Group's notes to the financial statements

Summary of significant accounting policies

Consolidation

Sampo plc (business id 0142213-3) is a Finnish public company listed in Helsinki Nasdaq. It is domiciled in Helsinki and the headquarters are at Fabianinkatu 27, 00100 Helsinki, Finland. The consolidated financial statements of Sampo Group include Sampo plc together with its subsidiaries and associates as of 31 December 2022. The group subsidiaries have insurance and financing activities in Finland, Sweden, Norway, Denmark, the Baltic countries, and the United Kingdom. A copy of the Group's financial statements is available at the internet address **www.sampo.com**.

Basis of preparation

Sampo Group has prepared the consolidated financial statements for 2022 in compliance with the International Financial Reporting Standards (IFRSs). In preparing the financial statements, Sampo has applied all the standards and interpretations relating to its business, adopted by the commission of the EU and effective at 31 December, 2022.

The annual improvements or other amendments to the standards, adopted at the beginning of 2022, had no material impact on the Group's financial statements reporting.

In preparing the notes to the consolidated financial statements, attention has also been paid to the Finnish accounting and company legislation and applicable regulatory requirements.

The going concern accounting assumption has been assessed by the Board and used in the preparation of the financial statements.

The financial statements have for the most part been prepared under the historical cost convention. Exceptions are, i.e. financial assets and liabilities at fair value through p/l, financial assets available-for-sale, hedged items in fair value hedges, investment property and share-based payments settled in equity instruments measured at fair value.

The consolidated financial statements are presented in euro (EUR), rounded to the nearest million, unless otherwise stated.

The Board of Directors of Sampo plc accepted the financial statements for issue on 10 February 2023. In accordance with Limited Liability Companies Act, the Annual General Meeting has right to approve or reject the consolidated financial statements or change the statements after they have been issued.

Consolidation

Subsidiaries

The consolidated financial statements combine the financial statements of Sampo plc and all its subsidiaries. Control exists when the Group has more than half of the voting power or it has power over the entity together with exposure to variable returns from its involvement there and the ability to use its power to affect the amount of these returns. Subsidiaries are consolidated from the date on which control is transferred to the Group, and cease to be consolidated from the date that control ceases.

The acquisition method of accounting is used for the purchase of subsidiaries. The cost of an acquisition is allocated to the identifiable assets, liabilities and contingent liabilities, which are measured at the fair value of the date of the acquisition. Acquisition-related costs are recognised through profit or loss. Possible non-controlling interest of the acquired entity is measured either at fair value or at proportionate interest in the acquiree's net assets. The acquisition-specific choice affects both the amount of recognised goodwill and non-controlling interest. The excess of the aggregate of consideration transferred, non-controlling interest and possibly previously held equity interest in the acquiree, over the Group's share of the fair value of the identifiable net assets acquired, is recognised as goodwill.

The accounting policies used throughout the Group for the purposes of consolidation are consistent with respect to similar business activities and other events taking place in similar conditions. All intra-group transactions and balances are eliminated upon consolidation.

Associates

Associates are entities in which the Group has significant influence. Unless otherwise demonstrated, this is generally presumed when the Group holds in excess of 20 per cent, but no more than 50 per cent, of the voting rights of an entity. Correspondingly, even when the Group holds less than 20 per cent of the voting power, it can be treated as an associate if the significant influence can be otherwise clearly demonstrated as described in IAS 28 Investments in Associates and Joint Ventures.

Investments in associates are treated by the equity method of accounting, in which the investment is initially recorded at cost and increased (or decreased) each year by the Group's share of the post-acquisition net income (or loss), or other movements reflected directly in the equity of the associate. If the Group's share of the associate's loss exceeds the carrying amount of the investment, the investment is carried at zero value, and the loss in excess is consolidated only if the Group is committed to fulfilling the obligations of the associate. Goodwill arising on the acquisition is included in the cost of the investment. Unrealised gains (losses) on transactions are eliminated to the extent of the Group's interest in the entity.

The share of associates' profit or loss, equivalent to the Group's holding, is presented as a separate line in the income statement. The Group's share of associates' changes in other comprehensive income is presented in the Group's other comprehensive income items.

If there is any indication that the value of the investment may be impaired, the consolidated carrying amount is tested by comparing it with its recoverable amount. The recoverable amount is the higher of its value in use or its fair value less costs to sell. If the recoverable amount is less than its consolidated carrying amount, the carrying amount is reduced to its recoverable amount by recognising an impairment loss in the profit/loss. If the recoverable amount later increases and is greater than the carrying amount, the impairment loss is reversed through profit and loss.

Non-controlling interests

The technical division of profit for the financial year and the total comprehensive income to the owners of the parent and non-controlling interests is presented after the statement of comprehensive income. The share of profits is attributed to non-controlling interests even if it should be negative.

Non-controlling interests are presented in the balance sheet separately as part of equity.

Non-controlling interests in an acquiree are measured either at fair value or as a proportionate share of net assets of the acquiree. The choice is made for each acquisition separately. At the end of the financial reporting period, Sampo's non-controlling interests were determined as the proportionate share of net assets of the acquirees.

Foreign currency translation

The consolidated financial statements are presented in euro, which is the functional and reporting currency of the Group and the parent company. Items included in the financial statements of each of the Group entities are measured using their functional currency, being the currency of the primary economic environment in which the entity operates. Foreign currency transactions are translated into the appropriate functional currency using the exchange rates prevailing at the dates of transactions or the average rate for a month. The balance sheet items denominated in foreign currencies are translated into the functional currency at the rate prevailing at the balance sheet date.

Exchange differences arising from the translation of transactions and monetary balance sheet items denominated in foreign currencies into functional currency are recognised as translation gains and losses in profit or loss. Exchange differences arising from non-monetary financial assets classified as available-for-sale financial assets are recognised directly in the fair value reserve in equity.

The income statements of Group entities whose functional currency is other than euro are translated into euro at the average rate for the period, and the balance sheets at the rates prevailing at the balance sheet date. The resulting exchange differences are included in equity and their change in other comprehensive income. When a subsidiary is divested entirely or partially, the cumulative exchange differences are included in the income statement under sales gains or losses.

Goodwill and fair value adjustments arising from an acquisition of a foreign entity are treated as if they were assets and liabilities of the foreign entity. Exchange differences resulting from the translation of these items at the exchange rate of the balance sheet date are included in equity and their change in other comprehensive income.

1 euro (EUR) =	Balance sheet date	Average exchange rate
Swedish krona (SEK)	11.1218	10.6286
Danish krona (DKK)	7.4365	7.4396
Pound sterling (GBP)	0.8869	0.8527

Segment reporting

The Group's segmentation is based on business areas whose risks and performance bases as well as regulatory environment differ from each other. The control and management of business and management reporting are organised in accordance with the business segments. The Group's business segments are If, Topdanmark, Hastings, Mandatum and Holding (including Nordea). Geographical information has been given on income from external customers and non-current assets. The reported segments are Finland, Sweden, Norway, Denmark, Great Britain and the Baltic countries.

In the inter-segment and inter-company pricing, for both domestic and cross border transactions, market-based prices are applied. The pricing is based on the Code of Conduct on Transfer Pricing Documentation in the EU and OECD guidelines. Inter-segment transactions, assets and liabilities are eliminated in the consolidated financial statements.

Non-current assets held for sale

Non-current assets and the assets and liabilities related to discontinued operations are classified as held for sale, if their carrying amount will be recovered principally through sales transactions rather than from continuing use. For this to be the case, the sale must be highly probable, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets. In addition, the management must be committed to a plan to sell, and the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Assets that meet the criteria to be classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Immediately before the initial classification of the asset as held for sale, the carrying amount of the asset shall be measured in accordance with applicable IFRSs. If the fair value less costs to sell is the lower, an entity recognises an impairment loss at initial reclassification. Gains for subsequent increases in fair value are recognised through profit or loss. Once reclassified, any depreciation or recognition of associates' share of profit or loss on such assets ceases.

Revenue recognition principles

Insurance premiums

Insurance premiums in the income statement consist of premiums written for P&C insurance and life insurance.

P&C insurance contracts are primarily of short duration, so that premiums written are recognised at the inception of risk coverage in line with the insurance contract.

When the premium for the insurance period is divided into several instalments, the entire premium amount is still recognised at the beginning of the period. As an exception, Hastings recognises insurance premiums proportionally over the period of cover provided. At the date of financial statements, the premiums written are adjusted by a change in the provision for unearned premiums i.e., by the proportion of the insurance premium income that, based on the period covered by the insurance contract, belongs to the following financial year.

In the life insurance business, liabilities arising from insurance and investment contracts are long-term liabilities. Therefore, the insurance premium and related claims are usually not recognised in the same accounting period. Depending on the type of insurance, premiums are primarily recognised in premiums written when the premium has been paid. In group pension insurance, a part of the premiums is recognised already when charged.

The change in the provision for unearned premiums is presented as an expense under 'Change in insurance and investment contract liabilities'.

Interest and dividends

Interest income and expenses are recognised in the income statement using the effective interest rate method. This method recognises income and expenses on the instrument evenly in proportion to the amount outstanding over the period to maturity. Dividends on equity securities are recognised as revenue when the right to receive payment is established.

Fees and commissions

The fees and transaction costs of financial instruments measured at fair value through profit or loss are recognised in profit or loss when the instrument is initially recognised.

The costs of acquiring new and renewed insurance business are treated as deferred acquisition costs in the P&C insurance. In the life insurance business, the acquisition costs are treated as fee and commission expense under 'Other operating expenses'.

Other fees and commissions paid for investment activities are included in 'Net income from investments'.

Revenue from contracts with customers

The subsidiary Hastings has revenue from broker activities in accordance with IFRS 15 *Revenue from Contracts with Customers*. The revenue consists principally of fees and commissions relating to the arrangement of third party underwritten insurance contracts and ancillary products.

Revenue from insurance brokerage activities is recognised at the point of sale to the customer and revenue from other retail services is recognised when the service has been completed. Revenue arising from insurance broking activities is measured on an agency basis, net of cost, at the fair value of the income receivable after adjusting for any allowance for expected future cancellation refunds. Hastings may also provide contracts for the provision of other ad hoc, point-in-time services to customers. Such income is recognised when the performance obligation has been satisfied at the expected value of consideration.

In the consolidated financial statements, the fees and commissions from broker activities are included in 'Other income' or 'Other operating expenses'.

Financial assets and liabilities

Financial assets and liabilities are measured at the initial recognition at fair value. In the acquisition of financial assets and liabilities not measured at fair value, transaction costs directly attributable to acquisition or issue are added or deducted respectively.

Based on the measurement practice, financial assets and liabilities are classified in the following categories upon the initial recognition: financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets, financial liabilities at fair value through profit or loss, and other liabilities.

According to the Group's risk management policy, investments are managed at fair value in order to have the most realistic and real-time picture of investments, and they are reported to the Group key management at fair value. Investments comprise debt and equity securities. They are mainly classified as financial assets available-for-sale or at fair value through p/l.

In the life insurance business, IFRS 4 Insurance Contracts provides that insurance contracts with a discretionary participation feature are measured in accordance with national valuation principles rather than at fair value. These contracts and investments made to cover shareholders' equity are managed in their entirety and are classified mainly as available-for-sale financial assets. An exception to the rule are investments related to unit-linked insurance, valued at fair value through p/l and shown as a separate line item in the balance sheet. The corresponding liability is also shown as a separate line item.

Recognition and derecognition

Purchases and sales of financial assets at fair value through profit or loss and available-for-sale financial assets are recognised and derecognised on the trade date, which is the date on which the Group commits to purchase or sell the asset. Loans and receivables are recognised when cash is advanced.

Financial assets and liabilities are offset and the net amount is presented in the balance sheet only when the Group has a legally enforceable right to set off the recognised amounts and it intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Financial assets are derecognised when the contractual rights to receive cash flows have expired or the Group has substantially transferred all the risks and rewards of ownership. Financial liabilities are derecognised when the obligation specified in the contract is discharged or cancelled or expired.

Financial assets and financial liabilities at fair value through profit or loss

In Sampo Group, financial assets and liabilities at fair value through profit of loss comprise financial assets held for trading and financial assets designated as at fair value through profit or loss.

Financial assets held for trading

A financial asset that is held for the purpose of selling or buying in the short term, or belongs to a portfolio that is managed together or is repeatedly used for short-term profit taking, is classified as an asset held for trading. Gains and losses arising from changes in fair value, or realised on disposal, together with related interest income and dividend, are recognised in the income statement.

Also derivative instruments that are not designated as hedges and do not meet the requirements for hedge accounting are classified as financial assets for trading purposes.

Financial derivatives held for trading are initially recognised at fair value. Derivative instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Derivative instruments are recognised at fair value, and gains and losses arising from changes in fair value together with realised gains and losses, are recognised in the income statement.

Financial assets designated as at fair value through profit or loss

Financial assets designated as at fair value through profit or loss are assets which, at inception, are irrevocably designated as such. They are initially recognised at their fair value. They are recognised in the income statement and balance sheet accordingly with the above-explained assets held for trading.

Loans and receivables

Loans and receivables comprise non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the short term. The category also comprises cash and balances with banks.

Loans and receivables are initially recognised at their fair value, including transaction costs directly attributable to the acquisition of the asset. Loans and receivables are subsequently measured at amortised cost using the effective interest rate method.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial investments that are designated as available-for-sale or that are not categorised into any other category. Available-for-sale financial assets comprise debt and equity securities and funds.

Available-for-sale financial assets are initially recognised at fair value, including direct and incremental transaction costs. They are subsequently remeasured at fair value, and the changes in fair value are recorded in other comprehensive income and presented in the fair value reserve, taking the tax effect into account. Interest income and dividends are recognised in profit or loss. When the available-for-sale assets are sold, the cumulative change in the fair value is transferred from equity and recognised together with realised gains or losses in profit or loss. The cumulative change in the fair value is also transferred to profit or loss when the assets are impaired and the impairment loss is recognised. Exchange differences due to available-for-sale monetary balance sheet items are always recognised directly in profit or loss.

Other financial liabilities

Other financial liabilities comprise debt securities in issue and other financial liabilities.

Other financial liabilities are recognised when the consideration is received and measured to amortised cost, using the effective interest rate method.

If debt securities issued are redeemed before maturity, they are derecognised and the difference between the carrying amount and the consideration paid at redemption is recognised in profit or loss.

Fair value

The fair value of financial instruments is determined primarily by using quoted prices in active markets. Instruments are measured either at a bid price or at the last trade price if there is an auction policy in the stock market of the price source. An exception are the syndicated loans which are measured at a mid-price because of the lower liquidity. The financial derivatives are also measured at the last trade price. If the financial instrument has a counter-item that will offset its market risk, the same price source is used in assets and liabilities to that extent. If a published price quotation does not exist for a financial instrument in its entirety, but active markets exist for its component parts, the fair value is determined on the basis of the relevant market prices of the component parts.

Fair values of financial assets are based on either published price quotations or valuation techniques based on market observable inputs, where available. If these are not available, the fair value is established by using generally accepted valuation techniques including recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. For a limited amount of assets, the value needs to be determined using these other techniques.

The carrying amount of cash and cash equivalents as well as settlement receivables included in other assets is used as an approximation of fair value.

If the fair value of a financial asset cannot be determined, historical cost is deemed to be a sufficient approximation of fair value. The amount of such assets in the Group balance sheet is immaterial.

The financial instruments measured at fair value have been classified into three hierarchy levels in the notes, depending on, e.g. if the market for the instrument is active, or if the inputs used in the valuation technique are observable.

On level 1, the measurement of the instrument is based on quoted prices in active markets for identical assets or liabilities.

On level 2, inputs for the measurement of the instrument include also other than quoted prices observable for the asset or liability, either directly or indirectly by using valuation techniques.

On level 3, the measurement is based on other inputs rather than observable market data. The majority of Sampo Group's level 3 assets are private equity and alternative funds.

For private equity funds, the valuation of the underlying investments is conducted by the fund manager who has all the relevant information required in the valuation process. The valuation is usually updated quarterly based on the value of the underlying assets and the amount of debt in the fund. There are several valuation methods, which can be based on, for example, the acquisition value of the investments, the value of publicly traded peer companies, the multiple-based valuation or the cashflows of the underlying investments. Most private equity funds follow the International Private Equity and Venture Capital (IPEV) guidelines which give detailed instructions on the valuation of private equity funds.

For alternative funds, the valuation is also conducted by the fund managers. Alternative funds often have complicated structures and the valuation is dependent on the nature of the underlying investments. There are many different valuation methods that can be used, for example, the method based on the cashflows of the underlying investments. The operations and valuation of alternative funds are regulated for example by the Alternative Investment Fund Managers Directive (AIFMD), which determines the principles and documentation requirements of the valuation process.

Impairment of financial assets

Sampo assesses at the end of each reporting period whether there is any objective evidence that a financial asset, other than those at fair value through p/l, may be impaired. A financial asset is impaired and impairment losses are recognised on the estimated future cash flows of the financial asset if there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and if that event has an impact that can be reliably estimated.

Financial assets carried at amortised cost

There is objective evidence of impairment, if an issuer or debtor, e.g. encounters significant financial difficulties that will lead to insolvency and to estimation that the customer will probably not be able to meet the obligations to the Group. Objective evidence is first assessed for financial assets that are individually significant, and then individually and collectively for financial assets not individually significant.

When there is objective evidence of impairment of a financial asset carried at amortised cost, the amount of the loss is measured as the difference between the receivable's carrying amount and the present value of estimated future cash flows discounted at the receivable's original effective interest rate. The difference is recognised as an impairment loss in profit or loss. The impairment is assessed individually.

If, in a subsequent period, the amount of the impairment loss decreases, and the decrease can objectively be related to an event occurring after the impairment was recognised (e.g. the default status is removed), the previously recognised impairment loss shall be reversed through profit or loss.

Available-for-sale financial assets

If there is objective evidence of an impairment of available-for-sale financial assets, this is evaluated in a separate assessment. This is done if, for example, there are changes in the credit rating of the debt instrument issuer, the issuer is placed on a watch list, or there is a default or delinquency in payments of principal or interests. For equity instruments, objective evidence may exist, if there is a significant or prolonged decline in the fair value of an equity instrument below its original acquisition cost.

The decision on whether the impairment is significant or prolonged requires an assessment of the management. The assessment is done on a case-by-case basis with consideration paid not only to qualitative criteria but also historical changes in the value of an equity as well as time period during which the fair value of an equity instrument has been lower than the acquisition cost. In Sampo Group, the impairment is normally assessed to be significant, if the fair value of a listed equity or participation decreases below the average acquisition cost by 20 per cent and assessed to be prolonged when the fair value has been lower than the acquisition cost for over 12 months.

As there are no quoted prices available in active markets for unquoted equities and participations, the aim is to determine their fair value with the help of generally accepted valuation techniques available in the markets. The most significant share of unquoted equities and participations comprise the private equity and venture capital investments. They are measured in accordance with the generally accepted common practice in the International Private Equity and Venture Capital Guidelines (IPEV).

The significance and prolongation of the impairment in the last-mentioned cases is assessed case by case, taking into consideration special factors and circumstances related to the investment. Sampo invests in private equity and venture capital in order to keep them to the end of their life cycle, so the typical lifetime is 10–12 years. In general, a justifiable assessment of a potential impairment may only be done towards the end of the life cycle. However, if additionally there is a well-founded reason to believe that an amount equivalent to the acquisition cost will not be recovered when selling the investment, an impairment loss is recognised.

An impairment on equity funds is recognised in line with the principles above when the starting year of the fund is at least 10 years old and both the carrying amount and fair value of the fund is maximum EUR 500,000. In these cases both the fair value and the carrying amount are booked to zero. An impairment is only performed to those funds for which the benchmarks are met in all Sampo Group companies' portfolios.

In the case of debt securities, the amount of the impairment loss is assessed as the difference between the acquisition cost, adjusted with capital amortisations and accruals, and the fair value at the review time, reduced by possible impairment losses previously recognised in profit or loss. At the same time, the cumulative loss recognised in other comprehensive income is transferred from equity and recognised in p/l as an impairment loss. Any additional impairment losses are also recognised through p/l.

If, in a subsequent period, the fair value of a debt security increases and the increase can objectively be related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through p/l, but only up until the carrying amount is the same as it would have been had no impairment losses been recognised in the first place.

Impairment losses for available-for-sale equity instruments are recognised through p/l by transferring the cumulative loss recognised in other comprehensive income from equity to p/l. If the fair value subsequently increases, the increase is recognised in other comprehensive income. If the value keeps decreasing below the book value, an impairment loss is recognised through profit or loss even if the decline is less than 20 per cent.

Derivative financial instruments and hedge accounting

Derivative financial instruments are classified as those held for trading and those held for hedging, including interest rate derivatives, credit risk derivatives, foreign exchange derivatives, equity derivatives and commodity derivatives. Derivative instruments are measured initially at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Derivatives held for trading

Derivative instruments that are not designated as hedges and embedded derivatives separated from a host contract are treated as held for trading. They are measured at fair value and the change in fair value, together with realised gains and losses and interest income and expenses, is recognised in profit or loss.

If derivatives are used for hedging, but they do not qualify for hedge accounting as required by IAS 39, they are treated as held for trading.

Hedge accounting

Sampo Group may hedge its operations against interest rate risks, currency risks and price risks through fair value hedging and cash flow hedging. Cash flow hedging is used as a protection against the variability of the future cash flows, while fair value hedging is used to protect against changes in the fair value of recognised assets or liabilities. During the financial year, fair value hedging has been applied in Mandatum and cash flow hedging in Hastings.

Hedge accounting applies to hedges that are effective in relation to the hedged risk and meet the hedge accounting requirements of IAS 39. The hedging relationship between the hedging instrument and the hedged item, as well as the risk management objective and strategy for undertaking the hedge, are documented at the inception of the hedge. In addition, the effectiveness of a hedge is assessed both at inception and on an ongoing basis to ensure that it is highly effective throughout the period for which it was designated. Hedges are regarded as highly effective in offsetting changes in fair value or the cash flows attributable to a hedged risk within a range of 80–125 per cent.

Cash flow hedging

Cash flow hedging is used to hedge the interest cash flows of individual floating rate debt securities or other floating rate assets or liabilities. The hedging instruments used include interest rate swaps and cross currency interest rate swaps. Derivative instruments which are designated as hedges and are effective as such, in accordance with IAS 39, are measured at fair value. The effective part of the change in fair value is recognised in other comprehensive income. The remaining ineffective part is recognised in profit or loss.

The cumulative change in fair value is transferred from equity and recognised in profit or loss in the same period that the hedged cash flows affect profit or loss.

When a hedging instrument expires, is sold, terminated, or the hedge no longer meets the criteria for hedge accounting, the cumulative change in fair value remains in equity until the hedged cash flows affect profit or loss.

Fair value hedging

In accordance with the Group's risk management principles, fair value hedging is used to hedge changes in fair values resulting from changes in price, interest rate or exchange rate levels. The hedging instruments used include foreign exchange forwards, interest rate swaps, cross-currency interest rate swaps and options, approved by the managements of the Group companies.

Changes in the fair value of derivative instruments that are documented as fair value hedges and are effective in relation to the hedged risk are recognised in profit or loss. In addition, the hedged assets and liabilities are measured at fair value during the period for which the hedge was designated, with changes in fair value recognised in profit or loss.

Leases

Group as lessee

All lease contracts are primarily recognised in the balance sheet in accordance with IFRS 16 *Leases*. The only optional exemptions include certain short-term contracts with a duration under 12 months or low-value contracts for which the lease payments can be recognised as an expense on a straight-line basis over the lease term.

Right-of-use assets related to lease contracts (right to use an underlying asset) are recognised in the asset side as part of Property, Plant and Equipment and the corresponding lease liabilities in the liability side as part of Other liabilities. A right-of-use asset is recognised at the commencement date of the lease and measured at cost that includes the amount of the initial measurement of the liability and potential prepaid rents to the lessor. Right-of-use assets are amortised on a straight-line basis over the lease period. Lease liability is also recognised at the commencement date and measured at the present value of the lease payments.

Depreciations on right-of-use assets and interests on the lease liabilities are recognised in the p/l.

Group as lessor

Leases are included in 'Investment property' in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment, and the impairment losses are recognised on the same basis as these items. Rental income is recognised on a straight-line basis over the lease term in profit or loss.

Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition (made after 1 January 2004) over the fair value of the Group's share of the net identifiable assets, liabilities and contingent liabilities of the acquired entity at the date of acquisition. Goodwill on acquisitions before 1 January 2004 is accounted for in accordance with the previous accounting standards and the carrying amount is used as the deemed cost in accordance with the IFRS.

Goodwill is measured at historical cost less accumulated impairment losses. Goodwill is not amortised. Instead, it is tested at least annually for impairment.

Other intangible assets

IT software and other intangible assets, whether procured externally or internally generated, are recognised in the balance sheet as intangible assets with finite useful lives if it is probable that the expected future economic benefits that are attributable to the assets will flow to the Group and the cost of the assets can be measured reliably. The cost of internally generated intangible assets is determined as the sum of all costs directly attributable to the assets. Research costs are recognised as expenses in profit or loss as they are incurred. Costs arising from the development of new IT software or from significant improvement of existing software are recognised only to the extent they meet the above-mentioned requirements for being recognised as assets in the balance sheet.

Intangible assets with finite useful lives are measured at historical cost less accumulated amortisation and impairment losses. Intangible assets are amortised on a straight-line basis over the estimated useful life of the asset. The estimated useful lives by asset class are as follows:

IT software	3–10 years
Other intangible assets	3–10 years

Intangible assets with an indefinite useful life, such as brands and trademarks acquired in business combinations, are not amortised. Instead they are tested at least annually for impairment.

Property, plant and equipment

Property, plant and equipment comprise properties occupied for Sampo's own activities, office equipment, fixtures and fittings, and furniture. Classification of properties as those occupied for own activities and those for investment activities is based on the square metres in use. If the proportion of a property in Sampo's use is no more than 10 per cent, the property is classified as an investment property.

Property, plant and equipment are measured at historical cost less accumulated depreciation and impairment losses.

Improvement costs are added to the carrying amount of a property when it is probable that the future economic benefits that are attributable to the asset will flow to the entity. Costs for repairs and maintenance are recognised as expenses in the period in which they were incurred.

Items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful life. In most cases, the residual value is estimated at zero. Land is not depreciated. Estimates of useful life are reviewed at financial year-ends and the useful life is adjusted if the estimates change significantly. The estimated useful lives by asset class are as follows:

Buildings	20–50 years
Components of buildings	15–20 years
Property and leasehold improvements	4–10 years
IT equipment and motor vehicles	2–5 years
Other equipment	3–15 years

Depreciation of property, plant or equipment will be discontinued, if the asset in question is classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Impairment of intangible assets and property, plant and equipment

At each reporting date, the Group assesses whether there is any indication that an intangible asset or an item of property, plant or equipment may be impaired. If any such indication exists, the Group will estimate the recoverable amount of the asset. In addition, goodwill, intangible assets not yet available for use and intangible assets with an indefinite useful life will be tested for impairment annually, independent of any indication of impairment. For impairment testing the goodwill is allocated to the cash-generating units of the Group from the date of acquisition. In the test the carrying amount of the cash-generating unit, including the goodwill, is compared with its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The value in use is calculated by estimating future net cash flows expected to be derived from an asset or a cash-generating unit, and by discounting them to their present value using a pre-tax discount rate. If the carrying amount of an asset is higher than its recoverable amount, an impairment loss is recognised in profit or loss. In conjunction with this, the impaired asset's useful life will be re-determined.

The impairment loss is reversed if there has been a change in circumstances and the recoverable amount has changed after the recognition of the impairment loss, but no more than to the carrying amount which it would have been without recognition of the impairment loss. Impairment losses recognised for goodwill are not reversed.

Investment property

Investment property is held to earn rentals and for capital appreciation. The investment property is measured at fair value. The accounting principle was changed from an acquisition model to a fair value model in the financial year 2021 in order to align the Group accounting principles. The Group assessed that the change had an immaterial effect on the consolidated financial statements.

The fair value of investment property is estimated using methods based on estimates of future cash flows and market-based return expectations (cash flow models used for present value calculation) and comparison methods based on information from actual sales in the market.

The valuation considers the characteristics of the property with respect to location, condition, lease situation and comparable market information regarding rents, yield requirements and unit prices. During the financial year, the valuations were conducted by using both the Group's internal resources and external independent surveyors.

Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the Group can reliably estimate the amount of the obligation. If it is expected that some or all of the expenditure required to settle the provision will be reimbursed by another party, the reimbursement will be treated as a separate asset only when it is virtually certain that the Group will receive it.

Insurance and investment contracts

Insurance contracts are treated, in accordance with IFRS 4, either as insurance or investment contracts. Under the standard, insurance contracts are classified as insurance contracts if significant insurance risk is transferred between the policyholder and the insurer. If the risk transferred on the basis of the contract is essentially financial risk rather than significant insurance risk, the contract is classified as an investment contract. The classification of a contract as an insurance contract or investment contract determines the measurement principle applied to it.

Sampo treats the liabilities arising from contracts in the first phase of the standard according to the national accounting standards.

The risks involved in insurance and investment contracts are widely elaborated in the Group's **note 35**.

Reinsurance contracts

A reinsurance contract is a contract which meets the IFRS 4 requirements for insurance contracts and on the basis of which Sampo Group (the cedant) may receive compensation from another insurer (the reinsurer) if it becomes liable for paying compensation based on other insurance contracts it has issued. Such compensation received on the basis of reinsurance contracts is included in the balance sheet under 'Reinsurers' share of insurance liabilities' and 'Other assets'. The former item includes the reinsurers' share of the provisions for unearned premiums and claims outstanding in the Group's reinsured insurance contracts, while the latter includes short-term receivables from reinsurers.

When the Group itself has to pay compensation to another insurer on the basis of a reinsurance contract, the liability is recognised in the item 'Other liabilities'. Receivables and liabilities related to reinsurance are measured uniformly with the cedant's receivables and liabilities. Reinsurance receivables are tested annually for impairment. Impairment losses are recognised through profit or loss if there is objective evidence indicating that the Group (as the cedant) will not receive all amounts of money it is entitled to on a contractual basis.

In addition, the Group companies have contracts where they share the insurance risk with a co-insurance partner. Where the Group is the secondary co-insurer, the Group only recognises its share of the premium as an insurance receivable and related claims liability. Where the Group acts as the lead co-insurer, the gross premium is recognised as an insurance receivable, with a related co-insurance payable to the co-insurer.

P&C insurance business

Classification of insurance contracts

In classifying insurance contracts and examining their related risks, embedded contracts are interpreted as one contract.

Other than insurance contracts, i.e. contracts where the risk is not transferred, include Captive contracts in which an insurance company underwrites a company's direct business and reinsures the same risk in an insurance company in the same group as the policyholder. There are also contracts in P&C insurance (Reverse Flow Fronting contracts) in which the insurance company grants insurance and then transfers the insurance risk to the final insurer. For both the above types of contract, only the net effect of the contract relationship is recognised in the income statement and balance sheet (instead of the gross treatment, as previously). The prerequisite for net treatment is that the net retention recognised on the contract is zero.

There are also contracts in P&C insurance in which the insurance risk is eliminated by a retrospective insurance premium, i.e. the difference between forecast and actual losses is evened out by an additional premium directly or in connection with the annual renewal of the insurance. The net cash flow from these contracts is recognised directly in the balance sheet, without recognising it first in the income statement as premiums written and claims incurred.

Insurance liabilities

Insurance liabilities are the net contractual obligations which the insurer has on the basis of insurance contracts. Insurance liabilities, consisting of the liability for unearned premiums and unexpired risks and for claims outstanding, correspond to the obligations under insurance contracts.

The liability for unearned premiums is intended to cover anticipated claims costs and operating expenses during the remaining term of insurance contracts in force. In P&C insurance and reinsurance, the liability for unearned premiums is normally calculated on a strictly proportional basis over time, i.e. on a pro rata temporis basis. If premiums are judged to be insufficient to cover anticipated claims costs and operating expenses, the liability for unearned premiums must be augmented by a provision for unexpired risks. Calculation of the liability for unexpired risks must also take into account instalment premiums not yet due.

The liability for claims outstanding is intended to cover the anticipated future payments of all claims incurred, including claims not yet reported to the company, i.e. the IBNR (incurred but not reported) provision. The liability for claims outstanding includes claims payments plus all estimated costs of claim settlements.

The liability for claims outstanding in direct P&C insurance and reinsurance may be calculated by statistical methods or through individual assessments of individual claims. Often a combination of the two methods is used, meaning large claims are assessed individually while small claims and claims incurred but not reported (the IBNR provision) are calculated using statistical methods.

In If, the liability for claims outstanding is not discounted to present value, with the exception of provisions for vested annuities. Topdanmark discounts the whole liability. In Hastings, the liability is not discounted, except for claims that have to do with certain large bodily injury. Mandatum does not discount anything.

Liability adequacy test

A liability adequacy test is performed separately for both the provision for claims outstanding and the provision for unearned premiums. The provision for claims outstanding is based on estimates of future cash flows. The estimates are made by using well-established actuarial methods.

The provision for unearned premiums is, for the most part, calculated on a strictly proportional basis over time (so called pro rata temporis principle). The adequacy of the provision for unearned premiums is tested by calculating a provision for unexpired risks for each company per business area and line of business. If the provisions are judged to be insufficient, the provision for unearned premiums is augmented by recognising a provision for unexpired risks.

Deferred acquisition costs

In the P&C insurance business, acquisition costs clearly relating to the writing of insurance contracts and extending beyond the financial year are recognised as assets in the balance sheet. Acquisition costs include operating expenses directly or indirectly attributable to writing insurance contracts, fees and commissions, marketing expenses and the salaries and overheads of sales staff. Acquisition costs are amortised in the same way as provisions for unearned premiums, usually in 12 months at the maximum.

Life insurance business

Classification of insurance contracts

Policies issued by the life insurance business are classified as either insurance contracts or investment contracts. Insurance contracts are contracts that carry significant insurance risk or contracts in which the policyholder has the right to change the contract by increasing the risk. As capital redemption contracts do not carry insurance risk, these contracts are classified as investment contracts.

The discretionary participation feature (DPF) of a contract is a contractual right held by a policyholder to receive additional benefits, as a supplement to the guaranteed minimum benefits. The supplements are bonuses based on the reserves of policies credited to the policy reserve, additional benefits in the case of death, or the lowering of insurance premiums. In Mandatum, the principle of fairness specifies the application of this feature. In unit-linked contracts the policyholder carries the investment risk by choosing the investment funds linked to the contracts.

Measurement of insurance and investment contracts

In Mandatum, national accounting standards in accordance with IFRS 4 *Insurance contracts* are applied to all insurance contracts and investment contracts with DPF.

All contracts, except unit-linked contracts and the assumed reinsurance, include DPF. In those unit-linked contracts which are not insurance contracts, the policyholder has the possibility to transfer the return on savings from unit-linked schemes to guaranteed interest with DPF. Thus, the same standard is applied to these contracts as to contracts with DPF.

The surrender right, guaranteed interest and the unbundling of the insurance component from the deposit component and similar features are not separated and measured separately.

In Mandatum, regarding the group pension portfolio transferred from Suomi Mutual (=segregated portfolio), a so-called shadow accounting is applied, as permitted in IFRS 4.30, by adjusting the equity with the amount of unrealised gains and losses of the agreement. The equity is adjusted with the amount that unrealised gains or losses would have affected the Segregated Portfolio in accordance with the profit distribution policy of the Segregated Portfolio if the gains or losses had been realised at the balance sheet date.

In Topdanmark, unit-linked contracts include both insurance and investment contracts. Insurance contracts are measured in accordance with IFRS 4. Investment contracts, on the other hand, are measured in accordance with IAS 39 *Financial Instruments*: Recognition and Measurement. Investment contracts do not include a discretionary participation feature.

All unit-linked insurance contracts are payable on demand at market value. In case of death, 101 per cent of the amount is payable. This feature is considered an insignificant insurance risk, and the contracts are categorised and measured as investment contracts. There are no other surrender rights and values to take into consideration.

Insurance and investment contract liabilities and reinsurance assets

Liabilities arising from insurance and investment contracts consist of provisions for unearned premiums and outstanding claims. In the life insurance business, various methods are applied in calculating liabilities which involve assumptions on matters such as mortality, morbidity, the yield level of investments, future operating expenses and the settlement of claims.

Changes in the liabilities of reinsurance have been calculated at variable rates of exchange.

In direct insurance, the insurance liability is calculated by policy, while in reinsurance it is calculated on the basis of the reports of the ceding company or the company's own bases of calculation.

The interest rate used in discounting liabilities is, at most, the maximum rate accepted by the authorities in each country.

The provision for claims outstanding is intended to cover the anticipated future payments of all claims incurred, including claims not yet reported to the company (the "IBNR" provision). The provision for claims outstanding includes claim payments plus all costs of claim settlements.

The amounts of short- and long-term liabilities in technical provisions are determined annually.

Liability adequacy test

A liability adequacy test is applied to all portfolios and the need for augmentation is checked, company by company, on the basis of the adequacy of the whole technical provisions. The test includes all the expected contractual cash flows for non-unit-linked liabilities. The expected contractual cash flows include expected premiums, claims, bonuses and expenses. The claims have been estimated including surrenders and other insurance transactions based on historical data. The amounts of claims include the guaranteed interest and an estimation of future bonuses. The present values of the cash flows have been discounted to the balance sheet date.

For the unit-linked business, the present values of the insurance risk and expense results are calculated correspondingly. If the aggregate amount of the liability for the unit-linked and other business presumes an augmentation, the liability is increased by the amount shown by the test and recognised in profit or loss.

Principle of fairness

According to Chapter 13, Section 2 of the Finnish Insurance Companies' Act, the Principle of Fairness must be observed in life insurance and investment contracts with a discretionary participation feature. If the solvency requirements do not prevent it, a reasonable part of the surplus has to be returned to these policies as bonuses.

Mandatum aims at giving a total return before charges and taxes on the original insurance portfolio's policyholders' savings in contracts with DPF that is at least the yield of those long term bonds, which are considered to have lowest risk. The total return consists of the guaranteed interest rate and bonuses determined annually. Continuity is pursued in the level of bonuses.

Employee benefits

Post-employment benefits

Post-employment benefits include pensions and life insurance.

Sampo has defined benefit plans in Sweden and Norway, and defined contribution plans in other countries.
The most significant defined contribution plan is that arranged through the Employees' Pensions Act (TyEL) in Finland.

In the defined contribution plans, the Group pays fixed contributions to a pension insurance company and has no legal or constructive obligation to pay further contributions. The obligations arising from a defined contribution plan are recognised as an expense in the period to which the obligation relates.

In the defined benefit plans, the company still has obligations after paying the contributions for the financial period and bears their actuarial and/or investment risk. The obligation is calculated separately for each plan using the projected unit credit method. In calculating the amount of the obligation, actuarial assumptions are used. The pension costs are recognised as an expense for the service period of employees.

Defined benefit plans are both funded and unfunded. The amounts reported as pension costs during a financial year consist of the actuarially calculated earnings of old-age pensions during the year, calculated straight-line, based on pensionable income at the time of retirement. The calculated effects in the form of interest expense for crediting/appreciating the preceding years' established pension obligations are then added. The calculation of pension costs during the financial year starts at the beginning of the year and is based on assumptions about such factors as salary growth and price inflation throughout the duration of the obligation and on the current market interest rate adjusted to take into account the duration of the pension obligations.

The current year pension cost and the net interest of the net liability is recognised through p/l in pension costs. The actuarial gains and losses and the return of the plan assets (excl. net interest) are recognised as a separate item in other comprehensive income.

The fair value of the plan assets covered by the plan is deducted from the present value of future pension obligations and the remaining net liability (net asset) is recognised separately in the balance sheet.

The Group has also certain voluntary defined benefit plans. These are intra-Group and have no material significance.

Termination benefits

An obligation based on termination of employment is recognised as a liability when the Group is verifiably committed to terminate the employment of one or more persons before the normal retirement date or to grant benefits payable upon termination as a result of an offer to promote voluntary redundancy. As no economic benefit is expected to flow to the employer from these benefits in the future, they are recognised immediately as an expense. Obligations maturing more than 12 months later than the balance sheet date are discounted. The benefits payable upon termination at Sampo are the monetary and pension packages related to redundancy.

Share-based payments

During the financial year, Sampo had five valid share-based incentive schemes settled in cash (the long-term incentive schemes 2017 I, 2017 II, 2020 I, 2020 II and 2020 III for the management and key employees). Topdanmark had one mainly share-settled incentive scheme for the executive board and senior executives during the financial year. Hastings had also a share-based incentive scheme settled in cash during the financial year.

More information on the different incentive schemes of the Group companies can be found in **note 30 Incentive schemes**.

The schemes have been measured at fair value at the grant date and at every reporting date thereafter.

In the schemes settled in cash, the valuation is recognised as a liability and changes are recognised through profit or loss.

In the schemes settled in shares, the strike amounts received on the exercise of the options are recognised in the shareholder's equity.

The fair value of the schemes has to a large extent been determined using the Black-Scholes-pricing model. The fair value of the market-based part of the incentive takes into consideration the model's forecast concerning the number of incentive units to be paid as a reward. The effects of non-market based terms are not included in the fair value of the incentive; instead, they are taken into account in the number of those incentive units that are expected to be exercised during the vesting period. In this respect, the Group will update the assumption on the estimated final number of incentive units at every interim or annual balance sheet date.

Income taxes

Item Tax expenses in the income statement comprise current and deferred tax. Tax expenses are recognised through profit or loss, except for items recognised directly in equity or other comprehensive income, in which case the tax effect will also be recognised for those items. Current tax is calculated based on the valid tax rate of each country. Tax is adjusted by any tax related to previous periods.

Deferred tax is calculated on all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Deferred tax is not recognised on non-deductible goodwill impairment, nor is it recognised on the undistributed profits of subsidiaries to the extent that it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax liabilities and assets are offset in the individual companies if, and only if, they relate to income taxes levied by the same taxation authority and the company has a legally enforceable right of offset them.

Deferred tax is calculated by using the enacted tax rates prior to the balance sheet date. A deferred tax asset is recognised to the extent that it is probable that future taxable income will be available against which a temporary difference can be utilised.

Share capital

The incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are included in equity as a deduction, net of tax, from the proceeds.

Dividends are recognised in equity in the period when they are approved by the Annual General Meeting. When the parent company or other Group companies purchase the parent company's equity shares, the consideration paid is deducted from the equity as treasury shares until they are cancelled. If such shares are subsequently sold or reissued, any consideration received is included in equity.

Treasury shares

The purchase price paid for buy-back of treasury shares (own shares) is directly deducted from equity. No gains or losses are recognised from purchase, sale or cancellation of own shares. If own shares are re-issued, the difference between purchase price and consideration received is recognised in the premium reserve.

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term deposits (3 months).

Sampo presents cash flows from operating activities using the indirect method in which the profit (loss) before taxation is adjusted for the effects of transactions of a non-cash nature, deferrals and accruals, and income and expense associated with investing or financing cash flows.

In the cash flow statement, interest received and paid is presented in cash flows from operating activities.
In addition, the dividends received, from other than associated companies, are included in cash flows from operating activities. Dividends received from associates are presented in cash flows from investments. Dividends paid are presented in cash flows from financing.

Accounting policies requiring management judgement and key sources of estimation uncertainties

Preparation of the accounts in accordance with the IFRS requires management estimates and assumptions that affect the revenue, expenses, assets, liabilities and contingent liabilities presented in the financial statements. Judgement is needed also in the application of accounting policies. The estimates made are based on the best information available at the balance sheet date. The estimation is based on historical experiences and the most probable assumptions concerning the future at the balance sheet date. The actual outcome may deviate from results based on estimates and assumptions. Any changes in the estimates will be recognised in the financial year during which the estimate is reviewed and in all subsequent periods.

Sampo's main assumptions concerning the future and the key uncertainties related to balance sheet estimates are related, for example, to assumptions used in actuarial calculations, the determination of fair values of non-quoted financial assets and liabilities and investment property, and the determination of the impairment of financial assets and intangible assets. From Sampo's perspective, accounting policies concerning these areas require the most significant use of estimates and assumptions.

Actuarial assumptions

Evaluation of insurance liabilities always involves uncertainty, as technical provisions are based on estimates and assumptions concerning future claims costs. The estimates are based on statistics on historical claims available to the Group on the balance sheet date. The uncertainty related to the estimates is generally greater when estimating new insurance portfolios or portfolios where the clarification of a loss takes a long time because complete claims statistics are not yet available. In addition to the historical data, estimates of insurance liabilities take into consideration other matters such as claims development, the amount of unpaid claims, legislative changes, court rulings and the general economic situation.

A substantial part of the Group's P&C insurance liabilities concerns statutory accident and traffic insurance. The most significant uncertainties related to the evaluation of these liabilities are assumptions about inflation, mortality, discount rates and the effects of legislative revisions and legal practices.

The actuarial assumptions applied to life insurance liabilities are discussed in more detail under 'Insurance and investment contract liabilities and reinsurance assets'.

Defined benefit plans as intended in IAS 19 are also estimated in accordance with actuarial principles. As the calculation of a pension plan reserve is based on expected future pensions, assumptions must be made not only about discount rates, but also about matters such as mortality, employee turnover, price inflation and future salaries.

Determination of fair value

The fair value of any non-quoted financial assets is determined using valuation methods that are generally accepted in the market. These methods are discussed in more detail above under 'Fair value'.

During the financial year, fair values of investment property have partially been determined by using internal resources on the basis of comparative information derived from the market. They include management assumptions concerning market return requirements and the discount rate applied.

Impairment tests

Goodwill, intangible assets not yet available for use, and intangible assets with an indefinite useful life are tested for impairment at least annually. The recoverable amounts from cash-generating units have mainly been determined using calculations based on the value in use. These require management estimates on matters such as future cash flows, the discount rate, and general economic growth and inflation.

Consolidating Topdanmark as a subsidiary

According to IFRS 10 *Consolidated Financial Statements* an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

On 30 September 2017 Sampo's ownership of Topdanmark AS's shares was 44.2 per cent and 49.1 per cent of votes. Then Sampo's management considered thoroughly all facts and circumstances required by the standard in assessing whether Sampo controlled Topdanmark and concluded that it should consolidate Topdanmark as a subsidiary in the consolidated financial statements. Considerations included, among other things, the fact that Sampo was the biggest individual investor and Sampo was not aware of any agreements between the other investors. In addition, it was considered that Sampo had the power to direct Topdanmark's relevant activities, i.e. the activities that significantly affect the investee's returns. At the time of assessment, Sampo had three members in Topdanmark's Board of Directors, one of them being the Chairman. In total, there are 9 members on Topdanmark's Board and a vote of 50 per cent is required for decision making according to the Articles of Association. However, Sampo has the right, at its discretion, to convene an extraordinary general meeting to change the composition of the board of directors and therefore gain the majority of voting rights on the Board of Directors.

The divestment of Topdanmark Forsikring's life and pension business

In March 2022, Sampo's subsidiary Topdanmark Forsikring announced an intention to sell Topdanmark Forsikring's life and pension business (Topdanmark Liv Holding A/S, 'Topdanmark Life') to Nordea. In Sampo Group, assets and liabilities related to Topdanmark Life's operations were reclassified as non-current assets held for sale in accordance with IFRS 5 *Non-current assets held for sale and discontinued operations*.

The divestment of Topdanmark Life was completed on 1 December 2022 after regulatory approvals. The sale of Topdanmark Life ended the classification of operations as non-current assets held for sale.

Additional information on the divestment of Topdanmark Life is included in **note 33 Divestment of Topdanmark Life**.

Application of new or revised IFRSs and interpretations

The Group will apply new or amended standards and interpretations related to the Group's business in the financial years when they become effective, or if the effective date is other than the beginning of the financial year, during the financial year following the effective date. The following new IFRSs coming into effect in financial year 2023 will have an influence on the Group's financial reporting: IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments*.

Transition to IFRS 17 Insurance Contracts and IFRS 9 Financial Instruments

Summary of high level impacts in Sampo Group

Sampo Group is applying IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments* from 1 January 2023. The application of these new accounting standards is not expected to have any impact on the economics of Sampo's business or capital management, nor any substantial quantitative effect on shareholders' equity. Sampo Group's operations are focused on the P&C business and Sampo primarily uses the premium allocation approach (PAA) under IFRS 17. PAA requires changes in the calculation of insurance liabilities, including setting up an explicit risk adjustment for non-financial risk and discounting claims reserves with market rates. Additional discounting may increase earnings volatility between the periods in future.

The application of IFRS 9 does not have significant impacts on the measurement of Sampo Group's balance sheet items, as the main part of financial assets is currently reported at fair value in the balance sheet. However, under IFRS 9, the fair value changes of financial instruments are recognised in the statement of profit or loss, which may increase earnings volatility.

Implementation of IFRS 17 or IFRS 9 does not have an impact on the Solvency II calculations.

IFRS 17 Insurance Contracts (effective for annual periods beginning on 1 Jan 2023 or after)

The IASB published the IFRS 17 *Insurance Contracts* on 18 May 2017. IFRS 17 and the June 2020 amendments were adopted by European Union on 19 November 2021. In addition, an optional exemption from applying the annual cohort requirement for certain types of groups of contracts was adopted. Sampo Group is not applying the exemption. Sampo Group is applying IFRS 17 for the first time from 1 January 2023 and comparative information for the year 2022 will be restated.

IFRS 17 replaces IFRS 4 *Insurance Contracts* and establishes principles for the recognition, measurement, presentation, and disclosures of insurance contracts. IFRS 17 is applied to insurance contracts, reinsurance contracts as well as to certain investment contracts with discretionary participation features. The objective of the standard is to provide relevant information for the users of financial statements that faithfully represents the insurance contracts and to harmonise the measurement of insurance liabilities.

The new accounting policies and management judgement may change until Sampo Group publishes its year-end financial statements 2023 in accordance with IFRS 17, which include the opening balance sheet of 1 January 2022.

Key accounting principles

Scope

In Sampo Group's non-life operations, the Group does not expect significant changes in the scope of contracts, on which the new accounting requirements are applied for compared to current requirements. In the Group's non-life insurance contracts, insurance risk is considered significant. Insurance contracts issued by third-party underwriters ('panel underwriters'), which do not transfer any insurance risk to the Group companies, are not in the scope of IFRS 17 and are instead accounted under IFRS 15 Revenue from Contracts with Customers.

Insurance contracts may contain one or more components which would be within the scope of different accounting standards and accounted for separately. Sampo evaluates the insurance contracts in order to identify components from the contracts. For example, an insurance contract may include an investment component or a component for services other than insurance contract services (or both).

In Sampo Group's life operations, the Group has identified capital redemption policies and individual unit-linked policies with distinct investment components with insignificant insurance risk for which IFRS 17 is not applied. These policies are measured in accordance with IFRS 9.

Level of aggregation

Under IFRS 17, insurance contracts are aggregated into portfolios of insurance contracts. A portfolio comprises contracts subject to similar risks and managed together. Insurance contracts are aggregated into portfolios of insurance contracts, which comprises contracts with similar risks that are managed together. Those portfolios are divided into annual cohorts, i.e. contracts which are not issued more than one year apart.

In Sampo Group's non-life operations, portfolios are determined based on a segmentation of business, or a combination of line of business (as defined by management), business area, country and determined separately for each legal entity, or based on product lines.

In Sampo Group's life operations risk policies, with profit and unit-linked contracts are separated into different portfolios.

Sampo Group has identified certain onerous contracts, but the amount of onerous contracts is modest.

Contract boundary

The initial measurement of the group of insurance contracts includes all future cash flows arising within the contract boundary. In determining which cash flows fall within the contract boundary, substantive rights and obligations arising from the terms of the contract, and also from applicable laws and regulations, are considered.

In Sampo Group's non-life operations the majority of contracts have a one-year contract boundary, typically until the next renewal date, i.e. the contract has a one-year coverage period where there are substantive rights and obligations during that period.

In Sampo Group's life operations, the contract boundaries depend on the contractual characteristics and are generally longer term.

Measurement

IFRS 17 introduces a general measurement model (GMM) applicable to all insurance contracts to measure insurance contract liabilities. Under the general measurement model, insurance contracts are measured based on future cash flows, adjusted to reflect the time value of money, including a risk adjustment, and a contractual service margin (CSM). CSM represents the unearned profit that will be recognised when insurance contract services are provided in the future. The measurement of insurance liabilities consists of liability for the remaining coverage (LRC) and liability for incurred claims (LIC), including both reported but not settled claims as well as incurred but not reported claims. In Sampo Group's life operations GMM is applied to with profit policies and risk policies.

Under IFRS 17, the variable fee approach (VFA) is to be applied to direct participating insurance contracts. The variable fee approach represents a modification from the general measurement model where the treatment of contractual service margin is modified. In Sampo Group, life operations VFA is applied to unit-linked insurance contracts measured under IFRS 17.

When certain eligibility criteria are met, insurers may apply a simplified approach, the premium allocation approach (PAA), for the measurement of insurance contracts. PAA is eligible for insurance contracts with a coverage period of one year or less. This approach is also available for contracts where the PAA would not materially differ from the results of the GMM. In Sampo Group's non-life operations, PAA is applied to all insurance contracts, as the coverage period for the main part of insurance contracts is one year or less, and for longer insurance contracts the qualifying eligibility criteria are fulfilled. Both in non-life and life operations the PAA model is applied to reinsurance contracts held.

Insurance acquisition cash flows arise from underwriting a group of insurance contacts and are taken into account when estimating the fulfillment cash flows.

Discounting

Transition to IFRS 17 broadens the discounting of insurance liabilities. In all applied measurement models, discounting adjusts the expected cash flows to reflect the time value of money.

Sampo Group's non-life operations have determined the discount rates based on a bottom-up approach. The interest rate curve includes a risk-free rate (excluding credit risk adjustment) and an illiquidity premium for each currency. The illiquidity premium is mainly derived based on a portfolio of high-rated bonds for the liquid part of the interest rate curve. Beyond this, the curve converges to the ultimate forward rate, consistent with the EIOPA curves.

Sampo Group's life operations have determined the discount rates based on a top-down approach where a theoretical reference portfolio of assets is used to define the applicable discount curve, consisting of risk-free rate and illiquidity premium. For insurance contracts without a direct participation feature, a so called locked-in rate is applied, meaning that the discount rate is determined at the initial recognition and is applied in the accretion of CSM.

The discounting effect of current year liabilities for incurred claims and changes in the cash flows are recognised in the insurance service result. The unwinding of interest rates, the effect of changes in interest rates and other financial assumptions are presented as insurance finance income or expense in profit or loss. Sampo Group has elected not to apply the OCI option allowed under IFRS 17.

Risk adjustment

IFRS 17 introduces an explicit risk adjustment included in the measurement of insurance liabilities. The risk adjustment reflects the cost of uncertainty associated with the amount and timing of cash flows arising from non-financial risk and the degree of risk aversion.

In Sampo Group, the risk adjustment will be derived through a confidence level technique whereby management determines the appropriate quantile. The risk adjustment is calculated at the subsidiary level and aggregated into the consolidated Sampo Group level risk adjustment, without any diversification effects assumed. Under the general measurement model, the risk adjustment is included in the calculation of both LRC and LIC. Under the premium allocation approach, the risk adjustment is only included in LIC, unless a group of insurance contracts is onerous.

Premium allocation approach (PAA)

On initial recognition of non-life operations' groups of insurance contracts, the carrying amount of LRC is measured as premiums initially received less insurance acquisition cash flows. In case of onerous contracts, a loss component is recognised.

As to acquisition cash flows, Sampo Group has identified that they mainly include staff costs related to sales personnel and commissions as well as certain costs related to selling policies through price comparison websites. Any overhead costs are expensed immediately. Sampo Group's non-life operations in the private business area have elected to recognise acquisition cash flows as an expense at the date when they are incurred. For other business areas, the acquisition costs are deferred over a one-year period or longer in case of expected renewals.

At subsequent reporting periods, the carrying amount of LRC is increased by premiums received during the period and decreased by the amount recognised as insurance revenue representing the services provided. The carrying amount of LRC is not discounted or adjusted with the effect of financial risk, as the Group expects that the time between providing services and the related premium due date is no more than a year. Revenue is recognised based on the expected premium receipts allocated to the period. For the majority of non-life insurance contracts, revenue recognition is based on the passage of time, i.e. allocated straight line.

Sampo Group measures the liability for incurred claims (LIC) for the group of insurance contracts at the amount of estimated fulfilment cash flows relating to incurred claims. Fulfilment cash flows consist of three components, namely expected cash flows, discounting and risk adjustment. The risks typically considered in non-life operations when assessing risk adjustment are reserve risk, longevity risk, inflation risk and premium risk.

General measurement model (GMM)

On initial recognition, life operations measure a group of insurance contracts at the total of the fulfilment cash flows, comprising of estimates of future cash flows, discounting and risk adjustment for non-financial risk. In addition, the measurement includes the contractual service margin, which is measured at initial recognition on the group of the insurance contracts.

In insurance contracts related to life operations, estimates of future cash flows are based on cash flow projections and are estimated until the maturity of the contract. Only risk policies with no death benefit or permanent disability cover are short-term (yearly) contracts. Cash flows are estimated for every reporting period and assumptions are updated yearly or more often, if needed.

Insurance acquisition cash flows are determined at inception of the group of insurance contracts. Insurance acquisition cash flows are considered directly attributable to a portfolio and are allocated to individual contracts. Where actual and expected acquisition cash flows are not equal at the end of the reporting period, an experience variance is recognised in the statement of profit or loss.

In regards the risk adjustment, the following risks are considered in life operations: mortality, longevity, disability (incl. permanent disability), lapse and expense risk.

At the subsequent reporting periods, the amount of insurance liabilities is a sum of the LRC consisting of the present value of future cash flows for services that will be provided during future periods, risk adjustment, remaining CSM at that date and LIC. LIC includes reported but not settled claims and incurred but not reported claims.

Variable fee approach (VFA)

Variable fee approach represents a modification from the GMM. CSM is adjusted to reflect the variable nature of the fees, which represent the amount of the entity's share of the fair value of underlying items.

Key management judgement

Sampo Group management applies judgement regarding the determination of discount rates and risk adjustment.

As noted above, the interest rate curve includes a risk-free rate and an illiquidity premium. Management determines the principles for the illiquidity premium, which in Sampo Group is mainly derived based on a portfolio of high-rated bonds.

Risk adjustment is determined separately for all Sampo Group's non-life and life companies and aggregated at the Group level. Management considers this to reflect the compensation that different entities would require for bearing non-financial risk and their degree of risk aversion. As noted above, a confidence level approach is applied in the Group companies. The confidence level applied in calculating the risk adjustment varies between group companies from 75 per cent to 85 per cent.

Transition approaches applied

On transition to IFRS 17, a full retrospective approach and restatement of the previous year's comparatives is required. However, if the application of a full retrospective approach is impracticable, then a modified retrospective approach or a fair value approach may be applied. Sampo has considered that a full retrospective approach is applied in the Group's non-life companies, whereas all transition methods are applied in the Group's life company.

In the full retrospective approach, Sampo Group identifies, recognises and measures each group of insurance contracts as if IFRS 17 had always been applied and derecognises any existing balances that would not exist if IFRS 17 had always been applied. The resulting net difference is recognised in retained earnings.

Sampo Group's life operations apply the modified retrospective approach and fair value approach when the application of the full retrospective approach is impracticable. The choice of transition approach will depend on the type of the product/portfolio, when it has been issued, and on data availability.

When applying the fair value approach, Sampo Group's life operations are required to determine the contractual service margin or loss component of the liability for the remaining coverage at the transition date as the difference between the fair value of a group of insurance contracts at that date and the fulfilment cash flows measured at that date.

Opening balance sheet 1 January 2022

Sampo Group's opening balance sheet amounted to EUR 58.7 billion and equity to EUR 13.5 billion. Compared to the IFRS 4 closing balance sheet of EUR 61.1 billion, the opening IFRS 17 balance sheet decreased by EUR 2.4 billion. On transition to IFRS 17, both assets and liabilities decreased mainly due to reclassifications of premium receivables and deferred acquisition costs from other assets to insurance liabilities in the balance sheet.
The discounting of reserves decreased insurance liabilities whereas the introduction of risk adjustment increased insurance liabilities. The introduction of the loss component related to onerous contracts had only an insignificant impact on transition.

The net transition impact on the IFRS 17 equity was insignificant, amounting to EUR 14 million in the opening balance sheet.

The following table presents the IFRS 17 opening balance sheet as at 1 January 2022.

EURm	IFRS 17 1 Jan 2022
Assets	
Property, plant and equipment	373
Investment property	236
Intangible assets	3,660
Investments in associates	475
Financial assets	19,862
Financial assets related to unit-linked contracts	10,546
Deferred income tax	53
Insurance contract assets	41
Reinsurance contract assets	2,008
Other assets	712
Cash and cash equivalents	4,690
Non-current assets held for sale*	16,029
Total assets	**58,684**
Liabilities	
Insurance contract liabilities	18,266
Liability for remaining coverage	8,083
Liability for incurred claims	10,183
Investment contract liabilities	7,239
Subordinated debts	2,016
Other financial liabilities	2,315
Deferred income tax	851
Provisions	9
Employee benefits	26
Other liabilities	1,497
Liabilities related to non-current assets held for sale	13,010
Total liabilities	**45,228**

EURm	IFRS 17 1 Jan 2022
Equity	
Share capital	98
Reserves	1,530
Retained earnings	9,945
Other components of equity	1,231
Equity attributable to owners of the parent	**12,804**
Non-controlling interests	651
Total equity	**13,456**
Total equity and liabilities	**58,684**

The sale of Topdanmark Life was completed on 1 December 2022. Please see ***note 33*** *for further information.*

IFRS 17 Insurance Contracts is applied for Topdanmark Life figures in the opening balance 1 January 2022. Assets and liabilities are presented as a single line item in the balance sheet 2022 until the sale date.

IFRS 17 impacts on Sampo Group's non-life operations

The impact on the insurance contract liabilities due to the introduction of the new IFRS 17 components, including risk adjustment, deferred acquisition costs and additional discounting amounted to EUR -2.0 billion. The main impacts decreasing the insurance contract liabilities were due to the additional discounting effect and reclassifications. Under IFRS 17, all liabilities for incurred claims are discounted whereas only a smaller part of reserves was discounted under IFRS 4.

IFRS 17 impacts on Sampo Group's life operations

In the IFRS 17 opening balance, insurance contract liabilities amounted to EUR 6.6 billion. The introduction of discounting as well as the new IFRS 17 components, risk adjustment and CSM, increased the insurance contract liabilities. At transition, the CSM amounted to EUR 433 million.

A significant part of life insurance liabilities (unit-linked policies) is in the scope of IFRS 9, as these contracts do not include significant insurance risk or discretionary bonuses. In the opening balance sheet these investment contract liabilities amounted to EUR 7.2 billion. For contracts in the scope of IFRS 9, expected profits are not presented as CSM.

EURm	Share capital	Reserves	Retained earnings	Other components of equity	Non-controlling interests	Total
Equity 31 Dec 2021	**98**	**1,530**	**9,952**	**1,208**	**676**	**13,464**
IFRS 17 adjustments non-life companies			9		-32	-23
IFRS 17 adjustments life company			-18			-18
Tax impact			0		7	7
Other			2	23		25
Equity 1 Jan 2022	**98**	**1,530**	**9,945**	**1,231**	**651**	**13,456**

Equity bridge calculation between IFRS 4 and IFRS 17

Sampo Group has assessed the impact that the application of IFRS 17 has on the Group's equity. Sampo Group's retained earnings decreased by EUR 7 million (of which revaluation of investment property was EUR 2 million) and other components of equity increased by EUR 23 million at 1 January 2022. Other components of equity increased due to the termination of shadow accounting related to the segregated group pension portfolio.

IFRS 17 impact on presentation

The implementation of IFRS 17 leads to significant changes in the presentation and the extent of disclosures in the financial statements during 2023. The introduction of IFRS 17 changes the structure of the statement of profit or loss to reflect the key sources of profit. The insurance service result reflects the result relating to underwriting and servicing insurance policies. The net financial result reflects the insurance finance income and expenses arising from financial components' impacts. Changes in discount rates are recognised in the net financial result under IFRS 17, whereas these were included as prior year development in claims incurred under IFRS 4. IFRS 17 requires changes in the time value of money and changes in financial risk to be presented as insurance finance income or expenses unless the allowed OCI option is applied. Therefore, the effect from changes in interest rates as well as interest expense is presented in its entirety as insurance finance income or expenses. Potential changes in indexation of annuities will be presented within insurance finance income or expenses. Amounts related to reinsurance contracts will be presented separately.

IFRS 9 Financial Instruments (effective for annual periods beginning on 1 January 2018 or after)

IFRS 9 *Financial Instruments* standard supersedes IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard changes the classification and measurement of financial assets and includes a new impairment model based on expected credit losses.

Sampo Group has applied the temporary exemption regarding the adoption of IFRS 9 Financial Instruments and implements IFRS 9 at the same time as IFRS 17 *Insurance Contracts* i.e. on 1 January 2023. The IFRS 9 comparative figures 2022 will not be restated.

Key accounting principles

Financial assets – classification

Under IFRS 9, financial assets are classified as being subsequently measured either at amortised cost, at fair value through other comprehensive income (FVOCI) or at fair value through profit or loss (FVPL). Previous IAS 39 categories held-to-maturity, available-for-sale and loans and receivables cease to exist under IFRS 9. Under IFRS 9, the majority of Sampo Group's financial assets are classified at fair value through profit or loss. On transition to IFRS 9, Sampo Group has classified only a limited amount of financial assets measured at amortised cost and no financial assets are classified as FVOCI.

The classification of financial assets into these new measurement categories is based on Sampo Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets (solely payments of principal and interest -criteria, i.e. SPPI). SPPI criteria is met when the financial instrument's contractual cash flows are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at amortised cost only if the objective of the business model is to hold a financial asset in order to collect contractual cash flows, and the contractual cash flows of the financial asset meet the SPPI criteria. Interest revenue is calculated using the effective interest rate method. Under IFRS 9 financial assets subsequently measured at amortised cost are subject to loss allowance, expected credit losses (ECL), requirements.

Financial assets – impairment

IFRS 9 introduces a forward-looking ECL model, which replaces the model applied under IAS 39 based on incurred losses. In Sampo Group, the ECL model is mainly applicable to financial assets measured at amortised cost. Impairment requirements do not apply to equity instruments or other financial instruments measured at FVPL. Expected credit losses reflect past events, i.e. historical loss experience, current conditions and forecasts of future economic conditions.

IFRS 9 introduces a general approach for impairment in which a loss allowance is calculated either for *12-month expected credit losses or lifetime expected credit losses*. A three-stage model is used to determine the ECL at each reporting date. In stage 1, the credit risk has not increased significantly. Loss allowance is measured at an amount equal to 12-month expected credit losses. In stage 2 and 3, the credit risk has increased significantly since initial recognition and the loss allowance is measured at an amount equal to the lifetime expected credit losses. In stage 3, the financial asset is assessed to be credit-impaired (at default) and the interest is calculated on the credit-impaired amount instead of gross carrying amount.

In Sampo Group the general approach is based on three components, namely probability of default (PD), loss given default (LGD) and exposure at default (EAD).

Financial liabilities

The transition to IFRS 9 does not change the measurement of financial liabilities. Sampo Group measures derivative financial liabilities at fair value through profit or loss. Financial liabilities, including subordinated debt securities, debt securities in issue and other financial liabilities, are subsequently measured at amortised cost using the effective interest rate method.

As described above, a significant part of life insurance liabilities is under the scope of IFRS 9. Sampo Group recognises these investment contract liabilities (unit-linked policies) at fair value through profit or loss. The fair value is based on the financial assets underlying these policies and recognised at FVPL.

Classification and measurement under IFRS 9

The table presents the changes in classification and measurement of the main financial assets and liabilities at the transition to IFRS 9. The implementation of IFRS 9 does not have a material impact on the measurement of the balance sheet, as the main part of financial assets are reported at fair value under IAS 39 in the balance sheet, which is also the measurement principle under IFRS 9. Therefore, the new classification requirements do not have a material impact on total equity.

As financial assets classified as available for sale under IAS 39 are measured at fair value through profit or loss under IFRS 9, the equity reserve related to available-for-sale financial assets is transferred into retained earnings.

There were no changes in the measurement of financial liabilities on transition to IFRS 9.

Expected credit losses

In Sampo Group expected credit losses are calculated on financial assets classified at amortised cost. In Sampo Group financial assets classified at amortised cost consist mainly of bilateral loans. Expected credit losses on loan commitments, short-term deposits and bank accounts are considered immaterial.

Measurement category under IAS 39	Measurement category under IFRS 9	Carrying amount 31 Dec 2022 (IAS 39) EURm	Transfer	Carrying amount 1 Jan 2023 (IFRS 9) EURm
Derivative financial instruments	Derivative financial instruments	79	—	79
Financial assets at fair value	Financial assets at fair value through profit or loss	3,045	—	3,045
Financial assets available for sale	Financial assets at fair value through profit or loss	16,048	—	16,048
Loans and receivables	Financial assets at amortised cost	296	—	296

The carrying amounts presented in the table above exclude the effect of expected credit losses. The effect is expected to be insignificant. Previously recognised incurred credit losses are included in the carrying amounts presented in the table.

Investments underlying unit-linked policies amounting to EUR 10.5 billion are excluded in the table. They are classified as at fair value through profit or loss both under IAS 39 and IFRS 9.