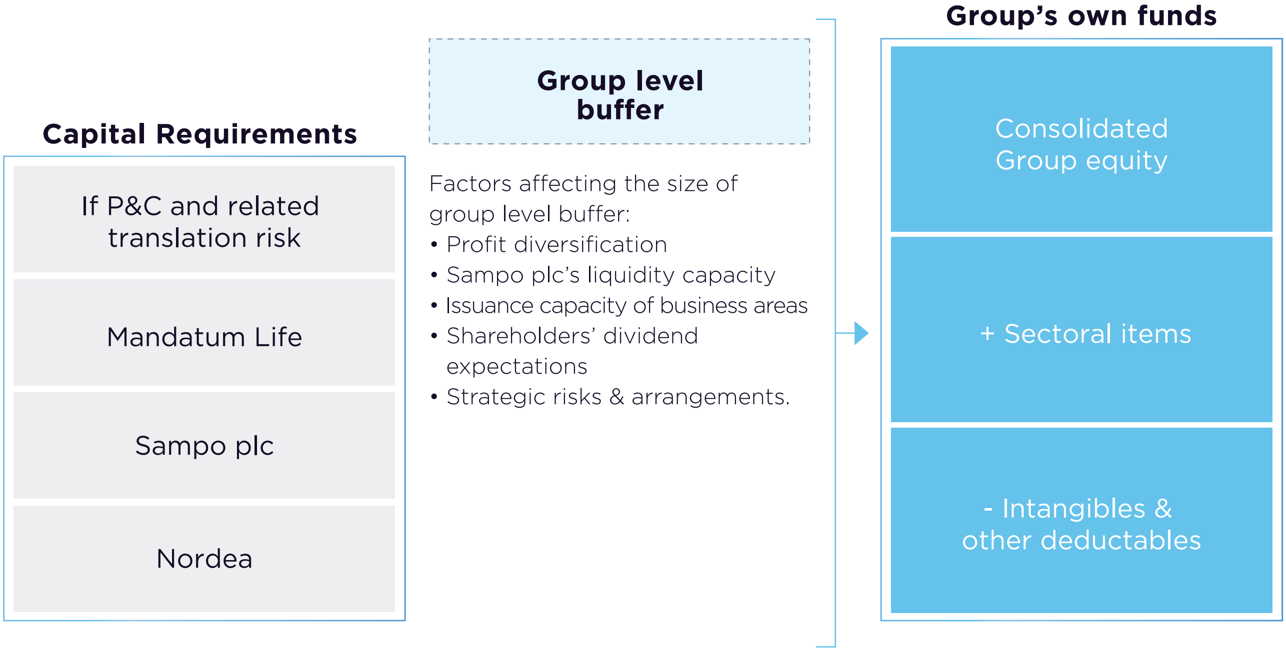
Capitalization at Group Level

The factors affecting Sampo Group level capitalization are illustrated in the picture Sampo Group's Capitalization Framework.

Sampo Group's Capitalization Framework



Group's capital need is dependent mainly on the capital needs of the business areas. The parent company's contribution to Group capital need is minor, because Sampo plc does not have any business activities of its own except for the management of its capital structure and liquidity portfolio.

The separate companies' internal capital needs and regulatory requirements include diversification effects between their risks. The diversification effect between companies exists also at group level, but to be conservative it is not included in the internally assessed capital need. This non-diversified method is consistent with the method enforced in Conglomerate Rules which are described more in detail later in this document. Since diversification has a central role in Sampo Group's business case, it is internally evaluated regularly and it affects group capitalization indirectly through the size of the capital buffer.

At the group level, the regulatory capital requirement and the actual amount of capital are also exposed to foreign currency translation risk. Translation risk may realize when the capital and the capital requirement of If P&C are converted from Swedish kronas ("SEK") to euros in the Group's consolidated figures. When SEK depreciates, the Group's own funds in euros decreases and the SCR of the If P&C will be lower in euros. As a result, the net effect on the Group solvency ratio is negative.

Group level translation risk differs from the other economic risks in the following ways:

- The risk has no effect on any separate legal entity's profits or their own funds. Hence hedging translation risks by a single legal entity is, if not impossible, at least problematic.
- The translation risk realizes into parent company's result only if the legal entity is sold.
- It may also appear that the Group solvency ratio decreases because of a weaker Swedish krona, while the equity of If P&C in Swedish kronas may be higher and the solvency of If P&C may be stronger than earlier.

Because of the above reasons, translation currency risk is monitored internally and its effect on Sampo

Group's capital requirement and own funds are analyzed regularly. However, internally, no capital need is set for translation risk. Management decisions on Sampo Group's translation currency risk exposure may be made when a subsidiary or an associated company creating translation risk is potentially subject to merger, acquisition or other corporate restructuring. Also, decisions may be made if a major move in the EUR/SEK currency rate level is expected.

Group Actual Capital: The starting point of the Group's own funds is the Group's **consolidated equity**. Sampo's share of Nordea's own funds is consolidated into the Group own funds.

The next step is to add the so called **sectoral items** to the Group's consolidated equity. The sectoral items include, for example, the subordinated debt instruments held by the external investors. In addition, the **intangible assets** as well as **other deductible items** are subtracted from the consolidated equity.

Buffer: The amount of capital buffer at group level is dependent mostly on the following issues:

- How well-capitalized the separate subsidiaries and the associated company are in their base currencies: the stronger their solvency, the less buffer is needed at group level.
- The level and the volatility of the sub-groups' profits: the less volatile and the higher the profits are, the lower the buffer need is.
- The business entities' capacity to issue hybrid capital and subordinated debt instruments: the more capacity there is, the less need there is to increase the capital buffer at group level.
- The correlation between business entities' profits: the weaker the correlation, the greater the diversification benefits are and the smaller the need to reserve capital at group level. Parent company continuously monitors the realized profit correlations and forecasts sub-groups' future profits based on common macroeconomic forecasts.
- If the probability for strategic arrangements within the industry increases, the Board of Directors and the management of Sampo plc may favor maintaining a higher buffer than would otherwise be needed.
- Shareholders' expectations on dividends over time: when the majority of the shareholders expect a steadily increasing stream of dividends, a higher buffer than otherwise needed may be justified.
- Parent company's liquidity portfolio and leverage: the parent company's ability to generate funds is dependent on the size and the liquidity of the investment portfolio, as well as the company's leverage. The better this ability is, the smaller is the need for the buffer at group level. For these reasons Sampo plc strives to withhold a strong liquidity and a low leverage.

Calculation procedures and Group solvency figures: As described earlier, the starting point of **Group's own funds** is the consolidated Group equity. The sectoral items are added to it and the intangibles and other deductibles are subtracted from it. There are no major differences between Conglomerate Rules and SII methods.

The Group capital requirement ("Group SCR") is calculated either by the Conglomerate Rule or Solvency II directive.

- **According to the Conglomerate Rule,** the Group's total minimum requirement for own funds is the sum of the separate sub-group's requirements (sectoral rules) and the parent company's requirement (banking rules) for the solvency capital. The Conglomerate capital requirement does not take into account any diversification between the companies. Hence it is a quite conservative measure of capital requirement and easy to interpret as well.
- When the Group SCR is calculated by **Solvency II rules**, there are two phases:

(i) The diversified capital requirement is calculated for the insurance group including the parent company Sampo plc, If P&C and Mandatum Life. There is also capital requirement for the translation risk related to SEK denominated equity of If P&C.

(ii) Sampo plc's portion of Nordea's capital requirement is added to the insurance group's capital requirement.

The SII SCR takes into account diversification only within the insurance group thus excluding the diversification effect of Nordea.

Sampo Group's regulatory solvency by Conglomerate Rules applying the current SI rules for insurance subsidiaries is reported in table Group Solvency According to the Act on the Supervision of Financial and Insurance Conglomerates, 31 December 2015 and 31 December 2014. The Group solvency ratio increased from 187 per cent to 193 per cent.

The difference between the two calculation methods as of 31 December 2015 is presented in the two last columns of the table. The difference in Solvency capital stems mainly from the lower value of insurance liabilities with transitional measures which is reflected as higher own funds of insurance subsidiaries.

Solvency capital requirements of insurance subsidiaries applying SII rules are higher than the SI requirements. As a net result, the Group solvency ratio decreases from 193 per cent to 145 per cent when the new sectoral rules for insurance subsidiaries will come into effect.

Group Solvency According to the Act on the Supervision of Financial and Insurance Conglomerates

31 December 2015 and 31 December 2014

Regulatory solvency, EURm	31 Dec 2014	31 Dec 2015	31 Dec 2015 *
Group Capital	10,924	11,411	11,411
Sectoral Items	1,685	1,658	2,254
Intangibles and other deductibles	-2,334	-2,266	-2,167
Planned dividends	-1,092	-1,204	-1,204
Group's own funds	**9,183**	**9,598**	**10,293**
Sampo plc	40	59	59
If P&C	841	881	2,073
Mandatum Life	271	269	1,212
Nordea	3,746	3,770	3,770
Mandatum Life Insurance Baltic SE	4	4	
Minimum requirements for own funds, total	**4,901**	**4,983**	**7,114**
Group Solvency (Buffer)	4,282	4,616	3,179
Group Solvency ratio, %	187%	193%	145%

(*) Solvency II requirements applied to If P&C and Mandatum Life

Calculation method according to Conglomerate Rules does not take into account any diversification effects between Group's business areas as is the case when insurance groups calculate their Group solvency applying SII rules. In order to include the diversification effect between business areas into Group's capital need, Sampo is using correlations of quarterly reported profits between business areas when assessing the diversification effect. With this adjustment the resulting diversified Group capital need would be EUR 5,496 million and the Group solvency ratio would be 187 per cent.

Diversification Effect and Group's Internal Capital Adequacy Assessment

31 December 2015

Correlations of Quarterly Reported Profits	
Nordea vs. If P&C	0.27
Nordea vs. Mandatum Life	0.13
If P&C vs. Mandatum Life	0.85

Internal Capital Adequacy Assessment	EURm
Diversification Effect	-1,618
Diversified Capital Need	5,496
Buffer	4,798
Group Solvency Ratio, %	187%

Adequacy of buffer at group level: Sampo plc considers that the buffer between Group own funds and Group capital requirement is more than adequate in light of the facts below.

- **Due to the business entities' good profits and low volatilities, there is no need for extra buffers.** If P&C and Nordea have strong capitalization and sound profitability. The OF of If P&C is maintained above the capital level based on the Single-A rating target. Nordea's amount of capital is affected by the Swedish rules that are one of the strictest within European jurisdictions. In addition, both If P&C and Nordea have maintained high profitability and low volatility of profits. In Sampo plc's opinion, If P&C and Nordea have themselves relatively high buffers included in their capital and the parent company needs only minor additional reserves for them, if any.

Mandatum Life is the smallest company in Group and its OF with transitional measures is relatively high compared to SCR. Mandatum Life's with-profit business with high guarantees is in a run-off mode. Hence the capital need is decreasing over time.

- **Diversification effects within Group are positive:** The correlation of the business areas' reported profits are quite modest as presented in the table Diversification Effect and Group's Internal Capital Adequacy Assessment, 31 December 2015. In particular, Nordea's profits are weakly correlated with If P&C's and Mandatum Life's profits. Hence, there is a clear diversification benefit within group.
- **The parent company's capacity to generate liquidity is strong.** The capacity to generate funds is dependent on leverage and liquidity buffers which can be inferred from the table Sampo plc Balance Sheet Structure, 31 December 2015.

Sampo plc Balance Sheet Structure

31 December 2015

Assets total, EURm	9,606
Liquidity	**739**
Investment Assets	**275**
Real estate	2
Fixed income	25
Equity & Private equity	248
Sub-ordinated loans	**579**
Equity holdings	**7,928**
Subsidiaries	2,370
Associated	5,557
Other assets	85

Liabilities total, EURm	9,606
CP's issued	**305**
LT Senior debt	**1,997**
Private placements	159
Bonds issued	1,838
Sub-ordinated debt	**0**
Capital	**7,159**
Undistributable capital	98
Distributable capital	7,061
Other liabilities	145

Financial leverage measured as the portion of debt of all liabilities was low, being 24 per cent.

Leverage can be assessed also by ratios Net Debt to Group Equity and Net Debt to Group NAV. Sampo plc's Gross Debt was EUR 2,302 million and EUR 1,343 million of its total financial assets of EUR 1,593 million were in interest bearing instruments. Hence, net debt was EUR 959 million.

When this Net Debt is divided by the book value of Sampo plc's equity holdings of EUR 7,928 million, the resulting ratio or “Loan-to-Value” (“LTV”) would be 12 per cent. However, the post-dividend Net Debt will be higher than EUR 959 million, but this is compensated by the higher market value of Sampo plc´s holdings compared to the book value of EUR 7,928 million. As a net result the realistic LTV is lower than 12 per cent.

In regards to **liquidity**, the liquid funds of Sampo plc were EUR 739 million. After all dividends have been received and paid the estimated liquidity will be approximately EUR 150 million. The need of liquid funds for the normal cash management purposes is about EUR 50 million and thus there is additional liquidity to be used for other purposes amounting to approximately EUR 100 million. Furthermore, investment assets and sub-ordinated loans can be sold if additional liquidity is needed.

Because sub-ordinated loans presented in the table Sampo plc Balance Sheet Structure, 2015 are issued by If P&C, Mandatum Life, Nordea and Topdanmark, they are eliminated from Group solvency capital. In the event that these assets would be sold, in addition to liquidity in Sampo plc, also OF would be created at group level.

Sampo plc is in a good position to refinance its current debt and even issue more debt. This capacity together with the tradable financial assets, means that Sampo plc is able to generate a good amount of liquid funds.