Appendix 3: Principles of Investment Portfolio Management

Investments (excluding Mandatum Life's investments covering unit-linked policies) are managed according to the subsidiaries' Investment Policies which are focused on insurance liabilities and solvency.

In financial accounting the investment portfolios are reported on a fair value basis. These fair values are determined either on the basis of direct market quotes or by using various valuation models. More information on the valuation methods of the investment assets is presented in Note 17 of Sampo Group Financial Statements. In regards to Solvency II valuation methods, there are some minor differences compared to IFRS rules. See Appendix 4 for Solvency II Valuation Methods.

Sampo Group's Chief Investment Officer is responsible for managing investments within the limitations of the Investment Policies prepared by Group companies and approved by Group companies' Boards of Directors. The insurance subsidiaries and the parent company have a common Group-wide infrastructure for investment management as well as for performance and risk reporting which facilitates simultaneous company and Group level reporting. These create cost efficiency in Investment activities and also facilitate Group-wide monitoring of portfolios.

Sampo Group has a thorough understanding of the Nordic markets and issuers and consequently Group's direct investments are mainly made in Nordic securities although lately direct investments outside non-Nordic countries have increased. Mandatum Life's direct investments are mainly denominated in euro and in companies geographically located in Finland and selectively in other countries. If P&C has the major part of its direct investments denominated in the Scandinavian currencies and their respective countries. Through effective differentiation in asset selection between companies, concentration risk is proactively managed at Group level. Concentration risk is also managed by limit structures.

Management of Equity and Spread Risks of Direct Investments

In Sampo Group, the selection of direct fixed income and equity investments is based primarily on stock and bond picking and secondarily on top-down allocation. This investment style ensures that the portfolio includes thoroughly analyzed investments with risk return ratios internally considered to be adequate, although the portfolio might not be necessarily as diversified as finance or portfolio theory suggests.

The main steps in decision making, limit and monitoring process are as follows:

1. Potential investments are analyzed thoroughly. The creditworthiness and future prospects of the issuer are assessed together with collaterals and structural details of the instruments. Although external credit ratings by rating agencies and the opinions of analysts are used to support the internal assessment, Sampo Group's own internal assessment is always the most important factor in decision making.
2. Investment transactions shall be executable on short notice when an opportunity appears. This puts pressure on authorizations and credit limit structures and procedures which must be simultaneously (i) carried out flexibly enough to facilitate fast decision making regardless of instrument type, (ii) well-structured to ensure that investment opportunities are assessed prudently, taking into account the specific features and risks of all investment types and (iii) able to restrict the maximum exposure of a single name risk to a level that is within the company's risk appetite.
3. Accumulated credit exposures over single names and products are monitored regularly at the subsidiary level and at Group level to identify unwanted concentrations. Credit exposures are reported, for instance, by sectors and asset classes and within fixed income by ratings.

Management of Indirect Investments

When investing in non-Nordic securities, funds or other assets, third party managed investments are mainly used. These investments are primarily used as a tool in tactical asset allocation when seeking return and secondarily in order to increase diversification.

The external asset managers and funds managed by them are selected for both companies by the same members of Sampo Group's Investment Unit. The funds are mostly allocated to areas outside of the Nordic countries. Consequently, the risk of unidentified or unwanted concentrations is relatively low.

Sampo Group does not have Asset Backed securities in its portfolios.

Control of Investment Activities

Market risk control is separated from portfolio management activities in two ways. Firstly, persons independent from the Investment Unit prepare Investment Policies for Board approval. Secondly, Middle Office units which are independent of the Investment Unit, measure risks, performance and control limits set in Investment Policies on a daily basis.

Market risks and limits are also controlled by the Investment Control Committee (ICC) in If P&C and the Asset and Liability Committees (ALCOs) in Mandatum Life on a monthly basis at a minimum. These committees are responsible for the control of investment activities within the respective legal entity.

The ICC is responsible for monitoring the implementation of and compliance with the Investment and Asset Coverage Policies. The committee considers and proposes changes to the policies. The Chairman is responsible for the reporting of policy deviations and other issues dealt with by the committee.

Mandatum Life has two ALCOs, of which one controls the segregated assets and liabilities and the other controls the rest of Mandatum Life's with profit assets and liabilities. The ALCOs ensure that the investment activities are conducted within the limits defined in the Investment Policy as approved by the Board and monitors the adequacy of liquidity, profitability and solvency capital in relation to the risks in the balance sheet. The ALCOs prepare proposals of Investment Policy to the Board of Directors and report to the Board.

The aggregated market risks and concentrations at Group level are controlled by Group's Audit Committee quarterly at a minimum. If deemed necessary, the concentration risks are further managed by deploying group level exposure restrictions, for instance by industries or by individual issuers.