

Appendix 4: Valuation for Solvency Purposes

Sampo Group Solvency II balance sheet is derived from Sampo's consolidated IFRS financial statements, which are adjusted in accordance with Solvency II regulation. The IFRS accounting principles "Summary of significant accounting policies" are presented in Sampo Group's Financial Statements in the Notes to the Accounts.

There are no major adjustments to the IFRS numbers necessary for Solvency II purposes. A large majority of Sampo Group's assets are valued at fair value on the IFRS balance sheet based on market values. No significant alternative valuation methods are used. The fair values of financial liabilities and properties are given in the notes to the IFRS accounts.

The determination of the fair values are presented in Sampo Group's Annual Report in the section "Summary of significant accounting policies/ Fair value and Investment property" and also in the notes "Fair values" and "Determination and hierarchy of fair values".

For comparison purposes the values derived from Sampo's consolidated IFRS financial statements are mapped in accordance with the Solvency II balance sheet presentation in the below table Solvency II adjustments, 31 December 2016. Only main rows are presented. The currency used is the group's reporting currency, the euro.

Solvency II Adjustments 31 December 2016

Assets, EURm	IFRS*	Solvency II	Adjustment
Goodwill, intangible assets and deferred acquisition cost	825	-	-825
Deferred tax assets	34	10	-24
Property, plant & equipment held for own use	20	21	1
Investments (other than unit-linked)	32,610	32,509	-101
Property other than for own use	86	134	48
Holdings in related undertakings	8,126	7,977	-149
Equities	2,179	2,179	-
Bonds	13,251	13,251	-
Collective investments undertakings	1,982	1,982	-
Derivatives	45	45	-
Deposits other than cash equivalents	22	22	-
Assets held for unit-linked contracts	6,362	6,362	-
Loans and mortgages	557	557	-
Reinsurance recoverables	236	212	-24
Non-life and health similar to non-life	236	209	-27
Life and health similar to life	-	3	3
Insurance and intermediaries receivables	1,222	333	-889
Reinsurance receivables	15	15	0
Receivables (trade, not insurance)	188	70	-118
Cash and cash equivalents	2,549	2,549	-
Any other assets	258	125	-133
Total assets	37,955	35,844	-2,111
Liabilities, EURm	IFRS	Solvency II	Adjustment
Technical provisions - non-life	7,212	5,879	-1,333
Technical provisions - life	6,927	6,912	-15
Technical provisions - unit-linked	6,361	5,911	-450
Provisions other than technical provision, Pension benefit obligations	114	114	-
Deferred tax liabilities	532	475	-57
Derivatives	81	81	-
Financial liabilities other than owned to credit institutions	3,548	3,548	-

Insurance and intermediaries payables	219	219	-
Reinsurance payables	36	35	0
Payables (trade, not insurance)	439	321	-118
Subordinated liabilities	219	230	11
Any other liabilities, not elsewhere shown	333	209	-124
Total liabilities	26,021	23,935	-2,086
Excess of assets over liabilities	11,934	11,910	-24

* In IFRS Sampo's financial assets consist of equity and debt instruments available for sale and fair value through profit/loss, derivatives and loans and receivables. Financial liabilities in IFRS consist of derivatives and other liabilities eg. subordinated liabilities and other debt securities in issue.

According to the Solvency II balance sheet the excess of assets over liabilities for the Group per 31.12.2016 was EUR 24 million less than the respective IFRS figure. On the asset side the main differences are due to the different treatment of intangible assets and inclusion of future undue premium receivables in

technical provisions instead of assets. On the liability side there are material differences related to technical provisions due to different classification of some items and valuation principles. These differences are discussed in the next sections.

Assets

In the group Solvency II balance sheet goodwill, intangible assets and deferred acquisition costs are valued at zero.

While recognition of deferred taxes is consistent with the IFRS accounts, SII adjustments affect the carrying values in the SII balance sheet and thus give rise to additional deferred tax effects. Differences in deferred tax treatment are mainly due to elimination of certain assets (intangible assets, etc) and differences in the calculation of technical provisions.

For the year ended 2016 in its consolidated accounts Sampo recognized deferred tax assets of EUR 34 million and deferred tax liabilities (DTL) of EUR 532 million. Subsequent to Solvency II valuation adjustments, DTA decreases by EUR 24 million (leaving a SII DTA position of EUR 10 million) and DTL amount is decreased by EUR 57 million (leaving a SII DTL position of EUR 475 million).

There are no anticipated effects on the carrying amounts of Sampo's investment assets except for properties. In solvency II balance sheet investment properties are valued at fair value according to SII valuation rules. This increases the value of investment properties by EUR 48 million.

Loans and mortgages are valued at amortized cost, which is not in line with the treatment for financial assets in Solvency II. Sampo, however, considers the IFRS value to be substantially commensurate with the fair value of the loans.

Participations are reported in Sampo's SII consolidated balance sheet using the adjusted equity method, or where applicable, the IFRS equity method, with the

exception of Topdanmark. Participations refers to undertakings in which Sampo Group directly or indirectly has significant influence, which is normally the case when the shareholding amounts to a minimum of 20 per cent of the capital or voting rights for all shares in the company. The carrying amount of Topdanmark is deducted from consolidated group balance sheet and instead replaced with Group's share of Topdanmark's Solvency II own funds. Sampo Group's share of Topdanmark's own funds is EUR 247 million. This corresponds with the value that would be recognized in line with article 233 of the Directive, being the proportional share of Topdanmark's own funds eligible for its SCR.

Reinsurance recoverables represent the reinsurers' share of the best estimate, less expected counterparty default. Consistently with technical provisions, these amounts are calculated in line with the SII requirements.

Under Solvency II the technical provisions should fully take into account all cash inflows and outflows. Therefore, in regard to the policies in force, the future premiums expected but not yet due are not recognized as receivables. Instead they are included in the premium provision based on a best estimate, which differs from the treatment under the IFRS, where premium receivables are recognized in the balance sheet. Thus receivables of EUR 889 million were reclassified from premium receivables to insurance liabilities. Receivables in Solvency II relate only to the amounts due for payments by policyholders, insurers, and others linked to insurance business.

The adjustment of receivables (trade receivables, not insurance receivables) relates to netting of receivable amounts in relation to the Finnish medical malpractice pool ("MMP"), public sector, which are treated as part of the SII best estimate technical provisions, whereas

in Sampo Group's consolidated accounts the MMP provision public sector is recognized as other assets or other liabilities. Receivables of EUR 118 million are reclassified from trade receivables to the insurance obligation.

Technical Provisions According to Solvency II in If P&C

In Solvency II, the value of technical provisions is equal to the sum of a best estimate and a risk margin. The calculation of technical provisions according to Solvency II is described in the following chapters.

Best Estimate

The best estimate corresponds to the probability-weighted average of future cash flows, taking into account the time value of money using the risk-free interest rate term structure as published by the European Insurance and Occupational Pensions Authority ("EIOPA"). The best estimate is calculated on a gross basis, without deduction of the amounts recoverable from reinsurance contracts, and on a net basis by calculating separately the ceded amount representing amounts recoverable from reinsurance contracts.

Cash-flow projections used in the calculation of the best estimate include all claims payments that will be paid to policyholders and beneficiaries, as well as payments to builders, repair shops etc. for services rendered and expected recoveries from reinsurance contracts. Recoveries and payments for salvage and subrogation are taken into account. Cash flows for premium provision include future premium payments on existing contracts where this has a material effect on the result.

Development of with profit claims provisions are taken into account implicitly since they are part of the historical claims data and they are allocated to each claim. Claims handling expenses for incurred claims are taken into account when estimating the Claims Adjustment Reserve, while all expenses for non-incurred claims are taken into account when estimating the premium reserve.

The calculation of the best estimate should be done separately for each currency. If P&C's business is exposed to a number of different currencies. Case reserves are determined in the currency in which the claim is assumed to be paid and where the effect is material.

Actuarial and statistical methods used for calculating

best estimates of technical provisions are based on recognized actuarial and statistical techniques. Reserves are calculated in a transparent manner and would be possible to be reviewed by a qualified expert.

Technical provisions are calculated within clearly defined homogeneous risk groups and lines of business. All assumptions are reviewed quarterly and recorded. The methodology is documented in "Guiding Technical Principles Policy" and "General Reserving Policy".

The basic risk-free rates are derived for the currencies DKK, EUR, GBP, NOK, SEK and USD and these currencies cover more than 99 per cent of technical provisions. For technical provisions in other currencies than these, either EUR or USD risk-free interest rate term structure is used. For each material currency, the basic risk-free interest rates are derived on the basis of the relevant swap rates of that currency, adjusted by credit risk and volatility adjustment where applicable.

Risk free rates without volatility adjustment are used for valuing Solvency II technical provisions.

Risk Margin

The risk margin is intended to represent technical provisions corresponding to the cost of capital for holding the insurance liabilities to full run-off.

In the calculation of the risk margin, it is assumed that the assets are selected in such way that the SCR for market risk that the reference undertaking is exposed to is zero, i.e. there is no residual market risk. In short, to calculate the risk margin, cash flows are recalculated to best estimates, which in turn are used to calculate a Basic SCR. The Basic SCR together with operational risk is discounted and a cost of capital is introduced to arrive at the final risk margin per legal entity.

The differences between IFRS and Solvency II technical provisions are summarised in the below table Technical Provisions in IFRS and Solvency II, 31 December 2016.

Technical Provisions in IFRS and Solvency II

31 December 2016

EURm	IFRS	SII	Difference
Technical provisions - non-life	7,212	5,879	-1,333
Non-life (excluding health)	5,603	4,391	-1,212
Best Estimate	5,603	4,225	-1,378
Risk margin	-	166	166
Health (similar to non-life)	1,610	1,488	-121
Best Estimate	1,610	1,406	-203
Risk margin	-	82	82
Technical provisions - life (excluding index-linked and unit-linked)	2,167	2,221	54
Health (similar to life)	1,064	1,128	64
Best Estimate	1,064	1,078	14
Risk margin	-	49	49
Life (excluding health and index-linked and unit-linked)	1,103	1,093	-10
Best Estimate	1,103	1,060	-43
Risk margin	-	33	33

Uncertainties Related to the Calculations

The nature of technical provisions means that there is always uncertainty associated with the calculations since it inevitably involves assumptions about future events.

Valuation Used for Solvency Purposes Compared to Valuation in the Financial Statements

Different principles are used for calculating the technical provisions in Solvency II and in the IFRS financial statements, the latter of which rely on statutory and national requirements as defined in both national law and in IFRS and national GAAP regulations. As a result, material valuation differences mainly exist with regards to:

- Definition of premium provision in Solvency II compared with the Unearned Premium Reserve of the statutory accounts;
- Application of discounting;
- In addition to the best estimate calculations, there is also an additional requirement in Solvency II of calculating an explicit risk margin; and
- Some minor valuation differences, which also arise due to the counterparty default calculation in relation to reinsurer's share of technical provisions.

Some of the more important changes affecting If P&C's business as a result of using these different

principles are included below:

- Movement to a cash flow basis for valuation of both gross and ceded business.
- The technical provisions should give a "true best estimate", defined as the mean of the full range of possible future outcomes, meaning the removal of existing statutory or other legal requirements to include explicit risk margin/other safety margins within the technical provisions.
- The requirement to hold an unearned premium provision using an accounting recognition basis is replaced by a Solvency II premium provision valued on a best estimate basis. This also includes a requirement to take into account future premium cash inflows when calculating the best estimate provisions and reinsurance recoverables. In the financial statements, the unearned premium provision is equal to the part of the written premium that is yet to be accrued to premiums earned. In Solvency II the premium provision is cash flow based and, in line with a best estimate, the premium provision only includes the part of written premiums which is dedicated to cover future claims and other expenses stemming from present insurance policies. In addition to this, premiums expected to be received in future date and related to the future risk periods are included in the premium provision.
- The basis for recognizing existing contracts will also impact reinsurance contracts and their expected cash-flows.
- Introduction of discounting for all technical provisions, leading to increased interest rate

sensitivity in the technical provisions.

- Introduction of the principle of a market consistent basis and calculation of a Solvency II defined risk margin, in addition to the best estimate provisions.
- Liabilities are segmented in accordance with Solvency II defined lines of business, as opposed to current insurance class segmentation according to local GAAP or IFRS requirements.

The largest effect is due to the revaluation of the Premium Provision which is in large part offset by the netting of the premium receivable after it has been reclassified into the best estimate provision cash inflows as well as removal of Deferred Acquisition Costs. This reduces the technical provisions by EUR 245 million. The majority of technical provisions, with the exception of vested annuities in the Claims Provision Reserves and the Annuity IBNR Provision in Finland, are not discounted in the IFRS. As a result of discounting, on the assets side ceded provisions decrease while on the liabilities side, gross provisions decrease.

The introduction of a risk margin calculation offsets the positive differences presented above.

In the IFRS consolidated accounts, recognition of a liability as an insurance contract would be dependent on the existence of significant insurance (underwriting) risk (refer IFRS 4). Based on If P&C's assessment that there is no material degree of insurance risk prevalent, the Medical Malpractice Pool public sector is not recognized as an insurance contract in the consolidated accounts, but treated as a service contract with its components recognized in other assets and other liabilities. Accordingly, a difference occurs with the Solvency II treatment where the liability should be recognized within the insurance obligations. Therefore under Solvency II treatment all receivables and liabilities related to the MMP public sector are reclassified as forming part of the Solvency II best estimate technical provisions. Under this treatment the receivables balances are netted against the liabilities in the technical provisions, as they are considered to be premium cash in-flows and thus included in the technical provisions.

Technical Provisions According to Solvency II in Mandatum Life

Recognition of insurance liabilities in life insurance business is analogical to insurance contracts recognized under IFRS 4.

Best Estimate and Risk Margin

Technical provisions according to Solvency II are equal to the sum of the best estimate and the risk margin.

The best estimate is calculated as an expected value (probability weighted average) of discounted future net cash flows. The discount curve used is the relevant risk-free interest rate term structure of Solvency II regulation which is based on market rates, credit risk adjustment and the Ultimate Forward Rate ("UFR"). Mandatum Life also applies the volatility adjustment when defining the Solvency II discount curve.

Net cash flows are produced using risk neutral market consistent economic scenarios together with parameters and assumptions derived from historical observations related to Mandatum Life's insurance policies. Market consistent scenarios are particularly needed for the valuation of economic guarantees and policyholder options embedded in insurance contracts. The best estimate for the unit-linked policies is the sum of the savings in these policies deducted with the present value of future underwriting and expense result stemming from these policies.

Risk margin is calculated based on the 6 per cent cost of capital defined in Solvency II regulation. This cost of capital is applied to the capital requirements of life and operational risks.

Overall Position, Technical Provisions 31 December 2016

EURm	IFRS value	Solvency II value	Differences
Technical provisions - life (excluding unit-linked)	4,801	4,732	69
Best Estimate		4,512	
Risk margin		220	
Technical provisions - unit-linked	6,361	5,911	450
Best Estimate		5,841	

Risk margin

70

Material Differences in the Valuation for Solvency Purposes Compared to Valuation in Financial Statements

Technical provisions on financial statements are calculated using the parameters defined in the technical basis of the products, i.e., the applied discount rate equals the guaranteed rate of the policy and parameters related to insurance risk are the same as those used in the premium calculation. Technical provisions on financial statements for unit-linked policies are materially the same as the amount of the savings in these policies.

Technical provisions on financial statements include also reserves for decreased discount rates and longevity reserves.

The main differences between technical provisions for solvency purposes and for financial statements are:

- Applied discount rate and valuation of guarantees

and options;

- Contract boundary definitions, particularly how future expected premiums are taken into consideration;
- Consideration of future years' risk and expense result; and
- Generally the level of assumptions (prudent assumptions vs. best estimate assumptions and explicit risk margin).

Accounting principles of life insurance contracts are presented in Sampo's Financial Statements in the Notes to the Accounts in section Summary of Significant Accounting Policies/Life insurance business.

Mandatum Life has got an approval from Financial Supervisory Authority to apply transitional measure on technical provisions for pension policies with guaranteed interest of 3.5 or 4.5 per cent.

Other Liabilities

The effects on Sampo's liabilities other than technical provisions are fairly limited, consisting mainly of the valuation impact on financial liabilities (Other financial liabilities than debt owned to credit institutions and Subordinated debt) and payables balances related to the technical provisions.

Other liabilities than technical provisions are valued by discounting future cash flows with the government yield plus calculated spread at inception.

Deferred tax liabilities are discussed above in connection with deferred tax assets.

The reclassification of Medical Malpractice Pool public sector from a service contract to an insurance contract

also has an effect on payables balances. Payables of EUR 118 million are reclassified from trade payables to the insurance obligations.

Other provisions than technical provisions and contingent liabilities do not give any additional rise to either new liabilities being recognized for solvency purposes or existing liabilities being recognized differently to their financial statement recognition. Provisions and contingent liabilities as well as pension benefits and operating leases are presented in Sampo's Financial Statements in the Notes to the Accounts. There are no major financial leasing arrangements in Sampo Group.