

# Earnings Logic

Sampo Group companies operate in business areas where profit generation based on risk taking and active management of risks are key components of earnings logic. Core competencies in managing the balance between risks, capitalization, liquidity and profitability in Sampo's business areas can be summarized as follows:

## **Appropriate selection and pricing of underwriting risks**

- Underwriting risks are selected carefully and priced reflecting their inherent risk levels.
- Insurance products are developed proactively.

## **Effective management of insurance exposures**

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

## **Careful selection and execution of investment transactions**

- Risk return ratios of separate investments are analyzed carefully.
- Transactions are executed effectively at right time.

## **Effective Mitigation of Consequential Risks**

- Counterparty credit risks are mitigated by selecting counterparties carefully, using risk mitigation techniques and increasing diversification.
- High quality and cost efficient business processes are maintained, continuity of operations is planned and recovery is ensured.

## **Effective management of investment portfolios and balance sheet**

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

Employees' knowledge and skills are continuously developed to maintain the core competencies. In Sampo Group's businesses data, analytical tools converting the data into information to be used in different business areas and risk management processes are particularly important as well. When the above-mentioned core competencies are in place, a balance between earnings, risks and capitalization can be achieved on a company level.

At group level the focus is on group wide capitalization and liquidity. In addition to the company level core competencies, at group level it is essential to identify potential risk concentrations and to have a thorough understanding of how reported profits of companies would behave under different scenarios in general. These concentrations and correlations have an effect on group level capitalization and liquidity and they may have an effect on group level management actions.