

Counterparty Default Risks

Counterparty Default Risk ("Counterparty Risk") is one type of consequential risk, which Sampo Group is exposed to through its activities. In Sampo Group the major three sources of counterparty risk are reinsurance, financial derivatives and other receivables.

Counterparty default risk arising from receivables from policyholders and other receivables related to

commercial transactions is very limited, because non-payment of premiums generally results in cancellation of the insurance policies. Also, the risk exposures arising from other receivables related to commercial transactions are minor in Sampo Group.

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

Reinsurance Counterparty Risk

Default risk related to reinsurance counterparties mainly concerns If P&C, as the use of reinsurance in Mandatum Life is relatively limited.

In If P&C reinsurance is used regularly and If P&C have many programs in place. If P&C is using reinsurance to (i) utilize its own capital base efficiently and reduce cost of capital, (ii) limit large fluctuations of underwriting results and (iii) have access to reinsurers' competence base. The Reinsurance Committee ("RC") is a collaboration forum for reinsurance related issues in general and shall give its opinion on and propose

actions in respect of such issues. The committee shall consider and propose changes to the Reinsurance Policy and the Internal Reinsurance Policy. The Chairman is responsible for reporting policy deviations and other issues dealt with by the committee.

The distribution of reinsurance receivables and reinsurers' portion of outstanding claims on 31 December 2016 per rating category is presented in the table Reinsurance Recoverables and Pooled Solutions, If P&C, 31 December 2016 and 31 December 2015.

Reinsurance Recoverables and Pooled Solutions

If P&C, 31 December 2016 and 31 December 2015

Rating	31 Dec 2016		31 Dec 2015	
	Total EURm	% of total	Total EURm	% of total
AAA	0	0	0	0%
AA+ - A-	102	41%	97	39%
BBB+ - BBB-	2	1%	4	2%
BB+ - C	0	0	0	0%
D	0	0	0	0%
Non-rated	2	1%	2	1%
Captives and statutory pool solutions	140	57%	143	58%
Total	246	100%	246	100%

Because the recoverables and pooled solutions reported above are not covered by collaterals the whole amount is exposed to counterparty risk. Hence, the reinsurance counterparties are selected carefully and their default risks are monitored continuously.

The Reinsurance Security Committee ("RSC") shall give input and suggestions to decisions in respect of various issues regarding reinsurance default risk and risk exposure, as well as proposed deviations from the Reinsurance Security Policy. The Chairman is

responsible for reporting policy deviations and other issues dealt with by the committee. If P&C has a Reinsurance Security Policy that sets requirements for the reinsurers' minimum credit ratings and the maximum exposure to individual reinsurers. Also, the own credit-analysis plays a central role when counterparties are selected.

As seen from above table most of the reinsurers are having either AA- or A- rating. The ten largest individual reinsurance recoverables amounted to EUR

168 million, representing 68 per cent of the total reinsurance recoverables. If P&C's largest individual reinsurer is Munich Re (AA-). They account for 18 per cent of the total reinsurance recoverables.

recoverables and pooled solutions amounted to EUR 55.5 million. Of this amount, 100 per cent was related to reinsurance counterparties with a credit rating of A- or higher.

The cost of risk transfer related to the reinsurance

Counterparty Risk Related to Financial Derivatives

In Sampo Group, the default risk of derivative counterparties is a by-product of managing market risks. This is the case especially in Sampo plc and Mandatum Life which are frequent users of long-term interest rate derivatives in addition to FX-forwards and options. In If P&C the role of long term interest rate derivatives has been immaterial and counterparty risk stems mainly from short-term FX-derivatives.

The counterparty risk of bilaterally settled derivatives 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. During 2016 Sampo Group companies started to settle interest rate swaps in central clearing houses, which while further mitigating bilateral counterparty risk also exposes Sampo Group companies to the systemic risk related to centralized clearing parties.