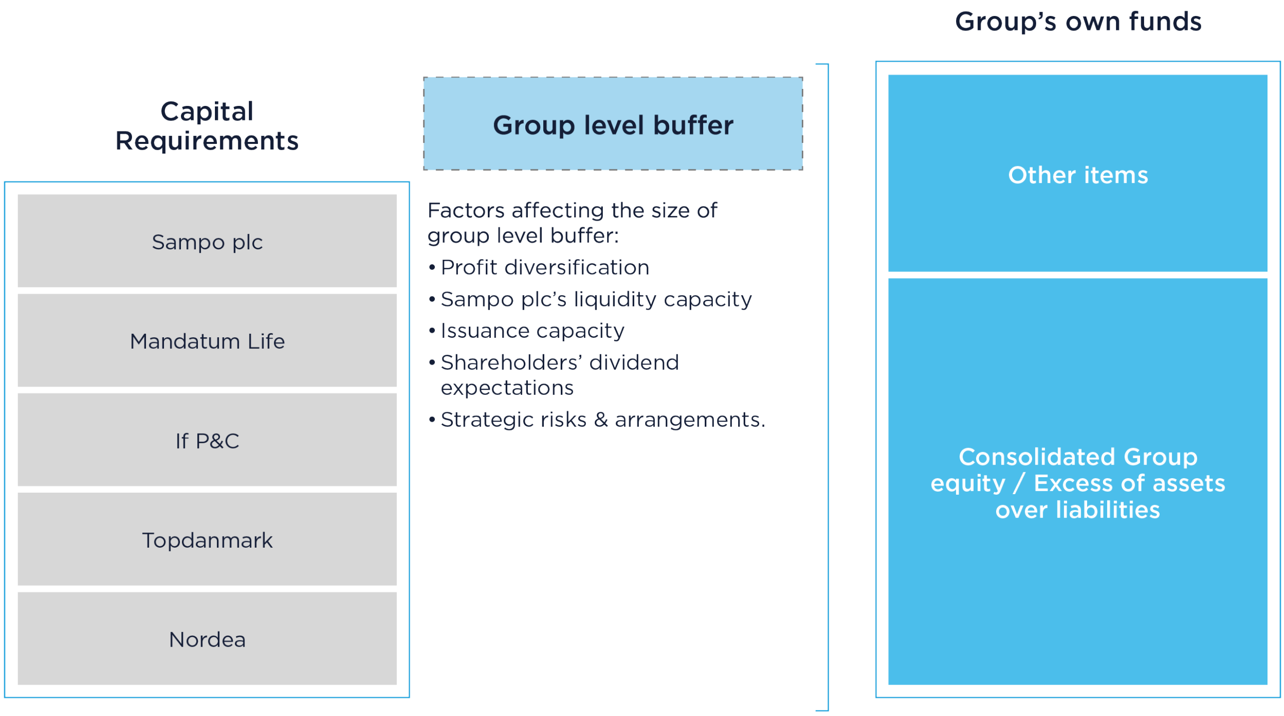
Capitalization at Group Level

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. Based on the figure the basic components of Group capitalization will be introduced before describing different regulatory rules to calculate solvency measures and disclosing their results as of 31.12.2016. The adequacy of solvency is assessed at the end of this section.

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, 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**. It is calculated in two phases:

i. The diversified capital requirement is calculated for the consolidated group including the parent company Sampo plc, If P&C and Mandatum Life. There is also capital requirement for the translation risk related to SEK denominated equity of If P&C and DKK denominated equity of Topdanmark.

ii. Sampo plc's share of Nordea's, Topdanmark'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.

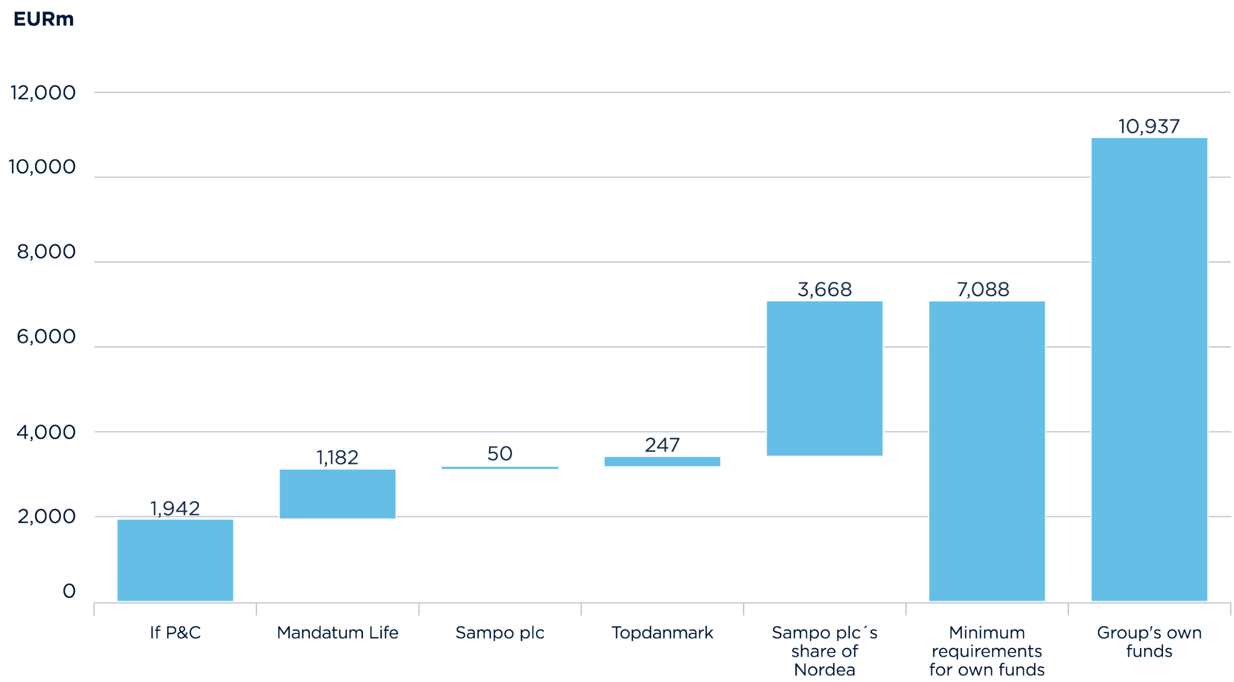
The **Group's own funds** under Solvency II rules is the excess of assets over liabilities (including any subordinated liabilities which may be called up in order to absorb losses). Assets and liabilities are valued at market value and all intra-group transactions are eliminated. The excess of assets 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 companies' 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.

Group's Own Funds and Solvency Position According to Conglomerate Rules 31.12.2016

Sampo Group's FICO solvency is presented in the figure Sampo Group's FICO solvency, 31 December 2016. The Group solvency ratio increased from 145 per cent to 154 per cent in 2016.

Sampo Group's FICO Solvency
31 December 2016



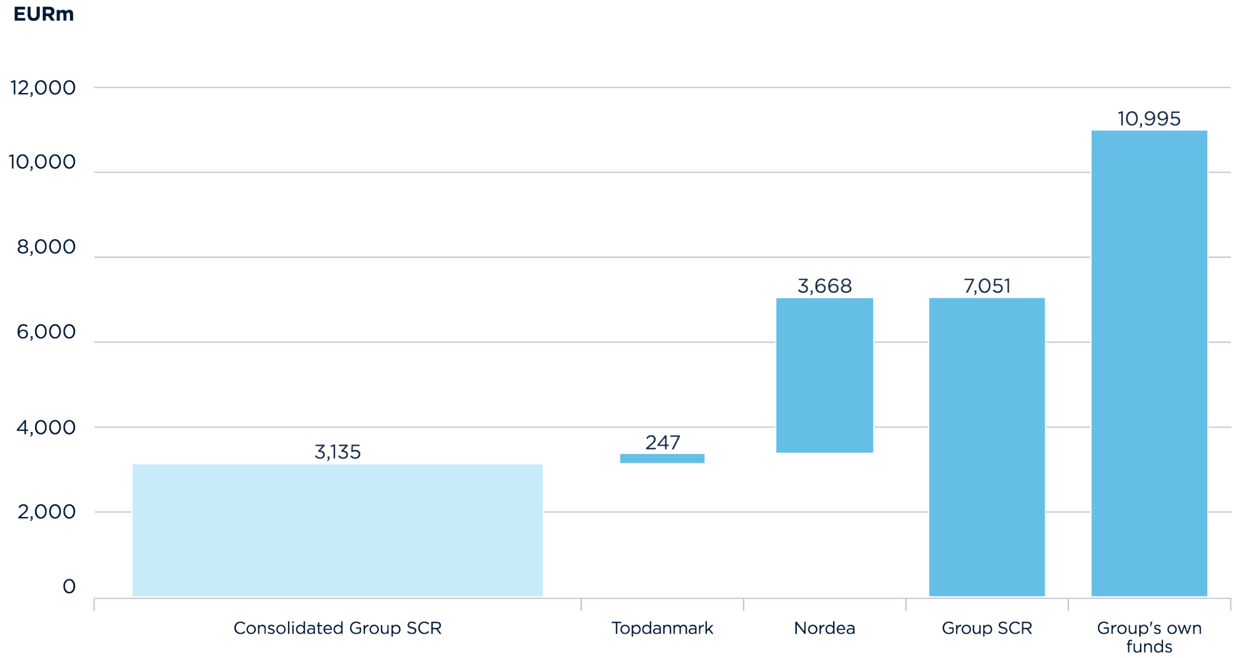
Group's own funds consist of Group consolidated equity and sectoral items of financial institutions and insurance companies, minus intangible assets, foreseeable dividends and other adjustments. Group consolidated equity, EUR 11,934 million as of 31.12.2016, accounts for most of the own funds and is considered as Tier 1 capital for solvency purposes. Sectoral items, most of which come from Nordea's additional Tier 1 and Tier 2 capital and from the valuation adjustments of If P&C and Mandatum Life, accounted for EUR 2,254 million (2,254). The deductions in total were EUR 3,251 million (3,371).

As earlier described, the Group level capital requirement is sum of the parts presented in the above figure and no diversification benefit between business areas is taken into account. As of 31.12.2016 the total minimum requirements for own funds were EUR 7,088 million (7,114). Group solvency (Group's own funds – minimum requirements for own funds) were EUR 3,849 million (3,180).

Group's Own Funds and Solvency Position According to Solvency II 31.12.2016

Sampo Group's own funds and SCR are presented in the figure Sampo Group Solvency by Solvency II rules, 31 December 2016. Sampo Group's Ratio of Eligible own funds to group SCR at the end of 2016 was 155 per cent (145).

Sampo Group Solvency by Solvency II Rules
31 December 2016



The following table Sampo Group's Own Funds, 31 December 2016 and 31 December 2015 presents Sampo Group's Own Funds by tiers.

Sampo Group's Own Funds
31 December 2016 and 31 December 2015

EURm	2016	2015
Tier 1 total	**10,721**	**10,521**
Ordinary share capital	98	98
Reconciliation reserve	10,520	10,404
Net effect of Nordea & Topdanmark	103	18
Tier 2 (Subordinated liabilities)	**230**	**18**
Tier 3 (Deferred tax assets)	**4**	**18**
Total eligible own funds	**10,955**	**10,557**

Group's own funds consists of ordinary share capital, reconciliation reserve as well as subordinated liabilities and net deferred tax assets ("DTA"), which are eligible at the Group level. As of 31.12 2016 the Group's own funds were EUR 10,955 million; in comparison IFRS consolidated group equity as of 31.12.2016 was EUR 11,934 million (Appendix 4 Valuation for Solvency II purposes).

The entire ordinary share capital of EUR 98 million and reconciliation reserve of EUR 10,520 million fully meet with the requirements for inclusion in Tier1 unrestricted items. All in all the structure of own funds is very solid, because Tier1 items are 98 per cent of all own funds and the reconciliation reserve is a major contributor.

The reconciliation reserve consists of retained earnings, net income for the financial year and other reserves deducted by foreseeable dividend and other distributions. In addition it is also adjusted by Solvency II valuation differences and net deferred tax assets. The composition of the reconciliation reserve is presented in the table Composition of the

Reconciliation Reserve, 31 December 2016 and 31 December 2015.

Composition of the Reconciliation Reserve
31 December 2016 and 31 December 2015

EURm	2016	2015
Reserves, retained earnings and net income for the year (before SII adjustments)	11,836	11,312
Foreseeable dividends, distributions and charges	-1,288	-1,204
Net deferred tax assets shown separately in Tier 3	-4	-18
Valuation adjustments, SII	-24	314
Reconciliation reserve	**10,520**	**10,404**

Own funds items included in Sampo Group's Tier 2 capital consists of subordinated debt instruments held by external investors being EUR 230 million as of 31.12.2016.

As of 31.12.2016 subordinated debt of EUR 100 million issued by Mandatum Life was completely in Sampo's investment portfolio and almost half of If P&C's subordinated debt of EUR 407 million was held by Sampo plc as well. The details of subordinated debt instruments issued by If P&C are shown in the table Solvency II Compliant Subordinated Liabilities of If P&C, 31 December 2016. Full instrument details are available on Sampo's web-page www.sampo.com/publicdebt.

On 1 December 2016, If P&C issued two tranches of Tier2 subordinated debt altogether SEK 2,000 million (nominal amount).

Tier 3 own funds include net deferred tax assets (i.e. those deferred tax asset items which cannot be netted against available deferred tax liabilities, “DTL”) from the Solvency II balance sheet.

The Group's own funds have increased by EUR 398 million over the reporting period. The change is mainly explained by the good result that was not completely paid out as dividends and the issuance of subordinated debt issues. No own funds items were redeemed over the reporting period. There were no restrictions affecting the availability or transferability of own funds at the group level during the period.

Group SCR is calculated in two phases. First the SCR is calculated for the consolidated group including diversification benefit between companies. Then associated companies capital requirements are added to this diversified figure.

Internal Considerations of Adequacy of Solvency

Sampo's regulatory group solvency ratios, 154 per cent (FICO) and 155 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 associated companies is not taken into account. Because over half of the capital consumption and almost half of the profits come from the associated companies, the lack of 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 5,571 million (5,496) and the Group solvency ratio would be 196 per cent (187).

Diversification Benefit and Group's Internal Capital Adequacy Assessment
31 December 2016

Correlations of Quarterly Reported Profits	
Nordea vs. If P&C	0.29
Nordea vs. Mandatum Life	0.14

If P&C vs. Mandatum Life	0.85

Internal Capital Adequacy Assessment	EURm
Diversification effect	-1,517
Diversified capital need	5,571
Buffer	5,366
Internally adjusted group solvency ratio, %	196%

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 facts below.

- **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 the smallest company in Group and its OF with transitional measures is relatively high compared to SCR. Mandatum Life's with profit business with high guarantees is in run-off mode. Hence the capital need is decreasing over time.

- 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 Diversification Benefit and Group's Internal Capital Adequacy Assessment, 31 December 2016. In particular, Nordea's profits are weakly correlated with If P&C's and Mandatum Life's profits. Hence, there is a clear diversification benefit within Group.

- **The parent company's capacity to generate liquidity is strong.** The capacity to generate funds is dependent on leverage and liquidity buffers which can be inferred from the table Sampo plc Balance Sheet Structure, 31 December 2016 and 31 December 2015.

Sampo plc Balance Sheet Structure
31 December 2016 and 31 December 2015

	2016	2015
Assets total, EURm	**11,196**	**9,606**
Liquidity	**1,439**	**739**
Investment assets	**179**	**275**
Real estate	2	2
Fixed income	28	25
Equity & Private equity	148	248
Subordinated loans	**637**	**579**
Equity holdings	**8,900**	**7,928**
Subsidiaries	2,370	2,370
Associated	6,530	5,557
Other assets	**41**	**85**
	2016	**2015**
Liabilities total, EURm	**11,196**	**9,606**
CP's issued	**671**	**305**
LT Senior debt	**2,877**	**1,997**
Private placements	132	159

Bonds issued	2,745	1,838
Subordinated debt	**0**	**0**
Capital	**7,549**	**7,159**
Undistributable capital	98	98
Distributable capital	7,451	7,061
Other liabilities	**99**	**145**

The parent company's **financial leverage** measured as the portion of debt within all liabilities was 32 per cent (24). Increase of leverage has two reasons. When purchasing Topdanmark shares, Sampo increased its debt by EUR 400 million. Sampo also refinanced its EUR 500 million bond maturing in February 2017 already in November 2016 without redeeming the bond maturing in 2017. The leverage ratio is expected to normalize below 30 per cent during first quarter of 2017. Sampo's net debt of EUR 1,443 million is also quite modest when compared to Sampo's equity holdings and financial assets. If the gross debt would be divided by estimated market value of equity holdings, the ratio would be around 15 per cent. From this perspective leverage is low as well.

In regards to **liquidity**, the liquid funds of Sampo plc were EUR 1,439 million (739). After all dividends have been received and paid and the debt portfolio adjusted to normal levels, the estimated liquidity will be approximately EUR 100 million. The need of liquid funds for normal cash management purposes is below EUR 50 million and thus there is additional liquidity to be used for other purposes. Furthermore, a remarkable portion of subordinated loans issued by associated companies (637) and other investment assets (179) can be sold in case liquidity is needed.

Sampo plc is in a good position to refinance its current debt and even issue more debt. This capacity together with the tradable financial assets, means that Sampo plc is able to generate liquid funds.

Sampo Group has a buffer for own funds. Because subordinated loans presented in the table Sampo plc Balance Sheet Structure, 31 December 2016 and 31 December 2015 are issued by If P&C, Mandatum Life, Nordea and Topdanmark, they are eliminated from Group's own funds. In case these assets would be sold, in addition to liquidity in Sampo plc, also own funds would be created and Sampo Group Solvency ratio would increase slightly.

In addition to the quantifiable factors above there are qualitative factors affecting the size of buffer. If the probability for strategic arrangements within the industry increases, the Board of Directors and the management of Sampo plc may favor maintaining a higher buffer than would otherwise be needed. Also the shareholders' expectations on dividends over time has an effect. When the majority of the shareholders expect a steadily increasing stream of dividends, a higher buffer than risk based one may be justified.