SAMPO GROUP

2021

RISK MANAGEMENT REPORT

CONTENTS

REPORTS FOR THE YEAR 2021
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Sampo Group's structure and business model

Sampo Group ("Group") is engaged in non-life insurance, life insurance and asset management services mainly in the Nordics and the United Kingdom. The strategy of the Group is focused on non-life insurance.

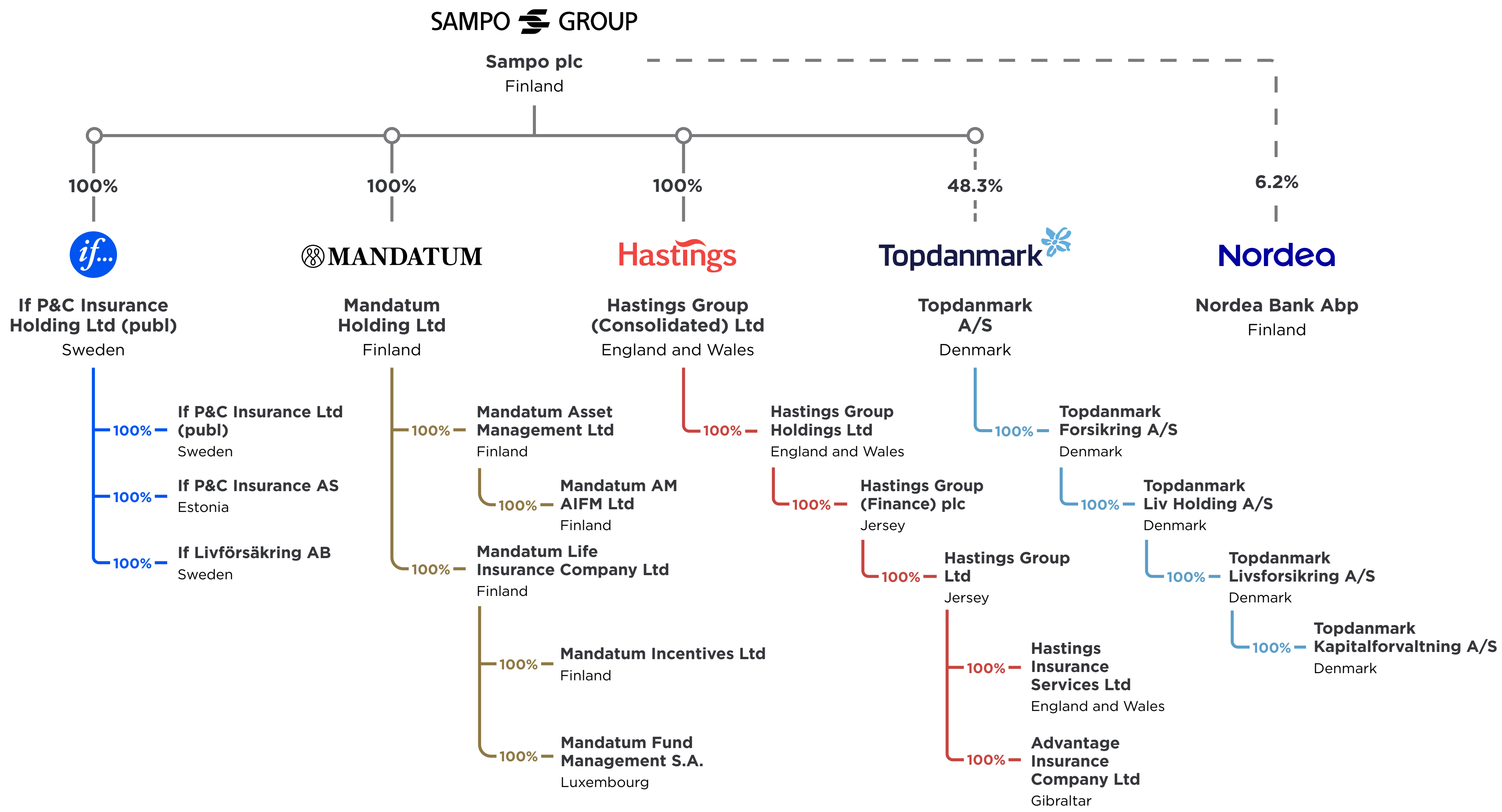
The business activities are conducted by the subsidiaries If P&C Insurance Holding Ltd (publ) ("If"), Mandatum Holding Ltd ("Mandatum"), Hastings Group (Consolidated) Limited ("Hastings") and Topdanmark A/S ("Topdanmark"). The first three are wholly owned by the Group's parent company, Sampo plc ("parent company" or "Sampo"). The parent company is a listed holding company and has no insurance activities of its own. Sampo has a 48.3 per cent holding of shares and 49.4 per cent of votes in Topdanmark.

In addition to the insurance subsidiaries, as at 31 December 2021 the Group's parent company held equity stakes of 6.2 per cent in Nordea Bank Abp ("Nordea") and 19.1 per cent in Nordax Holding AB ("Nordax"). Both holdings are treated as equity investments in Solvency II. In financial accounting Nordax is an associated company and the holding in Nordea is treated as Non-current assets held for sale under IFRS 5.

The legal structure of Sampo Group including major operative companies of subsidiaries is shown in the graph Sampo Group structure.

Group structure

31 December 2021



The sub-groups organise their business activities to implement strategic decisions made by Sampo. The subsidiaries have set their own infrastructures and management as well as operational processes in place.

The primary management tool for Sampo is the work in the companies' Boards of Directors. The Boards of If, Mandatum and Hastings consist of Sampo Group's management. Regarding its wholly owned subsidiaries, Sampo gives more exact guidance on how activities should be organised in terms of Group-wide principles and there is a frequent dialogue between Sampo and the subsidiaries in major operational matters. In addition, Sampo is monitoring performance, risks and capitalisation at detailed levels.

In Topdanmark, the Chairman and two other board members are from Sampo Group's management and they constitute three of the total six board members elected by the annual general meeting. Topdanmark has also adopted Sampo's main Group-wide principles and policies, including the risk management principles. The dialogue between Sampo and Topdanmark as well as the Risk Management report focus on performance, risk and capitalisation reporting and is not as detailed as between Sampo and its wholly owned subsidiaries.

In February 2021 Sampo announced its new strategy to become a pure insurance group with a focus on P&C insurance operations and to materially reduce the stake in Nordea. During 2021 the holding in Nordea reduced from 15.9 per cent to 6.2 per cent and in the fourth quarter the shares were reclassified to IFRS 5 (non-current assets held for sale) meaning that Nordea's result is no longer consolidated into Sampo Group's result.

Nordax Holding AB, of which Sampo owns 19.1 per cent, has been an associate company of the Group since 2018. The company was established for the takeover of Nordax Group AB, which is a Swedish specialist bank providing unsecured consumer loans, mortgages, and deposits to customers in Sweden, Norway, Finland and Germany. In 2021 Nordax acquired Bank Norwegian ASA and as a result of the merger Sampo's ownership diluted from 36.25 per cent to 19.1 per cent. In addition, Sampo plc owns a portfolio of holdings in companies operating in the financial service industry. The portfolio amounts to approximately EUR 1.3 billion at the end of 2021. This portfolio includes companies such as Saxo Bank Group, of which Sampo has a holding of 19.4 per cent. Nordea, Nordax or the other financial service companies are not covered in the Risk Management report as they are not controlled by Sampo.

As described above, Sampo Group's legal structure and business model are both straightforward and simple. In addition, there are only a limited number of intragroup exposures, of which the most material are as follows: Sampo's holdings of hybrid capital and subordinated loan instruments issued by If and Mandatum, internal dividends, Topdanmark's hybrid capital owned by If, and service charges. Service charges are related to intragroup outsourcing agreements. If and Mandatum Life have outsourced a part of their investment management processes to Mandatum Asset Management and Sampo has outsourced its IT platform services and payroll accounting to If. Between Sampo and Topdanmark or Sampo and Hastings there are no outsourcing agreements.

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. Potential risk concentrations and adequate diversification of risks are generally monitored closely, and their sources are analysed. To the extent possible risk concentrations are proactively prevented by strategic decisions.

Further information on Sampo Group's steering framework and risk management process can be found in **Appendix 1 Sampo Group Steering Framework and Risk Management Process**.

Sampo has a diversified shareholder base and the major shareholders (**Shareholders, Board of Directors' Report**, **www.sampo.com/year2021**) have owned their holdings for many years. Sampo Group's main supervisor is the Finnish Financial Supervisory Authority. Due to Sampo Group's activities in the Nordic and Baltic countries, Gibraltar and the UK, other supervisors have supervisory responsibilities as well. In the financial year 2021 Sampo Group's auditor was Deloitte Ltd.

SAMPO GROUP AND SAMPO PLC

Sampo Group and Sampo plc

Sampo Group companies operate in business areas where specific features of value creation are the pricing of risks and the active management of risk portfolios in addition to sound client services. Hence common risk definitions are needed as a basis for business activities.

Classification of risks

In Sampo Group, the risks associated with business activities fall into three main categories as shown in the picture **Classification of Risks in Sampo Group**: business risks, reputational risk and risks inherent in the business operations. The first two risk classes are only briefly described in this Risk Management Disclosure as the focus is on the third risk class.

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 existence 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 inter-connected, the customer preferences and demand can change unpredictably and there may be a need to change regulations as well. Should the company's understanding of changes or its 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 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 risks may influence the amount and structure of the actual capital base, if deemed prudent in the existing business environment.

Sustainability as a business risk driver

Issues related to sustainability are changing the preferences and values of Sampo Group companies' stakeholders and, as a result, creating a shift in the operating and competitive environment. For example, investors and authorities are putting an increasing focus on sustainability, but consumers and employees are also emphasising these topics when choosing a brand or an employer.

The Group companies operate mainly in countries that are characterised by an inherent respect for human rights, high transparency, and low levels of corruption and bribery. In addition, the compliance requirements for labour rights, health and environmental legislation, and freedom of speech and association are high. These themes are also inherent in the operations of all Sampo Group companies.

The key sustainability-related business risk drivers for Sampo Group can be divided into five main categories:

Sustainable business management and practices are fundamental to Sampo Group companies' operations. Good governance in Sampo Group means effective policies, management practices, and training that provide assurance that the Group companies and their personnel, suppliers, and other business partners comply with laws, regulations and generally accepted principles on human rights, labour rights, the environment and climate, anti-money laundering, counter-terrorist financing, and anti-corruption and bribery. Further, it includes comprehensive information security and cybersecurity governance systems, and data protection activities.

Sustainable corporate culture includes factors relating to the work environment, diversity and inclusion, employee health and well-being, competence development, remuneration, and talent attraction and retention. The Sampo Group companies want to provide customers with the best service in all situations. Here, skilled, and motivated employees are an essential success factor. Losing talent or being perceived as an unattractive employer would pose large risks for the businesses. Therefore, the Sampo Group companies strive to ensure a sound work environment, not only because it is stipulated by law, but also because it lays the foundation for sustainable business performance. Diversity and inclusion are key focus areas for the Sampo Group companies, which are committed to providing a non-discriminatory, open, and agreeable working environment where everyone is treated fairly and equally. Risks related to these themes are managed, for example, by having strong internal policies and governance structures, conducting organisational development programs, and offering employees training, interesting career opportunities and attractive remuneration packages.

Sustainable investment management and operations are important in managing investment risks and in mitigating potential adverse impacts on the Group's reputation. Therefore, the Sampo Group companies take environmental (including climate change), social and governance ("ESG") issues into account when assessing the security, quality, liquidity, and profitability of investments. Investment opportunities are carefully analysed before any investments are made and ESG issues are considered along with other factors that might affect the risk-return ratio of individual investments. Depending on the asset class, the Group companies use different ESG strategies to ensure the effective consideration and management of investment risks arising from ESG issues. The strategies used include, for example, ESG integration, sector-based screening, norms-based screening, and active ownership.

Sustainable product and service offering is important in meeting the evolving needs of all customers and in mitigating potential adverse impacts on the Group's reputation. Therefore, the Sampo Group companies aim to take ESG issues, including climate change, into account in product and service development, insurance underwriting, and supply chain management. Additionally, sustainable product and service offering requires being attentive to the risks relating to inappropriate customer advice and product sales, lack of clarity on conditions, prices and fees, and errors in claims handling and complaint processes. The focus in sales and marketing practices is on meeting the demands and needs of the customer and providing the customer with the information necessary for them to make well-informed decisions on their insurance coverage. The Sampo Group companies manage risks related to these themes, for example, by having effective internal policies and governance structures, and offering employees training.

Environmental issues and climate change are factors that are expected to have a mid and long-term effect on Sampo Group's businesses. Climate-related risks can be categorised into physical risks and transition risks. Physical risks can be further classified into long-term weather changes (chronic risks) and extreme weather events such as storms, floods, or droughts (acute risks). Transition risks refer to risks arising from the shift to a low carbon economy, for example changes in technology, legislation, and consumer sentiment.

The strength of the risks depends on the trajectory of global warming. A scenario in line with the Paris Agreement, limiting the temperature rise to 1.5°C, would have moderate consequences, whereas 3–5°C scenarios would have severe consequences for industry, infrastructure, and public health. Especially in geographically vulnerable regions, abandonment of low-lying coastal areas due to rising sea levels and food and water shortages, can lead to large-scale migration and outbreaks of diseases.

Physical risks are risk factors affecting especially the financial position and results of the Group's non-life insurers. The increasing likelihood of extreme weather conditions and natural disasters is included in internal risk models. Climate-related risks are also managed effectively with reinsurance programs and price assessments. Since climate change could increase the frequency and/or severity of physical risks, the Sampo Group companies conduct sensitivity analyses using scenarios in which the severity of natural catastrophes is assumed to increase.

The Sampo Group companies also help their corporate and private customers to manage climate-related risks. Extreme weather events can, for example, damage properties, lead to crop failure and business interruption. Loss prevention is an essential part of insurance services, as it helps customers to reduce economic losses and mitigates the impacts of climate change.

The Sampo Group companies' investments can be exposed to both physical risks and transition risks, depending on the investment in question. Investments are particularly exposed to physical risks in the form of losses incurred from extreme weather events. The transition to a low-carbon society with potentially increasing environmental and climate regulation, more stringent emission requirements, and changes in market preferences, could in turn cause transition risks for the Group's investments and possible revaluation of assets as operating models in carbon intense sectors change. To manage physical risks and transition risks, investment opportunities are carefully analysed before any investments are made and climate-related risks are considered along with other factors affecting the risk-return ratio of individual investments. The methods used by Sampo Group companies include, for example, annual analysis of the carbon footprint and climate impact of investments, sector-based screening and ESG integration, monitoring the geographical distribution of investments, and engagement with investee companies.

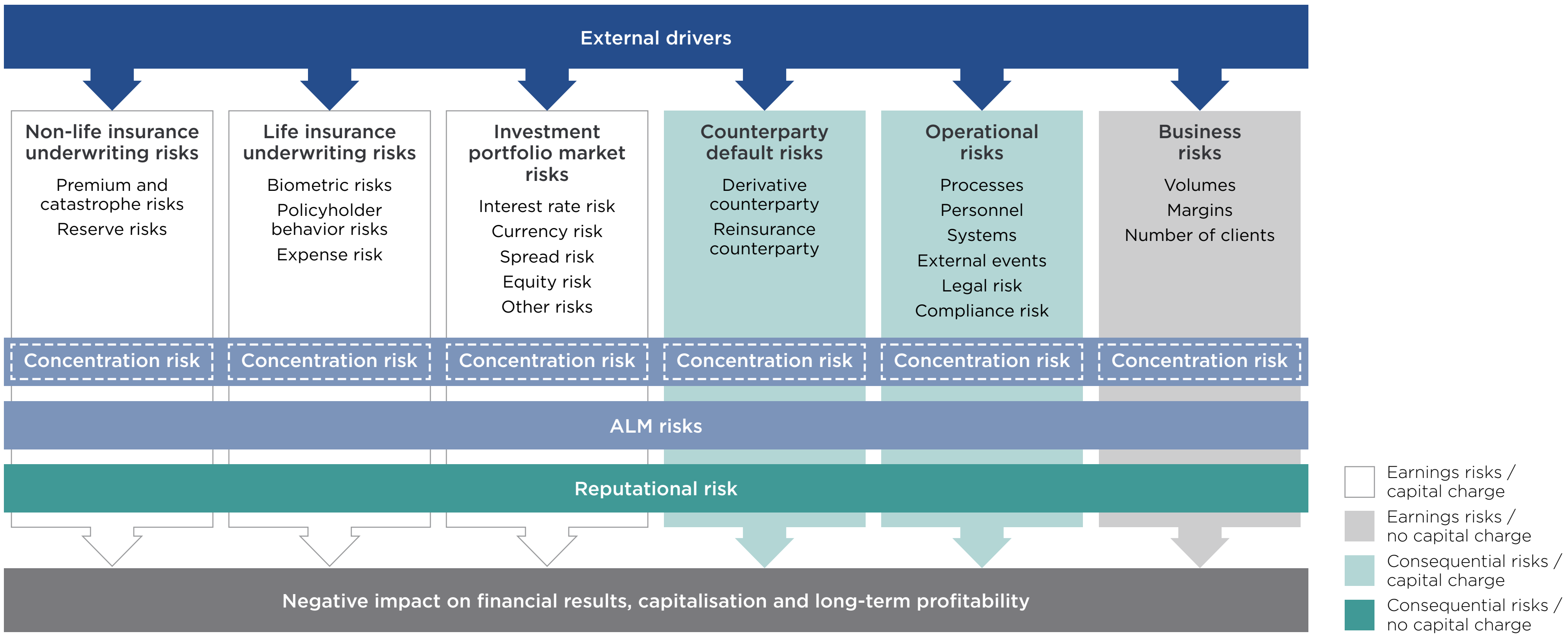
Further information on sustainability in Sampo Group is available in the **Sustainability Report 2021** published in May 2022 (**www.sampo.com/year2021**).

Reputational risk

Managing stakeholder relationships means satisfied customers, professional staff, good co-operation with authorities and the trust and approval of the environment. These contribute to a key success factor of the company, its reputation.

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 often manifests as a deterioration of reputation amongst customers and other stakeholders. Reputational risk is related to all activities shown in the graph Classification of Risks in Sampo Group. As the roots of reputational risk are varied, the tools to prevent it must be diverse and embedded within the corporate culture. These are reflected in the way in which Sampo Group deals with ESG issues and with key stakeholders (i.e., customers, personnel, investors, co-operation partners, authorities) and how Sampo Group has organised its corporate governance system.

Classification of risks in Sampo Group



Risks inherent in business operations

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

Successful management of underwriting risks and investment portfolio market risks is the main source of earnings for Sampo Group companies. 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 unit.

Some risks, such as counterparty default risks and operational risks presented in the graph Classification of Risks in Sampo Group are indirect repercussions of Sampo's normal business activities. They are one-sided risks, which in principle have no related earnings potential. Accordingly, the risk management objective is to mitigate these risks efficiently rather than actively manage them. Mitigation of consequential risks is the responsibility of the business areas and the investment units. The capital need for these risks is measured by independent risk management functions. It must be noted that the categorisation of risks between earnings and consequential risks varies depending on the industry. For Sampo Group's clients, for instance, the events that are subject to insurance policies are consequential risks and for Sampo Group these same risks are earnings risks.

Some risks such as interest rate, currency and liquidity risks are by their nature simultaneously linked to various activities. To manage these risks efficiently, Sampo Group companies must have a detailed understanding of expected cash flows and their variance within each of the company's activities. In addition, a thorough understanding of how the market values of assets and liabilities may fluctuate at the total balance sheet level under different scenarios is needed. These balance sheet level risks are commonly defined as Asset and Liability Management ("ALM") risks. In addition to interest rate, currency and liquidity risk, inflation risk and risks relating to GDP growth rates are central ALM risks in Sampo Group. The ALM risks are one of the focus areas of senior management because of their relevance to risks and earnings in the long run.

In general, concentration risk arises when the company's risk exposures are not diversified enough. When this is the case, an individual extremely unfavourable claim or financial market event, for instance, could threaten the solvency of the company.

Concentrations can evolve within separate activities – large single name or industry specific insurance or investment exposures – or across activities when a single name or an industry is contributing widely to the profitability and risks of the company through both insurance and investment activities.

Concentration risk may also materialise indirectly when profitability and the capital position react similarly to general economic developments or to structural changes in the institutional environment in different areas of business.

More detailed risk definitions can be found in **Appendix 2** Risk Definitions.

Core risk management activities

To create value for all stakeholders in the long run, Sampo Group companies must have the following forms of capital in place:

- Financial flexibility in the form of adequate capital and liquidity.
- Good technological infrastructure.
- Intellectual capital in the form of comprehensive proprietary actuarial data and analytical tools to convert this data into information.
- Human capital in the form of skilful and motivated employees.
- Social and relationship capital in the form of good relationships with society and clients to understand the changing needs of different stakeholders.

At the company level, these resources are continuously developed. They are in use when the following core activities related to risk pricing, risk taking, and active management of risk portfolios are conducted.

Appropriate selection and pricing of underwriting risks

- Underwriting risks are carefully selected and are priced to reflect their inherent risk levels.
- Insurance products are developed proactively to meet clients' changing needs and preferences.

Effective management of underwriting exposures

- Diversification is actively sought.
- Reinsurance is used effectively to reduce largest exposures.

Careful selection and execution of investment transactions

- Risk return ratios and sustainability issues of separate investments opportunities are carefully analysed.
- Transactions are executed effectively.

Effective mitigation of consequential risks

- Counterparty default risks are mitigated by carefully selecting counterparties, applying collateral agreements, and assuring adequate diversification.
- High quality and cost-efficient business processes are maintained.
- Continuity and recovery plans are continuously developed to secure business continuity.

Effective management of investment portfolios and the balance sheet

- Balance between expected returns and risks in investment portfolios and the balance sheet is optimised, considering the features of insurance liabilities, internally assessed capital needs, regulatory solvency rules and rating requirements.
- Liquidity risks are managed by having an adequate portion of investments in liquid instruments. The portion is mainly dependent on the features of the liabilities.

At the Group level, the risk management focus is on capitalisation, leverage, and liquidity. It is also essential to identify potential risk concentrations and to have a thorough understanding of how solvency and reported profits of companies would develop under different scenarios. These concentrations and correlations may influence group level capitalisation, leverage, and liquidity as well as on group level management actions.

When the above-mentioned core activities are successfully implemented, a balance between profits, risks and capitalisation can be achieved and shareholder value can be created.

Sampo Group risk profile

Sampo's strategy is to create long-term value from its non-life insurance operations. The Group's focus within non-life insurance is on the private and SME business in the Nordic countries and the digital distribution market in the United Kingdom. Sampo Group is first and foremost exposed to the general performance of the Nordic economies. However, the Nordic economies typically are at any given time in somewhat different stages of their economic cycles, because of reasons such as different economic structures and separate currencies. Also, geographically the Nordics as a large area is more a source of underwriting diversification than concentration. Hence, inherently the Nordic area is a good basis for diversified business. Geographic diversification was extended into the United Kingdom in 2020, when Sampo acquired a majority stake in Hastings, and which was strengthened in late 2021 when Sampo became its sole owner.

To further maintain diversification of businesses Sampo Group proactively prevents concentrations to the extent possible by segregating the duties of separate business areas. As a result, separate companies have very few overlapping areas in their underwriting and investments activities. Despite proactive strategic decisions on segregation of duties, concentrations in underwriting and investments may appear and hence liabilities and assets are monitored at the Group level to identify potential concentrations at a single company or risk factor level.

It is regarded that the current business model where all companies have their own operational processes and agreements with counterparties is preventing accumulation of counterparty default risks and operational risks. Hence, these risks are mainly managed at company level.

The number of intragroup exposures between the Group companies is small and the parent company is the only source of internal liquidity and the main source of capital within the Group. This effectively prevents the contagion risk, and hence potential problems of one company will not directly affect the other Group companies.

Underwriting and market risk concentrations and their management are described in the next sections as well as the parent company's role as a risk manager of group-wide risks and as a source of liquidity.

Underwriting risks at Sampo Group

With respect to the underwriting businesses carried out in the subsidiary companies, it has been established that If, Topdanmark and Mandatum all operate within the Nordic countries, but mostly in different geographical areas and in different lines of business and hence their underwriting risks are different by nature. There are, however, some common risk factors such as the life expectancy in Finland. Also, in Denmark If and Topdanmark have some overlapping areas. However, there are no material underwriting risk concentrations in the normal course of business. Hastings operates solely in the United Kingdom, and hence its underwriting risks are geographically distinct from the Nordics. Consequently, business lines as such are contributing diversification benefits rather than a concentration of risks.

The three major Solvency II Lines of Business in the Group's non-life operations are Motor vehicle liability insurance, Other motor insurance and Fire and other damage to property insurance. Sampo Group's non-life underwriting performance improved from EUR 976.1 million to EUR 1,220.8 million during 2021. The premium development was solid supported by a growing customer base in all Nordic countries and the United Kingdom. The top line effects following from the COVID-19 pandemic were limited.

The table Non-life underwriting performance, 31 December 2021 and 31 December 2020 presents the development of the premiums, claims, operating expenses, reinsurer's share, and underwriting performance per Solvency II lines of business for the last two years.

Non-life underwriting performance

31 December 2021 and 31 December 2020

	Premiums written		Premiums earned		Claims incurred		Operating expense		Reinsurers share per LoB		Total underwriting performance direct insurance	
Underwriting performance by SII LoB, EURm	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Medical expense insurance	286.9	271.5	282.8	268.2	155.4	185.7	73.5	71.0	5.4	-4.8	48.5	16.3
Income protection insurance	602.9	559.7	583.5	552.3	409.5	364.7	114.1	107.1	6.8	-11.7	53.2	92.2
Workers' compensation insurance	291.8	291.0	291.3	287.3	143.9	117.4	52.1	45.8	8.7	2.3	86.5	121.8
Motor vehicle liability insurance	1,466.2	685.4	1,455.1	711.6	884.3	200.6	257.3	159.7	-29.6	26.1	343.2	325.2
Other motor insurance	2,088.7	1,679.3	2,059.8	1,659.1	1,322.8	1,032.7	365.9	329.9	-9.6	10.9	380.7	285.5
Marine, aviation and transport insurance	133.5	135.1	133.3	130.7	52.0	87.9	23.8	23.2	11.6	-0.9	46.0	20.5
Fire and other damage to property insurance	2,333.5	2,164.7	2,284.4	2,091.6	1,535.7	1,546.5	401.4	370.3	62.0	30.8	285.3	144.1
General liability insurance	422.1	391.4	410.8	377.9	255.1	231.4	67.3	62.0	23.5	41.6	64.8	42.9
Assistance	28.7	32.0	28.9	33.3	6.9	13.5	4.7	5.3	0.0	0.0	17.3	14.5
Other life insurance	54.0	47.7	52.0	45.2	12.7	10.4	12.1	10.5	2.1	2.0	25.2	22.2
Annuities stemming from non-life insurance contracts and relating to health insurance obligations	0.0	0.0	0.0	0.0	55.4	80.4	0.0	0.0	0.0	0.0	-55.4	-80.4
Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	0.0	0.0	0.0	0.0	76.7	33.4	0.0	0.0	0.2	-1.5	-76.9	-31.9
Total (excluding other expenses)	**7,708.2**	**6,257.8**	**7,582.0**	**6,157.2**	**4,910.3**	**3,904.8**	**1,372.1**	**1,184.8**	**81.2**	**94.7**	**1,218.5**	**972.9**
Other expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.3	3.2
Total	**7,708.2**	**6,257.8**	**7,582.0**	**6,157.2**	**4,910.3**	**3,904.8**	**1,372.1**	**1,184.8**	**81.2**	**94.7**	**1,220.8**	**976.1**

The figures are segmented in accordance with Solvency II defined Lines of Business, which differ from the insurance class segmentation according to local GAAP or IFRS requirements. The figures in this table may not add up exactly to the ones presented in the financial statement.

The main non-life underwriting risks that may influence future claims are the risk of single large claims and the risk of catastrophe events. However, Sampo Group companies have comprehensive reinsurance programmes in place contributing to the low level of underwriting risk. The negative economic impacts of natural catastrophes and single large claims are mitigated also by the Group's well-diversified portfolio. Claims costs may also be affected by uncertainty in claims outstanding caused by higher-than-expected claims inflation, lower discount rates or an increased retirement age with the consequence that both annuities and lump sum payments would increase. However, higher long-term inflation would be expected to coincide with higher nominal discount rates, whereby the effects would in part cancel each other out. Net technical provisions in non-life insurance according to IFRS have been presented in the following table.

Technical provisions non-life insurance

Sampo Group, 31 December 2021

	Sweden		Norway		Finland		Denmark		Baltics		United Kingdom		Total	
	EURm	**Duration**	**EURm**	**Duration**	**EURm**	**Duration**	**EURm**	**Duration**	**EURm**	**Duration**	**EURm**	**Duration**	**EURm**	**Duration**
Motor other and MTPL	1,771	8.0	538	1.5	1,046	13.6	395	1.2	124	5.7	888	1.5	4,763	6.7
Workers' compensation	0	0.0	171	7.7	1,139	12.9	1,131	8.5	0	0.0	0	0.0	2,442	10.5
Liability	311	3.8	123	1.1	109	3.6	210	2.6	27	2.4	0	0.0	780	3.0
Accident	438	7.2	448	7.1	198	6.6	722	7.4	8	0.5	0	0.0	1,814	7.2
Property	533	1.0	569	0.9	265	1.1	480	1.2	43	1.7	19	0.0	1,909	1.0
Marine, aviation, transport	21	1.0	22	0.8	11	1.2	31	0.6	3	0.9	0	0.0	88	0.9
Other	0	0.0	0	0.0	0	0.0	31	0.9	0	0.0	0	0.0	31	0.9
Total	**3,074**	**6.2**	**1,871**	**3.2**	**2,769**	**11.2**	**3,002**	**5.5**	**205**	**4.2**	**907**	**1.5**	**11,828**	**6.3**

Life insurance operations are split into with profit and unit-linked businesses. Policyholders bear market risks directly in unit-linked policies, whereas in with profit policies the policyholders are entitled to a guaranteed interest rate with a potential for bonuses. However, both with profit and unit-linked policies include life underwriting risks (biometric, policyholder behaviour and expense risks). In Sampo Group's life insurance operations the main biometric risks are longevity, mortality, and disability risks. Longevity risk is the main biometric risk in the Group's life insurance businesses, and it arises mainly from the with profit group pension portfolio in Mandatum. However, the level of biometric risks in with profit policies is low compared to market risks. Sampo Group companies have decided not to write new with profit products. Technical provisions according to IFRS have been presented in the following table.

Net technical provisions life insurance

Sampo Group, 31 December 2021

EURm	IFRS
Unit Linked	19,737
With Profit	6,257
Total	**25,993**

In the table Underwriting solvency capital requirements of insurance sub-groups, 31 December 2021, underwriting risks of the four insurance sub-groups are compared to each other based on their standard formula gross SCRs, because the reported Sampo Group underwriting SCR is based on them. Standard formula SCRs do not reflect the risks as measured by internal models used by If and Topdanmark and the undertaking specific parameters ("USPs") used by Advantage, but in this context, they can be used as a common basis for comparison purposes.

Underwriting solvency capital requirements of insurance sub-groups

31 December 2021

Underwriting risk, EURm	If	Topdanmark	Hastings	Mandatum Life	Sampo plc	Diversified Sampo Group	Sum of the parts	Delta
Life underwriting	89	131	2	403	0	595	625	-29
Health underwriting	541	248	0	2	0	771	792	-20
Non-life underwriting	1,149	255	305	0	0	1,648	1,708	-60
Sum of sub-risks	1,779	634	306	405	0	3,015	3,125	-110
Diversification	-497	-234	-2	-2	0	-1,041	-734	-307
Underwriting risk	1,282	400	305	403	0	1,974	2,390	-417

If is contributing most to the Group SCR and it has clear focus on non-life underwriting and related health underwriting. Its business is well-spread over all Nordic countries but having the smallest portion of the business in Denmark. Geographical diversification is not considered by standard formula and hence If's internally assessed capital need for underwriting risks is much smaller.

Mandatum has a focus on Finnish life insurance risks and Advantage on non-life insurance risks in the United Kingdom, and hence they have practically no lines of business or geographical diversification benefits within underwriting. In Topdanmark capital consumption is most evenly spread over the various underwriting risk types, although they are written solely in Denmark.

Topdanmark's company specific diversification benefit over lines of businesses is relatively largest compared to other Sampo Group companies.

All in all, at Sampo Group level, the underwriting activities are well-diversified by lines of businesses, geographical areas, and client-groups. At Sampo Group level the standard formula gives a diversification benefit of EUR 417 million because underwriting activities at the Group level are more evenly distributed over lines of businesses than in separate companies. Sampo considers that the diversified Group SCR for underwriting risks of EUR 1,974 million is a relatively conservative measure of the underwriting capital requirement, because the standard formula at the sub-group or Sampo Group level does not consider geographical and client base diversifications.

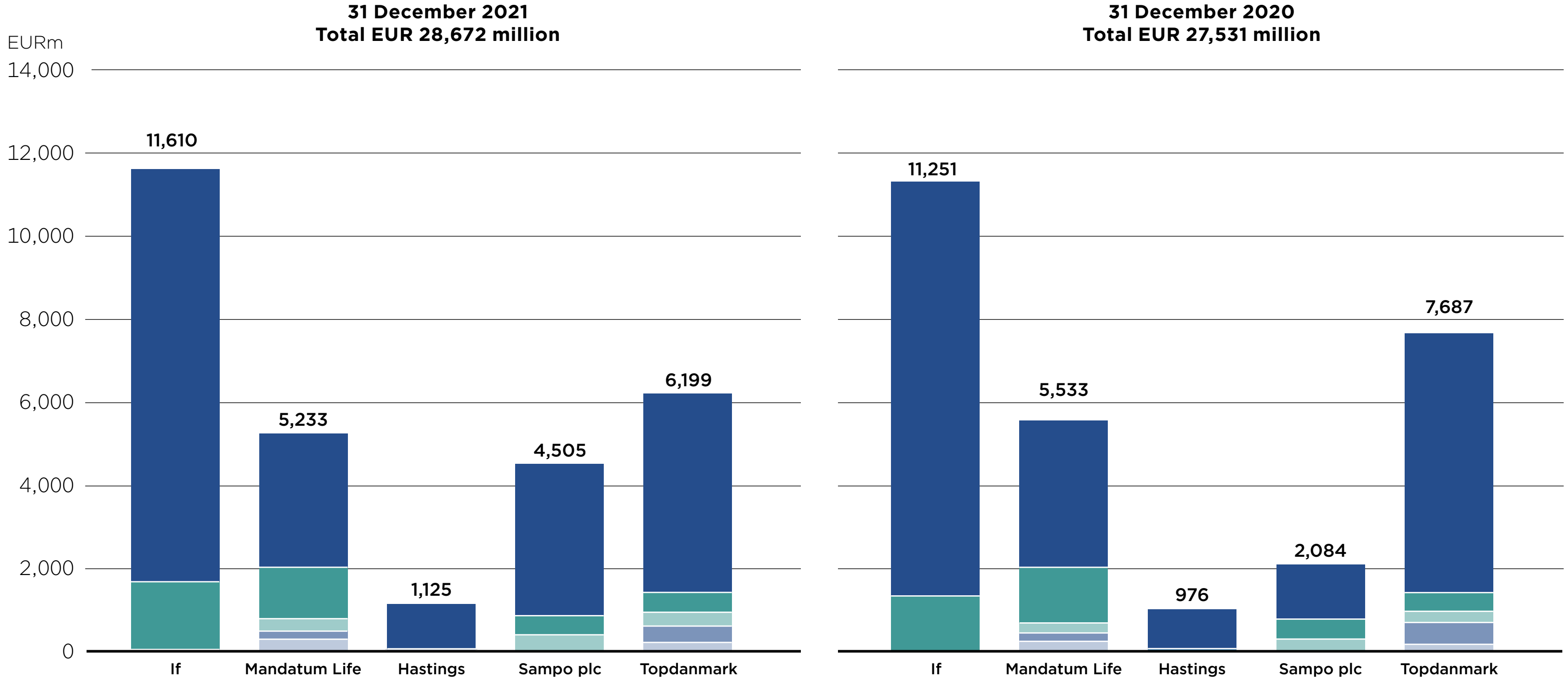
Market risks at Sampo Group level

For all subsidiaries, their insurance liabilities and the company specific risk appetite are the starting points for their investment activities. The insurance liabilities including loss absorbing buffers as well as the risk appetite of If, Topdanmark, Hastings and Mandatum differ, and as a result the structures and risks of the investment portfolios and the balance sheets of the four companies differ respectively. Companies' average investment returns, and volatilities of investment returns also differ which can be seen in the graphs Annual investment returns at market values, 2012–2021, presented in the sub-group specific sections of this report. Sampo Group's investment assets presented in the tables and graphs in this section do not include investments in the shares of subsidiaries or the associated companies (e.g., Nordea).

The total amount of Sampo Group's investment assets as at 31 December 2021 was EUR 28,672 million (27,531) as presented in the following graph. Mandatum's and Topdanmark's investment assets presented here do not include assets which cover unit-linked contracts.

Development of investments

If, Mandatum Life, Hastings, Sampo plc and Topdanmark



	2021 If	2021 Mandatum Life	2021 Hastings	2021 Sampo plc	2021 Topdanmark	2020 If	2020 Mandatum Life	2020 Hastings	2020 Sampo plc	2020 Topdanmark
Fixed income	86%	62%	97%	81%	77%	88%	63%	97%	63%	82%
Listed equity	14%	24%	0%	10%	8%	12%	24%	0%	23%	6%
Private equity*	0%	6%	0%	9%	5%	0%	5%	0%	14%	4%
Real estate	0%	4%	0%	0%	6%	0%	3%	0%	0%	7%
Other alternative investments	0%	5%	3%	0%	3%	0%	5%	3%	0%	2%

The content of the figures in this graph is different compared to financial asset line presented in the balance sheet. The total investment allocation of Mandatum Life is equal to EUR 5,233 million. When EUR 14 million of intra-group assets, EUR 22 million of accrued interest, EUR 586 million of cash, EUR 179 million of real estates and around EUR 10 million of assets belonging to non-current assets held for sale are deducted and EUR 4 million of derivatives are added, the total is equal to 4,427 which corresponds to the sum of Mandatum's financial assets on Sampo Group's balance sheet.

If figures include cash EUR 521 million.

Topdanmark figures do not include cash EUR 153 million but they do include real estate EUR 394 million and investments in associated companies EUR 313 million.

Sampo Plc figures do not include intragroup items, accrued interest and derivatives amounting to EUR 104 million as well as operational bank accounts amounting to EUR 80 million, which are not used for investment operations. Sampo plc's figures do not include debt instruments issued by the insurance subsidiaries.

**Private Equity also includes direct holdings in non-listed equities.*

Investment activities and market risk taking are arranged pro-actively in such a way that there is no significant overlap between the wholly owned subsidiaries' single name risks except with regards to Nordic banks where the companies have their extra funds in short-term money market assets and cash. From the diversification of the assets of the balance sheet perspective, Topdanmark is a positive factor because the role of Danish assets is dominant in its portfolios and especially the role of Danish covered bonds is central. In Sampo Group's other insurance companies' portfolios the weight of Danish investments has been immaterial. Even though Hastings' investment portfolio is smaller than other Group companies' portfolios, it has had a positive impact on the diversification of Sampo Group's investments. Most Hastings' assets are British investments, denominated in pound sterling, which is a market that other Sampo Group companies have very limited exposure to. Moreover, Hastings' investment portfolio consists mainly of investment grade fixed income investments.

The market risks of the four insurance sub-groups, respective figures of the parent company Sampo plc and Sampo Group level figures are presented below in the table Market risk solvency capital requirements of sub-groups and Sampo plc, 31 December 2021.

Market risk solvency capital requirements of sub-groups and Sampo plc

31 December 2021

Market risk, EURm	If	Topdanmark	Hastings	Mandatum Life	Sampo plc	Diversified Sampo Group	Sum of the parts	Delta
Interest rate / down shock	145	17	0	45	4	212	212	0
Equity	759	378	5	1,166	1,814	4,106	4,121	-15
Property	0	164	2	45	0	211	211	0
Spread	397	290	38	383	14	1,123	1,123	0
Concentration / Group level	42	4	3	11	475	260	534	-274
Currency / Group level	521	14	2	120	161	973	819	155
Sum of sub-risks	1,864	866	51	1,770	2,468	6,884	7,019	-135
Diversification	-454	-106	-7	-201	-536	-1,265	-1,303	38
Market risk	1,409	760	44	1,569	1,933	5,619	5,716	-97

Mandatum takes the largest market risks both in absolute and relative terms and currently equity risk is its dominant risk contributor. In If equity, currency and spread risks are the main risk contributors and on relative terms there is a larger diversification effect than in Mandatum because of a more even market risk profile. Topdanmark is matching its liabilities with assets and hence the capital requirements for interest rate risk and currency risk are minor whereas equity, spread and property risks are the main contributors of market risk SCR. In Hastings market risks are small compared to the other insurance sub-groups. In all companies, there is some concentration risk, but at Sampo Group level the effect comes almost entirely from Sampo plc, due to Nordea being treated as an equity investment in Sampo Group's solvency calculations.

A summary of Sampo Group's solvency sensitivities on market risk factors is presented in the table Estimated solvency sensitivities on market risk factors, Sampo Group, 31 December 2021.

Estimated solvency sensitivities on market risk factors

Sampo Group, 31 December 2021

		Interest rates		Spreads		Equity prices	
	31 Dec 2021	-100 bps	+100 bps	+100 bps	-10%	-20%	-30%
Solvency ratio	185%	174%	192%	182%	192%	198%	198%

It can be seen from the table that Sampo Group is exposed to a fall and would benefit from an increase in interest rates. This sensitivity follows mainly from the fact that the duration of insurance liabilities is longer than the fixed income asset duration in If and Mandatum Life.

Solvency sensitivity to spreads is affected by the spread sensitivity of fixed income investments and the Solvency II volatility adjustments (" VA") applied by Mandatum, Hastings and Topdanmark when valuing their technical provisions. The VA is assumed to increase by 25 bps in this spread stress, and it is buffering some of the effects that movements in spreads have on the solvency ratio.

The Solvency II symmetric adjustment ("SA") of the equity risk capital requirement was 6.88 per cent at the end of 2021. The SA is assumed to reach a value of 0.8 per cent in the scenario where equity prices fall by 10 per cent and -5.28 in the scenario where equity prices fall by 20 per cent. Furthermore, the SA is assumed to reach its lower bound -10 per cent set in the solvency regulations in the -30 equity price scenario. As can be seen from the sensitivities, the SA buffers equity market risk when the SA is within its bounds [-10 per cent, +10 per cent]. The SA is based on the ratio of the current level of a broad equity index (defined by EIOPA) and its 36-month moving average. The SA buffers consequently systematic, but not company specific, equity risk. In the case that the price development of a single equity investment, e.g., Sampo's equity investment in Nordea shares, deviates from the index, the SA does not buffer the effect that this deviation has on the Sampo Group's solvency ratio.

In the next paragraphs concentrations by homogenous risk groups and by single names are presented first and after that balance sheet level risks are discussed.

Holdings by sector, geographical area and asset class

Regarding fixed income and equity exposures financial institutions and covered bonds have a material weight in the group-wide portfolios whereas the role of public sector investments is quite limited. Most of these assets are issued by Nordic corporates and institutions, although Hastings brought along some diversification in this respect. Most corporate issuers, although being based in the Nordic countries, are operating at global markets and hence their performance is not that dependent on the Nordic markets. Exposures by sector, asset class and rating are presented in the following table. Sampo considers that the balance sheet values describe the maximum exposure amount exposed to credit risk.

Exposures by sector, asset class and rating

Sampo Group, 31 December 2021

EURm	AAA	AA+ - AA-	A+ - A-	BBB+ - BBB-	BB+ - C	D	Non-rated	Fixed income total	Listed equities	Other	Counter-party risk	Total	Change from 31 Dec 2020
Basic industry	0	0	17	126	50	0	67	260	166	0	0	426	-65
Capital goods	0	0	107	62	73	0	203	445	882	0	0	1,327	329
Consumer products	1	22	228	380	131	0	125	887	583	0	0	1,469	-24
Energy	0	0	26	0	0	0	189	215	10	9	0	233	24
Financial institutions	38	1,913	4,298	1,252	184	0	404	8,090	417	291	145	8,944	1,551
Governments	517	0	0	0	0	0	0	517	0	0	0	517	177
Government guaranteed	45	39	0	0	0	0	0	84	0	0	0	84	-11
Health care	7	0	13	42	148	0	125	334	163	0	0	497	69
Insurance	6	7	71	165	25	0	288	563	38	18	0	620	180
Media	0	0	0	0	5	0	32	36	50	0	0	87	0
Packaging	0	0	0	0	6	0	55	61	11	0	0	73	9
Public sector, other	646	275	23	0	0	0	0	944	0	0	0	944	253
Real estate	0	54	227	601	46	0	662	1,590	11	880	0	2,481	195
Services	0	0	0	123	261	0	127	511	200	5	0	715	-2
Technology and electronics	0	0	26	41	11	0	105	183	222	1	0	406	-9
Telecommunications	0	0	30	187	121	0	20	357	59	0	0	416	-20
Transportation	0	65	79	25	3	0	196	368	50	0	0	418	85
Utilities	0	1	108	365	191	0	21	687	34	0	0	721	149
Others	0	0	0	0	19	0	79	98	0	16	0	114	21
Asset-backed securities	0	0	0	0	0	0	0	0	0	0	0	0	0
Covered bonds	5,453	0	185	0	0	0	298	5,937	0	0	0	5,937	-1,908
Funds	84	1	3	8	13	0	141	250	916	980	0	2,146	116
Clearing house	0	0	0	0	0	0	0	0	0	86	4	89	-22
Total	**6,797**	**2,378**	**5,440**	**3,377**	**1,287**	**0**	**3,138**	**22,417**	**3,812**	**2,285**	**149**	**28,663**	**1,099**
Change from 31 Dec 2020	**-1,701**	**688**	**1,879**	**14**	**-211**	**-1**	**392**	**1,061**	**252**	**-71**	**-143**	**1,099**	

In the table, both fixed income instruments and listed equities include direct and indirect investments.

Most of the financial institutions and covered bonds are in the Nordic countries, with Hastings bringing along some diversification into the investments from this perspective. This can be seen in the table Fixed income investments in the financial sector, Sampo Group, 31 December 2021.

Fixed income investments in the financial sector

Sampo Group, 31 December 2021

EURm	Covered bonds	Cash and money market securities	Long-term senior debt	Long-term subordinated debt	Total	%
Denmark	4,380	145	322	259	**5,105**	34.7%
Finland	71	2,697	436	116	**3,320**	22.5%
Sweden	822	34	600	151	**1,607**	10.9%
France		1,197	221	14	**1,432**	9.7%
Norway	630		427	273	**1,330**	9.0%
United States		2	336	10	**348**	2.4%
Ireland		72	64	168	**304**	2.1%
United Kingdom		41	224	33	**297**	2.0%
Canada	33		193		**226**	1.5%
Netherlands			178	42	**220**	1.5%
Other		76	21		**97**	0.7%
Iceland			49	43	**91**	0.6%
Germany		0	54	16	**70**	0.5%
Spain			57		**57**	0.4%
Gibraltar		44			**44**	0.3%
Australia			44		**44**	0.3%
Switzerland			40		**40**	0.3%
Bermuda			15	10	**25**	0.2%
New Zealand			23		**23**	0.2%
Austria			12		**12**	0.1%
Belgium			10		**10**	0.1%
Estonia			8		**8**	0.1%
Guernsey			8		**8**	0.1%
Luxembourg		2	1		**3**	0.0%
Italy			3		**3**	0.0%
Cayman Islands			1		**1**	0.0%
Total	**5,937**	**4,309**	**3,346**	**1,134**	**14,726**	**100.0%**

The public-sector exposure includes government bonds, government guaranteed bonds and other public-sector investments as shown in the table Fixed income investments in the public sector, Sampo Group, 31 December 2021. The public sector has had a relatively minor role in Sampo Group's portfolios and these exposures have been mainly in the Nordic countries.

The listed equity investments of Sampo Group totalled EUR 3,812 million at the end of year 2021 (3,560). At the end of year 2021, the listed equity exposure of If was EUR 1,646 million (1,301). The proportion of listed equities in If's investment portfolio was 14 per cent. In Mandatum Life, the listed equity exposure was EUR 1,233 million at the end of year 2021 (1,335) and the proportion of listed equities was 24 per cent of the investment portfolio. In Topdanmark Group, the listed equity exposure was EUR 478 million at the end of year 2021 (445). Within Topdanmark Group, the allocation to listed equity is higher in the life company. At the end of year 2021 Hastings didn't have listed equity investments.

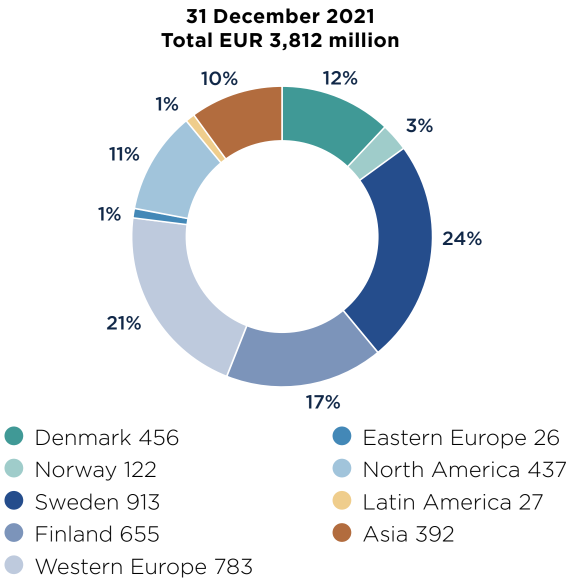
Fixed income investments in the public sector

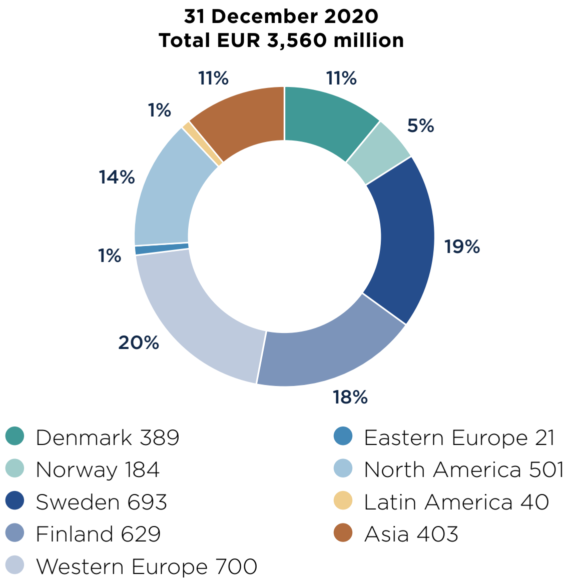
Sampo Group, 31 December 2021

EURm	Governments	Government guaranteed	Public sector, other	Total
Sweden	496		256	**752**
Norway			353	**353**
Finland	20	27	234	**281**
Supranationals			101	**101**
Germany		45		**45**
France		12		**12**
Greece	0			**0**
Total	**517**	**84**	**944**	**1,544**

Breakdown of listed equity investments by geographical regions

Sampo Group





The geographical core of Sampo Group's equity investments is in the Nordic companies. The proportion of Nordic companies' equities corresponds to 56 per cent of the total equity portfolio. This is in line with Sampo Group's investment strategy of focusing on Nordic companies. However, these Nordic companies are mainly competing in global markets, only a few are operationally purely domestic companies. Hence, the ultimate risk is not highly dependent on the Nordic economies. A breakdown of the listed equity exposures of Sampo Group is shown in the graph Breakdown of listed equity investments by geographical regions, Sampo Group, 31 December 2021 and 31 December 2020.

Largest holdings by single name

The largest exposures by individual issuers and counterparties are presented in the table Largest exposures by issuer and asset class, Sampo Group, 31 December 2021.

Largest exposures by issuer and asset class

Sampo Group, 31 December 2021

Issuer, EURm	Total	% of total investment assets	Cash & short-term fixed income	Long-term fixed income, total	Long-term fixed income: Government guaranteed	Long-term fixed income: Covered bonds	Long-term fixed income: Senior bonds	Long-term fixed income: Tier 1 and Tier 2	Equities	Un-collateralized part of derivatives
Nordea Bank	1,601	6%	966	632	0	379	191	63	0	3
Nykredit Realkredit	1,359	5%	0	1,359	0	1,354	5	0	0	0
BNP Paribas	1,270	4%	1,197	74	0	0	71	3	0	0
Danske Bank	1,088	4%	813	263	0	135	104	24	6	6
Skandinaviska Enskilda Banken	999	3%	924	74	0	50	7	17	0	1
Realkredit Danmark	939	3%	0	939	0	939	0	0	0	0
DLR Kredit	801	3%	0	801	0	801	0	0	0	0
Sweden	737	3%	0	737	0	0	737	0	0	0
Nordea Kredit	509	2%	0	509	0	509	0	0	0	0
DNB Bank	387	1%	0	387	0	177	142	68	0	0
Total top 10 exposures	**9,689**	**34%**	**3,899**	**5,774**	**0**	**4,342**	**1,257**	**175**	**6**	**9**
Other	18,974	66%								
Total investment assets	**28,663**	**100%**								

Danish covered bond issuers presented as separate issuers.

The largest high-yield and non-rated fixed income investment single-name exposures are presented in the table Ten largest direct high-yield and non-rated fixed income investments, Sampo Group, 31 December 2021. Furthermore, the largest direct listed equity exposures are presented in the table Ten largest direct listed equity investments, Sampo Group, 31 December 2021.

The exposures in fixed income instruments issued by non-investment grade issuers are significant, because a relatively small number of Nordic companies are rated. Further, many of the Nordic rated companies have a high-yield rating.

Balance sheet concentrations

In general, Sampo Group is structurally dependent on the performance of the Nordic economies as already described earlier. Sampo Group is also economically exposed to a fall in interest rates, as can be seen in the table **Estimated solvency sensitivities on market risk factors, Sampo Group, 31 December 2021** presented above. The lower the rates and the flatter the yield curve, the more challenging the environment is for the current business models especially when the duration of insurance liabilities is longer than fixed income asset duration in If and Mandatum Life. In Topdanmark and Hastings interest rate risk of the balance sheet is being actively hedged and hence Topdanmark or Hastings are not increasing interest rate risk materially at the Group level.

Ten largest direct high-yield and non-rated fixed income investments and direct listed equity investments

Sampo Group, 31 December 2021

Ten largest direct high-yield and non-rated fixed income investments	Rating	Total, EURm	% of total direct fixed income investments
High Street Shopping	NR	151	0.7%
Nykredit Realkredit	NR	116	0.6%
TDC	B	91	0.4%
Trevian Finland Properties I	NR	82	0.4%
Danmarks Skibskredit	NR	73	0.4%
Realkredit Danmark	NR	64	0.3%
Sponda	NR	63	0.3%
GN Store Nord	NR	62	0.3%
Saab	NR	59	0.3%
Ellevio Holding	NR	57	0.3%
Total top 10 exposures		**818**	**4.0%**
Other direct fixed income investments		19,847	96.0%
Total direct fixed income investments		**20,664**	**100.0%**

Ten largest direct listed equity investments	Total, EURm	% of total direct equity investments
Saxo Bank*	343	11.8%
Volvo	158	5.4%
Volvo Car	142	4.9%
ABB	135	4.7%
Husqvarna	112	3.9%
Nobia	97	3.3%
Enento Group	96	3.3%
Vaisala	78	2.7%
Nederman Holding	74	2.6%
Veidekke	67	2.3%
Total top 10 exposures	**1,301**	**44.8%**
Other direct equity investments	1,601	55.2%
Total direct equity investments	**2,902**	**100.0%**

**Although Saxo Bank is not a listed company, it is a major equity investment in Sampo plc's portfolio and is therefore included in the table.*

Sampo Group would benefit in case interest rates would rise, because the economic value of insurance liabilities would decrease more than the value of assets backing them.

The role of Sampo plc

Sampo plc is as the Group's holding company responsible for the group's capital management activities. These actions are guided by targets set for group level solvency and debt leverage (see **Appendix 4 Profitability, Risks and Capital**) 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 monitored regularly and managed by adjusting aggregated risks where necessary.

The parent company Sampo plc is also a source of liquidity within the Group. Hence, the healthy funding structure and the capacity to generate funds if needed are on continuous focus. Sampo plc needs liquidity to manage the group's financing needs, enable dividend security and to finance potential transactions. Sampo plc funding is limited to internal dividends and investment returns but can periodically be complemented with new debt and capital or asset sales. Hence, holding company liquidity needs to be managed holistically together with the dividend policy, strategic ambitions, and balance sheet targets.

Balance sheet structure

Sampo plc, 31 December 2021, and 31 December 2020

EURm	31 Dec 2021	31 Dec 2020
Assets total	**12,327**	**11,515**
Liquidity	**3,732**	**1,170**
Investment assets	**836**	**824**
Other investments	2	2
Fixed income	39	36
Equity & private equity	795	786
Subordinated loans	**100**	**324**
Equity holdings	**7,596**	**9,106**
Subsidiaries	5,639	4,712
Associated	1,956	4,394
Other assets	**63**	**91**

EURm	31 Dec 2021	31 Dec 2020
Liabilities total	**12,327**	**11,515**
CPs issued	**0**	**0**
Long-term senior debt	**1,878**	**2,448**
Private placements	47	72
Bonds issued	1,831	2,376
Subordinated debt	**1,487**	**1,486**
Capital	**8,823**	**7,472**
Undistributable capital	98	98
Distributable capital	8,725	7,374
Other liabilities	**138**	**109**

As at 31 December 2021 Sampo had long-term strategic holdings of EUR 7,596 million in the subsidiary and associated companies and they were funded mainly by capital of EUR 8,823 million, senior debt of EUR 1,878 million and subordinated debt of EUR 1,487 million. Average remaining maturity of senior debt was 5.2 years and EUR 1,100 million of it had a maturity longer than 5 years. Senior debt is used to fund other financial assets as well. The average maturity of subordinated loans and fixed income instruments of EUR 139 million was 0.6 years. Funding structure of strategic holdings and other holdings can be considered strong.

The capacity to generate funds is dependent on leverage and liquidity buffers which can be inferred from the table Balance sheet structure, Sampo plc, 31 December 2021, and 31 December 2020.

The leverage of Sampo plc was moderate at year end according to for example these measures:

- The financial leverage measured as the portion of debt within all liabilities was 28 (34) per cent.
- Sampo's net debt is negative at EUR -505 (2,405) million and is low as such.

Regarding liquidity, the liquid funds of Sampo plc were EUR 3,732 (1,170) million. Liquidity is mainly affected by received and paid dividends as well as changes in issued debt instruments and changes in investments. Sampo's dividend payment takes place in May and it will significantly lower the liquidity position of Sampo. A part of the investment assets (836) can be sold in case liquidity is needed. Short-term liquidity can be adequate.

All in all, Sampo plc is in a good position to refinance its current debt and even issue more debt. This capacity together with the tradable financial assets, means that Sampo plc can generate liquid funds.

Currently Sampo Group has a capital buffer in excess of the Solvency Capital Requirement. The subordinated loans presented in the table Balance sheet structure, Sampo plc, 31 December 2021 and 31 December 2020 are currently all issued by Mandatum and eliminated from Group's own funds. In case these assets would be sold, in addition to liquidity in Sampo plc, also own funds and Sampo Group solvency ratio would increase.

Sampo plc can balance risks within Sampo Group. When Sampo plc is managing its funding, capital structure and liquidity, it takes into account that some of its operative companies have other base currencies (the Swedish krona, the Danish krone, pound sterling) than the euro, and that all its operative business areas are exposed to low interest rates. These risks may affect Sampo's decisions on the issuance of debt instruments and the composition of the liquidity portfolio.

The maturities of financial assets and liabilities and lease liabilities are presented in the table Cash flows according to contractual maturity, Sampo plc, 31 December 2021.

Cash flows according to contractual maturity

Sampo plc, 31 December 2021

	Carrying amount total			Cash flows						
EURm	Carrying amount total	Carrying amount without contractual maturity	Carrying amount with contractual maturity	2022	2023	2024	2025	2026	2027–2036	2037–
Financial assets	**4,697**	**3,885**	**812**	**687**	**8**	**28**	**7**	**5**	**52**	**172**
Financial assets (non-derivatives)	4,690	3,885	804	684	7	27	5	5	52	172
Interest rate swaps	7	0	7	3	2	1	2	0	0	0
FX derivatives	0	0	0	0	0	0	0	0	0	0
Financial liabilities	**3,406**	**0**	**3,406**	**-132**	**-518**	**-68**	**-340**	**-62**	**-2,868**	**0**
Financial liabilities (non-derivatives)	3,404	0	3,404	-135	-520	-70	-342	-64	-2,868	0
Interest rate swaps	2	0	2	3	3	2	2	2	0	0
FX derivatives	0	0	0	0	0	0	0	0	0	0
Lease liabilities	**2**	**0**	**2**	**-1**	**-1**	**0**	**0**	**0**	**0**	**0**

Sampo plc's treatment of deferred tax assets and liabilities is based on IAS 12 Income Taxes standard. The company has recognised a deferred tax asset in accordance with Finnish tax legislation over confirmed taxable losses. Confirmed taxable losses are valid for ten years, after which they expire. On 31 December 2021, the total of company's deferred tax asset from confirmed taxable losses was EUR 47.5 million. The deferred tax asset is presented as an off-balance sheet item.

Deferred tax liabilities have been recognised for unrealised increases in the value of the company's investments. The net deferred tax liability is EUR 40 million.

The balance sheet does not include any other deferred taxes from temporary differences.

Sampo Group capitalisation

The principles of Sampo Group capitalisation and the calculation methods are described in detail in **Appendix 4 Profitability, Risks and Capital**.

Sampo Group's own funds and SCR are presented in the graph Solvency by Solvency II Rules, Sampo Group, 31 December 2021. Sampo Group's Ratio of Eligible own funds to Group SCR at the end of 2021 was 185 per cent (176). Sampo Group has been continuously compliant with the regulatory capital requirement during 2021.

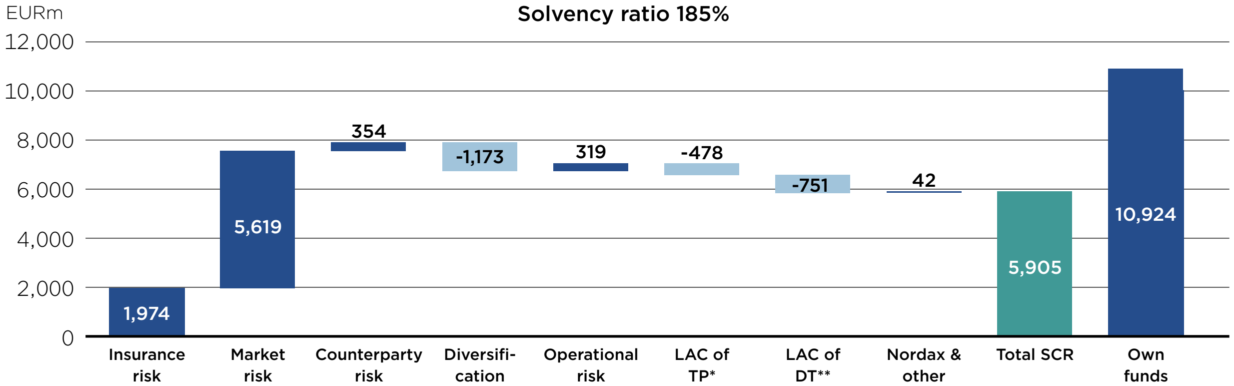
The Group SCR increased by EUR 235 million mainly due to a higher equity risk. 397 million Nordea shares were sold during 2021 which decreased the equity risk but other increases, including a strong Nordea share performance, increased the equity risk as a total. Sampo Group has not applied for approval to use an internal model on the group level in Solvency II, and therefore the standard formula SCRs are applied in Solvency II. Sampo does not use Advantage's Undertaking Specific Parameters (USPs) in the Group SCR.

The Group LAC of DT was EUR -751 million and it is calculated based on the subsidiaries' LAC of DT figures following EIOPA guidelines on Group LAC of DT.

The table Eligible own funds, Sampo Group, 31 December 2021 and 31 December 2020 presents Sampo Group's own funds by tiers.

Solvency by Solvency II rules

Sampo Group, 31 December 2021



*Loss absorbing capacity of technical provisions

**Loss absorbing capacity of deferred taxes

The Group's own funds consists of ordinary share capital, the reconciliation reserve as well as subordinated liabilities, which are eligible at the Group level. As at 31 December 2021 the Group's own funds were EUR 10,924 million (9,978).

Eligible own funds

31 December 2021 and 31 December 2020

EURm	2021	2020
Tier 1 total	**8,906**	**7,826**
Ordinary share capital	98	98
Reconciliation reserve	8,675	7,730
Net effect of other financial sectors	-	-138
Tier 1 - restricted	133	135
Tier 2 (Subordinated liabilities)	**1,981**	**2,107**
Tier 3 (Deferred tax assets)	**38**	**45**
Eligible own funds	**10,924**	**9,978**

The entire ordinary share capital of EUR 98 million and reconciliation reserve of EUR 8,675 million (7,730) fully meet with the requirements for inclusion in Tier 1 unrestricted items. In comparison, IFRS Consolidated Group equity as at 31 December 2021 was EUR 13,464 million (12,258) (see **Appendix 5 Valuation for Solvency II purposes**). All in all, the structure of own funds is solid because Tier 1 items make up 80 per cent of all own funds and the reconciliation reserve is a major contributor.

The reconciliation reserve is a sum of retained earnings, net income for the financial year and other reserves deducted by proposed dividends and other distributions and adjusted by Solvency II valuation differences, net deferred tax assets, own shares held directly and Topdanmark's minority interest. The composition of the reconciliation reserve is presented in the table Composition of the reconciliation reserve, Sampo Group, 31 December 2021 and 31 December 2020.

In the table Eligible own funds, Sampo Group, 31 December 2021 and 31 December 2020 the own funds items included in Sampo Group's Tier 1 restricted and Tier 2 capital, amounting to EUR 133 million and EUR 1,915 million respectively as at 31 December 2021, consist of subordinated debt instruments held by external investors.

Composition of the reconciliation reserve

Sampo Group, 31 December 2021 and 31 December 2020

EURm	2020	2019
Reserves, retained earnings and net income for the year (before SII adjustments)	13,371	12,160
Foreseeable dividends, distributions and charges	-2,612	-944
Own shares (held directly and indirectly)	-476	-89
Other non-available own funds	-441	-300
Net deferred tax assets shown separately in Tier 3	-38	-45
Valuation adjustments according to Solvency II	-1,129	-3,052
Reconciliation reserve	**8,675**	**7,730**

In addition, a share of If's Norwegian natural perils capital is included as Tier 2 own funds.

As at 31 December 2021 EUR 100 million of a total of EUR 349 million of the subordinated debt issued by Mandatum Life was in Sampo's investment. Topdanmark has issued three subordinated debt instruments by nominal amount of DKK 1,900 million in total, and about 85 per cent of these are held in Sampo Group companies' investment portfolios. The details of subordinated debt instruments issued by Sampo, If, Topdanmark and Mandatum are shown in the companies' respective tables. Full instrument details are available also in Sampo's webpages **www.sampo.com/investors/debt-instruments/sampo-plc**, **www.sampo.com/investors/debt-instruments/if**, **www.sampo.com/investors/debt-instruments/topdanmark** and **www.sampo.com/investors/debt-instruments/mandatum-life**.

If issued subordinated debt during 2021 in the form of a SEK 1,500 million Tier 2 subordinated loan in March. Subsequently Sampo Group companies also redeemed outstanding subordinated debt when Topdanmark called its DKK 850 million Tier 2 bond effective in September and If called three of its subordinated notes (SEK 500 million, SEK 1,500 million and EUR 110 million) effective in December.

The Group's own funds increased by EUR 946 million over the reporting period. Several developments took place during the year. Record high profitability in the insurance operations as well as high investment returns and rising interest rates increased the Own funds. Nordea's share price increased significantly during the year and in order to return excess capital to shareholders as the holding in Nordea was being divested, Sampo launched in October a share buyback programme. The programme shall not exceed EUR 750 million and the total amount was deducted from own funds. Subsequently in December Sampo acquired Rand Merchant Investment Holdings Limited's 30 per cent minority ownership in Hastings, which decreased own funds by approximately EUR 806 million. The proposed dividend of EUR 2,241 million is deducted from own funds at the year-end. This includes an insurance dividend of EUR 930 million, in line with profits from the Group's insurance operations, and an additional dividend of EUR 2.0 per share related to Nordea share sales during 2021. As a result of these changes in the Group SCR and Own funds, Ratio of eligible own funds to Group SCR increased to 185 per cent (176). Because of the regulatory limitation that the Tier 2 items can only cover up to 20 per cent of the Minimum Consolidated Group SCR ("MCR"), there is a restriction affecting the availability and transferability of Tier 2 own funds at the Group level during the period when calculating Tier 2 capital and Ratio of eligible own funds to MCR.

IF GROUP

If Group

If Group ("If") conducts property and casualty ("P&C") insurance operations in the Nordic and Baltic countries, offering a full range of insurance solutions and services to private individuals and corporations over a geographically diverse area. Nordic corporate customers with global operations are also served by branch offices in France, Germany, the Netherlands and the United Kingdom as well as via international partners. Thus, the underwriting business of If is well diversified across countries, lines of business and customer segments.

The Nordic P&C insurance market is relatively concentrated with the four largest insurers accounting for approximately 70 to 90 per cent of the markets in Sweden, Norway and Finland. In Denmark, the market is more fragmented. Other market characteristics are high customer retention levels and low expense ratios as well as an increasing use of digital services throughout the customer journey, from sales to possible claims.

Stable performance based on customer satisfaction, underwriting excellence and operational efficiency, supported by continuous investments in digitalisation, are at the core of If's business strategy. If is committed to provide the best possible service for its customers by ensuring that every customer is properly insured to meet risks in their daily lives and businesses. This is summarised in the customer promise "By your side".

Sustainability is a crucial part of If's strategic framework and thereby central for If and its stakeholders. If's ambition is to be the most caring insurance company and actively contribute to a more sustainable society. Sustainability risks, such as climate change risks, are not considered as a stand-alone risk category. Instead, the risks are an integrated part of assessments of each main risk category.

After another challenging year, still affected by the pandemic, If's business model has proven robust due to its high degree of diversification and long-standing tradition of remote and online-based distribution. The majority of If's nearly 8,000 employees who have been migrated to home offices were gradually returning to If's premises during the fall until prior restrictions were established once again. As at year end, the office occupancy rates vary between countries and regions but sum up to approximately 40 per cent on average.

Underwriting risks and performance

If's Nordic insurance operations are organised in accordance with customer segments into the cross-border business areas private, commercial (small and medium sized companies) and industrial (large corporates) where business area private accounts for more than half of the total premium income. Since 1 September 2021 a new cross-functional claims unit has been established, to handle Nordic claims within all business areas. The Baltic operations comprise a separate business area carried out through the Estonian company with branches in Latvia and Lithuania.

If's underwriting performance for the year improved from EUR 794.1 million to EUR 888.0 million, corresponding to growth of 12 per cent. The premium development was solid supported by a growing customer base in all countries. For business area private, premium development was dampened by a slowdown in new car sales whilst business area commercial, industrial and Baltic delivered a strong growth supported by continued rate actions across all business areas. The positive premium development was also favoured by improved retention, especially within business area commercial. For If as a whole, the top line effects following from the COVID-19 pandemic were marginal.

The performance of each business area in 2021 is presented below:

- Business area private: Despite positive premium development, the underwriting performance deteriorated, due to increased total claims cost in Sweden and Norway. In comparison to the preceding year, the total claims costs are higher. This is largely due to more normalised frequencies of motor and property claims as a result of winter effects and higher traffic volumes than in the earlier stage of the pandemic.

- Business area commercial: The underwriting performance was positive, supported by a strong premium development in Norway. Total claims costs increased in Sweden and Norway but decreased in Denmark and especially in Finland, partly due to lower costs for frequency claims because of reduced business activity related to the pandemic.
- Business area industrial: The underwriting performance for the year was improved compared to last year, mostly due to reduced total claims within property. The premium development was strong, especially in Sweden and Norway.
- Business area Baltic: The underwriting performance improved, supported by positive premium growth in all countries. Total claims costs went up in Estonia and Lithuania but remained relatively stable compared to the preceding year.

The three major Solvency II lines of business in if are motor vehicle liability insurance, other motor insurance and fire and other damage to property insurance. The table Underwriting performance, If, 31 December 2021 and 31 December 2020 presents the development of the premiums, claims, operating expenses, reinsurer's share and underwriting performance per Solvency II lines of business for the last two years.

Underwriting performance

If, 31 December 2021 and 31 December 2020

	Premiums written		Premiums earned		Claims incurred		Operating expense		Reinsurers share per LoB		Total underwriting performance direct insurance	
Underwriting performance by SII LoB, EURm	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Medical expense insurance	286.9	271.5	282.8	268.2	155.4	185.7	73.5	71.0	5.4	-4.8	48.5	16.3
Income protection insurance	354.8	328.0	345.1	320.4	202.3	189.8	85.0	76.9	7.5	-10.1	50.3	63.9
Workers' compensation insurance	180.9	193.5	180.1	192.3	69.0	59.6	39.0	37.0	9.8	4.2	62.3	91.5
Motor vehicle liability insurance	554.8	529.7	550.3	528.3	128.2	72.2	144.0	132.4	0.6	-0.1	277.5	323.8
Other motor insurance	1,504.0	1,411.0	1,487.1	1,395.3	930.3	886.7	289.6	288.9	1.8	2.1	265.3	217.6
Marine, aviation and transport insurance	125.2	127.5	125.3	122.6	48.2	84.7	22.9	22.3	11.5	-1.0	42.7	16.6
Fire and other damage to property insurance	1,734.1	1,599.2	1,689.5	1,535.1	1,151.7	1,151.9	298.0	269.3	47.2	4.3	192.6	109.6
General liability insurance	338.9	314.5	329.1	298.1	196.3	174.4	55.8	51.0	23.3	31.0	53.7	41.8
Assistance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other life insurance	54.0	47.7	52.0	45.2	12.7	10.4	12.1	10.5	2.1	2.0	25.2	22.2
Annuities stemming from non-life insurance contracts and relating to health insurance obligations	0.0	0.0	0.0	0.0	55.4	80.4	0.0	0.0	0.0	0.0	-55.4	-80.4
Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	0.0	0.0	0.0	0.0	76.7	33.4	0.0	0.0	0.2	-1.5	-76.9	-31.9
Total (excluding other expenses)	**5,133.7**	**4,822.7**	**5,041.3**	**4,705.6**	**3,026.2**	**2,929.2**	**1,019.8**	**959.3**	**109.6**	**26.1**	**885.7**	**790.9**
Other expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.3	3.2
Total	**5,133.7**	**4,822.7**	**5,041.3**	**4,705.6**	**3,026.2**	**2,929.2**	**1,019.8**	**959.3**	**109.6**	**26.1**	**888.0**	**794.1**

The figures are segmented in accordance with Solvency II defined lines of business, which differ from the insurance class segmentation according to local GAAP or IFRS requirements that are used in other tables.

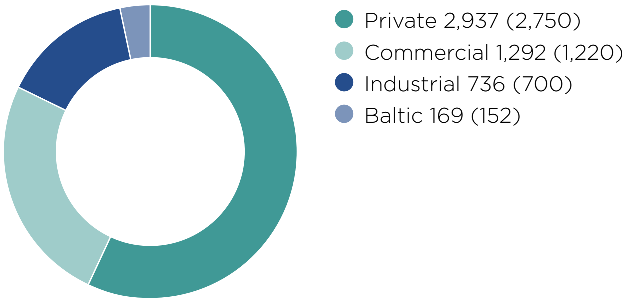
As shown in the following graph Breakdown of gross written premiums by business area, country, and line of business, If, 31 December 2021, the If insurance portfolio is well diversified across business areas, countries, and lines of business. The six lines of business are segmented in accordance with insurance class segmentation used in IFRS.

There are minor differences between the figures reported by Sampo Group and If due to differences in foreign exchange rates used in the consolidation.

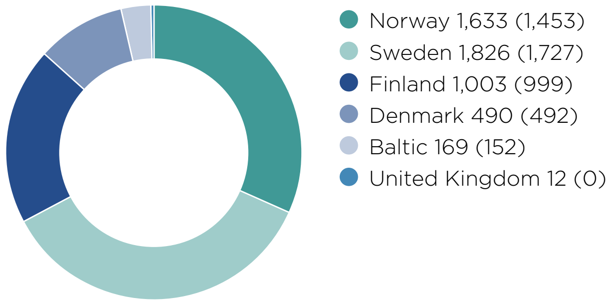
Breakdown of gross written premiums

If, 31 December 2021, total EUR 5,134 (4,823) million

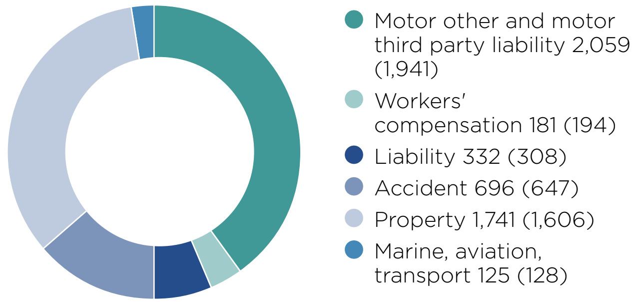
By business area



By country



By line of business



The following adjustments from IFRS Lines of Business to Solvency II Lines of Business are made:

- *IFRS Line of Business Motor other and Motor third party liability (2,059) include Solvency II Line of Business Motor vehicle liability insurance (555) and Other motor insurance (1,504).*
- *IFRS Line of Business Accident (696) includes Solvency II Line of Businesses Income protection insurance (355), Other Life (54), Medical expense insurance (287) and Assistance (0).*

Premium and catastrophe risk and their management and control

Definitions of premium and catastrophe risk can be found in **Appendix 2** Risk definitions.

Despite the diversified portfolio, risk concentrations and consequently severe claims may arise through, for example, exposures to natural catastrophes such as storms and floods. The geographical areas most exposed to such events are Denmark, Norway, and Sweden. In addition to natural catastrophes, single large claims could have an impact on the result of insurance operations. The negative economic impact of natural catastrophes and single large claims is effectively mitigated by having a well-diversified portfolio and a group-wide reinsurance program in place.

The sensitivity of the underwriting result and hence the underwriting risk is presented by changes in certain key figures in the table Sensitivity test of underwriting result, If, 31 December 2021 and 31 December 2020.

The Underwriting Committee shall give its opinion on and propose actions in respect of various issues related to underwriting risk. The Committee shall also consider and propose changes to the Underwriting Policy, which is the principal policy for underwriting, and sets general principles, restrictions, and directions for the underwriting activities. This document shall be reviewed and approved at least yearly by the Boards of Directors.

The Chairman of the Underwriting Committee is responsible for the approval of underwriting deviations defined in the Underwriting policy and other issues dealt with by the Committee.

The Underwriting policy is supplemented with guidelines outlining in greater detail how to conduct underwriting within each business area. These guidelines cover areas such as tariff and rating models for pricing, guidelines in respect of standard conditions and manuscript wordings, as well as authorities and limits. In accordance with the instructions for the Underwriting Committee, the Committee monitors compliance with the established underwriting principles.

The business areas manage the underwriting risk on a day-to-day basis. A crucial factor affecting the profitability and risk of non-life insurance operations is the ability to accurately estimate future claims and expenses and thereby correctly price insurance contracts. The premiums within the business area private and the premiums for smaller risks within the business area commercial are set through tariffs. The underwriting of risks in the Business Area Industrial and of more complex risks within the business area commercial is to a greater extent based on principles and individual underwriting than on tariffs. In general, pricing is based on statistical analyses of historical claims data and assessments of the future development of claims frequency and claims inflation.

If's Reinsurance policy stipulates guidelines for the purchase of reinsurance. The need and optimal choice of reinsurance is evaluated by considering the expected cost

Sensitivity test of underwriting result

If, 31 December 2021 and 31 December 2020

Key figure	Current level (2021)	Change in current level	Effect on pretax profit, EURm 2021	Effect on pretax profit, EURm 2020
Combined ratio, business area Private	78.6%	+/- 1 percentage point	+/- 29	+/- 27
Combined ratio, business area Commercial	83.2%	+/- 1 percentage point	+/- 13	+/- 12
Combined ratio, business area Industrial	93.4%	+/- 1 percentage point	+/- 5	+/- 5
Combined ratio, business area Baltics	86.8%	+/- 1 percentage point	+/- 2	+/- 1
Net premiums earned (EURm)	4.772	+/- 1 per cent	+/- 48	+/- 45
Net claims incurred (EURm)	3.126	+/- 1 per cent	+/- 31	+/- 30
Ceded written premiums (EURm)	279	+/- 10 per cent	+/- 3	+/- 2

Key figure	Current level (2020)	Change in current level	Effect on pretax profit, EURm 2020	Effect on pretax profit, EURm 2019
Combined ratio, business area Private	76.0%	+/- 1 percentage point	+/- 27	+/- 26
Combined ratio, business area Commercial	85.8%	+/- 1 percentage point	+/- 12	+/- 12
Combined ratio, business area Industrial	109.0%	+/- 1 percentage point	+/- 5	+/- 4
Combined ratio, business area Baltics	86.6%	+/- 1 percentage point	+/- 1	+/- 1
Net premiums earned (EURm)	4.484	+/- 1 per cent	+/- 45	+/- 44
Net claims incurred (EURm)	2.975	+/- 1 per cent	+/- 30	+/- 30
Ceded written premiums (EURm)	234	+/- 10 per cent	+/- 2	+/- 20

versus the benefit of the reinsurance, the impact on result volatility and capital requirements. The main tool for this evaluation is If's internal model in which frequency claims, large claims and natural catastrophes are modelled.

A group-wide reinsurance program has been in place in If since 2003. In 2021, retention levels were between SEK 100 million (approximately EUR 9.8 million) and SEK 250 million (approximately EUR 24.4 million) per risk and SEK 250 million (approximately EUR 24.4 million) per event.

Reserve risk and its management and control

The definition of reserve risk can be found in **Appendix 2 Risk definitions**.

The main reserve risks for If are stemming from uncertainty in the claim amounts caused by higher-than-expected claims inflation, increased retirement age and increased life expectancy.

Reserves, especially in long tailed business, are sensitive to assumptions of future claims inflation since they affect the future claim amount. An increased retirement age, through for instance a political decision, will increase the duration and present value of annuities as these decrease, or expire, at retirement. An increase in life expectancy will likewise increase the duration and present value of annuities. The present value of discounted reserves is sensitive to decreasing interest rates, especially in Sweden and Finland, due to the longer duration of the liabilities.

Net technical provisions by line of business and major geographical area

If, 31 December 2021 and 31 December 2020

	Sweden		Norway		Finland		Denmark		Baltics		Total	
31 December 2021	**EURm**	**Duration**	**EURm**	**Duration**	**EURm**	**Duration**	**EURm**	**Duration**	**EURm**	**Duration**	**EURm**	**Duration**
Motor other and MTPL	1,771	8.0	538	1.5	1,046	13.6	146	1.6	124	5.7	3,626	8.3
Workers' compensation	0	0.0	171	7.7	1,139	12.9	282	10.5	0	0.0	1,592	12.0
Liability	311	3.8	123	1.1	109	3.6	79	3.1	27	2.4	649	3.1
Accident	438	7.2	448	7.1	198	6.6	105	1.8	8	0.5	1,196	6.6
Property	533	1.0	569	0.9	265	1.1	153	0.7	43	1.7	1,563	1.0
Marine, aviation, transport	21	1.0	22	0.8	11	1.2	28	0.6	3	0.9	85	0.8
Total	**3,074**	**6.2**	**1,871**	**3.1**	**2,769**	**11.2**	**793**	**4.7**	**205**	**4.1**	**8,712**	**7.0**

	Sweden		Norway		Finland		Denmark		Baltics		Total	
31 December 2020	**EURm**	**Duration**	**EURm**	**Duration**	**EURm**	**Duration**	**EURm**	**Duration**	**EURm**	**Duration**	**EURm**	**Duration**
Motor other and MTPL	1,950	7.1	476	1.5	1,043	13.7	151	1.6	115	4.5	3,735	7.9
Workers' compensation	0	0.0	158	2.8	1,174	12.6	271	9.7	0	0.0	1,602	11.1
Liability	285	3.5	112	1.1	109	4.0	77	3.2	27	2.5	610	3.1
Accident	412	5.9	384	4.1	182	5.8	106	1.7	7	0.5	1,092	4.8
Property	494	1.0	499	1.2	243	1.1	136	0.7	42	0.7	1,413	1.0
Marine, aviation, transport	34	1.3	32	0.7	9	1.1	20	0.9	2	0.8	97	1.0
Total	**3,175**	**5.6**	**1,662**	**2.1**	**2,758**	**11.2**	**761**	**4.0**	**193**	**3.2**	**8,549**	**6.5**

In the tables Net technical provisions by line of business and major geographical area, If, 31 December 2021 and 31 December 2020, the size and duration of If's technical provisions are presented by line of business and major geographical area. Finland's share of technical provisions is larger than its share of gross written premiums, which is mainly due to the long duration of the motor business and Workers' compensation ("WC"). The long duration is mainly explained by the presence of annuities in these lines of business. The duration of the provisions, and thus the sensitivity to changes in discount rates, varies with each product portfolio. The weighted average duration for 2021 across the product portfolios was 7.0 years. The proportion of technical provisions related to Motor other, MTPL and WC was 60 per cent.

The sensitivity of If's technical provisions to an increase in inflation, an increase in life expectancy and a decrease in the discount rate is presented in the table Sensitivities of technical provisions, If, 31 December 2021.

Sensitivities of technical provisions

If, 31 December 2021 and 31 December 2020

Technical provision item	Risk factor	Change in risk parameter	Country	Effect EURm 2021	Effect EURm 2020
Nominal provisions	Inflation increase	Increase by 1 percentage point	Sweden	134.7	139.8
			Denmark	19.3	18.7
			Norway	63.3	36.9
			Finland	41.1	38.8
Annuities and estimated share of claims provisions to future annuities	Decrease in mortality	Life expectancy increase by 1 year	Sweden	15.4	24.3
			Denmark	1.0	1.8
			Finland	76.9	81.0
Discounted provisions (annuities and part of Finnish IBNR)	Decrease in discount rate	Decrease by 1 percentage point	Sweden	97.8	68.4
			Denmark	21.2	18.1
			Finland	313.1	312.6

The technical provisions are further analysed by claims years. The output from this analysis is illustrated both before and after reinsurance in the claims cost trend tables. These are disclosed in the **Note 22 in the Financial Statements** (www.sampo.com/year2021).

The Boards of Directors of If decide on the guidelines governing the calculation of technical provisions. The Chief Actuary is responsible for developing and presenting guidelines on how the technical provisions are to be calculated and for assessing whether the level of total provisions is sufficient. The Chief Actuary issues a quarterly report on the adequacy of If's technical provisions.

The Actuarial Committee is a preparatory and advisory board for If's Chief Actuary. The Committee secures a comprehensive view over reserve risk, discusses, and gives recommendations on policies and guidelines for calculating technical provisions.

The actuaries in If continuously monitor the level of provisions to ensure that they comply with the established guidelines. The actuaries also develop methods and systems to support these processes. Factors that are considered in the actuarial estimates include loss development trends, the level of unpaid claims, changes in legislation, case law and economic conditions.

Market risks and investment performance

The total market value of If's investment portfolio at 31 December 2021 was EUR 11,610 million (11,251). A large part of the fixed income portfolio was concentrated to Financials. Corporate bonds issued by financial institutions and bank account balances amounted to 29.4 per cent of the portfolio. If covered bonds are included, the concentration to financial institutions was 47.5 per cent.

The role of alternative investments such as real estate, private equity and other alternative investments is immaterial.

The composition of the investment portfolios by asset classes in If at year end 2021 and at year end 2020 and average maturities of fixed income investments are shown in the table Investment allocation, If, 31 December 2021 and 31 December 2020.

Investment allocation

If, 31 December 2021 and 31 December 2020

	31 Dec 2021			31 Dec 2020		
Asset Class	**Market value, EURm**	**Weight**	**Average maturity, years**	**Market value, EURm**	**Weight**	**Average maturity, years**
Fixed income total	**9,949**	**86%**	**2.3**	**9,933**	**88%**	**2.7**
Money market securities and cash	1,166	10%	0.1	516	5%	0.0
Government bonds	1,190	10%	4.3	1,016	9%	5.1
Credit bonds, funds and loans	7,593	65%	2.4	8,401	75%	2.6
Covered bonds	*1,803*	*16%*	*2.0*	*2,514*	*22%*	*2.1*
Investment grade bonds and loans	*3,130*	*27%*	*2.1*	*3,431*	*30%*	*2.7*
High-yield bonds and loans	*1,499*	*13%*	*2.7*	*1,465*	*13%*	*2.9*
Subordinated / Tier 2	*629*	*5%*	*3.6*	*452*	*4%*	*3.1*
Subordinated / Tier 1	*532*	*5%*	*2.9*	*541*	*5%*	*2.7*
Hedging swaps	*0*	*0%*	-	*0*	*0%*	-
Listed equity total	**1,646**	**14%**	**-**	**1,301**	**12%**	**-**
Finland	0	0%	-	0	0%	-
Scandinavia	1,171	10%	-	888	8%	-
Global	475	4%	-	413	4%	-
Alternative investments total	**15**	**0%**	**-**	**18**	**0%**	**-**
Real estate	1	0%	-	3	0%	-
Private equity	14	0%	-	6	0%	-
Biometric	0	0%	-	0	0%	-
Commodities	0	0%	-	0	0%	-
Other alternative	0	0%	-	8	0%	-
Trading derivatives	**0**	**0%**	**-**	**-1**	**0%**	**-**
Asset classes total	**11,610**	**100%**	**-**	**11,251**	**100%**	**-**
FX Exposure, gross position	**124**	**-**	**-**	**81**	**-**	**-**

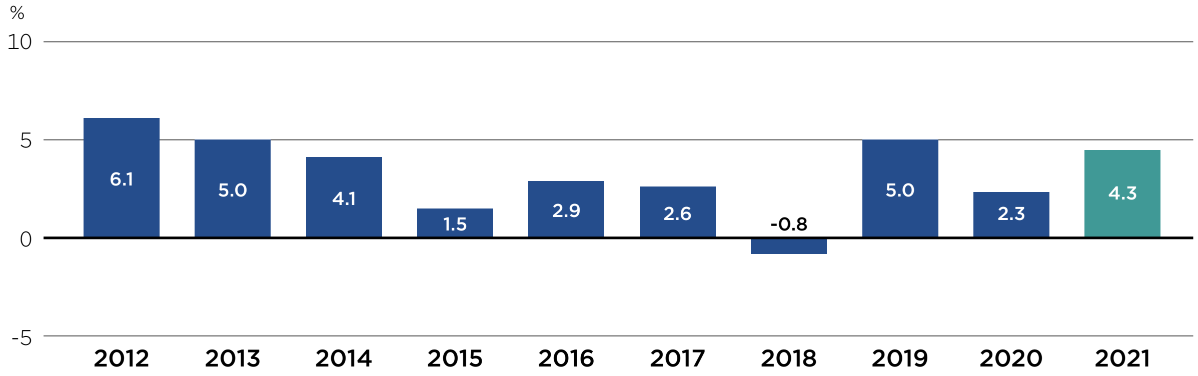
Fixed income total includes cash and bank EUR 521 million.

The return on If's investments during 2021 amounted to 4.3 per cent, mainly due to very strong equity market performance. The fixed income portfolio also contributed positively to the return, with the corporate high-yield and real estate segments as well as the index-linked government bond portfolio performing strongest during the year. The return for 2021 can be compared to the average yearly return on If's investments during 2012–2021 which is 3.3 per cent.

If's investment management strategy is conservative, with a low equity share and low fixed-income duration.

Both investment performance and market risk are actively monitored and controlled by the Investment Control Committee monthly and reported to the Own Risk and Solvency Assessment Committee ("ORSA Committee") quarterly. In addition, the allocation limits, the issuer and counterparty limits, the sensitivity limits for interest rates and credit spreads as well as the regulatory capital requirements are regularly monitored.

Annual investment returns at market values
If, 2012–2021



Market risks of fixed income and equity instruments

Spread risk and equity risk

Spread risk and equity risk are derived only from the asset side of the balance sheet. Exposures in fixed income and equity instruments are presented by sector, asset class and rating in the following table, which also includes counterparty risk exposures relating to derivative transactions. Counterparty default risks are described in more detail in section **Counterparty default risks**. Due to differences in the reporting treatment of derivatives, the figures in the table are not fully comparable with other tables in Sampo Group's financial statements.

Exposures by sector, asset class and rating

If, 31 December 2021

EURm	AAA	AA+ - AA-	A+ - A-	BBB+ - BBB-	BB+ - C	D	Non-rated	Fixed income total	Listed equities	Other	Counter-party risk	Total	Change from 31 Dec 2020
Basic industry	0	0	0	108	17	0	11	136	53	0	0	189	3
Capital goods	0	0	79	54	19	0	119	271	721	0	0	992	285
Consumer products	0	1	130	255	18	0	85	490	337	0	0	827	-11
Energy	0	0	0	0	0	0	131	131	0	8	0	140	27
Financial institutions	38	868	1,102	710	96	0	116	2,931	0	0	0	2,932	-16
Governments	517	0	0	0	0	0	0	517	0	0	0	517	179
Government guaranteed	0	27	0	0	0	0	0	27	0	0	0	27	-1
Health care	7	0	11	18	3	0	61	101	4	0	0	105	-9
Insurance	0	0	44	91	25	0	265	426	0	1	0	427	159
Media	0	0	0	0	0	0	24	24	0	0	0	24	1
Packaging	0	0	0	0	0	0	14	14	0	0	0	14	0
Public sector, other	545	63	0	0	0	0	0	608	0	0	0	608	-4
Real estate	0	54	218	477	46	0	517	1,313	0	1	0	1,313	313
Services	0	0	0	56	76	0	55	187	0	0	0	187	14
Technology and electronics	0	0	19	15	1	0	80	115	0	1	0	116	17
Telecommunications	0	0	22	125	48	0	18	212	56	0	0	268	-7
Transportation	0	57	46	0	0	0	176	279	0	0	0	279	45
Utilities	0	0	55	170	81	0	21	327	0	0	0	327	51
Others	0	0	0	0	0	0	47	47	0	0	0	47	-2
Asset-backed securities	0	0	0	0	0	0	0	0	0	0	0	0	0
Covered bonds	1,803	0	0	0	0	0	0	1,803	0	0	0	1,803	-710
Funds	0	0	0	0	0	0	0	0	475	4	0	479	60
Clearing house	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	**2,910**	**1,070**	**1,727**	**2,079**	**431**	**0**	**1,742**	**9,959**	**1,646**	**15**	**1**	**11,620**	**395**
Change from 31 Dec 2020	**-511**	**62**	**283**	**-63**	**-87**	**-1**	**370**	**54**	**345**	**-3**	**0**	**395**	**0**

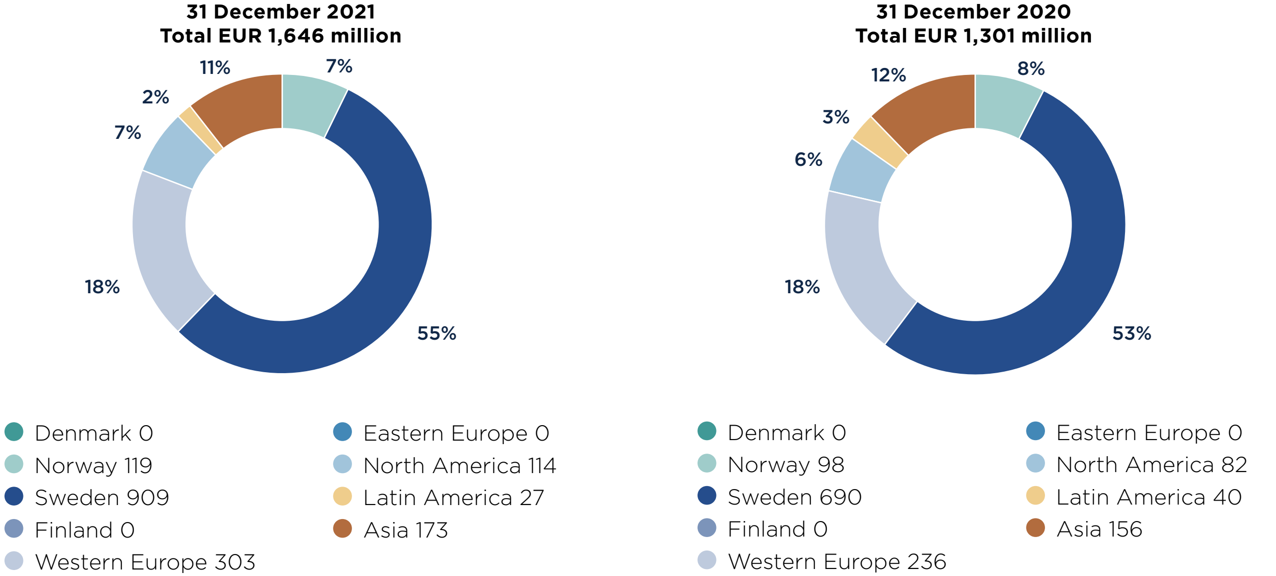
The figures include bank account balances related to insurance activities.

Most of the fixed income exposures are in investment grade issues and currently the role of Nordic covered bonds and Nordic banks as issuers is central. Within fixed income investments part of the money market securities, cash and investment grade government bonds form a liquidity buffer.

In the equity portfolio, most of the equity investments are selectively chosen direct investments in the Nordic markets. When investing in non-Nordic equities, funds, or other assets, third party managed investments are mainly used. The changes in equity positions during the year can be seen in the graph Breakdown of listed equity investments by geographical regions, If, 31 December 2021 and 31 December 2020.

Breakdown of listed equity investments by geographical regions

If



Market risks of balance sheet

Asset and liability management risk

Asset and Liability Management ("ALM") risk is defined in **Appendix 2 Risk Definitions**.

The ALM risk is considered through the risk appetite framework and its management and governance are based on If's Investment Policies. In general, to maintain the ALM risk within the overall risk appetite, the cash flows of insurance liabilities are matched by investing in fixed income instruments denominated in the same currencies as the liabilities or by using currency derivatives.

Interest rate risk

In general, If is negatively affected when interest rates are decreasing or remaining at low levels, as the duration of liabilities in If is longer than the duration of assets. Over the years If has gradually decreased its combined ratio level to counteract falling interest rates. Interest rate sensitivity in terms of the average duration of fixed income investments was 1.1 years on 31 December 2021 (1.4). The respective duration of insurance liabilities was 7.0 years (6.5). The overall interest rate risk is managed by sensitivity limits for instruments sensitive to interest rate changes.

In the financial accounts, most of the technical provisions are nominal, while the annuity and annuity IBNR reserves, are discounted using interest rates in accordance with the regulatory rules. Accordingly, from an accounting perspective, If is mainly exposed to changes in inflation and regulatory discount rates. From an economic perspective, in which the cash flows of insurance liabilities are discounted with prevailing interest rates, If is exposed to changes both in inflation and nominal interest rates. For more information see the table Sensitivities of Technical Provisions, If, 2021 in the section **Underwriting Risks and Performance**.

Currency risk

If writes insurance policies that are mostly denominated in the Scandinavian currencies and in the euro. The currency risk is to a large extent reduced by matching technical provisions with investment assets denominated in the corresponding currencies or by using currency derivatives. The currency exposure in insurance operations is hedged to the base currency on a regular basis.

The currency exposure in investment assets is controlled weekly and hedged when the exposure has reached a specific level, set with respect to cost efficiency and minimum transaction size. An active currency management can be performed within set limits. The transaction risk positions against the Swedish krona are shown in the tables Transaction risk position, If, 31 December 2021 and 31 December 2020. The table shows the net transaction risk exposures and the changes in the value of positions given a 10 per cent decrease in the value of the base currency.

In addition to transaction risk, If is also exposed to translation risk which at the Group level stems from foreign operations with other base currencies than SEK. Translation risk, and its management principles in Sampo Group, are described in the **Appendix 4 Profitability, risks and capital**.

Transaction risk position

If, 31 December 2021

Base currency, SEKm	EUR	USD	JPY	GBP	SEK	NOK	CHF	DKK	Other	Total, net
Insurance operations	-3,555	-151	0	-17	-37	-2,197	-2	-932	-19	-6,911
Investments	1,925	387	0	4	71	2,289	0	423	1	5,100
Derivatives	1,562	-246	0	9	-45	-94	2	489	13	1,692
Transaction risk, net position	**-67**	**-9**	**0**	**-4**	**-11**	**-1**	**1**	**-21**	**-5**	**-119**
Sensitivity: SEK -10%	-7	-1	0	0	-1	0	0	-2	0	-12

The transaction risk position in SEK represents exposure in foreign subsidiaries/branches within If with base currency other than SEK.

Liquidity risk

If's liquidity risk is limited since premiums are collected in advance, premium inflows occur continuously throughout the year, and large claim payments are usually known a long time before they fall due. Liquidity risks are managed by cash management functions which are responsible for liquidity planning. Liquidity risk is reduced by having investments that are readily tradable in liquid markets and the liquidity of financial assets is analysed and reported to the ORSA Committee each quarter.

The maturities of technical provisions and financial assets and liabilities as well as lease liabilities are presented in the table Cash flows according to contractual maturity, If, 31 December 2021. The average maturity of fixed income investments was 2.3 years (2.7). The table shows the financing requirements resulting from expected cash inflows and outflows arising from financial assets and liabilities as well as technical provisions.

Cash flows according to contractual maturity

If, 31 December 2021

EURm	Carrying amount total	Carrying amount without contractual maturity	Carrying amount with contractual maturity	Cash flows 2022	2023	2024	2025	2026	2027–2036	2037–
Financial assets	**13,359**	**2,182**	**11,177**	**2,519**	**1,846**	**2,145**	**1,457**	**1,345**	**530**	**0**
Financial assets (non-derivatives)	13,342	2,182	11,160	2,502	1,845	2,144	1,457	1,345	530	0
Interest rate swaps	1	0	1	1	0	1	0	0	0	0
FX derivatives	17	0	17	15	0	0	0	0	0	0
Financial liabilities	**997**	**44**	**953**	**13**	**102**	**4**	**33**	**148**	**0**	**0**
Financial liabilities (non-derivatives)	990	44	946	5	102	4	33	148	0	0
Interest rate swaps	0	0	0	0	0	0	0	0	0	0
FX derivatives	8	0	8	8	0	0	0	0	0	0
Lease liabilities	**167**	**0**	**167**	**24**	**22**	**21**	**20**	**19**	**71**	**0**
Net technical provisions	**8,712**	**8,712**	**0**	**3,326**	**989**	**524**	**361**	**289**	**1,712**	**1,950**

In the table, financial assets and liabilities are divided into contracts that have an exact contractual maturity profile, and other contracts. Only the carrying amount is shown for the other contracts. In addition, the table shows expected cash flows for net technical provisions, which by their nature, are associated with a certain degree of uncertainty.

In 2021, financial markets had a fairly limited number of attractive long-term investment opportunities from If's perspective. Therefore, investments were made in instruments that had short maturities or the amount of cash held increased, which meant that If's liquidity risk was on a very low level in 2021.

If has a relatively low amount of financial liabilities and thus the refinancing risk is small.

Counterparty default risks

In If, the three major sources of counterparty risk are reinsurance, financial derivatives, and other receivables.

Counterparty default risk arising from receivables from policyholders and other receivables related to commercial transactions is very limited, because non-payment of premiums generally results in cancellation of the insurance policies.

Reinsurance recoverables

If, 31 December 2021 and 31 December 2020

	31 Dec 2021		31 Dec 2020	
Rating	**Total, EURm**	**% of total**	**Total, EURm**	**% of total**
AAA	0	0%	0	0%
AA+ - A-	169	100%	159	100%
BBB+ - BBB-	0	0%	0	0%
BB+ - C	0	0%	0	0%
D	0	0%	0	0%
Non-rated	1	0%	0	0%
Total	**170**	**100%**	**159**	**100%**

Reinsurance counterparty risk

Reinsurance is used regularly to utilise If's own funds efficiently and reduce the cost of capital, limit large fluctuations of underwriting results and have access to the reinsurers' competence base. The Reinsurance Committee is a collaboration forum to secure appropriate reinsurance cover is obtained for the insurance risk in accordance with If's risk appetite and shall give its opinion on and propose actions in respect of such issues. The Committee shall consider and propose changes to the Reinsurance. The Chairman shall decide on the contents of reporting from the Committee. At least three times per year, and as needed in case of adverse development, the reinsurance credit risk exposure (estimated and materialised) as well as deviations from the Reinsurance Policy, shall be reported.

The distribution of reinsurance receivables and reinsurers' portion of outstanding claims on 31 December 2021 per rating category is presented in the table Reinsurance recoverables, If, 31 December 2021 and 31 December 2020. In the table EUR 180 million (155) of reinsurance recoverables are excluded, which mainly relates to captives and statutory pooled solutions.

Because the recoverables reported above are typically not covered by collaterals the whole amount is exposed to counterparty risk.

If's Reinsurance Policy sets requirements for the reinsurers' minimum credit ratings and the maximum exposure to individual reinsurers. Also, the own credit-analysis plays a central role when counterparties are selected.

The Reinsurance Security Committee in If shall give input and suggestions to decisions in respect of various issues regarding reinsurance default risk and risk exposure, as well as proposed deviations from the Reinsurance Policy. As for the Reinsurance Committee, the Chairman of the Reinsurance Security Committee shall decide on the contents of reporting from the Committee. At least three times per year, and as needed in case of adverse development, the reinsurance credit risk exposure (estimated and materialised) as well as deviations from the Reinsurance Policy, shall be reported.

Most of the reinsurers have ratings between AA+ and A-. The ten largest individual reinsurance recoverables amounted to EUR 188 million, representing 54 per cent of the total reinsurance recoverables including captives and statutory pooled solutions.

The total ceded premium related to treaty and facultative reinsurance amounted to EUR 79.1 million.

Counterparty risk related to financial derivatives

In If, the default risk of derivative counterparties is a by-product of managing market risks. The role of long-term interest rate derivatives has been immaterial and counterparty risk mainly stems from short-term FX derivatives. The counterparty risk of bilaterally settled derivatives is mitigated by a careful selection of counterparties, by diversification of counterparties to prevent risk concentrations and by using collateral techniques, e.g., ISDA Master Agreements backed by Credit Support Annexes. If settles interest rate swaps in central clearing houses, which mitigates bilateral counterparty risk but also results in a systemic risk exposure related to centralised clearing parties.

Operational risks

If has issued several steering documents which are relevant for the management of operational risks. These include but are not limited to the Operational Risk Policy, Business Continuity and Security Policy and Information Security Policy. Also, If has processes and instructions in place to manage the risk of external and internal fraud. Policies and other internal steering documents are reviewed and updated at least annually. Internal training on ethical rules and guidelines is provided to employees on a regular basis.

Operational risks are identified and assessed through the Operational and Compliance Risk Assessment ("OCRA") process. Self-assessments to identify, measure, manage and monitor operational risks are performed and reported by the line organisation regularly. Identified operational risks are assessed from a likelihood and impact perspective and evaluated using a traffic light system. An operational risk coordinator network in the line organisation supports the risk owners in the OCRA process while the results are challenged and aggregated by the Risk Management function. The most significant risks are reported to the Operational Risk Committee, the ORSA Committee and to the Boards of Directors.

A system is implemented for incident reporting procedures and follow-up. Incident data is used to analyse operational risks and severe incidents are tracked to ensure that proper actions are taken.

Capitalisation

If's subsidiaries calculate their solo regulatory Solvency Capital Requirements ("SCR") as follows:

- If P&C Insurance Ltd (publ) is applying a partial internal model approved by the Swedish Financial Supervisory Authority for the calculation of the SCR. The main non-life underwriting risks are calculated according to an internal model while the Standard Formula ("SF") is applied for other risk modules.
- For the other companies the SF is used when calculating SCRs.

For If, there is no regulatory requirement to calculate SCR or own funds. However, for management purposes a so-called Economic Capital ("EC") is calculated by applying internal methods for the main non-life underwriting risks in all geographical areas and for market risks. The SF is applied for other risks. The EC is used for the quantification of own solvency needs, internal risk reporting and decision-making and as a basis for capital allocation. Further, If aims to maintain an A-rating by S&P and Moody's.

As an input to the Sampo Group level capital requirement, If applies the SF with transitional equity measures. Since the SF SCR does not consider any geographical diversification between countries, If's contribution to underwriting risk is conservative at Sampo Group level.

In If, own funds at the end of 2021 were EUR 4,172 million (3,623) while the SF SCR was EUR 2,130 million (1,916[1]). Hence, the solvency ratio was 196 per cent (189) and the buffer was EUR 2,042 million (1,707). In the graph Solvency, If, 31 December 2021, SCR is divided into risk contributions. The diversification benefit between risks as well as the consolidated tax adjustment, Loss Absorbing Capacity of Deferred Tax ("LAC DT") are also presented in the graph.

The structure of If's own funds is presented in the table Eligible own funds, If, 31 December 2021 and 31 December 2020. Tier 1 items cover 88 per cent of own funds and the amount of Tier 3 items is immaterial. Norwegian Natural Perils Fund forms 70 per cent of Tier 2.

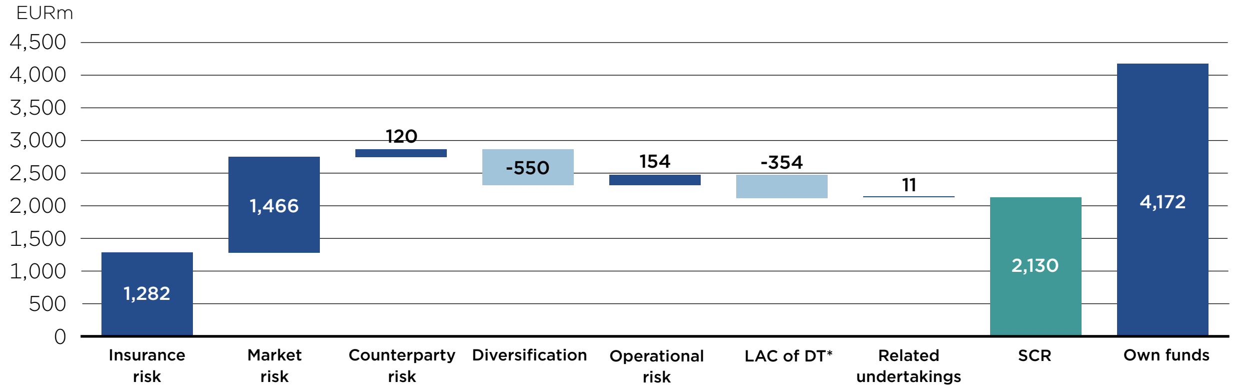
Over the last five years If has paid dividends to Sampo plc close to its net profit. The remaining net profits have accumulated into the retained earnings in the reconciliation reserve that is included in Tier 1.

EUR 242 million (412) i.e. 5.8 per cent (11.4) of own funds consisted of subordinated debt at the end of 2021.

[1]*Transitional measures on equity holdings were applied until 31 December 2020.*

Solvency

If, 31 December 2021



*Loss absorbing capacity of deferred taxes

Eligible own funds

If, 31 December 2021 and 31 December 2020

EURm		2021	2020
Tier 1	**Total**	**3,682**	**2,985**
	Ordinary share capital	266	272
	Reconciliation reserve	3,319	2,614
	Subordinated liabilities	97	100
Tier 2	**Total**	**488**	**620**
	Subordinated liabilities	145	313
	Untaxed reserves	343	307
Tier 3	**Total**	**2**	**18**
	Deferred tax assets	2	18
Eligible own funds		**4,172**	**3,623**

Solvency II compliant subordinated liabilities

If, 31 December 2021

Issuer	Instrument	Nominal amount	Carrying amount in EUR (IFRS)	First Call	Tiering	Nominal amount in Sampo plc's portfolio
If P&C Insurance Holding Ltd (Sweden)	30NC5	SEK 1,500,000,000	145,611,136	31 March 2026	Tier 2	0
If P&C Insurance Holding Ltd (Sweden)	PerpNC5	SEK 1,000,000,000	97,308,938	22 March 2022	Tier 1	0
			242,920,074			

In summary, If's solvency is adequate, and the capital structure is strong. High and stable profitability and capacity to issue subordinated debt if needed puts If in a strong position to generate capital and to maintain a capital level needed for operations in the future as well.

Deferred taxes and loss-absorbing capacity of deferred taxes

Deferred tax assets amounting to EUR 2.4 million are recognised as Tier 3 items at the end of 2021. A major part of the deferred tax assets is due to Solvency II adjustments and cannot be offset with deferred tax liabilities since they do not pertain to the same tax authority. The deferred tax assets can likely be used to offset taxable profits in the future.

To arrive at If's SCR a tax adjustment is subtracted from the pre-tax solvency capital requirement figure, representing the LAC DT. The consolidated tax adjustment is based on the overall SF SCR for all legal entities. The implied SCR loss is then allocated to the legal entities according to their SF based SCR compared to the other entities. Tax adjustments are made for If P&C Insurance Ltd (publ) and If Livförsäkring AB[1].

When demonstrating the utilisation of the LAC DT in each of these companies it is assumed that the eligible own funds pre-tax decrease by an amount corresponding to the SCR (SCR shock). To the extent possible, current net deferred tax liabilities are used to offset the loss and the remaining part is justified with increases in deferred tax assets following available future taxable profit.

[1]Since income tax is not levied on the yearly result in If P&C Insurance AS, there is no adjustment for the loss absorbing capacity of deferred taxes.

To demonstrate the probability of future available taxable profit the following assumptions are made:

- The financial plan is adjusted for the increased lapse rates following the SCR shock with the effect being kept constant throughout the financial planning horizon;
- The effects of the SCR shock on the balance sheet and future available taxable profits are explicitly considered;
- New business sales beyond the financial planning horizon are not assumed and appropriate haircuts are applied to profits that materialise after the financial planning horizon;
- The investment forecast is adjusted to be in line with the risk-free rate of return following the SCR shock. It is assumed that risk premiums are continued to be earned on the equity and corporate bond portfolios post shock;
- Capital injections are assumed post SCR shock, if needed to restore the solvency ratio to 100 per cent.

Loss absorbing capacity of deferred taxes

If P&C Insurance Ltd (publ)

EURm	
LAC DT	**350**
where of justified by reversion of deferred tax liability	266
where of justified by reference to probable future taxable economic profit	84
where of justified by carry back	

Loss absorbing capacity of deferred taxes

If Livförsäkring (AB)

EURm	
LAC DT	**2.7**
where of justified by reversion of deferred tax liability	2.1
where of justified by reference to probable future taxable economic profit	0.6
where of justified by carry back	

TOPDANMARK GROUP

Topdanmark Group

Topdanmark provides insurance and pension services in Denmark through the non-life insurance company Topdanmark Forsikring A/S and the life insurance company Topdanmark Livsforsikring A/S.

The strategy emphasises creating synergies by having both non-life and life insurance business within the same group. Joint customers will experience advantages from this.

Topdanmark Forsikring is the second largest non-life insurer in Denmark. Topdanmark Forsikring mainly provides insurance cover for personal, SME (small and medium size enterprises) and agricultural customers. This fits well with the strategy of providing services in Denmark.

The insurance risk of Topdanmark Forsikring is mitigated by a comprehensive reinsurance program. The reinsurance program focuses on catastrophe risks such as storm, cloudburst, fire and other cumulative risks, where several policyholders are affected by the same event. The biggest retentions are on storm with DKK 100 million plus reinstatement for each event, while the biggest retention on fire is DKK 30 million. The insurance risk is dominated by workers' compensation reserve risk. The level of risk is based on lag between event and settlement of the claim and the risk of supreme court judgements on administrative practice, which can have an effect on settlements of claims paid on former years.

Nearly all insurance risks in Topdanmark Forsikring are measured by a partial internal model. The partial internal model has been approved by the Danish Supervisory Authorities for solvency calculations. The efficiency of the reinsurance programme is assessed by the partial internal model.

Topdanmark has initiated the process of implementing a new IT administration system to non-life customers, and the implementation is so far progressing according to plan.

Topdanmark Livsforsikring is the fifth biggest commercial life insurance company in Denmark. The company is providing pension schemes, life insurance products and some non-life health products. These products are bundled together on the same policy for one policyholder. Most policies are part of company pension schemes, but policies are also written on an individual basis.

All new written policies are unit-linked pension products, on which the policyholder holds the market risks. Topdanmark Livsforsikring has decided not to write new with profit products. The risk profiles are different for these two main types of products. The main risks for the company are the market risks and the life insurance and biometric risks.

Unit-linked products have a low risk for the company as the policyholders bear the market risk themselves. Topdanmark Livsforsikring holds the risk on the insurance cover. The insurance risk is life insurance risk with mortality, longevity, and health risk features.

With profit products have a very different risk structure. Policies have been split into contribution groups according to the guaranteed benefit scheme. The policyholders are guaranteed a basic yield over the lifetime of the policy. Older policies have higher yield guarantees compared to newer policies. The yield credited to a policy stems from the investment yield and is smoothened by building up bonus potentials in years with high investment yield and transferring from the bonus potentials to the policies in less good years. The bonus system is traditional in Denmark and an efficient risk mitigating technique.

The maximum of the mitigation effect is the size of the bonus potentials by group of policyholders.

Beside the bonus potentials, important risk mitigation for Topdanmark Livsforsikring is diversification in the financial investments including a high share of AAA rated Danish mortgage bonds. As part of the risk mitigation, the interest rate risk is kept low by asset and liability management.

For many years Topdanmark has aimed at achieving a low risk profile. The risk strategy is to lower the risk by diversifying both market risk and insurance risk and by avoiding big individual risks or risk concentrations.

To increase the business and to mitigate the commercial risk elements Topdanmark applies a multibrand strategy and a multi distribution channel strategy. Topdanmark's strategy is to offer customers a choice of how to communicate with Topdanmark regarding sales, services and claims handling. Topdanmark intends to grow through organic growth, distribution partners and digital sales. When it comes to growth through distribution partners, Topdanmark will further strengthen its cooperation with existing distribution partners and, in addition to this, continuously look for new distribution partners including banks.

Topdanmark seeks to improve customer experience and cost efficiency by digitalisation, innovation and new technology. As reported last year in the coming years Topdanmark will scale up the level of investments in order to further improve the efficiency of the company. The main focus areas in the efficiency programme are:

- Automation/digitalisation of routine-based processes
- Risk and pricing
- Procurement and cost

In the start of 2022 Topdanmark has furthermore set a strategic digital agenda, and have restructured the organisation so the company can better realise the ambitions of accelerating the digitalisation by creating a clear framework for the professional communities and a stronger collaboration across Topdanmark to accelerate digitalisation.

Topdanmark has no major strategic financial investments. The portfolio is diversified on asset classes and within each asset class. The risk appetite is stipulated by the Board by an overall risk framework for market risk. There is a high level of matching between assets and liabilities with the aim of keeping the interest rate risk low. The biggest part of the financial investments is in Danish mortgage bonds with AAA ratings.

In 2021 the Group Executive Board was supplemented with an additional five people and together they formed a broader group management of a total of nine people.

This change in the management structure is an important contribution to fulfil Topdanmark's strategy. Cross-cutting cooperation, common priorities and a strong customer focus in all decisions are important for Topdanmark and achieve the company's business goals.

Underwriting risks and performance

Non-life underwriting performance and risks

The premiums and underwriting performance by Solvency II lines of business are presented in the table Non-Life Underwriting Performance, Topdanmark, 31 December 2021 and 31 December 2020.

There was a growth in premiums of 4.3 per cent in 2021. This is, like the years before, a result of the company's actions to maintain a balance between growth and profitability in a competitive market. The growth indicates a low-risk development in the portfolio. In the Private segment the growth in premiums was 2.2 per cent and in the SME segment 6.7 per cent.

Topdanmark and Nordea signed an agreement for the distribution of non-life products on the Danish market that became effective from 1 January 2020. It is a referral concept in which Nordea will refer customers to Topdanmark, which will provide the final guidance, where the goal is for the Nordea customer to accept the purchase of a Topdanmark insurance package. In 2021 the referrals and booked meetings with new customers have been at a higher level than expected. In addition to this positive development in the number of meetings, the proportion of Nordea customers who, after the meetings, choose to become customers in Topdanmark has also been increasing.

The combined ratio was 85.7 per cent in 2021 before run-off gains and 83.7 per cent respectively after run-off gains. In the Private segment the combined ratio was 86.1 per cent before run-off gains and 84.7 per cent respectively

Non-Life underwriting performance

Topdanmark, 31 December 2021 and 31 December 2020

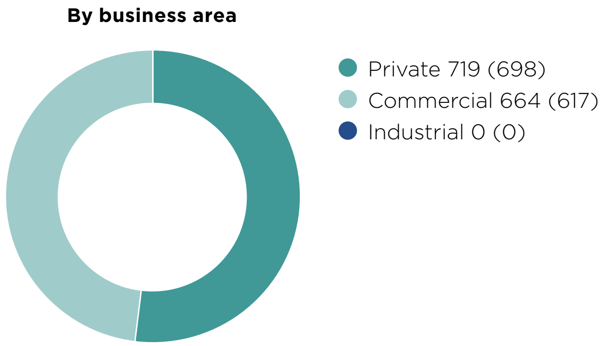
Underwriting performance by SII LoB, EURm	Premiums written		Premiums earned		Claims incurred		Operating expense		Reinsurers share per LoB		Total underwriting performance direct insurance	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Medical expense insurance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Income protection insurance	248.1	231.7	238.4	231.9	207.2	174.9	29.1	30.2	-0.7	-1.6	2.9	28.3
Workers' compensation insurance	110.9	97.5	111.3	95.0	74.9	57.8	13.1	8.8	-1.0	-1.8	24.2	30.3
Motor vehicle liability insurance	64.6	67.0	68.4	74.8	64.6	58.3	14.0	16.0	0.4	0.4	-10.5	0.1
Other motor insurance	255.4	238.7	247.5	227.6	123.6	122.7	37.6	37.3	0.5	0.2	85.8	67.5
Marine, aviation and transport insurance	8.3	7.5	8.1	8.1	3.8	3.2	0.9	0.9	0.0	0.1	3.4	3.9
Fire and other damage to property insurance	583.4	563.7	581.1	555.1	375.0	392.0	100.7	100.5	12.7	26.7	92.8	35.8
General liability insurance	83.1	76.9	81.7	79.8	58.8	57.1	11.5	11.0	0.2	10.6	11.1	1.2
Assistance	28.7	32.0	28.9	33.3	6.9	13.5	4.7	5.3	0.0	0.0	17.3	14.5
Other Life insurance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Annuities stemming from non-life insurance contracts and relating to health insurance obligations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**1,382.6**	**1,315.1**	**1,365.4**	**1,305.5**	**914.6**	**879.5**	**211.7**	**210.0**	**12.1**	**34.4**	**227.0**	**181.6**

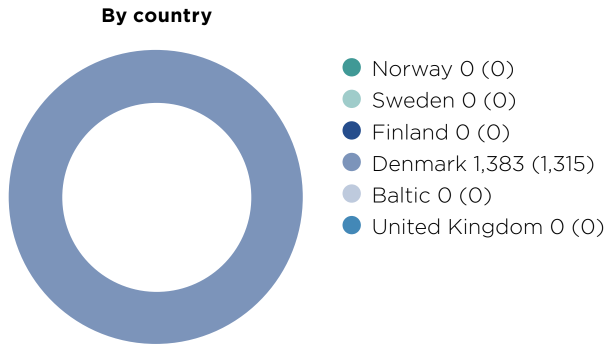
after run-off gains. In the SME segment the combined ratio was 85.3 per cent before run-off gains and 82.6 per cent respectively after run-off gains.

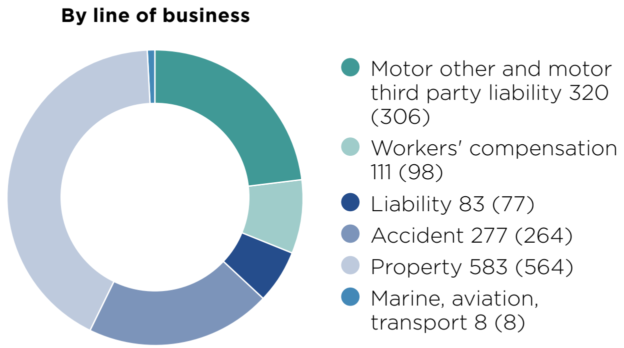
As shown in the graph Breakdown of gross written premiums by business area, country and line of business, Topdanmark Non-Life, 2021, Topdanmark's insurance portfolio is diversified across Business areas and lines of business.

Breakdown of gross written premiums

Topdanmark Non-Life, 2021, total EUR 1,383 (1,315) million







Premium and catastrophe risk and their management and control

The main underwriting risk that influences the performance is the risk of catastrophe events. However, Topdanmark Forsikring has a very comprehensive reinsurance programme in place contributing to the low level of underwriting risk. The largest retention level of DKK 100 million plus reinstatement for each event is on storm events. The maximum retention on fire events is DKK 30 million and in workers' compensation risks are covered up to DKK 1 billion with a retention of DKK 50 million.

With certain restrictions, acts of terrorism are covered by the reinsurance contracts. The NBCR (nuclear, biological, chemical, radiological) acts of terrorism are covered by a public organisation. This is based on a new Act on NBCR acts of terrorism. Under the new scheme the costs from a NBCR attack in Denmark will initially be borne by the State, but those costs will subsequently be recovered from policyholders.

Premium risk reduction measures taken at different levels of operations are as follows:

- Collection of data on risk and claims history
- Use of collected and processed data in profitability reporting, risk analyses and in the internal model
- Ongoing follow-up on risk developments as well as quarterly forecasts for future risk development
- Pricing using a statistical model tool including customer scoring tools

- Reinsurance cover that reduces the risk especially for catastrophe events
- Ongoing follow-up on the risk picture and reinsurance coverage in the Risk Committee.

To maintain product and customer profitability, Topdanmark monitors changes in its customer portfolios. Provisions are recalculated, and the profitability reports are updated in the same context on a monthly basis. Based on this reporting, trends in claim levels are carefully assessed and price levels may be adjusted if considered necessary.

In the private market segment, customer scoring is used, and customers are divided into groups according to their expected profitability levels. The customer scoring has two roles. First it helps to maintain the balance between the individual customer's price and risk. Secondly it facilitates the fairness between individual customers by ensuring that no customers are paying too large premiums to cover losses from customers who pay too small premiums.

The historical profitability of major SME customers with individual insurance schemes is monitored using customer assessment systems. These assessment systems enable Topdanmark to achieve accurate information about income, claims expenses, combined ratio etc. for each customer.

In addition to the analysis described above, Topdanmark continuously improves its administration systems to achieve more detailed data, which in turn enables the company to continuously improve the pricing and gain even better insight into how the different types of claims are composed.

The non-life risk scenarios are presented in the table Non-life insurance risk scenarios, Topdanmark, 31 December 2021 and 31 December 2020.

Reserve risk and its management and control

The insurance lines of business are divided into short-tail i.e., those lines where the period from notification until settlement is short and long-tail i.e., those lines where the period from notification until settlement is long. The main short-tail lines in Topdanmark are buildings and other property and comprehensive motor insurance. For the short-tail lines the claims are mainly settled within

Non-Life Insurance Risk Scenarios

Topdanmark, 31 December 2021 and 31 December 2020

			EURm after tax	
Key figure	**Current level (2021)**	**Change in current level**	**2021**	**2020**
Combined ratio, business area Private	84.7%	+/- 1 percentage point	+/- 5.5	+/- 5.4
Combined ratio, business area Commercial	82.6%	+/- 1 percentage point	+/- 5.1	+/- 4.8
Net premiums earned (EURm)	1,285	+/- 1 per cent	+/- 10.1	+/- 9.5
Net claims incurred (EURm)	857	+/- 1 per cent	+/- 6.7	+/- 6.6
Ceded written premiums (EURm)	81	+/- 10 per cent	+/- 6.3	+/- 6.2

the first year. Long-tail lines relate to personal injury and liability and consist of the lines Workers' compensation, Accident, Motor third party insurance and Commercial liability. Composition of non-life provisions for outstanding claims is presented in the following table.

Due to the longer period of claims settlement, the risk profile of the long-tail lines of business are generally more uncertain than the short-tail lines. It is not unusual that claims in long-tail lines are settled three to five years after notification and in rare cases up to ten to fifteen years.

The reserve risk is calculated using Topdanmark's partial internal model for insurance risk. Workers' compensation claims provision has by far the biggest risk, followed by the other long-tail lines' claims provisions.

During such a long period of settlement, the levels of compensation could be significantly affected by changes in legislation, case-law or practice in the compensation of claim incidents adopted by the Danish Labour Market Insurance which decides on compensation for injury and loss of earnings potential in all cases of serious industrial injuries. The practice adopted by the Danish Labour Market Insurance also has some impact on the levels of compensation for accident and personal injury within motor liability and commercial liability insurance.

Composition of non-life provisions for outstanding claims

Topdanmark, 31 December 2021 and 31 December 2020

	2021		2020	
Provisions for outstanding claims	**%**	**Duration**	**%**	**Duration**
Short-tail	13.7	1.1	13.4	1.0
Annuity provisions in workers' compensation	24.2	10.6	26.1	10.5
Other claims provisions in workers' compensation	21.6	1.7	21.0	1.7
Accident	30.0	9.3	29.1	9.6
Motor personal liability	6.0	2.1	6.2	2.2
Commercial liability	4.5	1.9	4.2	1.9

Supreme court decisions can also influence the provisions for former years especially for Workers' compensation.

The reserve risk represents mostly the ordinary uncertainty of calculation and claims inflation, i.e., an increase in the level of compensation due to the annual increase in compensation per policy being higher than the general development in prices or due to a change in judicial practice or legislation. The sufficiency of the provisions is tested in key lines by calculating the provisions using alternative models as well, and then comparing the compensation with information from external sources, primarily statistical material from the Danish Labour Market Insurance and the Danish Road Sector/Road Directorate.

The actuarial team has a continuous dialogue with the claims departments on any changes in the practices regarding new legislation, case-law or compensation practices as well as on the impact of such changes on the routines used to calculate individual provisions.

In March 2021, a forum called the Reserve Forum was created. Permanent members are the CEO, CFO, claims director, the head and deputy head of the statistics department as well as the head of Investor Relations. The purpose is to have an even greater focus on the area of reserve risk.

Life underwriting performance and risks

The development of the provisions for with profit and for unit-linked business during the years 2012–2021 is illustrated in the following graph.

The split of premiums between products during the last two years is presented in the table Sources of gross premiums, Topdanmark Life Insurance, 2021 and 2020.

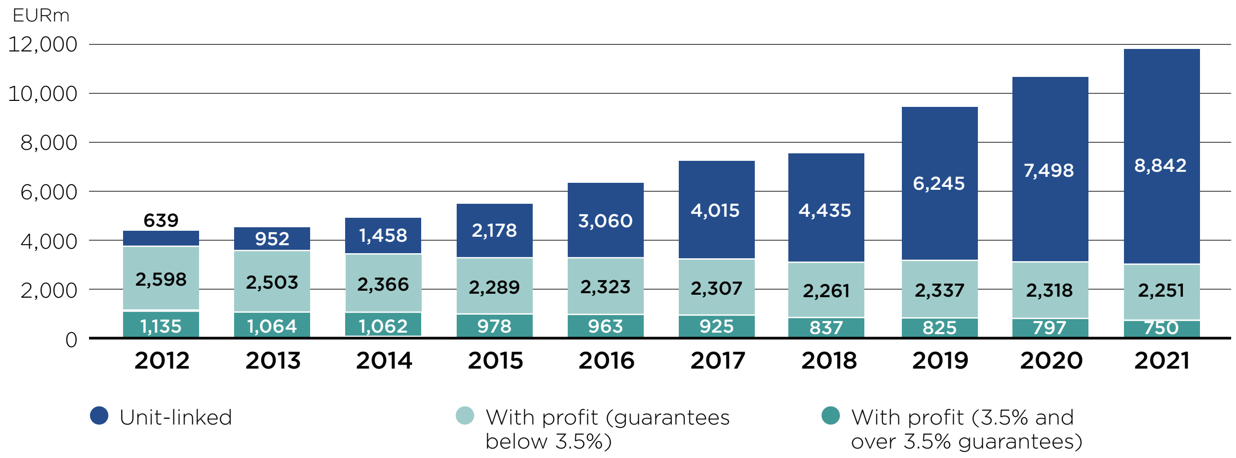
The focus of sales is on unit-linked schemes and the premiums received are mostly of unit-linked schemes. The regular premiums are growing steadily while the single premiums are fluctuating more from year to year.

The risk inherent in the life business is firstly related to the with profit technical provisions. As all new contracts are written as unit-linked contracts, the risk will not increase as much as the volume of premiums and total provisions.

Group life insurance is a collective life insurance without savings – that is, a risk insurance – where the sum insured is paid only to the beneficiaries in case of the insured's death during the insurance period. It is irrelevant whether the death is due to accident or illness.

Development of with profit and unit-linked technical provisions

Topdanmark Life Insurance, 2012–2021



Sources of gross premiums

Topdanmark Life Insurance, 31 December 2021 and 31 December 2020

EURm	2021	2020
With profit schemes	47.5	53.6
Unit-linked schemes	381.2	365.8
Group life	35.2	35.9
Regular premiums	**463.9**	**455.3**
With profit schemes	7.3	13.2
Unit-linked schemes	921.9	1,004.6
Single premiums	**929.1**	**1,017.8**
Gross premiums	**1,393.0**	**1,473.1**

Risk return on shareholders' equity together with other main components of the life business result are shown in the table Result of life insurance, Topdanmark 2021 and 2020.

Profit on life insurance consists of the following items:

- Investment return on shareholders' equity, which is the actual return on assets allocated to own funds.
- Sales and administration, which consists mainly of the cost fees received from the customers deducted by actual costs.
- Insurance risk, which is the insurance risk result on death, invalidity, and other such items.
- Risk return on shareholders' equity (divided into a fair risk return and a profit margin) from with profit schemes. The risk return is calculated for each contribution group and has been based on their estimated risk for the company and the desired level of profit margin. The risk return is conditional. The risk return is transferred to shareholders' equity if it can be covered primarily by collective bonus potentials.

Result of life insurance

Topdanmark, 31 December 2021 and 31 December 2020

EURm	2021	2020
Investment return on shareholders' equity	42.7	2.6
Sales and administration	3.5	-5.8
Insurance risk	0.5	-1.4
Risk return on shareholders' equity	20.8	20.4
Profit on life insurance	**67.6**	**15.8**

The positive development primarily derives from investment return on shareholders' equity, and sales and administration result. Since Q3 2021, Topdanmark Kapitalforvaltning (Topdanmark Asset Management) has been included in the life result, whose result also contributes positively in 2021. The investment return on shareholders' equity was DKK 317.7 million affected by a return higher than assumed, primarily due to property revaluation. The result of sales and administration increased by DKK 69 million to DKK 26.4 million (2020: DKK 43.5 million (loss)), primarily as higher assets under management gave increased fees/commissions from Topdanmark Asset Management. The insurance risk result increased by DKK 14.2 million to DKK 3.84 million. The insurance risk result is quite volatile.

The main risks of Topdanmark Livsforsikring can be summarised as follows:

- Limited loss-absorbing buffers (bonus potentials) combined with low interest rates environment
- Disability risk
- Longevity risk
- Pandemic risk

A low interest rate level with material elements of negative interest rates and, in particular, sustained low interest rates along with prolonged lives represent a significant risk scenario for insurers with guaranteed benefits as there will be a reduction of the collective and individual bonus potentials used for loss absorption by interest and risk groups. When a risk event occurs, the effect on the profit will depend on the size of bonus potentials which are a loss absorbing capacity ("LAC") within the insurance liabilities. When the loss absorbing capacity is higher than the losses, losses on the insurance liabilities are covered by the bonus potentials. For risk groups where the bonus potentials are fully used, the equity will cover the risk.

Bonus potentials by contribution interest groups

Topdanmark Life Insurance, 31 December 2021

Contribution interest group	11	9	10	1	3	2	4	5	6	7
Guaranteed rate	-0.5%	1%	1%	>1% - 2%	>1% - 2%	>2% - 3%	>2% - 3%	>3% - 4%	>4% - <5%	5%
Life insurance provisions, EURm	5	309	96	1,094	126	358	152	327	413	10
Bonus rate: share of individual and collective bonus potentials as a percentage of the retrospective life insurance provisions.	43.7%	15.4%	15.3%	12.1%	20.5%	16.2%	21.2%	26.9%	36.5%	356.2%

The bonus potentials are presented by contribution interest groups in the table Bonus potentials by contribution interest groups, Topdanmark Life Insurance, 31 December 2021. The contribution groups have been defined by Topdanmark Livsforsikring within frames set by the Danish FSA (Danish Financial Supervisory Authority).

Bonus rate is defined as "Share of individual and collective bonus potential as a percentage of the retrospective life insurance provisions". As explained above, policies have been split into contribution groups according to the guaranteed benefit scheme. The policyholders are guaranteed a basic yield over the lifetime of the policy. The yield credited to a policy stems from the investment yield and is smoothened by building up bonus potentials in years with high investment yield and transferring from the bonus potentials to the policies in less good years.

Life insurance underwriting risk control

The loss-absorbing buffers are a crucial part of the with profit concept in levelling of yields and claims over time. Therefore, Topdanmark Livsforsikring has continuous focus on the solvency position, the changes in the individual risks and the development of the loss-absorbing buffers. The latter is important because over time it can level out the market and insurance risks within the individual risk groups.

The Solvency Capital Requirement is calculated quarterly. When deemed necessary, due to market developments, the frequency of calculation is increased and, if necessary, the number and type of scenarios are increased.

Trends in product claim levels are assessed on top of the calculation of the insurance provisions. Profitability models are applied systematically as a follow-up on customer and portfolio levels. This assessment is used to identify price adjustment needs.

Loss absorbing buffers in the event of low interest rates

Customers' individual and collective bonus potential together creates the loss absorbing buffers in Danish life insurance against any losses incurred by customers on investment activities and insurance covers.

Low interest rates mean that the market value of the guarantees granted is high, and hence the related individual bonus potential is low. The lower the individual bonus potential is, the higher is the risk of any losses to be absorbed wholly or partially by shareholder's equity. In case interest rates are high, the same losses could, to a larger degree, be absorbed by the bonus potential.

Declines in the collective bonus potential are most frequent, due to the investment return being lower than the annual addition of interest to deposits.

In order to protect shareholders' equity, it will, in general, be relevant to reduce market risks in the event of lower interest rates.

All policies have been split into contribution groups according to the guaranteed benefit scheme. For all contribution groups, there are separate loss absorbing buffers and hence in each contribution group, the separate investment policy must be in line with risk taking capacity to ensure the ability to meet the guaranteed benefits. Market risk is adjusted continuously in accordance with the risk capacity of the contribution groups, and the movements in interest rates are monitored so that risk reducing actions can be taken when needed.

Disability

Disability risk is the risk of increased disability intensity or declines in the rates of resumption of work. Losses may incur due to an increase in disability frequency or due to inadequate health evaluation when the policy is written.

Extra costs, due to a permanent change in disability risk, will be partially covered by individual and collective bonus potential. The remainder affects the result for the year and consequently shareholders' equity.

Longevity

Longevity risk is the risk that customers with life dependent policies, primarily annuities, live longer than expected. That will increase provisions for lifetime products.

Extra costs, due to longer lifetimes, will be partially covered by individual and collective bonus potential. The remainder affects the result for the year and consequently shareholders' equity.

Pandemic

Extraordinary expenses as a result of a pandemic affecting age groups insured in the company's group life portfolio are financed by shareholders equity.

Risk reduction

The following risk reduction measures and methods are used in Topdanmark Livsforsikring:

- All with profit contracts are divided according to the granted benefit guarantee and the investment policy is designed to ensure the ability to meet the guarantees
- Market risk is freely adjustable in relation to the individual customer groups' risk capacity
- Normal fluctuations in ROI and risk results in the average interest rate environment are captured by bonus potentials per contribution group
- Reinsurance
- Prices for death and disability covers are adjusted continuously in relation to the market situation and the observed claims history
- The basis of new subscription is changed as needed
- Establishing business procedures that ensure that the products are sold at the right price/risk mix
- Changes in insurance contract conditions that contribute to risk mitigation for similar claims in the future.

The life insurance risk scenarios can be found in the following table.

Risk scenarios in life insurance

Topdanmark, 31 December 2021 and 31 December 2020

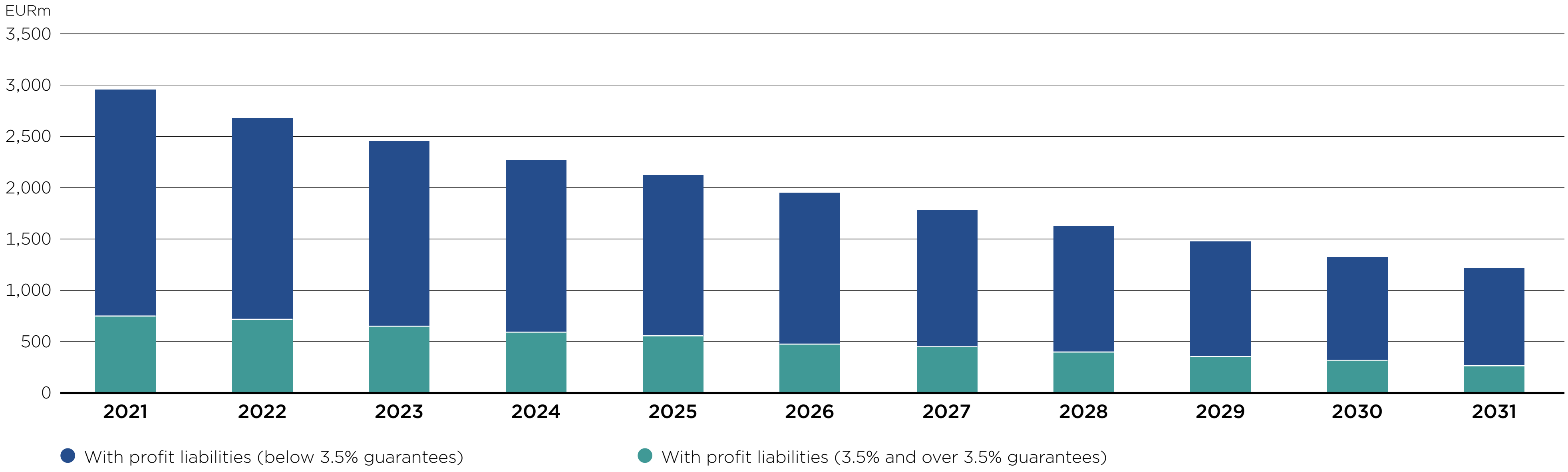
EURm after tax	2021	2020
Disability intensity - 35% increase*	-1.4	-1.6
Mortality intensity - 20% decline	-2.2	-3.0

**35% increase first year, subsequently 25% coincident with 20% decline in reactivation rates.*

The monitoring of whether the risk reduction methods are still effective is i.a. via continuous follow-up of the company's risk profile and reinsurance cover in the Risk Committee and via the on-going follow-up of forecasts. If the forecasts are not met, the risk reduction methods may need to be corrected.

The run-off profile of the life insurance with profit liabilities presented in the following graph shows that the provisions on high guarantees are decreasing. As mentioned earlier Topdanmark Livsforsikring has decided not to write new with profit products in the future.

Forecast of run-off of with profit liabilities
Topdanmark Livsforsikring, 2021–2031



Market risks and investment performance

In general, the long-term value creation shall be based mainly on the acceptance of insurance risks. To supplement the Group's profit from its insurance activities, Topdanmark accepts a certain level of financial market risks as well, given its strong liquidity position and stable, high earnings from insurance operations. Hence, in addition to fixed income instruments, Topdanmark has invested, among other things, in equities, properties and CLOs (collateralised loan obligations) to improve the average investment return.

Market risks are limited to the extent that is considered appropriate, so that it is highly probable that the company gains a profit even in the very unfavourable financial market scenarios. Large risk exposures or highly correlated risks are covered to prevent unnecessary losses and market risks originating from insurance operations.

The investment portfolio shall be managed in a way that market risk taking shall not endanger the normal operations or implementation of planned actions in unfavourable market conditions.

To reach the general goals, the investment policy sets the company's objectives, strategies, organisation, and reporting practices on investments. The investment strategy is more precisely determined in terms of market risk limits and specific requirements for certain types of positions and sub-portfolios (risk appetite). The investment strategy is determined by the Board and revised at least once a year. Appropriate financial risk mitigation techniques are used.

When selecting the investment assets, a portfolio composition that matches the risk features of the corresponding liabilities is sought. The purpose of the investment policy is also to ensure that the company has effectively implemented the organisation, systems, and processes necessary to identify, measure, monitor, manage and report on investment risks to which it is exposed.

At the same time, the policy sets the framework for investment of customers' savings, bonus schemes and unit-linked savings (customer funds) in Topdanmark Livsforsikring, so that the company can continue to offer attractive savings products to its clients with competitive returns in relation to the investment risks accepted by the clients.

In addition to the investment policies, the companies have a capital plan and a capital emergency plan if sudden changes occur on the asset or liability side.

When market risks are measured and managed, all exposures are included, regardless of whether they arise from active portfolio management of investments or from annuities, which are considered as market risk.

Asset allocations and investment performance: Topdanmark excluding unit-linked

As described earlier, in life insurance different contribution groups have their own investment strategies and their loss absorbing buffers and hence it is relevant to assess allocations and returns of these assets only in relation to their respective contribution groups. However, the company bears some market risk and thus the non-life and life investment allocations are shown in the table Investment allocations excluding unit-linked, Topdanmark, 31 December 2021 and 31 December 2020 without assets covering unit-linked liabilities.

The equity portfolios are well diversified and without major single positions, when associated companies are disregarded.

The main investment assets are government and mortgage bonds, which comprise primarily Danish mortgage bonds. The assets in this asset class are interest rate sensitive and to a significant extent equivalent to the total interest rate sensitivity of the non-life insurance provisions. Consequently, the return on government and mortgage bonds should be assessed in connection with return and revaluation of non-life insurance provisions.

Credit bonds are composed of a minor share of a well-diversified portfolio, primarily exposed to businesses in Europe.

Investment allocations excluding unit-linked

Topdanmark, 31 December 2021 and 31 December 2020

	Topdanmark Non-Life				Topdanmark Life			
	31 Dec 2021		31 Dec 2020		31 Dec 2021		31 Dec 2020	
Asset class	**Market value, EURm**	**Weight**	**Market value, EURm**	**Weight**	**Market value, EURm**	**Weight**	**Market value, EURm**	**Weight**
Fixed income total	**1,863**	**89%**	**2,076**	**90%**	**2,916**	**71%**	**4,196**	**75%**
Money market securities and cash	83	4%	192	8%	220	5%	444	8%
Government and mortgage bonds	1,582	76%	1,743	76%	2,376	58%	3,348	60%
Credit bonds	5	0%	6	0%	110	3%	153	3%
Index-linked bonds	100	5%	72	3%	125	3%	168	3%
CLOs	93	4%	63	3%	84	2%	83	1%
Listed equity total	**120**	**6%**	**120**	**5%**	**358**	**9%**	**325**	**6%**
Denmark	28	1%	29	1%	85	2%	77	1%
Scandinavia	2	0%	2	0%	5	0%	4	0%
Global	91	4%	90	4%	268	7%	244	4%
Alternative investments total	**110**	**5%**	**101**	**4%**	**816**	**20%**	**869**	**16%**
Real estate	59	3%	50	2%	334	8%	479	9%
Unlisted equities and hedge funds	50	2%	52	2%	482	12%	390	7%
Trading derivatives	**3**	**0%**	**9**	**0%**	**14**	**0%**	**180**	**3%**
Asset classes total	**2,095**	**100%**	**2,306**	**100%**	**4,104**	**100%**	**5,569**	**100%**

The exposure in equities outside Denmark and credit bonds has been adjusted by the use of derivatives. The figures do not include cash EUR 153 million but they do include real estate EUR 394 million and investments in associated companies EUR 313 million. Unlisted equities and hedge funds include also private equity and direct holdings in non-listed equities.

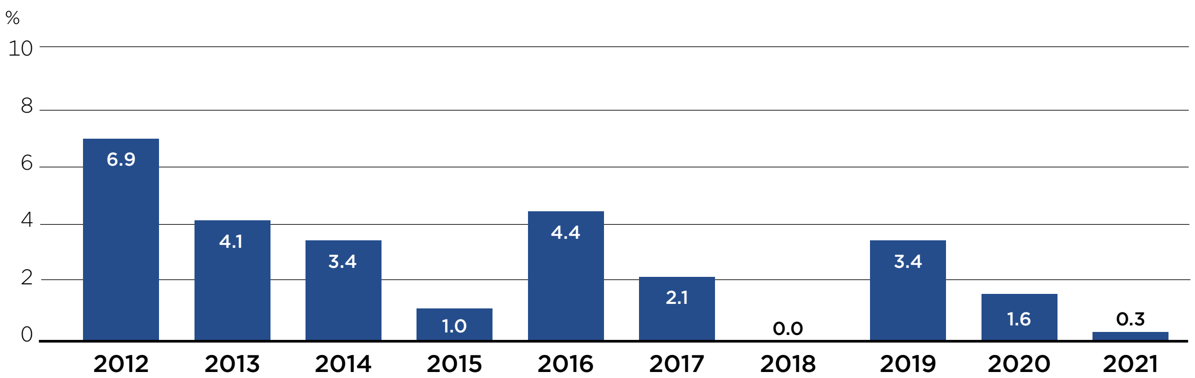
Index-linked bonds comprise bonds – primarily Danish mortgage bonds – for which the coupon and principal are index-linked.

The class CLO (collateralised loan obligation) primarily comprises positions in CLO equity tranches. The underlying assets of CLOs are mostly senior secured loans, while the remainder are primarily investment grade investments. The real estate portfolio comprises mainly owner-occupied real estate.

The annual investment return for 2021 compared to earlier years is presented in the graph Annual investment returns at market values, Topdanmark excluding life insurance, 2012–2021.

The return of investments during 2021 was 0.3 per cent. The financial rebound after the COVID-19 pandemic seemed to be contained by vaccines. Pandemic lockdowns have been replaced by widespread economic expansion. This has been favourable for equities and has led to improved market conditions and spread contractions on credit exposures.

Annual investment returns at market values
Topdanmark excluding Life, 2012–2021



Market risks of balance sheet

Interest rate risk

Interest rate risk is calculated for assets, liabilities, and derivative instruments, for which the carrying amount is dependent on the interest rate level. Regarding insurance liabilities Topdanmark is exposed to interest rate risk due to provisions for outstanding claims in non-life insurance and guaranteed benefits in life insurance.

Shifting the market yield curve upwards and downwards or changing its shape leads to changed market values of assets and derivatives and thus to unrealised gains or losses.

When assessing the value and sensitivity of insurance provisions Topdanmark uses the Solvency II discount curve that has its basis on market yield curve with volatility adjustment ("VA"). The VA component of DKK yield curve comprises a corrective element based on the spreads of Danish mortgage bonds and European credit bonds. The VA component was 22 bps at the end of 2020 and 47 bps at the end of 2021.

Generally, the interest rate risk is limited and controlled by investing in interest-bearing assets in order to reduce the overall interest rate exposure of the assets and liabilities to the desired level. Therefore, the Danish mortgage bonds and government bonds have a central role in the asset portfolios. To further reduce the interest rate sensitivity of the balance sheet, interest rate swaps have been used for hedging purposes.

Equity risk

The Danish part of the equity portfolio is composed based on the OMXCCAP index. The rest of the equity holdings are in the foreign equity portfolio that is based on the MSCI World DC in its original currency. As a result, Topdanmark's equity holdings are well-diversified. A breakdown of Topdanmark's listed equity investments by geographical regions is presented in the following graph.

Real estate risk

The real estates are all located in Denmark, with the material part in the areas of Copenhagen and Aarhus. The holding is covering life insurance provisions and it is diversified over office buildings and residential buildings. The property portfolio mainly comprises owner-occupied property. The properties are valued in accordance with the rules of the Danish FSA i.e., at market value taking the level of rent and the terms of the tenancy agreements into consideration.

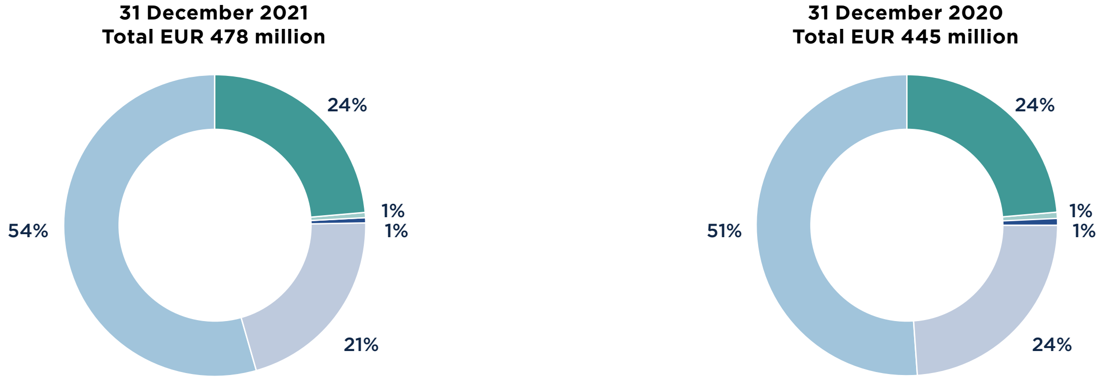
Spread risk

Most of Topdanmark's interest-bearing assets comprise of AAA rated Danish mortgage bonds and debt issued or guaranteed by top-rated European states. The risk of losses is minor due to the high credit quality of the issuers and because investments have been made at spreads which are in balance with Topdanmark's desired risk ratio levels. The portfolio is well diversified both geographically and by issuer type and, therefore, the exposure to concentration risk is insignificant.

The investment policy stipulates that the portfolio must be well-diversified by the number of counterparties and by the amount of exposure to individual counterparties. The main source of spread risk is the mortgage bonds. Due to high allocation of these investments in the portfolios, spread risk is the most material source of market risk SCR and it was DKK 1,169 (net) million (in EUR 157 million) on 31 December 2021.

Breakdown of listed equity investments by geographical regions

Topdanmark



31 December 2021		31 December 2020	
Denmark 113	Eastern Europe 0	Denmark 106	Eastern Europe 0
Norway 3	North America 259	Norway 3	North America 226
Sweden 3	Latin America 0	Sweden 3	Latin America 0
Finland 0	Asia 0	Finland 0	Asia 1
Western Europe 99		Western Europe 106	

Equities held by unit-linked customers in Topdanmark Livsforsikring are excluded.

Concentration risk

Topdanmark's fixed income investments by rating classes are presented in the table Interest-bearing assets by rating, Topdanmark, 31 December 2021 and 31 December 2020.

Topdanmark has no significant concentrations on the investment side, except for the category treasury and mortgage bonds that consists primarily of AAA rated Danish mortgage bonds.

As earlier described, these assets have an interest rate sensitivity that significantly corresponds to the interest rate sensitivity of the technical provisions.

Interest-bearing assets by rating

Topdanmark, 31 December 2021 and 31 December 2020

Rating class,%	2021	2020
>A+	79.5	80.9
A+, A, A-	4.4	3.6
BBB+, BBB, BBB-	0.3	0.2
<BBB-	12.7	10.6
Money market deposits	3.1	4.7

Currency risk

In practice, the investment assets are the only source of currency risk while the insurance liabilities are in Danish kroner. The currency risk is mitigated by derivatives and net exposures in different currencies are minor except in the euro.

The currency risk is assessed based on SCR. The value of the base currency is shocked by 25 per cent against most of the currencies except against the euro where the largest exposure exists, and the shock is 0.39 per cent, because the Danish krone is pegged to the euro.

Inflation risk

Future inflation is implicitly included in the models Topdanmark uses to calculate its provisions. The general principles regarding the inclusion of an allowance for inflation differs when you look at the Workers' compensation and Illness and Accident insurance. In the former the provisions are calculated based on the expected future indexation of wages and salaries, and in the latter based on the expected development in the net price index.

An expected higher future inflation rate would generally be included in the provisions with a certain time delay, while at the same time the result would be impacted by higher future indexation of premiums. To reduce the risk of inflation within Workers' compensation and Illness and Accident insurance, Topdanmark uses index-linked bonds and derivatives to hedge a significant proportion of the expected cash flows sensitive to future inflation.

Market risk sensitivities

The following table is a summary of selected market risk sensitivities. For example, it can be seen from the table that the net effect of 1 percentage point parallel change in interest rates would be a less than 10 per cent drop in equity or property prices.

Liquidity risk

Topdanmark Group has a strong liquidity position. Firstly, as premiums are paid in the beginning of the coverage period the liquidity risk related to customers' payments is very limited. Secondly, the combination of insurance businesses is of a character in which it is highly unlikely that a liquidity shock could occur, because insurance liabilities are by their nature stable liabilities and in asset portfolios money market investments are complemented by a large portfolio of liquid listed Danish government and mortgage bonds.

Experience from quite significant and sudden movements in long-term interest rates have confirmed that the liquidity of these assets is not significantly affected by market shocks.

The maturity structure of technical provisions and the bond portfolio is presented in the following table.

Market risk sensitivities

Topdanmark, 31 December 2020 and 31 December 2019

EURm after tax	Risk scenario	2021	2020
Effective interest rate	1 percentage point increase	2.4	0.1
Interest-bearing assets		*-67.7*	*-72.0*
Provisions for claims and benefits etc.		*70.2*	*72.1*
Index-linked bonds	5% decrease in value	-2.5	-2.8
Equities	10% decrease in value	-8.8	-12.0
CLOs < AA	10% decrease in value	-7.6	-7.2
Properties	10% decrease in value	-15.6	-19.4
Currency	Annual loss with up to a 2.5% probability	-0.3	-0.1

Expected cash flows for provisions and the bond portfolio

Topdanmark, 31 December 2021 and 31 December 2020

		Cash flow years					
EURm	Carrying amount	1	2–6	7–16	17–26	27–36	>36
Provisions for claims							
2020	1,796	548	703	357	135	49	11
2021	1,882	601	735	400	155	60	14
Life insurance provisions guarantees and profit sharing							
2020	3,115	271	940	1,230	515	153	41
2021	3,001	285	988	1,268	500	140	38
Bond portfolio including interest rate derivatives							
2020	5,329	2,183	2,278	1,583	661	0	0
2021	4,176	1,550	1,483	1,894	501	0	0

Life insurance provisions for unit-linked products are covered by corresponding investment assets and are therefore not stated in the table.

The expected cash flows of the bond portfolio are calculated based on option adjusted durations that are used to measure the duration of the bond portfolio. The option adjustment relates primarily to Danish mortgage bonds and reflects the expected duration capturing the shortening effect of the borrower's option to have the bond to be redeemed through the mortgage institution at any point in time.

Because of the aforementioned reasons Topdanmark's liquidity risk is primarily related to the parent company Topdanmark A/S. Topdanmark A/S finances its activities and dividend programme by receiving dividends from its subsidiaries. Further financing requirements are covered by short-term money market loans, typically with a maturity of one month or less.

Counterparty default risks

Topdanmark is exposed to counterparty risk in both its insurance and investment activities. The default risk related to fixed income and equity investments is covered by spread-risk and equity-risk models in SCR calculations and hence they are not discussed in this context.

The main sources of counterparty risk are deposits made to individual banks, derivative contracts with banks and current receivables from reinsurance companies with the addition of potential receivables that will arise in case of a 1-in-200-year catastrophe event. Topdanmark's counterparty risk is assessed by the SCR standard formula.

Reinsurance

Within insurance activities the reinsurance companies' ability to pay is the most important counterparty risk factor. Topdanmark minimises this risk by primarily buying reinsurance cover from reinsurance companies with a minimum rating of A- and by spreading reinsurance cover over many reinsurers.

For reinsurance counterparties, the Board approves security guidelines which determine the maximum size of reinsurance contract cover per a separate reinsurer. This portion is dependent on the reinsurer's rating as well as on Topdanmark's own assessment of the reinsurer. The largest risk concentrations may occur in case of major catastrophe events, including storms and cloudbursts.

Investments

Topdanmark may suffer losses due to their counterparties' inability to meet their obligations on bonds, loans and other contracts including derivatives. The majority of Topdanmark's interest bearing assets comprise of Danish mortgage bonds. In order to minimise the risk to a single debtor, Topdanmark strives to always have a well-diversified portfolio of bonds not only regarding a debtor but also geographically.

To limit the counterparty risk of financial contracts, including derivative contracts, the choice of counterparties is restrictive, and collateral is required when the value of the financial contracts exceeds the predetermined limits. The size of the limits depends on the counterparty's credit rating and the terms of the contract.

Operational risks

The Board of Directors has set the overall principles and framework for how to organise internal control activities and how to ensure independency between the various organisational functions.

These organisational functions include business areas and other functions that have ongoing responsibility for managing and limiting operational risks and thus minimising the risk of errors or offenses which have economic and reputational loss consequences for the company. Full segregation of duties is not required if it is not possible to organise it or if it is considered appropriate not to have segregation of duties. In case there is no established full segregation of duties, there is a requirement for compensatory checks.

With well-documented business practices and procedures as well as an effective control environment, Topdanmark minimises the risk of errors in internal processes and insurance fraud. There are contingency plans for the most important areas. In addition, business practices and procedures in all critical areas are continuously reviewed by the Compliance unit and Internal Audit. Internal Audit assesses risks and may make recommendations for limiting individual risks.

Topdanmark continuously develops its IT systems. Responsibility for risk management in this connection lies with the responsible business entities. Projects must always prepare a risk assessment containing a description of risks, possible consequences, and measures to limit these risks.

In order to limit operational risks Topdanmark has numerous documents in which instructions regarding operational risks are given e.g., Policy and Guidelines for Operational Risks, Compliance and Internal Control, Information Security Policy, IT-Preparedness Strategy and IT-Preparedness Plan.

Topdanmark monitors and reports operational risks regularly. For this purpose, the company has a process of recording operational risk incidents. The incidents are collected centrally into a register and communicated further in the management system. This way the organisation can learn from its errors. Operational risks are included as part of Topdanmark's ORSA and reported by the Risk Management function (RMF) to the Risk Committee in Topdanmark's Risk Registry. Furthermore, the most significant operational risks are reported in the risk report that RMF submits to the Risk key function holder, the CFO and the Board of Directors every quarter.

Capitalisation

Solvency capital requirement

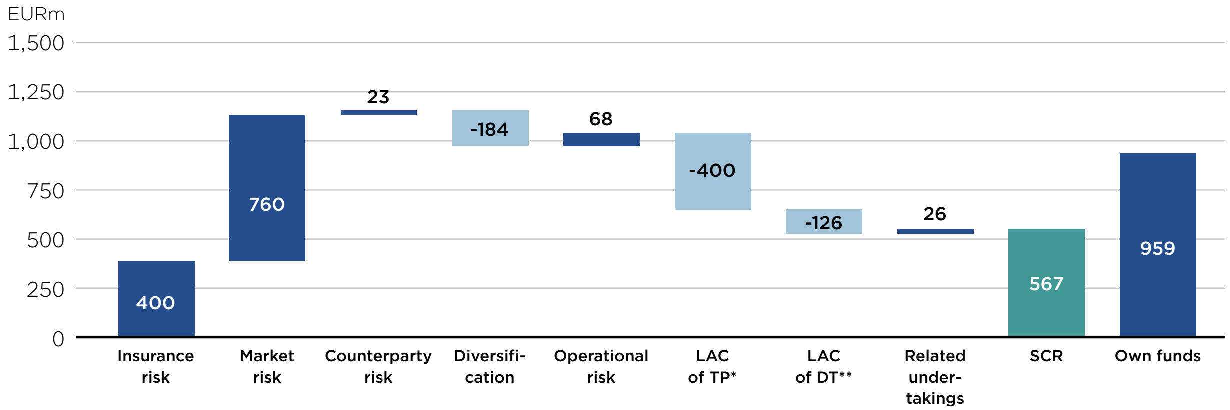
Topdanmark's statutory Solvency Capital Requirement is calculated as follows:

- Topdanmark Forsikring calculates most of its non-life and health risks and the respective Solvency Capital Requirements by a partial internal model approved by the Danish FSA. Other risks are calculated by Solvency II SCR standard formula ("SF"). The SCR partial internal model elements are integrated into the SCR standard formula. Topdanmark Livsforsikring applies the SCR standard formula.
- The Danish FSA has permitted Topdanmark to use the volatility adjusted Solvency II interest rate curve.
- Topdanmark's SCR is calculated using the SCR standard formula and the partial internal model mentioned earlier for Topdanmark Forsikring.

In case Topdanmark's SCR was calculated by only applying the SCR standard formula, the SCR would be DKK 725 million (in EUR 97 million) higher than the now applied SCR.

Topdanmark's standard formula SCR and eligible own funds are shown in the graph Standard Formula Solvency, Topdanmark, 31 December 2021. The figures are presented in a different way compared to Topdanmark's Annual Report. Topdanmark presents the figures in their Annual Report as net figures after deduction of loss absorbing capacity and bonus potentials, whereas Sampo presents the gross figures. Topdanmark presents SCR including elements from a partial internal model while Sampo presents SCR applying the standard formula. The reason is that Topdanmark's partial internal model has been approved by the Danish FSA, but Sampo Group does not have a corresponding approval from the Finnish FSA.

Standard formula solvency
Topdanmark, 31 December 2021



*Loss absorbing capacity of technical provisions
**Loss absorbing capacity of deferred taxes

Own funds

The purpose of the capital plan is, based on Topdanmark's strategy and risk appetite, to estimate future eligible own funds and Solvency Capital Requirements, assuming Topdanmark continues the operations in line with own expectations. The future eligible own funds are affected by earnings, dividends, and issue of capital. The eligible own funds estimate covers a 5-year period.

At the company and group level, the starting point of eligible own funds is equity that is adjusted by some corrective items of which the most significant are:

Own funds:

Shareholders' equity
- Proposed dividend
+ Deferred tax on security funds
+ Profit margin
- Intangible assets
+ Tax effect
+ Usable share, subordinated loan Tier 1 (max. 20% of Tier 1 capital)
+ Usable share, subordinated notes (max. 50% of SCR)

Own funds

The proposed dividends are deducted from own funds on the balance sheet date. Extraordinary dividends are deducted when decided by the Board of Directors based on authorisation from the General Meeting. Topdanmark's eligible own funds structure is presented in the table Eligible own funds, Topdanmark, 31 December 2021 and 31 December 2020.

Eligible own funds

Topdanmark, 31 December 2021 and 31 December 2020

EURm		2021	2020
Tier 1	**Total**	**757**	**738**
	Ordinary share capital	12	12
	Reconciliation reserve	691	672
	Subordinated liabilities	54	54
Tier 2	**Total**	**202**	**181**
	Subordinated liabilities	202	181
	Untaxed reserves	0	0
Tier 3	**Total**	**0**	**0**
	Deferred tax assets	0	0
Eligible own funds		**959**	**919**

Eligible own funds include the following Solvency II compliant subordinated liabilities of Topdanmark as at 31 December 2021. Sampo Group's holdings in these assets are also presented in the following table.

Solvency II compliant subordinated liabilities

Topdanmark, 31 December 2021

Issuer	Instrument	Nominal amount	Carrying amount in EUR (IFRS)	First Call	Tiering	Nominal amount in Sampo Group's portfolios
Topdanmark Forsikring A/S (Denmark)	10NC5	DKK 500,000,000	67,236,835	31 Dec 2025	Tier 2	DKK 500,000,000
Topdanmark Forsikring A/S (Denmark)	10NC5	DKK 1,000,000,000	134,473,670	16 Dec 2026	Tier 2	DKK 1,000,000,000
Topdanmark A/S (Denmark)	PerpNC5	DKK 400,000,000	53,789,468	23 Nov 2022	Tier 1	DKK 133,000,000
			255,499,973			

Deferred taxes and loss-absorbing capacity of deferred taxes

Topdanmark has no deferred tax assets in the SII balance sheet.

The Solvency Capital Requirement has been adjusted for the loss-absorbing capacity of deferred taxes with the amount of DKK 936 million (in EUR 126 million).

Deferred tax liabilities and carry-back

Two calculation methods are used as a starting point.

The first method is based on rules in the Danish legislation (Corporation Tax Act § 12, subsection 2). The maximum usable profits are calculated by discounting Topdanmark's forecasted next 5 years result with a conservative discount rate of 6 per cent after tax.

The second method calculates the maximum of deferred tax as the discounted tax amount on the sum of the Basic Solvency Capital Requirement BSCR and Operational risk.

The maximum amount used for the loss-absorbing capacity of deferred taxes will be the smallest amount calculated based on the two calculation methods, respectively.

Probable future taxable profit

For several years, Topdanmark has made a forecast of the results with reasonable certainty 5 quarters ahead and, based on this, built a 5-year capital plan. Therefore, a 5-year time horizon is used in the calculation of future profits. The expected future results for the next 5 years are always stated in the capital plan.

Underlying assumptions applied to the projection of probable future taxable profits

The forecast is based on a realistic assessment using the available historical claims data Topdanmark has. The accuracy of the forecast is tested by comparing it with the actual accounts back to 2005. Based on this information, it is assessed that the results of the forecast and the capital plan's estimates for the next 5 years are also correct. Deferred tax assets are calculated based on this and on certain assumptions, e.g., that the current Combined Ratio will not change for the next 5 years. Run-off results are not included in the forecast.

In life insurance, long-term forecasts are calculated 10 years ahead. The forecast is based on societal assumptions about macroeconomic factors and returns set by Forsikring & Pension and the Finans Danmark.

The existing corporation tax rate in Denmark is 22 per cent and it is assumed to stay constant. The discount rate is 6 per cent after tax, corresponding to the estimated shareholder requirement. A maximum of 60 per cent of the future profit will be used to calculate the loss absorbing capacity of deferred tax if Danish legislation allows this.

HASTINGS GROUP

Hastings Group

Hastings is a digital and technology enabled insurance provider in the UK with over 3.1 million car, van, bike and home insurance customers: approximately 90 per cent of whom join Hastings through a Price Comparison Website. It aims to be as simple and straightforward as possible for its customers, offering better prices than its competitors and delivering great service.

Hastings operates as an insurance provider with two separate businesses. The Retail business, Hastings Insurance Services Limited (trading as "Hastings Direct", "HISL"), a UK regulated intermediary, is responsible for end customer pricing, fraud management, product design, distribution, and management of the underlying customer relationships. The Underwriting business, Advantage Insurance Company Limited ("AICL"), based in Gibraltar, engages in risk selection, technical risk pricing, reserving and claims handling. Almost all policies are directly underwritten by Advantage, with the remaining underwritten by a panel of insurance partners who provide additional underwriting capacity.

Hastings has big ambitions to become the best and biggest digital insurance provider in the UK, delivering profitable growth through pricing, digital and claims expertise, agility and trading, and an efficient and low-cost operation. This is underpinned by its 4Cs cultural framework. The 4Cs focusses on creating the right culture for Colleagues and giving them the right tools to do their job, so they ensure its Customers' experience is simple and straightforward, enabling the Company to grow profitably and sustainably, and allowing investment in the Communities served.

Ethical conduct and strong governance are integral to meeting the needs of Colleagues and Customers and running a successful business, and a broader focus on the environmental and social impacts of Hastings' activities underpins that philosophy. Hastings' ESG strategy is acting in four areas: operating responsibly, valuing colleagues, supporting local communities, and reducing environmental impact. The strategy has full consideration of the impacts of climate change, inclusions and diversity, and emerging health issues on and from its operations.

Underwriting risks and performance

Advantage is Hastings' Gibraltar-based general insurance underwriting company providing motor and home insurance products to the United Kingdom (UK) market.

For Solvency II reporting purposes the lines of business are:

- Motor vehicle liability insurance (Motor liability)
- Other motor insurance (Motor other)
- Fire and other damage to property insurance

Pricing risk

Advantage's risk appetite require management to maintain rates that are projected to achieve loss ratios within the target loss ratio range. As a response to market conditions rates were regularly adjusted, after review by management, to remain competitive and provide customer-focused benefits to policyholders. The rate changes were regularly reviewed and amended in keeping with an agile approach to pricing and appropriately factoring in ongoing claims inflation risk. The market is expected to remain volatile because of the FCA's General Insurance Practices changes, any future COVID-19 developments, inflation uncertainty, the embedding of Whiplash reforms and other influences on pricing.

Gross technical provisions by line of business,
Hastings, 31 December 2021 and 31 December 2020

	2021		2020	
	EURm	Duration	EURm	Duration
Motor vehicle liability insurance	2,075	4.6	1,685	3.4
Other motor insurance	692	0.0	562	0.2
Fire and other damage to property insurance	20	1.0	16	1.0
Total	**2,787**	**3.4**	**2,263**	**2.6**

Sensitivity test of underwriting result
Hastings, 31 December 2021

Key figure	Current level (2021)	Change in current level	Effect on pretax profit, EURm
Combined ratio, business area Private	80.3%	+/- 1 percentage point	+/- 8,3
Net premiums earned	499	+/- 1 per cent	+/- 5.0
Net claims incurred	-310	+/- 1 per cent	+/- -3,1
Ceded written premiums	633	+/- 10 per cent	+/- 63.3

Weekly governance arrangements approve changes to rate plan and review account performance. The Rating Analysis Committee ("RAC") approves decisions for segment level rate changes and book level rate changes. The goal is to ensure that the business being written will be profitable.

Audits are conducted on a regular basis to ensure that all underwriting and rating rules are being applied correctly. Advantage maintains a control log to identify, report, and act on errors made by the outsourced service provider.

Reserve risk

Advantage does not take significant reserve risk and holds an internal risk margin to a 75 per cent confidence level versus internal best estimate. Since reserving is subject to expert judgment the Chief Actuary calculates the best estimate, the Senior Actuary verifies the data, appropriateness of techniques utilised, and assumptions used to create the best estimate and an additional best estimate is created by a fully independent third party. Advantage has a series of monthly, quarterly, and semi-annual controls to ensure reserve adequacy.

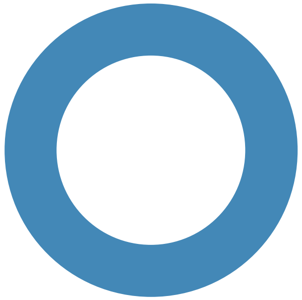
Hastings' Gross Written Premiums (GWP) for 2021 amounted to EUR 1,127 million.

Breakdown of gross written premiums

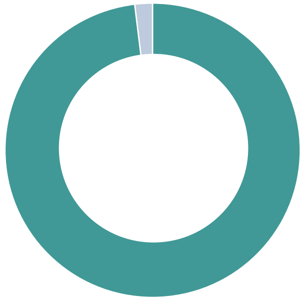
Hastings, 31 December 2021, total EUR 1,127 (103) million

By business area

By country



By line of business



The comparative figures are for 6 weeks.

Underwriting performance
Hastings, 31 December 2021

Underwriting performance by SII LoB, EURm	Premiums written		Premiums earned		Claims incurred		Operating expense		Reinsurers share per LoB		Total underwriting performance direct insurance	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Motor vehicle liability insurance	847	89	836	108	692	70	99	11	-31	26	76	1
Other motor insurance	329	30	325	36	269	23	39	4	-12	9	30	0
Fire and other damage to property insurance	16	2	14	1	9	3	3	0	2	0	0	-1
Total (excluding other expenses)	**1,192**	**120**	**1,175**	**146**	**969**	**96**	**141**	**16**	**-40**	**34**	**106**	**0**
Other expenses	0	0	0	0	0	0	0	0	0	0	0	0
Total	**1,192**	**120**	**1,175**	**146**	**969**	**96**	**141**	**16**	**-40**	**34**	**106**	**0**

The comparative figures are for 6 weeks.

Advantage maintained a disciplined approach to pricing despite continued market competition. Policies grew year on year. This disciplined but agile underwriting and pricing approach led to over 350 selective rate adjustments within footprint during 2021. Renewal pricing remains a significant focus for management, and a change programme during 2021 ensured the FCA's General Insurance Pricing Practices regulatory requirements for renewal pricing were met and Hastings' customers continued to be treated fairly.

Alongside this, investment has continued in 2021 on several customer-related initiatives aimed at ensuring that, as far as possible, customers did not suffer unduly through needing to make changes to their polices as a result of the pandemic or for other reasons. The quality of service maintained by Hastings during 2021 was a key driver of continued high customer retention rates, with good customer satisfaction and quality metrics.

The global pandemic has continued to influence the risk profile for 2021. A combination of effective pricing, claims management and frequency experience has resulted in profits and capital solvency with the solvency ratio being towards the top of Advantage's target range of 140 to 160 per cent throughout the period.

Sensitivities of technical provisions
Hastings, 31 December 2021

Technical provision item	Risk factor	Change in risk parameter	Effect EURm 2021	Effect EURm 2020
Nominal provisions	Inflation increase	Increase by 1 percentage point	22.8	22.7
Periodic Payment Orders (PPOs)	Decrease in mortality	Life expectancy increase by 1 year	0.1	0.1
Discounted provisions	Decrease in discount rate	Decrease by 1 percentage point	3.9	1.8

Market risks and investment performance

Investment performance in 2021 was closed to planned expectations.

Hastings' investment portfolio has been designed to generate a targeted return whilst operating within the conservative risk appetite parameters set by the Board. Management aims to prudently operate within its risk appetite. The risk appetite includes a low appetite for losses arising from volatility of market prices affecting values of assets and liabilities and for assets not matching the profile of liabilities. As a result, the investment strategy includes a limited amount of equity exposure.

Investment allocation

Hastings, 31 December 2021 and 31 December 2020

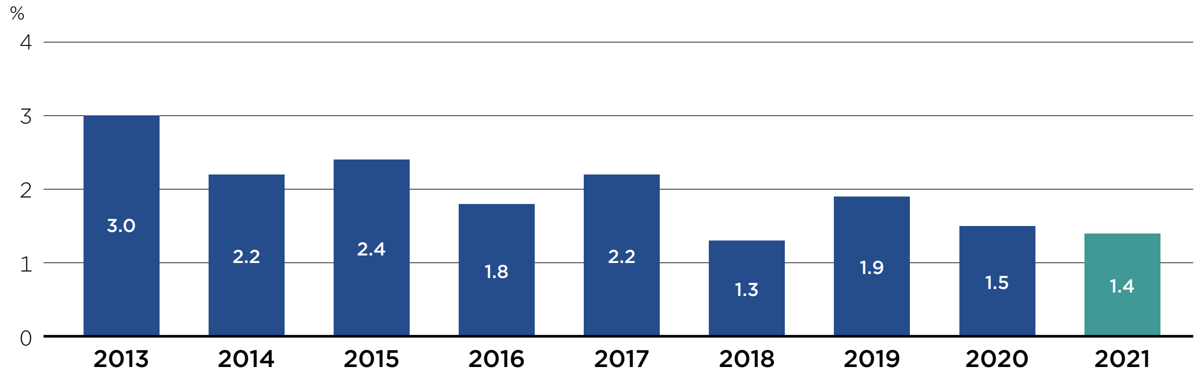
	31 Dec 2021			31 Dec 2020		
Asset Class	**Market value, EURm**	**Weight**	**Average maturity, years**	**Market value, EURm**	**Weight**	**Average maturity, years**
Fixed income total	**1,095**	**97%**	**3.6**	**949**	**97%**	**4.1**
Money market securities and cash	159	14%	0.0	198	20%	0.0
Government bonds	0	0%	0.0	2	0%	0.1
Credit bonds, funds and loans	936	83%	4.2	749	77%	5.1
Covered bonds	*0*	*0%*	*0.0*	*19*	*2%*	*0.7*
Investment grade bonds and loans	*921*	*82%*	*4.1*	*716*	*73%*	*5.5*
High-yield bonds and loans	*15*	*1%*	*4.5*	*14*	*1%*	*4.5*
Subordinated / Tier 2	*0*	*0%*	*-*	*0*	*0%*	*-*
Subordinated / Tier 1	*0*	*0%*	*-*	*0*	*0%*	*-*
Hedging swaps	*0*	*0%*	*-*	*0*	*0%*	*-*
Listed equity total	**0**	**0%**	**-**	**0**	**0%**	**-**
UK	0	0%	-	0	0%	-
Global	0	0%	-	0	0%	-
Alternative investments total	**30**	**3%**	**-**	**27**	**3%**	**-**
Real estate	0	0%	-	0	0%	-
Private equity	0	0%	-	0	0%	-
Biometric	0	0%	-	0	0%	-
Commodities	0	0%	-	0	0%	-
Other alternative	30	3%	-	27	3%	-
Trading derivatives	**0**	**0%**	**-**	**0**	**0%**	**-**
Asset classes total	**1,125**	**100%**	**-**	**976**	**100%**	**-**
FX Exposure, gross position	**0**	**-**	**0**	**0**	**-**	**0**

The core investment portfolio of debt securities, supplemented by a diversified portfolio of holdings in collective investment schemes, is held by Advantage. The Advantage Board works with the investment managers and investment consultants to maximise return whilst minimising risk and preserving capital. The criteria for the portfolio structure, classes of holdings and individual limits are consistent with a very low risk appetite. These investment rules are monitored on a quarterly basis internally and using an external consultancy. The monitoring outputs are provided to the Investment Committee and Risk & Compliance Committee quarterly.

Advantage made no direct use of derivatives during the period. Derivatives are, however, utilised within Investment Funds in which Advantage has a share, both for hedging purposes and to generate additional return.

Annual investment returns at market values

Hastings, 2013–2021



Exposures by sector, asset class and rating

Hastings, 31 December 2021

EURm	AAA	AA+ - AA-	A+ - A-	BBB+ - BBB-	BB+ - C	D	Non-rated	Fixed income total	Listed equities	Other	Counter-party risk	Total	Change from 31 Dec 2020
Basic industry	0	0	15	3	0	0	0	18	0	0	0	18	-1
Capital goods	0	0	23	6	0	0	0	29	0	0	0	29	8
Consumer products	1	18	81	46	0	0	0	145	0	0	0	145	32
Energy	0	0	23	0	0	0	0	23	0	0	0	23	-1
Financial institutions	0	91	268	34	0	0	0	393	0	0	0	393	80
Governments	0	0	0	0	0	0	0	0	0	0	0	0	-2
Government guaranteed	45	12	0	0	0	0	0	57	0	0	0	57	-10
Health care	0	0	0	0	0	0	0	0	0	0	0	0	0
Insurance	6	7	11	10	0	0	0	34	0	0	0	34	-18
Media	0	0	0	0	0	0	0	0	0	0	0	0	0
Packaging	0	0	0	0	0	0	0	0	0	0	0	0	0
Public sector, other	101	0	0	0	0	0	0	101	0	0	0	101	46
Real estate	0	0	9	24	0	0	0	33	0	0	0	33	10
Services	0	0	0	0	0	0	0	0	0	0	0	0	0
Technology and electronics	0	0	7	9	0	0	0	16	0	0	0	16	0
Telecommunications	0	0	0	16	0	0	0	16	0	0	0	16	8
Transportation	0	8	10	14	2	0	0	34	0	0	0	34	21
Utilities	0	0	53	33	0	0	0	85	0	0	0	85	-1
Others	0	0	0	0	0	0	0	0	0	0	0	0	0
Asset-backed securities	0	0	0	0	0	0	0	0	0	0	0	0	0
Covered bonds	0	0	0	0	0	0	0	0	0	0	0	0	-20
Funds	84	1	3	8	13	0	2	111	0	30	0	141	-75
Clearing house	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	**237**	**138**	**501**	**203**	**14**	**0**	**2**	**1.095**	**0**	**30**	**0**	**1.125**	**79**
Change from 31 Dec 2020	**-52**	**-6**	**108**	**33**	**1**	**0**	**-6**	**78**	**0**	**1**	**0**	**79**	**79**

Foreign currency risk is insignificant in Hastings.

Interest rate risk

Advantage manages balance sheet interest rate risk principally through matched duration of assets and liabilities meaning that interest rates are aligned, and interest rate risk is reduced. This is monitored in the quarterly Investment Committee meeting and includes adherence to tight duration mismatch tolerances which form part of the relevant risk appetite statement.

Liquidity risks

Advantage maintains a short duration and highly liquid portfolio. Cash and cash equivalent balances are held in current accounts or short-term money market instruments. These are generally less than 60 days in duration, with low sensitivity to movements in interest rates compared to longer duration assets.

The liquidity profile and cashflow of investments is monitored at the quarterly Investment Committee to ensure Advantage can meet its liabilities into the future.

Advantage's investment managers actively manage liquidity risk in the portfolio to ensure that bonds can be sold efficiently to meet cash needs. Informed by market data, they look to purchase bonds with less than 5 years since issue date, larger issue sizes and which trade regularly. Liquidity scoring is conducted by Advantage's investment managers, based on time since issue, issue size, traded volumes and observed bid-ask spreads.

Cash flows according to contractual maturity

Hastings, 31 December 2021

				Cash flows						
EURm	**Carrying amount total**	**Carrying amount without contractual maturity**	**Carrying amount with contractual maturity**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027–2036**	**2037–**
Financial assets	**1,125**	**217**	**908**	**253**	**187**	**121**	**201**	**143**	**3**	**0**
Financial assets (non-derivatives)	1,125	217	908	253	187	121	201	143	3	0
Interest rate swaps	0	0	0	0	0	0	0	0	0	0
FX derivatives	0	0	0	0	0	0	0	0	0	0
Financial liabilities	**329**	**0**	**329**	**10**	**21**	**9**	**302**	**0**	**0**	**0**
Financial liabilities (non-derivatives)	329	0	329	10	21	9	302	0	0	0
Interest rate swaps	0	0	0	0	0	0	0	0	0	0
FX derivatives	0	0	0	0	0	0	0	0	0	0
Lease liabilities	**15**	**0**	**15**	**4**	**4**	**4**	**2**	**1**	**1**	**0**
Net technical provisions	**840**	**840**	**0**	**345**	**191**	**121**	**57**	**39**	**47**	**40**

Counterparty default risks

Counterparty risk is the risk that a counterparty will be unable to pay amounts in full as they fall due. Hastings is exposed to counterparty risk through reinsurance assets, financial assets and cash and cash equivalents.

Reinsurance counterparty risk

A key component of risk mitigation is reinsurance. Advantage's reinsurance programme includes both Excess of Loss ("XoL") and Quota Share ("QS") protection. Under the 2021 arrangements, the Motor exposure risk to Advantage is capped at GBP 1 million per loss, net of XoL reinsurance, and Household exposure is capped at GBP 5.0 million per event loss.

To mitigate the inherent counterparty and credit risk posed by the reinsurance programme to Advantage's balance sheet, Advantage has set criteria for the minimum credit quality of the reinsurance counterparties and for concentration limits.

Reinsurance recoverables

Hastings, 31 December 2021 and 31 December 2020

	31 Dec 2021		31 Dec 2020	
Rating	**Total, EURm**	**% of total**	**Total, EURm**	**% of total**
AAA	0	0%	0	0%
AA	1,224	65%	1,156	79%
A	653	35%	307	21%
BBB	3	0%	0	0%
Less than BBB	0	0%	0	0%
Unrated	0	0%	0	0%
Total	**1,880**	**100%**	**1,464**	**100%**

To better protect itself, and where possible, Advantage aims to:

- place with parent entities within reinsurance groups to mitigate counterparty risk in accepting reinsurance from small regional branches;
- introduce collateralisation or cut through terms and/or parental guarantees to mitigate counterparty risk;
- ensure special termination clauses are in place in the event of rating downgrade or reorganisation of reinsurance groups to which Advantage is exposed.

Operational risks

Hastings is committed to continually developing and embedding a culture of risk management through the identification, measurement, mitigation, monitoring and reporting of risks. Policy Statements form part of Hastings overall control and governance structure and cover legal and regulatory requirements, culture, and values.

Management committees at an operational level oversee business risks, supported by departmental risk profiles (risks, controls, key risk indicators and internal or external events) held centrally and reviewed and challenged regularly by the AICL and HISL risk management functions.

Development and enhancement of operational risk registers has been augmented in 2021 through the investment in a new risk management IT system. Monitoring and quality control procedures within front line operations, together with clearly prescribed breach reporting and escalation processes, support the control framework.

Ongoing investment in strengthening information security and data protection within Hastings remains a priority and the effective execution of the information security road map reinforce existing measures and underpins Hastings' commitment to best practice.

Ongoing investment in fraud detection and prevention initiatives ensures Hastings anti-fraud capability remains strong and continues to protect Hastings and its customers against the threat of fraud. The Company's anti-fraud team provides comprehensive profiling guidance to allow Advantage to select risk and identify claims fraud more effectively. Dedicated anti-fraud experts, combined with market leading fraud detection technology, provide a defence against application fraud.

Hastings invests in compliance expertise and designs its controls and processes in line with regulatory requirements to mitigate regulatory risk. This is supplemented by a horizon scanning process designed to support Hastings' ability to meet regulatory standards as they evolve. Regulatory risk profiles are reported through to the relevant respective Board Committees.

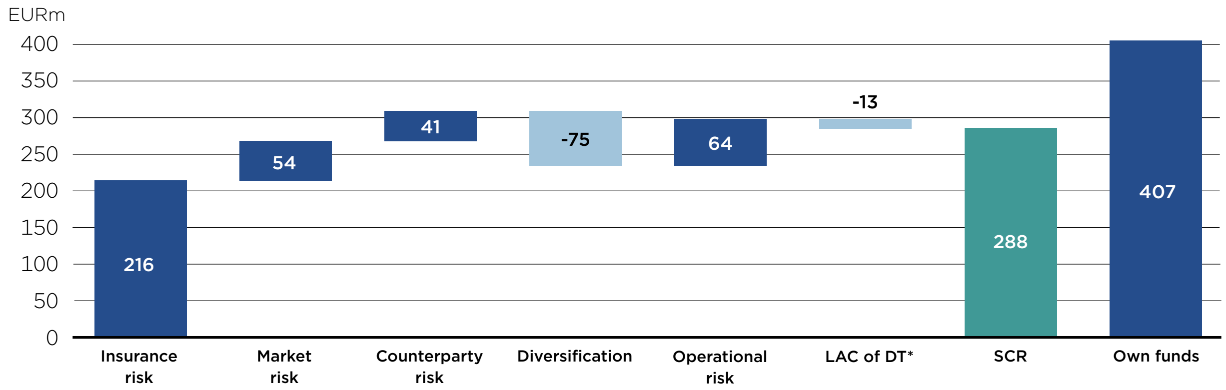
During 2021, Hastings has continued to operate an office / homeworking operating model across the UK and Gibraltar in response to the pandemic, including maintaining a virtual call centre. The risk and control framework is designed to align to the operating model to ensure no meaningful reduction in control framework effectiveness.

Capitalisation

Advantage's objectives for managing capital are to achieve an adequate return by pricing insurance contracts commensurate with the level of risk it takes and to comply with Solvency II capital requirements to help safeguard its ability to continue as a going concern. Under its capital plan, Advantage aims to operate within an optimal solvency capital ratio range of 140 to 160 per cent of SCR well above prescribed Solvency II capital requirements at all times.

Solvency

AICL, 31 December 2021



*Loss absorbing capacity of deferred taxes

AICL, as a Gibraltar based insurance company passporting into the UK, is subject to the provisions of Solvency II regulations set by the European Parliament and European Union Commission and is authorised and regulated by the Gibraltar Financial Services Commission ("GFSC").

HISL, as an insurance intermediary in the UK, is subject to a capital resources requirement under Financial Conduct Authority rules ("FCA"). It always exceeded that minimum capital requirement during the year. HISL regularly reviews and monitors its capital position and always seeks to maintain a prudent threshold above the capital resource requirements.

Eligible own funds

AICL, 31 December 2021 and 31 December 2020

EURm		2021	2020
Tier 1	**Total**	**407**	**307**
	Ordinary share capital	147	137
	Reconciliation reserve	260	170
	Subordinated liabilities	0	0
Tier 2	**Total**	**0**	**0**
	Subordinated liabilities	0	0
	Untaxed reserves	0	0
Tier 3	**Total**	**0**	**0**
	Deferred tax assets	0	0
Eligible own funds		**407**	**307**

Deferred taxes and loss-absorbing capacity of deferred taxes

On an IFRS basis, AICL has no deferred tax assets or liabilities. To determine the SII deferred tax position the SII and IFRS balance sheets are compared on a line-by-line basis. Except for investment assets which are not taxed in Gibraltar, the differences attract either a tax charge or tax relief at the Gibraltar corporate tax rate.

On an SII basis, the process described results in a deferred tax liability of GBP 5.1 million. This is equal to the notional tax due on the taxable excess of SII Own Funds over IFRS net assets.

The procedure to determine the LAC DT for AICL is as follows:

- The tax value of the loss that would arise on a reduction in Own Funds of magnitude equal to the SCR is calculated. Since investments are not taxable in Gibraltar, the market risk capital requirement and the share of the type 1 counterparty risk capital requirement that is attributable to bank exposures do not attract tax relief.
- The tax value of the SCR loss is set against the following sources of tax capacity:
  - the net deferred tax liability on the 'base' balance sheet
  - current year taxable profits, taken as the profit over the six months prior to the SII reporting date
  - future taxable profits, taken as the profit over the following three years under stress scenarios that have been agreed with the Gibraltar Financial Services Commission.

At 31 December 2021, the tax value of the pre-tax SCR loss is GBP 27.4 million and the sources of tax capacity sum to GBP 10.6 million (net deferred tax liability GBP 5.1 million, current year taxable profits GBP 2.1 million, future taxable profits GBP 3.4 million), giving an LAC DT credit of GBP 10.6 million to the AICL SCR.

MANDATUM GROUP

Mandatum Group

Mandatum Group consists of two business areas: Mandatum Life Insurance Company Ltd (Mandatum Life) offers life insurance services and Mandatum Asset Management Ltd (MAM) asset management services. The parent company of the group is Mandatum Holding Ltd.

Mandatum Asset Management is an asset management company formed by combining Sampo plc's and Mandatum Life's investment operations. Mandatum Asset Management manages Sampo plc's, Mandatum Life's and If's assets. Mandatum Asset Management's direct clients, in addition to Sampo Group, are Nordic and European institutional and Ultra High Net Worth Individual (UHNWI) clients.

Mandatum Life is responsible for Sampo Group's life insurance operations in Finland. It also offers private and corporate customers services in wealth management, rewards, and personal insurance together with the other Group companies. Mandatum Life is a wholly owned subsidiary of Mandatum Group and a sister company to MAM.

The business areas related to life insurance services form most of the risk exposures when measured by capital requirements set in EU regulations as can be seen from chapter **Capitalisation**.

Especially the existing with profit liabilities and assets backing these liabilities is the most capital consuming business area and the business in question forms a major part of Mandatum Life's Solvency Capital Requirement (around 70 per cent of total SCR). For this reason, the following risk descriptions are mainly focused on Mandatum Life's risks exposures, and Mandatum Asset Management's business and risks related to it are described in chapter **Risks related to asset management activities**.

Underwriting risks and performance

In this section, the underwriting risks and performance as well as the development of technical provisions are presented. Further details of technical provisions can be found in **Appendix 5** **Valuation for Solvency Purposes**.

The unit-linked business has been Mandatum Life's focus area since 2001. Since then, the trend of unit-linked technical provisions has been increasing and the average annual growth in unit-linked technical provisions has been around 20 per cent per annum. Due to the nature of the unit-linked business, volatility between the years has been relatively high.

In contrast to the unit-linked trend, the trend of with profit technical provisions has been decreasing since 2005 (except for year 2014 when the group pension portfolio from Suomi Mutual was transferred to Mandatum Life).

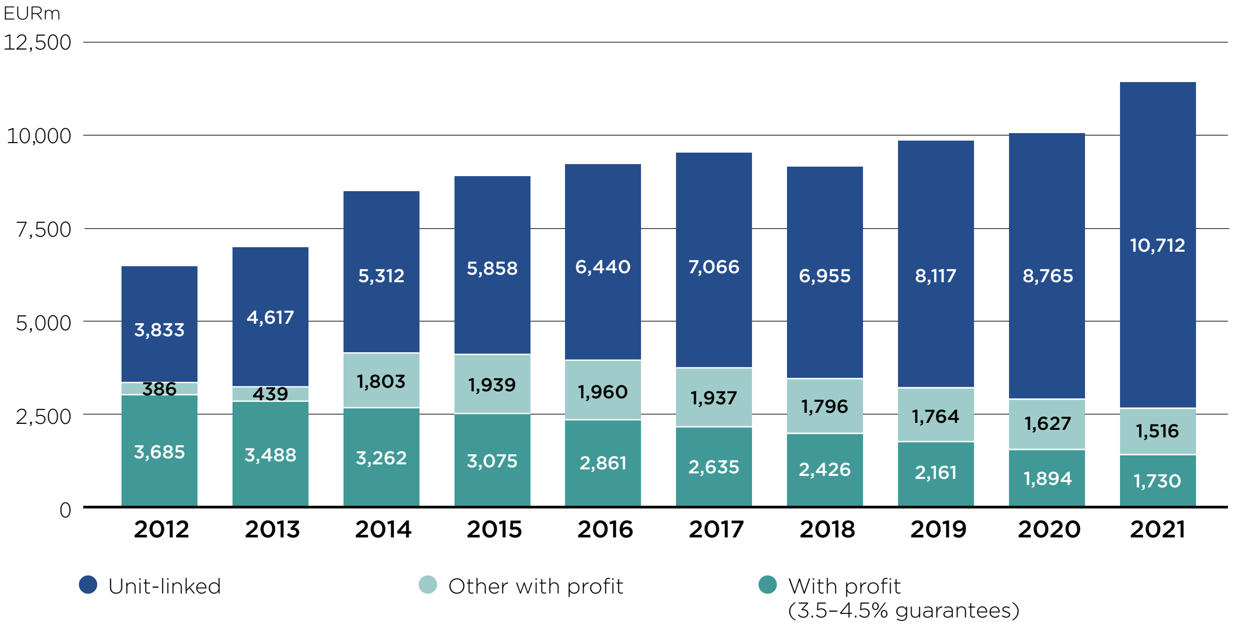
In particular, the parts of technical provisions with the highest guarantees (4.5 per cent and 3.5 per cent) have decreased. The development of with profit and unit-linked portfolios is presented in the graph Development of with profit and unit-linked technical provisions, Mandatum Life, 2012–2021.

The above-mentioned group pension portfolio transferred from Suomi Mutual and related assets are separated from the rest of the Mandatum Life balance sheet into a segregated group pension portfolio. The segregated group pension portfolio has its own profit-sharing rules, investment policy and Asset and Liability Committee. The with profit liabilities other than in the segregated group pension portfolio are hereafter referred to as the "original" with profit liabilities.

During the year 2021 insurance liabilities developed as planned. Unit-linked business increased and reached their all-time high and ended up being EUR 10,712 million. On the other hand, the technical provisions with the highest guarantees fell by EUR 164 million. In total, the with profit technical provisions decreased by EUR 274 million and were EUR 3,247 million.

The development of insurance liabilities during 2021 is shown in the table Analysis of the change in provisions before reinsurance, Mandatum Life, 31 December 2021.

Development of with profit and unit-linked technical provisions
Mandatum Life, 2012–2021



Analysis of the change in provisions before reinsurance

Mandatum Life, 31 December 2021

EURm	Liability 2020	Premiums	Claims paid	Expense charges	Guaranteed interest	Bonuses	Other	Liability 2021	Share %
Unit-linked, excl. Baltic	**8,600**	**1,256**	**-713**	**-94**	**0**	**0**	**1,477**	**10,526**	**75%**
Individual pension insurance	1,576	54	-23	-21	0	0	192	1,778	13%
Individual life	2,285	111	-135	-20	0	0	254	2,495	18%
Capital redemption operations	3,518	999	-516	-29	0	0	748	4,721	34%
Group pension	1,221	92	-40	-24	0	0	282	1,532	11%
With profit and others, excl. Baltic	**3,510**	**95**	**-371**	**-30**	**90**	**12**	**-69**	**3,236**	**23%**
Group pension insurance, segregated portfolio	**875**	**2**	**-48**	**-1**	**19**	**12**	**-108**	**751**	**5%**
Basic liabilities. guaranteed rate 3.5%	565	2	-48	-1	19	12	-64	485	3%
Reserve for decreased discount rate (3.5% -> 0.50%)	232	0	0	0	0	0	-49	183	1%
Future bonus reserves	78	0	0	0	0	0	5	82	1%
Group pension	**1,525**	**23**	**-171**	**-3**	**45**	**0**	**-22**	**1,397**	**10%**
Guaranteed rate 3.5%	1,233	0	-135	-2	41	0	-10	1,129	8%
Guaranteed rate 2.5%, 1.5% or 0.0%	292	23	-36	-2	4	0	-13	268	2%
Individual pension insurance	**609**	**5**	**-124**	**-3**	**22**	**0**	**41**	**550**	**4%**
Guaranteed rate 4.5%	430	3	-65	-2	17	0	-6	377	3%
Guaranteed rate 3.5%	116	2	-14	-1	4	0	6	112	1%
Guaranteed rate 2.5% or 0.0%	63	0	-45	0	1	0	42	61	0%
Individual life insurance	**133**	**30**	**-18**	**-9**	**5**	**0**	**-11**	**130**	**1%**
Guaranteed rate 4.5%	48	4	-2	-1	2	0	-1	49	0%
Guaranteed rate 3.5%	66	9	-8	-3	2	0	-3	63	0%
Guaranteed rate 2.5% or 0.0%	19	18	-8	-6	0	0	-7	18	0%
Capital redemption operations	**26**	**0**	**0**	**0**	**0**	**0**	**2**	**28**	**0%**
Guaranteed rate 3.5%	0	0	0	0	0	0	0	0	0%
Guaranteed rate 2.5% or 0.0%	26	0	0	0	0	0	2	28	0%
Future bonus reserves	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0%**
Reserve for decreased discount rate	**218**	**0**	**0**	**0**	**0**	**0**	**56**	**274**	**2%**
Longevity reserve	**78**	**0**	**0**	**0**	**0**	**0**	**-7**	**71**	**1%**
Assumed reinsurance	**2**	**0**	**0**	**0**	**0**	**0**	**0**	**1**	**0%**
Other liabilities	**43**	**35**	**-10**	**-14**	**0**	**0**	**-19**	**35**	**0%**
Total, excl. Baltic	**12,109**	**1,351**	**-1,083**	**-125**	**90**	**12**	**1,407**	**13,762**	**99%**
Baltic	**177**	**25**	**-16**	**-5**	**0**	**0**	**15**	**196**	**1%**
Unit-linked liabilities	165	23	-13	-4	0	0	16	186	1%
Other liabilities	12	2	-2	-1	0	0	-1	10	0%
Mandatum Life Group total	**12,286**	**1,376**	**-1,099**	**-130**	**90**	**12**	**1,422**	**13,958**	**100%**

In most of the original with profit policies the guaranteed interest rate is 3.5 per cent. In individual policies sold in Finland before 1999, the guaranteed interest rate is 4.5 per cent, which is also the statutory maximum discount rate of these policies. Mandatum Life has sold policies with lower guaranteed rates as well, but their share is small.

Mandatum Life has supplemented technical provisions by a separate reserve due to low interest rates (reserve for decreased discount rate). The table Discount rates and reserves, Mandatum Life, 31 December 2021 shows the discount rate applied for each year and its effect to technical provisions.

The guaranteed interest for the segregated group pension policies is mainly 3.5 per cent. However, the discount rate for these segregated liabilities is 0.0 per cent and the related reserve for decreased discount rate was EUR 183 million (232) at the end of 2021. The segregated group pension portfolio includes a separate future bonus reserve. The reserve amounts to EUR 82 million (78). This future bonus reserve can also be used to cover possible investment losses or to finance possible reserve strengthening due to changes in the applied discount rate of segregated technical provisions. As a result, the future bonus reserve has a significant role in the risk management of the segregated group pension portfolio. For this reason, it has also its own profit-sharing rules as mentioned before.

The decreasing trend of with profit liabilities is expected to continue. Liabilities with the highest guarantees and highest capital consumption are expected to decrease from EUR 1,730 million to around EUR 670 million during the remaining Solvency II transitional period of the technical provision (1 January 2022–31 December 2031). The duration of the segregated group pension portfolio is around 11 years and the duration of the original with profit portfolio is also around 11 years.

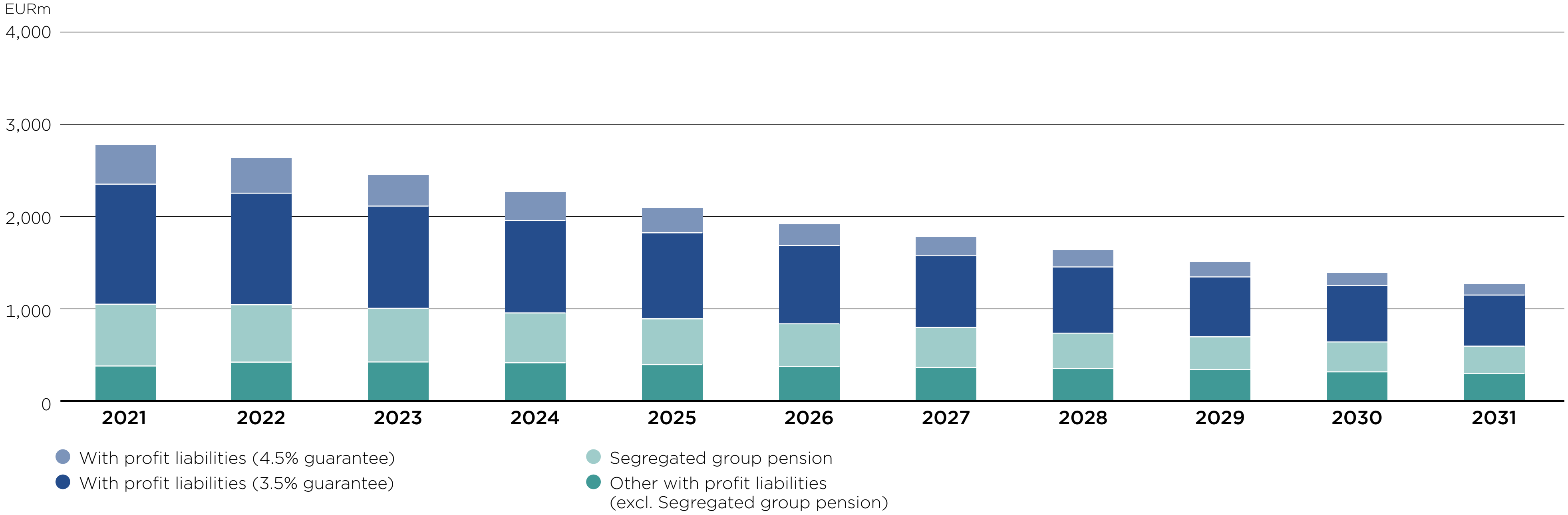
The graph Forecast of with profit liabilities, Mandatum Life, 31 December 2021–31 December 2031 shows the expected trend of existing with profit liabilities.

Discount rates and reserves

Mandatum Life, 31 December 2021

Year	2022	2023	2024	2025	2026	2027 and onward	Total
Applied discount rate	0.25%	0.25%	0.25%	0.25%	**0.75%**	**3.50%**	**-**
Discount rate reserve, EURm	58	53	49	46	**35**	**32**	**274**

Forecast of with profit liabilities
Mandatum Life, 2021–2031



Biometric risks

Mandatum Life's main biometric risks are longevity, mortality, and disability. In general, the long duration of policies and Mandatum Life's restricted right to change policy terms and conditions and tariffs increase biometric risks. The definition of biometric risk can be found in **Appendix 2** **Risk definitions**. If the premiums turn out to be inadequate and cannot be increased, technical provisions must be supplemented by an amount corresponding to the increase in expected losses.

Longevity risk is the most critical biometric risk in Mandatum Life. The Solvency Capital Requirement of longevity risk is also highly dependent on the interest rate level, which in practice means that the lower the applied discount rate is, the higher the longevity SCR would be. Most of the longevity risk arises from the with profit group pension portfolio. With profit group pension policies have mostly been closed for new members for years and due to this the average age of members is relatively high, almost 70 years. In the unit-linked group pension and individual pension portfolio the longevity risk is less significant because most of these policies are fixed term annuities including death cover compensating the longevity risk.

The annual longevity risk result and longevity trend are analysed regularly. For the segregated group pension portfolio, the assumed life expectancy related to the technical provisions was revised in 2014 and for the other group pension portfolios in 2002 and 2007. In total, these changes increased the 2021 technical provision by EUR 71 million (78) including a EUR 58 million longevity reserve for the segregated group pension portfolio. The cumulative longevity risk result has been positive since these revisions. The longevity risk result of group pension for the year 2021 was EUR 11.3 million (11.6) after a EUR 7.3 million release from the longevity reserve.

The mortality risk result in life insurance was positive. A possible pandemic is seen as the most significant risk that could adversely affect the mortality risk result. However, during the years 2020 and 2021 COVID-19 did not have any significant effect on the mortality risk result. The reason for this is that COVID-19 has had the most significant incremental effect on the mortality of elder people and the insured are generally younger.

The insurance risk result of other biometric risks has been profitable overall, although the different risk results vary considerably. In the longer term, disability and morbidity risks are mitigated by the company's right to raise insurance premiums for existing policies in case there is an unfavourable change in the claims development.

The table Claims ratios after reinsurance, Mandatum Life, 31 December 2021, and 31 December 2020 shows the insurance risk result in Mandatum Life's insurance policies, excluding Baltic operations. The ratio of the actual to expected claims costs was 68 per cent in 2021 (73). The sensitivity of the insurance risk result can also be assessed based on the information in the table. For instance, an increase of mortality by 100 per cent would increase the amount of benefit payments from EUR 12 million to EUR 24 million.

Claims ratios after reinsurance

Mandatum Life, 31 December 2021 and 31 December 2020

	31 Dec 2021			31 Dec 2020		
EURm	**Risk income**	**Claims expense**	**Claims ratio**	**Risk income**	**Claims expense**	**Claims ratio**
Life insurance	**47.3**	**17.3**	**37%**	**47.4**	**24.2**	**44%**
Mortality	28.2	12.1	43%	28.5	14.3	36%
Morbidity and disability	19.1	5.3	28%	19.0	9.9	52%
Pension	**83.5**	**72.1**	**86%**	**87.8**	**74.7**	**95%**
Individual pension	14.0	14.6	104%	14.4	13.7	95%
Group pension	69.4	57.4	83%	73.4	61.0	83%
Mortality (longevity)	67.9	56.6	83%	71.5	59.9	84%
Disability	1.6	0.9	54%	1.9	1.1	59%
Total	**130.8**	**89.4**	**68%**	**135.2**	**99.0**	**73%**

The underwriting portfolio of Mandatum Life is relatively well diversified and does not include any major concentration of biometric risks. To further mitigate the effects of possible risk concentrations, Mandatum Life has catastrophe reinsurance in place.

In general, biometric risks are managed by careful risk selection, by setting prices to reflect the risks and costs, and by setting upper limits for the protection granted and by use of reinsurance. Mandatum Life's Underwriting Policy sets principles for risk selection and limits for sums insured. The Reinsurance Policy governs the use of Reinsurance. The Board approves the Underwriting policy, Reinsurance Policy, pricing guidelines and the central principles for the calculation of the insurance liabilities and the technical provisions.

The Insurance Risk Committee is responsible for maintaining the Underwriting Policy and monitoring the functioning of the risk selection and claims processes. The Committee also reports all deviations from the Underwriting Policy to the Risk Management Committee. The Insurance Risk Committee is chaired by the Chief Actuary who is responsible for ensuring that the principles for pricing policies and for the calculation of technical provisions are adequate and in line with the underwriting and claims management processes.

Reinsurance is used to limit the amount of individual mortality and disability risks. The Board of Directors annually approves the Reinsurance Policy and determines the maximum amount of risk to be retained on the company's own account. The highest retention of Mandatum Life is EUR 1.5 million per insured.

The risk result is actively followed and thoroughly analysed on an annual basis. Mandatum Life measures the efficiency of risk selection and the adequacy of tariffs by collecting information about the actual claims' expenditure for each product line and each type of risk and comparing it to the claims expenditure assumed in insurance premiums of every risk cover.

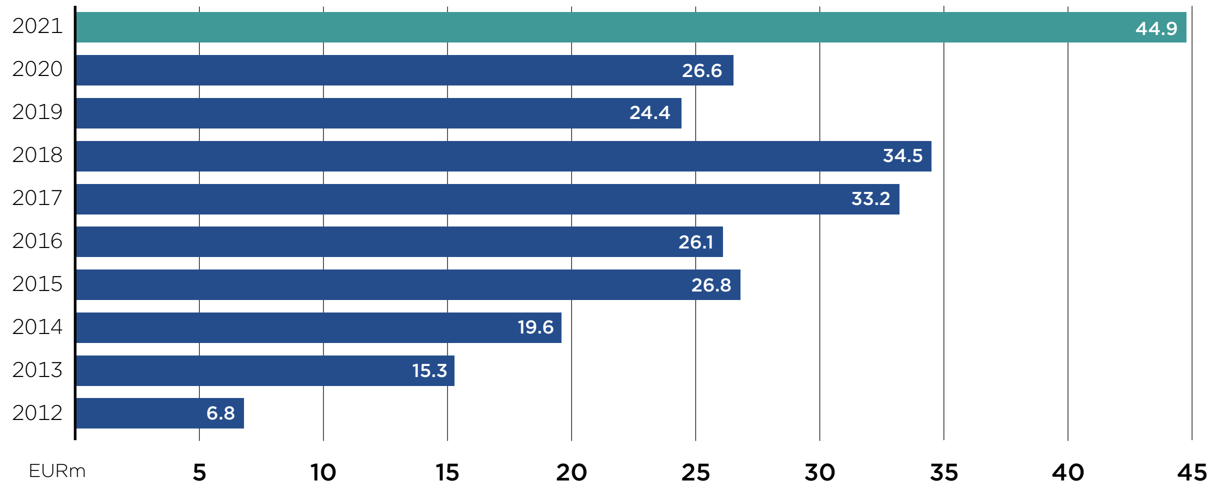
Technical provisions are analysed, and the possible supplemental needs are assessed regularly. Assumptions related to technical provisions are reviewed annually. The adequacy of the technical provisions is tested quarterly. Tariffs for new policies are set and the Underwriting Policy and assumptions used in calculating technical provisions are updated based on adequacy tests and risk result analysis.

Policyholder behaviour and expense risks

From an Asset and Liability Management point of view, surrender risk is not material because in Mandatum Life around 85 per cent of with profit technical provisions consists of pension policies in which surrender is possible only in exceptional cases. Surrender risk is therefore only relevant in individual life and capital redemption policies of which the related technical provisions amount to around 5 per cent (around EUR 160 million) of the total with profit technical provisions. Furthermore, the supplements to technical provisions are not paid out at surrender which also reduces the surrender risk related to the with profit policies. Due to the limited surrender risk, the future cash flows of Mandatum Life's insurance liabilities are quite predictable.

Policy terms and tariffs cannot usually be changed materially during the lifetime of the insurance, which increases the expense risk. The behaviour of financial markets has also an influence on expense risk since normally the company's fee income is linked to policy reserves in unit-linked policies. The main challenge is to keep the expenses related to insurance administrative processes and complex IT infrastructure at an effective and competitive level. In year 2021, the operational result of Mandatum Group was EUR 45 million (27). Mandatum does not defer insurance acquisition costs. Development of operational result since 2012 is presented in the graph Operational result, Mandatum Group, 2012–2021. Notice that prior to 2021 the operational result equals Mandatum Life Group's expense result.

Operational Result
Mandatum Group, 2012–2021



Market risks and investment performance

This section covers market risk related to Mandatum Life's with profit business i.e., that part of the business where Mandatum Life carries the investment risk. As mentioned earlier, the behaviour of financial markets has also an influence on unit-linked business since normally the company's fee income is linked to policy reserves in unit-linked policies. This risk is considered as part of expense risk.

In Mandatum Life, the approach to market risk management is based on an analysis of technical provisions' expected cash flows, interest rate level and current solvency position, i.e., active Asset and Liability Management. A common feature for all with profit technical provisions is the guaranteed rate and bonuses. The cash flows of life technical provisions are generally predictable because in most of the company's with profit policies, surrenders and additional investments are not possible.

Mandatum Life's market risks arise mainly from equity investments and interest rate risk related to fixed income assets and insurance liabilities with a guaranteed interest rate. The most significant interest rate risk in the life insurance business is that fixed income investments will not, over a long period of time, generate a return at least equal to the guaranteed interest rate of technical provisions. The probability of this risk increases when market interest rates fall and stay at a low level. The duration gap between the balance sheet's technical provisions and fixed income investments is constantly monitored and managed. Control levels based on an internal risk capacity model are used to manage and ensure adequate capital in different market situations.

Mandatum Life has prepared for low interest rates on the liability side by for example reducing the minimum guaranteed interest rate in new contracts and by supplementing the technical provisions with reserve for decreased discount rate. In addition, existing contracts have been changed to accommodate improved management of reinvestment risk. Guarantees and other main features of with profit liabilities are presented in the section **Underwriting risks and performance**.

Fixed income investments and listed equity instruments form a major part of the investment portfolio, but the role of alternative investments – real estate, private equity, biometric and other alternative investments – is also material being 15 per cent of total investments.

Investment allocations and average maturities of fixed income investments as at year end 2021 and 2020 are presented in the table Investment allocation, Mandatum Life, 31 December 2021 and 31 December 2020.

Investment allocation

Mandatum Life, 31 December 2021 and 31 December 2020

	31 Dec 2021			31 Dec 2020		
Asset class	**Market value, EURm**	**Weight**	**Average maturity, years**	**Market value, EURm**	**Weight**	**Average maturity, years**
Fixed income total	**3,231**	**62%**	**2.7**	**3,509**	**63%**	**3.1**
Money market securities and cash	585	11%	0.0	512	9%	0.0
Government bonds	0	0%	0.0	0	0%	0.0
Credit bonds, funds and loans	2,645	51%	3.2	2,997	54%	3.6
Covered bonds	*0*	*0%*	*0.0*	*12*	*0%*	*4.0*
Investment grade bonds and loans	*1,056*	*20%*	*3.0*	*1,300*	*23%*	*3.6*
High-yield bonds and loans	*1,240*	*24%*	*3.3*	*1,311*	*24%*	*3.2*
Subordinated / Tier 2	*148*	*3%*	*3.0*	*145*	*3%*	*3.9*
Subordinated / Tier 1	*200*	*4%*	*4.1*	*229*	*4%*	*5.3*
Hedging swaps	*0*	*0%*	*0.0*	*0*	*0%*	-
Listed equity total	**1,233**	**24%**	**-**	**1,335**	**24%**	**-**
Finland	543	10%	0	517	9%	-
Scandinavia	0	0%	0	0	0%	-
Global	690	13%	0	818	15%	-
Alternative investments total	**770**	**15%**	**-**	**689**	**12%**	**-**
Real estate	191	4%	0.0	188	3%	-
Private equity*	293	6%	0.0	250	5%	-
Biometric	0	0%	0.0	0	0%	-
Commodities	0	0%	0.0	0	0%	-
Other alternative	286	5%	0.0	250	5%	-
Trading derivatives	**0**	**0%**	**0.0**	**0**	**0%**	**-**
Asset classes total	**5,233**	**100%**	**0.0**	**5,533**	**100%**	**-**
FX Exposure, gross position	**139**	**-**	**0.0**	**125**	**-**	**-**

The total investment allocation of Mandatum Life is equal to EUR 5,233 million. When EUR 14 million of intra-group assets, EUR 22 million of accrued interest, EUR 586 million of cash, EUR 179 million of real estates and around EUR 10 million of assets belonging to non-current assets held for sale are deducted and EUR 4 million of derivatives are added, the total is equal to EUR 4,427 million which corresponds to the sum of Mandatum's financial assets on Sampo Group's balance sheet.

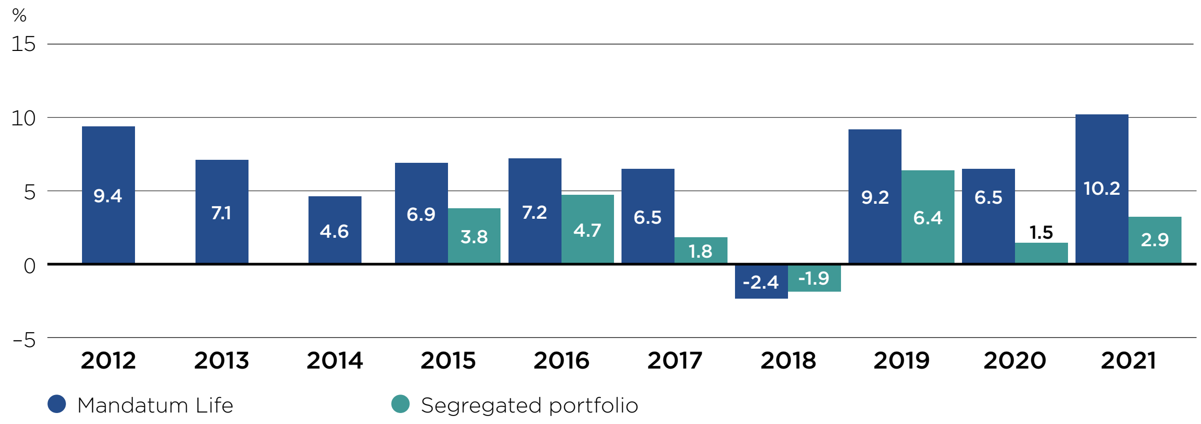
* *Private equity also includes direct holdings in non-listed equities.*

Annual investment returns from 2012 onwards are presented in the table annual investment returns at market values, Mandatum Life, 2012–2021.

Market risks of fixed income and equity exposures

Fixed income and equity exposures are presented by sector, asset class and rating together with counterparty risk exposures relating to derivative transactions in the table Exposures by sector, asset class and rating, Mandatum Life, 31 December 2021. Counterparty default risks are described in more detail in the section **Counter-party Default Risks**. Due to differences in the reporting treatment of derivatives, the figures in the table may not be fully comparable with other tables in this annual report.

Annual investment returns at market values
Mandatum Life, 2012–2021



Exposures by sector, asset class and rating

Mandatum Life, 31 December 2021

EURm	AAA	AA+ - AA-	A+ - A-	BBB+ - BBB-	BB+ - C	D	Non-rated	Fixed income total	Listed equities	Other	Counter-party risk	Total	Change from 31 Dec 2020
Basic industry	0	0	0	15	33	0	11	59	74	0	0	133	-77
Capital goods	0	0	4	2	55	0	25	86	126	0	0	212	-10
Consumer products	0	3	18	79	112	0	27	239	155	0	0	394	-58
Energy	0	0	0	0	0	0	49	49	10	0	0	59	0
Financial institutions	0	207	591	445	87	0	24	1,355	12	5	0	1,373	-121
Governments	0	0	0	0	0	0	0	0	0	0	0	0	0
Government guaranteed	0	0	0	0	0	0	0	0	0	0	0	0	0
Health care	0	0	2	23	145	0	20	190	120	0	0	309	30
Insurance	0	0	16	41	0	0	23	80	9	1	0	90	11
Media	0	0	0	0	5	0	3	8	0	0	0	8	-7
Packaging	0	0	0	0	6	0	23	29	7	0	0	36	-8
Public sector, other	0	0	23	0	0	0	0	23	0	0	0	23	-1
Real estate	0	0	0	97	0	0	140	236	0	182	0	418	-38
Services	0	0	0	67	185	0	67	319	75	3	0	397	-16
Technology and electronics	0	0	0	17	9	0	25	52	162	0	0	214	-34
Telecommunications	0	0	8	46	70	0	0	123	0	0	0	124	-15
Transportation	0	0	2	11	0	0	6	19	18	0	0	37	-9
Utilities	0	1	0	63	110	0	0	174	24	0	0	198	6
Others	0	0	0	0	19	0	31	50	0	16	0	66	22
Asset-backed securities	0	0	0	0	0	0	0	0	0	0	0	0	0
Covered bonds	0	0	0	0	0	0	0	0	0	0	0	0	-12
Funds	0	0	0	0	0	0	139	139	441	562	0	1,142	36
Clearing house	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	**0**	**212**	**663**	**905**	**836**	**0**	**614**	**3,231**	**1,233**	**770**	**0**	**5,233**	**-301**
Change from 31 Dec 2020	**-13**	**-1**	**-27**	**-136**	**-38**	**0**	**-65**	**-279**	**-102**	**81**	**-1**	**-301**	

The role of non-investment grade bonds is material in Mandatum Life's portfolio. A part of the money market securities issued by Nordic banks and cash in Nordic banks form a liquidity buffer within the fixed income investments. Now, the total amount of these investments is higher than what is needed for liquidity purposes.

Nordic equity exposure includes almost only direct investments to Finnish equities, and they account for almost one third of equity exposure. Two thirds of equity investments are allocated globally consisting of both fund investments and direct investments. The breakdown of Mandatum Life's listed equity investments by geographical regions is presented in the following graph.

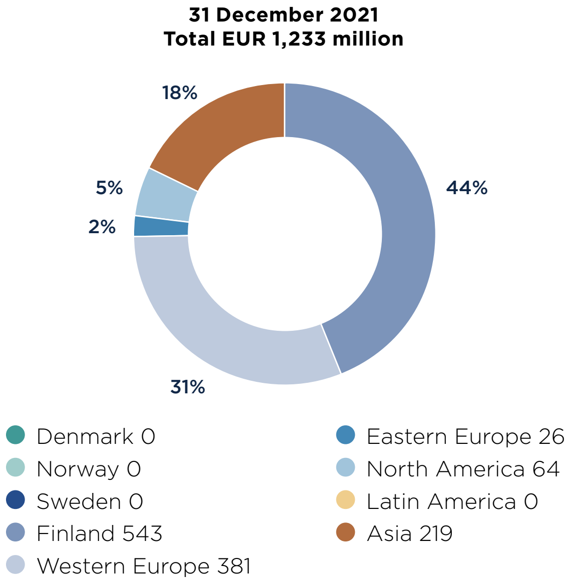
Alternative investments

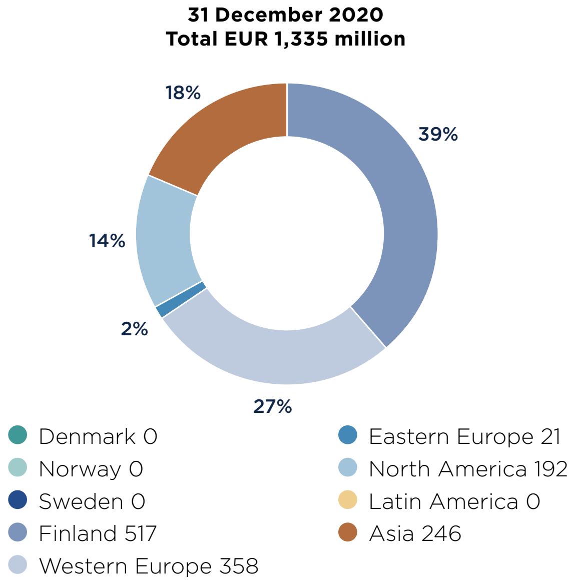
The role of alternative investments has been significant in Mandatum Life over the years. The current allocation weight is 15 per cent.

The amount of private equity and alternative investments has slightly increased from 2020. The real estate portfolio is managed by Mandatum Asset Management's own real estate management unit. The real estate portfolio includes both direct investments in properties and indirect investments in real estate funds as well as in shares of real estate companies. The activity in the portfolio has been quite low.

Breakdown of listed equity investments by geographical regions

Mandatum Life





Balance sheet market risks

The Board of Directors of Mandatum Life approves annually the Investment Policy, which covers both the segregated assets and the company's other assets that carry investment risk. This policy sets principles and limits for investment portfolio activities and they are based on the features of insurance liabilities, risk taking capacity and shareholders' return requirements.

The Investment Policy for segregated assets defines the risk bearing capacity and the corresponding control levels for the respective portfolio. Since the future bonus reserves of the segregated group pension portfolio is the first buffer against possible investment losses, the risk bearing capacity is also based on the amount of the future bonus reserve. Different control levels are based on the fixed stress scenarios of assets.

The Investment Policy for other investment assets defines the company level risk bearing capacity, the control levels for the maximum acceptable risk and respective measures to manage the risk. The control levels are set above the Solvency II SCR and are based on Sampo Group's risk management principles. The general objective of these control levels and respective guidelines is to maintain the required solvency. When the above-mentioned control levels are breached, the CRO reports to the Board which then takes the responsibility for decisions regarding capitalisation and market risks on the balance sheet.

The cash flows of Mandatum Life's with profit technical provisions are relatively predictable, because in most of the company's with profit products, surrenders and premiums are restricted. In addition, the company's claims costs do not contain a significant inflation risk element.

The long-term target for investments is to provide enough return to cover the guaranteed interest rate plus bonuses based on the principle of fairness as well as the shareholder's return requirement with an acceptable level of risk. In the long run, the most significant risk is that fixed income investments will not generate an adequate return compared to the applied discount rate.

In addition to investment and capitalisation decisions, Mandatum Life has implemented active measures on the liability side to manage the balance sheet level interest rate risk. The company has reduced the minimum guaranteed interest rate in new contracts, supplemented the technical provisions with discount rate reserves and adjusted policy terms and conditions as well as policy administration processes to enable more efficient interest rate risk management.

Interest rate risk

Mandatum Life is negatively affected when rates are decreasing or staying at low levels, because the duration of liabilities is longer than the duration of assets. A growing part of Mandatum Life's business, i.e., unit-linked and risk insurance business, is not interest rate sensitive, which mitigates the whole company's interest rate risk.

The average duration of fixed income investments was 2.1 years. The respective duration of the insurance liabilities was around 11 years. Interest rate risk is managed at the balance sheet level by changing the duration of assets and by using interest rate derivatives.

Currency risk

Currency risk can be divided into transaction and translation risk. Mandatum Life is exposed to transaction risk, which refers to currency risk arising from contractual cash flows in foreign currencies. For more detailed risk definition of currency risk see **Appendix 2** **Risk Definitions**.

In Mandatum Life, transaction risk arises mainly from investments in other currencies than the euro as the company's technical provisions are denominated in the euro. Open FX exposures are managed within given limits.

Mandatum Group's transaction risk is equal to Mandatum Life's transaction risk. The transaction risk positions of Mandatum Group against the euro as at year ends 2021 and 2020 are shown in the tables Transaction risk position, Mandatum Group, 31 December 2021 and 31 December 2020. The tables show the net transaction risk exposures and the changes in the value of positions given a 10 per cent decrease in the value of the base currency.

Transaction risk position

Mandatum Group, 31 December 2021 and 31 December 2020

Base currency, EURm	EUR	USD	JPY	GBP	SEK	NOK	CHF	DKK	Other	Total, net
Technical provisions	0	0	0	0	-1	0	0	0	0	-1
Investments	0	538	0	145	60	11	55	26	214	1,050
Derivatives	0	-518	0	-142	-58	-9	-48	-25	-122	-922
Transaction risk, net position	**0**	**21**	**0**	**4**	**2**	**2**	**7**	**1**	**92**	**127**
Sensitivity: EUR -10%	0	2	0	0	0	0	1	0	9	13

Base currency, EURm	EUR	USD	JPY	GBP	SEK	NOK	CHF	DKK	Other	Total, net
Technical provisions	0	0	0	0	-1	0	0	0	0	-1
Investments	0	580	2	98	63	41	55	18	225	1,082
Derivatives	0	-588	-4	-96	-57	-40	-52	-20	-118	-975
Transaction risk, net position	**0**	**-8**	**-2**	**2**	**4**	**1**	**3**	**-2**	**107**	**106**
Sensitivity: EUR -10%	0	-1	0	0	0	0	0	0	11	11

Liquidity risks

Liquidity risk is relatively immaterial for Mandatum Life in with-profit business because liability cash flows in most lines of business are stable and predictable and an adequate share of the investment assets is in cash or short-term money market instruments.

In life insurance companies in general, a large change in surrender rates could influence the liquidity position. However, in Mandatum Life, only a relatively small part of the insurance policies can be surrendered, and it is therefore possible to forecast short-term cash flows related to claims payments with a very high accuracy.

The maturities of technical provisions and financial assets and liabilities as well as lease liabilities are presented in the table Cash flows according to contractual maturity, Mandatum Group, 31 December 2021. The average maturity of fixed income investments was 2.7 years in Mandatum Life.

The table shows the financing requirements resulting from expected cash inflows and outflows arising from financial assets and liabilities as well as technical provisions and lease liabilities.

Mandatum Life has a relatively low amount of financial liabilities and thus the refinancing risk is relatively small.

Cash flows according to contractual maturity

Mandatum Group, 31 December 2021

EURm	Carrying amount total	Carrying amount without contractual maturity	Carrying amount with contractual maturity	Cash flows						
					2023	2024	2025	2026	2027–2036	2037–
Financial assets	**5,431**	**2,908**	**2,523**	**223**	**301**	**704**	**606**	**419**	**451**	**0**
Financial assets (non-derivatives)	5,427	2,908	2,519	219	301	704	606	419	451	0
Interest rate swaps	0	0	0	0	0	0	0	0	0	0
FX derivatives	4	0	4	4	0	0	0	0	0	0
Financial liabilities	**459**	**0**	**459**	**-38**	**-9**	**-259**	**-5**	**-5**	**-52**	**-172**
Financial liabilities (non-derivatives)	428	0	428	-9	-9	-259	-5	-5	-52	-172
Interest rate swaps	0	0	0	0	0	0	0	0	0	0
FX derivatives	31	0	31	-29	0	0	0	0	0	0
Lease liabilities	**23**	**0**	**23**	**-2**	**-2**	**-2**	**-2**	**-2**	**-14**	**0**
Net technical provisions	**2,707**	**0**	**2,707**	**-215**	**-232**	**-239**	**-222**	**-205**	**-1,300**	**-820**

In the table, financial assets and liabilities are divided into contracts that have an exact contractual maturity profile, and other contracts. Only the carrying amount is shown for the other contracts. In addition, the table shows expected cash flows for net technical provisions, which by their nature, are associated with a certain degree of uncertainty.

Counterparty default risks

In Mandatum Life, the three main sources of counterparty risk are financial derivatives, reinsurance, and other receivables. Counterparty default risk arising from reinsurance or receivables from policyholders and other receivables related to commercial transactions is, however, very limited.

Counterparty risk related to financial derivatives

In Mandatum Life, the default risk of derivative counterparties is a by-product of managing market risks. Mandatum Life uses interest rate derivatives and FX forwards and options to manage market risks.

The counterparty risk of bilaterally settled derivatives is mitigated by careful selection of counterparties, by diversification of counterparties to prevent risk concentrations and by using collateral arrangements, e.g., ISDA Master Agreements backed by Credit Support Annexes. Mandatum Life settles interest rate swaps in central counterparty clearing houses, which, while further mitigating bilateral counterparty risk, also exposes to the systemic risk related to central counterparty clearing houses.

Operational risks

The objective of operational risk management in Mandatum Group is to recognise the risks proactively, manage the risks efficiently and to minimise the potential effects of realised risks in a manner as cost-effective as possible.

Business units are responsible for the identification, assessment, and management of their own operational risks, including organising adequate internal controls. The Operational Risk Committee ("ORC") monitors and coordinates risk management issues regarding operational risks within Mandatum Group. The committee ensures that risks are identified, and that internal control and risk management have been organised in a proper way across all business units. In addition, the committee ensures that the incidents are reported when occurred. The committee also analyses deviations from operational risk management policies and monitors operational risks identified in the self-assessments as well as in occurred incidents. Normally the committee meets four times a year. Significant observations on operational risks are reported to the Risk Management Committee ("RMC") and the Board of Directors. The ORC is also responsible for monitoring that the business continuity and contingency plans are prepared accordingly within the business units.

In order to mitigate operational risks, Mandatum Group companies have approved several policies including e.g. Internal Control Policy, Compliance Policy, Security Policies, Continuity Plan, Procurement and Outsourcing Policy, Complaints Handling Policy and a number of other policies related to ongoing operative activities. Deviations against different policies are followed up in each business unit and are reported to the Compliance Function and the ORC.

The internal control system aims at preventing and identifying negative incidents and minimizing their impact. In addition, would there be an operational risk event or a near miss, this must be analysed and reported to the risk management function.

Information security and cyber risks

Information security and cyber risk management in Mandatum Group has three main objectives:

- Customer focus: customer's information is appropriately protected, and the services offered are secure
- Business focus: security is a part of developing high-quality services, digitalisation of services and data-driven business, as well as a positive customer experience
- Continuous improvement: the level of security is sufficient with regard to the nature and extent of the business and threats on the information and systems and it meets the requirements and obligations set by legislation and authorities and corresponds with the level generally expected from a financial institution by external stakeholders.

The Information Security and Cyber Risk Committee (ISCRC) monitors and coordinates risk management issues regarding the related risks in Mandatum Group. The Committee's role is to ensure that risk management of information and cyber risks are organised accordingly and to ensure seamless co-operation and flow of information between business units and control functions regarding information and cyber risks. In addition, it follows trends regarding both threats and general development of information and cyber security in the Mandatum Group and makes policy decisions or prepares proposals for decision by other bodies and senior management.

Risks related to asset management activities

Mandatum Asset Management Ltd (MAM) is the asset management arm of Sampo Group and an investment firm which forms, together with its subsidiary Mandatum AM AIFM, an investment firm group. MAM offers discretionary and consultative asset management for institutional and other professional investors and manages a variety of investment products within its core areas of credit, alternatives, and equity selection. MAM currently has approximately EUR 20 billion in client and balance sheet assets and employs more than 120 professionals.

MAM's approach to managing clients' assets is characterised by jointly investing in products with its own balance sheet, bringing economics of scale and an alignment of interests with its clients. Its investment philosophy focused on investment selection, opportunism, and patience points to its heritage as part of Sampo Group to generate strong returns for its clients.

MAM's risk management follows Sampo Group's risk management principles and Mandatum Holding's risk management policy. MAM's risk management framework is like Mandatum Group's risk management framework. MAM's Board of Directors is responsible for the adequacy of risk management and internal control within the Company and the CEO has the overall responsibility for the implementation of risk management in accordance with the instructions set by the Board.

MAM's most significant risk area are operational risks, which is why operational risk management is an important part of the Company's risk management as described earlier in chapter **Operational Risks**.

In addition to operational risks, MAM is exposed to liquidity risk. MAM's business is financed by income financing, which consists of commission income from clients and partners. MAM has not financed its activities through external financing, so the Company does not have any related risks such as interest rate risk, exchange rate or refinancing risk. Going forward, MAM's liquidity strategy remains to seek to finance the business without external loan financing. MAM limits liquidity risk by monitoring its liquidity position on a regular basis and by maintaining a liquidity buffer. MAM also monitors its liquidity position with respect to regulatory liquidity requirements.

MAM is also exposed to concentration risk with respect to its clients as most of its business is linked to clients within Sampo Group. Mandatum Life is MAM's largest client by commission income. This is not, however, considered as a significant risk since Mandatum Life and MAM are both Sampo Group companies.

MAM does not trade on its own account, and it is not exposed to market risk arising from its own trading book. MAM commission income is, however, strongly tied to the value of the assets it manages and through its commission income MAM is exposed to market risk. Nonetheless, the asset portfolios MAM manages are well diversified both by asset class as well as sector but also geographically.

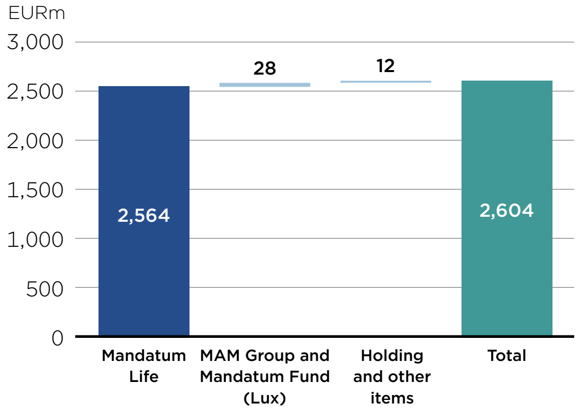
Capitalisation

Mandatum Group's solvency position is followed according to Solvency II framework. Subsidiaries which are under other capital adequacy regulations (IFR or CRR) are included by applying their own capital requirement framework. Since Mandatum Group's most significant business area is life insurance, Mandatum Group does not form a financial and insurance conglomerate.

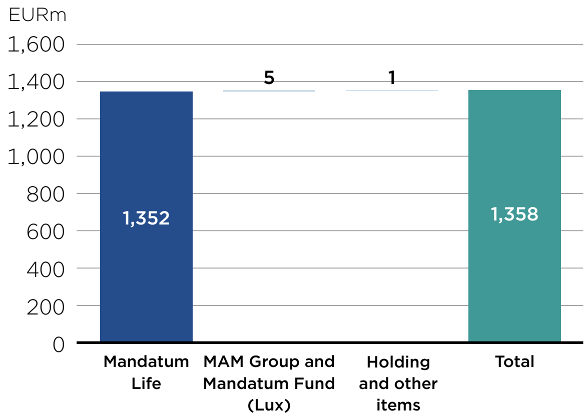
Mandatum Life applies the Solvency II standard formula with transitional measures on equity in the calculation of SCR. Solvency II own funds ("OF") are also affected by transitional measures, because Mandatum Life applies transitional measures on its technical provisions in regard to its original pension policies with 3.5 per cent and 4.5 per cent guarantees. A volatility adjustment is also applied when technical provisions are calculated. The size of Solvency II liabilities with transitional measures of EUR 13,136 million is less than the respective figure without transitional measures (EUR 13,512 million). Hence the transitional measures increase the amount of OF. Mandatum Life does not apply any undertaking-specific parameters in the underwriting risk modules or apply simplified calculations for any of the risk modules of the standard formula.

The OF of Mandatum Life was EUR 2,564 million while the SCR was EUR 1,352 million. The solvency ratio (OF/SCR) was 190 per cent and the buffer was EUR 1,213 million. OF without transitional measures on Technical Provisions would be EUR 2,236 million. As of 31 December 2021, Mandatum Life is no longer applying the transitional measure of equity risk while calculating SCR.

Own funds
Mandatum Group, 31 December 2021



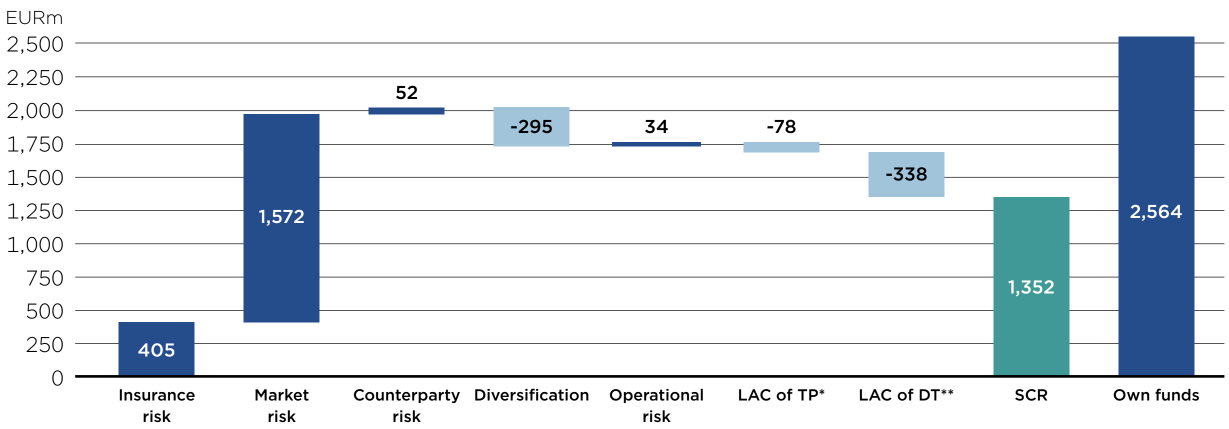
Solvency capital requirement (SCR)
Mandatum Group, 31 December 2021



In the graph Solvency, Mandatum Life, 31 December 2021, the SCR is presented in more detail. The diversification benefit between risks is also presented in the graph.

Solvency

Mandatum Life, 31 December 2021



*Loss absorbing capacity of technical provisions

**Loss absorbing capacity of deferred taxes

The solvency position without the transitional measures is expected to develop favourably during the transitional period. The amount of with profit liabilities is decreasing (see graph **Forecast of With Profit Liabilities, Mandatum Life, 2021–2031** within chapter **Underwriting Risks and Performance**) and liabilities with the highest guarantees are expected to decrease significantly, from EUR 1,730 million to around EUR 670 million during the transitional period. Hence, most of the capital consuming with profit liabilities will decrease during the period. In addition to this, the strategic business areas are self-funding from a capitalisation point of view i.e., they create more own funds than what is their capital requirement. This creates a decreasing trend for the SCR and, simultaneously, a positive trend for own funds without transitional measures is being anticipated. Mandatum Life forecasts the development of solvency ratios with and without the transitional measures internally and these both influence the company's business decisions.

Mandatum Life's structure of OF is presented in the table Eligible own funds, Mandatum Life, 31 December 2021 and 31 December 2020. In 2021 OF consists of both Tier 1 and Tier 2 items of which EUR 349 million (i.e. 13.6 per cent of OF) was subordinated debt at the end of 2021 as presented in the table Solvency II Compliant Subordinated Liabilities, Mandatum Life, 31 December 2021. The subordinated debt, which is classified as a restricted Tier 1 item due to Grandfathering principles, amounted to EUR 100 million. Transitional measures on technical provisions contribute EUR 301 million to OF at the end of 2021.

Deferred tax and loss-absorbing capacity of deferred tax

Mandatum Life has EUR 11 million in deferred tax assets booked into the IFRS balance sheet, but this amount is significantly lower than the tax liabilities (EUR 169 million). The amount of tax liability in own funds according to Solvency II is higher than the tax liability booked into the IFRS balance sheet.

The loss-absorbing capacity related to deferred taxes reduces the solvency requirement, and it reduced the solvency requirement by EUR 338 million (see the graph Solvency, Mandatum Life, 31 December 2021 above). A net of EUR 335 million in deferred tax liabilities, considering the impact of the transitional provision related to technical provisions, was entered in the Solvency II balance sheet. The Company has internally assessed that in conducting business according to the prevailing business strategy, the Company's operations will produce a surplus also if the stress corresponding to the solvency requirement assumed in the calculations is realised, such that the applied loss-absorbing capacity of deferred taxes is justified.

In summary, the solvency and the capital structure of Mandatum Life is adequate. During the transitional period on technical provisions the liabilities with high guarantees will decrease significantly.

Eligible own funds

Mandatum Life, 31 December 2021 and 31 December 2020

EURm		2021	2020
Tier 1	**Total**	**2,315**	**2,059**
	Ordinary share capital	181	181
	Reconciliation reserve	2,034	1,778
	Subordinated liabilities	100	100
Tier 2	**Total**	**249**	**249**
	Subordinated liabilities	249	249
	Untaxed reserves	0	0
Tier 3	**Total**	**0**	**0**
	Deferred tax assets	0	0
Eligible own funds		**2,564**	**2,308**

Solvency II compliant subordinated liabilities

Mandatum Life, 31 December 2021

Issuer	Instrument	Nominal amount	Carrying amount in EUR (IFRS)	First Call	Tiering	Nominal amount in Sampo plc's portfolio
Mandatum Life Insurance Company Ltd	PerpNC10	EUR 100,000,000	100,000,000	31 Dec 2012	Tier 1	DKK 100,000,000
Mandatum Life Insurance Company Ltd	30NC5	EUR 250,000,000	249,442,048	4 Oct 2024	Tier 2	0
			349,442,048			

APPENDICES

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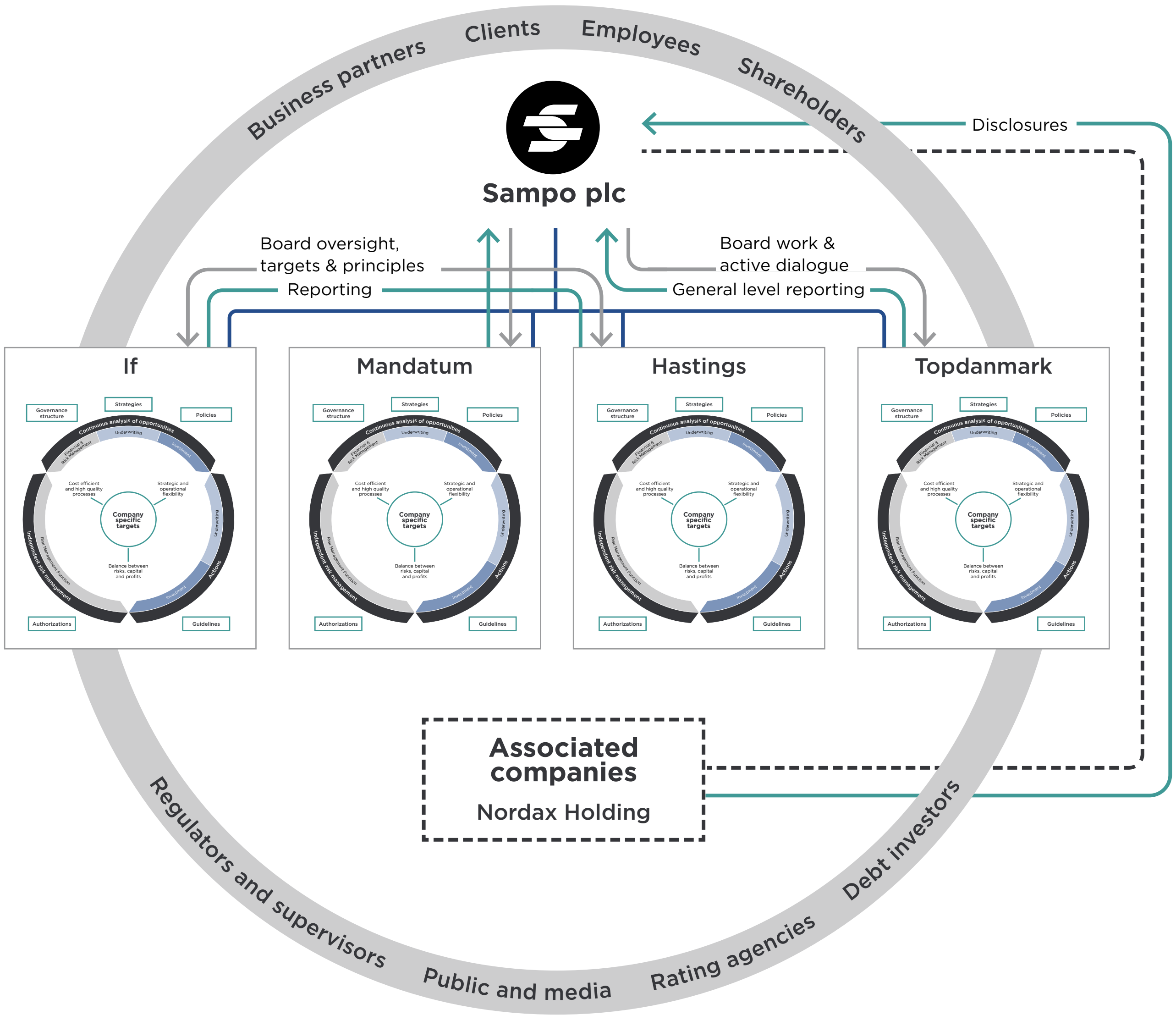
Appendix 1: Sampo Group steering framework and risk management

When Sampo Group is organising its business and risk management activities, clear responsibilities and simple and flat operational structures are the fundamental principles. The responsibilities and operational structures followed in Sampo plc and its wholly owned subsidiaries, as illustrated in the graph Sampo Group's Steering Framework are described in the following paragraphs. Topdanmark has also adopted Sampo's main Group-wide principles and policies, including the risk management principles, although there may be some small differences. Thus, the steering framework and risk management processes of Topdanmark may be slightly different than described next.

Parent company's guidance

The Group's parent company steers the wholly owned subsidiaries by setting targets for their underwriting performance and operating efficiency and by defining the main preconditions for the subsidiaries' operations in the form of the Group-wide principles.

Sampo Group's steering framework



Target Setting: The Board of Directors of Sampo plc decides on the subsidiaries' P&L targets which are currently below 85 per cent for If's combined ratio and below 88 per cent and below 76 per cent for Hasting's operating ratio and calendar year loss ratio, respectively.

The parent company assesses the adequate level of capitalisation and the suitability of the capital structure on both Group level and sub-group level as described in **Appendix 4** **Profitability, Risks and Capital**. Based on this analysis, the parent company estimates the number of dividends distributed by the subsidiaries to the parent company. In Sampo Group, the excess capital from an operational point of view is held by the parent company which capitalises the subsidiaries if needed.

The Board of Directors of Sampo plc decides on the main guidelines governing the subsidiaries' business activities and risk management. The most significant of these guidelines are the Code of Conduct, Internal Control Policy, Risk Management Principles, Remuneration Principles and Compliance Principles. There are also further guidelines which are followed to prevent reputational and compliance risks, for example the Disclosure Policy.

Moreover, Sampo plc's Board of Directors' decisions and thereby also the guidance given to subsidiaries may be impacted by the external regulatory environment and expectations of different stakeholders on Sampo Group's operations. Further information on Sampo Group's relations with its stakeholders is available within the Code of Conduct at **www.sampo.com/codeofconduct**.

Parent company's oversight and activities

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 and its risk management strategy, which 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 clients;
- Ensure the overall efficiency, security and continuity of operations;
- Limit M&A transactions to bolt-ons in non-life insurance;
- Dispose non-strategic or otherwise unnecessary balance sheet items and distribute the released capital and reserves to the parent company as appropriate;
- 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; 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.

Sampo reviews quarterly the performance of Sampo Group both on a company level and on the Group level based on the reporting provided by the subsidiaries. Reporting on the subsidiaries' performance to the Board of Directors and Audit Committee ("AC") of Sampo is based mainly on the reporting produced by the subsidiaries. The reporting concentrates on the balance between risks, capitalisation, and profitability. The parent company is responsible for reporting on its own activities. Reporting from Topdanmark is not as detailed as reporting from other subsidiaries.

At the Group level, the central focus areas are potential concentrations arising from the Group companies' operations as well as the Group's capitalisation and the parent company's ability to generate liquidity. The parent company is also projecting and analysing the Group companies' profitability, risks, and capitalisation with uniform scenarios to have company specific forecasts that are additive at the Group level.

In addition, Sampo Group prepares annually or more often if needed an Own Risk and Solvency Assessment document ("Group ORSA"). The Group ORSA report has virtually the same structure and contents as quarterly Audit Committee reporting.

Based on both the company and the Group level information, the Board of Directors of Sampo decides on the Group's balance sheet targets and the parent company's liquidity reserve. The underlying objective for Sampo is to operate a resilient but efficient balance sheet.

Subsidiaries' activities and risk management

Subsidiaries organise their business activities to implement strategic decisions made by Sampo. They make decisions on specific risk-taking policies, capitalisation, risk limits and the delegation of authorisations considering the specific characteristics of their own operations, within the framework provided by approved Sampo Guidelines or otherwise binding decisions by Sampo's Board of Directors. The stakeholders' expectations and external regulations also have a direct effect on the subsidiaries' activities. Companies will in particular:

- Control risks subject to capital requirements 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 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 life and non-life insurance products and supervise their implementation;
- Make decisions regarding the principles on reinsurance coverage of life and non-life insurance policies and supervise their implementation; and
- Ensure that all critical processes - client services, internal processes, and external reporting - have clear ownership that include responsibility to maintain high quality of these processes. Especially information and communication technology (ICT) assets, services and systems, information assets and security as well as the resiliency of operations are areas of focus.

The executive management of the subsidiaries have extensive experience in the insurance industry as well as in financial and risk management. The members of different committees and governing bodies represent expertise related to business and other functions. The subsidiaries' operations are monitored by the different governing bodies and ultimately by the Boards of Directors whose members are mainly in senior management positions in Sampo or in Sampo Group companies.

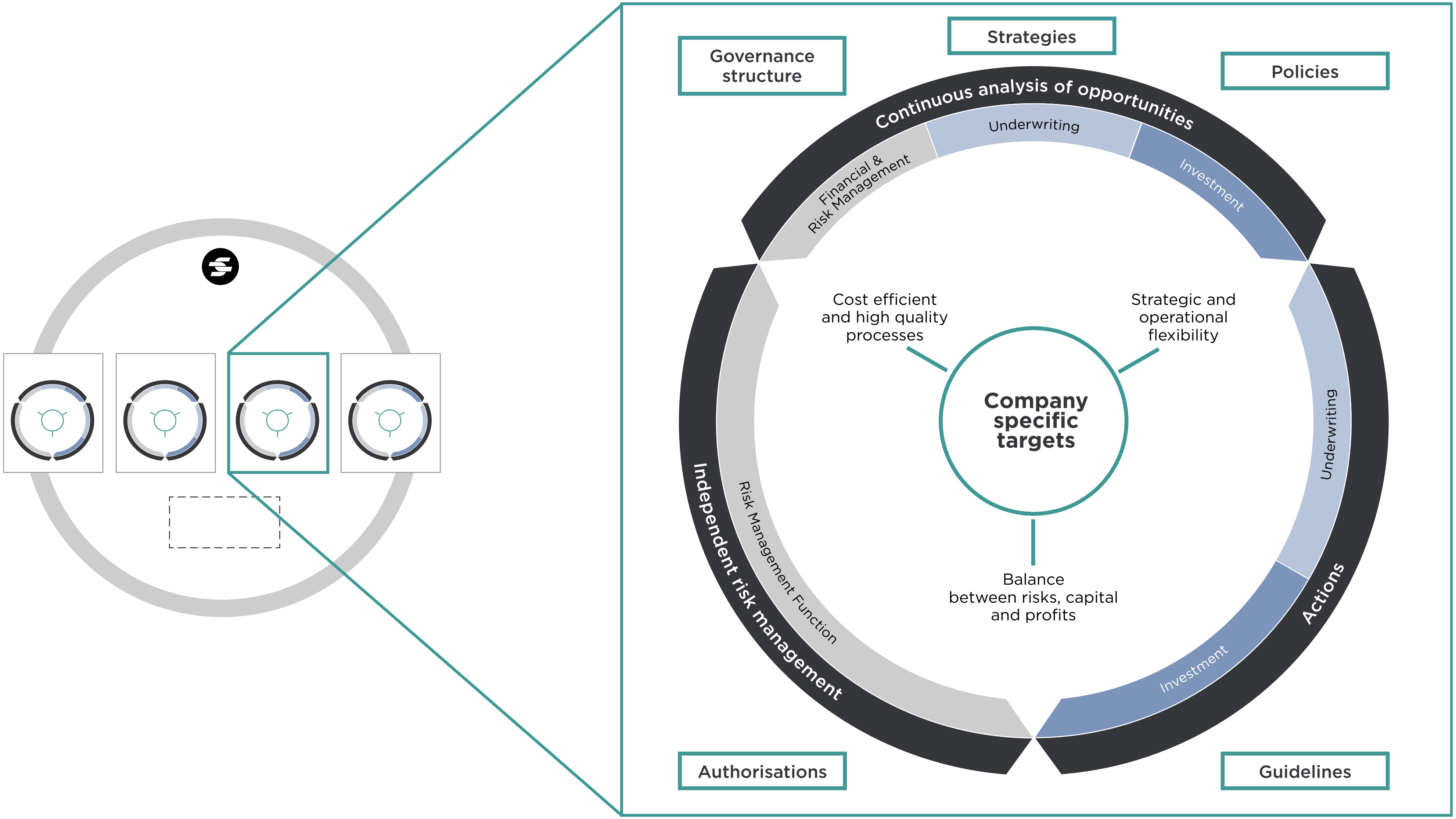
Since only the main guidelines are prepared by the parent company, the subsidiaries' management have the power and responsibility to incorporate the specific characteristics of their own operations into the company specific policies, limits, authorisations, and guidelines.

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, 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 and capitalisation on the sub-group and company-level.

Risk management consists of these continuous activities that are the responsibility of the personnel involved in business activities and being supported and controlled by independent risk management specialists. Parties independent of business activities provide complementary expertise, support, monitoring, and challenge related to the management of risk. This includes the development, implementation, and continuous improvement of risk management practices at a process, system, and entity level. Although the responsibilities of business lines and independent risk management are clearly segregated in Sampo Group, these functions are in continuous dialogue with each other. Sampo Group has defined the roles and responsibilities of different internal stakeholders in the Internal Control Policy, which applies on a Group-wide basis.

The graph Company level financial and risk management process illustrates the prerequisites, the tasks together with the responsible functions and the targets of company level risk management.

Company level financial and risk management process



The central prerequisites for facilitating successful risk management include the following:

- Risk management governance structure and authorisations (see **Risk Governance section**) and clear division of responsibilities between business lines and independent functions
- Companies' own risk policies and more detailed instructions related to risk management
- Prudent valuation, risk measurement and reporting procedures.

Key elements in the risk management system include:

Independent risk management functions

Financial and risk management functions are explicitly responsible for assuring the above prerequisites for risk management. Operationally they are responsible for independent measurement and control, including the monitoring of operations in general as well as profitability, risk and capitalisation calculations.

The following items are examples of their specific reporting responsibilities:

- Detailed reporting on risks to the subsidiaries' and Sampo's Risk Committees and the Boards of Directors
- Internal reporting on Capital needs and actual available Capital
- Internal reporting on regulatory and rating agency capital charges and capital positions
- Disclosure of regulatory capitalisation figures quarterly.

Continuous analysis of opportunities and risks

Both the business lines and the financial and risk management functions are active in supporting the business with continuous analysis and assessment of opportunities. The insurance and investment business units assess business opportunities, especially their risk return profiles, daily. In the financial and risk management functions, on the other hand, a considerable amount of time is spent on risk analysis and reporting as well as capital planning. This assessment of opportunities generates, for example, the following outputs:

- Identification of business opportunities (e.g., product and service development and investment opportunities) and analysis of respective earnings potential and capital consumption
- Intra-group and external dividend plans
- Hybrid and senior debt issuance initiatives.

Actions

Actions, i.e., transactions representing the actual insurance and investment operations, are performed in accordance with the given authorisations, risk policies and other instructions. These actions are the responsibility of business and investment functions. Activities related to capitalisation and liquidity positions are included in this part of the process. In Sampo Group, proactive actions to manage profitability, risks and capital are the most important phase in the risk and capital management process. Hence, risk policies, limits, and decision-making authorisations, together with profitability targets, are set up in a way that they facilitate business and investment units to take carefully considered risks. Examples of the actions are as follows:

- Pricing of insurance policies and execution of investment asset transactions
- Dividend payments, share buy-backs, hybrid issuances and senior debt issuances
- Derivative and reinsurance transactions
- Business acquisitions and divestments.

High quality execution of the above tasks contributes to the achievement of the key objectives of risk management:

Balance between risks, capital, and earnings

- The risks affecting profitability as well as other material risks are identified, assessed, and analysed.
- Capitalisation is adequate in terms of risks inherent in business activities and strategic risks, considering the expected profitability of the businesses.
- Risk-bearing capacity is allocated to different business areas in accordance with the strategy.
- Underwriting risks are priced to reflect their inherent risk levels, expected returns from investment activities are in balance with their risks, and consequential risks are mitigated sufficiently.

Cost efficient and high-quality processes

- Client service processes and internal operational processes are cost efficient and of high quality.
- Decision-making is based on accurate, adequate, and timely risk-based information.
- Continuity of operations is ensured and in the case of a discontinuity event, recovery is fast and comprehensive.

Strategic and operational flexibility

- External risk drivers and potential business risks are identified and assessed, and the company is in a good position in terms of capital structure and management skills to react to changes in the business environment.
- Corporate structure, knowledge and processes in the companies facilitate effective implementation of changes.

When the above targets are met, risk management contributes positively to return on equity and mitigates the yearly fluctuations in profitability. Risk management is therefore considered to be one of the contributors in creating value for the shareholders of Sampo.

Risk governance

This section describes the governance framework of Sampo Group and its subsidiaries from a risk management perspective. A more detailed description of Sampo Group's corporate governance and internal control system is included in the **Corporate Governance Statement** available at **www.sampo.com/year2021**.

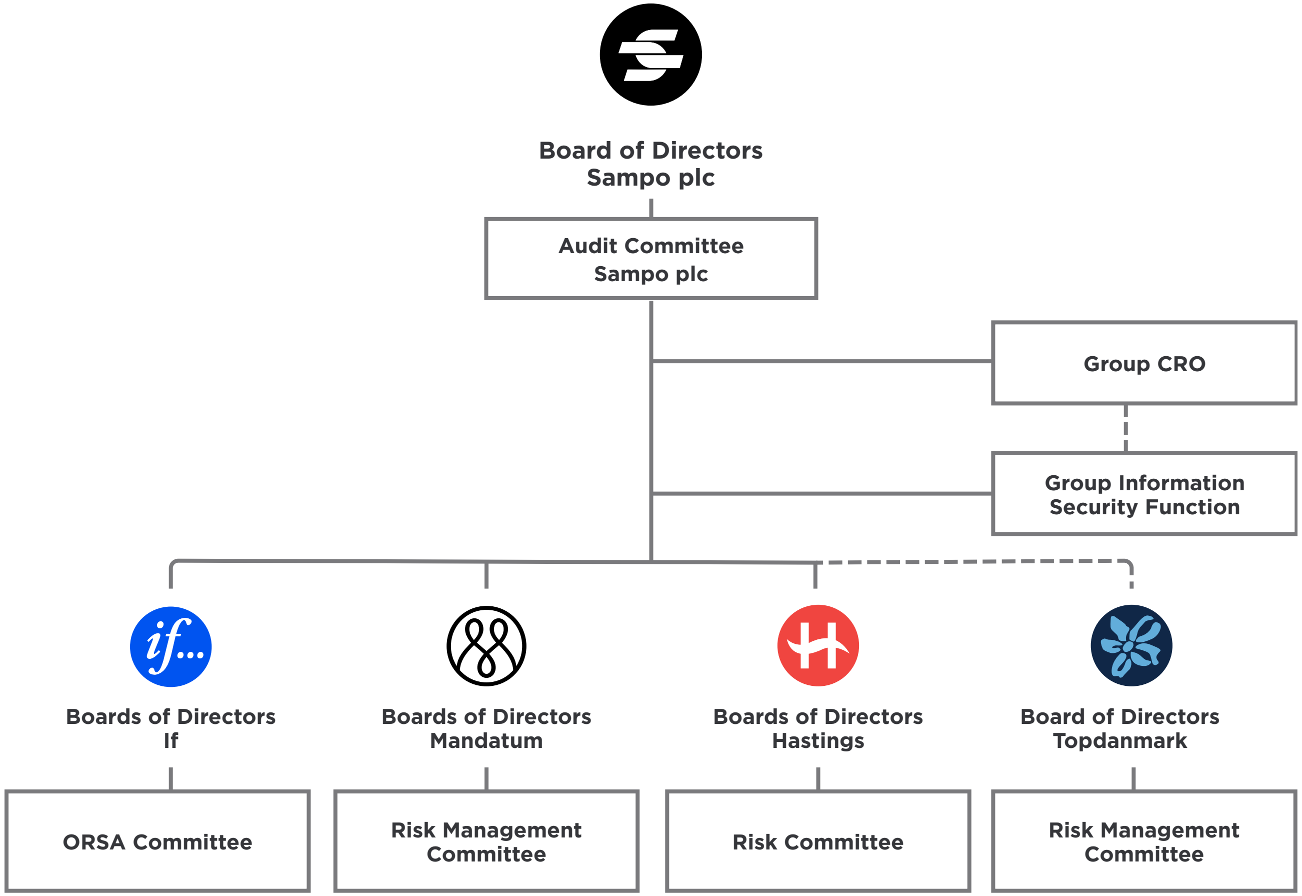
Risk governance at the Group level

The Board of Directors of Sampo is responsible for ensuring that the Group's risks are properly managed and controlled. The Board of Directors of Sampo defines financial targets for the Group and for the wholly owned subsidiaries and approves the Group level principles which steer the subsidiaries' activities. The risk exposures and capitalisation reports of the subsidiaries are consolidated at the Group level on a quarterly basis and reported to the Board and to the Audit Committee of Sampo.

The reporting lines of different governing bodies at the Group level are described in the graph Risk governance in Sampo Group.

The Audit Committee is responsible, on behalf of the Board of Directors, for the preparation of Sampo Group's risk management principles and other related guidelines. The AC shall ensure that the operations follow these guidelines, control Sampo Group's risks and risk concentrations as well as control the quality and scope of risk

Risk management organisation and reporting structure
Sampo Group, 31 December 2021



management in the Group companies. The committee shall also monitor the implementation of risk policies, capitalisation and the development of risks and profit. At least three members of the AC must be elected from members of the Board who do not hold management positions in Sampo Group and are independent of the company. The AC meets on a quarterly basis.

The Group Chief Risk Officer ("CRO") is responsible for assuring the appropriateness of risk management at the Group level. The CRO's responsibility is to monitor Sampo Group's aggregated risk exposures and control and monitor company specific and the Group level risk management. Sampo plc's Risk Management Function is organised under the CRO and also the Group Information Security Function has an indirect reporting line to the CRO. Both of these functions report directly to the Sampo Board of Directors and the Audit Committee.

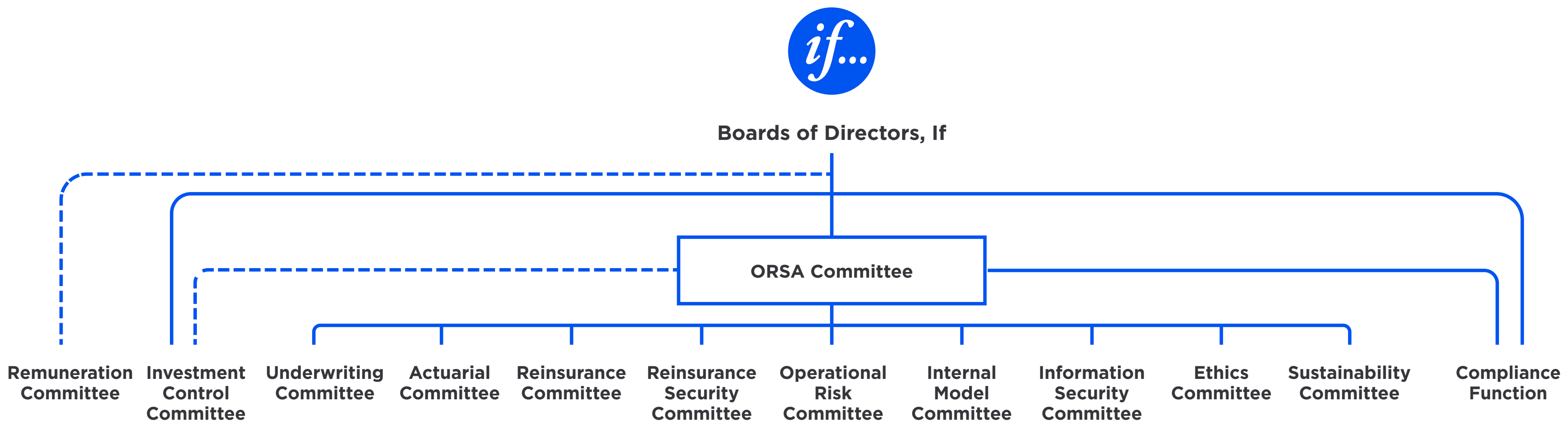
The Boards of Directors of If, Hasting, Topdanmark and Mandatum Life are the ultimate decision-making bodies and have the overall responsibility for the risk management processes in the companies respectively. The Boards of Directors of the Group companies appoint the relevant risk committees and are responsible for identifying any need to change the policies, principles and instructions related to risk management.

Risk governance in If

The main risk steering mechanism used by the Boards of Directors is the policy framework. As part of their responsibilities, the Boards of Directors approve the Risk Management Policy and the other risk steering documents, and receive risk reports from the Chief Risk Officer, the Chief Compliance Officer and the Chief Executive Officers ("CEOs"). Furthermore, the Boards of Directors take an active part in the forward-looking own risk and solvency assessment process, ensure that the management and follow-up of risks are satisfactory and effective, and ensure that the organisation and management of If's operations are characterised by sound internal controls. The reporting lines of different governing bodies in If are described in the graph Risk Governance in If.

The Own Risk and Solvency Assessment Committee ("ORSA Committee") assists the CEOs of If in fulfilling their responsibilities to oversee the risk management processes. The ORSA Committee monitors that If's material risks are assessed, managed, and reported in a satisfactory way. The ORSA Committee reviews reporting from If's

Risk governance in If



other committees within the Risk Management System as well as reporting from the line organisation. Furthermore, the ORSA Committee monitors that If's short-term and long-term aggregated risk profile is aligned with the risk strategy and capital adequacy requirements. The Risk Management function is responsible for coordinating the risk management activities on behalf of the Boards of Directors and the CEOs.

The responsibility to identify, assess, measure, manage and monitor risks lies within the line organisation. There are also separate Committees in place for key risk areas. These Committees have the responsibility to monitor that risks are managed and controlled as decided by the Boards of Directors. The risk committees in If do not have a decision-making mandate.

There are policies in place for each risk area which specify restrictions and limits chosen to reflect and ensure that the risk level follows the overall risk appetite and capital adequacy constraints of If. The committees also monitor the effectiveness of policies and give input to changes and updates, if needed.

In addition to the risk specific committees, there are four other committees included in the Risk Governance structure. Their responsibilities are described as follows:

- The Ethics Committee coordinates and discusses ethical issues in If. The Committee gives recommendations on ethical issues and proposes changes to the Ethics Policy. The Chairman is responsible for the reporting of identified risks related to ethics issues brought to the Committee.
- The tasks of the Internal Model Committee are to identify sources for potential model changes and to give its opinion to the Chairman on the assessment and classification of potential changes, further validation activities or internal model developments. The Committee discusses and prioritises actions to be taken based on the validation findings and gives input to subsequent validation. In addition, the Committee monitors the use of the internal model and development activities.
- The tasks of the Remuneration Committee are to support and provide advice in the oversight and design of the Remuneration Policy. The Committee also supports HR in the preparation of remuneration proposals to the Boards of Directors by supervising the compliance with the governance processes set out in the Remuneration Policy.
- The Sustainability Committee provides advice on sustainability related matters and on integration of sustainability into operations. The Committee also maintains documentation of the ongoing and planned activities to meet the sustainability objectives and review progress on key performance indicators.

The Compliance function forms part of the Risk Governance in If. The Compliance function reports identified compliance risks to the ORSA Committee and to the Boards of Directors on a quarterly basis.

Risk governance in Topdanmark

Topdanmark's policy is to hedge against risks arising from the Company's activities or to limit such risks to a level that allows the Company to maintain normal operations and implement its planned measures even in the case of highly unfavourable events in the operating environment. Because of this policy, for several years, the Company has identified and reduced or eliminated the risks which could potentially cause losses exceeding what Topdanmark considers to be acceptable.

The Board of Directors determines the overall risk policies and limits. The internal auditors report to the Board of Directors and report on, among other things, the observance of these risk policies and limits.

The responsibility to identify, evaluate, control, and manage risks lies within the line organisation. Topdanmark's Central Risk Management Function consolidates the risk picture, manages the ORSA and produces Solvency Capital Requirement and capital plans. It reports to the Risk Management Committee, which is responsible for risk policies, risk limits, solvency calculation, capital plans, Topdanmark's ORSA, and Topdanmark's partial, internal model for non-life insurance risks. The members of the Risk Management Committee are the CFO of the Group, the head of the Compliance Function, the head of and a member of the central Risk Management Function and representatives of the primary risk areas, which are: Asset Management, Statistical Services, Finance and Life Actuarial Services.

The Risk Management Committee reports and recommends to the Board of Directors via the Executive Board.

The Risk Management Committee has set up the Internal Model Committee, which is responsible for developing and operating Topdanmark's internal model for calculation of results probabilities and risks of the non-life insurance portfolio based on random simulation. The model is used for, among other things, optimising the reinsurance programme, calculation of cost of capital, forecast testing and calculating capital requirements.

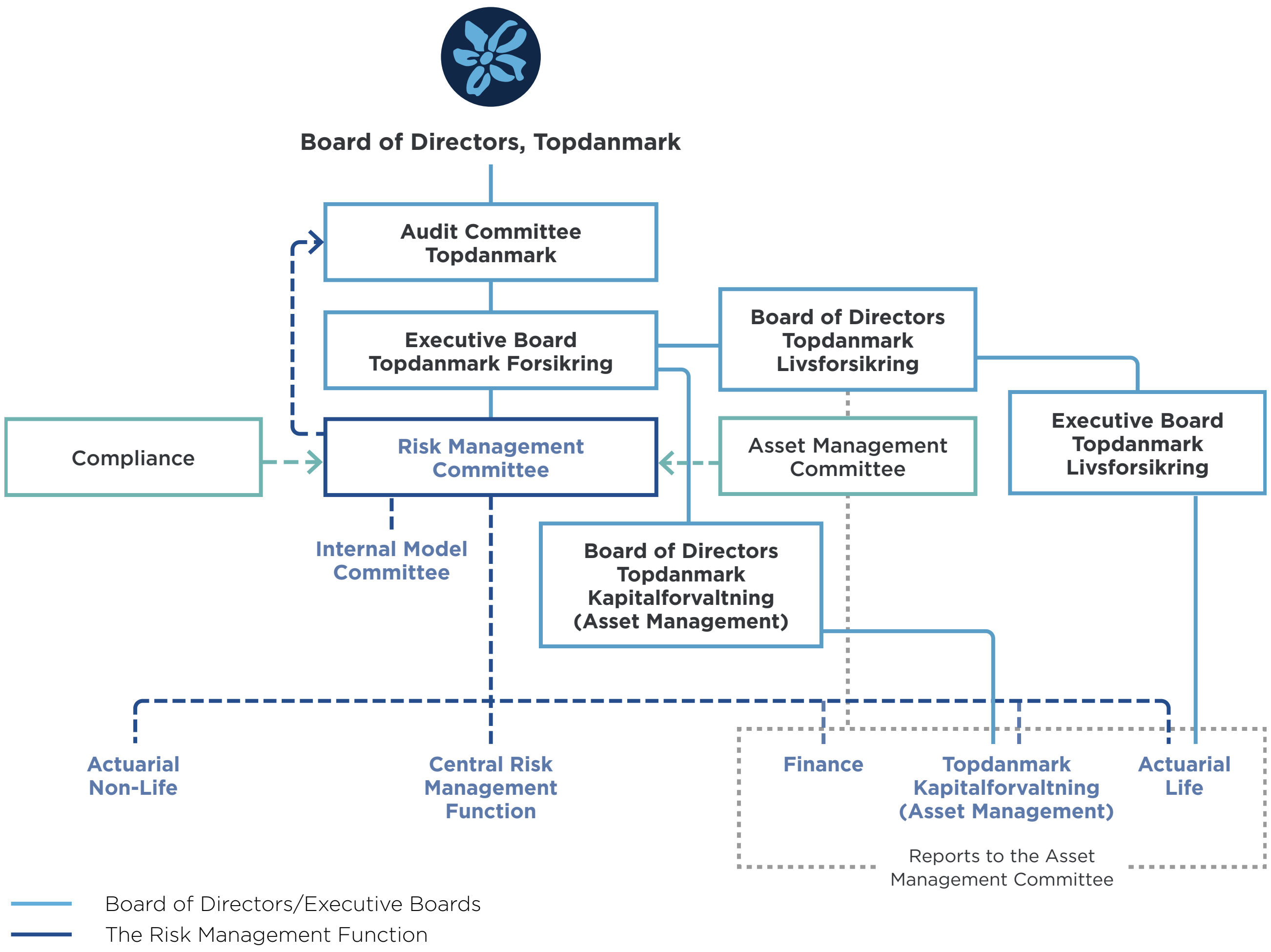
The reporting lines of the main governing bodies in Topdanmark are described in the graph Risk Governance in Topdanmark.

The risk management function implements an annual ORSA process identifying risks in the business, quantifying these risks and collecting them in a risk register. Additionally, the principles of solvency calculation are reviewed, and the risk management process is updated. An ORSA report has been prepared, which, together with the risk register and risk management process, was reviewed at a Board seminar in the autumn of 2021.

The Central Risk Management Function collects information about specific risks from the decentral risk management units, who are responsible for reporting the SCR for their respective areas ("Actuarial Non-Life", "Actuarial Life", "Asset Management" and "Finance"). Based on this, the total SCR is calculated in the Central Risk Management Function.

Likewise, three "Economy Partners" act as risk ambassadors representing the divisions Private, Commercial and Life. One of their tasks, the divisions themselves still having the main responsibility, is to report to the Central Risk Management function all substantially changed risk conditions for the divisions.

Risk governance in Topdanmark



Risk governance in Hastings

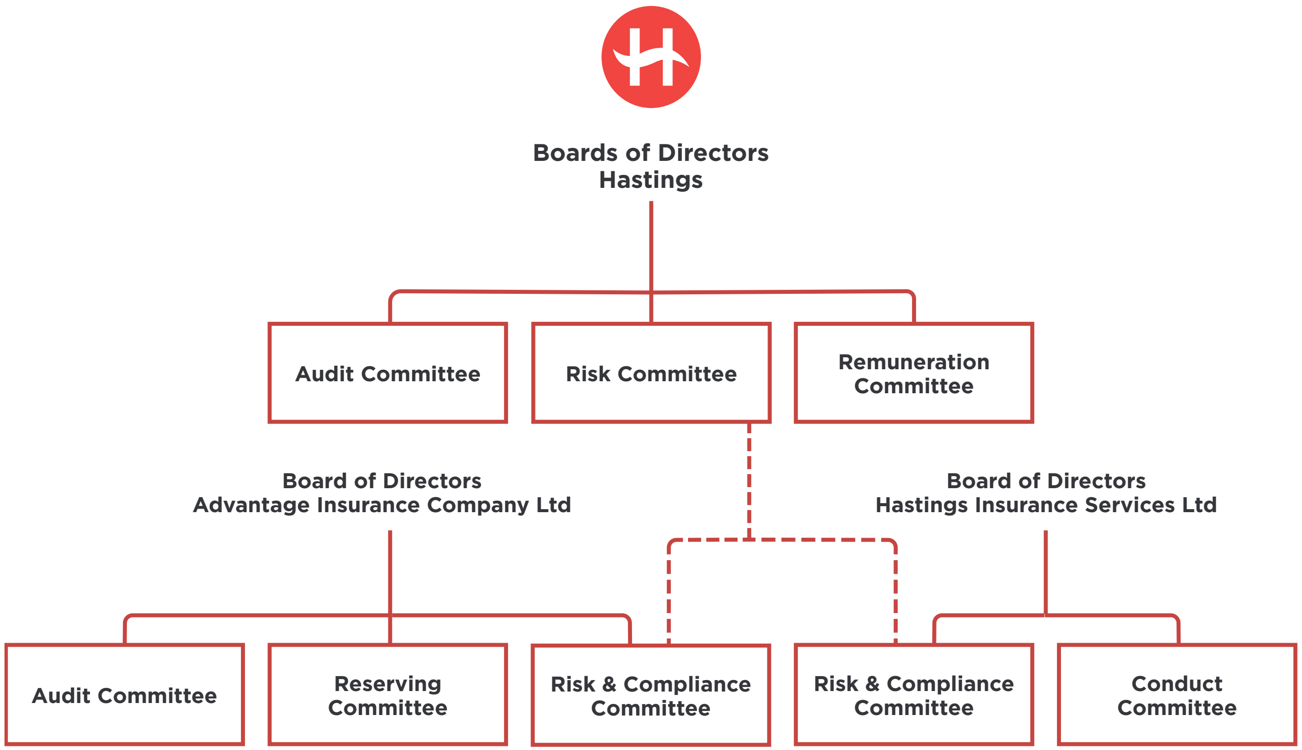
The Boards of Directors of Hastings' companies have ultimate responsibility for the respective company's Risk Management Frameworks and delegate the oversight of this to the relevant Risk Committees. Each Risk Committee is a formal sub-committee of its respective Board, with its own terms of reference.

The principal purpose of each Risk Committee is to advise the Board on risk management matters, approve risk limits and risk appetite, and oversee the risk management arrangements generally. The Committees seek to ensure that material risks are identified and that appropriate arrangements are in place to identify, measure, manage, monitor, and report those risks effectively.

Both Hastings Insurance Services Ltd ("HISL") and Advantage Insurance Company Ltd ("AICL") have their own risk management governance arrangements to ensure all risks are reported to, and reviewed by, the appropriate management oversight forum and ultimately, the respective Board risk committee.

The governance structure, combined with embedded controls, processes and reporting protocols, enables senior management to conduct the affairs of each trading entity in line with the expectations of the respective Boards. This seeks to ensure that trading entities adhere to approved strategies and regulatory requirements.

Risk governance in Hastings



Strategic and business risks are reviewed and challenged by the risk committees of each respective trading entity. These committees receive timely, up to date, reports from oversight functions on the material movements in risk profiles, whether influenced by external or internal developments and audits or events, or by any material shift in business risk that is linked to the successful delivery of the three-year plan.

AICL and HISL have implemented, respectively, the enhanced requirements of the GFSC's Regulated Individuals Regimes (RIR) and the Financial Conduct Authority's Senior Managers and Certification Regime (SMCR). These regimes are designed to improve culture, governance, and accountability within financial services firms by enhancing individual accountability and awareness for senior managers.

Hastings has an internal control framework based on the three lines of defence model, being primary control and oversight, secondary control and oversight and independent assurance. The independent assurance includes testing on aspects of how the business is managed and is undertaken by the internal audit function. The internal audit function is managed and resourced via a third-party relationship with Grant Thornton UK LLP.

The Compliance function within each of the trading entities provides regulatory risk oversight and monitors compliance with the various regulatory and legal obligations, including those of the UK's FCA and the GFSC. This monitoring, together with regular interaction with business functions, provides input into such areas as training, marketing, product development and the way in which the entities deal with customers.

The execution of a risk-based compliance monitoring plan and framework delivers independent assurance by monitoring and reporting on whether regulatory, adherence and customer conduct obligations are being met.

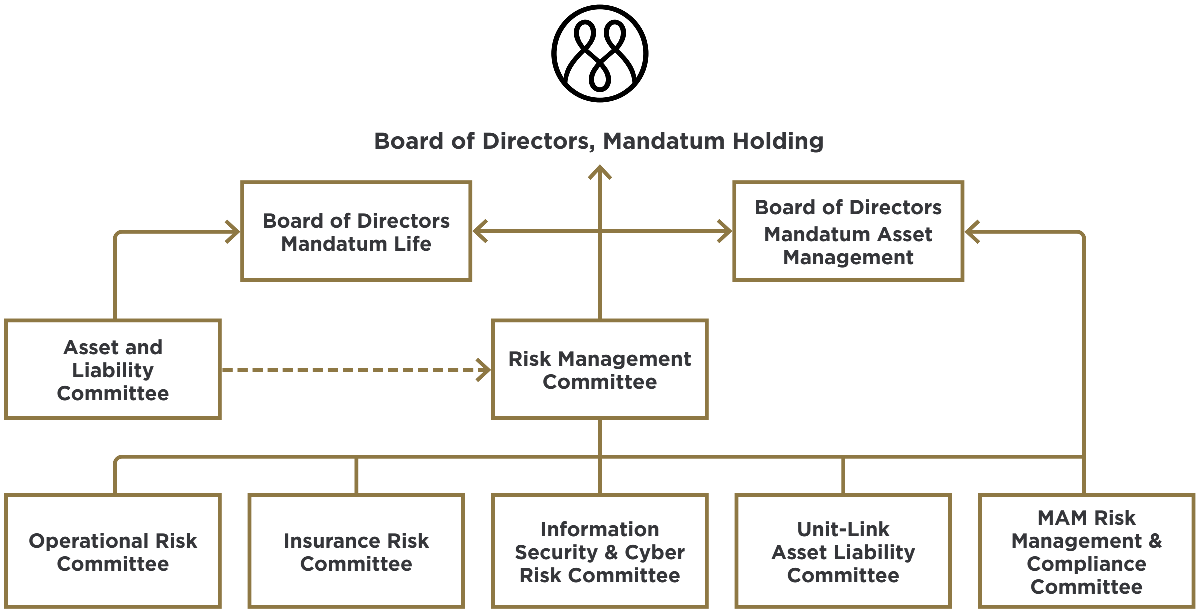
Risk governance in Mandatum

In Mandatum Group, the Boards of Directors of subsidiaries are responsible for risk management and the adequacy of internal control. The Boards of Directors of licenced companies annually approve the Risk Management Policy, and other risk management and internal control instructions.

The group CEO of Mandatum has the overall responsibility for risk management according to the Board of Directors' instructions. The group CEO is the Chairman of the Risk Management Committee which coordinates and monitors all risks in Mandatum Group. Majority of committees are group-wide, but some of them are specific to certain subsidiaries. For example, in Mandatum Life the key role of the Asset and Liability Committee ("ALCO") is to monitor and control the market risks arising from the with profit business in the life insurance company.

The reporting lines of the main governing bodies in Mandatum Group are described in the graph Risk Governance in Mandatum.

Risk governance in Mandatum



In addition to the specific committees, the Compliance Function takes care of compliance matters and the Head of the Unit is a member of the Risk Management Committee.

Internal Audit, through its audit recommendations, has a role to ensure that adequate internal controls are in place and it also provides an annual review to the Board of Directors.

Appendix 2: Risk definitions

Underwriting risks

In general, the book value of insurance liabilities (technical provisions) and economic value of insurance liabilities are dependent on the size and timing of future claims payments including expenses and the interest rates used to discount these claims payments to the current date.

The first component is a source of underwriting risk and the second component affects the interest rate risk to the balance sheet.

Underwriting risk can be generally defined as a change in the value of insurance liabilities caused by variance between the final costs for full contractual obligations and the assumed costs when these obligations were estimated. Hence, underwriting risk is realised as unexpected liability cash flows or unexpected change in the value of insurance liabilities when the pricing and provisioning assumptions on claims payments differ to the actual payments.

Technical provisions and the economic value of insurance liabilities always include a degree of uncertainty as they are based on estimates of the size, timing, and the frequency of future claim payments. The uncertainty is normally greater for new portfolios for which comprehensive run off statistics are not yet available, and for portfolios which include claims that take a long time to settle. Workers' compensation, Motor other and Motor third party liability, personal Accident and Liability insurance are examples of non-life products with the latter characteristics. In principle, most of the Life products have the latter characteristics embedded within them also. Life insurance policies are also exposed to the behaviour of policyholders because policyholders can change their premium payment intensity or cancel the existing policy.

Non-life insurance underwriting risks

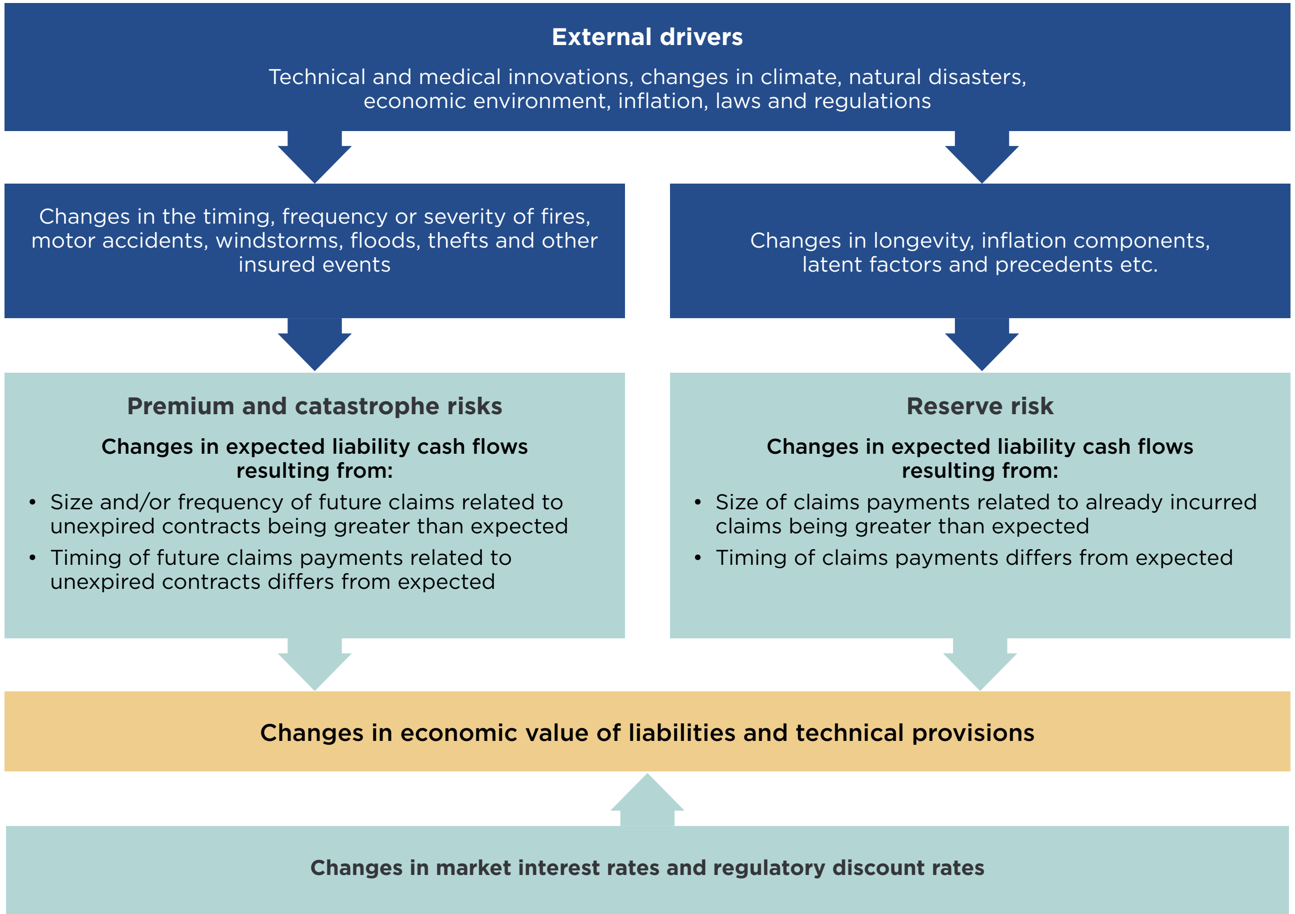
Non-life insurance underwriting risks are often divided into premium and catastrophe risks and reserve risk to separate the risks related to future claims of current insurance contracts from already incurred claims as illustrated in the graph Non-Life Insurance Underwriting Risks.

Premium risk and catastrophe risk

Premium risk relates to future claims resulting from expected insured events which have not occurred by 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 or adverse changes in the value of the 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 the actual claims and the total expected claims resulting into a loss or adverse changes in the value of insurance liabilities.

Non-life insurance underwriting risks



Reserve risk

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

Reserve risk includes revision risk, which is defined as the risk of loss, or of adverse change in the value of insurance and reinsurance liabilities, resulting from fluctuations in the level, trend, or volatility of revision rates applied to annuities, due to changes in the legal environment or in the state of health of the person insured.

Life insurance underwriting risks

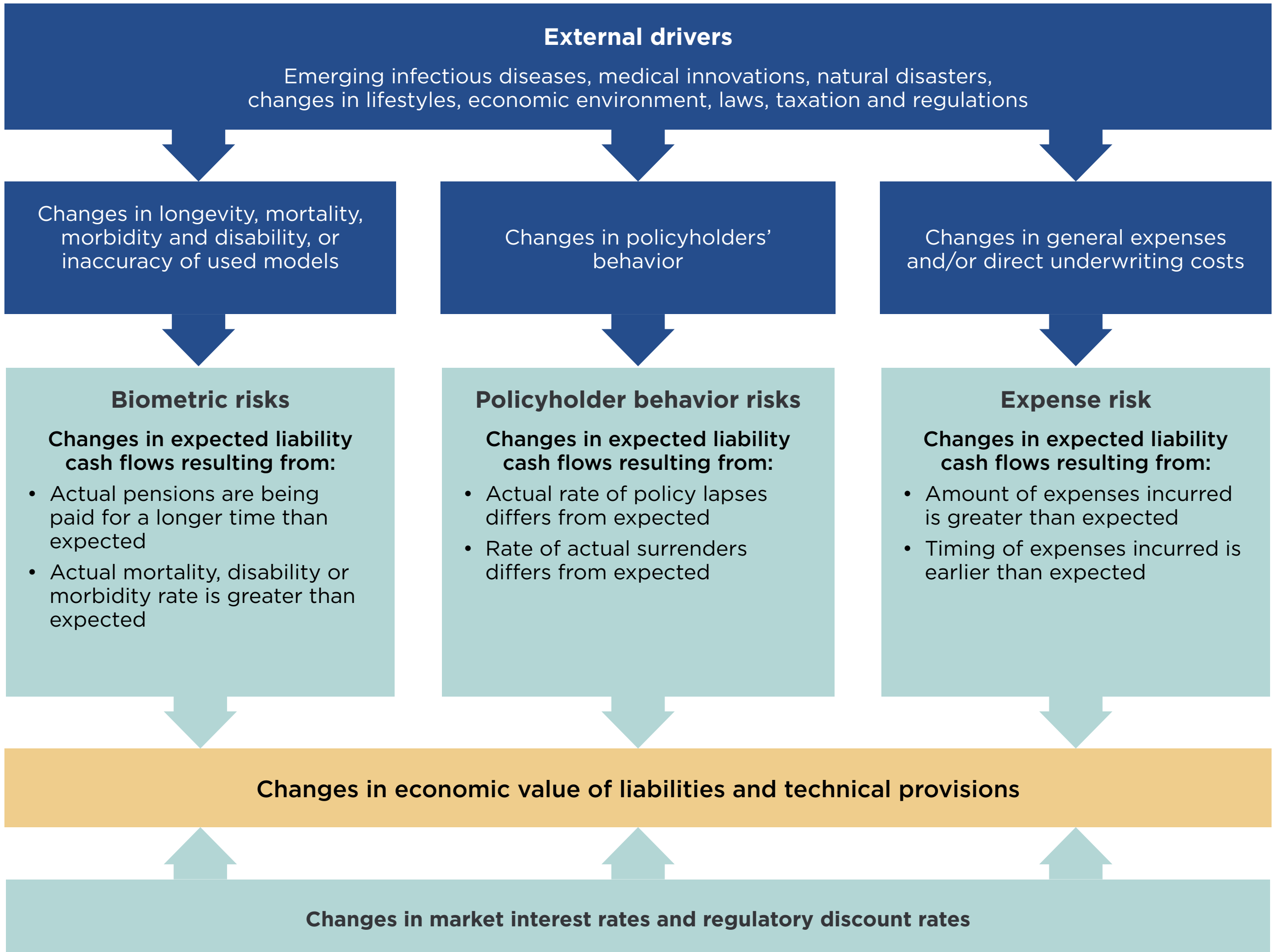
The value of life insurance liabilities is sensitive to underwriting risks and interest rates. Underwriting risk includes biometric, policyholder behaviour and expense risks as presented in the graph Life Insurance Underwriting Risks.

Biometric risks

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 pension policy holders for a longer period (longevity risk) than expected originally when pricing the policy.

In life insurance, catastrophe events include – as in non-life insurance – rare single events or a series of events, usually over a short period of time and, albeit even less frequently, longer lasting events. When a low frequency, high severity event or series of single events lead to a significant deviation in actual benefits and payments from the total expected payments, an extreme case of biometric risk (i.e. a catastrophe risk) has been realised.

Life insurance underwriting risks



Policyholder behaviour and expense risks

Policyholder behaviour risks arise from the uncertainty related to the behaviour of policyholders. The policyholders have the right to cease paying premiums (lapse risk) and may have a possibility to withdraw their policies (surrender risk).

The company is also exposed to expense risk, which arises from the fact that the timing and/or the amount of expenses incurred differs from those expected at the time of pricing. As a result, expense charges originally assumed may not be enough to cover the realised expenses.

Discount rate risk in technical provisions

Discount rate risk in technical provisions is the main risk affecting the adequacy of technical provisions. The guaranteed interest rate in policies is fixed for the whole policy period. Thus, if market interest rates and expected investment returns fall, technical provisions may have to be supplemented.

Market risks

In general, 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 also include the risk of worsening market liquidity in terms of widening bid-ask spreads and the risk of unexpected changes in the repayment schedules of assets. In both cases the market values of financial instruments in investment portfolios may change.

The risks caused by changes in interest rates, foreign exchange rates and inflation together with a general trend of credit spreads and equity prices are defined as general market risks and are managed by allocation limits and other risk limits. Interest rate, inflation and currency risks are balance sheet level market risks whereas trend in spreads and equity prices relate to a larger extent to assets.

The risk related to debt and equity instruments issued by a specific issuer can be defined as issuer specific market risk that is managed by issuer specific limits.

Equity and spread risks

Sampo Group is exposed to price risk dependent on changes in equity prices and spreads arising from its fixed income and equity investments, as illustrated by the graph Equity and spread risks. Equity price and spread movements are affected by general market trends and by risk factors that are related specifically to a certain issuer or a specific issue.

Equity and spread risks

External drivers

Economic, social and financial market conditions, laws, taxation and regulations, technical development and innovations

- Changes in issuer's financial position and future prospects
- Changes in market expectation on issuer's financial future
- Volatility of markets in general

- Changes in issuer's financial position and future prospects
- Changes in market expectation on issuer's probability of default or issuer's loss given default
- Volatility of markets in general
- Terms of debt instruments and related collaterals

Equity risk

Fair value changes and credit losses resulting from:

- Increasing risk premiums and respective negative changes in valuations are decreasing the fair value of long positions in equity instruments
- Decreasing risk premiums and respective positive changes in valuations are decreasing the fair value of short positions in equity instruments

Spread risk

Fair value changes and credit losses resulting from:

- Widening credit spreads are decreasing the value of long positions in debt instruments
- Tightening credit spreads are decreasing the value of short positions in debt instruments
- Value of collateral differs from expected
- Ultimately borrower is not able to meet its financial obligations when they fall due

Negative impact on financial results

Balance sheet level market risks or ALM risks

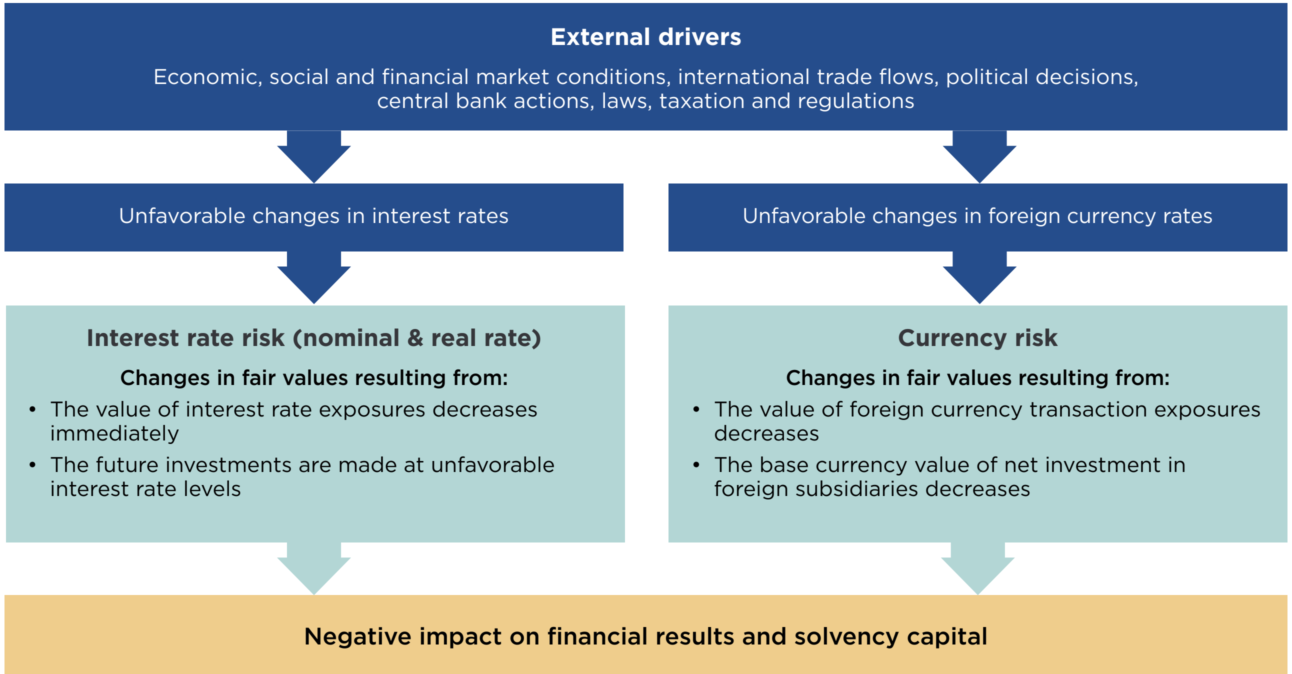
When changes in different market risk variables (interest rates, inflation, foreign exchange rates) cause a change in the fair values of investment assets and derivatives that is of a different size than the respective change in the economic value of the insurance liabilities, the company is exposed to ALM risk. It must be noted that the cash flows of insurance liabilities are modelled estimates and are therefore uncertain in relation to both their timing and amount. This uncertainty is a central component of ALM risk.

Interest rate and currency risks

Many external drivers are affecting interest rates, inflation expectations and foreign exchange rates as illustrated by the graph Interest rate and currency risks.

Currency risk can be divided into transaction and translation risk. Transaction risk refers to currency risk arising from contractual cash flows in foreign currencies which are related to insurance activities, investment operations and foreign exchange transactions. Translation risk refers to currency risk that may realise when balance sheet values or measures such as SCRs expressed in base currency are converted into other currencies.

Interest rate and currency risks



Liquidity risks

Liquidity risk is the risk that the Group companies are, due to a lack of available liquid funds 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.

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, buy reinsurance cover or enter financial derivatives at a reasonable price is endangered. Moreover, policyholders may also not be willing to renew their policies because of the company's financial challenges or in the case of reputational issues. If these risks, caused by internal reasons, are realised together with general market turmoil, which makes the selling of investment assets and the refinancing of debt difficult, maintaining adequate liquidity can be a challenge.

Liquidity risks

External drivers

Economic, social and financial market conditions, laws, taxation and regulations, market turbulences, natural disasters and other catastrophic events

- Policyholders' behavior in general
- Changes in creditworthiness and reputation of the company
- Periodic concentration of large claims and simultaneous reinsurers' insolvency
- Liability structure of the company

- Investors' behavior in general
- Market liquidity in general
- Changes in creditworthiness and funding needs of the company
- Investment portfolio structure of the company

- Reinsurers' behavior in general
- Derivative counterparties' behavior in general
- Changes in creditworthiness of the company
- Liability structure of the company

Liquidity risk – Insurance liabilities

- Renewal rate of insurance policies is lower than expected
- Claim payments over short-term are clearly higher than expected

Liquidity risk – Investment assets and funding

- Financing is not available at reasonable terms or at all
- Investment assets cannot be sold at reasonable prices or at all

Liquidity risk – Derivatives and reinsurance

- Reinsurance is not available at reasonable terms or at all
- Financial derivatives are not available at reasonable terms or at all

Inability to enter into transactions at reasonable terms or settle financial obligations endangers the ability to manage liquidity positions, risk exposures and capital structure according to strategy

Counterparty default risks

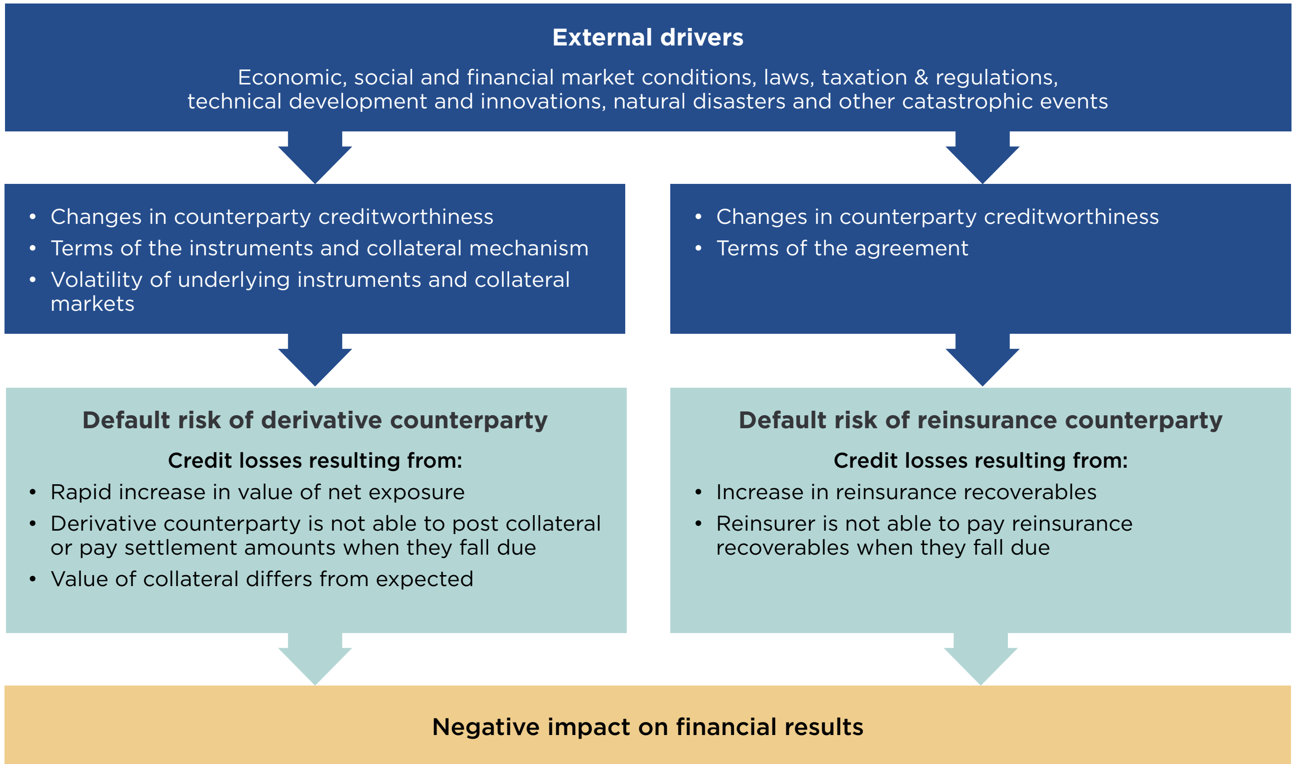
Credit risk comprises default, spread and settlement risks. Default risk refers to losses arising from occurred defaults of contractual counterparties (counterparty risk) or debtors (issuer risk).

Counterparty Default Risk ("Counterparty Risk") is one type of consequential risk, which Sampo Group is exposed to through its activities. In the 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 and on the recovery rate which is affected by collaterals.

In the 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 the recovery rate.

Spread risk refers to losses resulting from changes in the credit spreads of debt instruments and credit derivatives. Credit spreads are affected when the market's estimation of the probability of defaults is changing. Credit spread is the market price of default risk which is priced into the market value of the debt instrument. Hence the debt instrument's value should fall before the event of default occurs. Because of these features, spread risk, including also the default risk of debt instruments, is categorised in Sampo Group under investment portfolio market risks.

Counterparty default risks



Settlement risk is realised when one party fails to deliver the terms of a contract after the other party has already delivered its part. Settlement risks are effectively mitigated by using centralised settlement and clearing systems by Sampo Group companies.

Operational risks

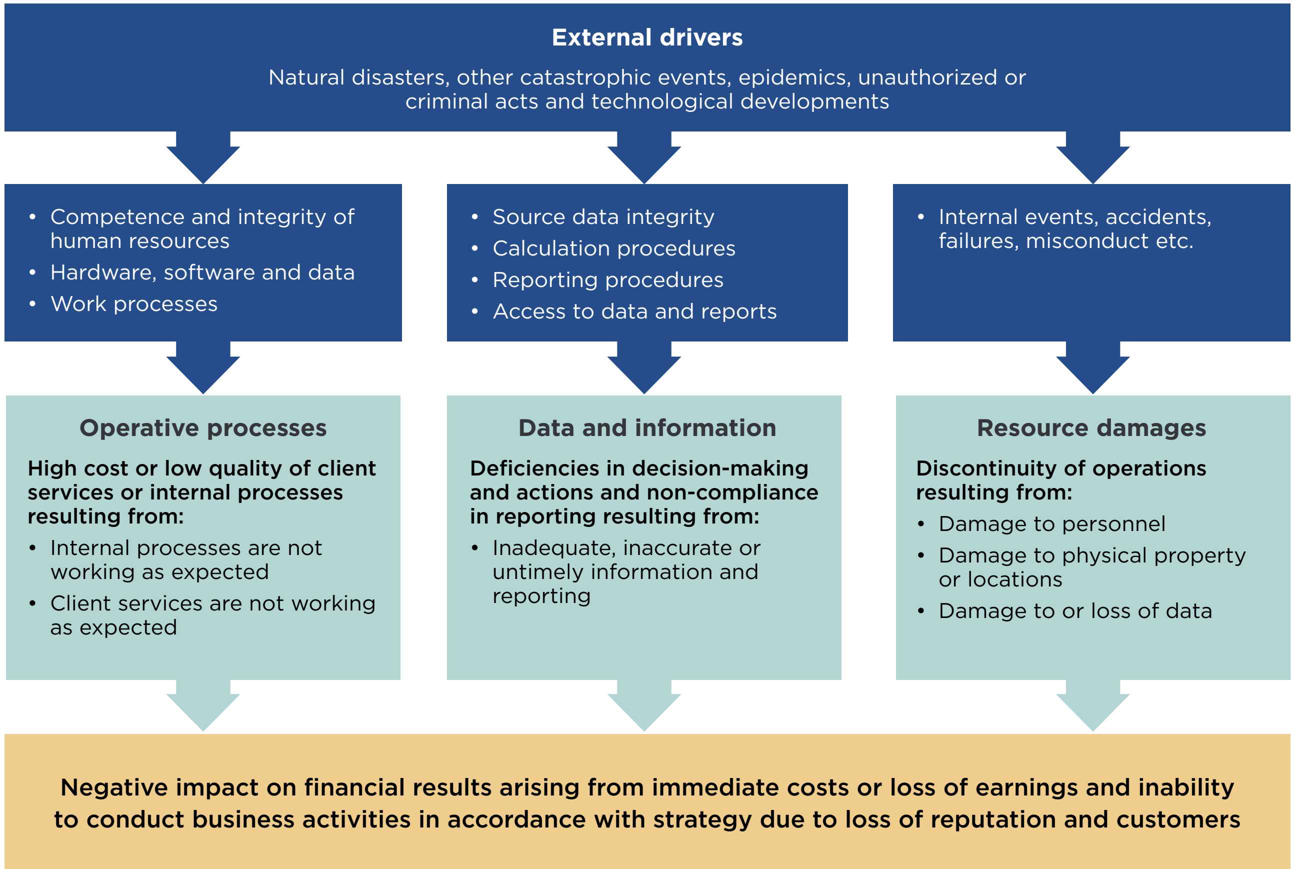
Operational risk refers to the risk of loss resulting from inadequate or failed processes or systems, from personnel or from external events. This definition includes compliance risk but excludes risks resulting from strategic decisions. The risks may realise for instance because of:

- Internal misconduct;
- External misconduct;
- Insufficient human resources management;
- Insufficiencies in operating policies regarding customers, products or business activities;
- Damage to physical property;
- Interruption of activities and system failures; or
- Defects in the operating process.

Materialised operational risks can cause an immediate negative impact on the financial results due to additional costs or loss of earnings. In the longer term, materialised operational risks can lead to a loss of reputation and, eventually, a 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 as applicable to its activities. Compliance risk is usually the consequence of internal misconduct and hence it can be seen as a part of operational risk.

Operational risks



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 existence 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 inter-connected, the customer preferences and demand can change unpredictably and there may be a need to change regulations as well. The themes of sustainable business practices in general and especially the issues related to environment, society, and governance, are changing the preferences and values of Sampo Group companies' stakeholders and, as a result, competitive environment is also changing in different ways. 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. The key corporate responsibility related risk drivers for Sampo Group are described in more detail in section **Sampo Group's Risks and Core Risk Management Activities** of this report.

Business risks

Examples of external drivers

Changes in physical environment (e.g. climate change), preferences, economic or social conditions, taxation and regulations; technical innovations, availability of data

Exogenous factors

- Clients' preferences in general and/or demand for company's products changes
- New or existing competitors are able to outperform company by better and/or cheaper products
- Increasing or changing regulations from public sector

Endogenous factors

- Company's inability to identify the changes in competitive landscape
- Company's unwillingness to act according to identified changes
- Company's inability to adjust to changes due to inflexible structures

- Volumes and/or margins of company's products decrease suddenly or gradually
- Capital requirements and/or costs increase due to regulatory changes

- Volumes and/or margins of company's products decrease
- Costs increase
- Loss of talent
- Loss of focus and organisational coherence

Negative impact on financial results, capitalisation and long-term profitability
Loss of clients and business

Due to the predominantly external nature of the drivers of – 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 the regulatory capital charge, although they may be a material source of earnings volatility. Because of this, business risk may influence the amount and structure of actual capital base, if deemed prudent in existing business environment.

Appendix 3: Selected management principles

These principles are followed as such in the subsidiaries although there may be small differences in the principles followed in Topdanmark.

Principles of balance sheet management (ALM)

Risk factors that are affecting both sides of balance sheet contribute considerably to economic values of insurance liabilities, market value of assets, risks, and capital need. According to Sampo's definitions ALM risks include in addition to interest rate, inflation, and FX risks also liquidity risk and behavioural risks affecting maturities of insurance policies and some asset classes. Risk definitions related to ALM risks may be found in **Appendix 2 Risk Definitions**.

ALM risk profiles are thoroughly analysed and considered for instance when investment policies are designed, insurance products are developed, and internal capitalisation targets are set.

In Sampo Group companies, insurance liabilities are the starting point for the investment policy. Insurance liabilities are modelled and analysed to form an understanding of their expected future cash flows and their sensitivities to changes in factors such as inflation, interest rates and foreign exchange rates. Secondly, the solvency position together with its target levels and the risk appetite define the general capacity and willingness to take market and liquidity risks. The stronger the solvency position and the higher the risk appetite, the more the investment portfolio can potentially deviate from a portfolio replicating cash flows of insurance liabilities. Sampo Group companies manage their investment portfolios within the limits set in Investment Policies as described in more detail at section Principles of Investment Portfolio Management.

In Sampo Group, operational liquidity risk is managed by the legal entities, which are responsible for liquidity planning and maintaining adequate liquidity buffers. Liquidity risk is monitored based on the expected cash flows resulting from assets, liabilities, and other business. In the subsidiaries, the adequacy of liquidity buffers is dependent on the underwriting cash flows. In the parent company, the adequacy of liquidity buffers is dependent also on potential strategic arrangements; nevertheless, strong liquidity and capacity to generate more liquidity if needed is generally preferred. 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.

Sampo Group companies maintain good business relationships with several creditworthy counterparties which also mitigate the risk that the Group is not able to enter reinsurance or derivative transactions when needed.

At the Group level Sampo plc monitors the ALM profiles of the companies and may adjust its own risk profile to mitigate the risks at the Group level.

Principles of investment portfolio management and control of investment activities

Investments (excluding investments covering unit-linked policies) are managed according to the subsidiaries' Investment Policies which are based on insurance liabilities and solvency as described in the previous section. In Sampo Group direct investments and managers of collective investment assets are carefully studied before entering new investments or making new commitments. This prudent person principle is reflected in many ways in companies' investment policies and specifically in requirements set for new kind of investments or any non-routine investments by their nature.

Sampo Group has a thorough understanding of the Nordic markets and issuers and consequently the Group's direct investments are mainly made in Nordic securities. Mandatum's direct investments are mainly denominated in the euro and in companies geographically located in Finland and selectively in other countries. If has a major part of its direct investments in the Nordic countries and denominated in their respective currencies. Hastings and Topdanmark on the other hand invest the bulk of their portfolios in their respective local markets and in assets denominated in their respective currencies. Consequently, investments gain from additional diversification benefits at the Group level.

Sampo Group prefers simple and matured instruments and transparency. Hence, most of Sampo Group's investments are in fixed income securities and listed equities which are tradable and subject to daily mark-to-market valuation. Moreover, Sampo Group has also some illiquid investments in these asset classes – loan instruments and private equity – for which market prices are not that frequently available, but whose fair values can change adversely when the financial strength or future prospects of the issuer deteriorates, or the value of collateral decreases. Sampo Group has tools in place to measure the risks of these instruments as well.

In financial accounting, the investment portfolios are reported on a fair value basis. These fair values are determined either based on direct market quotes or by using various valuation models. More information on the valuation methods of the investment assets is presented in **Note 16** Determination and Hierarchy of Fair Values (www.sampo.com/year2021) of Sampo Group's Financial Statements. Regarding Solvency II valuation methods, there are some minor differences compared to the IFRS standards. See **Appendix 4** Profitability, Risks and Capital for Solvency II Valuation Methods.

ESG in investment management and operations

ESG issues, including climate change, have an impact on the performance, risks, and value of all companies. Hence, the Sampo Group companies take these issues into account in investment analysis, decision-making, reporting, and engagement activities.

Investment opportunities are carefully analysed before any investments are made and ESG issues are considered along with other factors affecting the risk-return ratio of individual investments. Taking ESG issues into account is a part of the work profile of every person who is making investment decisions and analysing investment opportunities.

Sampo Group is a signatory of the UN Principles for Responsible Investment ("PRI") and the UN Global Compact. These principles are incorporated in investment management and operations. Depending on the asset class, different ESG strategies, such as ESG integration, norms-based screening, sector-based screening, and active ownership, are used to ensure the effective consideration and management of investment risks arising from ESG issues.

More detailed information on sustainable investment management and operations in Sampo Group is available in the Sampo Group Sustainability Report 2021 published in May 2022 (**www.sampo.com/year2021**).

Management of equity and spread risks of direct investments

In Sampo Group, the selection of direct fixed income and equity investments is based primarily on stock and bond picking and secondarily on top-down allocation. This investment style ensures that the portfolio includes thoroughly analysed investments with risk return ratios internally considered to be adequate, although the portfolio might not be necessarily as diversified as finance or portfolio theory suggests.

The main steps in the decision-making, limit and monitoring processes are as follows:

- Potential investments are analysed thoroughly. The creditworthiness and prospects of the issuer are assessed together with collaterals and structural details of the instruments. Although external credit ratings by rating agencies and the opinions of analysts are used to support the internal assessment, Sampo Group's own internal assessment is always the most important factor in decision-making.
- Investment transactions shall be executable on short notice when an opportunity appears. This puts pressure on authorisations and credit limit structures and procedures. They must be simultaneously carried out flexibly enough to facilitate fast decision-making regardless of instrument type, well-structured to ensure that investment opportunities are assessed prudently, considering the specific features and risks of all investment types and able to restrict the maximum exposure of a single name risk to a level that is within the company's risk appetite.
- Accumulated credit exposures over single names and products are monitored regularly at the subsidiary level and at the Group level to identify unwanted concentrations. Credit exposures are reported, for instance, by sectors, asset classes and ratings.

Management of indirect investments

Investments are made also in collective investment assets managed by third parties.

These investments are mainly in other asset classes – real estate, private equity and alternative credit funds - and in different geographical areas than the direct investments that are mainly in Nordic countries. These investments are primarily used as a tool in tactical asset allocation when seeking return and secondarily to increase diversification. Sampo Group does not have asset-backed securities in its portfolios except for a small amount of CLOs in Topdanmark.

Management of currency risk

In Sampo Group companies the net foreign currency transaction exposure is considered as a separate asset class and is managed within investment portfolio activities as considered relevant by the company.

Open transaction risk positions are identified, measured, and managed separately by each Sampo Group company. The net position in each currency consists of the assets, liabilities and foreign exchange transactions denominated in the currency. Mandatum Life, Hastings and Topdanmark have their liabilities only in their local currency and hence their transaction exposures are net of foreign currency assets and currency derivatives. In If there are also foreign currency denominated liabilities.

At the Group level Sampo is also exposed to translation risk, because the base currency is the Swedish krona for If, the pound sterling for Hastings and the Danish krone for Topdanmark.

Use of derivatives

In Sampo Group the main motive for use of derivatives is their efficiency – better liquidity and tighter bid-ask spreads – compared to cash instruments.

In Sampo Group derivatives are used mainly to adjust risks at investment-portfolio level (spread and equity risks) or at balance sheet level (interest rate, inflation, and currency risks). This may mean mitigating or increasing of risks. From time-to-time risk profiles of single transactions may also be adjusted by derivatives.

The approved derivatives are listed in the companies' investment policies. In case there is a need for a new kind of derivative instrument the proposal is made for the Board approval. This proposal includes analysis how the effect of new instrument type is properly considered in risk limits and other reporting.

In most of the cases, derivatives are booked as trading derivatives at fair value through the profit and loss statement in financial accounting and hedge accounting is applied only seldom. The counterparty risk related to derivatives is managed as described in the counterparty risk section.

Control of investment activities

Daily controlling of activities in If and Mandatum

Market risk control is separated from portfolio management activities in two ways. Firstly, persons independent from the Investment Unit prepare Investment Policies for Board approval. Secondly, Middle Office units which are independent of the Investment Unit measure risks and performance, and control limits set in Investment Policies daily.

Market risks and limits are also controlled by the Investment Control Committee ("ICC") in If and the Asset and Liability Committees ("ALCOs") in Mandatum Life monthly at a minimum. These committees are responsible for the control of investment activities within the respective legal entity.

The ICC is responsible for monitoring the implementation of and compliance with the Investment and Asset Coverage Policies. The committee considers and proposes changes to the policies. The Chairman is responsible for the reporting of policy deviations and other issues dealt with by the committee.

Mandatum Life has two ALCOs for its with profit assets and liabilities. One of the ALCOs controls the segregated assets and liabilities and the other controls the rest of Mandatum Life's with profit assets and liabilities. The ALCOs report to the board and ensure that the investment activities are conducted within the limits defined in the Investment Policy as approved by the Board and monitors the adequacy of liquidity, profitability, and solvency capital in relation to the risks in the balance sheet. The Investment Policies are first dealt with by the ALCOs before they are taken to the Board of Directors. Mandatum Life has additionally also a separate UL ALCO which is responsible for controlling risks arising from the unit-link business regarding assets covering unit-linked liabilities.

Group-wide monitoring activities

The aggregated market risks and concentrations at the Group level are controlled by the Group's Audit Committee quarterly at a minimum.

The subsidiaries' investment portfolios' risk profiles are designed and decided separately from each other, but their risk profiles are coordinated to proactively prevent potential concentrations. This principle is relevant for Topdanmark and Hastings as well.

The same basic principles are primarily followed in the investment activities of If and Mandatum, although the risk level of If's investment portfolio is significantly lower than the risk level of Mandatum Life's investment portfolio due to different features of their insurance liabilities. Also in Topdanmark and Hastings the insurance liabilities are the starting point when designing the investment risk profiles.

Principles of operational risks management

The effects of operational risks have their underlying causes in external and internal drivers. Operational risks may be realised because of inadequate or failed processes or systems, from personnel or from external events (for further details, see **Appendix 2** Risk Definitions – Operational Risks). The Group companies have their own specific risk sources which are causes of events that may have negative impacts on different processes, personnel or fixed assets.

In Sampo Group, the parent company sets the following goals of operational risk management for its subsidiaries:

- 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
- To ensure the ability to recover normal operations swiftly in case of disruptions.

Each company is responsible for arranging its operational risk management in line with the above-mentioned goals, while also considering the specific features of its business activities.

Appendix 4: Profitability, risks, and capital

Sampo's core business competences are skilful pricing of risks inherent in business operations and high-quality management of arising risk-exposures and capital needed to cover these risks. A balance between earnings, risks and capital contributes positively to return on equity and to stakeholder confidence, facilitating the creation of shareholder value.

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.

Group level capitalisation is managed within Sampo's capital management framework, 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-return profile to shareholders, and they reflect Sampo's risk appetite. The balance between risks and actual level of capital is analysed and monitored regularly 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, the balance will be secured by adjusting existing risk exposures, capital, or both. In general, Sampo Group believes that maintaining the profitability of businesses and active adjustment of risks is the first line of defence in risk management and, in the long run, even more important factor than capitalisation.

Sub-groups and their companies shall monitor the size of their capital buffers and have practices in place to maintain actual amount of capital always over the defined capital floor.

Over the years Sampo Group has disclosed its financial information by segments and relevant risk and solvency reporting by insurance sub-groups. Associated companies have disclosed their respective reports independently.

Since Solvency II entered into force on 1 January 2016 Sampo Group has disclosed the group level solvency calculated by Solvency II rules. In Solvency II Sampo plc is defined as the ultimate parent of the Solvency II Group and thus the operating insurance companies each report separate figures to their local supervisors while If Group Solvency II figures are not required to be disclosed separately, but as part of Sampo Group Solvency II figures.

Capitalisation at the Group level

As noted earlier, it is a priority for Sampo to maintain a balance between profits, risks, and capital in the Group. This is carried out via Sampo's capital management framework which provides a high level of protection against falling below financial limits and aims to support value creation by enabling the Group's strategy.

In a nutshell, a balance between profits, risks, and capital means that the actual amount of capital – or Own Funds ("OF") in Solvency II terminology – is maintained with certain buffers over a minimum level. Consequently, quantitative targets have been set for group solvency. The target levels are intended to encourage active steering of the balance sheet, not automatic actions.

The minimum level of financial resources has been set based on the risks and regulatory as well as rating agency constraints faced by the group. This minimum level has been defined as 125 per cent for the Solvency II ratio.

Buffers on top of the minimum level 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 is managed towards a target range of 170–190 per cent for the Solvency II ratio, which is considered optimal, considering the requisite minimum level and the above-mentioned buffers.

The target range ensures 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.

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. The minimum level for leverage is to remain below 35 per cent and the target less than 30 per cent for the financial leverage metric[1]. 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.

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

Sampo plc shall additionally monitor group level risk concentrations and intra-group transactions which have a direct impact on the desired level of capitalisation.

Group-level capitalisation and the factors affecting it are illustrated in the graph Sampo Group's capitalisation framework.

The Group's capital requirement is dependent mainly on the capital requirements of the sub-groups. The market risk stemming from the holding in Nordea is a significant part of Sampo plc's capital requirement, but apart from that the parent company's contribution to the Group capital need is relatively small, because Sampo plc does not have any business activities of its own other than the management of its capital structure and liquidity portfolio. In addition, investments in the Nordic financial service companies increase Sampo plc's capital require-ment.

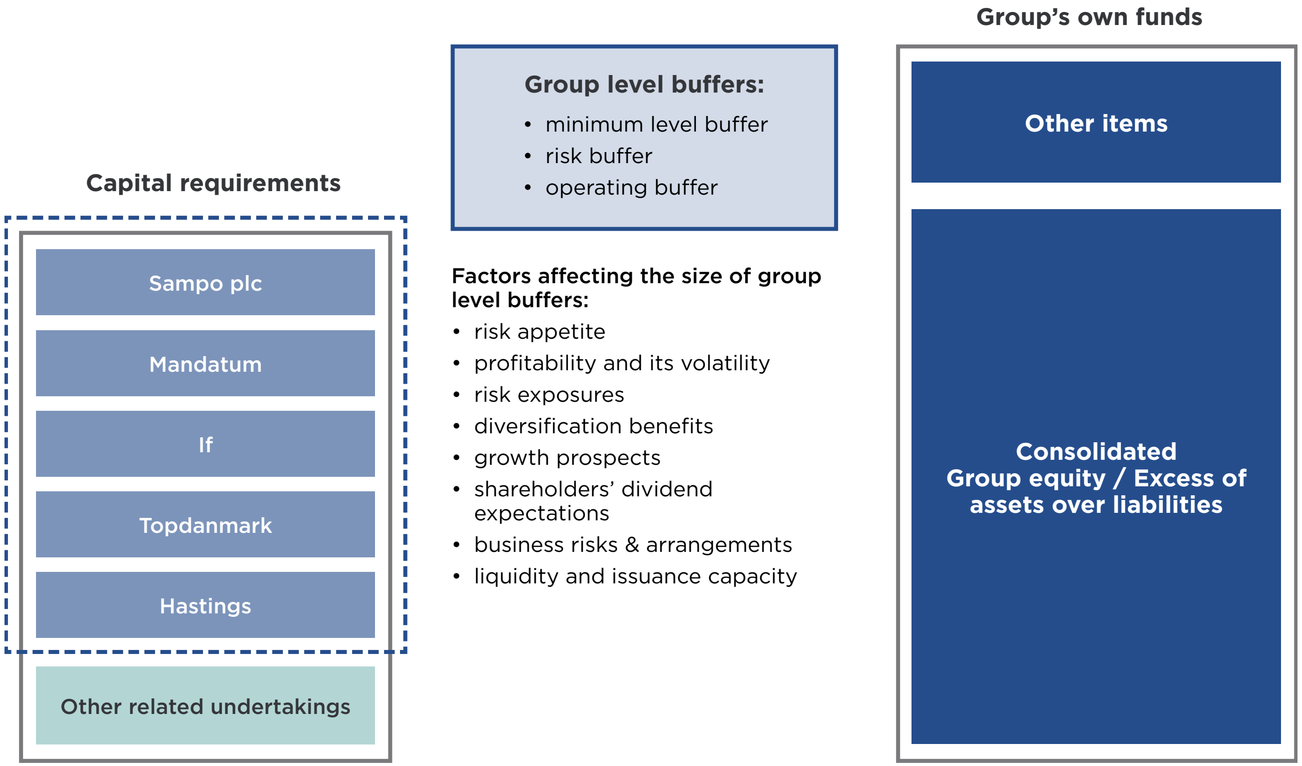
Diversification benefit exists at two levels, within the companies and between the companies. The former is included in the companies' SCRs.

Conceptually, the Group's own funds is the difference between the market value of assets and liabilities plus the subordinated liabilities. This difference has accrued during the lifetime of the Group and it includes the following main components:

- Accrued profits that have not been paid as dividends over the years.
- Market value adjustment to the book values of assets and liabilities.
- Issued capital and subordinated liabilities meeting Solvency II requirements.

At the Group level, the capital requirement and own funds are both exposed to foreign currency translation risk. The actual capital and the capital needs of If, Topdanmark and Hastings are converted from their reporting cur-rencies to the euro. When the reporting currencies of If, Topdanmark and Hastings depreciate, the actual amount of the Group's capital in euros decreases and the capital requirements of If, Topdanmark and Hastings will be lower in euro terms. Translation currency risk is moni-tored internally and its effect on Sampo Group's solvency

Sampo Group's capitalisation framework



on a going concern basis is analysed regularly. However, internally no capital need is set for translation risk, because it is realised only when a sub-group is divested.

The group level buffers equal in total to the difference between the amount of the Group's own funds and the Group capital requirement. In addition to sub-group level factors – expected profits and their volatility, business growth prospects, volatility of the balance sheet due to fluctuations in the market value of investments and insurance liabilities, and ability to issue Solvency II compliant capital instruments – there are factors that are additionally relevant when considering the size of the group level buffers. The most material of them are correlation of sub-groups' profits, parent company's capacity to generate liquidity, probability of business arrangements and shareholders' dividend expectations.

Regulatory solvency calculation methods and the group solvency position

Sampo Group's solvency capital requirement ("SCR") and amount of the Group's own funds are calculated by the Solvency II directive as follows:

Sampo Group's capital requirement is called **Group SCR** and it is calculated in two phases:

- The capital requirements of other risks than FX risk and concentration risk are calculated for the consolidated Group including respective standard formula SCRs of the parent company Sampo plc, If, Mandatum Life, Topdanmark and Hastings. The company SCRs may include the simplifications and other options as applied by them. The capital requirement of FX risk and concentration risks are calculated based on Group-wide exposures calculated separately for this purpose. Regarding FX risk requirement also the translation risk exposures related to the Swedish krona denominated equity of If, Danish krone denominated equity of Topdanmark and pound sterling denominated equity of Hastings are considered. Diversified capital requirement for the consolidated Group SCR is then calculated from these risk-specific SCRs.
- Sampo plc's share of the capital requirement of other related undertakings, that are not a part of the consolidated SCR, is added to the consolidated Group capital requirement.

The Group SCR considers diversification only within the consolidated Group thus excluding the diversification benefit related to other related undertakings that are not consolidated.

The Group's own funds under Solvency II rules is the excess of assets over liabilities including any subordinated liabilities which may be called up to absorb losses and minus own shares held directly. Assets and liabilities are valued at market value and all intra-group transactions are eliminated. The excess of assets over liabilities is classified into tiers 1–3. The tiers reflect the degree of loss absorbency of own funds in the event of a winding up. Adjustments are made if all own funds are not available or eligible at the Group level.

Nordea and Nordax Holding are treated as equity investments in Sampo Group's own funds and SCR. The Group's own funds and SCR are calculated by a consolidation method. The consolidated Solvency II Group consists of If, Mandatum Life, Topdanmark and Hastings, and the holding company Sampo plc. Capital requirements of other related undertakings are then added to the consolidated Group SCR. The Minimum Consolidated Group SCR ("MCR") is determined by adding up the Solo MCRs of the insurance entities consolidated for the Group SCR calculation.

Capitalisation at the sub-group level

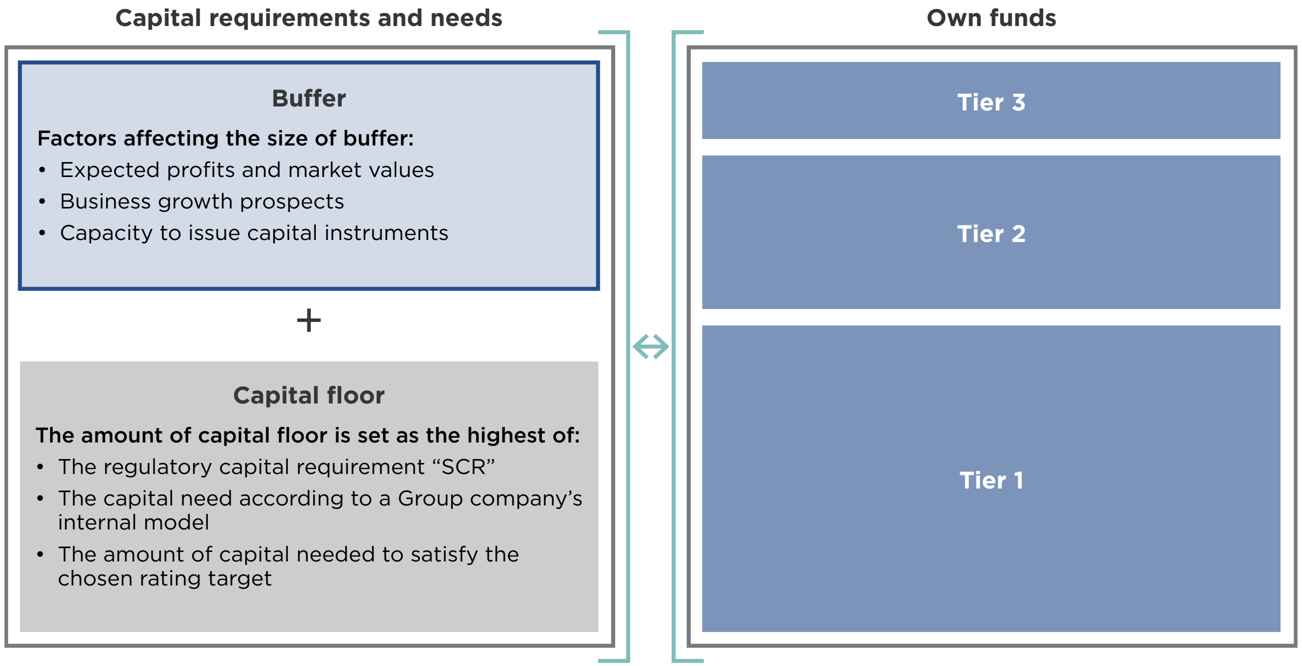
Subsidiary balance sheets are calibrated to cover needs for business plans and to provide a stable dividend. The total need for capital at the sub-group and company level is assessed in a fairly similar way as on the group level. First, a capital floor is defined as the minimum level of own funds the company needs to run its business operations normally. 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 form the actual amount of capital.

The graph Sampo Group companies' capitalisation framework illustrates Sampo's approach to sub-group and company-level capitalisation.

The SCR sets the minimum level of capital at which a company can conduct its business without regulatory intervention. Regardless of whether the regulatory capital requirement is calculated using the internal model or the standard formula ("SF"), it reflects a 99.5 per cent confidence level, i.e. the same probability of default as a BBB rating from major rating agencies. If the company's clients and counterparties prefer a higher than BBB creditworthiness from their insurance company, the level of capital must always be higher than the SCR, to ensure the company's ability to serve its client base.

To serve its current clients, If is maintaining a Single A rating which effectively implies that If's capital floor – the level to which it compares its actual capital – is higher than the SCR. Mandatum Life, Topdanmark and Hastings consider the SCR to be an adequate capital floor. Topdanmark's Group solvency is calculated according to Solvency II rules. Topdanmark uses a partial internal model to calculate the non-life insurance risk and the volatility adjustment when calculating technical provisions, which are both approved by the Danish FSA. Mandatum Life is also applying volatility adjustment when calculating technical provisions for solvency purposes. Hastings' underwriting subsidiary, Advantage Insurance Company Ltd, is the only Solvency II regulated entity of the Hastings Group. Advantage calculates its SCR using the standard formula using volatility adjustment and has permission to use Undertaking Specific Parameters (USPs) in the SCR calculation.

Sampo Group companies' capitalisation framework



As noted earlier, there is a need to have a certain buffer between the actual amount of capital and the capital floor defined by the company. An adequate buffer gives time for the company to adjust its risks and capital in times of stress and to maintain the balance between risks and capital. An adequate buffer also gives confidence to supervisors and counterparties, which makes another motivation for the buffer.

In Sampo Group the management steers the balance between SCR/rating agency capital target and OF through their decisions on strategy, risk profiles, dividend payments, capital instrument issuances and technical provisions. In the long run, a sound profitability and satisfied clients are the most important factors in maintaining an adequate capitalisation.

The following factors are the most material when the size of buffers is considered in Sampo Group companies:

- The higher the level of expected profits and the lower the volatility of profits and market value of balance sheet, the less is the volatility of own funds and thus the smaller is the buffer.
- When the business is growing, the buffer is larger than in the case of a run-off-business. For instance, in Mandatum Life, the capital consuming with profit business has already been in a virtual run-off mode for years.
- More ability and capacity to issue Solvency II compliant capital instruments means that a lower buffer is needed.

When the balance between profits, risks and capital is maintained, the following three goals of Sampo Group are simultaneously obtainable:

- The business activities can be conducted without supervisory intervention.
- The business activities can be conducted with all targeted client bases and the company has access to financial and debt issuance markets on the terms and conditions implied by the company's creditworthiness.
- The targeted dividends can be paid to shareholders in the long run without endangering the balance between risks and capital.

On a sub-group and company level, a target can also be set for the capital structure. In general, Sampo Group is in favour of a strong capital structure and as a result Sampo Group companies currently have, according to Solvency II rules, room for new hybrid capital and subordinated debt instruments in their balance sheets.

Appendix 5: Valuation for solvency purposes

Sampo Group Solvency II balance sheet is derived from Sampo's consolidated IFRS financial statements, which are adjusted in accordance with Solvency II regulation. The IFRS accounting principles "Summary of significant accounting principles" are presented in **Sampo Group's Financial Statements** in **Notes to the accounts** (**www.sampo.com/year2021**). A large majority of Sampo Group's assets are valued at fair value on the IFRS balance sheet based on market values. No significant alternative valuation methods are used. The fair values of financial liabilities and properties are given in the notes to the IFRS accounts.

The determination of the fair values is presented in Sampo Group's Financial Statements in Notes to the accounts/Summary of significant accounting policies/ Fair value and Investment property and in the notes Fair values and Determination and hierarchy of fair values.

For comparison purposes the values derived from Sampo's consolidated IFRS financial statements are mapped in accordance with the Solvency II balance sheet presentation in the table Solvency II Adjustments, Sampo Group, 31 December 2021. Only main rows are presented. The currency used is the Group's reporting currency, the euro.

The scope of Sampo Group in the Solvency II framework is the same as the scope used in Sampo Group's financial statement.

According to the Solvency II balance sheet the excess of assets over liabilities for the Group per 31 December 2021 was EUR 1,058 million less than the respective IFRS figure. On the asset side the main differences are due to the different treatment of intangible assets and inclusion of future undue premium receivables in technical provisions instead of assets. On the liability side, there are material differences related to technical provisions due to different classification of some items and valuation principles. These differences are discussed in the next sections.

Solvency II adjustments

Sampo Group, 31 December 2021

Assets, EURm	IFRS value*	Solvency II value	Adjustment
Goodwill, intangible assets and deferred acquisition cost	3,978	0	-3,978
Deferred tax assets	39	38	-2
Property, plant & equipment held for own use	360	362	1
Investments (other than unit-linked)	26,804	27,266	462
Property other than for own use	*568*	*570*	*2*
Holdings in related undertakings	*2,966*	*330*	*-2,635*
Equities	*2,927*	*6,026*	*3,099*
Bonds	*17,598*	*17,593*	*-4*
Collective investments undertakings	*2,389*	*2,389*	*0*
Derivatives	*54*	*54*	*0*
Deposits other than cash equivalents	*303*	*303*	*0*
Asset held for unit-linked contracts	19,942	19,942	0
Loans and mortgages	395	395	0
Reinsurance recoverables	2,293	2,077	-216
Non-life and health similar to non-life	*2,287*	*1,941*	*-346*
Life and health similar to life	*7*	*136*	*129*
Insurance and intermediaries receivables	2,035	555	-1,479
Reinsurance receivables	5	26	21
Receivables (trade, not insurance)	223	157	-66
Own shares (held directly)	0	476	476
Cash and cash equivalents	4,736	4,736	0
Any other assets, not elsewhere shown	252	252	0
Total assets	**61,061**	**56,280**	**-4,781**

In IFRS Sampo's financial assets consist of equity and debt instruments available for sale and fair value through profit/loss, derivatives and loans and receivables. Financial liabilities in IFRS consist of derivatives and other liabilities e.g. subordinated liabilities and other debt securities in issue.

Liabilities, EURm	IFRS value	Solvency II value	Adjustment
Technical provisions – non-life	10,954	8,471	-2,483
Technical provisions – life	9,426	9,180	-246
Technical provisions – unit-linked	19,737	19,053	-683
Provisions other than technical provisions, Pension benefit obligations	41	41	0
Deferred tax liabilities	846	684	-162
Derivatives	119	121	2
Financial liabilities other than owed to credit institutions	2,447	2,505	58
Insurance and intermediaries payables	328	234	-94
Reinsurance payables	230	223	-7
Payables (trade, not insurance)	645	579	-66
Subordinated liabilities	2,051	2,047	-4
Any other liabilities, not elsewhere shown	773	736	-37
Total liabilities	**47,597**	**43,874**	**-3,723**
Excess of assets over liabilities	**13,464**	**12,406**	**-1,058**

Assets

In the Group Solvency II balance sheet goodwill, intangible assets and deferred acquisition costs are valued at zero.

While recognition of deferred taxes is consistent with the IFRS accounts, Solvency II adjustments affect the carrying values in the Solvency II balance sheet and thus give rise to additional deferred tax effects. Solvency II valuation decreased deferred tax assets by EUR 2 million and deferred tax liabilities by EUR 162 million. The difference is mainly due to elimination of certain assets (intangible assets, etc.) and differences in the calculation of technical provisions.

The carrying amounts of Sampo's investment assets are different in IFRS and Solvency II balance sheets due to differences in the treatment of Nordea and Nordax. They are both treated as associated companies under IFRS while under Solvency II they are treated as equity investments. Thus, the value of investments differs under IFRS and Solvency II.

Loans and mortgages are valued at amortised cost, which is not in line with the treatment for financial assets in Solvency II. Sampo, however, considers the IFRS value to be substantially commensurate with the fair value of the loans.

Participations are reported in Sampo's Solvency II consolidated balance sheet using the adjusted equity method, or where applicable, the IFRS equity method. Participations refers to undertakings in which Sampo Group directly or indirectly has significant influence, which is normally the case when the shareholding amounts to a minimum of 20 per cent of the capital or voting rights for all shares in the company.

Reinsurance recoverables represent the reinsurers' share of the best estimate, less expected counterparty default. Consistently with technical provisions, these amounts are calculated in line with the Solvency II requirements.

Under Solvency II the technical provisions should fully consider all cash inflows and outflows. Therefore, regarding the policies in force, the future premiums expected but not yet due are not recognised as receivables. Instead, they are included in the premium provision based on a best estimate, which differs from the treatment under the IFRS, where premium receivables are recognised in the balance sheet. Thus, receivables of EUR 1,479 million were reclassified from premium receivables to insurance liabilities. Receivables in Solvency II relate only to the amounts due for payments by policyholders, insurers, and others linked to insurance business.

The adjustment of receivables (trade receivables, not insurance receivables) relates to netting of receivable amounts in relation to the Finnish medical malpractice pool ("MMP"), public sector, which are treated as part of the Solvency II best estimate technical provisions, whereas in Sampo Group's consolidated accounts the MMP provision public sector is recognised as other assets / liabilities. Receivables of EUR 66 million are reclassified from trade receivables to the insurance obligation.

In Solvency II Own Shares EUR 476 million are recognised on balance sheet whereas in IFRS Own Shares are deducted from Equity.

Technical provisions according to Solvency II in Sampo Group

In Solvency II, the value of technical provisions is equal to the sum of a best estimate and a risk margin.

The Best Estimate is determined as follows:

- First, all expected future insurance liability cash flows and cash flows related to the management and claims handling costs of insurance liabilities are estimated by the company at best effort basis based on recognised actuarial and statistical techniques.
- Second, all these cash flows are discounted by the risk-free interest rate term structure as defined and published by EIOPA.

The best estimate is calculated separately on a gross basis, without deduction of the amounts recoverable from reinsurance contracts, and on a net basis by considering the ceded amount representing amounts recoverable from reinsurance contracts.

The above calculations of the best estimate are done separately for each currency the company has insurance liabilities in and the currency specific discount curve as defined by EIOPA is used. This risk-free term structure is based on market rates that are adjusted by credit risk adjustment and by volatility adjustment. The use of volatility adjustment is optional. This routine is followed up to the last liquid point of market rates as defined by EIOPA and it is defined separately for different currencies. The last liquid point is for example 20 years for the euro and 10 years for the Swedish krona. From the last liquid point and ahead, being the last point on the curve based on market rates, the risk-free term structure is affected by the Ultimate Forward Rate ("UFR") as defined by EIOPA.

The future expected cash flows of insurance activities are always estimating and hence their magnitude and timing are uncertain by their nature. For this uncertainty, and to arrive at a market consistent valuation of the liabilities, a company must consider the capital allocated for the run-off of the liabilities. Risk Margin is the cost of this capital and it is determined as follows.

- It is assumed that a company is hedging the market risk related to insurance liabilities entirely and is not writing any new business. Then all expected future cash flows of insurance activities match exactly with risk free asset cash flows in same currencies as insurance related cash flows.
- With the market risk SCR at zero and no new business being written, the company's SCR is related to the insurance risk, reinsurance credit risk and operational risk.
- Since no new business is written, the cash flows behind the best estimate will run off to zero over time. Based on these cash flows, the company calculates the future values of the best estimate and the resulting SCRs over the full depletion of the insurance liabilities.
- All the resulting future SCR values are discounted to one present value with the risk-free rate as defined by EIOPA.
- Finally, to get the risk margin, the cost for holding the SCR until full run-off of the best estimate is calculated by multiplying the sum of the future SCRs by 6 per cent – the cost of capital given by EIOPA.

Conceptual differences between Solvency II and IFRS technical provisions

The main conceptual differences between Solvency II and IFRS Technical Provisions affecting Sampo Group are:

- In Solvency II a "true best estimate" is defined as the mean of the full range of possible future outcomes of insurance cash flows without any cash flow add-ons based on prudency. The IFRS provisions may include prudential assumptions when the cash flows are estimated.
- In Solvency II, all cash flows are discounted by EIOPA's risk free interest rates whereas within the financial accounting regime not all cash flows are discounted, and when discounting, discount rates based on local regulations are typically used.
- The inclusion of future insurance events into Technical Provisions is fundamentally different in Solvency II and in financial accounting. The following points listed are illustrating these differences, but local financial accounting rules may be different than the ones used as examples here.
  - Following the financial accounting rules, when an insurance company writes a premium, the full written premium is booked into the reserves now of the writing. This reserve is called the Unearned Premium Reserve ("UPR") and its conceptual purpose is to cover future insurance events on the written contracts. After the initial booking, the reserve is released linearly into earnings during the lifetime of the insurance contract – at the end of the contract period there is no UPR left and if the claims and costs related to the contract turned out to be lower than the written premium, a profit has been recognised.
  - The corresponding component in the Solvency II Technical Provisions is called the Premium Provision ("PP"). This account estimates all the future insurance events and the corresponding best estimate cash flows related to contracts in force.
  - The PP has a lower value than the UPR account if the written contract is estimated to be profitable. The higher the estimated profitability, the bigger the difference between the accounts.
  - Effectively, the PP implicitly recognises the estimated profit of the contract via the difference between the UPR and the PP already at the inception of the contract. This means that the younger the contract, the bigger the difference between the UPR and the PP. As time goes by, both accounts decrease in value and the absolute difference between them becomes narrower and eventually diminishes as the contract expires and both accounts reach zero. Neither item never reaches zero in an active insurance company since new business is written continuously. If a company would write an equal amount of exactly equal business each day, the difference between the items would remain constant over time.
  - When a policy is written but no premiums are due yet, the whole premium is already booked as UPR in financial accounting and a corresponding receivable is booked on the asset side. In Solvency II, any insurance receivables that are not yet due are netted against the PP account. This effectively means that the balance sheet shrinks in size when going from financial accounting to Solvency II and that the difference between the UPR and the PP is the biggest when premiums are not yet due.
  - In non-life business, the valuation difference between the UPR and the PP is the most material difference between the financial accounting and Solvency II Technical Provisions.
- A risk margin over the Best Estimate is included in the Solvency II Technical provisions.

The nature of technical provisions means that there is always uncertainty associated with the calculations since they inevitably involve assumptions about future events. Main risk factors affecting the reserve risk are described further in section **Non-Life Insurance Underwriting Risks** in **Appendix 2 Risk Definitions**.

Sampo Group's insurance companies present the differences between IFRS and Solvency II Technical provisions in the next sections. Calculation methods made assumptions and other decisions affecting the cash flows are described in more detail.

Technical provisions according to Solvency II in If

The differences between IFRS and Solvency II technical provisions are summarised in the table Technical provisions in IFRS and Solvency II, If, 31 December 2021.

Different principles are used for calculating the technical provisions in Solvency II and in the IFRS financial statements:

- The largest revaluation effect is due to netting of expected premiums not yet due and amounts to EUR 1,097 million, affecting both the asset and liability side of the balance sheet to the same degree.
- The Solvency II risk margin increases the technical provisions by EUR 254 million.
- Other revaluation effects amounting to EUR 874 million include cash flow revaluation effects mainly on premium provisions as well as discounting effects. If, under IFRS, only discounts claims provision reserves for annuities. The basic risk-free rates used in the Solvency II balance sheet are derived for currencies

Technical provisions in IFRS and Solvency II

If, 31 December 2021

	IFRS VALUE			SOLVENCY II VALUE					
Type of technical provisions	**Provision gross**	**Share of reinsurance**	**Technical provision**	**Best estimate**	**Risk margin**	**Provision gross**	**Share of reinsurance**	**Technical provision**	**SII value of IFRS value**
Total, EURm	**9,034**	**322**	**8,712**	**7,023**	**254**	**7,277**	**282**	**6,994**	**80%**
Health similar to life	**1,142**	**0**	**1,142**	**1,121**	**31**	**1,152**	**0**	**1,152**	**101%**
Income protection insurance (annuities)	53	0	53	51	2	53	0	53	99%
Medical expense insurance (annuities)	2	0	2	2	0	2	0	2	104%
Workers' compensation insurance (annuities)	1,086	0	1,086	1,068	29	1,097	0	1,097	101%
Health similar to non-life	**1,641**	**25**	**1,616**	**1,320**	**70**	**1,390**	**23**	**1,367**	**85%**
Income protection insurance	834	1	833	632	30	662	1	661	79%
Medical expense insurance	278	0	277	207	11	217	0	217	78%
Workers' compensation insurance	529	23	506	481	29	510	22	489	97%
Life excluding health	**1,186**	**2**	**1,185**	**1,086**	**26**	**1,112**	**1**	**1,110**	**94%**
Fire and other damage to property insurance (annuities)	5	0	5	5	0	5	0	5	95%
Other life insurance	30	0	30	-1	1	0	0	0	1%
Motor vehicle liability insurance (annuities)	1,133	1	1,131	1,065	24	1,089	1	1,087	96%
General liability insurance (annuities)	18	0	18	17	1	18	0	18	99%
Non-life excluding health	**5,064**	**296**	**4,769**	**3,496**	**127**	**3,623**	**258**	**3,365**	**71%**
Fire and other damage to property insurance	1,722	170	1,552	1,220	41	1,261	151	1,110	72%
Marine, aviation and transport insurance	102	17	85	83	6	89	14	75	88%
Other motor insurance	1,030	2	1,027	432	12	443	2	442	43%
Motor vehicle liability insurance	1,468	1	1,467	1,101	37	1,138	1	1,137	77%
General liability insurance	742	105	637	660	32	692	90	602	94%

DKK, EUR, GBP, NOK, SEK and USD, which cover more than 99 per cent of the technical provisions. For other currencies, either EUR or USD rates are used.
- If uses the risk-free rates without volatility adjustment.

The Medical Malpractice Pool ("MMP") public sector is not recognised as an insurance contract in the IFRS consolidated accounts (IFRS 4), based on If's assessment that it is not subject to any significant insurance risk. In Solvency II the MMP public sector is treated as an insurance contract. Accordingly, all receivables and liabilities related to the MMP are reclassified from other assets and other liabilities to the Solvency II best estimate technical provisions. Under this treatment the receivables balances are netted against the liabilities in the technical provisions, as they are premium cash in-flows and thus included in the technical provisions.

Further discussion regarding the reinsurance recoverables can be found in section Counterparty Default Risks in **Appendix 2** Risk Definitions.

If does not apply transitional measures on the risk-free interest term structure or to the technical provisions.

Technical provisions according to Solvency II in Topdanmark

The IFRS and Solvency II technical provisions are presented in the table below, Technical Provisions in IFRS and Solvency II, Topdanmark, 31 December 2021.

The calculation of best estimate liabilities is basically the same.

The IFRS risk margins for life insurance and an illness/accident portfolio offered through the life company and included in Non-life, are calculated stressing the biometric risks.

The IFRS risk margin for the non-life company Topdanmark Forsikring is calculated following the Solvency II principles. The Solvency II risk margin is calculated using a 6 per cent cost of capital on insurance risk, counterparty default risk and operational risk.

In IFRS the profit margin for both non-life and life is presented as an insurance provision, while in Solvency II it forms part of the Solvency II own funds deducted by tax liabilities.

All the best estimate insurance liabilities are discounted using the volatility adjusted Solvency II interest rate curve for DKK.

Technical provisions in IFRS and Solvency II

Topdanmark, 31 December 2021

EURm		IFRS value	SII value	Adjustment
Non-life gross	Best estimate	2,097	2,097	0
	Risk margin	25	48	23
	Profit margin	177	0	-177
	Total non-life	**2,300**	**2,146**	**-154**
Life insurance gross	Best estimate	11,828	11,831	3
	Risk margin	15	14	0
	Profit margin	205	0	-205
	Total life	**12,048**	**11,846**	**-202**
	Total	**14,348**	**13,991**	

Technical provisions according to Solvency II in Hastings

Reserving accuracy is one of Hastings' principal risks and, therefore, is subject to stringent controls. In 2021, Hastings followed its well-established framework in which the AICL Chief Actuary calculates the best estimate and the Senior Actuary separately verifies the data, appropriateness of techniques utilised, and assumptions used to create the best estimate. An additional best estimate is created by an independent third party with differences between the third party, the Senior Actuary and the Chief Actuary scrutinised by the board. Supporting these processes are a series of monthly, quarterly, and semi-annual controls to ensure reserve adequacy.

In the technical provision calculations, best estimate liabilities and risk margin are also calculated separately. The valuation of the best estimate liabilities (claims and premium provisions, gross and reinsurers' share) is calculated on a discounted cash flow basis.

The steps in the calculation process are:

- Projection of future claims payments based on the IFRS reserves and historic claims payment patterns.
- Addition of loadings for management overhead and investment expenses and, for premium provisions, including the cost of future PPOs.
- For premium provisions, the removal of unpaid premiums and adjustments for expected future lapses and 'Bound But Not Incepted' (BBNI) business.
- For claims and premium provisions, further adjustments for 'Events Not In Data' (ENID) and, for the reinsurers' share, expected losses due to reinsurer default.
- Finally, the cash flows are discounted back to the valuation date using the EIOPA prescribed risk-free yield curve at as that date.

The risk margin is estimated by projecting forward the individual components of the SCR and then discounting back to the valuation date using the risk-free yield curve. The cost-of-capital rate in the calculation is 6 per cent.

Technical Provisions in IFRS and Solvency II

Hastings, 31 December 2021

	IFRS VALUE			SOLVENCY II VALUE					
Type of technical provisions	**Provision gross**	**Share of reinsurance**	**Technical provision**	**Best estimate**	**Risk margin**	**Provision gross**	**Share of reinsurance**	**Technical provision**	**SII value of IFRS value**
Non-life excluding health, EURm	**2,787**	**1,880**	**907**	**2,267**	**45**	**2,312**	**1,715**	**598**	**66%**
Fire and other damage to property insurance	20	1	19	17	1	18	2	16	87%
Marine, aviation and transport insurance	0	0	0	0	0	0	0	0	0%
Other motor insurance	692	470	222	134	0	135	66	69	31%
Motor vehicle liability insurance	2,075	1,409	666	2,116	43	2,159	1,647	513	77%
General liability insurance	0	0	0	0	0	0	0	0	0%

The two main sources of uncertainty associated with the technical provisions are:

- Ultimate cost of settling claims incurred at the valuation date – past incurred claims break down into those reported to AICL at the valuation date and those yet to be reported at that date.
- Claims costs arising from incidents that have yet to occur at the valuation date – there is relatively more uncertainty about future claims costs than about the ultimate cost of past claims because, nothing is known about future claims.

Ultimate claims costs are based broadly on analysis of past claims experience, although several factors act to reduce the reliability of prior experience as a guide to the future. Such factors include claims cost inflation, market-wide changes such as the Ogden discount rate reduction, changes to internal claims management procedures and changes in claimant and solicitor behaviour.

Technical provisions according to Solvency II in Mandatum Life

To calculate Solvency II technical provision Mandatum Life produces the cash flows of insurance policies by using best estimate parameters and assumptions and stochastic investment market scenarios consistent with Solvency II discount rate. Stochastic market scenarios are particularly needed for the valuation of economic guarantees and policyholder options embedded in insurance contracts. Probability weighted present value of these cash flows is so called best estimate liability. Solvency II technical provision is best estimate liability plus risk margin.

The differences between IFRS and Solvency II technical provisions with transitional measures are summarised in the table Technical provisions in IFRS and Solvency II, Mandatum Life, 31 December 2021.

Mandatum Life applies the transitional measures on technical provisions for its Solvency II technical provision regarding its original pension policies with 3.5 per cent and 4.5 per cent guarantees. Also, a volatility adjustment is applied when technical provisions are calculated. The size of Solvency II liabilities with transitional measures is EUR 13,136 million and EUR 13,512 million without transitional measures. Hence the transitional measures on technical provisions increase the amount of OF after tax by EUR 301 million. Mandatum Life applies standard formula without undertaking-specific parameters or simplified calculations.

Accounting principles of life insurance contracts are presented in **Sampo's Annual Report**/**Financial Statements**/**Notes to the accounts**/**Summary of significant accounting policies**/**Life insurance business**.

Technical Provisions in IFRS and Solvency II

Mandatum Life, 31 December 2021

EURm	IFRS value	Solvency II value	Adjustment
Technical provisions – life (excluding unit-linked)	**3,521**	**3,341**	**180**
Best estimate		3,151	
Risk margin		190	
Technical provisions – unit-linked	**8,765**	**8,280**	**485**
Best estimate		8,192	
Risk margin		87	

Other liabilities

The effects of Solvency II valuation on Sampo's other liabilities than technical provisions are limited, consisting mainly of the valuation impact on financial liabilities and payables balances related to the technical provisions.

Other liabilities than technical provisions are valued by discounting future cash flows with the government yield plus calculated spread at inception. This increased the amount of financial liabilities in Solvency II balance sheet by EUR 58 million.

Deferred tax liabilities are discussed above in connection with deferred tax assets.

The reclassification of medical malpractice pool public sector from a service contract to an insurance contract effect also payables balances. Payables of EUR 66 million are reclassified from trade payables to the insurance obligations.

Other provisions than technical provisions and contingent liabilities do not give any additional rise to either new liabilities being recognised for solvency purposes or existing liabilities being recognised differently to their financial statement recognition. **Provisions**, **pension benefits** as well as **contingent liabilities and commitments** are presented in **Sampo's Financial Statements** (**www.sampo.com/year2021**). There are no major financial leasing arrangements in Sampo Group.

2021

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