

⌘ MANDATUM LIFE

# Annual Report 2016



# Contents:

---

**YEAR 2016 IN BRIEF | 3**

**BOARD OF DIRECTORS' REPORT | 4**

**RISK MANAGEMENT | 9**

**IFRS FINANCIAL STATEMENTS 2016**

**Consolidated comprehensive income statement | 20**

**Consolidated balance sheet | 21**

**Consolidated statement of changes in equity | 22**

**Consolidated statement of cash flows | 23**

**Notes to the accounts**

**Summary of significant accounting policies | 24**

**Segment information | 32**

**Notes to the income statement | 36**

**Notes to the balance sheet | 44**

**Key figures and calculation of key figures for the group | 67**

**AUDITOR'S REPORT | 69**

# Year 2016 in brief

Mandatum Life is a solvent and respected Finnish financial services provider. It is part of Sampo Group. 2016 was in many respects a successful year for the company.

## Excellent investment result accelerated earnings growth

In many ways, 2016 was similar to the record year of 2015. The investment result was once again excellent, in particular due to the exceptionally good return on equity. The expense result and risk result approached the previous year's record-high levels.

## Unit-linked premiums written reaches new high

Mandatum Life's unit-linked premiums written in 2016 reached an all-time high in the company's history. The unprecedented premiums written can be attributed, in particular, to successful sales in Mandatum Life's sales channels. Growth was accelerated in the latter part of the year by successful sales in wealth management, above all by the excellent sales in alternative investment products.

In the corporate customer segment, Mandatum Life solidified its position as a market leader. The strongest growth occurred in wealth management solutions for corporate and institutional customers.

## Change in solvency regulations

New, EU-wide solvency regulations (Solvency II) affecting insurance companies entered into force on 1 January 2016. The 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 (for 16 years). In addition, Mandatum Life will apply a transitional measure related to equity capital requirements (for 7 years). Taking into account the

transitional measures, Mandatum Life's solvency position remained strong. The transitional measures are relatively long-term, and during that period, the company's balance sheet structure will change considerably due to the development of the technical provisions. As a result, the solvency position, calculated without transitional measures, is expected to develop favourably during the transitional periods.

## Changes in Danske Bank's distribution co-operation

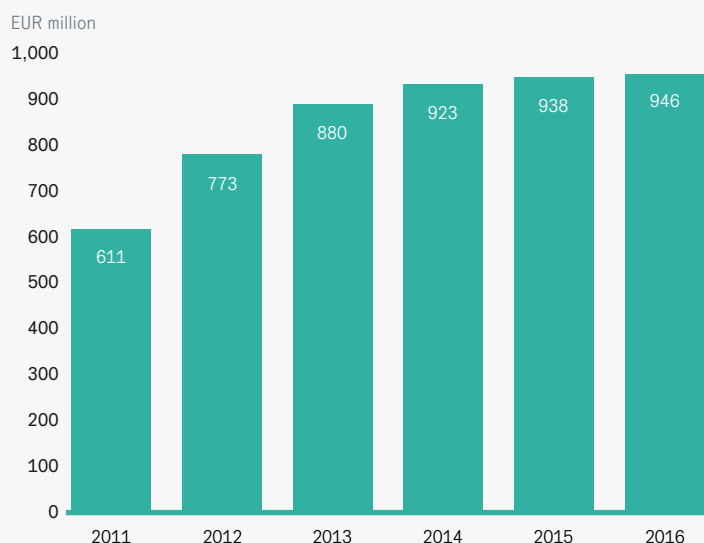
In October 2016, Mandatum Life announced that it would not be continuing its agency agreement with Danske Bank after 31 December 2016 and that it will simultaneously exercise its right to sell to Danske Bank A/S the insurance portfolio that had been generated through the agency agreement. The portfolio transfer is expected to take place at the earliest at the end of 2017. Mandatum Life and Danske Bank have agreed to continue the agency agreement at least until the end of 2017.

## Satisfied customers and personnel guarantee financial success

Personnel and customer satisfaction are long-term strategic goals for Mandatum Life; taking care of employee satisfaction is also a good way of ensuring a high level of customer satisfaction. They are both essential for the financial success of the company.

Personnel satisfaction is already at an excellent level: 92 per cent of employees consider Mandatum Life a very good place to work. However, after an upward trend in recent years, customer satisfaction began to decline in 2016. The uncertainty of the investment markets impacted customer satisfaction: customer satisfaction weakened in the early part of the year, but rose considerably towards year-end. Major investments have been initiated in customer satisfaction with a particular focus on the development of digital services.

### Mandatum Life direct unit linked premiums written



# Mandatum Life's Board of Directors' Report 1 January–31 December 2016

## 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.

The Group's IFRS profit before taxes was EUR 210 million (181), and profit after taxes EUR 168 million (144). The Baltic subsidiary recorded a loss of EUR -0.2 million (-0.2). The parent company's profit for the year according to Finnish Accounting Standards was EUR 159 million (97).

Mandatum Life Group's profit after taxes, calculated at the fair value of the investments, rose to EUR 232 million (168). Of the total profit, the change in the fair value reserve amounted to EUR 64 million (24).

## INCOME ANALYSIS

EUR million	2016	2015	change
Total premiums written (on own account)	1,116	1,144	-28
Investment income and charges, revaluations and revaluation adjustments	632	630	2
Other technical income	0	0	0
Claims paid	-1,048	-1,002	-46
Change in technical provisions before bonuses	-388	-510	122
Net operating expenses	-118	-116	-2
Technical result before bonuses	<b>194</b>	<b>146</b>	<b>48</b>
Other interest expenses	-7	-6	-1
Other income and expenses	23	18	5
Operating profit	<b>210</b>	<b>157</b>	<b>53</b>
Customer bonuses	-1	24	-24
Profit before extraordinary items, appropriations and taxes	<b>210</b>	<b>181</b>	<b>29</b>
Extraordinary income	0	0	
Taxes	-41	-36	-5
<b>Profit for the financial year</b>	<b>168</b>	<b>144</b>	<b>24</b>
Change in fair value reserve	64	24	40
<b>Profit at fair values</b>	<b>232</b>	<b>168</b>	<b>64</b>

New, EU-wide solvency regulations (Solvency II) affecting insurance companies entered into force on 1 January 2016. Taking into account the transitional measures, Mandatum Life's own funds according to Solvency II amounted to EUR 1,893 million (1,913), and the corresponding Solvency Capital Requirement (SCR) according to Solvency II was EUR 1,182 million (1,212). The solvency ratio (own funds/SCR) was thus 160 per cent (158). The minimum capital requirement (MCR) according to Solvency II was EUR 295 million (303). Without the transitional measure applied to technical provisions, Mandatum Life's own funds would have been EUR 1,441 million (1,378), and the SCR without the transitional measure applied to the equity risk would have been EUR 1,409 million (1,307).

Mandatum Life Group's consolidated balance sheet total was EUR 13,186 million (12,705), of which the share of capital and reserves was EUR 1,485 million (1,378). Capital and reserves include the investment fair value reserve, which, less the tax liability, amounted to EUR 596 million (532).

## Premiums written

Premiums written on Mandatum Life Group's direct business came close to 2015's record-high at EUR 1,119 million (1,147). Premiums written on the parent company's direct business in Finland amounted to EUR 1,090 million (1,113). Premiums written in the entire sector in Finland fell from 2015's exceptionally high level by 27.8 per cent to EUR 4,528 million (6,275), according to the Federation of Finnish Financial Services' statistics on premiums written. Mandatum Life's premiums written market share grew to 24.1 per cent (17.7).

The parent company's unit-linked direct insurance premiums written reached the highest level in the company's history, at EUR 946 million (938). The sector's unit-linked premiums written fell by 30.7 per cent from the previous year. Mandatum Life's market share of unit-linked premiums written grew to 24.8 per cent (17.0).

Mandatum Life's premiums written on capital redemption operations rose 13.7 per cent to EUR 472 million (415), while the corresponding decline in the entire sector was 37.1 per cent.

Life insurance premiums written related to mortality and morbidity fell by 1.5 per cent to EUR 45 million (46). The entire sector's corresponding premiums written fell by 4.6 per cent to EUR 348 million (364).

In the corporate segment, Mandatum Life solidified its position as a market leader, increasing its market share to 50.7 per cent (41.4).

The Baltic subsidiary's risk insurance premiums written and capital at risk grew, but the total amount of premiums written was less than the previous year's, at EUR 30 million (34).

The net sales of Mandatum Life's subsidiary Innova, which offers personnel funds, employee reward solutions and pension services, grew to EUR 8 million (7).

## Investments

Mandatum Life's investment objective is to produce the highest possible return at an acceptable level of risk. Successful investment management provide policyholders with good nominal returns and also improve the solvency margin and satisfy shareholders' return expectations.

The investment portfolio is diversified both geographically and by instrument type to increase returns and reduce risks.

At the end of the year, the fair value of the parent company's investment portfolio was EUR 6,582 million (6,667). That amount consisted of EUR 5,404 million (5,465) in assets covering the original with-profit technical provisions, and EUR 1,179 million (1,202) in assets covering the segregated group pension portfolio.

Some changes took place in investment allocation. In the assets covering the original with-profit technical provisions, the share of money market investments rose to 14 per cent (7) and the share of bonds fell to 39 per cent (45). In the investment assets of the segregated group pension portfolio, the share of listed equity investments declined to 8 per

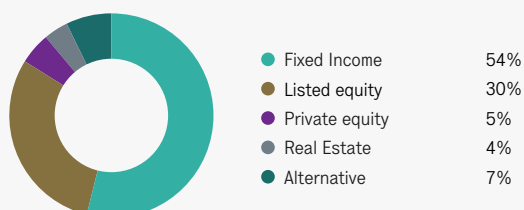
## DIRECT INSURANCE PREMIUMS WRITTEN

EUR million	2016	2015	change
<b>Insurance contracts</b>			
Unit-linked life insurance	366	428	-62
Other life insurance	49	49	-1
Employees' group life insurance	12	10	2
Other group life insurance	9	9	0
<b>Life insurance</b>	<b>436</b>	<b>497</b>	<b>-60</b>
Unit-linked individual pension insurance	66	71	-6
Other individual pension insurance	12	14	-2
Unit-linked group pension insurance	65	75	-10
Other group pension insurance	64	65	-1
<b>Pension insurance</b>	<b>208</b>	<b>226</b>	<b>-18</b>
<b>Insurance contracts total</b>	<b>644</b>	<b>723</b>	<b>-79</b>
<b>Investment contracts</b>			
Unit-linked capital redemption operations	475	394	81
Other capital redemption operations	0	30	-30
<b>Investment contracts total</b>	<b>475</b>	<b>424</b>	<b>51</b>
<b>Direct insurance premiums written</b>	<b>1,119</b>	<b>1,147</b>	<b>-28</b>

## Investments 31.12.2016

### Original assets

5,404 EUR million



cent (12) and the share of bonds increased to 75 per cent (71).

The duration of the fixed income investments covering the original with-profit technical provisions as per 31 December 2016 declined to 1.9 years (2.1) and the duration of the segregated assets rose slightly to 2.4 years (2.3).

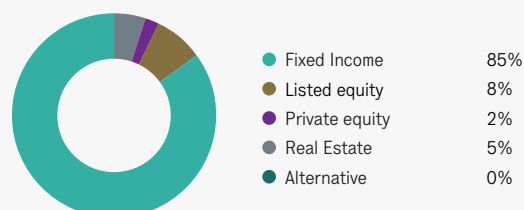
A more detailed breakdown of equity and fixed income investments can be found in the risk management note.

In 2016, interest rates fell further and Europe's short-term rates were negative. Later in the year, interest rates rose, however, returning close to their beginning-of-year level. The equity markets were extremely volatile. Despite the challenging market situation, the return on investments was very good. The total return on the investment assets covering the original with-profit technical provisions in 2016 was 7.2 per cent (6.9). The total return on the investment assets in the segregated group pension portfolio was 4.7 per cent (3.8).

The full-year return on the equity portfolio, on the part of the investment assets covering the original with-profit technical provisions, amounted to 13.3 per cent (14.5) and the return on the segregated group pension portfolio was 10.4 per cent (13.4). Finnish and Scandinavian equities investments in particular yielded good returns. A capital gain of EUR 50 million (99) was realised on the domestic equities included

### Segregated assets

1,179 EUR million



in the original portfolio's assets.

The return on the fixed income portfolio was extremely good in the prevailing market situation. In the assets covering the original with-profit technical provisions, the return on the fixed income portfolio for the full year was 3.9 per cent (1.5) and the return on the segregated group pension portfolio was 3.7 per cent (1.0).

The euro's value against the US dollar weakened during the latter part of the year. The interest rate difference between the United States and the euro zone grew during the year, and largely as a result of this, the yield on the currency position fell slightly below zero.

## Technical provisions

Mandatum Life Group's technical provisions before reinsurers' share grew by EUR 389 million and amounted to EUR 11,261 million (10,873). Unit-linked policies accounted for EUR 6,440 million (5,858) of the technical provisions. The with-profit technical provisions amounted to EUR 4,821 million (5,014). The segregated group pension insurance portfolio accounted for EUR 1,142 million (1,196) of the with-profit technical provisions. The segregated group pension insurance portfolio includes EUR 275 million (257) reserve for decreased discount rate, which lowers its discount rate for technical provisions to 0.50 per cent.

## NET INVESTMENT INCOME AT FAIR VALUE

EUR million	2016	2015	change
Guaranteed interest policies			
Interest	87	91	-4
Dividend income	122	108	15
Income from and charges arising from investments in land and buildings	6	7	-1
Gains and losses on sale of investments	108	213	-105
Value adjustments	-15	-19	4
Exchange rate gains and losses	154	182	-28
Investment management expenses and depreciation	-17	-16	-1
Revaluations	-5	1	-7
Other income and charges	-83	-175	92
<b>Total</b>	<b>356</b>	<b>391</b>	<b>-35</b>
Change in fair value reserve (before tax)	82	32	50
Change in valuation differences off the balance sheet	-1	6	-7
<b>Total net investment income at fair value</b>	<b>438</b>	<b>430</b>	<b>8</b>

The remainder of the with-profit technical provisions includes EUR 273 million (244) in the reserve for decreased discount rates.

The Baltic subsidiary's share of the technical provisions was EUR 178 million (173), of which unit-linked technical provisions accounted for EUR 161 million (155).

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

### Principle of fairness

According to Chapter 13 of the Finnish Insurance Companies Act, 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.

Mandatum Life aims to provide, in the long run and before expenses and taxes, an overall bonus on insurance savings that are eligible for distribution of profit that is at least equivalent to the interest level on long-term fixed-income investments considered to have the lowest risk at any given time. According to the current interpretation, German bonds are viewed as the closest option for risk-free, long-term fixed-income investments.

For the time being, however, the targeted level of total return corresponds to the yield of 5-year Finnish government bonds in the case of endowment policies and to the yield of 10-year Finnish government bonds in the case of pension insurance policies. The total return consists of the technical rate of interest and additional bonuses that are determined annually.

Mandatum Life Insurance Company Ltd's Board of Directors annually decides on the additional bonuses, taking into account, among other things, the general interest rate, the company's long-term success in investment activities, the technical rate of interest on the insurance and the company's solvency. The company's website provides a more detailed description of the targeted bonus and an account of bonuses paid.

There are no regulations corresponding to the principle of fairness in Estonian, Latvian or Lithuanian legislation.

### Profit distribution policy for the segregated group pension insurance portfolio

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 0.75 per cent for 2016 and 0.50 per cent for 2017. 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.

## Claims incurred

A total of EUR 1,047 million (1,001) was paid out by Mandatum Life Group on claims during the year, of which reinsurers covered EUR 3.0 million (2.8). Unit-linked policies accounted for EUR 577 million (556) of claims paid.

The parent company, Mandatum Life, made pension payments totalling EUR 418 million (387) to some 68,000 pensioners during the year. Group pension insurance accounted for 66 per cent (63) of this total. A total of close to 45,000 other claims were also paid out. Maturity benefits paid out on policies expiring at term amounted to EUR 12 million (18). Policy surrenders amounted to EUR 518 million (510), and life insurance risk payouts totalled EUR 88 million (77).

## Operating expenses

Mandatum Life Group's operating expenses were EUR 118 million (116). The Baltic subsidiary's share of the operating expenses was EUR 6 million (6), and Innova's share was EUR 7 million (6).

In 2016, Mandatum Life Group's expense ratio was 98.7 per cent (98.4). The total expense ratio, which takes into account all income intended to cover operating expenses, was 80.5 per cent (80.3). The Group's operating expenses include acquisition costs of EUR 30 million (33). 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.

## HR administration

Employee satisfaction is one of Mandatum Life's long-term business targets. Employee well-being bears great significance for financial success: satisfied personnel means satisfied customers. In 2016, as much as 92 per cent of Mandatum Life's personnel considered the company a very good place to work. The goal is to keep that figure in the 90 per cent range until 2020. Employee satisfaction is measured annually via the Great Place to Work Finland survey.

Other key trends in 2016 were competence development and focusing on a stimulating and inclusive work culture. Mandatum Life partnered up with Hanken & SSE to create the Mandatum Life Business School programme and rolled out a digital interactive platform for advancing Refinery's brainstorming work. Continuous development targets include supervisory work, personnel's work ability and reward solutions. Mandatum Life believes that every employee has the right to good management. The Mandatum Life Management School coaching was held for the sixth time in 2016 and more than 95 per cent of supervisors have completed the programme. Measuring supervisory work uses the biennial 360-degree supervisor evaluation, which measures the leadership, level of expertise and areas in need of development of the entire supervisory staff.

The main principle of the company's employee reward policy is to offer its personnel the same reward solutions that it offers its customers. The personnel is covered by the personnel fund and group pension insurance. A total of 90 per cent of personnel chose to fund their performance bonuses in 2016. Mandatum Life succeeded in developing its reward system and increasing work satisfaction despite the company keeping its fixed operating costs at the 2012 level as part of its cost-efficiency programme.

## 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 contingency plan is part of the risk management plan.

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. The Committee is chaired by the managing director, and it also handles risks related to the Baltic subsidiary.

The risk management note explains in greater detail Mandatum Life Group's general risk management principles as well as its principal risks.

## Corporate structure and ownership

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

Mandatum Life's wholly owned subsidiaries are the Estonian Mandatum Life Insurance Baltic SE, which has branches in Latvia and Lithuania, and Mandatum Life Fund Management S.A. in Luxembourg, as well as the Finnish subsidiaries Innova Services Ltd, Mandatum Life Services Ltd., Mandatum Life Investment Services Ltd. Mandatum Life Vuokratontit I GP Oy and Saka Hallikiinteistöt GP Oy.

Mandatum Life Group also includes 20 (22) Finnish subsidiary housing and property companies and the associated company Niitty-maa Oy (49 per cent holding).

## Significant post-balance-sheet events

There are no significant post-balance-sheet events.

## Outlook

Notwithstanding political uncertainties, the equity markets finished on a clear upward trend in 2016, driven by the United States (11.1%, MSCI AC index in euros). Also in Finland, equity market return (+12.9%, HEXX index in euros) exceeded the long-term average. Long-term market rates plummeted dramatically at the beginning of the year but recovered as inflation expectations grew closer to the previous year's level. The expansive financial policy of the United States' new government and China's continuing domestic economy stimulation measures are expected to support companies' earnings power and the performance of risky asset classes. Global economic growth is expected to accelerate moderately in 2017 to just over three per cent. Inflation is expected to settle at a higher level than in the previous year. Political instability especially in the euro zone, but also insecurity linked to trade policies in the US, may result in volatility on the capital markets. In Finland, short-term growth forecasts are expected to look up somewhat thanks to a stimulating financial policy, the improved export outlook and higher construction activity in the Helsinki capital area. The challenges in cost-competitiveness, the indebtedness of 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. These result components came close to the previous year's highs.

In October 2016, Mandatum Life announced that it would not be continuing its insurance agency 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 agency agreement. The portfolio transfer is expected to take place at the earliest at the end of 2017. Mandatum Life and Danske Bank have agreed to continue the agency agreement at least until the end of 2017. The portfolio being transferred includes some 150,000 insurance policies and the technical provisions of the insurance portfolio stood at EUR 3,202 million at the end of the year. EUR 2,992 million of the technical provisions consists of unit-linked policies and the remaining EUR 210 million of with-profit policies. The above-mentioned figures are presented in the balance sheet under "assets and liabilities available for sale".

The transfer of the insurance portfolio sold by Danske Bank is not expected to have a significant impact on the company's investment result, 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.

Mandatum Life has made systematic and long-term efforts to improve customer satisfaction and the customer experience. After an upward trend in recent years, customer satisfaction began to decline in 2016. The uncertainty of the investment markets impacted customer satisfaction: customer satisfaction weakened in the early part of the year, but rose considerably towards year-end. In 2016, Mandatum Life honed its client strategy and started up enhanced measures for monitoring the satisfaction of key clients. The main focus of the work is still digital customer services, which enable even closer interaction with a broader group of customers and introduce new services to customers. The goal of the digitalisation of customer service processes is to ensure the availability of customer service regardless of place or time, especially on mobile devices. In 2016, Mandatum Life modernised its website in order to facilitate the mobile use of its Web Service. In late 2016, an electronic pension application was also launched, which allows customers to apply for supplementary pension and make changes to the pension period online. The services are being developed on the basis of customer feedback and the measured customer experience. Mandatum Life continues to invest in digitalisation, in the area of pension insurance mobile services, among other areas. These measures will open up possibilities to further improve the customer experience and customer satisfaction.

Solvency II entered into force on 1 January 2016. 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 14 March 2016.

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 2016, the Board had five members. Of the Board's members, the terms of Patrick Lapveteläinen and Jarmo Salonen expired, and they were re-elected to serve until the 2019 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 and Jarmo Salonen. The Board convened 15 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 Tomi Englund, 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 159,037,979.47. The company's distributable funds were EUR 596,989,168.15. The Board of Directors proposes to the Annual General Meeting that EUR 125,000,000 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

## 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 in Baltic and Luxemburg. 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 Luxenburg subsidiaries are also included. Each risk area has a responsible person in the Committee.
- Mandatum Life has two Assets and Liability Committees (ALCO), 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 and Compliance Unit is taking care of legal and compliance 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.
- The Baltic subsidiary has its own risk management procedures. Mandatum Life Investment Services Ltd and Fund Management S.A. have they own Risk Managements Policies and responsible persons. Subsidiaries report all major incidents also to Mandatum Life's Risk Management Committee.

Figure 1–1 Risk Management Organization



In addition 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 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.

## 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 insured's 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 Technical provisions 31 Dec 2016, Solvency II and IFRS**

EUR million	Solvency II value	IFRS value	Differences
Technical provisions – life (excluding unit-linked)	4,732	4,801	69
Best Estimate	4,512		
Risk margin	220		
Technical provisions – unit-linked	5,911	6,361	450
Best Estimate	5,841		
Risk margin	70		

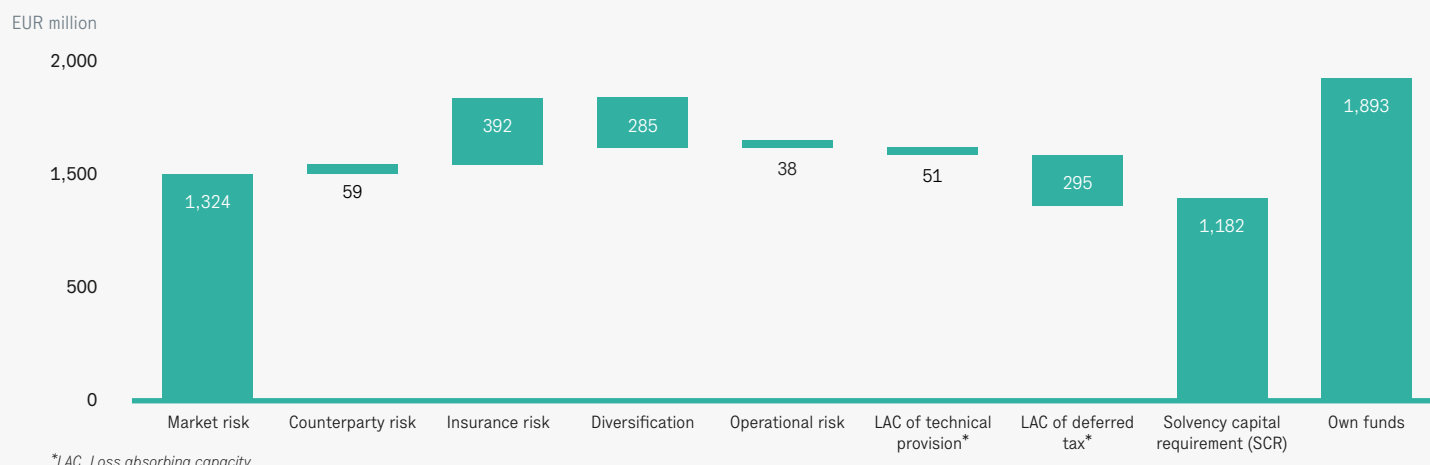
The Solvency II regulations include transitional measures that aim to make the transition to the new solvency regulations as smooth as possible. In 2015, the Financial Supervisory Authority granted Mandatum Life permission to apply a so-called transitional measure on technical provisions (until 31 December 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. 5.3 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 2016, taking into account the transitional measure on technical provisions.

**Table 3-2 Own funds 31 Dec 2016**

EUR million		
Tier 1	Total	1,893
	Share capital and funds	181
	Reconciliation reserve	1,613
	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		1,893

Taking into account the transitional measures, Mandatum Life's own funds under Solvency II amounted to EUR 1,893 million (1,913), and the corresponding SCR according to Solvency II was EUR 1,182 million (1,212). The solvency ratio (own funds/SCR) was thus 160 (158) per cent. Around 85 per cent of the SCR arises from market risks and less than 10 per cent from life insurance risks. Among market risks, the most significant are the equity risk, which makes up more than 60 per cent of market risks, and the credit spread risk, which makes up more than 20 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 requirement (MCR) according to Solvency II was EUR 295 million (303). Without the transitional measure on technical provisions, the company's own funds would have been EUR 1,441 million (1,347), and the SCR without the equity risk transitional measure would have been EUR 1,409 million (1,307).

**Figure 3-3 Solvency Capital Requirements (SCR) and own funds 31 Dec 2016**



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 2,861 million to around EUR 1,000 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 2016, the upper monitoring limit corresponds with a solvency ratio of around 146 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 increased, 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 ei-

ther 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.

Both 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 investments 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 reports 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 2016 the net investment return of Mandatum Life original portfolio was 7.2 per cent (6.9) and for the segregated portfolio 4.7 per cent (3.8).

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 1,642 million (1,94) and for the segregated portfolio EUR 95 million (138).

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 Group's Investment Management 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

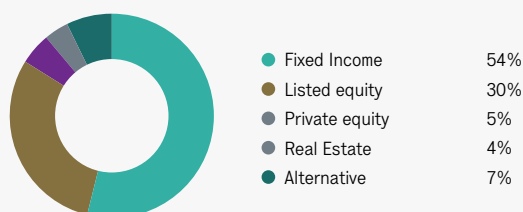
Mandatum Life's risks related to fixed income investments include interest rate risk related to changes in market interest rates as well as spread risk arising from changes in the credit spreads of fixed income investments resulting in changes in the values of respective investments.

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

Figure 4-1 Allocation of investments 31.12.2016

##### Original assets

5,404 EUR million



##### Segregated assets

1,179 EUR million

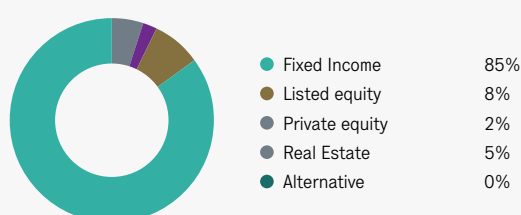
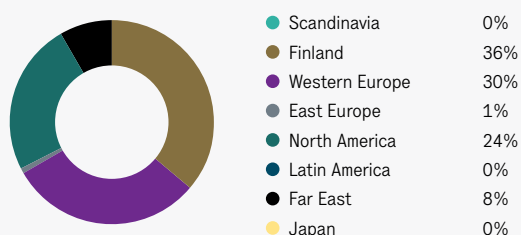


Figure 4-2 Geographical allocation of equity investments 31 Dec 2016

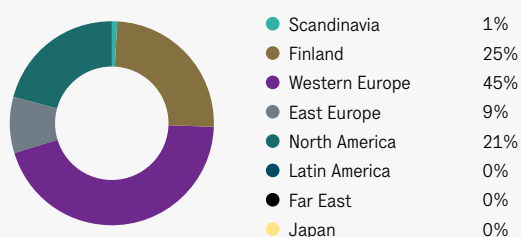
##### Original assets

1,642 EUR million



##### Segregated assets

95 EUR million



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 less than nine years at the year-end and for the segregated portfolio over ten years.

The duration of the fixed income investments covering the original with-profit technical provisions as per 31 December 2016 declined to 1.9 years (2.1) and the duration of the segregated assets rose slightly to 2.4 years (2.3).

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

**Table 4–3: Fixed income investments by type of instruments 31 Dec 2016**

Original assets	% of Fixed Income Portfolio	Average Maturity	Segregated assets	% of Fixed Income Portfolio	Average Maturity
Money Market Securities and Cash	25.3%	0.1	Money Market Securities and Cash	11.6%	0.1
Government Bonds	1.1%	6.1	Government Bonds	3.1%	4.0
Covered Bonds	4.7%	2.5	Covered Bonds	4.0%	2.9
Investment Grade Bonds and Loans	33.7%	2.4	Investment Grade Bonds and Loans	59.5%	3.2
High Yield Bonds and Loans	25.7%	3.5	High Yield Bonds and Loans	12.9%	5.1
Asset Backed Securities	0.0%	0.0	Asset Backed Securities	0.0%	0.0
Subordinated / T2 -type	1.1%	8.7	Subordinated / T2 -type	2.0%	7.2
Subordinated / T1 -type	8.2%	3.6	Subordinated / T1 -type	6.9%	8.4
Interest Rate Derivatives	0.0%	-	Interest Rate Derivatives	0.0%	-
Policy Loans	0.2%	1.9	Policy Loans	0.0%	0.0
<b>Total</b>	<b>100.0%</b>	<b>2.3</b>	<b>Total</b>	<b>100.0%</b>	<b>3.5</b>

the end of 2016, the share of money market investments in the original policies' fixed income portfolio rose to 25.3 per cent (13.3), while the share of investment-grade fixed income investments fell to 33.7 per cent (38.6) and high-yield fixed income investments fell to 25.7 per cent (33.5). Also the proportion of money market investments in the segregated policy fixed income portfolio rose slightly to 11.6 per cent

(11.4) and the combined share of subordinated Tier 1 and Tier 2 bonds rose to 8.9 per cent (5.4). The share of investment-grade fixed income investments fell to 59.5 per cent (63.1).

The investment risk section of Table 7–5 shows the maturity and average duration of Mandatum Life's insurance and investment policies.

**Table 4–4 Original and segregated assets transaction risk position 31 Dec 2016**

Original assets, EUR million	USD	JPY	GBP	SEK	NOK	CHF	DKK	Other	Total
Technical provisions	0	0	0	-2	0	0	0	0	-2
Investments	1,722	1	164	61	9	172	13	112	2,253
Derivatives	-1,314	0	-162	58	91	-172	-13	-43	-1,555
<b>Net position</b>	<b>408</b>	<b>1</b>	<b>3</b>	<b>116</b>	<b>100</b>	<b>-1</b>	<b>-1</b>	<b>70</b>	<b>696</b>

Segregated assets, EUR million	USD	JPY	GBP	SEK	NOK	CHF	DKK	Other	Total
Technical provisions	0	0	0	0	0	0	0	0	0
Investments	313	22	16	0	4	14	0	0	369
Derivatives	-229	-21	-18	19	19	-16	0	0	-246
<b>Net position</b>	<b>84</b>	<b>1</b>	<b>-2</b>	<b>19</b>	<b>22</b>	<b>-2</b>	<b>0</b>	<b>0</b>	<b>123</b>

### 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 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 2016.

### 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 2016 the share of the

above mentioned investments for the original insurance portfolios was 15 per cent (16) and for the segregate group pension policies 7 per cent (8) 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 Group'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.

**Table 4-5 Concentration of market and credit risks in individual counterparties by asset class, 31 Dec 2016**

EUR million Counterparty (per business area)	Total fair value, EURm	% 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	371	6	280	83	0	0	61	22	0	9
Skandinaviska Enskilda Banken	303	5	157	145	0	0	94	51	0	2
BNP Paribas	277	4	242	35	0	0	24	10	0	0
Nordea Bank	249	4	177	61	0	29	25	7	0	11
DnB	137	2	0	137	0	28	83	26	0	0
Amer Sports	96	1	0	0	0	0	0	0	96	0
UPM-Kymmene	93	1	0	7	0	0	7	0	86	0
Swedbank	75	1	0	75	0	33	32	10	0	0
Vattenfall	69	1	0	69	0	0	0	69	0	0
Svenska Handelsbanken	54	1	0	54	0	24	20	10	0	0
<b>Total top 10 exposures</b>	<b>1,725</b>	<b>26</b>	<b>856</b>	<b>665</b>	<b>0</b>	<b>114</b>	<b>346</b>	<b>205</b>	<b>182</b>	<b>22</b>
Other	4,884	74								
Total investment assets	6,609	100								

**Table 4-6 Ten largest direct listed equity investments, 31 Dec 2016**

Top 10 equity investments	Total fair value, EURm	% of total direct listed equity investments
Amer Sports Plc	96	10
UPM-Kymmene Plc	86	9
Comptel Plc	49	5
Lassila & Tikanoja Plc	44	5
Tikkurila Plc	30	3
Metso Plc	30	3
Asiakastieto Group Plc	27	3
Vaisala Plc	26	3
Caverion Plc	23	2
Nokian Renkaat Plc	21	2
<b>Total top 10 exposures</b>	<b>432</b>	<b>47</b>
Other direct listed equity investments	490	53
Total direct listed equity investments	922	100

**Table 4-7 Ten largest direct high yield and non-rated fixed income investments, 31 December 2016**

Top 10 high yield and not rated fixed income instruments	Rating	Total fair value, EUR million	% of total fixed income invest- ment assets
Eksportfinans	BB-	49	1
YIT Plc	NR	45	1
Sponda Plc	NR	39	1
Teollisuuden Voima Plc	BB+	28	1
Uponor Plc	NR	22	1
Sanoma Plc	NR	21	1
Platform Speciality	B	19	0
Navico Holding	NR	19	0
Acta Holding	NR	17	0
Capsugel Finance	B+	17	0
<b>Total top 10 exposures</b>		<b>275</b>	<b>7</b>
Other direct fixed income investments		3,555	93
Total direct fixed income investments		3,830	100

#### 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 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

**Table 5-1 Investment exposures according to asset classes, sectors and fixed income investments according to rating, 31 Dec 2016**

EUR million	AAA	AA+ – AA–	A+ – A–	BBB+ – BBB–	BB+ – B–	D	Not rated	Fixed income total	Listed equities	Other	Counter- party risk	Total	Change 31.12.2015
Basic Industry	0	0	0	2	81	0	35	118	151	0	0	269	-43
Capital Goods	0	10	39	7	5	0	69	129	143	0	0	272	-34
Consumer Products	0	49	135	87	46	0	10	327	258	0	0	584	8
Energy	0	33	19	0	14	0	8	74	6	0	0	80	-35
Financial Institutions	0	682	962	316	51	0	0	2,012	27	1	22	2,062	161
Governments	18	0	0	0	0	0	0	18	0	0	0	18	-12
Government Guaranteed	0	0	0	0	0	0	0	0	0	0	0	0	0
Health Care	0	15	24	4	45	0	51	139	50	0	0	189	-19
Insurance	0	0	1	49	0	0	6	56	3	20	0	78	24
Media	0	0	9	0	12	0	21	42	0	0	0	42	-17
Packaging	0	0	0	0	61	0	7	68	1	0	0	68	-17
Public Sector, Other	0	27	44	0	0	0	0	70	0	0	0	70	2
Real Estate	0	0	0	26	0	0	55	81	0	230	0	311	-16
Services	0	0	0	26	66	0	58	151	80	0	0	231	1
Technology and Electronics	4	6	15	30	7	0	20	81	151	0	0	232	47
Telecommunications	0	0	7	16	40	0	16	79	29	0	0	108	13
Transportation	0	0	0	2	12	0	5	20	24	0	0	44	9
Utilities	0	2	1	140	23	0	0	166	0	0	0	166	2
Others	0	0	0	0	19	0	2	21	0	58	0	79	-3
Asset-Backed Securities	0	0	0	0	0	0	0	0	0	0	0	0	0
Covered Bonds	154	12	0	11	0	0	0	178	0	0	0	178	-20
Funds	0	0	0	0	0	0	108	108	816	598	0	1,521	-117
Clearing House	0	0	0	0	0	0	0	0	0	0	5	5	5
<b>Total</b>	<b>177</b>	<b>836</b>	<b>1 256</b>	<b>716</b>	<b>483</b>	<b>0</b>	<b>471</b>	<b>3 938</b>	<b>1 737</b>	<b>907</b>	<b>27</b>	<b>6 609</b>	<b>-61</b>
Change 31 Dec 2015	-31	103	56	187	-319	0	-3	-7	5	-85	25	-61	

**Table 6-1: Cash flows according to contractual maturity, 31 Dec 2016**

CARRYING AMOUNT											CASH FLOWS				
EUR million	total	without contractual maturity	contractual maturity	2017	2018	2019	2020	2021	2022–2031	2032–					
Financial assets	6,398	3,191	3,208	601	628	383	863	331	574	14					
of which interest rate swaps	1	0	1	0	0	0	0	0	0	0					
Financial liabilities	142	0	142	-15	-4	-5	-5	-5	-60	-215					
of which interest rate swaps	0	0	0	0	0	0	0	0	0	0					
Net technical provisions	4,291		4,291	-429	-397	-368	-342	-316	-2,212	-1,734					

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.

## 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 2016. 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 ALCO. 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 79 per cent in 2016 (72). 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

**Table 7-1 Claim ratios of after reinsurance 2016 and 2015**

EUR million	2016			2015		
	Risk income	Claim expense	Claim ratio	Risk income	Claim expense	Claim ratio
Life insurance	43.2	21.2	49%	42.4	20.1	47%
Mortality	24.8	11.8	48%	24.0	9.7	40%
Morbidity and disability	18.4	9.4	51%	18.4	10.4	57%
Pension	80.8	76.2	94%	68.1	59.9	88%
Individual pension	12.0	12.8	107%	11.6	12.3	106%
Group pension	68.8	63.4	92%	56.5	47.6	84%
Mortality (longevity)	63.9	61.0	95%	48.9	43.2	88%
Disability	4.9	2.4	49%	7.6	4.4	58%
<b>Mandatum Life</b>	<b>124.0</b>	<b>97.4</b>	<b>79%</b>	<b>110.5</b>	<b>80.0</b>	<b>72%</b>

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, i.e. for the segregated group pension portfolio around 68 years and for the other group pension portfolios around 69 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 2016 technical provision by EUR 105 million (106) 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 2016 was EUR 2.9 million (5.7).

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.

**Table 7-2 Analysis of the change in technical provisions**

EUR million	Liability 2015	Premiums	Claims paid	Expense charges	Guaranteed interest	Bonuses	Other	2016	Share %
<b>Mandatum Life parent company</b>									
Unit-linked total	5,703	946	-553	-61	0	0	244	6,279	56%
Individual pension insurance	1,248	66	-14	-14	0	0	27	1,313	12%
Individual life	2,104	343	-186	-20	0	0	106	2,346	21%
Capital redemption operations	1,779	472	-349	-20	0	0	95	1,977	18%
Group pension	573	65	-4	-7	0	0	16	643	6%
With profit and others total	4,996	146	-468	-37	138	5	24	4,804	43%
Group pension insurance, segregated portfolio	1,196	9	-72	-2	24	4	-16	1,142	10%
Basic liabilities, guaranteed rate 3.5%	782	9	-72	-2	24	4	-30	715	6%
Reserve for decreased discount rate (3.5% → 0.50%)	257	0	0	0	0	0	18	275	2%
Future bonus reserves	157	0	0	0	0	0	-5	153	1%
Group pension	2,180	55	-209	-7	71	1	27	2,117	19%
Guaranteed rate 3.5 %	2,010	4	-187	-3	67	0	-7	1,885	17%
Guaranteed rate 2.5 % 1.5% or 0.0 %	170	51	-22	-4	4	1	33	232	2%
Individual pension insurance	973	12	-144	-6	36	0	27	899	8%
Guaranteed rate 4.5%	770	10	-99	-4	31	0	-13	695	6%
Guaranteed rate 3.5%	142	2	-28	-1	4	0	18	137	1%
Guaranteed rate 2.5% or 0.0%	61	1	-17	0	1	0	22	67	1%
Individual life insurance	197	32	-29	-10	6	0	-16	180	2%
Guaranteed rate 4.5%	61	5	-7	-1	3	0	-2	58	1%
Guaranteed rate 3.5%	93	10	-10	-3	3	0	-6	86	1%
Guaranteed rate 2.5% or 0.0%	44	17	-12	-5	1	0	-8	35	0%
Capital redemption operations	36	0	0	0	0	0	-8	28	0%
Guaranteed rate 3.5%	0	0	0	0	0	0	0	0	0%
Guaranteed rate 2.5% or 0.0%	36	0	0	0	0	0	-8	28	0%
Future bonus reserves	0	0	0	0	0	0	0	0	0%
Reserve for decreased discount rate	244	0	0	0	0	0	28	273	2%
Longevity reserve	106	0	0	0	0	0	-1	105	1%
Assumed reinsurance	2	3	-1	0	0	0	-2	2	0%
Other liabilities	63	35	-13	-12	0	0	-14	59	1%
<b>Mandatum Life parent company total</b>	<b>10,699</b>	<b>1,092</b>	<b>-1,021</b>	<b>-98</b>	<b>138</b>	<b>5</b>	<b>268</b>	<b>11,083</b>	<b>98%</b>
Mandatum Life Insurance Baltic SE	173	30	-27	-3	1	0	4	178	2%
Unit-linked liabilities	155	26	-25	-2	0	0	6	161	1%
Other liabilities	18	3	-2	0	1	0	-2	17	0%
<b>Mandatum Life group total</b>	<b>10,873</b>	<b>1,122</b>	<b>-1,048</b>	<b>-101</b>	<b>138</b>	<b>5</b>	<b>272</b>	<b>11,261</b>	<b>100%</b>

## 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 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 48 million in 2016 (55). In addition, EUR 98 million has been reserved to lower the interest rate of with profit liabilities to 0.25 per cent in 2017 and EUR 90 million for the year 2018 to lower the interest rate of with profit liabilities to 0.50 per cent and EUR 37 million for the year 2019 to lower the interest rate of with profit liabilities to 2.25 per cent, i.e. Mandatum Life has set up an extra reserve of EUR 273 million (244) 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 discount rate was lowered on 31 December 2016 from 0.75 per cent to 0.50 per cent, which increased the discount rate reserve to EUR 275 million (257). The increase in the provision for future bonuses plays a significant role in the risk management of the segregated portfolio. This increase totals EUR 153 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 2016.

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 23 per cent. Due to the nature of the business, annual variation is relatively large. Approximately EUR 3.0 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 2017 at the earliest.

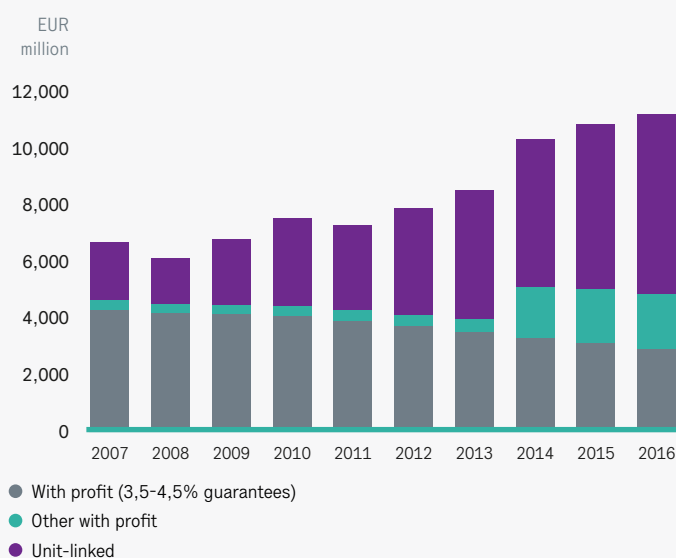
In contrast, the trend of original with profit technical provisions has been downward since 2005. Especially the parts of technical provisions with the highest 4.5 per cent and 3.5 per cent guarantees have decreased. Technical provisions with highest guarantees fell by EUR 214 million during 2016. In total the with profit technical provisions decreased modestly, EUR 193 million to the level of EUR 4,821 million (5,014) 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 with-profit liabilities is expected to continue. The volume of liabilities with the highest technical rates of interest is expected to fall from EUR 2,861 million to around EUR 1,000 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 approx. 9 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

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



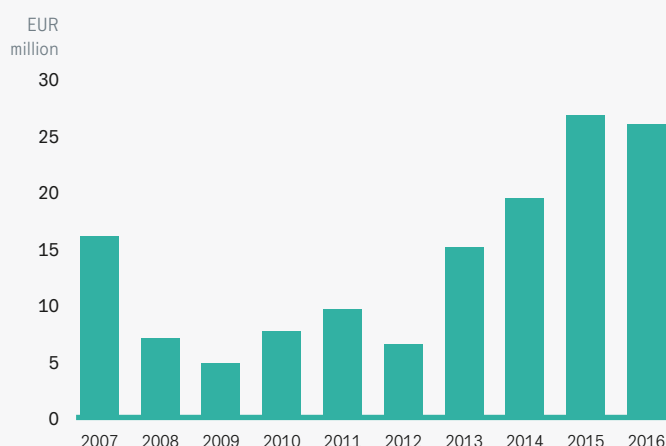
**Figure 7-4 Forecast of with-profit liabilities**



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 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 2016 Mandatum Life Group's expense result was EUR 26.1 million (26.8).

**Figure 7-5 Mandatum Life Group expense result years 2007-2016**



Mandatum Life does not defer insurance acquisition costs. Figure 7-5 shows the expense result years 2007-2016.

#### 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 Compliance Officer and 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 ORC.

# Consolidated comprehensive income statement

EUR million	Note	1–12/2016	1–12/2015
Insurance premiums	1	1,115.7	1,144.1
Net income from investments	2	634.4	632.0
Other operating income		22.8	17.7
Claims incurred	3	-967.1	-1,023.4
Change in liabilities for insurance and investment contracts	4	-465.4	-461.8
Staff costs	5	-46.2	-47.2
Other operating expenses	6	-77.7	-74.4
Finance costs	7	-6.8	-6.2
Share of associates' profit/loss		0.0	0.0
<b>Profit before taxes</b>		<b>209.6</b>	<b>180.8</b>
Taxes	19	-41.3	-36.3
<b>Profit for the period</b>		<b>168.3</b>	<b>144.5</b>
Other comprehensive income for the period	20–21		
Items reclassifiable to profit or loss			
Shadow accounting		-10.7	-10.5
Available-for-sale financial assets		93.0	43.0
Income tax relating to components of other comprehensive income		-18.6	-8.6
<b>Other comprehensive income for the period, items reclassifiable to profit or loss net of tax, total</b>		<b>63.6</b>	<b>23.9</b>
<b>Total comprehensive income for the year</b>		<b>232.0</b>	<b>168.4</b>

# Consolidated balance sheet

EUR million	Note	12/2016	12/2015
<b>Assets</b>			
Property, plant and equipment	8	4.4	4.6
Investment property	9	198.8	178.2
Intangible assets	10	6.0	7.2
Investments in associates	11	0.0	0.0
Financial assets	12–16	5,459.2	6,038.9
Investments related to unit-linked insurance and investment contracts	17	3,468.3	5,864.5
Reinsurers' share of insurance liabilities	24	3.0	2.6
Other assets	22	162.3	126.6
Cash and cash equivalents	23	682.3	482.5
Assets classified as held for sale	38	3,201.9	-
<b>Total assets</b>		<b>13,186.2</b>	<b>12,705.2</b>
<b>Liabilities</b>			
Liabilities for insurance and investment contracts	24	4,611.1	5 014.1
Liabilities for unit-linked insurance and investment contracts	25	3,448.4	5 858.4
Financial liabilities	13, 26	111.0	133.4
Tax liabilities	18	180.9	154.4
Other liabilities	28	147.7	166.8
Liabilities associated with assets held for sale	38	3,201.9	-
<b>Total liabilities</b>		<b>11,700.9</b>	<b>11 327.1</b>
<b>Equity</b>	30		
Share capital		40.4	40.4
Reserves		724.8	661.1
Retained earnings		720.1	676.6
<b>Equity attributable to owners of the parent</b>		<b>1,485.3</b>	<b>1,378.1</b>
Non-controlling interests		0.0	0.0
<b>Total equity</b>		<b>1,485.3</b>	<b>1,378.1</b>
<b>Total equity and liabilities</b>		<b>13,186.2</b>	<b>12,705.2</b>

# 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
<b>Equity at 1 Jan. 2015</b>	<b>40.4</b>	<b>98.9</b>	<b>30.1</b>	<b>632.3</b>	<b>-0.2</b>	<b>508.2</b>	<b>-</b>	<b>1,309.7</b>
Changes in equity								
Transfers between equity								<b>0.0</b>
Dividends				-100.0				<b>-100.0</b>
Total comprehensive income for the year				144.5	0.0	34.4	-10.5	<b>178.9</b>
<b>Equity at 31 Dec. 2015</b>	<b>40.4</b>	<b>98.9</b>	<b>30.1</b>	<b>676.8</b>	<b>-0.2</b>	<b>542.6</b>	<b>-10.5</b>	<b>1,378.1</b>
Changes in equity								
Dividends				-125.0				<b>-125.0</b>
Total comprehensive income for the year				168.3	0.0	74.4	-10.7	<b>232.0</b>
<b>Equity at 31 Dec. 2016</b>	<b>40.4</b>	<b>98.9</b>	<b>30.1</b>	<b>720.3</b>	<b>-0.2</b>	<b>617.0</b>	<b>-21.2</b>	<b>1,485.3</b>

\*) The amount recognised in equity from available-for-sale financial assets for the period totalled EURm 198,8 (301,7). The amount transferred to p/l amounted to EURm93 (20,2).

\*\*) Policy holder's share, according to shadow accounting

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

# Statement of cash flows

EUR million	2016	2015
<b>Operating activities</b>		
Profit before taxes	209.6	180.8
<b>Adjustments:</b>		
Depreciation and amortisation	5.6	5.6
Unrealised gains and losses arising from valuation	-206.4	-150.7
Realised gains and losses on investments	-84.3	-249.0
Change in liabilities for insurance and investment contracts	388.5	495.5
Other adjustments	33.9	28.4
<b>Adjustments total</b>	<b>137.4</b>	<b>129.7</b>
<b>Change (+/-) in assets of operating activities</b>		
Investments *)	80.3	-531.0
Other assets	-4.1	39.3
<b>Total</b>	<b>76.1</b>	<b>-491.7</b>
<b>Change (+/-) in liabilities of operating activities</b>		
Financial liabilities	0.0	0.0
Other liabilities	-8.3	-11.6
Paid interest and taxes	-89.1	-81.3
<b>Total</b>	<b>-97.4</b>	<b>-92.9</b>
<b>Net cash from operating activities</b>	<b>325.7</b>	<b>-274.1</b>
<b>Investing activities</b>		
Investments in group and associated undertakings	0.0	0.3
Net investment in equipment and intangible assets	-0.8	-2.2
<b>Net cash from investing activities</b>	<b>-0.8</b>	<b>-1.9</b>
<b>Financing activities</b>		
Dividends paid	-125.0	-100.0
<b>Net cash from financing activities</b>	<b>-125.0</b>	<b>-100.0</b>
<b>Total cash flows</b>	<b>199.8</b>	<b>-376.0</b>
Cash and cash equivalents at 1 January	482.5	858.5
Cash and cash equivalents at 31 December	682.3	482.5
<b>Net change in cash and cash equivalents</b>	<b>199.8</b>	<b>-376.0</b>
<b>Additional information to the statement of cash flows:</b>		
Interest income received	177.4	176.8
Interest expense paid	-46.3	-42.2
Dividend income received	69.6	41.1

\*) 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 EURm 682.3 (378.5) and previous year also short-term deposits (max. 3 months) EURm 104.0.

# Summary of significant accounting policies

Mandatum Life Group has prepared the consolidated financial statements for 2016 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, 2016.

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. Some of the risk management disclosures are presented in the Risk Management section.

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 7 February 2017.

## 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.

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). In addition, a balance sheet item "available for sale financial assets" corresponding to the required minimum solvency margin has been allocated to this segment. In the Profit and Loss Account, a technical revenue equal to a six months Euribor has been calculated on the item in question, which has respectively been deducted from the net investment profits received from the segment other businesses (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 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 or cancelled or expire.

## 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 derivative instruments held for trading

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 and 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. In the Group, 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.

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 Mandatum Life 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 Group's 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 of the Group companies.

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 2017 lowered the maximum rate to 0.25 per cent for the year 2018 to 0.50 per cent and for 2019 to 2.25 per cent. From Suomi Mutual on the 30th December 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 per cent and 3.5 per cent, supplementary provisions for guaranteed interest have been added to technical provisions. In the subsidiary, Mandatum Life Insurance Baltic SE, the discount rate varies by country between 2.0 – 4.0 per cent and the average guaranteed interest rate between 2.0 – 4.0 per cent.

Mortality assumptions have an essential effect on the amount of liability, particularly in group pension insurance, the liability of which accounts for about 36 per cent of the technical provisions of the parent 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

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.

The total return for the segregated group pension portfolio, transferred from Suomi Mutual to Mandatum Life on 30 December 2014, is based on the profit distribution policy outlined in the transfer plan of the portfolio. The profit sharing policy of the segregated group pension portfolio is explained in detail on the company's website.

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, Sampo Group had four valid share-based incentive schemes settled in cash (the long-term incentive schemes 2011 I and II and 2014 I and II 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 2016.

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.

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.

The amendments to IFRS 9 *Financial Instruments* (estimated 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* (estimated 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 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.

# 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 the 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 2016

EUR million	Unit-linked contracts (Finland)	Other contracts (Finland)	Segregated portfolio (Finland)	Foreign operations	Elimination	Group
Insurance premiums	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 <sup>1)</sup>	-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
<b>Profit before taxes</b>	<b>20.6</b>	<b>181.3</b>	<b>10.5</b>	<b>-1.1</b>	<b>-1.7</b>	<b>209.6</b>
Taxes	-4.1	-35.0	-2.1	0.0		-41.3
<b>Profit for the year</b>	<b>16.5</b>	<b>146.2</b>	<b>8.4</b>	<b>-1.1</b>	<b>-1.7</b>	<b>168.3</b>
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
<b>Other comprehensive income for the year, net of tax</b>						<b>63.6</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>						<b>232.0</b>
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

<sup>1)</sup> 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 a increase of EURm 24.1 (23.5) in the item 'Change in liabilities for insurance and investment contracts'.

## CONSOLIDATED INCOME STATEMENT BY BUSINESS SEGMENT FOR YEAR ENDED 31 DECEMBER 2015

EUR million	Unit-linked contracts (Finland)	Other contracts (Finland)	Segregated portfolio (Finland)	Foreign operations	Elimination	Group
Insurance premiums	960.9	162.6	10.0	33.1	-22.5	1,144.1
Net income from investments	260.2	341.0	32.3	2.7	-4.1	632.0
Other operating income		17.6		0.0	0.0	17.7
Claims incurred	-549.1	-407.6	-57.1	-27.3	17.7	-1,023.4
Change in liabilities for insurance and investment contracts <sup>1)</sup>	-584.8	98.0	23.9	-2.6	3.6	-461.8
Staff costs	-25.0	-18.6	0.0	-3.6		-47.2
Other operating expenses	-39.4	-30.3	-1.9	-2.7		-74.4
Finance costs		-6.2		0.0		-6.2
Share of associates' profit/loss		0.0				0.0
<b>Profit before taxes</b>	<b>22.8</b>	<b>156.5</b>	<b>7.1</b>	<b>-0.4</b>	<b>-5.3</b>	<b>180.8</b>
Taxes	-4.5	-30.3	-1.4	-0.1		-36.3
<b>Profit for the year</b>	<b>18.3</b>	<b>126.2</b>	<b>5.7</b>	<b>-0.5</b>	<b>-5.3</b>	<b>144.5</b>
Other comprehensive income for the year						
Shadow accounting						-10.5
Available-for-sale financial assets						43.0
Income tax relating to components of other comprehensive income						-8.6
<b>Other comprehensive income for the year, net of tax</b>						<b>23.9</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>						<b>168.4</b>
Profit attributable to						
Owners of the parent company						144.5
Non-controlling interests						0.0
Total comprehensive income attributable to						
Owners of the parent company						168.4
Non-controlling interests						0.0

<sup>1)</sup> 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 a increase of EURm 23.5 (13.0 year 2014) in the item 'Change in liabilities for insurance and investment contracts'.

# 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
<b>Assets</b>						
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 and investment contracts	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
<b>Total assets</b>	<b>6,446.3</b>	<b>5,434.4</b>	<b>1,199.2</b>	<b>189.5</b>	<b>-83.3</b>	<b>13,186.2</b>
<b>Liabilities</b>						
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
<b>Total liabilities</b>	<b>6,379.1</b>	<b>4,031.7</b>	<b>1,194.3</b>	<b>179.1</b>	<b>-83.3</b>	<b>11,700.9</b>
<b>Equity</b>						
Share capital						40.4
Reserves						724.8
Retained earnings						720.1
<b>Equity attributable to parent company's equityholders</b>						<b>1,485.3</b>
Non-controlling interests						0.0
<b>Total equity</b>						<b>1,485.3</b>
<b>Total equity and liabilities</b>						<b>13,186.2</b>

## CONSOLIDATED BALANCE SHEET BY BUSINESS SEGMENT AT 31 DECEMBER 2015

EUR million	Unit-linked contracts (Finland)	Other contracts (Finland)	Segregated portfolio (Finland)	Foreign operations	Elimination	Group
<b>Assets</b>						
Property, plant and equipment	0.3	4.3		0.0		4.6
Investment property		166.7	11.5			178.2
Intangible assets	2.8	3.6		0.8		7.2
Investments in associates		0.0				0.0
Financial assets	44.1	4,802.3	1,167.6	24.9		6,038.9
Investments related to unit-linked insurance	5,789.3	2.7		156.1	-83.5	5,864.5
Reinsurers' share of insurance liabilities		2.6		0.0		2.6
Other assets		95.6	32.0	1.1	-2.0	126.6
Cash and cash equivalents		468.2	11.6	2.7		482.5
<b>Total assets</b>	<b>5,836.5</b>	<b>5,546.0</b>	<b>1,222.6</b>	<b>185.6</b>	<b>-85.5</b>	<b>12,705.2</b>
<b>Liabilities</b>						
Liabilities for insurance and investment contracts		3,800.4	1,196.0	17.7		5,014.1
Liabilities for unit-linked insurance and investment contracts	5,786.5	0.0		155.4	-83.5	5,858.4
Financial liabilities		133.4				133.4
Tax liabilities		154.4				154.4
Other liabilities	3.8	133.7	29.8	1.5	-2.0	166.8
<b>Total liabilities</b>	<b>5,790.3</b>	<b>4,221.9</b>	<b>1,225.8</b>	<b>174.7</b>	<b>-85.5</b>	<b>11,327.1</b>
<b>Equity</b>						
Share capital						40.4
Reserves						661.1
Retained earnings						676.6
<b>Equity attributable to parent company's equityholders</b>						<b>1,378.1</b>
Non-controlling interests						0.0
<b>Total equity</b>						<b>1,378.1</b>
<b>Total equity and liabilities</b>						<b>12,705.2</b>

# Notes to the income statement

## 1 INSURANCE PREMIUMS

### 1.1. PREMIUMS FROM INSURANCE CONTRACTS

EUR million	2016	2015
Insurance contracts		
Insurance contracts	644.2	723.1
Reinsurance contracts	2.8	2.0
<b>Insurance contracts total, gross</b>	<b>647.1</b>	<b>725.0</b>
Reinsurers' share	-6.3	-4.8
<b>Insurance contracts total, net</b>	<b>640.8</b>	<b>720.2</b>
Investment contracts	474.9	423.8
<b>Total premiums <sup>1)</sup></b>	<b>1,115.7</b>	<b>1,144.1</b>

<sup>1)</sup> The change in unearned premiums is presented in note 4 "The change in insurance and investment liabilities".

### 1.2. SPECIFICATION OF PREMIUMS

EUR million	2016	2015
Premiums from insurance contracts		
Premiums from contracts with discretionary participation feature	144.3	146.3
Premiums from unit-linked contracts	497.9	574.8
Premiums from other contracts	2.1	1.9
<b>Total</b>	<b>644.2</b>	<b>723.1</b>
Assumed reinsurance	2.8	2.0
Premiums from investment contracts		
Premiums from contracts with discretionary participation feature	0.3	30.0
Premiums from unit-linked contracts	474.6	393.8
<b>Total</b>	<b>474.9</b>	<b>423.8</b>
<b>Insurance and investment contracts, total</b>	<b>1,122.0</b>	<b>1,148.9</b>
Reinsurers' share	-6.3	-4.8
<b>Total premiums</b>	<b>1,115.7</b>	<b>1,144.1</b>

### 1.3. DIRECT INSURANCE PREMIUMS BY GEOGRAPHICAL SEGMENTS

EUR million	2016	2015
Finland	1,090.1	1,113.3
Baltic countries	29.1	33.6
<b>Total</b>	<b>1,119.2</b>	<b>1,146.9</b>

#### 1.4. SINGLE AND REGULAR PREMIUMS FROM DIRECT INSURANCE

EUR million	2016	2015
Regular premiums, insurance contracts	277.2	287.1
Single premiums, insurance contracts	367.0	436.0
Single premiums, investment contracts	474.9	423.8
<b>Total</b>	<b>1,119.2</b>	<b>1,146.9</b>

#### 1.5. DIRECT INSURANCE PREMIUMS BY LINE OF BUSINESS

EUR million	2016	2015
<b>Premiums from insurance contracts</b>		
Life insurance		
Unit-linked individual life insurance	366.5	428.2
Other individual life insurance	48.5	49.1
Employees' group life insurance	12.0	10.3
Other group life insurance	9.4	9.2
<b>Total</b>	<b>436.4</b>	<b>496.8</b>
Pension insurance		
Unit-linked individual pension insurance	66.0	71.5
Other individual pension insurance	12.5	14.3
Unit-linked group pension insurance	65.5	75.2
Other group pension insurance	63.9	65.3
<b>Total</b>	<b>207.8</b>	<b>226.3</b>
<b>Total</b>	<b>644.2</b>	<b>723.1</b>
<b>Premiums from investment contracts</b>		
Capital redemption operations		
Unit-linked capital redemption operations	474.6	393.8
Other capital redemption operations	0.3	30.0
<b>Total</b>	<b>474.9</b>	<b>423.8</b>
<b>Total premiums from insurance and investment contracts</b>	<b>1,119.2</b>	<b>1,146.9</b>

## 2 NET INCOME FROM INVESTMENTS

EUR million	2016	2015
<b>Financial assets</b>		
<b>Derivative financial instruments</b>		
Gains/losses	-8.7	-89.5
<b>Financial assets designated as at fair value through p/l</b>		
<b>Debt securities</b>		
Interest income	0.6	0.6
Gains/losses	-3.5	1.1
<b>Equity securities</b>		
Gains/losses	0.0	0.2
Dividend income	0.0	0.0
<b>Total</b>	<b>-2.8</b>	<b>1.9</b>
<b>Investments related to unit-linked contracts</b>		
<b>Debt securities</b>		
Interest income	50.0	57.9
Gains/losses	4.4	-39.7
<b>Equity securities</b>		
Gains/losses	197.9	218.5
Dividend income	31.8	21.8
<b>Loans and receivables</b>		
Interest income	-0.2	1.0
<b>Other financial assets</b>		
Gains/losses	-7.9	-20.6
<b>Total</b>	<b>276.0</b>	<b>238.8</b>
<b>Loans and receivables</b>		
Interest income	4.1	2.7
Gains/losses	5.9	26.8
<b>Total</b>	<b>10.1</b>	<b>29.5</b>
<b>Financial assets available-for-sale</b>		
<b>Debt securities</b>		
Interest income	102.1	95.5
Gains/losses	29.8	47.7
<b>Equity securities</b>		
Gains/losses	100.7	191.6
Impairment losses	-15.1	-19.0
Dividend income	122.2	107.6
<b>Total</b>	<b>339.6</b>	<b>423.4</b>
<b>Total financial assets</b>	<b>614.1</b>	<b>604.1</b>
<b>Other assets</b>		
<b>Investment properties</b>		
Gains/losses	2.9	2.1
Impairment losses	0.0	0.0
Other	6.4	13.3
<b>Total other assets</b>	<b>9.4</b>	<b>15.4</b>

EUR million	2016	2015
<b>Net fee income</b>		
Asset management	-14.8	-16.6
Fee income	25.7	29.2
<b>Total</b>	<b>10.9</b>	<b>12.6</b>
<b>Total</b>	<b>634.4</b>	<b>632.0</b>

Included in gains/losses from financial assets available-for-sale is a net gain of EURm 105.8 (259.0) 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	
	2016	2015	2016	2015	2016	2015
<b>Insurance contracts</b>						
<b>Life insurance</b>						
Contracts with discretionary participation feature (DPF)	-43.1	-47.2	1.7	2.5	-41.4	-44.7
Other contracts	-0.4	-0.4	0.3	-0.4	-0.1	-0.8
Unit-linked contracts	-204.5	-183.4	1.6	13.8	-202.9	-169.6
<b>Total</b>	<b>-248.0</b>	<b>-231.1</b>	<b>3.7</b>	<b>15.9</b>	<b>-244.3</b>	<b>-215.2</b>
<b>Pension insurance</b>						
Contracts with discretionary participation feature (DPF)	-425.4	-397.4	91.9	-19.2	-333.5	-416.6
Unit-linked contracts	-17.9	-15.0	-19.0	-21.2	-36.9	-36.2
<b>Total</b>	<b>-443.2</b>	<b>-412.4</b>	<b>72.8</b>	<b>-40.4</b>	<b>-370.4</b>	<b>-452.8</b>
<b>Assumed reinsurance</b>	<b>-0.5</b>	<b>-0.1</b>	<b>0.1</b>	<b>-0.5</b>	<b>-0.4</b>	<b>-0.6</b>
<b>Insurance contracts total, gross</b>	<b>-691.8</b>	<b>-643.5</b>	<b>76.6</b>	<b>-25.0</b>	<b>-615.2</b>	<b>-668.5</b>
Reinsurers' share	3.0	2.8	0.3	0.1	3.3	2.8
<b>Insurance contracts total, net</b>	<b>-688.8</b>	<b>-640.8</b>	<b>76.9</b>	<b>-24.9</b>	<b>-611.8</b>	<b>-665.7</b>
<b>Investment contracts</b>						
<b>Capital redemption policies</b>						
Contracts with discretionary participation feature (DPF)		-0.1	-	-	-0.4	-0.1
Unit-linked contracts		-357.7	-	-	-355.0	-357.7
<b>Total</b>	<b>-355.4</b>	<b>-357.7</b>	<b>-</b>	<b>-</b>	<b>-355.4</b>	<b>-357.7</b>
<b>Claims, total</b>	<b>-1,044.2</b>	<b>-998.5</b>	<b>76.9</b>	<b>-24.9</b>	<b>-967.3</b>	<b>-1,023.4</b>

CLAIMS PAID BY TYPE OF BENEFIT

EUR million	2016	2015
<b>Insurance contracts</b>		
<b>Life insurance</b>		
Surrender benefits	-7.3	-8.2
Death benefits	-20.9	-18.7
Maturity benefits	-5.7	-10.2
Loss adjustment expenses	0.0	0.0
Other	-9.7	-10.6
<b>Total</b>	<b>-43.5</b>	<b>-47.6</b>
<b>Life insurance, unit-linked</b>		
Surrender benefits	-148.6	-132.1
Death benefits	-45.4	-41.1
Maturity benefits	-10.4	-10.3
Loss adjustment expenses	0.0	0.0
<b>Total</b>	<b>-204.5</b>	<b>-183.4</b>
<b>Pension insurance</b>		
Pension payments	-414.7	-386.3
Surrender benefits	-2.2	-6.0
Death benefits	-8.5	-5.2
Loss adjustment expenses	0.0	0.0
<b>Total</b>	<b>-425.4</b>	<b>-397.4</b>
<b>Pension insurance, unit-linked</b>		
Pension payments	-3.6	-1.0
Surrender benefits	-9.7	-10.9
Death benefits	-4.5	-3.1
Other	-0.1	0.0
<b>Total</b>	<b>-17.9</b>	<b>-15.0</b>
Assumed reinsurance	-0.5	-0.1
<b>Insurance contracts total, gross</b>	<b>-691.8</b>	<b>-643.5</b>
Reinsurers' share	3.0	2.8
<b>Insurance contracts total, net</b>	<b>-688.8</b>	<b>-640.8</b>
<b>Investment contracts</b>		
<b>Capital redemption policy, with-profit</b>		
Surrender benefits	-0.4	-0.1
Loss adjustment expenses	0.0	0.0
<b>Total</b>	<b>-0.4</b>	<b>-0.1</b>
<b>Capital redemption policy, unit-linked</b>		
Surrender benefits	-371.6	-375.0
Loss adjustment expenses	16.6	17.3
<b>Total</b>	<b>-355.0</b>	<b>-357.7</b>
<b>Investment contracts total, gross</b>	<b>-355.4</b>	<b>-357.7</b>
Claims paid total, gross	-1,047.2	-1,001.3
Claims paid total, net	-1,044.2	-998.5

#### 4 CHANGE IN LIABILITIES FOR INSURANCE AND INVESTMENT CONTRACTS

EUR million	2016	2015
<b>Insurance contracts</b>		
<b>Life-insurance</b>		
Contracts with discretionary participation feature (DPF)	23.2	14.5
Other contracts	-0.1	-0.1
Unit-linked contracts	-251.6	-292.4
<b>Total</b>	<b>-228.5</b>	<b>-277.9</b>
<b>Pension insurance</b>		
Contracts with discretionary participation feature (DPF)	67.5	93.8
Unit-linked contracts	-116.3	-143.2
<b>Total</b>	<b>-48.9</b>	<b>-49.4</b>
Assumed reinsurance	0.0	0.1
<b>Insurance contracts total, gross</b>	<b>-277.3</b>	<b>-327.2</b>
Reinsurers' share	0.0	0.0
<b>Insurance contracts total, net</b>	<b>-277.3</b>	<b>-327.2</b>
<b>Investment contracts</b>		
<b>Capital redemption policy</b>		
Contracts with discretionary participation feature (DPF)	9.8	-32.6
Unit-linked contracts	-197.9	-102.1
<b>Investment contracts, total</b>	<b>-188.1</b>	<b>-134.6</b>
<b>Change in liabilities for insurance and investment contracts in total, gross</b>	<b>-465.4</b>	<b>-461.8</b>

#### 5 STAFF COSTS

EUR million	2016	2015
<b>Staff costs</b>		
Wages and salaries	-36.2	-35.1
Cash-settled share-based payments	-1.4	-3.6
Pension costs - defined contribution plans	-6.0	-5.8
Other social security costs	-2.6	-2.7
<b>Total</b>	<b>-46.2</b>	<b>-47.2</b>

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

## 6 OTHER OPERATING EXPENSES

EUR million	2016	2015
IT costs	-17.6	-16.6
Other staff costs	-1.7	-1.8
Marketing expenses	-3.7	-4.0
Depreciation and amortisation	-2.2	-1.9
Rental expenses	-3.6	-3.7
Direct insurance commissions	-7.7	-9.0
Commissions of reinsurance assumed	-1.3	-0.5
Commissions on reinsurance ceded	2.2	1.4
Other	-42.1	-38.4
<b>Total</b>	<b>-77.7</b>	<b>-74.4</b>

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

## OPERATING EXPENSES BY ACTIVITY

EUR million	2016	2015
Policy acquisition costs for insurance and investment contracts		
Direct insurance commissions	-7.7	-9.0
Commission on reinsurance assumed	-1.3	-0.5
Other acquisition costs	-24.7	-24.0
Policy management expenses on insurance and investment contracts	-48.9	-48.3
Administrative expenses	-17.1	-18.6
Commission on reinsurance ceded	2.2	1.4
Investment management expenses	-2.0	-1.8
Claims settlement expenses	-4.3	-3.7
Other expenses	-5.9	-6.1
<b>Total</b>	<b>-109.7</b>	<b>-110.7</b>

## 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 26.5 EURm (30.1) and accrued interest expenses 7.2 EURm (10.4).

### FINANCIAL ASSETS

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
<b>Financial assets total</b>	<b>5,669.5</b>	<b>86.7</b>	<b>144.4</b>	<b>-15.1</b>	<b>122.2</b>

## FINANCIAL LIABILITIES

		2016			
EUR million	Carrying amount	Interest inc./ exp.	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	-	-	

## FINANCIAL ASSETS

			2015		
EUR million	Carrying amount	Interest inc./ exp.	Gains/ losses	Impairment losses	Dividend income
Financial assets at fair value through p/l					
Derivative financial instruments	11.3	-8.1	-81.4	-	-
Financial assets designated as at fair value through p/l	48.4	0.6	1.2	-	0.0
Loans and receivables	23.6	2.7	26.8	-	-
Financial assets available-for-sale	5,955.5	95.5	239.3	-19.0	107.6
Financial assets total	6,038.9	90.7	185.9	-19.0	107.6

## FINANCIAL LIABILITIES

			2015		
EUR million	Carrying amount	Interest inc./ exp.	Gains/ losses	Impairment losses	Dividend income
Financial liabilities at fair value through p/l					
Derivative financial instruments	33.4	-	-	-	-
Other financial liabilities	100.0	-6.2	-	-	-
Financial liabilities total	133.4	-6.2	-	-	

# Notes to the balance sheet

## 8 PROPERTY, PLANT AND EQUIPMENT

EUR million	2016			2015		
	Land and buildings	Equipment	Total	Land and buildings	Equipment	Total
At 1 Jan.						
Cost	4.3	7.9	12.2	4.3	7.6	11.9
Accumulated depreciation	-0.6	-7.0	-7.6	-0.6	-6.7	-7.3
<b>Net carrying amount at 31 Dec</b>	<b>3.7</b>	<b>0.9</b>	<b>4.6</b>	<b>3.7</b>	<b>0.9</b>	<b>4.6</b>
Opening net carrying amount	3.7	0.9	4.6	3.7	0.9	4.6
Additions	0.0	0.2	0.2	0.0	0.3	0.3
Depreciation	-0.1	-0.1	-0.1	-0.1	-0.3	-0.4
<b>Closing net carrying amount at 31 Dec</b>	<b>3.6</b>	<b>1.0</b>	<b>4.6</b>	<b>3.7</b>	<b>0.9</b>	<b>4.6</b>
At 31 Dec.						
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
<b>Net carrying amount at 31 Dec</b>	<b>3.6</b>	<b>1.0</b>	<b>4.6</b>	<b>3.7</b>	<b>0.9</b>	<b>4.6</b>

Equipment comprise IT equipment and furniture.

## 9 INVESTMENT PROPERTY

EUR million	2016	2015
At 1 Jan.		
Cost	255.6	244.7
Accumulated depreciation	-53.6	-49.9
Accumulated impairment losses	-23.8	-18.1
<b>Net carrying amount at 31 Jan</b>	<b>178.2</b>	<b>176.7</b>
Opening net carrying amount at 1 Jan	178.2	176.7
Additions	41.3	27.4
Disposals	-18.3	-16.5
Depreciation	-3.5	-3.7
Impairment losses	1.1	-5.6
<b>Closing net carrying amount at 31 Dec</b>	<b>198.8</b>	<b>178.2</b>
At 31 Dec.		
Cost	278.5	255.6
Accumulated depreciation	-57.0	-53.6
Accumulated impairment losses	-22.7	-23.8
<b>Net carrying amount at 31 Dec</b>	<b>198.8</b>	<b>178.2</b>
Rental income from investment property	20.1	20.9
Property rented out under operating lease		
Non-cancellable minimum rental		
- not later than one year	9.2	8.6
- later than one year and not later than five years	13.2	5.8
- later than five years	3.2	0.0
<b>Total</b>	<b>25.5</b>	<b>14.4</b>
Variable rents recognised as income during the financial period	0.0	0.1

EUR million	2016	2015
Expenses arising from investment property		
Direct operating expenses arising from investment property generating rental income during the period	-8.7	-8.9
Direct operating expenses arising from investment property not generating rental income during the period	-1.3	-1.3
<b>Total</b>	<b>-10.0</b>	<b>-10.2</b>
<b>Fair value of investment property at 31 Dec.</b>	<b>221.7</b>	<b>202.7</b>

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	2016	2015
At 1 Jan.		
Cost	45.0	43.1
Accumulated amortisation	-37.8	-36.3
<b>Net carrying amount at 1 Jan</b>	<b>7.2</b>	<b>6.8</b>
Opening net carrying amount at 1 Jan	7.2	6.8
Additions	0.3	1.9
Amortisation	-1.5	-1.5
<b>Closing net carrying amount at 31 Dec</b>	<b>6.0</b>	<b>7.2</b>
At 31 Dec.		
Cost	45.3	45.0
Accumulated amortisation	-39.3	-37.8
<b>Net carrying amount at 31 Dec</b>	<b>6.0</b>	<b>7.2</b>

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. 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

ASSOCIATES THAT HAVE BEEN ACCOUNTED FOR BY THE EQUITY METHOD AT 31 DEC. 2015

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 07/2015–12/2015

The operations of Saka Hallikiinteistöt Oy has terminated and a profit of EURm 6.2 has been recognised

## CHANGES IN INVESTMENTS IN ASSOCIATES

EUR million	2016	2015
At beginning of year	0.0	0.4
Change	0.0	-0.4
Share of loss/profit	0.0	0.0
<b>At end of year</b>	<b>0.0</b>	<b>0.0</b>

## 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	2016	2015
Derivative financial instruments	13.1	11.3
Financial assets designated as at fair value through p/l	24.0	48.4
Loans and receivables	20.4	23.6
Financial assets available-for-sale	5,612.0	5,955.5
<b>Total</b>	<b>5,669.5</b>	<b>6,038.9</b>
Assets classified as held for sale	-210.4	-
<b>Total</b>	<b>5,459.2</b>	<b>6,038.9</b>

## DERIVATIVE FINANCIAL INSTRUMENTS

	2016			2015		
	Contract notional amount	Fair value Assets	Liabilities	Contract notional amount	Fair value Assets	Liabilities
<b>Derivatives held for trading</b>						
<b>Interest rate derivatives</b>						
Interest rate swaps	144.0	0.5	0.4	4,618.0	0.2	1.4
Credit risk swaps	0.0	0.0	0.0	643.0	0.0	0.3
<b>Total</b>	<b>144.0</b>	<b>0.5</b>	<b>0.4</b>	<b>5,261.0</b>	<b>0.2</b>	<b>1.7</b>
<b>Foreign exchange derivatives</b>						
Currency forwards	1,691.3	10.2	10.6	1,632.5	7.8	21.6
Currency options, bought and sold	62.5	0.2	0.1	156.2	0.9	0.8
<b>Total</b>	<b>1,753.8</b>	<b>10.4</b>	<b>10.6</b>	<b>1,788.7</b>	<b>8.6</b>	<b>22.4</b>
<b>Total derivatives held for trading</b>	<b>1,897.8</b>	<b>10.9</b>	<b>11.0</b>	<b>7 049.7</b>	<b>8.8</b>	<b>24.1</b>

	2016			2015		
	Contract notional amount	Fair value Assets	Liabilities	Contract notional amount	Fair value Assets	Liabilities
Derivatives held for hedging						
Fair value hedges						
Currency forwards	533.9	2.3	0.0	601.8	2.5	9.3
Interest rate swaps	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>533.9</b>	<b>2.3</b>	<b>0.0</b>	<b>601.8</b>	<b>2.5</b>	<b>9.3</b>
<b>Total derivatives</b>	<b>2,431.7</b>	<b>13.1</b>	<b>11.0</b>	<b>7,651.5</b>	<b>11.3</b>	<b>33.4</b>

#### 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 EURm 19 (-69). Net gains/losses from hedged risks in fair value hedges of available for sale financial assets amounted to EURm -19 (68).

## OTHER FINANCIAL ASSETS

EUR million	2016	2015
Financial assets designated as at fair value through p/l		
Debt securities		
Issued by public bodies	15.3	12.7
Certificates of deposit issued by banks	6.9	10.4
Other debt securities	0.0	23.5
<b>Total debt securities</b>	<b>22.2</b>	<b>46.6</b>
Equity securities		
Listed	1.8	1.8
Unlisted	-	-
<b>Total</b>	<b>1.8</b>	<b>1.8</b>
<b>Total financial assets designated as at fair value through p/l</b>	<b>24.0</b>	<b>48.4</b>
Loans and receivables		
Deposits with ceding undertakings	0.0	0.0
Loans	20.4	23.6
<b>Total loans and receivables</b>	<b>20.4</b>	<b>23.6</b>
Financial assets available-for-sale		
Debt securities		
Issued by public bodies	18.7	30.2
Issued by banks	563.2	487.7
Other debt securities	2 523.3	2 896.1
<b>Total debt securities</b>	<b>3,105.3</b>	<b>3,414.0</b>
Equity securities		
Listed	1 727.3	1 668.8
Unlisted	779.5	872.8
<b>Total</b>	<b>2,506.8</b>	<b>2,541.6</b>
<b>Total financial assets available-for-sale</b>	<b>5,612.0</b>	<b>5,955.5</b>
<b>Assets classified as held for sale</b>	<b>-210.4</b>	<b>-</b>
<b>Total</b>	<b>5,459.2</b>	<b>6,038.9</b>

Financial assets available-for-sale for life insurance include impairment losses EURm 15 (19).

Financial assets available for sale / debt securities: Debt securities available for sale include EURm 2,925 (3,334) investments in bonds and EURm 180 (95) investments in money market instruments.

Financial assets available for sale /shares and participations: Listed equity securities include EURm 913 (831) quoted shares. Unlisted equity securities include EURm 727 (768) investments in capital trusts.

## 13 FAIR VALUES

EUR million	2016		2015	
	Fair value	Carrying amount	Fair value	Carrying amount
<b>Financial assets, group</b>				
Financial assets	5,669.5	5,669.5	6,038.9	6,038.9
Investments related to unit-linked contracts	6,459.8	6,459.8	5,864.5	5,864.5
Other assets	46.6	46.6	21.2	21.2
Cash and cash equivalents	682.3	682.3	482.5	482.5
<b>Total</b>	<b>12,858.3</b>	<b>12,858.3</b>	<b>12,407.1</b>	<b>12,407.1</b>
<b>Financial liabilities, group</b>				
Financial liabilities	111.0	111.0	133.4	133.4
Other liabilities	30.6	30.6	60.6	60.6
<b>Total</b>	<b>141.6</b>	<b>141.6</b>	<b>194.0</b>	<b>194.0</b>

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 31.12.2016

EUR million	Level 1	Level 2	Level 3	Total
<b>Derivative financial instruments</b>				
Interest rate swaps	-	0.5	-	0.5
Foreign exchange derivatives	-	12.6	-	12.6
Equity derivatives	-	0.0	-	0.0
<b>Total</b>	<b>0.0</b>	<b>13.1</b>	<b>0.0</b>	<b>13.1</b>
<b>Financial assets designated at fair value through profit or loss</b>				
Equity securities	1.8	-	-	1.8
Debt securities	17.8	4.4	-	22.2
<b>Total</b>	<b>19.6</b>	<b>4.4</b>	<b>0.0</b>	<b>24.0</b>
<b>Financial assets related to unit-linked insurance</b>				
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
<b>Total</b>	<b>4,366.3</b>	<b>1,569.2</b>	<b>194.0</b>	<b>6,129.5</b>
<b>Financial assets available-for-sale</b>				
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
<b>Total</b>	<b>4,013.7</b>	<b>829.8</b>	<b>768.5</b>	<b>5,612.0</b>
<b>Total financial assets measured at fair value</b>	<b>8,399.7</b>	<b>2,416.5</b>	<b>962.5</b>	<b>11,778.7</b>

### FINANCIAL LIABILITIES 31.12.2016

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

## FINANCIAL ASSETS 31.12.2015

EUR million	Level 1	Level 2	Level 3	Total
<b>Derivative financial instruments</b>				
Interest rate swaps	-	0.2	-	0.2
Foreign exchange derivatives	-	11.1	-	11.1
Equity derivatives	-	0.0	-	0.0
<b>Total</b>	<b>0.0</b>	<b>11.3</b>	<b>0.0</b>	<b>11.3</b>
<b>Financial assets designated at fair value through profit or loss</b>				
Equity securities	1.8	-	-	1.8
Debt securities	17.7	28.9	-	46.6
<b>Total</b>	<b>19.5</b>	<b>28.9</b>	<b>0.0</b>	<b>48.4</b>
<b>Financial assets related to unit-linked insurance</b>				
Equity securities	616.0	6.6	16.6	639.2
Debt securities	751.3	470.4	26.6	1,248.3
Derivative financial instruments	2,719.7	986.8	46.4	3,752.9
Mutual funds	0.0	7.5	-	7.5
<b>Total</b>	<b>4,087.0</b>	<b>1,471.4</b>	<b>89.5</b>	<b>5,647.9</b>
<b>Financial assets available-for-sale</b>				
Equity securities	831.7	-	26.0	857.7
Debt securities	2,616.7	750.7	46.6	3,414.0
Mutual funds	886.5	21.4	775.9	1,683.8
<b>Total</b>	<b>4,334.9</b>	<b>772.1</b>	<b>848.6</b>	<b>5,955.5</b>
<b>Total financial assets measured at fair value</b>	<b>8,441.4</b>	<b>2,283.6</b>	<b>938.1</b>	<b>11,663.1</b>

## FINANCIAL LIABILITIES 31.12.2015

EUR million	Level 1	Level 2	Level 3	Total
<b>Derivative financial instruments</b>				
Interest rate swaps	-	-1.4	-	-1.4
Other interest rate derivatives	-	-0.3	-	-0.3
Foreign exchange derivatives	-	-31.7	-	-31.7
Equity derivatives	-	0.0	-	0.0
<b>Total financial liabilities measured at fair value</b>	<b>0.0</b>	<b>-33.4</b>	<b>-</b>	<b>-33.4</b>

## SENSITIVITY ANALYSIS OF FAIR VALUES

10 percentage point depreciation of all other currencies against EUR would result in an effect recognised in profit/loss of EURm 12 and in an effect recognised directly in equity of EURm - 94.

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. 2016.

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	-2	0	0
Effect recognised directly in equity	79	-69	-347	-181
<b>Total effect</b>	<b>79</b>	<b>-71</b>	<b>-347</b>	<b>-181</b>

## 15 MOVEMENTS IN LEVEL 3 FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

### FINANCIAL ASSETS 2016

EUR million	At 1. Jan.	Total gains/losses in p/l	Total gains/losses recorded in OCI	Purchases	Sales	Transfers between levels 1 and 2	At 31 Dec.	Gains/losses included in p/l for financial assets
<b>Financial assets related to unit-linked insurance</b>								
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
	<b>89.5</b>	<b>-8.7</b>	<b>0.0</b>	<b>141.8</b>	<b>-28.6</b>	<b>0.0</b>	<b>194.0</b>	<b>-5.1</b>
<b>Financial assets available-for-sale</b>								
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
	<b>848.6</b>	<b>2.5</b>	<b>-22.3</b>	<b>178.1</b>	<b>-238.3</b>	<b>-</b>	<b>768.5</b>	<b>-20.3</b>
<b>Total financial assets measured at fair value</b>	<b>938.1</b>	<b>-6.2</b>	<b>-22.3</b>	<b>319.8</b>	<b>-267.0</b>	<b>0.0</b>	<b>962.5</b>	<b>-25.4</b>

### FINANCIAL LIABILITIES 2016

EUR million	Realised gains and losses	Fair value change	Total
Total gains or losses included in p/l for the financial year	-6.2	-22.3	-28.5
Total gains or losses included in p/l for assets held at the end of the financial year	-3.1	-22.3	-25.4

## FINANCIAL ASSETS 2015

EUR million	At 1. Jan.	Total gains/ losses in p/l	Total gains/losses recorded in OCI	Purchases	Sales	Transfers between levels 1 and 2	At 31 Dec.	Gains/losses included in p/l for financial assets
<b>Financial assets related to unit-linked insurance</b>								
Equity securities	15.5	1.8	-	3.0	-3.8	0.0	16.6	1.0
Debt securities	23.8	-0.4	-	0.1	-0.3	3.5	26.6	-0.3
Mutual funds	56.6	1.6	-	11.1	-22.9	0.0	46.4	2.1
	<b>95.9</b>	<b>3.1</b>	<b>0.0</b>	<b>14.1</b>	<b>-27.0</b>	<b>3.5</b>	<b>89.5</b>	<b>2.8</b>
<b>Financial assets available-for-sale</b>								
Equity securities	42.6	-2.4	0.9	0.0	-15.0	-	26.0	1.4
Debt securities	46.9	1.4	0.0	0.0	-1.7	-	46.6	0.0
Mutual funds	718.0	25.8	11.7	163.4	-143.0	-	775.9	7.8
	<b>807.5</b>	<b>24.8</b>	<b>12.6</b>	<b>163.4</b>	<b>-159.7</b>	<b>-</b>	<b>848.6</b>	<b>9.2</b>
<b>Total financial assets measured at fair value</b>	<b>903.4</b>	<b>27.8</b>	<b>12.6</b>	<b>177.5</b>	<b>-186.8</b>	<b>3.5</b>	<b>938.1</b>	<b>11.9</b>

## FINANCIAL LIABILITIES 2015

EUR million	Realised gains and losses	Fair value change	Total
Total gains or losses included in p/l for the financial year	27.7	12.6	40.3
Total gains or losses included in p/l for assets held at the end of the financial year	-0.7	12.6	11.9

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

EUR million	2016		2015	
	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	13.8	-	16.6	-
Debt securities	26.5	-	26.6	-
Mutual funds	153.7	-	46.4	-
<b>Total</b>	<b>194.0</b>	<b>0.0</b>	<b>89.5</b>	<b>0.0</b>
Financial assets available-for-sale				
Equity securities	29.0	-5.8	26.0	-5.2
Debt securities	5.4	-0.4	46.6	-0.9
Mutual funds	734.1	-146.8	775.9	-155.2
<b>Total</b>	<b>768.5</b>	<b>-153.1</b>	<b>848.6</b>	<b>-161.3</b>
<b>Total financial assets measured at fair value</b>	<b>962.5</b>	<b>-153.1</b>	<b>938.1</b>	<b>-161.3</b>

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 the these alternative assumptions, a possible change in interest levels would cause descent of EURm 0.4 (0.9) for the debt instruments, and EURm 152.6 (160.4) 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 10.3 % (11.7).

## 17 INVESTMENTS RELATED TO UNIT-LINKED INSURANCE CONTRACTS

EUR million	2016	2015
Financial assets designated at fair value through p/l		
<b>Debt securities</b>		
Issued by public bodies	67.8	49.4
Other debt securities	1,358.3	1,198.9
<b>Total</b>	<b>1,426.2</b>	<b>1,248.3</b>
<b>Equity securities</b>		
Listed	4,388.1	4,327.8
Unlisted	313.1	64.3
<b>Total</b>	<b>4,701.1</b>	<b>4,392.1</b>
Loans and other receivables	330.3	216.7
Other financial asset	2.2	7.5
<b>Investment related to unit-linked contracts, total</b>	<b>6,459.8</b>	<b>5,864.5</b>
Assets classified as held for sale	-2,991.5	-
<b>Total</b>	<b>3,468.2</b>	<b>5,864.5</b>

The historical cost of the equity securities related to unit-linked contracts was EURm 3,813 (3,645) and that of the debt securities EURm 1,437 (1,305).

## 18 DEFERRED TAX ASSETS AND LIABILITIES

### 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
Changes in fair values	2.1		2.1	4.2
Pension liabilities	6.8	-4.7		2.2
<b>Total</b>	<b>10.7</b>	<b>-5.7</b>	<b>1.4</b>	<b>6.5</b>
Netting of deferred taxes				-6.5
<b>Deferred tax assets in the balance sheet</b>				<b>0.0</b>
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
Pension liabilities	2.1		2.1	4.2
<b>Total</b>	<b>165.1</b>	<b>2.4</b>	<b>19.9</b>	<b>187.3</b>
Netting of deferred taxes				6.5
<b>Total deferred tax liabilities in the balance sheet</b>				<b>180.8</b>

### CHANGES IN DEFERRED TAX DURING THE FINANCIAL PERIOD 2015

EUR million	1. Jan	Recognised in OCI	Recognised in equity	31. Dec
Deferred tax assets				
Losses from previous years	2.5	-0.7		1.8
Changes in fair values	0.0			0.0
Pension liabilities	0.0		2.1	2.1
Other deductible temporary differences	17.4	-10.6		6.8
<b>Total</b>	<b>20.0</b>	<b>-11.3</b>	<b>2.1</b>	<b>10.7</b>
Netting of deferred taxes				-10.7
<b>Deferred tax assets in the balance sheet</b>				<b>0.0</b>
Deferred tax liabilities				
Depreciation differences and untaxed reserves	8.8	-6.5		2.2
Changes in fair values	134.3	17.8	8.6	160.7
Pension liabilities	0.0		2.1	2.1
<b>Total</b>	<b>143.1</b>	<b>11.3</b>	<b>10.7</b>	<b>165.1</b>
Netting of deferred taxes				-10.7
<b>Total deferred tax liabilities in the balance sheet</b>				<b>154.3</b>

EURm 4.1 of deferred tax asset has not been recognised on unused tax losses. First losses will expire in 2021.

## 19 TAXES

EUR million	2016	2015
Profit before tax	209.6	180.8
Tax calculated at parent company's tax rate	41.9	36.2
Different tax rates on overseas earnings	0.2	0.1
Income not subject to tax	-4.1	-2.4
Expenses not allowable for tax purposes	0.0	0.0
Consolidation procedures and eliminations	1.7	0.5
Tax from previous years	1.5	1.9
<b>Total</b>	<b>41.3</b>	<b>36.3</b>

## 20 COMPONENTS OF OTHER COMPREHENSIVE INCOME

EUR million	2016	2015
Other comprehensive income items reclassifiable to profit or loss		
Exchange differences	0.0	0.0
Available-for-sale financial assets		
Gains/losses arising during the year	93.0	43.0
Income tax relating to components of other comprehensive income	-18.6	-8.6
Shadow accounting	-10.7	-10.5
<b>Total items reclassifiable to profit or loss, net of tax</b>	<b>63.6</b>	<b>23.9</b>

## 21 TAX EFFECTS RELATING TO COMPONENTS OF OTHER COMPREHENSIVE INCOME

	2016			2015		
EUR million	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	93.0	-18.6	74.4	43.0	-8.6	34.4
Shadow accounting	-10.7	0.0	-10.7	-10.5	0.0	-10.5
<b>Total</b>	<b>82.2</b>	<b>-18.6</b>	<b>63.6</b>	<b>32.5</b>	<b>-8.6</b>	<b>23.9</b>

## 22 OTHER ASSETS

EUR million	2016	2015
Interests	26.5	30.1
Receivables from policyholders	8.1	8.6
Assets arising from reinsurance operations	0.3	0.0
Settlement receivables	46.6	21.2
Assets pledged for trading in derivatives	17.6	18.8
Other	63.1	47.9
<b>Other assets, total</b>	<b>162.3</b>	<b>126.6</b>

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

## 23 CASH AND CASH EQUIVALENTS

EUR million	2016	2015
Cash at bank	682.3	378.4
Short-term deposits (max 3 months)	0.0	104.1
<b>Total</b>	<b>682.3</b>	<b>482.5</b>

## 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
<b>At 1 Jan. 2016</b>	<b>4,978.5</b>	<b>35.6</b>	<b>5,014.1</b>
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
Transferred portfolio	0.0	0.0	0.0
Other	29.1	-8.0	21.1
<b>At 31 Dec. 2016</b>	<b>4,793.9</b>	<b>27.5</b>	<b>4,821.5</b>
Reinsurers' share	-3.0	0.0	-3.0
<b>Liability at 31 Dec. 2016</b>	<b>4,790.9</b>	<b>27.5</b>	<b>4,818.5</b>
Liabilities associated with assets held for sale			-210.4
<b>Net liability at 31 Dec. 2016</b>			<b>4,608.1</b>

EUR million	Insurance contracts	Investment contracts	Total
<b>At 1 Jan. 2015</b>	<b>5,058.0</b>	<b>4.3</b>	<b>5,062.4</b>
Premiums	148.2	30.0	178.2
Claims paid	-445.0	-0.1	-445.1
Expense charge	-38.0	0.0	-38.0
Guaranteed interest	153.0	0.1	153.1
Bonuses	0.5	0.0	0.5
Transferred portfolio	16.7	0.0	16.7
Other	85.0	1.3	86.3
<b>At 31 Dec. 2015</b>	<b>4,978.5</b>	<b>35.6</b>	<b>5,014.1</b>
Reinsurers' share	-2.6	0.0	-2.6
<b>Net liability at 31 Dec. 2015</b>	<b>4,975.9</b>	<b>35.6</b>	<b>5,011.5</b>

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

EUR million	Insurance contracts	Investment contracts	Total
<b>At 1 Jan. 2016</b>	<b>4,041.5</b>	<b>1,816.9</b>	<b>5,858.4</b>
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
<b>At 31 Dec. 2016</b>	<b>4,426.8</b>	<b>2,013.1</b>	<b>6,439.9</b>
Liabilities associated with assets held for sale			-2,991.5
<b>Liability at 31 Dec. 2016</b>			<b>3,448.4</b>

EUR million	Insurance contracts	Investment contracts	Total
<b>At 1 Jan. 2015</b>	<b>3,598.5</b>	<b>1,713.5</b>	<b>5,312.0</b>
Premiums	574.8	393.8	968.7
Claims paid	-198.4	-357.7	-556.1
Expense charge	-43.7	-22.2	-65.9
Other	110.3	89.3	199.7
<b>Liability at 31 Dec. 2015</b>	<b>4,041.5</b>	<b>1,816.9</b>	<b>5,858.4</b>

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	2016	2015
Liabilities for contracts with discretionary participation feature (DPF)		
Provision for unearned premiums	2,424.6	2,515.6
Provision for claims outstanding	2,366.3	2,460.8
Liabilities for contracts without discretionary participation feature (DPF)		
Provision for unearned premiums	0.4	0.0
Provision for claims outstanding	0.6	0.0
<b>Total</b>	<b>4,792.0</b>	<b>4,976.4</b>
Assumed reinsurance		
Provision for unearned premiums	1.1	1.1
Provision for claims outstanding	0.9	0.9
<b>Total</b>	<b>1.9</b>	<b>2.1</b>
Insurance contracts total		
Provision for unearned premiums	2,426.1	2,516.7
Provision for claims outstanding	2,367.8	2,461.8
<b>Total</b>	<b>4,793.9</b>	<b>4,978.5</b>
Investment contracts		
Liabilities for contracts with discretionary participation feature (DPF)		
Provision for unearned premiums	27.5	35.6
Liabilities for insurance and investment contracts total		
Provision for unearned premiums	2,453.7	2,552.3
Provision for claims outstanding	2,367.8	2,461.8
<b>Life insurance total</b>	<b>4,821.5</b>	<b>5,014.1</b>
Reinsurers' share		
Provision for unearned premiums	0.0	0.0
Provision for claims outstanding	-3.0	-2.6
<b>Total</b>	<b>-3.0</b>	<b>-2.6</b>

Investment contracts do not include a provision for claims outstanding.

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	2016	2015
Unit-linked insurance contracts	4,426.8	4,041.5
Unit-linked investment contracts	2,013.1	1,816.9
<b>Total</b>	<b>6,439.9</b>	<b>5,858.4</b>
Liabilities associated with assets held for sale	-2,991.5	-
<b>Total</b>	<b>3,448.4</b>	<b>5,858.4</b>

## 26 FINANCIAL LIABILITIES

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

EUR million	2016	2015
Derivative financial instruments (note 15)	11.0	33.4
Subordinated debt securities		
Subordinated loans	100.0	100.0
<b>Total</b>	<b>111.0</b>	<b>133.4</b>

Mandatum Life issued in 2002 EURm 100 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 2016 is EURm 3.4.

## 28 OTHER LIABILITIES

EUR million	2016	2015
Interests	7.2	10.4
Tax liabilities	0.0	0.0
Liabilities arising out of direct insurance operations	29.8	20.7
Liabilities arising out of reinsurance operations	5.0	4.1
Settlement liabilities	30.6	60.6
Guarantees received	1.6	0.2
Other liabilities	73.5	72.8
<b>Total</b>	<b>147.7</b>	<b>168.8</b>

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	2016	2015
Off-balance sheet items		
Fund commitments	656.9	397.3
Acquisition of IT-software	1.6	1.2
<b>Total</b>	<b>658.5</b>	<b>398.5</b>
Assets pledged as security for derivative contracts		
Cash	17.6	18.8

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

### COMMITMENTS FOR NON-CANCELLABLE OPERATING LEASES

EUR million	2016	2015
Minimum lease payments		
not later than one year	2.3	2.4
later than one year and not later than five years	6.9	8.2
over five years	5.7	7.3
<b>Total</b>	<b>14.9</b>	<b>17.9</b>
Total of sublease payments expected to be received under non-cancellable operating sub-leases	0.1	0.3
Lease and sublease payments recognised as an expense in the period		
Minimum lease payments	-3.7	-3.7
Sublease payments	0.1	0.1
<b>Total</b>	<b>-3.6</b>	<b>-3.6</b>

The Group had at the end of 2016 premises a total of 8 596 m<sup>2</sup> (9 638). The contracts have been made mainly for 3 to 10 years. The Group has subleased 318 m<sup>2</sup> (318) of these premises 318 m<sup>2</sup> (318).

## 30 EQUITY AND RESERVES

### Equity

The number of shares at 31 Dec. 2016 was 239 998. There was no change in the company's share capital of EURm 40.4 during the financial year. At the end of the financial year 2016, 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 EURm 98.9 during the financial year.

**Legal reserve** The legal reserve EURm 30.1 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	2016	2015
Key management compensation		
Short-term employee benefits	2.1	1.8
Post employment benefits	0.5	0.5
Other long-term benefits	3.7	3.4
<b>Total</b>	<b>6.3</b>	<b>5.7</b>

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	2016	2015
Outstanding balances with related parties		
Debt securities, available for sale	0.0	0.0
Other assets	0.0	0.0

## 32 INCENTIVE SCHEMES

### LONG-TERM INCENTIVE SCHEMES 2011 I, II and 2014 I, II

The Board of Directors for Sampo plc has decided on the long-term incentive schemes 2011 I and II and 2014 I and II 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 2016.

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 18.37-43.38. The maximum value of one bonus unit varies between eur 33.37-62.38, 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-bases 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 60 per cent 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	2011 I/2	2014 I	2014 I/2
Terms approved*)	14.09.2011	14.09.2011	17.09.2014	17.09.2014
Granted (1,000) 31 Dec. 2012	392	-	-	-
Granted (1,000) 31 Dec. 2013	392	10	-	-
Granted (1,000) 31 Dec. 2014	392	10	599	-
Granted (1,000) 31 Dec. 2015	187	7	575	19
Granted (1,000) 31 Dec. 2016	0	4	561	19
End of performance period I 30 %	Q2-2014	Q2-2015	Q2-2017	Q2-2018
End of performance period II 35 %	Q2-2015	Q2-2016	Q2-2018	Q2-2019
End of performance period III 35 %	Q2-2016	Q2-2017	Q2-2019	Q2-2020
Payment I 30 %	9-2014	9-2015	9-2017	9-2018
Payment II 35 %	9-2015	9-2016	9-2018	9-2019
Payment III 35 %	9-2016	9-2017	9-2019	9-2020
Price of Sampo A at terms approval date *)	18.10	18.10	37.22	37.22
Starting price **)	18.37	24.07	38.26	43.38
Dividend-adjusted starting price at 31 Dec. 2016	10.07	16.97	34.16	41.23
Sampo A - closing price 31 Dec. 2016	42.59			
Total intrinsic value, EURm	0.0	0.1	2.8	0.0
Liability, total EURm	2.9			
Total cost for the financial period, EURm	1.4			

\*) Grant dates vary

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

### 33 AUDITORS' FEES

EUR million	2016	2015
Auditing fees	-0.4	-0.2
Other fees	-0.1	-0.2
<b>Total</b>	<b>-0.5</b>	<b>-0.4</b>

### 34 LEGAL PROCEEDINGS

There are legal proceedings against Mandatum Life outstanding on 31 December 2016, 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 EURm 125 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 Raivionsuonmäki 6	Finland	100.00	100.00
Hervannan Vuokratontit Oy	Finland	100.00	100.00
Kiinteistö Oy Aapelinkatu 6	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 Matinkatu 8	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
Asunto Oy Espoon Aallonhuippu 9	Finland	100.00	100.00
Kiinteistö Oy Tampereen Hatanpäänvaltie 18	Finland	100.00	100.00
Innova Services Ltd	Finland	100.00	100.00
Mandatum Life Services Ltd	Finland	100.00	100.00
Mandatum Life Investment Services Ltd	Finland	100.00	100.00
Mandatum Lifevuokratontit I GP Oy	Finland	100.00	100.00
Saka Hallikiinteistöt GP Ltd	Finland	100.00	100.00
Mandatum Life Fund Management S.A.	Luxembourg	100.00	100.00
Mandatum Life Insurance Baltic SE	Estonia	100.00	100.00

### 37 INVESTMENTS IN SHARES AND PARTICIPATIONS OTHER THAN SUBSIDIARIES AND ASSOCIATE

Listed companies	Country	No. of shares	Holding %	Carrying amount/ Fair value
Amer Sports Plc - A	Finland	3,809,509	3.21	96.3
Asiakastieto Group Plc	Finland	1,400,000	9.27	27.0
BASF SE	Germany	98,642	0.01	8.7
Bayerische Motoren Werke AG	Germany	133,124	0.02	11.8
British American Tobacco Plc	United Kingdom	152,125	0.01	8.2
CapMan Plc - B	Finland	10,737,228	7.49	13.4
Caverion Plc	Finland	2,847,827	2.27	22.6
Comptel Plc	Finland	20,532,625	18.79	48.7
Continental AG	Germany	55,000	0.03	10.1
Deutsche Post AG	Germany	283,757	0.02	8.9
DNA Plc	Finland	1,350,000	1.02	13.7
Elecster Plc - A	Finland	117,000	6.43	1.3
F-Secure Plc	Finland	5,791,936	3.65	20.2
GlaxoSmithKline Plc	United Kingdom	515,766	0.01	9.4
Kuehne + Nagel International AG	Switzerland	75,645	0.06	9.5
Lassila & Tikanoja Plc	Finland	2,311,238	5.96	44.4
LVMH Moët Hennessy Louis Vuitton SA	France	33,332	0.01	6.0
Metso Plc	France	1,092,381	0.73	29.6
Nestle SA	Switzerland	147,947	0.00	10.1
Nokia Plc	Finland	1,767,892	0.03	8.1
Nokian Renkaat Plc	Finland	600,000	0.44	21.3
Oriola-KD Plc	Finland	4,560,000	2.51	19.6
Roche Holding AG	Switzerland	50,000	0.01	10.8
Royal Dutch Shell Plc	United Kingdom	244,963	0.01	6.4
SAP AG	Germany	119,810	0.01	9.9
Schneider Electric SA	France	163,670	0.03	10.8
Stora Enso Plc - R	Finland	1,020,000	0.17	10.4
Syngenta AG	Switzerland	18,267	0.02	6.9
Teleste Plc	Finland	1,679,200	8.84	14.9
Tikkurila Plc	Finland	1,615,079	3.66	30.4
Tokmanni Group Plc	Netherlands	2,350,000	3.99	20.0
Unilever NV - CVA	Finland	201,921	0.01	7.9
UPM-Kymmene Plc	Finland	3,685,320	0.69	86.0
Uponor Plc	Finland	1,055,794	1.44	17.4
Vaisala Plc	Finland	766,650	4.21	25.8
Valmet Corp	Finland	922,537	0.62	12.9
Wärtsilä Plc Abp	Finland	318,064	0.16	13.6
YIT Plc	Finland	1,000,000	0.79	7.6
<b>Total</b>				<b>740.4</b>
Other listed companies				177.2
<b>Total listed companies</b>				<b>917.6</b>
Other shares				
Pension Corporation Group Limited	Guernsey	8,706,965		8.0
<b>Total</b>				<b>8.0</b>

Unit trust	Country	No. of shares	Carrying amount/ Fair value
Allianz RCM Europe Equity Growth W	Luxembourg	31,176,828	74.6
Comgest Growth Asia Ex Japan USD I Acc Class	Ireland	3,666,493,377	62.3
Danske Invest Europe High Dividend I	Luxembourg	4,193,064,586	60.4
DJ STOXX 600 Opt Healthcare	Ireland	135,000	29.5
Financial Select Sector Spdr	United States	494,500	10.9
Fourton Odysseus	Finland	16,402,921	46.7
Fourton Stamina Non-Ucits	Finland	81,508	26.7
Investec Gsf-Asia Pacific-I	United Kingdom	3,660,709	72.3
iShares Core S&P 500 ETF	United States	1,177,830	251.4
iShares SMI ETF	Switzerland	706,300	56.0
KJK Fund SICAV-SIF Baltic States B1 C	Finland	5,849	13.4
Lansdowne Clean Energy Funds	United Kingdom	50,000	5.0
LUX Mandatum Life Nordic High Yield Total Return Fund SICAV-SIF G EUR Share Class	Luxembourg	150,000	13.6
MFS European Value Fund Z	Luxembourg	284,433	56.3
MFS Mer-Europe Sm Cos-I1Eur	Luxembourg	52,774	17.8
The Forest Company Limited	Guernsey	1,424,072	7.2
Unideutschland XS	Germany	202,797	26.9
<b>Total</b>			<b>831.2</b>

Capital trust			
Activa Capital Fund II FCPR	France	6,992,451.59	6.3
Amanda III Eastern Private Equity L.P.	Finland	11,495,088.35	12.2
Amanda IV West L.P.	Finland	16,097,504.69	19.3
Apollo Offshore Energy Opportunity Fund Limited	Cayman Islands	8,617,580.47	9.4
Avenue Energy Opportunities Fund L.P.	United States	19,005,320.01	19.4
Avenue Special Situations Fund VI (C-Feeder), L.P.	Cayman Islands	8,312,367	11.3
Broad Street Loan Partners 2013 Europe L.P.	United Kingdom	45,513,091.01	45.4
Broad Street Real Estate Credit Partners II Treaty Fund, L.P.	Cayman Islands	10,353,532.93	10.0
Capman Buyout IX Fund A L.P.	Guernsey	7,078,661.54	5.2
CapMan Hotels RE Ky	Finland	9,505,624.85	9.7
CapMan RE II Ky	Finland	6,984,064.65	7.3
Capman Real Estate I Ky	Finland	12,781,318.91	10.6
Capman Real Estate II Ky	Finland	8,611,043.87	8.2
EQT Auris Co-Investment L.P.	United Kingdom	10,000,000.01	18.0
EQT Credit (No.2) L.P.	Guernsey	29,858,449.67	36.9
EQT kfzteile24 Co-Investment L.P.	United Kingdom	9,375,000.01	9.4
EQT Mid Market (No.1) Feeder Limited Partnership	United Kingdom	8,235,498.44	10.0
EQT VI (No.1) L.P.	Guernsey	27,831,485.14	37.0
Financial Credit Investment I, L.P.	Cayman Islands	7,664,992.01	16.3
Fortress Credit Opportunities Fund II (C) L.P.	Cayman Islands	29,681,643.29	46.0
Fortress Credit Opportunities Fund III (C) L.P.	Cayman Islands	21,900,732.62	29.2
Fortress Credit Opportunities Fund IV (C) L.P.	Cayman Islands	16,642,583.69	16.3
Fortress Life Settlement Fund (C) L.P.	Cayman Islands	10,111,551.24	9.7
Highbridge Liquid Loan Opportunities Fund, L.P.	Cayman Islands	61,724,016.31	60.9
Lunar Capital Partners III L.P.	Cayman Islands	8,384,785.0	9.1
M&G Debt Opportunities Fund	United Kingdom	1,459,161.87	6.9
M&G Debt Opportunities Fund II	Ireland	25,870,166.25	29.1
MB Equity Fund IV Ky	Finland	8,863,502.25	12.4
Mount Kellet Capital Partners, L.P.	Cayman Islands	8,748,919.0	10.3
Oaktree Real Estate Debt Fund, L.P.	Cayman Islands	11,132,184.0	11.3
Oaktree Real Estate Debt Fund, L.P.	Cayman Islands	7,620,002.01	7.5

Petershill II Offshore LP	Cayman Islands	12,142,957.42	12.6
Russia Partners II, L.P.	Cayman Islands	6,233,802.34	5.4
Specialty Fund III	Cayman Islands	37,168,665.15	33.3
Verdane Capital VII K/S	Denmark	91,964,768.44	13.7
Verdane Capital VIII K/S	Denmark	74,264,219.32	8.1
Victory Park Capital Fund II, L.P.	Cayman Islands	20,947,776.19	16.8
<b>Total</b>			<b>640.1</b>
Other shares and participations			111.6
<b>Shares and participations in total</b>			<b>2,508.6</b>

Holdings exceeding EURm 5 and holdings in listed companies exceeding five per cent specified. The table does not include investments covering unit linked insurance and investment contracts.

### 38. ASSETS CLASSIFIED AS HELD FOR SALE

In October 2016, Mandatum Life announced that it will not continue the agency 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. The value evaluation will last approximately until the summer 2017. The portfolio transfer requires the approval of the authorities, expected to take place at the earliest at the end of year 2017.

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 2016 was EURm 304.4 and claims EURm 253.3.

#### ASSETS AND LIABILITIES OF THE PORTFOLIO AT 31 DEC. 2016

Assets EUR million		Liabilities EUR million	
Financial assets	210.4	Liabilities for insurance and investment contracts	210.4
Investments related to unit-linked insurance contracts	2,991.5	Liabilities for unit-linked insurance and investment contracts	2,991.5
<b>Total</b>	<b>3,201.9</b>	<b>Total</b>	<b>3,201.9</b>

# Key figures

EUR million	2016 IFRS	2015 IFRS	2014 IFRS	2013 IFRS	2012 IFRS
Premium income	1,122.0	1,148.9	1,109.9	1,068.1	982.6
Expense ratio, % of load income	98.7%	98.4%	103.0%	105.4%	112.7%
Expense ratio, % of total balance sheet	1.1%	1.1%	1.0%	1.1%	1.3%
Net investment income at fair value, time weighted %	6.9%	6.3%	4.6%	7.4%	9.4%
Return on assets at fair values, %	6.4%	6.2%	4.8%	7.6%	9.7%
Market share in Finland	24.1%	17.7%	17.9%	19.2%	24.5%
Average number of staff	543	522	509	541	545

## TOTAL RESULT

EUR million					
Operating profit	210.1	157.2	163.0	155.7	139.2
Change in fair value reserve	82.2	32.5	20.2	96.6	234.9
Change in valuation differences off balance sheet	-1.0	5.7	-0.9	1.9	2.7
<b>Total result</b>	<b>291.4</b>	<b>195.4</b>	<b>182.3</b>	<b>254.2</b>	<b>376.8</b>

## RETURN ON INVESTMENTS AT FAIR VALUES

### Return on invested capital, %

Interest bearing investments total	5.2%	3.8%	4.0%	2.7%	-
Loans	1.5%	0.6%	2.0%	1.3%	1.7%
Bonds	6.1%	4.9%	4.2%	3.6%	10.1%
Other financial instruments	0.5%	1.8%	1.7%	0.1%	1.4%
Equity investments total	10.1%	10.5%	3.7%	17.6%	10.1%
Listed equity	10.5%	9.4%	0.6%	11.0%	-
Capital investments	8.7%	17.8%	25.0%	18.7%	-
Unlisted equity	4.5%	9.4%	3.9%	-0.4%	-
Land and buildings	4.8%	8.7%	2.9%	5.0%	8.5%
Direct real estate investments	6.1%	7.0%	5.5%	3.6%	-
Other real estate investments	-0.2%	12.8%	-12.0%	8.2%	-
Other investments	8.8%	12.3%	18.7%	8.1%	8.3%
Total investments	6.9%	6.3%	4.6%	7.1%	9.3%
Income, expenses and operating expenses not allocated to instrument types					
<b>Net investment income at fair values</b>	<b>7.0%</b>	<b>6.5%</b>	<b>5.4%</b>	<b>7.1%</b>	<b>9.5%</b>

## INVESTMENT PORTFOLIO AT FAIR VALUES

EUR million	Basic allocation				Risk adjusted allocation			
	2016	2015	2014	2013	2016	2015	2014	2013
Interest bearing investments total	3,960.5	3,971.0	4,060.3	3,269.1	3,960.5	3,328.4	3,485.1	2,763.7
Loans	5.7	8.3	10.9	18.2	5.7	8.3	10.9	18.2
Bonds	3,095.8	3,455.9	2,340.7	2,700.2	3,160.4	7,419.8	1,966.4	4,508.3
Other financial instruments	859.0	506.8	1,708.7	550.7	794.3	-4,099.7	1,507.9	-1,762.8
Equity investments total	1,994.8	1,994.7	1,921.4	1,663.5	1,994.8	1,994.7	1,921.4	1,663.5
Listed equity	1,731.7	1,649.6	1,570.4	1,424.1	1,731.7	1,649.6	1,570.4	1,424.1
Capital investments	234.1	263.5	247.3	199.3	234.1	263.5	247.3	199.3
Unlisted equity	28.9	81.5	103.7	40.0	28.9	81.5	103.7	40.0
Land and buildings	270.0	289.1	247.4	179.3	270.0	289.1	247.4	179.3
Direct real estate investments	222.2	202.7	195.7	114.8	222.2	202.7	195.7	114.8
Other real estate investments	47.8	86.4	51.7	64.5	47.8	86.4	51.7	64.5
Other investments	359.5	392.6	345.2	345.2	359.5	392.6	345.2	345.2
<b>Total investments</b>	<b>6,584.8</b>	<b>6,647.3</b>	<b>6,574.3</b>	<b>5,457.0</b>	<b>6,584.8</b>	<b>6,004.7</b>	<b>5,999.1</b>	<b>4,951.6</b>

# Calculation of key figures

Premium income

Premium income before reinsurers' share

Expense ratio, % of load income

$$\frac{(\text{Operating expenses before change in deferred acquisition costs} + \text{claims settlement expenses})}{\text{Load income}} \times 100$$

According to the calculation basis load income is an item meant to cover the operating expenses. All expense loading components are included in the load income. Operating expenses do not include reinsurance commissions.

Expense ratio, % of total balance sheet

$$\frac{(\text{Operating expenses before change in deferred acquisition costs} + \text{claims settlement expenses})}{\text{Balance sheet at 1 Jan}} \times 100$$

Return on investments at fair values

Investment income at fair values in proportion to invested capital is calculated using the so-called modified Dietz method, under which invested capital is calculated by adding to the opening fair value the cash flows in the period, weighted by the relative share of the length of whole period that remains from the transaction date or from the middle of the transaction month to the end of the period.

Return on assets, % (at fair values)

Operating profit

+ interest and expenses on liabilities

+ guaranteed interest on technical provisions

+ change in fair value reserve before tax

+ change in valuation differences on investments, off balance sheet

balance sheet total

- liabilities for unit-linked insurance and investment contracts

+ valuation differences on investments, off balance sheet

(average at 1 Jan, and 31 Dec in the denominator)

Market share

Gross premiums written

gross premiums written by all life insurance companies

Total result

Operating profit

+/- change in fair value reserve (before tax)

+/- change in valuation differences on investments, off balance sheet

# Auditor's report

TO THE ANNUAL GENERAL MEETING OF MANDATUM LIFE INSURANCE COMPANY LTD

## Report on the Audit of Financial Statements

### Opinion

We have audited the financial statements of Mandatum Life Insurance Company Ltd (business identity code 0641130-2) for the year ended 31 December, 2016. 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.

### 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.

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

### 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 consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and 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 us-

ing 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 the 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 company 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

## Other Reporting Requirements

### Other information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises information included in 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 report of the Board of Directors and, in doing so, consider whether the other 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 in the information included in the report of the Board of Directors, we are required to report this fact. We have nothing to report in this regard.

Helsinki 1.3.2017

Ernst & Young Oy  
Authorized Public Accountant Firm

Tomi Englund  
Authorized Public Accountant

MANDATUM LIFE INSURANCE COMPANY LTD  
**POSTAL ADDRESS** P.O. BOX 627, 00101 HELSINKI, FINLAND  
**REGISTERED DOMICILE AND ADDRESS**  
BULEVARDI 56, 00120 HELSINKI, FINLAND  
**BUSINESS ID** 0641130-2  
[WWW.MANDATUMLIFE.FI](http://WWW.MANDATUMLIFE.FI)