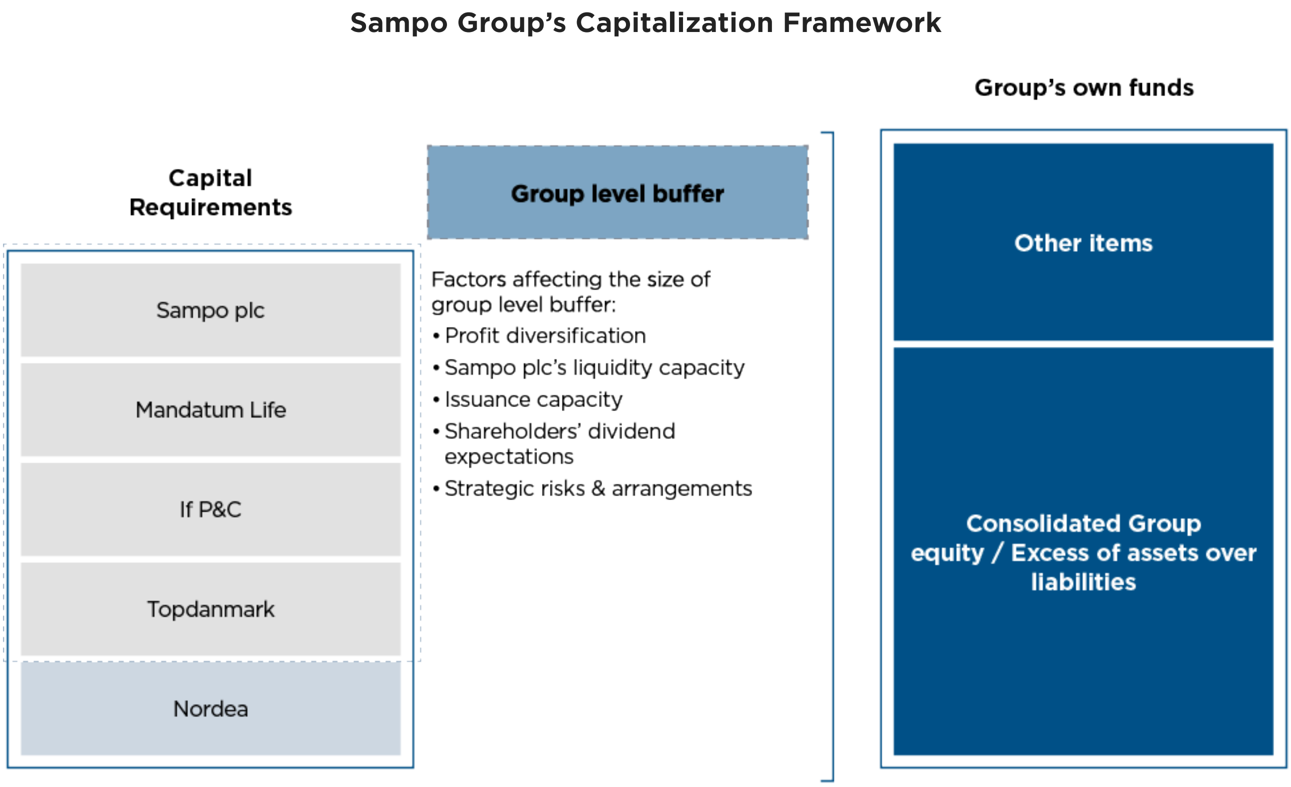
Capitalization at Group Level

The sub-group level balance of profits, risks and capital is the primary focus of Sampo Group. When all sub-groups are well capitalized as a result the Group should be adequately capitalized as well.

However, at Sampo Group level there are more factors affecting capitalization than at the sub-group level. These factors are illustrated in the figure Sampo Group's Capitalization Framework.



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

Diversification benefit exists at two levels, within the companies and between the companies. The former is included in the companies' SCRs; for the latter there are different estimation methods as described later in the document.

Conceptually, **Group's own funds** is the difference between the market value of assets and liabilities plus the subordinated liabilities. This difference has accrued during the lifetime of the Group and it includes the following main components:

- Accrued profits that have not been paid as dividends over the years.
- Market value adjustment to the book values of assets and liabilities.
- Issued capital and subordinated liabilities meeting Solvency II requirements.

Due to the use of the same sectoral rules in both Solvency II and financial conglomerate calculations, there is no material difference between Sampo's Solvency II or FICO own funds.

At the Group level, the capital requirement and own funds are both exposed to foreign currency translation risk. Translation risk may realize when the actual capital and the capital needs of If P&C and Topdanmark are converted from their reporting currencies to euros. When the reporting currencies of If P&C and Topdanmark depreciate, the actual amount of Group's capital in euros decreases and the capital requirements of If P&C and Topdanmark will be lower in euro terms. Translation currency risk is monitored internally and its effect on Sampo Group's solvency on a going concern basis is analyzed regularly. However, internally no capital need is set for translation risk, because it realizes only when a sub-group is divested.

Group level buffer is the difference between the amount of Group's own funds and the Group capital requirement. In addition to the sub-group level factors – expected profits and their volatility, business growth prospects and ability to issue Solvency II compliant capital instruments – there are Group level factors that are also relevant when considering the size of the Group level buffer. The most material Group level factors affecting the size of buffer are (i) correlation of sub-groups' reported profits; (ii) parent company's capacity to generate liquidity; (iii) probability of strategic risks and arrangements within industry; and (iv) shareholders dividend expectations.

Regulatory Solvency Calculation Methods and Group Solvency Position

Sampo Group's capital requirement and amount of group's own funds are calculated either by the conglomerate rules or the Solvency II directive as follows:

Sampo Group's capital requirement **according to the conglomerate rules**, is called the **Group's total minimum requirement for own funds** and it is the sum of the separate sub-group's requirements (sectoral rules) and the parent company's requirement based on the Capital Requirements Directive/Capital Requirements Regulation ("CRD IV/CRR"). The conglomerate's capital requirement does not take into account any diversification between the business areas. Hence it is a quite conservative measure of capital requirement and easy to interpret.

The starting point for the calculation of Group's own funds is Group's consolidated equity. Sectoral items, which include among others the subordinated liabilities held by the external investors, are added to the Group's consolidated equity. In addition, intangible assets and foreseeable dividends as well as other deductible items are subtracted from the Group's own funds.

Sampo Group's capital requirement by **Solvency II rules** is called **Group SCR** and it is calculated in two phases:

i. The capital requirements of other risks than FX-risk and concentration risk are calculated for the consolidated group including respective standard formula SCRs of the parent company Sampo plc, If P&C, Mandatum Life and Topdanmark. The company SCRs may include the simplifications and other options as applied by them. The capital requirement of FX-risk and concentration risks are calculated based on group-wide exposures calculated separately for this purpose. In regards to FX-risk requirement also the translation risk exposures related to SEK denominated equity of If P&C and DKK denominated equity of Topdanmark are taken into account. Diversified capital requirement for the consolidated group SCR is then calculated from these risk specific SCRs.
ii. Sampo plc's share of Nordea's and Mandatum Life's other sectors' capital requirements are added to the consolidated group's capital requirement.

The Group SCR calculated by Solvency II rules takes into account diversification only within the consolidated group thus excluding the diversification benefit related to the holding of Nordea.

The **Group's own funds** under Solvency II rules is the excess of assets over liabilities (including any subordinated liabilities which may be called up in order to absorb losses and minus own shares held directly). Assets and liabilities are valued at market value and all intra-group transactions are eliminated. The excess of assets over liabilities is classified into tiers 1-3. The tiers reflect the degree of loss absorbency of own funds in the event of a winding up. Adjustments are made if all own funds are not available or eligible at the Group level. In addition, associated company's additional Tier 1 and Tier 2 capital instruments are included in own funds.

Group's own funds and SCR are calculated by combination of consolidation and deduction and aggregation methods. Under normal circumstances Group's OF by Solvency II and conglomerate rules are close to each other due to the similar treatment of sectoral items. Minimum Consolidated Group SCR (MCR) is determined by adding up the Solo MCRs of the insurance entities consolidated for the Group SCR calculation.