

⌘ MANDATUM LIFE

Annual Report 2017



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Year 2017 in brief

Mandatum Life is a solvent and respected Finnish financial services provider. It is part of Sampo Group. 2017 was in many respects a successful year for the company.

Good result due to strong return on investments

For the sixth consecutive year, the investment result was excellent. As in 2016, the exceptionally strong return on equities played a big part in that. Both the expense and risk result reached their highest levels in the company's history. Due to the strong result, the company's solvency position also strengthened further.

Premiums written fell short of previous year's level

Mandatum Life's unit-linked premium income did not reach the previous year's level. A significant share of the sales channels' resources was employed for implementing several regulatory changes for customers. Mandatum Life's own sales channels performed relatively well during the year, even though they fell short of the previous year's record level of premium income.

Danske Bank portfolio valuation completed in summer 2017

In October 2016, Mandatum Life announced that it would not be continuing its insurance distribution agreement with Danske Bank after 31 December 2016 and that it will simultaneously exercise its right to sell to Danske Bank A/S the insurance portfolio that had been generated through the distribution agreement. The valuation of the insurance portfolio was completed in June 2017. The portfolio transfer is expected to take place by the end of 2018. Mandatum Life and Danske Bank have agreed on a transitional period during which co-operation will be continued to ensure that the services offered to existing customers remain

unchanged until the portfolio transfer. From customers' perspective, the services will remain unchanged during the transitional period.

Corporate structure streamlined

Mandatum Life's corporate structure was streamlined during 2017 by merging the subsidiary Innova Services Ltd with another subsidiary, Mandatum Life Services Ltd. Mandatum Life Insurance Baltic SE, a subsidiary operating in the Baltics, was merged with Mandatum Life's parent company. The objective of the mergers is to improve the efficiency of operations and administrative processes.

Investing in personnel practices is a reflection of the chosen values and a part of the business

Employee satisfaction is one of Mandatum Life's long-term strategic business targets. Mandatum Life believes that a positive employee experience leads to a good customer experience. We are building a work culture based on trust, where having the right people in the right places results in the highest quality of service for the company's customers.

The company measures its employee satisfaction every year through the Great Place to Work Finland survey. In 2017, 94 per cent of the company's personnel considered Mandatum Life an excellent place to work.

During the year, Mandatum Life organised campaigns around motivating and rewarding employees also for its customers. At the same time, the company continued to invest extensively in digital services and introduced the ML Money mobile service to both Personnel Fund members and supplementary pension recipients. Customer satisfaction increased at Mandatum Life throughout the year.

Premiums written:

EUR **960** million
(1 116)

Profit before taxes:

EUR **236** million
(210)

Return on equity:

13,3%
(15,9)

Solvency ratio:

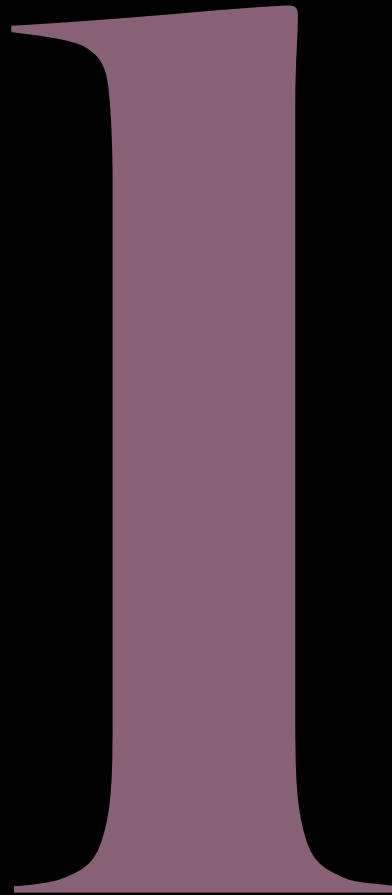
182%
(160)

*Return on investments:
(original assets)*

6,5%
(7,2)

Average number of staff:

525
(543)



Board of Directors' Report

Mandatum Life's Board of Directors' Report 1 January–31 December 2017

Operating result and solvency

Mandatum Life's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS). The parent company's separate financial statements have been prepared in accordance with Finnish Accounting Standards. The profit shown in the consolidated financial statements differs from the parent company's profit mainly due to differences in the recognition principles for investment activities.

Mandatum Life Group's total result after taxes, calculated at the fair value of the investments, fell to EUR 188 million (232). Of the total result, the change in the fair value reserve amounted to EUR 3 million (64).

The company's solvency position improved, and solvency ratio under the transitional measures of Solvency II rose to 182 per cent (160).

EUR million	1–12/2017	1–12/2016	Change %
Premiums written	960.1	1,115.7	-13.9%
Net income from investments	781.8	634.4	23.2%
Claims incurred	-1,021.1	-967.1	5.6%
Total comprehensive income	188.3	232.0	-18.8%
Balance sheet total	13,550.7	13,186.2	
Return on equity %	13.3	15.9	
Solvency II own funds	1,977.0	1,893.0	
Solvency ratio %	182	160	

Premiums written

Mandatum Life Group's direct insurance premiums written amounted to EUR 966 million (1,119). Premiums written on unit-linked policies decreased from the previous year's record level to EUR 849 million (973).

The company's pure life and disability insurance premiums written increased slightly, amounting to EUR 46 million (45). Premiums written on unit-linked group pension insurance policies increased by 8.3 per cent to EUR 71 million (65). In the Baltics, premiums written decreased from the previous year to EUR 24 million (30).

Investment operations

Mandatum Life's investment objective is to achieve the highest possible return at an acceptable level of risk. Successful investments provide policyholders with good nominal returns and accrue own funds while also meeting shareholders' return expectations.

The investment portfolio is diversified both geographically and by instrument type to increase returns and reduce risks. During the year, there were no significant changes in the allocation of assets across asset classes.

The return on the assets covering the original liabilities was 6.5 per cent (7.2). The good return mainly resulted from well-performing equities and alternative investments. Due to a significantly lower risk level, the return on the assets covering the segregated insurance portfolio was lower than the return on the other assets, at 1.8 per cent (4.7).

A more detailed description of the investment assets and the risks inherent in investment operations can be found in the Risk Management section of this Annual Report.

Technical provisions

Mandatum Life Group's technical provisions before reinsurers' share grew by EUR 377 million and amounted to EUR 11,638 million (11,261). Unit-linked policies accounted for EUR 7,066 million (6,440) of the technical provisions. The with-profit technical provisions amounted to EUR 4,573 million (4,821). The segregated group pension insurance policies accounted for EUR 1,065 million (1,142) of the with-profit technical reserves. The segregated group pension insurance portfolio includes an increase of EUR 261 million (275) in the reserve for decreased discount rates, which lowers its discount rate for technical provisions to 0.5 per cent. The remainder of the with-profit technical provisions includes a total increase of EUR 325 million (273) in the reserve for decreased discount rates.

The Baltic branches' share of the technical provisions was EUR 180 million (178), of which unit-linked technical provisions accounted for EUR 165 million (161).

More detailed information on the distribution of and change in technical provisions is included in the note concerning risk management.

Life insurers must follow the so-called principle of fairness with respect to policies which under the insurance contract give entitlement to bonuses granted on the basis of any surplus generated by the insurance policies. Further information on the principle of fairness can be found in the accounting policies and on the company's website. The total return on the insurance portfolio segregated from Suomi Mutual is based on the agreed sharing policy, which is explained in the accounting policies and on the company's website.

Claims paid

Mandatum Life's total amount of claims paid was EUR 1,023 million (1,047), of which reinsurers covered EUR 4.5 million (3). Unit-linked policies accounted for EUR 568 million (577) of claims paid. Mandatum Life made pension payments totalling EUR 402 million (418) to some 66,000 pensioners during the year. Group pension insurance accounted for 65 per cent (66) of this total. A total of approximately 50,000 other claims were also paid out.

Operating expenses

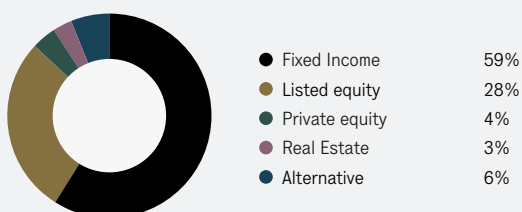
Mandatum Life Group's operating expenses were EUR 105 million (107) and the expense ratio was 93.9 per cent (98.7). The Group's total expense ratio, which takes into account all income intended to cover operating expenses, was 76.4 per cent (80.5). The Group's operating expenses include acquisition costs of EUR 30 million (34). Mandatum Life does not amortise insurance acquisition costs, which means a policy's first-year result, i.e. the result for the acquisition year, is usually negative due to acquisition costs.

Personnel

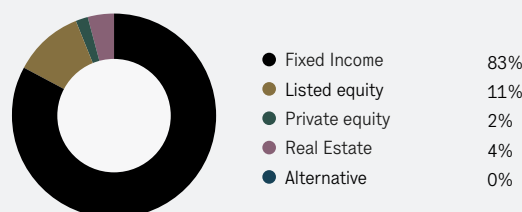
The group employed an average of 525 (543) persons. Of these employees, 427 were in Finland, 31 in Estonia, 26 in Latvia and 37 in Lithuania. Of the personnel, 51 per cent were men and 49 per cent women. The employees' average age was 42 years.

Original assets

EUR 5,156 million

**Segregated assets**

EUR 1,107 million

**Risk management**

Mandatum Life's Board of Directors is responsible for ensuring the adequacy of the company's risk management and internal control. The Board annually approves the risk management plan, investment policy and other guidance on the organisation of risk management and internal control in the businesses operations.

The Managing Director of Mandatum Life has overall responsibility for the implementation of risk management in accordance with the Board's guidance. The business units are responsible for the identification, assessment, control and management of their operational risks.

Risks have been divided into main groups, which are insurance, market, operational, legal and compliance risks as well as business and reputation risks. Each main group has been appointed a responsible person in the Risk Management Committee, which meets regularly.

A note has been prepared on risks and risk management, explaining in greater detail Mandatum Life's principal risks and general risk management principles.

Corporate structure and ownership

Mandatum Life Insurance Company Limited is a fully owned subsidiary of Sampo Plc.

Mandatum Life Group's parent company is Mandatum Life Insurance Company Limited, which has branches in Estonia, Latvia and Lithuania. The most significant subsidiaries are Mandatum Life Services Ltd and Mandatum Life Investment Services Ltd. In addition, the Group includes 19 (20) housing and property companies and Mandatum Life Fund Management S.A., which operates in Luxembourg.

Significant post-balance-sheet events

There are no significant post-balance-sheet events.

Future outlook

In 2017, the global equity markets saw the sixth consecutive year of rise (+8.9 per cent, MSCI World AC index in euros). In Finland, the Helsinki stock exchange's equity market return reached the long-term average total return (+11.3 per cent, HEXP index in euros). Long-term market rates remained close to their early-year levels in Europe, while in the US, interest rates rose moderately as the Fed tightened its monetary policy. In Western countries, inflation expectations remained below the two-per-cent level targeted by central banks, despite further improving labour market conditions.

Global economic growth is forecast to settle at just under four per cent, supported by the expansive financial and monetary policy that continued in 2018. Higher consumer spending and accelerating global trade are expected to drive corporate earnings growth. In Western countries, higher production capacity utilisation rates

and, on a global scale, the continuation of a loose monetary policy are expected to increase inflation expectations and cause upward pressure in market rates. In risky asset classes, valuation levels are higher than the historical average, which, coupled with a rising market rate environment, is expected to increase volatility in the investment markets and lower investment return levels.

In Finland, the relatively favourable development of the short-term outlook for economic growth is expected to continue thanks to improved export prospects, high construction activity and recovering consumer spending. The indebtedness of households and the public sector and the growing costs related to the aging of the population will weaken Finland's economic growth potential in the long run. Uncertainty related to the markets and economic development, combined with the low interest rate level, will pose a considerable challenge to investment operations and the company's result.

The solvency capital, the with-profit technical provisions that are decreasing relatively strongly, and the discount rate reserve, together with the transitional measures of Solvency II, put the company in a good position to tolerate both low interest rate levels and short-term market volatility.

In addition to investment operations, the company's result is also affected by the risk result arising from insurance risks and by the expense result. Both risk and expense results rose to new records in 2017.

The transfer of the insurance portfolio sold by Danske Bank or its nominee is not expected to have a significant impact on the company's investment income, with unit-linked policies making up the majority of the portfolio. Also a considerable share of the underwriting result consists of insurance policies that are not subject to the transfer. The transfer is expected, however, to have a significant lowering effect on the expense result.

The company's solvency position under the transitional measures of Solvency II is good. The company's balance sheet structure will change considerably during the transitional periods along with the declining trend in the with-profit portfolio. This is expected to lower the company's solvency capital requirements and at the same time increase its own funds, as a result of which the company's solvency position is expected to remain at a good level in spite of the transitional periods elapsing.

Corporate Governance

Mandatum Life's corporate governance is primarily determined on the basis of the Finnish Insurance Companies Act and the Limited Liability Companies Act. More detailed provisions regarding the company's governance can be found in its Articles of Association and in the internal operating principles and guidelines approved by the Board of Directors.

The supreme authority over the company's business is exercised by the General Meeting of Shareholders. The Annual General Meeting was held on 20 March 2017.

In accordance with its Articles of Association, Mandatum Life's Board of Directors comprises no fewer than four and no more than seven members. In 2017, the Board had five members. Of the Board's members, the terms of Kari Stadigh expired, and he was re-elected to serve until the 2020 Annual General Meeting.

The Board's composition is as follows:

- Group CEO Kari Stadigh (Chairman)
- Group CFO Peter Johansson (Vice Chairman)

And members

- Patrick Lapveteläinen
- Jorma Leinonen
- Jarmo Salonen.

The Board convened 19 times during the financial year.

The staff's elected representative at the Board of Directors' meetings is Katja Korelin and her deputy is Matti Lepistö. The staff representative is not a member of the Board of Directors.

Petri Niemisvirta was the company's Managing Director and Jukka Kurki was the Deputy Managing Director.

The Auditor elected by the Annual General Meeting is Ernst & Young Oy, Authorised Public Accountants (with Kristina Sandin, APA, as the auditor with principal responsibility).

The Board of Directors' proposal for the distribution of profit

Mandatum Life's profit in accordance with the Finnish Accounting Standards was EUR 273,150,772.30. The company's distributable funds were EUR 595,139,940.45. The Board of Directors proposes to the Annual General Meeting that EUR 150,000,000 of the profit for the financial year be distributed as dividends and that the rest be transferred to the profit and loss account.



Risk management

Risk management

1. Risk management principles

Risk is an essential and inherent element of Mandatum Life's business activities and operating environment. The purpose of the risk management process is to identify the different risks affecting the business. The risk management process also ensures that different risks can be assessed, limited and controlled.

The key objectives for the risk management process are to ensure capital adequacy in relation to the risks inherent in business activities, to limit fluctuations in financial results, to guarantee efficient and continued business processes under all circumstances and to limit the risks of all operations to a level accepted by Mandatum Life's Board of Directors.

Mandatum Life Insurance Company Ltd is a wholly owned subsidiary of Sampo plc. Mandatum Life and its subsidiaries follows the risk management principles defined by the Sampo Group where the characteristics of a life insurance company have been taken into account. Similar principles are also used in Mandatum Life's subsidiaries. The risk management principles of Mandatum Life Investment Services Ltd can be found in it's Annual Report. Figures and tables in this risk management disclosure mainly cover the parent company.

1.1 Risk management governance

Mandatum Life's Board of Directors is responsible for the adequacy of the company's risk management and internal control. Mandatum Life's Board annually approves the Risk Management Plan, Investment Policy and other guidance on the organization of risk management and internal control in the business operations.

The Managing Director of Mandatum Life has the overall responsibility for the implementation of risk management in accordance with the Board's guidance. Line organizations are responsible for the identification, assessment, control and management of their operational risks.

- The Risk Management Committee (RMC) coordinates and monitors all risks in Mandatum Life. The Committee is chaired by the Managing Director. Risks are divided into main groups which are insurance, market, operational, legal and compliance risks as well as business and reputational risks. Risks related to the Baltic and Luxembourg operations are also included. Each risk area has a responsible person in the Committee.

- Mandatum Life has two Asset and Liability Committees (ALCOs), of which the other controls the segregated assets and liabilities (Segregated group pension portfolio and segregated Assets) and the other controls the rest of Mandatum Life's with profit assets and liabilities. The ALCOs control that the investment activities are conducted within the limits defined in the Investment Policy approved by the Board and monitors the adequacy of liquidity, profitability and solvency capital in relation to the risks in the balance sheet. The ALCOs prepare proposals of Investment Policy to the Board of Directors and report to the Board. The ALCOs meet monthly and report to the Board of Directors.
- The Insurance Risk Committee is responsible for maintaining the Underwriting Policy and monitoring the functioning of the risk selection and claims processes. The Committee also reports all deviations from the Underwriting Policy to the RMC. The Insurance Risk Committee is chaired by the Chief Actuary who is responsible for ensuring that the principles for pricing policies and for the calculation of technical provisions are adequate and in line with the risk selection and claims processes. The Board approves the insurance policy pricing and the central principles for the calculation of technical provisions. In addition, the Board defines the maximum amount of risk to be retained on the company's own account and approves the reinsurance policy annually.
- The Operational Risk Committee (ORC) analyzes and handles operational risks, e.g. in relation to new products and services, changes in processes and risks as well as realized operational risk incidents. Significant observations are reported to the Risk Management Committee and to the Board of Directors quarterly. ORC is also responsible for maintaining and updating the continuity and preparedness plans as well as the Internal Control Policy.
- The Legal, Compliance and Data Governance Unit is taking care of legal, compliance and data governance matters. Head of the Unit is responsible organization of the unit and acts as a Compliance Officer and a member of the Risk Management Committee. One member of the Operational Risk Management Committee is from Legal and compliance unit.
- Managing Director is responsible for business and reputation risk issues and he is also the Chairman of the Risk Management Committee.

Figure 1–1 Risk management organization



- The Baltic permanent establishment has its own risk management procedures. Mandatum Life Investment Services Ltd and Fund Management S.A. have their own Risk Management Policies and responsible persons. Subsidiaries and permanent establishment report all major incidents also to Mandatum Life's Risk Management Committee.

In addition to the above mentioned committees and units, the Internal Audit with its audit recommendations has a role to ensure that adequate internal controls are in place and provides Internal Audit's annual review to the Board of Directors.

2. Risks related to Mandatum Life's business activities

The main risks of Mandatum Life Group are insurance risks and market risks of assets and liabilities. Operational and business risks are inherent in all business operations.

Life insurance business carries and manages risks originating from insurance events and liabilities. There are random fluctuations in the frequency and size of insurance events. The significant part of life insurance business risks and result arises from investment assets. Return on assets should cover, in the long term, at least the guaranteed interest rate, bonuses based on the principle of fairness and the shareholders' return expectations. Other profit elements are generated from carrying insurance risk and expense risk. The insurance risk result is the assumed claims in premium calculations less the actual claims. It is managed, for example, through careful risk selection and reinsurance. The expense result is the expense charges from policies less the actual expenses. It is managed by continuously monitoring expenses, by improving efficiency and by using an expense charge structure that provides income through the policy's whole life cycle.

3. Capital management

The goal of capital management is to ensure the adequacy of available capital in relation to risks arising from the company's business activities and business environment. The current capital adequacy is assessed by comparing the amount of available capital to the amount of capital required to bear the risks arising from the current business activities.

3.1 Regulatory capital

Life insurance is a highly regulated business with formal rules for minimum capital and capital structure. The supervisors of Mandatum Life Group are the Financial Supervisory Authority in Finland and local supervisors in the Baltic countries.

The new EU-wide solvency regulations (Solvency II) concerning insurance companies entered into force on 1 January 2016. In calculating solvency requirements under Solvency II, Mandatum Life applies the 'standard formula' in which changes in own funds are stressed with market and life insurance risks that have been determined beforehand in the regulations. The goal has been to set the Solvency Capital Requirement (SCR) under Solvency II on a level where the own funds would be sufficient to secure the insureds' benefits with a one-year horizon and a 99.5 per cent confidence interval.

The amount of own funds under Solvency II is based on the market-consistent valuation and on the valuation of the technical provisions using the yield curve determined by Solvency II, so own funds under Solvency II differ from own funds according to book value. The technical provisions under Solvency II equal the so-called best estimate of the technical provisions plus the risk margin. The best estimate is based on the realistically expected cash flows of the insurance portfolio, which are discounted using the yield curve applied in Solvency II, derived from the risk-free yield curve. In terms

of unit-linked insurance, the best estimate is the insurance savings minus the present value of risk and expense surplus related to the unit-linked policies. The basis for the risk margin in the Solvency II framework is a six-per-cent cost of capital. For life insurance risks and operational risks, the risk margin is the present value of the future cost of capital. Table 3-1 presents the value of the technical provisions in accordance with Solvency II, taking into account the transitional measure on technical provisions and the IFRS accounting value for Mandatum Life's parent company.

Table 3-1 Overall position, technical provisions, 31 Dec 2017

EUR million	Solvency II value	IFRS value	Differences
Technical provisions (excluding unit-linked)	4,327	4,573	246
Best Estimate	4,129		
Risk margin	198		
Technical provisions – unit-linked	6,549	7,066	516
Best Estimate	6,454		
Risk margin	96		

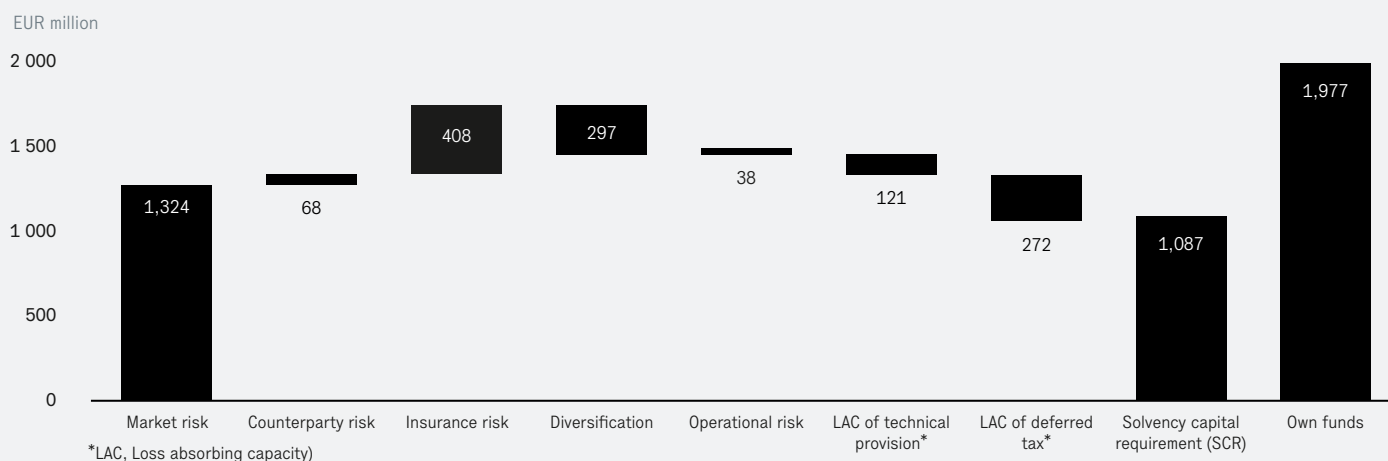
The Solvency II regulations include transitional measures that aim to make the transition to the new solvency regulations as smooth as possible. In 2015, the Financial Supervisory Authority granted Mandatum Life permission to apply a so-called transitional measure on technical provisions (until 31 December 2031) for the company's original with-profit pension policies with a guaranteed interest rate of 3.5 or 4.5 per cent. In addition, Mandatum Life will apply a transitional measure related to equity SCR (until 31 December 2022). The transitional measure on technical provisions increases the own funds under Solvency II while the equity risk transitional measure decreases the SCR. EUR 100 million of Mandatum Life's own funds, i.e. 5.1 per cent of its own funds, consist of a subordinated loan. Own funds are classified as Tier 1 capital, with the exception of subordinated loans, which are classified as restricted Tier 1 capital. Table 3-2 presents the structure of Mandatum Life's own funds on 31 December 2017, taking into account the transitional measure on technical provisions.

Table 3-2 Own Funds, 31 Dec 2017

EUR million		
Tier 1	Total	1,977
	Ordinary Share Capital	181
	Reconciliation Reserve	1,696
	Subordinated Liabilities	100
Tier 2	Total	0
	Subordinated Liabilities	0
	Untaxed reserves	0
Tier 3	Total	0
	Deferred tax assets	0
Solvency II own funds total		1,977

Taking into account the transitional measures, Mandatum Life's own funds under Solvency II amounted to EUR 1,977 million (1,893), and the corresponding SCR according to Solvency II was EUR 1,087 million (1,182). The solvency ratio (own funds/SCR) was thus 182 (160) per cent. Around 82 per cent of the SCR arises from market risks and 13 per cent from life insurance risks. Among market risks, the most significant are the equity risk, which makes up more than 68 per cent of market risks, and the credit spread risk, which makes up around 16 per cent of market risks. Around half of the life insurance risks stem from the longevity risks of the group pension policies. The minimum capital

Figure 3–3 Solvency Capital Requirements (SCR) and own funds, 31 Dec 2017



requirement (MCR) according to Solvency II was EUR 272 million (295). Without the transitional measure on technical provisions, the company's own funds would have been EUR 1,555 million (1,441), and the SCR without the equity risk transitional measure would have been EUR 1,220 million (1,409).

In Mandatum Life's view, the calculation according to the transitional measures gives a good picture of the company's solvency position. The company's balance sheet and its risk profile are expected to change significantly over the course of the transitional periods. The majority of the solvency capital requirements stem from the with-profit technical provisions and the assets covering them. Especially the company's original with-profit insurance policies with a guaranteed interest rate of 3.5 and 4.5 per cent tie up capital, and the technical provisions for these insurance policies are expected to decrease from the current EUR 2,635 million to less than EUR 900 million during the transitional periods. This trend will strongly reduce the SCR arising from these policies, and the negative impact of these policies on own funds calculated without the transitional measures will simultaneously decrease. Even though the positive impact of the transitional measures will decrease over the course of the transitional period, the solvency position is expected to remain strong as a result of the positive trend in own funds and the decrease in the SCR. Internally, Mandatum Life monitors and forecasts the solvency ratio by applying the transitional measures and also without them. Both forecasts have an impact on the company's business decisions.

3.2 Internal monitoring of solvency position

Solvency II also creates framework for the internal monitoring of solvency position. Mandatum Life's company-level solvency position monitoring model, the 'risk-bearing-capacity model', is based on the CR calculated using the Solvency II transitional measures and own funds. In the risk-bearing-capacity model, anticipatory monitoring limits are set for the company's solvency position to enable the company to react early enough to any weakening of its solvency position. There are three monitoring limits; they are alarm limits set above the Solvency II SCR and their levels are based on asset stress tests that have been determined beforehand. As the monitoring limit levels are based on the riskiness of investment assets at any given time, the company has no fixed target level, for example, for the company's solvency ratio. In the situation on 31 December 2017, the upper monitoring limit corresponds with a solvency ratio of around 144 per cent.

When the risk-bearing capacity is above the upper monitoring limit, the company's investment operations are guided, as usual, by the investment policy and the limits set therein. If the risk-bearing capacity fall below the monitoring limits, the monitoring frequency of the solvency position will be strengthened, the Board of Directors' role in investment operations will be increased, risk-taking will be limited and, in the final phase, risk-bearing capacity shall be strengthened either by reducing market risk or by increasing own funds, for example, through capitalization.

In addition to the company-level risk-bearing-capacity model, the segregated group pension policies have their own risk-bearing-capacity monitoring in place. The risk-bearing-capacity of the segregated group pension policies is based on the buffering effect of the provision for future bonuses in the investment risks. The monitoring limits of risk-bearing-capacity monitoring are based on asset stress tests that have been determined beforehand, and the measures in the case of falling below the monitoring limits are similar to those in the company-wide risk-bearing-capacity model.

Risk-bearing-capacity models and the monitoring limits contained therein are determined annually in the investment policies decided on by the Board of Directors. The risk-bearing-capacities and monitoring limits are reported to the Board of Directors at least monthly.

4. Market risks and market risk management and control

Market risks refer to fluctuations in the company's financial results or solvency caused by changes in market values of financial assets and liabilities as well as technical provisions. Market risks are examined from both an Asset and Liability Management (ALM) as well as an investment portfolio risk perspectives.

In Mandatum Life, the approach to market risk management is based on an analysis of technical provisions' expected cash flows, interest level and current solvency position. A common feature for all with-profit technical provisions is the guaranteed rate and bonuses. The cash flows of Mandatum Life's technical provisions are relatively well predictable because in most of the company's with-profit policies, surrenders and extra-investments are not possible.

Mandatum Life's market risks arise mainly from equity investments and interest rate risk related to fixed income assets and insurance liabilities with a guaranteed interest rate. The most significant interest rate risk in the life insurance business is that fixed income investments will not, over a long period of time, generate a return at least equal to the

guaranteed interest rate of technical provisions. The probability of this risk increases when market interest rates fall and stay at a low level. The duration gap between balance sheet's technical provisions and fixed income investments are constantly monitored and managed.

Mandatum Life has prepared for low interest rates on the liability side by e.g. reducing the minimum guaranteed interest rate in new contracts and by supplementing the technical provisions by applying a lower discount rate. In addition, existing contracts have been changed to accommodate improved management of reinvestment risk.

The Board of Directors of Mandatum Life approves annually the Investment Policies for both segregated assets and other assets regarding the company's investment risks. These policies set principles and limits for investment portfolio activities as well as the risk-bearing-capacity models that are essential for balance sheet management and the monitoring limits to be applied.

Sampo Plc's investment unit makes Mandatum Life's daily investment decisions, which are based on the principles and authorisations laid down in the Investment Policy. However, all major investment decisions – large allocation changes and decisions related to investment that exceed the investment unit's authorisations – are made by the Board of Directors. The ALCOs regularly monitor compliance with the principles and limits specified in the Investment Policy and report on investment risks to the Board of Directors. The ALCOs also monitor the company's technical provisions and the riskiness of the assets covering the technical provisions of the segregated group pension portfolio in relation to risk-bearing capacity. The ALCOs report to the Board of Directors if the monitoring limits are not met.

The investment organization and Mandatum Life have a thorough understanding of Nordic markets and issuers and, consequently, the company's direct investments are mainly made into Nordic securities. The volume of direct investments made outside the Nordic countries has grown. Third-party-controlled investments are still mainly allocated outside the Nordics.

In 2017 the net investment return of Mandatum Life original portfolio was 6.5 per cent (7.2) and for the segregated portfolio 1.8 per cent (4.7). Figure 4–1 shows the total investments for original and segregated portfolios separately.

4.1 Equity risks

Equity price risk is the risk of losses due to changes in share prices. At year end Mandatum Life's listed equity investment for the original portfolio amounted to EUR 1,462 million (1,642) and for the segregated portfolio EUR 116 million (95).

Mandatum Life's equity portfolio is actively managed. The positions and risks in equity portfolio and the related derivatives may not exceed the limits set in the Investment Policy. The Nordic equity portfolio is managed mainly by Sampo Plc's investment unit while the equity investments outside the Nordic area are mainly managed through external asset managers. Figure 4–2 presents the geographical allocation of listed equity investments for both portfolios.

Section 4.5 contains a list of the ten largest equity investments while breakdown of direct listed equity investments by industries is shown in section 5.

4.2 Risks related to fixed income investments

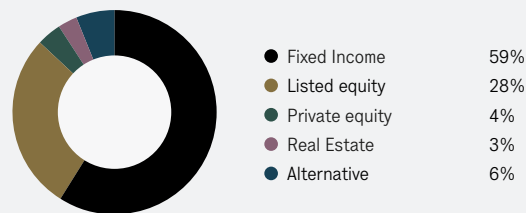
Mandatum Life's risks related to fixed income investments include interest rate risk related to changes in market interest rates as well as spread risk arising from changes in the credit spreads of fixed income investments resulting in changes in the values of respective investments.

The most significant interest rate risk in the life insurance business is that fixed income investments will not, over a long period

Figure 4–1 Allocation of investments, 31 Dec 2017

Original assets

EUR 5,156 million



Segregated assets

EUR 1,107 million

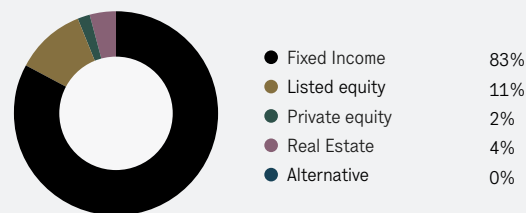
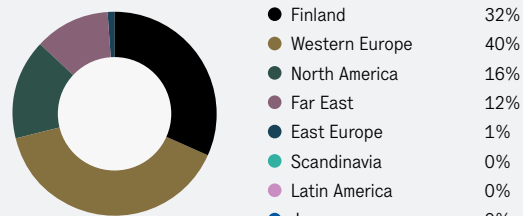


Figure 4–2 Allocation of equity investments, 31 Dec 2017

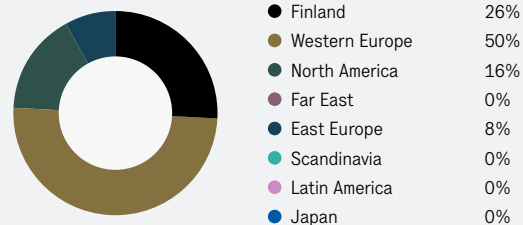
Original assets

EUR 1,462 million



Segregated assets

EUR 116 million



of time, generate a return at least equal to the guaranteed interest rate of technical provisions. The probability of this risk increases when market interest rates fall and remain at a low level. According to Mandatum Life's Investment Policy, the interest rate risk and inflation risk of technical provisions must be taken into account when defining the composition of investment assets. Mandatum Life's duration gap between technical provisions and fixed income investments is

constantly monitored and managed. Control levels based on internal capital model are used to manage and ensure adequate capital in different market situations.

The average duration of Mandatum Life's original portfolio's technical provisions (excluding unit-linked technical provisions) was around ten years at the year-end and for the segregated portfolio around eleven years.

The duration of the fixed income investments covering the original with-profit technical provisions as per 31 December 2017 was 2.0 years (1.9) and the duration of the segregated assets was 2.6 years (2.4).

When it comes to technical provisions, Mandatum Life has prepared for low interest rates on the liability side by e.g. reducing the guaranteed interest rate in new contracts and increase the reserve for decreased discount rate for policies with higher guaranteed interest rates. In addition, existing contracts have been changed to accommodate improved management of reinvestment risk and the technical provisions have been supplemented by the reserve for

decreased discount rate. More information about the reserve can be found in insurance risks section.

Majority of the company's fixed income investments are made in debt instruments issued by corporations. This increases the risk arising from increased credit spreads which, in turn, lead to value alterations. Table 4-3 illustrates the breakdown of the fixed income investments by type of instruments as well as their average maturity. The maturity measures the company's spread risk exposure better than the duration. This is true especially when it comes to floating interest rate investments. Table 5-1 shows the breakdown of investment assets by instruments based on division of industry and credit rating.

Table 4-3 shows the breakdown of the fixed income investments of the original and the segregated policies across various instruments. At the end of 2017, the share of money market investments in the original policies' fixed income portfolio rose to 27.6 per cent (25.3), and the share of investment-grade fixed income investments rose to 40.1 per

Table 4-3 Fixed income investments by type of instruments, 31 Dec 2017

Original assets	% of Fixed Income Portfolio	Average Maturity	Segregated assets	% of Fixed Income Portfolio	Average Maturity
Money Market Securities and Cash	27.6%	0.0	Money Market Securities and Cash	7.3%	0.0
Government Bonds	0.8%	3.0	Government Bonds	3.1%	2.1
Covered Bonds	3.9%	1.9	Covered Bonds	4.7%	2.2
Investment Grade Bonds and Loans	40.1%	2.7	Investment Grade Bonds and Loans	62.6%	2.9
High Yield Bonds and Loans	21.4%	3.0	High Yield Bonds and Loans	12.2%	4.5
Asset Backed Securities	0.0%	0.0	Asset Backed Securities	0.0%	0.0
Subordinated / T2 -type	1.1%	7.7	Subordinated / T2 -type	2.2%	6.7
Subordinated / T1 -type	5.0%	6.1	Subordinated / T1 -type	7.9%	7.6
Interest Rate Derivatives	0.1%	-	Interest Rate Derivatives	0.0%	-
Policy Loans	0.0%	1.8	Policy Loans	0.0%	0.0
Total	100.0%	2.2	Total	100.0%	3.3

cent (33.7) while high-yield fixed income investments fell to 21.4 per cent (25.7). Also the proportion of money market investments in the segregated policy fixed income portfolio fell to 7.3 per cent (11.6) and the combined share of subordinated Tier 1 and Tier 2 bonds rose to 10.1 per cent (8.9). The share of investment-grade fixed income investments rose to 62.6 per cent (59.5).

4.3 Currency risks

Mandatum Life's parent company's technical provisions are denominated in Euros, and currency risk therefore arises from investments in other currencies than Euro. Mandatum Life's currency strategy is based on active management of the currency position. The objective is to achieve positive return relative to a situation where the

Table 4-4 Net currency exposures, 31 Dec 2017

Original portfolio, EUR million	USD	JPY	GBP	SEK	NOK	CHF	DKK	Other	Net total
Technical provisions	0	0	0	-2	0	0	0	0	-2
Investments	1,690	4	124	52	6	174	20	143	2,212
Derivatives	-1,426	-3	-122	59	84	-168	-13	-30	-1,618
Total transaction risk, net position	264	1	2	109	90	6	7	113	592

Segregated portfolio, EUR million	USD	JPY	GBP	SEK	NOK	CHF	DKK	Other	Net total
Technical provisions	0	0	0	0	0	0	0	0	0
Investments	364	0	12	0	3	12	0	0	391
Derivatives	-318	0	-12	18	17	-14	0	0	-309
Total transaction risk, net position	45	0	0	18	21	-1	0	0	82

open currency risk exposure is fully hedged, considering the limits imposed by the investment policy. The Table 4-4 shows the net currency exposures (net assets) for original and segregated portfolios on 31 December 2017.

4.4 Other market risks

In addition to interest rate, equity and foreign exchange risks, Mandatum Life's investment assets are also subject to risks resulting from real estate, capital fund, biometric and other alternative investments. Mandatum Life's Investment Policy sets limits for maximum allocations into these markets and products. On 31 December 2017 the share of the above mentioned investments for the original insurance portfolios was 13 per cent (15) and for the segregate group pension policies 6 per cent (7) of total investment portfolio.

Private equity funds and alternative investments are managed by external asset managers. The private equity fund portfolio is diversified both according to fund type and geographical areas.

Alternative investments are placed both directly into individual funds and into funds of funds in order to attain sufficient diversification between funds and investment styles.

The real estate portfolio in Mandatum Life is managed by Sampo Plc's real estate management unit. The portfolio includes direct investments in properties as well as indirect investments in real estate funds and shares and debt instruments in real estate companies in accordance with the decided allocation. The main risks related to property investments are limited by diversifying holdings both geographically and by type of property.

4.5 Risk concentrations of the investment operations

Mandatum Life's Investment Policy sets limits for investments in individual companies. When setting the limits, the primary aspects to be taken into account are the company's estimate of the investment's credit risk and the corresponding capital tied up. The public information available on the investment object, such as

Table 4-5 Concentration of market and credit risks in individual counterparties by asset class, 31 Dec 2017

EUR million Counterparty (per business area)	Total fair value, EUR million	% of total investment assets	Cash & short-term fixed income	Long-term fixed income, total	Long-term fixed income: Government guaranteed	Long-term fixed income: Covered bonds	Long-term fixed income: Senior bonds	Long-term fixed income: Tier 1 and Tier 2:	Equities	Uncollateralized derivatives
Danske Bank	534	9%	472	60	0	0	60	0	0	2
BNP Paribas	286	5%	280	6	0	0	6	0	0	0
Skandinaviska Enskilda Banken	185	3%	97	88	0	0	81	7	0	0
Nordea Bank	159	3%	55	104	0	28	69	7	0	0
DnB	131	2%	0	131	0	25	82	23	0	0
Amer Sports	100	2%	0	0	0	0	0	0	100	0
Vattenfall	78	1%	0	78	0	0	0	78	0	0
Citigroup	77	1%	0	77	0	0	77	0	0	0
Bank of America	70	1%	0	70	0	0	70	0	0	0
ABN Amro Bank	60	1%	0	60	0	0	42	18	0	0
Total top 10 exposures	1,679	27%	904	673	0	53	486	134	100	2
Other	4,588	73%								
Total investment assets	6,267	100%								

Table 4-6 Ten largest direct listed equity investments, 31 Dec 2017

Top 10 equity investments	Total fair value, EUR million	% of total direct listed equity investments
Amer Sports	100	12%
Lassila & Tikanoja	42	5%
Vaisala	34	4%
Asiakastieto	33	4%
Metso	33	4%
Tikkurila	29	4%
F-Secure	26	3%
Caverion	20	2%
Capman	19	2%
DNA	19	2%
Total top 10 exposures	356	43%
Other direct listed equity investments	463	57%
Total direct listed equity investments	819	100%

Table 4-7 Ten largest direct high yield and non-rated fixed income investments, 31 Dec 2017

Top 10 high yield and not rated fixed income instruments	Rating	Total fair value, EUR million	% of total fixed income investment assets
YIT	NR	46	1%
Sponda	NR	37	1%
Teollisuuden Voima	BB+	29	1%
Uponor	NR	22	1%
Stockmann	NR	20	1%
Outotec	NR	17	0%
Acta Holding	NR	17	0%
Nanna Bidco	B	17	0%
Sanoma	NR	16	0%
Terveystalo	NR	16	0%
Total top 10 exposures		237	6%
Other direct fixed income investments		3,574	94%
Total direct fixed income investments		3,811	100%

credit ratings, also affect the limit structure. Risk concentrations are monitored continuously. The Table 4–5 shows market and credit risk concentrations in individual counterparties by asset class.

Table 4–6 illustrates ten largest equity investments separately and their proportion of the total direct equity investments. In addition to the Finnish direct equity investments, the company invests into foreign equities mainly through investment funds and ETFs. Furthermore, largest exposures of high-yield and non-rated fixed income investments are broken down in Figure 4–7.

5. Credit risks

Credit risk is the risk of loss, or of adverse change in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, derivative counterparties and any other debtors. Credit risks arise from investments as well as insurance and reinsurance contracts.

In Mandatum Life, credit risk can materialize as market value losses when credit spreads are changing unfavourably (spread risk) or as credit losses when issuers of credit instruments or counterparties of financial derivatives or reinsurance transactions are failing to meet their financial obligations (default risk). The role of credit risk with current asset allocation is remarkable from both risk exposures and risk management point of view.

In addition to the credit risks associated with investment assets, credit risks arise from reinsurance contracts. Credit risks related to

reinsurers arise through reinsurance receivables and through the reinsurers' portion of technical provisions. In Mandatum Life credit risks related to reinsurance are relatively low compared to the credit risks associated with investment assets.

Investments in fixed income instruments in financial sector comprise the largest industry concentration inside Mandatum Life's investment portfolio.

5.1 Credit risk management

The selection of direct debt investments is based primarily on 'bond-picking' and secondarily on top-down allocation. This investment style may lead into situation where portfolio is not as diversified as the finance theory suggests but includes thoroughly analysed investments with risk-return-ratios in focus. Critical success factors of making fixed income investments are considered to be the following:

- 1) Potential investments must be understood thoroughly. Hence, the creditworthiness of the issuer or counterparty is assessed together with collaterals and other structural details of instruments. Although external credit ratings by rating agencies are used to support the internal assessment, own internal assessment is always the most important factor in decision making.
- 2) When the details of an instrument are understood and the related earnings potential and risks are considered to be in balance,

Table 5–1 Investment exposures according to asset classes, sectors and fixed income investments according to rating, 31 Dec 2017

EUR million	AAA	AA+ – AA–	A+ – A–	BBB+– BBB–	BB+ – C	D	Not rated	Fixed income total	Listed equities	Other	Counter- party risk	Total	Change 31 Dec 2016
Basic Industry	0	0	13	8	24	0	38	82	63	0	0	145	-124
Capital Goods	0	0	38	10	0	0	101	148	160	0	0	308	36
Consumer Products	0	24	104	79	30	0	33	270	238	0	0	508	-77
Energy	0	27	0	0	0	0	18	45	7	0	0	52	-28
Financial Institutions	0	481	1,463	244	24	0	0	2,212	38	1	2	2,253	191
Governments	0	0	0	0	0	0	0	0	0	0	0	0	-18
Government Guaranteed	0	0	0	0	0	0	0	0	0	0	0	0	0
Health Care	0	29	17	8	42	0	58	153	47	0	0	200	11
Insurance	0	0	1	52	0	0	0	54	3	8	0	64	-14
Media	0	0	14	0	0	0	16	30	0	0	0	30	-11
Packaging	0	0	0	0	19	0	9	28	1	0	0	28	-40
Public Sector, Other	0	37	42	0	0	0	0	80	0	0	0	80	9
Real Estate	0	0	1	32	0	0	37	70	0	185	0	255	-56
Services	0	0	0	20	49	0	66	135	86	0	0	221	-10
Technology and Electro- nics	15	0	44	0	27	0	11	96	119	0	0	215	-17
Telecommunications	0	0	0	45	8	0	16	69	32	0	0	102	-6
Transportation	0	0	4	3	11	0	8	26	27	0	0	53	9
Utilities	0	2	1	115	25	0	0	142	0	0	0	142	-24
Others	0	0	0	0	4	0	2	7	0	36	0	42	-37
Asset-Backed Securities	0	0	0	0	0	0	0	0	0	0	0	0	0
Covered Bonds	141	12	0	10	0	0	0	163	0	0	0	163	-15
Funds	0	0	0	0	0	0	142	142	760	500	0	1,402	-120
Clearing House	0	0	0	0	0	0	0	0	0	0	4	4	-1
Total	155	612	1 741	626	263	0	555	3,952	1,578	731	6	6,267	-342
Change 31 Dec 2016	-22	-223	485	-90	-220	0	84	14	-159	-176	-21	-342	

Table 6–1 Cash flows according to contractual maturity

EUR million	CARRYING AMOUNT TOTAL			CASH FLOWS						
	Carrying amount total	Carrying amount without contractual maturity	Carrying amount with contractual maturity	2018	2019	2020	2021	2022	2023–2032	2033–
Financial assets	6,210	3,287	2,923	486	381	773	345	768	397	16
of which interest rate swaps	2	0	2	0	0	0	0	0	1	2
Financial liabilities	168	0	168	-9	-4	-5	-5	-5	-64	-215
of which interest rate swaps	-1	0	-1	0	0	0	0	1	-2	0
Net technical provisions	4,026	0	4,026	-503	-328	-328	-300	-275	-1,908	-1,391

investment transaction shall be executable in a short notice regardless of instrument type. This puts pressure on credit limit structures and procedures that must be at the same time (i) flexible enough to facilitate fast decision making regardless of instrument type, (ii) well-structured to ensure that investment opportunities are assessed prudently, taking into account the specific features and risks of all investment types and (iii) they must restrict the maximum exposure of single name risk to the level that is in balance with the company's risk appetite. During the last years, credit limit structures and procedures have been in focus when developing the companies' Investment Policies.

- 3) Credit exposure accumulations over single names and products are monitored regularly at company level and at Group level to identify unwanted concentrations. Credit exposures are reported, for instance, by sectors and asset classes and within fixed income by ratings. Individual issuers' and counterparties' credit ratings are monitored continuously.

Derivatives' counterparty risk is managed and mitigated by bilateral ISDA and CSA agreements.

6. Liquidity risk

Liquidity risk is the risk that Mandatum Life would be unable to realize investments and other assets in order to settle its financial obligations when they fall due.

A relatively small part of liabilities can be surrendered and it is therefore possible to forecast short-term cash flows related to claims payments in a reliable manner. In addition, the assets are liquid and thus, liquidity risk is currently not significant to Mandatum Life.

7. Insurance risks

Insurance risks in the life insurance business encompass biometric risks, discount rate risk in technical provisions and other life insurance risks, that is, surrender risk, lapse risk and expense risk. This

chapter presents the development of these life insurance risks during 2017. In addition, the life insurance risk management principles are presented.

Mandatum Life received from Suomi Mutual's with-profit group pension portfolio in 2014. Due to its special characteristics, the portfolio and related assets have been segregated (segregated group pension portfolio or segregated assets) from the rest of Mandatum Life's balance sheet. The segregated portfolio has its own regulations concerning the distribution of profit, as well as its own investment policy and Balance Sheet Management Committee. The with-profit liabilities that are not part of the liabilities related to the segregated group pension portfolio are referred to as the 'original with-profit liabilities' in this risk management note.

7.1 Biometric risks

Biometric risks in life insurance refer mainly to the risk that the company has to pay more mortality, disability or morbidity benefits than expected or the company has to keep paying pension payments to the pension policy holders for a longer time (longevity risk) than expected when pricing the policies. The specific case in which a single event or series of single events of major magnitude leads to a significant deviation in actual benefits and payments from the total expected payments is called catastrophe risk.

Long duration of policies and restriction of Mandatum Life's right to change policy terms and conditions and tariffs increases biometric risks. If the premiums turn out to be inaccurate and pricing cannot be changed afterwards, technical provisions have to be supplemented with an amount corresponding to the expected losses.

Table 7–1 shows the insurance risk result in Mandatum Life's Finnish life insurance policies. The ratio of the actual claims costs to the assumed was 76 per cent in 2017 (79). Sensitivity of the insurance risk result can also be assessed on the basis of the information in the Table 7–1. For example the increase of mortality by 100 per cent would increase the amount of benefit payments from EUR 12 million to approximately EUR 24 million.

Table 7–1 Claim ratios after reinsurance 2017 and 2016

EUR million	2017			2016		
	Risk income	Claim expense	Claim ratio	Risk income	Claim expense	Claim ratio
Life insurance	47.6	23.5	49%	43.2	21.2	49%
Mortality	29.0	12.0	41%	24.8	11.8	48%
Morbidity and disability	18.6	11.5	62%	18.4	9.4	51%
Pension	85.6	77.5	91%	80.8	76.2	94%
Individual pension	12.8	13.5	105%	12.0	12.8	107%
Group pension	72.8	64.0	88%	68.8	63.4	92%
Mortality (longevity)	68.2	61.4	90%	63.9	61.0	95%
Disability	4.6	2.6	57%	4.9	2.4	49%
Total	133.2	101.0	76%	124.0	97.4	79%

Longevity risk is the most important biometric risk in Mandatum Life. Most of the longevity risk arises from the with profit group pension portfolio. With profit group pension policies have mostly been closed for new members for years and due to this the average age of members is relatively high, i.e. for the segregated group pension portfolio around 68 years and for the other group pension portfolios around 70 years. In the unit-linked group pension and individual pension portfolio the longevity risk is less significant because most of these policies are fixed term annuities including death cover compensating the longevity risk.

The annual longevity risk result and longevity trend is analysed regularly. For the segregated group pension portfolio the assumed life expectancy related to the technical provisions was revised in 2014 and for the other group pension portfolios in 2002 and 2007. In total these changes increased the 2017 technical provision by EUR 105 million (105) including EUR 87 million longevity reserve for segregated group pension portfolio. The cumulative longevity risk result has been positive since these revisions. The longevity risk result of group pension for the year 2017 was EUR 6.8 million (2.9).

Mortality risk result in life insurance is positive. A possible pandemic is seen as the most significant risk that could adversely affect the mortality risk result.

The insurance risk result of other biometric risks has been profitable in total, although the different risk results differ considerably. In a longer term, disability and morbidity risks are mitigated by the company's right to raise insurance premiums for existing policies in case the claims experience deteriorates.

The insurance portfolio of Mandatum Life is relatively well diversified and does not include major concentration risks. To further mitigate the effects of possible risk concentrations, Mandatum Life has the catastrophe reinsurance in place.

In addition to the biometric risks described above, Mandatum Life is exposed to other risks such as discount rate risk, lapse risk and surrender risk which are described in the following chapters.

7.2 Discount rate risk in liabilities

Discount rate risk in technical provisions is the main risk affecting the adequacy of technical provisions. The guaranteed interest rate in

Table 7-2 Analysis of the change in technical provisions

EUR million	Liability 2016	Premiums	Claims paid	Expense charges	Guaranteed interest	Bonuses	Other	Liability 2017	Share %
Mandatum Life, Finland									
Unit-linked	6,279	827	-544	-70	0	2	407	6,901	59%
Individual pension insurance	1,313	60	-18	-15	0	0	69	1,411	12%
Individual life	2,346	243	-219	-22	0	0	143	2,491	21%
Capital redemption operations	1,977	454	-304	-25	0	0	130	2,231	19%
Group pension	643	71	-4	-9	0	2	65	768	7%
With profit and others	4,804	116	-452	-35	131	1	-7	4,558	39%
Group pension insurance, segregated portfolio	1,142	4	-59	-1	24	0	-45	1,065	9%
Basic liabilities, guaranteed rate 3.5%	715	4	-59	-1	24	0	5	687	6%
Reserve for decreased discount rate (3.5% → 0.50%)	275	0	0	0	0	0	-14	261	2%
Future bonus reserves	153	0	0	0	0	0	-36	117	1%
Group pension	2,117	35	-208	-6	67	1	-9	1,997	17%
Guaranteed rate 3.5%	1,885	4	-179	-3	64	0	-27	1,744	15%
Guaranteed rate 2.5%, 1.5% or 0.0%	232	31	-29	-3	4	0	18	253	2%
Individual pension insurance	899	10	-139	-5	33	0	26	825	7%
Guaranteed rate 4.5%	695	6	-86	-4	28	0	-16	624	5%
Guaranteed rate 3.5%	137	3	-27	-1	4	0	17	134	1%
Guaranteed rate 2.5% or 0.0%	67	1	-27	0	1	0	26	67	1%
Individual life insurance	180	32	-33	-10	6	0	-12	162	1%
Guaranteed rate 4.5%	58	4	-6	-1	3	0	-4	54	0%
Guaranteed rate 3.5%	86	10	-11	-3	3	0	-5	80	1%
Guaranteed rate 2.5% or 0.0%	35	18	-16	-6	0	0	-3	28	0%
Capital redemption operations	28	0	-2	0	0	0	0	26	0%
Guaranteed rate 3.5%	0	0	0	0	0	0	0	0	0%
Guaranteed rate 2.5% or 0.0%	28	0	-2	0	0	0	0	26	0%
Future bonus reserves	0	0	0	0	0	0	0	0	0%
Reserve for decreased discount rate	273	0	0	0	0	0	52	325	3%
Longevity reserve	105	0	0	0	0	0	0	105	1%
Assumed reinsurance	2	1	-1	0	0	0	-2	1	0%
Other liabilities	59	34	-11	-13	0	0	-18	51	0%
Total, Finland	11,083	943	-996	-104	131	2	399	11,459	98%
Baltic	178	24	-27	-3	1	0	6	180	2%
Unit-linked liabilities	161	21	-23	-2	0	0	9	165	1%
Other liabilities	17	3	-3	0	1	0	-2	15	0%
Mandatum Life total	11,261	967	-1,023	-107	132	2	406	11,638	100%

policies is fixed for the whole policy period. Thus, if market interest rates and expected investment returns fall, technical provisions may have to be supplemented.

In most of the original with profit policies, the guaranteed interest rate is 3.5 per cent. In individual policies sold in Finland before 1999, the guaranteed interest rate is 4.5 per cent, which is also the statutory maximum discount rate of these policies. With respect to these policies, the maximum discount rate used when discounting technical provisions has been decreased to 3.5 per cent. As a result, technical provisions have been supplemented with EUR 43 million in 2017 (48). In addition, EUR 264 million has been reserved to lower the interest rate of with profit liabilities to 0.25 per cent in 2018–2020 and EUR 18 million for the year 2021 to lower the interest rate of with profit liabilities to 2.75 per cent, i.e. Mandatum Life has set up an extra reserve of EUR 325 million (273) as part of technical provisions.

The guaranteed interest for the segregated group pension policies is mainly 3.5 per cent. From a risk management perspective, it is more important that the discount rate for the technical provision is 0.5 per cent. The technical provisions calculated with 3.5 per cent (so called basic provision) totals EUR 687 million (715) and technical provisions calculated with 0.5 per cent supplements this basic provision by EUR 261 million (275). The increase in the provision for future bonuses plays a significant role in the risk management of the segregated portfolio. This increase totals EUR 117 million which can be used to cover possible investment losses or to finance possible changes in discount rate of segregated technical provisions.

The provisions related to each product type and guaranteed interest rates are shown in Table 7–2. The table also shows the change in each category during 2017.

Business based on unit-linked policies has been Mandatum Life's focal area since 2001. Since then, unit-linked technical provisions have grown and the average annual growth of technical provisions has been over 20 per cent. Due to the nature of the business, annual variation is relatively large. Approximately EUR 3.1 billion in unit-linked technical provisions results from insurance sold through Danske Bank. These, together with some EUR 200 million in with-profit technical provisions, are expected to transfer to Danske Bank on 31 December 2018.

In contrast, the trend of original with profit technical provisions has been downward since 2005. Especially the parts of technical provisions with the highest 4.5 per cent and 3.5 per cent guarantees have decreased. Technical provisions with highest guarantees fell by EUR 226 million during 2017. In total the with-profit technical provisions decreased, EUR 248 million to the level of EUR 4,573 million (4,821) due to the set reserves.

The development of the structure and amount of Mandatum Life's technical provisions is shown in Figure 7–3.

The downward trend of with-profit liabilities is expected to continue. The volume of liabilities with the highest technical rates of interest is expected to fall from EUR 2,635 million to less than EUR 900 million during the transitional period for Solvency II technical provisions, by the end of 2031. The forecast for with-profit liabilities, not including new sales, is presented in Figure 7–4. The duration of the with-profit technical provisions is approximately ten years.

7.3 Other insurance risks

The most significant other risks arise from the uncertainty related to the behavior of policyholders. The policyholders have the right to cease paying premiums (*lapse risk*) and the possibility to interrupt their policies (*surrender risk*). Being able to keep lapse and surrender rates at a low level are crucial success factors especially for the expense result of unit-linked business. From ALM point of view surrender and lapse

Figure 7–3 Development of with-profit and unit-linked technical provisions

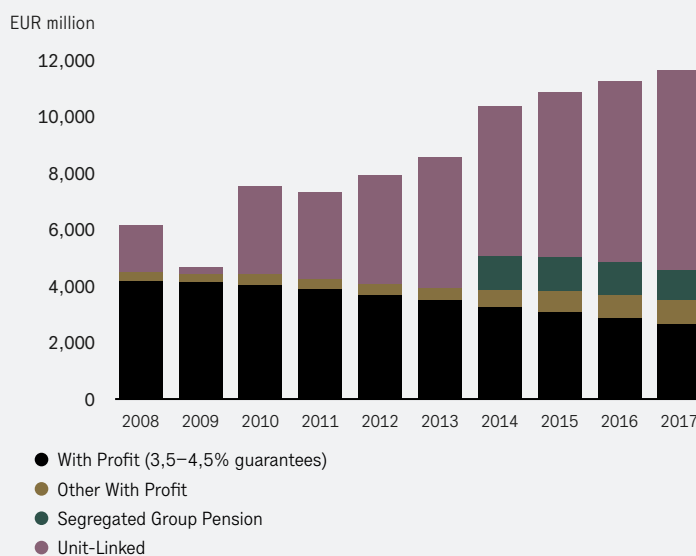
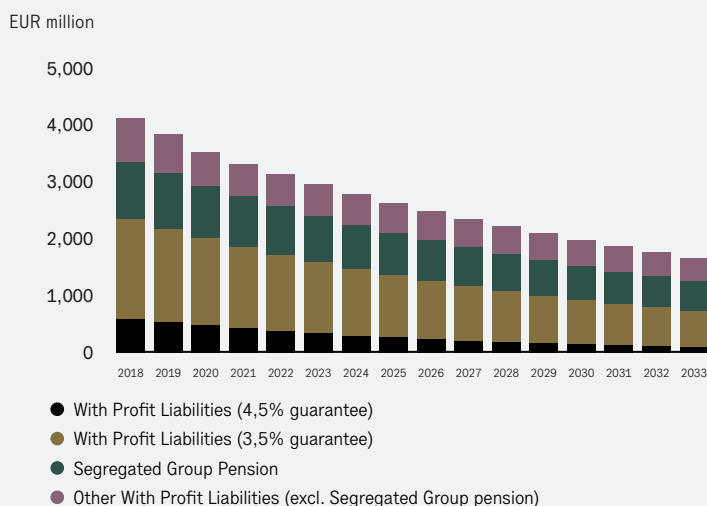


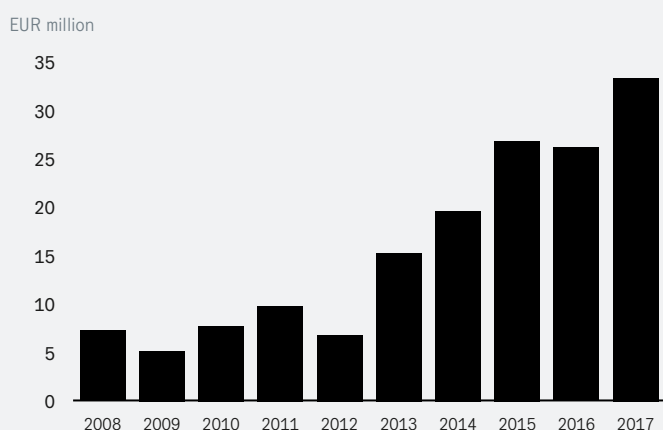
Figure 7–4 Forecast of with-profit Liabilities 2018–2033



risks are less significant because in Mandatum Life, approximately 90 per cent of with-profit policies are pension policies in which surrender is possible only in exceptional cases. For ALM risk, surrender risk is therefore only relevant in individual life and capital redemption policies of which the related technical provisions amounts to only 5 per cent (EUR 208 million) of the total with-profit liabilities. Furthermore, the supplements to technical provisions are not paid out at surrender which also reduces the surrender risk related to the with-profit policies.

The company is also exposed to *expense risk*, which is a risk that the future operating expenses exceed the level that was anticipated when pricing the insurances. Policy terms and tariffs cannot usually be changed materially during the lifetime of the policies, which increases the expense risk. The main challenge is to keep the expenses related to insurance administrative processes and complex IT-infrastructure at an efficient level through the contract period of policies. In 2017 Mandatum Life Group's expense result was EUR 33.2 million (261). Mandatum Life does not defer insurance acquisition costs. Figure 7–5 shows the expense result years 2008–2017.

Figure 7–5 Expense result 2008–2017



7.4 Insurance risk management and control

The biometric risks of life insurance policies are managed through careful risk selection, by setting prices to reflect the risks and costs, by setting upper limits for the protection granted and through reinsurance. The Insurance Risk Committee is responsible for maintaining underwriting policy and monitoring the functioning of the risk selection and claims process.

Risk selection is a part of the day-to-day business routines in Mandatum Life. Mandatum Life's Underwriting Policy sets principles for risk selection and limits for insured sums. The Board of Directors approves the Underwriting policy, pricing guidelines and the central principles for the calculation of technical provisions.

Reinsurance is used to limit the amount of individual mortality and disability risks. The Board of Directors annually determines the maximum amount of risk to be retained for the company's own account, which for Mandatum Life is EUR 1.5 million per insured. To mitigate the effects of possible catastrophes, Mandatum Life participates in the catastrophe reinsurance.

The risk result is actively monitored and analyzed thoroughly annually. Mandatum Life measures the efficiency of risk selection and adequacy of tariffs by collecting information about the actual claims expenditure for each product line and each type of risk, and by comparing it to the claims expenditure assumed in insurance premiums of every risk cover.

Technical provisions are analyzed and the possible supplement needs are assessed regularly. Assumptions related to technical provisions are reviewed annually. Adequacy of technical provisions is tested quarterly. Tariffs for new policies are set, and the underwriting policy and assumptions used in calculating technical provisions are updated based on the analysis related to technical provisions and risk result. Tariffs and prices, as well as the reinsurance principles and reserving principles are reviewed and approved annually by the Board of Directors of Mandatum Life.

8. Operational risks

Operational risk refers to the risk of loss resulting from inadequate or failed processes or systems, from personnel and systems or from external events. This definition includes legal risk but excludes risks resulting from strategic decisions. The risks may realize as a consequence of:

- internal misconduct;
- external misconduct;
- insufficient human resources management;

- insufficiencies in operating policies as far as customers, products or business activities are concerned;
- damage to physical property;
- interruption of activities and system failures; and
- defects in the operating process.

Operational risk may materialize as additional expenses, compensations for caused damages, non-compliance with rules and regulations, loss of reputation, false information on risk position and consecutive losses, and interruption of business activities.

8.1 Goal of operational risk management and risk governance

The goal of operational risk management in Mandatum Life is to ensure the adequacy, effectiveness and quality of operations. Business units are responsible for the identification, assessment, monitoring and management of their own operational risks. Operational Risk Committee (ORC) monitors and coordinates central issues regarding operational risks, such as policies and recommendations. The Committee ensures that risks are identified and business units have organized internal control and risk management in a proper way. The Committee also analyses deviations from operational risk management policies and monitors operational risks identified in the self-assessments as well as the occurred incidents. Significant observations on operational risks are submitted to the Risk Management Committee and Board of Directors.

8.2 Operational risk identification and management

Operational risks are identified through several different sources and methods:

- *Self-assessment* process is used to map and evaluate the major operational risks and their probabilities and significance, including an evaluation of internal controls and sufficiency of instructions. Self-assessment is conducted annually.
- *Analysis of incidents*. Realized operational risks and near misses reported by the business units are collected and analyzed by ORC. Each business unit is responsible for reporting the occurred incidents and near misses to the ORC.
- *Macro analysis* is conducted prior to the annual strategy process where the key trends in Mandatum Life's business environment are identified, including a macro level business analysis of operational risks. External events are monitored continuously and the company reacts to those as soon as possible.

Risks recognised in Mandatum Life's self-assessment process for identifying key operational risks include the following: changes in the external operating environment and regulation, the ageing of IT and particularly information systems, the manual work stages of the processes and the misselling of insurance.

In order to limit operational risks, Mandatum Life has approved a number of policies including e.g. Internal Control policy, Security Policies, Compliance Policy, Continuity Plans, Acquisition and Outsourcing Policy, Complaints Handling Policy and a number of other policies related to ongoing operative activities. Deviations against different policies are followed up independently in each business unit and reported to ORC.

Internal control system in processes aims at preventing and identifying negative incidents and minimizing their impact. In addition, would there be an operational risk event or near misses, this must be analyzed and reported to Compliance officer and to ORC.



IFRS Financial Statements

Consolidated comprehensive income statement

EUR million	Note	1-12/2017	1-12/2016
Insurance premiums	1	960.1	1,115.7
Net income from investments	2	781.8	634.4
Other operating income		9.7	22.8
Claims incurred	3	-1,021.1	-967.1
Change in liabilities for insurance and investment contracts	4	-377.2	-465.4
Staff costs	5	-47.3	-46.2
Other operating expenses	6	-62.8	-77.7
Finance costs	7	-7.2	-6.8
Share of associates' profit/loss		0.0	0.0
Profit before taxes		236.0	209.6
Taxes	19	-50.7	-41.3
Profit for the period		185.3	168.3
Other comprehensive income	20-21		
Items reclassifiable to profit or loss			
Shadow accounting		-6.8	-10.7
Available-for-sale financial assets		12.2	93.0
Income tax relating to components of other comprehensive income		-2.4	-18.6
Other comprehensive income, items reclassifiable to profit or loss net of tax, total		3.0	63.6
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		188.3	232.0

Consolidated balance sheet

EUR million	Note	12/2017	12/2016
Assets			
Property, plant and equipment	8	3.1	4.4
Investment property	9	149.7	198.8
Intangible assets	10	4.9	6.0
Investments in associates	11	0.0	0.0
Financial assets	12-16	4,977.2	5,459.2
Investments related to unit-linked insurance and investment contracts	17	3,986.5	3,468.3
Reinsurers' share of insurance liabilities	24	0.0	3.0
Other assets	22	105.9	162.3
Cash and cash equivalents	23	1,024.7	682.3
Assets classified as held for sale	37	3,298.8	3,201.9
Total assets		13,550.7	13,186.2
Liabilities			
Liabilities for insurance and investment contracts	24	4,374.6	4,611.1
Liabilities for unit-linked insurance and investment contracts	25	3,965.1	3,448.4
Financial liabilities	13, 26	105.9	111.0
Tax liabilities	18	164.4	180.9
Other liabilities	28	243.6	147.7
Liabilities associated with assets held for sale	37	3,298.8	3,201.9
Total liabilities		12,152.4	11,700.9
Equity			
Share capital	30	40.4	40.4
Reserves		727.4	724.8
Retained earnings		630.5	720.1
Equity attributable to owners of the parent		1,398.3	1,485.3
Non-controlling interests		0.0	0.0
Total equity		1,398.3	1,485.3
Total equity and liabilities		13,550.7	13,186.2

Consolidated statement of changes in equity

EUR million	Share capital	Share premium account	Legal reserve	Retained earnings	Translation of foreign operations	Available-for-sale financial assets*	Available-for-sale financial assets** IFRS 4.30	Total
Equity at 1 Jan 2016	40.4	98.9	30.1	676.8	-0.2	542.6	-10.5	1,378.1
Changes in equity								
Dividends				-125.0				-125.0
Total comprehensive income for the year				168.3	0.0	74.4	-10.7	232.0
Equity at 31 Dec 2016	40.4	98.9	30.1	720.2	-0.2	617.0	-21.2	1,485.1
Changes in equity								
Dividends				-275.0				-275.0
Total comprehensive income for the year				185.3		9.8	-6.8	188.3
Equity at 31 Dec 2017	40.4	98.9	29.9	630.5	0.0	626.7	-28.0	1,398.3

* The amount recognised in equity from available-for-sale financial assets for the period totalled EUR 159.0 million (198.8). The amount transferred to p/l amounted to EUR 12.2 million (93).

** Policyholders' share, according to shadow accounting

The amounts included in the translation of foreign operations and available-for-sale financial assets represent other comprehensive income for each component, net of tax.

Consolidated statement of cash flows

EUR million	2017	2016
Operating activities		
Profit before taxes	236.0	209.6
Adjustments:		
Depreciation and amortisation	5.8	5.6
Unrealised gains and losses arising from valuation	-241.3	-206.4
Realised gains and losses on investments	-317.7	-84.3
Change in liabilities for insurance and investment contracts	380.1	388.5
Other adjustments	53.8	33.9
Adjustments total	-119.3	137.4
Change (+/-) in assets of operating activities		
Investments*	552.2	80.3
Other assets	10.6	-4.1
Total	562.8	76.1
Change (+/-) in liabilities of operating activities		
Financial liabilities	0.0	0.0
Other liabilities	37.2	-8.3
Paid interest and taxes	-99.6	-89.1
Total	-62.4	-97.4
Net cash from operating activities	617.0	325.7
Investing activities		
Investments in group and associated undertakings	0.0	0.0
Net investment in equipment and intangible assets	0.3	-0.8
Net cash from investing activities	0.3	-0.8
Financing activities		
Dividends paid	-275.0	-125.0
Net cash from financing activities	-275.0	-125.0
Total cash flows	342.3	199.8
Cash and cash equivalents at 1 January	682.3	482.5
Cash and cash equivalents at 31 December	1,024.7	682.3
Net change in cash and cash equivalents	342.3	199.8
Additional information to the statement of cash flows:		
Interest income received	149.2	177.4
Interest expense paid	-60.5	-46.3
Dividend income received	57.3	69.6

* Investments include investment property, financial assets and investments related to unit-linked insurance and investment contracts.

The items of the statement of cash flows cannot be directly concluded from the balance sheets due to e.g. exchange rate differences.

Cash and cash equivalents include cash at bank and in hand EUR 1,024.7 million (682.3).

Notes to the accounts

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Mandatum Life Group has prepared the consolidated financial statements for 2017 in compliance with the International Financial Reporting Standards (IFRSs). In preparing the financial statements, Mandatum Life has applied all the standards and interpretations relating to its business, adopted by the commission of the EU and effective at 31 December, 2017.

During the financial year, the adopted standards or annual improvements to the standards had no material impact on the Group's financial statements reporting.

In preparing the notes to the consolidated financial statements, attention has also been paid to the Finnish accounting and company legislation and applicable regulatory requirements.

The financial statements have been prepared under the historical cost convention, with the exception of financial assets and liabilities at fair value through p/l, financial assets available-for-sale, hedged items in fair value hedges and share-based payments settled in equity instruments measured at fair value.

The consolidated financial statements are presented in millions of euros to one decimal place, unless otherwise stated.

The Board of Directors of Mandatum Life accepted the financial statements for issue on 6 February 2018.

Consolidation

Subsidiaries

The consolidated financial statements combine the financial statements of Mandatum Life and all its subsidiaries. Entities qualify as subsidiaries if the Group has the controlling power. The Group exercises control if its shareholding is more than 50 per cent of the voting rights or it otherwise has the power to exercise control over the financial and operating policies of the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group, and cease to be consolidated from the date that control ceases.

The acquisition method of accounting is used for the purchase of subsidiaries. The cost of an acquisition is allocated to the identifiable assets, liabilities and contingent liabilities, which are measured at the fair value of the date of the acquisition. Possible non-controlling interest of the acquired entity is measured either at fair value or at proportionate interest in the acquiree's net assets. The acquisition-specific choice affects both the amount of recognised goodwill and non-controlling interest. The excess of the aggregate of consideration transferred, non-controlling interest and possibly previously held equity interest in the acquiree, over the Group's share of the fair value of the identifiable net assets acquired, is recognised as goodwill.

The accounting policies used throughout the Group for the purposes of consolidation are consistent with respect to similar business activities and other events taking place in similar conditions. All intra-group transactions and balances are eliminated upon consolidation.

Associates

Associates are entities in which the Group has significant influence, but no control over the financial management and operating policy decisions. Unless otherwise demonstrated, this is generally presumed when the Group holds in excess of 20 per cent, but no more than 50 per cent, of the voting rights of an entity. Investments in associates are treated by the equity method of accounting, in which the investment is initially recorded at cost and increased (or decreased) each year

by the Group's share of the post-acquisition net income (or loss), or other movements reflected directly in the equity of the associate. If the Group's share of the associate's loss exceeds the carrying amount of the investment, the investment is carried at zero value, and the loss in excess is consolidated only if the Group is committed to fulfilling the obligations of the associate. Goodwill arising on the acquisition is included in the cost of the investment. Unrealised gains (losses) on transactions are eliminated to the extent of the Group's interest in the entity.

The share of associates' profit or loss, equivalent to the Group's holding, is presented as a separate line in the income statement. The Group's share of associate's changes in other comprehensive income is presented in the Group's other comprehensive income items.

If there is any indication that the value of the investment may be impaired, the carrying amount is tested by comparing it with its recoverable amount. The recoverable amount is the higher of its value in use or its fair value less costs to sell. If the recoverable amount is less than its carrying amount, the carrying amount is reduced to its recoverable amount by recognising an impairment loss in the profit/loss. If the recoverable amount later increases and is greater than the carrying amount, the impairment loss is reversed through profit and loss.

Foreign currency translation

The consolidated financial statements are presented in euro, which is the functional and reporting currency of the Group and the parent company. Items included in the financial statements of each of the Group entities are measured using their functional currency, being the currency of the primary economic environment in which the entity operates. Foreign currency transactions are translated into the appropriate functional currency using the exchange rates prevailing at the dates of transactions or the average rate for a month. The balance sheet items denominated in foreign currencies are translated into the functional currency at the rate prevailing at the balance sheet date.

Exchange differences arising from translation of transactions and monetary balance sheet items denominated in foreign currencies into functional currency are recognised as translation gains and losses in profit or loss. Exchange differences arising from equities classified as available-for-sale financial assets are included directly in the fair value reserve in equity.

The income statements of Group entities whose functional currency is other than euro are translated into euro at the average rate for the period, and the balance sheets at the rates prevailing at the balance sheet date. The resulting exchange differences are included in equity and their change in other comprehensive income. When a subsidiary is divested entirely or partially, the cumulative exchange differences are included in the income statement under sales gains or losses.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as if they were assets and liabilities of the foreign entity. Exchange differences resulting from the translation of these items at the exchange rate of the balance sheet date are included in equity, and their change in other comprehensive income.

Exchange differences that existed at the Group's IFRS transition date, 1 January 2004, are deemed to be zero, in accordance with the exemption permitted by IFRS 1.

Segment reporting

Mandatum Life Group's segmentation is based on the division by the product group of domestic business and the other geographical organisational structure. The reported segments are Unit linked contracts (Finland), the Segregated Fund (Finland), other businesses (Finland) and the operations outside Finland.

The investment risks vary by a product group. The segment results are reported to the management of the company as a part of management reporting.

Return on investments covering unit linked contracts and commissions received from fund management companies have been allocated to the segment Unit linked contracts (Finland). Allocation of operational expenses and tangible and intangible assets has been carried out through internal cost accounting.

The primary segmentation comprises a substantial part of the geographical division, since operations outside Finland represents mainly the operations in Baltic countries. In connection with the expansion of the foreign operations shall also the division by country be expanded. Inter-segment transactions, assets and liabilities are eliminated in the consolidated financial statements on a line-by-line basis.

In the inter-segment and inter-company pricing, for both domestic and cross border transactions, market-based prices are applied. The pricing is based on the code of conduct on Transfer Pricing Documentation in the EU and OECD guidelines.

Interest and dividends

Interest income and expenses are recognised in the income statement using the effective interest rate method. This method recognises income and expenses on the instrument evenly in proportion to the amount outstanding over the period to maturity. Dividends on equity securities are recognised as revenue when the right to receive payment is established.

Fees and commissions

The fees and transaction costs of financial instruments measured at fair value through profit or loss are recognised in profit or loss when the instrument is initially recognised.

The acquisition costs are treated as fee and commission expense under Other operating expenses.

Other fees and commissions paid for investment activities are included in Net income from investments.

Insurance premiums

Liabilities arising from insurance and investment contracts count as long-term liabilities. Therefore the insurance premium and related claims are usually not recognised in the same accounting period. Depending on the type of insurance, premiums are primarily recognised in premiums written when the premium has been paid. In group pension insurance, a part of the premiums is recognised already when charged.

The change in the provisions for unearned premiums is presented as an expense under Change in insurance and investment contract liabilities.

Financial assets and liabilities

Based on the measurement practice, financial assets and liabilities are classified in the following categories upon the initial recognition: financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets, financial liabilities at fair value through profit or loss, and other liabilities.

According to the Group's risk management policy, investments are managed at fair value in order to have the most realistic and real-time picture of investments, and they are reported to the Group key management at fair value. Investments comprise debt and equity securities. They are mainly classified as financial assets available-for-sale.

IFRS 4 *Insurance Contracts* provides that insurance contracts with a discretionary participation feature are measured in accordance with national valuation principles (except for the equalisation reserve) rather than at fair value. These contracts and investments made to cover shareholders' equity are managed in their entirety and are classified mainly as available-for-sale financial assets.

Financial assets designated as at fair value through profit or loss are investments related to unit-linked insurance, presented separately in the balance sheet. The corresponding liabilities are also presented separately. In addition, investments classified as the financial assets of foreign subsidiaries, and financial instruments in which embedded derivatives have not been separated from the host contract have been designated as at fair value through profit or loss.

Recognition and derecognition

Purchases and sales of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets are recognised and derecognised on the trade date, which is the date on which the Group commits to purchase or sell the asset. Loans and receivables are recognised when cash is advanced.

Financial assets and liabilities are offset and the net amount is presented in the balance sheet only when the Group has a legally enforceable right to set off the recognised amounts and it intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Financial assets are derecognised when the contractual rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expired.

Financial assets and financial liabilities at fair value through profit or loss

In Mandatum Life Group, financial assets and liabilities at fair value through profit or loss comprise derivatives held for trading, and financial assets designated as at fair value through profit or loss.

Financial assets held for trading

Financial asset that is held for the purpose of selling or buying in the short term, or belongs to a portfolio that is managed together or is repeatedly used for short-term profit taking, is classified as an asset held for trading. Gains and losses arising from changes in fair value, or realised on disposal, together with related interest income and dividend, are recognised in the income statement.

Derivative instruments that are not designated as hedges and do not meet the requirements for hedge accounting are classified as derivatives for trading purposes.

Financial derivatives held for trading are initially recognised at fair value. Derivative instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Derivative instruments are recognised at fair value, and gains and losses arising from changes in fair value together with realised gains and losses are recognised in the income statement.

Financial assets designated as at fair value through profit or loss

Financial assets designated as at fair value through profit or loss are assets which, at inception, are irrevocably designated as such. They are initially recognised at their fair value. Gains and losses arising from changes in fair value, or realised on disposal, together with the related interest income and dividends, are recognised in the income statement.

Loans and receivables

Loans and receivables comprise non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the short term. The category also comprises cash.

Loans and receivables are initially recognised at their fair value, added by transaction costs directly attributable to the acquisition of the asset. Loans and receivables are subsequently measured at amortised cost using the effective interest rate method.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial investments that are designated as available for sale or are not categorised into any other category. Available-for-sale financial assets comprise debt and equity securities.

Available-for-sale financial assets are initially recognised fair value, including direct and incremental transaction costs. They are subsequently remeasured at fair value, and the changes in fair value are recorded in other comprehensive income and presented in the fair value reserve, taking the tax effect into account. Interest income and dividends are recognised in profit or loss. When the available-for-sale assets are sold, the cumulative change in the fair value is transferred from equity and recognised together with realised gains or losses in profit or loss. The cumulative change in the fair value is also transferred to profit or loss when the assets are impaired and the impairment loss is recognised. Exchange differences due to available-for-sale monetary balance sheet items are always recognised directly in profit or loss.

Other financial liabilities

Other financial liabilities comprise debt securities in issue and other financial liabilities.

Other financial liabilities are recognised when the consideration is received and measured to amortised cost, using the effective interest rate method.

If debt securities issued are redeemed before maturity, they are derecognised and the difference between the carrying amount and the consideration paid at redemption is recognised in profit or loss.

Fair value

The fair value of financial instruments is determined primarily by using quoted prices in active markets. Instruments are measured either at the bid price or at the last trade price, if the instrument is a share listed. The financial derivatives are also measured at the last trade price. If the financial instrument has a counter-item that will offset its market risk, the mid-price may be used to that extent. If a published price quotation does not exist for a financial instrument in its entirety, but active markets exist for its component parts, the fair value is determined on the basis of the relevant market prices of the component parts.

If a market for a financial instrument is not active, or the instrument is not quoted, the fair value is established by using generally accepted valuation techniques including recent arm's length market transactions

between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

If the fair value of a financial asset cannot be determined, historical cost is deemed to be a sufficient approximation of fair value. The amount of such assets in the Group balance sheet is immaterial.

Impairment of financial assets

Mandatum Life assesses at the end of each reporting period whether there is any objective evidence that a financial asset, other than those at fair value through p/l, may be impaired. A financial asset is impaired and impairment losses are incurred, if there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset, and if that event has an impact, that can be reliably estimated, on the estimated future cash flows of the financial asset.

Financial assets carried at amortised cost

There is objective evidence of impairment, if an issuer or debtor e.g. encounters significant financial difficulties that will lead to insolvency and to estimation that the customer will probably not be able to meet the obligations to the Group. Objective evidence is first assessed for financial assets that are individually significant, and individually and collectively for financial assets not individually significant.

When there is objective evidence of impairment of a financial asset carried at amortised cost, the amount of the loss is measured as the difference between the receivable's carrying amount and the present value of estimated future cash flows discounted at the receivable's original effective interest rate. The difference is recognised as an impairment loss in profit or loss. The impairment is assessed individually.

If, in a subsequent period, the amount of the impairment loss decreases, and the decrease can objectively be related to an event occurring after the impairment was recognised (e.g. the default status is removed), the previously recognised impairment loss shall be reversed through profit or loss.

Available-for-sale financial assets

Whether there is objective evidence of an impairment of available-for-sale financial assets, is evaluated in a separate assessment, which is done if the credit rating of an issuer has declined or the entity is placed on watchlist, or there is a significant or prolonged decline in the fair value of an equity instrument below its original acquisition cost.

The decision on whether the impairment is significant or prolonged requires an assessment of the management. The assessment is done case by case and with consideration paid not only to qualitative criteria but also historical changes in the value of an equity as well as time period during which the fair value of an equity security has been lower than the acquisition cost. The impairment is normally assessed to be significant, if the fair value of a listed equity or participation decreases below the average acquisition cost by 20 per cent and prolonged, when the fair value has been lower than the acquisition cost for over 12 months.

As there are no quoted prices available in active markets for unquoted equities and participations, the aim is to determine their fair value with the help of generally accepted valuation techniques available in the markets. The most significant share of unquoted equities and participations comprise the private equity and venture capital investments. They are measured in accordance with the generally accepted common practice, International Private Equity and Venture Capital Guidelines (IPEV).

The significance and prolongation of the impairment in the last-mentioned cases is assessed case by case, taking into consideration special factors and circumstances related to the investment. Mandatum Life invests in private equity and venture capital in order to keep them to the end of their life cycle, so the typical lifetime is 10–12 years. In general, a justifiable assessment of a potential impairment may only be done towards the end of the life cycle. However, if additionally there is a well-founded reason to believe that an amount equivalent to the acquisition cost will not be recovered when selling the investment, an impairment loss is recognised.

An impairment on equity funds is recognised in line with the principles above when the starting year of the fund is at least 10 years old and the carrying amount of the fund is maximum EUR 500,000. In these cases both the fair value and the carrying amount are booked to zero. An impairment is only performed to those funds for which the benchmarks are met in all the Sampo Group companies' portfolios.

In the case of debt securities, the amount of the impairment loss is assessed as the difference between the acquisition cost, adjusted with capital amortisations and accruals, and the fair value at the review time, reduced by previously in profit or loss recognised impairment losses.

When assessed that there is objective evidence of impairment in debt or equity securities classified as financial assets available-for-sale, the cumulative loss recognised in other comprehensive income is transferred from equity and recognised in profit or loss as an impairment loss.

If, in a subsequent period, the fair value of a debt security increases and the increase can objectively be related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed by recognising the amount in profit or loss.

If the fair value of an equity security increases after the impairment loss was recognised in profit or loss, the increase shall be recognised in other comprehensive income. If the value keeps decreasing below the acquisition cost, an impairment loss is recognised through profit or loss.

Derivative financial instruments and hedge accounting

Derivative financial instruments are classified as those held for trading and those held for hedging, including interest rate derivatives, foreign exchange derivatives, equity derivatives and commodity derivatives. Derivative instruments are measured initially at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Derivatives held for trading

Derivative instruments that are not designated as hedges and embedded derivatives separated from a host contract are treated as held for trading. They are measured at fair value and the change in fair value, together with realised gains and losses and interest income and expenses, is recognised in profit or loss.

If derivatives are used for hedging, but they do not qualify for hedge accounting as required by IAS 39, they are treated as held for trading.

Hedge accounting

The Group may hedge its operations against interest rate risks, currency risks and price risks through fair value hedging and cash flow hedging. Cash flow hedging is used as a protection against the variability of the future cash flows, while fair value hedging is used to protect against changes in the fair value of recognised assets or liabilities.

Hedge accounting applies to hedges that are effective in relation to the hedged risk and meet the hedge accounting requirements of IAS 39. The hedging relationship between the hedging instrument and the hedged item, as well as the risk management objective and strategy for undertaking the hedge, are documented at the inception of the hedge. In addition, the effectiveness of a hedge is assessed both at inception and on an ongoing basis, to ensure that it is highly effective throughout the period for which it was designated. Hedges are regarded as highly effective in offsetting changes in fair value or the cash flows attributable to a hedged risk within a range of 80–125 per cent.

Fair value hedging

In accordance with the risk management principles, fair value hedging is used to hedge changes in fair values resulting from changes in price, interest rate or exchange rate levels. The hedging instruments used include foreign exchange forwards, interest rate swaps, interest rate and cross currency swaps and options, approved by the management.

Changes in the fair value of derivative instruments that are documented as fair value hedges and are effective in relation to the hedged risk are recognised in profit or loss. In addition, the hedged assets and liabilities are measured at fair value during the period for which the hedge was designated, with changes in fair value recognised in profit or loss.

Securities lending

Securities lent to counterparties are retained in the balance sheet. Conversely, securities borrowed are not recognised in the balance sheet, unless these are sold to third parties, in which case the purchase is recorded as a trading asset and the obligation to return the securities as a trading liability at fair value through profit or loss.

Non-current assets held for sale

Non-current assets and the assets and liabilities related to discontinued operations are classified as held for sale, if their carrying amount will be recovered principally through sales transactions rather than from continuing use. For this to be the case, the sale must be highly probable, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups), the management must be committed to a plan to sell the asset (or disposal group), and the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Assets that meet the criteria to be classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Once classified, depreciation on such assets ceases.

Leases

Group as lessee

Financial leases

Leases of assets in which substantially all the risks and rewards of ownership are transferred to the Group are classified as finance leases. Finance leases are recognised at the lease's inception at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The corresponding obligation is included in Other liabilities in the balance sheet. The assets acquired under finance leases are amortised or depreciated over the shorter of the asset's useful life and the lease term. Each lease payment is allocated between the liability and the interest expense. The interest expense is amortised over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Operating leases

Assets in which the lessor retains substantially all the risks and rewards of ownership are classified as operating leases and they are included in the lessor's balance sheet. Payments made on operating leases are recognised on a straight-line basis over the lease term as rental expenses in profit or loss.

Group as lessor

Operating leases

Leases in which assets are leased out and the Group retains substantially all the risks and rewards of ownership are classified as operating leases. They are included in 'Investment property' in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment, and the impairment losses are recognised on the same basis as for these items. Rental income on assets held as operating leases is recognised on a straight-line basis over the lease term in profit or loss.

Intangible assets

Other intangible assets

IT software and other intangible assets, whether procured externally or internally generated, are recognised in the balance sheet as intangible assets with finite useful lives, if it is probable that the expected future economic benefits that are attributable to the assets will flow to the Group and the cost of the assets can be measured reliably. The cost of internally generated intangible assets is determined as the sum of all costs directly attributable to the assets. Research costs are recognised as expenses in profit or loss as they are incurred. Costs arising from development of new IT software or from significant improvement of existing software are recognised only to the extent they meet the above-mentioned requirements for being recognised as assets in the balance sheet.

Intangible assets with finite useful lives are measured at historical cost less accumulated amortisation and impairment losses. Intangible assets are amortised on a straight-line basis over the estimated useful life of the asset. The estimated useful lives by asset class are as follows:

IT software	4–10 years
Other intangible assets.....	3–10 years

Property, plant and equipment

Property, plant and equipment comprise properties occupied for Mandatum Life's own activities, office equipment, fixtures and fittings, and furniture. Classification of properties as those occupied for own activities and those for investment activities is based on the square metres in use. If the proportion of a property in Mandatum Life's use is no more than 10 per cent, the property is classified as an investment property.

Property, plant and equipment are measured at historical cost less accumulated depreciation and impairment losses. Improvement costs are added to the carrying amount of a property when it is probable that the future economic benefits that are attributable to the asset will flow to the entity. Costs for repairs and maintenance are recognised as expenses in the period in which they were incurred.

Items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful life. In most cases, the residual value is estimated at zero. Land is not depreciated. Estimates of useful life are reviewed at financial year-ends and the useful life is adjusted if the estimates change significantly. The estimated useful lives by asset class are as follows:

Residential, business premises and offices.....	20–60 years
Industrial buildings and warehouses	30–60 years
Components of buildings	10–15 years
IT equipment and motor vehicles.....	3–5 years
Other equipment	3–10 years

Depreciation of property, plant or equipment will be discontinued, if the asset in question is classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Impairment of intangible assets and property, plant and equipment

At each reporting date the Group assesses whether there is any indication that an intangible asset or an item of property, plant or equipment may be impaired. If any such indication exists, the Group will estimate the recoverable amount of the asset. In addition goodwill, intangible assets not yet available for use and intangible assets with an indefinite useful life will be tested for impairment annually, independent of any indication of impairment. For impairment testing the goodwill is allocated to the cash-generating units of the Group from the date of acquisition. In the test the carrying amount of the cash-generating unit, including the goodwill, is compared with its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The value in use is calculated by estimating future net cash flows expected to be derived from an asset or a cash-generating unit, and by discounting them to their present value using a pre-tax discount rate. If the carrying amount of an asset is higher than its recoverable amount, an impairment loss is recognised in profit or loss. In conjunction with this, the impaired asset's useful life will be re-determined.

If there is any indication that an impairment loss recognised for an asset in prior periods may no longer exist or may have decreased, the recoverable amount of the asset will be estimated. If the recoverable amount of the asset exceeds the carrying amount, the impairment loss is reversed, but no more than to the carrying amount which it would have been without recognition of the impairment loss. Impairment losses recognised for goodwill are not reversed.

Investment property

Investment property is held to earn rentals and for capital appreciation. The Group applies the cost model to investment property in the same way as it applies to property, plant and equipment. The depreciation periods and methods and the impairment principles are also the same as those applied to corresponding property occupied for own activities.

The fair value of investment property is estimated using a method based on estimates of future cash flows and a comparison method based on information from actual sales in the market. The fair value of investment property is presented in the Notes.

The valuation takes into account the characteristics of the property with respect to location, condition, lease situation and comparable market information regarding rents, yield requirements and unit prices. During the financial year, the valuations were conducted by the Group's internal resources.

Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the Group can reliably estimate the amount of

the obligation. If it is expected that some or all of the expenditure required to settle the provision will be reimbursed by another party, the reimbursement will be treated as a separate asset only when it is virtually certain that the Group will receive it.

Insurance and investment contracts

Insurance contracts are treated, in accordance with IFRS 4, either as insurance or investment contracts. Under the standard, insurance contracts are classified as insurance contracts if significant insurance risk is transferred between the policyholder and the insurer. If the risk transferred on the basis of the contract is essentially financial risk rather than significant insurance risk, the contract is classified as an investment contract. Classification of a contract as an insurance contract or investment contract determines the measurement principle applied to it.

Mandatum Life treats the liabilities arising from contracts in the first phase of the standard according to national accounting standards.

The risks involved in insurance and investment contracts are widely elaborated in the Risk Management section.

Reinsurance contracts

A reinsurance contract is a contract which meets the IFRS 4 requirements for insurance contracts and on the basis of which the Mandatum Life Group (the cedant) may receive compensation from another insurer (the reinsurer), if it becomes liable for paying compensation based on other insurance contracts it has issued. Such compensation received on the basis of reinsurance contracts is included in the balance sheet under 'Reinsurers' share of insurance liabilities' and 'Other assets'. The former item includes the reinsurers' share of the provisions for unearned premiums and claims outstanding in the Group's reinsured insurance contracts, while the latter includes short-term receivables from reinsurers.

When the Group itself has to pay compensation to another insurer on the basis of a reinsurance contract, the liability is recognised in the item 'Other liabilities'.

Receivables and liabilities related to reinsurance are measured uniformly with the cedant's receivables and liabilities. Reinsurance receivables are tested annually for impairment. Impairment losses are recognised through profit or loss, if there is objective evidence indicating that the Group (as the cedant) will not receive all amounts of money it is entitled to on a contractual basis.

Classification of insurance contracts

Policies issued are classified as either insurance contracts or investment contracts. Insurance contracts are contracts that carry significant insurance risk or contracts in which the policyholder has the right to change the contract by increasing the risk. As capital redemption contracts do not carry insurance risk, these contracts are classified as investment contracts.

The discretionary participation feature (DPF) of a contract is a contractual right held by a policyholder to receive additional benefits, as a supplement to the guaranteed minimum benefits. The supplements are bonuses based on the reserves of policies credited to the policy reserve, additional benefits in the case of death, or lowering of insurance premiums. In Mandatum Life, the principle of fairness specifies the application of this feature. In unit-linked contracts the policyholder carries the investment risk by choosing the investment funds linked to the contracts.

Measurement of insurance and investment contracts

National accounting standards are applied to all insurance contracts and to investment contracts with DPF.

All contracts, except unit-linked contracts and the assumed reinsurance, include DPF. In those unit-linked contracts which are not insurance contracts, the policyholder has the possibility to transfer the return on savings from unit-linked schemes to guaranteed interest with DPF. Thus, these contracts are also measured as contracts with DPF.

The surrender right, guaranteed interest and the unbundling of the insurance component from the deposit component and similar features are not separated and measured separately.

Regarding the group pension portfolio transferred from Suomi Mutual (=segregated portfolio), a so-called shadow accounting is applied, as permitted in IFRS 4.30, by adjusting the equity with the amount of unrealised gains and losses of the agreement. The equity is adjusted with an amount that unrealised gains or losses would have affected the Segregated Portfolio in accordance with the profit distribution policy of the Segregated Portfolio, if the gains or losses had been realised at the balance sheet date.

Insurance and investment contract liabilities and reinsurance assets

Liabilities arising from insurance and investment contracts consist of provisions for unearned premiums and outstanding claims. In the life insurance business, various methods are applied in calculating liabilities which involve assumptions on matters such as mortality, morbidity, the yield level of investments, future operating expenses and the settlement of claims.

Changes in the liabilities of reinsurance have been calculated at variable rates of exchange.

In direct insurance, the insurance liability is calculated by policy, while in reinsurance it is calculated on the basis of the reports of the ceding company or the company's own bases of calculation.

The interest rate used in discounting liabilities is, at most, the maximum rate accepted by the authorities in each country. The guaranteed interest used in the direct insurance premium basis varies on the basis of the starting date of the insurance from zero to 4.5 per cent. The interest rate used in discounting liabilities is the same or lower than that used in premium calculation. Most of the liabilities of the accrued benefits of pension business with DPF are discounted by an interest rate of 3.5 per cent, also being the highest discount rate used. In addition, Mandatum Life has for the year 2018 lowered the maximum rate to 0.25 per cent for the year 2019 to 0.25 per cent for the year 2020 to 0.25 per cent and for 2021 to 2.75 per cent. From Suomi Mutual on the 30th December 2014 received group pension liabilities of the accrued benefits are discounted by 0.50 per cent.

Due to the difference in the discount rate of liabilities and the guaranteed interest of 4.5% and 3.5%, supplementary provisions for guaranteed interest have been added to technical provisions.

Mortality assumptions have an essential effect on the amount of liability, particularly in group pension insurance, the liability of which accounts for about 34 per cent of the technical provisions of the company. A so-called cohort mortality model is used in calculating the group pension insurance liability, incorporating the insured person's birth year in addition to his or her age and sex. The cohort mortality model assumes that life expectancy increases by one year over a ten-year period.

For unit-linked contracts, all the liabilities and the assets covering the unit-linked insurance are matched. Both the liabilities and the assets have been presented in the Notes to the financial statements. In calculating the provision for claims outstanding of direct insurance, discounting is applied only in connection with the liabilities of pensions whose payment has commenced. The liabilities of assumed reinsurance are based on the reports of the ceding company and on an

estimate of claims which have not yet been settled. The assets covering the unit-linked liabilities include debt securities issued by the Group companies. These have not been eliminated. Elimination would lead to misleading information, as the policy holders carry the investment risk related to these investments, and to a mismatch between the unit-linked liabilities and assets covering them.

The provision for claims outstanding is intended to cover the anticipated future payments of all claims incurred. The provision for claims outstanding includes claim payments plus all costs of claim settlements.

The amounts of short- and long-term liabilities in technical provisions are determined annually. The Risk Management section elaborates on the change of technical provisions and their forecast annual maturities.

Liability adequacy test

A liability adequacy test is applied to all portfolios, company by company, and the need for augmentation is checked, company by company, on the basis of the adequacy of the whole technical provisions. The test includes all the expected contractual cash flows for non-unit-linked liabilities. The expected contractual cash flows include expected premiums, claims, bonuses and expenses. The claims have been estimated including surrenders and other insurance transactions based on historical data. The amounts of claims include the guaranteed interest and an estimation of future bonuses. The present values of the cash flows have been discounted to the balance sheet date by using a swap rate curve.

For the unit-linked business, the present values of the insurance risk and expense results are calculated correspondingly. If the aggregate amount of the liability for the unit-linked and other business presumes an augmentation, the liability is increased by the amount shown by the test and recognised in profit or loss.

Principle of fairness and profit distribution policy for the segregated group pension insurance portfolio

According to Chapter 13, Section 2 of the Finnish Insurance Companies' Act, the Principle of Fairness must be observed in life insurance and investment contracts with a discretionary participation feature. If the solvency requirements do not prevent it, a reasonable part of the surplus has to be returned to these policies as bonuses.

Mandatum Life aims at giving a total return before charges and taxes on policyholders' savings in contracts with DPF that is at least the yield of those long term bonds, which are considered to have lowest risk. At the moment we consider German government bonds to be the most risk free long term bonds available. Nevertheless, Finnish government bonds are used as target levels at the moment. The total return consists of the guaranteed interest rate and bonuses determined annually. Continuity is pursued in the level of bonuses. The aim is to maintain the company's solvency status on such a level that it neither limits the giving of bonuses to policyholders nor the distribution of profit to shareholders. The principle is explained in detail on the company's website.

On 30 December 2014, Mandatum Life took over control of Suomi Mutual's group pension insurance portfolio (Insurance Portfolio), which has been segregated from Mandatum Life's other insurance portfolio. In connection with the transfer, it was agreed that the assets transferred along with the Insurance Portfolio will be used to secure the benefits under the transferred Insurance Portfolio. To that end, and in order to ensure what has been agreed on, the Insurance Portfolio and the assets covering it have been segregated from Mandatum Life's other insurance portfolio and assets. It has furthermore been

agreed that a profit distribution policy that is independent from Mandatum Life's other insurance portfolio shall be applied, as described further below, to the Insurance Portfolio and the assets covering it.

In IFRS accounting, when the realised investment return exceeds the return requirement based on the discount rate for technical provisions, 65 per cent of the surplus amount is distributed to the insurance portfolio. The discount rate for technical provisions that is applied in the profit distribution policy is always based on the discount rate for technical provisions used on the first day of the calendar year. The insurance portfolio's share of the investment returns that exceed the discount rate can be distributed, for example, in the form of annual client bonuses, one-time benefit increases, or it can be set aside in a reserve for future bonuses, which is used to equalise the annual client bonuses and safeguard the level of client bonuses and their continuity.

In IFRS accounting, when the realised investment return is less than the return requirement based on the discount rate for technical provisions, said return requirement is financed primarily from the provision for future bonuses and thereafter from Mandatum Life's capital and reserves. The share of the provision for future bonuses that has been set aside, by a separate decision by Mandatum Life, for the Insurance Portfolio transferred from Suomi Mutual shall not be used to finance the above-mentioned return requirement.

The discount rate to be applied in the profit distribution policy of the Insurance Portfolio transferred from Suomi Mutual is 0.50 per cent for 2017 and 2018. The company's website provides a more detailed description of the profit distribution policy for the segregated group pension portfolio, as well as an explanation of the bonuses paid.

The legislation of Estonia, Latvia and Lithuania respectively does not contain provisions corresponding to the Principle of Fairness.

Employee benefits

Post-employment benefits

Post-employment benefits include pensions and life insurance.

Mandatum Life has defined contribution plans. The most significant defined contribution plan is that arranged through the Employees' Pensions Act (TyEL) in Finland.

In defined contribution plans, the Group pays fixed contributions to a pension insurance company and has no legal or constructive obligation to pay further contributions. The obligations arising from a defined contribution plan are recognised as an expense in the period that the obligation relates to.

The Group also has certain voluntary defined benefit plans. These are intra-Group, included in the insurance liabilities of Mandatum Life and have no material significance.

Termination benefits

An obligation based on termination of employment is recognised as a liability when the Group is verifiably committed to terminate the employment of one or more persons before the normal retirement date or to grant benefits payable upon termination as a result of an offer to promote voluntary redundancy. As no economic benefit is expected to flow to the employer from these benefits in the future, they are recognised immediately as an expense. Obligations maturing more than 12 months later than the balance sheet date are discounted. The benefits payable upon termination are the monetary and pension packages related to redundancy.

Share-based payments

During the financial year, The Group had four valid share-based incentive schemes settled in cash (the long-term incentive schemes 2011 II and 2014 I, 2014II and 2017 I for executives and specialists). Schemes

have been measured at fair value at the grant date and at every reporting date thereafter. In Mandatum Life Group, a little less than 20 persons included in the schemes at the end of year 2017.

In the schemes settled in cash, the valuation is recognised as a liability and changes recognised through profit or loss.

The fair value of schemes has been determined using the Black-Scholes-pricing model. The fair value of the market-based part of the incentive takes into consideration the model's forecast concerning the number of bonus units to be paid as an incentive. The effects of non-market based terms are not included in the fair value of the incentive; instead, they are taken into account in the number of those share options that are expected to be exercised during the vesting period. In this respect, the Group will update the assumption on the estimated final number of bonus units at every interim or annual balance sheet date.

Income taxes

Item Tax expenses in the income statement comprise current and deferred tax. Tax expenses are recognised through profit or loss, except for items recognised directly in equity or other comprehensive income, in which case the tax effect will also be recognised those items. Current tax is calculated based on the valid tax rate of each country. Tax is adjusted by any tax related to previous periods.

Deferred tax is calculated on all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Deferred tax is not recognised on non-deductible goodwill impairment, and nor is it recognised on the undistributed profits of subsidiaries to the extent that it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated by using the enacted tax rates prior to the balance sheet date.

A deferred tax asset is recognised to the extent that it is probable that future taxable income will be available against which a temporary difference can be utilised.

Equity

Dividends are recognised in equity in the period when they are approved by the Annual General Meeting.

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term deposits (3 months).

Mandatum Life presents cash flows from operating activities using the indirect method in which the profit (loss) before taxation is adjusted for the effects of transactions of a non-cash nature, deferrals and accruals, and income and expense associated with investing or financing cash flows.

In the cash flow statement, interest received and paid is presented in cash flows from operating activities. In addition, the dividends received are included in cash flows from operating activities. Dividends paid are presented in cash flows from financing.

Accounting policies requiring management judgement and key sources of estimation uncertainties

Preparation of the accounts in accordance with the IFRS requires management estimates and assumptions that affect the revenue, expenses, assets, liabilities and contingent liabilities presented in the financial statements. Judgement is needed also in the application of accounting policies. The estimates made are based on the best information available at the balance sheet date. The estimation is based on

historical experiences and most probable assumptions concerning the future at the balance sheet date. The actual outcome may deviate from results based on estimates and assumptions. Any changes in the estimates will be recognised in the financial year during which the estimate is reviewed and in all subsequent periods.

Mandatum Life's main assumptions concerning the future and the key uncertainties related to balance sheet estimates are related, for example, to assumptions used in actuarial calculations, determination of fair values of non-quoted financial assets and liabilities and investment property and determination of the impairment of financial assets and intangible assets. From Mandatum Life's perspective, accounting policies concerning these areas require most significant use of estimates and assumptions.

Actuarial assumptions

The actuarial assumptions applied to life insurance liabilities are discussed in more detail under Insurance and investment contract liabilities and reinsurance assets.

Determination of fair value

The fair value of any non-quoted financial assets is determined using valuation methods that are generally accepted in the market. These methods are discussed in more detail above under Fair value.

Fair values of investment property have been determined internally during the financial year on the basis of comparative information derived from the market. They include management assumptions concerning market return requirements and the discount rate applied.

Impairment tests

Goodwill, intangible assets not yet available for use, and intangible assets with an indefinite useful life are tested for impairment at least annually. The recoverable amounts from cash-generating units have mainly been determined using calculations based on value in use. These require management estimates on matters such as future cash flows, the discount rate, and general economic growth and inflation.

Application of new or revised IFRSs and interpretations

The Group will apply the following new or amended standards and interpretations related to the Group's business in later financial years when they become effective, or if the effective date is other than the beginning of the financial year, during the financial year following the effective date. Unless stated otherwise, the new standards or amendments were not approved by EU at the balance sheet date.

IFRS 15 *Revenue from Contracts with Customers* (effective for annual periods beginning on 1 Jan 2018 or after). The new standard will supersede IAS 18 and IAS 11 and related interpretations. The central criterion for revenue recognition is the passing of control. The adoption of the new standard will not have a material impact on the Group's financial statements reporting.

IFRS 16 *Leases* (effective for annual periods beginning on 1 Jan 2019 or after). The standard will supersede IAS 17 according to which leases were recognised either in the balance sheet as finance leases, or as other leases in which case the related liability was disclosed in the notes. The new standard requires all the leases, apart from low-value and short-term leases, to be recognised in the balance sheet. The adoption will have an effect on the Group's balance sheet, when all current leases are recognised there, and on the income statement in the form of recognised interest expenses and amortisations. However, the number of the current leases is not very significant in the Group.

The amendments to IFRS 9 *Financial Instruments* (effective for annual periods beginning on 1 Jan 2021 or after) supersede IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard changes the classification and measurement of financial assets and includes a new impairment model based on expected credit losses. The hedge accounting will continue to have three different hedging relationships.

As the upcoming and IFRS 4 superseding new standard IFRS 17 *Insurance Contracts* (effective for annual periods beginning on 1 Jan 2021 or after) will have an impact on the insurance liabilities valuation, the insurance companies have been given additional options regarding the adoption of IFRS 9. If certain preconditions regarding the insurance liabilities are met, the company may apply the so-called temporary exception option and defer the implementation until the adoption of IFRS 17. Another allowed option is to apply IFRS 9 from 1 Jan 2018 on, but to remove from the income statement some of the accounting mismatches caused by the different valuation methods of assets and liabilities.

The criteria for temporary exception is met while the share of insurance liabilities 31 Dec 2017 was 95.8 per cent of the total liabilities so The Group is going to apply the temporary exemption and adopt IFRS 9 simultaneously with IFRS 17. The adoption will have an impact on the Group's financial statements reporting.

Risk disclosure

More detail information can be found in Risk management section. Risk is an essential and inherent element of Mandatum Life's business activities and operating environment. The purpose of the risk management process is to identify the different risks affecting the business. The risk management process also ensures that different risks can be assessed, limited and controlled.

Risks related to Mandatum Life's business activities

The main risks of Mandatum Life Group are insurance risks and market risks of assets and liabilities. Operational and business risks are inherent in all business operations.

Life insurance business carries and manages risks originating from insurance events and liabilities. There are random fluctuations in the frequency and size of insurance events. The major part of life insurance business risks and result arises from investment assets. Return on assets should cover, in the long term, at least the guaranteed interest rate, bonuses based on the principle of fairness and the shareholders' return expectations. Other profit elements are generated from carrying insurance risk and expense risk. The insurance risk result is the assumed claims in premium calculations less the actual claims. It is managed, for example, through careful risk selection and reinsurance. The expense result is the expense charges from policies less the actual expenses. It is managed by continuously monitoring expenses, by improving efficiency and by using an expense charge structure that provides income through the policy's whole life cycle.

Market risks and market risk management and control

Market risks refer to fluctuations in the company's financial results or solvency caused by changes in market values of financial assets and liabilities as well as technical provisions. Market risks are examined from both an Asset and Liability Management (ALM) as well as an investment portfolio risk perspectives.

In Mandatum Life, the approach to market risk management is based on an analysis of technical provisions' expected cash flows, interest level and current solvency position. A common feature for all with-profit technical provisions is the guaranteed rate and bonuses. The cash flows of Mandatum Life's technical provisions are relatively well predictable because in most of the company's with-profit policies, surrenders and extra-investments are not possible.

Mandatum Life's market risks arise mainly from equity investments and interest rate risk related to fixed income assets and insur-

ance liabilities with a guaranteed interest rate. The most significant interest rate risk in the life insurance business is that fixed income investments will not, over a long period of time, generate a return at least equal to the guaranteed interest rate of technical provisions. The probability of this risk increases when market interest rates fall and stay at a low level. The duration gap between balance sheet's technical provisions and fixed income investments are constantly monitored and managed.

Mandatum Life has prepared for low interest rates on the liability side by e.g. reducing the minimum guaranteed interest rate in new contracts and by supplementing the technical provisions by applying a lower discount rate. In addition, existing contracts have been changed to accommodate improved management of reinvestment risk.

The Board of Directors of Mandatum Life approves annually the Investment Policies for both segregated assets and other assets regarding the company's investment risks. These policies set principles and limits for investment portfolio activities as well as the risk-bearing-capacity models that are essential for balance sheet management and the monitoring limits to be applied.

Sampo Plc's investment unit makes Mandatum Life's daily investment decisions, which are based on the principles and authorisations laid down in the Investment Policy. However, all major investment decisions – large allocation changes and decisions related to investment that exceed the investment unit's authorisations – are made by the Board of Directors. The ALCO (a) regularly monitor compliance with the principles and limits specified in the Investment Policy and report on investment risks to the Board of Directors. The ALCO also monitor the company's technical provisions and the riskiness of the assets covering the technical provisions of the segregated group pension portfolio in relation to risk-bearing capacity. The ALCO report to the Board of Directors if the monitoring limits are not met.

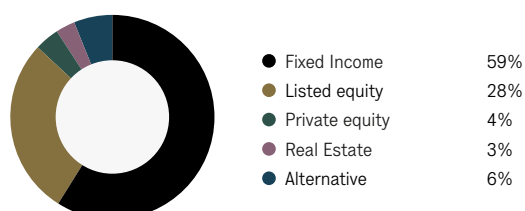
The investment organization and Mandatum Life have a thorough understanding of Nordic markets and issuers and, consequently, the company's direct investments are mainly made into Nordic securities. The volume of direct investments made outside the Nordic countries has grown. Third-party-controlled investments are still mainly allocated outside the Nordics.

In 2017 the net investment return of Mandatum Life original portfolio was 6.5 per cent (7.2) and for the segregated portfolio 1.8 per cent (4.7).

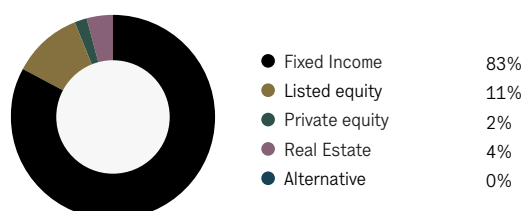
Figure shows the total investments for original and segregated portfolios separately.

Investments 31 Dec 2017

Original assets EUR 5,156 million



Segregated assets EUR 1,107 million



Equity risks

Equity price risk is the risk of losses due to changes in share prices. At year end Mandatum Life's listed equity investment for the original portfolio amounted to EUR 1,462 million (1,642) and for the segregated portfolio EUR 116 million (95).

Mandatum Life's equity portfolio is actively managed. The positions and risks in equity portfolio and the related derivatives may not exceed the limits set in the Investment Policy. The Nordic equity port-

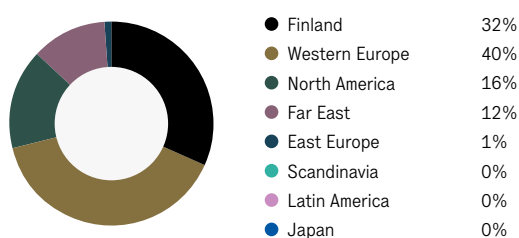
folio is managed mainly by Sampo Plc's investment unit while the equity investments outside the Nordic area are mainly managed through external asset managers. Figure presents the geographical allocation of listed equity investments for both portfolios.

Section Risk Concentrations of the Investment Operations contains a list of the ten largest equity investments while breakdown of direct listed equity investments by industries is shown in section Credit risk.

Allocation of equity investments

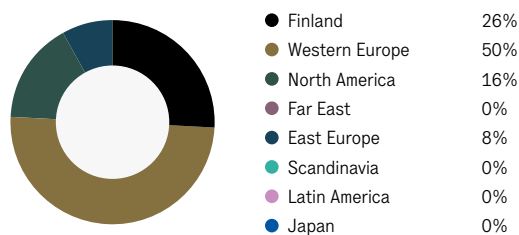
Original assets

EUR 1,462 million



Segregated assets

EUR 116 million



Risks related to fixed income investments

Mandatum Life's risks related to fixed income investments include interest rate risk related to changes in market interest rates as well as spread risk arising from changes in the credit spreads of fixed income investments resulting in changes in the values of respective investments.

The most significant interest rate risk in the life insurance business is that fixed income investments will not, over a long period of time, generate a return at least equal to the guaranteed interest rate of technical provisions. The probability of this risk increases when market interest rates fall and remain at a low level. According to Mandatum Life's Investment Policy, the interest rate risk and inflation risk of technical provisions must be taken into account when defining the composition of investment assets. Mandatum Life's duration gap between technical provisions and fixed income investments is constantly monitored and managed. Control levels based on internal capital model are used to manage and ensure adequate capital in different market situations.

The average duration of Mandatum Life's original portfolio's technical provisions (excluding unit-linked technical provisions) was

closed to ten years at the year-end and for the segregated portfolio eleven years.

The duration of the fixed income investments covering the original with-profit technical provisions as per 31 December 2017 was 2.0 years (1.9) and the duration of the segregated assets rose slightly to 2.6 years (2.4).

When it comes to technical provisions, Mandatum Life has prepared for low interest rates on the liability side by e.g. reducing the guaranteed interest rate in new contracts and increase the reserve for decreased discount rate for policies with higher guaranteed interest rates. In addition, existing contracts have been changed to accommodate improved management of reinvestment risk and the technical provisions have been supplemented by the reserve for decreased discount rate. More information about the reserve can be found in insurance risks section.

Majority of the company's fixed income investments are made in debt instruments issued by corporations. This increases the risk arising from increased credit spreads which, in turn, lead to value alterations. Table Fixed income investments by type of instruments illustrates the breakdown of the fixed income investments by type of

Fixed income investments by type of instruments 31 Dec 2017

	Original assets		Segregated assets	
	% of Fixed Income Portfolio	Average Maturity	% of Fixed Income Portfolio	Average Maturity
Money Market Securities and Cash	27.6%	0.0	7.3%	0.0
Government Bonds	0.8%	3.0	3.1%	2.1
Covered Bonds	3.9%	1.9	4.7%	2.2
Investment Grade Bonds and Loans	40.1%	2.7	62.6%	2.9
High Yield Bonds and Loans	21.4%	3.0	12.2%	4.5
Asset Backed Securities	0.0%	0.0	0.0%	0.0
Subordinated / T2 -type	1.1%	7.7	2.2%	6.7
Subordinated / T1 -type	5.0%	6.1	7.9%	7.6
Interest Rate Derivatives	0.1%	-	0.0%	-
Policy Loans	0.0%	1.8	0.0%	0.0
Total	100.0%	2.2	100.0%	3.3

instruments as well as their average maturity. The maturity measures the company's spread risk exposure better than the duration. This is true especially when it comes to floating interest rate investments. Table on page 37 shows the breakdown of investment assets by instruments based on division of industry and credit rating.

Table on previous page shows the breakdown of the fixed income investments of the original and the segregated policies across various instruments. At the end of 2017, the share of money market invest-

ments in the original policies' fixed income portfolio rose to 27.6 per cent (25.3), while the share of investment-grade fixed income investments was 40.1 per cent (33.7) and high-yield fixed income investments fell to 21.4 per cent (25.7). Also the proportion of money market investments in the segregated policy fixed income portfolio fell to 7.3 per cent (11.6) and the combined share of subordinated Tier 1 and Tier 2 bonds rose to 10.1 per cent (8.9). The share of investment-grade fixed income investments rose to 62.6 per cent (59.5).

Net currency exposures 31 Dec 2017

Original portfolio	USD	JPY	GBP	SEK	NOK	CHF	DKK	Other	Net total
Technical provisions	0	0	0	-2	0	0	0	0	-2
Investments	1,690	4	124	52	6	174	20	143	2,212
Derivatives	-1,426	-3	-122	59	84	-168	-13	-30	-1,618
Total transaction risk, net position	264	1	2	109	90	6	7	113	592

Segregated portfolio	USD	JPY	GBP	SEK	NOK	CHF	DKK	Other	Net total
Technical provisions	0	0	0	0	0	0	0	0	0
Investments	364	0	12	0	3	12	0	0	391
Derivatives	-318	0	-12	18	17	-14	0	0	-309
Total transaction risk, net position	45	0	0	18	21	-1	0	0	82

Currency risks

Mandatum Life's parent company's technical provisions are denominated in Euros, and currency risk therefore arises from investments in other currencies than Euro. Mandatum Life's currency strategy is based on active management of the currency position. The objective is to achieve positive return relative to a situation where the open currency risk exposure is fully hedged, considering the limits imposed by the investment policy. The Table Net currency exposures shows the net currency exposures (net assets) for original and segregated portfolios on 31 December 2017.

Other market risks

In addition to interest rate, equity and foreign exchange risks, Mandatum Life's investment assets are also subject to risks resulting from real estate, capital fund, biometric and other alternative investments. Mandatum Life's Investment Policy sets limits for maximum allocations into these markets and products. On 31 December 2017 the share of the

above mentioned investments for the original insurance portfolios was 13 per cent (15) and for the segregate group pension policies 6 per cent (7) of total investment portfolio.

Private equity funds and alternative investments are managed by external asset managers. The private equity fund portfolio is diversified both according to fund type and geographical areas. Alternative investments are placed both directly into individual funds and into funds of funds in order to attain sufficient diversification between funds and investment styles.

The real estate portfolio in Mandatum Life is managed by Sampo Plc's real estate management unit. The portfolio includes direct investments in properties as well as indirect investments in real estate funds and shares and debt instruments in real estate companies in accordance with the decided allocation. The main risks related to property investments are limited by diversifying holdings both geographically and by type of property.

Risk concentrations of the investment operations

Mandatum Life's Investment Policy sets limits for investments in individual companies. When setting the limits, the primary aspects to be taken into account are the company's estimate of the investment's credit risk and the corresponding capital tied up. The public information available on the investment object, such as credit ratings, also affect the limit structure. Risk concentrations are monitored continuously. The Table Concentrations in individual counterparties by asset class shows market and credit risk concentrations in individual counterparties by asset class.

Table Top 10 direct equity investments illustrates ten largest equity investments separately and their proportion of the total direct equity investments. In addition to the Finnish direct equity investments, the company invests into foreign equities mainly through investment funds and ETFs. Furthermore, largest exposures of high-yield and non-rated fixed income investments are broken down in Table Top 10 high yield and non-rated fixed income investments.

Concentration of market and credit risks in individual counterparties by asset class, 31 Dec 2017

EUR million	Total fair value, EUR million	% of total investment assets	Cash & short-term fixed income	Long-term fixed income, total	Long-term fixed income: Government guaranteed	Long-term fixed income: Covered bonds	Long-term fixed income: Senior bonds	Long-term fixed income: Tier 1 and Tier 2	Equities	Uncollateralized derivatives
Counterparty (per business area)										
Danske Bank	534	9%	472	60	0	0	60	0	0	2
BNP Paribas	286	5%	280	6	0	0	6	0	0	0
Skandinaviska Enskilda Banken	185	3%	97	88	0	0	81	7	0	0
Nordea Bank	159	3%	55	104	0	28	69	7	0	0
DnB	131	2%	0	131	0	25	82	23	0	0
Amer Sports	100	2%	0	0	0	0	0	0	100	0
Vattenfall	78	1%	0	78	0	0	0	78	0	0
Citigroup	77	1%	0	77	0	0	77	0	0	0
Bank of America	70	1%	0	70	0	0	70	0	0	0
ABN Amro Bank	60	1%	0	60	0	0	42	18	0	0
Total top 10 exposures	1,679	27%	904	673	0	53	486	134	100	2
Other	4,588	73%								
Total investment assets	6,267	100%								

Top 10 direct listed equity investments, 31 Dec 2017

Top 10 equity investments	Total fair value, EUR million	% of total direct listed equity investments
Amer Sports	100	12%
Lassila & Tikanoja	42	5%
Vaisala	34	4%
Asiakastieto	33	4%
Metso	33	4%
Tikkurila	29	4%
F-Secure	26	3%
Caverion	20	2%
Capman	19	2%
DNA	19	2%
Total top 10 exposures	356	43%
Other direct listed equity investments	463	57%
Total direct listed equity investments	819	100%

Top 10 direct high yield and non-rated fixed income investments, 31 Dec 2017

Top 10 high yield and not rated fixed income instruments	Rating	Total fair value, EUR million	% of total fixed income investment assets
YIT	NR	46	1%
Sponda	NR	37	1%
Teollisuuden Voima	BB+	29	1%
Uponor	NR	22	1%
Stockmann	NR	20	1%
Outotec	NR	17	0%
Acta Holding	NR	17	0%
Nanna Bidco	B	17	0%
Sanoma	NR	16	0%
Terveystalo	NR	16	0%
Total top 10 exposures		237	6%
Other direct fixed income investments		3,574	94%
Total direct fixed income investments		3,811	100%

Credit risks

Credit risk is the risk of loss, or of adverse change in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, derivative counterparties and any other debtors. Credit risks arise from investments as well as insurance and reinsurance contracts.

In Mandatum Life, credit risk can materialize as market value losses when credit spreads are changing unfavourably (spread risk) or as credit losses when issuers of credit instruments or counterparties of financial derivatives or reinsurance transactions are failing to meet their financial obligations (default risk). The role of credit risk with current asset allocation is remarkable from both risk exposures and risk management point of view.

In addition to the credit risks associated with investment assets, credit risks arise from reinsurance contracts. Credit risks related to reinsurers arise through reinsurance receivables and through the reinsurers' portion of technical provisions. In Mandatum Life credit risks related to reinsurance are relatively low compared to the credit risks associated with investment assets.

Investments in fixed income instruments in financial sector comprise the largest industry concentration inside Mandatum Life's investment portfolio.

Credit risk management

The selection of direct debt investments is based primarily on bond-picking and secondarily on top-down allocation. This investment style may lead into situation where portfolio is not as diversified as the finance theory suggests but includes thoroughly analysed investments with risk-return-ratios in focus. Critical success factors of making fixed income investments are considered to be the following:

1. Potential investments must be understood thoroughly. Hence, the creditworthiness of the issuer or counterparty is assessed together with collaterals and other structural details of instruments. Although external credit ratings by rating agencies are used to support the internal assessment, own internal assessment is always the most important factor in decision making.
2. When the details of an instrument are understood and the related earnings potential and risks are considered to be in balance, investment transaction shall be executable in a short notice regardless of instrument type. This puts pressure on credit limit structures and procedures that must be at the same time (i) flexible enough to facilitate fast decision making regardless of instrument type, (ii) well-structured to ensure that investment opportunities are assessed prudently, taking into account the specific features and risks of all investment types and (iii) they must restrict the maximum exposure of single name risk to the level that is in balance with the company's risk appetite. During the last years, credit limit structures and procedures have been in focus when developing the companies' Investment Policies
3. Credit exposure accumulations over single names and products are monitored regularly at company level and at Group level to identify unwanted concentrations. Credit exposures are reported, for instance, by sectors and asset classes and within fixed income by ratings. Individual issuers' and counterparties' credit ratings are monitored continuously.

Derivatives' counterparty risk is managed and mitigated by bilateral ISDA and CSA agreements.

Liquidity risk

Liquidity risk is the risk that Mandatum Life would be unable to realize investments and other assets in order to settle its financial obligations when they fall due.

A relatively small part of liabilities can be surrendered and it is therefore possible to forecast short-term cash flows related to claims payments in a reliable manner. In addition, the assets are liquid and thus, liquidity risk is currently not significant to Mandatum Life.

Investment exposures according to asset classes, sectors and fixed income investments according to rating, 31 Dec 2017

EUR million	AAA	AA+ - AA-	A+ - A-	BBB+ - BBB-	BB+ - C	D	Not rated	Fixed income total	Listed equities	Other	Counter-party risk	Total	Change 31 Dec 2016
Basic Industry	0	0	13	8	24	0	38	82	63	0	0	145	-124
Capital Goods	0	0	38	10	0	0	101	148	160	0	0	308	36
Consumer Products	0	24	104	79	30	0	33	270	238	0	0	508	-77
Energy	0	27	0	0	0	0	18	45	7	0	0	52	-28
Financial Institutions	0	481	1,463	244	24	0	0	2,212	38	1	2	2,253	191
Governments	0	0	0	0	0	0	0	0	0	0	0	0	-18
Government Guaranteed	0	0	0	0	0	0	0	0	0	0	0	0	0
Health Care	0	29	17	8	42	0	58	153	47	0	0	200	11
Insurance	0	0	1	52	0	0	0	54	3	8	0	64	-14
Media	0	0	14	0	0	0	16	30	0	0	0	30	-11
Packaging	0	0	0	0	19	0	9	28	1	0	0	28	-40
Public Sector, Other	0	37	42	0	0	0	0	80	0	0	0	80	9
Real Estate	0	0	1	32	0	0	37	70	0	185	0	255	-56
Services	0	0	0	20	49	0	66	135	86	0	0	221	-10
Technology and Electronics	15	0	44	0	27	0	11	96	119	0	0	215	-17
Telecommunications	0	0	0	45	8	0	16	69	32	0	0	102	-6
Transportation	0	0	4	3	11	0	8	26	27	0	0	53	9
Utilities	0	2	1	115	25	0	0	142	0	0	0	142	-24
Others	0	0	0	0	4	0	2	7	0	36	0	42	-37
Asset-Backed Securities	0	0	0	0	0	0	0	0	0	0	0	0	0
Covered Bonds	141	12	0	10	0	0	0	163	0	0	0	163	-15
Funds	0	0	0	0	0	0	142	142	760	500	0	1,402	-120
Clearing House	0	0	0	0	0	0	0	0	0	0	4	4	-1
Total	155	612	1,741	626	263	0	555	3,952	1,578	731	6	6,267	-342
Change 31 Dec 2016	-22	-223	485	-90	-220	0	84	14	-159	-176	-21	-342	

Cash flows according to contractual maturity

EUR million	CARRYING AMOUNT TOTAL			CASH FLOWS							
	Carrying amount total	Carrying amount without contractual maturity	Carrying amount with contractual maturity	2018	2019	2020	2021	2022	2023-2032	2033-	
Financial assets	6,210	3,287	2,923	486	381	773	345	768	397	16	
of which interest rate swaps	2	0	2	0	0	0	0	0	1	2	
Financial liabilities	168	0	168	-9	-4	-5	-5	-5	-64	-215	
of which interest rate swaps	-1	0	-1	0	0	0	0	1	-2	0	
Net technical provisions	4,026	0	4,026	-503	-328	-328	-300	-275	-1,908	-1,391	

Insurance risks

Insurance risks in the life insurance business encompass biometric risks, discount rate risk in technical provisions and other life insurance risks, that is, surrender risk, lapse risk and expense risk. This chapter presents the development of these life insurance risks during 2017. In addition, the life insurance risk management principles are presented.

Mandatum Life received from Suomi Mutual's with-profit group pension portfolio in 2014. Due to its special characteristics, the port-

folio and related assets have been segregated (segregated group pension portfolio or segregated assets) from the rest of Mandatum Life's balance sheet. The segregated portfolio has its own regulations concerning the distribution of profit, as well as its own investment policy and Balance Sheet Management Committee. The with-profit liabilities that are not part of the liabilities related to the segregated group pension portfolio are referred to as the 'original with-profit liabilities' in this note.

Biometric risks

Biometric risks in life insurance refer mainly to the risk that the company has to pay more mortality, disability or morbidity benefits than expected or the company has to keep paying pension payments to the pension policy holders for a longer time (longevity risk) than expected when pricing the policies. The specific case in which a single event or series of single events of major magnitude leads to a significant deviation in actual benefits and payments from the total expected payments is called catastrophe risk.

Long duration of policies and restriction of Mandatum Life's right to change policy terms and conditions and tariffs increases biometric risks. If the premiums turn out to be inaccurate and pricing cannot be changed afterwards, technical provisions have to be supplemented with an amount corresponding to the expected losses.

Table Claim ratios of Mandatum Life after reinsurance shows the insurance risk result in Mandatum Life's Finnish life insurance policies. The ratio of the actual claims costs to the assumed was 76 per cent in 2017 (79). Sensitivity of the insurance risk result can also be assessed on the basis of the information in the Table. For example, the increase of mortality by double would increase the amount of benefit payments from EUR 12 million to approximately EUR 24 million.

Longevity risk is the most important biometric risk in Mandatum Life. Most of the longevity risk arises from the with profit group pension portfolio. With profit group pension policies have mostly been closed for new members for years and due to this the average age of members is relatively high, around 70 years. In the unit-linked group pension and individual pension portfolio the longevity risk is less significant because most of these policies are fixed term annuities including death cover compensating the longevity risk.

The annual longevity risk result and longevity trend is analyzed regularly. For the segregated group pension portfolio the assumed life expectancy related to the technical provisions was revised in 2014 and for the other group pension portfolios in 2002 and 2007. In total these changes increased the 2017 technical provision by EUR 105 million (105) including EUR 87 million longevity reserve for segregated group pension portfolio. The cumulative longevity risk result has been positive since these revisions. The longevity risk result of group pension for the year 2017 was EUR 6.8 million (2.9).

Mortality risk result in life insurance is positive. A possible pandemic is seen as the most significant risk that could adversely affect the mortality risk result.

The insurance risk result of other biometric risks has been profitable in total, although the different risk results differ

considerably. In a longer term, disability and morbidity risks are mitigated by the company's right to raise insurance premiums for existing policies in case the claims experience deteriorates

The insurance portfolio of Mandatum Life is relatively well diversified and does not include major concentration risks. To further mitigate the effects of possible risk concentrations, Mandatum Life has the catastrophe reinsurance in place.

In addition to the biometric risks described above, Mandatum Life is exposed to other risks such as discount rate risk, lapse risk and surrender risk which are described in the following chapters.

Discount rate risk in liabilities

Discount rate risk in technical provisions is the main risk affecting the adequacy of technical provisions. The guaranteed interest rate in policies is fixed for the whole policy period. Thus, if market interest rates and expected investment returns fall, technical provisions may have to be supplemented.

In most of the original with profit policies, the guaranteed interest rate is 3.5 per cent. In individual policies sold in Finland before 1999, the guaranteed interest rate is 4.5 per cent, which is also the statutory maximum discount rate of these policies. With respect to these policies, the maximum discount rate used when discounting technical provisions has been decreased to 3.5 per cent. As a result, technical provisions have been supplemented with EUR 43 million in 2017 (48). In addition, EUR 264 million has been reserved to lower the interest rate of with profit liabilities to 0.25 per cent in 2018–2020 and EUR 18 million for the year 2021 to lower the interest rate of with profit liabilities to 2.75 per cent, i.e. Mandatum Life has set up an extra reserve of EUR 325 million (273) as part of technical provisions.

The guaranteed interest for the segregated group pension policies is mainly 3.5 per cent. From a risk management perspective, it is more important that the discount rate for the technical provision is 0.5 per cent. The technical provisions calculated with 3.5 per cent (so called basic provision) totals EUR 687 million (715) and technical provisions calculated with 0.5 per cent supplements this basic provision by EUR 261 million (275). The increase in the provision for future bonuses plays a significant role in the risk management of the segregated portfolio. This increase totals EUR 117 million which can be used to cover possible investment losses or to finance possible changes in discount rate of segregated technical provisions.

The provisions related to each product type and guaranteed interest rates are shown in Table Analysis of the change in technical provisions. The table also shows the change in each category during 2017.

Claim ratios after reinsurance, 2017 and 2016

EUR million	2017			2016		
	Risk income	Claim expense	Claim ratio	Risk income	Claim expense	Claim ratio
Life insurance	47.6	23.5	49%	43.2	21.2	49%
Mortality	29.0	12.0	41%	24.8	11.8	48%
Morbidity and disability	18.6	11.5	62%	18.4	9.4	51%
Pension	85.6	77.5	91%	80.8	76.2	94%
Individual pension	12.8	13.5	105%	12.0	12.8	107%
Group pension	72.8	64.0	88%	68.8	63.4	92%
Mortality (longevity)	68.2	61.4	90%	63.9	61.0	95%
Disability	4.6	2.6	57%	4.9	2.4	49%
Total	133.2	101.0	76%	124.0	97.4	79%

Analysis of the change in provisions before reinsurance, 2017

EUR million	Liability 2016	Premiums	Claims paid	Expense charges	Guaranteed interest	Bonuses	Other	Liability 2017	Share %
Mandatum Life, Finland									
Unit-linked	6,279	827	-544	-70	0	2	407	6,901	59%
Individual pension insurance	1,313	60	-18	-15	0	0	69	1,411	12%
Individual life	2,346	243	-219	-22	0	0	143	2,491	21%
Capital redemption operations	1,977	454	-304	-25	0	0	130	2,231	19%
Group pension	643	71	-4	-9	0	2	65	768	7%
With profit and others	4,804	116	-452	-35	131	1	-7	4,558	39%
Group pension insurance segregated portfolio	1,142	4	-59	-1	24	0	-45	1,065	9%
Basic liabilities, guaranteed rate 3.5%	715	4	-59	-1	24	0	5	687	6%
Reserve for decreased discount rate (3.5% → 0.50%)	275	0	0	0	0	0	-14	261	2%
Future bonus reserves	153	0	0	0	0	0	-36	117	1%
Group pension	2,117	35	-208	-6	67	1	-9	1,997	17%
Guaranteed rate 3.5%	1,885	4	-179	-3	64	0	-27	1,744	15%
Guaranteed rate 2.5%, 1.5% or 0.0%	232	31	-29	-3	4	0	18	253	2%
Individual pension insurance	899	10	-139	-5	33	0	26	825	7%
Guaranteed rate 4.5%	695	6	-86	-4	28	0	-16	624	5%
Guaranteed rate 3.5%	137	3	-27	-1	4	0	17	134	1%
Guaranteed rate 2.5% or 0.0%	67	1	-27	0	1	0	26	67	1%
Individual life insurance	180	32	-33	-10	6	0	-12	162	1%
Guaranteed rate 4.5%	58	4	-6	-1	3	0	-4	54	0%
Guaranteed rate 3.5%	86	10	-11	-3	3	0	-5	80	1%
Guaranteed rate 2.5% or 0.0%	35	18	-16	-6	0	0	-3	28	0%
Capital redemption operations	28	0	-2	0	0	0	0	26	0%
Guaranteed rate 3.5%	0	0	0	0	0	0	0	0	0%
Guaranteed rate 2.5% or 0.0%	28	0	-2	0	0	0	0	26	0%
Future bonus reserves	0	0	0	0	0	0	0	0	0%
Reserve for decreased discount rate	273	0	0	0	0	0	52	325	3%
Longevity reserve	105	0	0	0	0	0	0	105	1%
Assumed reinsurance	2	1	-1	0	0	0	-2	1	0%
Other liabilities	59	34	-11	-13	0	0	-18	51	0%
Total	11,083	943	-996	-104	131	2	399	11,459	98%
Baltic	178	24	-27	-3	1	0	6	180	2%
Unit-linked liabilities	161	21	-23	-2	0	0	9	165	1%
Other liabilities	17	3	-3	0	1	0	-2	15	0%
Mandatum Life total	11,261	967	-1,023	-107	132	2	406	11,638	100%

Other insurance risks

The most significant other risks arise from the uncertainty related to the behavior of policyholders. The policyholders have the right to cease paying premiums (lapse risk) and the possibility to interrupt their policies (surrender risk). Being able to keep lapse and surrender rates at a low level are crucial success factors especially for the expense result of unit-linked business.

Insurance risk management and control

The biometric risks of life insurance policies are managed through careful risk selection, by setting prices to reflect the risks and costs, by setting upper limits for the protection granted and through reinsurance. The Insurance Risk Committee is responsible for maintaining underwriting policy and monitoring the functioning of the risk selection and claims process.

Risk selection is a part of the day-to-day business routines in Mandatum Life. Mandatum Life's Underwriting Policy sets principles for risk selection and limits for insured sums. The Board of Directors approves the Underwriting policy, pricing guidelines and the central principles for the calculation of technical provisions.

Reinsurance is used to limit the amount of individual mortality and disability risks. The Board of Directors annually determines the maximum amount of risk to be retained for the company's own account, which for Mandatum Life is EUR 1.5 million per insured. To mitigate the effects of possible catastrophes, Mandatum Life participates in the catastrophe reinsurance.

The risk result is actively monitored and analyzed thoroughly annually. Mandatum Life measures the efficiency of risk selection and adequacy of tariffs by collecting information about the actual claims expenditure for each product line and each type of risk, and by comparing it to the claims expenditure assumed in insurance premiums of every risk cover.

Technical provisions are analyzed and the possible supplement needs are assessed regularly. Assumptions related to technical provisions are reviewed annually. Adequacy of technical provisions is tested quarterly. Tariffs for new policies are set, and the underwriting policy and assumptions used in calculating technical provisions are updated based on the analysis related to technical provisions and risk result. Tariffs and prices, as well as the reinsurance principles and reserving principles are reviewed and approved annually by the Board of Directors of Mandatum Life.

Segment information

Mandatum Life group's segmentation is based on the division by the product group of domestic business and the other geographical organisation structure. The reported segments are "Unit linked contracts" (Finland), other contracts (Finland), the segregated portfolio (Finland) and foreign operations.

The investment risks vary by a product group. The segment results are reported to the management of the company as a part of management reporting. The primary segmentation comprises a substantial parts of the geographical division, since operations outside Finland represents mainly the operation in Baltic countries while the impact from Luxembourg is very small. In connection with the expansion of the foreign operations shall also the division by country be expanded. Inter-segment transactions, assets and liabilities are eliminated in the consolidated financial statements on a line-by-line basis. Segment information has been produced in accordance with the accounting policies adopted for preparing and presenting the consolidated financial statements.

CONSOLIDATED INCOME STATEMENT BY BUSINESS SEGMENT FOR YEAR ENDED 31 DECEMBER 2017

EUR million	Unit-linked contracts (Finland)	Other contracts (Finland)	Segregated portfolio (Finland)	Foreign operations	Elimination	Group
Insurance premium	840.9	106.9	2.1	23.7	-13.5	960.1
Net income from investments	424.4	339.1	10.8	10.7	-3.3	781.8
Other operating income		7.0		0.0	2.6	9.7
Claims incurred	-552.1	-393.4	-56.8	-26.5	7.7	-1 021.1
Change in liabilities for insurance and investment contracts*	-622.8	191.7	46.9	-1.9	9.0	-377.2
Staff costs	-24.3	-19.8	0.0	-3.3		-47.3
Other operating expenses	-40.7	-15.8	-1.2	-2.5	-2.6	-62.8
Finance costs		-7.1		0.0		-7.2
Share of associates' profit/loss		0.0				0.0
Profit before taxes	25.5	208.7	1.8	0.2	-0.1	236.0
Taxes	-5.1	-45.2	-0.4	0.0		-50.7
Profit for the year	20.4	163.5	1.4	0.2	-0.1	185.3
Other comprehensive income for the year						
Shadow accounting						-6.8
Available-for-sale financial assets						12.2
Income tax relating to components of other comprehensive income						-2.4
Other comprehensive income for the year, net of tax						3.0
TOTAL COMPREHENSIVE INCOME FOR THE YEAR						188.3
Profit attributable to						
Owners of the parent company						185.3
Non-controlling interests						0.0
Total comprehensive income attributable to						
Owners of the parent company						188.3
Non-controlling interests						0

* In the domestic segment the transition of liabilities between unit-linked and other contracts has been recognized. The transfers between segments results a decrease of EUR 1.6 million in the item 'Change in liabilities for insurance and investment contracts' of the unit-linked contracts and decrease of EUR 28.3 million of other contracts and increase EUR 29.9 million of segregated portfolio (24.1).

CONSOLIDATED INCOME STATEMENT BY BUSINESS SEGMENT FOR YEAR ENDED 31 DECEMBER 2016

EUR million	Unit-linked contracts (Finland)	Other contracts (Finland)	Segregated portfolio (Finland)	Foreign operations	Elimination	Group
Insurance premium	958.9	132.8	7.5	29.1	-12.6	1,115.7
Net income from investments	294.5	297.2	38.8	8.2	-4.3	634.4
Other operating income		8.9		0.0	13.9	22.8
Claims incurred	-569.4	-340.7	-47.2	-26.5	16.7	-967.1
Change in liabilities for insurance and investment contracts*	-598.8	126.5	13.4	-5.1	-1.5	-465.4
Staff costs	-24.7	-17.7	0.0	-3.7		-46.2
Other operating expenses	-39.9	-18.8	-2.0	-3.1	-13.9	-77.7
Finance costs		-6.8		0.0		-6.8
Share of associates' profit/loss		0.0				0.0
Profit before taxes	20.6	181.3	10.5	-1.1	-1.7	209.6
Taxes	-4.1	-35.0	-2.1	0.0		-41.3
Profit for the year	16.5	146.2	8.4	-1.1	-1.7	168.3
Other comprehensive income for the year						
Shadow accounting						-10.7
Available-for-sale financial assets						93.0
Income tax relating to components of other comprehensive income						-18.6
Other comprehensive income for the year, net of tax						63.6
Total comprehensive income for the year						232.0
Profit attributable to						
Owners of the parent company						168.3
Non-controlling interests						0.0
Total comprehensive income attributable to						
Owners of the parent company						232.0
Non-controlling interests						0.0

* In the domestic segment the transition of liabilities between unit-linked and other contracts has been recognized. For the unit linked segment the transition results in an increase of EUR 24.1 million (2015: 23.5) in the item 'Change in liabilities for insurance and investment contracts'.

CONSOLIDATED BALANCE SHEET BY BUSINESS SEGMENT AT 31 DECEMBER 2017

EUR million	Unit-linked contracts (Finland)	Other contracts (Finland)	Segregated portfolio (Finland)	Foreign operations	Elimination	Group
Assets						
Property, plant and equipment	0.6	2.5		0.1		3.1
Investment property		120.9	28.8			149.7
Intangible assets	1.6	2.6		0.7		4.9
Investments in associates		0.0				0.0
Financial assets		3,956.8	1,003.3	17.1		4,977.2
Investments related to unit-linked insurance and investment contracts	3,824.3	0.0		162.1		3,986.5
Reinsurers' share of insurance liabilities		0.0				0.0
Other assets		83.1	23.2	0.6	-1.0	105.9
Cash and cash equivalents		945.4	75.7	3.6		1,024.7
Assets classified as held for sale	3,100.4	198.4				3,298.8
Total assets	6,926.9	5,309.7	1,131.0	184.2	-1.0	13,550.7
Liabilities						
Liabilities for insurance and investment contracts		3,294.4	1,065.2	14.9		4,374.6
Liabilities for unit-linked insurance and investment contracts	3,800.2	0.0		165.0		3,965.1
Financial liabilities		105.9				105.9
Tax liabilities		164.4				164.4
Other liabilities	22.5	161.9	59.2	1.0	-1.0	243.6
Liabilities associated with assets held for sale	3,100.4	198.4				3,298.8
Total liabilities	6,923.1	3,925.0	1,124.4	180.9	-1.0	12,152.4
Equity						
Share capital						40.4
Reserves						727.4
Retained earnings						630.5
Equity attributable to parent company's equityholders						1,398.3
Non-controlling interests						0.0
Total equity						1,398.3
Total equity and liabilities						13,550.7

CONSOLIDATED BALANCE SHEET BY BUSINESS SEGMENT AT 31 DECEMBER 2016

EUR million	Unit-linked contracts (Finland)	Other contracts (Finland)	Segregated portfolio (Finland)	Foreign operations	Elimination	Group
Assets						
Property, plant and equipment	0.6	3.8		0.0		4.4
Investment property		169.1	29.7			198.8
Intangible assets	2.5	2.7		0.8		6.0
Investments in associates		0.0				0.0
Financial assets	63.6	4,325.0	1,046.6	24.0		5,459.2
Investments related to unit-linked insurance	3,388.0	1.1		161.0	-81.9	3,468.3
Reinsurers' share of insurance liabilities		2.9		0.0		3.0
Other assets		119.0	43.7	1.0	-1.4	162.3
Cash and cash equivalents		600.4	79.3	2.6		682.3
Assets classified as held for sale	2,991.5	210.4				3,201.9
Total assets	6,446.3	5,434.4	1,199.2	189.5	-83.3	13,186.2
Liabilities						
Liabilities for insurance and investment contracts		3,451.7	1,142.1	17.3		4,611.1
Liabilities for unit-linked insurance and investment contracts	3,369.6	0.0		160.7	-81.9	3,448.4
Financial liabilities		111.0				111.0
Tax liabilities		180.9				180.9
Other liabilities	17.9	77.8	52.2	1.2	-1.4	147.7
Liabilities associated with assets held for sale	2,991.5	210.4				3,201.9
Total liabilities	6,379.1	4,031.7	1,194.3	179.1	-83.3	11,700.9
Equity						
Share capital						40.4
Reserves						724.8
Retained earnings						720.1
Equity attributable to parent company's equityholders						1,485.3
Non-controlling interests						0.0
Total equity						1,485.3
Total equity and liabilities						13,186.2

Notes to the income statement

1 INSURANCE PREMIUMS

PREMIUMS FROM INSURANCE CONTRACTS

EUR million	2017	2016
Insurance contracts		
Insurance contracts	508.7	644.2
Reinsurance contracts	1.2	2.8
Insurance contracts total, gross	509.9	647.1
Reinsurers' share	-7.1	-6.3
Insurance contracts total, net	502.7	640.8
Investment contracts	457.4	474.9
Total premiums*	960.1	1,115.7

*The change in unearned premiums is presented in note 4 "The change in insurance and investment liabilities".

SPECIFICATION OF PREMIUMS

EUR million	2017	2016
Premiums from insurance contracts		
Premiums from contracts with discretionary participation feature	115.5	144.3
Premiums from unit-linked contracts	391.4	497.9
Premiums from other contracts	1.8	2.1
Total	508.7	644.2
Assumed reinsurance	1.2	2.8
Premiums from investment contracts		
Premiums from contracts with discretionary participation feature	0.2	0.3
Premiums from unit-linked contracts	457.2	474.6
Total	457.4	474.9
Insurance and investment contracts, total	967.3	1,122.0
Reinsurers' share	-7.1	-6.3
Total premiums	960.1	1,115.7

DIRECT INSURANCE PREMIUMS BY GEOGRAPHICAL SEGMENTS

EUR million	2017	2016
Finland	942.3	1,090.1
Baltic countries	23.7	29.1
Total	966.1	1,119.2

SINGLE AND REGULAR PREMIUMS FROM DIRECT INSURANCE

EUR million	2017	2016
Regular premiums, insurance contracts	257.7	277.2
Single premiums, insurance contracts	251.0	367.0
Single premiums, investment contracts	457.4	474.9
Total	966.1	1,119.2

DIRECT INSURANCE PREMIUMS BY LINE OF BUSINESS

EUR million	2017	2016
Premiums from insurance contracts		
Life insurance		
Unit-linked individual life insurance	257.6	366.5
Other individual life insurance	46.6	48.5
Employees' group life insurance	13.9	12.0
Other group life insurance	10.9	9.4
Total	329.0	436.4
Pension insurance		
Unit-linked individual pension insurance	60.3	66.0
Other individual pension insurance	10.1	12.5
Unit-linked group pension insurance	70.9	65.5
Other group pension insurance	38.4	63.9
Total	179.7	207.8
Total	508.7	644.2
Premiums from investment contracts		
Capital redemption operations		
Unit-linked capital redemption operations	457.2	474.6
Other capital redemption operations	0.2	0.3
Total	457.4	474.9
Total premiums from insurance- and investment contracts	966.1	1,119.2

2 NET INCOME FROM INVESTMENTS

EUR million	2017	2016
Financial assets		
Derivative financial instruments		
Gains/losses	170.4	-8.7
Financial assets designated as at fair value through p/l		
Debt securities		
Interest income	0.4	0.6
Gains/losses	0.0	-3.5
Equity securities		
Gains/losses	0.1	0.0
Dividend income	0.0	0.0
Total	0.6	-2.8
Investments related to unit-linked contracts		
Debt securities		
Interest income	42.8	50.0
Gains/losses	-21.7	4.4
Equity securities		
Gains/losses	311.3	197.9
Dividend income	36.5	31.8
Loans and receivables		
Interest income	-9.2	-0.2
Other financial assets		
Gains/losses	45.3	-7.9
Total	405.0	276.0
Loans and receivables		
Interest income	1.5	4.1
Gains/losses	-14.3	5.9
Total	-12.7	10.1
Financial assets available-for-sale		
Debt securities		
Interest income	96.7	102.1
Gains/losses	-192.4	29.8
Impairment losses	-11.5	0.0
Equity securities		
Gains/losses	216.9	100.7
Impairment losses	-19.1	-15.1
Dividend income	92.4	122.2
Total	183.1	339.6
Total financial assets	746.4	614.1
Other assets		
Investment properties		
Gains/losses	30.2	2.9
Impairment losses	-1.2	0.0
Other	-10.1	6.4
Total other assets	18.9	9.4
Net fee income		
Asset management	-15.8	-14.8
Fee income	32.2	25.7
Total	16.4	10.9
Total	781.7	634.4

Included in gains/losses from financial assets available-for-sale is a net gain of EUR 146.8 million (105.8) transferred from the fair value reserve.

Other income and expenses comprise rental income, maintenance expenses and depreciation of investment property.

All the income and expenses arising from investments are included in Net income from investments. Gains/losses include realised gains/losses on sales, unrealised and realised changes in fair values and exchange differences. Unrealised fair value changes for financial assets available-for-sale are recorded in other comprehensive income and presented in the fair value reserve in equity.

The changes in the fair value reserve are disclosed in the Statement of changes in equity.

3 CLAIMS INCURRED

All claims included

EUR million	Claims paid		Change in provision for claims outstanding		Claims incurred	
	2017	2016	2017	2016	2017	2016
Insurance contracts						
Life insurance						
Contracts with discretionary participation feature (DPF)	-46.9	-43.1	-2.6	1.7	-49.5	-41.4
Other contracts	-0.4	-0.4	0.0	0.3	-0.3	-0.1
Unit-linked contracts	-236.3	-204.5	-1.6	1.6	-237.8	-202.9
Total	-283.5	-248.0	-4.1	3.7	-287.6	-244.3
Pension insurance						
Contracts with discretionary participation feature (DPF)	-405.7	-425.4	45.8	91.9	-359.8	-333.5
Unit-linked contracts	-21.8	-17.9	-41.7	-19.0	-63.5	-36.9
Total	-427.5	-443.2	4.1	72.8	-423.3	-370.4
Assumed reinsurance	-0.5	-0.5	0.0	0.1	-0.5	-0.4
Insurance contracts total, gross	-711.5	-691.8	0.0	76.6	-711.5	-615.2
Reinsurers' share	4.6	3.0	-2.9	0.3	1.7	3.3
Insurance contracts total, net	-706.9	-688.8	-2.9	76.9	-709.8	-611.8
Investment contracts						
Capital redemption policies						
Contracts with discretionary participation feature (DPF)	-1.9	-0.4	-	-	-1.9	-0.4
Unit-linked contracts	-309.5	-355.0	-	-	-309.5	-355.0
Investment contracts, total	-311.3	-355.4	-	-	-311.3	-355.4
Claims total	-1,018.3	-1,044.2	-2.9	76.9	-1,021.1	-967.3

CLAIMS PAID BY TYPE OF BENEFIT

EUR million	2017	2016
Insurance contracts		
Life insurance		
Surrender benefits	-7.7	-7.3
Death benefits	-16.1	-20.9
Maturity benefits	-12.1	-5.7
Loss adjustment expenses	0.0	0.0
Other	-11.3	-9.7
Total	-47.3	-43.5
Life insurance, unit-linked		
Surrender benefits	-179.1	-148.6
Death benefits	-47.1	-45.4
Maturity benefits	-10.1	-10.4
Loss adjustment expenses	0.0	0.0
Total	-236.3	-204.5
Pension insurance		
Pension payments	-395.1	-414.7
Surrender benefits	-2.0	-2.2
Death benefits	-8.5	-8.5
Loss adjustment expenses	0.0	0.0
Total	-405.7	-425.4
Pension insurance, unit-linked		
Pension payments	-6.6	-3.6
Surrender benefits	-11.3	-9.7
Death benefits	-3.9	-4.5
Other	0.0	-0.1
Total	-21.8	-17.9
Assumed reinsurance	-0.5	-0.5
Insurance contracts total, gross	-711.5	-691.8
Reinsurers' share	4.6	3.0
Insurance contracts total, net	-706.9	-688.8
Investment contracts		
Capital redemption policy, with-profit		
Surrender benefits	-1.9	-0.4
Maturity benefits	0.0	0.0
Total	-1.9	-0.4
Capital redemption policy, unit-linked		
Surrender benefits	-309.5	-371.6
Maturity benefits	0.0	16.6
Total	-309.5	-355.0
Investment contracts total, gross	-311.3	-355.4
Claims paid total, gross	-1,022.9	-1,047.2
Claims paid total, net	-1,018.3	-1,044.2

4 CHANGE IN LIABILITIES FOR INSURANCE AND INVESTMENT CONTRACTS

EUR million	2017	2016
Insurance contracts		
Life-insurance		
Contracts with discretionary participation feature (DPF)	22.2	23.2
Other contracts	3.2	-0.1
Unit-linked contracts	-144.6	-251.6
Total	-119.3	-228.5
Pension insurance		
Contracts with discretionary participation feature (DPF)	179.7	67.5
Unit-linked contracts	-180.3	-116.3
Total	-0.6	-48.9
Assumed reinsurance	0.0	0.0
Insurance contracts total, gross	-119.9	-277.3
Reinsurers' share	0.0	0.0
Insurance contracts total, net	-119.9	-277.3
Investment contracts		
Capital redemption policy		
Contracts with discretionary participation feature (DPF)	-2.7	9.8
Unit-linked contracts	-254.6	-197.9
Investment contracts, total	-257.3	-188.1
Change in liabilities for insurance and investment contracts in total, gross	-377.2	-465.4

5 STAFF COSTS

EUR million	2017	2016
Staff costs		
Wages and salaries	-36.3	-36.2
Cash-settled share-based payments	-3.1	-1.4
Pension costs - defined contribution plans	-6.2	-6.0
Other social security costs	-1.7	-2.6
Total	-47.3	-46.2

More information on share-based payments in note 32 Incentive schemes.

6 OTHER OPERATING EXPENSES

EUR million	2017	2016
IT costs	-19.7	-17.6
Other staff costs	-1.6	-1.7
Marketing expenses	-3.5	-3.7
Depreciation and amortisation	-2.2	-2.2
Rental expenses	-3.5	-3.6
Direct insurance commissions	-3.2	-7.7
Commissions of reinsurance assumed	-1.0	-1.3
Commissions on reinsurance ceded	3.2	2.2
Other	-31.4	-42.1
Total	-62.8	-77.7

Item Other includes e.g. expenses related to communication, external services and other administrative expenses.

OPERATING EXPENSES BY ACTIVITY

EUR million	2017	2016
Policy acquisition costs for insurance- and investment contracts		
Direct insurance commissions	-3.2	-7.7
Commission on reinsurance assumed	-1.0	-1.3
Other acquisition costs	-25.3	-24.7
Policy management expenses on insurance and investment contracts	-52.9	-48.9
Administrative expenses	-18.9	-17.1
Commission on reinsurance ceded	3.2	2.2
Investment management expenses	-0.9	-2.0
Claims settlement expenses	-5.2	-4.3
Other expenses	-5.9	-20.0
Total	-110.1	-123.9

7 FINANCIAL ASSETS AND LIABILITIES

The financial assets in the table include balance sheet items Financial assets excluding Investments related to unit-linked contracts.

Financial assets and liabilities have been categorised in accordance with IAS 39.9. In the table are also included interest income and expenses, realised and unrealised gains and losses recognised in p/l, impairment losses and dividend income arising from those assets and liabilities.

Accrued interest income and expenses are not included in financial assets or financial liabilities. Accrued interest income was EUR 25.0 million (26.5) and accrued interest expenses EUR 7.2 million (7.2).

FINANCIAL ASSETS 2017

EUR million	Carrying amount	Interest inc./exp.	2017		
			Gains/ losses	Impairment losses	Dividend income
Financial assets at fair value through p/l					
Derivative financial instruments	31.2	-36.6	207.0	-	-
Financial assets designated as at fair value through p/l	0.0	0.4	0.2	-	0.0
Loans and receivables	0.2	1.5	-14.3	-	-
Financial assets available-for-sale	5,144.1	96.7	24.5	-30.5	92.4
Financial assets total	5,175.6	62.0	217.5	-30.5	92.4

FINANCIAL LIABILITIES 2017

EUR million	Carrying amount	Interest inc./exp.	2017		
			Gains/ losses	Impairment losses	Dividend income
Financial liabilities at fair value through p/l					
Derivative financial instruments	5.9	-	-	-	-
Other financial liabilities	100.0	-7.2	-	-	-
Financial liabilities total	105.9	-7.2	-	-	-

FINANCIAL ASSETS 2016

EUR million	Carrying amount	Interest inc./exp.	2016		
			Gains/ losses	Impairment losses	Dividend income
Financial assets at fair value through p/l					
Derivative financial instruments	13.1	-20.1	11.4	-	-
Financial assets designated as at fair value through p/l	24.0	0.6	-3.5	-	0.0
Loans and receivables	20.4	4.1	5.9	-	-
Financial assets available-for-sale	5,612.0	102.1	130.5	-15.1	122.2
Financial assets total	5,669.5	86.7	144.4	-15.1	122.2

FINANCIAL LIABILITIES 2016

EUR million	Carrying amount	Interest inc./exp.	2016		
			Gains/ losses	Impairment losses	Dividend income
Financial liabilities at fair value through p/l					
Derivative financial instruments	11.0	-	-	-	-
Other financial liabilities	100.0	-6.8	-	-	-
Financial liabilities total	111.0	-6.8	-	-	-

Notes to the balance sheet

8 PROPERTY, PLANT AND EQUIPMENT

EUR million	2017			2016		
	Land and buildings	Equipment	Total	Land and buildings	Equipment	Total
At 1 Jan						
Cost	4.3	8.1	12.4	4.3	7.9	12.2
Accumulated depreciation	-0.7	-7.1	-7.8	-0.6	-7.0	-7.6
Net carrying amount at 1 Jan	3.6	1.0	4.6	3.7	0.9	4.6
Opening net carrying amount	3.6	1.0	4.6	3.7	0.9	4.6
Additions	-1.5	-0.1	-1.5	0.0	0.2	0.2
Depreciation	0.0	0.0	0.0	-0.1	-0.1	-0.1
Closing net carrying amount at 31 Dec	2.1	1.0	3.1	3.6	1.0	4.6
At 31 Dec						
Cost	2.9	8.0	10.9	4.3	8.1	12.4
Accumulated depreciation	-0.7	-7.1	-7.8	-0.7	-7.1	-7.8
Net carrying amount at 31 Dec	2.1	1.0	3.1	3.6	1.0	4.6

Equipment comprise IT equipment and furniture.

9 INVESTMENT PROPERTY

EUR million	2017	2016
At 1 Jan		
Cost	278.5	255.6
Accumulated depreciation	-57.0	-53.6
Accumulated impairment losses	-22.7	-23.8
Net carrying amount at 1 Jan	198.8	178.2
Opening net carrying amount	198.8	178.2
Additions	6.6	41.3
Disposals	-47.1	-18.3
Depreciation	-3.6	-3.5
Impairment losses	-4.8	1.1
Closing net carrying amount at 31 Dec	149.7	198.8
At 31 Dec		
Cost	238.0	278.5
Accumulated depreciation	-60.7	-57.0
Accumulated impairment losses	-27.5	-22.7
Net carrying amount at 31 Dec	149.7	198.8
Rental income from investment property	17.6	20.1
Property rented out under operating lease		
Non-cancellable minimum rental		
not later than one year	6.6	9.2
later than one year and not later than five years	9.0	13.2
later than five years	0.3	3.2
Total	16.0	25.5
Variable rents recognised as income during the financial period	0.0	0.0

EUR million	2017	2016
Expenses arising from investment property		
direct operating expenses arising from investment property generating rental income during the period	-7.7	-8.7
direct operating expenses arising from investment property not generating rental income during the period	-2.8	-1.3
Total	-10.4	-10.0
Fair value of investment property at 31 Dec	178.4	221.7

Fair values for the investment property are entirely determined by the Group based on the market evidence.

The premises in investment property for different segments are leased on market-based, irrevocable contracts. The lengths of the contracts vary from those for the time being to those for several years.

10 INTANGIBLE ASSETS

EUR million	2017	2016
At 1 Jan		
Cost	45.3	45.0
Accumulated amortisation	-39.3	-37.8
Net carrying amount at 1 Jan	6.0	7.2
Opening net carrying amount	6.0	7.2
Additions	0.7	0.3
Amortisation	-1.8	-1.5
Closing net carrying amount at 31 Dec	4.9	6.0
At 31 Dec		
Cost	46.0	45.3
Accumulated amortisation	-41.1	-39.3
Net carrying amount at 31 Dec	4.9	6.0

Intangible assets comprise mainly IT software.

Depreciation and impairment losses are included in the income statement item Other operating expenses.

11 INVESTMENTS IN ASSOCIATES

ASSOCIATES THAT HAVE BEEN ACCOUNTED FOR BY THE EQUITY METHOD AT 31 DEC 2017

EUR million	Carrying amount	Fair value	Interest held %	Assets/ liabilities	Revenue	Profit/loss
Niittymaa Oy*	0.0	0.0	49.0	0.0/0.0	0.0	0.0

* Reporting period 07/2017–12/2017

ASSOCIATES THAT HAVE BEEN ACCOUNTED FOR BY THE EQUITY METHOD AT 31 DEC 2016

EUR million	Carrying amount	Fair value	Interest held %	Assets/ liabilities	Revenue	Profit/loss
Niittymaa Oy*	0.0	0.0	49.0	0.0/0.0	0.0	0.0

* Reporting period 07/2016–12/2016

CHANGES IN INVESTMENTS IN ASSOCIATES

EUR million	2017	2016
At beginning of year	0.0	0.0
Change	0.0	0.0
Share of loss/profit	0.0	0.0
At end of year	0.0	0.0

12 FINANCIAL ASSETS

Group's financial assets comprise investments in derivatives, financial assets designated as at fair value through p/l, loans and receivables and available-for-sale financial assets.

The Group uses derivative instruments for trading and for hedging purposes. The derivatives used are foreign exchange, interest rate and equity derivatives. Fair value hedging has been applied.

EUR million	2017	2016
Derivative financial instruments	31.2	13.1
Financial assets designated as at fair value through p/l	0.0	24.0
Loans and receivables	0.2	20.4
Financial assets available-for-sale	5,144.1	5,612.0
Total	5,175.6	5,669.5
Assets classified as held for sale	-198.4	-210.4
Total	4,977.2	5,459.2

DERIVATIVE FINANCIAL INSTRUMENT

	Contract notional amount	2017 Fair value		Contract notional amount	2016 Fair value	
		Assets	Liabilities		Assets	Liabilities
Derivatives held for trading						
Interest rate derivatives						
Interest rate swaps	144.0	2.4	0.7	144.0	0.5	0.4
Credit risk swaps	0.0	0.0	0.0	0.0	0.0	0.0
Total	144.0	2.4	0.7	144.0	0.5	0.4
Foreign exchange derivatives						
Currency forwards	1,988.0	23.9	4.4	1,691.3	10.2	10.6
Currency options, bought and sold	166.0	1.6	0.8	62.5	0.2	0.1
Total	2,154.0	25.5	5.2	1,753.8	10.4	10.6
Total derivatives held for trading	2,298.0	27.9	5.9	1,897.8	10.9	11.0

	Contract notional amount	2017 Fair value		Contract notional amount	2016 Fair value	
		Assets	Liabilities		Assets	Liabilities
Derivatives held for hedging						
Fair value hedges						
Currency forwards	363.9	3.3	0.0	533.9	2.3	0.0
Interest rate swaps	0.0	0.0	0.0	0.0	0.0	0.0
Total	363.9	3.3	0.0	533.9	2.3	0.0
Total derivatives	2,662.0	31.2	5.9	2,431.7	13.1	11.0

Fair value hedges

Fair value hedging is used to hedge a proportion of foreign exchange in available-for-sale financial assets.

The interest elements of forward contracts have been excluded from hedging relationships in foreign exchange hedges.

Net gains/losses from exchange derivatives designated as fair value hedges amounted to EUR -63 million (19). Net gains/losses from hedged risks in fair value hedges of available for sale financial assets amounted to EUR 63 million (-19).

OTHER FINANCIAL ASSETS

EUR million	2017	2016
Financial assets designated as at fair value through p/l		
Debt securities		
Issued by public bodies	0.0	15.3
Certificates of deposit issued by banks	0.0	6.9
Other debt securities	0.0	0.0
Total	0.0	22.2
Equity securities		
Listed	0.0	1.8
Unlisted	-	-
Total	0.0	1.8
Total financial assets designated as at fair value through p/l	0.0	24.0
Loans and receivables		
Deposits with ceding undertakings	0.0	0.0
Loans	0.2	20.4
Total	0.2	20.4
Financial assets available-for-sale		
Debt securities		
Issued by public bodies	0.5	18.7
Issued by banks	451.0	563.2
Other debt securities	2,430.5	2,523.3
Total	2,881.9	3,105.3
Equity securities		
Listed	1,566.2	1,727.3
Unlisted	696.0	779.5
Total	2,262.2	2,506.8
Total financial assets available-for-sale	5,144.1	5,612.0
Assets classified as held for sale	-198.4	-210.4
Total	4,977.2	5,451.9

Financial assets available-for-sale for life insurance include impairment losses EUR 31 million (15).

Financial assets available for sale / debt securities: Debt securities available for sale include EUR 2,882 million (2,925) investments in bonds and EUR 0 million (180) investments in money market instruments.

Financial assets available for sale / shares and participations: Listed equity securities include EUR 807 million (913) quoted shares. Unlisted equity securities include EUR 649 million (727) investments in capital trusts.

13 FAIR VALUES

EUR million	2017		2016	
	Fair value	Carrying amount	Fair value	Carrying amount
Financial assets, group				
Financial assets	5,175.6	5,175.6	5,669.5	5,669.5
Investments related to unit-linked contracts	7,086.9	7,086.9	6,459.8	6,459.8
Other assets	9.3	9.3	46.6	46.6
Cash and cash equivalents	1,024.7	1,024.7	682.3	682.3
Total	13,296.4	13,296.4	12,858.3	12,858.3
Financial liabilities, group				
Financial liabilities	105.9	105.9	111.0	111.0
Other liabilities	62.0	62.0	30.6	30.6
Total	167.9	167.9	141.6	141.6

In the table above are presented fair values and carrying amounts of financial assets and liabilities including assets classified as held for sale. The detailed measurement bases of financial assets and liabilities are disclosed in Group Accounting policies.

The fair value of investment securities is assessed using quoted prices in active markets. If published price quotations are not available, the fair value is assessed using discounting method. Values for the discount rates are taken from the market's yield curve.

The fair value of the derivative instruments is assessed using quoted market prices in active markets, discounting method or option pricing models.

The fair value of loans and other financial instruments which have no quoted price in active markets is based on discounted cash flows, using quoted market rates. The market's yield curve is adjusted by other components of the instrument, e.g. by credit risk.

The fair value for short-term non-interest-bearing receivables and payables is their carrying amount.

Disclosed fair values are "clean" fair values, i.e. less interest accruals.

14 DETERMINATION AND HIERARCHY OF FAIR VALUES

A large majority of Mandatum Life Group's financial assets are valued at fair value. The valuation is based on either published price quotations or valuation techniques based on market observable inputs, where available. For a limited amount of assets the value needs to be determined using other techniques.

The financial instruments measured at fair value have been classified into three hierarchy levels in the notes, depending on e.g. if the market for the instrument is active, or if the inputs used in the valuation technique are observable.

On level 1, the measurement of the instrument is based on quoted prices in active markets for identical assets or liabilities.

On level 2, inputs for the measurement of the instrument include also other than quoted prices observable for the asset or liability, either directly or indirectly by using valuation techniques.

In level 3, the measurement is based on other inputs rather than observable market data.

FINANCIAL ASSETS 31 DECEMBER 2017

EUR million	Level 1	Level 2	Level 3	Total
Derivative financial instruments				
Interest rate swaps	-	2.4	-	2.4
Foreign exchange derivatives	-	28.8	-	28.8
Equity derivatives	-	0.0	-	0.0
Total	0.0	31.2	0.0	31.2
Financial assets designated at fair value through p/l				
Equity securities	-	-	-	-
Debt securities	-	-	-	-
Total	-	-	-	-
Financial assets related to unit-linked insurance				
Equity securities	576.3	3.2	5.9	585.4
Debt securities	656.0	756.5	22.7	1,435.2
Mutual funds	3,464.5	855.7	358.6	4,678.7
Derivative financial instruments	0.0	15.0	-	15.0
Total	4,696.8	1,630.3	387.2	6,714.4
Financial assets available-for-sale				
Equity securities	807.4	-	23.7	831.1
Debt securities	2,427.5	449.1	5.4	2,881.9
Mutual funds	755.8	20.4	654.9	1,431.1
Total	3,990.7	469.5	684.0	5,144.1
Total financial assets measured at fair value	8,687.5	2,131.0	1,071.2	11,889.7

FINANCIAL LIABILITIES 31 DECEMBER 2017

EUR million	Level 1	Level 2	Level 3	Total
Derivative financial instruments				
Interest rate swaps	-	0.7	-	0.7
Foreign exchange derivatives	-	5.2	-	5.2
Total financial liabilities measured at fair value	0.0	5.9	-	5.9

FINANCIAL ASSETS 31 DECEMBER 2016

EUR million	Level 1	Level 2	Level 3	Total
Derivative financial instruments				
Interest rate swaps	-	0.5	-	0.5
Foreign exchange derivatives	-	12.6	-	12.6
Equity derivatives	-	0.0	-	0.0
Total	0.0	13.1	0.0	13.1
Financial assets designated at fair value through p/l				
Equity securities	1.8	-	-	1.8
Debt securities	17.8	4.4	-	22.2
Total	19.6	4.4	0.0	24.0
Financial assets related to unit-linked insurance				
Equity securities	664.5	13.4	13.8	691.7
Debt securities	748.0	651.7	26.5	1 426.2
Mutual funds	2,953.9	901.9	153.7	4,009.5
Derivative financial instruments	0.0	2.2	-	2.2
Total	4,366.3	1,569.2	194.0	6,129.5
Financial assets available-for-sale				
Equity securities	913.0	-	29.0	941.9
Debt securities	2,288.6	811.3	5.4	3,105.3
Mutual funds	812.2	18.5	734.1	1,564.8
Total	4,013.7	829.8	768.5	5,612.0
Total financial assets measured at fair value	8,399.7	2,416.5	962.5	11,778.7

FINANCIAL LIABILITIES 31 DECEMBER 2016

EUR million	Level 1	Level 2	Level 3	Total
Derivative financial instruments				
Interest rate swaps	-	0.4	-	0.4
Foreign exchange derivatives	-	10.6	-	10.6
Total financial liabilities measured at fair value	0.0	11.0	-	11.0

SENSITIVITY ANALYSIS OF FAIR VALUES

10 percentage point depreciation of all other currencies against EUR would result in an effect recognised in p/l of EUR 12 million and in an effect recognised directly in equity of EUR -79 million.

The sensitivity analysis of the Group's fair values of financial assets and liabilities in different market risk scenarios is presented below. The effects represent the instantaneous effects of a one-off change in the underlying market variable on the fair values on 31 Dec 2017.

The sensitivity analysis includes the effects of derivative positions. All sensitivities are calculated before taxes.

EUR million	Interest rate		Equity	Other financial investments
	1% parallel shift down	1% parallel shift up	20% fall in prices	20% fall in prices
Effect recognised in p/l	0	-1	0	0
Effect recognised directly in equity	82	-75	-316	-146
Total effect	82	-76	-316	-146

15 MOVEMENTS IN LEVEL 3 FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

FINANCIAL ASSETS 2017

EUR million	1 Jan	Total gains/losses in p/l	Total gains/losses recorded in OCI	Purchases	Sales	Transfers between levels 1 and 2	31 Dec	Gains/losses included in p/l for financial assets
Financial assets related to unit-linked insurance								
Equity securities	13.8	-8.1	-	6.6	-6.3	0.0	5.9	-8.0
Debt securities	26.5	0.2	-	0.1	-4.1	0.0	22.7	0.0
Mutual funds	153.7	9.9	-	241.7	-46.7	0.0	358.6	10.6
Total	194.0	1.9	0.0	248.4	-57.1	0.0	387.2	2.7
Financial assets available-for-sale								
Equity securities	29.0	10.4	-1.1	5.0	-19.5	-	23.7	-1.8
Debt securities	5.4	0.0	0.0	0.0	0.0	-	5.4	0.0
Mutual funds	734.1	-48.4	14.4	179.4	-224.5	-	654.9	-33.9
Total	768.5	-38.1	13.2	184.3	-244.0	-	684.0	-35.7
Total financial assets measured at fair value	962.5	-36.2	13.2	432.7	-301.0	0.0	1,071.2	-33.0

FINANCIAL LIABILITIES 2017

Nothing to report.

EUR million	Realised gains/losses	Fair value change	Total
Total gains or losses included in p/l for assets held at the end of the financial year	-46.2	13.2	-33.0

FINANCIAL ASSETS 2016

EUR million	1 Jan	Total gains/losses in p/l	Total gains/losses recorded in OCI	Purchases	Sales	Transfers between levels 1 and 2	31 Dec	Gains/losses included in p/l for financial assets
Financial assets related to unit-linked insurance								
Equity securities	16.6	-5.7	-	12.3	-9.4	0.0	13.8	-3.5
Debt securities	26.6	0.1	-	0.0	-0.1	0.0	26.5	0.0
Mutual funds	46.4	-3.1	-	129.5	-19.1	0.0	153.7	-1.6
Total	89.5	-8.7	0.0	141.8	-28.6	0.0	194.0	-5.1
Financial assets available-for-sale								
Equity securities	26.0	-0.2	-1.8	5.7	-0.7	-	29.0	-1.9
Debt securities	46.6	0.0	0.0	0.0	-41.2	-	5.4	0.0
Mutual funds	775.9	2.7	-20.5	172.4	-196.4	-	734.1	-18.4
Total	848.6	2.5	-22.3	178.1	-238.3	-	768.5	-20.3
Total financial assets measured at fair value	938.1	-6.2	-22.3	319.8	-267.0	0.0	962.5	-25.4

FINANCIAL LIABILITIES 2016

Nothing to report.

EUR million	Realised gains/losses	Fair value change	Total
Total gains or losses included in p/l for assets held at the end of the financial year	-3.1	-22.3	-25.4

16 SENSITIVITY ANALYSIS OF LEVEL 3 FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

EUR million	2017		2016	
	Carrying amount	Effect of reasonably possible alternative assumptions (+ / -)	Carrying amount	Effect of reasonably possible alternative assumptions (+ / -)
Financial assets				
Financial assets related to unit-linked insurance and investment contracts				
Equity securities	5.9	-	13.8	-
Debt securities	22.7	-	26.5	-
Mutual funds	358.6	-	153.7	-
Total	387.2	-	194.0	0.0
Financial assets available-for-sale				
Equity securities	23.7	-4.7	29.0	-5.8
Debt securities	5.4	-0.4	5.4	-0.4
Mutual funds	654.9	-131.0	734.1	-146.8
Total	684.0	-136.1	768.5	-153.1
Total financial assets measured at fair value	1,071.2	-136.1	962.5	-153.1

The value of financial assets regarding the debt security instruments has been tested by assuming a rise of 1 per cent unit in interest rate level in all maturities. For other financial assets, the prices were assumed to go down by 20%. The Mandatum Life Group bears no investment risks related to unit-linked insurance, so a change in assumptions regarding these assets does not affect profit or loss. On the basis of these alternative assumptions, a possible change in interest levels would cause descent of EUR 0.4 million (0.4) for the debt instruments, and EUR 135.7 million (152.6) valuation loss for other instruments in the Group's other comprehensive income. The reasonably possible effect, proportionate to the Group's equity, would thus be 9.7% (10.3).

17 INVESTMENTS RELATED TO UNIT-LINKED INSURANCE CONTRACTS

EUR million	2017	2016
Financial assets designated at fair value through p/l		
Debt securities		
Issued by public bodies	72.6	67.8
Other debt securities	1,362.6	1,358.3
Total	1,435.2	1,426.2
Equity securities		
Listed	4,904.3	4,388.1
Unlisted	359.8	313.1
Total	5,264.1	4,701.1
Loans and other receivables	372.5	330.3
Other financial asset	15.0	2.2
Investment related to unit-linked contracts, total	7,086.9	6,459.8
Assets classified as held for sale	-3,100.4	-2,991.5
Total	3,986.5	3,468.2

The historical cost of the equity securities related to unit-linked contracts was EUR 4,299 million (3,813) and that of the debt securities EUR 1,448 million (1,437).

18 DEFERRED TAX ASSETS AND LIABILITIES

CHANGES IN DEFERRED TAX DURING THE FINANCIAL PERIOD 2017

EUR million	1 Jan	Recognised in OCI	Recognised in equity	31 Dec
Deferred tax assets				
Losses from previous years	0.1			0.1
Shadow accounting	4.2		1.4	5.6
Other deductible temporary differences	2.2	-1.1		1.1
Total	6.5	-1.1	1.4	6.8
Netting of deferred taxes				-6.8
Deferred tax assets in the balance sheet				0.0
Deferred tax liabilities				
Depreciation differences and untaxed reserves	2.0	-0.2	0.0	1.8
Changes in fair values	181.1	-19.7	2.4	163.8
Shadow accounting	4.2		1.4	5.6
Total	187.3	-19.9	3.8	171.2
Netting of deferred taxes				-6.8
Total deferred tax liabilities in the balance sheet				164.4

CHANGES IN DEFERRED TAX DURING THE FINANCIAL PERIOD 2016

EUR million	1 Jan	Recognised in OCI	Recognised in equity	31 Dec
Deferred tax assets				
Losses from previous years	1.8	-1.0	-0.7	0.1
Shadow accounting	2.1		2.1	4.2
Other deductible temporary differences	6.8	-4.7		2.2
Total	10.7	-5.7	1.4	6.5
Netting of deferred taxes				-6.5
Deferred tax assets in the balance sheet				0.0
Deferred tax liabilities				
Depreciation differences and untaxed reserves	2.2	0.7	-0.9	2.0
Changes in fair values	160.7	1.7	18.6	181.1
Shadow accounting	2.1		2.1	4.2
Total	165.1	2.4	19.9	187.3
Netting of deferred taxes				-6.5
Total deferred tax liabilities in the balance sheet				180.8

EUR 2.6 million of deferred tax asset has not been recognised on unused tax losses.

19 TAXES

EUR million	2017	2016
Profit before tax	236.0	209.6
Tax calculated at parent company's tax rate	47.2	41.9
Different tax rates on overseas earnings	0.0	0.2
Income not subject to tax	-2.2	-4.1
Expenses not allowable for tax purposes	1.2	0.0
Consolidation procedures and eliminations	2.9	1.7
Tax from previous years	1.5	1.5
Total	50.7	41.3

20 COMPONENTS OF OTHER COMPREHENSIVE INCOME

EUR million	2017	2016
Other comprehensive income items reclassifiable to p/l		
Exchange differences	0.0	0.0
Available-for-sale financial assets		
Gains/losses arising during the year	12.2	93.0
Income tax relating to components of other comprehensive income	-2.4	-18.6
Shadow accounting	-6.8	-10.7
Total items reclassifiable to profit or loss, net of tax	3.0	63.6

21 TAX EFFECTS RELATING TO COMPONENTS OF OTHER COMPREHENSIVE INCOME

EUR million	2017			2016		
	Before-tax amount	Tax	Net-of-tax amount	Before-tax amount	Tax	Net-of-tax amount
Exchange differences	0.0	-	0.0	0.0	-	0.0
Available-for-sale financial assets	12.2	-2.4	9.8	93.0	-18.6	74.4
Shadow accounting	-6.8	0.0	-6.8	-10.7	0.0	-10.7
Total	5.4	-2.4	3.0	82.2	-18.6	63.6

22 OTHER ASSETS

EUR million	2017	2016
Interests	25.0	26.5
Receivables from policyholders	8.7	8.1
Assets arising from reinsurance operations	0.6	0.3
Settlement receivables	9.3	46.6
Assets pledged for trading in derivatives	3.7	17.6
Other	58.6	63.1
Total	105.9	162.3

Item Other comprise e.g. receivables pensions paid in advance and receivables from co-operations companies.

23 CASH AND CASH EQUIVALENTS

EUR million	2017	2016
Cash at bank and in hand	1,024.7	682.3
Total	1,024.7	682.3

24 LIABILITIES FROM INSURANCE AND INVESTMENT CONTRACTS

CHANGE IN LIABILITIES ARISING FROM OTHER THAN UNIT-LINKED INSURANCE AND INVESTMENT CONTRACTS

EUR million	Insurance contracts	Investment contracts	Total
At 1 Jan 2017	4,793.9	27.5	4,821.5
Premiums	118.5	0.2	118.7
Claims paid	-453.5	-1.9	-455.4
Expense charge	-34.7	0.0	-34.7
Guaranteed interest	131.6	0.0	131.6
Bonuses	0.8	0.0	0.8
Other	-9.9	0.4	-9.5
At 31 Dec 2017	4,546.8	26.2	4,573.0
Reinsurers' share	0.0	0.0	0.0
Liability at 31 Dec 2017			4,573.0
Liabilities associated with assets held for sale			-198.4
Net liability at 31 Dec 2017			4,374.6

EUR million	Insurance contracts	Investment contracts	Total
At 1 Jan 2016	4,978.5	35.6	5,014.1
Premiums	149.1	0.3	149.4
Claims paid	-469.5	-0.4	-469.9
Expense charge	-36.7	0.0	-36.7
Guaranteed interest	138.4	0.1	138.4
Bonuses	5.0	0.0	5.0
Other	29.1	-8.0	21.1
At 31 Dec 2016	4,793.9	27.5	4,821.5
Reinsurers' share	-3.0	0.0	-3.0
Liability at 31 Dec 2016	4,790.9	27.5	4,818.5
Liabilities associated with assets held for sale			-210.4
Net liability at 31 Dec 2016			4,608.1

CHANGE IN LIABILITIES ARISING FROM UNIT-LINKED INSURANCE AND INVESTMENT CONTRACTS

EUR million	Insurance contracts	Investment contracts	Total
At 1 Jan 2017	4,426.8	2,013.1	6,439.9
Premiums	391.4	457.2	848.6
Claims paid	-258.1	-309.5	-567.5
Expense charge	-47.2	-25.0	-72.2
Other	280.9	135.9	416.7
At 31 Dec 2017	4,793.8	2,271.7	7,065.5
Liabilities associated with assets held for sale			-3,100.4
Liability at 31 Dec 2017			3,965.1

EUR million	Insurance contracts	Investment contracts	Total
At 1 Jan 2016		1,816.9	5,858.4
Premiums	497.9	474.6	972.6
Claims paid	-222.4	-355.0	-577.4
Expense charge	-43.4	-20.4	-63.8
Other	153.2	97.0	250.1
At 31 Dec 2016	4,426.8	2,013.1	6,439.9
Liabilities associated with assets held for sale			-2,991.5
Liability at 31 Dec 2016			3,448.4

The liabilities at 1 Jan and at 31 Dec include the future bonus reserves and the effect of the reserve for the decreased discount rate. The calculation is based on items before reinsurers' share. A more detailed specification of changes in insurance liabilities is presented in Group's Risk Management.

INSURANCE CONTRACTS

EUR million	2017	2016
Liabilities for contracts with discretionary participation feature (DPF)		
Provision for unearned premiums	2,222.6	2,424.6
Provision for claims outstanding	2,322.2	2,366.3
Liabilities for contracts without discretionary participation feature (DPF)		
Provision for unearned premiums	0.0	0.4
Provision for claims outstanding	0.9	0.6
Total	4,545.7	4,792.0
Assumed reinsurance		
Provision for unearned premiums	0.3	1.1
Provision for claims outstanding	0.8	0.9
Total	1.1	1.9
Insurance contracts total		
Provision for unearned premiums	2,222.9	2,426.1
Provision for claims outstanding	2,323.9	2,367.8
Total	4,546.8	4,793.9
Investment contracts		
Liabilities for contracts with discretionary participation feature (DPF)		
Provision for unearned premiums	26.2	27.5
Liabilities for insurance and investment contracts total		
Provision for unearned premiums	2,249.1	2,453.7
Provision for claims outstanding	2,323.9	2,367.8
Life insurance total	4,573.0	4,821.5
Reinsurers' share		
Provision for unearned premiums	0.0	0.0
Provision for claims outstanding	0.0	-3.0
Total	0.0	-3.0

Liability adequacy test does not give rise to supplementary claims.

Exemption allowed in IFRS 4 Insurance contracts has been applied to investment contracts with DPF or contracts with a right to trade-off for an investment contract with DPF. These investment contracts have been valued like insurance contracts.

25 LIABILITIES FROM UNIT-LINKED INSURANCE AND INVESTMENT CONTRACTS

EUR million	2017	2016
Unit-linked insurance contracts	4,793.8	4,426.8
Unit-linked investment contracts	2,271.7	2,013.1
Total	7,065.5	6,439.9
Liabilities associated with assets held for sale	-3,100.4	-2,991.5
Total	3,965.1	3,448.4

26 FINANCIAL LIABILITIES

The financial liabilities include derivatives, debt securities and other financial liabilities.

EUR million	2017	2016
Derivative financial instruments	5.9	11.0
Subordinated debt securities		
Subordinated loans	100.0	100.0
Total	105.9	111.0

Mandatum Life issued in 2002 EUR 100 million Capital Notes. The loan is perpetual and pays floating rate interest. The interest is payable only from distributable capital. The loan is repayable only with the consent of the Insurance Supervisory Authority and at the earliest on 2012 or any interest payment date after that. The loans is wholly subscribed by Sampo Plc.

27 EMPLOYEE BENEFITS

Employee benefits

In addition to statutory retirement pension insurance, the Group has certain voluntary defined benefit plans. The voluntary defined benefit plans are intra-Group and included in the insurance liabilities of Mandatum Life. The amount is negligible and they have no material impact on the Group profit or loss or equity.

Other short-term employee benefits

There are other short-term staff incentive schemes in the Group, the terms of which vary each year. Benefits are recognised in the profit or loss for the year they arise from. An estimated amount of these profit-sharing bonuses for 2017 is EUR 3.4 million.

28 OTHER LIABILITIES

EUR million	2017	2016
Interests	7.2	7.2
Tax liabilities	0.0	0.0
Liabilities arising out of direct insurance operations	37.4	29.8
Liabilities arising out of reinsurance operations	5.8	5.0
Settlement liabilities	62.0	30.6
Guarantees received	24.1	1.6
Other liabilities	107.1	73.5
Total	243.6	147.7

Item Guarantees received comprise assets accepted as guarantees required in derivative trading and securities lending.

Item Other includes e.g. liabilities arising from withholding taxes and social security costs, liabilities to creditors and insurance premium advances.

29 CONTINGENT LIABILITIES AND COMMITMENTS

EUR million	2017	2016
Off-balance sheet items		
Fund commitments	847.8	656.9
Acquisition of IT-software	1.8	1.6
Total	849.6	658.5
Assets pledged as security for derivative contracts		
Cash	3.7	17.6

The pledged assets are included in the balance sheet item Other assets.

COMMITMENTS FOR NON-CANCELLABLE OPERATING LEASES

EUR million	2017	2016
Minimum lease payments		
Not later than one year	2.2	2.3
Later than one year and not later than five years	6.9	6.9
Over five years	4.1	5.7
Total	13.2	14.9
Total of sublease payments expected to be received under non-cancellable operating sub-leases	0.1	0.1
Lease and sublease payments recognised as an expense in the period		
Minimum lease payments	-3.6	-3.7
Sublease payments	0.1	0.1
Total	-3.5	-3.6

The Group had at the end of 2017 premises a total of 8 596 m² (8 596) taken as a lessee. The contracts have been made mainly for 3 to 10 years. The Group has subleased 323 m² (318) of these premises.

30 EQUITY AND RESERVES

Equity

The number of shares at 31 Dec 2017 was 239 998. There was no change in the company's share capital of EUR 40.4 million during the financial year. At the end of the financial year 2017, the mother company or other Group companies held no shares in the parent company.

Reserves and retained earnings

Share premium reserve The reserve include the issue price of shares to an extent it was not recorded in share capital by an express decision. There was no change in the share premium reserve EUR 98.9 million during the financial year.

Legal reserve The legal reserve EUR 30.1 million comprises the amounts that has been transferred from the distributable equity on the basis of the decision of the AGM.

Other components of equity Other components of equity include fair value changes of financial assets available for sale and derivatives used in cash flow hedges, and exchange differences.

Changes in the reserves and retained earnings are presented in the Group's statement of changes in equity.

31 RELATED PARTY DISCLOSURES

KEY MANAGEMENT PERSONNEL

The key management personnel in Mandatum Life consists of the members of the Board of Directors of Mandatum Life Insurance Company Limited and Mandatum Life's Executive Committee.

EUR million	2017	2016
Key management compensation		
Short-term employee benefits	1.8	2.1
Post employment benefits	0.4	0.5
Other long-term benefits	1.4	3.7
Total	3.5	6.3

Short-term employee benefits comprise salaries and other short-term benefits, including profit-sharing bonuses accounted for for the year, and social security costs.

Post employment benefits include pension benefits under the Employees' Pensions Act (TyEL) in Finland and voluntary supplementary pension benefits.

Other long-term benefits consist of the benefits under long-term incentive schemes accounted for the year. The benefits are determined by terms on Group level. Mandatum Life pays the benefits allocated to its key management (note 32).

Related party transactions of the key management

The related party transactions of the key management are not material nor does the key management have any loans from the Group companies.

ASSOCIATES

EUR million	2017	2016
Outstanding balances with related parties		
Debt securities, available for sale	0.0	0.0
Other assets	0.0	0.0

32 INCENTIVE SCHEMES

INCENTIVE SCHEMES FOR MANAGEMENT AND EXPERTS

The Board of Directors for Sampo plc has decided on the long-term incentive schemes 2011 I–2017 I for the management and experts of the Sampo Group. The Board has authorised the CEO, to decide who will be included in the scheme, as well as the number of calculated bonus units granted for each individual used in determining the amount of the performance-related bonus. In Mandatum Life Group, a little less than 20 persons included in the schemes at the end of year 2017.

The amount of the performance-related bonus is based on the value performance of Sampo's A share and on the insurance margin (IM) and, also on Sampo's return on the risk adjusted capital (RORAC). The value of one calculated bonus unit is the trade-weighted average price of Sampo's A-share at the time period specified in the terms of the scheme, and reduced by the starting price adjusted with the dividends per share distributed up to the payment date. The pre-dividend starting prices vary between EUR 39.07–43.81. The maximum value of one bonus unit varies between EUR 33.37–62.81, reduced by the dividend-adjusted starting price. In the schemes, the bonus depends on two benchmarks. If the IM is 6 per cent or more, the IM-based reward is paid full. If the IM is between 4–5.99 per cent, half of the bonus is paid. No IM-related bonus will be paid out if the IM stays below these. In addition, the return on the risk adjusted capital is taken into account. If the return is at least risk free return +4 per cent the RORAC-based incentive reward is paid out in full. If the return +2 percent but less than risk free return +4 per cent, the payout is 50 per cent. If the return stays below these benchmarks, no RORAC-based bonus will be paid out.

Each plan has three performance periods and bonuses are settled in cash in three installments. The employee shall authorise Sampo plc to buy the Sampo A shares with 50 per cent (scheme 2017 I) or with 60 per cent (schemes 2014 and 2011) of the amount of bonus received after taxes and other comparable charges. The shares are subject to transfer restrictions for three years from the day of payout. A premature payment of the bonuses may occur in the event of changes in the group structure or in the case of employment termination on specifically determined bases. The fair value of the incentive schemes is estimated by using the Black-Scholes pricing model.

	2011 I/2	2014 I	2014 I/2	2017 I
Terms approved*	14/09/2011	17/09/2014	17/09/2014	14/09/2017
Granted (1,000) 31 Dec 2014	10	599	-	-
Granted (1,000) 31 Dec 2015	7	575	19	-
Granted (1,000) 31 Dec 2016	4	561	19	0
Granted (1,000) 31 Dec 2017	0	364	19	563
End of performance period I 30%	Q2-2015	Q2-2017	Q2-2018	Q2-2020
End of performance period II 35%	Q2-2016	Q2-2018	Q2-2019	Q2-2021
End of performance period III 35%	Q2-2017	Q2-2019	Q2-2020	Q2-2022
Payment I 30%	9-2015	9-2017	9-2018	9-2020
Payment II 35%	9-2016	9-2018	9-2019	9-2021
Payment III 35%	9-2017	9-2019	9-2020	9-2022
Price of Sampo A at terms approval date*	18.10	37.22	37.22	44.02
Starting price**	24.07	38.26	43.38	43.81
Dividend-adjusted starting price at 31 Dec 2017	16.97	31.86	38.93	43.81
Sampo A - closing price 31 Dec 2017	45.80			
Total intrinsic value, EUR million	0.0	3.6	0.1	0.2
Liability, total EUR million	3.9			
Total cost for the financial period, EUR million	3.1			

* Grant dates vary

** Trade-weighted average for ten trading days from the approval of terms

33 AUDITORS' FEES

EUR million	2017	2016
Auditing fees	-0.3	-0.4
Other fees	-0.1	-0.1
Total	-0.4	-0.5

34 LEGAL PROCEEDINGS

There are legal proceedings against Mandatum Life outstanding on 31 December 2017, arising in the ordinary course of business. Professional advice indicates that it is unlikely that any significant losses will arise.

35 EVENTS AFTER THE BALANCE SHEET DATE

The Board of Directors proposes to the Annual General Meeting that EUR 150 million euros dividend will be paid.

36 INVESTMENTS IN SUBSIDIARIES

Name	Country	Holding %	Voting rights %
Asunto Oy Nastolan Upon Asunnot Oy	Finland	100.00	100.00
Asunto Oy Vantaan Raivosuonmäki 6	Finland	100.00	100.00
Asunto Oy Espoon Matinkatu 8	Finland	100.00	100.00
Asunto Oy Espoon Apelininkatu 6	Finland	100.00	100.00
Asunto Oy Espoon Aallonhuippu 9	Finland	100.00	100.00
Kiinteistö Oy Ahti Business Park	Finland	100.00	100.00
Kiinteistö Oy Hyvinkään Sampotalo	Finland	81.37	81.37
Kiinteistö Oy Hämeenlinnan Karhulinna	Finland	100.00	100.00
Kiinteistö Oy Galaxy	Finland	100.00	100.00
Kiinteistö Oy Helsingin Ratamestarinkatu 7a	Finland	100.00	100.00
Kiinteistö Oy Helsingin Ratamestarinkatu 7b	Finland	100.00	100.00
Kiinteistö Oy Jäkälävaara	Finland	100.00	100.00
Kiinteistö Oy Järvenpään Asemakatu 4	Finland	100.00	100.00
Kiinteistö Oy Kaupintie 5	Finland	100.00	100.00
Kiinteistö Oy Leppävaaran Säästötammi	Finland	100.00	100.00
Kiinteistö Oy Niittymaanpolku	Finland	100.00	100.00
Kiinteistö Oy Oulun Torikatu 21-23	Finland	100.00	100.00
Kiinteistö Oy Rautalaani	Finland	100.00	100.00
Kiinteistö Oy Tampereen Hatanpäänvaltie 18	Finland	100.00	100.00
Mandatum Life Vuokratontit II Oy	Finland	100.00	100.00
Mandatum Life Sevices Ltd	Finland	100.00	100.00
Mandatum Life Investment Sevices Ltd	Finland	100.00	100.00
Mandatum Life Vuokratontit I GP Oy	Finland	100.00	100.00
Saka Hallikiinteistö GP Oy	Finland	100.00	100.00
Mandatum Life Fund Management S.A.	Luxembourg	100.00	100.00

37 ASSETS CLASSIFIED AS HELD FOR SALE

In October 2016, Mandatum Life announced that it will not continue the distribution agreement of insurance policies with Danske Bank Plc after 31 December 2016 and that it will use its right to sell the insurance portfolio acquired via Danske Bank to Danske Bank A/S or its nominee. The valuation process was finalized and the value of the insurance portfolio as at the 31 December was determined to be EUR 334. The theoretical result from the beginning of 2017 until the date of the transfer as determined in the valuation process will be deducted from the final sales price. This theoretical result for year 2017 is determined to be EUR 18.1 million and for year 2018 EUR 18.6 million. The actual result produced by the portfolio until the transfer remains with Mandatum Life. After the transfer has been completed the transaction is expected to have a negative impact of EUR 20–25 million on Mandatum Life's annual profit before taxes. As a result of the transaction rises a gross sales gain equalling the value of the insurance portfolio adjusted with the items above. The transfer of the portfolio is expected to take place during 2018.

The insurance portfolio targeted in the agreement is mainly included in the Unit-linked contracts segment. Assets and liabilities are valued at book value. The effect of the with profit insurance portfolio on the investment result in the Other contracts segment is deemed insignificant. The insurance risk result in the Other contracts segment also consists mainly of other insurance portfolio than that targeted in the agreement. The effect of the transfer of the insurance portfolio is expected to weaken the result significantly and this will mainly show in the Unit-linked contract segment. The premium written of the insurance portfolio in 2017 was EUR 204 million (304) and claims EUR 252 million (253).

ASSETS AND LIABILITIES OF THE PORTFOLIO AT 31 DEC 2017

Assets EUR million

Financial assets	198.4
Investments related to unit-linked insurance contracts	3,100.4
Total	3,298.8

Liabilities EUR million

Liabilities for insurance and investment contracts	198.4
Liabilities for unit-linked insurance and investment contracts	3,100.4
Total	3,298.8

ASSETS AND LIABILITIES OF THE PORTFOLIO AT 31 DEC 2016

Assets EUR million

Financial assets	210.4
Investments related to unit-linked insurance contracts	2,991.5
Total	3,201.9

Liabilities EUR million

Liabilities for insurance and investment contracts	210.4
Liabilities for unit-linked insurance and investment contracts	2,991.5
Total	3,201.9

4

Auditor's report

Auditor's report

TO THE ANNUAL GENERAL MEETING OF MANDATUM LIFE INSURANCE COMPANY LIMITED

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Mandatum Henkivakuutusosakeyhtiö (business identity code 0641130-2) for the year ended 31 December, 2017. The financial statements comprise the consolidated balance sheet, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position as well as its financial performance and its cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Board of Directors.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the *Auditor's Responsibilities for the Audit of Financial Statements* section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable

in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 33 to consolidated financial statements and note "Auditors' fees" to the parent company financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Most significant assessed risks of material misstatement

Below we have described our assessment of the most significant risks of material misstatement, including risks of material misstatement due to fraud, and presented a summary of our response to those risks.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

Assessed significant risk of material misstatement

Valuation of insurance contract liabilities

We refer to the Summary of significant accounting policies, Accounting policies regarding management judgment and key sources of estimation uncertainties and Notes 24, 25 and 37.

At 31.12.2017 the Group has insurance contract liabilities representing amounting to EUR 11,639 million (31.12.2016: EUR 11,261 million) which represents 96% of the Group's total liabilities and it is thus the single largest liability of the Group.

The life insurance contract liabilities are based on estimate of future claims payments. The estimate is based on assumptions which include uncertainty. Changes in assumptions can result in material impacts to the valuation of the liabilities. Key assumption areas include interest rate and life expectancy of policy holders.

How our audit addressed the risk

Our audit procedures included evaluation of the governance around the overall Group reserving process, and included testing the operating effectiveness of key controls over the identification, measurement and management of the Group's calculation of insurance liabilities.

We evaluated the appropriateness of methodologies and assumptions used, and independently re-calculated reserves for chosen insurance contracts

We involved our internal actuarial specialists to assist us in assessing the appropriateness of assumptions used.

We assessed the adequacy of disclosures relating to insurance contracts liabilities.

Assessed significant risk of material misstatement

Valuation of financial assets

We refer to the Summary of significant accounting policies, Accounting policies regarding management judgment and key sources of estimation uncertainties and Notes 12–16, 17 and 37.

The Group's investment portfolio represents amounts to EUR 12,262 million (2016: EUR 12,129 million) which represents 90% of the Group's total assets. Fair value measurement can be subjective, specifically in areas where fair value is based on a model based valuation. Valuation techniques for private equity funds, non-listed bonds and non-listed equities involve setting various assumptions regarding pricing factors.

The use of different valuation techniques and assumptions could lead to different estimates of fair value. Specific areas of audit focus include the valuation of level 2 and 3 assets according to IFRS where valuation techniques use unobservable inputs. Of financial assets level 2 assets amount to EUR 2,131 million and level 3 assets to EUR 1,071 million (refer to note 14).

How our audit addressed the risk

Our audit procedures included testing the effectiveness of controls in place over recording fair values of assets using unobservable input.

We performed additional procedures for areas of higher risk and estimation, involving our valuation specialists.

In respect of the investments in private equity funds, we evaluated and tested the procedures of the Group to determine the fair value of these investments. The procedures include assessment of fund net asset value based on the fair value of underlying investment, independent broker valuations and evidence of underlying financial data.

We assessed the adequacy of disclosures relating to the financial assets.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other reporting requirements

Information on our audit engagement

We were first appointed as auditors by the Annual General Meeting on 22.3.2002, and our appointment represents a total period of uninterrupted engagement of 16 years.

Other information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors. Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the information and, in doing so, consider whether the information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. Our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed, we conclude that there is a material misstatement of the report of the Board of Directors, we are required to report that fact. We have nothing to report in this regard.

Helsinki 16 February 2018

Ernst & Young Oy
Authorized Public Accountant Firm

Kristina Sandin
Authorized Public Accountant

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