

# Investment Portfolio Market Risks

In Sampo Group, performance and market risks related to investment portfolios are mostly straightforward to analyse and manage, because Group applies mark-to-market procedures to most of its investments and only seldom are there instruments that require mark-to-model procedures.

In addition to investment portfolio market risks, the companies' balance sheets are also 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 the balance sheet level are taken carefully into account when investment portfolio allocations are designed and related limits and restrictions are defined.

Risk definitions related to investment portfolio market risks may be found in [Appendix 2 \(Risk Definitions\)](#).

## 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 a 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 of Sampo Group Financial Statements](#).

Sampo Group's Chief Investment Officer is responsible for managing investments within the limitations of the Investment Policies prepared by Group companies and approved by 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 Group's direct investments are mainly made in Nordic securities although lately direct investments outside non-Nordic countries have increased. 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 between companies, concentration risk is proactively managed at group level.

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 of 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 the Investment Unit prepare Investment Policies for Board approval. Secondly, Middle Office units which are independent of the Investment Unit, measure risks, 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 the 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 considers and proposes 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 one 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 as 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 group level are controlled by 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.