Counterparty Default Risks

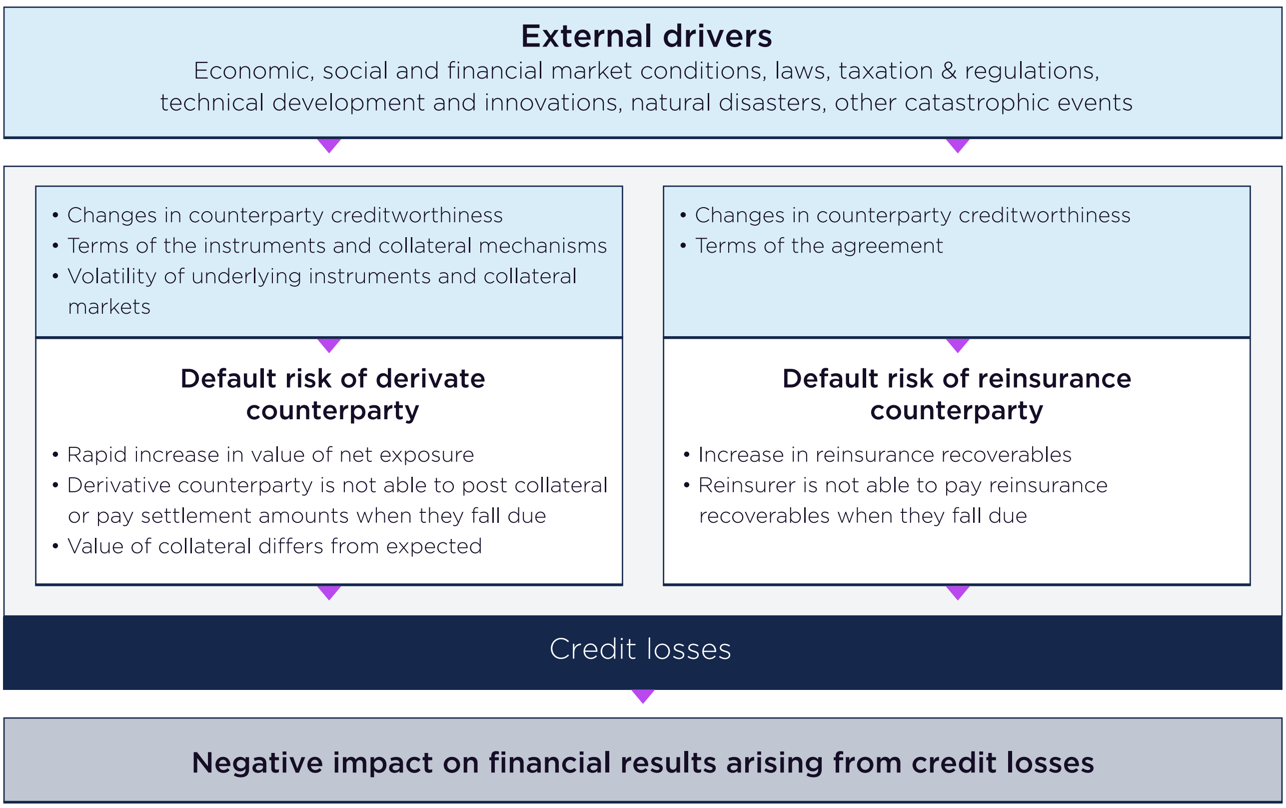
Counterparty Default Risk (Counterparty Risk) is one type of consequential risks Sampo Group is exposed to through its activities.

Credit risk by definition comprises default, spread and settlement risks. Default risk refers to losses arising from occurred defaults of debtors (issuer risk) or other counterparties (counterparty risk). In the case of issuer risk the final loss depends on the investor's holding of the security or deposit at the time of default, mitigated by the recovery rate. In the case of counterparty risk, the final loss depends on the positive mark-to-market value of derivatives or reinsurance recoverables at the time of default and on the recovery rate that is affected by collaterals.

Spread risk refers to losses resulting from changes in credit spreads of debt instruments and credit derivatives. Credit spreads are affected when the market's perception of probabilities of defaults is changing. In essence credit spread is the market price of default risk that is priced into market value of debt instrument. Hence the debt instrument's value should lower before the event of default occurs. Because of these features spread risk, including also default risk of debt instruments, is categorized in Sampo Group under investment portfolio market risks.

Settlement risk realizes when one party fails to deliver the terms of a contract with another party at the time of settlement. Settlement risk can be the loss associated with default at settlement and any timing differences in settlement between the two parties. Settlement risks are mitigated effectively by centralized settlement and clearing systems used by Sampo Group companies.

Counterparty Default Risk



Default risk related to reinsurance counterparties 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 default risk of derivative counterparties than If P&C, which is mainly using short-term foreign exchange derivatives.

In addition, counterparty default 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 2014 per rating category is presented in the table Reinsurance Recoverables, If P&C, 31 December 2014 and 31 December 2013. In the table, EUR 130 million (EUR 140 million in 2013) are excluded, which mainly relates to captives and statutory pool solutions.

Reinsurance Recoverables

If P&C, 31 December 2014 and 31 December 2013

	31 Dec 2014		31 Dec 2013	
Rating	**Total EURm**	**%**	**Total EURm**	**%**
AAA	0	0%	0	0%
AA+ - A-	107	97%	286	97%
BBB+ - BBB-	2	2%	4	1%
BB+ - C	0	0%	0	0%
D	0	0%	0	0%
Non-rated	2	2%	4	1%
Total	**111**	**100%**	**295**	**100%**

The ten largest individual reinsurance recoverables amounted to EUR 166 million, representing 69 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 66.8 million. Of this amount, 99.9 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 Default Risk Management

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

The Reinsurance Committee (RC) is a collaboration forum for reinsurance related issues 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 the reporting of policy deviations and other issues dealt with by the committee.

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 the reporting of policy deviations and other issues dealt with by the committee.

At the inception of the reinsurance, the default risk of the reinsurer is considered. The default risks of reinsurance assets are monitored continuously.

In order to limit and control default 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.