18 JUNE 2025

Sampo Group
Risk Management Principles

Table of contents

Risk Management Principles

Scope of application

With these general guidelines, Sampo plc's Board of Directors confirms the underlying principles regarding risk management within the Sampo Group companies.

Sampo plc'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 related instructions, including instructions and policies regarding remuneration 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.

The principles laid down herein apply to all Sampo Group companies. Company specific policy and governance documents should follow these principles, taking, however, into account the requirements of different jurisdictions where they operate in and other specific requirements of the business. In case of conflict between these principles and locally binding set of rules, the locally binding set of rules prevails, and company specific risk management policies shall be aligned with normative requirements.

These principles are reviewed annually and always when deemed necessary due to material changes in the regulatory framework, operating environment or within Sampo Group. All updates and amendments to these principles shall be approved by Sampo plc's Board of Directors.

1. The risk management system

The purpose of risk management is the creation and protection of value. The risk management system is part of the larger internal control system, and it integrates risk management into the governance of the Group and its significant activities and functions, including decision-making. The risk management system comprises the overall organisational structure, documented rules, processes and procedures as well as resources to identify, measure or assess, contain, monitor, and report on risk exposure and overall risk management. It is supported by Sampo's corporate governance system and risk culture. It is built on the principles given in this document and the corresponding policies.

Risks in Sampo Group are classified under three broad categories, namely business risks, reputational risk, and risks inherent in business operations, as defined in Appendix 1.

1.1 The objectives of risk management

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

1) balance between risks, capital and earnings,

2) cost efficient and high-quality processes, and

3) strategic and operational flexibility.

The balance between risks, capital and earnings requires that risks affecting profitability as well as other material risks are identified, assessed, and analysed. This means that underwriting risks are priced reflecting their inherent risk levels, and that expected returns of investment activities are in balance with their risks and consequential risks are mitigated sufficiently. At the same time, capitalisation is managed in order to be adequate in terms of current risks inherent in business activities and business risks, when taking into account the expected profitability of the businesses. Furthermore, risk-bearing capacity is allocated into different business areas in accordance with the strategy.

Client service processes, internal operational processes and external reporting are designed to be cost efficient, sufficiently secured and of high quality. This supports also the continuity of operations and fast and comprehensive recovery in case of discontinuity events. High-quality processes help to ensure that decision-making is based on accurate, adequate and timely information.

Reacting to changes in the business environment requires the identification of external risk drivers and potential business risks. Strategic and operational flexibility means that the Group is in a good position, in terms of capital structure and management skills, but also in terms of its corporate structures, knowledge and processes, to facilitate an effective response to changes in the business environment.

When the above objectives are met, risk management is contributing positively on return on equity and mitigating the yearly fluctuations in profitability.

1.2 Effective management of risks

To meet the objectives described above, Sampo's risk management system includes the risk management governance structure and authorisations presented in section 3 (Risk management organisation) and a clear division of responsibilities between business lines and independent functions. The insurance entities in the Group shall have prudent valuation, risk measurement and reporting procedures, in line with the companies' more detailed risk policies and instructions related to risk management.

Effective risk management is carried out by way of the risk management process, which involves the systematic application of policies, procedures and practices to the activities of identifying, assessing, treating, monitoring, measuring, and reporting risk.

- **Identification of risks**: The risks involved in business operations and business environment, are monitored continuously together with earnings potential. In particular, when new services are launched or business environment is changing, earnings potential and risks including reputational risks shall be thoroughly analysed. Risks, which Sampo Group companies face, are defined in Appendix 1 (Risk definitions).
- **Assessment of capital need**: The capital need to cover measured risks, risk-based capital, is assessed and analysed regularly by risk types and over risks and business areas. In addition, management considers the size of the buffers over risk-based capital to get actual amount of capital. Capital management process is defined in Appendix 2 (Capital and liquidity management).
- **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, capital positions and operational processes**: The risks of insurance liabilities, investment portfolios and operational processes and capital positions 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. In addition to internal adjustments of risks and capital, companies can transfer risks to external parties by using derivatives and reinsurance contracts.
- **Measuring and reporting of risks**: Results, risks, profitability and needed capitalisation are measured, analysed and reported by Finance and Risk Management functions, which are independent from business activities.

High-quality risk management facilitates the creation of shareholder value for the following reasons:

- **Clients** get a reliable service from a reputable institution and they feel confident when their client relationships are managed in a diligent and prudent manner, with effective risk management;
- Risk premium required by **investors** and **counterparties** will be smaller when risks are transparent and risk management 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 cooperation with the authorities.

2. General Group level risk management

2.1 Risk appetite and risk strategy

Sampo's risk appetite defines the boundaries for what risk the Group is willing to accept in the pursuit of its objectives. It is reflected in Sampo's capital management framework[1] and its risk management strategy.

Risk is an essential and inherent element of Sampo Group's business activities and operating environment. High-quality risk management is a prerequisite for success in all the Group's businesses and for assuring a stable result and the delivery of its key financial targets for 2024-2026:

- A Group combined ratio less than 85 per cent
- Operating EPS growth > 7 per cent
- Stable dividend that grows with operating result
- Generate > EUR 4,5 billion of deployable capital
- Solvency II ratio between 150-190 per cent
- Financial leverage less than 30 per cent

Sampo's risk management strategy is to:

- Ensure that risks affecting the profit and loss account and the balance sheet are identified, assessed, managed, monitored and reported in all business activities and at the Group level;
- Ensure cost-efficient customer business that is soundly priced in terms of risks and adding value to our clients;
- Ensure the overall efficiency and resilience of operations;
- Ensure that risk buffers – in the form of capital and foreseeable profitability – are adequate in relation to the current risks inherent in business activities and existing market environment;
- Limit M&A transactions to bolt-ons in non-life insurance within current markets;
- Dispose non-strategic or otherwise unnecessary balance sheet items and distribute the released capital and reserves to the parent company as appropriate; and
- Arrange its activities in ways that safeguard the Group's reputation, since in addition to the ability to provide value-adding services for its clients and sound capitalisation, the confidence of the clients and other stakeholders is among the most significant assets of Sampo Group.

[1] see section 2.2

The link between risk appetite and the risk profile and capitalisation shall be analysed and reported in the risk and solvency assessment[2] process including analyses of the capital adequacy and regulatory capital requirements under various risk scenarios. Consequently, the process shall influence the Group's strategic risk management and capital management actions.

All Group companies prepare risk appetite statements that follow Sampo Group level principles and that are communicated through company-specific policies, which shall include approved risk tolerance limits for the main risk types.

2.2 Risks and capital management

Group level capitalisation is managed within Sampo's capital management framework[3], which sets targets for solvency and informs potential risk management actions.

Sampo solvency targets are determined by the Group's ambition to provide an attractive risk-returns profile to shareholders and reflect Sampo's risk appetite:

- The balance between risks and actual level of capital is analysed and monitored regularly assuming historical circumstances and different stress scenarios defined by the management.
- When a potential imbalance between risks and actual level of capitalisation is identified, the balance will be secured by adjusting existing risk levels, capital or both. In general, Sampo believes that maintaining the profitability of businesses and active adjustment of risks play a key role in risk management and, in the long run, are more important than capitalisation.

The size of capital buffers is monitored for each regulated company and there should be practices in place to maintain the actual amount of capital over the defined capital floor.

In addition to solvency, Sampo's capital management framework sets targets for debt leverage, which reflect a broad range of criteria including the availability of debt capacity:

- Sampo considers debt capacity as an important source of holding company liquidity and solvency capital in a stress event, and therefore aims to ensure reliable access to debt capital markets.
- Sampo's holding company liquidity reflects the risk that Sampo plc may need cash in periods when access to capital markets could be limited. Key considerations in this regard include debt redemptions and potential shortfalls in subsidiary capitalisation.

2.3 Division of responsibilities

- The Group's holding company, Sampo plc, is responsible for the Group's capital management activities. These actions are guided by targets set for Group level solvency and debt leverage and they include decisions on Group level investment exposures, business growth and performance targets, reinsurance strategies, capital distributions and capital instrument issuances. In addition, Group level risk accumulations and concentrations are (i) prevented by organising the division of responsibilities carefully between the companies, (ii) monitored regularly in Sampo plc's Board of Directors' Audit Committee, and (iii) managed by adjusting aggregated risks where necessary.

[2] ORSA, "Own Risk and Solvency Assessment".
[3] For more details, see Appendix 2 Capital and liquidity management

- Group level reporting of financial results and risks are the responsibility of Sampo plc's Group Finance and Risk Management functions, which are independent from business operations.
- The business functions are in charge of pricing their products and services and organising their sales and implementation processes, for ensuring the profitability, efficiency, quality, security and continuity of their operations as well as the liability towards the clients. They are also responsible for the management of assets and liabilities, risks and capitalisation on the company level.
- Most of the risk management activities are performed by the business functions, which are required to organise their risk management activities - identification, assessment, measurement, monitoring and adjustment – 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 can acquire critical services from third parties or outsource their functions where they deem it efficient, while bearing in mind that core business functions, being critical success factors, shall not, as a main rule, be outsourced outside Sampo Group. If certain activities are outsourced or acquired from third parties, the relevant Sampo Group company nevertheless always carries the ultimate responsibility and risks of the operation. The Group companies engaged in service acquisition or outsourcing activities shall ensure that they comply with the relevant regulation and authorities' instructions/ recommendations regarding services acquired from third parties or outsourcing and are encouraged to maintain relevant policies that shall be complied with in all service acquisition and outsourcing arrangements.
- Companies will decide on company-specific risk policies and their risk reporting to management committees and their Board of Directors within their internal governance structure. However, they are also responsible for reporting of risks to the Group CRO, as authorised by the Audit Committee and defined by the Group CRO (see section 4).
- Sampo plc has the overall responsibility for the Sampo Group Internal Model, including decisions related to changes and validation of the model. The day-to-day operation, including development, updates and performing the validation of the model, is however carried out by If P&C.

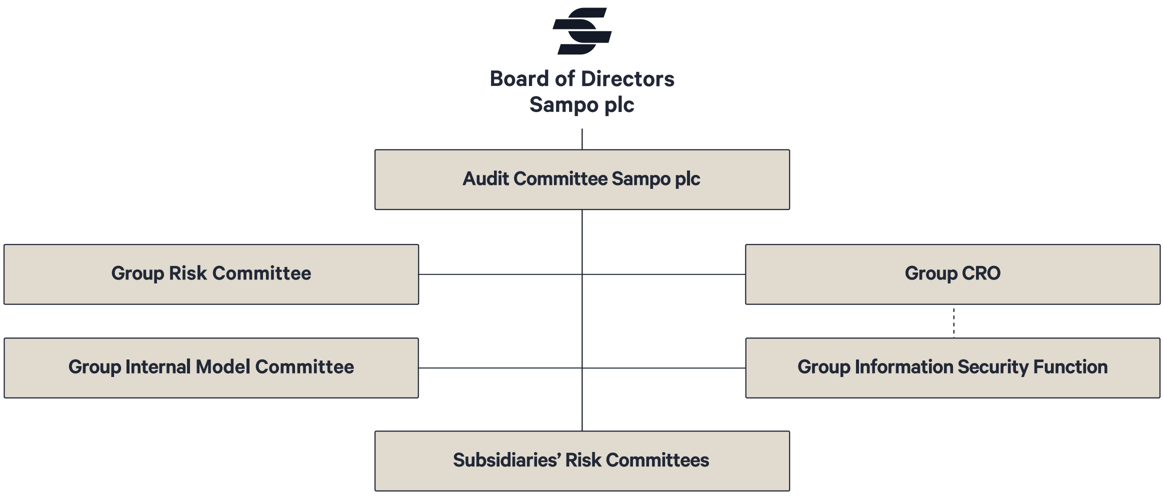
3. Risk management organisation

3.1 Risk management governance framework

Sampo Group companies organise their business activities, internal control and risk management according to group-wide principles of which the most important are Code of Conduct, Internal Control Policy, Risk Management Principles, Remuneration Principles, Compliance Principles and Disclosure and Communication Policy. They approve more detailed policies and instructions and organise their reporting to management bodies.

However, they have also group-wide reporting responsibilities that are, to the extent applicable, both in line with (i) relevant regulatory requirements and (ii) the internal requirements within Sampo Group, as described in section 4. Reporting must take into account the specific features of companies' business activities and their business environment.

Risk management governance framework in Sampo Group



3.2 Sampo plc's Board of Directors

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;
- makes decisions on overall guidelines regarding capital management and performance targets;
- makes decisions on the system of governance for the Sampo Group Internal Model to ensure adequacy and effectiveness of the model, as well as deciding to apply for supervisory approval of a major change of the model; and
- appoints an Audit Committee.

3.3 Audit Committee

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

3.4 Subsidiary companies' Boards of Directors

Subsidiary companies' Boards of Directors

- within their decision-making authority, organise the business activities of the subsidiaries to implement strategic decisions made by Sampo plc'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 plc's Board of Directors;
- control risks subject to capital requirements and capitalisation and be in charge of regulatory solvency and internally assessed solvency at all times;
- appoint relevant committees (among others underwriting, investment and risk committees, as deemed appropriate) and approve the policies and plans prepared by them;
- make decisions on policies regarding the management of risks and supervise their implementation;
- make decisions regarding the calculation principles for insurance products and supervise their implementation;
- make decisions regarding the principles on reinsurance coverage of insurance policies and supervise their implementation; and
- must ensure that all critical processes including services acquired from the third party - client services, internal processes and external reporting - have clear ownership that include responsibility to maintain high quality and operational resilience of these processes.

3.5 Subsidiaries' risk committees

If P&C Insurance Holding's and its subsidiaries' Boards of Directors have each appointed separate committees with specified duties and tasks. All risks are monitored in If's Risk Committee chaired by If P&C Insurance Holding's Managing Director. The separate committees in If P&C reporting to the Risk Committee are the Actuarial Committee, Underwriting Committee, Reinsurance Committee, Reinsurance Security Committee, Investment Control Committee, Information Security Committee, Ethics Committee and Sustainability Committee. The Chair of each committee is responsible for organising the required reporting to the Risk Committee. In addition, there is Compliance function reporting directly to If P&C Board of Directors.

The board of directors of each trading entity in the Hastings Group has responsibility for the establishment and maintenance of a robust and effective risk management framework, directly or via a Risk and Compliance Committee, within the overall context of the Hastings Group. The Hastings Group Holdings Limited Board, via its Risk and Compliance Committee, oversees the risk management framework at the Hastings Group level. Each trading entity has its own Risk and Compliance function, with established monitoring and reporting protocols to assist business operations in the identification, monitoring, and mitigation of risks, classified within a risk taxonomy. These functions also ensure appropriate and timely reporting to the relevant boards and committees.

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

3.6 Group Chief Risk Officer

Sampo plc's Risk Management function is organised under the Group Chief Risk Officer (CRO). In addition, the Group Information Security function has an indirect reporting line to the Group CRO. Both of these functions report directly to Sampo plc's Board of Directors and the Audit Committee.

Scope of responsibility:

- Secure a holistic view of the risks Sampo Group 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;
- Suggest changes in policies, guidelines and instructions related to risk management;
- Manage the Sampo Group Internal Model, including securing a model validation process independent from the operation and development of the model.

3.7 Group Risk Committee

The Sampo Group Chief Financial Officer (CFO) chairs the Group Risk Committee that ensures communication and cooperation in supporting risk management, including internal control, and risk reporting in Sampo Group. The committee assists both the Board of Directors as well as the Group CEO in the effective operation of the risk management system by:

- Monitoring that all material risks within the Group are assessed, managed, and reported as they should; and
- Monitoring and assessing whether the Group's short-term and long-term aggregate risk profile is aligned with its risk strategy and capital requirements.

Members of the Risk Committee include the Chief Risk Officers of the Group companies and the Group CRO, who is in charge of presenting any relevant analysis or assessments made in the Risk Committee to Sampo plc's Board of Directors' Audit Committee. The Chair may invite to specific agenda points in the meetings any other persons representing Group companies.

3.8 Group Internal Model Committee

The Group Internal Model Committee is an advisory and preparatory body to the Group CEO and the Board of Directors of Sampo plc as well as for all Group companies' Boards of Directors and CEOs using the Group Internal Model to calculate the Solvency Capital Requirement. The tasks of the Committee include, but are not limited to:

- Discuss and prioritise input received from various stakeholders in order to ensure that the Group Internal Model reflect the risk profile appropriately; and
- Discuss and prioritise actions to be taken based on validation findings and give input to subsequent validation.

The committee is chaired by the Sampo Group CRO.

4. Risk reporting

4.1 Regular risk reporting

At Group level profits, risks and capital are reported at least quarterly and reporting shall mainly be based on reporting undertaken in the business functions. In addition to reports covering business functions, Group level risk concentrations shall be monitored separately. Also, parent company's capacity to generate liquidity shall be covered in the reporting.

The Group CRO, authorised by the Audit Committee, must receive at least quarterly risk reports covering all relevant risks. Regular risk reports provide the Group CRO with aggregate and analysed information about the risks defined in Appendix 1 and these reports are the basis for Group level risk analysis prepared for the Audit Committee. Group CRO maintains a list of reports to be provided regularly by all Group companies. Group CRO together with Group companies' risk management functions is responsible for continuously developing contents of regular reports.

For more details of risk reporting procedures, see Appendix 4 (Sampo Group's Own Risk and Solvency Assessment ("ORSA") Policy).

4.2 Non-regular risk reporting

In addition to regular risk reports, there are two kind of other risk reports:

1. **Group CRO requests:** Group CRO may ask companies to prepare an analysis/review on subjects that need special attention. The purpose of these reports is to deepen Sampo Group's understanding of the subject in question and the risks related thereto. Based on the report provided, the Group CRO together with the relevant company shall analyse whether there is need for actions to mitigate the possible risks.

2. **Severe incidents:** The purpose of the incident reporting procedure is to enable Group management's preparedness for mitigating actions. Additionally, it contributes to ensuring that all employees understand the significance of reputation to all Group companies and the provisions of the Code of Conduct that apply to all Sampo Group employees.

   Group companies, based on their established reporting practices, shall inform their Board of Directors of realised risk events and/or identified threats, which may (i) cause significant financial losses directly or indirectly and/or (ii) threaten the reputation of the company, immediately after becoming aware of them. Rapid provision of all then available information is of essence for the Board's capability to contemplate appropriate risk management actions, if any.

   If the incident potentially affects the reputation and/or financial standing of the entire Sampo Group and/or Sampo plc, the CRO of the company, or the person nominated by him/her at his/her absence, shall inform immediately also Group IR, Compliance and Risk Management.

   Prudent analysis and a report of the incident shall be made without delay after the relevant parties have been informed about it. The CRO of the company is responsible for delivering the report to their Board of Directors and the Group CRO. The company together with the Group CRO shall then analyse the severity of the event and whether there is a need for reporting to any authority and/or to Sampo Group Audit Committee. If no authority and/or Audit Committee reporting is needed, the event shall be covered in the regular reporting in accordance with section 4.1.

   Group CRO also maintains a non-comprehensive list of events causing a reporting obligation to Group IR, Compliance and Risk Management (Appendix 5: Examples of non-regular reporting). The specific form of reporting shall be agreed between the relevant organisations.

Appendix 1

Risk definitions

From risk management's perspective, risk in business operations can be defined as the probability of adverse development leading to the result of the operations being worse than expected. When managing the risks, it is relevant to be able to identify, quantify and adjust risks so that the negative consequences of risks (i.e. losses or decreased profits) are within risk tolerance limits and that earnings potential justifies the chosen risk exposures.

Risks can be classified in many ways. In Sampo Group the risks associated with business activities fall by definition into three main categories: (i) business risks, (ii) reputational risks and (iii) risks inherent in business operations. Within those main categories risks are categorised mainly by underlying risk sources. The (potential) concentration of any particular risk is, as such, not specified as an own risk type.

Emerging risks are risks which may newly develop or which already exist and are continuously evolving. They are characterised by a high degree of uncertainty in terms of impacts and likelihood and may have a major impact on Sampo Group. Examples of emerging risks can be pandemics, energy shortages, climate change, technology changes such as IoT or AI. Being aware of the risk, gathering information about it and reviewing contractual terms in light of development are means of managing and mitigating the risk.

1. Business risks

Business risk is the risk of losses due to changes in the competitive environment and/or lack of internal operational flexibility.

Unexpected abrupt changes or already identified, but internally neglected trends can cause larger than expected fluctuations in profitability when volumes, margins, costs and capital charges change and in the long run they may also endanger the viability of Sampo Group's business models.

External drivers behind such changes are varied, including for instance general economic development, changes in commonly shared values, developments in the institutional and physical environment and technological innovations. Because external drivers are interconnected, customer preferences and demand can change unpredictably and there may be a need to change regulations as well. In case company's internal understanding of needed changes or willingness and ability to act accordingly is inadequate and competitors are more able to meet clients' and regulation's altered expectations, the company is highly exposed to business risk.

Due to the predominantly external nature of the drivers and development in the competitive environment, managing business risks is the responsibility of the executive level senior management. Proactive strategic decision making is the central tool in managing business risks, which relate to the competitive advantage. The maintenance of internal operational flexibility – i.e. the ability to adjust the business model and cost structure when needed – is also an efficient tool in managing business risks.

Business risks do not have a regulatory capital charge, although they may be a material source of earnings volatility. Because of this, business risk may have an effect on the amount and structure of actual capital base, if deemed prudent in existing business environment.

2. Reputational risk

Reputational risk refers to the risk that adverse publicity regarding the company's business practices or associations, whether accurate or not, causes a loss of confidence in the integrity of the institution.

Reputational risk is often a consequence of a materialised operational or compliance risk and manifests often as a deterioration of reputation amongst customers and other stakeholders. Reputational risk is related to all other activities as well. As the roots of reputational risk are varied, the tools to prevent it must be diverse and embedded in the corporate culture. These are reflected in the way in which Sampo Group deals with sustainability issues and with key stakeholders (e.g. customers, personnel, investors, business partners, authorities) and how Sampo Group has organised its corporate governance system.

3. 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 units in decision-making sense, and at the same time, come under the supervision of independent risk control.

3.1 Earnings risks

In its underwriting and investment operations, Sampo Group is consciously taking certain risks in order to generate earnings. These earnings risks are selected carefully and managed actively. Underwriting risks are priced reflecting their inherent risk levels and the expected return of investments is compared to the related risks. Furthermore, earnings risk exposures are adjusted continuously and their impact on the capital need is assessed regularly.

Successful management of underwriting risks and investment portfolio risks is the main sources of earnings for Sampo Group companies. The day-to-day management of these risks i.e., maintaining them within given limits and authorisations, is the responsibility of the business areas and the investment units..

<u>Underwriting risks</u>

Underwriting risk in non-life insurance is often divided in *premium and catastrophe risks* and *reserve risk* in order to distinguish between the risks related to unexpired and expired contracts. In addition to this, the claim payments can for certain products and payment forms be dependent on biometric risks, such as mortality and longevity.

Premium risk relates to future claims resulting from expected insured events which have not occurred on or before the balance sheet date. The frequency, severity and timing of insured events and hence future claims may differ from those expected. As a result, the claims cost for future claims exceeds the expected level and there is a loss in financial accounting or adverse changes in the value of insurance liabilities.

Catastrophe risk can be seen as an extreme case of premium risk. It is the risk of extreme or exceptional events, such as natural catastrophes, where the pricing and setting of provisioning assumptions include significant uncertainty. These events may lead to significant deviations between actual claims and the total expected claims resulting into a loss or adverse changes in the value of insurance liabilities.

Reserve risk relates to incurred claims resulting from insured events which have occurred at or prior to the balance sheet date. The amount, frequency and timing of claim payments may differ from those originally expected. As a result, technical provisions are not sufficient to cover the cost for already incurred claims and there is a loss or adverse changes in the value of insurance liabilities.

Biometric risks refer to the risk that the company has to pay more mortality, disability or morbidity benefits than expected, or the company has to keep paying pension payments to the policy holder for a longer time (longevity risk) than expected at the time of pricing the policies.

Market risks

Market risks refer to fluctuations in the financial results and capital base caused by changes in market values of financial assets and liabilities, as well as by changes in the economic value of insurance liabilities. The changes in market values and economic values are caused by movements in underlying market variables such as interest rates, inflation, foreign exchange rates, credit spreads and share prices.

Furthermore, market risks include also changes in the volatility of market variables, risk of worsening market liquidity in terms of widening bid-ask spreads and the risk of unexpected changes in repayment schedules of assets. In both cases the market value of financial instruments in investment portfolio may change.

Risks and returns in different markets are considered when Sampo Group companies enter into investments or sell investments from investment portfolios. The fundamental distinction between market risks and underwriting risks is that relating to market risks Sampo Group is in most cases 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) cause a change in the fair values of investment assets and derivatives that is of different size than the respective change in the economic value of insurance liabilities. It has to be noted that the cash flows of insurance liabilities are modelled estimates and therefore uncertain in relation to both their timing and amount. This uncertainty is central component of ALM risk as well.

On balance-sheet level, ALM risks contribute considerably to economic values, risks and the need for capital. To manage them, Sampo Group companies analyse and monitor ALM risks and ALM exposures actively and the risks are taken into account when designing the limit structures, managing investments within limits and authorisations and developing insurance products.

3.2 Consequential risks

Some risks are indirect repercussions of Sampo's normal business activities. They are one-sided risks, which in principle have no related earnings potential. Accordingly, risk management's objective is to mitigate these risks efficiently rather than actively manage them. The mitigation of consequential risks is the responsibility of the business areas and investment units and the capital need for these risks is measured by independent risk management functions.

Consequential risks can be categorised in three separate groups: (i) counterparty default risk of credit risk; (ii) liquidity risk; and (iii) operational risk.

Credit risk by definition comprises *default, spread* and *settlement risks*. *Default risk* refers to losses arising from occurred defaults of contractual counterparties (counterparty risk) or debtors (issuer risk).

In case of counterparty risk, the final loss depends on the positive mark-to-market value of derivatives or reinsurance recoverables at the time of default, the value of collaterals and on the recovery rate in the eventual liquidation of the counterparty.

In case of issuer risk the final loss depends on the investor's holding of the security or deposit at the time of default, mitigated by any potential recovery.

Spread risk refers to losses resulting from changes in credit spreads of debt instruments and credit derivatives. Credit spreads are affected when the market's perception of probabilities of defaults is changing. In most cases, issuer risk has already been fully priced as a higher spread and respectively as a lower market value of security before the event of default has occurred. In essence credit spread is the market price of default risk for issued tradable instruments. Because of these features, spread risk including also debt instrument defaults is categorised in Sampo Group under investment portfolio market risks.

Settlement risk realises when one party will fail to deliver the terms of a contract with another party at the time of settlement. Settlement risk can be the loss associated with default at settlement and any timing differences in settlement between the two parties. Settlement risks are mitigated effectively by centralised settlement and clearing systems used by Sampo Group companies.

Liquidity risk is the risk that Group companies are, due to lack of available liquid funds and/or access to relevant markets, 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.

In Sampo Group liquidity risk deals with potential illiquidity of investments, large claims and unexpected non-renewal of insurance policies. In addition, the availability and cost of refinancing and the offered price for financial derivatives affect the Group companies' ability to carry out normal business activities.

The sources of liquidity risk in Sampo Group are either internal or external by their nature. 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. Moreover, policyholders may also not be willing to renew their policies. If these risks caused by internal reasons realise simultaneously with general market turmoil making the selling of investment assets and refinancing of debt difficult maintaining adequate liquidity may be challenging.

Sampo Group manages liquidity risk by maintaining both parent company's and subsidiaries' creditworthiness and reputation on appropriate level. Also, diversification of business operations exposed to liquidity risks is sought. In particular, the maturity diversification of expected cash flows generated from different business activities is under constant scrutiny. Since there is no unambiguous technique to quantify the capital need for liquidity risk, it is not directly taken into account in capital need estimates. Consequently, only the interest rate risk part of balance sheet level risks is accounted for in the economic capital framework.

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

- internal misconduct - misappropriation of assets, tax evasion, intentional mismarking of positions, bribery;
- external misconduct- theft of information, hacking damage, third-party theft and forgery;
- insufficient human resources management - discrimination, failure in workers' compensation, endangered employee health and safety;
- insufficiencies in operating policies with regard to customers, products or business activities - market manipulation, antitrust, improper trade, product defects, fiduciary breaches, account churning;
- damage to physical property - natural disasters, terrorism, vandalism;
- interruption of activities and system failures - utility disruptions, software failures, hardware failures; and
- defects in the operating process - data entry or management errors, accounting errors, failed mandatory reporting, negligent loss of client assets.

The operational risk landscape is affected by risks becoming increasingly interconnected. Growing dependencies on digital systems, the interconnectedness of digital tools as well as simultaneous use of various and highly developed technologies can expose companies to risks affecting many critical and important business functions. These risks are resulting from multiple factors e.g., human conduct, software errors, utility disruptions, malicious cyber activities, and supply-chain disruptions.

Rapid development of information and communication technology and increasing collection and use of customer data requires companies to pay attention to the continuous monitoring of data protection and information security regulations and the development of internal processes. Inadequate data management processes may lead to sanctions that can derive from e.g., improper handling/use of data due to insufficient employee awareness, inadequate security processes or data governance.

Materialised operational risks can cause immediate negative impact on financial results due to disruptions of operations, additional costs and loss of earnings. In longer term materialised operational risks can lead to loss of reputation and, eventually, loss of customers, which endangers the company's ability to conduct business activities in accordance with the strategy.

Compliance risk is the risk of legal or regulatory sanctions, material financial losses, or loss of reputation, resulting from a company's failure to comply with laws, regulations and administrative orders applicable to its activities. *Compliance risk* is usually a consequence of internal misconduct and hence it can be seen as a part of operational risk.

The principles of managing operational risks in Sampo Group are presented in Appendix 3 (Management of operational risks) to this guideline.

Appendix 2

Capital and liquidity management

Sampo's capital management framework aims to support value creation by enabling its strategy. Quantitative targets are set for Group solvency and Group debt leverage but other metrics are also steered. Subsidiary balance sheets are calibrated to cover needs for business plans and to provide a stable dividend.

Targets for Group level solvency and leverage

Balance sheet targets have been set to provide a high level of protection against Sampo falling below financial limits. The target levels are intended to encourage active steering of the balance sheet, not automatic actions.

Minimum levels of financial resources are set based on the risks and regulatory as well as rating agency constraints faced by the Group. The minimum level has been defined as 125 per cent for the Solvency II ratio and a maximum of 35 per cent has been defined for financial leverage[4]. **Buffers** on top of the minimum levels are held to ensure business continuity and dividend security, and to finance bolt-on acquisitions:

- **risk buffer** ensures Sampo remains above regulatory and rating agency risk levels in a severe stress event
- **operating buffer** is smaller than the risk buffer and absorbs normal volatility, without consuming any of the risk buffer.

Solvency and debt leverage are managed towards a **target range** which is considered optimal, considering the requisite minimum levels and the above-mentioned buffers:

- Solvency II ratio between 150–190 per cent
- Financial leverage less than 30 per cent.

The target levels ensure high dividend security but without allowing for excessive buffers. Below target levels Sampo can pay ordinary dividends, but excess capital returns would not be considered. Capital generation is used to enable organic earnings growth and attractive shareholders returns. The Group is able to operate below the targets for some time, e.g., after an acquisition but will gradually steer toward the target range. The aim is for Sampo to not consume any of the risk buffer more than briefly. The target levels are reassessed regularly in order to adjust for any potential changes in the risk profile.

The parent company shall additionally monitor Group level risk concentrations and intra-group transactions which have a direct impact on the desired level of capitalisation.

Company level capitalization

In Sampo Group's business entities at company level, the total need for capital (i.e., the actual amount of capital) is assessed regularly in two-step process as follows.

[4] Financial leverage calculated as financial debt/(financial debt + IFRS equity)

Defining the capital floor

Capital floor is the minimum level of own funds the company needs to run its business operations normally. The level of the capital floor is defined by the higher of the following two quantitative capital concepts:

a. Solvency Capital Requirement; and
b. Rating Agency Capital, i.e., the capital needed to secure the target rating for the company.

When the company is using their own internal model to calculate the Solvency Capital Requirement, the procedures shall be thoroughly validated in line with regulatory requirements, and the model approved by its Board of Directors. In case the Sampo Group Internal Model is utilised on a company level, the validation of the model is the responsibility of the Sampo Group Risk Management function, as set out in section 3.6. Sampo plc's Board of Directors has the ultimate responsibility for the governance system ensuring proper operation of the Sampo Group Internal Model.

Defining the size of the buffer

Because risk exposures and profits evolve continuously over time and capital can sometimes erode rapidly due to stressed situations, there is a need to have a certain **buffer**, which together with the capital floor, as determined by the company in accordance with the above rule, form the actual amount of capital. An adequate buffer gives time for the company to adjust its risks and capital in a controlled manner in times of stress, i.e., at all times maintain the balance between risks and capital. An adequate buffer also gives comfort to supervisors, clients, investors and counterparties of the company's reliability. The following factors are most material when the size of buffer is considered:

- Expected profits – the higher the level of expected profits and the lower their volatility, the smaller the buffer that is needed;
- Business growth prospects - if business is growing, the buffer is larger than in the case of a run-off business;
- Other sources of capital – the more capacity and ability to issue Solvency II compliant capital instruments means that a lower buffer is needed; and
- Uncertainty of measured SCR or other relevant capital requirement – the bigger the uncertainty around the relevant capital requirement's ability to predict future capital needs, the bigger the buffer.

Holding company liquidity

The parent company Sampo plc shall ensure sufficient liquidity to prevent any cash flow pressures. Sampo plc needs liquidity to manage the Group's financing needs, ensure dividend security and to finance potential transactions. Sampo plc funding is limited to internal dividends/investment returns but can periodically be complemented with new capital or asset sales. Hence, holding company liquidity needs to be managed holistically together with the dividend policy, strategic ambitions and balance sheet targets.

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;
- to ensure the continuity of business operations in exceptional circumstances; and
- to ensure the ability to recover normal operations swiftly in case of disruptions.

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, (iii) analysing operational risk events, and (iv) continuity, response and recovery planning. To ensure the use of these tools, **responsibilities** in the following areas must be set clearly:

- drafting and enforcement of adequate operational risk and continuity policies;
- 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.
- **Services, products and information assets.** Risks related to services and products offered or acquired from third parties, as well as information assets owned by or within the custody of the company should be identified to ensure the functionality of the business and reporting processes. Risk identification is crucial before the launch of new services or products or when 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. The duties of individual employees must be organised and segregated accordingly. Moreover, the personnel should have user rights only to data and ICT systems they need for their duties.
    - 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.

  - 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.
- **Security of information and communication technology.** It must be ensured that information and communication technology security is sufficient and up to date. The threat landscape and relevant technological developments should be monitored on a continuous basis, also with a view to understanding the possible impact on operational resilience.
- **Physical Property.** Physical security measures (e.g., protection against power failure, fire, water and unauthorised physical access) should be defined, documented and implemented to protect the premises, data centres and sensitive areas from unauthorised access and from environmental hazards.

Appendix 4

Sampo Group's Own Risk and Solvency Assessment ("ORSA") Policy

Background and basis

Once in a calendar year – or more frequently, if required – Sampo Group produces a document covering its own risk and solvency assessment for the Group ("Group ORSA").

This policy defines the general principles, processes and methods used when preparing the Group ORSA. The document aims at producing a forward-looking view on the risks which Sampo Group is exposed to. It also represents Sampo's own view of its risk profile, and the capital and other means needed to address those risks. The Group ORSA document shall include an assessment of Sampo Group as a whole and cover the material risks arising from all the entities that are part of the Group.

The legal framework for the Group ORSA is the set of insurance company regulations and guidelines based on the Solvency II Directive. The Group ORSA is an integral part of Sampo Group's risk management system.

Processes and procedures

As a basic principle the Group level solvency ratios shall be forecasted based on the Group companies' risk and capital forecasts on a consolidated basis. Accordingly, the forecasts of each Group company must be based on common Group level scenarios given by the parent company.

The Group ORSA shall include also analysis of Group level risks, such as risk concentrations, intra-group transactions and profit correlations between different lines of business lines. Also, the liquidity generation capacity – especially at the parent company level – shall be analysed taking into account liquidity buffers and leverage.

Sampo Group companies are responsible for preparing their own analysis at operating company levels, including solo ORSAs for all individual insurance companies, as required by Solvency II. The Group companies must take into account the general guidance and scenarios given by the parent company and the specific features of their businesses.

Sampo plc as the ultimate parent company is responsible for preparing Group level solvency forecasts. These forecasts shall be based on detailed forecasts prepared by the Group companies. The parent company is also responsible for the risk analysis of group-encompassing issues.

Frequency

The quantitative part of the Group ORSA will be performed annually per Q3 based on the uniform group-wide scenarios in parallel with the financial planning process of the subsidiaries and shall be updated quarterly. The quantitative part of the ORSA shall, where appropriate, also include sensitivity analyses and a reverse stress test.

Because profitability, risks and capital are assessed and monitored quarterly as a part of regular management reporting, these results of the quarterly assessments shall also be utilised in the annual Group ORSA document.

Limits and solvency needs

When the Sampo Group solvency ratio breaches the internal monitoring level set in the latest Group ORSA, that breach shall trigger the need for a Group ORSA outside the regular timescales.

When the solvency ratio an individual Group company breaches the internal monitoring level set by the respective Board of Directors, such breach triggers the need for an extraordinary update of the relevant company level ORSA. Sampo plc will then evaluate the impact of the update and consider the need for an extraordinary Group ORSA.

Risk profiles, risk limits and data quality standards

The Group risk appetite and risk strategy is described in Section 2.1 of the Sampo Group Risk Management Principles. All Group companies prepare company level risk appetite statements that follow Sampo Group level principles and that are communicated through company-specific policies, which shall include approved risk tolerance limits for the main risk types. The link between risk appetite, risk strategy, the risk profile and capitalisation should be analysed and reported in the Group ORSA, including analyses of the capital adequacy and regulatory capital requirements under various risk scenarios. Consequently, the process shall influence the Group's strategic risk management and capital management actions.

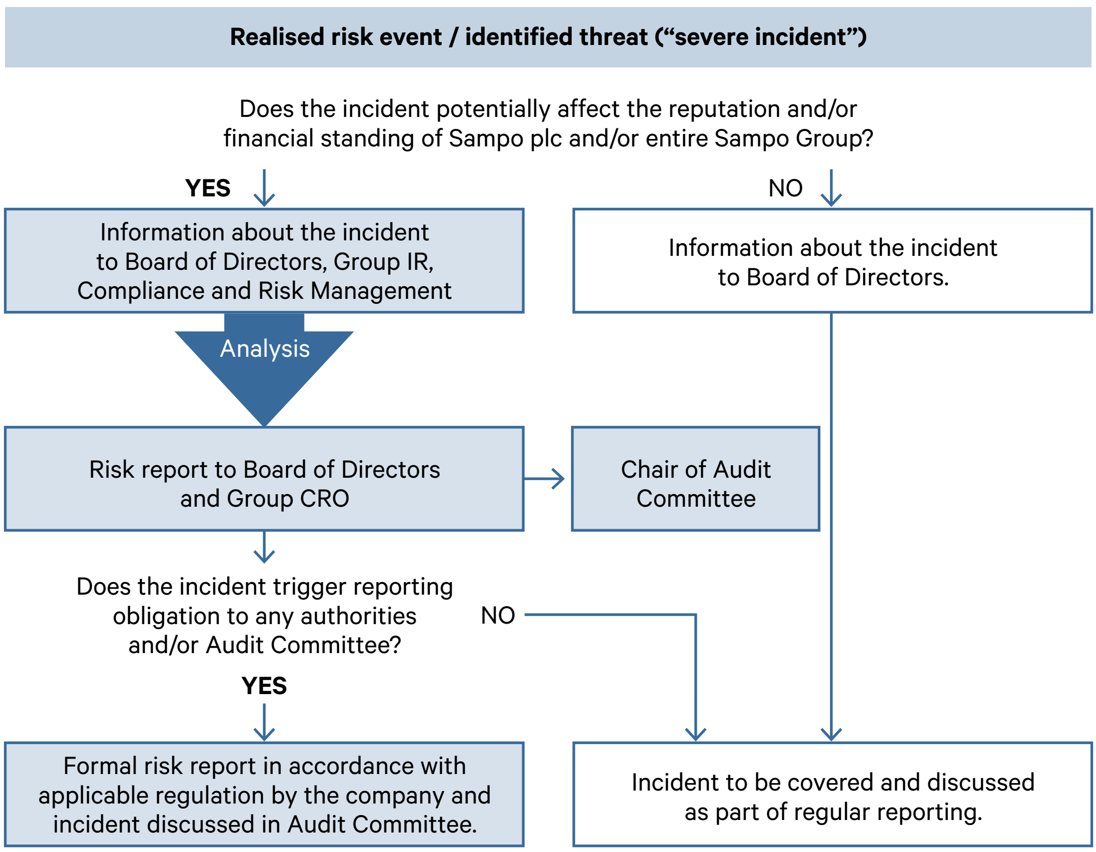
In order to ensure the accuracy, completeness and appropriateness of data used in the Group ORSA, adequate internal processes for data and data quality management should be in place.

Appendix 5

Examples of non-regular reporting

- ICT risk within or relating to a critical application or system realised or threatening client service, and/or internal and external reporting processes;
- Critical data security incident;
- Mis-selling;
- Critical failure in reporting obligations to supervisory authorities, for example due to negligence;
- Leak of insider information to any third party as regulated in the Market Abuse Regulation ("MAR");
- Anti-money laundering issues;
- Group level reputational risk pursuant to a conflict with collectively shared values in the society:
- Other risks or risk events which are relevant on Sampo Group level or critical on a Group company level

Reporting of severe incidents



SAMPO GROUP

Sampo plc

Fabianinkatu 27
00100 Helsinki, Finland
Phone: +358 10 516 0100
Business ID: 0142213-3

www.sampo.com
@sampo_plc
Sampo plc
@sampo_oyj