

RISK MANAGEMENT PRINCIPLES

Original approved by the Sampo plc Board 08/12/2009

Latest update approved by the Sampo Plc Board 02/09/2011

Scope of application

With these general guidelines, Sampo's Board of Directors approves the underlying principles guiding the organisation in the division of responsibilities in risk management and internal supervision.

Sampo's Board of Directors requires that all activities involving the exposure of any Sampo Group company to risks, as well as all activities controlling those risks, are arranged to comply with these general guidelines and other related instructions, e.g. instructions and policies regarding compensation provided by the Board, as well as with applicable legislation and regulations. The Board of Directors will supervise the risk taking and risk control activities, in a manner deemed appropriate, to ensure full compliance.

This guideline applies to all Sampo Group companies as such. Sampo plc's subsidiaries will decide on their company specific policies, principles and governance within these group-wide principles. However, the paragraphs 3.1, 3.4 and 3.5 in section three "Risk Management Organisation" are reflecting subsidiaries decisions on Governance and are not guidelines from the Group level.

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1. The objectives, tasks and motivation of the risk management process

For financial sector companies in general, the core competences of business are skilful pricing of risks and proper management of arising risk-exposures. A high quality risk management process is a necessary prerequisite of successful business.

In Sampo Group, the key objectives of risk management are:

- to ensure that risks affecting our profitability and other material risks are identified, assessed and analyzed;
- to ensure that capitalisation – in the form of capital and foreseeable profitability of businesses – is adequate in terms of current risks inherent in business activities and existing business environment;
- to ensure that risk bearing capacity is allocated into different business-areas according to chosen strategies and that risks are properly priced;
- to limit and mitigate fluctuations in the economic values of group companies; and
- to ensure the overall efficiency, security and continuity of operations.

To meet these objectives Sampo's risk management process includes following tasks:

- **Definition and clear division of responsibilities:**
A prerequisite for efficient, high-quality operations is that authorisations and responsibilities in different companies, business areas, centralized units and administrative bodies are clearly defined.
- **Identification of Risks:** The risks involved in business operations and business environment are monitored continuously. In particular, when new services are launched or business environment is changing, risks must be thoroughly analysed. Risks, which Sampo Group companies face, are defined in Appendix 1.
- **Size of Capital:** The need of capital to cover measurable risks and Risk Buffers (i.e. the difference between

actual level of capitalisation and internally assessed Economic Capital) is assessed and analysed regularly. Capital Management process is defined in Appendix 2.

- **Pricing of Risks:** Sound pricing of customer transactions and careful risk/return consideration of investments is the prerequisite for achieving the targeted financial performance and profitability over time. In general, starting points of insurance policy pricing and investment decisions are (i) adequate expected return on allocated capital and (ii) operating costs.
- **Managing Risk Exposures:** Liability and investment risks are adjusted to maintain a sound risk to return ratio and return on capital (ROC). Management's responsibilities and authorisations are defined on separate documents, e.g. underwriting and investment policies. Companies can use derivatives approved by them to manage their risk exposures. In case derivatives are booked under hedging –treatment both Cash Flow and Fair Value hedging as described by IAS39 can be applied according to accounting principles approved in company.
- **Measuring and reporting of Risks:** Results, risks, profitability and needed capitalisation are measured, analysed and reported by Finance and Risk Management units, which are independent from business activities.

A high-quality risk management process provides shareholder value for the following reasons:

- **Clients** get a reliable service from a reputable institution with an effective risk management;
- Risk premium required by **Investors** will be smaller when risks are transparent and the risk management process is clearly described and communicated;
- The motivation of the **Personnel** strengthens when strategies, authorisations, limits, targeted return and reward criteria are clearly defined and communicated; and
- **Supervisory Authorities'** confidence in company's ability to control the risks associated with its activities further bolsters co-operation with the authorities.

2. General Group level risk statements

2.1 Risk appetite

- Cost-efficient customer business – soundly priced in terms of risks and adding value to our clients – is the primary source of Sampo Group's profits and hence shareholder value.
- Customer transactions implementing the business strategy on the one hand and investment portfolios on the other hand, are the primary source of companies' risk exposures. Over time, majority of the risk bearing capacity as an average is allocated accordingly.
- Sampo Group is an active participant in financial sector consolidation process in the Nordic area. When Strategic opportunities appear, they are considered separately and decisions including allocation of risk bearing capacity are made separately by Sampo Plc's Board of Directors. As a result, a considerable amount of capital may be allocated into strategic arrangements.
- Non-strategic or otherwise unnecessary balance sheet items will be disposed of and the released capital and reserves will be distributed to the parent company as appropriate.

2.2 Capital management

- As a general rule, the target level of capitalisation – solvency capital and other items absorbing economic losses – is maintained above both the internally assessed need for capital, which is called Economic Capital, and the capital amount required by Rating-agency for target Rating set by the company itself. The difference between the target level of capitalisation and Economic Capital, i.e. the desired Risk Buffers, are defined while deciding on the capitalisation targets of various Group companies.
- As a rule, any potential excess capital (i.e. the actual capital in excess of the target capital) in any group company is transferred into the parent company, which also provides capital injections to subsidiaries, if needed.

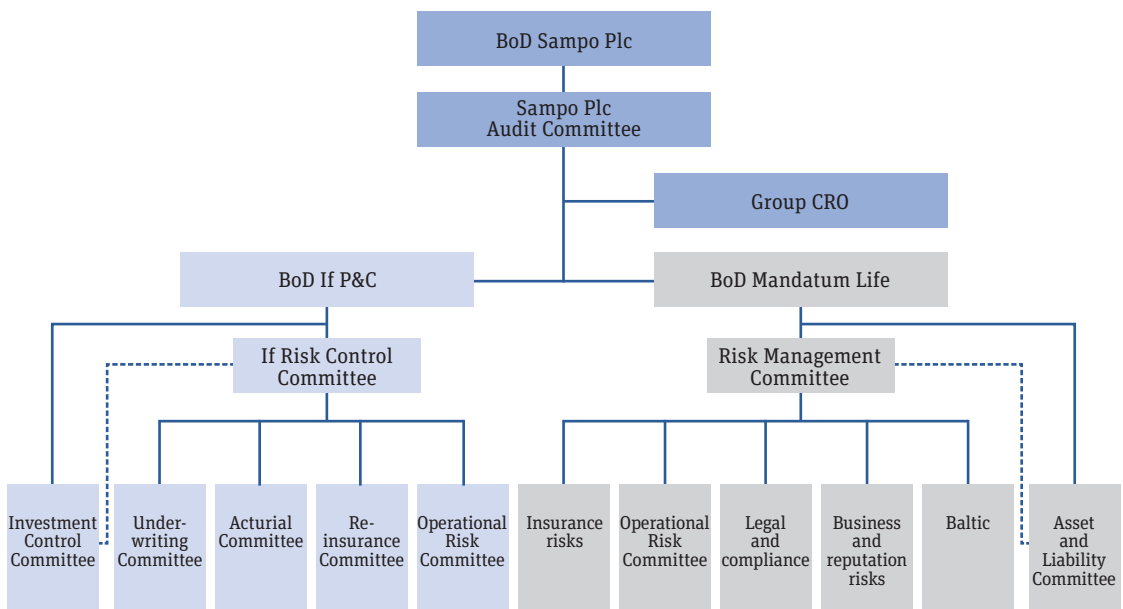
- The balance between risks and actual level of capitalisation is analyzed and monitored constantly assuming historical circumstances and, from time to time, different stress-scenarios defined by the management.
- When a potential imbalance between risks and actual level of capitalisation is identified, balance will be secured by adjusting existing risk exposures, capital or both. In general, Sampo Group considers that maintaining the profitability of businesses and active adjustment of risks is the first line of defence in Risk Management and, in a long run, even more important factor than capitalisation.

2.3 Division of responsibilities

- The focus is on the company-level management of assets and liabilities, risks and capitalisation. In addition, Group level risk accumulations and concentrations are (i) prevented by organizing the division of responsibilities carefully between the companies, (ii) monitored regularly in Audit Committee, and (iii) managed by adjusting aggregated risks where necessary.
- The subsidiaries' line organisations are in charge of pricing their products and services and organising their sales and implementation processes, for ensuring the profitability, efficiency, security and continuity of their operations. Investments, liquidity management and capital transactions are coordinated by parent company and conducted centrally by Investment Units. Group level reporting of financial results as well as Group Risk Control are the responsibility of Sampo plc's Finance and Risk Control units, which are independent from business operations.
- Companies are required to organize their risk management activities – identification, measurement and management – within the principles and definitions described in this guideline and within the return and capitalisation targets approved by Sampo Plc's Board of Directors.
- Companies will decide on company-specific risk policies independently within their internal governance structure.

3. Risk management organisation

3.1 Risk Management Governance Framework



3.2 Sampo Plc’s Board of Directors

- makes decisions regarding group-level risk management principles and other general guidelines. Risk management activities and internal control will be organised in accordance with the decisions of the Board of Directors;
- makes decisions on group strategies and sets high-level limits for risk-taking of subsidiaries;
- makes decisions on overall guidelines regarding capital allocations and target returns;
- makes decisions on key monitoring principles (such as risk measurement and performance calculation); and
- appoints an Audit Committee.

3.3 Audit Committee

Sampo plc’s Board of Directors has established an Audit Committee, which duties related to risk management are defined in Audit Committee’s Rules of Procedure as confirmed by Sampo plc’s Board of Directors.

3.4 Subsidiaries' Board of Directors

- within their decision making authority, organise the business activities of the subsidiaries to implement strategic decisions made by Sampo's Board of Directors;
- make decisions on specific risk-taking policies, capitalisation, risk limits and the delegation of authorisations within the framework provided by approved Sampo Guidelines or otherwise binding decisions by Sampo's Board of Directors;
- control risks and capitalisation and be in charge of regulatory solvency and internally assessed solvency at all times;
- appoint persons to specific committees (among others underwriting, investment and operational risk committees, as deemed appropriate) and approves the policies and plans prepared by them;
- make decisions on policies regarding the management of operational risks and supervise their implementation;
- make decisions regarding the calculation principles for life and non-life insurance products and supervise their implementation; and
- make decisions regarding the principles on reinsurance coverage of life and non-life insurance policies and supervise their implementation.

3.5 Subsidiaries' Risk Committees

If P&C Holding's and its subsidiaries' Board of Directors and Mandatum Life's Board of Directors have each appointed separate committees with specified duties and tasks.

In If P&C all risks are monitored in If Internal Risk Control Committee (IRCC) chaired by If P&C Insurance Holding's Managing Director. The separate risk committees in IF P&C reporting to the IRCC are the Actuarial Committee, Underwriting Committee, Reinsurance Committee, Investment Control Committee and Operational Risk Committee.

In Mandatum Life risks are monitored in Risk Management Committee (RMC) chaired by Mandatum Life's Managing Director. The separate risk committees reporting to RMC are asset and liability committee and operational risk committee. In addition, insurance risks, legal and compliance issues, business- and reputation risks and business issues regarding the Baltic countries are reported to RMC by responsible line organisations.

Sampo plc's investment activity and related risk management is governed by Sampo plc's Balance Sheet Policy.

3.6 Group Chief Risk Officer

Scope of Responsibility:

- Secure a holistic view of the risks Sampo is exposed to, including monitoring and measuring Sampo's aggregated risk exposure as appropriate;
- Co-ordinate the risk management work within the group;
- Co-ordinate and monitor company specific and group level risk reporting;
- Conduct continuous independent risk analysis based on available risk reporting; and
- Suggest changes in policies, guidelines and instructions related to risk management.

Appendix 1

RISK DEFINITIONS

In general, risk in business operations can be defined as “a probability of something happening and causing the result being different – i.e. better or worse – than expected”. From Risk Management’s perspective, relevant is to be able to manage risks so that the negative consequences (i.e. losses) of risks are within toleration limits.

Risks can be classified in many ways. In Sampo Group the risks associated with business activities fall by definition into two main categories: risks inherent in business operations and risks associated with the business environment. Within those main categories risks are categorized by underlying risk factors. Some of Sampo Group definitions are consciously different than the ones used in Solvency II framework, but same risk factors are covered anyhow.

1. Risks inherent in business operations

The management of risks inherent in business operations – earnings risks and consequential risks are the responsibility of the business areas and investment unit in the decision-making sense, and at the same time, come under the supervision of independent risk control.

1.1 Earnings risks

In its business operations, Sampo Group is taking consciously certain risks in order to generate earnings. They are actively managed by (i) pricing the risks, (ii) considering their Return to Risk -ratio and (iii) adjusting the risk exposures of business operations regularly. The following earnings-related risks are essential for Sampo Group and Sampo is constantly developing the skills of the personnel to keep the management of those risks as our core competence.

Life Insurance Risks

Biometric Risks refer to the risk that the company has to pay larger mortality, disability or morbidity benefits than expected or the company has to keep paying pension

payments to the pension policy holder for a longer time (longevity risk) than expected when pricing the policies.

Other Risks arise from the uncertainty related to behaviour of the policyholders. The Policyholders have the right to cease paying premiums (lapse risk) and the possibility to interrupt their policies (surrender risk).

Non-Life Insurance Risks

Premium Risk is the risk that the claims cost for future claims exceeds the expected level. This could be due to e.g. inadequate pricing, risk concentration, improper re-insurance coverage or due to unexpected deviations in the frequency of claims (i.e. the number of claims incurred during the period being higher than expected) and / or in the size of claims (i.e. claims when they occur being larger than anticipated).

Reserve Risk is the risk that technical provisions are not sufficient to cover the cost for already incurred claims and results from fluctuations in the timing and amount of claim settlements.

Catastrophe risk is the risk of low frequency, high severity events, such as natural catastrophes, that are not captured adequately by the premium risk or reserve risk.

Market risks refer to fluctuations in the financial results and capital caused by changes in market values of financial assets and liabilities, as well as technical provisions. Market values change together with underlying tradable market risk variables of which following ones are currently most important for Sampo Group: Interest rates, inflation, credit spreads, foreign exchange rates, share prices and their volatilities. Furthermore, market risks include also risk of worsening market liquidity and the risk that there are unexpected changes in repayment schedules of assets. In both cases the value of financial instruments in portfolio can change.

Risks and returns available at different markets are considered when company is entering into or exiting from an

investment portfolio. The profound distinction to insurance risks is that in the area of Market risks Sampo Group is a price taker and not a price giver.

Market Risks are the other major earnings risk for Sampo Group and good performance in this area is a critical success factor.

The company is exposed to **ALM risk** when changes in different market risk variables (e.g. interest rates, inflation, foreign exchange rates, equity prices) cause a change in the value of investment assets that is of different size than the respective change in the economic value of technical provisions. In addition, the cash flows of technical provisions are modelled estimates and therefore uncertain in relation to both their timing and amount. ALM risk also includes this component of uncertainty.

ALM-risks contribute considerably to economic values and risks, but in a competitive environment they can not be managed by pricing in their effects on products. To manage them, Sampo Group companies monitor and analyze ALM-risks actively and they are taken into account when managing investments and developing insurance products.

1.2 Consequential Risks

Consequential risks are indirect consequences of Sampo's business activities.

Credit risk (default) refers to the negative impact in the financial results arising from defaults of debtors (Issuer Risk) or other counterparties (Counterparty Risk in derivatives and re-insurance contracts). Credit Risk may realize when the cash flows agreed with the debtor or counterparty fail to materialise. In case of Issuer Risk the final loss depends on our holding in security and the recovery rate and, in case of Counterparty Risk, final loss depends on potential positive Mark-To-Market value at the time of default together with recovery rate.

Credit Risk is managed and mitigated by careful selection of Issuers and Counterparties, by diversification to prevent concentrations and by using collateral techniques, e.g. ISDA Master Agreements backed by Credit Support Annexes.

Liquidity risk is the risk that insurance undertakings are unable to conduct their regular business activities in accordance with the strategy, or in extreme cases, are unable to settle their financial obligations when they fall due. Liquidity Risk deals with potential illiquidity of investments and non-renewal of insurance policies. Also the availability and price of refinance and financial derivatives are affecting to company's ability to carry out regular business.

The sources of liquidity risk are many. If the company's rating declines or if the company's solvency otherwise appears jeopardised, its ability to raise funding, sign reinsurance contracts or enter into financial derivatives at a reasonable price is endangered. Policy holders may also not be willing to renew their policies. In case of general market turmoil the same implications may affect simultaneously with difficulties to sell investment assets.

Since there is no unambiguous technique to quantify the Liquidity risk, Sampo manages it by taking due care of its own and subsidiary companies' creditworthiness and reputation. Also, a careful diversification of business operations exposed to liquidity risks is used. In particular the maturity diversification of expected cash flows generated from different business activities is under constant scrutiny.

Operational risk refers to the risk of loss resulting from inadequate or failed processes or systems, from personnel and systems or from external events. This definition includes legal risk but excludes risks resulting from strategic decisions. The risks may realise as a consequence of

- internal misconduct;
- external misconduct;
- insufficient human resources management;

- insufficiencies in operating policies as far as customers, products or business activities are concerned;
- damage to physical property;
- interruption of activities and system failures; and
- defects in the operating process.

Operational risk may materialize as additional expenses, compensations for caused damages, loss of reputation, false information on risk position and consecutive losses, and interruption of business activities.

The principles of managing Operational Risks in Sampo Group are presented in Appendix 3 to this guideline.

2. General Business Risk

General Business Risk is the risk of losses due to changes in the competitive environment or internal flexibility.

Unexpected changes in general business environment can cause bigger than expected fluctuations in financial results. Such changes include the general economic development, changes in the institutional environment, technological innovations and competitive factors such as new competitors and changes in margins and volumes.

Because company very seldom has any influence over incidents in the competitive environment, the risks associated with the competitive situation are the responsibility of the executive level senior management. To maintain the competitive edge, proactive strategic movements are the central tool to manage business risks. Also maintaining internal flexibility to adjust business model and cost structure when needed is an efficient tool to manage business risk. Business Risks – as well as operational risks and market illiquidity risks - are difficult to measure mathematically in terms of required amount of Economic Capital. Their contribution is, however, reflected in annual capitalisation decisions.

Appendix 2

INTERNAL CAPITAL ADEQUACY ASSESSMENT

In Sampo Group the total need for capital (i.e. the target level of capitalisation) is assessed regularly. A quantitative method called Economic Capital is used as a basis and, in addition to that, capital targets are adjusted based on qualitative assessment.

Economic Capital (“EC”). The need for economic capital is specified as follows:

- **Calculation Methods:** In EC-framework risks are assessed based on risk factors’ volatilities and correlation between them. This can be done either by having separate risk models for different risks and aggregating them taking into account diversification of separate risks (VaR technique) or by having simultaneous modelling for related risks (Dynamic Financial Analysis). In both methods several stochastically set scenarios are calculated for chosen risk horizon and statistical distributions are generated from scenario-results. One risk measure is the difference between the mean of a distribution and a certain percentile corresponding to the chosen confidence level.
- **Actual Calculation:** First, on a business area level, the tied EC to risks related to current operations is assessed by using the methods suitable for the business area. When separate risks are assessed then at next stage, the impacts of risk diversification by risk class and by business areas will be assessed.

In Sampo, EC is considered to be an efficient predictor of needed capital to cover risks which are measurable in a reliable way. EC provides a reasonable estimate for needed capitalisation in terms of historically known business environments. However, in unprecedented conditions related to risk factors or business environment, EC may not be a sufficient predictor of capital need, irrespective of the applied confidence level. Consequently, there is a need to add capital over EC.

Qualitative Adjustment. When assessing capital need above EC, following areas are considered and their contribution to capital need is assessed:

- Low probability, high impact risks may affect Sampo’s business operations. They may happen because of very rare, single event or when market conditions change abruptly due to permanent change in risk factor’s trend.
- The changes in Business environment – taxation, laws, major technological changes - may affect supply and demand conditions and hence profitability.

In Sampo Group, potential scenarios regarding above risks are identified and their affect on Sampo’s businesses in general and on P/L and solvency in special are assessed. The assessment results may affect on capital targets and lead to potential adjustments in capitalisation levels.

Sampo plc, as a major listed financial holding company with subsidiaries both in life and p&c insurance business and as a major shareholder in Nordea AB (publ.), has not only shareholders, but also other stakeholders (e.g. equity & debt investors, rating agencies, supervisory authorities), who may have reasoned opinions on the appropriate level of capitalisation both on the group and on the subsidiary level. These opinions are also taken into account when capitalisation is considered.

Summary

Sampo’s internal capital adequacy assessment and subsequent decisions on the actual level of capitalisation is always based on quantitative assessment provided by the EC-analysis, but it also takes into account less quantifiable aspects of low probability risks as well as the justified opinions of other stakeholders, as appropriate.

Appendix 3

MANAGEMENT OF OPERATIONAL RISKS

The goals of Operational Risk Management are:

- to ensure simultaneously the efficiency and quality of operations;
- to ensure that operations are compliant with laws and regulations; and
- to ensure the continuity of business operations in exceptional circumstances.

Each company is **responsible** for arranging its operational risk management to align with above goals, taking also into account the specific features of its business activities.

The central **tools** in Operational Risk Management are (i) the identification of risks, (ii) proper preventive actions at all levels of operations and (iii) continuity planning. To ensure the use of these tools, **responsibilities** in the following areas must be set clearly:

- drafting and enforcement of adequate Operational Risk policies and continuity plans;
- legal and financial compliance of operations;
- continuous development of human resources (knowledge and skills) and work-processes;
- day to day management; and
- reporting and controlling.

Examples of areas where operational risk management is considered especially important are:

- **Personnel.**

To perform their duties with skill and competence, personnel must have adequate experience for their work, as well as the required special skills and training. Also responsibilities and objectives of employees have to be clearly set, described and adequately communicated

- **Risk identification.**

Risks related to services and products offered should be identified to ensure the functionality of the sales, implementation and reporting processes. Risk identification is crucial when new businesses are launched or there are fundamental changes in the way business is conducted.

- **Work processes.**

Work processes and user rights to IT-systems have to be arranged in such a way that various parts of a process cannot be controlled by one person alone. Duties shall not include dangerous combinations and personnel should have user rights only to systems they need for their duties.

- **Ensuring the correctness of information.**

All information entered into data systems (either related to contractual / customer information or any other relevant information) must be sufficient in scope and accuracy. The accuracy of the information has to be verified using controlling methods appropriate for the business area in question.

- **Security of Data and Information systems.**

It must be ensured that data security of systems is sufficient and up-to-date.

- **The correctness of calculated information.**

The calculation routines used both in internal (quantifying business development, performance and risks) and external reporting (all client and other stakeholder related reporting) must be verified and documented.

- **Physical Property.**

Physical property and hardware are examples where continuity plans are needed.