

# Investment Portfolio Market Risks

In general, market risks refer to fluctuations in the financial results and capital position caused by changes in market values of financial assets and liabilities as well as economic value of insurance liabilities.

The risks caused by changes in interest rates, foreign exchange rates and inflation together with general trend of credit spreads and equity prices are defined as general market risks. When the risk is related to debt and equity instruments issued by a specific issuer, it can be defined as issuer specific market risk.

In Sampo Group, market risks related to investment portfolios are mostly straightforward to analyze. The

realization of risks is transparently reflected in the financial statements, because Sampo Group is applying mark-to-market procedures to most of its investments and only seldom there are instruments that require mark-to-model procedures.

In addition to investment portfolio market risks, also the companies' balance sheets are exposed to market and liquidity risks. These balance sheet level risks are defined as ALM risks and they are covered later in the section **ALM risks**. The ALM risks at balance sheet level are taken carefully into account when investment portfolio structures are designed and related limits and restrictions are defined.

## Principles of Investment Portfolio Management

Investments (excluding Mandatum Life's investments covering unit-linked policies) are managed according to the subsidiaries' Investment Policies that are based on the features of insurance liabilities and solvency.

The investment portfolios are reported on fair value basis. These fair values are determined either on the basis of direct market quotes or by using various valuation models. More information on the valuation methods of the investment assets is presented in Note 17 in the Sampo Group Financial Statements.

Sampo Group's Chief Investment Officer is responsible for managing investments within the limitations of the Investment Policies prepared by the Group companies and approved by the Group companies' Boards of Directors. The insurance subsidiaries and the parent company have a common Group wide infrastructure for investment management as well as for performance and risk reporting which facilitates simultaneous company level and group level reporting.

Sampo Group considers that it has a thorough understanding of the Nordic markets and issuers and consequently Sampo Group's direct investments are mainly made in Nordic securities. When investing in non-Nordic securities, funds or other assets, third party managed investments are mainly used. These investments are primarily used as a tool in tactical asset allocation when seeking return and secondarily in order to increase diversification.

Market risk control is separated from portfolio management activities in two ways. Firstly, the persons independent from Investment Unit prepare Investment Policies for the Board approval. Secondly, Middle Office units that are independent from Investment Unit as well, measure risks and performance and control limits set in Investment Policies on a daily basis. Market risks and limits are also controlled by the ICC in If P&C and ALCO in Mandatum Life on a monthly basis at a minimum. These committees are responsible for the control of investment activities within the respective legal entity.

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