Sampo Group's **Annual Report 2013**

Group Level Risks

As a general principle, the subsidiaries are managed independently from each other in Sampo Group. However, it has been deemed pertinent to assess certain risk and capitalization issues also at group level, i.e. concentration risks arising from liability and investment exposures, correlations of Group companies' profitability and their effects on Sampo Group's capitalization and liquidity management. Additionally, the possible risks related to the Group structure are a group level issue.

Concentration Risks

With respect to the underwriting businesses carried out in the subsidiary companies, it has been established that If P&C and Mandatum Life are operating mostly in different lines of business and hence their underwriting risks are different. There are no material risk concentrations under normal course of business and, consequently, business lines as such are contributing diversification benefits rather than concentration of risks. The most material common risk factor is life expectancy in Finland that is affecting both companies' technical provisions. On the other hand, both subsidiaries have significant investment portfolios and, thus, are potentially threatened with investment related concentration risks (for example large combined exposures).

Investment Management at Sampo Group Level

- Concentration risk is proactively managed through effective differentiation in asset selection. Mandatum Life's direct investments are mainly denominated in euro and in companies geographically located in Finland and selectively in other countries, whereas, If P&C has the major part of its direct investments denominated in the Scandinavian currencies and in the respective countries.
- The external asset managers and funds managed by them are selected for both companies by the same members of Sampo Group's Investment Unit. The funds are mostly allocated to areas outside the Nordic countries. Consequently, the risk of unidentified or unwanted concentrations is relatively low.
- Furthermore, concentrations at group level are actively monitored and, if deemed necessary, further managed by deploying group level exposure restrictions, for instance by industries or by individual issuers.

On company level, investment risk concentrations are monitored and controlled by the ICC in If P&C and the ALCO in Mandatum Life, which have been established as independent parties from investment operations. Total group exposures are monitored and controlled at group level by Sampo Group's Chief

Investment Officer, Sampo Group's Chief Risk Officer and Sampo Group's Audit Committee.

Concentrations by sectors, asset classes and rating are illustrated in table Credit exposures by sectors, asset classes and rating, If P&C, Mandatum Life and Sampo Group, 31 December 2013 in Equity and Spread Risks section. Financial sector is the largest concentration at Sampo Group level. Most of the investments in financial sector are in the Nordic countries and the exposure consists of mainly covered bonds and short-term money market investments. Conversely, the significance of public sector bonds is minor and Sampo Group does not have investments in government bonds of the distressed countries. The public sector exposure includes government bonds, government guaranteed bonds and other public sector investments.

Fixed income investments in financial and public sector are shown, respectively, in the tables Fixed income investments in financial sector, Sampo Group, 31 December 2013 and Fixed income investments in public sector, Sampo Group, 31 December 2013 in Equity and Spread Risks section.

Correlations of Profitability and Capital Positions

Direct concentration risks may arise in Sampo Group due to large exposures in investment assets. A more general group level concentration risk arises when the Group companies' profitability or capital positions react similarly to general economic development, i.e. the correlation between general economic development and the profitability of different subsidiaries is more or less analogous. This type of concentration risk can be analyzed indirectly based on profits. From that perspective Sampo plc's associated company Nordea's result has created clear diversification benefits, in particular when analyzed vis á vis with If P&C and Mandatum Life. The historical correlation between If P&C's and Nordea's, as well as Mandatum Life's and Nordea's, quarterly profits since 2005 is very low. Sampo Group also forecasts profits based on similar scenarios for all the companies.

The historical correlations of quarterly profits between If P&C, Mandatum Life and Nordea are depicted in the figure Correlations of Quarterly Reported Profits, If P&C, Mandatum Life and Nordea, 1 January 2005 - 31 December 2013.

Correlations of Quarterly Reported Profits
If P&C, Mandatum Life and Nordea, 1 January 2005 - 31 December 2013

	If P&C	Mandatum Life	Nordea
If P&C	1		
Mandatum Life	0.86	1	
Nordea	0.25	0.14	1

Because of favorable profit correlations between the companies and relatively low volatilities of If P&C's and Nordea's profits, the profit development has been quite stable at group level which decreases pressure to maintain large additional capital buffers over group level economic capital. However, the Board of Directors of Sampo plc has set an internal target that the Group's adjusted solvency capital amount has to exceed the sum of the Group companies' economic capital, excluding the diversification effects between companies.

Liquidity

Liquidity risk is managed at company level and the Group companies maintain liquidity buffers that are considered to be adequate in their businesses. In the subsidiaries, the adequacy of liquidity buffers is dependent on expected net outflows of insurance cash flows. In the parent company, the adequacy of liquidity buffers is dependent on potential strategic arrangements and a strong liquidity is preferred. In the normal course of business,the subsidiaries do not invest in Sampo plc’s debt instruments. However, a general prohibition to intra-Group asset transactions has not been deemed necessary and, thus, subsidiaries are allowed to invest in the parent company’s debt instruments and sell assets to each other at market prices, especially when this is justified by business opportunities. Thus, during possible market stresses these options are available to a certain extent as well. In Mandatum Life, there are investments in Sampo plc’s debt instruments related to unit-linked policies.

Corporate Structure Related Risks

Both legal and reporting structures of Sampo Group are simple, straightforward and transparent, which effectively mitigate any risks related to complex structures. Structural simplicity and transparency together with a limited amount of intercompany exposures within Sampo Group (i.e. direct or indirect claims between different companies excluding normal course of business transactions with Nordea) and diligently managed capitalization of subsidiaries also effectively protects Group companies from contagion risks.