Glossary

This glossary includes the most essential terms used in property and casualty insurance, life insurance, financial statements and risk management of Sampo Group. Because of different meanings in some cases in property and casualty insurance vs. life insurance, there are two different explations for some of the insurance terms.

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On the website the term explanations are underlined with blue colour. The explanations can be viewed by moving the cursor on the underlined word or by tapping it. The function can be disabled in the tools.

A

Acquisition costs
The acquisition costs for insurance and investment contracts (direct insurance commissions, commissions for reinsurance assumed and other acquisitions costs).

Allocated investment return transferred to the technical account
Return on average insurance liabilities in P&C insurance, after deducting the capital employed in insurance operations in the form of premium receivables, reinsurance deposits and net of other receivables and liabilities plus half of the technical result before allocated investment return. The allocated investment return is based on risk-free interest.

ALM risks
The company is exposed to ALM risk when changes in different market variables (e.g. interest rates, inflation, foreign exchange rates) cause a change in the fair values of investment assets and derivatives that is of different size than respective change in the economic value of insurance liabilities. It is crucial to remember that the cash flows of insurance liabilities are modelled estimates and therefore uncertain in relation to both their timing and amount. This uncertainty is central component of ALM risk as well.

Assumed reinsurance
Reinsurance business received from another insurance company.

Available-for-sale assets (AFS)
Financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss (IFRS).

B

Beneficiary
Beneficiary named by policyholder or an unnamed third party.

Biometric risks
Biometric risks refer to the risk that the company has to pay more mortality, disability or morbidity benefits than expected, or the company has to keep paying pension payments to the pension policy holders for a longer time (longevity risk) than expected when pricing the policies.

Bonuses
Bonuses are possibly granted to with profit-policies (life insurance policies) according to the principle of fairness. The bonus consists of the surplus generated by the life insurance company.

C

Capital redemption policy
Commonly used life policy without any insurable risk. Policy consists purely of savings.

Catastrophe risk
Catastrophe risk can be seen as an extreme case of premium risk. It is the risk of low frequency, high severity events, such as natural catastrophes. These events lead to significant deviations in actual claims from the total expected claims.

Ceded reinsurance
Part of insurance risk transferred to reinsurers.

Cedent
Direct insurance company that reinsures a part of its direct business to a reinsurer.

Change in fair value reserve
Change in the fair value reserve includes potential cash flow hedges as well as unrealised profits and losses i.e. changes in the fair value of financial instruments classified as available-for-sale investment assets. These changes in value are recognized in the income statement when the investments are sold or they expire. The change in the fair value reserve includes also the change in the tax liability related to value changes. Change in the fair value reserve is an important element in analyzing the result, especially in life insurance business.

Change in liabilities for insurance and investment contracts
In life insurance business the insurance portfolio is classified as either insurance contracts or investment contracts depending on, whether they carry insurance risk or not. In life insurance business area “investment contracts” comprise only capital redemption policies. In other cases the liabilities are insurance liabilities. The amount of technical provisions is determined at every balance sheet date. The change in liabilities for insurance and investment contracts is the difference between the value at the balance sheet date in year x and the value a year earlier.

Claims frequency
The observed relationship during a specific period between the number of claims arising within a certain category of insurance (a certain insurance portfolio) and the number of insurance policies within the same category (the portfolio). Does not include large claims.

Claims handling
Activities in connection with the investigation, settlement and payment of claims from the time of their occurrence until settlement.

Claims incurred
The sum of paid claims and change in provision for claims outstanding. Includes the claims costs for the insured events during the year regardless if they have been paid during the same year or not.

Claims paid
When the insured event occures the benefit paid to the named beneficiaries in insurance contracts or to the unnamed third party.

Combined ratio
One of the most significant key figures in P&C insurance describing the efficiency of operations. It is calculated as the sum of loss ratio and expense ratio. Combined ratio is expressed as a percentage.

Calculation formula:

loss ratio + expense ratio

Compliance
Adherence to laws, regulations, code(s) of conduct and standards of good practice in the industry. Sampo plc's Board of Directors has issued Sampo Group Compliance Principles on 9 November, 2012: www.sampo.com/compliance

Compliance risk
Compliance risk is the risk of legal or regulatory sanctions, material financial loss or loss of reputation, resulting from a company failure to comply with laws, regulations and administrative orders applicable to its activities. Compliance risk is usually a consequence of internal misconduct and hence it can be seen as a part of operational risk.

Concentration risks
In general concentration risks arise when the company's risk exposures are not diversified enough and as a result of this for instance an individual claim or financial market event could threaten the solvency or the financial position of the company. Direct concentrations can evolve within separate activities – large single name or industry specific insurance or investment exposures – or across the activities when a single name or an industry is contributing widely on profitability and risks of the company through both insurance and investment activities. Concentration risk may materialize also when profitability and capital position react similarly to general economic development or to structural changes in institutional environment in different areas of business. In that case concentration risk can be seen as part of strategic risk.

Consolidated Group SCR
Solvency capital requirement calculated for the Solvency II regulated group. In Sampo's case, this group consists of Sampo plc, Mandatum Life and If P&C.

Cost ratio
Operating expenses and claims adjustment expenses divided by premiums earned in P&C insurance company. The ratio is expressed as a percentage.

Calculation formula:

$$\frac{\text{+ operating expenses} \\ \text{+ claims settlement expenses}}{\text{premiums earned}} \cdot 100\%$$

Counterparty default risk
In case of counterparty risk, final loss depends on the positive mark-to-market value of derivatives or reinsurance recovables at the time of default and on the recovery rate. Counterparty risk is mitigated by careful selection of counterparties, by diversification of counterparties to prevent risk concentrations and by using collateral techniques, e.g. ISDA Master Agreements backed by Credit Support Annexes. Counterparty risk is one subclass of credit risk.

Credit risk
Credit risk refers to negative impact in the financial results arising from increased probability of, or already occurred defaults of debtors (Issuer risk) or, in case of derivative and/or reinsurance contracts, other counterparties (Counterparty default risk). Further information: Market risks.

Currency risk
Currency risk refers to fluctuations in the financial results and capital caused by changes in market values of financial assets and liabilities, as well as by changes in the economic value of insurance liabilities, after currency exchange rates change. Further information: Market risks.

D

Deductible
Part of cost of insured event which is not covered by insurance company, but policyholder has to cover this part him/herself.

Defined benefit plan
Life insurance policy, where premiums are calculated based on agreed benefits such as income level. Alternative to 'Defined contribution plan'.

Defined contribution plan
Life insurance policy, where benefits are calculated based on premiums. Alternative to 'Defined benefit plan'.

Direct insurance
Insurance business where insurer and insured enter into insurance contract. The insurance company is directly responsible to the insured.

Discount rate
Future outflows and inflows of life insurance contracts are changed to present value of money by using discount rate. This present value is used to calculate the liability for insurance company from its insurance contracts. Also in p&c insurance the provision for claims outstanding pertaining to annuities is discounted.

Dividend per earnings
Part of earnings distributed to shareholders as dividends. Rest of the result stays in the company and is invested in future business.

Calculation formula:

$$\frac{\text{dividend per share}}{\text{earnings per share}} \cdot 100\%$$

E

Earnings per share (EPS)
The Earnings per share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock. The EPS is thus profitability measure. It is especially useful when comparing subsequent years' EPS figures and their development. If the amount of shares changes from year to year (e.g. due to a split), this change has to be taken into account when EPS comparisation is made.

Calculation formula:

$$\frac{\text{profit for the financial period attributable to the parent company's equity holders}}{\text{adjusted average number of shares}}$$

Economic value of insurance liabilities
Sampo Group calculates the economic value of insurance liabilities for internal purposes by discounting expected liability cash flows with market rates.

Effective dividend yield
Effective dividend yield shows how much the dividend was in relation to the value of the share at the end of the year. This figure added to the share value development shows the direct monetary return on the share investment in the company.

Calculation formula:

$$\frac{\text{dividend per share}}{\text{adjusted number of shares at balance sheet date}} \cdot 100\%$$

Eligible own funds
The own funds that are eligible for covering the regulatory capital requirements (Solvency II).

EPS including change in the fair value reserve
Earnings per share in case market value changes in available-for-sale investment portfolios would be recorded in the income statement instead of balance sheet.

Calculation formula:

$$\frac{\text{total comprehensive income for the financial period attributable to the parent company's equity holders}}{\text{adjusted average number of shares}}$$

Equalization provision
Buffer against fluctuations of risk results.

Equity per share
Equity per share indicates the amount of capital per share.

Calculation formula:

$$\frac{\text{equity attributable to the parent company's equity holders}}{\text{adjusted number of shares at balance sheet date}}$$

Equity risk
Equity risk refers to fluctuations in the financial results and capital caused by changes in market values of financial assets and liabilities, as well as by changes in the economic value of insurance liabilities, after equity price change. Further information: Market risks.

Equity/assets ratio
Company's equity in relation to its total assets.

Calculation formula:

$$\frac{\text{total equity} \pm \text{valuation differences on investments less deferred tax}}{+\text{ balance sheet total} \pm \text{valuation differences on investments}} \cdot 100\%$$

Excess of assets over liabilities
The excess of assets over liabilities as reported in the Solvency II balance sheet. Value of the assets minus liabilities. This corresponds with equity in the IFRS balance sheet with most important differences being in the valuation of technical provisions and investment assets and treatment of intangible assets.

Expense ratio (life insurance)
In life insurance expense ratio means expenses divided by loading income. Expense ratio measures the effectiveness of life insurance activities.

Calculation formula:

$$\frac{+\text{ operating expenses before change in deferred acquisition costs} + \text{claims settlement expenses}}{\text{expense charges}} \cdot 100\%$$

Expense ratio (P&C insurance)
In property and casualty insurance expense ratio is a ratio between operating expenses and premiums earned expressed as a percentage.

Calculation formula:

$$\frac{\text{operating expenses}}{\text{premiums earned}} \cdot 100\ \%$$

Expense result
Load income minus operating expenses (life insurance terminology).

Expense risk
Expense risk arises from the fact that the timing and/or the amount of expenses incurred differs from those expected at the timing of pricing. As a result expense charges originally assumed may not be enough to cover the realized expenses.

F

Fair value reserve
Fair value reserve in equity include unrealized changes in fair value of available-for-sale investments after deferred tax.

Financial assets designated as at fair value through profit or loss
Financial assets that are classified as held for trading or upon initial recognition are designated by the entity as at fair value through profit or loss.

G

Group pension policy

Pension insurance where the policyholder is company and insureds are a named group of company's employees.

Group SCR

The Group Solvency capital requirement is the sum of the consolidated Group SCR and the SCR for entities included with deduction and aggregation method (mainly Topdanmark and Nordea in Sampo Group) (Solvency II).

Group solvency

Group solvency describes the amount of solvency capital exceeding minimum requirements for own funds.

Calculation formula:

$$\frac{\begin{array}{c}+\text{ group equity}\\+\text{ sectoral items}\\-\text{ intangibles and foreseeable dividends and distributions}\end{array}}{\begin{array}{c}\text{group's own funds}\\-\text{ minimum requirements for own funds, total}\end{array}}$$

Group solvency ratio

Group's own funds in relation to the minimum requirement set by the regulators. Regulators define what items are eligible for own funds.

Calculation formula:

$$\frac{\text{group's own funds}}{\text{minimum requirements for own funds}} \cdot 100\%$$

Guaranteed interest

With-profit life insurance policies have guaranteed fixed interest rates.

H

Held-to-maturity investments (HTM)

Financial assets with fixed maturity that an entity has the positive intention and ability to hold to maturity.

I

Individual life insurance

Life policy, in which a person is insured. The life policy can be a with profit policy or a unit-linked policy.

Individual pension insurance

Pension policy, in which a person is insured. The pension policy can be a with profit policy or a unit-linked policy.

Inflation risk
Inflation risk refers to unexpected changes in future expected cash flows of insurance contracts and financial assets causing changes in the market values of financial assets and liabilities as well as by changes in the economic value of insurance liabilities. Ultimately there are fluctuations in the financial results and capital.

Insurance margin (IM)
Technical result less other technical income and expense in relation to net premiums earned, expressed as a percentage. Further information: Technical result.

Insurance policy
IFRS-category for policy, where considerable insured risk is transferred from policyholder into insurance company.

Insured
Person or company, who is insured against event described in insurance contract.

Interest rate risk
The interest rate risk refers to fluctuations in the financial results and capital caused by changes in market values of financial assets and liabilities, as well as by changes in the economic value of insurance liabilities, after interest rates change. Further information: Market risks.

Internal model
Risk management system of an insurer for the analysis of the overall risk situation of the insurance undertaking, to quantify risks and/or to determine the capital requirement on the basis of the company specific risk profile. Further information: Partial internal model.

Investment assets
Company invests the coverage of insurance liabilities and own equity for example in stocks, bonds and properties.

Investment contract
IFRS-category for life insurance policy with no insurance risk (capitalisation policy).

Investment result
Net income from investments less the amount credited to policies based on guaranteed interest and possible bonuses (life insurance).

Issuer risk
When an issuer risk materializes, the size of the final loss depends on the investors holding of the security at the time of default, mitigated with the potential recovery rate. In most cases, issuer risk has already been fully priced as a lower market value before the event of default has occurred. In essence, credit spread is the market price of credit risk for issued tradable securities. Similar with other earnings risks, spread risk can be actively managed. Therefore, Issuer risk is categorized in Sampo Group as being part of spread risk under investment portfolio market risks. Further information: Credit risk.

L

Lapse risk
Lapse Risk is related to the policyholders' right to cease paying premiums. Further information: Policyholder behavior risk.

Legal risk
The risk of loss due to unpredictable or unknown legal development or uncertain interpretations of regulations.

Liabilities for insurance and investment contracts
Amount of liability covering the insured risk the company has undertaken. Provisions for unearned premiums, unexpired risks and claims outstanding in insurance company.

Liabilities for unit-linked insurance and investment contracts
Unit-linked insurance and investment contracts are policies in which the benefits are determined by reference to the value of investments linked to each contract. Unit-linked investment contracts comprise only capital redemption policies. Liabilities of unit-linked insurance and investment contracts at each balance sheet date are determined by using the market values of the underlying investments.

Liability adequacy test
Test required in IFRS to ensure that liabilities for insurance and investment contracts are adequate to cover insured events.

Life insurance
Insurance, which usually consists of two components 1) savings part (endowment) and 2) risk life cover. In addition other supplementary covers can also be included like cover for permanent and temporary disability, medical expenses cover etc.

Life insurance underwriting risks
In life insurance underwriting risks include biometric risks, policyholder behavior risks and expense risk.

Liquidity risk
Liquidity risk is the risk that Group companies are, due to lack of available liquid funds and/or access to relevant markets, unable to conduct their regular business activities in accordance with the strategy, or in extreme cases, are unable to settle their financial obligations when they fall due. Liquidity risk deals with potential illiquidity of investments and unexpected non-renewal of insurance policies. In addition, the availability and cost of refinancing and the offered price for financial derivates affect the Group companies' ability to carry out normal business activities.

Load income
To cover its expenses, life insurance company deducts loading from its policies. The sum of deducted loadings is load income.

Long-term incentive scheme
Long-term incentive schemes (previously known as long-term incentive programs) are used to commit Executive Management and Key Persons to the Group for a longer period of time. Further information: Sampo Group's long-term incentive schemes www.sampo.com/incentiveterms

Longevity risk
The risk of having to pay pension payments to the pension policy holders for a longer time than expected when pricing the policies.

Loss ratio
Claims incurred including claims adjustment expenses divided by premiums earned in P&C insurance. The ratio is expressed as a percentage.

Calculation formula:

$$\frac{\text{claims incurred}}{\text{premiums earned}} \cdot 100\ \%$$

M

Market capitalisation
Market value of the company.

Calculation formula:

$$\text{number of shares at balance sheet date} \cdot \text{closing price at balance sheet date}$$

Market risks
Market risks refer to fluctuations in the financial results and capital base caused by changes in market values of financial assets and liabilities as well as by changes in the economic value of insurance liabilities. The changes in

market values and economic values are caused by movements in underlying market variables such as interest rates, inflation, foreign exchange rates, credit spreads and share prices. Furthermore, market risks include also risk of worsening market liquidity in terms of widening bid-ask spreads and the risk of unexpected changes in repayment schedules of assets. In both cases the market value of financial instruments in investment portfolio can change.

Minimum consolidated Group SCR
Minimum solvency capital requirement calculated for the Solvency II regulated group. In Sampo's case, this group consists of Sampo plc, Mandatum Life and If P&C.

Minimum requirements for own funds
The sum of minimum requirements for own funds in all Group companies calculated according to sectoral rules.

Minimum solvency capital requirement (Minimum SCR)
Under the Solvency II regime the capital level representing the final threshold that triggers ultimate supervisory measures in the event that it is breached.

Morbidity risk
The risk of having to pay more morbidity benefits than expected when pricing the policies.

Mortality risk
The risk of having to pay more mortality benefits than expected when pricing the policies.

N

Net asset value per share (NAV/share)
Similar figure with 'equity per share' figure but in NAV per share all investments are valued at market prices. If a NAV per share is higher than share price the market does not believe in the company's ability to genereate profit. If the NAV per share is lower than the share price, the market believes in company's ability to generate profit in the future and this can be seen in the share price.

Calculation formula:

$$\frac{\text{+ equity attributable to the parent company's equity holders} \\ \pm \text{ valuation differences on listed associate in the Group} \\ \pm \text{ valuation differences on investments less deferred tax}}{\text{adjusted number of shares at balance sheet date}}$$

Net income from investments
Return on investment assets less expenses generated by investment assets.

Net premiums written
Premiums written less reinsurers' share of premiums written.

O

Operating expenses
Operating expenses include expenses for the acquisition, management, administrative and investment management of insurance contracts and also commissions on reinsurance ceded.

Operating expenses in insurance operations
Expenses related to the acquisition or renewal of insurance contracts plus corporate administration costs in property and casualty insurance.

Operational risks
Operational risk refers to the risk of loss arising from inadequate or failed processes or systems, from personnel, or from external events. The definition includes legal risks but excludes risks resulting from strategic decisions. The risks may realise for instance as a consequence of internal misconduct; external misconduct; insufficient HR management; insufficiencies in operating policies; damage to physical property; interruption of activities and system failures; and defects in the operating process.

Own funds
An undertaking's own funds consist of basic own funds and ancillary own funds. The basic own funds consist of ordinary share capital, reconciliation reserve and some other items such as subordinated liabilities and deferred tax assets. There are no ancillary own funds in Sampo Group (Solvency II).

P

P&C insurance underwriting risks
In property and casualty insurance (also called as non-life insurance) underwriting risk is often divided in premium risk and reserve risk in order to distinguish between the risks related to unexpired and expired contracts.

Paid-up policy
Policy changes into paid-up status, if it is agreed, that policyholder stops paying premiums.

Partial internal model (PIM)
Partial internal model is referred to when some of the risks are quantified by company's internal model and some are measured by regulatory standard formula. Further information: Internal model.

Pension insurance
Insurance for pension cover.

Policyholder
Person or company, who has underwritten an insurance contract with an insurance company.

Policyholder behavior risk
Policyholder behavior risks arise from the uncertainty related to the policyholders' behaviour in regards to premium payments and preferred maturity of policies and hence to the size and timing of future claims payments.

Premium income
Premiums paid by life insurance policyholders.

Premium risk
Premium risk relates to future claims and originates from claim sizes being greater than expected, differences in timing of claims payments from expected, and differences in claims frequency from those expected. As a result, the claims cost for future claims exceeds the expected level and there is a loss or adverse changes in the value of insurance liabilities.

Premiums earned
That portion of gross premiums written in P&C insurance that pertains to the financial year, meaning premiums written adjusted for changes in the provision for unearned premiums.

Premiums written
P&C insurance premiums for insurance periods that have started during financial year regardless if they have been invoiced or paid.

Price/Earnings ratio (P/E)
A company's share price in relation to its earnings. A high P/E ratio usually indicates growth expectations in the market.

Calculation formula:

$$\frac{\text{adjusted closing share price at balance sheet date}}{\text{earnings per share}}$$

Principle of fairness
Life insurance company distributes a part of eventual profit generated by insurance policies as bonuses to its policyholders according to company's interpretation of Principle of fairness, if company and policyholder have agreed on this and if company's solvency is not endangered. In division of bonuses generation of profit in different lines of insurance and from policies with different interest rate guarantees is taken into account.

Property and casualty insurance
Collective term for property insurance, liability insurance, reinsurance and accident and sickness insurance. Property insurance involves the type of insurance that covers the economic value of one or several objects (such as movable property in a home, car, boat, horse, factory building or warehouse). Other types of property and casualty insurance mainly cover various interests (such as business interruption insurance or liability insurance), where only a specific economic interest is covered, not the economic value of one or several objects.

Provision for claims outstanding
Provision for claims outstanding (also called as claims reserve) consists of unpaid claims due to insurance events that have already occured, the claims handling costs and reserves.

Provision for unearned premiums
Amount of liability covering the insured risk the company has undertaken.

Provision for unexpired risks
A provision for unexpired risks shall be established if the net of claims, acquisition costs and expenses relating to the unearned premium exceeds the unearned premium.

R

Ratio of eligible own funds to Group SCR
Solvency ratio calculated as the total eligible own funds divided by Group SCR, including other financial sectors and undertakings treated according to deduction and aggregation method. Solvency ratio for the whole group (Solvency II).

Reconciliation reserve
The total reconciliation reserve is on Own funds item, which results mainly from excess of assets over liabilities deducted e.g. by foreseeable dividends and other distributions (Solvency II).

Regular premium
Several regular premiums are paid in regular premium insurance.

Reinsurance
Insurance company doesn't bear all the insurance risks by itself and therefore company buys insurance cover for part of its risks from another insurance company.

Reinsurers' share
Insurer has bought reinsurance cover from reinsurer, and reinsurer is liable for the part of insurer's paid claims and provision for claims outstanding that corresponds to the bought reinsurance.

Reputational risk
Reputational risk refers to the risk that adverse publicity regarding the company's business practices or associations, whether accurate or not, causes a loss of confidence in the integrity of the institution. Reputational

risk is often a consequence of a materialized operational risk or compliance risk and realizes often as a deterioration of reputation amongst customers and other stakeholders.

Reserve risk
Reserve risk only relates to incurred claims, i.e. existing claims, and originates from claim sizes being greater than expected, differences in timing of claims payments from expected, and differences in claims frequency from those expected. As a result technical provisions are not sufficient to cover the cost for already incurred claims and there is a loss or adverse changes in the value of insurance liabilities.

Retention
That part of the insurance business for which the insurance company assumes the risk and which is thus not reinsured with other companies (property and casualty insurance terminology).

Return on assets (RoA)
Return on Assets (RoA) indicates how much return the company generates to assets invested in the company, i.e. both equity and liabilities. RoA may vary substantially depending on the industry and the amount of tied-up assets. Therefore RoA comparisons between different industries are not necessarily relevant.

Calculation formula for Return on assets (at fair values):

$$\frac{\begin{array}{c}\text{+ operating profit}\\ \pm\text{ other comprehensive income before taxes}\\ \text{+ interest and other financial expenses}\\ \text{+ calculated interest on technical provisions}\\ \pm\text{ change in valuation differences on investments}\end{array}}{\begin{array}{c}\text{+ total balance sheet (average of values on 1 Jan. and 31 Dec.)}\\ \text{- technical provisions relating to unit-linked insurance (average of values on 1 Jan. and 31 Dec.)}\\ \pm\text{ valuation differences on investments}\\ \text{(average of values on 1 Jan. and 31 Dec.)}\end{array}} \cdot 100\%$$

Return on capital at risk
Return on capital at risk= Average profit on operations for the period / average Sampo Group Economic Capital

Return on equity (RoE)
Return on equity (RoE) indicates how much return the company is able to generate for the money shareholders have invested (simplified formula: profit after tax/average equity during the year). The more liabilities company has in relation to equity, the more sensitive RoE is to variations in profit. RoE is useful for comparing profitability in companies on the same branch.

Calculation formula:

$$\frac{\begin{array}{c}\text{+ total comprehensive income}\\ \pm\text{ change in valuation differences on investments less deferred tax}\end{array}}{\begin{array}{c}\text{+ total equity (average of values on 1 Jan. and 31 Dec.)}\\ \pm\text{ valuation differences on investments less deferred tax}\\ \text{(average of values on 1 Jan. and 31 Dec.)}\end{array}} \cdot 100\%$$

Risk life policy
Policy for insured's death cover.

Risk policy
Policy covering different risks such as death, permanent disability, medical cover, and accident.

Risk ratio

In property and casualty insurance, ratio of claims incurred (claims adjustment expenses are excluded) and premiums earned, expressed as a percentage. Risk ratio shows how well the insurance company has succeeded in pricing the insurance risk. The lower the ratio, the better.

Calculation formula:

$$\frac{\text{+ claims incurred} \quad \text{- claims settlement expenses}}{\text{premiums earned}} \cdot 100\%$$

Risk result

Risk premiums charged by life insurance company less the risk benefits paid/to be paid to beneficiaries.

Risk selection

The insurer's selection of the type of risks to be included in his portfolio. Risk selection is of major importance to an insurance company, in part because it facilitates, to the extent possible, a balanced business, which normally has a favorable impact on operating results.

Run-off result

P&C company's profit or a loss that arises when claims originating from a prior year are either finally settled or revalued.

S

Settlement Risk

The risk that a counterparty does not deliver a security or its value in cash as per agreement and the other counterparty or counterparties have already irrevocably delivered security or cash value as per the agreement.

Short-term incentive program

Short-term incentive programs are based on each beneficiary's contribution to the company's profitability. Performance criteria and contribution assessment are based on individual performance analysis combined with relevant business unit performance.

Single premium

Policy with premiums paid with one installment.

Solvency capital requirement (SCR)

The amount of capital to be held by an insurer to meet the Pillar I requirements under the Solvency II regime. Based on 99.5 % confidence level at 1-year horizon. Breaching this level triggers supervisory measures.

Solvency II

The Solvency II regime is followed by If P&C, Mandatum Life and Sampo Group. The Solvency II Directive harmonises the EU insurance regulation and primarily this concerns the amount of capital that insurance companies must hold. Within the Sampo Group companies the main effects are on solvency and reporting.

Solvency margin ratio

Solvency margin in relation to minimum solvency margin.

Spread risk

Spread risk refers to fluctuations in the financial results and capital caused by changes in market values of financial assets and liabilities, as well as changes in the economic value of insurance liabilities, after spread changes. Further information: Market risks.

Standard formula
In the context of the Solvency II regime, a set of calculations prescribed by the regulator for generating the Solvency Capital Requirement.

Surrender
Policyholder terminates his/her policy, which has savings, before maturity date and the company pays the surrender value of policy to the policyholder.

Surrender risk
Surrender Risk is related to the policyholders' possibility to interrupt their policies. Further information: Policyholder behavior risk.

Surrender value
Calculated value for an insurance policy, savings less a penalty fee for the termination before maturity date.

T

Technical provisions
Provisions for unearned premiums, unexpired risks and claims outstanding.

Technical result
Company's result before return on investment, other income, costs and taxes (P&C insurance company).

Technical result before the transfer of return of allocated investment return
Item in the technical accounts comprising premiums earned less claims and operating costs (P&C insurance terminology).

Total comprehensive income
Total comprehensive income is calculated adding together profit and other comprehensive income (OCI) for the period after taxes. OCI includes changes in exchange differences, available-for-sale financial assets, cash flow hedges, share of associate's other comprehensive income as well as actuarial gains and losses from defined pension plans.

profit + other comprehensive income (=OCI) for the period after taxes

Total eligible own funds to meet the Group SCR
The total eligible own funds, including the own funds from the other financial sectors (Nordea) and from the undertakings included via deduction and aggregation method (Topdanmark), to meet the Group SCR (Solvency II).

Total technical reserves on own account
Liabilities for insurance and investment contracts after reinsurers' share.

Transfer of liability
Transfer of insurance portfolio from insurance company/pension fund into another insurance company.

Transitional rules
Solvency II term, which in Sampo's context refers to either Transitional measure on Technical provision or Equity risk. For technical provisions this means that (until 2032) the book value of liabilities can be used instead of Solvency II (market consistant) liability and for equity risk a lower risk charge can be applied until 2023 in SCR calculations. Currently, both measures are used at Mandatum Life.

U

Underwriting
The risk assessment and pricing conducted when insurance contracts are drawn up. In accounting contexts, the term is also used more broadly to designate the operations of an insurance company that do not have the character of asset management.

Underwriting result
The insurer's profit on the insurance sale after all expenses and losses have been paid. When premiums are not sufficient to cover claims and expenses, the result is an underwriting loss.

Unit-linked insurance
Life insurance savings are linked to the value of a certain investment, typically a mutual fund. Policyholder bears the risk of fluctuation of investments.

Unit-linked insurance policy
Life policy, in which the value of savings depends on development of an external instrument such as an investment fund. The policy holder bears the risk of value changes.

Unit-linked reserves of total technical reserves
Liabilities from unit-linked contracts.

V

Valuation differences
Difference between fair value and book value of investments.

Variable compensation
Variable compensation in Sampo Group can be divided into two main groups, which are a) variable compensations based on the contribution to the company's profitability and b) variable compensations linked to committing employees to the Group.

W

With profit policy
Life policy, in which policy holder's savings are credited by guaranteed interest and possible bonuses.

With profit technical provisions
Liabilites for traditional insurance and investment contracts.