

# Internal Considerations of Adequacy of Solvency

Sampo's regulatory group solvency ratios, 154 per cent (FICO) and 156 per cent (Solvency II), are relatively low compared to many other insurance groups. Conglomerate rules do not take into account any diversification benefits between Group's business areas. Solvency II rules take into account only the diversification within the consolidated group. Therefore, the diversification benefit from the associated company is not taken into account. Because material part of capital consumption and profits stem from the associated company Nordea, the lack of its diversification benefit has a material effect on reported Solvency ratios.

In order to include the diversification benefit between business areas into Group's capital need estimate, Sampo is using correlations of quarterly reported profits between business areas when assessing the diversification benefit in the context of Conglomerate Rules. With this adjustment the resulting diversified Sampo Group capital requirement would be EUR 5,541 (5,571) million and the Group solvency ratio would be 199 (196) per cent.

## Correlation of Quarterly Reported Profits 2005 - 2017

### Correlations of Quarterly Reported Profits

Nordea/If	0.267
Nordea/Mandatum	0.147
Nordea/Topdanmark	0.366
If/Mandatum	0.854
If/Topdanmark	0.670
Mandatum/Topdanmark	0.687

## Group's Diversification Benefit as Internally Assessed 31 December 2017

	FICO Solvency	Adjusted FICO Solvency	Diversification Benefit
Group's Own Funds, total	11,021	11,021	0
Minimum Requirements for Own Funds, Total	7,163	5,541	-1,622
Group Solvency Ratio	154%	199%	45%
<b>Group Solvency</b>	<b>3,858</b>	<b>5,480</b>	<b>1,622</b>

This internal Solvency Ratio estimate is more in line with reported figures of insurance groups, of which most do not have holdings in financial institutions to the level of Sampo Group's holdings. Based on this internally adjusted group solvency ratio, the Group solvency would be strong.

When Sampo is considering the Group Solvency based on the **adequacy of buffer at Group level** it is assessed that the buffer is more than adequate in light of the following facts.

- **Due to the business entities' adequate capitalization, good profitability and low volatilities, there is no need for extra buffers at Group level.** If P&C and Nordea have

strong capitalization and sound profitability. OF of If P&C is maintained above the capital level based on the Single-A rating target. Nordea's amount of capital is governed by Swedish rules which are some 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, then the parent company needs only minor additional reserves, if any.

Mandatum Life is smaller company than If P&C and Nordea and its OF with transitional measures is relatively high compared to SCR. Mandatum Life's with profit business with high guarantees is decreasing annually by EUR 200 million. Hence the capital need is decreasing over time.

Topdanmarks result has been stable over the years and it is adequately capitalized.

- The companies also have **capacity to issue more instruments eligible for their own funds** and hence extra

buffers at Group level are not required.

- There are **diversification benefits within Group**: The correlation of the business areas' reported profits are quite modest as presented in the table Group's Diversification Benefit as Internally Assessed, 31 December 2017. In particular, Nordea's profits are weakly correlated with If P&C's, Mandatum Life's and Topdanmark's profits. Hence, there is a clear diversification benefit within Group.
- **The parent company's capacity to generate liquidity is adequate.**