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 three 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. It is dependent on business areas' dividends that can be paid only after business areas have taken care of 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 the 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 is preferred, because this increases the benefits of diversification on a portfolio level.
- The Group's parent company is able to provide liquidity for the strategic arrangements and capital injections, if needed. Hence the capital structure and the parent company's capacity to generate liquidity is the key. The parent company prefers to have a relatively low leverage and good capacity to generate liquidity in case the business areas need support.

The business model described above has been very well in line with financial accounting and regulatory reporting requirements until the entry of Solvency II ("SII") regulations. Sampo Group has disclosed its financial information by segments and relevant risk reporting by insurance sub-groups. Nordea has disclosed independently their respective reporting. On a group level Sampo has disclosed its Group Solvency by the Act on the Supervision of Financial and Insurance Conglomerates (1193/2004) ("Conglomerate Rule") rules which include no diversification effects and is hence easy to interpret.

The Solvency II rules, which entered into force in 1 January 2016, do not recognize insurance sub-groups that have a holding company as a parent company. Since this is the case for If P&C group this has two implications:

- The operative insurance companies are reporting to their local supervisors and If P&C group is reported as a part of Sampo Group SII figures.
- The regulatory Insurance Group is created by combining Sampo plc, If P&C group companies and Mandatum Life group companies. One common SCR, including also diversification effect, is calculated. Sampo's portion of Nordea's capital requirement is added to Insurance Group requirement when calculating Group solvency for Sampo.

In this Risk Management Disclosure, If P&C group's and Mandatum Life group's risk figures are disclosed first, as they are managed separately. After the company level figures, the figures on Conglomerate solvency reporting at the group level are disclosed. In addition to this, the future reporting of Group's solvency according to Solvency II rules will be described. These reports will be supplied to supervisors for the first time in May 2016. The Risk Management Disclosure includes also the analysis of diversifications between sub-groups as well as an analysis of the leverage and liquidity of the parent company.