

Chapter III



Sampo Group Risk Management 2008

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1 Overview of Sampo Group's Risks

Sampo Group has two business areas: P&C insurance (If P&C) and life insurance (Mandatum Life). The insurance businesses are based on the bearing of risks resulting from the randomness of insured events. Insurance businesses are also subject to investment risks as the insurance payments the company receives are invested in the financial markets. Moreover, the holding company (Sampo plc), which owns and administers the insurance subsidiaries, also manages investment assets of approximately EUR 2.8 billion. The total amount of investment assets in Sampo Group is EUR 16.5 billion.

Operational risks, such as failures in internal processes and systems, and business risks, such as changes in the economic environment or business cycle, are inherent in all business areas. Sampo Group is continuously working with improving internal control, core processes and systems, as well as monitoring and analyzing impacts from changes in the Group's external operating environment to reduce the impact of such risks.

SAMPO GROUP'S RISK PROFILE

The core of P&C insurance is the transfer of risk from insured clients to the insurer. If P&C collects insurance premiums from a large group of policyholders and commits itself to compensate them if an insured event occurs. For P&C insurance, the result depends on both the underwriting result and the return on investment assets. It is of utmost importance for the underwriting result that insurance policies are correctly priced. However, there is a risk of adverse outcomes due to the inherent uncertainty associated with the insurance business. This uncertainty is managed, for example, by reinsurance. Since a major portion of the insurance premium will be paid to policyholders through future claims, it has to be assured that sufficient assets are always available to cover these liabilities.

In life insurance operations the company offers unit-linked and with-profit savings and pension policies as well as policies covering insurance risks. Insurance premiums received from customers are invested in the financial markets until payments are made to customers in the future. In unit-linked policies the customers carry all the risks of the investments. In with-profit policies the company carries the risks from the investments. These are the main risks facing the life insurance operations. In the long run for the business to prevail, at least the guaranteed interest rate and bonuses according to the principle of fairness, as well as the shareholders' return requirement, must be earned on the investments. Life insurance operations are also exposed to biometric risks, the most important of which are related to longevity, mortality and disability.

Sampo plc, the holding segment, manages a substantial investment portfolio. The current investment strategy is to invest in shares of Northern European financial companies or to keep investment assets in cash. The Board actively monitors potential investment targets. Market risks related to Sampo plc's investment portfolio are monitored and regularly reported within the Sampo Group's risk governance framework.

The classification of Sampo Group's risks is depicted in figure 1.

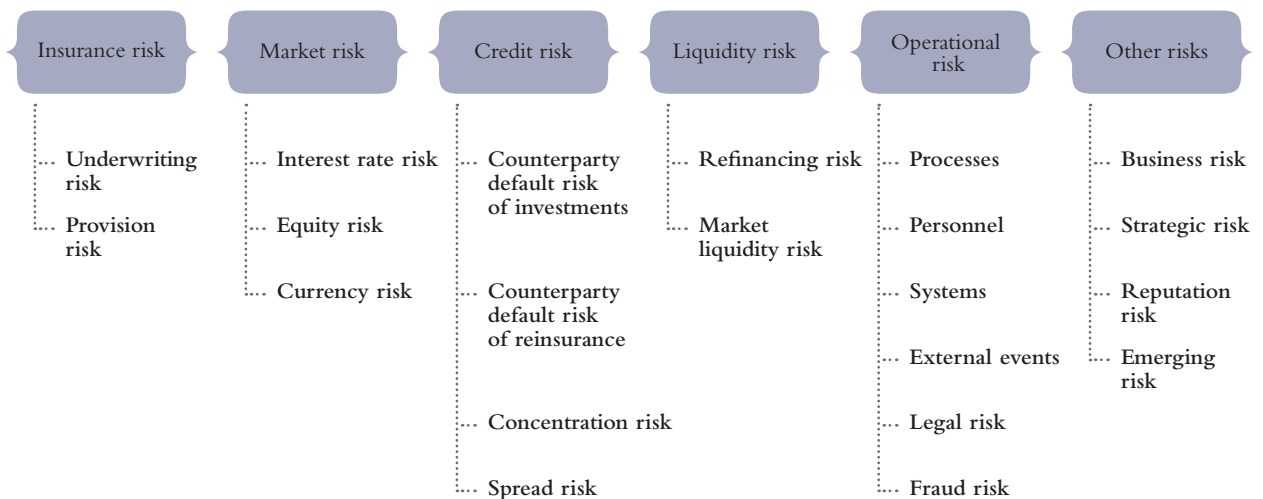
Although the classification of Sampo Group's risks is based on Solvency II QIS 4 technical specifications, the classification does not entirely follow Solvency II. The main difference occurs from the definition of spread risk, which in Sampo Group's case is defined into credit risk instead of market risk.

DEVELOPMENTS IN 2008

The year 2008 was characterized by the financial crisis which had considerable effects on Sampo Group's business and operating environment. The level of risk related to financial investments is

Figure 1

The classification of risks in Sampo Group



still at an unusually high level. The values of our investment portfolios have decreased due to the fall in equity prices and widened credit spreads in the fixed income portfolios. At year end, the relative weight of equities in the investment portfolios of Sampo Group's insurance subsidiaries was at a historically low level. The developments in the financial markets are further discussed in the CEO's Review section of this annual report.

The solvency of Sampo Group's insurance subsidiaries has decreased during the year due to the weak financial market environment. Solvency capital of If P&C decreased to EUR 2,021 million (EUR 2,481 million) while the regulatory minimum requirement was EUR 570 million (EUR 645 million). Solvency capital in Mandatum Life Group decreased to EUR 384 million (EUR 846 million) while the regulatory minimum capital requirement was EUR 225 million (EUR 239 million). However, Sampo Group's consolidated capital position was very strong. The Group solvency ratio was 434 per cent (775 per cent). The Group's adjusted solvency capital was EUR 4,023 million (EUR 7,757 million) while the economic capital calculated with a confidence level of 99.97 per cent was EUR 2,585 million (3,395 million).

The main change in Sampo Group's risk profile in 2008 was the decline in the proportion of equity in the investment portfolios of Sampo Group's insurance subsidiaries. In contrast, Sampo plc increased its holding in Nordea and Topdanmark. Sampo Group's holding now amounts to over 10 per cent in both of the companies. Moreover, Sampo plc bought back its own shares in connection with the placement of Exista's 20 per cent stake in Sampo plc. However, on the Group level the proportion of equities in the investment portfolio has fallen from 23 per cent to 16 per cent during the year. The investment allocation has shifted towards fixed income instruments and the relative importance of credit risk has therefore in-

creased. The shift in our investment allocation towards fixed income instruments has also resulted in an increased focus on credit and liquidity risk management.

The changes in Sampo Group's risk profile mainly result from the developments in the financial markets which have been unprecedented during 2008. Sampo Group's business risk profile in the insurance subsidiaries has however remained relatively stable. During the year we have also continued to develop our risk and capital management systems and processes as we prepare for Solvency II.

2 Overview of Sampo Group's Risk Management

Risk is an essential and inherent element of Sampo Group's business activities and operating environment. Clearly defined policies and responsibilities, together with a strong commitment to the risk management process, are Sampo Group's tools to manage and mitigate the risks.

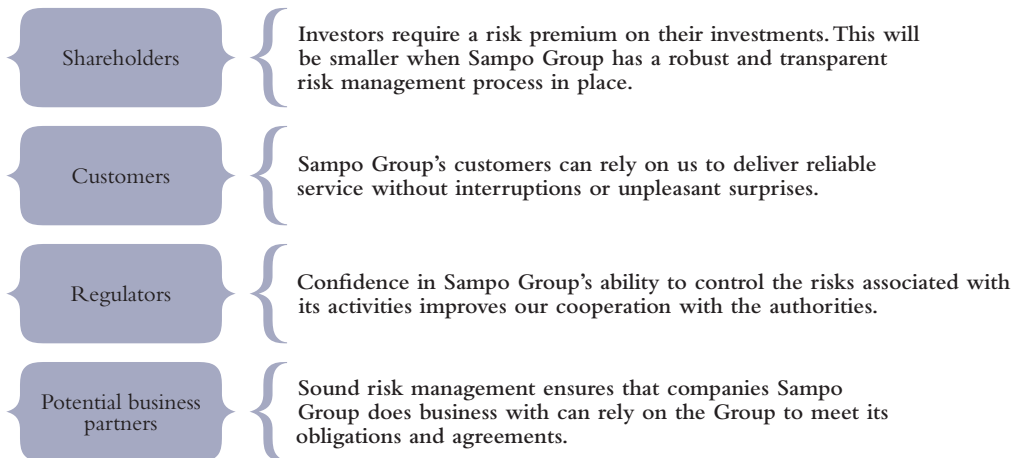
Sampo Group believes that sound risk management is a decisive competitive advantage. Risk awareness and robust risk management increases the attractiveness of Sampo Group from the perspective of investors, customers, regulators and potential business partners, as described in figure 2.

In Sampo Group, risk is defined as uncertainty related to the Group's earnings or financial position. The key objectives for risk management are to ensure capital adequacy in relation to the risks inherent in business activities, and to limit fluctuations in financial results. To meet these objectives, Sampo Group strives to ensure careful capital allocation, a reasonable risk to return ratio and to guarantee efficient and continued business processes under all circumstances. This requires all risks to be properly identified and measured.

Figure 2

Benefits of risk management to Sampo Group's stakeholders

Risk management increases the value of Sampo Group from the perspective of the following stakeholders:



In pursuit of returns exceeding the risk-free rate, the possibility of losses has to be accepted. Sampo Group however strives to ensure that the risks of running the business do not exceed approved levels. The approved levels of risks are determined based on the availability of capital and the selected risk tolerance. Risk taking is restricted through a system of risk limits that are set by top management. Risks are taken into account for example in pricing decisions. In addition, the main protection mechanisms against losses are the Group's well organized risk governance system, a steady flow of income financing from the business operations and a prudent capital buffer.

Risk management deals with the identification of the main risks affecting the businesses. In Sampo Group, the assessment of risks is integrated into the annual business planning process, where the key risks related to the strategic plans are identified. Risk management supports the allocation of capital to businesses with the most attractive risk-return opportunities, as well as decisions regarding which risks to take and how to manage the portfolio of risks as efficiently as possible. Risks are constantly monitored in relation to limits and risk management principles defined in risk policies on different levels in the organization. Risk management is based on consistent measurement and reporting of risks.

RISK GOVERNANCE AND REPORTING STRUCTURE

This chapter describes Sampo Group's governance framework regarding risk control. Sampo Group's overall Corporate Governance and system of internal control is described in the Corporate Governance section of this annual report.

The reporting of Sampo Group is divided into three segments, which are P&C insurance, life insurance and holding. These segments correspond to the legal entities of If P&C, Mandatum Life and Sampo plc, respectively. Sampo plc's Board of Directors and the Audit Committee, together with the Boards of Directors of the subsidiaries, share the overall responsibility for the risk management process. Risk owners within the different business areas are responsible for the day-to-day risk taking decisions. In If P&C, risk owners are represented in the individual committees, e.g. Underwriting and Reinsurance Committees. In Mandatum Life the Investment Control Committee is responsible for the supervision and control of investment risk and the Management team members are responsible for risk management within their own business area or function.

***Risk Governance in Sampo Group***

The Board of Directors of Sampo plc is responsible for ensuring that the Group's risks are properly managed and controlled. The Board sets the principles of risk management and provides guidance on the organization of risk management and internal control in the business areas. The Board makes decisions on strategies, as well as on general guidelines regarding capital allocations and target returns. Also risk tolerance and capital management decisions are the responsibility of

the Board. In addition, the Board of Directors has established and appointed the members of an Investment Committee to control the holding company's investment activities and investment risks.

The Audit Committee (AC) is responsible, on behalf of the Board of Directors, for the preparation of Sampo Group's risk management principles and other related guidelines. The AC shall ensure that the operations are in compliance with these, control Sampo Group's risks and risk concentrations as well as control the quality and scope of risk management. The committee shall also monitor the implementation of risk policies, the use of limits and the development of risks and profit. At least three members of the AC should be elected from those members of the Board, who do not hold management positions in Sampo Group and are independent of the company. The AC meets on a quarterly basis.

Group Chief Risk Officer (CRO) is responsible for supervising risk management on Sampo Group level. The CRO aims to secure a holistic view of the risks Sampo Group is exposed to by monitoring and measuring Sampo Group's aggregated risk exposure and by coordinating and monitoring company specific and group level risk reporting.

The Boards of Directors in each insurance subsidiary have the overall responsibility for the risk management process and they are the ultimate decision making bodies at If P&C and Mandatum Life, respectively. The respective Board ensures that the management and follow-up of the risks are satisfactory, monitors risk reports and approves risk management plan. The Boards of Directors of If P&C, Mandatum Life and Sampo plc appoint the individual risk management committees within each legal entity.

Concentration risks across the Sampo Group are mainly market and credit risks related to the individual segments' investment portfolios. These risks are managed by taking into account the total Group exposure when setting individual limits in the investment policies for the various subsidiaries within the Group. Concentrations of investment risks in If P&C, Mandatum Life and Sampo plc are monitored and controlled by the individual Investment Control Committees in the three respective segments (Investment Committee in Sampo plc), and the total Group exposures are monitored and controlled by Sampo's Chief Investment Officer, Sampo's Chief Risk Officer and Sampo's Audit Committee.

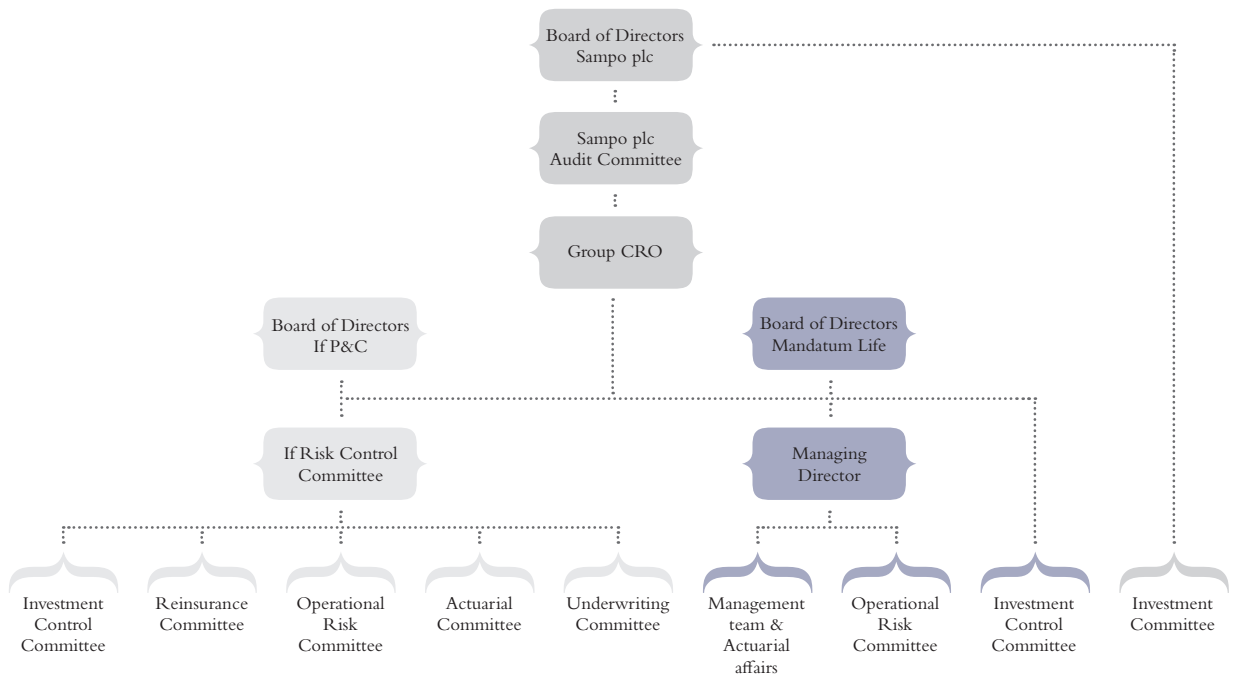
***Risk Governance in If P&C***

If's Risk Control Committee (IRCC) assists the CEO and the Board of Directors of If P&C in fulfilling their responsibilities relating to the risk management process. IRCC monitors reports from the relevant committees and functions as well as the risk position of If P&C in relation to restrictions and limits given by the Board and in comparison to the capital position. Risk Management department is the responsible function for coordinating risk management work on behalf of the IRCC.

The separate risk committees in If P&C reporting to the IRCC are Investment Control Committee (ICC), Under-

Figure 3

Risk management governance framework



writing Committee (UC), Actuarial Committee (AC), Reinsurance Committee (RC), and Operational Risk Committee (ORC). ICC is responsible for the organization and control of investment activities in If P&C ensuring compliance with the principles and limits specified in the Investment Policy. ICC reports to the Board and meets at minimum once a month. UC is responsible for maintaining the Underwriting Policy and for reporting all deviations from the Underwriting Policy to IRCC. AC monitors the technical provisions and technical calculations and reports on provision risk to the IRCC on a quarterly basis. RC is responsible for approving on deviations from Reinsurance Security Policy and reporting all deviations to IRCC. ORC considers various policies and recommendations concerning operational risk management within If P&C and monitors deviations from these policies. Moreover, the committee is responsible for follow-up of operational risks identified in the operational risk assessment process.

Risk Governance in Mandatum Life

The Managing Director of Mandatum Life has the overall responsibility of risk management in Mandatum Life. Management team members are responsible for risk management within their own business area or functions. Mandatum Life’s Investment Control Committee (ICC) controls Mandatum Life’s investment operations, which are operated by Sampo

plc’s investment unit, and solvency. ICC meets at a minimum on a monthly basis. Under normal circumstances, the members of the Board of Directors and managing director get monthly reports on investments and solvency. However, in special cases, e.g. during the financial crisis, the reports on investments and solvency have been submitted on a daily basis. The decisions regarding the biggest investment risks are made by the Board.

The actuarial department in Mandatum Life is responsible for the risk management of underwriting and provision risks. The actuarial department ensures that tariffs and prices are adequate and reports to the Board if changes to the tariffs are needed. The Board approves the tariffs and prices, defines the maximum amount of risk to be retained on company’s own account and approves the Reinsurance Policy annually. The actuarial department also monitors on a continuous basis that technical provisions are adequate and reports to the Board if changes in the calculation basis are needed. Any changes to calculation basis of technical provisions are approved by the Board.

Realized operational risk incidents, reported by Mandatum Life’s business units and collected and analyzed by the Operational Risk Committee (ORC), are reported to the Management Team, managing director and the Board of Directors quarterly. ORC is also responsible for maintaining and updating the continuity plan and preparedness plan.

3 Valuation Methods of Financial Instruments

A large majority of Sampo Group's financial assets are valued at fair value. The valuation is based on either published price quotations or valuation techniques based on market observable inputs, where available. For a limited amount of assets the value needs to be determined using other techniques. The valuation methods of financial assets are shown in table 1.

Table 1
Valuation methods of financial assets

EURm	31 DEC 2008			2008 Total
	Published price quotations in an active market ¹⁾	Valuation technique – based on market observable inputs ²⁾	Valuation technique – not based on market observable inputs ³⁾	
Financial assets				
Available for sale assets	11,771	3,476	26	15,273
Financial assets at fair value through profit or loss	338	51	6	395
Held to maturity	-	1	-	1
Derivates	376	94	0	470

¹⁾ Included in this category are financial assets that are measured in whole or in part by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.
²⁾ Included in this category are financial assets that are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions in the same instrument type or based on available market data.
³⁾ Not based upon market observable input means that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument type nor are they based on available market data.

4 Capital Management in Sampo Group

Sampo Group focuses on both capital efficiency and sound risk management while keeping the capital resources at an appropriate level in relation to the risks taken. At a minimum, this means ensuring that available capital exceeds the capital requirements according to Sampo Group's internal measure as well as the measures of external stakeholders such as regulators and rating agencies.

CAPITAL MANAGEMENT APPROACH

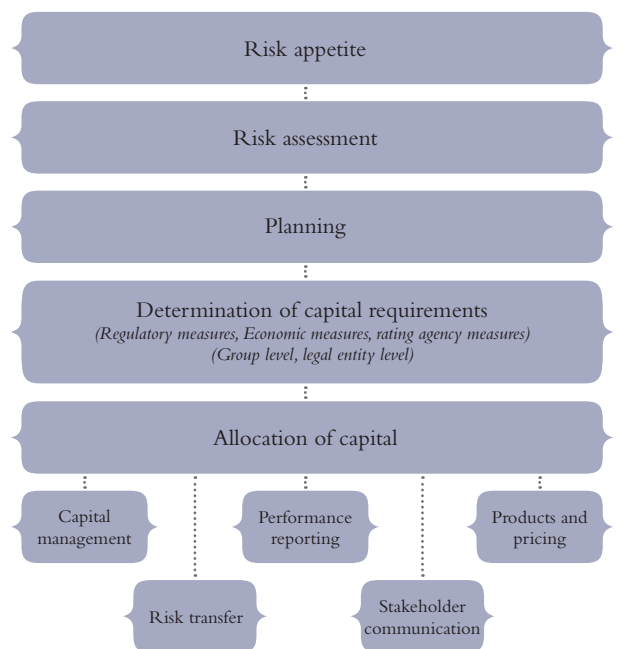
One of the roles of capital is to act as a buffer against future losses. It is therefore convenient to define risk in terms of capital. The starting point is the Group's risk appetite, which is implemented through a system of risk limits, policies and authorizations approved by the Board of Directors. Risk exposures are constantly monitored and their implications on the capital position are assessed. The risk and capital position is reported on at least a quarterly basis. If necessary, e.g. during the financial crisis, the reporting frequency is much higher.

In addition to maintaining capital resources at a sufficient level, we seek to:

- Allocate capital to support growth in profitable businesses,
- Manage the Group's debt to equity structure in order to enhance returns to shareholders while maintaining reasonable financial flexibility,
- Retain at least a single A rating.
- Ensure sustainable dividends in accordance with Group's dividend policy (dividend yield 4-6 per cent, not more than profit for the financial year).

Sampo Group's capital management process is illustrated in figure 4.

Figure 4
Capital management process



CAPITAL AND SOLVENCY

The management of capital is about monitoring the relationship between available capital and required capital. To fulfil the requirements of different stakeholders, the Group uses different measures to describe the capital position: regulatory measures, internal economic measures and rating agency measures.

Regulatory Measures

Insurance is a highly regulated business with formal rules for minimum capital and capital structure. Solvency capital is a measure used to assess an insurance company's ability in fulfilling its liabilities to the policyholders. Solvency capital measures the amount of capital that can be used to cover unexpected losses arising from the insurance or investment operations.

The supervising authorities set minimum requirements for solvency capital. Solvency is reported quarterly to the supervisory authorities monitoring Sampo Group and to the local supervisors of subsidiaries. The regulatory measures, minimum requirement for solvency capital and solvency capital, are presented in table 2.

Table 2

Group solvency on 31 December 2008

EURm	31 DEC 2008	31 DEC 2007
Group capital	4,631	7,733
Sectoral items	391	855
Valuation differences and deferred taxes	3	467
Subordinated loans	388	388
Intangibles and other deductables	-1,571	-1,733
Intangibles	-663	-718
Equalisation reserve (Finland)	-333	-289
Contingency reserve (Finland)	-31	-30
Other	-94	-7
Planned dividends for the current period	-449	-689
Solvency capital, total	3,452	6,854
Minimum requirements for solvency capital, total	796	885
Group solvency	2,656	5,969
Group solvency ratio (solvency capital % of minimum requirement)	434%	775%

The new early warning solvency rules for life insurers became effective in Finland as of October 2008. The new rules are based on a similar framework as the Solvency II draft, but with different assumptions (zero correlations and 99 per cent confidence level instead of 99.5 per cent).

Sampo Group measures the adequacy of its solvency capital by calculating group solvency ratio, which tells us how much the company has eligible own funds in relation to the minimum requirement for the solvency capital set by the supervising regulators. The group solvency is based on adjusted solvency calculations for insurance groups according to the Decree of the Finnish Ministry of Social Affairs and Health (1106/2000). The adjusted solvency is determined on the basis of the group financial statements as regulated by the Financial

Supervisory Authority. The minimum requirement for the solvency capital is the supervisor's view on how much capital is needed to cover the risks taken by the business operations of the Group.

The calculation of group solvency is shown in table 2. The group solvency ratio on 31 December 2008 was 434 per cent (775 per cent).

Internal Economic Measures

Economic capital is an internal measure of Sampo Group which describes the capital required in the Group in order to bear different kinds of risks. Economic capital is defined as the amount of capital required on the Group level to protect the economic solvency over a one year time horizon with a probability of either 99.97 per cent or 99.5 per cent. Economic capital accounts for market, credit, insurance and operational risks, as well as the diversification effect between these risks.

Adjusted solvency capital, which is the Group's internal measure of available capital, is the measure to compare with economic capital. The difference between adjusted solvency capital and solvency capital, the regulatory measure, is mainly the difference between the book value and market value (including a risk margin) of net technical provisions.

The regulatory measures, minimum requirement for solvency capital and solvency capital, as well as the economic measures, economic capital and adjusted solvency capital, are presented in table 3. The main factor in the assessment of the Group's solvency is the relationship between the Group's economic capital and adjusted solvency capital. On the basis of the calculations presented in table 3, Sampo Group is highly solvent. The amount of adjusted solvency capital on the Group level exceeded the economic capital calculated with a confidence level of 99.97 per cent by EUR 1,438 million. All of the Sampo Group companies fulfilled their regulatory minimum capital requirements.

Rating Agency Measures

If P&C Insurance (Sweden) and If P&C Insurance Co. (Finland) are rated by Moody's and Standard & Poor's and Sampo plc by Moody's. The Group's rating objective is to retain at least a single A rating.

Table 3

Minimum requirement for solvency capital, solvency capital, economic capital and adjusted solvency capital on 31 December 2008

EURm	31 DEC 2008				31 DEC 2007			
	If P&C	Mandatum Life	Sampo plc	Sampo Group	If P&C	Mandatum Life	Sampo plc	Sampo Group
Regulatory minimum capital requirement	570	225	-	796	645	239	-	885
Solvency capital	2,021	384	-	3,452	2,481	846	-	6,854
Economic capital (99.5% confidence level)	949	692	534	1,895	1,179	776	870	2,491
Economic capital (99.97% confidence level)	1,336	920	711	2,585	1,661	1,031	1,157	3,395
Adjusted solvency capital	2,351	578	-	4,023	2,800	1,583	-	7,757

RISK AND CAPITAL MODELLING IN SAMPO GROUP

Economic capital is estimated for insurance, market, credit and operational risks using a set of calculation methods. Internal stochastic models are used for some risks and the approach from Solvency II QIS 4 Solvency Capital Requirement (SCR) methods are used for other. All measures are calculated at the 99.5 per cent confidence level and then calibrated to the 99.97 per cent level. A summary of the calculation methods is shown in figure 5.

Risk and Capital Modelling in P&C Insurance

The economic capital in If P&C for market risk, insurance risk and credit risk relating to reinsurance assets is calculated using If P&C's internal stochastic models. For credit risks related to investment assets and for operational risks, economic capital is estimated based on the standard model used in the fourth Quantitative Impact Study ('QIS 4') in the Solvency II framework and calibrated to the confidence level used in Sampo Group's internal models.

In order to assess the overall risk profile, it is necessary to incorporate the interrelationships between the various risk types, as some of the risks may develop in opposite directions creating natural hedges. For this purpose, If P&C has used an internal dynamic financial analysis (DFA) model for several years. Through simulations of both the investment and insurance operations, the effect on overall capital need of, for example, alternative reinsurance structures and investment allocations can be analyzed.

In addition to the calculation of economic capital, the DFA model is also used for making decisions on:

- Overall capital need for If P&C and its subsidiaries.
- Allocation of capital to the various lines of business in order to achieve consistent profit targets throughout the organization.
- Investment policy and the minimum and maximum weights for each investment class.
- Reinsurance retention levels.

Risk and Capital Modelling in Life Insurance

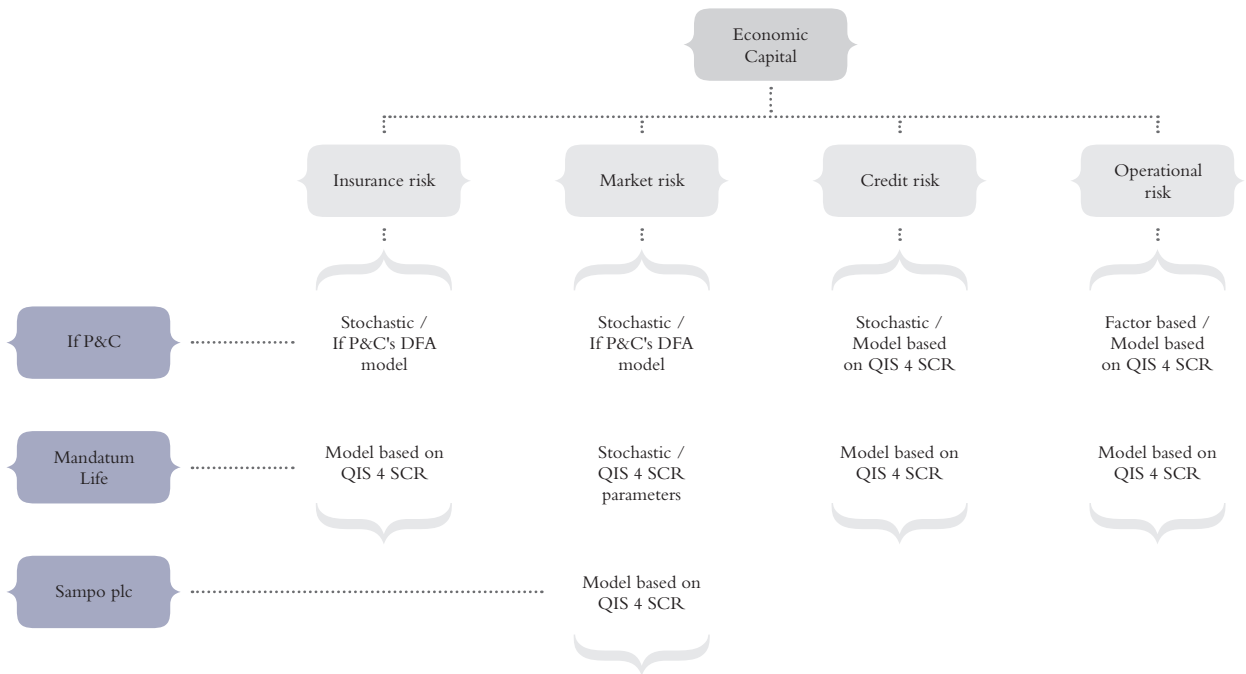
Calculations of economic capital requirements in Mandatum Life are based on a total balance sheet approach, meaning that values and risks of assets and liabilities are recognized market consistently. Market consistent value of liabilities is estimated by using stochastic simulation. The calculation of Mandatum Life's economic capital calculated with the 99.5 per cent confidence level is based on the model and parameters that were used in the QIS 4 in Solvency II. Mandatum Life's economic capital calculated with the 99.97 per cent confidence level is calibrated from the economic capital results calculated with the 99.5 per cent confidence level.

Risk and Capital Modelling in Holding

The economic capital in Holding is estimated based on the QIS 4 method for market risk. Due to the Nordea holding, the holding segment is a significant contributor to economic capital.

Figure 5

Economic capital framework



DISTRIBUTION OF ECONOMIC CAPITAL IN SAMPO GROUP

Economic capital tied up in the Group's operations calculated with a confidence level of 99.5 per cent on December 31, 2008 was EUR 1,895 million compared to EUR 2,491 million on 31 December, 2007. The corresponding economic capital figures on a confidence level of 99.97 per cent were EUR 2,585 million (EUR 3,395 million). The reduction in economic capital is mainly due to the decrease in the economic capital related to market risks particularly in the Holding segment.

Economic capital does not only reflect the capital needed for the different kinds of risks, but also their mutual diversification effect. This gives a more accurate view of the overall capital need as it is very unlikely that all risks in the Group's segments will materialize simultaneously. Figures 6–9 show the distribution of economic capital in the group between different risk areas and in the different business areas.

The biggest risks in the Group are insurance risks related to P&C insurance, market risks in Life insurance operations and the Nordea holding in the Holding segment. This is reflected in the allocation of economic capital.

Figure 6

Breakdown of economic capital calculated with the confidence level of 99.5 per cent by different risks and by segment on 31 December 2008

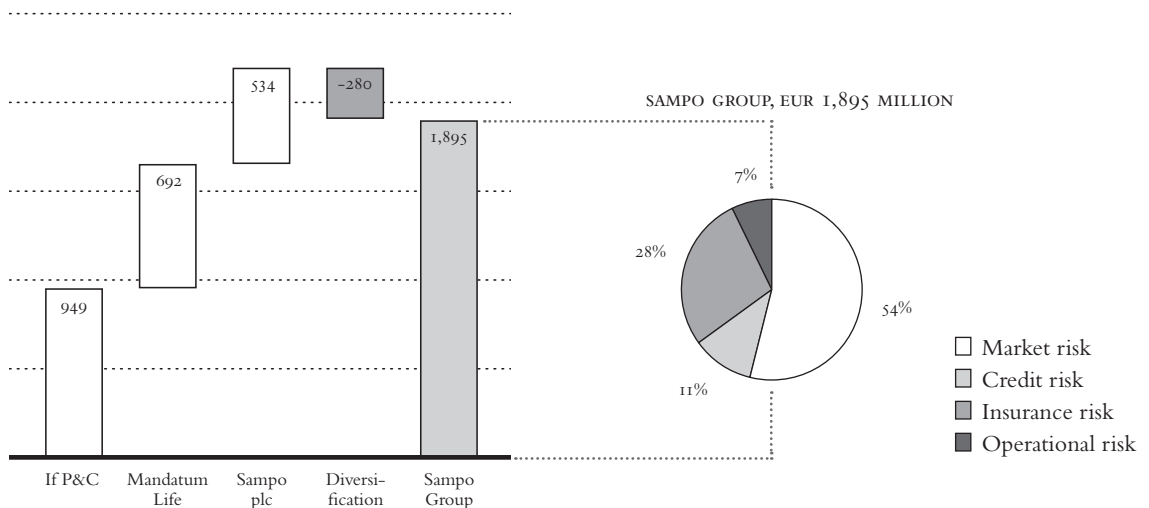


Figure 7

Breakdown of economic capital calculated with the confidence level of 99.97 per cent by different risks and by segment on 31 December 2008

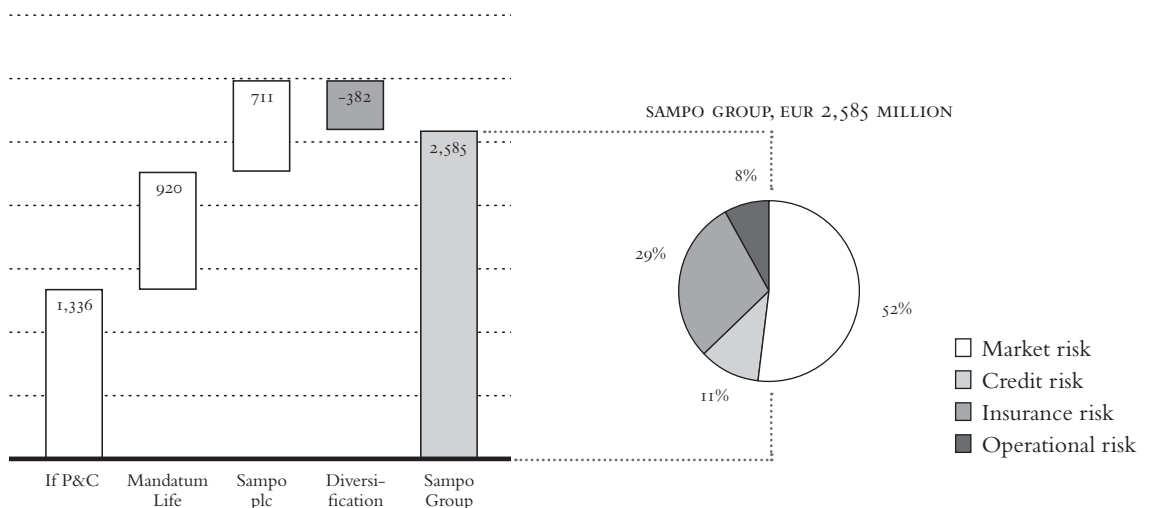


Figure 8

Economic capital calculated with the confidence level of 99.5 per cent,
 If P&C, Mandatum Life on 31 December 2008

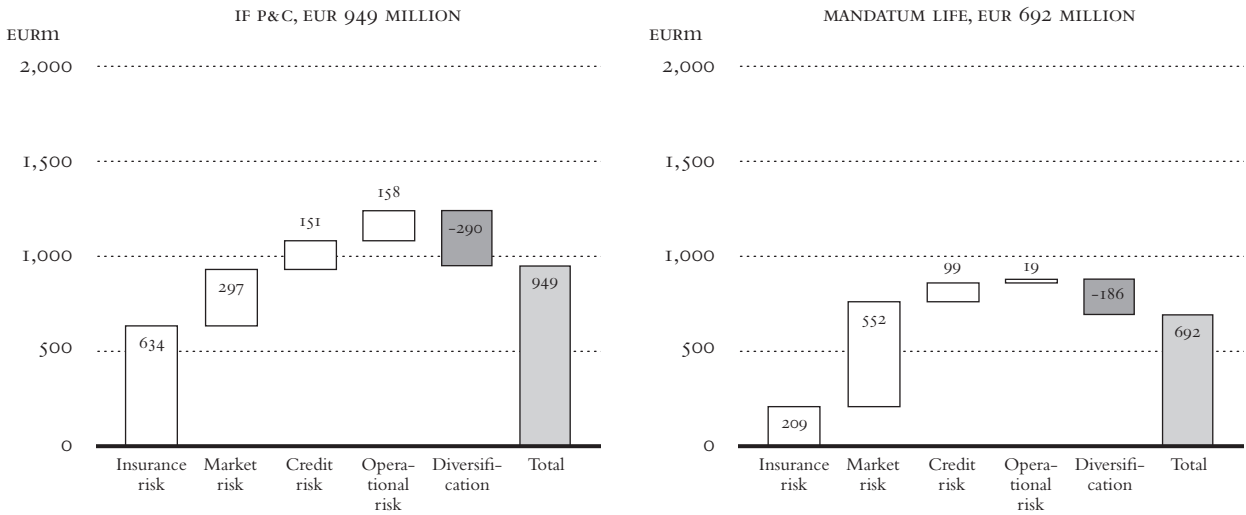
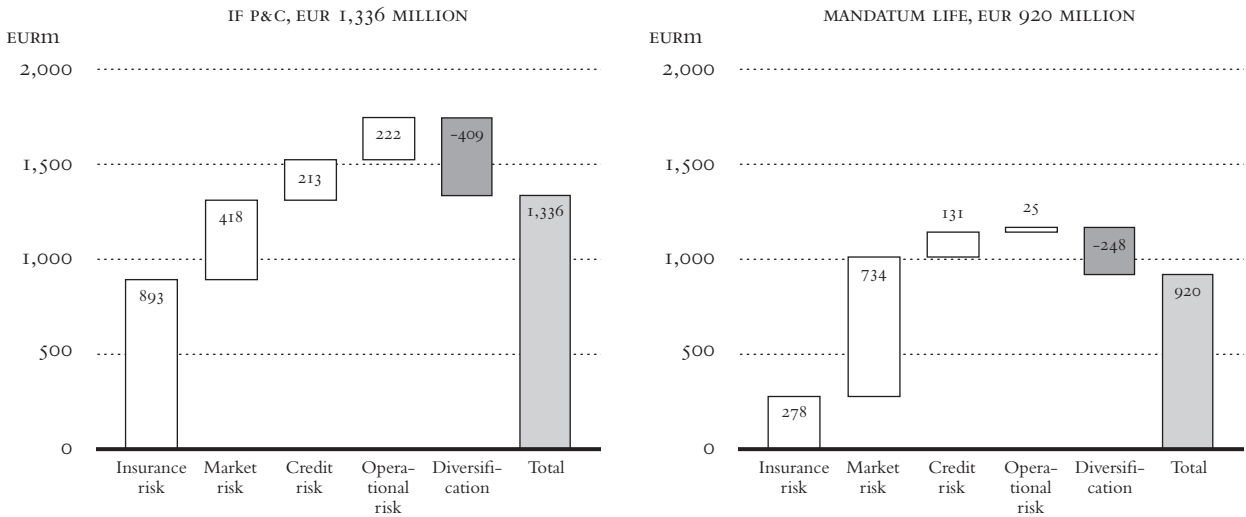


Figure 9

Economic capital calculated with the confidence level of 99.97 per cent,
 If P&C, Mandatum Life on 31 December 2008



5 Insurance Risks

Insurance risk is the risk that the cost of future insurance claims will be higher than anticipated. Insurance risk is one of the main risks in Sampo Group's business and the assessment and management of insurance risks forms the foundation for all insurance operations.

Insurance risk is divided into underwriting risk and provision risk. Underwriting risk is the risk of losses due to e.g. inadequate pricing, risk concentration, improper reinsurance coverage or random fluctuations in frequency and/or size of claims. Provision risk is the risk of loss due to technical provisions not being sufficient to cover the cost of claims from insurance business already written, e.g. due to higher inflation than expected.

INSURANCE RISKS IN P&C INSURANCE *Underwriting Risk in P&C Insurance*

Underwriting risk is the risk due to the inherent uncertainty associated with the pricing of undertaken insurance risks. The core business of P&C insurance is transfer of risk from the insured to the insurer. P&C insurance undertakes the obligation to indemnify the insured in case of claims, in exchange, the insured pay a premium. Naturally a crucial factor contributing to the profitability of P&C insurance operations is the ability to accurately estimate claims and administrative costs and thereby correctly price the insurance contracts.

The underwriting activities are always subject to the P&C insurance underwriting principles. The company should always have the necessary knowledge, expertise and data to understand and quantify the risks. As a rule, If P&C only writes insurance in the Nordic and Baltic countries and in Russia unless the risk is otherwise clearly related to the Nordic countries.

Given the inherent uncertainty of P&C insurance there is a risk that the future claims are unexpectedly high, which will lead to losses. Examples include large industrial fires, natural catastrophes such as severe windstorms and unforeseen increases in the frequency or the average size of small and medium-sized claims.

A sensitivity analysis of the aggregated underwriting risk on 31 December, 2008 is presented in table 4.

Table 4
Sensitivity test, underwriting risk,
If P&C

Parameter	Current level (2008)		Effect on pretax profit, EURm	
	Change	2008	2007	
Private's combined ratio	+/- 1%	+/- 20	+/- 20	
Commercial's combined ratio	+/- 1%	+/- 12	+/- 12	
Industrial's combined ratio	+/- 1%	+/- 5	+/- 5	
Baltics' combined ratio	+/- 1%	+/- 2	+/- 1	
Premium level	+/- 1%	+/- 38	+/- 38	
Claims frequency	+/- 1%	+/- 28	+/- 28	
Ceded reinsurance premium	+/- 10%	+/- 24	+/- 25	

Governance

The Underwriting Committee is responsible for the monitoring of compliance of the underwriting principles as defined by the Underwriting Policy (UW policy). The UW policy is the principal document for underwriting activities and sets general principles, restrictions, limits and directions for the organization of underwriting activities. The Board of Directors of If P&C approves the UW policy at least annually.

The UW policy is supplemented with detailed underwriting guidelines which outline in more detail how to conduct underwriting within each business area. These guidelines cover, among other things, tariff and rating models for pricing, guidelines in respect of standard conditions and manuscript wordings, as well as underwriting authorities, underwriting limits such as sums insured and, lists risks that are not acceptable to undertake.

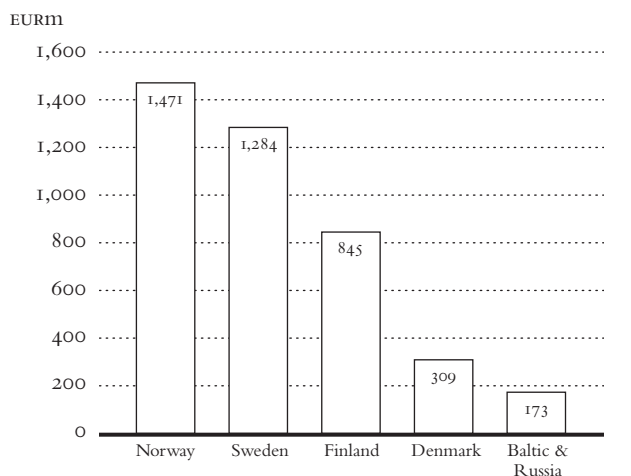
Risk management and control

The business areas manage underwriting risk on a day-to-day basis. Separate underwriting and pricing units within each business area are responsible for the tariffs and pricing of products related to the business area Private and smaller risks in the business area Commercial. In the business area Industrial and for more complex risks in the business area Commercial, the underwriting is based more on general principles and individual underwriting than strict tariffs. In general, pricing is based on statistical analyses of historical claims data and assessments of future developments of for instance claims inflation and claims frequency.

Given the large number of customers in P&C insurance and the fact that business is underwritten in different geographical areas and across several classes of insurance, the portfolio is well diversified. The geographical distribution of premium income in P&C insurance is shown in figure 10.

Figure 10

Premium income per country,
If P&C, 2008



However, underwriting risk concentrations may still arise through for example exposures to natural disasters, such as winter storms and floods. The most exposed geographical areas to such disasters are Denmark, Norway and Sweden. In addition, single large claims can potentially have a big impact on the result. The risk of severe outcomes is therefore mitigated by purchasing reinsurance. Since 2003, a Nordic-wide reinsurance program has been in place in If P&C. In 2008 the retentions levels were between SEK 100 million (approximately EUR 9.2 million) and SEK 200 million (approximately EUR 18.4 million) per risk and SEK 200 million per event.

Reinsurance

If P&C's Reinsurance Policy stipulates guidelines for purchase of reinsurance. The need and optimal choice of reinsurance is evaluated through statistical analysis. The remaining net exposure is subject to the capital requirements (regulatory, economic and rating) and the cost of reinsurance must be favourable compared to the cost of capital.

To analyze the exposure to natural catastrophes, the probability of major losses and the need for reinsurance, If P&C cooperates with external advisors. Two different approaches are used for these analyses:

- Statistical models in which historical losses are used to estimate distributions for the frequency and size of losses, and
- Catastrophe models in which catastrophes are simulated based on historical and meteorological data. Subsequently, insurance losses can be calculated taking into account vulnerability, exposure and policy terms.

Provision Risk in P&C Insurance

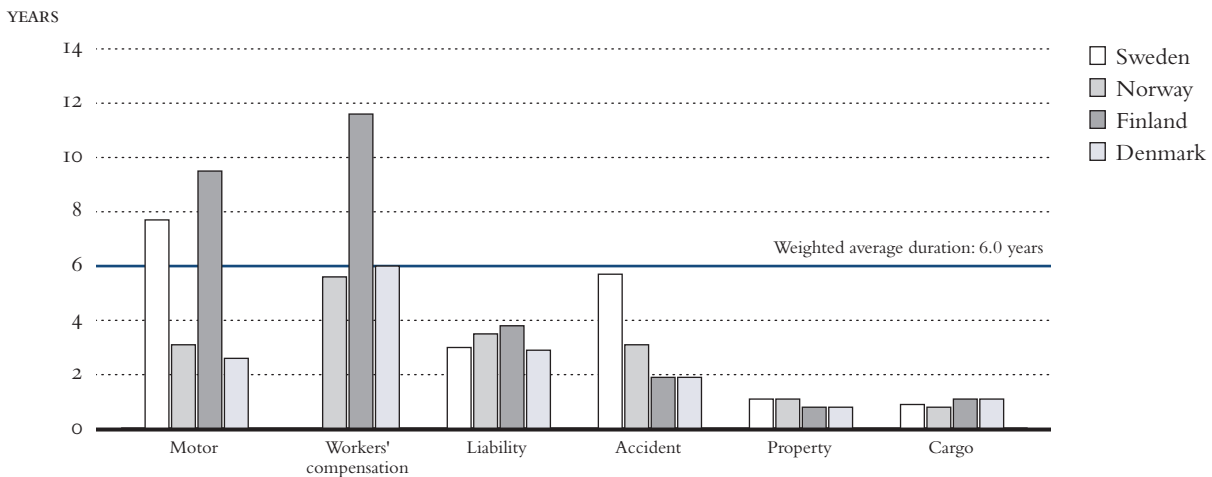
Provisions for unearned premiums are recognized on the balance sheet at the time contracts are written. These are intended to cover anticipated claims costs and operating expenses during the remaining time of insurance contracts in force. Provisions for claims outstanding on the other hand, are intended to cover the anticipated future payments of all claims incurred, including claims not yet reported to the company. Technical provisions consist of the sum of provisions for unearned premiums and provisions for claims outstanding.

Technical provisions in P&C insurance, which represent the current best estimate, include an element of uncertainty as the size of claim payments and the frequency of unreported claims are not known. Claims are usually reported to If P&C with some delay and in many cases it takes additional time to adjust the claim and determine the actual indemnity. Since the ultimate number of claims and claims size are uncertain it may become evident that provisions are inadequate.

The uncertainty of technical provisions is normally larger for new portfolios for which complete run-off statistics are not yet available, and for long-tailed portfolios, i.e. portfolios that include claims which take a long time to settle. Long-tailed portfolios are Workers' Compensation (WC), Motor Third Part Liability (MTPL), Personal Accident, and Liability insurance.

For insurance lines such as MTPL and WC, legislation differs significantly between countries. Some of the Finnish, Swedish and Danish provisions for these lines include annuities which are sensitive to changes in mortality assumptions and discount rates. The proportion of the technical provisions related to MTPL and WC is 69 per cent.

Figure 11
 Durations of technical provisions per product, If P&C,
 31 December 2008



The durations of technical provisions for different products are shown in figure 11 and the amount of technical provisions broken down by product and country is shown in table 5.

The technical provisions for many lines of business are sensitive to changes in inflation. The sensitivity of the inflation assumptions differ between countries due to the different national rules. A sensitivity analysis of the provision risk on 31 December, 2008 is presented in table 6.

Governance

The Board of Directors of If P&C approves guidelines governing the calculation of technical provisions. If P&C's Chief Actuary is responsible for developing and presenting guidelines on how the technical provisions are to be calculated and for assessing whether the overall level of provisions are sufficient. The Chief Actuary issues a report on the adequacy of technical provisions at least quarterly, which is submitted to the Board of Directors, If's Risk Control Committee and If P&C's CEO and CFO.

The Actuarial Committee is a preparatory and advisory board for If P&C's Chief Actuary. The committee makes recommendations on policies and guidelines for technical calculations. It also monitors technical provisions and gives advice to If P&C's Chief Actuary regarding their adequacy.

Risk management and control

Analyses of the uncertainty in technical provisions are made by If P&C's actuaries. The actuaries monitor the levels of technical provisions on a continuous basis in order to ensure that they comply with the established guidelines. The actuaries also develop methods and systems to support these processes.

The actuarial estimates are based on the data on historical claims and any other information that is available at the closing date. Factors that are monitored are e.g. loss development trends, the level of unpaid claims, changes in legislation, legal cases and economic conditions. The methods used in general are the Chain Ladder and the Bornhuetter-Ferguson methods combined with projections of number of claims and average claim costs.

Table 5

Technical provisions per product and country (book value), If P&C, 31 December 2008

	Sweden		Norway		Finland		Denmark		Total	
	EURm	Duration	EURm	Duration	EURm	Duration	EURm	Duration	EURm	Duration
Motor	1,931	7.7	691	3.1	776	9.5	115	2.6	3,513	7.0
Workers' compensation	-	-	294	5.6	986	11.6	252	6.0	1,533	9.5
Liability	226	3.0	127	3.5	91	3.8	77	2.9	521	3.3
Accident	177	5.7	229	3.1	72	1.9	46	1.9	524	3.7
Property	339	1.1	476	1.1	220	0.8	82	0.8	1,117	1.0
Cargo	33	0.9	21	0.8	29	1.1	23	1.1	105	0.9
Total	2,706	6.2	1,838	2.9	2,173	8.8	595	3.8	7,312	6.0

Table 6

Sensitivity test, provision risk, If P&C

Portfolio	Risk	Change in risk parameter	Country	Effect EURm 2008
Nominal reserves	Inflation increase	Increase by 1%-point	Sweden	157.0
			Denmark	14.4
			Norway	65.2
			Finland	22.1
Discounted reserves (annuities and part of Finnish IBNR)	Decrease in discount rate	Decrease by 1%-point	Sweden	43.6
			Denmark	8.1
			Finland	146.2
Annuities	Decrease in mortality	Life expectancy increase by 1 year	Sweden	7.5
			Denmark	0.4
			Finland	16.4

Inflation risk

Inflation risk refers to the risk that technical provisions increase due to higher inflation than estimated. The anticipated inflation trend is observed in all provisions but is of highest importance for claims settled over a long period of time. For long-tailed business, such as MTPL and WC, assessments are made regarding the expected claims inflation. These are based on external assessments of the inflation trend (e.g. consumer price index and payroll index) combined with If P&C's own evaluation of cost increases for various types of claims. Inflation risk in the technical provisions is an important consideration underlying the investment strategy of P&C insurance.

INSURANCE RISKS IN LIFE INSURANCE

Similarly to P&C insurance, insurance risk in life insurance can be split into underwriting and provision risks. In addition to insurance risk, interest rate risk is a very important element in the risk of losses due to pricing and inadequate provisions. The pricing of a single policy for many products is made for decades, and pricing cannot be easily changed. This means that in long-term policies pricing may turn out to be inaccurate. In such cases technical provisions have to be supplemented. In both disability and medical expenses policies, the company has the right to raise insurance premiums for existing policies if the claims experience deteriorates.

Underwriting Risk in Life Insurance

With respect to life insurance, underwriting risk is mostly related to biometric risks, i.e. the mortality rate and the incidence of disability and illness. These risks are limited through careful risk selection, by pricing to reflect the risks and costs, by setting upper limits for the protection granted and by reinsurance.

Table 7 shows the result of underwriting risks in Mandatum Life's Finnish life insurance policies. The ratio of the actual claims costs assumed was 84 per cent in 2008 (112 per cent in

2007). Excluding the group pension longevity supplement provision the ratio was 84 per cent in 2007.

More than half of Mandatum Life's mortality risk premium comes from the Employees' Group Life Insurance pool. However, the mortality risk of this business is smaller than any other mortality business because it is re-priced annually.

The amount of individual risks is limited by reinsurance. The Board of Directors annually determines the maximum amount of risk to be retained for the company's own account, which for Mandatum Life is EUR 0.5 million per insured. To mitigate the effects of possible catastrophes, Mandatum Life participates in the catastrophe reinsurance taken by Finnish life insurance companies. Possible pandemics are not covered by the reinsurance. At this stage, no reliable predictions of mortality in the case of a pandemic are available. As an indication of the risk, the effect of doubling normal mortality in the insurance portfolio would mean around EUR 15 million in additional cost for Mandatum Life.

Governance

Risk selection is part of the day-to-day business routines in Mandatum Life. Mandatum Life's Underwriting Policy sets principles for risk selection and limits for insured sums. Compliance with the principles and limits set in the Underwriting Policy is monitored continuously.

Actuarial department conducts thorough analyses of underwriting result annually. It measures that risk selection is efficient and tariffs are adequate by collecting actual claims expenditure for each product line and each type of risk and comparing it to the claims expenditure assumed in insurance premiums of every risk cover. In addition, adequacy of liabilities is tested quarterly. Tariffs are set, the underwriting policy is updated and changes are made to the provisions relating to existing business if necessary. Tariffs and prices, as well as the reinsurance principles and reserving principles are reviewed and approved annually by the Board of Directors.

Table 7

Claim ratios of Mandatum Life after reinsurance,
the figures of employees' group life excluded

EURm	2008			2007		
	Risk income	Claim expense	Claim ratio	Risk income	Claim expense	Claim ratio
Life insurance	25.2	13.8	55%	24.1	13.3	55%
Mortality	12.2	5.3	44%	11.8	4.6	39%
Morbidity	13.0	8.5	65%	12.3	8.7	70%
Pension	51.7	50.7	98%	51.1	70.7	138%
Individual pension	9.1	9.7	106%	8.3	8.8	105%
Group pension	42.6	41.1	96%	42.8	61.9	145%
Mortality ^{*)}	36.7	37.1	101%	37.2	57.4	154%
Disability	5.9	4.0	68%	5.6	4.5	80%
Mandatum Life	76.9	64.6	84%	75.2	83.9	112%

^{*)} The mortality claim expense of the group pension in 2007 contains the provision made (EUR 20.6 million)

Provision Risk in Life Insurance

In life insurance, the main provision risks are the discount rate risk within with-profit policies and risk of increase in life expectancy (longevity risk) within group pension policies. Provision risk also contains the same risks as underwriting risk, such as random fluctuations in the claims. Provision risk is managed by analyzing and annually reviewing the assumptions related to the liabilities.

The provisions related to each product type and guaranteed interest rates are shown in table 8. The table also shows the change in each category during 2008.

In most with-profit policies, the guaranteed interest rate used in the premium basis is 3.5 per cent. In individual policies sold in Finland before 1999, the guaranteed interest rate is 4.5 per cent, this being also the statutory maximum discount rate of these policies. With respect to these policies, the maximum discount rate used when discounting liabilities has been decreased to 3.5 per cent. In addition, EUR 21 million has been reserved to lower the rate of the return requirement during 2008 to 3.0 per cent. Reserve for deceased discount rate, in-

cluding the preceding EUR 21 million, is EUR 119 million (EUR 143 million in year 2007).

Expected maturity of insurance and investment contracts of Mandatum Life in presented in table 9.

Longevity risk

Duration of outgoing pension payments (longevity risk) is the most critical biometric risk in Mandatum Life. Most of longevity risk arises from the Group Pension portfolio. The main uncertainties of group pension's mortality are the effect of socio-economical structure of the insured and future trend among the relatively old insured. In individual pension portfolio the longevity risk is less significant because most individual pension policies are fixed term annuities including death cover compensating the longevity risk.

The longevity risk is analyzed regularly. So far the annual result, excluding supplement to liabilities, has been close to zero in group pension portfolio. The assumed life expectancy in all group pension premiums and liabilities was raised in 2002 and in part of the portfolio in 2007.

Table 8

Analysis of the change in provisions in Mandatum Life, 2008

Liabilities arising from insurance and investment contracts of Mandatum Life group*)

EURm	Liability 2007	Premiums	Claims paid***)	Expense charges	Guaranteed interest	Bonuses	Other	Liability 2008	Share %
MANDATUM LIFE PARENT COMPANY									
Group pension	2,422	129	-175	-9	82	21	-21	2,450	40%
Guaranteed rate 3.5%	2,402	122	-173	-8	81	21	-22	2,423	40%
Guaranteed rate 2.5% or 0.0%	20	8	-2	0	1	0	1	28	0%
Individual pension insurance	1,395	45	-109	-8	61	2	16	1,400	23%
Guaranteed rate 4.5%	1,250	32	-100	-7	56	0	3	1,234	20%
Guaranteed rate 3.5%	127	9	-8	-1	5	1	9	142	2%
Guaranteed rate 2.5% or 0.0%	18	3	-2	0	1	0	4	24	0%
Individual life insurance	444	35	-120	-10	14	3	2	367	6%
Guaranteed rate 4.5%	155	9	-76	-2	5	0	1	91	1%
Guaranteed rate 3.5%	250	12	-37	-5	8	2	0	230	4%
Guaranteed rate 2.5% or 0.0%	40	15	-7	-3	1	1	1	46	1%
Capital redemption operations**)	103	0	-38	0	3	1	-6	62	1%
Guaranteed rate 4.5%	48	0	-38	0	2	0	-7	5	0%
Guaranteed rate 3.5%	45	0	0	0	2	0	1	48	1%
Guaranteed rate 2.5% or 0.0%	9	0	0	0	0	0	0	9	0%
Unit linked liabilities	1,957	262	-163	-24	0	0	-454	1,579	26%
Individual pension insurance	584	99	-4	-11	0	0	-245	424	7%
Individual life	1,180	85	-146	-10	0	0	-172	937	15%
Capital redemption operations**)	63	47	-12	0	0	0	1	99	2%
Group pension	130	31	-1	-3	0	0	-39	119	2%
Future bonus reserves	40	0	0	0	0	0	-23	17	0%
Reserve for decreased discount rate	143	0	0	0	0	0	-24	119	2%
Assumed reinsurance	5	2	-1	0	0	0	-2	4	0%
Other liabilities	48	31	-13	-11	1	0	-7	48	1%
MANDATUM LIFE									
PARENT COMPANY TOTAL	6,556	505	-620	-62	161	26	-520	6,046	99%
SUBSIDIARY SE SAMPO									
LIFE INSURANCE BALTIC	136	31	-33	-3	1	0	-54	77	1%
Unit linked liabilities	114	25	-30	-3	0	0	-49	58	1%
Other liabilities	21	6	-2	-1	1	0	-6	19	0%
MANDATUM LIFE GROUP TOTAL	6,692	536	-652	-65	161	26	-574	6,123	100%

*) Before reinsurers' share

**) Investment contracts

***) Operating expenses not included

Table 9

Expected maturity of insurance and investment contracts,
Mandatum Life, 31 December 2008

Maturity of insurance and investment contracts of Mandatum Life group*)

EURm	Duration	2009–2010	2011–2012	2013–2017	2018–2022	2023–2027	2028–2032	2033–
MANDATUM LIFE PARENT COMPANY								
Group pension	10.1	376	362	789	640	489	354	584
Guaranteed rate 3.5%	10.1	370	357	781	635	485	351	578
Guaranteed rate 2.5% or 0.0%	8.5	6	5	7	5	4	3	5
Individual pension insurance	6.8	308	320	543	314	188	98	83
Guaranteed rate 4.5%	6.7	280	288	483	277	162	80	66
Guaranteed rate 3.5%	8.0	24	27	52	32	22	15	14
Guaranteed rate 2.5% or 0.0%	8.1	4	5	8	5	4	2	3
Individual life insurance	5.3	114	126	92	36	23	16	33
Guaranteed rate 4.5%	7.1	26	18	33	15	9	7	15
Guaranteed rate 3.5%	4.3	76	100	42	15	9	7	16
Guaranteed rate 2.5% or 0.0%	6.1	12	8	17	5	4	3	3
Capital redemption operations**)	1.8	44	18	1	2	1	0	0
Guaranteed rate 4.5%	0.5	5	0	0	0	0	0	0
Guaranteed rate 3.5%	1.3	36	14	0	0	0	0	0
Guaranteed rate 2.5% or 0.0%	5.0	2	4	1	2	1	0	0
Unit linked liabilities	6.8	331	356	444	210	152	113	153
Individual pension insurance	10.8	30	42	111	99	84	62	60
Individual life	4.8	262	262	287	74	41	33	30
Capital redemption operations**)	6.2	31	41	15	6	0	0	32
Group pension	12.1	7	12	31	31	26	18	31
Future bonus reserves	1.0	17	0	0	0	0	0	0
Reserve for decreased discount rate	5.1	39	17	29	16	9	4	4
Assumed reinsurance	0.7	4	0	0	0	0	0	0
Other liabilities	0.9	42	4	1	0	0	0	0
MANDATUM LIFE PARENT COMPANY TOTAL	7.9	1,276	1,203	1,900	1,219	861	585	856
SUBSIDIARY SE SAMPO								
LIFE INSURANCE BALTIC		15	24	26	25	7	2	1
Unit linked liabilities		12	7	6	9	1	0	0
Other liabilities		3	17	20	17	6	2	1
MANDATUM LIFE GROUP TOTAL		1,291	1,228	1,927	1,244	867	587	858

*) Before reinsurers' share

***) Investment contracts

Surrender risk

The effect of clients interrupting their policies (surrender risk) is a less significant risk in Mandatum Life. In pension liabilities surrender risk is insignificant, because in pension insurance surrender is possible only in exceptional cases. In life insurance and capital redemption policy operations surrender risk is present. However, this risk is reduced by the relatively short maturity of such contracts and by ensuring that the values of liabilities recognized in the balance sheet are always at least equal to the surrender values. The surrender risk is analyzed regularly. The supplements to liabilities are not paid out at surrender.

6 Market Risks

Market risk is defined as the risk of loss, or of adverse change in the financial position, resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets and liabilities. Loss in the investment portfolio might occur due to adverse changes in the levels or volatility of interest rates, equity prices, currencies, commodities and real estate.

MARKET RISK MANAGEMENT

AND CONTROL IN SAMPO GROUP

The investment operations of Sampo Group's insurance companies aim at achieving the highest possible returns at acceptable levels of risk, and to ensure that both If P&C and Mandatum Life will exceed the required solvency ratio. The structure of the investment assets should be in line with regulations and they should cover the companies' technical provisions.

Market risks are managed by diversifying the investment portfolio and by constant monitoring of the composition of the investments in relation to the characteristics of the insurance liabilities. The duration gap between the technical provisions and fixed income investments as well as the currency distribution of assets and liabilities is under constant monitoring and management in the Group's insurance companies. Derivatives are commonly used for modifying different types of market risk exposures.

The Boards of Directors of If P&C and Mandatum Life annually approve the companies' Investment Policies, which define target allocation of the investment portfolio, limits for the allocations, the organization of investment activities and the authorities to make and execute decisions. When making asset allocation

decisions and setting return and liquidity targets, the structure of the companies' technical provisions, their risk-bearing capacities, regulatory requirements, rating targets and risk appetites are taken into account. The Investment Policies also include guidelines on the use of derivatives and foreign currency risk.

The aggregated market risks on Sampo Group level are controlled by the Group's Audit Committee. The Boards of Directors in If P&C and Mandatum Life appoint investment control committees and the Board of Sampo plc appoints an Investment Committee in Sampo plc. These committees are responsible for the control of investment activities within the respective legal entity. The Investment Control Committees and Sampo plc's Investment Committee ensure compliance with the principles and limits specified in the Investment Policy and report to the companies' Board on investment activities.

Market Risk Management and Control in P&C Insurance

Market risk management in P&C insurance is based on matching the composition of the investments with the characteristics of the insurance liabilities as well as on maintaining a good diversification among various asset classes and within each asset class. The principle is that insurance liabilities are matched with fixed income investments of corresponding duration and the surplus capital is invested in a diversified portfolio of financial assets with the objective of enhancing the total return. The target allocations are based on an asset-liability-management (ALM) analysis, which defines the neutral allocation for the investments. In order to increase the returns of the investment operations, deviations can be made from the neutral reference portfolio allocations within the specific limits defined in the Investment Policy.

Market Risk Management and Control in Life Insurance

Mandatum Life's long-term target is to provide sufficient net income in its investment operations to cover guaranteed

interest rate plus bonuses based on principle of fairness as well as the shareholder's return requirement with acceptable level of risk.

Mandatum Life's market risk derives mainly from equity investments and interest rate risk related to fixed income assets and insurance liabilities with a guaranteed interest rate. The Board approves the Investment Policy annually, which sets principles and limits for investment activities. Investment Policy also includes measures and limits for maximum acceptable market risk. Limits of maximum acceptable market risk are based on both Solvency I and Solvency II types of approach. The objective is to meet the required solvency and to ensure that investments are sufficient and eligible as assets covering technical provisions.

Sampo plc's investment organisation makes day-to-day investment decisions based on principles set in Investment Policy. Investment Control Committee controls regularly that limits and principles set in Investment Policy are followed.

Market Risk Management and Control in Holding

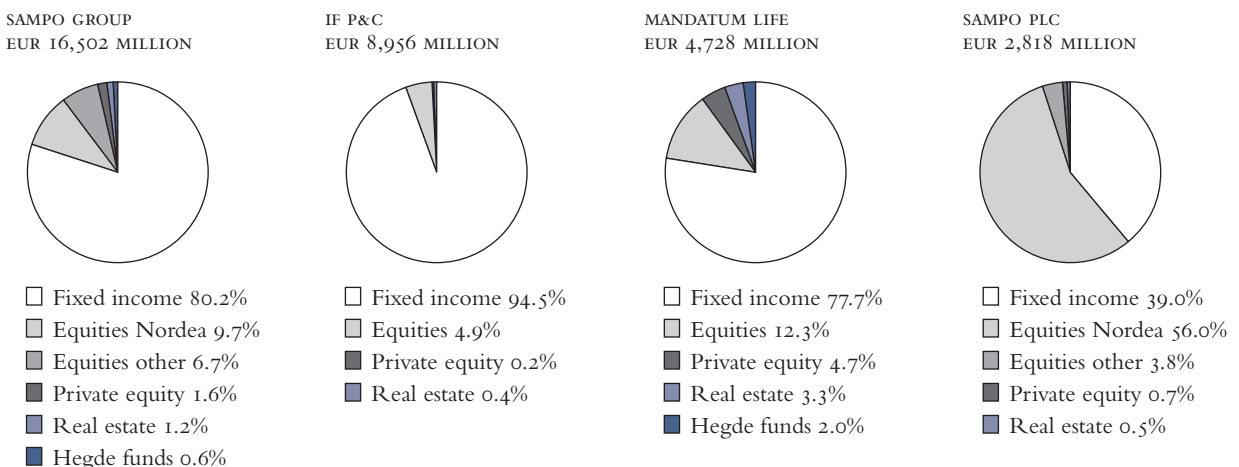
The current investment strategy of Sampo plc is to invest in shares of Northern European financial companies or to keep investment assets in cash. In 2008, Sampo plc invested in Nordea, Topdanmark and liquid money market instruments. Market risks related to Sampo plc's investment portfolio are monitored and regularly reported within the company's and Sampo Group's risk governance framework.

QUANTIFICATION OF MARKET RISKS

The portfolio return of Sampo Group's investment assets in 2008 was -11.9 per cent (13.6 per cent in 2007) reflecting the fall in equity prices during 2008. The amount of investment assets was EUR 16,502 million (EUR 20,510 million in 2007). The investment allocations of Sampo Group and the different segments are shown in figure 12.

Figure 12

Allocation of investment assets, Sampo Group, If P&C, Mandatum Life, Sampo plc, 31 December 2008



As depicted in Figure 12 – Allocation of investment assets, all companies in Sampo Group mainly invest into fixed income assets. Fixed income assets are further broken down in figure 13 and in the credit risk section.

During 2008, several changes took place in Sampo Group's investment portfolio. The proportion of equity investments decreased from 23 per cent to 16 per cent and the proportion of fixed income investments correspondingly increased from 74 per cent to 80 per cent. The decline in the proportion of equity is mainly due to the fall in equity prices.

If P&C's investment operations generated a return of -3.1 per cent in 2008 (2.6 per cent in 2007). The investment assets amounted to EUR 8,956 million (EUR 9,944 million in 2007). The proportion of equities in the investment portfolio decreased from 10 per cent to 5 per cent during the year while the proportion of fixed income investments increased from 89 per cent to 95 per cent. The equity allocation of If P&C at year-end was at a relatively low level in comparison to the neutral asset allocation defined in If P&C's investment policy.

The investment return of Mandatum Life in 2008 was -7.8 per cent (5.0 per cent in 2007). The amount of investment assets was EUR 4,728 million (EUR 5,683 million in 2007). The proportion of equities in the investment portfolio decreased from 18 per cent to 12 per cent during the year while the proportion of fixed income investments increased from 73 per cent to 78 per cent. The proportion of other investments was 10 per cent (9 per cent in 2007).

The amount of the investment assets of Sampo plc was EUR 2,818 million (EUR 4,883 million in 2007). During 2008, Sampo plc continued its purchases of Nordea and Topdanmark, increasing the proportion of Sampo plc's equity investments to 60 per cent (56 per cent).

The values of financial assets and liabilities are subject to changes in the underlying market variables. Table 10 shows the sensitivity analysis of the fair values of financial assets and financial liabilities to different market risk scenarios in Sampo Group. Table 11 shows the results in different segments. The effects represent the instantaneous effects of a one-off change in the underlying market variable on the fair values on 31 December, 2008.

The changes of interest rates have a strong effect on the reinvestment risk of the insurance companies. The sensitivity analysis includes the effects of derivative positions. All sensitivities are calculated before taxes.

Table 11 also shows the effect of the market risk scenarios on the capital situation of Sampo Group by showing how the amount of adjusted solvency capital and economic capital would change in the different scenarios. A rise in interest rates for example would reduce the values of financial instruments causing a fall in the Group's equity. On the other hand, the effect on adjusted solvency capital would be positive due to the fact that insurance liabilities are discounted in the calculation of the liability side adjustment.

Table 10

Sensitivity analysis of the fair values of financial assets and liabilities on 31 December 2008

EURm	Intrest rate		Equity	Other financial investments
	1% Parallel shift down	1% Parallel shift up	20% fall in prices	20% fall in prices
Assets				
Cash	0	0		
Short-term fixed income	6	-6		
Long-term fixed income	330	-308		
Equity			-539	-78
Other financial assets				-34
Liabilities				
Subordinated bonds	-9	10		
Derivates				
Net	76	-71	0	
Total change in fair value	403	-377	-539	-112

Table 11

Sensitivity analysis of the fair values of financial assets and liabilities by segments on 31 December 2008

EURm	Interest rate		Equity	Other financial investments
	1% Parallel shift down	1% Parallel shift up	20% fall in prices	20% fall in prices
P&C insurance	268	-250	-88	-11
Life insurance	134	-125	-117	-94
Holding	2	-2	-334	-7
Sampo Group, total	403	-377	-539	-112
Effect on adjusted solvency capital	-472	321	-529	-105
Effect on economic capital	-26	-39	-181	-24

Interest Rate Risk

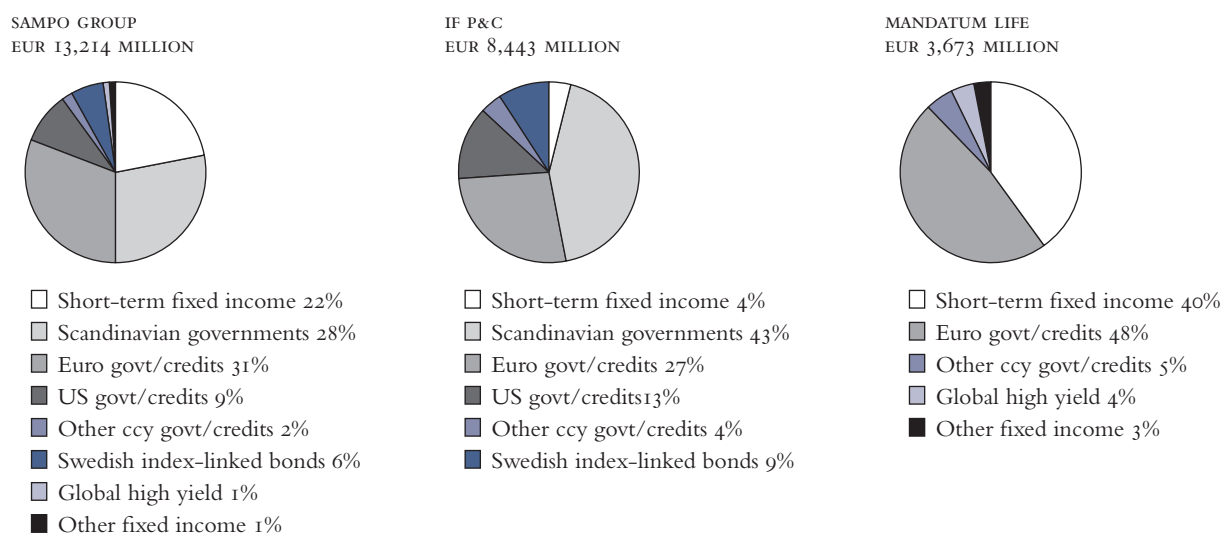
Interest rate risk refers to the uncertainty in the values of assets and liabilities as well as interest income and expense resulting from changes in market interest rates. When market interest rates rise, the balance sheet values of fixed income securities fall and this has an impact on the company's equity capital and earnings. On the other hand, higher interest rates mean increased interest income which improves profitability and the economic capital position.

According to the Investment Policies in Sampo Group's insurance subsidiaries, the composition of investments assets shall take into account the nature of the insurance commitments with respect to interest rate risk and inflation risk.

Figure 13 presents the breakdown of fixed income investments by type of instruments. During 2008, the proportion of short-term fixed income investments decreased in all of the reporting segments, corresponding with the increase in Euro government/credits. On the Sampo Group level the proportion of short-term fixed income investments decreased from 43 per cent to 22 per cent. The proportion of Euro government bonds and credits increased from 14 to 31 per cent. Within this category a larger proportion was allocated to Euro credits. The investments into Euro credits increased substantially both in If P&C and Mandatum Life. In Sampo plc, fixed income investments consist of short-term investments.

Figure 13

Fixed income investments by type of instrument, Sampo Group, If P&C, Mandatum Life, 31 December 2008



The breakdown of fixed income instruments in If P&C excludes credit default swaps with a fair value of EUR -4.2 million as well as the fixed income investments and deposits of the Business Area Baltic and Russia with a fair value of EUR 24.9 million.

Interest rate risks in P&C insurance

Both financial assets and technical provisions are exposed to changes in interest rates. The interest rate risk is limited by duration restrictions. The principle is that insurance liabilities are matched with fixed income investments of corresponding duration and the duration gap between assets and liabilities is constantly monitored.

The interest rate sensitivity, i.e. duration, of fixed income investments in If P&C is shown in table 12. The duration of fixed income investments was 3.1 years (2.2 years in 2007). Derivatives are shown under the fixed income categories to which they are related to.

Table 12

Duration of fixed income investments,
If P&C, 31 December 2008

	EURm	Duration
Short-term fixed income	299	0.1
Scandinavian governments/Credits	3,689	2.9
Euro governments/Credits	2,306	3.0
US government/Credits	1,063	1.9
Other currency governments/Credits	310	0.5
Swedish index-linked bonds	772	8.5
If P&C, total	8,439	3.1

The figures exclude fixed income investments and deposits of Business Area Baltic and Russia with a fair value of EUR 24.9 million.

A major part of the technical provisions in P&C insurance is stated in the balance sheet in nominal terms. Hence, from an accounting perspective, the company is mainly exposed to changes in future inflation. The economic value of these reserves, i.e. the present value of future claims payments is, however, exposed to changes in interest rates. Furthermore, the reserves for annuities in Finland, Sweden and Denmark are discounted, and potential changes in the discount rates will affect the level of technical provisions in the company's balance sheet. The discount rates vary between countries mainly due to differences in legislation but they are at least indirectly impacted by the prevailing interest rate environment. The duration of reserves and thus the sensitivity to changes in interest rates is analyzed in more detail in the figure 11 and table 5 in the Insurance Risk section. In addition, cash flows of financial assets and liabilities according to contractual maturities are shown in table 19 in the Liquidity Risk section.

Interest rate risk in life insurance

The most significant interest rate risk in the life insurance business is that fixed income investments will not over a long period of time generate a return at least equal to the guaranteed interest rate of technical provisions. This risk increases when market interest rates fall and remain at a low level. This risk is managed through constant monitoring and management of the duration gap between liabilities and fixed income investments in Life insurance.

The weighted average duration of Mandatum Life's insurance liabilities (excluding unit-linked liabilities) was 7.9 years (7.7 years in 2007). The duration of fixed income investments was 3.6 years at year end (1.9 years in 2007).

The duration of fixed income investments in Mandatum Life is shown in table 13. The amounts and durations include fixed income derivatives. Derivatives are shown under the fixed income categories to which they are related to.

Table 13

Duration of fixed income investments,
Mandatum Life, 31 December 2008

	EURm	Duration
Short-term fixed income	1,484	0.3
Euro governments/Credits	1,752	6.6
Other currency governments/Credits	178	3.5
Global high yield	153	2.3
Other fixed income	106	3.9
Mandatum Life, total	3,673	3.6

In order to mitigate the interest rate risk, Mandatum Life has entered into interest rate swap agreements with nominal amounts of EUR 1.6 billion in 2008. For these swaps, Mandatum Life pays short-term floating rate and receives fixed interest rate (average 4.6 per cent). The fair value of these swaps was EUR 75 million at year-end and they have a maturity of 2–10 years. These swaps are included in the category Euro government/credits in table 13.

Mandatum Life has also prepared for low interest rates on the liability side by e.g. reducing the minimum guaranteed interest rate in new contracts and increasing the reserve for policies with higher guaranteed interest rates. In addition, existing contracts have been changed to accommodate improved management of reinvestment risk.

Table 9 in the Insurance Risk section shows the maturity and average durations of Mandatum Life's insurance and investment contracts. The cash flows of financial assets and liabilities according to contractual maturities are shown in table 19 in the Liquidity Risk section.

Equity Risk

Equity price risk is the risk of losses due to changes in share prices. Sampo Group is exposed to changes in the prices of equities through its investment operations in the insurance subsidiaries as well as in the holding company Sampo plc. The equity investments of Sampo Group totalled EUR 2,706 million at the year end (EUR 4,768 million). Equity investments in the holding consist almost entirely of the holdings in Nordea which at 31 December, 2008 were valued at EUR 1,602 million.

If P&C's equity portfolio is actively managed in-house with a long term investment horizon. At year end the exposure was EUR 439 million (EUR 1,008 million in 2007). The proportion of equities in If P&C's investment portfolio was 5 per cent at year-end. The maximum proportion of equity investment is defined in If P&C's Investment Policy as 20 per cent. The equity portfolio consists of Nordic small cap stocks as well as a global fund portfolio. Mandates for investments are given in the Investment Policy and according to the governance structure.

Mandatum Life's equity portfolio is actively managed. At year end the exposure was EUR 583 million (EUR 1,039 million in 2007). The positions and risks in equity portfolio and related derivatives may not exceed the limits set in the Investment pol-

icy. The Nordic equity portfolio is managed by Sampo Group's Investment Management unit while the equity investments outside the Nordic area are mainly managed through funds or external asset managers. When investing in new funds, the Board of Mandatum Life makes the investment decisions.

The breakdown of the equity exposures of Sampo Group, If P&C and Mandatum Life by geographical regions are shown in figure 14.

The geographical emphasis in Sampo Group's equity investments is in Scandinavian companies. Proportion of Scandinavian companies' equities (including Finland) corresponds to 85 per cent of the total equity portfolio. This is in line with Sampo Group's Nordic focus and the fact that technical provisions relate to the Nordic currencies.

Figure 15 shows the sector allocation of equity investments in Sampo Group, If P&C and Mandatum Life.

Figure 14

Breakdown of equity investments by geographical regions, Sampo Group, If P&C, Mandatum Life, 31 December 2008

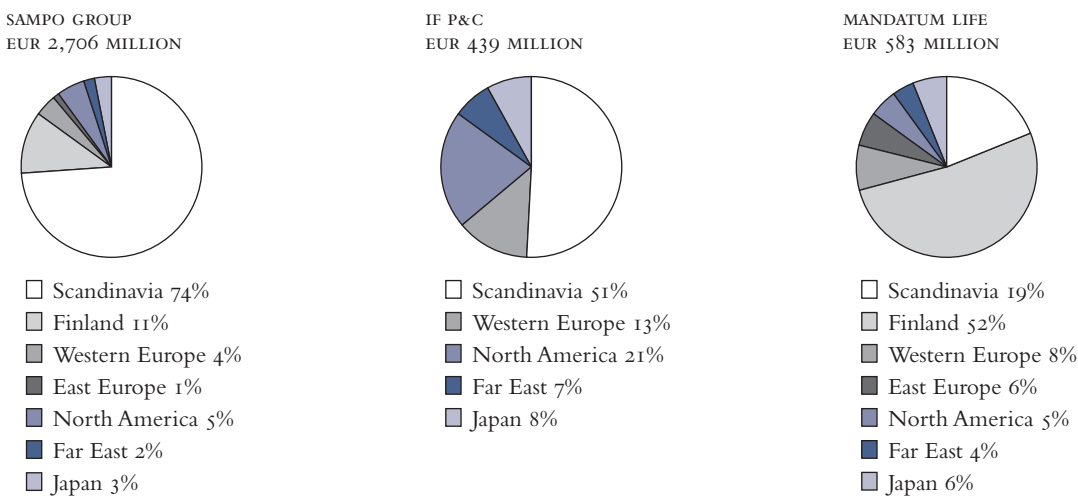
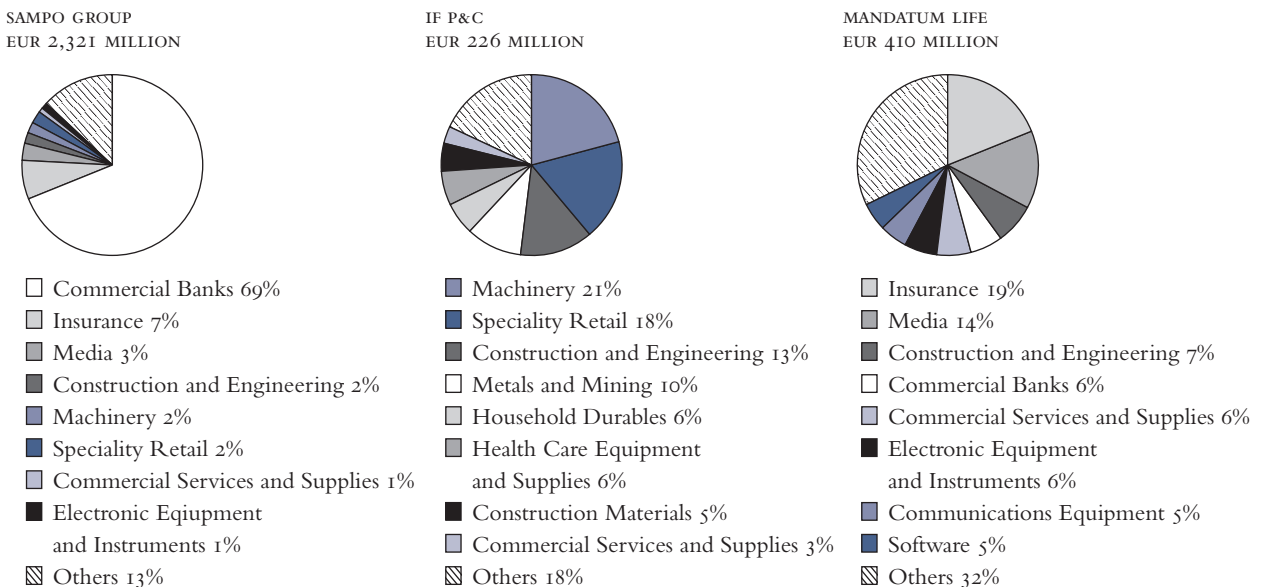


Figure 15

Breakdown of equity investments by sectors, Sampo Group, If P&C, Mandatum Life, 31 December 2008



The sector allocations exclude investments made through mutual equity funds. Mutual equity funds in Sampo Group were EUR 385 million, in If P&C EUR 213 million and in Mandatum Life EUR 172 million.

The proportion of Nordea shares corresponds to 59 per cent of the total equity portfolio of Sampo Group (69 per cent from the direct equity investments), and thus the equity portfolio of Sampo Group is concentrated on the banking sector. The equity portfolios of insurance subsidiaries are more diversified as the largest industry concentrations are under 25 per cent in both If P&C and Mandatum Life.

Sampo Group's biggest equity holdings are disclosed in the Notes to the Financial Statements (note 35).

Currency Risk

Currency risk is the risk that Sampo Group will incur losses due to changes in foreign currency exchange rates. Market risk relating to foreign currency in Sampo plc consists of the translation risk linked to the net asset value and dividends of If P&C, and the currency risk related to Sampo plc's investment portfolio.

If P&C writes insurance policies that are mostly denominated in Scandinavian currencies and in Euros. The currency risk is reduced by matching technical provisions with investments in the corresponding currencies or by using derivatives.

Mandatum Life's currency risk derives mainly from investments in financial assets in other currencies than the Euro. Mandatum Life's currency strategy is based on active management of the FX position. The objective is to achieve positive absolute return relative to a situation where the open currency risk exposure is fully hedged.

The currency positions of the Group's companies against their home currency and the translation risks are shown in table 14. The table shows the net currency exposures (net assets) after the effect of derivatives has been taken into account.

Other Market Risks

In addition to interest rate, equity, and currency risks, Sampo Group is also exposed to a number of other market risks. These risks are related to exposures in real estates, private equity investments and investments in hedge funds. The Investment Policies set limits for maximum allocations into these markets and products. On 31 December 2008 the share of the above

mentioned investments was 3.4 per cent of the total investment portfolio. In If P&C the proportion was 0.6 per cent and in Mandatum Life it was 10 per cent. Mandatum Life's investment portfolio was increased with hedge funds, whereas investments in commodities were sold during 2008.

Private equity and hedge funds are managed by external asset managers. The private equity portfolio is diversified both according to fund type and geographical areas. Hedge fund investments are placed both directly into individual funds and into funds of funds in order to attain sufficient diversification between funds and investment styles. The real estate portfolio in Mandatum Life is managed by Sampo Group's real estate management unit. The portfolio includes direct investments in properties and investments in indirect vehicles within decided allocations. The main risks related to property investments are limited by diversifying holdings both geographically and by type of property.

7 Credit Risks

Credit risk is the risk of loss, or of adverse change in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any other debtors. Credit risk arises from investments as well as insurance and re-insurance contracts.

Credit risk in the investment operations includes the risk that a government or corporate issuer will not fulfil its obligations or otherwise obstruct the remittance of funds by debtors, particularly in the context of fixed income securities. The credit risk in investment operations can be divided into issuer risk, counterparty risk and spread risk. Issuer risk is often associated with a direct holding in a security, while counterparty risk is related to derivatives. The essential difference in terms of risk is that in the case of issuer risk, the entire nominal value of the instrument is at risk, whereas in the case of counterparty risk, it is only the current market value of the derivative contract that is at risk. Spread risk relates mainly to changes in the credit spreads of fixed income investments issued by banks and corporations.

In addition to the credit risk associated with investment assets, credit risk arises from insurance operations through rein-

Table 14

Currency risks by segment on 31 December 2008

Currency risk open position	Home CCY	EUR	SEK	NOK	DKK	EEK	LVL	LTL	GBP	USD	JPY	Other
P&C Insurance	SEK	637	0	-150	-728	0	0	0	13	-175	-12	-9
Life Insurance	EUR	0	5	9	6	0	1	1	0	-14	2	31
Holding	EUR	0	1,524	0	23	0	0	0	1	22	0	0
Holding company translation risk	EUR	0	1,582	0	0	0	0	0	0	0	0	0
Sampo Group total	EUR	637	3,111	-142	-699	0	1	1	14	-168	-9	22
10% depreciation of foreign currency against Euro, EURm, 2008			-311	14	70	0	0	0	-1	17	1	-2
10% depreciation of foreign currency against Euro, EURm, 2007			-469	-8	-3	5	0	1	0	4	0	-5

insurance contracts. Credit risk related to reinsurers arises through reinsurance receivables and through the reinsurers' portion of outstanding claims. Credit risk exposure towards policyholders is very limited, because non-payment of premiums generally results in cancellation of the insurance policies. Credit risk related to reinsurance mainly relates to P&C insurance as the use of reinsurance in life insurance is of relatively low volume.

CREDIT RISK MANAGEMENT

AND CONTROL IN SAMPO GROUP

Credit risk is managed by specific limits given in the Investment Policies of If P&C and Mandatum Life as well as Sampo plc. Limits and restrictions are assigned to maximum exposures towards single issuers or per rating class. Before an investment in a new instrument, the credit standing of the issuer is thoroughly assessed as well as the valuation and liquidity of the instrument. Credit ratings mainly from Standard & Poor's, Moody's and Fitch, are used to judge the creditworthiness of

issuers and counterparties. The portfolio development and the counterparties credit standing is followed up continuously.

Credit risks are monitored at business area level and reported to the respective investment committee or investment control committee. The decision making in each business area shall follow the limits defined in the respective investment policy. Credit risk reporting is based primarily on the rating of the issuer, but instrument ratings are also used.

In order to limit and control credit risk associated with reinsurance, If P&C has a Reinsurance Security Policy which sets requirements for the reinsurers' minimum credit ratings and the maximum exposure to individual reinsurers. Similar to credit risk in investment assets, credit ratings from rating agencies are used to judge the creditworthiness of reinsurance companies.

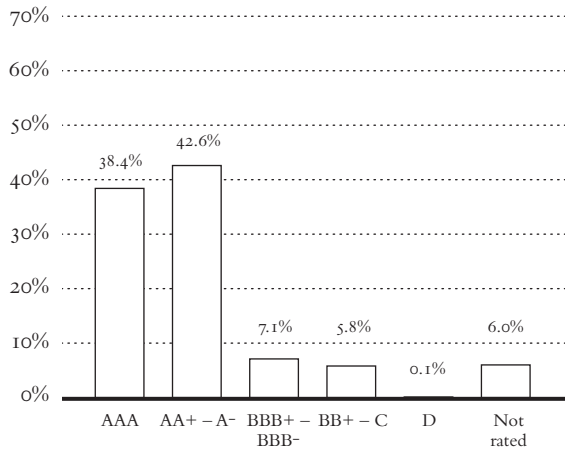
QUANTIFICATION OF CREDIT RISKS

The most significant credit risk exposures in Sampo Group arise from investments into fixed income investments. Figure 16 shows

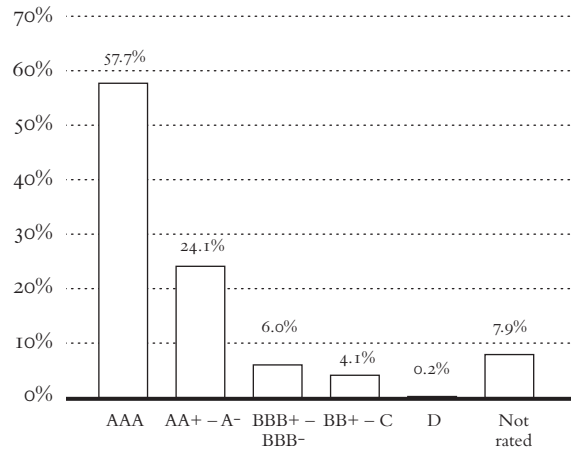
Figure 16

Rating analysis of investments, Sampo Group, If P&C, Mandatum Life, 31 December 2008

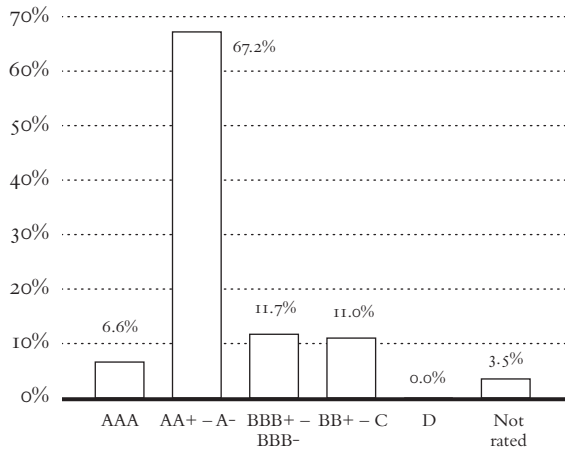
SAMPO GROUP EUR 13,354 MILLION



IF P&C EUR 8,443 MILLION



MANDATUM LIFE EUR 3,814 MILLION



The figures for If P&C exclude credit default swaps with a market value of EUR -4.2 million as well as the fixed income investments and deposits of the Business Area Baltic and Russia with a market value of EUR 24.9 million.

the allocations of investments by Standard & Poor's credit rating. The figures include the counterparty risk related to derivatives.

Sampo Group's rating distribution is not substantially different from last year. The proportion of the portfolio related to AAA issuers amounted to 38 per cent on Group-level (35 per cent in 2007) and the proportion of issuers rated at least A- was 81 per cent (82 per cent in 2007).

Figure 17 shows the sector allocation of direct fixed income investments in Sampo Group and the different business areas.

The credit risk in Sampo's investment portfolios mainly arises from financial institutions and corporations in the Nordic region. The proportion of financial institutions was 63 per

cent. During the year the proportion of government bonds in the fixed income portfolio fell.

Credit Risks Related to Reinsurance Counterparties

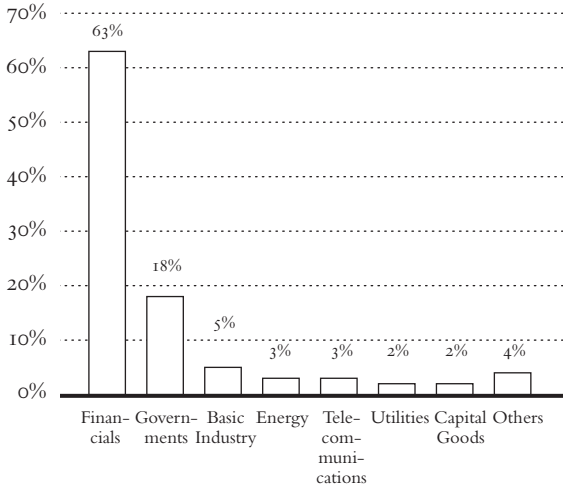
The distribution of reinsurance receivables and reinsurers' share of claims provisions on 31 December, 2008 per rating category is presented in table 15. In the table reinsurance receivables and reinsurers' portion of outstanding claims amounting to EUR 128 million (EUR 137 million) are excluded. The excluded amount relates mainly to captives and statutory pool solutions.

The distribution of ceded treaty and facultative premiums in 2008 per rating category is presented in table 16.

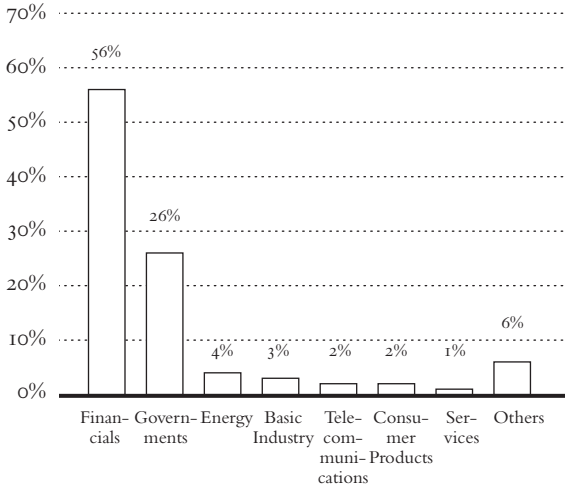
Figure 17

Sector allocation of direct fixed income investments, Sampo Group, If P&C, Mandatum Life, 31 December 2008

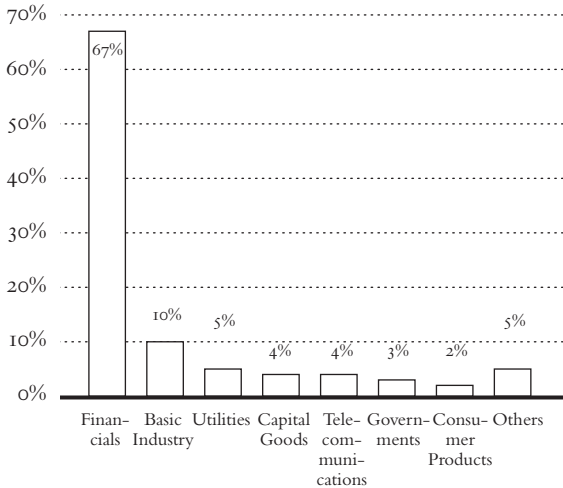
SAMPO GROUP EUR 12,873 MILLION



IF P&C EUR 8,377 MILLION



MANDATUM LIFE EUR 3,398 MILLION



The figures exclude investments made through mutual interest rate funds which were EUR 341 million in Sampo Group, EUR 66 million in If P&C and EUR 275 million in Mandatum Life. The figures for If P&C exclude credit default swaps with a market value of EUR -4.2 million as well as the fixed income investments and deposits of the Business Area Baltic and Russia with a market value of EUR 24.9 million.

Table 15

Reinsurance receivables and reinsurers' portion of outstanding claims per rating category,
If P&C, 31 December 2008 and 31 December 2007

Rating	2008		2007	
	Total EURm	% of total	Total EURm	% of total
AAA	6	2%	10	3%
AA+ – A-	279	95%	312	93%
BBB+ – BBB-	2	1%	2	1%
BB+ – C	0	0%	0	0%
D	0	0%	0.4	0%
Not rated	7	2%	9	3%
Total	294	100%	333	100%

Table 16

Ratings for ceded treaty and facultative premiums,
If P&C, 31 December 2008 and 31 December 2007

Rating	2008		2007	
	Total EURm	% of total	Total EURm	% of total
AAA	3	6%	4	6%
AA+ – A-	50	94%	60	94%
BBB+ – BBB-	0	0%	0	0%
BB+ – C	0	0%	0	0%
D	0	0%	0	0%
Not rated	0	0%	0	0%
Total	53	100%	64	100%

Table 17

Concentration of market and credit risks in individual counterparties
by asset class on 31 December 2008

Market value, EURm	Equity	Covered bonds	Other long-term fixed income	Short-term fixed income	Positive fair values of OTC derivatives	Total
Nordea	1,602	743	175	675	36	3,232
SHB	0	722	312	547	0	1,581
Sweden	0	0	963	0	0	963
SEB	0	230	219	477	24	950
ADB	0	0	210	526	26	762
Germany	0	0	614	103	0	717
Swedbank	0	493	167	4	0	664
SBAB	0	151	359	0	0	510
Pohjola Bank	0	0	155	312	0	466
France	0	0	371	18	0	389
Total top 10 exposures	1,602	2,338	3,547	2,661	87	10,235

Risk concentrations

The largest single investment exposure in the Sampo Group on 31 December, 2008 was related to its equity holding in Nordea. As of year-end, the Sampo Group owned over 10 per cent of total Nordea shares, having a market value of EUR 1,602 million. The largest market and credit risk concentrations related to individual counterparties are shown in Table 17. The same concentrations broken down in Sampo Group's different business areas are shown in table 18.

The proportion of recoverables related to the ten largest individual reinsurance counterparties amounts to EUR 269 million, which is 65 per cent of total recoverables. The largest individual reinsurance counterparty is Munich Re (AA-rating) which accounts for 34 per cent of total recoverables.

8 Liquidity Risks

Liquidity risk is the risk that insurance undertakings are unable to realize investments and other assets in order to settle their financial obligations when they fall due. Liquidity risk can be divided into the refinancing risk of debt and the market liquidity risk of investments. Sampo Group has relatively low amount of financial liabilities and thus the Group's refinancing risk is minor. Market liquidity risk increased during the year 2008 due to the financial crisis. Sampo Group has a large portion of assets invested in fixed income investments, the liquidity of which has been affected by the liquidity crunch.

In P&C insurance, premiums are collected in advance and large claims payments are usually known a long time before they fall due. In life insurance on the other hand, only a

Table 18

Concentration of market and credit risks in individual counterparties by business segment on 31 December 2008

Market value, EURm	P&C Insurance	Life Insurance	Holding	Group
Nordea	983	463	1,785	3,232
SHB	890	352	338	1,581
Sweden	963	0	0	963
SEB	371	390	189	950
DDB	188	350	224	762
Germany	580	137	0	717
Swedbank	663	1	0	664
SBAB	510	0	0	510
Pohjola Bank	51	370	45	466
France	369	20	0	389
Total top 10 exposures	5,569	2,084	2,581	10,235

Table 19

Cash flows according to contractual maturity (expected future payments of technical provisions), no eliminations

EURm	Carrying amount total			Cash flows						
	Carrying amount total	Carrying amount without maturity	Carrying amount with contractual maturity	2009	2010	2011	2012	2013	2014–2023	2024–
P&C Insurance										
Financial assets	10,204	1,723	8,481	898	2,106	1,350	2,255	1,196	2,070	116
Financial liabilities	1,104	691	413	-28	-28	-228	-13	-78	-165	0
Net technical provisions	7,458			2,410	831	522	419	358	2,050	1,828
Life Insurance										
Financial assets	4,674	1,176	3,498	1,683	536	463	304	337	758	43
Financial liabilities	104	0	104	8	8	8	8	108	0	0
Net technical provisions	4,351	4,351	0	459	429	438	395	332	2,258	1,711
Holding										
Financial assets	2,926	1,718	1,208	1,103	11	11	11	135	0	0
Financial liabilities	604	0	604	628	0	0	0	0	0	0

relatively small part of liabilities can be surrendered and it is therefore possible to forecast short-term cash flows related to claims payments to a very large extent.

LIQUIDITY RISK MANAGEMENT AND CONTROL IN SAMPO GROUP

Liquidity risks are managed on a legal entity level by cash management functions responsible for liquidity planning. Liquidity risk is reduced by having investments that are readily marketable in sufficiently liquid markets. At year end, the liquidity position in each legal entity was good.

QUANTIFICATION OF LIQUIDITY RISK

The maturities of technical provisions and financial assets and liabilities are presented in table 19. 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 nature, are associated with a certain degree of uncertainty.

9 Operational Risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, from personnel and systems, or from external events. The definition includes legal and reputation risk, but excludes strategic and business risk. Characteristics for operational risks, to distinguish from strategic and business risks, are that they are often event based and they can be traced back to a single place and point in time.

In Sampo Group, operational risk management is organized under the different business areas. Sampo plc’s main function is to own and control its subsidiaries. Sampo plc coordinates capital allocation, risk management, internal audit, group accounting, investor relations and legal and tax issues within Sampo Group. Furthermore, Sampo plc manages a substantial amount of investment assets. Deficiencies or faults in processes of these functions could realise operational risks that might affect earnings and capital in the holding company.

Extensive guidelines, principles and policies have been stated in order to assure proper and adequate working methods and control systems both in the different functions and throughout the whole group.

OPERATIONAL RISK MANAGEMENT AND CONTROL IN P&C INSURANCE

Governance

The continuity of operational risk management is secured through the Operational Risk Committee (ORC). ORC shall handle policies and recommendations concerning operational risk management within If P&C as well as contingency plans, deviations from policies regarding operational risks, follow-up of operational risks identified in the Operational Risk Assessment (ORA) process, occurred incidents, reports regarding operational risks and other issues connected to operational risks.

Coordination and development work related to operational risk management in If P&C is divided into two organizational units: Operational Excellence Unit (OPEX), which aggregates and reports on the Operational Risk Assessment exercises to the ORC on a quarterly basis, and Operational Risk Management Unit (ORM), which is responsible for the incident reporting database and reports quarterly to ORC on policy deviations and occurred incidents. Business areas have the ultimate responsibility for identifying, assessing, monitoring and managing operational risks within different units.

Identification and management

In If P&C, operational risk is categorized as follows: Process execution failures, Business disruptions and system failures, Customer information management, Employment practices, and Internal and external fraud.

If P&C identifies operational risks through several different sources with different processes. The main processes used for identifying operational risks in If P&C include the environmental and macro analysis, the operational risk assessment process and incident reporting.

- Environmental and macro analysis is conducted by Corporate Strategy unit on an annual basis. Each year the key trends affecting the insurance industry are identified and their implications to If are assessed. On this basis, the main opportunities and threats are identified and prioritized. These assessments outline the most important external operational and business risks.
- Operational risk assessment (ORA) is an annual process where operational risks are identified and assessed in the different business units through interviews and workshops. After quarterly ORA follow-up meetings, the operational risks are reported to ORC. In addition, legal risks and some business risks are captured in the ORA process. The quarterly reporting is used as a basis for an overall risk assessment of an annual cycle, where the identified risks are analyzed and prioritized in all of If P&C’s business areas and corporate functions as a part of the annual business planning process.
- Incident reporting and analysis is arranged in different ways depending on the type of the incident. Some incidents are collected through a separate incident database and some are collected through regular control investigations. To improve the overall management of operational risks, there is an ongoing project to integrate all incident information into a single database that will also serve as a common reporting tool.

In order to control operational risk, If P&C has approved a number of policies including e.g. Contingency Plans, Security Policies, Outsourcing Policy, Complaints Handling Policy, Claims Handling Policy and other policies related to different aspects of the business. The different policies are reviewed regularly and updated as needed. In addition, If P&C has thorough processes and guidelines to handle external and internal fraud cases should they arise. Furthermore, much effort is put into internal education regarding ethics.

OPERATIONAL RISK MANAGEMENT AND CONTROL IN LIFE INSURANCE

The objective of operational risk management in Mandatum Life is to enhance the efficiency of internal processes and decrease fluctuations in returns. The approach to operational risk management is risk averse and the aim is to minimize operational risks subject to cost-benefit considerations. The coordinated management of operational risks gives management an overall view of the realization and management of risks, as well as of the changes in risk position shown by the risk indicators and analyses of the external environment.

Governance

The continuity of operational risk management is secured through the Management Team (MT) where operational risks are followed up. Operational Risk Committee (ORC) discusses and coordinates risk management issues regarding operational risks within Mandatum Life, such as policies and recommendations concerning operational risk management, and gives opinions and advice in those issues to the Mandatum Life MT. The committee also discusses deviations from operational risk management policies and monitors operational risks identified in the self-assessments as well as the occurred incidents. The committee meets at least four times a year. Reports on operational risks are submitted to the MT and Board of Directors on a quarterly basis. The ORC is supported by Operational Risk Management (ORM) which on its behalf is responsible for the practical details related to incident reporting.

Identification and management

Operational risks are identified through several different sources and methods:

- Macro analysis is conducted prior to the annual strategy process where the key trends in Mandatum Life's business environment are identified, including a macro level business analysis of operational risks.
- Self-assessment process is used to map and evaluate the major operational risks and their probabilities and significance, including an evaluation of internal control and sufficiency of instructions. Self-assessment is conducted annually.
- Analysis of incidents is collected and analysed by ORM. Each business unit is responsible for ensuring that the occurred incidents are reported to the ORM.
- Spot checks and interviews are conducted regularly by ORM. This includes ad-hoc spot checks into the company's business units' activities in order to identify realized operational risks and interviews with key personnel in order to identify new potential risks.

The most significant operational risks for Mandatum Life identified in the operational risk self-assessment process include the following: changes in the external operating environment; ageing IT systems; severe disruption in outsourced services, information security, malicious codes, viruses and other external attacks; false information to customers; manual

phases in processes; false interpretations of contract conditions; system failures; loss of key personnel; damage to physical assets; destruction of data repositories; risk related to new business areas; incorrect underwriting decisions; internal fraud; external fraud; and miss-selling of policies.

In order to limit operational risks, Mandatum Life has approved a number of policies including e.g. Security Policies, Continuity and Preparedness Plans, Outsourcing Policy, Complaints Handling Policy, Claims Handling Policy and a number of other policies related to ongoing operative activities. Deviations against different policies are followed up independently in each business unit and reported to ORM. Moreover, Key Risk Indicators are measured and followed up on a quarterly basis.

Risk indicators have been set to depict changes in the risk positions. The indicator values are compared to earlier averages or with some target level. Mandatum Life keeps a close eye on average and exceptional claims handling times, functionality of call centre services, functional reliability of information technology, negative customer feedback, personnel absences and hours of overtime.

10 Risk outlook

OTHER RISKS

Sampo Group's future results and profitability is affected by a number of different risk factors. In the near term, the main risks to the Group's profitability and financial position are related to developments in the financial markets. Other risk factors that may affect profitability and outlook in the foreseeable future besides business risk are strategic risk, reputation risk, emerging insurance risk and legal risk.

If P&C's market position in the Nordic P&C insurance market is very strong and that position is expected to remain solid in the future. Competitive pressure from new sources of competition such as smaller competitors and competition from new distribution channels such as web-based service models may restrict If P&C insurance's market position and adversely affect growth expectations. If P&C has invested into its business in Russia during 2008 and strong growth is expected in the volume of insurance operations in Russia during the next few years. These growth objectives are subject to a number of risks and uncertainties related to the economic and political environment in Russia.

Reputational risk is the risk of direct loss or loss in future business caused by a decline in the reputation of the Group's businesses. Reputational risks are related to the way the company is perceived from the perspective of different stakeholders (shareholders, customers, staff, business partners or the general public) and may arise through realized risks in other risk categories. Reputational risks may arise also through external distribution channels, the risks of which are difficult to control.

Both P&C and life insurance businesses are subject to new types of risk which may emerge. By their very nature these risks are evolving, uncertain, and difficult to quantify. In P&C insurance potential emerging insurance risks include e.g. the

impact of climate change, whereas in life insurance these risks may include e.g. risks related to pandemics. Emerging insurance risks are managed by monitoring the developments in these risks on the basis of industry research, assessments and scenario analyses and by incorporating these risks into the provisioning and pricing processes to the extent possible.

Sampo Group is subject to a wide range of legal obligations in all countries in which we operate. The Group is currently not involved in any legal disputes that could in the Group's opinion materially affect its earnings in the year 2009.

Sampo Group plans to continue to strengthen its risk management framework and systems in 2009. During 2009, Mandatum Life's risk governance structure will be further developed particularly in relation to the role of Mandatum Life's Investment Control Committee. Regarding investment risks Sampo Group will continue to develop its credit risk reporting and management systems. In particular, the risk measurement methods and systems are constantly being improved. Sampo Group is particularly concentrating on developing its modelling and reporting capabilities in preparation for Solvency II compliance.

PREPARATIONS FOR SOLVENCY II

The European Commission's Solvency II draft framework directive was published in 2007. The introduction of a new economic risk based solvency regime aims to deepen the integration of the insurance and reinsurance market, enhance the protection of policyholders and beneficiaries, to improve international competitiveness of EU insurers and reinsurers and to promote a better regulation. Compared to the existing Solvency I regulation, the regulatory capital requirements in Solvency II will more closely reflect the specific risk profile of each company. This will encourage companies to focus on sound risk management and internal control procedures and thus embed risk awareness throughout the organization.

A separate programme to prepare If P&C for the anticipated changes was introduced during 2007. A number of projects within the programme have been initiated to secure full compliance with Solvency II in 2012. The programme has encompassed involvement in the Solvency II debate and continuous review of If P&C's risk management framework, internal control and corporate governance as well as the internal capital model.

Finnish solvency rules for life insurers changed during 2008. The new rules are based on similar framework as the Solvency II draft, but at a lower confidence level. One aim is to ensure that Finnish life companies are well prepared for Solvency II before 2012. Also in order to prepare for Solvency II and to continuously improve the risk management framework, the company has worked on the development of its internal capital model and improved operational risk management during the year.

During 2008 the supervisors across Europe organized an impact study of the future Solvency II regulation. The insurance entities within Sampo Group took part in the test, called QIS 4, along with 1,400 other companies. The tested calculations showed that Sampo Group, If P&C and Mandatum Life are well prepared for the drafted solvency requirements.