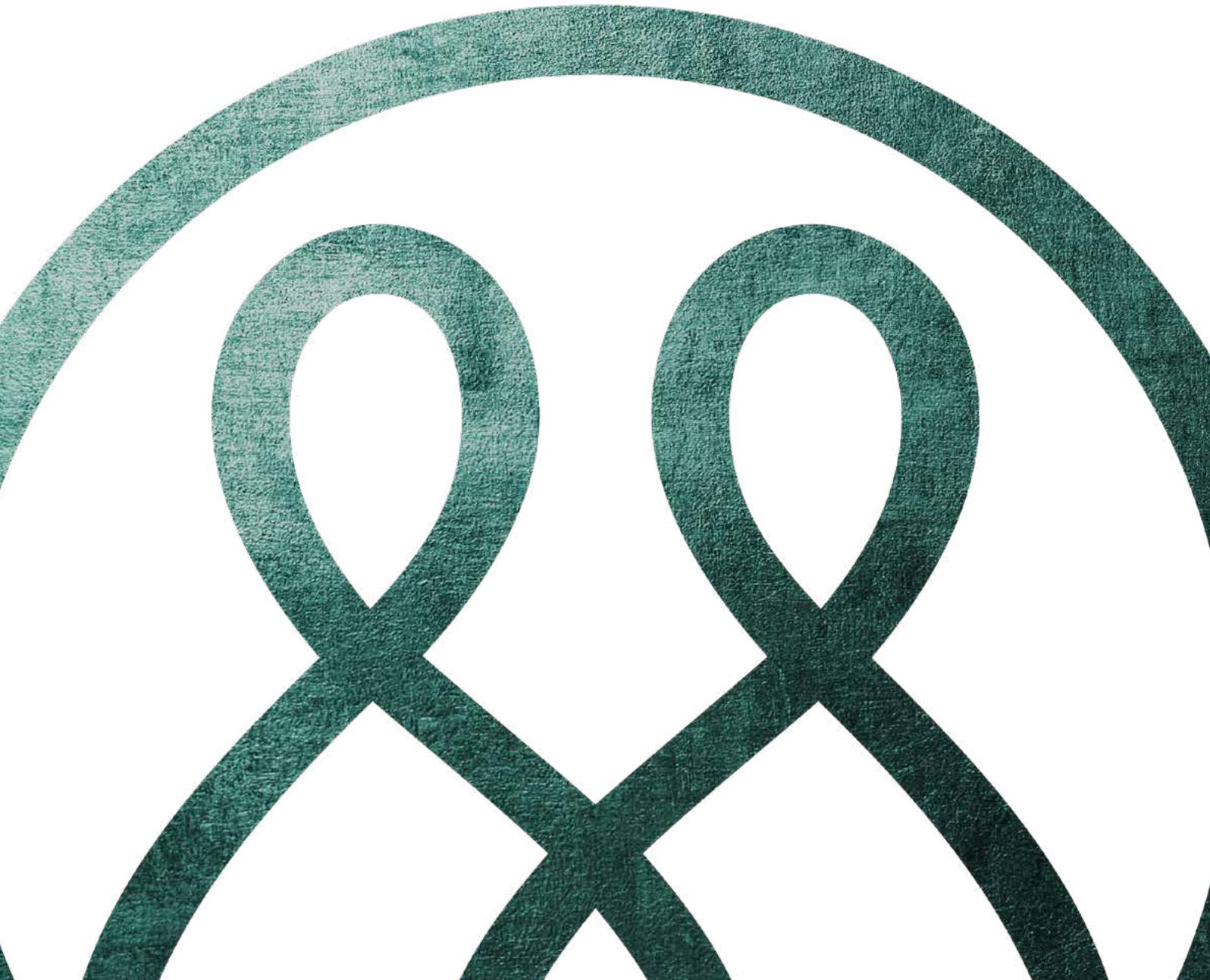




# **Solvency and Financial Condition Report 2019**

Report in accordance with European Commission Delegated Regulation 2015/35

Helsinki, 5<sup>th</sup> May 2020



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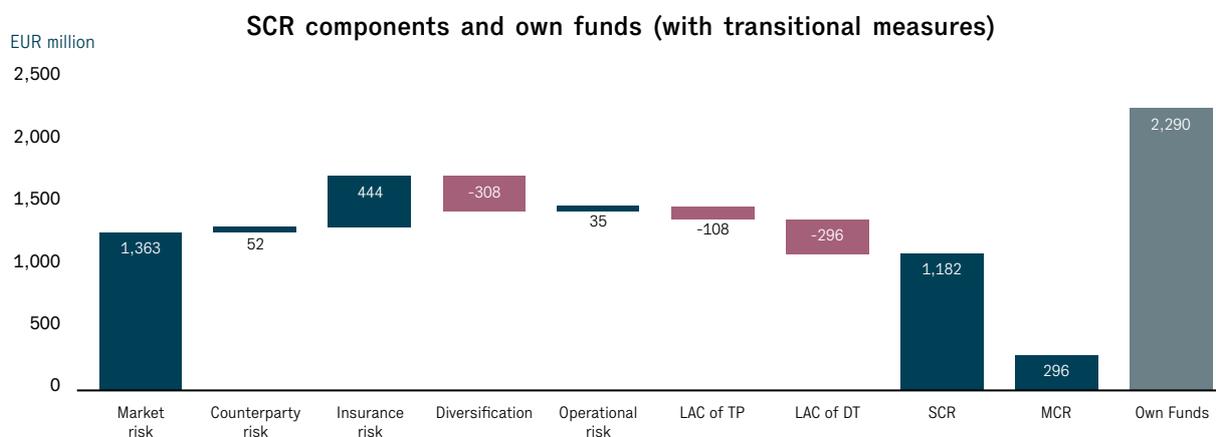
# Summary

Mandatum Life Insurance Company Limited (hereinafter Mandatum Life) is a solvent and respected Finnish financial services provider. It is part of the Sampo Group. Mandatum Life operates in Finland and the Baltic countries, and provides savings and pension insurance, as well as insurance to cover mortality, morbidity and disability risks. Mandatum Life is a leading pension insurer in the corporate business segment, which is a cornerstone of Mandatum Life's customer strategy.

Mandatum Life Group's IFRS-compliant result before taxes amounted to EUR 280 million (450) in 2019. Comprehensive income after taxes, taking into account changes in market values, grew to EUR 308 million (112).

The expense result decreased to EUR 24 million (35) in 2019. The risk result was EUR 35 million (33). Premiums written on the company's own account increased to EUR 1,596 million (1,074). Premiums written on unit-linked insurance grew to EUR 1,476 million (976). Premiums written for 2019 include approximately EUR 400 million in exceptional items.

Taking into account the transitional measure applied to technical provisions, Mandatum Life's own funds according to the Insurance Companies Act amounted to EUR 2,290 million (1,740) on 31 December 2019. The company's solvency capital requirement (SCR) according to the Insurance Companies Act, taking into account the transitional measure applied to the equity risk, was EUR 1,182 (990) million and the minimum capital requirement (MCR) was EUR 296 (248) million. The aforementioned solvency figures deviate from the information published in the Company's Annual Report, mainly due to the reversal of the earlier decision on the distribution of dividends. Mandatum Life thus meets the solvency requirements imposed on it by legislation.



In terms of capital requirements, the Company's most significant risks take the form of balance sheet market risks, as well as longevity and lapse risks, which are included in insurance risks. In addition, operational and business risks are inherent in terms of the Company's operations and continuity.

In the first quarter of 2020, a new coronavirus disease, COVID-19, turned into a worldwide pandemic. As a consequence, in Finland, for example, the state issued separately defined decrees implementing the Emergency Powers Act. The pandemic has had significant impacts on global economic activity and has caused a major collapse in business demand in a number of companies. Naturally, the pandemic has also had an impact on Mandatum Life. Volatility in the financial markets has affected investment valuations, which caused a significant decline in the company's own funds in the first quarter. At the same time, the company's solvency requirement also decreased significantly due to several factors, as a result of which the Company's solvency has remained at a good level and was 205 per cent on 31 March 2020. The pandemic has had only minor impacts on the company's business continuity, however, even though the company's employees have been teleworking since the 13th of March. A pandemic preparedness plan has been included in the company's continuity plans, and in the prevailing conditions, the plans that were drawn up in advance have been effective and there have been no disturbances or delays in the company's operations.

# A. Business and performance

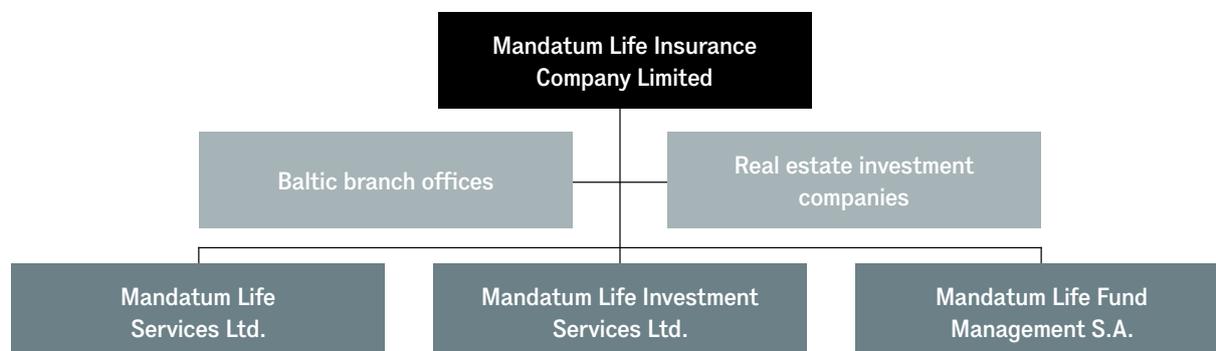
## A.1 Business

Mandatum Life Insurance Company Limited (hereinafter Mandatum Life or the Company) is a solvent and respected Finnish financial services provider. It is part of the Sampo Group (Mandatum Life is wholly owned by Sampo plc). Sampo plc's address is Fabianinkatu 27, 00100 Helsinki.

Sampo Group's corporate structure is presented on Sampo plc's website: <https://www.sampo.com/about-us/group-structure/>

Mandatum Life operates in Finland and the Baltic countries and provides savings and pension insurance, as well as insurance to cover mortality, morbidity and disability risks. Mandatum Life is a leading pension insurer in the corporate business segment, which is a cornerstone of Mandatum Life's customer strategy. The management and personnel of these companies hold considerable asset management and other private customer potential in terms of other key business areas, e.g. related to asset management and unit-linked insurance business, as well as life and other risk insurance business. Over the past few years, Mandatum Life has expanded its business area beyond life insurance operations, e.g. to investment funds.

Mandatum Life operates in Estonia, Latvia and Lithuania through branch offices. In addition, the Mandatum Life Group consists of Mandatum Life Insurance Company Limited's wholly owned subsidiaries: Mandatum Life Services Ltd., Mandatum Life Investment Services Ltd. and Mandatum Life Fund Management S.A. In addition to the above-mentioned operational subsidiaries, the Mandatum Life Group includes real estate companies as part of its investment assets (see Mandatum Life's Annual Report 2019 [hereinafter Annual Report], pages 7 and 80).



The Company's core area is unit-linked insurance. The Company also has a significant with-profit insurance portfolio, which is not subject to active new sales. The company's with-profit insurance portfolio is divided into two different parts as follows:

- The group pension portfolio and related receivables that were transferred from Suomi Mutual have been segregated ("segregated group pension portfolio" or "segregated assets") from the rest of Mandatum Life's balance sheet. The segregated portfolio has its own regulations concerning the distribution of profit, as well as its own investment policy and Asset-Liability Committee.
- The with-profit liabilities that are not part of the liabilities related to the segregated group pension portfolio shall be referred to hereinafter as the "original" with-profit liabilities.

The company's domicile is in Finland and the company is subject to supervision by the Finnish Financial Supervisory Authority (Financial Supervisory Authority, Snellmaninkatu 6, P.O. Box 103, FI-00101 Helsinki). The group supervisor for the Sampo Group is also the Finnish Financial Supervisory Authority.

The company's external auditor is the accounting firm Ernst & Young Oy, Alvar Aallon katu 5 C, FI-00100 Helsinki.

## A.2 Underwriting performance

Mandatum Life Group's IFRS-compliant result before taxes amounted to EUR 280 million (450) in 2019. The result for the comparison year includes a EUR 197 million transaction received in connection with a co-operation agreement that was concluded with Danske Bank in the second quarter of 2018. Comprehensive income after taxes, taking into account changes in market values, grew to EUR 308 million (112). The return on equity was 23.5 per cent (8.7), and the fair value reserve stood at EUR 438 million (352) at the end of December. The net return on investment assets amounted to EUR 358 million (233), excluding the return related to unit-linked insurance. Income from unit-linked insurance amounted to EUR 908 million (-259).

The expense result decreased to EUR 24 million (35) in 2019. The risk result was EUR 35 million (33). The table below presents the company's result by component.

EUR million	2018	2019
Interest rate result	192.0	221.0
Expense result	34.5	24.4
Risk result	33.3	34.5
Other result	190.5	0.2
<b>Total result before taxes</b>	<b>450.4</b>	<b>280.1</b>
Change in fair value reserve	-313.8	113.6
<b>Result at fair value</b>	<b>136.6</b>	<b>393.7</b>

In line with the IFRS standard, the Group's profit before taxes is divided into segments as follows:

EUR million	2018	2019
Unit-linked contracts (Finland)	30.7	29.7
Other contracts (Finland)	214.9	253.5
Segregated insurance portfolio	1.5	9.2
Foreign operations	-0.1	-0.1
Eliminations and items not allocated to businesses	203.4	-12.1
<b>Profit before taxes</b>	<b>450.4</b>	<b>280.1</b>

Premiums written on the company's own account increased to EUR 1,596 million (1,074). Premiums written on unit-linked insurance grew to EUR 1,476 million (976). Premiums written for 2019 include approximately EUR 400 million in exceptional items.

## A.3 Investment performance

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 solvency capital while also meeting shareholders' return expectations. In 2019, the net investment return of Mandatum Life's original portfolio was 9.2 per cent (-2.4). The net investment return on the segregated group pension portfolio was 6.4 per cent (-1.9).

At year end, the fair value of the parent company's investment portfolio was EUR 5.7 billion (5.6), excluding the EUR 8.2 billion (7.0) in assets covering unit-linked technical provisions. That amount consisted of EUR 4.7 billion (4.6) in assets covering the original with-profit technical provisions, and EUR 1.0 billion (1.0) in assets covering the segregated group pension portfolio.

The changes that took place in the investment asset allocation were relatively few overall. In the assets covering the original with-profit technical provisions, the share of fixed income investments was 61 per cent (59), and the share of equity investments decreased from 27 per cent to 25 per cent. The share of other investments was 14 per cent (15). In the investment assets of the segregated group pension portfolio, the share of listed equity investments was 13 per cent (11), the share of fixed income investments was 82 per cent (77), and the share of other investments was 5 per cent (6).

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The duration of the fixed income investments covering the original with-profit technical provisions as per 31 December 2019 rose to 2.8 years (2.5) and the duration of the segregated assets to 2.8 years (2.5).

The net returns on investment operations are presented on pages 52 and 53 of the Annual Report. In addition, the table below presents the company's net income from investments by asset class, calculated according to the key figure formula used in FAS financial statements.

EUR million	2018	2019
Fixed income investments	2.1%	5.4%
Equity investments	-13.4%	20.1%
Real estate investments	3.9%	2.5%
Other investments	13.4%	1.8%
<b>Total</b>	<b>-2.3%</b>	<b>8.7%</b>

Mandatum Life records the change in the fair value reserve directly in equity; in 2019, the change amounted to EUR 87 million (-247). This is taken into account in the income from investments presented above.

Mandatum Life does not have investments in securitized investment objects.

Current legislation states that insurance companies must prepare a separate corporate governance policy, as well as an annually published report on the implementation of the policy. The Company published the policy in question in compliance with the legislation in December 2019, and as such, compliance with the policy for 2019 has been monitored since the policy was published, and therefore there is nothing special to report for 2019 with respect to corporate governance.

In accordance with the Company's Board-approved risk strategy and the risk appetite that is an integral part of it, the Company is prepared to assume risk in its investment operations, because the Company believes that by taking risk it can earn surplus returns in relation to the technical provision requirements. The Company's Board of Directors has approved an investment strategy according to which key targets for the Company's investment operations are to meet the obligations to policyholders, to ensure an adequate solvency and capital position for the Company and to ensure that appropriate compensation for bearing risk can be paid to the Company's shareholders. Equity investments are considered a key factor in achieving the above-mentioned targets. The Company's technical provision cash flows are very predictable, which means it is possible to bear the normal volatility related to equity investments over time, provided that solvency is appropriately managed at the same time.

### A.4 Performance of other activities

The total earnings of Mandatum Life's subsidiaries in 2019 amounted to EUR 3.6 million (2.5).

Mandatum Life does not have significant leasing agreements.

### A.5 Other information

On 18 September 2019, S&P gave Mandatum Life Insurance Company Ltd a credit rating of A+. In September, the company issued a capital loan of EUR 250 million.

In the first quarter of 2020, the COVID-19 coronavirus caused a worldwide pandemic. In terms of the profitability of Mandatum Life's operations, the pandemic has had an impact on, in particular, the company's investment profitability. In the first quarter of the year, the total return on the investment assets covering the original with-profit technical provisions was -8.7 per cent. The total return on the segregated group pension portfolio was -6.6 per cent. The pandemic is not expected to have a significant impact on the Company's risk result. On the other hand, in terms of the expense result, the impact of the change in the value of unit-linked insurance policies is negative, because the company's returns are partly proportionate to the amount of insurance savings.

There is no other material information to report.

# B. System of governance

## B.1 General information on the system of governance

### B.1.1 Board of Directors and management

Supreme authority in the Company is exercised by the General Meeting of Shareholders. The Board of Directors decides on, among other things, key strategic policies, the investment plan and the most important individual investments, makes proposals on the distribution of profit to the Annual General Meeting and appoints the CEO. The operations of the Board of Directors are regulated by, in addition to valid legislation and regulations, the charter of the Board of Directors.

Mandatum Life's CEO holds overall responsibility for the Group's operative functions. To support the CEO, the Group has established an Executive Management Group, Operative Management Group and a Sales Management Group. Not one of these groups is a decision-making body; instead, decision-making authority at meetings lies with Mandatum Life's CEO or with the director in charge of the matter.

Mandatum Life Group's Executive Management Group convenes monthly. The Executive Management Group addresses and monitors, among other things, Group-level projects and their progress and prioritisation, plans of units (target, implementation, outcome), new products and distribution channels, result and solvency and other strategic issues.

The Group's Operative Management Group convenes weekly. The core task of the Operative Management Group is to address new internal development projects of units and those covering the entire Group (e.g. new products, distribution channels, sales models, process developments, marketing, campaigns) and to agree on their prioritisation and to ensure sufficient internal communication on them and making the most effective use possible of the various internal plans of units at the company level. In addition, the Operative Management Group addresses all company-level guidelines. The Operative Management Group includes all members of the Executive Management Group, which means that the Operative Management Group can address similar matters as the Executive Management Group, if the matter in question requires faster decision-making than the meeting schedule of the Executive Management Group would allow.

In addition, the business units have their own internal executive management groups which address the key issues for the units and ensure that decisions made in higher-level management groups are implemented in practice and ensure the flow of information.

The business units must ensure the risk management and internal control of their processes. The units must report deviations in accordance with the given guidelines.

The following changes took place in the Company's Board of Directors during the reporting period:

- Chairman Kari Stadigh resigned from the Board of Directors on 30 June 2019,
- Knut Arne Alsaker was appointed to the Board of Directors effective 1 January 2019,
- Petri Niemisvirta was appointed to the Board of Directors effective 1 July 2019,
- Patrick Lapveteläinen was appointed as Chairman of the Board of Directors and Knut Arne Alsaker as Vice Chairman effective 1 July 2019.

There were no changes in the Company's senior management during 2019. The Company has not had any material transactions with persons belonging to the Board of Directors or senior management.

No material changes took place in the Company's system of governance during the reporting period.

### **B.1.2 Key functions**

The Insurance Companies Act requires that the Company's Board of Directors defines the company's key functions. The key functions at Mandatum Life are the actuary, compliance, risk management and internal audit functions. A separate person responsible has been appointed for each of these key functions. Each function reports regularly to the CEO and Board of Directors.

### **B.1.3 Remuneration**

Mandatum Life's remuneration policy is reviewed annually and approved by the Company's Board of Directors. The remuneration policy specifies the principles on which compensation at Mandatum Life is based. Remuneration in the Company consists of a fixed monthly salary, sales bonuses and a short-term incentive programme. In addition, senior management is included in Sampo plc's long-term incentive programme, which is described in greater detail on Sampo plc's website.

Mandatum Life follows an active annual pay policy, based on which it pays a competitive basic and total salary consistent with the financial sector wage market. Our remuneration principle is to reward our personnel for both excellent performance that supports the business targets and for Mandatum Life's business success. The pay policy is also defined by the collective agreement of the Union of Insurance Employees in Finland. Sales bonuses are based on annually adjusted bonus rules, which specify the bonuses paid to employees for Mandatum Life's insurance and other products and services they have sold and managed on behalf of Mandatum Life.

The short-term incentive programme, i.e. annual performance bonus, is defined in accordance with the annually confirmed company targets and personal targets. The performance bonus principles are specified in the annually revised performance bonus rule. The performance bonus applies mainly to the entire personnel of the company and its maximum bonus corresponds to 1–12 months' fixed salary. The programme also includes group pension arrangements and a personnel fund portion. Regulations applying to Finance Finland are applied when paying performance bonuses and, e.g., if the person holds a key position in the company, payment of at least 30% of the performance bonus is deferred for three years.

## **B.2 Fit & proper requirements**

Mandatum Life's fitness and propriety requirements are based on the company's Fit & Proper guidelines. The following are subject to the fit & proper assessment:

- i. members of the Company's bodies, and their deputies,
- ii. the management of key functions and
- iii. other designated personnel groups, such as persons with trading rights who participate in investment activities.

The guidelines take into account the legal provisions concerning the Fit & Proper assessment that applies to insurance companies, the national and the European Union's official guidelines laid down on the basis of such legal provisions, and Sampo plc's guidelines.

The purpose of the Fit & Proper guidelines is to ensure that Mandatum Life Group companies are managed and governed professionally, according to sound and cautious business principles, and according to the principles of reliable governance. Furthermore, ensuring the continuity of the operations of the companies' management system is an integral part of the companies' operational risk management and continuity planning.

The fit & proper assessment in compliance with the Fit & Proper guidelines consists of an assessment of the person's fitness, including professional qualifications, skills and experience and an assessment of the person's propriety, including probity and financial soundness. Fitness and propriety are assessed independently for each assessment subject, taking into account all factors influencing the assessment. When assessing members of the company's Board of Directors, it must additionally be ensured that the Board has the appropriate overall professional qualifications, experience and skills, taking into account the requirements set by the Finnish act on insurance companies and EU regulation. Correspondingly, when assessing the CEO of the insurance company, attention must be paid to the above-mentioned areas. In addition, the insurance company's CEO is required to have general knowledge of the insurance business.

A fit & proper assessment is carried out in a Mandatum Life Group company in the following situations:

1. A new person is appointed to a task, based on which the person belongs to the group of assessment subjects;
2. An assessment subject is appointed to a task, based on which the person would also belong to the group of assessment subjects;
3. When a notification of the assessment subject must be given to the supervisory authority; or
4. If doubts about the fitness and propriety of the assessment subject arise.

Assessments of the fitness and propriety of assessment subjects are conducted continuously by acquiring a report necessary for making a Fit & Proper assessment of the assessment subjects belonging to this group at least every three years; the above-mentioned report contains the establishment of the financial soundness and probity of the subjects based on registers, as well as the subject's account of changes he/she is aware of in his/her information.

## **B.3 Risk management system, including own risk and solvency assessment**

### **B.3.1 General risk management principles**

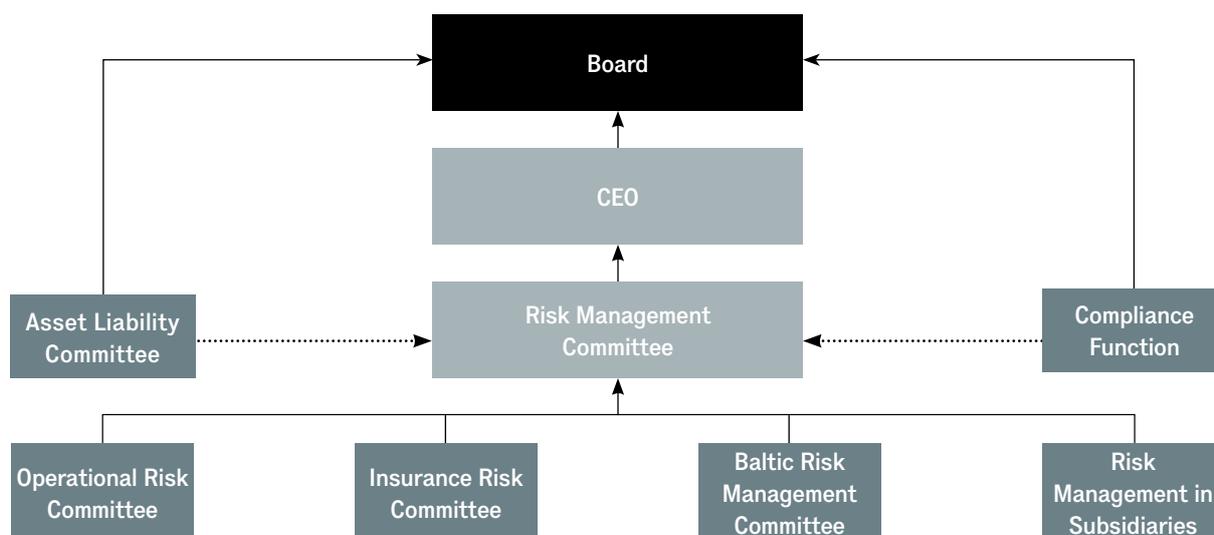
A key principle of insurance operations is the transfer of risk from the policyholder to the insurance company. Due to this, risk is an essential and inherent element of Mandatum Life's business activities and operating environment. The purpose of the risk management process is to identify the different risks affecting the business. The risk management process also ensures that different risks can be assessed, limited and controlled.

The most important goals of risk management are to ensure the sufficiency of capital in relation to the business risks and to limit fluctuations in financial performance, ensure efficient and continuous business processes in all circumstances and to limit the risks to the level approved by the Board of Directors on the part of all operations.

### **B.3.2 Organisation of risk management**

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



The Risk Management Committee co-ordinates the arrangement of risk management and monitors all of the Company's risks. 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), of which the other 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.

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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 Baltic permanent establishment has its own risk management procedures.

In addition to the above-mentioned committees and units, the internal audit ensures, with the help of auditing recommendations, that sufficient internal controls are in place and also draws up an annual internal audit review for the Board of Directors.

### **B.3.3 Risk management function**

Mandatum Life's risk management function is made up of individuals who work in various units. The risk management director heads the risk management function and the Company has a separate steering group for the risk management function. The steering group meets regularly, and its main role is to develop risk management at the Group level, agree on common principles and co-ordinate operational matters related to risk management.

### **B.3.4 Own Risk and Solvency Assessment (ORSA)**

The purpose of ORSA is to produce information for the Board of Directors on the Company's solvency position and sufficiency of capital in various scenarios. The scenarios take into account the most significant risks. A further purpose of ORSA is to ensure continuous compliance with the confirmed capital requirements. It is thus part of the Company's risk and capital management.

The Company's ORSA policy is approved by the Board and forms the basis for regular, usually annual, implementation of ORSA. Conclusions are drawn on the basis of the ORSA calculations, and an ORSA report is prepared for the Company's management. The results of the risk and solvency assessment are processed by both the Asset-Liability Committee and the Board of Directors. The ORSA report is also distributed to the relevant authorities.

If major changes occur in the operating environment, risk profile or operating conditions, the ORSA must be carried out separately to reflect the new situation. Based on the risk management director's presentation, the CEO decides when a new risk assessment should be carried out.

Annual planning takes into account possible changes in the risk profile, the quantity and quality of own funds and the distribution of own funds across various asset classes when analysing capital requirements.

ORSA results are taken into account in product development and product design such that the capital requirements for new products do not compromise the sufficiency of capital.

### **B.3.5 Solvency targets**

The solvency capital requirement sets the level of capital at which the Company can practice its business without the authorities intervening. The regulatory capital requirement reflects a 99.5 per cent confidence level, i.e. roughly the same probability of default as a BBB credit rating from major credit rating agencies. Mandatum Life has assessed the solvency capital requirement to be a sufficient lower capital limit.

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There is a need for a capital buffer between the actual amount of capital and lower limit of capital set by the Company, because the risk positions and results develop continuously over time and sometimes in stress situations, the capital may quickly contract. A sufficient capital buffer gives the Company time to adjust its risks and the amount of its capital during stress periods and maintain a balance between risks and capital. Having a sufficient capital buffer increases the supervisory authorities' and counterparties' trust in the Company, and this is another reason to maintain a buffer.

Mandatum Life governs its own risk-taking in line with a separate risk-bearing capacity model that is approved by the Company's Board of Directors. The main aspects of the risk-bearing capacity model in question are described later in section C.

### **B.3.6 Other aspects of risk management**

The Company's risk management is described in greater detail in the Annual Report, on pages 11–17 and 35–46.

## **B.4 Internal control system**

Mandatum Life Group's processes always include internal controls. This ensures flawless operations and a high level of customer satisfaction. Mandatum Life's Board of Directors has approved a separate Internal Control Policy.

The head of each unit is responsible for ensuring that the unit's operational risks are identified and that internal control is arranged appropriately, taking into account the risks.

Control measures include sufficient guidelines, result and deviation reports, including monitoring of compliance with risk limits, an approval and authorisation system, assurances and controls. Situations in which internal control has failed and operational risks have materialised are always brought to the attention of the Operational Risk Management Committee. The Operational Risk Management Committee must also be notified of so-called near miss situations. The notification must also include the corrective measures that have been made to processes to ensure that a similar incident is not repeated.

Mandatum Life Group has several guidelines related to sales, marketing, governance, products, decision-making, communication, etc. These guidelines are continuously available to personnel on the intranet.

The principle is that all guidelines issued by Sampo plc are approved by Mandatum Life's Board of Directors, just like all of the Group's own policies and operating principles. Other guidelines that concern the entire Mandatum Life Group are addressed by the Company's Operative Management Group. The units additionally draw up their own guidelines based on their operations' needs.

The efficiency and adequacy of internal control is assessed once a year in connection with the self-assessment of risks.

## **B.5 Compliance function**

Mandatum Life has its own compliance function. The Company's chief legal counsel (Compliance Officer) is responsible for the function. Units have their own compliance contact persons who handle compliance matters for their functions.

The unit supervisors are responsible for ensuring personnel's compliance with the guidelines. Significant deviations must be immediately reported to the supervisor's own supervisor, and to the Compliance function and the Company's CEO.

The Compliance function reports on matters pertaining to its area of responsibility to the management, the Board and Sampo's Audit Committee quarterly.

## **B.6 Internal audit function**

The internal audit is a function independent of the business units which assesses the adequacy and efficiency of the internal control system and the quality of the implementation of tasks. The internal audit conducts its work in compliance with the Board-approved internal audit policy (Sampo Group Internal Audit Policy). Operating in line with the Internal Audit Policy means complying where applicable with the Institute of Internal Auditors' (IAA) International Professional Practices Framework. These activities are headed by Sampo plc's Group Chief Audit Executive, who ensures the quality, objectivity and independence of the internal audit.

The internal audit draws up an action plan for three years at a time, and the action plan is updated annually. The plan is approved by the Board of Directors and by the Audit Committee of Sampo plc's Board of Directors. The internal audit function reports to the CEO, the Company's Board of Directors and Sampo plc's Audit Committee.

## **B.7 Actuarial function**

At Mandatum Life, the actuarial function is organized as part of the Actuarial unit, which is headed by the Company's Chief Actuary. The Actuarial Director is responsible for the unit's operations, resources and competence and operates as the Company's Chief Actuary. The Actuarial function is tasked with implementing the statutory tasks set for actuarial operations in the Finnish act on insurance companies. The Actuarial function is also tasked with regularly analysing the risk result. The risk result measures the effectiveness of the risk selection and the sufficiency of pricing by collecting information on actual claims in the product and risk area. The Board of Directors decides on changes that are more significant than minor changes made to pricing or technical provision calculation bases, as proposed by the Chief Actuary.

The company must have a Chief Actuary who meets the eligibility criteria stipulated in the Finnish act on insurance companies. The Chief Actuary is tasked with, among other things, ensuring the appropriateness of the actuarial methods to be applied in the company and that the amount of and method for defining the company's insurance premiums and technical provisions meet the requirements of the regulations issued pursuant to the Finnish Insurance Companies Act and the regulations issued by the Finnish Financial Supervisory Authority.

The Chief Actuary is additionally responsible for coordinating the calculation of the technical provisions, for ensuring the appropriateness of the technical provision calculation methods and models, and assumptions, and for reporting on these to the Board of Directors. The Chief Actuary additionally submits a statement to the Board of Directors on the appropriateness of the reinsurance arrangements, and at least once a year draws up a written report to the Board on the tasks carried out by the Actuarial function.

The Chief Actuary also participates in the risk and solvency assessment and the Company's risk management.

## **B.8 Outsourcing**

Some of Mandatum Life's functions are outsourced. Despite outsourcing, the Company still bears responsibility for ensuring that the purchased service meets the criteria set for insurance companies. Mandatum Life has its own Procurement and Outsourcing Policy, which the units must comply with.

Mandatum Life Group's most significant outsourced services are the outsourcing of IT access services to Tieto Oyj and the outsourcing of investment operations covering with-profit technical provisions and other own funds to Sampo plc.

## **B.9 Other information**

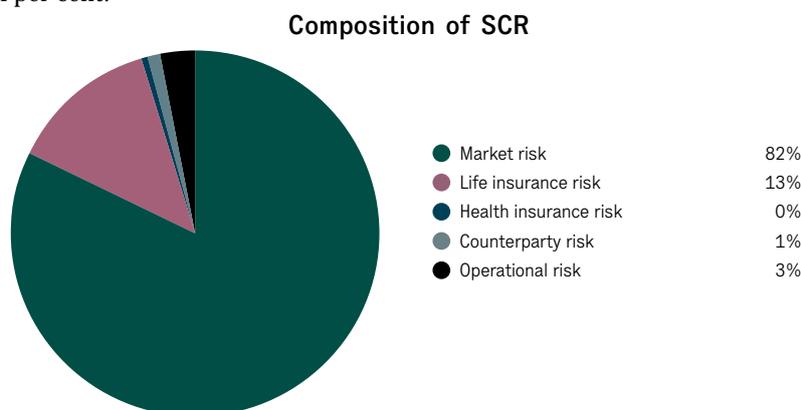
Based on the 2018 result, Mandatum Life paid a dividend of EUR 150 million to Sampo plc in March 2019. The company did not pay dividends based on the 2019 result.

The company has evaluated its governance system to be appropriate and effective, taking into account the nature, extent and complexity of its business risks.

## C. Risk profile

In terms of capital requirements, the Company's most significant risks take the form of balance sheet market risks, as well as longevity and lapse risks, which are included in insurance risks (see section E.2). In addition, operational risks and business risks are key risks in terms of business operations and continuity.

Of the Company's solvency capital requirement, 82 per cent is made up of the capital requirement for market risks and 13 per cent is made up of the capital requirement for the life insurance risk. The capital requirement for operational risks is 3 per cent of the total solvency capital requirement, and the capital requirement for the counterparty risk represents around 1 per cent.



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. The table below presents the applicable monitoring limits and the key guiding principles for different zones.

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

When the risk-bearing capacity is above the upper monitoring limit, the Company's investment operations are guided, as usual, by the investment policy and the limits set therein. If the risk-bearing capacity 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 policies have their own risk-bearing capacity monitoring in place. The risk-bearing capacity of the segregated group pension policies is based on the buffering effect of the provision for future bonuses in the investment risks. The monitoring limits of risk-bearing capacity monitoring are 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.

## C.1 Insurance risk

### C.1.1 Qualitative description of insurance risks

The insurance risks of life insurance operations include biometric risks, as well as other life insurance operations risks, such as the surrender risk (lapse risk) and the expense risk. The risk related to the discount rate on technical provisions is part of market risks, but it is also centrally linked to insurance products.

Biometric risks related to life insurance operations are mainly the result of a situation where more death, disability or medical expenses compensation should be paid for the insured or, in pension insurance, a situation where pensions would have to be paid to the insured for a period longer than the Company predicted at the time when the insurance was priced. Catastrophe risk refers to cases where a single incident or a series of incidents with a major impact cause a significant difference between actual claims paid and expected claims.

The longevity risk is the most significant of biometric risks. The with-profit group pension portfolio represents most of the longevity risk. With-profit group pensions have, for the most part, been closed to new members for several years, which is why the average age of the members is relatively high, at close to 70. The longevity risk in the unit-linked group pension and individual pension insurance portfolio is less significant, as the insurance policies are generally for a fixed term and the life insurance policies linked to them reduce the longevity risk.

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

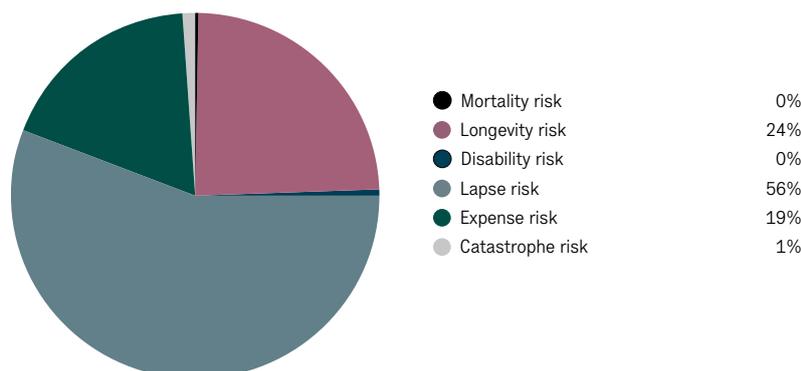
Risk selection linked to insurance risks is part of daily operations. The Company's risk selection policy defines the risk selection principles and limits for the insurance amounts. The Board of Directors approves the key principles for the risk selection policy, insurance agreement pricing and technical provision calculation.

Reinsurance is used to limit especially individual mortality and permanent disability risks. The Board of Directors annually decides on the largest compensation amounts that will be retained under the company's own responsibility. In the Company, this amount is EUR1.5 million per insured person. To minimize the impacts of possible catastrophes, the Company has catastrophe protection in place.

### C.1.2 Quantitative description of insurance risks

The lapse risk is the most significant life insurance risk measured by the capital requirement, representing 56 per cent of the total capital requirement for life insurance risk. The capital requirement resulting from the longevity risk is 24 per cent of the capital requirement for the life insurance risk, and the capital requirement for the expense risk is roughly 19 per cent. The amount of the solvency capital requirement for insurance risk is described later, in section E.

Composition of life underwriting risk SCR



## Solvency and Financial Condition Report 2019

From the solvency capital requirement angle, the greatest lapse risk results from the unit-linked insurance portfolio (3/5 of lapse risk) and risk insurance (2/5).

Of the solvency capital requirement for the expense risk, around 70 per cent is made up of the unit-linked portfolio and the remaining approx. 30 per cent of the with-profit insurance portfolio and risk insurance portfolio.

### **C.1.3 Risk concentrations related to insurance activities**

The Company does not have significant risk concentrations for insurance risks. Within insurance risks, the greatest risk concentrations result from, where the policyholder is a company.

## **C.2 Market risk**

### **C.2.1 Qualitative description of market risks**

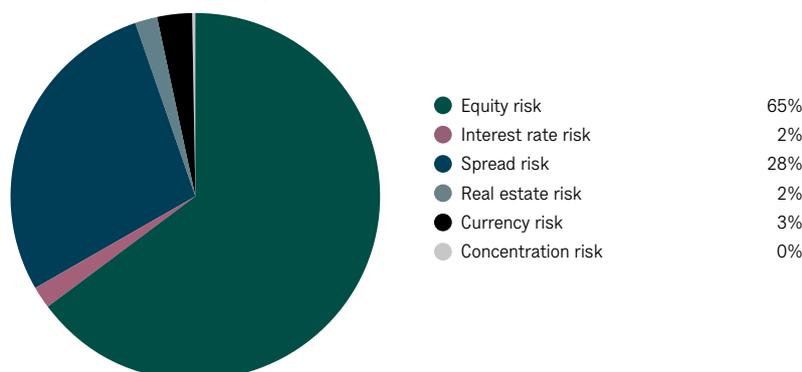
Market risks refer to impacts on the company's result or solvency caused by changes in the market values of financial assets & liabilities and technical provisions. Market risks are examined from both an Asset and Liability Management (ALM) as well as an investment portfolio risk perspective. The Company's market risks are arisen mainly from investments in equities and interest rate risk arising from fixed income assets and with-profit liabilities.

The approach to market risk management is based on the technical provisions' expected cash flows, the interest rate level and the valid solvency position. The characteristic shared by all with-profit technical provision items is the technical rate of interest and client bonuses. The technical provision's cash flows are relatively predictable, as policy surrenders or supplementary additional investments are limited in the majority of with-profit insurance policies.

The Company's with-profit technical provisions are entirely made up of euro-denominated commitments. For that reason, the Company is exposed to foreign exchange risk when investing outside the euro zone. The Company's currency strategy is based on actively managing the currency position. The objective is to achieve, within the limits of the investment policy, a return in relation to a situation where the foreign exchange risk is fully hedged.

### **C.2.2 Quantitative description of market risks**

As illustrated above, the most significant of Mandatum Life's risks is the market risk related to the investment assets covering the with-profit technical provisions. The equity risk is the largest market risk, and its share of the market risk capital requirement is 65 per cent. The Company applies the equity risk transitional measure when calculating the capital requirement for equity risks. The risk linked to the fixed income portfolio's credit risk margin (spread risk) is the second highest market risk, at 28 per cent, and currency risk is the third highest, at 3 per cent. In terms of the total balance sheet, a low interest rate level and interest rates that remain at a low level form a significant reinsurance risk in the long run. In the capital requirement, the share of interest rate risk is, however, relatively small because interest rates are already very low and any relative decline in interest rates only forms insignificant additional risk in terms of capital requirements. The amount of the solvency capital requirement for the market risk is described later, in section E.

**Composition of market risk SCR**


The transitional measure for equity risks is applied when calculating the market risk. Without the transitional measure applied to the equity risk, the total amount of market risk would have risen from EUR 1,363 million to EUR 1,404 million. These do not take into account the impact of risk-mitigating factors.

### C.2.3 Risk concentrations related to investment activities

Risk concentrations related to investment activities are actively monitored and managed. The investment policy approved by the Board of Directors defines 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 amount of tied-up capital. The public information available on the investment object, such as credit ratings, also affects the limit structure.

A separate capital requirement (concentration risk) is calculated for risk concentrations arising from investment activities and, after the impacts of diversification, its impact on market risks was minimal.

### C.2.4 Prudent person principle

The Finnish Insurance Companies Act defines the prudent person principle, which the Company must follow in its investment operations. Pursuant to the act, the company can make investments from among its entire investment assets only in assets and instruments that entail risks that the company in question can identify, measure, monitor, manage and control as required. In addition, the assets, in particular assets covering the minimum capital requirement and solvency capital requirement, shall be invested so that they ensure the portfolio's security, quality, liquidity and profitability. Also assets intended to cover technical provisions must be invested appropriately in terms of the nature and duration of the technical provisions and the assets must be invested in the best interests of all policyholders and beneficiaries, taking into account all published targets.

Alongside limits and risk-bearing capacity, a key principle of Mandatum Life's decision-making in investment operations is the duty of care and the requirement of having thorough knowledge of each individual investment and its riskiness. The Company invests in instruments whose risks, according to the Company's assessment, are sufficiently transparent and comprehensible, and on which risks it is possible to conduct an independent assessment and which risks can be monitored. The technical provisions are pension-insurance-weighted and thus very predictable. The company must have assets in money market instruments that are at least equal to the liquidity reserve, and these assets are used to secure the payment of compensation for the following six months, also in a situation where the investments' liquidity has weakened for some reason. In addition, the majority of the investments should be in instruments in which liquidity is good in a normal situation. The investment policy limits are applied to ensure sufficient diversification between different investment classes and investments. Additionally, the limits are used to secure the profitability of investment operations in the long run by enabling, within investment operations, favourable investment risk-taking in relation to risk-bearing capacity and the prevailing market situation. Internal risk-bearing capacity monitoring is used to ensure that the balance sheet market risks do not grow too large in relation to the Company's risk-bearing capacity.

In unit-linked policies, the investment risk is borne by the policyholder. In these policies, the Company invests the assets, as a rule, in investments that are linked one-to-one with the performance of insurance policies.

### C.3 Credit risk

Credit risks are related to possible losses or a weakening of financial position due to changes occurring in the creditworthiness of securities issuers, derivative contract counterparties or other debtors. Credit risks arise from investments as well as insurance and reinsurance contracts.

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

The capital requirement for counterparty risk at the end of 2019 was EUR 52 million, some 70 per cent of which consisted of Type 1 counterparty risk and roughly 30 per cent of Type 2 counterparty risk. Type 1 counterparty risk consists of receivables related to bank accounts and derivative counterparty risk. The most significant risks in Type 2 counterparty risk components are formed by loans given to real estate companies and purchase price claims.

### C.4 Liquidity risk

Liquidity risk is the risk of the Company being unable to realize its investments or other assets in order to settle its financial obligations when they fall due. A relatively small percentage (less than 5%) of with-profit life insurance liabilities can be surrendered, thus making it possible to reliably forecast short-term claims payments. In addition, the assets are liquid and thus, liquidity risk is currently not significant to the Company.

The total amount of expected profit included in future pension premiums was EUR 485 million (395) at the end of 2019, and the impact on the Company's own funds, after the deduction of deferred tax liability, was EUR 388 million (316).

### C.5 Operational risk

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 risks but does not include risks resulting from strategic decisions. Risks can materialise due to the following events:

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

Operational risk can manifest as additional costs, compensation for damage or loss, an infringement of regulations and stipulations, a loss of reputation, giving false information on the risk position and the resulting losses, and as interruption of business.

During the period under review, no significant changes took place in terms of operational risks or their management.

The capital requirement for operational risk was EUR 35 million at the end of 2019. Operational risks and the related risk management are described in more detail on page 17 of the Annual Report.

## **C.6 Other material risks**

In addition to the risks presented above, the Company's operations are also centrally exposed to business and reputation risks. Business risk is the risk of loss due to changes in the competitive environment and/or internal operational inflexibility, while reputation risk is the risk of founded or unfounded unfavourable publicity concerning the Company's business operations or relations weakening confidence in the Company. Due to the nature of the risks in question, they are the direct responsibility of the CEO and are regularly addressed by the Risk Management Committee, and these risks are managed as part of the Company's strategic planning and operative management.

## **C.7 Other information**

The COVID-19 pandemic has not significantly affected the company's risk profile. In terms of market risk, the equity risk has quantitatively decreased due to the decline in the value of equities. Where operational risks are concerned, the company's employees have been teleworking since mid-March. In this respect, the company's infrastructure has operated at a very good level, and the business functions have operated in line with their continuity plans.

There is no other material information concerning the company's risk profile.

# D. Valuation for solvency purposes

## D.1 Assets

In solvency calculations (Solvency II balance sheet), Mandatum Life's assets are usually valued at market value. This means, in practice, that the values of the assets used in solvency calculations correspond to the values in the IFRS financial statements. There are two exceptions to this, of which the more significant one is the valuation of real estate and less significantly the valuation of intangible assets. In Mandatum Life's IFRS financial statements, real estate are valued using the cost model, but in solvency calculations also real estate is valued at market value. Intangible assets are valued at zero in the Solvency II balance sheet. The assets are classified in the Solvency II balance sheet in accordance with the CIC codes defined by EIOPA.

The differences between the IFRS balance sheet and the Solvency II balance sheet assets are the following:

	IFRS balance sheet	Solvency II balance sheet
Real estate	70.0 (72.3)	104.7 (105.7)
Intangible assets	4.7 (2.7)	0 (0)

The Solvency II balance sheet is presented in the attached table S.02.01.02 Solvency II balance sheet.

The valuation of the Company's assets in accordance with the IFRS standard is presented in greater detail in the Annual Report (pages 22–34). The Annual Report also contains a more precise description of the value of the Company's financial assets by asset class (Annual Report, pages 59–71).

## D.2 Technical provisions

### D.2.1 Technical provisions in general

In calculating the technical provisions for solvency reviews, Mandatum Life applies, within the framework of valid legislation, both the so-called transitional measure for technical provisions and a volatility adjustment for calculating the best estimate. The transitional measure for technical provisions is applied to the company's original with-profit pension policies with a guaranteed interest rate of 3.5 or 4.5 per cent. The transitional measure for technical provisions continues until 31 December 2031.

The financial statements' Insurance liabilities are calculated based on the policies' calculation bases, using the technical rate of interest and the mortality conforming to the bases as the discount rate for these policies' technical provisions. In addition, the reserve for decreased discount rates and mortality reserve made to these insurance portfolios are taken into account in the accounting technical provisions.

The Solvency II technical provisions are calculated as the sum of the best estimate and risk margin. The best estimate for technical provisions is defined as the expected value of future net cash flows discounted using a Solvency-II-compliant yield curve that includes a volatility adjustment, taking into account contractual limits. Cash flows required for liability calculation are formed by using risk-neutral market-consistent economic scenarios together with parameters and assumptions acquired from the main markets and based on history. The market-consistent value of financial guarantees and contractual options included in technical provisions, including the current value of future discretionary bonuses, can be attained in this manner. The risk margin is calculated based on the assumed cost of capital (6%) and the sum of future projections (as applicable) of capital requirements and capital requirements discounted to current value.

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The most significant differences between the accounting technical provisions and Solvency II technical provisions are thus:

- the used discount rate and the valuation of contractual options and financial guarantees' market-consistent value in Solvency II
- applicable contractual limits applied in Solvency II calculations
- Solvency II calculations take into account future profit/loss for the risk result and operating expense result and
- the nature of the assumptions (conservative assumptions vs. separate risk margin)

Determination of the accounting technical provisions is based on conservative assumptions, while the best estimate of the Solvency II technical provisions attempts to represent the best estimate of the technical provisions, i.e. the real assumed value, without the safety margins added to the assumptions used to obtain it. Instead, in Solvency II, in order to determine the total amount of technical provisions, an explicit item, the risk margin, is added to the best estimate liability, which the financial statement technical provisions do not include.

Below are the differences between technical provisions in solvency calculation (Solvency II) and financial statements (IFRS).

EUR million	IFRS value	Solvency II value	Diff
<b>Technical provisions – life insurance (excl. unit-linked)</b>	3,925	3,705	220
Best Estimate		3,524	
Risk margin		181	
<b>Technical provisions – unit-linked</b>	8117	7,640	477
Best Estimate		7,533	
Risk margin		107	

Uncertainty linked to the amount of technical provisions stems from the assumptions used in future cash flow projections in relation to their future outcomes, of which the most significant are:

- mortality/longevity assumption,
- morbidity/disability assumptions,
- operating expense assumptions,
- surrender assumptions and
- premium behaviour assumptions.

The sensitivity of technical provisions for the first four of these is naturally assessed in the calculation of the sub-risk module of the life insurance risk module.

For future discretionary benefits, uncertainties could result from the bonus rule used in client bonus policy modelling or the used future scenarios for the financial environment. The validation of financial environment scenarios applies standard methods on which the company releases a separate quarterly report. The modelled bonus rule is seen to correspond well enough with actual client bonus decisions.

The above-mentioned transitional measure applied to the technical provisions reduced the technical provisions by EUR 452 million at the end of the reporting period. The volatility adjustment lowered the technical provisions by EUR 26 million.

In 2019, the Company adopted a broader interpretation of EIOPA's guidelines on contract boundaries than before in calculating the technical provisions of capital redemption policies. As a consequence, both the amount of future surpluses and the solvency capital requirement grew. In addition, during the financial year, the company made changes to the terms and conditions of group life insurance contracts (Group Optimi), and as a consequence, the interpretation of the contract boundaries of the insurance contract portfolio broadened. Correspondingly, also as a consequence of this, both the amount of future surpluses and the solvency capital requirement grew.

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### D.2.2 Unit-linked insurance

For unit-linked insurance, the financial statement technical provisions correspond in practice with the insurance savings amount.

The Solvency II best estimate technical provisions, on the other hand, correspond with the sum of unit-linked savings and the future surplus resulting from unit-linked insurance. The future surplus is formed from the risk result and expense result (interest rate result for unit-linked insurance is zero). If unit-linked insurance is priced profitably, the assumed value of future surpluses is positive and the surpluses reduce the Solvency II technical provisions of unit-linked insurance compared to the financial statement technical provisions. On the other hand, the risk margin calculated on unit-linked insurance increases the Solvency II technical provisions in relation to the financial statement technical provisions.

### D.2.3 Risk margin

The Solvency II risk margin includes an explicit risk margin, unlike the financial statement technical provisions. The market-consistent value of technical provisions is attained by adding to the best estimate technical provisions, i.e. the assumed value of the technical provisions, the margin describing the uncertainty of the actual liabilities, i.e. the risk margin. The risk margin is calculated in accordance with Title I, Chapter III, Section 3, Subsection 4 of the Commission Delegated Regulation 2015/35.

The purpose of maintaining the risk margin is to ensure that the value of the calculated technical provisions corresponds to a sum of money that the other market party (insurance undertaking) would be expected to demand in order to take on the liabilities in question in full. In Solvency II the risk margin therefore describes, in principle, a bonus, above the technical provision best estimate, that an insurance undertaking would normally be expected to pay on the markets to transfer their liabilities to an independent party.

### D.2.4 Receivables from reinsurance contracts and special purpose vehicles (SPV)

Mandatum Life's receivables from reinsurance contracts amounted to EUR 0.7 million (0.9) at the end of 2019. The Company does not use SPVs to manage the insurance risk.

## D.3 Other liabilities

Other liabilities are equal in value in the Solvency II balance sheet and the IFRS balance sheet. The exception to this is deferred tax liability, which has been calculated so that a 20% surtax resulting from the higher value of the assets and a surtax of 20% resulting from the lower technical provisions are added to the IFRS balance sheet deferred tax liability.

In 2019, the Company's own funds consisted of both Tier 1 and Tier 2 items, EUR 349 million (i.e. 15.2 per cent) of which consisted of subordinated liabilities at the end of 2019, as presented in the table below. Of the subordinated liabilities, EUR 100 million has been invested in the restricted basic own funds class 1 (Tier 1), based on the transitional measures defined in the Solvency II directive.

Subordinated loan	Nominal value	Book value	Class	First possible date of maturity
PerpNC10	€100 million	€100 million	Tier 1	31.12.2012
30NC5	€250 million	€249.1 million	Tier 2	4.10.2024

## D.4 Alternative valuation methods

Mandatum Life does not have items valued using alternative methods.

## D.5 Other information

There are no other material factors related to the valuation of assets and liabilities in solvency calculations.

# E. Capital management

## E.1 Own funds

### E.1.1 Capital management in general

At Mandatum Life, solvency management ensures that there is sufficient capital in relation to the risks stemming from business and the operating environment, and capital management ensures the quality of assets that are classified as own funds in relation to capital requirements.

The Company's Board of Directors has approved a separate capital management policy. Capital management policy means ways and procedures by which the Company:

- i. monitors the sufficiency of its own funds in relation to the capital requirements,
- ii. classifies own funds into different tiers (Tier 1, Tier 2 and Tier 3),
- iii. defines ways and methods of capital planning,
- iv. implements measures for increasing equity assets, including capital loans and other items classified as own funds in solvency calculations

The main goal of capital management is to ensure that the amount and quality of own funds remain sufficient in relation to the Company's solvency requirements. The capital requirement is estimated by comparing the available own funds to the risk capital requirement that is needed to cover risks resulting from the current business and the external operating environment.

At Mandatum Life, any possible equity investments that are classified as equity are decided by the General Meeting. The Board of Directors shall make a separate proposal to the General Meeting on addressing, increasing or reducing the equity assets within the framework of the legislation in force. When proposing a possible change, the Company's solvency position and its future development is always a key factor. Future solvency development is evaluated at least annually in connection with the Company's own risk and solvency assessment (ORSA).

The company's capitalisation also takes advantage of subordinated loans, and the Company can, also in future, issue capital loans to improve the efficiency of its capital structure. When issuing dated own fund items, at least the own fund amounts and maturity dates of the dated items should be taken into account in relation to the capital requirements at the time and in relation to the forecasts of the capital requirements on the maturity date. The issuing or payment of capital loans is always decided on by the Board of Directors. The task of the Asset-Liability Committee is to prepare capital loan contract terms and conditions, which must be clear in terms of the Tier classification.

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### E.1.2 Own funds

A review of the solvency position in accordance with the Insurance Companies Act begins with the Solvency II balance sheet. In the Solvency II balance sheet, the company's technical provisions are calculated on market terms, instead of according to book values, applying the interest rate term structure presented above, in section D.2.1. Taking the transitional measure for technical provisions into account, the Company's own funds at the end of the reporting year amounted to EUR 2,290 million, and without the transitional measure to EUR 1,929 million. The table below presents the structure of the Company's own funds on 31 December 2019, 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.

EUR million	SCR	MCR
Share capital	181	181
Reconciliation Reserve	1,761	1,761
Subordinated Liabilities	100	100
<b>Tier 1 – total</b>	<b>2,041</b>	<b>2,041</b>
Subordinated Liabilities	249	59
<b>Tier 2 – total</b>	<b>249</b>	<b>59</b>
Deferred tax assets	0	0
<b>Tier 3 – total</b>	<b>0</b>	<b>0</b>
<b>Eligible own funds</b>	<b>2,290</b>	<b>2,100</b>

The impact of the transitional provision for technical provisions on own funds before the change in tax liability is taken into account is EUR 452 million (489), and EUR 361 million (391) after the change in tax liability is taken into account.

In the Company's IFRS financial statements, equity totalled EUR 1,368 million (1,211). In addition to this, subordinated liabilities that are classified as own funds in solvency calculations are classified as part of other liabilities in the financial statements. The main difference between equity according to IFRS financial statements and own funds according to solvency calculations is the difference in the valuation methods for technical provisions as presented above in section D.2.1.

The Company has EUR 9 million in deferred tax assets entered in the IFRS balance sheet, but this amount is significantly lower than the tax liabilities (EUR 130 million) entered in the IFRS balance sheet. The amount of tax liability in own funds according to Solvency II is higher than the tax liability entered in the IFRS balance sheet.

### E.2 Solvency capital requirement and minimum capital requirement

When calculating the solvency capital requirement, Mandatum Life uses Solvency II's standard formula, taking the equity risk transitional provision into account. The solvency capital requirement on 31 December 2019 was EUR 1,182 million (990). The table below shows the separate capital requirements and diversification benefits of different risk categories and the basic solvency capital requirement formed by these. The table also shows the operational risk capital requirement to be added to the basic solvency capital requirement and risk-mitigating factors to be deducted from the solvency requirement.

EUR million	31.12.2018	31.12.2019
Market risk	1,168	1,362
Counterparty risk	47	52
Life insurance risk	350	443
Health risk	2	2
Non-life insurance risk	0	0
Diversification benefits	-251	-308
<b>Basic solvency capital requirement</b>	<b>1,361</b>	<b>1,551</b>
Operational risk	35	35
Loss-absorbing capacity of technical provisions	-113	-108
Loss-absorbing capacity of deferred taxes	-247	-296
<b>Solvency capital requirement</b>	<b>990</b>	<b>1,182</b>

The loss-absorbing capacity related to deferred taxes reduces the solvency requirement, and it reduced the solvency requirement by EUR 296 million. A net total of EUR 265 million in deferred tax liabilities, taking into account the impact of the transitional measure related to technical provisions, was entered in the Solvency II balance sheet.

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The Company has internally assessed that in conducting business according to the prevailing business strategy, the Company's operations will produce a surplus also after the stress corresponding to the solvency requirement assumed in the calculations such that the applied loss-absorbing capacity of deferred taxes is justified.

Mandatum Life does not apply a simplified approach to solvency capital requirement calculations nor does the Company apply company-specific parameters instead of the standard formula's parameters.

Mandatum Life's minimum capital requirement is specified as 25% of its solvency capital requirement. The input data for minimum capital requirement calculations are shown in the table below:

EUR million	31.12.2018	31.12.2019
Amount according to linear function	171	177
Solvency capital requirement	990	1,182
Upper limit of minimum capital requirement	446	532
Lower limit of minimum capital requirement	248	296
Combined minimum capital requirement	248	296
Absolute minimum level	3.7	3.7
Minimum capital requirement	248	296

During the financial period, the amount of the solvency capital requirement and the minimum capital requirement increased. A key factor in this growth is the changes in the interpretation of contract boundaries applied to the calculation of technical provisions. The contract boundary interpretations have increased the Company's own funds with respect to future surplus, and as a consequence of this, the above-mentioned capital requirements have also increased.

### **E.3 Use of a duration-based equity risk sub-module in calculating the solvency capital requirement**

Mandatum Life does not use a duration-based equity risk sub-module in calculating the solvency capital requirement.

### **E.4 Differences between the standard formula and the internal model that is used**

Mandatum Life uses the standard formula.

### **E.5 Non-compliance with the minimum capital requirement and solvency capital requirement**

Mandatum Life's own funds exceeded both the minimum capital requirement and the solvency capital requirement throughout 2019.

### **E.6 Other information**

The COVID-19 pandemic has had a major impact on both the amount of the company's own funds and the solvency capital requirement. On 31 March 2020, the company's own funds totalled EUR 1,944 million. The amount of the company's solvency capital requirement was EUR 946 million, and the company's solvency ratio (own funds/solvency capital requirement) was 205 per cent. Without the transitional provisions, the corresponding figures were: own funds EUR 1,590 million, solvency capital requirement EUR 957 million, and solvency ratio 166 per cent.

The company published in February 2020 its 2019 financial statements, according to which the company's Board of Directors proposed to the Annual General Meeting a dividend payment of EUR 150 million. In March 2020, however, the Board of Directors decided to change the dividend proposal, proposing instead that no dividend be paid for 2019. The reason for the change is the impacts of the pandemic on the financial markets and the company's investment assets. In this solvency report, all figures from the turn of the year are presented under the assumption that dividends will not be paid, and this is one reason why the figures presented here deviate from those presented in the Annual Report.

There is no other information that would have a material impact on the Company's capital management.

# Quantitative reporting templates:

Mandatum Life does not report template S.05.02.01, Premiums, claims and expenses by country, because premiums written from its home country are over 90%.

- S.02.01.02 Solvency II balance sheet
- S.05.01.02 Premiums, claims and expenses by line of business
- S.12.01.02 Technical provisions
- S.22.01.01 Long-term guarantees
- S.23.01.01 Own funds
- S.25.02.21 Solvency capital requirement calculated using the standard formula
- S28.01.01 Minimum capital requirement

## Solvency and Financial Condition Report 2019

**Annex I**
**S.02.01.02**
**Balance sheet**
**Assets**

Goodwill
Deferred acquisition costs
Intangible assets
Deferred tax assets
Pension benefit surplus
Property, plant & equipment held for own use
Investments (other than assets held for index-linked and unit-linked contracts)
Property (other than for own use)
Holdings in related undertakings, including participations
Equities
Equities - listed
Equities - unlisted
Bonds
Government Bonds
Corporate Bonds
Structured notes
Collateralised securities
Collective Investments Undertakings
Derivatives
Deposits other than cash equivalents
Other investments
Assets held for index-linked and unit-linked contracts
Loans and mortgages
Loans on policies
Loans and mortgages to individuals
Other loans and mortgages
Reinsurance recoverables from:
Non-life and health similar to non-life
Non-life excluding health
Health similar to non-life
Life and health similar to life, excluding health and index-linked and unit-linked
Health similar to life
Life excluding health and index-linked and unit-linked
Life index-linked and unit-linked
Deposits to cedants
Insurance and intermediaries receivables
Reinsurance receivables
Receivables (trade, not insurance)
Own shares (held directly)
Amounts due in respect of own fund items or initial fund called up but not yet paid in
Cash and cash equivalents
Any other assets, not elsewhere shown
<b>Total assets</b>

		Solvency II value
		C0010
<b>R0010</b>		
<b>R0020</b>		
<b>R0030</b>		
<b>R0040</b>		
<b>R0050</b>		
<b>R0060</b>		5 798
<b>R0070</b>		4 802 829
<b>R0080</b>		101 478
<b>R0090</b>		13 742
<b>R0100</b>		884 236
<b>R0110</b>		821 557
<b>R0120</b>		62 679
<b>R0130</b>		2 663 566
<b>R0140</b>		26 960
<b>R0150</b>		2 636 606
<b>R0160</b>		
<b>R0170</b>		
<b>R0180</b>		1 123 394
<b>R0190</b>		16 412
<b>R0200</b>		
<b>R0210</b>		
<b>R0220</b>		8 133 469
<b>R0230</b>		82 235
<b>R0240</b>		
<b>R0250</b>		
<b>R0260</b>		82 235
<b>R0270</b>		
<b>R0280</b>		
<b>R0290</b>		
<b>R0300</b>		
<b>R0310</b>		
<b>R0320</b>		
<b>R0330</b>		
<b>R0340</b>		
<b>R0350</b>		
<b>R0360</b>		32 069
<b>R0370</b>		618
<b>R0380</b>		21 075
<b>R0390</b>		
<b>R0400</b>		
<b>R0410</b>		929 944
<b>R0420</b>		54 670
<b>R0500</b>		14 062 708



## Solvency and Financial Condition Report 2019

**Annex I**
**S.05.01.02**
**Premiums, claims and expenses by line of business**

		Line of Business for: <b>life insurance obligations</b>						<b>Life reinsurance obligations</b>		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
<b>Premiums written</b>										
Gross	<b>R1410</b>		126 840	1 476 037				94	1 602 970	
Reinsurers' share	<b>R1420</b>		7 078	0				0	7 078	
Net	<b>R1500</b>		119 762	1 476 037				94	1 595 893	
<b>Premiums earned</b>										
Gross	<b>R1510</b>		126 840	1 476 037				94	1 602 970	
Reinsurers' share	<b>R1520</b>		7 078	0				0	7 078	
Net	<b>R1600</b>		119 762	1 476 037				94	1 595 893	
<b>Claims incurred</b>										
Gross	<b>R1610</b>		275 995	1 216 447				325	1 492 767	
Reinsurers' share	<b>R1620</b>		698	0				0	698	
Net	<b>R1700</b>		275 298	1 216 447				325	1 492 070	
<b>Changes in other technical provisions</b>										
Gross	<b>R1710</b>		112 048	-1 083 250					-971 202	
Reinsurers' share	<b>R1720</b>		0	0				0	0	
Net	<b>R1800</b>		112 048	-1 083 250					-971 202	
<b>Expenses incurred</b>	<b>R1900</b>		58 376	72 531				47	130 954	
<b>Other expenses</b>	<b>R2500</b>									
<b>Total expenses</b>	<b>R2600</b>								130 954	

Solvency and Financial Condition Report 2019

**Annex I**  
**S.12.01.02**  
**Life and Health SLT Technical Provisions**

**Technical provisions calculated as a whole**  
 Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole

**Technical provisions calculated as a sum of BE and RM**

**Best Estimate**

**Gross Best Estimate**

Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default

Best estimate minus recoverables from reinsurance/SPV and Finite Re - total

**Risk Margin**

**Amount of the transitional on Technical Provisions**

Technical Provisions calculated as a whole

Best estimate

Risk margin

**Technical provisions - total**

	Insurance with profit participation	Index-linked and unit-linked insurance		Other life insurance		Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations		
		Contracts without options and guarantees	Contracts with options or guarantees	Contracts without options and guarantees	Contracts with options or guarantees			
	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090
<b>R0010</b>								
<b>R0020</b>								
<b>R0030</b>	3 976 016		7 532 985					
<b>R0080</b>								
<b>R0090</b>	3 976 016		7 532 985					
<b>R0100</b>	180 534	107 215						
<b>R0110</b>								
<b>R0120</b>	-451 722							
<b>R0130</b>								
<b>R0200</b>	3 704 828	7 640 200						

Solvency and Financial Condition Report 2019

**Annex I**  
**S.12.01.02**  
**Life and Health SLT Technical Provisions**

**Technical provisions calculated as a whole**

Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole

**Technical provisions calculated as a sum of BE and RM Best Estimate**

**Gross Best Estimate**

Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default

Best estimate minus recoverables from reinsurance/SPV and Finite Re - total

**Risk Margin**

**Amount of the transitional on Technical Provisions**

Technical Provisions calculated as a whole

Best estimate

Risk margin

**Technical provisions - total**

	Accepted reinsurance	Total (Life other than health insurance, incl. Unit-Linked)	Health insurance (direct business)		Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)	
			Contracts without options and guarantees	Contracts with options or guarantees				
	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
R0010								
R0020								
R0030		11 509 001						
R0080								
R0090								
R0100		287 749						
R0110								
R0120		-451 792						
R0130								
R0200		11 345 028						

Solvency and Financial Condition Report 2019

**Annex I**

**S.22.01.01**

**Impact of long term guarantees measures and transitionals**

		<b>Amount with Long Term Guarantee measures and transitionals</b>	<b>Impact of transitional on technical provisions</b>	<b>Impact of transitional on interest rate</b>	<b>Impact of volatility adjustment set to zero</b>	<b>Impact of matching adjustment set to zero</b>
		<b>C0010</b>	<b>C0030</b>	<b>C0050</b>	<b>C0070</b>	<b>C0090</b>
<b>Technical provisions</b>	R0010	11 345 028	451 722	0	25 895	<b>0</b>
<b>Basic own funds</b>	R0020	2 290 164	-361 378	0	-20 673	<b>0</b>
<b>Eligible own funds to meet Solvency Capital Requirement</b>	R0050	2 290 164	-361 378	0	-20 673	<b>0</b>
<b>Solvency Capital Requirement</b>	R0090	1 182 459	0	0	2 073	<b>0</b>
<b>Eligible own funds to meet Minimum Capital Requirement</b>	R0100	2 100 225	-361 378	0	-20 673	<b>0</b>
<b>Minimum Capital Requirement</b>	R0110	295 615	0	0	518	<b>0</b>

Solvency and Financial Condition Report 2019

**Annex I**  
**S.23.01.01**  
**Own funds**

**Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of**

**Delegated Regulation 2015/35**

- Ordinary share capital (gross of own shares)
- Share premium account related to ordinary share capital
- Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type
- Subordinated mutual member accounts
- Surplus funds
- Preference shares
- Share premium account related to preference shares
- Reconciliation reserve
- Subordinated liabilities
- An amount equal to the value of net deferred tax assets
- Other own fund items approved by the supervisory authority as basic own funds not specified above

**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**

- Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds

**Deductions**

- Deductions for participations in financial and credit institutions

**Total basic own funds after deductions**

**Ancillary own funds**

- Unpaid and uncalled ordinary share capital callable on demand
- Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand
- Unpaid and uncalled preference shares callable on demand
- A legally binding commitment to subscribe and pay for subordinated liabilities on demand
- Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC
- Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC
- Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC
- Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive
- Other ancillary own funds

	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2
	C0010	C0020	C0030	C0040
R0010	40 365	40 365		
R0030	140 161	140 161		
R0040				
R0050				
R0070				
R0090				
R0110				
R0130	1 760 576	1 760 576		
R0140	349 061		100 000	249 061
R0160				
R0180				
R0220				
R0230				
R0290	2 290 164	1 941 102	100 000	249 061
R0300				
R0310				
R0320				
R0330				
R0340				
R0350				
R0360				
R0370				
R0390				

## Solvency and Financial Condition Report 2019

**Annex I**  
**S.23.01.01**  
**Own funds**
**Total ancillary own funds**
**Available and eligible own funds**

- Total available own funds to meet the SCR
- Total available own funds to meet the MCR
- Total eligible own funds to meet the SCR
- Total eligible own funds to meet the MCR

**SCR**
**MCR**
**Ratio of Eligible own funds to SCR**
**Ratio of Eligible own funds to MCR**
**Reconciliation reserve**

- Excess of assets over liabilities
- Own shares (held directly and indirectly)
- Foreseeable dividends, distributions and charges
- Other basic own fund items
- Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

**Reconciliation reserve**
**Expected profits**

- Expected profits included in future premiums (EPIFP) - Life business
- Expected profits included in future premiums (EPIFP) - Non- life business

**Total Expected profits included in future premiums (EPIFP)**

	<b>Total</b>	<b>Tier 1 - unrestricted</b>	<b>Tier 1 - restricted</b>	<b>Tier 2</b>
	<b>C0010</b>	<b>C0020</b>	<b>C0030</b>	<b>C0040</b>
<b>R0400</b>				
<b>R0500</b>	2 290 164	1 941 102	100 000	249 061
<b>R0510</b>	2 290 164	1 941 102	100 000	249 061
<b>R0540</b>	2 290 164	1 941 102	100 000	249 061
<b>R0550</b>	2 100 225	1 941 102	100 000	59 122
<b>R0580</b>	1 182 449			
<b>R0600</b>	295 612			
<b>R0620</b>	1,94			
<b>R0640</b>	7,10			

**C0060**

<b>R0700</b>	1 941 102		
<b>R0710</b>	0		
<b>R0720</b>	0		
<b>R0730</b>	180 526		
<b>R0740</b>	0		
<b>R0760</b>	1 760 576		
<b>R0770</b>	485 456		
<b>R0780</b>	0		
<b>R0790</b>	485 456		

## Solvency and Financial Condition Report 2019

**Annex I**
**S.25.01.21**
**Solvency Capital Requirement - for undertakings on Standard Formula**

Market risk  
 Counterparty default risk  
 Life underwriting risk  
 Health underwriting risk  
 Non-life underwriting risk  
 Diversification  
 Intangible asset risk  
**Basic Solvency Capital Requirement**

	Gross solvency capital requirement	USP	Simplifications
	C0110	C0090	C0100
R0010	1 362 618		
R0020	51 562		
R0030	442 618		
R0040	1 827		
R0050	0		
R0060	-307 787		
R0070	0		
R0100	1 550 837		

**Calculation of Solvency Capital Requirement**

Operational risk  
 Loss-absorbing capacity of technical provisions  
 Loss-absorbing capacity of deferred taxes  
 Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC

**Solvency Capital Requirement excluding capital add-on**

Capital add-on already set

**Solvency capital requirement**
**Other information on SCR**

Capital requirement for duration-based equity risk sub-module  
 Total amount of Notional Solvency Capital Requirements for remaining part  
 Total amount of Notional Solvency Capital Requirements for ring fenced funds  
 Total amount of Notional Solvency Capital Requirements for matching adjustment  
 Diversification effects due to RFF nSCR aggregation for article 304

	C0100
R0130	34 836
R0140	-107 613
R0150	-295 612
R0160	0
R0200	1 182 449
R0210	0
R0220	1 182 449
R0400	
R0410	
R0420	
R0430	
R0440	

## Solvency and Financial Condition Report 2019

**Annex I**
**S.28.01.01**
**Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity**
**Linear formula component for life insurance and reinsurance obligations**

	<b>C0040</b>
MCR <sub>L</sub> Result	<b>R0200</b> 177 139

	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
	<b>C0050</b>	<b>C0060</b>
Obligations with profit participation - guaranteed benefits	<b>R0210</b> 3 292 247	<del>                    </del>
Obligations with profit participation - future discretionary benefits	<b>R0220</b> 232 047	<del>                    </del>
Index-linked and unit-linked insurance obligations	<b>R0230</b> 7 532 985	<del>                    </del>
Other life (re)insurance and health (re)insurance obligations	<b>R0240</b> 0	<del>                    </del>
Total capital at risk for all life (re)insurance obligations	<b>R0250</b> <del>                    </del>	20 945 488

**Overall MCR calculation**

	<b>C0070</b>
Linear MCR	<b>R0300</b> 177 139
SCR	<b>R0310</b> 1 182 449
MCR cap	<b>R0320</b> 532 106
MCR floor	<b>R0330</b> 295 615
Combined MCR	<b>R0340</b> 295 615
Absolute floor of the MCR	<b>R0350</b> 3 700
	<b>C0070</b>
<b>Minimum Capital Requirement</b>	<b>R0400</b> 295 612