

Counterparty Default Risks

In Mandatum Life the major three sources of counterparty risk are financial derivatives, reinsurance, and other receivables. Counterparty default risk arising from

reinsurance or receivables from policyholders and other receivables related to commercial transactions is very limited.

Counterparty Risk Related to Financial Derivatives

In Mandatum Life, the default risk of derivative counterparties is a by-product of managing market risks. This stems from the fact that Mandatum Life is a frequent user of long-term interest rate derivatives in addition to FX-forwards and options.

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 centralised clearing parties.