

# Solvency

Sampo Group's business model is based on four separately managed independent business areas each managing their own risks and reserving the sufficient 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 have applied Solvency II rules in their regulatory solvency calculations. Both companies report in accordance with standard formula for Solvency II.

For If P&C the standard formula has roughly a EUR 350 million higher capital requirement than the model used for internal purposes. 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 formula has no practical implications on If P&C Group's capital position. On 31 December 2016 If P&C Group's Solvency II capital requirement under standard formula amounted to EUR 1,942 million (2,073) and own funds to EUR 3,822 million (3,202). Solvency ratio amounted to 197 per cent (154). S&P A rating requirement for If P&C Group amounted to EUR 2,967 million (3,058) at the end of 2016.

The Swedish Financial Supervisory Authority has in

November 2016 approved a partial internal model for calculating the solvency capital requirement for If P&C Insurance Company Ltd (Sweden).

If is investigating the possibility of extending the partial internal model to also cover the Finnish business. This would require the transformation of If's Finnish subsidiary, If P&C Insurance Company Ltd. (Finland), into a branch office of the Swedish company.

The change would be in line with If's business model as the Swedish company already consists of If's Swedish, Norwegian and Danish businesses through a branch structure and further enhances If Group's capital situation and its risk management structure.

On 31 December 2016 Mandatum Life's solvency ratio after transitional measures is strong at 160 per cent (158). Own funds of EUR 1,893 million (1,913) exceed Solvency Capital Requirement (SCR) of EUR 1,182 million (1,212) by EUR 711 million. Without transitional measures, own funds would have amounted to EUR 1,441 and the solvency capital requirement to EUR 1,409 million leading to a solvency ratio of 102 per cent (103).

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 firms. 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 2016	31 Dec 2015
Group capital	11,934	11,411
Goodwill, other intangibles, foreseeable dividends and distributions and deductibles	-3,251	-3,371
Sectoral items	2,254	2,254
Group's own funds, total	10,937	10,294
Minimum requirements for own funds, total	7,088	7,114
Group solvency	3,849	3,179

Group solvency ratio (Own funds % of minimum requirements)	154	145
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Group's solvency ratio (own funds in relation to minimum requirements for own funds) using Solvency II rules for the insurance subsidiaries was 154 per cent (145) as at 31 December 2016.

Group solvency is also calculated by Solvency II rules. More information on this method is available at the

[Risk Management](#) section of the Annual Report 2016. The requirements calculated with the two methods differ very little from one another.

More information on Sampo Group's capital policy is available at the [Risk Management](#) section of the Annual Report 2016.