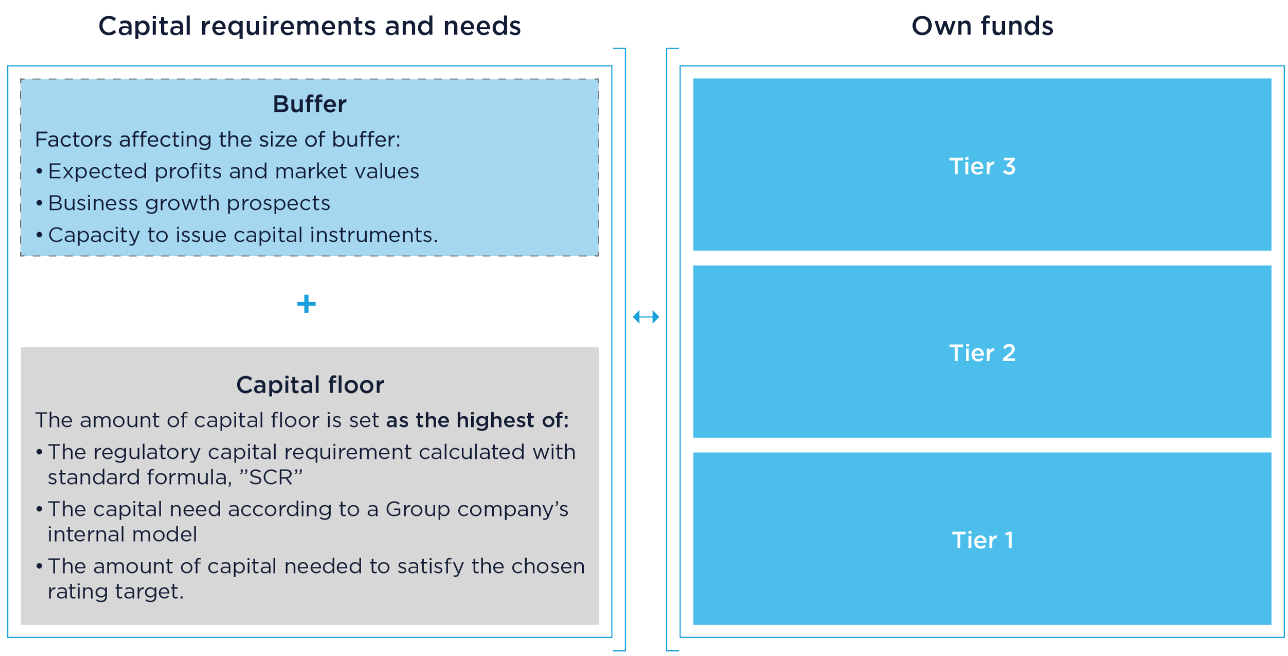
Capitalization at the Sub-Group Level

As noted earlier, in Sampo Group the first priority is to maintain **a balance between profits, risks and capital** in each of the separate business areas.

Before disclosing regulatory solvency figures, Sampo Group's principles of capital management is discussed at conceptual level. In a nutshell a balance between profits, risks and capital means that the actual amount of capital – or Own Funds ("OF") in Solvency II terminology - is maintained over risk based capital need with a certain buffer; the size of this buffer is dependent on many things but mainly on expected profitability.

The figure Sampo Group Companies' Capitalization Framework illustrates Sampo's approach to sub-group and company-level capitalization.

Sampo Group Companies' Capitalization Framework



The Solvency Capital Requirement ("SCR") sets the minimum level of capital at which a company is able to conduct its business without regulatory intervention. Regardless of whether the regulatory capital requirement is calculated using the internal model or the standard formula ("SF"), it reflects a 99.5 per cent confidence level, i.e. the same probability of default as a Triple-B rating from major rating agencies. If the company's clients and counterparties prefer a higher than Triple-B creditworthiness from their insurance company, the level of capital must always 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 which effectively implies that If P&C's capital floor – the level to which it compares its actual capital – is higher than the SCR. Mandatum Life considers the SCR to be an adequate capital floor.

There is a need to have a certain **buffer** between the actual amount of capital and the capital floor defined by the company, because risk exposures and profits evolve continuously over time and capital can sometimes erode rapidly due to stressed situations. 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. An adequate buffer also gives confidence to supervisors and counterparties (this being the other motivation for the buffer).

In Sampo Group the management steers the balance between SCRs/rating agency capital target and OF through their decisions on risk profiles, dividend payments, capital instrument issuances and technical provisions. In the long run a sound profitability and satisfied clients are the most important factors in maintaining an adequate capitalization.

The following factors are the most material when the size of buffer is considered in Sampo Group companies:

- The higher **the level of expected profits** and the lower **the volatility of profits and market value of balance sheet**, the less is the volatility of own funds and thus the smaller is the buffer.

- 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 years.

- More ability and **capacity to issue SII compliant capital instruments** means that a lower buffer is needed.

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

i. The business activities can be conducted without supervisory intervention.

ii. The business activities can be conducted 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 targeted dividends can be paid to shareholders in the long run without endangering the balance between risk and capital.

On a sub-group and company level, a target can also be set for the **capital structure**. In general, Sampo Group is in favor 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 sheets.

Solvency as of 31 December 2016:

If P&C calculates its capital need by several measures.

- The Swedish company If P&C Insurance Ltd (publ), covering the business in Sweden, Norway and Denmark, is using a Partial Internal Model approved by Swedish supervisors for its solo SCR calculations. In its Partial Internal Model an internal model is used for underwriting risk while the standard formula is used for other risks. The other insurance companies within If P&C are using the SF for their solo calculations.
- The economic capital, based on the internal model for insurance and market risks, covers If P&C as a group. Economic capital is used to estimate the capital need to cover separate risks and is an internal basis for capital allocation.
- For If P&C the SCR, corresponding to what would be the regulatory requirement if Solvency II group rules were enforced at the level of the If P&C, and respective OF using the SF, are calculated. The SF results are also inputs to Sampo Group Solvency figures and hence are disclosed later in this report. If P&C applies the full Solvency II standard formula with transitional equity measures for its SCR calculation, but does not apply any undertaking-specific parameters in the underwriting risk modules or apply simplified calculations for any of the risk modules of the standard formula.
- The main differences between the SF SCR and the internal model capital need are related to underwriting risk and market risk. In regards to underwriting risk the standard formula does not take into account the geographical diversification between countries and hence its estimate of underwriting risk capital requirement is higher than the internal estimation. On the other hand, If P&C's internal estimate of market risk is currently higher than the respective figure in the standard formula.

In If P&C, own funds at the end of 2016 were EUR 3,822 million (3,202) while the SF SCR applying transitional measures on equity holdings was EUR 1,942 million (2,073). Hence, the solvency ratio was 197 per cent (154) and the buffer was EUR 1,880 million (1,129).

In the figure If P&C's Solvency, 31 December 2016, SCR is divided into risk contributions. The diversification benefit between risks is also presented in the figure.

If P&C's Solvency
31 December 2016

* Loss absorbing capacity of deferred taxes

Because capital need based on rating agency criteria – Total Target Capital ("TTC") for Single-A – is higher than capital need based on SCR, If P&C's internally set capital floor is based on TTC being EUR 2,967 million (3,058) as of 31.12.2016. Therefore the buffer between OF and the SCR as well as the regulatory solvency ratio (=OF/SCR) are adequate.

If P&C's structure of OF as presented in table If P&C's Own Funds, 31 December 2016 is strong. Tier 1 items are covering 83 per cent of OF and the role of Tier 3 items is immaterial. Norwegian Natural Perils Fund ("NNPF") is a material part of Tier 2 untaxed reserves covering 33 per cent. Over the latest years If P&C has paid over 80 per cent of its net profit as dividends to Sampo plc. As a result the retained earnings – part of the reconciliation reserve – have consistently been a source of Tier 1 growth.

If P&C's Own Funds
31 December 2016

If P&C		EURm
Tier 1	**Total**	**3,172**
	Ordinary share capital	285
	Reconciliation reserve	2,794
	Subordinated liabilities	93
Tier 2	**Total**	**649**
	Subordinated liabilities	327
	Untaxed reserves	322
Tier 3	**Total**	**1**
	Deferred tax assets	1
Eligible own funds, consolidation method		**3,822**

EUR 420 million (200) i.e. 11.0 per cent (6.2) of OF consisted of subordinated debt at the end of 2016. In

December 2016 the parent company of If P&C – If P&C Holding Ltd (publ) – issued two SEK denominated, Solvency II Compliant Tier 2 instruments. In both instruments the final maturity is 30 years and first call date is in 5 years. If P&C still has capacity to issue Tier 1 and Tier 2 instruments. As of 31.12.2016 Sampo plc holds If P&C subordinated liabilities with a nominal value of EUR 189 million according to IFRS, as presented in the table Solvency II Compliant Subordinated Liabilities of If P&C, 31 December 2016.

Solvency II Compliant Subordinated Liabilities of If P&C
31 December 2016

Issuer	Instrument	Nominal amount	Carrying amount in EUR	First Call	Tiering	In Sampo's portfolio
If P&C Insurance Company Ltd (Finland)	PerpNC5.5	EUR 90,000,000	89,866,278	11/26/2018	Tier 1	90,000,000
If P&C Insurance Ltd (publ) (Sweden)	30NC10	EUR 110,000,000	109,378,306	12/8/2021	Tier 2	98,935,000
If P&C Insurance Holding Ltd (Sweden)	30NC5	SEK 500,000,000	51,971,495	12/1/2021	Tier 2	0
If P&C Insurance Holding Ltd (Sweden)	30NC5	SEK 1,500,000,000	155,917,824	12/1/2021	Tier 2	0
			407,133,903			

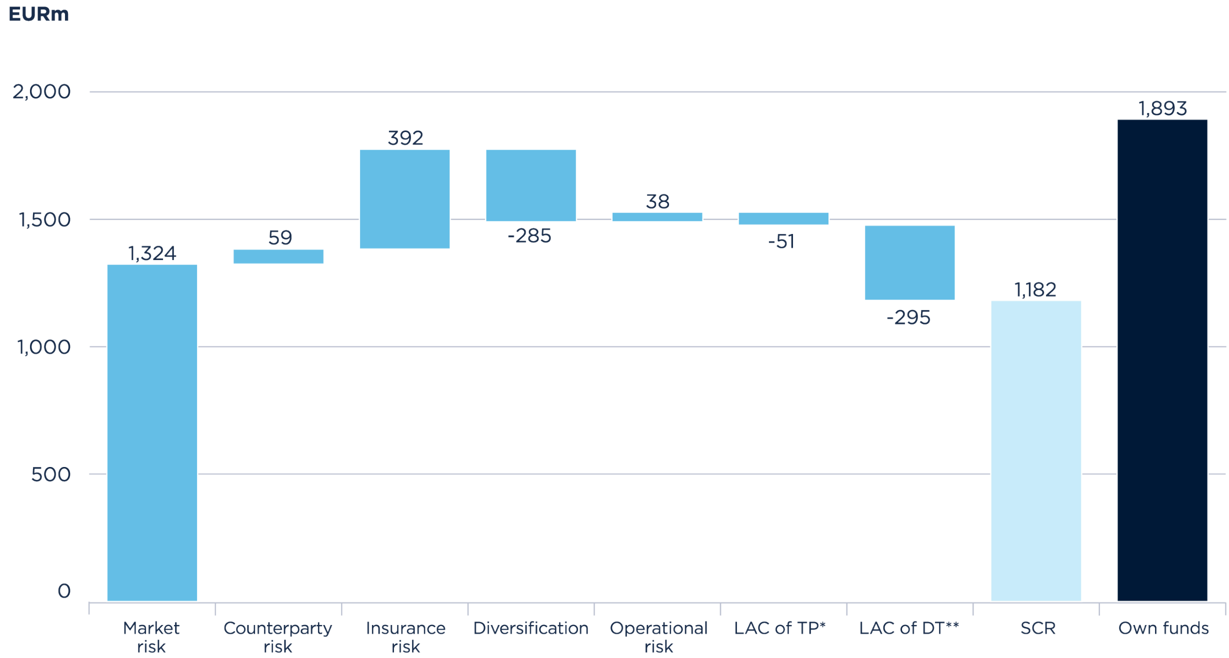
As a summary, the solvency of If P&C is adequate and the capital structure is strong. High and stable profitability and capacity to issue subordinated debt if needed puts If P&C in a strong position to generate capital and to maintain a capital level needed for operations in the future as well.

Mandatum Life applies the Solvency II standard formula with transitional measures on equity to the calculation of SCR. OF is also affected by transitional measures, because Mandatum Life applies transitional measures on its technical provisions in regards to its original pension policies with 3.5 per cent and 4.5 per cent guarantees. Also, a volatility adjustment is applied when technical provisions are calculated. The size of SII liabilities with transitional measures of EUR 10,644 million is less than the respective figure without transitional measures (EUR 11,208 million). Hence the transitional measures increase the amount of OF. Mandatum Life does not apply any undertaking-specific parameters in the underwriting risk modules or apply simplified calculations for any of the risk modules of the standard formula.

The SII OF of Mandatum Life was EUR 1,893 million while the SCR was EUR 1,182 million. The solvency ratio (OF/SCR) was 160 per cent and the buffer was EUR 711 million. OF without transitional measures on technical provisions would be EUR 1,441 million, and the SCR without transitional measures on equity risk would be EUR 1,409 million.

In the figure Mandatum Life's Solvency, 31 December 2016 SCR is divided into risk contributions. The diversification benefit between risks is also presented in the figure.

Mandatum Life's Solvency
31 December 2016



* Loss absorbing capacity of technical provisions
** Loss absorbing capacity of deferred taxes

The solvency position without the transitional measures is expected to develop favorably during the transitional period. The amount of with profit liabilities is decreasing (see figure Forecast of With Profit Liabilities, 31 December 2016–31 December 2031 within chapter Underwriting Risks) and liabilities with the highest guarantees are expected to fall most, from EUR 2,861 million to around EUR 1,000 million during the transitional period. Hence, the most capital consuming with profit liabilities will decrease during the period and their duration will shorten as well. This creates a decreasing trend to the SCR and simultaneously a positive trend to own funds without transitional measures. Internally Mandatum Life is forecasting solvency ratios with and without the transitional measures; both forecasts affect the company's business decisions.

Mandatum Life's structure of OF as presented in the table Mandatum Life's Own Funds, 31 December 2016 is good. In regards to the capital structure, EUR 100 million (i.e. 5.3 per cent of OF) consisted of subordinated debt at the end of 2016. This subordinated debt is classified as a restricted Tier 1 item due to Grandfathering principles. Transitional measures on technical provisions contribute EUR 451.7 million to OF at the end of 2016.

Mandatum Life's Own Funds
31 December 2016

Mandatum Life		**EURm**
Tier 1	**Total**	**1,893**
	Ordinary share capital	181
	Reconciliation reserve	1,613
	Subordinated liabilities	100
Tier 2	**Total**	**0**
	Subordinated liabilities	0
	Untaxed reserves	0
Tier 3	**Total**	**0**
	Deferred tax assets	0
Eligible own funds		**1,893**

In summary, the solvency and the capital structure of Mandatum Life with transitional measures are adequate. During the transitional period on technical provisions the liabilities with high guarantees will decrease remarkably which will also support future capital level needs.

In regards to **Nordea**, the Swedish requirements for banks' 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. 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 2016, the communicated Common Equity Tier 1 ("CET1") ratio requirement for Nordea was 17.3 per cent.

The CET1 ratio of Nordea increased to 18.4 per cent (16.5) in 2016. The CET1 capital amounted to EUR 24.5 billion and its own funds were EUR 32.9 billion. Nordea's capital requirement based on the transitional rules was EUR 17.3 billion; without the transitional rules it was EUR 10.7 billion. Sampo consolidates its share of all Nordea's own funds items and minimum capital requirement to Group solvency under both Solvency II and conglomerate rules. From the view point of Sampo Group solvency Nordea is strongly capitalized and its contribution to Group's own funds and capital requirement is significant.

Topdanmark's group solvency is calculated according to Solvency II rules. Topdanmark uses a partial internal model to calculate the non-life insurance risk and the volatility-adjustment when calculating technical provisions, which are both approved by the Danish FSA.

Sampo applies the deduction and aggregation method as defined in Solvency II to its holding in Topdanmark based on the latest publicly disclosed figures. This means that the book value of the holding is fully deducted from the own funds after which Sampo's share of Topdanmark's own funds is added up to the level of its share of Topdanmark's SCR. As a result, Group's own funds are almost neutral to changes in Topdanmark's solvency position or profitability.