

ALM Risks

At the total balance sheet level, ALM risks contribute considerably to economic values of insurance liabilities, market value of assets, risks and capital need. ALM risks and exposures are analysed actively and the risks are taken into account when managing investments and developing insurance products. ALM

risks include also liquidity risk and other risks that may cumulate at the balance sheet level.

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

Principles of Asset and Liability Management:

In Sampo Group, insurance liabilities are the starting point for investment management. Insurance liabilities are modelled and analysed to form an understanding of their expected future cash flows and their sensitivities to changes in factors such as inflation, interest rates and foreign exchange rates.

The solvency position and risk appetite define the general capacity and willingness for risk taking. The

stronger the solvency position and the higher the risk appetite, the more the investment portfolio can potentially differentiate from a portfolio replicating cash flows of insurance liabilities.

Rating targets and regulatory requirements are major external factors affecting market and liquidity risk taking in general at the balance sheet level, and specifically at the investment portfolio level.

ALM in If P&C

The ALM risk in If P&C is managed in accordance with Sampo Group's principles. ALM is taken into account through the risk appetite framework and is governed by If P&C's Investment Policies.

In the accounts, most of the technical provision are nominal, while a significant part (the provisions for claims outstanding pertaining to annuities) is discounted with interest rates in accordance with regulatory rules. Thereby If P&C is, from an accounting perspective, mainly exposed to changes in inflation and the regulatory discount rates. From an economic perspective, in which the cash flows of insurance

liabilities (technical provisions) are discounted with prevailing interest rates, If P&C is exposed to changes both in inflation and nominal interest rates. For more information see the table [Sensitivities of Technical Provisions, If P&C, 2015 in Non-life Underwriting Risks section](#).

To maintain the ALM risk within the overall risk appetite, the cash flows of insurance liabilities (technical provisions) are matched by investing in fixed income instruments and by using currency derivatives.

ALM in Mandatum Life

The Board of Directors of Mandatum Life annually approves the Investment Policies for both segregated assets and other assets regarding the company's investment risks. These policies set principles and limits for investment portfolio activities.

The Investment Policy for segregated assets defines the risk bearing capacity and the corresponding control levels. Since the future bonus reserves of the segregated group pension portfolio is the first buffer against possible investment losses, the risk bearing

capacity is also based on the amount of the future bonus reserve. Different control levels are based on the fixed stress scenarios of assets.

The Investment Policy for other investment assets defines the control levels for the maximum acceptable risk and respective measures to manage the risk. The control levels are the critical levels set above the Solvency II SCR and they are based on predetermined capital stress tests. The general objective of these

control levels and respective guidelines is to maintain the required solvency.

When the above mentioned control levels are breached, the ALCO reports to the Board which then takes the responsibility for the decisions related to the capitalization and the market risks in the balance sheet.

The cash flows of Mandatum Life's with profit technical provisions are relatively predictable, because in most of the company's with profit products, surrenders and premiums are restricted. The company's claims costs do not contain a significant inflation risk element and thus the inflation risk in Mandatum Life is mainly related to administrative expenses.

The long-term target for investments is to provide sufficient return to cover the guaranteed interest rate plus bonuses based on the principle of fairness as well as the shareholder's return requirement with an acceptable level of risk. In the long run, the most significant risk is that fixed income investments will not generate adequate return compared to the guaranteed rate. In addition to investment and capitalization decisions, Mandatum Life has implemented active measures on the liability side to manage the balance sheet level interest rate risk. The company has reduced the minimum guaranteed interest rate in new contracts, supplemented the technical provisions with discount rate reserves and adjusted policy terms and conditions as well as policy administration processes to enable more efficient interest rate risk management.

Interest Rate Risk of Balance Sheet

Because the duration of liabilities in Sampo Group companies is longer than the duration of assets, the effect of decreasing interest rates is negative for

Sampo Group. This risk is partly mitigated by having major portion of Sampo plc's debt tied to the short term interest rates.

Liquidity Risks

Liquidity risk is relatively immaterial in Sampo Group's businesses because liability cash flows in most lines of business are fairly stable and predictable and an adequate share of the investment assets are in short-term money market instruments and liquid government bonds. Sampo Group companies manage the liquidity risk on a daily basis and in addition both the parent company's and the subsidiaries' creditworthiness and reputation are proactively managed.

In Sampo Group, liquidity risk is managed by the legal entities, which are responsible for liquidity planning and maintaining adequate liquidity buffers. Liquidity risk is monitored based on the expected cash flows resulting from assets, liabilities and other business. In the subsidiaries, the adequacy of liquidity buffers is dependent on the underwriting cash flows. In the parent company, the adequacy of liquidity buffers is dependent also on potential strategic arrangements and a strong liquidity in general is preferred. At the end of 2015, the liquidity position in each legal entity was in accordance with internal requirements.

In If P&C, liquidity risk is limited, since premiums are collected in advance and large claims payments are

usually known a long time before they fall due. Liquidity risks are managed by cash management functions who are responsible for liquidity planning. Liquidity risk is reduced by having investments that are readily tradable in liquid markets. The available liquid financial assets, which are the part of the assets that can be converted into cash at a specific point in time, is analysed and reported to the ORSA Committee.

In Mandatum Life, a large change in surrender rates could influence the liquidity situation. However, only a relatively small part of the insurance policies can be surrendered and it is therefore possible to forecast short-term cash flows related to claims payments with a very high accuracy.

The maturities of technical provisions and financial assets and liabilities are presented in the table Cash Flows According to Contractual Maturity, If P&C, Mandatum Life and Sampo plc, 31 December 2015. The table shows the financing requirements resulting from expected cash inflows and outflows arising from financial assets and liabilities as well as technical provisions.

Cash Flows According to Contractual Maturity

If P&C, Mandatum Life and Sampo plc, 31 December 2015

EURm	Carrying amount total			Cash flows						
	Carrying amount total	Carrying amount without contractual maturity	Carrying amount with contractual maturity	2016	2017	2018	2019	2020	2021-2030	2031-
If P&C										
Financial assets	12,730	1,977	10,753	2,079	1,559	1,590	1,744	1,824	692	0
of which interest rate swaps	0	0	0	0	0	0	0	0	0	0
Financial liabilities	809	0	809	-11	-12	-101	-7	-7	-116	0
of which interest rate swaps	0	0	0	-0	-1	-1	-1	0	0	0
Net technical provisions	9,194	0	9,194	-3,108	-1,092	-648	-481	-404	-2,144	-1,904
Mandatum Life										
Financial assets	6,543	2,922	3,621	682	550	726	336	878	658	15
of which interest rate swaps	0	0	0	0	0	0	0	0	0	0
Financial liabilities	194	0	194	-37	-5	-5	-6	-5	-64	-228
of which interest rate swaps	1	0	1	-0	0	0	-1	0	0	0
Net technical provisions	4,506	0	4,506	-516	-447	-407	-383	-351	-2,352	-1,787
Sampo plc										
Financial assets	1,618	988	630	60	80	118	167	44	274	228
of which interest rate swaps	10	0	10	19	18	0	0	0	0	0
Financial liabilities	2,318	0	2,318	-703	-556	-262	-39	-367	-508	0
of which interest rate swaps	0	0	0	0	0	0	0	0	0	0

In the table, financial assets and liabilities are divided into contracts that have an exact contractual maturity profile, and other contracts. Only the carrying amount is shown for the other contracts. In addition, the table shows expected cash flows for net technical provisions, which by their nature, are associated with a certain degree of uncertainty. In the investment assets of Mandatum Life, the investments of the Baltic subsidiary are included in the carrying amount but excluded from the cash flows.

Sampo Group has a relatively low amount of financial liabilities and thus Group's respective refinancing risk is relatively small. During 2015, Sampo plc issued two public bonds amounting to 3 billion Swedish kronas and several private placements targeted at Mandatum Life's retail clients. Sampo Group companies have business relationships with several creditworthy counterparties which mitigate the risk that Group is

not able to enter into reinsurance or derivative transactions when needed.

Since there is no unambiguous technique to quantify the capital need for liquidity risk, it is not directly taken into account in the capital need estimates. Thus only the interest rate risk part of the ALM risks is accounted for in the economic capital framework.