Capitalization at Company Level

Solvency Assessment by Regulatory Rules

In If P&C, regulatory solvency capital was EUR 3,347 million (EUR 3,372 million in 2013) while the regulatory capital requirement was EUR 841 million (EUR 849 million in 2013). Hence Solvency capital was 4.0 times regulatory capital requirement at the end of year 2014.

Regulatory solvency capital of Mandatum Life Group was EUR 1,446 million (EUR 1,403 million in 2013) while the regulatory capital requirement was EUR 274 million (EUR 226 million in 2013). In Mandatum Life regulatory solvency capital was 5.3 times regulatory capital requirement at the end of year 2014.

Both companies did assess their solvencies at year-end 2014 using Solvency II methods that will be in force 1st of January 2016. If P&C used partial internal model approach and Mandatum Life used standard model with transition measures. Both companies were compliant with the Solvency II capital requirements.

Parent company Sampo plc is not an insurance company and there is no requirement to calculate the above figures separately for it. However, Sampo plc is subject to Financial Conglomerate rules and in this context its contribution to Sampo Group's capital requirement is calculated by financial conglomerate rules.

The Swedish requirements for bank 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 and based on it Nordea aims at operating with a CET1 ratio of approximately 15% including a management buffer. The level still involves some uncertainty on Pillar 2 requirements. Because of the different calculation method and confidence level the amount of required capital is also higher than the figure used in Sampo Group's EC as presented later in figure Breakdown of Capitalization, Sampo Group, 31 December 2014.

The Basel III Common Equity Tier 1 (CET1) ratio of Nordea increased to 15.7%. The CET1 capital amounted to EUR 22.8 billion and the own funds were EUR 30.0 billion. Nordea's capital requirement based on the transitional rules was EUR 17.6 billion and without the transitional rules it was EUR 11.6 billion.

The current regulatory capital requirements for the insurance industry prior to Solvency II implementation are fairly insensitive to risks. Hence, reported regulatory solvencies are often artificially high and thus may not give a realistic view on solvency, even though some loss absorbing items like equalization provision has been excluded from eligible solvency capital. After the implementation of Solvency II regulation the reported solvencies will be more in line with market based capitalization assessments.

Internal Capitalization Assessment

Internally Sampo Group companies calculate internal performance, risk and capitalization measures based generally on fair values of financial assets and market values of insurance liabilities to have a realistic view of their capitalization. These measures and models are currently being developed taking into account the Solvency II requirements. In Sampo Group the capital need for measurable risks (market, credit, underwriting and operational risks, as well as the diversification effect between them) is defined as Economic Capital (EC) and the available capital including all material loss absorbing items is called Adjusted Solvency Capital (ASC).

In Sampo Group capital adequacy is assessed internally in addition to Solvency II methods by comparing ASC to the amount of capital needed for all risks. The basis for ASC is formed by eligible capital items included in the current regulatory solvency capital. On top of these items, other material loss absorbing items are added. These other loss absorbing items - equalization provision and the difference between the book value and the market value (including a risk margin) of technical provisions - will be part of capital base also in the Solvency II framework.

The first phase in the assessment of the amount of capital needed is to calculate the EC, which is used to define the capital needed for measurable risks of current activities. The principles of EC calculations are as follows in Sampo Group:

- EC is defined as the amount of capital required to protect the solvency over a one year time horizon with a probability of 99.5% being the calculation basis in Solvency II as well. This confidence level is used for all Group companies to be able to make capitalization comparisons based on a standardized measure.
- EC is calculated using a set of calculation methods seen suitable for each risk class.
- When assessing the EC need arising from Nordea, Sampo plc uses the EC calculated and publicly reported by Nordea multiplied by the proportion of Sampo plc's share in Nordea and converted into a confidence level of 99.5%.

EC is considered to be a good estimate of the capital required to cover risks that can be measured in a reliable way and within a normal business environment.

However, some of the risks require a more qualitative assessment. These include for instance risks related to low probability and high impact events as well as liquidity risks and are taken into account by subjective add-ons over the EC when the capital needed for current business activities are defined.

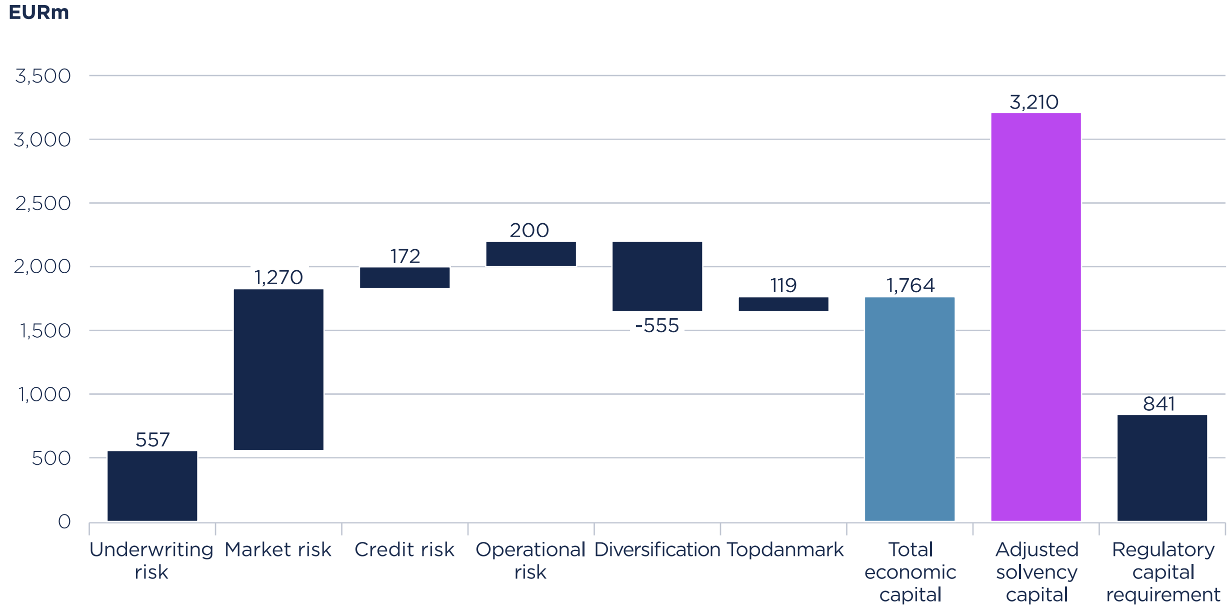
Moreover, when assessing the targeted amount of capital, the level of expected profits and its stability together with the uncertainty in the business environment are also considered. The buffer over the capital needed for current business activities is defined based on these items.

The breakdown of EC by risk type and a comparison to ASC both in If P&C and Mandatum Life is depicted in the figure Breakdown of Capitalization, If P&C and Mandatum Life, 31 December 2014. Regulatory capital requirement is presented in the same figure. From the internal perspective the amount of ASC compared to EC is high especially in If P&C. This is mainly due to the fact that the reported EC figures are calculated with the confidence level of 99.5% used in Solvency II and not with a higher confidence levels more in line with If P&C's rating target. The other factor is that the add-ons over EC are not presented in the figure. From regulatory perspective solvencies of both companies seem strong, because of the fairly risk insensitive regulatory capital requirement of Solvency I.

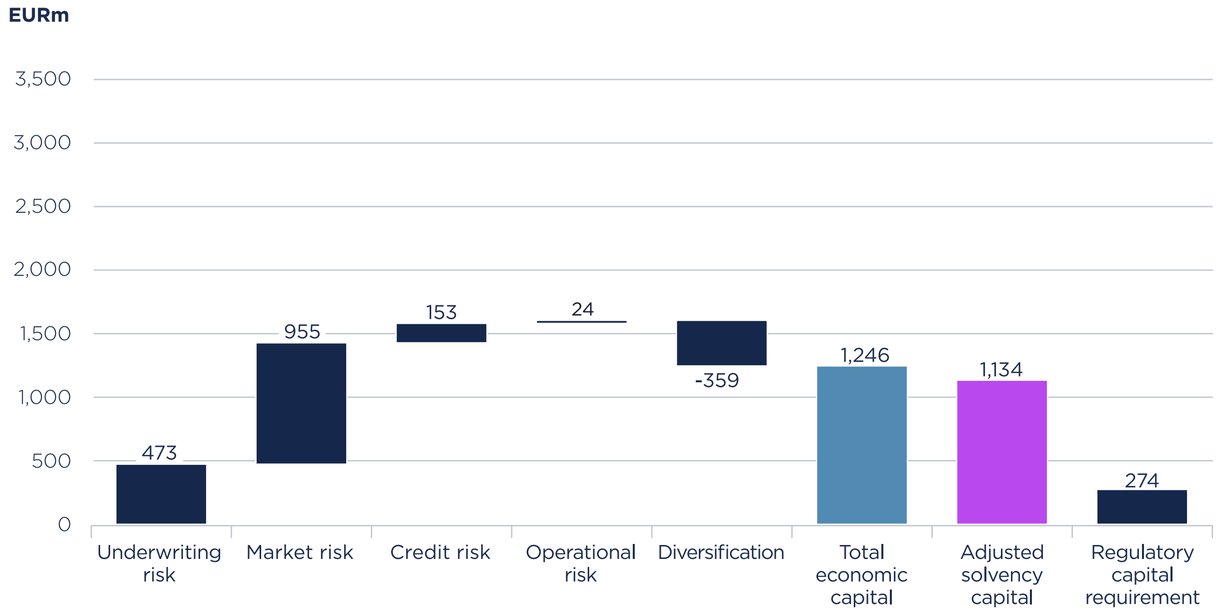
In If P&C, EC increased to EUR 1,764 million (EUR 1,720 million at the end of 2013), while in Mandatum Life, EC increased to EUR 1,246 million (EUR 1,085 million at the end of 2013). Market risk is still the most significant risk for both If P&C and Mandatum Life. Underwriting risk decreased in If P&C during the year to EUR 557 million (EUR 565 million at the end of 2013) and increased in Mandatum Life to EUR 473 million (EUR 367 million at the end of 2013).

If P&C's share of Topdanmark's regulatory solvency requirement of EUR 119 million is included in EC. For If P&C the figure for credit risk includes also non-credit related risks calculated in accordance with the Solvency II standard formula.

Breakdown of Capitalization
If P&C, 31 December 2014



Breakdown of Capitalization
Mandatum Life, 31 December 2014



Topdanmark's contribution to the total economic capital of If P&C is based on the latest regulatory solvency capital figures reported by Topdanmark. Adjusted Solvency Capital include in both companies regulatory solvency capital. It amounted to EUR 3,347 million in If P&C and to EUR 1,446 million in Mandatum Life at the end of year 2014.

During the year, the amount of ASC in If P&C decreased to EUR 3,210 million (EUR 3,706 million at the end of 2013), and in Mandatum Life, ASC decreased to EUR 1,134 million (EUR 1,492 million at the end of 2013). In both companies positive results strengthened the capitalization whereas paid dividends to the parent company and decreasing interest rates had an opposite effect on the capitalization.

As discussed, the EC is a standardized internal measure used to enable comparison between the Group companies and their risk based capital needs. However, individual companies have to take into consideration external stakeholders opinions when they are considering their target capitals.

Solvency Assessment by Rating Agency Criteria

If P&C's rating target is single A by S&P which implies higher confidence level and respectively higher amount of capital. Hence, the amount of capital, at which If P&C is confident to operate, is higher than its EC.

Currently If P&C is rated by both Moody's and S&P. The data for S&P rating model is updated quarterly by If P&C. If P&C has good understanding of the required amount of Total Available Capital (TAC) to have a single A rating.

As a result of the continuous work with risk management issues, If P&C's ERM (Enterprise Risk Management) has been graded 'strong' by S&P. These qualitative issues are part of the Rating agencies rating-criteria and Sampo Group companies are sensitive to Rating Agencies' expectations.

Parent company Sampo plc is rated by Moody's. Rating is based on Moody's standard notching practice where insurance groups parent company's rating is set three notches lower than the most significant subsidiary's rating. This method results into Baa2 rating for Sampo plc.