Group Solvency

Sampo Group's business model is based on three separate business areas each managing their own risks and reserving the required capital to cover these risks.

Sampo plc, the parent company – with no business activities of its own – is structurally subordinate to the business areas. Therefore it is dependent on their financial performance and their obligations. The parent company prefers to maintain in its business areas a balance between profits, risks and capital which supports their ability to pay stable dividends after servicing their own obligations.

In Sampo Group the operating entities do not capitalize each other, but rather the parent company provides the capitalization if needed. For this reason the parent company prefers to have a relatively low leverage and a good capacity to generate liquidity in case the business areas need support.

As of 1 January 2016 insurance subgroups If P&C and Mandatum Life apply Solvency II rules in their regulatory solvency calculations.

If P&C Group has over a number of years used its internal economic capital model to estimate the amount of capital needed to cover its risks. Since 2011 development of internal model has been conducted as part of the so called pre-application process with authorities to correspond to the extent possible to Solvency II requirements. As a result If P&C Group planned to use a partial internal model for Solvency II to calculate its SCR. An application for the approval of the model was submitted to the authorities in June 2015.

As the approval process could not be finalized before 1 January 2016, If P&C has withdrawn its application with the Finnish Financial Supervisory Authority (FSA). If P&C Group will use a standard model for Solvency II and evaluate the situation. The difference between the standard model and the partial internal model is mainly that the standard formula does not take into account the geographical diversification between countries.

The standard model has roughly a EUR 400 million higher capital requirement than the partial internal model. However, If P&C Group has an A rating from S&P which will continue to require significantly more capital and therefore the use of standard model has no practical implications on the Group's capital position. On 31 December 2015 If P&C Group's Solvency II capital requirement under standard model amounted to EUR 2,073 million and own funds to EUR 3,202 million. Solvency ratio amounted to 154 per cent. S&P A rating requirement for If P&C Group amounted to EUR 3,058 million at the end of 2015.

In April 2015 Mandatum Life applied for approval from Finnish FSA to use transitional measures on technical provisions and application was supplemented in May 2015 because of information requests by FSA. The Finnish FSA issued its decision to approve the use of transitional measures on 11 August 2015.

On 31 December 2015 after transitional measures Mandatum Life's solvency ratio is strong at 158 per cent. Own funds of EUR 1,913 million exceed Solvency Capital Requirement (SCR) of EUR 1,212 million by EUR 701 million. Without transitional measures, own funds would have amounted to EUR 1,347 and the solvency capital requirement EUR 1,307 million leading to a solvency ratio of 103 per cent.

Sampo Group is regarded as a financial and insurance conglomerate according to the Act on the Supervision of Financial and Insurance Conglomerates (2004/699). The Act is based on Directive 2002/87/EC of the European Parliament and of the Council on the supplementary supervision of credit institutions, insurance undertakings and investment. The Act was amended as of 1 January 2016 to correspond to Solvency II and Basel III rules.

The starting point for the Group's solvency capital is the consolidated Group equity. The sectoral items are added to it and the intangibles and other deductibles are subtracted from it.

Sampo Group Solvency

EURm	31 Dec 2015	31 Dec 2014
Group capital	11,411	10,924
Sectoral items	1,658	1,685
Intangibles and other deductibles	-3,470	-3,426

Group's own funds, total	9,599	9,183
Minimum requirements for own funds, total	4,983	4,901
Group solvency	4,616	4,282
Group solvency ratio (Own funds % of minimum requirements)	192.6	187.4

Group's conglomerate solvency ratio (own funds in relation to minimum requirements for own funds) using Solvency I rules for the insurance subsidiaries was 193 per cent (187) as at 31 December 2015. With Solvency II rules applied to the insurance subsidiaries the Group solvency ratio would have been 145 per cent.

More information on Sampo Group's capital policy is available at the Risk Management section of the Annual Report 2015