MANDATUM LIFE

Annual Report 2020

Contents

Year 2020 in Brief

Mandatum Life is a solvent and respected Finnish financial services provider. It is part of Sampo Group.

A Successful Year Despite the Pandemic

The year 2020 will go down in history for the coronavirus pandemic and its extensive impacts on society, the economy and people's daily lives. Despite the global turbulence, Mandatum Life fared well during the year.

The company established a COVID-19 preparedness group in February and the entire personnel started working from home on one day's notice on 13 March 2020. Well-functioning systems and processes enabled smooth work in all areas throughout the coronavirus period. This has had a very positive impact on both employee and customer satisfaction.

Result and Solvency

In terms of the result, the year was twofold: The early part of the year was difficult, with investment operations showing, at their lowest point, a loss of more than 9 per cent. Towards the end of the year, the investment market rebounded strongly as a result of vaccine news and central banks stimulus measures, propelling the investment result for the whole year to a very good level. As a consequence, the company recorded a good result for the whole year, with particularly the comprehensive income, which takes into account the fair values in investment operations, rising to an exceptionally high level. The company's solvency remained strong throughout the year. A contributing factor to this, especially in the early part of the year, was that the company did not pay the previously decided dividends in spring 2020.

Premiums Written and Development of Insurance Savings

As a result of the exceptional global situation, spring saw the customer interface focus shift almost entirely to the management of existing customer relationships for the space of several months. This shift in focus, coupled with an uncertain market, led to premiums written falling short of the previous year's record level. However, customers benefited from the strong market growth that took place later in the year, increasing the company's unit-linked insurance savings to an all-time high (EUR 8.8 billion).

The with-profit insurance portfolio decreased in line with expectations. The company continued preparing for low interest rate levels by increasing the 2022 and 2023 reserves for decreased discount rates by approximately EUR 75 million.

Excellent Customer Satisfaction in spite of Uncertainty

The uncertainty caused by the coronavirus pandemic sparked both concern and questions among customers. Customers were particularly concerned by how the rapid market movements would affect their investments. Preparing was also a high priority for customers, and self-employed persons, in particular, updated their insurance cover to better reflect the new situation and the related risks. Corporate customers also showed increased interest in successful reward models.

The company made every effort to respond to customers' needs and did so well, judging by the record-high level of customer satisfaction and the continued low outflow rate. To keep customers continuously up to date, relevant information on frequently asked questions about the impacts of the pandemic was maintained on the company's website, topical newsletters were sent to customers and the company's market outlook release frequency was increased. Active customer relationship management was also supported with new digital tools.

Responsibility as Part of Business

Good corporate governance is the foundation for responsibility. In addition to laws and regulations, the work of every Mandatum Life employee is steered by Sampo Group's Code of Conduct. Mandatum Life's responsibility is based on the cornerstones of the company's operations: increasing and securing the financial welfare of customers and safeguarding against risks. The company's main corporate responsibility themes are responsible investment, promoting responsible personnel practices in working life and implementing them in Mandatum Life's own work community. Mandatum Life has always believed that a positive employee experience leads to a good customer experience. As a company, we are committed to promoting the UN's Sustainable Development Goals (SDG).

Employee satisfaction at Mandatum Life is measured annually via the Great Place to Work Finland survey. In 2020, 95 per cent of the company's personnel considered Mandatum Life an excellent place to work. Mandatum Life has made it onto the list of Finland's best workplaces for ten consecutive years. In 2020, Mandatum Life was selected as the best place to work in Finland and the 10th best place to work in Europe in the large organizations' category of the Great Place to Work Institute's survey.

"The company made every effort to respond to customers' needs and did so well, judging by the record-high level of customer satisfaction and the continued low outflow rate."

Key Figures 2020

PREMIUMS WRITTEN, OWN ACCOUNT

EUR 1,051 million

(1,596)

PROFIT BEFORE TAX

EUR 154 million

(280)

RETURN ON EQUITY

14.4%

(23.5)

SOLVENCY RATIO

188%

(194)

RETURN ON INVESTMENTS ORIGINAL PORTFOLIO

6.5%

(9.2)

AVERAGE NUMBER OF EMPLOYEES

576

(563)

1

Report of the Board of Directors

Mandatum Life's Board of Directors' Report 1 January–31 December 2020

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 Mandatum Life Insurance Company Limited'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 2020 result was lowered by EUR 3 million that was paid to Sampo plc by Mandatum Life Services Ltd and Mandatum Life Investment Services Ltd. as a group contribution.

Profit before taxes for the financial year was EUR 154 million (280). Comprehensive income from investments at fair values after taxes was EUR 213 million (308). Of the comprehensive income, the change in the fair value reserve amounted to EUR 96 million (87).

The company's solvency ratio was 188 per cent (194), taking the transitional measures into account. Own funds under the transitional measures were EUR 2,308 million (2,290) and solvency capital requirement EUR 1,230 million (1,182). Without the transitional measures applied to the calculation of equity risk, which will end in 2022, and to the calculation of the technical measures, which will end in 2031, the solvency ratio would be 159 per cent (159). In March 2020, the Board of Directors amended its dividend proposal to the Annual General Meeting, and the figures for the comparison year take into account that no dividends were paid for 2019.

Premiums Written

Mandatum Life Group's direct insurance premiums written amounted to EUR 1,059 million (1,603). Premiums written on unit-linked policies amounted to EUR 960 million (1,476). The premiums written of the comparison year 2019 include approximately EUR 400 million in exceptional items. The Baltic branches' share of premiums written was EUR 22 million (30).

Investment Operations

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

EUR million	1–12/2020	1–12/2019
Premiums written	1,050.8	1,595.9
Net income from investments	586.7	1,266.5
Claims paid	-1,089.1	-1,492.2
Profit before tax	153.9	280.1
Total comprehensive income	213.2	308.5
Balance sheet total	14,605.4	14,091.9
Return on equity %	14.4	23.5
Solvency II own funds	2,308.0	2,290.2
Solvency ratio %	187.6	193.7

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

In 2020, the Company's strong solvency position enabled an increase in risky fixed income and equity investments in March and April, when the pandemic hit the market hardest. As in the previous year, the excellent return on equity investments raised the investment returns on all assets to a good level. The return on fixed income investments was also good considering the prevailing low interest rate level. The return on the assets covering the original liabilities was 6.5 per cent (9.2). The return on the assets covering the segregated insurance portfolio was lower than that of other assets and amounted to 1.5 per cent (6.4). The basic reason for this is the lower risk level than other assets.

A more detailed description of the investment assets and the risks inherent in investment operations are included in the risk management note to the financial statements.

Technical Provisions

Mandatum Life Group's technical provisions before reinsurers' share grew by EUR 243 million and amounted to EUR 12,286 million (12,043). Unit-linked reserves increased by

EUR 648 million during the year, amounting to EUR 8,765 million (8,117). The with-profit technical provisions fell clearly as expected, amounting to EUR 3,521 million (3,926). The segregated group pension insurance portfolio accounted for EUR 875 million (964) of the with-profit technical provisions at the end of the 2020 financial year. The discount rate for the segregated group pension insurance portfolio's technical provisions was lowered to 0.0 per cent; the corresponding EUR 232 million (263) reserve for the decreased discount rate is included in the segregated portfolio's total technical provisions. The remainder of the with-profit technical provisions includes a total increase of EUR 218 million (230) in the reserve for decreased discount rates.

The Baltic branches' share of the technical provisions was EUR 177 million (178), of which unit-linked technical provisions accounted for EUR 165 million (166).

More detailed information on the distribution of and change in technical provisions is included in the risk management disclosure to the financial statements.

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

Claims Incurred

Mandatum Life's total amount of claims paid was EUR 1,120 million (1,597), of which reinsurers covered EUR 1.5 million (0.7). Unit-linked policies accounted for EUR 718 million (1,140) of claims paid. A major part of claims expenditure decrease can be explained by one-time items that increased the 2019 claims expenditure and premiums written by about EUR 400 million. Mandatum Life made pension payments totaling EUR 395 million (427) to some 59,000 pensioners during the year. Group pension insurance accounted for 64 per cent (66) of this total. A total of approximately 63,000 other types of claims were also paid out.

Operating Expenses

Mandatum Life Group's operating expenses were EUR 128 million (126) and the expense ratio was 95.6 per cent (98.4). The Group's total expense ratio, which takes into account all income intended to cover operating expenses, was 82.5 per cent (83.8). Mandatum Life does not amortize insurance acquisition costs, which means a policy's first-year result – the result for the acquisition year – is usually negative due to acquisition costs.

Personnel

The group employed an average of 576 (563) persons. Of these employees, 498 were in Finland, 28 in Estonia, 13 in Latvia and 34 in Lithuania. Of the Finnish personnel, 53 per cent were men and 47 per cent women. The employees' average age was 41 years.

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 Policy, Investment Policy, Internal Control Policy according to which risk management and internal control are arranged as part of the company's business.

The Managing Director of Mandatum Life has overall responsibility for the implementation of risk management in accordance with the Board's guidelines.

The responsibilities of the Chief Risk Officer are to ensure that risk management is organized accordingly and that the scope is adequate with respect to the company's operations in general. Line organizations are responsible for the identification, assessment, control and management of their operational risks.

Risks are divided into main groups, which are insurance, market, operational (incl. legal and compliance risks), business and reputational risks. In addition to the Managing Director and CRO, each risk area has a responsible person in the Risk Management Committee which convenes regularly.

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

Corporate Structure and Ownership

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

Significant Post-Balance-Sheet Events

There are no significant post-balance-sheet events.

Outlook

The impacts of the coronavirus pandemic dominated the global economy and investment markets in 2020. The year kicked off in an optimistic economic and market sentiment, but after the pandemic hit in February, it spiraled into an exceptionally deep recession and global market panic, which the central banks and governments eased with massive support measures. The transformation of the already stimulating monetary policy environment into a super-stimulating one caused the financial markets to rally, with the spread of the pandemic and the economic outlook still very uncertain. News of a vaccine at the end of the year created a realistic path to the end of restrictions on people's movement and business activities and to the re-opening of economies in 2021.

The economic outlook for 2021 is still overshadowed by an exceptionally high degree of uncertainty due to the pandemic. The recovery of the global economy hinges on both the intensity and duration of restrictions imposed to control the virus and the intended success of the vaccination programs. As concerns over the virus begin to dissipate, brisker-than-average growth is expected for the global economy in the long run. In particular, private consumption and private investments are expected to bounce back quickly as the uncertainty and restrictions related to the pandemic subside. However, if the medical solutions were to fail, the outlook would become decisively bleaker. The forecast range is thus exceptionally wide when it comes to predicting the future economic environment.

On the investment markets, the familiar challenges have been exacerbated by financing conditions that the central banks have eased further due to the pandemic. The drop in interest rates has lowered the return expectations for fixed income investments, guiding investment flows to other risky asset classes and raising their valuations to a historically high level. In the wake of the pandemic, the investment markets are, on the whole, more vulnerable than before to the central banks' measures and negative growth surprises.

As in previous years, the Company's most significant future challenges are related to the low interest rate level and the uncertainty in economic development and the investment market. The Company's good solvency position, the with-profit technical provisions that are decreasing relatively strongly and the discount rate reserve, together with the transitional provisions of Solvency II, put the company in a good position to tolerate both low interest rate levels and short-term market volatility.

The well-being of Finnish companies bears great significance not just to Finnish society, but also to Mandatum Life. Corporate customers are a very important part of Mandatum Life's strategy, and they also play a significant role in the company's saving and investment business area. In challenging times, the role of motivated employees is an increasingly crucial factor in building the company's success. Mandatum Life believes that its range of services – personal insurance, pension solutions and personnel funds – will be needed and in demand also going forward, and that they will help support companies' need to engage and motivate key employees.

The Mandatum Group's corporate structure will be updated in the first half of 2021. The change will aim to clarify key roles between different business areas and create better growth conditions also outside of the life insurance business. The change is not expected to have a material impact on the Mandatum Group's 2021 earnings.

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. An Extraordinary General Meeting was held on 23 January 2020, and the Annual General Meeting was held on 24 March 2020. In accordance with its Articles of Association, Mandatum Life's Board of Directors comprises no fewer than four and no more than seven members. The Board of Directors had four members in 2020.

The composition of Mandatum Life's Board of Directors in 2020:
- Patrick Lapveteläinen, Chairman, Group CIO
- Knut Arne Alsaker, Vice Chairman, Group CFO
- Jarmo Salonen, Head of Investor Relations and Group Communication
- Petri Niemisvirta, Managing Director (until 22 January 2020)
- Paula Salonen (as of 23 January 2020)

The Board convened 11 times during the financial year.

The staff's elected representative at the Board of Directors' meetings is Jussi Aamuvuori and his deputy is Katja Korelin. The staff representative is not a member of the Board of Directors.

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

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

The Board of Directors' Proposal for the Distribution of Profit

Mandatum Life's profit in accordance with the Finnish Accounting Standards was EUR 151,521,459.65 The company's distributable funds were EUR 882,543,686.49 The Board of Directors proposes to the Annual General Meeting that EUR 200,000,000 of the profit for the financial year be distributed as dividends and that the rest be transferred to the profit and loss account.

2

Risk Management

Risk Management

1. Risk Management Principles

The very nature of insurance business is to transfer risks from policyholders to the insurance company. Due to this, 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 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 the 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. Figures and tables in this risk management disclosure mainly cover the parent company and for example the risk management principles of Mandatum Life Investment Services Ltd can be found in its Annual Report.

1.1 Risk Management Governance

The Board of Directors is responsible for the adequacy of the Company's risk management and internal control. The Board annually approves the Risk Management Policy, Investment Policy, Internal Control Policy according to which risk management and internal control are arranged as part of the company's business.

The Managing Director of Mandatum Life has the overall responsibility for the implementation of risk management in accordance with the Board's guidance. The responsibilities of the Chief Risk Officer are to ensure that risk management is organized accordingly and that the scope is adequate with respect to the company's operations in general. Line organizations are responsible for the identification, assessment, control and management of their operational risks.

The Risk Management Committee (RMC) coordinates how risk management is organized and monitors all risks at Mandatum Life. The Committee is chaired by the Managing Director. Risks are divided into main groups, which are insurance, market, operational (incl. legal and compliance risks), business and reputational risks. The Committee also monitors risks related to other than insurance activities. In addition to the Managing Director and CRO, each risk area has a responsible person in the Committee.

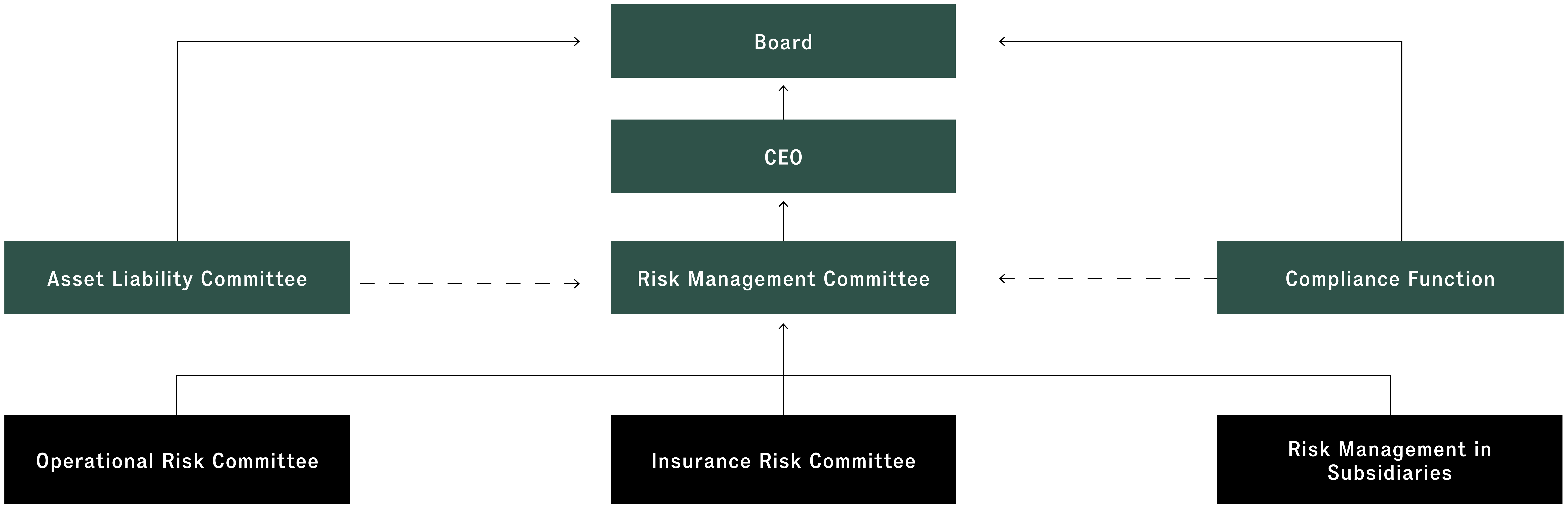
The key role of the Asset and Liability Committee (ALCO) is to monitor and control the market risks related to the Company's with-profit insurance portfolio and to monitor that investment operations are managed within the limits set in the Investment Policy approved by the Board of Directors. In addition, it monitors the sufficiency of liquidity, risk-bearing capacity and solvency capital in relation to balance sheet risks and prepares investment policy proposals for the Board of Directors. The ALCO meets monthly and reports to the Board of Directors and to the RMC. In practice, the Company has two Asset and Liability Committees (ALCOs), one of which controls the balance sheet of the operationally segregated group pension insurance portfolio that was transferred from Suomi Mutual on 30 December 2014, and the other controls the rest of the Company's with-profit insurance portfolio and the Company's own equity assets.

The Insurance Risk Committee monitors the comprehensiveness and appropriateness of the Company's insurance risk management. A key task is to control compliance with the Company's Underwriting Policy and to maintain the policy in question. The Committee reports risk management issues related to insurance risks and 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.

It is the role of the Operational Risk Committee to ensure that operational risk management is appropriately arranged in the business units. A key task is to ensure that the Group has efficient procedures for monitoring and reporting realized operational risks. Significant observations are reported to the Risk Management Committee and to the Board of Directors. The Operational Risk Committee is also responsible for maintaining and updating the continuity and preparedness plans.

The Legal, Compliance and Data Governance unit takes care of legal issues related to the Company's business, the compliance function and the monitoring of data governance matters and risk identification in the Group. The Head of the Unit is responsible for the organization of the unit and acts as a Compliance Officer and a member of the Risk Management Committee. At least one member of the Operational Risk Committee is from the Legal, Compliance and Data Governance unit.

Figure 1–1 Risk management organization



There is no specific committee for business and reputational risks. Those risks are managed as part of strategic planning and management of daily operations. Due to the nature of the risks, the Managing Director is responsible for them and they are reviewed on a regular basis in the Risk Management Committee.

Mandatum Life Investment Services Ltd and Fund Management S.A. have their own Risk Management Policies and responsible persons, and they are the responsibility of the Board of Directors of the subsidiaries. In addition to this, all major incidents are reported also to the Risk Management Committee, and operational risks are reported to the Operational Risk Committee.

The branch offices located in Estonia, Lithuania and Latvia have their own risk management systems that comply with the Group's principles. In addition to the above-mentioned committees and units, it is Internal Audit's role, with its audit recommendations, to ensure that adequate internal controls are in place and to provide Internal Audit's annual review to the Board of Directors.

2. Risks Related to the Company's Business Activities

In addition to market risk, longevity risk and surrender risk, which belong to underwriting risk, are the main risks of the Company viewed through solvency capital requirements. These are described in more detail in the notes to the financial statements. In addition to those mentioned above, operational and business risks are key risks in terms of business operations and continuity. Operational risks and the management thereof are described in section 4.

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 majority of with-profit life insurance business risks and result arise 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. The expense result is the expense charges from policies less the actual expenses.

3. Capital and Solvency Management

The goal of solvency capital management is to ensure the adequacy of available capital in relation to risks arising from the Company's business activities and business environment and the goal of capital management is to make sure items accounted as own funds are adequate with respect to capital requirements. Capital adequacy is assessed by comparing the amount of eligible own funds to the amount of risk capital required to bear the risks arising from the current business activities and the external operating environment.

3.1 Regulatory Solvency Capital Requirements

Life insurance is a highly regulated business with formal rules for minimum capital and capital structure. The supervisors of the Company are the Financial Supervisory Authority in Finland and local supervisors in the Baltic countries. In addition to this, Mandatum Life Fund Management S.A. is regulated by the authority in Luxembourg.

Current EU-wide solvency regulations (Solvency II) concerning insurance companies entered into force on 1 January 2016. In calculating solvency requirements under Solvency II, the Company 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

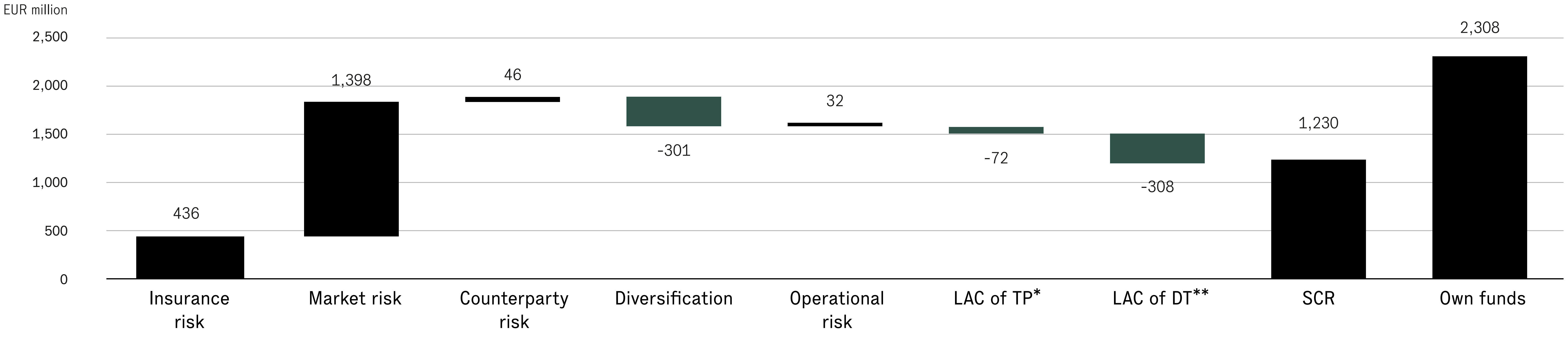
Table 3–1 Technical provisions, in accordance with Solvency II and IFRS, 31 December 2020

EUR million	IFRS value	Solvency II value	Differences
Technical provisions – life (excluding unit-linked)	**3,521**	**3,341**	**180**
Best Estimate		3,151	
Risk margin		190	
Technical provisions – unit-linked	**8,765**	**8,280**	**485**
Best Estimate		8,192	
Risk margin		87	

Table 3–2 Own funds, 31 December 2020, taking transitional measures into account

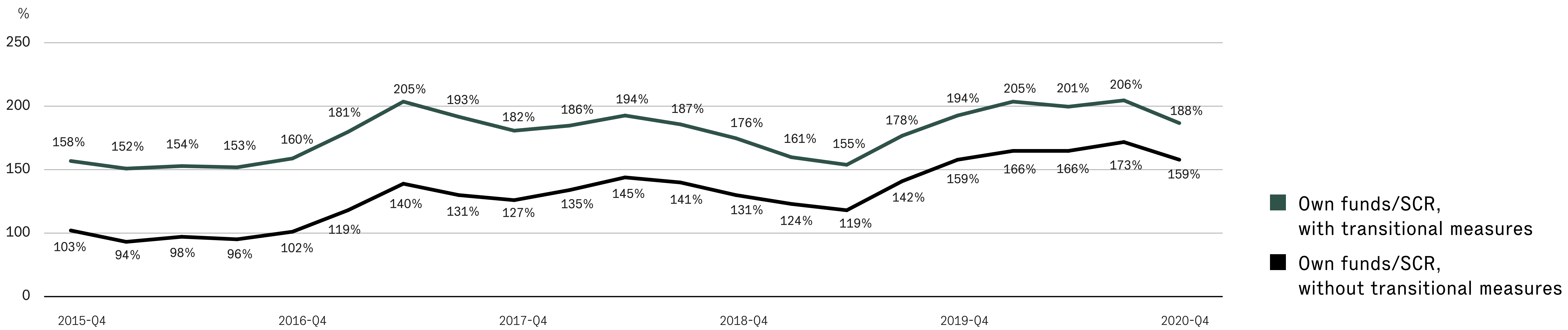
EUR million		
Tier 1	**Total**	**2 059**
	Ordinary Share Capital	181
	Reconciliation Reserve	1,778
	Subordinated Liabilities	100
Tier 2	**Total**	249
	Subordinated Liabilities	249
	Untaxed reserves	0
Tier 3	**Total**	0
	Deferred tax assets	0
Eligible own funds		**2,308**

Figure 3–3 Solvency II Capital Requirements (SCR) and own funds, 31 December 2020 taking transitional measures into account



* Loss absorbing capacity of technical provisions
** Loss absorbing capacity of deferred taxes

Figure 3–4 Development of solvency ratio, 31 December 2015–31 December 2020



account the transitional measure on technical provisions and the IFRS accounting value for Mandatum Life's parent company.

The Company applies 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, the Company 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. Table 3–2 presents the structure of Company's own funds on 31 December 2020, taking into account the transitional measure on technical provisions. The majority of the Company's own funds are classified as Tier 1 capital. EUR 249 million of the Company's subordinated loans are classified as Tier 2 capital. Overall, the Company has EUR 349 million in subordinated loans.

Taking into account the transitional measures, Company's own funds under Solvency II amounted to EUR 2,308 million (2,290), and the corresponding SCR according to Solvency II was EUR 1,230 million (1,182). The solvency ratio (own funds/SCR) was thus 188 per cent (194). The majority of SCR results from market risks, the most significant ones being equity risk and credit spread risk. The most significant life insurance risk is the surrender risk for unit-linked contracts and risk insurance and the most significant biometric risk is the longevity risk of the group pension policies. The minimum capital requirement (MCR) according to Solvency II was EUR 308 million (296). Without the transitional measure on technical provisions, Company's own funds would have been EUR 1,977 million (1,929), and the SCR without the equity risk transitional measure would have been EUR 1,245 million (1,212).

Figure 3–4 presents the development of the solvency ratio since Solvency II entered into force. Mandatum Life's strategic choices and their consequences for the structure of technical provisions play a major role in terms of the expected solvency position. Business based on unit-linked policies has been the Company's focal area since 2001. Since then, unit-linked technical provisions have grown, as shown in Figure 3–5. 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. Liabilities with the highest guarantees fell by EUR 268 million during 2020. In total, the with-profit technical provisions decreased by EUR 405 million to EUR 3,521 million (3,926). The development of the structure and amount of the Company's liabilities is shown in Figure 3–5.

Figure 3–5 Development of with-profit and unit-linked liabilities 2011–2020

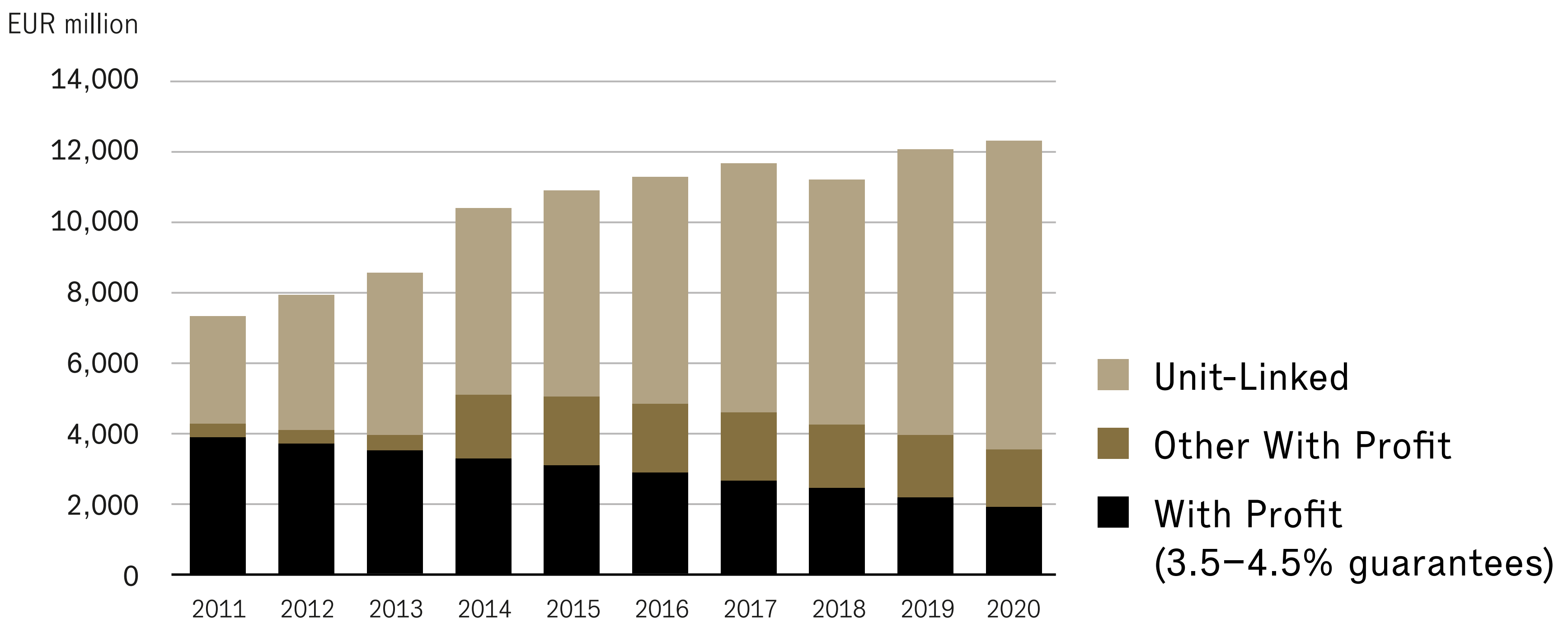
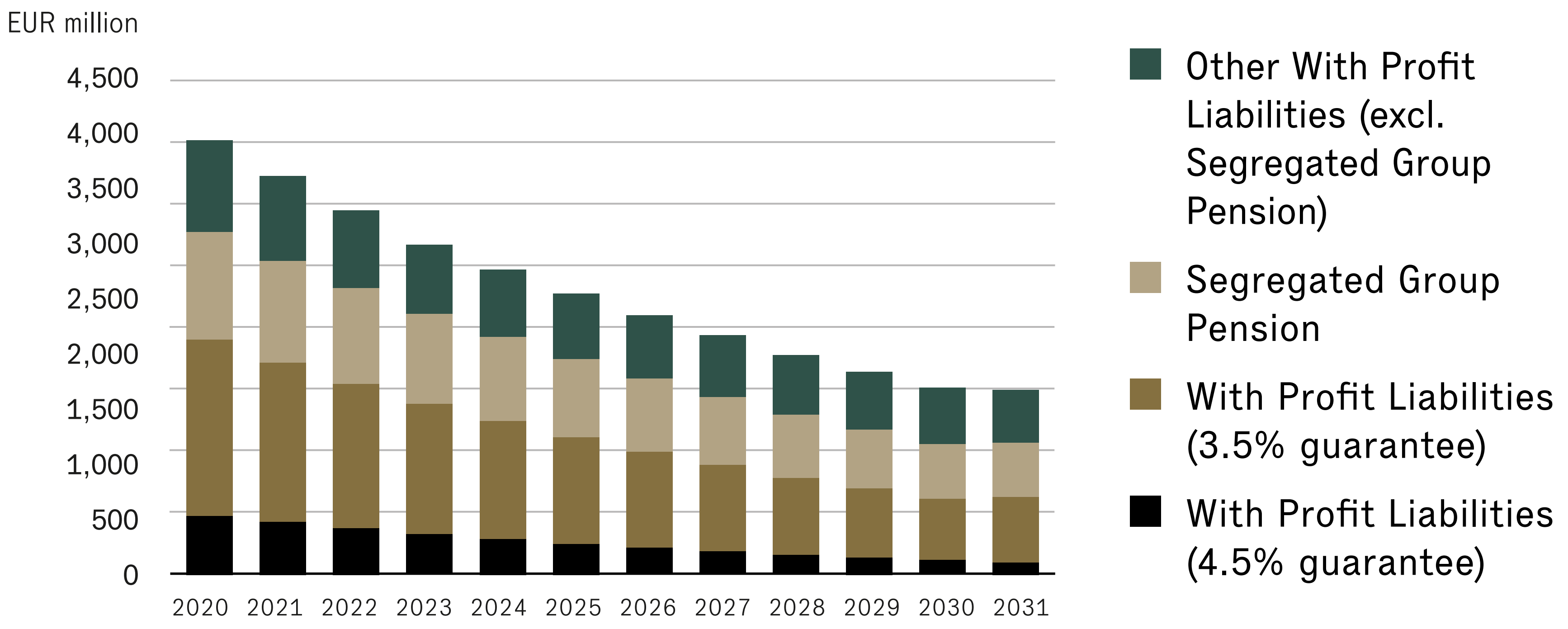


Figure 3–6 Prognosis of existing with-profit liabilities 2020–2031 without new sales



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 liabilities for these insurance policies are expected to decrease from the current EUR 1,894 million to approximately EUR 630 million during the transitional periods, as illustrated in Figure 3–6. 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, the Company 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.

In addition to the Solvency II regulation which concerns insurance activities, Mandatum Life Investment Services Ltd. and Mandatum Life Fund Management S.A. have their own capital requirements based on relevant legislation.

3.2 Internal Monitoring of Solvency Position

Solvency II also creates a framework for the internal monitoring of the solvency position. The company-level solvency position monitoring model, the 'risk-bearing-capacity model', is based on the SCR calculated using the Solvency II transitional provisions 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 and they take into account the solvency position, both with and without the transitional provisions. Table 3–7 presents the applicable monitoring limits and the key guiding principles for different zones.

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

Table 3–7 Internal risk monitoring framework (risk-bearing-capacity model)

Solvency ratio with the transitional measures	Solvency ratio without the transitional measures	Guiding principle
> 160%	> 125%	Normal activities
< 160%	< 125%	Enhanced monitoring
< 145%	< 115%	Limited risk-taking
< 135%	< 107.5%	Reduced risks

therein. If the risk-bearing capacity falls below the monitoring limits, the monitoring frequency of the solvency position will be strengthened, the Board of Directors' role in investment operations will be increased, risk-taking will be limited and, in the final phase, the solvency position shall be strengthened either by reducing market risks or by increasing own funds, for example, through capitalization. In practice, the measures depend on the situation at hand and on the general market situation. Thus, the actual measures may differ from the principles presented above, if the Board of Directors sees fit.

In addition to the company-level risk-bearing-capacity model, the segregated group pension portfolio has its own risk-bearing-capacity monitoring in place. The risk-bearing-capacity of the segregated group pension portfolio 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 also based on asset stress tests that have been determined beforehand, and the measures in the case of falling below the monitoring limits are similar to those in the company-wide risk-bearing-capacity model.

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

4. 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 be realized 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
- 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.

4.1 Goal of Operational Risk Management and Governance

The goal of operational risk management is to identify risks ahead of time, manage risks effectively and strive to minimize beforehand the impacts of any realized risks in a cost-effective manner. Business units are responsible for the identification, assessment, monitoring and management of their own operational risks. The 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 analyzes 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 to the Board of Directors.

4.2 Operational Risk Identification and Management

Operational risks are identified through several different sources and methods:

1. Self-assessment: Mapping and evaluating the major operational risks and their probabilities and significance is carried out through a regular self-assessment process, including an evaluation of internal controls and sufficiency of instructions. Self-assessment is conducted regularly.
2. Analysis of incidents: Realized operational risks and near misses reported by the business units are collected and analyzed by the ORC. Each business unit is responsible for reporting the occurred incidents and near misses in accordance with the Company's practices.

Risks recognized in the Company's self-assessment process for identifying key operational risks include the following: data governance issues, the ageing of IT and particularly information systems and the manual work stages of the processes.

In order to limit operational risks, the Company has approved a number of policies including, but not limited to, the 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 in each business unit and reported to the compliance function and risk management function.

The 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 by the risk management function.

3

IFRS Financial Statements 2020

Consolidated Comprehensive Income Statement

EUR million	Note	1–12/2020	1–12/2019
Insurance premiums	1	1,050.8	1,595.9
Net income from investments	2	586.7	1,266.5
Other operating income		25.7	23.0
Claims incurred	3	-1,089.1	-1,492.2
Change in liabilities for insurance and investment contracts	4	-272.5	-971.2
Staff costs	5	-53.0	-51.8
Other operating expenses	6	-82.3	-81.4
Finance costs	7	-12.4	-9.2
Share of associates' profit/loss		0.0	0.5
Profit before taxes		**153.9**	**280.1**
Taxes	19	-36.8	-58.2
Profit for the period		**117.0**	**221.9**
Other comprehensive income	20–21		
Items reclassifiable to profit or loss			
Shadow accounting		0.8	-21.3
Available-for-sale financial assets		119.1	134.9
Income tax relating to components of other comprehensive income		-23.8	-27.0
Other comprehensive income, items reclassifiable to profit or loss net of tax, total		**96.1**	**86.6**
TOTAL COMPREHENSIVE INCOME		**213.2**	**308.5**

Consolidated Balance Sheet

EUR million	Note	1–12/2020	1–12/2019
Assets			
Property, plant and equipment	8	29.6	14.3
Investment property	9	133.7	136.1
Intangible assets	10	6.6	8.9
Investments in associates	11	0.6	0.5
Financial assets	12–16	4,839.1	4,671.5
Investments related to unit-linked insurance and investment contracts	17	8,805.3	8,170.2
Reinsurers' share of insurance liabilities	24	1.0	0.7
Other assets	22	107.1	137.4
Cash and cash equivalents	23	682.4	952.1
Total assets		**14,605.4**	**14,091.9**
Liabilities			
Liabilities for insurance and investment contracts	24	3,521.1	3,925.8
Liabilities for unit-linked insurance and investment contracts	25	8,765.2	8,117.1
Financial liabilities	13, 26	352.4	364.0
Tax liabilities	18	138.8	120.8
Other liabilities	28	246.9	196.5
Total liabilities		**13,024.5**	**12,724.2**
Equity	30		
Share capital		40.4	40.4
Reserves		663.1	566.9
Retained earnings		877.5	760.4
Equity attributable to owners of the parent		**1,580.9**	**1,367.7**
Non-controlling interests		0.0	0.0
Total equity		**1,580.9**	**1,367.7**
Total equity and liabilities		**14,605.4**	**14,091.9**

Consolidated Statement of Changes in Equity

EUR million	Share capital	Share premium account	Legal reserve	Retained earnings	Translation of foreign operations	Available-for-sale financial assets*	Available-for-sale financial assets** IFRS 4.30	Total
Equity at 1 January 2019	40.4	98.9	29.9	689.9	0.0	359.9	-8.3	1,210.6
Changes in equity								
Dividends				-150.0				**-150.0**
Total comprehensive income for the year				221.9		107.9	-21.3	**308.5**
Transfers between equity				-1.3				**-1.3**
Equity at 31 December 2019	**40.4**	**98.9**	**29.9**	**760.4**	**0.0**	**467.8**	**-29.6**	**1,367.7**
Changes in equity								
Dividends								**0.0**
Total comprehensive income for the year				117.0		95.3	0.8	**213.2**
Transfers between equity				0.0				**0.0**
Equity at 31 December 2020	40.4	98.9	29.9	877.5	0.0	563.1	-28.8	1,580.9

* The amount recognised in equity from available-for-sale financial assets for the period totalled EUR 119.1 million (134.9). The amount transferred to P&L amounted to EUR 94.2 million (236.2).

** Policyholder's share, according to shadow accounting.

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

Consolidated Statement of Cash Flows

EUR million	1–12/2020	1–12/2019
Operating activities		
Profit before taxes	153.9	280.1
Adjustments		
Depreciation and amortisation	7.5	7.8
Unrealised gains and losses arising from valuation	-251.8	-621.3
Realised gains and losses on investments	-114.3	-394.3
Change in liabilities for insurance and investment contracts	243.2	866.9
Other adjustments	27.9	51.7
Adjustments total	**-87.6**	**-89.2**
Change (+/-) in assets of operating activities		
Investments *	-322.2	212.8
Other assets	45.3	37.0
Total	**-276.9**	**249.8**
Change (+/-) in liabilities of operating activities		
Financial liabilities	-11.8	-35.9
Other liabilities	1.0	7.2
Paid interest and taxes	-61.8	-138.1
Total	**-72.6**	**-166.9**
Net cash from operating activities	**-283.2**	**273.9**
Investing activities		
Investments in group and associated undertakings	0.0	0.0
Net investment in equipment and intangible assets	-1.4	-4.7
Net cash from investing activities	**-1.4**	**-4.7**

EUR million	1–12/2020	1–12/2019
Financing activities		
IFRS 16 lease liabilities	14.7	-1.6
Subordinated loan	0.2	249.1
Dividends paid		-150.0
Net cash from financing activities	**14.8**	**97.5**
Total cash flows	**-269.7**	**366.6**
Cash and cash equivalents at 1 January	952.1	585.5
Cash and cash equivalents at 31 December	682.4	952.1
Net change in cash and cash equivalents	**-269.7**	**366.6**
Additional information to the statement of cash flows:		
Interest income received	80.9	119.5
Interest expense paid	-33.9	-63.6
Dividend income received	35.8	51.7

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

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

Cash and cash equivalents include cash at bank and in hand EUR 682.4 million (952.1).

Notes to the Accounts

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Mandatum Life Group has prepared the consolidated financial statements for 2020 in compliance with the International Financial Reporting Standards (IFRS). 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 on 31 December 2020.

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

The financial statements have for the most part been prepared under the historical cost convention. Exceptions are, for example 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 euros (EUR), rounded to the nearest million, unless otherwise stated.

The Board of Directors of Mandatum Life accepted the financial statements for issue on 10 February 2021.

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 recognized 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 recognized 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. Unrealized gains (losses) on transactions are eliminated to the extent of the Group's interest in the entity.

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

If there is any indication that the value of the investment may be impaired, the carrying amount is tested by comparing it with its recoverable amount. The recoverable amount is the higher of its value in use or its fair value less costs to sell. If the recoverable amount is less than its carrying amount, the carrying amount is reduced to its recoverable amount by recognizing 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 recognized 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.

Segment Reporting

Mandatum Life Group's segmentation is based on the division by product group of domestic business and the other geographical organization 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 product group. The segment results are reported to the management of the company as a part of management reporting.

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

The primary segmentation also essentially coincides with the geographical division since operations outside Finland represent the operations in the Baltics and Luxembourg. As foreign operations expand, the division by country will also 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 recognized in the income statement using the effective interest rate method. This method recognizes income and expenses on the instrument evenly in proportion to the amount outstanding over the period to maturity. Dividends on equity securities are recognized 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 recognized in profit or loss when the instrument is initially recognized.

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 life insurance and investment contracts count as long-term liabilities. Therefore, the insurance premium and related claims are usually not recognized in the same accounting period. Depending on the type of insurance, premiums are primarily recognized in premiums written when the premium has been paid. In group pension insurance, a part of the premiums is recognized 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 monitored and 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 or recognized at fair value through P&L.

The fair valuation of financial assets 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, for example, whether 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.

On level 3, the measurement is based on other inputs rather than observable market data. The majority of Mandatum Life's level 3 assets are private equity and alternative funds.

For private equity funds, the valuation of the underlying investments is conducted by the fund manager, who has all the relevant information required in the valuation process. The valuation is usually updated quarterly based on the value of the underlying assets and the amount of debt in the fund. There are several valuation methods, which can be based on, for example, the acquisition value of the investments, the value of publicly traded peer companies, the multiple-based valuation or the cashflows of the underlying investments. Most private equity funds follow the International Private Equity and Venture Capital Valuation (IPEV) guidelines, which give detailed instructions on the valuation of private equity funds.

For alternative funds, the valuation is also conducted by the fund managers. Alternative funds often have complicated structures, and the valuation is dependent on the nature of the underlying investments. There are many different valuation methods that can be used, for example, the method based on the cashflows of the underlying investments. The operations and valuation of alternative funds are regulated, for example, by the Alternative Investment Fund Managers Directive (AIFMD), which determines the principles and documentation requirements of the valuation process.

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. An exception to this are investments related to unit-linked insurance, which are measured as financial assets at fair value through profit or loss, presented separately in the balance sheet. The corresponding liabilities are also presented separately.

Recognition and Derecognition

Purchases and sales of financial assets at fair value through profit or loss and available-for-sale financial assets are recognized and derecognized on the trade date, which is the date on which the Group commits to purchase or sell the asset. Loans and receivables are recognized 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 recognized amounts and it intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Financial assets are derecognized 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 derecognized when the obligation specified in the contract is discharged or cancelled or expired.

Financial Assets and Financial Liabilities at Fair Value Through Profit or Loss

In the Group, financial assets and liabilities at fair value through profit or loss are financial assets held for trading and financial assets designated to be recognized at fair value through profit or loss.

Financial Assets Held for Trading

A financial asset that is held for the purpose of selling or buying in the short term or which belongs to a portfolio that is managed together or is repeatedly used for short-term profit taking is classified as an asset held for trading. Such assets held for trading are initially recognized at fair value. Gains and losses arising from changes in fair value, or realized on disposal, together with related interest income and expenses and dividend income, are recognized in the income statement.

Also, derivative instruments that are not designated as hedges and do not meet the requirements for hedge accounting are classified as financial assets for trading purposes.

Financial derivatives held for trading are initially recognized 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 recognized at fair value, and gains and losses arising from changes in fair value together with realized gains and losses are recognized 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 recognized at their fair value. They are recognized in the income statement and balance sheet accordingly with above-explained assets held for trading.

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 recognized at their fair value, added by transaction costs directly attributable to the acquisition of the asset. Loans and receivables are subsequently measured at amortized 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 categorized into any other category. Available-for-sale financial assets comprise debt and equity securities.

Available-for-sale financial assets are initially recognized at 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 recognized in profit or loss. When the available for-sale assets are sold, the cumulative change in the fair value is transferred from equity and recognized together with realized 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 recognized. Exchange differences due to available for-sale monetary balance sheet items are always recognized directly in profit or loss.

Other Financial Liabilities

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

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

If debt securities issued are redeemed before maturity, they are derecognized and the difference between the carrying amount and the consideration paid at redemption is recognized 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 there is an auction policy in the stock market of the price source. The exception is syndicated loans, which are measured at the average rate due to lower liquidity. 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 same price source is used in assets and liabilities 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 Amortized 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 amortized 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 recognized 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 decease can objectively be related to an event occurring after the impairment was recognized (e.g. the default status is removed), the previously recognized 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 watch list, or there is a significant or prolonged decline in the fair value of an equity instrument below its original acquisition cost.

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

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

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

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

In the case of debt securities, the amount of the impairment loss is assessed as the difference between the acquisition cost, adjusted with capital amortizations and accruals, and the fair value at the review time, reduced by previously in profit or loss recognized 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 recognized in other comprehensive income is transferred from equity and recognized 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 recognized in profit or loss, the impairment loss shall be reversed by recognizing the amount in profit or loss.

If the fair value of an equity security increases after the impairment loss was recognized in profit or loss, the increase shall be recognized in other comprehensive income. If the value keeps decreasing below the acquisition cost, an impairment loss is recognized 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, credit risk 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 realized gains and losses and interest income and expenses, is recognized 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.

Derivative Financial Instruments and Hedge Accounting

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

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

Fair Value Hedging

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

Changes in the fair value of derivative instruments that are documented as fair value hedges and are effective in relation to the hedged risk are recognized 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 recognized in profit or loss.

Leases

Group as Lessee

Lease contracts are primarily recognized in the balance sheet in accordance with the IFRS 16 Leases standard. The only optional exemptions include certain short-term or low-value contracts for which the lease payments can be recognized as an expense on a straight-line basis over the lease term.

Right-of-use assets related to lease contracts (right to use an underlying asset) are recognized in the asset side as part of Property, Plant and Equipment, and the corresponding lease liabilities in the liability side as part of Other liabilities. A right-of-use asset is recognized at the commencement date of the lease and measured at cost that includes the amount of the initial measurement of the liability and potential prepaid rents to the lessor. A lease liability is recognized at the commencement date and measured at the present value of the lease payments.

Depreciations on right-of-use assets and interests on the lease liabilities are recognized in the P&L.

Group as Lessor

Leases 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 recognized on the same basis as for these items. Rental income is recognized 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 recognized 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 recognized 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 recognized only to the extent they meet the above-mentioned requirements for being recognized as assets in the balance sheet.

Intangible assets with finite useful lives are measured at historical cost less accumulated amortization and impairment losses. Intangible assets are amortized 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 meters 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 recognized 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 officest	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 recognized 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 recognized 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 recognized for goodwill are not reversed.

Investment Property

Investment property is held to earn rentals and for capital appreciation. The investment property is measured in the same way as 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 recognized 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 recognized 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 recognized 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 in accordance with IFRS 4 Insurance contracts are applied to all insurance contracts and 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, the same standard is applied to these contracts as to 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), so-called shadow accounting is applied, as permitted in IFRS 4.30, by adjusting the equity with the amount of unrealized gains and losses of the agreement. The equity is adjusted with an amount that unrealized 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 realized 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 years 2021–2023 lowered the maximum rate to 0.25 per cent. The liabilities of the accrued benefits of the group pension insurance portfolio transferred from Suomi Mutual to Mandatum Life on 30 December 2014 and segregated from Mandatum Life's insurance portfolio are discounted by 0.0 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.

Mortality assumptions have an essential effect on the amount of liability, particularly in group pension insurance, the liability of which accounts for about 31 per cent of the technical provisions of the company. A so-called cohort mortality model is used in calculating the group pension insurance liability, incorporating the insured person's birth year in addition to his or her age and sex. The cohort mortality model assumes that life expectancy increases by one year over a ten-year period.

For unit-linked contracts, all the liabilities and the assets covering the unit-linked insurance are matched. Both the liabilities and the assets have been presented in the Notes to the financial statements. In calculating the provision for claims outstanding of direct insurance, discounting is applied only in connection with the liabilities of pensions whose payment has commenced. The liabilities of assumed reinsurance are based on the reports of the ceding company and on an estimate of claims which have not yet been settled. The assets covering the unit-linked liabilities include debt securities issued by the Group companies. These have not been eliminated. Elimination would lead to misleading information, as the policy holders carry the investment risk related to these investments, and to a mismatch between the unit linked liabilities and assets covering them.

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

The amounts of short- and long-term liabilities in technical provisions are determined annually.

The Risk Management section elaborates on the change of technical provisions and their forecast annual maturities.

Liability Adequacy Test

A liability adequacy test is applied to all portfolios, 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 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 recognized in profit or loss.

Principle of Fairness and Profit Distribution Policy for the Segregated Group Pension Insurance Portfolio

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

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

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

In IFRS accounting, when the realized 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 equalize the annual client bonuses and safeguard the level of client bonuses and their continuity.

In IFRS accounting, when the realized 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 0.0 per cent for 2020. The company's website provides a more detailed description of the profit distribution policy for the segregated group pension portfolio, as well as an explanation of the bonuses paid.

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

Employee Benefits

Post-Employment Benefits

Post-employment benefits include pensions and life insurance.

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

In defined contribution plans, the Group pays fixed contributions to a pension insurance company and has no legal or constructive obligation to pay further contributions. The obligations arising from a defined contribution plan are recognized 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 recognized 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 recognized 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 had four valid share-based incentive schemes settled in cash (the long-term incentive schemes 2014 I/2, 2017 I and 2017 I/2 and 2020 I for the management and key employees). In Mandatum Life Group, around 20 persons were included in the schemes in 2020.

The schemes have been measured at fair value at the grant date and at every reporting date thereafter.

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

In the schemes settled in shares, the strike amounts received on the exercise of the options are recognized in shareholder's equity.

The fair value of the 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 incentive units to be paid as a reward. 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 incentive units 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 incentive 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 recognized through profit or loss, except for items recognized directly in equity or other comprehensive income, in which case the tax effect will also be recognized 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 recognized on non-deductible goodwill impairment, nor is it recognized 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 recognized to the extent that it is probable that future taxable income will be available against which a temporary difference can be utilized.

Equity

Dividends are recognized 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 recognized 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 IFRS Standards 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.

The amendments to IFRS 9 *Financial Instruments* (effective for annual periods beginning on or after 1 January 2018) 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 IFRS 4 superseding standard IFRS 17 *Insurance Contracts* (by IASB tentative decision effective for annual periods beginning on or after 1 January 2023) 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 adoption of the IFRS 9 standard until the adoption of the IFRS 17 standard, at the latest on annual period beginning on 1 January 2023. The temporary exemption may be applied if the Group's amount of insurance liabilities is greater than 90 per cent of the total amount of liabilities. The application is also possible if the ratio is greater than 80 per cent and the Group does not engage in a significant activity unconnected with insurance. Another allowed option was to apply IFRS 9 from 1 January 2018 on, but to remove some of the accounting mismatches caused by the different valuation methods of assets and liabilities from the income statement and transfer them to other comprehensive income. The Group has analyzed the preconditions for applying the temporary exemption and stated that they are met. Therefore, the Group will apply the exemption and apply IFRS 9 standard at the same time with the upcoming IFRS 17 standard. The Group has started analyzing the effects of applications in all the other areas as well, as the new standards will have a significant impact on the Group's financial statements.

The European Commission had not at the balance sheet date endorsed the IFRS 17 standard to be adopted in the EU. It is possible that some amendments will be made to the standard before it enters into effect.

Risk Disclosure

1. Risk Management Principles

The very nature of insurance business is to transfer risks from policyholders to the insurance company. Due to this, 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 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 the Board of Directors.

2. Risks Related to the Company's Business Activities

In addition to market risk, longevity risk and surrender risk, which belong to underwriting risk, are the main risks of the Company viewed through solvency capital requirements. In addition, operational and business risks are inherent in terms of the Company's operations and continuity.

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 majority of with-profit life insurance business risks and result arise 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. The expense result is the expense charges from policies less the actual expenses.

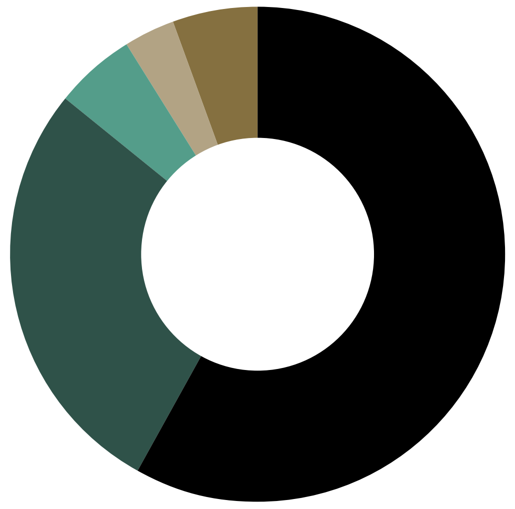
3. Market Risks and Their Risk Management

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 perspective. The Company's market risks are arisen mainly from investments in equities and interest rate risk arising from fixed income assets and with-profit liabilities.

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

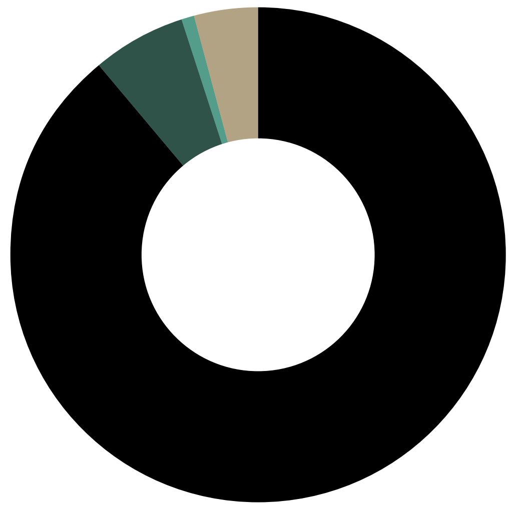
Figure 3–1 Allocation of investments, 31 December 2020

Original portfolio EUR 4,603 million



Fixed income	58%
Listed equity	28%
Private equity	5%
Real estate	3%
Alternative	5%

Segregated portfolio EUR 930 million



Fixed income	89%
Listed equity	6%
Private equity	1%
Real estate	4%
Alternative	0%

The Board of Directors annually approves the Investment Policy for both segregated assets (see Section 6) and other assets regarding the Company's investment risks. The policies in question set principles and limits for investment portfolio activities as well as the risk-bearing-capacity model that is essential for balance sheet management and the monitoring limits to be applied.

Sampo plc's investment unit makes the Company's daily investment decisions, which are based on the principles and authorizations 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 authorizations – are made by the Board of Directors. The ALCOs regularly monitor compliance with the principles and limits specified in the Investment Policy and report on investment risks to the Board of Directors. The ALCOs also monitor the Company's technical provisions and the riskiness of the assets covering the technical provisions of the segregated group pension portfolio in relation to risk-bearing capacity. The ALCOs report to the Board of Directors if the monitoring limits are not met.

In 2020, the net investment return of Mandatum Life's original portfolio was 6.5 per cent (9.2). The total return on the segregated group pension portfolio was 1.5 per cent (6.4). Figure 3–1 shows the total investments for original and segregated portfolios separately on 31 December 2020.

3.1 Equity Risks

Equity price risk is the risk of losses due to changes in share prices. At year-end, the Company's listed equity investments for the original portfolio amounted to EUR 1,277 million (1,171). Listed equity investments for the segregated portfolio amounted to EUR 58 million (137).

The equity portfolio is actively managed. The positions and risks in the equity portfolio and the related derivatives may not exceed the limits set in the Investment Policy. The developed market equity portfolio is managed mainly by Sampo plc's investment management unit while the emerging market equity investments are mainly managed through external asset managers. Direct equity investments make up about 66 per cent of all equity investments. Figure 3–2 presents the geographical allocation of listed equity investments for both portfolios.

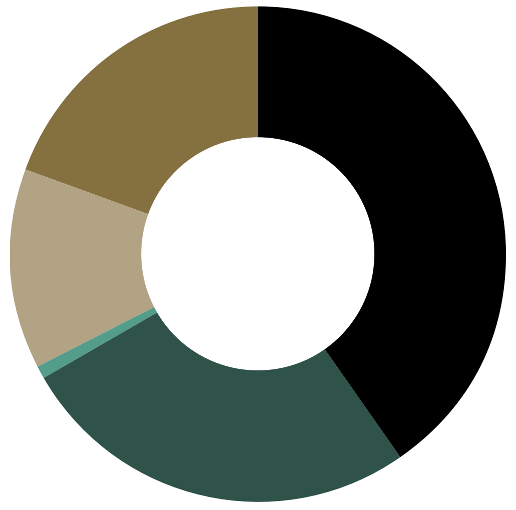
Table 3–6 contains a list of the ten largest equity investments while a breakdown of direct listed equity investments by industries is shown in table 4–1.

3.2 Risks Related to Fixed Income Investments

The Company's risks related to fixed income investments include interest rate risk related to changes in market interest rates and spread risk arising from changes in the credit spreads of fixed income investments.

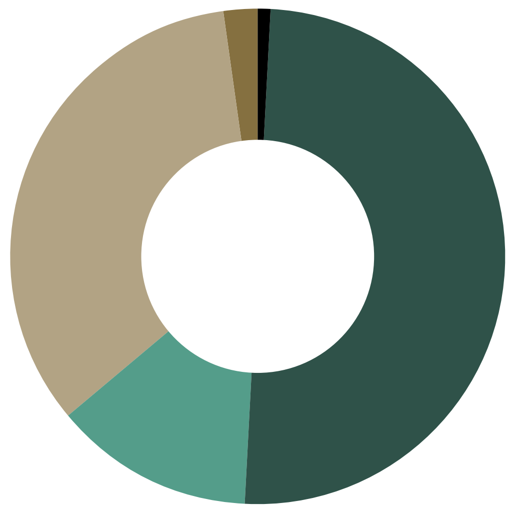
Figure 3–2 Geographical allocation of listed equity investments, 31 December 2020

Original portfolio EUR 1,277 million



Finland	40%
Western Europe	26%
Eastern Europe	1%
North America	13%
Far East	19%

Segregated portfolio EUR 58 million



Scandinavia	1%
Western Europe	50%
Eastern Europe	13%
North America	34%
Far East	2%

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 with-profit liabilities. The probability of this risk increases when market interest rates fall and remain at a low level. According to the Company's Investment Policy, the interest rate risk and inflation risk of technical provisions must be taken into account when defining the composition of investment assets. The Company's duration gap between technical provisions and fixed income investments is constantly monitored and managed. Control levels based on internal capital models are used to manage and ensure adequate capital in different market situations.

The average duration of the Company's original portfolio's liabilities (excluding unit-linked liabilities) was around eleven years at year-end and for the segregated portfolio around eleven years.

The duration of the fixed income investments covering the original with-profit technical provisions as per 31 December 2020 was 2.7 years (2.8) and the duration of the segregated assets was 3.1 years (2.8).

When it comes to with-profit liabilities, Mandatum Life has prepared for low interest rates by, for example, reducing the guaranteed interest rate in new contracts and by supplementing the reserve for decreased discount rate. In addition, existing contracts have been changed to accommodate improved management of reinvestment risk and the liabilities have been supplemented by the reserve for decreased discount rate. More information about the reserve can be found in the Insurance Risks section.

The 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 3–3 illustrates the breakdown of the fixed income investments by type of instrument 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 4–1 shows the breakdown of investment assets by instrument based on industry and credit rating.

At the end of 2020, the share of money market investments in the original policies' fixed income portfolio fell to 16.0 per cent (24.2), and the share of investment-grade fixed income investments rose to 32.5 per cent (30.4). Also, the proportion of high-yield fixed income investments rose to 41.0 per cent (34.8). The share of money market investments in the segregated policy's fixed income portfolio fell to 10.0 per cent (16.0). The share of investment grade fixed income investments rose to 51.7 per cent (47.2). Also, the share of high-yield fixed income investments in the segregated policy rose to 25.6 per per cent (21.8).

Table 3–3 Fixed income investments by type of instrument, 31 December 2020

Original assets	% of Fixed Income Portfolio	Average Maturity
Money Market Securities and Cash	16.0%	0.0
Government Bonds	0.0%	0.0
Covered Bonds	0.0%	0.0
Investment Grade Bonds and Loans	32.5%	3.6
High Yield Bonds and Loans	41.0%	3.2
Asset Backed Securities	0.0%	0.0
Subordinated / T2 -type	4.1%	3.9
Subordinated / T1 -type	6.3%	4.7
Interest Rate Derivatives	0.0%	-
Policy Loans	0.0%	0.0
Total	**100.0%**	**2.9**

Segregated assets	% of Fixed Income Portfolio	Average Maturity
Money Market Securities and Cash	10.0%	0.0
Government Bonds	0.0%	0.0
Covered Bonds	1.4%	4.0
Investment Grade Bonds and Loans	51.7%	3.7
High Yield Bonds and Loans	25.6%	3.6
Asset Backed Securities	0.0%	0.0
Subordinated / T2 -type	4.2%	4.0
Subordinated / T1 -type	7.1%	6.8
Interest Rate Derivatives	0.0%	-
Policy Loans	0.0%	0.0
Total	**100.0%**	**3.6**

3.3 Currency Risks

The with-profit technical provisions resulting from direct investments consist entirely of euro-denominated investments. Currency risk therefore arises from investments made outside the euro zone. Open currency positions are managed within the limits imposed by the Investment Policy. Table 3–4 shows the net currency exposures (net assets) for original and segregated portfolios on 31 December 2020.

3.4 Other Market Risks

In addition to interest rate, equity and currency risks, the Company's investment assets are also subject to risks resulting from real estate, private equity fund and other alternative investments. The Company's Investment Policy sets limits for maximum allocations into these markets and products. On 31 December 2020, the share of the above-mentioned investments of the original insurance portfolios was 14 per cent (14) and of the segregated group pension policies 5 per cent (5) of the 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 style 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 the Company is managed by Sampo plc's real estate management unit. The portfolio includes direct and indirect investments, such as real estate funds and shares 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 3–4 Net currency exposure, 31 December 2020

Transaction risk position, original assets, 31 December 2020

Base currency, EUR million	USD	JPY	GBP	SEK	NOK	CHF	DKK	Other	Net total
Technical provisions	0	0	0	-1	0	0	0	0	-1
Investments	580	2	98	63	41	55	18	225	1,082
Derivatives	-588	-4	-96	-57	-40	-52	-20	-118	-975
Total transaction risk, net position	**-8**	**-2**	**2**	**4**	**1**	**3**	**-2**	**107**	**106**

Transaction risk position, segregated assets, 31 December 2020

Base currency, EUR million	USD	JPY	GBP	SEK	NOK	CHF	DKK	Other	Net total
Technical provisions	0	0	0	0	0	0	0	0	0
Investments	37	0	13	0	6	6	0	1	64
Derivatives	-36	0	-13	0	-6	-5	0	0	-60
Total transaction risk, net position	**0**	**0**	**0**	**0**	**0**	**2**	**0**	**1**	**4**

Table 3–5

Concentration of market and credit risks in individual counterparties by asset class, 31 December 2020

Issuer, EUR million	Total market value	% 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 part of derivatives
BNP Paribas	185	3%	158	28	0	0	28	0	0	0
Nordea Bank	156	3%	126	30	0	0	5	25	0	0
Danske Bank	131	2%	112	18	0	0	11	7	0	1
Skandinaviska Enskilda Banken	121	2%	117	3	0	0	0	3	0	0
Vattenfall	82	1%	0	82	0	0	0	82	0	0
Vaisala	59	1%	0	0	0	0	0	0	59	0
OP Pohjola	57	1%	0	57	0	0	39	17	0	0
Evergood 4 ApS	53	1%	0	53	0	0	53	0	0	0
TDC	51	1%	0	51	0	0	51	0	0	0
Lassila & Tikanoja	48	1%	0	3	0	0	3	0	45	0
Total top 10 exposures	**943**	**17%**	**512**	**326**	**0**	**0**	**190**	**136**	**104**	**1**
Other	4,591	83%								
Total investment assets	**5,534**	**100%**								

Table 3–6

Ten largest direct listed equity investments, 31 December 2020

The 10 largest listed equity investments	Total, EUR million	% of total direct listed equity investments
Vaisala	59	7%
Lassila & Tikanoja	45	5%
Tikkurila	44	5%
UPM-Kymmene	40	4%
Nanoform Finland	33	4%
Musti Group	31	4%
Terveystalo	31	4%
Uponor	31	3%
Caverion	30	3%
F-Secure	26	3%
Total top 10 exposures	**371**	**42%**
Other direct listed equity investments	521	58%
Total direct listed equity investments	**891**	**100%**

Table 3–7

Ten largest direct high yield and non-rated fixed income investments, 31 December 2020

Ten largest high yield and not rated fixed income instruments	Rating	Total market value, EUR million	% of total direct fixed income investments
Evergood 4 ApS	B+	53	1.6%
TDC	B	51	1.5%
Trevian Finland Properties I	NR	47	1.4%
Sponda	NR	45	1.3%
Pohjolan Voima	NR	37	1.1%
Teollisuuden Voima	BB	27	0.8%
Special Investment Fund eQ Finnish Real Estate	NR	25	0.8%
Huhtamäki	NR	23	0.7%
YIT	NR	20	0.6%
European Directories BondCo	NR	20	0.6%
Total top 10 exposures		**349**	**10.5%**
Other direct fixed income investments		2 975	90%
Total direct fixed income investments		**3 323**	**100%**

3.5 Concentration Risk of Investment Operations

The Company'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 maximum amount of the investment limit. Risk concentrations are monitored continuously. Table 3–5 shows market and credit risk concentrations in individual counterparties by asset class.

Table 3–6 illustrates the ten largest equity investments separately and their proportion of the total direct equity investments. In addition to Finnish direct equity investments, the Company invests in foreign equities through investment funds and ETFs, and as direct equity investments. Furthermore, the largest exposures of high-yield and non-rated fixed income investments are broken down in Table 3–7.

4. 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 the Company, credit risk can materialize as market value losses when credit spreads change unfavorably (spread risk) or as credit losses when issuers of credit instruments or counterparties of financial derivatives or reinsurance transactions fail to meet their financial obligations (default risk). The role of credit risk with the current asset allocation is remarkable from both the risk exposure and risk management perspectives.

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 the liabilities. In the Company, credit risks related to reinsurance are relatively low compared to the credit risks associated with investment assets.

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

4.1 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 to a situation where the portfolio is not as diversified as the finance theory suggests but includes thoroughly analyzed investments with a focus on risk-return ratios. Critical success factors for making fixed income investments are considered to be the following:

1. Potential investments must be understood thoroughly. Hence, the creditworthiness of the issuer or counterparty is assessed together with collaterals and other structural details of instruments. Although external credit ratings by rating agencies are used to support the internal assessment, own internal assessment is always the most important factor in decision making. Expertise and resources required for making analyses have been continuously developed in investment management units during recent years.
2. When the details of an instrument are understood and the related earnings potential and risks are considered to be in balance, an investment transaction shall be executable at 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 recent years, credit limit structures and procedures have been in focus when developing the companies' investment policies.

Table 4–1 Credit risk positions according to asset classes, sectors and credit ratings, 31 December 2020

EUR million	AAA	AA+ - AA-	A+ - A-	BBB+ - BBB-	BB+ - C	D	Not rated	Fixed income total	Listed equities	Other	Counterparty risk	Total	Change from 31 Dec 2019
Basic Industry	0	0	0	15	71	0	19	105	105	0	0	**210**	40
Capital Goods	0	0	7	2	37	0	53	99	123	0	0	**222**	-25
Consumer Products	0	3	37	101	106	0	22	270	183	0	0	**453**	81
Energy	0	0	0	0	0	0	53	53	0	6	0	**59**	4
Financial Institutions	0	208	581	526	111	0	31	1,458	26	8	1	**1,493**	-371
Governments	0	0	0	0	0	0	0	0	0	0	0	**0**	0
Government Guaranteed	0	0	0	0	0	0	0	0	0	0	0	**0**	0
Health Care	0	0	7	25	105	0	24	161	118	0	0	**279**	18
Insurance	0	0	16	34	0	0	17	67	12	1	0	**80**	-16
Media	0	0	0	0	4	0	0	4	10	0	0	**15**	0
Packaging	0	0	0	0	8	0	23	31	12	0	0	**43**	-1
Public Sector, Other	0	0	24	0	0	0	0	24	0	0	0	**24**	-3
Real Estate	0	0	4	130	5	0	140	279	0	177	0	**456**	45
Services	0	0	0	55	187	0	78	320	93	0	0	**414**	62
Technology and Electronics	1	0	6	19	35	0	24	85	163	0	0	**248**	-20
Telecommunications	0	0	8	47	72	0	0	127	12	0	0	**139**	0
Transportation	0	0	0	23	0	0	6	29	17	0	0	**47**	5
Utilities	0	1	0	64	110	0	0	175	17	0	0	**192**	42
Others	0	0	0	0	22	0	2	24	0	20	0	**44**	1
Asset-Backed Securities	0	0	0	0	0	0	0	0	0	0	0	**0**	0
Covered Bonds	12	0	0	0	0	0	0	12	0	0	0	**12**	-2
Funds	0	0	0	0	0	0	186	186	444	477	0	**1,107**	-6
Clearing House	0	0	0	0	0	0	0	0	0	0	0	**0**	-6
Total	**13**	**213**	**690**	**1,041**	**874**	**0**	**679**	**3,509**	**1,335**	**689**	**1**	**5,534**	**-153**
Change from 31 Dec 2019	**-2**	**-350**	**-256**	**274**	**132**	**0**	**41**	**-160**	**27**	**-11**	**-10**	**-153**	

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 to the Asset and Liability Committee and the Board of Directors, for instance, by sector and asset class and within fixed income by rating. Individual issuers' and counterparties' credit ratings are monitored continuously.

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

5. Liquidity Risk

Liquidity risk is the risk that the Company 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 the Company.

6. Insurance Risks

Insurance risks in the life insurance business encompass biometric risks, lapse risk and expense risk. Risk related to the discount rate applied in the with-profit liabilities is part of markets risks, but it closely relates to insurance products and due to that is presented as part of insurance risks. This section presents the development of these life insurance risks during 2020. In addition, the section presents the key insurance risk management principles.

Mandatum Life received from Suomi Mutual its 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 the Company's balance sheet. The segregated portfolio has its own profit-sharing principles, as well as its own investment limits and Asset and Liability Committee. The with-profit liabilities that are not part of the liabilities related to the segregated group pension portfolio are referred to as the 'original with-profit liabilities' in this risk management note.

6.1 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.

Table 5–1 Cashflows according to contractual maturity, 31 December 2020

		Carrying amount total		Carrying amount total						
EUR million	Carrying amount total	Carrying amount without contractual maturity	Carrying amount with contractual maturity	2021	2022	2023	2024	2025	2026–2035	2036–
Life Insurance										
Financial assets	**5,562**	2,710	2,852	242	268	444	823	628	633	10
of which interest rate swaps	**0**	0	0	0	0	0	0	0	0	0
Financial liabilities	**416**	0	416	-12	-9	-9	-259	-4	-46	-169
of which interest rate swaps	**0**	0	0	0	0	0	0	0	0	0
Lease liabilities	**24**	0	24	-2	-2	-2	-2	-2	-16	0
Net technical provisions	**2,992**		2,992	-253	-257	-261	-240	-225	-1,447	-954

The long duration of policies and restriction of the Company'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, liabilities have to be supplemented with an amount corresponding to the expected losses.

Table 6–1 shows the insurance risk result in the Company's direct insurance policies. The ratio of the actual claims costs to the assumed was 73 per cent in 2020 (75). Sensitivity of the insurance risk result can also be assessed on the basis of the information in Table 6–1. For example, a 100 per cent increase in mortality would increase the amount of benefit payments from EUR 15 million to approximately EUR 30 million.

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

The annual longevity risk result and longevity trend are analyzed regularly. For the segregated group pension portfolio the assumed life expectancy related to the liabilities was revised in 2014 and for the other group pension portfolios in 2002 and 2007. In total, these changes increased the 2020 liabilities by EUR 78 million (86) including a EUR 65 million longevity reserve for the segregated group pension portfolio. The cumulative longevity risk result has been positive since these revisions. The longevity risk result for pension insurance policies in 2020 was EUR 12.2 million (8.9) positive, after a EUR 7.8 million release from the longevity reserve.

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

6.2 Discount Rate Risk in the Liabilities

Discount rate risk applied in with-profit liabilities is the main risk affecting the adequacy of liabilities for insurance contracts. The guaranteed interest rate in policies is fixed for the whole policy period. Thus, if market interest rates and expected investment returns fall, liabilities 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. With respect to these policies, the maximum discount rate used when discounting liabilities has been decreased to 3.5 per cent. As a result, liabilities have been supplemented with EUR 35 million in 2020 (40). In addition, EUR 183 million has been reserved to lower the interest rate of with-profit liabilities to 0.25 per cent in 2021–2023, i.e. the Company has set up an extra reserve of EUR 218 million (230) as part of liabilities for insurance contracts.

The guaranteed interest rate 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 liabilities is 0.0 per cent as of 31 December 2019. The liabilities calculated with 3.5 per cent (so-called basic provision) total EUR 565 million (623) and liabilities calculated with 0.0 per cent supplement this basic provision by EUR 232 million (263). The provision for future bonuses plays a significant role in the risk management of the segregated portfolio. This provision totals EUR 78 million (78) which can be used to cover possible investment losses or to finance possible changes in the discount rate of segregated liabilities.

The liabilities related to each product type and guaranteed interest rates are shown in Table 6–2. The table also shows the change in each category during 2020.

Table 6–1 Claims ratios after reinsurance 2019 and 2020

	2020			2019		
EUR million	Risk income	Claims expense	Claims ratio	Risk income	Claims expense	Claims ratio
Life insurance	**49.5**	**24.8**	**50%**	**49.4**	**23.7**	**48%**
Mortality	30.5	14.9	49%	30.4	12.1	40%
Morbidity and disability	19.0	9.9	52%	19.0	11.6	61%
Pension	**87.8**	**74.7**	**85%**	**87.7**	**78.9**	**90%**
Individual pension	14.4	13.7	95%	13.1	13.8	106%
Group pension	73.4	61.0	83%	74.6	65.0	87%
Mortality (longevity)	71.5	59.9	84%	72.3	63.5	88%
Disability	1.9	1.1	59%	2.3	1.5	67%
Total	**137.2**	**99.5**	**73%**	**137.1**	**102.5**	**75%**

6.3 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 and the possibility to interrupt their policies (lapse 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 the ALM point of view, lapse risk is less significant because in the Company, approximately 90 per cent of with-profit policies are pension policies in which surrender is possible only in exceptional cases. For ALM, surrender risk is therefore only relevant in with-profit investment insurance and capital redemption policies of which the related liabilities amount to only less than five per cent of the total with-profit liabilities. Furthermore, the supplements to liabilities 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 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 architecture at an efficient level through the contract period of policies. In 2020, Mandatum Life Group's expense result was EUR 26.6 million (24.4). The Company does not defer insurance acquisition costs. Figure 6–3 shows the Group's expense result for 2011–2020.

6.4 Insurance Risk Management and Control

The biometric risks of life insurance policies are managed through careful risk selection, by setting prices to reflet the risks and costs, by setting upper limits for the protection granted and through reinsurance. The Insurance Risk Committee monitors the comprehensiveness and appropriateness of the Company's insurance risk management.

Risk selection is a part of the day-to-day business routines in the Company. The Company's risk selection policy defines the risk selection principles and limits for the insurance amounts. The Board of Directors approves the Underwriting Policy, pricing guidelines and the central principles for the calculation of technical provisions and liabilities.

Table 6–2 Analysis of the change in liabilities before reinsurers' share

EUR million	Liability 2019	Premiums	Claims paid	Expense charges	Guaranteed interest	Bonuses	Other	Liability 2020	Share %
Unit-linked, excl. Baltic	**6 810**	**940**	**-695**	**-78**	**0**	**0**	**481**	**8 600**	**66%**
Individual pension insurance	1,298	54	-22	-15	0	0	47	1,576	13%
Individual life	2,195	92	-171	-19	0	0	106	2,285	19%
Capital redemption operations	2,519	711	-481	-33	0	0	158	3,518	26%
Group pension	797	84	-21	-11	0	0	170	1,221	8%
With profit and others, excl. Baltic	**4,208**	**97**	**-402**	**-32**	**101**	**3**	**-171**	**3,510**	**32%**
Group pension insurance. segregated portfolio	**1,008**	**3**	**-54**	**-1**	**21**	**3**	**-61**	**875**	**14%**
Basic liabilities. guaranteed rate 3.5%	658	3	-54	-1	21	3	-30	565	12%
Reserve for decreased discount rate (3.5% → 0.0%)	250	0	0	0	0	0	-31	232	3%
Future bonus reserves	100	0	0	0	0	0	0	78	8%
Group pension	**1,879**	**22**	**-185**	**-5**	**51**	**0**	**-90**	**1,525**	**5%**
Guaranteed rate 3.5 %	1,603	-2	-154	-2	47	0	-81	1,233	2%
Guaranteed rate 2.5 %. 1.5% or 0.0 %	276	23	-31	-3	4	0	-10	292	1%
Individual pension insurance	**763**	**6**	**-132**	**-4**	**24**	**0**	**31**	**609**	**6%**
Guaranteed rate 4.5%	567	3	-71	-3	20	0	-14	430	4%
Guaranteed rate 3.5%	128	2	-33	-1	4	0	22	116	1%
Guaranteed rate 2.5% or 0.0%	68	1	-29	0	1	0	23	63	1%

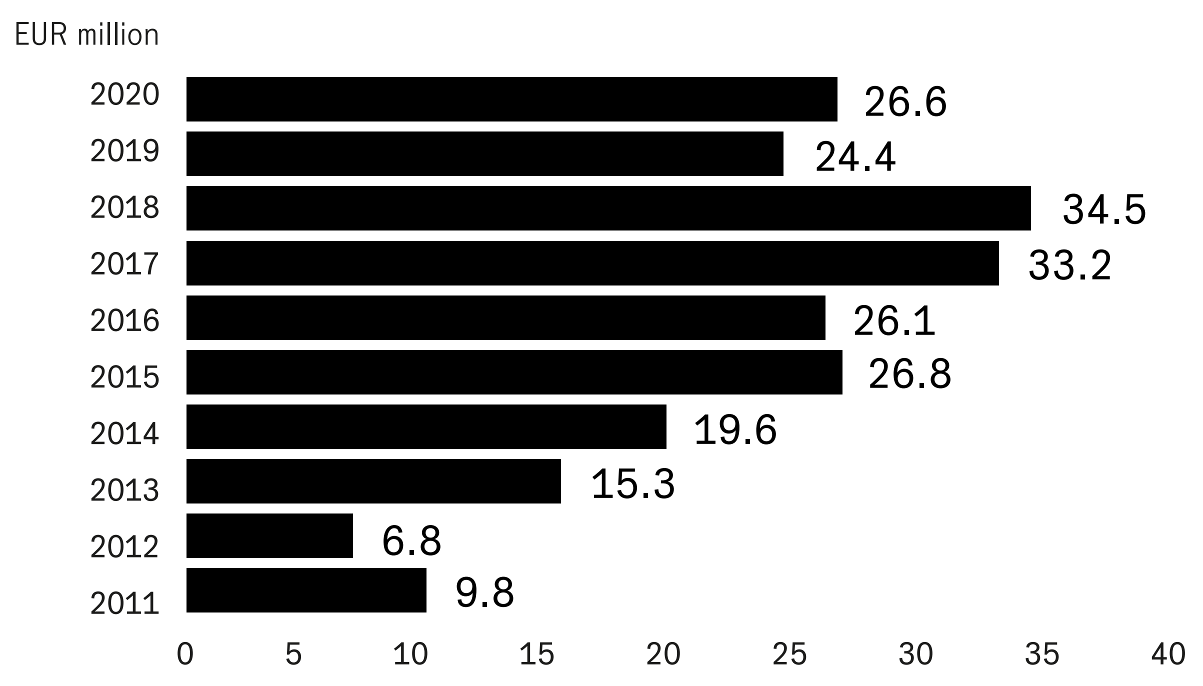
EUR million	Liability 2019	Premiums	Claims paid	Expense charges	Guaranteed interest	Bonuses	Other	Liability 2020	Share %
Individual life insurance	**153**	**31**	**-21**	**-10**	**5**	**0**	**-14**	**133**	**1%**
Guaranteed rate 4.5%	52	4	-12	-1	2	0	7	48	0%
Guaranteed rate 3.5%	76	9	-6	-3	2	0	-8	66	1%
Guaranteed rate 2.5% or 0.0%	25	18	-3	-6	0	0	-12	19	0%
Capital redemption operations	**24**	**0**	**0**	**0**	**0**	**0**	**1**	**26**	**0%**
Guaranteed rate 3.5%	0	0	0	0	0	0	0	0	0%
Guaranteed rate 2.5% or 0.0%	24	0	0	0	0	0	1	26	0%
Future bonus reserves	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0%**
Reserve for decreased discount rate	**232**	**0**	**0**	**0**	**0**	**0**	**-12**	**218**	**2%**
Longevity reserve	**95**	**0**	**0**	**0**	**0**	**0**	**-8**	**78**	**1%**
Assumed reinsurance	**3**	**0**	**-1**	**0**	**0**	**0**	**-1**	**2**	**0%**
Other liabilities	**50**	**36**	**-10**	**-13**	**0**	**0**	**-17**	**43**	**0%**
Total, excl. Baltic	**11,017**	**1,037**	**-1,097**	**-110**	**101**	**3**	**310**	**12,109**	**99%**
Baltic	159	22	-23	-4	0	0	4	177	1%
Unit-linked liabilities	145	20	-21	-4	0	0	4	165	1%
Other liabilities	14	2	-2	-1	0	0	-1	12	0%
Mandatum Life group total	**11,176**	**1,059**	**-1,120**	**-114**	**102**	**3**	**313**	**12,286**	**100%**

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

The risk result is actively monitored and analyzed thoroughly at least annually. The Company 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. The expense risk 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.

Liabilities are analyzed and the possible supplement needs are assessed regularly. The key assumptions related to liabilities are reviewed annually. The adequacy of liabilities is tested quarterly. Tariffs for new policies are set, and the underwriting policy and assumptions used in calculating liabilities are updated based on the analysis related to liabilities and risk result.

Figure 6–3 Expense result 2011–2020



Segment Information

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

The investment risks vary by product group. The segment results are reported to the management of the company as a part of management reporting. The primary segmentation also essentially coincides with the geographical division since operations outside Finland are presented as a single separate business area. The operations outside Finland mainly comprise operations in the Baltics and the operations of the Luxembourg management company, whose impact is minor. As foreign operations expand, the division by country will also 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 2020

EUR million	Unit-linked contracts (Finland)	Other contracts (Finland)	Segregated portfolio (Finland)	Foreign operations	Elimination and items not allocated to segments	Group
Insurance premiums	940.4	86.1	2.5	21.8	0.0	1,050.8
Net income from investments	411.4	158.1	13.7	6.1	-2.6	586.7
Other operating income		18.5		6.9	0.3	25.7
Claims incurred	-694.5	-336.1	-35.5	-23.0	0.0	-1,089.1
Change in liabilities for insurance and investment contracts *	-560.0	256.7	29.4	1.4	0.0	-272.5
Staff costs	-24.8	-25.0	0.0	-3.2	0.0	-53.0
Other operating expenses	-38.7	-23.0	-5.3	-10.3	-5.0	-82.3
Finance costs		-12.2		0.0	-0.2	-12.4
Share of associates' profit/loss						0.0
Profit before taxes	**33.8**	**123.2**	**4.8**	**-0.3**	**-7.6**	**153.9**
Taxes	-6.8	-29.0	-1.0	-0.1	0.0	-36.8
Profit	**27.1**	**94.2**	**3.8**	**-0.4**	**-7.6**	**117.0**

EUR million	Unit-linked contracts (Finland)	Other contracts (Finland)	Segregated portfolio (Finland)	Foreign operations	Elimination and items not allocated to segments	Group
Other comprehensive income for the year						
Shadow accounting						0.8
Available-for-sale financial assets						119.1
Income tax relating to components of other comprehensive income						-23.8
Other comprehensive income						**96.1**
TOTAL COMPREHENSIVE INCOME						**213.2**
Profit attributable to						
Owners of the parent company						117.0
Non-controlling interests						0.0
Total comprehensive income attributable to						
Owners of the parent company						213.2
Non-controlling interests						0

* In the domestic segment the transition of liabilities between unit-linked and other contracts has been recognized. The transfers between segments has an effect EUR 82.2 million (9.6) in the item 'Change in liabilities for insurance and investment contracts' of the unit-linked contracts and EUR 40.4 million (0.4) of other contacts and EUR -41.8 million (-9.3) of segregated portfolio.

Consolidated Income Statement by Business Segment for Year 2019

EUR million	Unit-linked contracts (Finland)	Other contracts (Finland)	Segregated portfolio (Finland)	Foreign operatioins	Elimination	Group
Insurance premiums	1,448.2	115.8	2.2	29.7	0.0	1,595.9
Net income from investments	909.1	308.5	31.2	20.5	-2.7	1,266.5
Other operating income		18.3		4.7	0.1	23.0
Claims incurred	-1,115.7	-324.3	-28.1	-24.1	0.0	-1,492.2
Change in liabilities for insurance and investment contracts *	-1,143.1	186.5	5.0	-19.6	0.0	-971.2
Staff costs	-26.3	-21.9	0.0	-3.5	0.0	-51.8
Other operating expenses	-42.5	-20.8	-1.1	-7.7	-9.2	-81.4
Finance costs		-8.9		0.0	-0.2	-9.2
Share of associates' profit/loss		0.5				0.5
Profit before taxes	**29.7**	**253.5**	**9.2**	**-0.1**	**-12.1**	**280.1**
Taxes	-5.9	-50.7	-1.8	0.0	0.0	**-58.2**
Profit	**23.7**	**202.8**	**7.3**	**-0.1**	**-12.1**	**221.9**

EUR million	Unit-linked contracts (Finland)	Other contracts (Finland)	Segregated portfolio (Finland)	Foreign operatioins	Elimination	Group
Other comprehensive income for the year						
Shadow accounting						-21.3
Available-for-sale financial assets						134.9
Income tax relating to components of other comprehensive income						-27.0
Other comprehensive income for the year, net of tax						**86.6**
TOTAL COMPREHENSIVE INCOME						**308.5**
Profit attributable to						
Owners of the parent company						221.9
Non-controlling interests						0.0
Total comprehensive income attributable to						
Owners of the parent company						308.5
Non-controlling interests						0.0

* In the domestic segment the transition of liabilities between unit-linked and other contracts has been recognized. The transfers between segments has an effect EUR 9.6 million (-30.0) in the item 'Change in liabilities for insurance and investment contracts' of the unit-linked contracts and EUR 0.4 million (34.9) of other contacts and EUR -9.3 million of segregated portfolio (-4.9).

Consolidated Balance Sheet by Business Segment for Year 2020

EUR million	Unit-linked contracts (Finland)	Other contracts (Finland)	Segregated portfolio (Finland)	Foreign operations	Elimination	Group
Assets						
Property, plant and equipment	2.5	27.1		0.1		29.6
Investment property		105.9	27.7			133.7
Intangible assets	0.4	4.0		2.2		6.6
Investments in associates		0.6				0.6
Financial assets		4,006.0	810.1	15.9	7.0	4,839.1
Investments related to unit-linked insurance and investment contracts	8,677.0	0.0		128.4		8,805.3
Reinsurers' share of insurance liabilities		1.0				1.0
Other assets		90.4	18.9	2.0	-4.2	107.1
Cash and cash equivalents		592.2	87.6	2.7		682.4
Total assets	**8,679.9**	**4,827.2**	**944.3**	**151.3**	**2.8**	**14,605.4**
Liabilities						
Liabilities for insurance and investment contracts		2,634.5	875.1	11.6		3,521.1
Liabilities for unit-linked insurance and investment contracts	8,599.8	0.0		165.4		8,765.2
Financial liabilities		352.4				352.4
Tax liabilities		138.8				138.8
Other liabilities	46.3	116.4	62.2	2.1	19.8	246.9
Total liabilities	**8,646.1**	**3,242.1**	**937.3**	**179.1**	**19.8**	**13,024.5**

EUR million	Unit-linked contracts (Finland)	Other contracts (Finland)	Segregated portfolio (Finland)	Foreign operations	Elimination	Group
Equity						
Share capital						40.4
Reserves						663.1
Retained earnings						877.5
Equity attributable to parent company's equity holders						**1,580.9**
Non-controlling interests						0.0
Total equity						**1,580.9**
Total equity and liabilities						**14,605.4**

Consolidated Balance Sheet by Business Segment for Year 2019

EUR million	Unit-linked contracts (Finland)	Other contracts (Finland)	Segregated portfolio (Finland)	Foreign operations	Elimination	Group
Assets						
Property, plant and equipment	2.0	12.3		0.1		14.3
Investment property		107.7	28.5			136.1
Intangible assets	3.4	2.5		3.1		8.9
Investments in associates		0.5				0.5
Financial assets		3,802.0	852.1	17.4		4,671.5
Investments related to unit-linked insurance	8,004.6	0.0		165.6		8,170.2
Reinsurers' share of insurance liabilities		0.7				0.7
Other assets		121.0	14.7	1.6	0.2	137.4
Cash and cash equivalents		812.8	136.6	2.7		952.1
Total assets	**8,009.9**	**4,859.6**	**1,031.8**	**190.5**	**0.2**	**14,091.9**
Liabilities						
Liabilities for insurance and investment contracts		2,948.7	964.4	12.8		3,925.8
Liabilities for unit-linked insurance and investment contracts	7,951.5	0.0		165.6		8,117.1
Financial liabilities		364.0				364.0
Tax liabilities		120.8				120.8
Other liabilities	26.5	105.5	53.2	1.8	9.6	196.5
Total liabilities	**7,978.0**	**3,539.0**	**1,017.6**	**180.1**	**9.6**	**12,724.2**

EUR million	Unit-linked contracts (Finland)	Other contracts (Finland)	Segregated portfolio (Finland)	Foreign operations	Elimination	Group
Equity						
Share capital						40.4
Reserves						566.9
Retained earnings						760.4
Equity attributable to parent company's equity holders						**1,367.7**
Non-controlling interests						0.0
Total equity						**1,367.7**
Total equity and liabilities						**14,091.9**

Notes to the Income Statement

1. Insurance Premiums

Premiums from Insurance Contracts

EUR million	2020	2019
Insurance contracts		
Insurance contracts	342.7	573.3
Reinsurance contracts	0.3	0.1
Insurance contracts total, gross	**342.9**	**573.4**
Reinsurers' share	-8.2	-7.1
Insurance contracts total, net	**334.8**	**566.3**
Investment contracts	716.0	1,029.6
Total premiums *	**1,050.8**	**1,595.9**

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

Specification of Premiums

EUR million	2020	2019
Premiums from investment contracts		
Premiums from contracts with discretionary participation feature	97.2	125.8
Premiums from unit-linked contracts	244.3	446.5
Premiums from other contracts	1.2	1.0
Total	**342.7**	**573.3**
Assumed reinsurance	0.3	0.1

EUR million	2020	2019
Premiums from investment contracts		
Premiums from contracts with discretionary participation feature	0.0	0.0
Premiums from unit-linked contracts	716.0	1,029.6
Total	**716.0**	**1,029.6**
Insurance and investment contracts, total	**1,059.0**	**1,603.0**
Reinsurers' share	-8.2	-7.1
Total premiums	**1,050.8**	**1,595.9**

Direct Insurance Premiums by Geographical Segments

EUR million	2020	2019
Finland	1,036.9	1,573.2
Baltic countries	21.8	29.7
Total	**1,058.7**	**1,602.9**

Single and Regular Premiums from Direct Insurance

EUR million	2020	2019
Regular premiums, insurance contracts	247.0	261.9
Single premiums, insurance contracts	95.7	311.5
Single premiums, investment contracts	716.0	1,029.6
Total	**1,058.7**	**1,602.9**

Direct Insurance Premiums by Line of Business

EUR million	2020	2019
Premiums from insurance contracts		
Life insurance		
Unit-linked individual life insurance	106.8	301.9
Other individual life insurance	45.2	44.9
Employees' group life insurance	9.7	10.1
Other group life insurance	13.6	12.2
Total	**175.3**	**369.1**
Pension insurance		
Unit-linked individual pension insurance	53.9	55.4
Other individual pension insurance	5.6	6.7
Unit-linked group pension insurance	83.5	89.2
Other group pension insurance	24.4	52.9
Total	**167.4**	**204.2**
Total	**342.7**	**573.3**
Premiums from investment contracts		
Capital redemption operations		
Unit-linked capital redemption operations	716.0	1,029.6
Other capital redemption operations	0.0	0.0
Total	**716.0**	**1,029.6**
Total premiums from insurance and investment contracts	**1,058.7**	**1,602.9**

2. Net Income from Investments

EUR million	2020	2019
Financial assets		
Derivative financial instruments		
Gains/losses	26.2	-63.4
Investments related to unit-linked contracts		
Debt securities		
Interest income	8.1	38.7
Gains/losses	7.7	50.9
Equity securities		
Gains/losses	316.3	751.5
Dividend income	49.4	59.1
Loans and receivables		
Interest income	-2.4	-0.4
Other financial assets		
Gains/losses	13.5	-0.5
Other assets		
Gains/losses	4.3	8.7
Total	**396.9**	**908.1**
Loans and receivables		
Interest income	2.4	1.9
Gains/losses	-4.1	2.2
Total	**-1.7**	**4.1**
Financial assets available-for-sale		
Debt securities		
Interest income	72.4	70.6
Gains/losses	-1.8	14.8
Impairment losses	3.9	-0.1

Net Income from Investments

EUR million	2020	2019
Equity securities		
Gains/losses	121.9	234.7
Impairment losses	-90.4	-15.3
Dividend income	49.9	105.8
Total	**155.9**	**410.4**
Total financial assets	**577.3**	**1,259.1**
Other assets		
Investment properties		
Gains/losses	0.0	2.3
Impairment losses	-2.2	-4.0
Other	2.6	3.5
Total other assets	**0.3**	**1.8**
Net fee income		
Asset management	-14.1	-19.3
Fee income	23.1	24.9
Total	**9.0**	**5.6**
Net Income from Investments total	**586.7**	**1,266.5**

Included in gains/losses from financial assets available-for-sale is a net gain of EUR 94.2 million (236.2) 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

Claims include all claims related to insurance and investment contracts.

EUR million	Claims paid 2020	Claims paid 2019	Change in provision for claims outstanding 2020	Change in provision for claims outstanding 2019	Claims incurred 2020	Claims incurred 2019
Insurance contracts						
Life insurance						
Contracts with discretionary participation feature (DPF)	-33.2	-39.7	1.7	0.8	-31.5	-38.9
Other contracts	-0.1	-0.1	0.0	0.0	-0.1	-0.1
Unit-linked contracts	-185.6	-489.1	1.4	-0.7	-184.2	-489.8
Total	**-218.9**	**-529.0**	**3.1**	**0.1**	**-215.8**	**-528.9**
Pension insurance						
Contracts with discretionary participation feature (DPF)	-370.8	-419.7	137.0	182.9	-233.8	-236.8
Unit-linked contracts	-43.0	-40.8	-112.4	-78.4	-155.4	-119.2
Total	**-413.8**	**-460.5**	**24.5**	**104.4**	**-389.2**	**-356.0**
Assumed reinsurance	-0.5	-0.3	1.4	0.0	0.9	-0.3
Total	**-633.2**	**-989.8**	**29.0**	**104.5**	**-604.2**	**-885.3**
Reinsurers' share	1.5	0.7	0.3	-0.2	1.8	0.5
Insurance contracts total	**-631.7**	**-989.1**	**29.3**	**104.3**	**-602.4**	**-884.7**
Investment contracts						
Capital redemption policies						
Contracts with discretionary participation feature (DPF)	-0.1	-0.1	-	-	-0.1	-0.1
Unit-linked contracts	-486.6	-607.4	-	-	-486.6	-607.4
Total	**-486.7**	**-607.5**	**-**	**-**	**-486.7**	**-607.5**
Claims total	**-1,118.4**	**-1,596.6**	**29.3**	**104.3**	**-1,089.1**	**-1,492.2**

Claims Paid by Type of Benefit

EUR million	2020	2019
Insurance contracts		
Life insurance		
Surrender benefits	-3.6	-8.5
Death benefits	-14.2	-15.8
Maturity benefits	-5.1	-5.7
Loss adjustment expenses	0.0	0.0
Other	-10.4	-9.7
Total	**-33.2**	**-39.7**
Life insurance, unit-linked		
Surrender benefits	-127.2	-432.8
Death benefits	-48.7	-50.4
Maturity benefits	-9.7	-5.9
Loss adjustment expenses	0.0	0.0
Total	**-185.6**	**-489.1**
Pension insurance		
Pension payments	-363.8	-409.8
Surrender benefits	-0.6	-2.2
Death benefits	-6.4	-7.5
Loss adjustment expenses	0.0	-0.1
Total	**-370.8**	**-419.7**
Pension insurance, unit-linked		
Pension payments	-31.1	-17.1
Surrender benefits	-6.8	-20.3
Death benefits	-5.2	-3.4
Other	0.0	0.0
Total	**-43.0**	**-40.8**

EUR million	2020	2019
Assumed reinsurance	-0.5	-0.3
Total	**-633.1**	**-989.8**
Reinsurers' share	1.5	0.7
Reinsurers' share	**-631.6**	**-989.1**
Investment contracts		
Capital redemption policy, with-profit		
Surrender benefits	-0.1	-0.1
Maturity benefits	0.0	0.0
Total	**-0.1**	**-0.1**
Investment contracts		
Capital redemption policy, unit-linked		
Surrender benefits	-486.5	-602.9
Maturity benefits	-0.1	-4.4
Total	**-486.6**	**-607.4**
Investment contracts total	**-486.7**	**-607.5**
Claims paid total, gross	**-1,119.8**	**-1,597.3**
Claims paid total, net	**-1,118.4**	**-1,596.6**

4. Change in Liabilities Insurance and Investments Contracts

EUR million	2020	2019
Insurance contracts		
Life-insurance		
Contracts with discretionary participation feature (DPF)	9.6	8.5
Other contracts	0.2	-0.1
Unit-linked contracts	-8.8	-90.9
Total	**1.0**	**-82.5**
Pension insurance		
Contracts with discretionary participation feature (DPF)	255.8	104.4
Unit-linked contracts	-173.5	-336.6
Total	**82.3**	**-232.2**
Assumed reinsurance	0.0	0.0
Total	**83.3**	**-314.7**
Reinsurers' share	0.3	-0.2
Insurance contracts total, net	**83.6**	**-314.8**
Investment contracts		
Capital redemption policy		
Contracts with discretionary participation feature (DPF)	-1.0	-0.7
Unit-linked contracts	-354.8	-655.8
Total	**-355.8**	**-656.5**
Change in liabilities for insurance and investment contracts total, gross	**-272.5**	**-971.2**

5. Staff Costs

EUR million	2020	2019
Staff Costs		
Wages and salaries	-43.4	-40.9
Cash-settled share-based payments	-0.3	-1.4
Pension costs - defined contribution plans	-6.5	-6.7
Other social security costs	-2.8	-2.8
Total	**-53.0**	**-51.8**

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

6. Other Operating Expenses

EUR million	2020	2019
IT costs	-25.7	-23.5
Other staff costs	-1.2	-2.0
Marketing expenses	-4.5	-4.7
Depreciation and amortisation	-4.1	-4.5
Rental expenses	-2.3	-1.6
Direct insurance commissions	-2.2	-2.1
Commissions of reinsurance assumed	-0.6	-0.1
Commissions on reinsurance ceded	5.4	4.4
Other	-47.2	-47.2
Total	**-82.3**	**-81.4**

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

Financial Assets and Liabilities

EUR million	2020	2019
Policy acquisition costs for insurance- and investment contracts		
Direct insurance commissions	-2.2	-2.1
Commission on reinsurance assumed	-0.6	-0.1
Other acquisition costs	-23.6	-24.6
Policy management expenses on insurance and investment contracts	-65.9	-66.9
Administrative expenses	-15.2	-17.6
Commission on reinsurance ceded	5.4	4.4
Investment management expenses	-0.4	-0.4
Claims settlement expenses	-6.1	-6.3
Other expenses	-26.7	-19.5
Total	**-135.3**	**-133.2**

7. Financial Assets and Liabilities

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

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

Accrued interest income and expenses are not included in financial assets or financial liabilities. Accrued interest income was EUR 23.7 million (24.9) and accrued interest expenses EUR 1.9 million (7.2).

Financial Assets 2020

EUR million	Carrying amount	Interest inc./exp.	Gains/ losses	Impairment losses	Dividend income
	2020				
Financial assets at fair value through P&L					
Derivative financial instruments	24.5	-11.8	38.0	-	-
Financial assets designated as at fair value through P&L	-	-	-	-	-
Loans and receivables	58.5	2.4	-1.5	-2.2	-
Financial assets available-for-sale	4,756.0	72.4	120.1	-86.4	49.9
Financial assets total	**4,839.1**	**62.9**	**156.6**	**-88.7**	**49.9**

Financial Liabilities 2020

EUR million	Carrying amount	Interest inc./exp.	Gains/ losses	Impairment losses	Dividend income
	2020				
Financial liabilities at fair value through P&L					
Derivative financial instruments	3.2	-	-	-	-
Other financial liabilities at amortised cost	349.2	-12.2	-	-	-
Financial liabilities total	**352.4**	**-12.2**	**-**	**-**	**-**

Financial Assets 2019

EUR million	Carrying amount	Interest inc./exp.	Gains/ losses	Impairment losses	Dividend income
	2019				
Financial assets at fair value through P&L					
Derivative financial instruments	19.8	-28.8	-34.6	-	-
Financial assets designated as at fair value through P&L	-	-	-	-	-
Loans and receivables	58.7	1.9	2.2	-4.0	-
Financial assets available-for-sale	4,593.0	70.6	249.5	-15.4	105.8
Financial assets total	**4,671.5**	**43.7**	**217.0**	**-19.4**	**105.8**

Rahoitusvelat 2019

EUR million	Carrying amount	Interest inc./exp.	Gains/ losses	Impairment losses	Dividend income
	2019				
Financial liabilities at fair value through P&L					
Derivative financial instruments	15.0	-	-	-	-
Other financial liabilities at amortised cost	349.1	-8.9	-	-	-
Financial liabilities total	**364.0**	**-8.9**	**-**	**-**	**-**

Notes to the Balance Sheet

8. Property, Plant and Equipment

EUR million	2020 Right to use assets *	2020 Land and buildings	2020 Equipment	2020 Total	2019 Right to use assets *	2019 Land and buildings	2019 Equipment	2019 Total
At 1 January								
Acquisition cost	11.0	3.7	9.8	24.5		2.9	9.7	12.6
Accumulated depreciation	-1.7	-0.8	-7.6	-10.1		-0.8	-7.3	-8.0
Net carrying amount at 1 January	**9.3**	**2.9**	**2.1**	**14.3**	**-**	**2.1**	**2.5**	**4.5**
Opening net carrying amount	9.3	2.9	2.1	14.3	-	2.1	2.5	4.5
Additions+/Disposals -	15.3	0.0	1.1	16.3	11.0	0.9	0.0	11.9
Depreciation	-0.5	0.0	-0.5	-1.1	-1.7	0.0	-0.4	-2.1
Closing net carrying amount at 31 December	**24.0**	**2.9**	**2.7**	**29.6**	**9.3**	**2.9**	**2.1**	**14.3**
At 31 December								
Acquisition cost	26.3	3.7	10.8	40.8	11.0	3.7	9.8	24.5
Accumulated depreciation	-2.2	-0.8	-8.1	-11.2	-1.7	-0.8	-7.6	-10.1
Net carrying amount at 31 December	**24.0**	**2.9**	**2.7**	**29.6**	**9.3**	**2.9**	**2.1**	**14.3**

Equipment comprise IT and office equipment.

* The Group has premises, offices, car parks and so on, taken as a lessee. Right to use assets comprise of Group's rental agreements.

The contracts have been made mainly for 2–5 years. Most of the contracts have possibility to renew the contract after the term has expired.

The rents are usually consumer prices index linked.

More information about Group's leases in note 28.

9. Investment Property

EUR million	2020	2019
At 1 January		
Acquisition cost	237.5	243.6
Accumulated depreciation	-67.5	-64.2
Accumulated impairment losses	-33.9	-33.1
Net carrying amount at 1 January	**136.1**	**146.3**
Opening net carrying amount	136.1	146.3
Additions	3.1	0.8
Disposals	-2.3	-6.9
Depreciation	-3.3	-3.3
Impairment losses	0.0	-0.8
Closing net carrying amount at 31 December	**133.7**	**136.1**
At 31 December		
Acquisition cost	238.4	237.5
Accumulated depreciation	-70.9	-67.5
Accumulated impairment losses	-33.9	-33.9
Net carrying amount at 31 December	**133.7**	**136.1**
Rental income from investment property	15.9	16.6
Property rented out under operating lease		
Non-cancellable minimum rental		
Not later than one year	7.9	8.7
Later than one year and not later than five years	12.8	15.4
Later than five years	0.7	1.4
Total	**21.3**	**25.4**

EUR million	2020	2019
Variable rents recognised as income during the financial period.	0.1	0.1
Expenses arising from investment property		
Direct operating expenses arising from investment property generating rental income during the period	-6.6	-7.5
Direct operating expenses arising from investment property not generating rental income during the period	-2.3	-1.4
Total	**-8.9**	**-8.9**
Fair value of investment property at 31 December	**170.7**	**169.9**

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	2020	2019
At 1 January		
Acquisition cost	54.3	47.9
Accumulated amortisation	-45.3	-43.0
Net carrying amount at 1 January	**8.9**	**5.0**
Opening net carrying amount	8.9	5.0
Additions	3.8	6.3
Amortisation	-6.2	-2.4
Closing net carrying amount at 31 December	**6.6**	**8.9**
At 31 December		
Acquisition cost	58.1	54.3
Accumulated amortisation	-51.5	-45.3
Net carrying amount at 31 December	**6.6**	**8.9**

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 December 2020

EUR million	Carrying amount	Fair value	Interest held %	Assets/ liabilities	Revenue	Profit/ loss
Precast Holding Oy	2.6	2.6	20.4	48.5/45.9	55.5	-0.2

Associates that have been accounted for by the equity method at 31 December 2019

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
Precast Holding Oy	2.6	2.6	20.4	3.6/0.0	0.0	0.0

* Reporting period July/2019–December/2019.

Changes in Investments in Associates

EUR million	2020	2019
At beginning of year	2.5	2.6
Change	-1.9	0.0
Share of loss/profit	0.0	0.0
At end of year	**0.6**	**2.5**

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	2020	2019
Derivative financial instruments	24.5	19.8
Financial assets designated as at fair value through P&L	0.0	0.0
Loans and receivables	58.5	58.7
Financial assets available-for-sale	4,756.0	4,593.0
Total	**4,839.1**	**4,671.5**

Derivative Financial Instruments

	2020			2019		
		Fair value			Fair value	
EUR million	Contract notional amount	Assets	Liabilities	Contract notional amount	Assets	Liabilities
Derivatives held for trading						
Interest rate derivatives						
Interest rate swaps	0.0	0.0	0.0	144.0	11.3	8.6
Total	**0.0**	**0.0**	**0.0**	**144.0**	**11.3**	**8.6**
Foreign exchange derivatives						
Currency forwards	708.2	12.1	3.2	852.2	5.0	6.4
Currency options, bought and sold				0.0	0.0	0.0
Total	**708.2**	**12.1**	**3.2**	**852.2**	**5.0**	**6.4**
Total	**708.2**	**12.1**	**3.2**	**996.2**	**16.3**	**15.0**
Derivatives held for hedging						
Fair value hedges						
Currency forwards	345.0	12.4	0.0	364.2	3.5	0.0
Total	**345.0**	**12.4**	**0.0**	**364.2**	**3.5**	**0.0**
Total derivatives held for hedging		**12.4**	**0.0**	**364.2**	**3.5**	**0.0**
Total derivatives		**24.5**	**3.2**	**1 360.4**	**19.8**	**15.0**

Fair Value Hedges

Fair value hedging is used to hedge a proportion of foreign exchange in available-for-sale financial assets.
The interest elements of forward contracts have been excluded from hedging relationships in foreign exchange hedges.

Net gains/losses from exchange derivatives designated as fair value hedges amounted to EUR -31 million (6).
Net gains/losses from hedged risks in fair value hedges of available for sale financial assets amounted to EUR 31 million (-6).

Other Financial Assets

EUR million	2020	2019
Financial assets available-for-sale		
Debt securities	2,728.56	2,584.3
Equity securities	2,027.48	2,008.7
Total	**4,756.0**	**4,593.0**
Loans and receivables	**58.5**	**58.7**
Financial assets total	**4,839.1**	**4,671.5**

Financial assets available-for-sale for life insurance include impairment losses EUR 90 million (15).

13. Fair Values

	2020		2019		
EUR million	Fair value	Carrying amount	Fair value	Carrying amount	Change in fair value
Financial assets					
Financial assets	4,839.1	4,839.1	4,671.5	4,671.5	167.6
Investments related to unit-linked contracts	8,805.3	8,805.3	8,170.2	8,170.2	635.1
Other assets	40.3	40.3	10.7	10.7	29.6
Cash and cash equivalents	682.4	682.4	952.1	952.1	-269.7
Total	**14,367.1**	**14,367.1**	**13,804.5**	**13,804.5**	**562.6**
Financial liabilities					
Financial liabilities	352.4	352.4	364.0	364.0	-11.6
Other liabilities	246.9	246.9	196.5	196.5	50.4
Total	**599.4**	**599.4**	**560.6**	**560.6**	**38.8**

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.

According to current preliminary analysis the Group doesn't have financial assets measured at amortized cost or financial instruments at fair value through OCI that meet the SPPI test according to IFRS 9. The final classification may change before implementing the IFRS 9 standard on 1 January 2023.

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

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

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

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

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

14. Determination and Hierarchy of Fair Values

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

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

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

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

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

Financial Assets 31 December 2020

EUR million	Level 1	Level 2	Level 3	Total
Derivative financial instruments				
Interest rate swaps	-	-	-	0.0
Foreign exchange derivatives	-	24.5	-	24.5
Total	**0.0**	**24.5**	**0.0**	**24.5**
Financial assets related to unit-linked insurance				
Equity securities	556.4	2.6	18.2	577.3
Debt securities	58.7	763.8	19.3	841.7
Funds	5.087.2	632.3	1.296.8	7.016.3
Derivative financial instruments	-	16.9	-	16.9
Total	**5.702.3**	**1.415.7**	**1.334.3**	**8.452.3**
Financial assets available-for-sale				
Equity securities	878.5	0.0	31.3	909.8
Debt securities	1.960.2	745.2	23.1	2.728.6
Funds	442.0	18.0	657.7	1.117.7
Total	**3.280.6**	**763.3**	**712.1**	**4.756.0**
Total financial assets measured at fair value	**8.983.0**	**2.203.5**	**2.046.4**	**13.232.8**
Other assets		**411.5**		**411.5**
FINANCIAL ASSETS TOTAL	**8.983.0**	**2.615.0**	**2.046.4**	**13.644.4**

Financial Liabilities 31 December 2020

EUR million	Level 1	Level 2	Level 3	Total
Derivative financial instruments				
Interest rate swaps	-		-	0.0
Foreign exchange derivatives	-	3.2	-	3.2
Total financial liabilities measured at fair value	**-**	**3.2**	**-**	**3.2**
Financial liabilities at amortised cost		**356.4**		**356.4**
FINANCIAL LIABILITIES TOTAL	**-**	**359.6**	**-**	**359.6**

Financial Assets 31 December 2019

EUR million	Level 1	Level 2	Level 3	Total
Derivative financial instruments				
Interest rate swaps	-	11.3	-	11.3
Foreign exchange derivatives	-	8.5	-	8.5
Total	**0.0**	**19.8**	**0.0**	**19.8**
Financial assets related to unit-linked insurance				
Equity securities	552.9	3.0	18.2	574.1
Debt securities	65.9	773.5	20.7	860.2
Funds	4,685.7	618.7	1,000.5	6,304.9
Derivative financial instruments	0.0	16.6	-	16.6
Total	**5,304.5**	**1,411.9**	**1,039.4**	**7,755.8**
Financial assets available-for-sale				
Equity securities	816.4	-	63.8	880.2
Debt securities	1,891.1	691.3	60.5	2,643.0
Funds	474.2	20.8	633.5	1,128.5
Total	**3,181.8**	**712.2**	**757.7**	**4,651.7**
Total financial assets measured at fair value	**8,486.3**	**2,143.8**	**1,797.1**	**12,427.3**
Other assets		**414.4**		**414.4**
FINANCIAL ASSETS TOTAL	**8,486.3**	**2,558.2**	**1,797.1**	**12,841.7**

Financial Liabilities 31 December 2019

EUR million	Level 1	Level 2	Level 3	Total
Derivative financial instruments				
Interest rate swaps	-	8.6	-	8.6
Foreign exchange derivatives	-	6.4	-	6.4
Total financial liabilities measured at fair value	**-**	**15.0**	**-**	**15.0**
Financial liabilities at amortised cost		**356.0**		**356.0**
FINANCIAL LIABILITIES TOTAL	**-**	**371.0**	**-**	**371.0**

Sensitivity Analysis of Fair Values

10 percentage point depreciation of all other currencies against EUR would result in an effect recognised in P&L of EUR 55 million and in an effect recognised directly in equity of EUR -66 million.

The sensitivity analysis of the Group's fair values of financial assets and liabilities in different market risk scenarios is presented below. The effects represent the instantaneous effects of a one-off change in the underlying market variable on the fair values on 31 December 2020.

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

	Interest rate		Equity	Other financial investments
EUR million	1% parallel shift down	1% parallel shift up	20% fall in prices	20% fall in prices
Effect recognised in P&L	0	0	0	0
Effect recognised directly in equity	105	-88	-267	-138
Total effect	**105**	**-88**	**-267**	**-138**

15. Movements in Level 3 Financial Instruments Measured at Fair Value

Financial Assets 2020

EUR million	At 1 January	Total gains/losses in P&L	Total gains/losses recorded in OCI	Purchases	Sales	Transfers between levels 1 and 2	At 31 December	Gains/losses included in P&L for financial assets
Financial assets related to unit-linked insurance								
Equity securities	18.2	0.0	0.0	5.7	-4.6	-1.0	18.2	-1.6
Debt securities	20.7	0.0	0.0	14.1	-15.5	0.0	19.3	0.0
Funds	1,000.5	-29.5	0.0	473.5	-147.7	0.0	1,296.8	-29.3
Total	**1,039.4**	**-29.6**	**0.0**	**493.3**	**-167.8**	**-1.0**	**1,334.3**	**-31.0**
Financial assets available-for-sale								
Equity securities	63.8	-2.5	5.7	0.6	-30.1	-6.1	31.3	2.1
Debt securities	60.5	0.1	-0.1	170.3	-160.8	-46.9	23.1	0.0
Funds	633.5	-39.6	-6.9	148.8	-78.1	0.0	657.7	-45.1
Total	**757.7**	**-42.0**	**-1.3**	**319.7**	**-269.0**	**-52.9**	**712.1**	**-43.0**
Total financial assets measured at fair value	**1,797.1**	**-71.6**	**-1.3**	**813.0**	**-436.8**	**-53.9**	**2.046.4**	**-74.0**

Financial Liabilities 2020

Nothing to report

EUR million	Realised gains/losses	Fair value change	Total
Total gains or losses included in P&L for assets held at the end of the financial year	-72.7	-1.3	-74.0

Financial Assets 2019

EUR million	At 1 January	Total gains/losses in P&L	Total gains/losses recorded in OCI	Purchases	Sales	Transfers between levels 1 and 2	At 31 December	Gains/losses included in P&L for financial assets
Financial assets related to unit-linked insurance								
Equity securities	7.3	0.2	-	11.0	-0.3	0.0	18.2	0.2
Debt securities	15.5	-0.1	-	27.4	-22.2	0.0	20.7	-0.5
Funds	678.5	12.7	-	471.3	-162.0	0.0	1,000.5	11.1
Total	**701.3**	**12.9**	**0.0**	**509.7**	**-184.4**	**0.0**	**1,039.4**	**10.8**
Financial assets available-for-sale								
Equity securities	38.4	0.1	-0.5	35.2	-9.5	-	63.8	-0.7
Debt securities	13.4	0.1	-0.1	137.8	-90.7	-	60.5	0.0
Funds	675.9	3.1	-53.5	124.4	-116.5	-	633.5	-49.4
Total	**727.8**	**3.3**	**-54.1**	**297.4**	**-216.7**	**0.0**	**757.7**	**-50.1**
Total financial assets measured at fair value	**1,429.0**	**16.2**	**-54.1**	**807.1**	**-401.2**	**0.0**	**1,797.1**	**-39.3**

Financial Liabilities 2019

Nothing to report

EUR million	Realised gains/losses	Fair value change	Total
Total gains or losses included in P&L for assets held at the end of the financial year	14.8	-54.1	-39.3

16. Sensitivity Analysis of Level 3 Financial Instruments Measured at Fair Value

EUR million	2020 Carrying amount	2020 Effect of reasonably possible alternative assumptions (+ / -)	2019 Carrying amount	2019 Effect of reasonably possible alternative assumptions (+ / -)
Financial assets				
Financial assets related to unit-linked insurance and investment contracts				
Equity securities	18.2	-	18.2	-
Debt securities	19.3	-	20.7	-
Funds	1,296.8	-	1,000.5	-
Total	**1,334.3**	**-**	**1,039.4**	**-**
Financial assets available-for-sale				
Equity securities	31.3	-6.3	63.8	-12.8
Debt securities	23.1	-0.5	60.5	-2.8
Funds	657.7	-131.5	633.5	-126.7
Total	**712.1**	**-138.3**	**757.7**	**-142.2**
Total financial assets measured at fair value	**2,046.4**	**-138.3**	**1,797.1**	**-142.2**

The value of financial assets regarding the debt security instruments has been tested by assuming a rise of 1% unit in interest rate level in all maturities. For other financial assets, the prices were assumed to go down by 20%. The Mandatum Life Group bears no investment risks related to unit-linked insurance, so a change in assumptions regarding these assets does not affect profit or loss. On the basis of these alternative assumptions, a possible change in interest levels would cause descent of EUR 0.5 million (-2,8) for the debt instruments, and EUR 137.8 million (139.4) 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 8.7% (10.4).

17. Investments Related to Unit-Linked Insurance Contracts

EUR million	2020	2019
Financial assets designated at fair value through P&L		
Debt securities	841.7	855.2
Equity securities	7,593.6	6,879.1
Total	**8,435.3**	**7,734.2**
Loans and other receivables	353.0	419.4
Other financial asset	16.9	16.6
Investment related to unit-linked contracts, total	**8,805.3**	**8,170.2**
Total	**8,805.3**	**8,170.2**

The historical cost of the equity securities related to unit-linked contracts was EUR 6,347 million (5,803) and that of the debt securities EUR 850 million (890).

18. Deferred Tax Assets and Liabilities

Changes in Deferred Tax During the Financial Period 2020

EUR million	1 January	Recognised in OCI	Recognised in equity	31 December
Deferred tax assets				
Losses from previous years	0.1			0.1
Changes in fair values	0.0			0.0
Shadow accounting	5.9		-0.2	5.8
Other deductible temporary differences	3.0	-2.3		0.6
Total	**9.0**	**-2.3**	**-0.2**	**6.5**
Netting of deferred taxes				-6.5
Deferred tax assets				**0.0**
Deferred tax liabilities				
Depreciation differences and untaxed reserves	1.4	0.0		1.5
Changes in fair values	122.4	-8.2	23.8	138.0
Shadow accounting	5.9		-0.2	5.8
Other differences	0.0	0.0	0.0	0.0
Total	**129.7**	**-8.2**	**23.7**	**145.2**
Netting of deferred taxes				6.5
Total deferred tax liabilities				**138.8**

Changes in Deferred Tax During the Financial Period 2019

EUR million	1 January	Recognised in OCI	Recognised in equity	31 December
Deferred tax assets				
Losses from previous years	0.1			0.1
Changes in fair values	0.0			0.0
Shadow accounting	1.7		4.3	5.9
Other deductible temporary differences	6.5	-3.5		3.0
Total	**8.2**	**-3.5**	**4.3**	**9.0**
Netting of deferred taxes				-9.0
Deferred tax assets				**0.0**
Deferred tax liabilities				
Depreciation differences and untaxed reserves	1.8	-0.1	-0.2	1.4
Changes in fair values	100.5	-5.1	27.0	122.4
Shadow accounting	1.7		4.3	5.9
Other differences	0.0	0.0	0.0	0.0
Total	**103.9**	**-5.2**	**31.0**	**129.7**
Netting of deferred taxes				9.0
Total deferred tax liabilities				**120.8**

19. Taxes

EUR million	2020	2019
Profit before tax	153.9	280.1
Tax calculated at parent company's tax rate	30.8	56.0
Different tax rates on overseas earnings	0.0	-0.1
Income not subject to tax	-1.6	-2.2
Expenses not allowable for tax purposes	0.9	1.1
Consolidation procedures and eliminations	0.3	0.8
Tax from previous years	6.5	2.7
Total	**36.8**	**58.2**

20. Components of Other Comprehensive Income

EUR million	2020	2019
Other comprehensive income items reclassifiable to P&L		
Available-for-sale financial assets		
Gains/losses arising during the year	119.1	134.9
Income tax relating to components of other comprehensive income	-23.8	-27.0
Shadow accounting	-0.8	21.3
Total items reclassifiable to profit or loss, net of tax	**94.5**	**129.2**

21. Tax Effects Relating to Components of Other Comprehensive Income

	2020			2019		
EUR million	Before-tax amount	Tax	Net-of-tax amount	Before-tax amount	Tax	Net-of-tax amount
Available-for-sale financial assets	119.1	-23.8	95.3	134.9	-27.0	107.9
Shadow accounting	-0.8	0.0	-0.8	21.3	0.0	21.3
Total	**118.3**	**-23.8**	**94.5**	**156.2**	**-27.0**	**129.2**

22. Other Assets

EUR million	2020	2019
Interests	23.7	21.2
Receivables from policyholders	2.5	3.8
Assets arising from reinsurance operations	0.5	0.6
Settlement receivables	40.3	10.7
Assets pledged for trading in derivatives	0.0	15.7
Other	40.2	85.4
Total	**107.1**	**137.4**

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

23. Cash and Cash Equivalents

EUR million	2020	2019
Cash at bank	682.4	952.1
Total	**682.4**	**952.1**

24. Liabilities from Insurance and Investment Contracts

Change in Liabilities Arising from Other Than Unit-Linked Insurance and Investment Contracts

EUR million	Insurance contracts	Investment contracts	Total
At 1 January 2020	**3,901.8**	**24.8**	**3,926.6**
Premiums	98.7	0.0	98.7
Claims paid	-404.6	-0.1	-404.7
Expense charge	-32.4	0.0	-32.4
Guaranteed interest	101.6	0.0	101.6
Bonuses	3.4	0.0	3.4
Other	-172.4	0.0	-172.4
At 31 December 2020	**3,496.0**	**24.7**	**3,520.7**
Reinsurers' share	1.0	0.0	1.0
Liability at 31 December 2020	**3,497.0**	**24.7**	**3,521.8**

EUR million	Insurance contracts	Investment contracts	Total
At 1 January 2019	**4,197.3**	**24.1**	**4,221.5**
Premiums	127.2	0.0	127.2
Claims paid	-459.8	-0.1	-459.9
Expense charge	-33.9	0.0	-33.9
Guaranteed interest	112.6	0.0	112.6
Bonuses	0.5	0.0	0.5
Other	-42.8	0.9	-42.0
At 31 December 2019	**3,901.0**	**24.8**	**3,925.9**
Reinsurers' share	0.7	0.0	0.7
Liability at 31 December 2019	**3,901.8**	**24.8**	**3,926.6**

Change in Liabilities Arising from Unit-Linked Insurance and Investment Contracts

EUR million	Insurance contracts	Investment contracts	Total
At 1 January 2020	**4,905.8**	**3,211.3**	**8,117.1**
Premiums	244.3	716.0	960.3
Claims paid	-228.6	-486.6	-715.2
Expense charge	-48.3	-33.3	-81.6
Other	325.9	158.7	484.7
At 31 December 2020	**5,199.1**	**3,566.1**	**8,765.2**

EUR million	Insurance contracts	Investment contracts	Total
At 1 January 2019	**4,399.2**	**2,555.5**	**6,954.7**
Premiums	446.5	1,029.6	1,476.0
Claims paid	-529.9	-607.4	-1,137.3
Expense charge	-48.6	-31.3	-79.9
Other	638.6	264.9	903.5
At 31 December 2019	**4,905.8**	**3,211.3**	**8,117.1**

The liabilities at 1 January and at 31 December 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	2020	2019
Liabilities for contracts with discretionary participation feature (DPF)		
Provision for unearned premiums	1,554.6	1,820.3
Provision for claims outstanding	1,938.5	2,077.3
Liabilities for contracts without discretionary participation feature (DPF)		
Provision for unearned premiums	0.5	0.0
Provision for claims outstanding	0.1	0.4
Total	**3,493.8**	**3,898.0**
Assumed reinsurance		
Provision for unearned premiums	0.1	0.2
Provision for claims outstanding	1.4	2.8
Total	**1.5**	**3.0**
Insurance contracts total		
Provision for unearned premiums	1,555.3	1,820.5
Provision for claims outstanding	1,940.0	2,080.5
Total	**3,495.3**	**3,901.0**

Investment Contracts

EUR million	2020	2019
Liabilities for contracts with discretionary participation feature (DPF)		
Liabilities for contracts with discretionary participation feature (DPF)	25.8	24.8
Liabilities for insurance and investment contracts total		
Provision for unearned premiums	1,581.1	1,845.3
Provision for claims outstanding	1,940.0	2,080.5
Total	**3,521.1**	**3,925.8**
Reinsurers' share		
Provision for unearned premiums	0.0	0.0
Provision for claims outstanding	1.0	0.7
Total	**1.0**	**0.7**

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	2020	2019
Unit-linked insurance contracts	5,199.1	4,905.8
Unit-linked investment contracts	3,566.1	3,211.3
Total	**8,765.2**	**8,117.1**

26. Financial Liabilities

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

EUR million	2020	2019
Derivative financial instruments	3.2	15.0
Subordinated debt securities		
Subordinated loan 2002	100.0	100.0
Subordinated loan 2019	249.2	249.0
Total	**349.2**	**349.0**
Total	**352.4**	**364.0**

Mandatum Life issued in 2002 EUR 100 million Capital Notes. The loan is perpetual and pays floating rate interest. The interest is payable only from distributable capital. The loan is repayable only with the consent of the Insurance Supervisory Authority and at the earliest on 2012 or any interest payment date after that. The loans is wholly subscribed by Sampo Plc. In 2019 Mandatum Life issued Solvency II Tier 2 loan of EUR 250 million. The loan matures on 4 October 2049. The loan has a fixed interest rate until the first possible redemption date on 4 October 2024, whereafter it becomes subject to variable interest rates.

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 2020 is EUR 4.7 million.

28. Other Liabilities

EUR million	2020	2019
Interests	7.4	13.2
Tax liabilities	0.0	0.0
Liabilities arising out of direct insurance operations	36.5	39.7
Liabilities arising out of reinsurance operations	7.1	6.9
Settlement liabilities	63.2	37.6
Guarantees received	19.3	2.7
Leases	24.1	9.4
Other liabilities	89.4	87.0
Total	**246.9**	**196.5**

Item Guarantees received comprise assets accepted as guarantees required in derivative trading and securities lending.
Item Leases include non-cash additions from IFRS 16 leases to the balance sheet items.
Item Other includes e.g. liabilities arising from withholding taxes and social security costs, liabilities to creditors and insurance premium advances.

Items Recognised in the P&L from Lease Liabilities

EUR million	2020	2019
Interest expenses	-0.2	-0.2
Expenses from short-term and low-value lease liabilities	-2.3	-1.6

29. Contingent Liabilities and Commitments

EUR million	2020	2019
Off-balance sheet items		
Fund commitments	1196.2	1201.9
Acquisition of IT-software	7.6	6.0
Total	**1203.9**	**1207.9**
Assets pledged as security for derivative contracts		
Cash	0.0	15.7

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

30. Equity and Reserves

Equity

The number of shares at 31 December 2020 was 239,998. There was no change in the company's share capital of EUR 40.4 million during the financial year. At the end of the financial year 2020, the mother company or other Group companies held no shares in the parent company.

Reserves and Retained Earnings

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

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

Other components of equity 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 Executive Committee.

EUR million	2020	2019
Key management compensation		
Short-term employee benefits	1.5	1.7
Post-employment benefits	0.4	0.5
Other long-term benefits	0.0	1.3
Total	**1.9**	**3.5**

Short-term employee benefits comprise salaries and other short-terms 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	2020	2019
Outstanding balances with related parties		
Debt securities, available for sale	0.0	0.0
Other assets	0.0	0.0

32. Long-Term Incentive Schemes for Management and Experts

The Board of Directors for Sampo plc has decided on the long-term incentive schemes 2014 I–2020 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 2020.

The amount of the performance-related bonus is based on the value performance of Sampo's A share, and in the incentive schemes 2014 and 2017 on the insurance margin (IM) and on Sampo's return on the risk adjusted capital (ROCaR), and for incentive scheme 2020 only on Sampo's return on the risk adjusted capital (ROCaR). 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 32.94 and EUR 44.10. The maximum value of one bonus unit varies between EUR 56.94 and EUR 63.10, reduced by the dividend-adjusted starting price. In the 2014 and 2017 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 per cent and 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 ROCaR-bases incentive reward is paid out in full. If the return is +2 per cent but less than risk-free return +4 per cent, the payout is 50 per cent. If the return stays below these benchmarks, no ROCaR-based bonus will be paid out. In the 2020 scheme the reward depends on the return on the risk-adjusted capital. If the return is at least risk-free return +5 per cent, the incentive reward is paid out in full. If the return is +3 per cent but less than risk-free return +5 per cent, the payout is 50 per cent. If the return stays below these benchmarks, no bonus will be paid out.

Each plan has three performance periods and bonuses are settled in cash in three instalments. The employee shall authorise Sampo plc to buy the Sampo A shares with 50 per cent (schemes 2017 I and 2020 I) or with 60 per cent (scheme 2014 I) 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.

		2014 I/2	2017 I	2017 I/2	2020 I
Terms approved *		17.09.2014	14.09.2017	14.09.2017	5.8.2020
Granted (1,000) 31 December 2017		19	563	-	-
Granted (1,000) 31 December 2018		13	528	10	-
Granted (1,000) 31 December 2019		7	558	10	-
Granted (1,000) 31 December 2020		-	390	20	580
End of performance period I 30%		Q2-2018	Q2-2020	Q2-2021	Q2-2023
End of performance period II 35%		Q2-2019	Q2-2021	Q2-2022	Q2-2024
End of performance period III 35%		Q2-2020	Q2-2022	Q2-2023	Q2-2025
Payment I 30%		9-2018	9-2020	9-2021	9-2023
Payment II 35%		9-2019	9-2021	9-2022	9-2024
Payment III 35%		9-2020	9-2022	9-2023	9-2025
Price of Sampo A at terms approval date *		37.22	44.02	44.02	30.30
Starting price		43.38	43.81	44.10	32.94
Dividend-adjusted starting price at 31 December 2020			36.29	39.18	32.94
Sampo A - closing price 31 December 2020	34.57				
	0.3				
Total intrinsic value, EUR million			0.0	0.9	0.3
Liability, total EUR million	1.3				
Total cost for the financial period, EUR million	0.3				

* Grant dates vary

33. Auditors' Fees

EUR million	2020	2019
Auditing fees	-0.3	-0.3
Other fees	-0.0	-0.1
Total	**-0.3**	**-0.4**

34. Legal Proceedings

There are no legal proceedings against Mandatum Life outstanding on 31 December 2020.

35. Events After the Balance Sheet Date

The Board of Directors proposes to the Annual General Meeting that EUR 200 million dividend will be paid.

36. Investments in Subsidiaries

Name	Country	Holding %	Voting rights %
Asunto Oy Vantaan Raiviosuonmäki 6	Finland	100.00	100.00
Asunto Oy Espoon Matinkatu 8	Finland	100.00	100.00
Asunto Oy Espoon Aapelinkatu 6	Finland	100.00	100.00
Asunto Oy Espoon Aallonhuippu 9	Finland	100.00	100.00
Kiinteistö Oy Ahti Business Park	Finland	100.00	100.00
Kiinteistö Oy Hyvinkään Sampotalo	Finland	81.37	81.37
Kiinteistö Oy Hämeenlinnan Karhulinna	Finland	100.00	100.00
Kiinteistö Oy Galaxy	Finland	100.00	100.00
Kiinteistö Oy Helsingin Ratamestarinkatu 7a	Finland	100.00	100.00
Kiinteistö Oy Helsingin Ratamestarinkatu 7b	Finland	100.00	100.00
Kiinteistö Oy Jäkälävaara	Finland	100.00	100.00
Kiinteistö Oy Järvenpään Asemakatu 4	Finland	100.00	100.00
Kiinteistö Oy Kaupintie 5	Finland	100.00	100.00
Kiinteistö Oy Leppävaaran Säästötammi	Finland	100.00	100.00
Kiinteistö Oy Niittymaanpolku	Finland	100.00	100.00
Kiinteistö Oy Oulun Torikatu 21-23	Finland	100.00	100.00
Kiinteistö Oy Rautalaani	Finland	100.00	100.00
Kiinteistö Oy Tampereen Hatanpäänvaltie 18	Finland	100.00	100.00
Mandatum Life Vuokratontit II Oy	Finland	100.00	100.00
Mandatum Life Palvelut Oy	Finland	100.00	100.00
Mandatum Life Sijoituspalvelut Oy	Finland	100.00	100.00
Mandatum Life Vuokratontit I GP Oy	Finland	100.00	100.00
Saka Hallikiinteistö GP Oy	Finland	100.00	100.00
Mandatum Life Private Equity GP Oy	Finland	100.00	100.00
Mandatum Life Fund Management S.A.	Luxemburg	100.00	100.00

4

Auditor's Report

Auditor’s Report

TO THE ANNUAL GENERAL MEETING OF MANDATUM HENKIVAKUUTUSOSAKEYHTIÖ

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Mandatum Henkivakuutusosakeyhtiö (business identity code 0641130-2) for the year ended 31 December 2020. The financial statements comprise the consolidated balance sheet, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company’s balance sheet, income statement, statement of cash flows and notes.

In our opinion

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

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

Basis for Opinion

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

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

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

Most significant assessed risks of material misstatement

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

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

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

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

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

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company’s and the group’s ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the

Assessed significant risk of material misstatement	How our audit addressed the risk
Valuation of insurance contract liabilities *We refer to the Summary of significant accounting policies, Accounting policies regarding management judgment and key sources of estimation uncertainties and Notes 24 and 25.* At 31.12.2020 the Group has insurance contract liabilities amounting to EURm 12.286 (31.12.2019: EURm 12.043) which represents 94 % of the Group's total liabilities and it is thus the single largest liability of the Group. The life insurance contract liabilities are based on estimate of future claims payments. The estimate is based on assumptions which include uncertainty. Changes in assumptions can result in material impacts to the valuation of the liabilities. Key assumption areas include interest rate and life expectancy of policy holders.	Our audit procedures included evaluation of the governance around the overall Group reserving process, and included testing the operating effectiveness of key controls over the identification, measurement and management of the Group's calculation of insurance liabilities. We evaluated the appropriateness of methodologies and assumptions used, and independently re-calculated reserves for chosen insurance contracts We involved our internal actuarial specialists to assist us in assessing the appropriateness of assumptions used. We assessed the adequacy of disclosures relating to insurance contracts liabilities.

Assessed significant risk of material misstatement	How our audit addressed the risk
Valuation of financial assets *We refer to the Summary of significant accounting policies, Accounting policies regarding management judgment and key sources of estimation uncertainties and Notes 12 – 16 and 17.* The Group's investment portfolio represents amounts to EURm 13.644 (2019: EURm 12.842) which represents 93 % of the Group's total assets. Fair value measurement can be subjective, specifically in areas where fair value is based on a model based valuation. Valuation techniques for private equity funds, non-listed bonds and non-listed equities involve setting various assumptions regarding pricing factors. The use of different valuation techniques and assumptions could lead to different estimates of fair value. Specific areas of audit focus include the valuation of level 2 and 3 assets according to IFRS where valuation techniques use unobservable inputs. Of financial assets level 2 assets amount to EURm 2.615 and level 3 assets to EURm 2.046 (refer to note 14).	Our audit procedures included testing the effectiveness of controls in place over recording fair values of assets using unobservable input. We involved our valuation specialists to assist us in assessing the value of financial assets with higher risk and estimation. In respect of the investments in private equity funds, we evaluated and tested procedures performed by the Group to determine the fair value of these investments. The procedures included assessment of fund net asset value based on the fair value of underlying investment, independent broker valuations and evidence of underlying financial data. We assessed the adequacy of disclosures relating to the financial assets.

going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of Financial Statements

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

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

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

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

Other reporting requirements

Information on our audit engagement

We were first appointed as auditors by the Annual General Meeting on 22. March 2002, and our appointment represents a total period of uninterrupted engagement of 19 years.

Other information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report, and the Annual Report is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the information and, in doing so, consider whether the information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to report of the Board of Directors, 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 on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki 15. February 2021

Ernst & Young Oy
Authorized Public Accountant Firm

Kristina Sandin
Authorized Public Accountant

MANDATUM LIFE

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/en