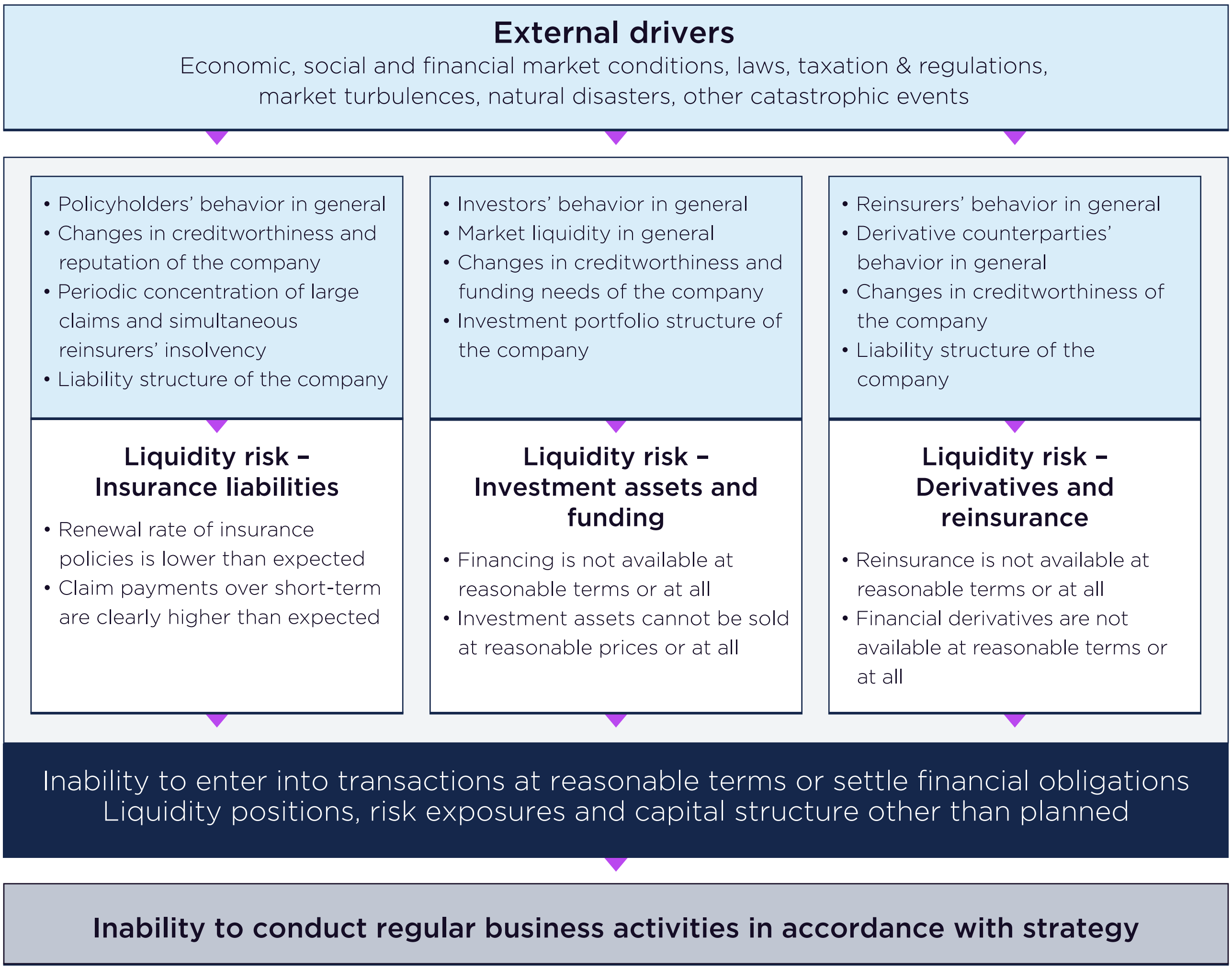
Liquidity Risks

Liquidity risk is the risk that Group companies are, due to lack of available liquid funds 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.

Sources of liquidity risk includes potential illiquidity of investments, large claims, unexpected non-renewal of insurance policies and refinancing risk of debt. Moreover, the availability and price of refinancing, financial derivatives and reinsurance affect the Group companies' ability to carry out normal business activities.

Liquidity Risks



The sources of liquidity risk are either internal or external by their nature. If the company's rating declines or if the company's solvency otherwise appears jeopardised, its ability to raise funding, buy reinsurance cover or enter into financial derivatives at a reasonable price is endangered. Moreover, policyholders may also not be willing to renew their policies because of company's financial challenges or in case of reputational issues. If these risks caused by internal reasons realize together with a general market turmoil, which makes selling of investment assets and refinancing of debt difficult, maintaining adequate liquidity can be a challenge.

However, liquidity risk is relatively immaterial in Sampo Group's businesses because liabilities in most lines of business are fairly stable and predictable and substantial share of the investment assets are in short-term money market instruments and liquid government bonds. Sampo Group companies manage the liquidity risk on a daily basis and in addition both parent company's and the subsidiaries' creditworthiness and reputation are proactively managed.

In Sampo Group, liquidity risk is managed by the legal entities, which are responsible for liquidity planning and maintaining adequate liquidity buffers. Liquidity risk is monitored based on the expected cash flows resulting from assets, liabilities and other business. In the subsidiaries, the adequacy of liquidity buffers is dependent on the insurance cash flows. In the parent company, the adequacy of liquidity buffers is dependent also on potential strategic arrangements and a strong liquidity in general is preferred. At the end of 2014, the liquidity position in each legal entity was in accordance with internal requirements.

In If P&C, liquidity risk is limited, since premiums are collected in advance and large claims payments are usually known a long time before they fall due. Liquidity risks are managed by cash management functions that are responsible for liquidity planning. Liquidity risk is reduced by having investments that are readily tradable in liquid markets. The available liquid financial assets, which are the part of the assets that can be converted into cash at a specific point in time, is analyzed and reported to the ORSA Committee.

In Mandatum Life, a large change in surrender rates could influence the liquidity situation. However, only a relatively small part of insurance policies can be surrendered and it is therefore possible to forecast short-term cash flows related to claims payments with a very high accuracy.

The maturities of technical provisions and financial assets and liabilities are presented in the table Cash Flows According to Contractual Maturity, If P&C, Mandatum Life and Sampo plc, 31 December 2014. The table shows the financing requirements resulting from expected cash inflows and outflows arising from financial assets and liabilities as well as technical provisions.

Cash Flows According to Contractual Maturity

If P&C, Mandatum Life and Sampo plc, 31 December 2014

	Carrying amount total			Cash flows						
EURm	**Carrying amount total**	**Carrying amount without contractual maturity**	**Carrying amount with contractual maturity**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020-2029**	**2030-**
If P&C										
Financial assets	11,576	1,942	9,634	3,476	2,080	1,411	1,174	1,240	1,062	0
of which interest rate swaps	0	0	0	0	0	0	0	0	0	0
Financial liabilities	373	0	373	-170	-11	-12	-102	-7	-250	0
of which interest rate swaps	0	0	0	-0	-0	-1	-0	-0	-126	0
Net technical provisions	8,946	0	8,946	-3,253	-859	-601	-470	-390	-2,218	-1,860
Mandatum Life										
Financial assets	6,592	3,162	3,429	1,620	539	408	293	146	511	15
of which interest rate swaps	0	0	0	0	0	0	0	0	0	0
Financial liabilities	275	0	275	-72	-6	-4	-4	-4	-50	-239
of which interest rate swaps	19	0	19	-1	-1	0	0	0	0	-27
Net technical provisions	4,640	0	4,640	-504	-440	-425	-388	-359	-2,452	-1,903

Sampo plc										
Financial assets	1,366	351	1,015	336	40	72	110	134	161	212
of which interest rate swaps	23	0	23	15	18	18	0	0	0	0
Financial liabilities	2,203	0	2,203	-586	-413	-562	-249	-33	-515	0
of which interest rate swaps	0	0	0	0	0	0	0	0	0	0

In the table, financial assets and liabilities are divided into contracts that have an exact contractual maturity profile, and other contracts. Only the carrying amount is shown for the other contracts. In addition, the table shows expected cash flows for net technical provisions, which by nature, are associated with a certain degree of uncertainty. In the investment assets of Mandatum Life, the investments of the Baltic subsidiary are included in the carrying amount but excluded from the cash flows.

Sampo Group has a relatively low amount of financial liabilities and thus the Group's respective refinancing risk is relatively small. During 2014, Sampo plc issued one public bond amounting to EUR 500 million and several private placements targeted to Mandatum Life's retail clients. Sampo Group companies have business relationships with several creditworthy counterparties which mitigate the risk that Sampo Group is not able to enter into reinsurance or derivative transactions when needed.

Since there is no unambiguous technique to quantify the capital need for liquidity risk, it is not directly taken into account in capital need estimates. Thus only the interest rate risk part of ALM risks is accounted for in the economic capital framework.