Subsidiaries' Activities and Risk Management

Subsidiaries can organize their activities independently taking into account the specific characteristics of their operations and the guidance from parent company relating to targets, capitalization and the group wide principles. The stakeholders' expectations and external regulations affect the subsidiaries' activities directly as well.

Sampo Group's subsidiaries decide independently on the governance structure of their operations. 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 plc.

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

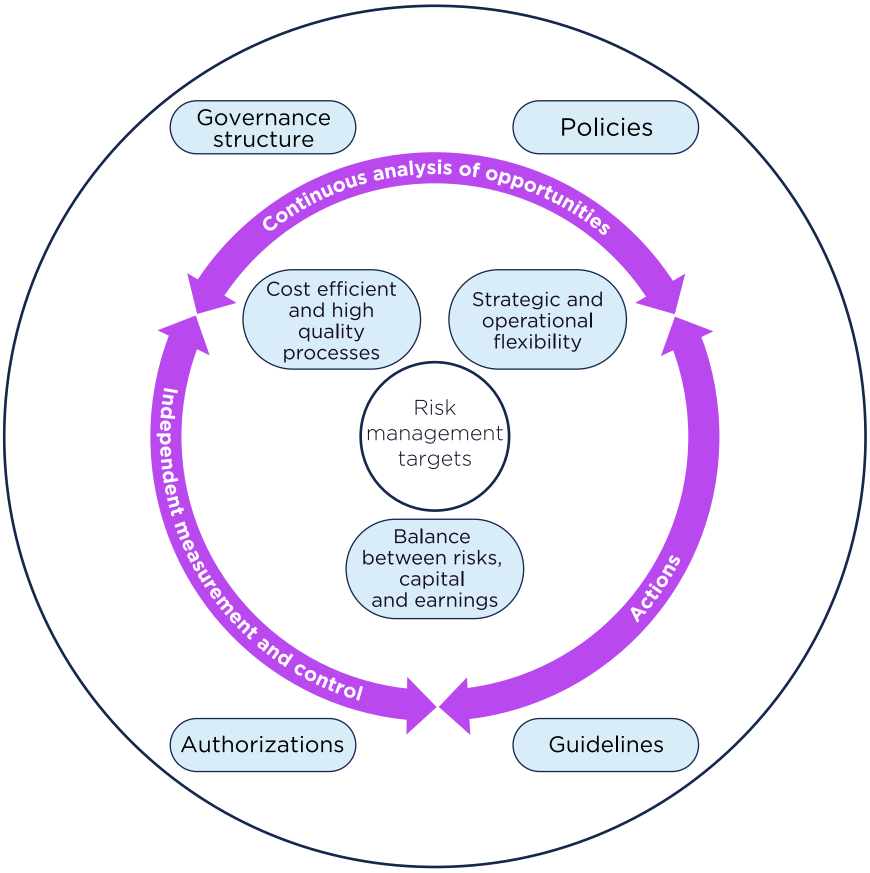
At operative level, the subsidiaries are focusing on effective execution of insurance operations and financial and risk management activities. Investments are managed according to the Investment Policies which are approved by the Board of Directors of the respective subsidiaries. Parent company led, day-to-day management of investments facilitates simultaneously effective execution of subsidiaries' investment policies and group wide oversight of investment portfolios.

The risk management process consists of continuous activities that are partly a responsibility of the personnel involved in business activities and partly a responsibility of independent risk management specialists. Although the responsibilities of business lines and independent risk management are clearly segregated, these functions are in a continuous dialogue.

Parties independent of business activities are responsible for the risk management governance framework, risk policies, risk limits and authorizations which form the structure that sets the limits for business and investment units' risk taking and principles for risk monitoring. These structures are one prerequisite for the risk management process and they reflect capital adequacy targets and risk appetite in general.

The figure Company Level Risk Management System illustrates the (i) prerequisites, (ii) tasks and (iii) targets of company level risk management.

Company Level Risk Management System



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

- Risk management governance structure and authorizations (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

The **tasks** included in the risk management process can be classified as follows:

Independent measurement and control

Financial and risk management functions are explicitly responsible for preparing the above prerequisites of risk management. Operationally they are responsible for independent measurement and control, including monitoring of operations in general as well as profitability, risk and capitalization calculations. The following items are examples of these responsibilities:

- Detailed reporting on risks to subsidiaries' and Sampo plc's Risk Committees and the Boards of Directors
- Internal reporting on Economic Capital and Adjusted Solvency Capital at least on a quarterly basis
- Internal reporting on regulatory and rating agency capital charges and capital positions on a quarterly basis
- Disclosure of internal and regulatory capitalization 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. This can be seen as a separate phase in the risk management process as the insurance and investment business units on a daily basis assess different business opportunities and especially their risk return ratios. In financial and risk management functions, on the other hand, considerable amount of time is spent on risk assessment and 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 authorizations, risk policies and other instructions. These actions are the responsibility of business and centralized functions such as the investment unit. Activities related to capitalization and liquidity positions are included in this part of the process. In Sampo Group, proactive actions to manage profitability, risks and capital are seen as the most important phase of the risk and capital management process. Hence, risk policies, limits and decision making authorizations are set up in a way that they, together with profitability targets, facilitate business and investment units to take carefully considered risks. These actions can be seen for example as the following outputs:

- 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 tasks above contributes to the achievement of the three central **targets** of the risk management process:

Balance between risks, capital and earnings

- The risks affecting profitability as well as other material risks are identified, assessed and analyzed.
- Capitalization is adequate in terms of risks inherent in business activities and strategic risks, taking into account the expected profitability of the businesses. Risk bearing capacity is allocated to different business areas in accordance with the strategy.
- Underwriting risks are priced reflecting their inherent risk levels, expected returns of 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 operative processes are cost efficient and of high quality.
- Decision making is based on accurate, adequate and timely information.
- Continuity of operations is ensured and in case of discontinuity events recovery is fast and comprehensive.

Strategic and operational flexibility

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

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