Risks

In Sampo Group the risks associated with business activities fall by definition into three main categories: strategic risks associated with external drivers affecting the business environment, reputational risk associated with the company's business practices or associations and risks inherent in business operations. The first two risk classes are only briefly described in this Risk management report and 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 general business environment can cause larger than expected fluctuations in financial results and in the long run they can endanger the existence of Sampo Group's business models. External drivers behind such changes are various, including for instance general economic development, development of the institutional environment and technological innovations. As a result of these external drivers, business models of the industry can change, new competitors may appear and customer demand and behavior can change.

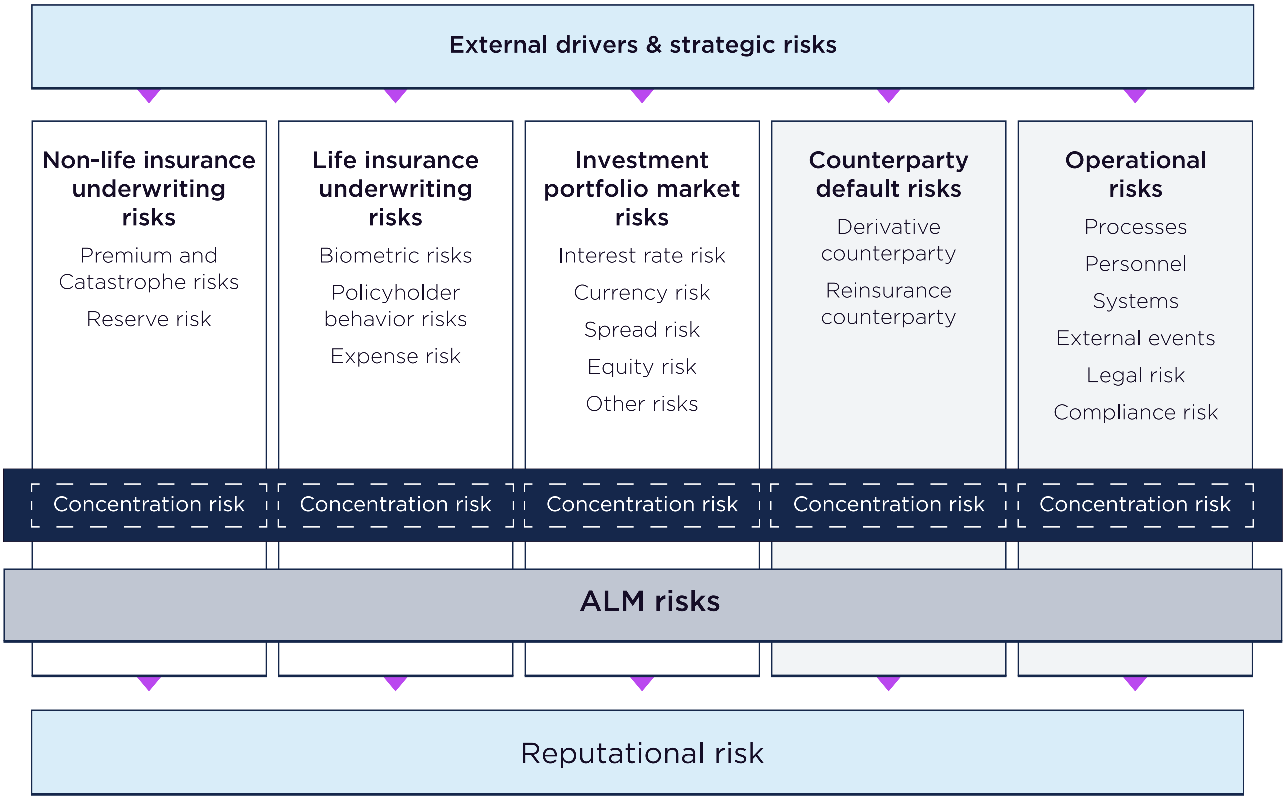
Due to the predominantly external nature of the drivers of and development in the competitive environment strategic risks are the responsibility of the executive level senior management. Proactive strategic decision-making is the central tool in managing strategic risks related to competitive advantage. Also, maintenance of internal operational flexibility to be able to adjust the business model and cost structure when needed is an efficient tool in managing strategic risks. Although strategic risks are not covered by the economic capital model in Sampo Group they may, however, have an effect on the amount of actual capital base, if deemed prudent in 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 realizes often as a deterioration of reputation amongst customers and other stakeholders. However, reputational risk is related to all other activities as well as shown in the figure Classification of Risks in Sampo Group. Because the roots of reputational risk are various, the tools to prevent it must be diverse and embedded in the corporate culture.

Hence, corporate culture, which is based on core values ethicality, loyalty, openness and entrepreneurship, is seen as an essential tool in preventing reputational risk in Sampo Group. These core values are reflected in Sampo Group's Corporate Governance system and in how Sampo deals with core stakeholders (i.e. customers, personnel, investors, other co-operation partners, tax authorities and supervisory authorities) and other parties, who may have interest in Sampo's business.

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 selected carefully and managed actively. Underwriting risks are priced reflecting their inherent risk levels and the expected return of investments is compared to the related risks. Furthermore, earnings 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 are indirect consequences of Sampo's business activities. They are one-sided risks, with no earnings potential related to them. Accordingly, the risk management objective is to mitigate these risks efficiently. Management of consequential risks is the responsibility of the business areas and the investment unit and 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 linked to various activities simultaneously. In order to manage these risks efficiently Sampo Group companies have to have a detailed understanding of expected cash flows and their variance within company's all activities. In addition, a thorough understanding of how the market consistent values of assets and liabilities may fluctuate at the total balance sheet level under different scenarios is needed. 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 the senior management because of their complexity and relevance to risks and earnings in the long run.

In general concentration risks arise when the company's risk exposures are not diversified enough, and as a result for instance an individual claim or financial market event could threaten the solvency or the financial position of the company.

Concentrations can evolve within separate activities – large single name or industry specific insurance or investment exposures – or across the activities when a single name or an industry is contributing widely on profitability and risks of the company through both insurance and investment activities.

Concentration risk may materialize indirectly also when profitability and capital position react similarly to general economic development or to structural changes in institutional environment in different areas of business. This kind of indirect concentration risk can be seen as part of strategic risk.