Capitalization at the Company Level

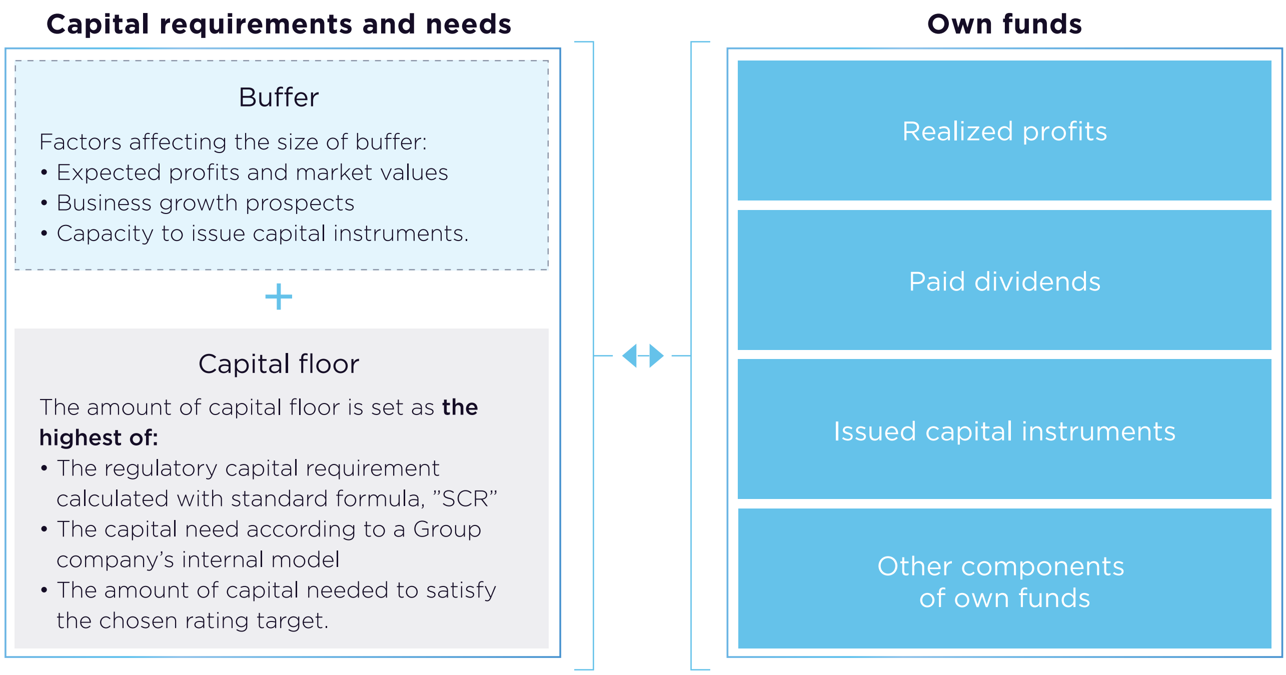
As noted before, in Sampo Group the first priority is to maintain **a balance between profits, risks and capital** in each of the separate business areas. In Sampo Group a balance between profits, risks and capital means that the actual amount of capital is maintained over a self-defined risk based capital need with a certain buffer.

In Solvency I ("SI") framework, the solvency capital requirement ("SCR") was insensitive to risks and the solvency margin excluded certain loss absorbing items like equalization reserves. This is why If P&C and Mandatum Life used economic capital figures as capital need estimates and so called adjusted solvency capital was the measure of the actual capital absorbing losses. Internal capitalization analysis was based on these more realistic estimates of capital need and capital base and they were disclosed regularly together with the respective statutory SI figures.

Solvency II SCRs and own funds ("OF") are more market consistent estimates of the capital need and the amount of loss absorbing items. In this risk disclosure Sampo Group will mainly disclose the SII based solvency figures.

The illustrative picture Sampo Group Companies' Capitalization Framework describes Sampo's approach to company-level capitalization when SII rules are in place.

Sampo Group Companies' Capitalization Framework



The regulatory SCR sets the level of capital at which a company is able to conduct its business without regulatory interventions. Hence, it is the starting point when the needed level of actual amount of capital is considered. Regardless of whether the regulatory capital requirement is calculated using the internal model or the standard formula, it reflects a 99.5 per cent confidence level which implies the same probability of default as a Triple-B rating from major rating agencies. In case the company's clients and counterparties prefer a higher than Triple-B creditworthiness from their insurance company, the level of capital must preferably be higher than the SCR, to ensure the company's ability to serve its client base.

To serve its current clients, If P&C is maintaining a Single-A rating and effectively is setting a higher capital floor than the SCR. Mandatum Life as a non-rated company considers the SCR to be an adequate capital floor.

Because risk exposures and profits evolve continuously over time and capital can sometimes erode rapidly due to stressed situations, there is a need to have a certain **buffer** between the actual amount of capital and the capital floor defined by the company. An adequate buffer gives time for the company to adjust its risks and capital in times of stress and to maintain the balance between risks and capital. In Sampo Group the management steers the balance between SCRs and OF through their decisions on risk profiles, dividend payments, capital instrument issuances and technical provisions. However, in the long run a sound profitability and satisfied clients are seen as the most important factor in maintaining an adequate capitalization. An adequate buffer also gives confidence to supervisors and counterparties.

The following factors are the most material when the size of buffer is considered:

- Expected profits and market values: the higher the level of expected profits and the lower the volatility of profits and market value of balance sheet, the smaller the volatility of own funds and buffer that is needed.
- Business growth prospects: if business is growing the buffer is larger than in the case of a run-off -business. For instance in Mandatum Life, capital consuming with profit business has already been in a virtual run-off mode for ten years.
- Other sources of capital: more capacity and ability to issue SII compliant capital instruments means that a lower buffer is needed.

Because of the above reasons, determination of the balance between profits, risks and capital in Sampo Group is based both on statistical modelling and measuring the risks and on subjective management considerations on the prudent level of the buffer.

When the balance between profits, risks and capital is met, the following three goals of Sampo Group are simultaneously obtainable:

(i) The company is able to conduct its business activities without supervisory intervention.

(ii) The company is able to conduct its business activities with all targeted client bases and the company has access to financial and debt issuance markets at terms and conditions implied by the company's creditworthiness.

(iii) The company is able to pay targeted dividends to shareholders in the long run without endangering the balance between risk and capital.

On a company level, the target can also be set for the **capital structure**. In general, Sampo Group is in favour of strong capital structures and as a result Sampo Group companies currently have, according to SII rules, room for new hybrid capital and subordinated debt instruments in their balance sheet. However, at the moment there are no exact targets set for the amount of issued instruments.

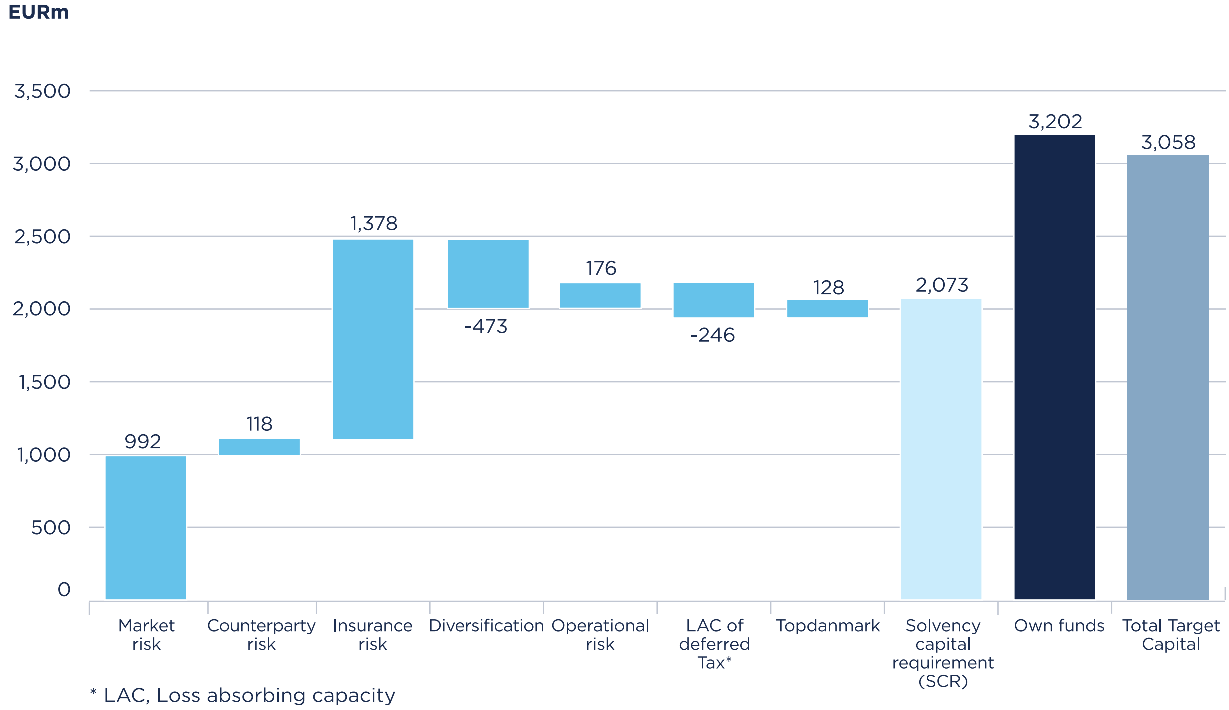
Solvency as of 31 December 2015:

If P&C calculates its disclosed SCR, corresponding to what would be the regulatory requirement if Solvency II group rules were enforced at the level of the If P&C group, and respective OF using the standard formula ("SF"). The internal model is currently used solely for the internal analysis. The difference between the SF and the internal model SCRs is mainly due to the standard formula not taking into account the geographical diversification between countries.

In If P&C, the SF OF was EUR 3,202 million while the SF SCR applying transitional measures on equity holdings was EUR 2,073 million. Hence, the solvency ratio was 154 per cent at the end of year 2015 and the buffer was EUR 1,129 million.

In the figure If P&C's Solvency, 31 December 2015, SCR is divided into risk contributions. The diversification effect between risks is presented also in the figure. If P&C's share of Topdanmark's regulatory solvency requirement is included in the SCR as a separate requirement.

If P&C's Solvency
31 December 2015



* LAC, Loss absorbing capacity

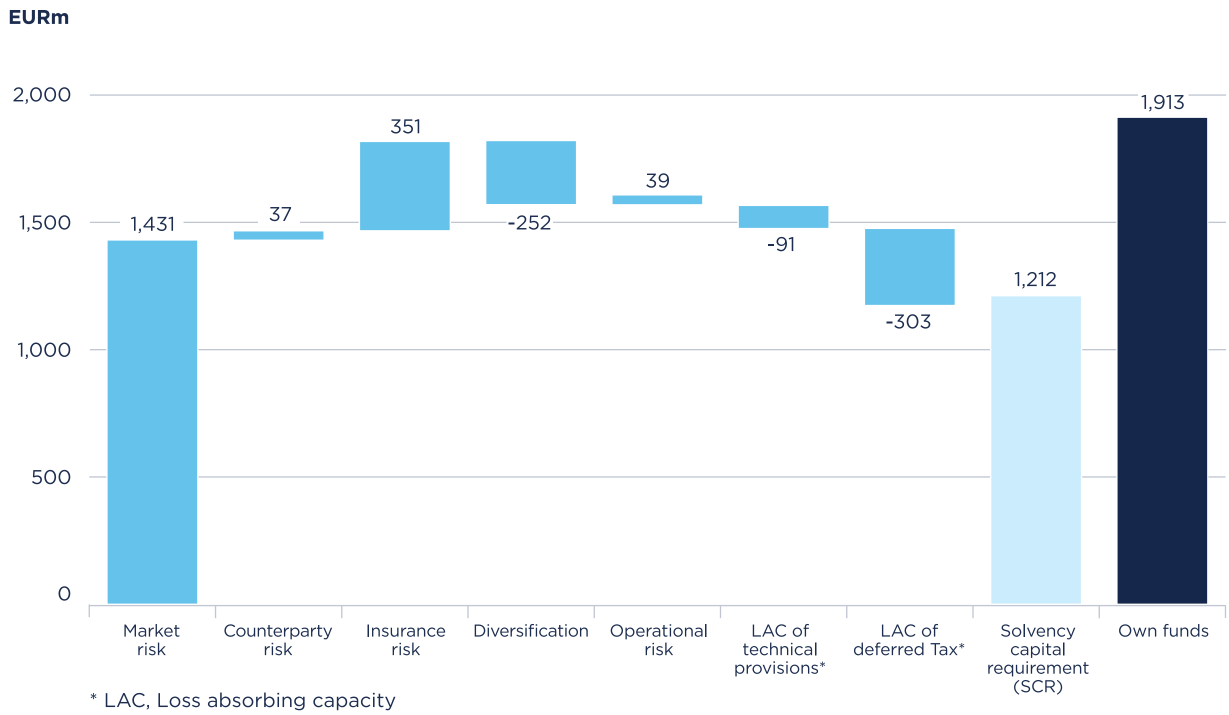
As described earlier If P&C's internally set capital floor based on the rating agency criteria is higher than the capital need based on its SCR. Effectively, If P&C is hence maintaining its OF and rating agency's Total Adjusted Capital over the rating agency's Total Target Capital ("TTC") for Single-A which is EUR 3,058 million. Because the capital amount according to TTC is much higher than the SCR, the evident consequence is that the buffer between the OF and the SCR is wide and the solvency ratio (=OF/SCR) is considered to be adequate. With regards to the capital structure, only EUR 200 million i.e. 6.2 per cent of the OF consisted of subordinated debt at the end of 2015.

The solvency and the capital structure of If P&C are strong. The level of If P&C's profitability is good and profit volatility has been low. There is also subordinated debt issuance capacity available. Hence, If P&C is in a good position to generate capital and to maintain a capital level needed for operations in the future as well.

Mandatum Life applies the Solvency II standard formula with transitional measures on equity. The OF is also affected by transitional measures, because Mandatum Life applies transitional measures on its technical provisions under Solvency II rules in regards to Mandatum Life's original pension policies with 3.5 per cent and 4.5 per cent guarantees. Also, so called volatility adjustment is applied when technical provisions are calculated. The size of SII liabilities with transitional measures of EUR 10,017 million is less than the respective figure without transitional measures EUR 10,724 million. Hence the transitional measures increase the OF.

The SII OF of Mandatum Life was EUR 1,913 million while the SCR was EUR 1,212 million. The solvency ratio (OF/SCR) was 158 per cent and the buffer was EUR 701 million. The OF without transitional measures on Technical Provisions would be EUR 1,347 million and the SCR without transitional measures on equity risk would be EUR 1,307 million.

Mandatum Life's Solvency
31 December 2015



* LAC, Loss absorbing capacity

Mandatum Life's view is that the calculation method with the transitional measures describes well the solvency position of the company. Mandatum Life's balance sheet is expected to be very different after transitional period, due to which the solvency position without the transitional measures is expected to develop favorably during the transitional period. The trend of with profit liabilities is decreasing (see figure Forecast of With Profit Liabilities, 31 December 2015–31 December 2031 within chapter Underwriting Risks) and liabilities with the highest guarantees is expected to fall from EUR 3,100 million to around EUR 1,000 million during the 16 year transitional period.

As a result capital tied to high guarantee business will decrease over time and simultaneously growing unit-linked business will create capital. This results in a positive trend on OF and SCR is expected to decrease, because investments backing decreasing liabilities are decreasing as well. Although the positive effect of the transitional measures decreases over time, the solvency position is expected to remain strong due to the expected positive OF trend and the decreasing SCR trend. Internally Mandatum Life is forecasting solvency ratios with and without the transitional measures and both forecasts are affecting the company's business decisions.

In regards to **Nordea**, the Swedish requirements for bank capital include components which are country-specific and thus the total requirement is higher than in many other countries. The Swedish FSA has communicated the capital requirement for Nordea and Nordea's capital policy aims to maintain a management buffer of 50–150 basis points above the capital requirement. By the end of third quarter 2015, the communicated Common Equity Tier 1 ("CET1") ratio requirement for Nordea was 15.4 per cent.

The Basel III Common Equity Tier 1 ratio of Nordea increased to 16.5 per cent in 2015. The CET1 capital amounted to EUR 23.6 billion and its own funds were EUR 30.9 billion. Nordea's capital requirement based on the transitional rules was EUR 17.7 billion and without the transitional rules, it was EUR 11.5 billion.