

Capitalization

In Sampo Group profitability, risks and the respective capital needs are assessed both at company level and at group level. The targets for the amount of capital and the capital structure of individual companies are set based on these assessments. The correlation of Sampo Group companies' profits and the transferability of capital are taken into account when considering capitalization at group level.

In regard to capitalization, two components are determined both at company and group level to define the target level of loss absorbing items (amount of capital):

- The amount of capital needed for current business activities in the normal course of business: This is based on both measurable and non-measurable risks. Three perspectives - internal, regulatory and rating agency - are taken into account when

measuring risks and defining respective capital needs.

- The additional buffer to be maintained over the defined capital need: The buffer is affected by the level of expected profits and its volatility. Also the uncertainties of the business environment and the need to maintain strategic flexibility may affect the size of additional buffers.

The latter component of targeted amount of capital is more subjective than the former although the former also includes subjectivity in regards to non-measurable risks.

The third item to be determined is the capital structure. The capital structure decisions are mainly affected by the eligibility of capital components - equity, issued hybrid instruments and specific reserves - by regulatory rules and by rating agencies' criteria.