

# Investment Portfolio Market Risks

In general, market risks refer to fluctuations in the financial results and capital base caused by changes in market values of financial assets and liabilities as well as economic value of insurance liabilities. The changes in market values and economic values are caused by movements in underlying market variables such as interest rates, inflation, foreign exchange rates, credit spreads and equity prices.

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 and managed by allocation limits and other risk limits. When the risk is related to debt and equity instruments issued by a specific issuer, it can be defined as issuer specific market risk that is managed by issuer specific limits. Furthermore, market risks include also risk of worsening market liquidity in terms of widening bid-ask spreads and the risk of unexpected changes in repayment schedules of assets. In both cases the market values of financial instruments in investment portfolios may change.

In Sampo Group, performance and market risks related to investment portfolios are mostly straightforward to analyse and manage. 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 allocations 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 has a thorough understanding of the Nordic markets and issuers and consequently Sampo Group's direct investments are mainly made in Nordic securities. 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. Through effective differentiation in asset selection concentration risk is proactively managed.

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.

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.

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 Investment Control Committee (ICC) in If P&C and Asset and Liability Committees (ALCOs) 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 ICC is responsible for monitoring the implementation of and compliance with the Investment and Asset Coverage Policies. The committee shall consider and propose changes to the policies. The Chairman is responsible for the reporting of policy deviations and other issues dealt with by the committee.

Mandatum Life has two ALCOs, of which the other controls the segregated assets and liabilities and the

other controls the rest of Mandatum Life's with profit assets and liabilities. The ALCOs control that the investment activities are conducted within the limits defined in the Investment Policy approved by the Board and monitors the adequacy of liquidity, profitability and solvency capital in relation to the risks in the balance sheet. The ALCOs prepare proposals of Investment Policy to the Board of Directors and report to the Board.

The aggregated market risks and concentrations at Sampo Group level are controlled by the Group's Audit Committee quarterly at a minimum. If deemed necessary, the concentration risks are further managed by deploying group level exposure restrictions, for instance by industries or by individual issuers.