Appendix 4: Profitability, Risks and Capital

Sampo Group operates under a holding company structure and the parent company does not have any business activities of its own. Sampo Group's business activities are conducted in four separately managed independent business areas, with each business area managing their own risks and reserving sufficient capital to cover their risks.

This structure implies that the parent company is structurally subordinated. Hence, it is dependent on business areas' dividends that can be paid only after business areas have met their own obligations. Thus, the parent company prefers to maintain in its business areas a balance between profits, risks and capital which supports business areas' ability to pay stable dividends after servicing their own obligations.

The structure also implies that **Sampo plc's primary focus is on the capitalization at the sub-group level** and when the sub-groups are well-capitalized, the Group is by definition well-capitalized. The latter may not be true if the sub-groups are cross-capitalizing each other, or the parent company is financially weak (highly leveraged and has inadequate liquidity buffers) or profits of the sub-groups are strongly and positively correlated. In Sampo Group none of these three claims are true.

Hence, from Sampo Group's perspective, the main **objectives** are:

- Independent business areas generate a stable and growing stream of profits and have adequate solvency to ensure the continuity of normal business activities.
- The portfolio of separate business areas is stable. From the Group's perspective, a weak correlation of business areas' profits increasing the benefits of diversification on a portfolio level is preferred.
- The Group's parent company is able to provide liquidity for the strategic arrangements and capital injections, if needed. Hence, the parent company prefers to have a relatively low leverage and adequate liquidity buffers to ensure its ability to generate liquidity.

Over the years Sampo Group has disclosed its financial information by segments and relevant risk and solvency reporting by insurance sub-groups. Associated company has disclosed their respective reports independently. Sampo Group has disclosed its group solvency (FICO solvency) according to the Act on the Supervision of Financial and Insurance Conglomerates (699/2004), i.e. conglomerate rules.

Since Solvency II ("SII") entered into force on 1 January 2016, group solvency calculated by Solvency II rules must be disclosed as well. Differences between these methods will be described later in the chapter Capitalization at Group level. In Solvency II Sampo plc is defined as the ultimate parent of the Solvency II group and thus the operative insurance companies each report separate figures to their local supervisors while If P&C group Solvency II figures are not required to be disclosed separately, but as part of Sampo Group SII figures.

In addition to the disclosures described above, which are in line with management structure of the Group, Sampo Group's solvency based on Solvency II rules is disclosed as well.