

Counterparty Default Risks

In If P&C the major three sources of counterparty risk are reinsurance, financial derivatives and other receivables.

Counterparty default risk arising from receivables from policyholders and other receivables related to commercial

transactions is very limited, because non-payment of premiums generally results in cancellation of the insurance policies.

Reinsurance Counterparty Risk

In If P&C reinsurance is used regularly and If P&C have number of programs in place. If P&C is using reinsurance to (i) utilize its own capital base efficiently and reduce cost of capital, (ii) limit large fluctuations of underwriting results and (iii) have access to reinsurers' competence base. The Reinsurance Committee ("RC") is a collaboration forum for reinsurance related issues in general 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 reporting policy deviations and other issues dealt with by the committee.

The distribution of reinsurance receivables and reinsurers' portion of outstanding claims on 31 December 2017 per rating category is presented in the table Reinsurance Recoverables and Pooled Solutions, If P&C, 31 December 2017 and 31 December 2016.

Reinsurance Recoverables and Pooled Solutions If P&C, 31 December 2017 and 31 December 2016

Rating	31 Dec 2017		31 Dec 2016	
	Total EURm	% of total	Total EURm	% of total
AAA	0	0%	0	0%
AA+ - A-	59	27%	102	41%
BBB+ - BBB-	1	1%	2	1%
BB+ - C	0	0%	0	0%
D	0	0%	0	0%
Non-rated	0	0%	2	1%
Captives and statutory pool solutions	160	73%	140	57%
Total	220	100%	246	100%

Because the recoverables and pooled solutions reported above are not covered by collaterals the whole amount is exposed to counterparty risk.

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 reporting policy deviations and other issues dealt with by the committee. If P&C has a Reinsurance Security Policy that sets requirements for the reinsurers' minimum credit ratings and the maximum exposure to individual reinsurers. Also, the own credit-analysis plays a central role when counterparties are selected.

As seen from above table most of the reinsurers are having either AA- or A- rating. The ten largest individual reinsurance recoverables amounted to EUR 165 million, representing 72 per cent of the total reinsurance recoverables. If P&C's largest non-captive individual reinsurer is Munich Re (AA-) accounting for 39 per cent of the total non-captive reinsurance recoverables.

The cost of risk transfer related to the reinsurance recoverables and pooled solutions amounted to EUR 52.3 million. Of this amount, 100 per cent was related to reinsurance counterparties with a credit rating of A- or higher.

Counterparty Risk Related to Financial Derivatives

In If P&C, the default risk of derivative counterparties is a by-product of managing market risks. In If P&C the role of long term interest rate derivatives has been immaterial and counterparty risk stems mainly from short-term FX-derivatives. 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 If P&C started to settle interest rate swaps in central clearing houses, which while further mitigating bilateral counterparty risk also exposes If P&C to the systemic risk related to centralised clearing parties.

