

Group's 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: strategic 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.

External Drivers and Strategic Risks

Strategic risk is the risk of losses due to changes in the competitive environment or lack of internal operational flexibility. Unexpected changes in the general business environment can cause larger than expected fluctuations in the financial results and in the long run these can endanger the existence of Sampo Group's business models.

External drivers behind such changes are varied, and include for instance general economic development, changes in values, development of the institutional and physical environment and technological innovations. External drivers are often connected to each other in many ways and because of them customer demand and behaviour can change, new competitors may appear and as a result business models of the industry can change. Currently 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 different stakeholders and hence as a result business environment is also changing in many different ways.

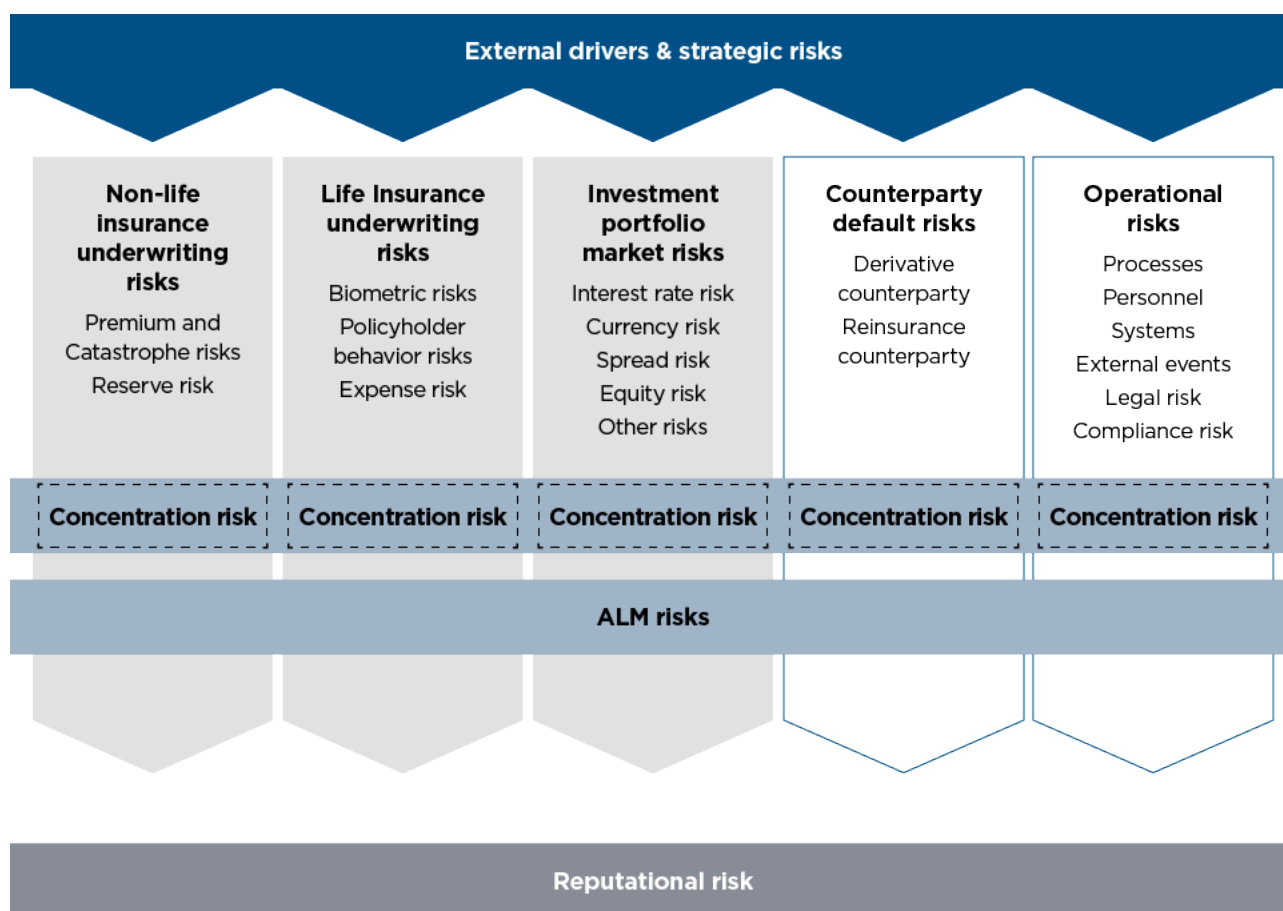
Due to the predominantly external nature of the drivers and development in the competitive environment, managing strategic risks is the responsibility of the executive level senior management. Proactive strategic decision-making is the central tool in managing strategic risks relating to business practices and competitive advantage. The maintenance of internal operational flexibility, in order to be able to adjust the business model and cost structure when needed is also an efficient tool in managing strategic risks. Although strategic risks are not covered by the capitalization process in Sampo Group they may have an effect on the amount and structure of the actual capital base, if this is deemed to be prudent in the existing business environment.

Reputational Risk

Reputational risk refers to the risk that adverse publicity regarding the company's business practices or associations, whether accurate or not, causes a loss of confidence in the integrity of the institution. Reputational risk is often a consequence of a materialized 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 figure 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. The corporate culture, which is based on the core values of ethicality, loyalty, openness and entrepreneurship, is thus seen as an essential tool in preventing reputational risk in Sampo Group. These core values are reflected in how Sampo deals with environmental issues and its core stakeholders (i.e. customers, personnel, investors, other co-operation partners, tax authorities and supervisory authorities) and how Sampo Group has organized 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 in order 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 figure 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 unit. The capital need for these risks is measured by independent risk management functions. It has to be noted that the categorization 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. In order to manage these risks efficiently, Sampo Group companies have to have a detailed understanding of expected cash flows and their variance within each of the company's activities. In addition, a thorough understanding is needed of how the market values of assets and liabilities may fluctuate at the total balance sheet level under different scenarios. 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 materialize indirectly when profitability and capital position react similarly to general economic developments or to structural changes in the institutional environment in different areas of business. This kind of indirect concentration risk can be seen as part of strategic risk.

More detailed risk definitions can be found in [Appendix 2 \(Risk Definitions\)](#).