction costs of financial instruments measured at fair value through profit or loss are recognised in profit or loss when the instrument is initially recognised.

The costs of acquiring new and renewed insurance business are treated as deferred acquisition costs in the P&C insurance. In the life insurance business the acquisition costs are treated as fee and commission expense under ‘Other operating expenses’.

Other fees and commissions paid for investment activities are included in ‘Net income from investments’.

Insurance premiums

Insurance premiums in the income statement consist of premiums written for P&C insurance and life insurance.

P&C insurance contracts are primarily of short duration, so that premiums written are recognised as earned on a pro rata basis, adjusting them by a change in the provision for unearned premiums i.e. by the proportion of the insurance premium income that, based on the period covered by the insurance contract, belongs to the following financial year.

In the life insurance business, liabilities arising from insurance and investment contracts count as long-term liabilities. Therefore the insurance premium and related claims are usually not recognised in the same accounting period. Depending on the type of insurance, premiums are primarily recognised in premiums written when the premium has been paid. In group pension insurance, a part of the premiums is recognised already when charged.

The change in the provision for unearned premiums is presented as an expense under 'Change in insurance and investment contract liabilities'.

Financial assets and liabilities

Based on the measurement practice, financial assets and liabilities are classified in the following categories upon the initial recognition: financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets, financial liabilities at fair value through profit or loss, and other liabilities.

According to the Group’s risk management policy, investments are managed at fair value in order to have the most realistic and real-time picture of investments, and they are reported to the Group key management at fair value. Investments comprise debt and equity securities. They are mainly classified as financial assets available-for-sale.

In the life insurance business, IFRS 4 *Insurance Contracts* provides that insurance contracts with a discretionary participation feature are measured in accordance with national valuation principles (except for the equalisation reserve) rather than at fair value. These contracts and investments made to cover shareholders’ equity are managed in their entirety and are classified mainly as available-for-sale financial assets.

Financial assets designated as at fair value through profit or loss in the life insurance business are investments related to unit-linked insurance, presented separately in the balance sheet. The corresponding liabilities are also presented separately. In addition, in the life insurance business, investments classified as the financial assets of foreign subsidiaries, and financial instruments in which embedded derivatives have not been separated from the host contract have been designated as at fair value through profit or loss.

In the P&C Insurance and Holding business, investments are primarily classified as financial assets available-for-sale.

Recognition and derecognition

Purchases and sales of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets are recognised and derecognised on the trade date, which is the date on which the Group commits to purchase or sell the asset. Loans and receivables are recognised when cash is advanced.

Financial assets and liabilities are offset and the net amount is presented in the balance sheet only when the Group has a legally enforceable right to set off the recognised amounts and it intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Financial assets are derecognised when the contractual rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognised when the obligation specified in the contract is discharged or cancelled or expire.

Financial assets and financial liabilities at fair value through profit or loss

In Sampo Group, financial assets and liabilities at fair value through profit of loss comprise derivatives held for trading, and financial assets designated as at fair value through profit or loss.

Financial derivative instruments held for trading

Derivative instruments that are not designated as hedges and do not meet the requirements for hedge accounting are classified as derivatives for trading purposes.

Financial derivatives held for trading are initially recognised at fair value. Derivative instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Derivative instruments are recognised at fair value, and gains and losses arising from changes in fair value together with realised gains and losses are recognised in the income statement.

Financial assets designated as at fair value through profit or loss

Financial assets designated as at fair value through profit or loss are assets which, at inception, are irrevocably designated as such. They are initially recognised at their fair value. Gains and losses arising from changes in fair value, or realised on disposal, together with the related interest income and dividends, are recognised in the income statement.

Loans and receivables

Loans and receivables comprise non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the short term. The category also comprises cash and balances with central banks.

Loans and receivables are initially recognised at their fair value, added by transaction costs directly attributable to the acquisition of the asset. Loans and receivables are subsequently measured at amortised cost using the effective interest rate method.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial investments that are designated as available for sale and or are not categorised into any other category. Available-for-sale financial assets comprise debt and equity securities.

Available-for-sale financial assets are initially recognised fair value, including direct and incremental transaction costs. They are subsequently remeasured at fair value, and the changes in fair value are recorded in other comprehensive income and presented in the fair value reserve, taking the tax effect into account. Interest income and dividends are recognised in profit or loss. When the available-for-sale assets are sold, the cumulative change in the fair value is transferred from equity and recognised together with realised gains or losses in profit or loss. The cumulative change in the fair value is also transferred to profit or loss when the assets are impaired and the impairment loss is recognised. Exchange differences due to available-for-sale monetary balance sheet items are always recognised directly in profit or loss.

Other financial liabilities

Other financial liabilities comprise debt securities in issue and other financial liabilities.

Other financial liabilities are recognised when the consideration is received and measured to amortised cost, using the effective interest rate method.

If debt securities issued are redeemed before maturity, they are derecognised and the difference between the carrying amount and the consideration paid at redemption is recognised in profit or loss.

Fair value

The fair value of financial instruments is determined primarily by using quoted prices in active markets. Instruments are measured either at the bid price or at the last trade price, if there is an auction policy in the stock market of the price source. The financial derivatives are also measured at the last trade price. If the financial instrument has a counter-item that will offset its market risk, the same price source is used in assets and liabilities to that extent. If a published price quotation does not exist for a financial instrument in its entirety, but active markets exist for its component parts, the fair value is determined on the basis of the relevant market prices of the component parts.

If a market for a financial instrument is not active, or the instrument is not quoted, the fair value is established by using generally accepted valuation techniques including recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

If the fair value of a financial asset cannot be determined, historical cost is deemed to be a sufficient approximation of fair value. The amount of such assets in the Group balance sheet is immaterial.

Impairment of financial assets

Sampo assesses at the end of each reporting period whether there is any objective evidence that a financial asset, other than those at fair value through p/l, may be impaired. A financial asset is impaired and impairment losses are incurred, if there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset, and if that event has an impact, that can be reliably estimated, on the estimated future cash flows of the financial asset.

Financial assets carried at amortised cost

There is objective evidence of impairment, if an issuer or debtor e.g. encounters significant financial difficulties that will lead to insolvency and to estimation that the customer will probably not be able to meet the obligations to the Group. Objective evidence is first assessed for financial assets that are individually significant, and individually and collectively for financial assets not individually significant.

When there is objective evidence of impairment of a financial asset carried at amortised cost, the amount of the loss is measured as the difference between the receivable's carrying amount and the present value of estimated future cash flows discounted at the receivable's original effective interest rate. The difference is recognised as an impairment loss in profit or loss. The impairment is assessed individually.

If, in a subsequent period, the amount of the impairment loss decreases, and the decease can objectively be related to an event occurring after the impairment was recognised (e.g. the default status is removed), the previously recognised impairment loss shall be reversed through profit or loss.

Available-for-sale financial assets

Whether there is objective evidence of an impairment of available-for-sale financial assets, is evaluated in a separate assessment, which is done if the credit rating of an issuer has declined or the entity is placed on watch list, or there is a significant or prolonged decline in the fair value of an equity instrument below its original acquisition cost.

The decision on whether the impairment is significant or prolonged requires an assessment of the management. The assessment is done case by case and with consideration paid not only to qualitative criteria but also historical changes in the value of an equity as well as time period during which the fair value of an equity security has been lower than the acquisition cost. In Sampo Group, the impairment is normally assessed to be significant, if the fair value of a listed equity or participation decreases below the average acquisition cost by 20 per cent and prolonged, when the fair value has been lower than the acquisition cost for over 12 months.

As there are no quoted prices available in active markets for unquoted equities and participations, the aim is to determine their fair value with the help of generally accepted valuation techniques available in the markets. The most significant share of unquoted equities and participations comprise the private equity and venture capital investments. They are measured in accordance with the generally accepted common practice, International Private Equity and Venture Capital Guidelines (IPEV).

The significance and prolongation of the impairment in the last-mentioned cases is assessed case by case, taking into consideration special factors and circumstances related to the investment. Sampo invests in private equity and venture capital in order to keep them to the end of their life cycle, so the typical lifetime is 10 – 12 years. In general, a justifiable assessment of a potential impairment may only be done towards the end of the life cycle. However, if additionally there is a well-founded reason to believe that an amount equivalent to the acquisition cost will not be recovered when selling the investment, an impairment loss is recognised.

In the case of debt securities, the amount of the impairment loss is assessed as the difference between the acquisition cost, adjusted with capital amortisations and accruals, and the fair value at the review time, reduced by previously in profit or loss recognised impairment losses.

When assessed that there is objective evidence of impairment in debt or equity securities classified as financial assets available-for-sale, the cumulative loss recognised in other comprehensive income is transferred from equity and recognised in profit or loss as an impairment loss.

If, in a subsequent period, the fair value of a debt security increases and the increase can objectively be related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed by recognising the amount in profit or loss.

If the fair value of an equity security increases after the impairment loss was recognised in profit or loss, the increase shall be recognised in other comprehensive income. If the value keeps decreasing below the acquisition cost, an impairment loss is recognised through profit or loss.

Derivative financial instruments and hedge accounting

Derivative financial instruments are classified as those held for trading and those held for hedging, including interest rate derivatives, credit risk derivatives, foreign exchange derivatives, equity derivatives and commodity derivatives. Derivative instruments are measured initially at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Derivates held for trading

Derivative instruments that are not designated as hedges and embedded derivatives separated from a host contract are treated as held for trading. They are measured at fair value and the change in fair value, together with realised gains and losses and interest income and expenses, is recognised in profit or loss.

If derivatives are used for hedging, but they do not qualify for hedge accounting as required by IAS 39, they are treated as held for trading.

Hedge accounting

Sampo Group may hedge its operations against interest rate risks, currency risks and price risks through fair value hedging and cash flow hedging. Cash flow hedging is used as a protection against the variability of the future cash flows, while fair value hedging is used to protect against changes in the fair value of recognised assets or liabilities.

Hedge accounting applies to hedges that are effective in relation to the hedged risk and meet the hedge accounting requirements of IAS 39. The hedging relationship between the hedging instrument and the hedged item, as well as the risk management objective and strategy for undertaking the hedge, are documented at the inception of the hedge. In addition, the effectiveness of a hedge is assessed both at inception and on an ongoing basis, to ensure that it is highly effective throughout the period for which it was designated. Hedges are regarded as highly effective in offsetting changes in fair value or the cash flows attributable to a hedged risk within a range of 80 - 125 per cent.

During the financial year, fair value hedges have been used in P&C insurance and life insurance.

Cash flow hedging

Cash flow hedging is used to hedge the interest cash flows of individual floating rate debt securities or other floating rate assets or liabilities. The hedging instruments used include interest rate swaps, interest rate and cross currency swaps. Derivative instruments which are designated as hedges and are effective as such are measured at fair value. The effective part of the change in fair value is recognised in other comprehensive income. The remaining ineffective part is recognised in profit or loss.

The cumulative change in fair value is transferred from equity and recognised in profit or loss in the same period that the hedged cash flows affect profit or loss.

When a hedging instrument expires, is sold, terminated, or the hedge no longer meets the criteria for hedge accounting, the cumulative change in fair value remains in equity until the hedged cash flows affect profit or loss.

Fair value hedging

In accordance with the Group's risk management principles, fair value hedging is used to hedge changes in fair values resulting from changes in price, interest rate or exchange rate levels. The hedging instruments used include foreign exchange forwards, interest rate swaps, interest rate and cross currency swaps and options, approved by the managements of the Group companies.

Changes in the fair value of derivative instruments that are documented as fair value hedges and are effective in relation to the hedged risk are recognised in profit or loss. In addition, the hedged assets and liabilities are measured at fair value during the period for which the hedge was designated, with changes in fair value recognised in profit or loss.

Securities lending

Securities lent to counterparties are retained in the balance sheet. Conversely, securities borrowed are not recognised in the balance sheet, unless these are sold to third parties, in which case the purchase is recorded as a trading asset and the obligation to return the securities as a trading liability at fair value through profit or loss.

Leases

Group as lessee

Finance leases

Leases of assets in which substantially all the risks and rewards of ownership are transferred to the Group are classified as finance leases. Finance leases are recognised at the lease's inception at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The corresponding obligation is included in 'Other liabilities' in the balance sheet. The assets acquired under finance leases are amortised or depreciated over the shorter of the asset's useful life and the lease term. Each lease payment is allocated between the liability and the interest expense. The interest expense is amortised over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Operating leases

Assets in which the lessor retains substantially all the risks and rewards of ownership are classified as operating leases and they are included in the lessor's balance sheet. Payments made on operating leases are recognised on a straight-line basis over the lease term as rental expenses in profit or loss.

Group as lessor

Operating leases

Leases in which assets are leased out and the Group retains substantially all the risks and rewards of ownership are classified as operating leases. They are included in 'Investment property' in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment, and the impairment losses are recognised on the same basis as for these items. Rental income on assets held as operating leases is recognised on a straight-line basis over the lease term in profit or loss.

Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition (made after 1 January 2004) over the fair value of the Group's share of the net identifiable assets, liabilities and contingent liabilities of the acquired entity at the date of acquisition. Goodwill on acquisitions before 1 January 2004 is accounted for in accordance with the previous accounting standards and the carrying amount is used as the deemed cost in accordance with the IFRS.

Goodwill is measured at historical cost less accumulated impairment losses. Goodwill is not amortised.

Other intangible assets

IT software and other intangible assets, whether procured externally or internally generated, are recognised in the balance sheet as intangible assets with finite useful lives, if it is probable that the expected future economic benefits that are attributable to the assets will flow to the Group and the cost of the assets can be measured reliably. The cost of internally generated intangible assets is determined as the sum of all costs directly attributable to the assets. Research costs are recognised as expenses in profit or loss as they are incurred. Costs arising from development of new IT software or from significant improvement of existing software are recognised only to the extent they meet the above-mentioned requirements for being recognised as assets in the balance sheet.

Intangible assets with finite useful lives are measured at historical cost less accumulated amortisation and impairment losses. Intangible assets are amortised on a straight-line basis over the estimated useful life of the asset. The estimated useful lives by asset class are as follows:

IT software	4-10 years
Other intangible assets	3-10 years

Property, plant and equipment

Property, plant and equipment comprise properties occupied for Sampo's own activities, office equipment, fixtures and fittings, and furniture. Classification of properties as those occupied for own activities and those for investment activities is based on the square metres in use. If the proportion of a property in Sampo's use is no more than 10 per cent, the property is classified as an investment property.

Property, plant and equipment are measured at historical cost less accumulated depreciation and impairment losses. Improvement costs are added to the carrying amount of a property when it is probable that the future economic benefits that are attributable to the asset will flow to the entity. Costs for repairs and maintenance are recognised as expenses in the period in which they were incurred.

Items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful life. In most cases, the residual value is estimated at zero. Land is not depreciated. Estimates of useful life are reviewed at financial year-ends and the useful life is adjusted if the estimates change significantly. The estimated useful lives by asset class are as follows:

Residential, business premises and offices	20-60 years
Industrial buildings and warehouses	30-60 "
Components of buildings	10-15 "
IT equipment and motor vehicles	3-5 "
Other equipment	3-10 "

Depreciation of property, plant or equipment will be discontinued, if the asset in question is classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.*

Impairment of intangible assets and property, plant and equipment

At each reporting date the Group assesses whether there is any indication that an intangible asset or an item of property, plant or equipment may be impaired. If any such indication exists, the Group will estimate the recoverable amount of the asset. In addition, goodwill, intangible assets not yet available for use and intangible assets with an indefinite useful life will be tested for impairment annually, independent of any indication of impairment. For impairment testing the goodwill is allocated to the cash-generating units of the Group from the date of acquisition. In the test the carrying amount of the cash-generating unit, including the goodwill, is compared with its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The value in use is calculated by estimating future net cash flows expected to be derived from an asset or a cash-generating unit, and by discounting them to their present value using a pre-tax discount rate. If the carrying amount of an asset is higher than its recoverable amount, an impairment loss is recognised in profit or loss. In conjunction with this, the impaired asset's useful life will be re-determined.

If there is any indication that an impairment loss recognised for an asset in prior periods may no longer exist or may have decreased, the recoverable amount of the asset will be estimated. If the recoverable amount of the asset exceeds the carrying amount, the impairment loss is reversed, but no more than to the carrying amount which it would have been without recognition of the impairment loss. Impairment losses recognised for goodwill are not reversed.

Investment property

Investment property is held to earn rentals and for capital appreciation. The Group applies the cost model to investment property in the same way as it applies to property, plant and equipment. The depreciation periods and methods and the impairment principles are also the same as those applied to corresponding property occupied for own activities. In the Holding segment, the investment property of the associate Nordea is measured at fair value in item Investments in associates.

The fair value of investment property is estimated using a method based on estimates of future cash flows and a comparison method based on information from actual sales in the market. The fair value of investment property is presented in the Notes.

The valuation takes into account the characteristics of the property with respect to location, condition, lease situation and comparable market information regarding rents, yield requirements and unit prices. During the financial year, the valuations were conducted by the Group's internal resources.

Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the Group can reliably estimate the amount of the obligation. If it is expected that some or all of the expenditure required to settle the provision will be reimbursed by another party, the reimbursement will be treated as a separate asset only when it is virtually certain that the Group will receive it.

Insurance and investment contracts

Insurance contracts are treated, in accordance with IFRS 4, either as insurance or investment contracts. Under the standard, insurance contracts are classified as insurance contracts if significant insurance risk is transferred between the policyholder and the insurer. If the risk transferred on the basis of the contract is essentially financial risk rather than significant insurance risk, the contract is classified as an investment contract. Classification of a contract as an insurance contract or investment contract determines the measurement principle applied to it.

Sampo treats the liabilities arising from contracts in the first phase of the standard according to national accounting standards, except for the equalisation reserve and the provision for collective guarantee item and their changes which are reported in equity and profit or loss, in accordance with the IFRS.

The risks involved in insurance and investment contracts are widely elaborated in the Group's financial statements' Risk Management section.

Reinsurance contracts

A reinsurance contract is a contract which meets the IFRS 4 requirements for insurance contracts and on the basis of which Sampo Group (the cedant) may receive compensation from another insurer (the reinsurer), if it becomes liable for paying compensation based on other insurance contracts it has issued. Such compensation received on the basis of reinsurance contracts is included in the balance sheet under 'Reinsurers' share of insurance liabilities' and 'Other assets'. The former item includes the reinsurers' share of the provisions for unearned premiums and claims outstanding in the Group's reinsured insurance contracts, while the latter includes short-term receivables from reinsurers.

When the Group itself has to pay compensation to another insurer on the basis of a reinsurance contract, the liability is recognised in the item 'Other liabilities'.

Receivables and liabilities related to reinsurance are measured uniformly with the cedant's receivables and liabilities. Reinsurance receivables are tested annually for impairment. Impairment losses are recognised through profit or loss, if there is objective evidence indicating that the Group (as the cedant) will not receive all amounts of money it is entitled to on a contractual basis.

P&C insurance business

Classification of insurance contracts

In classifying insurance contracts and examining their related risks, embedded contracts are interpreted as one contract.

Other than insurance contracts, i.e. contracts where the risk is not transferred, include Captive contracts in which an insurance company underwrites a company's direct business and reinsures the same risk in an insurance company in the same group as the policyholder. There are also contracts in P&C insurance (Reverse Flow Fronting contracts) in which the insurance company grants insurance and then transfers the insurance risk to the final insurer. For both the above types of contract, only the net effect of the contract relationship is recognised in the income statement and balance sheet (instead of the gross treatment, as previously). The prerequisite for net treatment is that the net retention recognised on the contract is zero.

There are also contracts in P&C insurance in which the insurance risk is eliminated by a retrospective insurance premium, i.e. the difference between forecast and actual losses is evened out by an additional premium directly or in connection with the annual renewal of the insurance. The net cash flow from these contracts is recognised directly in the balance sheet, without recognising it first in the income statement as premiums written and claims incurred.

Insurance liabilities

Insurance liabilities are the net contractual obligations which the insurer has on the basis of insurance contracts. Insurance liabilities, consisting of the provisions for unearned premiums and unexpired risks and for claims outstanding, correspond to the obligations under insurance contracts.

The provision for unearned premiums is intended to cover anticipated claims costs and operating expenses during the remaining term of insurance contracts in force. In P&C insurance and reinsurance, the provision for unearned premiums is normally calculated on a strictly proportional basis over time, i.e. on a pro rata temporis basis. In the event that premiums are judged to be insufficient to cover anticipated claims costs and operating expenses, the provision for unearned premiums must be augmented by a provision for unexpired risks. Calculation of the provision for unexpired risks must also take into account instalment premiums not yet due.

The provision for claims outstanding is intended to cover the anticipated future payments of all claims incurred, including claims not yet reported to the company; i.e. the IBNR (incurred but not reported) provision. The provision for claims outstanding includes claims payments plus all estimated costs of claim settlements.

The provision for claims outstanding in direct P&C insurance and reinsurance may be calculated by statistical methods or through individual assessments of individual claims. Often a combination of the two methods is used, meaning large claims are assessed individually while small claims and claims incurred but not reported (the IBNR provision) are calculated using statistical methods. The provision for claims outstanding is not discounted, with the exception of provisions for vested annuities, which are discounted to present value using standard actuarial methods, taking anticipated inflation and mortality into account.

Premiums written for P&C insurance and reinsurance are recognised in the income statement when the annual insurance premium is due for payment.

Liability adequacy test

A liability adequacy test is performed separately for both the provision for claims outstanding and the provision for unearned premiums. The provision for claims outstanding is based on estimates of future cash flows. The estimates are made by using well-established actuarial methods.

The provision for unearned premiums is, for the most part, calculated on a strictly proportional basis over time (so called pro rata temporis principle). The adequacy of the provision for unearned premiums is tested by calculating a provision for unexpired risks for each company per business area and line of business. If the provisions are judged to be insufficient, the provision for unearned premiums is augmented by recognising a provision for unexpired risks.

Pay-as-you-go system for P&C insurance

Pensions and compensation for healthcare or medical rehabilitation paid on the basis of Finland's statutory P&C insurance (accident, motor third party liability and patient insurance) are raised annually by the TEL (Employee Pensions Act) index in order to maintain the real value of the pensions. The index raises are not the responsibility of the insurance companies, but are funded by the so-called pay-as-you-go principle, i.e. each year premiums written include index raises to the same amount that is paid out in that year. In practice, the P&C insurance companies collect a so-called expense loading along with their premiums written, which is then forwarded to the central organisation for the particular insurance line. The central organisation distributes the pay-as-you-go contributions collected so that the company undertaking the type of insurance in question receives an amount equal to the compensation falling under the pay-as-you-go system it has paid that year. The insurer's participation in the payment is proportional to the insurer's market share in the insurance line in question.

The pay-as-you-go system related to pension index raises is not treated as an insurance activity under IFRS 4 and does not generate any risk for the insurance company. Thus, the pay-as-you-go contribution collected together with the insurance premium is not deemed to be premium income, and the pension index raise paid out is not deemed to be claims incurred. Because the collected index raise corresponds in amount to the paid out pension index raise, the said items are set-off in the Income Statement item 'Other expenses from operations'. The share of a balancing figure not yet received from, or not paid by, a central organisation is presented as current receivables or liabilities in the balance sheet items 'Other assets' or 'Other liabilities'.

Deferred acquisition costs

In the P&C insurance business, acquisition costs clearly relating to the writing of insurance contracts and extending beyond the financial year are recognised as assets in the balance sheet. Acquisition costs include operating expenses directly or indirectly attributable to writing insurance contracts, fees and commissions, marketing expenses and the salaries and overheads of sales staff. Acquisition costs are amortised in the same way as provisions for unearned premiums, usually in 12 months at the maximum.

Life insurance business

Classification of insurance contracts

Policies issued by the life insurance business are classified as either insurance contracts or investment contracts. Insurance contracts are contracts that carry significant insurance risk or contracts in which the policyholder has the right to change the contract by increasing the risk. As capital redemption contracts do not carry insurance risk, these contracts are classified as investment contracts.

The discretionary participation feature (DPF) of a contract is a contractual right held by a policyholder to receive additional benefits, as a supplement to the guaranteed minimum benefits. The supplements are bonuses based on the reserves of policies credited to the policy reserve, additional benefits in the case of death, or lowering of insurance premiums. In Mandatum Life, the principle of fairness specifies the application of this feature. In unit-linked contracts the policyholder carries the investment risk by choosing the investment funds linked to the contracts.

Measurement of insurance and investment contracts

National accounting standards are applied to all insurance contracts and to investment contracts with DPF, with the exception of the equalisation provision and changes in it.

All contracts, except unit-linked contracts and the assumed reinsurance, include DPF. In those unit-linked contracts which are not insurance contracts, the policyholder has the possibility to transfer the return on savings from unit-linked schemes to guaranteed interest with DPF. Thus, these contracts are also measured as contracts with DPF.

The surrender right, guaranteed interest and the unbundling of the insurance component from the deposit component and similar features are not separated and measured separately.

Regarding the group pension portfolio transferred from Suomi Mutual (=segregated portfolio), a so-called shadow accounting is applied, as permitted in IFRS 4.30, by adjusting the equity with the amount of unrealised gains and losses of the agreement. The equity is adjusted with an amount that unrealised gains or losses would have affected the Segregated Portfolio in accordance with the profit distribution policy of the Segregated Portfolio, if the gains or losses had been realised at the balance sheet date.

Insurance and investment contract liabilities and reinsurance assets

Liabilities arising from insurance and investment contracts consist of provisions for unearned premiums and outstanding claims. In the life insurance business, various methods are applied in calculating liabilities which involve assumptions on matters such as mortality, morbidity, the yield level of investments, future operating expenses and the settlement of claims.

Changes in the liabilities of reinsurance have been calculated at variable rates of exchange.

In direct insurance, the insurance liability is calculated by policy, while in reinsurance it is calculated on the basis of the reports of the ceding company or the company's own bases of calculation.

The interest rate used in discounting liabilities is, at most, the maximum rate accepted by the authorities in each country. The guaranteed interest used in the direct insurance premium basis varies on the basis of the starting date of the insurance from zero to 4.5 per cent. The interest rate used in discounting liabilities is the same or lower than that used in premium calculation. Most of the liabilities of the accrued benefits of pension business with DPF are discounted by an interest rate of 3.5 per cent, also being the highest discount rate used. In addition, Mandatum Life has for the year 2016 lowered the maximum rate to

1.0%, for the year 2017 to 1.25% and for the year 2018 to 2.25%. The segregated liabilities of the accrued benefits of group pension portfolio, transferred from Suomi Mutual to Mandatum Life on 30 December 2014, have been discounted by 0.75%.

Due to the difference in the discount rate of liabilities and the guaranteed interest of 4.5% and 3.5%, supplementary provisions for guaranteed interest have been added to technical provisions. In the subsidiary, Mandatum Life Insurance Baltic, the discount rate varies by country between 2.0 - 4.0 per cent and the average guaranteed interest rate between 2.0 - 4.0 per cent.

Mortality assumptions have an essential effect on the amount of liability, particularly in group pension insurance, the liability of which accounts for about 38 per cent of the technical provisions of the Finnish life company. A so-called cohort mortality model is used in calculating the group pension insurance liability since 2002, incorporating the insured person's birth year in addition to his or her age and sex. The cohort mortality model assumes that life expectancy increases by one year over a ten-year period.

For unit-linked contracts, all the liabilities and the assets covering the unit-linked insurance are matched. Both the liabilities and the assets have been presented in the Notes to the financial statements. In calculating the provision for claims outstanding of direct insurance, discounting is applied only in connection with the liabilities of pensions whose payment has commenced. The liabilities of assumed reinsurance are based on the reports of the ceding company and on an estimate of claims which have not yet been settled. The assets covering the unit-linked liabilities include debt securities issued by the Group companies. These have not been eliminated. Elimination would lead to misleading information, as the policy holders carry the investment risk related to these investments, and to a mismatch between the unit-linked liabilities and assets covering them.

The provision for claims outstanding is intended to cover the anticipated future payments of all claims incurred, including claims not yet reported to the company (the "IBNR" provision). The provision for claims outstanding includes claim payments plus all costs of claim settlements.

The amounts of short- and long-term liabilities in technical provisions are determined annually.

The Group's financial statements' Risk Management section elaborates on the change of technical provisions and their forecast annual maturities.

Liability adequacy test

A liability adequacy test is applied to all portfolios, company by company, and the need for augmentation is checked, company by company, on the basis of the adequacy of the whole technical provisions. The test includes all the expected contractual cash flows for non-unit-linked liabilities. The expected contractual cash flows include expected premiums, claims, bonuses and expenses. The claims have been estimated including surrenders and other insurance transactions based on historical data. The amounts of claims include the guaranteed interest and an estimation of future bonuses. The present values of the cash flows have been discounted to the balance sheet date by using a swap rate curve.

For the unit-linked business, the present values of the insurance risk and expense results are calculated correspondingly. If the aggregate amount of the liability for the unit-linked and other business presumes an augmentation, the liability is increased by the amount shown by the test and recognised in profit or loss.

Principle of fairness

According to Chapter 13, Section 2 of the Finnish Insurance Companies' Act, the Principle of Fairness must be observed in life insurance and investment contracts with a discretionary participation feature. If the solvency requirements do not prevent it, a reasonable part of the surplus has to be returned to these policies as bonuses.

Mandatum Life aims at giving a total return before charges and taxes on the original insurance portfolio's policyholders' savings in contracts with DPF that is at least the yield of those long term bonds, which are considered to have lowest risk. At the moment we consider German government bonds to be the most risk free long term bonds available. Nevertheless, Finnish government bonds are used as target levels at the moment. The total return consists of the guaranteed interest rate and bonuses determined annually. Continuity is pursued in the level of bonuses. The aim is to maintain the company's solvency status on such a level that it neither limits the giving of bonuses to policyholders nor the distribution of profit to shareholders. The principle is explained in detail on the company's website.

The total return for the segregated group pension portfolio, transferred from Suomi Mutual to Mandatum Life on 30 December 2014, is based on the profit distribution policy outlined in the transfer plan of the portfolio. The profit sharing policy of the segregated group pension portfolio is explained in detail on the company's website pages.

The legislation of Estonia, Latvia and Lithuania respectively does not contain provisions corresponding to the Principle of Fairness.

Employee benefits

Post-employment benefits

Post-employment benefits include pensions and life insurance.

Sampo has defined benefit plans in Sweden and Norway, and defined contribution plans in other countries. The most significant defined contribution plan is that arranged through the Employees' Pensions Act (TyEL) in Finland.

In the defined contribution plans, the Group pays fixed contributions to a pension insurance company and has no legal or constructive obligation to pay further contributions. The obligations arising from a defined contribution plan are recognised as an expense in the period that the obligation relates to.

In the defined benefit plans, the company still has obligations after paying the contributions for the financial period and bears their actuarial and/or investment risk. The obligation is calculated separately for each plan using the projected unit credit method. In calculating the amount of the obligation, actuarial assumptions are used. The pension costs are recognised as an expense for the service period of employees.

Defined benefit plans are both funded and unfunded. The amounts reported as pension costs during a financial year consist of the actuarially calculated earnings of old-age pensions during the year, calculated straight-line, based on pensionable income at the time of retirement. The calculated effects in the form of interest expense for crediting/appreciating the preceding years' established pension obligations are then added. The calculation of pension costs during the financial year starts at the beginning of the year and is based on assumptions about such factors as salary growth and price inflation throughout the duration of the obligation and on the current market interest rate adjustedto take into account the duration of the pension obligations.

The current year pension cost and the net interest of the net liability is recognised thru p/l in pension costs. The actuarial gains and losses and the return of the plan assets (excl. net interest) are recognised as a separate item in other comprehensive income.

The fair value of the plan assets covered by the plan is deducted from the present value of future pension obligations and the remaining net liability (net asset) is recognised separately in the balance sheet.

The Group has also certain voluntary defined benefit plans. These are intra-Group, included in the insurance liabilities of Mandatum Life and have no material significance.

Termination benefits

An obligation based on termination of employment is recognised as a liability when the Group is verifiably committed to terminate the employment of one or more persons before the normal retirement date or to grant benefits payable upon termination as a result of an offer to promote voluntary redundancy. As no economic benefit is expected to flow to the employer from these benefits in the future, they are recognised immediately as an expense. Obligations maturing more than 12 months later than the balance sheet date are discounted. The benefits payable upon termination at Sampo are the monetary and pension packages related to redundancy.

Share-based payments

During the financial year, Sampo had four valid share-based incentive schemes settled in cash (the long-term incentive schemes 2011 I, 2011 II, 2014 I and 2014 II for the management and key employees). The schemes have been measured at fair value at the grant date and at every reporting date thereafter.

In the schemes settled in cash, the valuation is recognised as a liability and changes recognised through profit or loss.

The fair value of the schemes has been determined using the Black-Scholes-pricing model. The fair value of the market-based part of the incentive takes into consideration the model's forecast concerning the number of incentive units to be paid as a reward. The effects of non-market based terms are not included in the fair value of the incentive; instead, they are taken into account in the number of those incentive units that are expected to be exercised during the vesting period. In this respect, the Group will update the assumption on the estimated final number of incentive units at every interim or annual balance sheet date.

Income taxes

Item Tax expenses in the income statement comprise current and deferred tax. Tax expenses are recognised through profit or loss, except for items recognised directly in equity or other comprehensive income, in which case the tax effect will also be recognised those items. Current tax is calculated based on the valid tax rate of each country. Tax is adjusted by any tax related to previous periods.

Deferred tax is calculated on all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Deferred tax is not recognised on non-deductible goodwill impairment, and nor is it recognised on the undistributed profits of subsidiaries to the extent that it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated by using the enacted tax rates prior to the balance sheet date. A deferred tax asset is recognised to the extent that it is probable that future taxable income will be available against which a temporary difference can be utilised.

Share capital

The incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are included in equity as a deduction, net of tax, from the proceeds.

Dividends are recognised in equity in the period when they are approved by the Annual General Meeting. When the parent company or other Group companies purchase the parent company's equity shares, the consideration paid is deducted from the share capital as treasury shares until they are cancelled. If such shares are subsequently sold or reissued, any consideration received is included in equity.

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term deposits (3 months).

Sampo presents cash flows from operating activities using the indirect method in which the profit (loss) before taxation is adjusted for the effects of transactions of a non-cash nature, deferrals and accruals, and income and expense associated with investing or financing cash flows.

In the cash flow statement, interest received and paid is presented in cash flows from operating activities. In addition, the dividends received are included in cash flows from operating activities. Dividends paid are presented in cash flows from financing.

Accounting policies requiring management judgement and key sources of estimation uncertainties

Preparation of the accounts in accordance with the IFRS requires management estimates and assumptions that affect the revenue, expenses, assets, liabilities and contingent liabilities presented in the financial statements. Judgement is needed also in the application of accounting policies. The estimates made are based on the best information available at the balance sheet date. The estimation is based on historical experiences and most probable assumptions concerning the future at the balance sheet date. The actual outcome may deviate from results based on estimates and assumptions. Any changes in the estimates will be recognised in the financial year during which the estimate is reviewed and in all subsequent periods.

Sampo's main assumptions concerning the future and the key uncertainties related to balance sheet estimates are related, for example, to assumptions used in actuarial calculations, determination of fair values of non-quoted financial assets and liabilities and investment property and determination of the impairment of financial assets and intangible assets. From Sampo's perspective, accounting policies concerning these areas require most significant use of estimates and assumptions.

Actuarial assumptions

Evaluation of insurance liabilities always involves uncertainty, as technical provisions are based on estimates and assumptions concerning future claims costs. The estimates are based on statistics on historical claims available to the Group on the balance sheet date. The uncertainty related to the estimates is generally greater when estimating new insurance portfolios or portfolios where clarification of a loss takes a long time because complete claims statistics are not yet available. In addition to the historical data, estimates of insurance liabilities take into consideration other matters such as claims development, the amount of unpaid claims, legislative changes, court rulings and the general economic situation.

A substantial part of the Group's P&C insurance liabilities concerns statutory accident and traffic insurance. The most significant uncertainties related to the evaluation of these liabilities are assumptions about inflation, mortality, discount rates and the effects of legislative revisions and legal practices.

The actuarial assumptions applied to life insurance liabilities are discussed in more detail under 'Insurance and investment contract liabilities and reinsurance assets'.

Defined benefit plans as intended in IAS 19 are also estimated in accordance with actuarial principles. As the calculation of a pension plan reserve is based on expected future pensions, assumptions must be made not only of discount rates, but also of matters such as mortality, employee turnover, price inflation and future salaries.

Determination of fair value

The fair value of any non-quoted financial assets is determined using valuation methods that are generally accepted in the market. These methods are discussed in more detail above under 'Fair value'.

Fair values of investment property have been determined internally during the financial year on the basis of comparative information derived from the market. They include management assumptions concerning market return requirements and the discount rate applied.

Impairment tests

Goodwill, intangible assets not yet available for use, and intangible assets with an indefinite useful life are tested for impairment at least annually. The recoverable amounts from cash-generating units have mainly been determined using calculations based on value in use. These require management estimates on matters such as future cash flows, the discount rate, and general economic growth and inflation.

Application of new or revised IFRSs and interpretations

The Group will apply the following new or amended standards and interpretations related to the Group's business in later financial years when they become effective, or if the effective date is other than the beginning of the financial year, during the financial year following the effective date.

The amendments to IAS 1 *Presentation of Financial Statements* under the *Disclosure Initiative* (effective for annual periods beginning on 1 Jan 2016 or after) clarifies the instructions on materiality; aggregation of line items in statement of financial position and statement of profit or loss; presentation of subtotals and the structure of the notes and accounting policies. The changes will not have a material impact on the Group's financial statements reporting.

IFRS 15 *Revenue from Contracts with Customers* (effective for annual periods beginning on 1 Jan 2018 or after). The new standard will supersede IAS 18 and IAS 11 and related interpretations. The central criterion for revenue recognition is the passing of control. The adoption of the new standard will not have a material impact on the Group's financial statements reporting, other than possibly in the number of the disclosed notes.

The amendments to IFRS 9 *Financial Instruments* (effective for annual periods beginning on 1 Jan 2018 or after) supersede IAS 39 *Financial Instruments: Recognition and Measurement.* The new standard changes the classification and measurement of financial assets and includes a new impairment model based on expected credit losses. The hedge accounting will continue to have three different hedging relationships. The adoption of the new standard will have an impact on the Group's financial statements; the effects are under valuation in the Group.