Capitalization

In Sampo Group, risks and the respective capital requirements are assessed internally as well as according to the methods defined by the regulators. Capitalization is a central subject of discussion also in Sampo Group's continuous dialogue with the rating agencies. Capitalization assessments are conducted both at company level and at group level to ensure the balance between risks and capital.

In the internal capitalization assessment, the economic capital ("EC") is the starting point for assessing the amount of adjusted solvency capital ("ASC").

Economic Capital and Adjusted Solvency Capital in Sampo Group

- EC is used as an internal measure of capital required for measurable risks the Group is exposed to. 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 per cent that is the calculation basis in Solvency II as well.
- EC accounts for market, credit, insurance and operational risks, as well as the diversification effect between them. EC is calculated using a set of calculation methods seen suitable for the specific needs of each business area.
- 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 (21.25 per cent at the end of 2013). This figure is converted from confidence level 99.97 per cent used by Nordea to 99.5 per cent.
- 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 are not measurable and there is uncertainty in business environment. Hence, when assessing the need of total capital, a buffer will be added over the EC reflecting the uncertainty in the business environment as well as the effects of low probability and less measurable risks.
- As an internal measure of available capital, Sampo Group uses ASC. The basis for ASC is capital items included in the regulatory solvency capital. On top of those, other risk absorbing items such as the difference between the book value and market value (including a risk margin) of technical provisions are added.

In the regulatory capitalization assessment, the regulatory solvency capital is compared to the regulatory capital requirement. In rating agency based capitalization assessment, the objective is to balance the available capital measured by respective rating agency criteria with the capital amount needed to achieve the internally set rating target.