

Sampo Group's **Annual Report 2013**

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Counterparty Credit Risks Counterparty Credit Risks

Counterparty Credit Risks

Sampo Group is exposed to counterparty credit risk through financial derivatives or reinsurance transactions. The risk realizes when counterparties fail to meet their financial obligations towards Sampo Group companies.

Counterparty Credit Risk

Economic cycle, financial market
natural disasters

- Changes in counterparty creditworthiness
- Terms of the instruments and collateral mechanism
- Volatility of underlying instruments and collateral markets

Credit risk of derivative counterparty

- Rapid increase in value of net exposure
- Derivative counterparty is not able to pay

Credit risk related to reinsurance counterparties arises from reinsurance receivables and the reinsurers' portion of the outstanding claims. This risk mainly concerns If P&C, as the use of reinsurance in Mandatum Life is relatively limited.

When financial derivatives are considered the situation is opposite. Mandatum Life and parent company Sampo plc are frequent users of long-term interest rate derivatives and are therefore inherently more exposed to credit risk of derivative counterparties than If P&C, which is mainly using short-term foreign exchange derivatives.

In addition, counterparty credit risk arises from receivables from policyholders and other receivables related to commercial transactions. Risk exposure towards policyholders 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.

Distribution of reinsurance receivables and reinsurers' portion of outstanding claims in If P&C on 31 December 2013 per rating category is presented in the table Reinsurance Recoverables, If P&C, 31 December 2013 and 31 December 2012. In the table, EUR 140 million (EUR 157 million in 2012) are excluded, which mainly relates to captives and statutory pool solutions.

Reinsurance Recoverables

If P&C, 31 December 2013 and 31 December 2012

Rating	31 Dec 2013 Total EURm%	31 Dec 2012 Total EURm%
AAA	00%	00%
AA+ - A-	28697%	44697%
BBB+ - BBB-	52%	51%
BB+ - C	00%	00%
D	00%	00%
Non-rated	41%	72%
Total	295100%	458100%

The ten largest individual reinsurance recoverables amounted to EUR 281 million, representing 65 per cent of the total reinsurance recoverables. If P&C's largest individual reinsurer is Munich Re (AA-). They account for 22 per cent of the total reinsurance recoverables.

The amount of ceded treaty and facultative premiums was EUR 78.5 million. Of this amount, 100 per cent was related to reinsurance counterparties with a credit rating of A- or higher.

In Mandatum Life, the importance of reinsurance agreements is limited and thus credit risk of reinsurance counterparties in Mandatum Life is immaterial.

Counterparty Credit Risk Management

In Sampo Group, credit risk of derivative counterparties is a by-product of managing market risks. The risk is mitigated currently by bilateral ISDA and CSA agreements. This is the case especially in Sampo plc and Mandatum Life which are frequent users of long-term derivatives.

At the inception of the reinsurance, the credit risk of the reinsurer is considered and the credit risks of

reinsurance assets are monitored.

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