

# Interest Rate and Currency Risks

## Interest Rate Risk

Interest rate sensitivity in terms of the average duration of fixed income investments in If P&C was 1.4 years and in Mandatum Life 2.0 years. These duration figures include the effect of hedging derivatives. The respective durations of insurance liabilities in If P&C and Mandatum Life were 6.5 and 9 years. Interest rate risk is managed at the balance sheet level by changing

the duration of assets and interest rate derivatives. This is described in detail in section ALM Risks.

In addition, derivatives are used to utilize market view or to mitigate risks at the balance sheet level. In both cases, derivatives are booked as trading derivatives at fair value through profit and loss statement in financial accounting.

## Currency Risk

In Sampo Group companies the net foreign currency exposure is considered as a separate asset class and is managed within investment portfolio activities. Open transaction risk positions are identified and measured separately for each subsidiary. The net position in each currency consists of the assets, liabilities and foreign exchange transactions denominated in the particular currency.

If P&C writes insurance policies that are mostly denominated in the Scandinavian currencies and in euro. In If P&C, the transaction risk is reduced by matching technical provisions with investment assets in the corresponding currencies or by using currency derivatives. Hence there is no structural FX risk. On the other hand, If P&C can open short or long FX positions (active FX risk) within its FX risk limits.

In Mandatum Life, transaction risk arises mainly from investments in currencies other than euro as the company's technical provisions are almost completely denominated in euro. Mandatum Life does not automatically close its FX position in foreign currencies, but the currency risk strategy is based on active management of the currency position. The objective is to achieve a positive return relative to a situation where the currency risk exposure is fully hedged.

The transaction risk positions of If P&C and Mandatum Life against their base currencies are shown in the table Transaction Risk Position, If P&C and Mandatum Life, 31 December 2016. The table shows the net transaction risk exposures and the changes in the value of positions given a 10 per cent decrease in the value of the base currency.

### Transaction Risk Position

If P&C and Mandatum Life, 31 December 2016

	Base currency	EUR	USD	JPY	GBP	SEK	NOK	CHF	DKK	Other	Total, net
<b>If P&amp;C</b>	<b>SEKm</b>										
Insurance operations		-150	-155	0	-8	-27	-2,421	-10	-804	-27	-3,601
Investments		11	1,150	0	0	12	2,702	0	68	1	3,945
Derivatives		102	-998	0	12	18	-245	9	732	-2	-372
<b>Total transaction risk, net position, If P&amp;C</b>		<b>-36</b>	<b>-2</b>	<b>0</b>	<b>4</b>	<b>3</b>	<b>36</b>	<b>-1</b>	<b>-4</b>	<b>-28</b>	<b>-27</b>
Sensitivity: SEK -10%		-4	0	0	0	0	4	0	0	-3	-3
<b>Mandatum Life</b>	<b>EURm</b>										
Technical provisions		0	0	0	0	-2	0	0	0	0	-2
Investments		0	2,035	24	181	61	12	185	13	112	2,622
Derivatives		0	-1,543	-21	-180	77	110	-189	-13	-43	-1,801
<b>Total transaction risk, net position, Mandatum Life</b>		<b>0</b>	<b>492</b>	<b>2</b>	<b>1</b>	<b>135</b>	<b>122</b>	<b>-3</b>	<b>-1</b>	<b>70</b>	<b>819</b>
Sensitivity: EUR -10%		0	49	0	0	14	12	0	0	7	82

---

If P&C's transaction risk position in SEK represents exposure in foreign subsidiaries/branches within If P&C with base currency other than SEK

Sampo plc's transaction risk position is related mainly to SEK denominated dividends paid by If P&C and to debt instruments in currencies other than euro. The asset portfolio may from time to time include assets denominated in foreign currencies.

In addition to transaction risk, Sampo Group and its insurance subsidiaries are also exposed to translation

risk. At group level it stems from If P&C; within If P&C it stems mainly from its Finnish subsidiary. Translation risk, and its management in Sampo Group, were described in the [Profitability, Risks and Capital](#) section.