Aktia Life Insurance Ltd

Solvency and Financial Condition Report 2022

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Summary

Business and performance

Aktia Life Insurance Ltd (hereinafter "company", "life insurance company" or "Aktia Life Insurance") is a solvent Finnish life insurance company with long-standing and solid experience in life insurance in Finland. The insurance portfolio consists of some 100,000 insurances taken out by private and corporate customers, and the company has several co-operation partners in the financial sector. The company has approximately 70 employees. Aktia Life Insurance is a wholly-owned subsidiary of Aktia Bank Plc and part of Aktia Group.

In 2022, the company's market environment changed significantly. The Russian invasion of Ukraine, which began early in the year, was part of the reason why the central banks tightened their monetary policy in order to curb inflation. After a pause of many years, interest rates started rising again and had a negative impact on the market value of the company's investment portfolio, which is focussed on fixed income. Due to the change in interest rates, however, the company's solvency position strengthened significantly. The uncertainty in the investment markets affected customers' investment appetite, which was reflected in lower premiums written on unit-linked insurance than in the previous year. Risk life insurance business remained stable due to good development in new insurance sales.

Business development continued in line with the strategy. During the year, the company launched, for example, the first cover for critical illness that is offered through a fully digitalised process. The co-operation with the distributors of risk life insurance was developed further. The unit-linked offering was expanded with new investments. The other significant business development projects were related to the IFRS 17 accounting standard and the renewal of the company's insurance management system. In addition, the company put a significant effort into developing the customer, distributor and employee experience. The company decided to abandon its medical expenses insurance business, for which new sales were stopped a few years ago. Due to this and the changed operating environment, negotiations in accordance with the Act on Co-operation were conducted in a good spirit in the company towards year-end. The new organisation took effect on 1 January 2023.

The company's financial statements (FAS) for 2022 show a loss of EUR 6.7 million (2021: profit of EUR 9.3 million). The loss mainly results from the company's interest rate hedge. The company's operational profitability was at a good level, however, and its expense ratio was 106.8% (98.9%). The growth in the expense ratio is partly due to increased commission costs and a rise in personnel costs resulting from investments related to increased sales. The risk insurance claims ratio was at a good level, at 56% (49%). The company's return on investments at market value was EUR -10.2% (1.3%) in 2022.

System of governance

The composition of the company's Executive Committee was complemented in late 2021. The company's system of governance, including the duties, responsibilities and meeting practices of the members of the Executive Committee, was specified during the reporting period.

A fourth member, Karri Varis, was elected to the company's Board of Directors. He took on his position on 17 March 2022.

Risk appetite and risk profile

The company's risk appetite is determined in part based on the company's overall interest and in part based on the Group's overall interest, specifically bearing in mind that the Group must meet stricter capital and regulatory requirements in a tightening market situation. The Group's objective for the life insurance company is to maintain an adequate capital buffer to meet the requirements of the solvency regulations.

Due to the targets of the Group's current strategy, certain risk management actions have been enhanced to the extent that the changes in strategy may expose the company to risks that have previously not occurred. More specifically, renewing the insurance wrapper offering to include a broader range of investment products to cover unit-linked insurances opens up the opportunity to include illiquid and possibly difficult-to-understand products also in unit-linked investment portfolios. Although this is not expected to increase the risks faced by the company, it must be accounted for in risk management.

In terms of the interest-linked investment portfolio, the intention is not to actively increase risks even though the previously made investments will increase, for example, equity and real estate risks, during the year due to capital calls. At the same time, however, the company has started to explore possibilities to exit major individual investments in a controlled manner as the interest-linked technical provisions and the corresponding investment portfolio decrease.

As regards insurance products, the company continues to focus – in addition to unit-linked products – on profitable risk insurance products. The company will improve its risk management when offering these insurances, for example in terms of target group concentrations. As part of these efforts a new policy regarding underwriting was created for the company during the year.

Valuation for solvency purposes

The company's official financial statements are prepared in accordance with the Finnish Accounting Standards (FAS). Aktia Group's financial statements are prepared according to the IFRS accounting standards and IFRS-adjusted values are used as input data in the valuation for solvency purposes.

The assets in the portfolios are valued for solvency purposes using the best effort principle at the closest possible market value obtained from active and liquid markets. As this is not possible for some asset classes, private equity investments, real estate funds and directly owned real estate are valued using alternative methods.

Technical provisions are valued for solvency purposes at a market value at which the obligations can be assumed to be transferable to another insurance company. The amount is calculated as the sum of the best estimate and the risk margin. The best estimate reflects the discounted current value of estimated future cash flows from insurance commitments, taking the contractual limits into account as required under the regulations. With respect to unit-linked insurance, the company changed at the end of 2022 its interpretation of contractual limits such that future payments and the cash flows from them are no longer taken into account in this calculation. The discounting is done using the interest rates published by the European Insurance and Occupational Pensions Authority (EIOPA). In terms of the best estimate for interest-linked insurance, an interest rate with a volatility adjustment is applied, and the transitional measures for technical provisions are also applied to part of the portfolio.

Capital management

The company's own funds were EUR 194.6 million on 31 December 2022 (31 Dec 2021: 245.8), and they were entirely made up of basic funds. The basic own funds eligible to meet the solvency capital requirement (SCR) at the end of 2022 totalled EUR 183.2 (244.7) million, and the SCR was EUR 75.2 (108.9) million, which means their ratio was 243% (225%). The own funds eligible to meet the minimum capital requirement (MCR) at the end of 2022 totalled EUR 149.9 (195.8) million, and the MCR was EUR 21.8 (27.5) million, which means their ratio was 688% (711%). Of the funds eligible to meet the capital requirements (both SCR and MCR), Tier 1 funds made up EUR 145.6 (190.2) million and Tier 2 funds made up the rest.

The company has the Financial Supervisory Authority's permission to make deductions on the technical provisions during the transition period. At the end of 2022, the application of the transitional measure increased the company's own funds by EUR 35.5 (39.0) million. The impact decreases in a linear fashion each year, and as of the beginning of 2032, it will be zero. If the transitional measures were not applied, the ratio of eligible own funds to the SCR at the turn of the year would have been 181% (174%) and the ratio of eligible own funds to the MCR would have been 496% (530%). The impact of the transitional measures on the company's solvency is described in more detail in section E.

The decrease in own funds is primarily attributable to the distribution of dividends, which is again possible after an interval of many years, if the capital situation allows it. The reasons behind the decrease in the SCR are multiple, and they are explained in more detail in sections C and E.

After the reporting date, in February 2023, the company's Board of Directors proposed to the Annual General Meeting the payment of a dividend of EUR 6.3 million, which reduces the own funds by the same amount. The dividend payment is expected to take place during the first quarter of 2023.

In accordance with the company's strategy, the objective is to pay 60–80% of the IFRS profit as dividends each year, however such that the capital requirements are met. The internal target levels for adequate capital coverage are 150–200% without the transitional measures and 175–200% with the transitional measures.

A. Business and performance

A.1. Business

Aktia Life Insurance Ltd is a solvent Finnish life insurance company that offers both private and corporate customers flexible savings and investment products and personal insurance. The company's licence covers the granting of voluntary life, savings and pension insurances, capital redemption contracts, and certain health insurances. The company has approximately 74,000 private customers and close to 6,000 corporate customers. The company operates in Finland and its registered office is in Turku.

Aktia Life Insurance is a wholly-owned subsidiary of Aktia Bank Plc and part of Aktia Group. Life insurance is one of Aktia Group's three business areas alongside banking and asset management. Aktia Life Insurance has two wholly-owned and two partially-owned subsidiaries, which are real estate investments included in the company's investment portfolios.

Aktia's strategy, which extends into the year 2025, supports Aktia's growth targets and takes the company towards its vision to be "the leading wealth management bank". The growth strategy is specifically built on close collaboration across Aktia's three business areas. A strong focus on wealth management is key in all of Aktia's business operations. In its own strategy, Aktia Life Insurance focusses on supporting growth by developing flexible and competitive solutions for the needs of demanding wealth management customers and by providing personal insurance through multiple distribution channels. The company's strategic priorities also include developing the customer, distributor and employee experience and ensuring operational efficiency through, among other things, automation and system development.

Aktia Life Insurance offers its products via agents. In addition to Aktia Bank, its distributors are Suomen Yrittäjäturva Oy, Pohjantähti Mutual Insurance Company, JEPPIS Invest Oy, POP Pankit, the Mortgage Society of Finland and Ålands Ömsesidiga Försäkringsbolag.

Table 1

Basic information

Name	Aktia Life Insurance Ltd
Legal form	Limited liability company
Supervisory authority	Financial Supervisory Authority, Snellmaninkatu 6, P.O. Box 103, FI-00101 Helsinki, tel. +358 9 183 51, **kirjaamo@finanssivalvonta.fi.**
Supervisory expert	Tiia Hartikainen, tel. +358 9 183 55 22, tiia.**hartikainen@finanssivalvonta.fi.**
External auditor	KPMG Oy Ab, Töölönlahdenkatu 3 A, P.O. Box 1037, FI-00101 Helsinki, tel. +358 20 760 3000, **contact@kpmg.fi**
Ownership structure	Wholly owned (100%) by Aktia Bank Plc

A.2. Underwriting performance

The company's financial statements for 2022 (FAS) show a total result of EUR -2.1 million (2021: profit of EUR 11.5 million) before taxes and appropriations and a total result of EUR -6.7 (9.3) million after taxes and appropriations. Of the loss, EUR 24.0 million is related to the interest rate hedges taken by the company to protect technical provisions in solvency calculation. In accordance with the accounting principles in force, technical provisions are not measured directly at the current interest rate level, which means that the income statement only shows the negative valuation differences for the hedges. As a result of rising interest rates, EUR 6.3 million was dissolved from the interest reserve in December. Without these impacts, the result was EUR 11.0 million. Premiums written were EUR 141.2 (151.9) million and the risk insurance claims ratio was 56% (49%). The expense ratio was 106.8% (98.9%).

The company's result is distributed across the different insurance types as shown in Table 2.

Table 2

Profit (1 000 euros)	2022	2021
Risk insurance	3 913	6 774
Interest-linked pension insurance	-6 003	-2 985
Interest-linked savings insurance	-2 286	-757
Unit-linked pension insurance	1 199	1 870
Unit-linked savings insurance	2 779	3 069
Other items	-1 716	3 559
Profit before taxes and appropriations	**-2 114**	**11 532**
Taxes and appropriations	-4 546	-2 277
Profit	**-6 660**	**9 255**

The result is calculated based on insurance premiums paid, claims paid, changes in technical provisions, recorded return on investments and operating expenses distributed by insurance type according to specific distribution criteria.

The insurance premiums, claims and expenses distributed according to Solvency II business areas can be found in the table in Appendix 2.

A.3. Investment performance

Aktia Life Insurance's investment assets consist of investments covering unit-linked insurances, and investments that cover the company's own funds and liabilities from other insurances.

The investment assets covering unit-linked insurances are changed to ensure that they match the securities selected for the unit-linked insurances at all times and as well as possible. These investments' value changes largely equal the value changes of future claims of unit-linked insurances and their impact on the company's investment result and market risks is relatively minor.

The fair value of the investment assets covering own funds and insurances other than unit-linked insurances on 31 December 2022 was EUR 515 million (EUR 642 million), including bank account balances, the net present value of open derivatives, and the collateral given and received for derivatives.

In accordance with the company's basic allocation, the investment assets are strongly focussed on fixed income and real estate investments. The investment plan for 2022 was to moderately grow the allocation percentage of listed equities and shares, money market investments, as well as government bonds, at the expense of corporate loans with credit risk so that the overall risk level of the investment assets does not materially grow compared to 2021. Furthermore, the plan was to continue the interest hedging activities that were started in 2021 and increase the hedging degree of the technical provisions arising from insurance linked to the guaranteed interest.

Table 3

Allocation of the investment portfolio by type of investment

1 000 euros		31.12.2022		31.12.2021
Equity	**12 806**	**2,5 %**	**8 034**	**1,3 %**
Fixed income	**327 664**	**63,6 %**	**384 876**	**60,0 %**
Government bonds	90 850	17,6 %	116 555	18,2 %
Financial sector bonds	31 694	6,2 %	37 318	5,8 %
Other corporate bonds	143 664	27,9 %	157 460	24,5 %
Emerging markets	37 239	7,2 %	45 557	7,1 %
High yield bonds	21 455	4,2 %	24 432	3,8 %
Trade Finance	2 322	0,5 %	3 035	0,5 %
Mixed funds	440	0,1 %	519	0,1 %
Alternative investments	**28 667**	**5,6 %**	**24 774**	**3,9 %**
Private Equity & Venture capital	21 513	4,2 %	18 855	2,9 %
Infrastructure funds	7 154	1,4 %	5 919	0,9 %
Real estate	**72 721**	**14,1 %**	**88 137**	**13,7 %**
Direct real estate holdings	48 696	9,5 %	47 181	7,3 %
Real estate funds	24 025	4,7 %	40 956	6,4 %
Money market	**55 314**	**10,7 %**	**90 306**	**14,1 %**
Derivatives	**-23 929**	**-4,6 %**	**-869**	**-0,1 %**
CSA balance	**26 873**	**5,2 %**	**0**	**-**
Book money and cash	**14 732**	**2,9 %**	**46 718**	**7,3 %**
Total	**514 848**	**100,0 %**	**641 976**	**100,0 %**

Aktia Life Insurance headed into 2022 in a situation where the allocation percentage of account balances and money market investments clearly exceeded their target weight following the Tier 2 capital loan issue carried out in November. The company had started hedging the technical provisions in 2021, but the hedging degree on 31 December 2021 was still relatively low. The company benefited from this exceptional starting point during 2022. A large volume of cash contributed to limiting the losses during an investment year that turned out to be difficult, and underhedging the technical provisions' interest rate risk strengthened the company's solvency as interest rates rose sharply especially during the first two quarters of the year.

2022 was a difficult investment year, with all the main asset classes being clearly in negative territory. The return on the company's investment assets at fair value was EUR -61.7 million (EUR 8.0 million), including the change in value of the swaps hedging technical provisions. The return on capital employed was -10.19% (1.28%). The real estate return, at +21.77%, is exceptionally large as the company recorded capital gains of EUR 11 million on the sale of a real estate investment company in June, which also contributes to increasing the total return on investment assets.

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Table 4

Net income from investment activities	Net income	Invested capital	Return on invested capital	Return on invested capital
1 000 euros			**2022**	**2021**
Fixed-income investments	**-74 231**	**491 132**	**-15,11 %**	**-0,72 %**
Loan receivables	-13 941	72 082	-19,34 %	-5,00 %
Bonds	-60 018	299 417	-20,05 %	-0,04 %
Other	-272	119 634	-0,23 %	0,16 %
Equities and shares	**-2 106**	**43 371**	**-4,86 %**	**24,88 %**
Listed equities and shares	-3 507	16 840	-20,82 %	22,89 %
Private equity investments	1 283	24 005	5,34 %	26,62 %
Non-listed equities and shares	-	-	-	-
Real estate investments	**15 548**	**71 413**	**21,77 %**	**10,70 %**
Direct real estate investments	1 376	46 758	2,94 %	17,25 %
Real estate funds	14 173	24 654	57,49 %	3,65 %
Other investments	**-**	**-**	**-**	
Hedge fund investments	-	-	-	
Commodity investments	-	-	-	
Other	-	-	-	
Investments total	**-60 789**	**605 916**	**-10,03 %**	**1,54 %**
Income and costs not attributed to a specific investment class	-951	605 916	-0,16 %	-0,26 %
Net income	**-61 740**	**605 916**	**-10,19 %**	**1,28 %**

The company uses Aktia Bank's Wealth Management as its asset manager for both the investment baskets covering unit-linked insurances as well as the fixed income investments, equities and shares, and alternative investments covering the interest-linked insurances and the company's own funds.

The wealth management agreement is valid until further notice and it is long-term in nature. The wealth management commission paid by Aktia Life Insurance does not include performance-based elements. Wealth Management follows Aktia Group's shared stewardship and responsible investment policies (www.aktia.com).

Aktia Life Insurance draws up, autonomously and independently of the wealth manager, its own investment strategy and plan, including the limits to be set in order to guide asset management, allocation restrictions, basic allocation and the benchmark indices to be used when assessing performance. The company's investment strategy and plan consider the nature of life insurance liabilities and the short- and long-term needs that derive from them regarding the organisation of investment activities.

A.4. Performance of other activities

The company does not engage in any activities other than those described in the sections above.

A.5. Other information

There is no other material information to report.

B. System of governance

B.1. General information on the system of governance

B.1.1. Structure of the company's governance, executive and supervisory bodies

Aktia Life Insurance is a wholly-owned subsidiary of Aktia Bank Plc. The company is subject to Aktia Group's regulations and guidelines, processes and procedures. The company's task is to provide Aktia Group with life insurance services that support the Group's strategy and to offer services to selected distributors. Life insurance is one of Aktia Group's three business areas alongside banking and asset management.

Supreme authority in the company is exercised by the General Meeting. The General Meeting addresses matters that, according to the Articles of Association, belong to the Annual General Meeting, and possible other proposals. An Extraordinary General Meeting is convened if required.

The company's Board of Directors comprises no fewer than three (3) and no more than five (5) members. The members of the Board of Directors are elected by the General Meeting. The Board of Directors is tasked with the appropriate organisation of the company's governance and operations. The Board of Directors decides on the most significant strategic orientations, the investment strategy and plan, including the most significant individual investments, adopts the orientations and targets for the company's capital and risk management, makes a proposal on the distribution of profit to the General Meeting and appoints the CEO. The Board of Directors is responsible for ensuring that the company's accounting, wealth management, governance, operations and risk management are organised in an appropriate manner. The Board of Directors' activities are governed by valid legislation and other regulation governing the sector, as well as Aktia Group's regulations and the charter of the company's Board of Directors. The Board of Directors shall manage the company according to sound and prudent business principles, and according to principles that support reliable governance, taking into consideration the interests of the company, its shareholders and policyholders.

The company's Board of Directors during the period 1 January–31 December 2022 was composed of Juha Hammarén (Chair), Outi Henriksson, Anssi Huhta and Karri Varis (as of 17 March 2022).

The CEO of Aktia Life Insurance has overall responsibility for the company's operational activities and day-to-day management in accordance with the orders and instructions given by the Board of Directors.

The CEO during the period 1 January–31 December 2022 was Riikka Luukko.

The CEO is assisted by the Executive Committee, which, in addition to the CEO, comprises the Chief Financial Officer and the heads of asset and liability management, key businesses and governance. The Executive Committee is chaired by the company's CEO. The Executive Committee is tasked with assisting the CEO in planning the activities and operational management and preparing matters to be addressed by the Board of Directors. The Executive Committee prepares the company's strategic and annual planning, is responsible for the implementation of the strategy and the annual plans and monitors the execution of the plans and financial reporting. The Executive Committee is also responsible for matters and policies related to risk management, statutory management, compliance and requirements concerning the financial sector, and their implementation. One of the key tasks of the Executive Committee is to develop the internal co-operation within Aktia Group and to promote shared development projects.

The Executive Committee convenes twice a month and, generally, holds a meeting where day-to-day matters are addressed once a week.

The Executive Committee does not have powers based on law or the Articles of Association, or autonomous decision-making powers. The decisions on matters addressed by the Executive Committee are made by the Chair of the Executive Committee and the Executive Committee member who is responsible for the matter, after consultation with the Executive Committee.

The company's system of governance, including the duties, responsibilities and meeting practices of the members of the Executive Committee, was specified during the reporting period.

In Aktia Group, the businesses and their support functions own all the risks of their operations and are thus responsible for internal control and risk control. The businesses must report possible deviations in accordance with the given guidelines.

The company's external auditor in the financial year 2022 was KPMG Oy Ab, with Petter Westerback, APA, as the principal auditor.

A fourth member, Karri Varis, was elected to the company's Board of Directors during the reporting period. He took on his position on 17 March 2022. There were no changes in the company's senior management during 2022. The company did not have significant transactions with Aktia's shareholders, members of the Board of Directors or other senior management members during the reporting period.

B.1.2. Key functions and critical and important operational functions

The company's key functions are the actuarial function, compliance function, risk management function, and internal audit.

The fitness, propriety and professional skills of the persons responsible for the key functions are assessed in accordance with Aktia Group's guidelines. If a key function has been outsourced, the assessment is also carried out for the person employed by the service provider who has been designated as the person in charge of the key function.

The company's critical or important operational functions are insurance management, claims processing, development and pricing of insurance products, investment and management of assets, ensuring the continuous daily system maintenance and support, reinsurance management, accounting and business control, taking care of the storage of data and archiving, and taking care of the own risk and solvency assessment.

A person responsible for each key function and critical and important function has been designated from the company's Executive Committee.

B.1.3. Remuneration

Aktia Group's remuneration policy is reviewed annually and approved by Aktia Group's Board of Directors. The remuneration policy specifies the principles on which remuneration in Aktia Group is based. In line with Aktia's remuneration principles, remuneration must support Aktia's opportunities to recruit, develop and retain enthusiastic, competent and result-driven employees and foster diverse competence, co-operation and leadership. The remuneration principles support rewarding excellent performance and guide the development of work in line with the Group's strategy, targets and values. The remuneration principles support Aktia Group's risk management in line with its risk appetite, and the principles of equal opportunity and transparency.

The remuneration policy considers the regulations and guidelines governing remuneration in insurance companies and the collective bargaining agreement for the insurance sector. Matters related to remuneration are prepared by Aktia Group's Board of Directors' Remuneration and Corporate Governance Committee. Aktia Life Insurance follows the Group-level remuneration policy, according to which the remuneration system consists of the following parts:

- fixed compensation and benefits in kind
- variable compensation (short-term result- and performance-based bonus system, long-term share-based incentive scheme)
- supplementary pensions.

The fixed monthly salary is a stable starting point for basic functions and the development of these. The aim of the annual bonus payments is to support growth during the financial period as well as short-term changes in operations. The aim of the share-based incentive scheme is to support Aktia's Group's long-term strategy. Aktia Group's remuneration system is evaluated on a yearly basis and continuously updated to comply with company development.

Aktia Group's Board of Directors decides on any other remuneration systems, such as bonus systems and the voluntary Aktia Una share savings plan.

B.2. Fit and proper requirements

The fit and proper requirements are based on the Act on Insurance Companies and the Financial Supervisory Authority's regulations and guidelines, and Aktia Group's internal guidelines concerning the requirements set on fitness and propriety. In addition, Aktia Life Insurance has a separate procedure for assessing the competence of an individual member of the Board of Directors and the collective competence of the Board of Directors.

The following are subject to the fit and proper assessment:

- members of the company's Board of Directors
- CEO and deputy CEO
- persons responsible for key functions and critical functions.

Fitness is assessed when:

- a new person is appointed to a task, based on which the person is subject to the assessment procedure
- a person is appointed to a new task that is subject to the assessment procedure
- a person must be reported to the Financial Supervisory Authority.

The fitness and propriety of the company's Board of Directors, CEO, the deputy CEO, and the persons responsible for key functions and critical and important functions are ascertained every two years. Aktia Group's Board of Directors' guidelines on the sustainability assessment, orientation and training of management members and other persons in leading positions are applied to the regular fit and proper assessment.

In order to meet the fit and proper requirements, the person must have the professional competence, expertise and experience required by the position and the related responsibilities. If necessary, the assessment also takes into account the expertise and experience related to insurance operations, actuarial science, accounting, sales and marketing, information technology and leadership. The fit and proper assessment also includes an assessment of the person's integrity and personal financial situation.

B.3. Risk management system, including Own Risk and Solvency Assessment

B.3.1. Description of the general risk management principles

Risk management means methods and ways to identify, analyse and prevent various types of risks in a systematic manner in line with the confirmed risk appetite. The risk management process aims to identify the risks affecting business operations as comprehensively as possible and to also ensure that the impacts of the risks are assessed and can be managed, limited and monitored.

The starting point for Aktia Group's governance is the so-called industrial entity principle, which means that the different parts of the Group must complement one another and that the objective is the Group's overall competitiveness. The Group and its parts must be managed professionally and according to sound business principles. This requires an efficient and appropriate management model, good leadership and bearing responsibility for internal control and risk management.

The objective of Aktia Group's risk management system is efficient internal control and risk management and a sound compliance and risk culture. Risk culture means the company's rules, attitudes and conduct related to risk awareness, risk-taking and risk management, and inspections guiding risk-related decisions. The foundation for the risk culture is made up of Aktia's internal rules, the management's internal communications and internal training on Aktia Group's business, strategy and risk profile.

Life insurance business includes, by nature, controlled risk-taking, risk management and risk pricing.

B.3.2. Structure of the risk management system

Aktia Group's Board of Directors has appointed three committees tasked with deciding on specific matters and preparing matters to be addressed by the Board of Directors.

The Risk Committee prepares matters related to risk-taking and risk management and also addresses key risk-related capital and liquidity processes and assessments. The Committee prepares the decisions concerning the annual plan and routines and the procedures of the Risk Control and Compliance functions to be confirmed by the Group's Board of Directors and receives the Risk Control and Compliance functions' reports for information.

The Audit Committee ensures the appropriate organisation of financial reporting and internal control and audit. The Committee prepares the internal audit principles and the Group's internal audit plan. The Committee receives the auditor's and internal audit's reports for information and assesses the dependency of other internal reporting. The Audit Committee assesses the independency of the auditor or audit firm and, more specifically, the provision of additional services.

The Remuneration and Corporate Governance Committee prepares and presents the Board of Directors with the decision proposals that concern the Group's remuneration policy and report. The Committee also prepares and addresses matters concerning the development of the Group's governance systems.

Aktia Life Insurance has outsourced the compliance function, risk control and internal audit to Aktia Group. Although the subsidiaries' risks are regulated and managed to a significant extent by the Group, the life insurance company's Board of Directors is responsible for the company's management and the appropriate organisation of risk management.

Key guidelines and processes guiding the company's risk management:

- The company's Own Risk and Solvency Assessment (ORSA)
  - Guides the company's risk and capital management and supports the company's operational guidance and strategic planning.
- Risk management plan
  - Determines the company's functions and the most important risks related to these, the different functions' risk management objectives, risk-taking limits, responsibilities, metrics and control principles.
- Documentation concerning the governance system
  - The company's description of the system of governance, the Board of Directors' charter, the company's contingency and continuity plans.
- Descriptions of critical processes and directives
  - The rights exercised in the company are confirmed, among other things.
- Investment strategy and annual investment plan
  - Guidance on taking market risks, including, among other things, the investment asset basic allocation with limits, the principles regarding the use of derivatives, and a plan for managing reinvestment, refinancing and concentration risks.
- Underwriting policy
  - Outlines the insured risks and reinsurance principles, etc.

The company's Executive Committee monthly addresses asset and liability management matters, such as the situation of the investment portfolio, solvency development and liquidity. The Executive Committee also monitors the management of insurance risks, such as underwriting policies and guidelines and takes care of the company's continuity and contingency planning. The company's Chief Actuary is responsible for ensuring that the principles for pricing insurances and calculating the technical provisions are adequate.

Risk control monitors the market risks related to the interest-linked insurance portfolio and compliance with the investment strategy and the specified limits in the investment activities. Risk Control also monitors the company's solvency and operational risks.

B.3.3. Risk Control function

Aktia Group has a Risk Control function that is independent of business operations and controls and assesses the Group's and its subsidiaries' risk management and reports on risks to management and the Board of Directors. The function monitors that the risks of all operations are measured, analysed and monitored appropriately and prepares an assessment of the Group's overall risk position in relation to the strategies and risk appetite adopted by the Board of Directors. The subsidiaries' risk control considers the special characteristics of their business and the special regulations pertaining to it. The Risk Control function is guided by the principles annually adopted by the Board of Directors and the function's annual plan.

The Group's shared, documented risk management function guidelines, which specify the risk management strategy, are separately approved by the life insurance company's Board of Directors. The risk tolerance limits are determined together with the Group's limit policy. The Risk Control function also reports quarterly, and if required more often, directly to the life insurance company's Board of Directors. Risk Control annually presents the Board of Directors with an account of its activities and material impacts.

B.3.4. Compliance function

Aktia Group has a Compliance function that is independent of business operations. The Group's Compliance function performs advisory, supervisory and reporting tasks for the purpose of ensuring compliance with the applicable customer protection, data protection, market conduct, permissions and supervision, and anti-money-laundering regulations. The Compliance function supports Aktia's business, and its task is to monitor that the Group's operations comply with legislation in this respect. The Compliance function assists the executive management and other supervisors with line responsibility in knowing and following the applicable rules, and in identifying, addressing and reporting on risks related to non-compliance.

The Compliance function is guided by the Compliance principles and annual plans annually adopted by the Group's Board of Directors. The Compliance function's guidelines are documented, and they include information on the function's mission, organisation, tasks and reporting.

B.3.5. Own Risk and Solvency Assessment (ORSA)

The company's Own Risk and Solvency Assessment (ORSA) is one of the company's key tools for operational guidance and strategic planning and is an integral part of capital management. It produces information for the Board of Directors and executive management on the company's solvency position and capital adequacy in various scenarios.

The company has guidelines which define the annual process according to which the company's ORSA is carried out. As the company is subject to the Group's overall planning in terms of, for example, risk appetite, strategy and capital planning, it is appropriate that the planning of these takes place simultaneously with the other Aktia Group companies as far as possible.

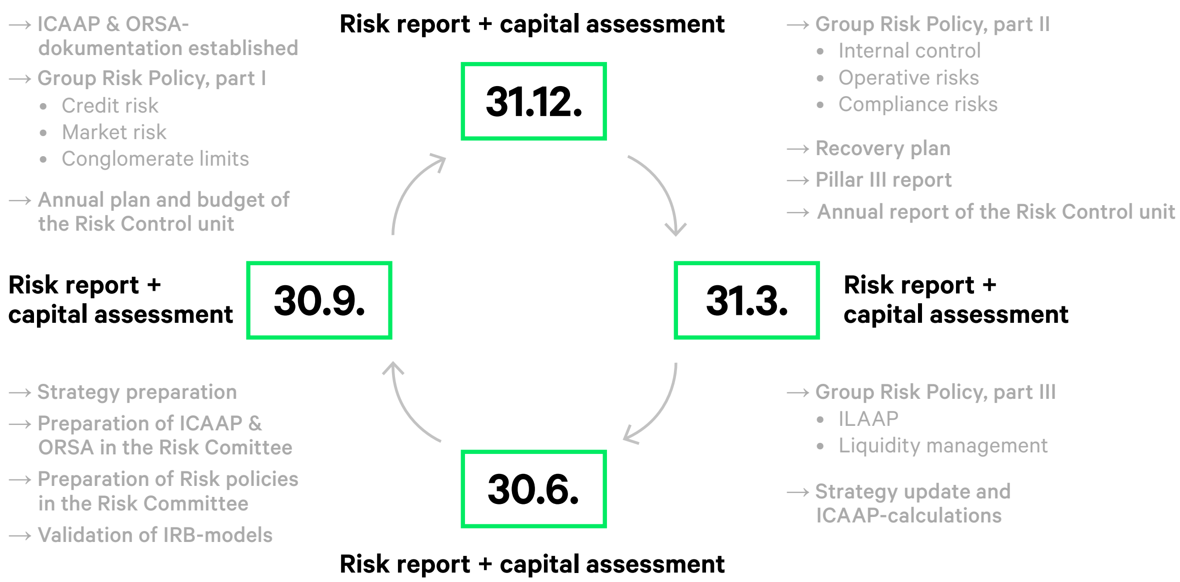
Therefore, the company's ORSA process is scheduled to take place concomitantly with the Group's Internal Capital Adequacy Assessment Process (ICAAP), such that the preparation of, for example, the strategy and risk parameters and drawing up of analyses and reports in each take place at the same time of the year (see Figure 5). The aim is for the annual ORSA report and its approval to be completed during December.

The year clock of the ORSA process begins with updating Aktia Group's and Aktia Life Insurance's strategy in spring after the first quarter, once the Group's Risk Committee has taken a position on the risk reporting for the first quarter. Thereafter, the preparing units begin their work on changing and updating the risk models according to need. The limits and scenarios are available to the Group's Board of Directors after the end of the third quarter. Thereafter, the ICAAP and ORSA are addressed in the Group's Risk Committee and addressed and approved by each Board of Directors.

The company's Board of Directors bears the ultimate responsibility for controlling the company, and thus it is also responsible for the ORSA process. In addition, the Board of Directors participates, together with Risk Control, the actuarial function, asset and liability management and executive management, in preparing the annual updating of the ORSA parameters, risk appetite and limits. The Board of Directors also approves the ORSA policy, the ORSA assessment, the internal ORSA risk report and the ORSA supervisory report. In connection with the ORSA report, the Board of Directors must present an action plan for possible breaches of risk limits that are anticipated in the forward-looking assessment.

Risk Control and the actuarial function are the units with principal responsibility for producing the risk figures, calculations and analyses required for the ORSA report. The risk parameters and the assumptions, which are based on the investment policy and strategy, are made for the calculations together with asset and liability management, where the life insurance company's head of asset and liability management is respon-

Figure 5



sible for the decisions. If required, Risk Control must prepare a proposal on possible adjustments to the risk parameters and document these changes and possible changes to the ORSA policy and the ICAAP policy. If required, the actuarial function must prepare a proposal on possible adjustments to the actuarial parameters and document these changes. Risk Control and the actuarial function provide assistance, if necessary, by issuing expert statements in meetings of the Board of Directors in questions concerning the ORSA or ICAAP.

In 2022, the life insurance company's Executive Committee had a director in charge of asset and liability management, whose area of responsibilities includes, among other things, the investment and management of assets, the investment strategy and plan, and asset, concentration and liquidity risks. The tasks related to asset and liability management are carried out in close collaboration with Aktia Group's asset and liability management, which also includes the life insurance company's head of asset and liability management.

The ORSA is carried out in accordance with the standard procedure defined in the company's ORSA directive. This description includes the comprehensive ORSA report, which is prepared each year, and the internal ORSA key figures calculated in connection with regulatory reporting (Solvency II), which are produced quarterly. The frequency can be changed, if required, for example, if significant changes occur in the operating environment or the risk profile such that an additional reporting date is needed. In practice, monitoring can take place daily, although the cash flow forecast for technical provisions is usually updated on a quarterly basis only.

An essential part of the ORSA process, in addition to the ORSA report and key figures, are the events organised by risk management and the actuarial function together with the life insurance company's executive management and Board of Directors (3–4 per year), where relevant risk themes and their addressing within ORSA are discussed.

The company's product development considers that the capital requirements for new products do not compromise the company's capital adequacy.

B.3.6. Solvency targets

The need for solvency arises from risks associated with insurance and investment activities that the company is not able or willing to hedge and which entail possible losses that the company must cover with its own capital.

The solvency capital requirement (SCR) is the minimum amount of capital the company must have to be able to conduct its business without triggering supervisory action. The requirement is set to correspond to a 99.5% confidence level that the company will retain its solvency and is able to meet its future commitments with a one-year forecast horizon. In terms of risk interpretation, this confidence level equals the credit rating Baa/BBB assigned by the most well-known credit rating agencies to debt, even though the EU Commission's SCR calculation method does not correspond to the methods used by credit raters.

In addition to the SCR, Aktia Group's Board of Directors has adopted for the company strategic solvency targets that exceed the regulatory requirement in all circumstances and which concern both the official solvency position reported by the company, i.e. the ratio of the solvency capital to the SCR, and the solvency position without the solvency transitional measures used by the company.

The company aims to maintain its strategic solvency targets by, among other measures,

- Through capital management, i.e. by issuing share capital and capital loans included in solvency capital.
- By investing its own investment assets as profitably and securely as possible and such that the market risks arising from technical provisions are adequately covered.
- By limiting its insurance risks through underwriting and reinsurance.
- By limiting its profit distribution.

In addition to the SCR, the company considers in its insurance and investment activities also other risk indicators than those derived from regulatory requirements, and it aims to limit in its activities the market risks inherent in the consolidated and segment results.

B.4. Internal control system

The task of Internal Control is to ensure that Aktia Group's operations comply with regulatory requirements and the operational guidelines adopted by the Board of Directors. Aktia follows the "three defence lines" method in internal control and risk management. Internal control is thus implemented at all levels of the organisation. The appropriate organisation of internal control and securing its operation are included in the tasks of Aktia Group's Board of Directors.

The first defence line, i.e. the businesses and their support functions own all the risks of their operations and are thus responsible for internal control and risk control. The first defence line defines, implements and controls operational processes, control systems and implements internal control and risk management as part of its day-to-day activities.

Together with the financial reporting processes, the Risk Control function, the Compliance function and Aktia Life Insurance's independent actuarial function form the second defence line. The operations of the second defence line support the business, i.e. the risk owners, and prepare Group-level principles, internal rules and processes and control compliance with them and external regulations.

Internal Audit forms the third defence line. Internal Audit assesses the Group's internal control and risk management and compliance with internal rules and external regulations. All of the second and third defence lines' functions operate autonomously and independently of business. The Risk Control function, the Compliance function and Internal Audit report directly to the Group's Board of Directors and to the Boards of Directors of the Group's regulated subsidiaries, such as Aktia Life Insurance. Aktia Life Insurance's independent actuarial function reports to the Board of Directors of Aktia Life Insurance.

Aktia Group's Board of Directors adopts the Group's principles, guidelines, risk strategies and risk appetite and thus adopts the limits for the Group's risk management. The Group's Board of Directors is responsible for ensuring that risks are addressed appropriately, efficiently and responsibly and that Aktia's ways of working guarantee the legality of Aktia Group's business.

The Board of Directors' guidelines concerning the organisation of internal control and risk management is a document of Aktia Group, which includes its management model and culture and defines how the Group's Board of Directors, Group CEO, members of the Group's Executive Committee, heads of the centralised functions, subsidiaries and supervisors with line responsibility must take care of risk control in internal control. It also defines how the four-eyes principle, regular reviews, reporting and communication are arranged and how internal control is assessed and monitored. The life insurance company's Board of Directors has decided that the company follows the general Group regulation.

In addition to the aforementioned general regulation, the collection of rules and guidelines applicable in the Group and the company must be considered part of internal control. The starting point for the company's internal control and risk management system is that it must be comprehensive enough in view of the company's operations. Internal control is a process that encompasses the control carried out by the life insurance company's management and other personnel and all measures carried out in the company that are intended to ensure, within the adopted risk appetite:

- responsible, appropriate and efficient operations
- adequate identification, measurement and reduction of risks and addressing thereof
- reliable and accurate financial and other information for management, investors and other external stakeholders
- stable governance and calculation procedures
- compliance with internal rules and external regulations, specifically regulations applicable to the financial sector, such as regulations related to the prevention of money laundering and terrorist financing, as well as regulations pertaining to equality and non-discrimination
- adequate protection of operations, data and the company's own and customers' assets
- adequate and appropriate systems to support

operations. These systems, including information systems, can be Aktia's own or systems that are used in situations where Aktia has outsourced some of its activities to a third party.

Aktia Life Insurance's key supervisory functions did not observe any material shortcomings in the company's internal control in 2022.

B.5. Internal Audit function

Aktia Group has an Internal Audit function, which is a unit independent of businesses. Its task is to examine the adequacy and effectiveness of the internal control system and the quality of the performed tasks and thereby (by addressing observed shortcomings and improvement areas), promote the necessary changes. The Group's Board of Directors annually decides on the internal audit operating principles and the Group's audit plan. Internal Audit reports quarterly on its main observations, monitoring of measures and the implementation of the audit plan directly to Aktia Group's Board of Directors, Audit Committee and Aktia Life Insurance's Board of Directors.

Internal Audit complies with international guidelines, which include the definition of internal audit, the code of conduct and professional internal audit guidelines. In addition, the operations abide by legislation and other regulations governing the sector.

Internal Audit reviews and assesses, among other things, the operations of key functions, information systems, the adequacy of resources, internal routines and processes, customer contacts and methods in an independent and objective manner. In addition, the ORSA is reviewed separately.

B.6. Actuarial function

Aktia Life Insurance's actuarial function is organised as part of the Actuarial Unit (as of 1 January 2023). The actuarial function's task is to implement the statutory tasks set for actuarial operations in the Finnish act on insurance companies (VYL, Chapter 6, Sections 18 and 20), such as:

- ensure the appropriateness of the methods and models used in calculating technical provisions and the assumptions made when calculating technical provisions
- assess the adequacy and quality of the data used in the calculation of technical provisions
- compare the best estimates to experience-based information
- supervise the calculation of technical provisions
- report to the company's Board of Directors on the reliability and appropriateness of the calculation of technical provisions
- issue a statement to the company's Board of Director on the appropriateness of reinsurance arrangements
- participate in the efficient implementation of the risk management system and in the drawing up of the ORSA.

In addition, the actuarial function regularly analyses the risk result, gives recommendations and statements to support business decisions related to the granting and pricing of insurances and takes a position on the company's underwriting policy, among other things. The actuarial function is headed by the Chief Actuary, who is also the company's principal actuary. The Chief Actuary is responsible for the operations, resources and competence of the actuarial function.

In 2022, the actuarial function was comprised of two actuaries, one of whom was the principal actuary. The function is independent and reports on matters within its area of responsibilities directly to the company's Board of Directors. The Board of Directors adopts the calculation criteria for the products and non-minor changes in pricing and the principles for the calculation of technical provisions. The actuarial unit headed by the Chief Actuary was responsible for the company's other mathematical tasks in 2022.

The company has a principal actuary who meets the eligibility criteria stipulated in the Finnish act on insurance companies. The principal actuary is tasked with 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 regulatory requirements. In addition, the principal actuary produces, for the purposes of risk management and investment operations, a report for the Board of Directors on the requirements set by the nature of the technical provisions and the return requirement and by the maintenance of solvency and liquidity, as well as on the appropriateness of the management of the company's actuarial risks.

The Actuarial Unit includes, in addition to the actuarial function, mathematicians tasked with supporting the actuarial function, product development, pricing and insurance portfolio management.

B.7. Outsourcing

In outsourcing, Aktia Life Insurance complies with Aktia Group's outsourcing guidelines and regulations, which are based on the Finnish act on insurance companies and the Financial Supervisory Authority's regulations and guidelines. According to the applicable regulations, the company cannot outsource important functions, if outsourcing would lead to a material weakening of the system of governance, an unreasonable increase in operational risk or a weakening of the service offered to policyholders, insured and beneficiaries. Regardless of outsourcing, the company is responsible for ensuring that the outsourced function meets the requirements set for insurance companies.

The following functions are considered important from the perspective of outsourcing:

- actuarial function
- risk management function
- compliance
- internal audit
- insurance management
- claims processing
- development and pricing of insurance products
- investment and management of assets
- continuous daily system maintenance and support
- reinsurance management
- accounting and Business Control
- ensuring information storage and archiving
- Own Risk and Solvency Assessment.

The company has outsourced some of the functions that are key and critical or important for governance and the system of governance to Aktia Bank Plc. These include, for example, risk control, compliance, internal audit, certain parts of the IT function, investment operations and investment portfolio management.

The most significant outsourced functions outside Aktia Group are the insurance-based investment product management system maintained by Evitec Oy and the acquisition of personal risk insurance data centre functions from Tieto Oyj.

B.8. Other information

The company's system of governance is assessed annually. According to the Board of Directors' and the company's management, the system of governance is suitable and sufficiently comprehensive, considering the company's operations and the risks the company is exposed to.

C. Risk profile

Market risk clearly continues to be the company's biggest risk. In the ORSA for 2022, the market risk contribution was estimated at 65.6% (63.1%) of the total internal ORSA capital requirement, whereas actuarial risks accounted for 31.0% (34.3%), operational risks for 2.7% (2.0%) and other risks for 0.7% (0.6%). Market risks arise from market changes that affect investment portfolios, but also the value of technical provisions. Interest rate risk is particularly important, as it is possible, although often challenging to manage, and it has an impact on both sides of the balance sheet. What makes interest rate risk challenging is that its impact through technical provisions is largely theoretical due to the absence of liquid markets, at least as far as long-term liabilities are concerned.

Actuarial risks are generally thought to be well defined, and clearly more stable than market risks. The risks inherent in the current contracts are expected to decrease steadily and in a controlled manner over time. When it comes to risk insurances, the company has adopted limits for the amounts that can be held at the company's own risk. Anything exceeding this is reinsured. The Board of Directors annually approves the reinsurance arrangements on the Chief Actuary's proposal.

Operational risks are classified in more detail in the company's risk management plan than in the Solvency II calculation of operational risks, for example, and the ORSA operational risks are estimated in accordance with the description in this plan. As of 2022, efforts will also be put into improving the life insurance company's internal risk management within the operational activities, for example regarding risk selection and monitoring. As part of these efforts, a new underwriting policy was created for the company at the end of 2022.

The life insurance company's investment portfolio on 31 December 2022 primarily consisted of fixed income investments, which accounted for 74.4% (74.0%). Furthermore, 14.1% (13.7%) is invested in direct real estate holdings or real estate funds, 2.5% (1.3%) in listed equities and shares and 5.6% (3.9%) in alternatives (in practice non-listed equities and shares and private equity funds). On the reporting date, cash and cash equivalents made up 2.9% (7.3%), derivatives (swaps) -4.6% (-0.1%) and collateral for derivatives within the CSA change process 5.2% (0.0%) of the investments.

The total portfolio covering interest-linked liabilities was EUR 514.9 (642.0) million. The portfolio covering unit-linked liabilities consists of investment instruments, some of which are chosen by the policyholders and some by the portfolio manager based on a mandate. Their value on the reporting date was EUR 1,001.6 (1,154.0) million. The position of the units held is reviewed daily to ensure that it reflects the changes made to the portfolios.

Investment portfolios can also include securities whose full risk profile is difficult to estimate. One example of such instruments is a fund which invests in other funds, if the company does not have sufficient information on the underlying assets included in the secondary fund. The prudent person principle is followed for these instruments such that the amount is limited using limits and prudent assumptions are used for them in risk calculations. As a whole, the portfolio has few instruments belonging to this category, and in practice, they are investment funds in the private equity and infrastructure segments.

A separate survey of the adequacy of reporting is currently conducted for new funds before they are added to the life insurance company's portfolios. If investments are made in new financial instrument categories, a separate assessment must be carried on them. The principles of the assessment are documented in the Group's guidelines concerning the approval procedure for new products.

In addition to the Solvency II standardised approach, the Group's internal model, the so-called market risk limit, is also used to measure risk sensitivity. The market risk limit is a fixed sum in euros that must at all times exceed its benchmark. The benchmark measures the portfolio's risk sensitivity, and it is calculated as the correlated sum of the interest rate, credit, foreign exchange rate, equity and real estate stress risk impacts. The risk sensitivity parameters are the same for all Group companies whose risk figure is measured on a daily basis. The life insurance company's limit in 2022 was EUR 105 million, and it will be reduced to EUR 100 million for 2023.

The company's risk figure on 31 December 2022 was EUR 61.7 (85.8) million, which was below its EUR 100 (105) million limit at a cover rate of 162.1% (122.4%). The risk figures for individual risks are addressed separately in the subsections of this section. The benchmark is set at 80 per cent of the correlated sum of individual market risks, where a 20 per cent decrease corresponds to the impact of corporation tax.

The Solvency II SCR is addressed separately in section E.2.

C.1. Insurance risk

Insurance risk can be divided into actuarial risk and underwriting risk. Actuarial risk means the risk that actual claims and expenses from insurance policies exceed income to a larger extent than was assumed when calculating the technical provisions. Underwriting risk arises from the company erroneously accepting to grant risk insurance to an individual who should not have been granted the insurance in question or, more generally, to a specific population group, age group, product or geographical area that is too extensive in relation to its insurance policy and strategy.

Actuarial risks are always caused by biometric factors, cost development, customer behaviour and the development of claims frequency. In addition, they can be caused by erroneous pricing, inadequate reinsurance or inadequate technical provisions. New policies can be priced relatively freely, but legislation imposes some restrictions as to how the insurance premiums or other terms and conditions of existing polices can be changed.

Underwriting risks are managed by closely monitoring the different products' profitability and claims ratios. Reinsurance is used to limit the risks related to major individual insured events and to reduce result volatility. The impact of reinsurance on the result and solvency is monitored regularly and the suitability of the reinsurance arrangements is assessed at least once a year.

In the solvency calculation, insurance risks are divided into risks related to a shortened or lengthened life expectancy, disability and illness, customer behaviour, treatment costs and catastrophe risks. The capital requirements for these are obtained by calculating the impact of changes in the assumed development of the aforementioned factors on the company's own funds. This is done separately for each risk module and aggregated into aggregate insurance risk related to life and health insurance obligations using the SCR standard formula.

The aggregate insurance risk from life insurance obligations was EUR 45.8 million (67.4) and from health insurance obligations EUR 1.9 million (3.4) on 31 December 2022. The distribution of life and health insurance obligations' sub-risks is presented in Table 6:

Table 6

	31.12.2022		31.12.2021	
Sub risks (1 000 euros)	**Life**	**Health**	**Life**	**Health**
Mortality risk	6 342	6	8 789	7
Longevity risk	6 183	1	9 489	40
Disability and morbidity risk	149	1 271	331	2 678
Lapse risk	30 423	393	49 861	360
Expense risk	16 367	561	18 877	927
Catastrophe risk	4 631	432	4 924	422
Diversification	-18 329	-771	-24 876	-984
Underwriting risk	**45 766**	**1 894**	**67 395**	**3 449**

As regards life insurance obligations, the change compared to the previous period can largely be explained by the rise in interest rates, the slightly changed surrender assumptions for some insurance portfolios and the decrease in unit-linked insurance savings and a changed interpretation of their contractual limits, which all have contributed to reducing the lapse risk in particular. Additionally, minor changes have been made to some assumptions on which the cash flow forecasts are based. The main reason for the decrease in insurance risks from health insurance obligations is the change in the interpretation of contractual boundaries for specific insurance portfolios due to the minor changes made by the company to the insurance terms and conditions. The changes in the interpretation of contractual boundaries were made on 31 December 2022 and they mean that future insurance premiums and the related obligations are no longer taken into account as far into the future as before.

The different sub-risks are accounted for in the ORSA quantitative model the same way as in the official solvency calculation.

C.2. Market risk

The company's market risks are divided into interest rate risk, credit risk, foreign exchange risk, equity risk, real estate risk and concentration risk.

The company's market risk sensitivity is measured by calculating the Solvency II requirement for market risk using the standard formula and internal models. Of these, the most important is the earlier mentioned market risk limit, whose sensitivity figures are also used in the company's own ORSA figure for market risks.

Interest rate risk is the most significant of the company's market risks related to insurance liabilities. On the one hand, it impacts profitability through return requirements and the guaranteed customer interest rate and, on the other hand, solvency through the market valuation of assets and liabilities. From the perspective of solvency, interest rate risk arises from the difference of the current value of the future cash flows of receivables and payables. From the perspective of liquidity and risk-taking, interest rate risk arises from the difference between the interest rates guaranteed to customers and the risk-free market rate. If the interest rate guaranteed to the customer is higher than the risk-free rate, higher risk-taking is required of investment activities. On the product level, this risk is material especially in savings and pension insurances linked to the guaranteed interest.

Numerically, the company's official capital requirement for interest rate risk has been very low during the period of low interest rates, and practically zero in 2019–2021, because the Solvency II capital requirement calculation method according to the standard formula does not include stress from a fall in negative interest rates. In late 2022, the interest rate risk began to increase again as market rates rose back into positive territory. The interest rate hedge measures taken against a fall in interest rates meant that the company's interest rate risk is now sensitive to rate rise scenarios after having been sensitive to rate fall scenarios. Hedging against rising interest rates has not been deemed warranted yet.

Interest rate risk impacts the company's balance sheet, although regulations in their current form do not take it efficiently into account, and the internal calculation method used where negative interest rates are also assigned a stress coefficient, describes the risk considerably better. In the internal model, the risk has been more realistic also during the period of low interest rates, but the scenario has changed from downward stress into upward stress also in the internal model. Numerically, the risk seems to have decreased, at least temporarily, when passing its zero point. The internal interest rate risk component fell during the year from EUR 25.3 million (interest rate risk down) to EUR 3.3 million (interest rate risk up), passing the zero level at some point during the fourth quarter. In the SCR calculation, the risk was due to upward stress and was EUR 11.6 million. At the end of 2021, the risk was zero.

As of the end of last year, interest rate hedges have been supplemented with new swaps with the aim to reduce the interest rate sensitivities of both the solvency capital and the future IFRS result. The company's Tier 2 capital loan (EUR 56 million) is hedged so that it has a floating rate using a receiver swap. In addition, a total of 13 receiver swaps have been made to hedge the company's technical provisions. The swaps have a total hedging effect of EUR -137,000 per basis point (result when interest rates rise). In addition, 3 payer swaps with a total hedging effect of EUR 20,000 per basis point (result when interest rates rise) have been made to hedge individual long-term fixed income investments against a rise in interest rates. The net impact of the interest rate hedges is EUR -117,000 per basis point.

Changes in credit spreads continue to represent a significant risk for the company, although the risk in euros considerably decreased during 2022. In the internal market risk limit, the credit spread risk is currently EUR 15.2 (23.4) million. According to the SCR calculation, the risk is EUR 18.4 (27.8) million. The decrease is primarily due to the allocation changes made to the life insurance company's own portfolio and to the fact that the rise in the risk-free interest rate has caused fixed income instruments to lose value, which the impact of credit spreads is directly tied to.

Holdings carrying equity risk are mainly related to private equity investment funds and similar alternative investments, which currently are a growing investment class. On 31 December 2022, the portfolio included listed equities and shares worth EUR 12.8 (8.0) million. The portfolios covering unit-linked insurances have a high proportion of equity or hybrid funds, and even though the risk is largely borne by the policyholder, the large size of the portfolio means that the company's equity risk is also considerable. Equity risk on 31 December 2022 in the internal model was EUR 31.6 (33.8) million. In the SCR calculation, the risk is EUR 19.0 (26.5) million on the same date.

The company's real estate risk is caused by investments in indirect real estate instruments, such as real estate funds, or direct real estate holdings. At the turn of the year, real estate investments amounted to EUR 72.7 (88.1) million. Many of the properties are leveraged, which increases the real estate risk in relation to fair value. Real estate risk is the second-largest risk after equity risk in both the company's internal calculation and the SCR calculation, at EUR 25.6 (33.0) million. The risk substantially decreased during the year following the sale of an individual large real estate fund.

Foreign exchange risk in the interest-linked insurance portfolio stems from fixed income funds that invest in local-currency-denominated bonds. In addition, some of the private equity fund holdings are valued in USD or other European currencies. The unit-linked portfolios have equity and fixed income holdings in roughly a hundred currencies, related to funds that primarily invest in emerging markets. At the turn of the year, foreign exchange risk in the internal model was EUR 16.5 (16.3) million. In the SCR calculation, the risk is EUR 12.4 (14.2) million.

Concentration risk occurs when a portfolio has many different investment instruments of the same company or group. The portfolio is well-diversified and does not contain major concentrations, excluding the capital loans issued by Alandia Försäkring Abp with a total nominal value of EUR 60 million. The loans were received as payment in connection with the portfolio transfer of the then Försäkringsaktiebolaget Liv-Alandia in 2020. In the internal model, there is no separate numerical component for concentration risk, but in practice, the risks are kept within the desired range through limits. In the SCR calculation, concentration risk was EUR 10.1 million (12.9) on 31 December 2022.

Although the other concentrations of individual real estate or private equity investments are not comparable to the aforementioned capital loan of Alandia Försäkring Abp, they must be taken into account in the company's long-term planning in respect of their liquidity. The investment strategy written in 2022 includes a plan on how individual holdings can be exited in a controlled manner.

Market risks converged in magnitude during the year, which means that the diversification effect has also improved.

The interest rate shocks used in the internal model are based on historical interest rate variations and reflect both high and low interest rate scenarios. The risk components presented in Table 7 are calculated based on the stress scenarios determined as follows:

The interest rate risk's upward stress impact is measured using a scenario of rising interest rates that is applied to a yield curve based on risk-free, Euribor and swap rates. The rise in interest rates corresponds to a 99.5% confidence level (5th-largest interest rate rise out of a thousand) with a one-year forecast horizon or at least a hundred basis points. The stress impact is reviewed annually during the third quarter and is applied as of the turn of the year.

The interest rate risk's downward stress impact is measured using a stress that is applied to a yield curve based on risk-free, Euribor and swap rates. The rise in interest rates corresponds to a 99.5% confidence level (5th-largest interest rate fall out of a thousand) with a one-year forecast horizon or at least -50 basis points. The stress impact is reviewed annually during the third quarter and is applied as of the turn of the year.

Credit risk (spread risk) describes the risk of counterparty-specific risk spreads growing. The size of the change is an annually reviewed figure based on the yield curves of credit rated fixed income instruments and the investment type. The risk is defined as the largest rise in credit spreads with a confidence level of 99.5%. In government yield curves, the credit rating is also taken into account when modelling the stress factor. In bank and corporate yield curves, the stress coefficients vary between 23 and 1,473 basis points and in government yield curves between 23 and 334 basis points. The discounting curve specific to each investment is shifted in a parallel direction by this value to attain the value of the investment under the shock.

Foreign exchange risk describes the risk arising from changes in the value of different currencies in relation to the euro. Each currency is tested with an upward and downward shock, and the worse option is selected for each currency, after which the impacts of all currencies are added together. The shock impact as a percentage equals an upward and downward shock corresponding to a confidence level of 99.5% with a one-year forecast horizon. The upward shock varies between 12.2% and 39.0% and the downward shock between -15.9% and -32.0%.

Equity and real estate risk describes the risk that the market value of equities and real estate will decrease. For listed equities and shares, the shock is selected to correspond to a confidence level of 99.5% (5th-largest fall out of a thousand) of a change in value of an index basket consisting of ten global equity indices. The size of the shock in the calculation at the turn of the year was -53%. For non-listed equities and shares and real estate, the shock is selected based on an expert opinion; the shocks are -60% for equities and shares and -25% for real estate.

The sensitivity analysis risk components are based on the stresses used in Aktia Group's market risk limit and the company's ORSA as described above, and they differ from the risks in the official solvency calculation, for example.

Table 7

	Investment portfolio		Technical provisions *		Total			
	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022		31.12.2021	
Risk analysis	M euros	M euros	M euros	M euros	M euros	%**	M euros	%**
Interest-linked items								
Market value	497,7	539,7	-318,6	-436,9	179,1	90,0 %	102,8	64,3 %
Interest Rate risk up	-28,0	-28,6	23,9	40,8	-4,1	-2,1 %	12,2	7,6 %
Interest Rate risk down	37,8	41,6	-38,2	-65,5	-0,4	-0,2 %	-23,9	-15,0 %
Credit Spread risk	-14,5	-22,3	0,0	0,1	-14,5	-7,3 %	-22,2	-13,9 %
Currency risk	-12,4	-9,8	0,1	0,6	-12,3	-6,2 %	-9,2	-5,8 %
Equity risk	-21,5	-15,6	0,4	1,5	-21,1	-10,6 %	-14,1	-8,9 %
Real estate risk	-25,6	-33,1	0,0	0,0	-25,6	-12,9 %	-33,1	-20,7 %
Unit- and index-linked items								
Market value	1 001,6	1 155,3	-981,7	-1 098,3	19,9	10,0 %	57,0	35,7 %
Interest Rate risk up	-13,8	-15,4	14,6	15,6	0,8	0,4 %	0,2	0,1 %
Interest Rate risk down	13,9	16,4	-15,3	-17,8	-1,4	-0,7 %	-1,4	-0,9 %
Credit Spread risk	-18,4	-21,4	17,7	20,2	-0,7	-0,4 %	-1,2	-0,8 %
Currency risk	-108,9	-127,6	104,7	120,5	-4,2	-2,1 %	-7,1	-4,4 %
Equity risk	-271,9	-353,1	261,4	333,4	-10,5	-5,3 %	-19,7	-12,3 %
Real estate risk	0,0	0,0	0,0	0,0	0,0	0,0 %	0,0	0,0 %
Total								
Market value	1 499,3	1 695,0	-1 300,3	-1 535,2	199,0	100,0 %	159,8	100,0 %
Interest Rate risk up	-41,8	-44,0	38,5	56,4	-3,3	-1,7 %	12,4	7,8 %
Interest Rate risk down	51,7	58,0	-53,5	-83,3	-1,8	-0,9 %	-25,3	-15,8 %
Credit Spread risk	-32,9	-43,7	17,7	20,3	-15,2	-7,6 %	-23,4	-14,6 %
Currency risk	-121,3	-137,4	104,8	121,1	-16,5	-8,3 %	-16,3	-10,2 %
Equity risk	-293,4	-368,7	261,8	334,9	-31,6	-15,9 %	-33,8	-21,2 %
Real estate risk	-25,6	-33,1	0,0	0,0	-25,6	-12,9 %	-33,1	-20,7 %

* The values for the Technical provisions are risk neutral values obtained by discounting simulated cashflows. They therefore differ from the accounting standard TP values.

** The percentage is the share of the total market value of the difference between portfolio and technical provisions (199,0 for 2022)

C.3. Credit risk

In addition to the possible widening of credit spreads, which is accounted for in market risks, the company is exposed to a so-called explicit credit risk. Explicit credit risk is related to counterparties whose credit rating is not continuously being priced by the markets. In practice, this means both small players from which the company has receivables and large players on which the company has a claim whose nature is such that the markets are unable to price it. The latter are, in practice, agreements that have been made directly between the company and the counterparty and for which there are therefore no public markets, or agreements for which the company does not have access to the necessary details for pricing.

In numbers, the largest group is made up of potential small-scale debtors, which in practice means the policyholders. The risks related to these are, however, small due to the product characteristics and terms and conditions, as an unpaid premium, almost without exception, leads to the termination of the insurance policy in policies where credit risk might otherwise arise.

Therefore, the largest credit risks are related to the following contract types:

- book money (at bank)
- derivatives
- reinsurance agreements.

The credit risk for book money is tied to the credit risk of the bank managing the account. As the majority of the company's bank account funds are, at all times, held in the parent company Aktia Bank Plc's accounts and the credit risk between these two companies is considered to be zero, the credit risk for book money is small and stems in practice from the account balances of other banks used by the company.

In 2021, the company started signing derivative contracts in the form of swaps, and they were further supplemented in 2022. These give rise to credit risk in respect to the derivative counterparties. The company has in use a daily CSA collateral exchange process which considerably reduces credit risks. Derivatives can also be found in many funds but in these cases the company has no direct obligations towards the counterparties. This also applies to funds offered to customers though unit-linked insurances and which can also include derivatives.

Therefore, the company does not account for credit risk separately in the internal modelling, instead, the risk of direct and indirect derivatives is considered to be zero thanks to the collateral exchange process. If there is no collateral exchange, the risk is included in the spread risk in the internal models. In the SCR calculation, there is a specific component for credit risk, which at the turn of the year was EUR 0.8 (2.3) million. This risk figure also includes the credit risk of the reinsurance counterparties.

C.4. Liquidity risk

The risk of insufficient liquidity can materialise if the company does not have sufficient assets to meet its obligations during a specific period, for example in a situation where the realisation of assets would not be possible fast enough.

The risk is managed by maintaining a sufficient cash buffer for the payments taking place in the near future. The portfolio currently includes an increasing proportion of instruments with no fixed cash flows, but the majority of the portfolio's investments are highly liquid, however, and the instruments can be realised in a short amount of time. The company's liquidity risk is thus estimated to remain low. However, the new derivative contracts concluded during the year and their collateral exchange process bring a liquidity need that materialises when interest rates rise. In the company's ORSA, the risks of such a need have also been assessed.

The rise in interest rates late last year thus exposed the company to a considerably larger need for liquidity than previously. The company's derivative position at the turn of the year was strongly negative, and the company had, within the CSA agreement, EUR 26.8 million in paid collateral held by its derivative counterparties. However, the company had more cash in the beginning of the year than normally and in addition, the company has had a large number of realisable investments in very short fixed income investments and funds. For this reason, the situation has not posed any major challenges from a liquidity perspective.

The expected profit included in future insurance premiums calculated in accordance with the Commission Delegated Regulation (EU) 2015/35, Article 260.2, totalled EUR 66.2 million on 31 December 2022.

C.5. Operational risk

At Aktia, operational risk means the risk of loss arising from insufficient or failed internal processes, insufficient or unreliable systems, insufficient or unreliable information, inadequate quantitative models, other shortcomings in internal control and risk management, personnel or external factors. Operational risks also include legal and compliance risks but exclude strategic risks. The loss arising from an operational risk event can mean a direct or indirect economic loss for Aktia, but it can also threaten Aktia's reputation.

All of Aktia's operations carry operational risks. Based on the decision of Aktia Group's Board of Directors, operational risks must, overall, be at a normal level with respect to Aktia's operations. A normal risk level requires compliance with binding regulations and valid legislation.

The information security risk level is mostly normal, but low for critical processes and services, such as information systems, services, processes and service providers classified as critical. This means that the information security level of all critical systems must be kept high to ensure the continuity of Aktia's operations in terms of important manual and automated data processing activities and data networks, prevent intentional or unintentional destruction of data or corruption of data, and the losses caused by a possible disruption must be minimised.

Aktia Group's Board of Directors has, as part of the Group's risk management framework, adopted guidelines on the management and reporting on operational risks, including information security and data protection. In accordance with Aktia's management model, the Board of Directors of Aktia Life Insurance has also adopted the guidelines in question.

In order to prevent operational risk events, Aktia aims to maintain adequate insurance cover against losses arising from, for example, misconduct, penetration into information systems or other criminal activities. However, Aktia or its management may not take out insurance against administrative fines or penalties, because such conduct is not considered to be in line with good insurance practices.

In accordance with Aktia's risk management policy, the risks related to the company's most important functions, including outsourced functions, must be mapped regularly. The outcome of the risk mapping exercise is a probability and impact assessment, which is used as a basis when taking a position on how risks must be managed. In addition to risk mapping, adequate instructions must be created for the purpose of prevention to reduce operational risks in key and risky areas. The instructions must cover, among other things, legal risks, personnel risks and continuity planning principles.

Risk events with a significant economic impact, including near misses, are recorded and reported, and the shortcomings in the processes, systems, competence or internal control that caused the risk event are systematically addressed. Any consequences for customers are also dealt with quickly and proactively. The Group's Risk Control analyses the data concerning risk events systematically and prepares action plans to reduce risks at the process or Group level. Risk Control is also responsible for regular reporting to both the life insurance company's and the Group's Board of Directors.

The life insurance company's management is responsible for the management of the company's operational risks. Risk management includes the continuous development of the quality of the whole organisation's internal processes and internal control. The management is responsible for aligning the processes and procedures with the targets set by the Group's Executive Committee and the adequacy of instructions. Process descriptions are created as needed.

In the internal ORSA model, operational risks are divided into

- process risk
- risks related to targets, planning and reporting
- project risk
- IT risk
- personnel risk
- risks related to external players
- risk of crime
- risk of endangering physical safety.

These are quantified and aggregated to attain the total operational risk figure. This number was EUR 5.3 million (4.9) on 31 December 2022. In the official solvency calculation, the operational risk amounted to EUR 3.0 (3.5) million on the same date.

C.6. Other material risks

The company has not identified other risks that would be significant for the operations.

C.7. Other information

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

D. Valuation for solvency purposes

D.1. Assets

The FAS accounting standard is used in the company's official financial statements. The Group's financial statements are prepared according to IFRS, and for its purposes, adjustments are made to certain items on the part of the life insurance company.

Most assets are the same according to both FAS and IFRS, but not all. The most important exception is investment portfolios. For the purposes of solvency, these are measured at market value using the model described below. The main Solvency II balance sheet assets in a nutshell are:

Intangible assets are measured at zero in Solvency II. In FAS, they can have positive value.

Deferred tax assets are measured in Solvency II the same way that IFRS adjustments must be made to the FAS financial statements, by multiplying the difference between the IFRS and FAS values (market values and FAS in the portfolios) by the up-to-date tax rate. For technical provisions, this is done in a similar way by multiplying the difference between the solvency calculation's technical provisions and the FAS value of technical provisions by the up-to-date tax rate. Deferred tax assets arise from items whose FAS value is higher than their market value (when liabilities are presented as negative figures). The FAS does not take deferred tax assets into account. The company only accounts for deferred tax assets in the solvency calculation balance sheet to the extent that there is a corresponding amount of deferred tax liabilities on the liabilities side of the balance sheet.

Investments are measured at market value in Solvency II. These are divided in Solvency II valuation categories according to the descriptions of Table 8:

Table 8

Category	Share
Interest-linked portfolio	
Quoted price of the same security in an active market	56,8 %
Quoted price of a similar security in an active market	19,5 %
Alternative valuation methods	13,4 %
Real estate valuation	10,3 %
Unit-linked portfolio	
Quoted price of the same security in an active market	98,1 %
Alternative valuation methods	1,9 %

The majority of financial instruments are thus measured based on their price quoted on the market. The category "quoted price of a similar security in an active market" includes Alandia Försäkring Abp's Tier 2 loans and investment certificates made directly with the counterparty. The category "alternative valuation methods" includes private equity investments and real estate fund holdings, whose real estate valuations are based on individual third parties' estimates and private equity investment valuations are based on the fund manager's estimates, because they often constitute the best information available on the investment due to the nature of the investment. Directly owned real estate is presented in its own category "real estate valuation" in the table. Real estate is measured on market terms by external valuators twice a year. This is not an official category, and in Solvency II reporting, for example, directly owned real estate is included in the category "alternative valuation methods".

Insurance receivables and receivables from intermediaries are measured at their FAS value in Solvency II.

Cash and cash equivalents are measured at their FAS value in Solvency II.

Reinsurance recoverables for estimated future insured events are measured in Solvency II in accordance with the description in section D.2. In FAS, they are not considered.

Other assets are measured in Solvency II generally at their IFRS value.

A summary of the valuation differences between the FAS and Solvency II balance sheets is presented in Table 10.

The Solvency II balance sheet is presented in detail in Appendix 1 to this document.

D.2. Technical provisions

For solvency purposes, technical provisions are measured at market value in accordance with the calculation principles established for this purpose. The principles reflect the rules and the spirit required by legislation, specifically the EU Commission Delegated Regulation (2015/35, Title I, Chapter III). Technical provisions are the sum of the best estimate and the risk margin.

The best estimate is based on projections of future cash flows that are expected to arise when the company meets its obligations towards policyholders or beneficiaries in accordance with the insurance policies contracted, taking into account the contractual boundaries in the manner required by the regulations. The cash flow projections are based on actuarial models and related assumptions that are expected to reflect the factors affecting the amount or the timing of the cash flows. In addition to market data, the most material factors to be considered are the data describing the expected development of mortality, disability frequency, policyholder behaviour, claims ratios for some insurance types, operating expenses for insurance management during the remaining insurance period and the measures carried out by the company in different situations. The models are based partly on earlier statistics and partly on expert assessments of the weight to be given to past outcomes and expected potential trends.

The morbidity model is based on national morbidity statistics in Finland. The disability models are based on the calculation principles the company applies to part of the insurance portfolio in the financial statements and the claims ratio assumptions are based, where applicable, on historical data in which possible trends have a specific weight.

Policyholder behaviour is taken into consideration through assumptions of the extent to which the optional features of the insurance policies are used, above all, with regard to surrenders, additional premiums and deferral of the pension period. These assumptions are based on previous experience.

The company's measures are primarily related to assumptions of the amount of any client bonuses in order to meet the principle of fairness in the future in line with the targets.

Operating expenses are based on the historical allocation across different insurance portfolios and an estimate of future development, also considering the inflation expectations related to the expenses.

These forecasts are inevitably subject to uncertainty. Since a large part of the obligations have a long time horizon, the actual outcome may differ from the models' forecasts especially when it comes to cash flows that are expected to be generated further off in the future. The company's actuaries regularly assess how well the models and assessments reflect the reality. The models or the related assumptions are updated as required; the objective is to produce estimates that are as accurate as possible.

The risk margin is an item added to the best estimate such that the technical provisions equal the sum that another insurance company taking on the company's obligations is expected to claim as compensation for the transfer. The size of the risk margin is based on the cost of the solvency capital required in future. The estimates for future years for the sub-risks to be considered in this calculation are aggregated into the solvency requirement for the year in question and discounted to current value using a risk-free interest rate.

Reinsurance recoverables are measured separately, taking into account a deduction due to a possible counterparty default. They are shown in assets in the solvency balance sheet, with consideration of reinsurance premiums.

The cash flows are discounted to their current value using the interest rates published by EIOPA. The best estimate for interest-linked insurance is calculated using a volatility-adjusted yield curve. On the reporting date, applying the volatility adjustment reduced the technical provisions by EUR 5.3 (1.2) million. The table in Appendix 4 shows how resetting the volatility adjustment to zero would affect the company's financial position in other respects.

The Financial Supervisory Authority has granted the company permission to apply the transitional measures for technical provisions in the solvency calculation until the end of 2031. The deduction is applied to a significant part of the interest-linked savings, pension and group pension insurances, and at the end of 2022, the deduction reduced the technical provisions by a total of EUR 44.4 (48.8) million. The impact of the deduction decreases yearly at the beginning of each year by a bit over EUR 4.4 million. The table in Appendix 4 shows how not applying the transitional measure would have affected the company's financial position on the reporting date.

The value of technical provisions by insurance class at the end of 2022 is shown in Table 9.

Table 9

	Solvency value				FAS value
31.12.2022 (1 000 euros)	**Best estimate**	**Risk margin**	**Technical provisions**	**Reinsurance recoverables**	**Technical provisions**
Health insurance	12 452	124	12 576	100	11 260
Insurance with profit participation	338 169	7 660	345 830	-24	347 971
Unit-linked insurance	975 397	6 329	981 726	0	1 001 799
Other life insurance	-52 880	13 028	-39 852	-4 535	13 979
Total	**1 273 138**	**27 142**	**1 300 280**	**-4 459**	**1 375 010**

In terms of interest-linked savings, pension and group pension insurance, the most significant difference in valuations for financial statements comes from the fact that discounting for solvency purposes is carried out using the yield curve published by EIOPA. In the financial statements, the value is based on retrospectively calculated accumulated savings or, alternatively, the guaranteed interest is used for discounting, and the value is supplemented with interest rate and other required provisions. These insurances belong to the category "Insurance with profit participation", and, following the rise in interest rates, the technical provisions for that category in solvency calculation were smaller than the technical provisions in the financial statements on the reporting date, whereas at the turn of last year, the value in solvency calculation was still considerably higher than the value in the financial statements. This despite the fact that the value of future discretionary additional benefits in the solvency calculation's technical provisions has also risen due to rising interest rates, currently clearly exceeding the level at the turn of the year.

The category "Other life insurance" includes, among other things, a significant part of the term life insurances. The good profitability seen in these insurances is expected to continue, which is reflected in the fact that their valuation for solvency purposes is clearly below the adequate provisions made to the financial statements. In the financial statements, the value of these is largely based on the portion of premiums paid for the period after the reporting date, plus provisions for known and unknown insured events.

The value of unit-linked insurances is lower in the solvency calculation than in the financial statements, mainly due to the profit that the expense result is expected to generate in future. In the financial statements, their value is based on the accumulated insurance savings. On 31 December 2022, the company changed its interpretation of contractual boundaries such that the future premiums for unit-linked insurance are no longer assumed to be included within the current contractual boundaries. The change in interpretation increased the technical provisions according to solvency calculation by some EUR 8.3 million on the reporting date.

In terms of health insurances, a certain amount of prudence has been employed when making the assumptions for the solvency calculation due to the development of claims incurred in recent years. Due to prudent assumption selection and a wider risk margin, the value of health insurances is also slightly higher as a whole in solvency calculation than in the financial statements. In the financial statements, these are largely valued using similar principles as those described above for the category "Other life insurance".

As a result of decreasing insurance risks and rising interest rates, the risk margin contracted clearly in all insurance categories in 2022.

In deviation from previous years, the company changed, on 31 December 2022, the way reinsurance recoverables are shown in the solvency balance sheet. This item now also includes the assumed future reinsurance premiums, while these premiums were previously included in the best estimate for technical provisions.

During the year, some other changes were also made to the assumptions used in the calculation, but they did not have a significant impact on technical provisions as a whole.

D.3. Other liabilities

This section discusses liabilities other than technical provisions, which are discussed separately in section D.2.

Deferred tax liabilities are measured in Solvency II the same way as deferred tax assets, but such that they arise from items whose FAS value is lower than their market value (when liabilities are presented as negative figures). The FAS does not take deferred tax liabilities into account.

Subordinated liabilities included in basic own funds include the company's Tier 2 loan. In Solvency II and the IFRS, the item is measured at market value, from which the effect of the credit spread is eliminated. In the FAS balance sheet, the item is measured at the nominal value of the loan.

Other liabilities are measured in Solvency II generally at their IFRS value.

A summary of the valuation differences between the FAS and Solvency II balance sheets is presented in Table 10.

The Solvency II balance sheet is presented in detail in Appendix 1 to this document.

D.4. Alternative valuation methods

The company uses alternative valuation methods for the valuation of private equity investments, real estate funds, infrastructure funds and directly owned real estate.

Private equity funds are typically investments where the investor commits to participating in a fund that invests in several small startups. Since the companies are new and often small, and rarely listed, the equities almost entirely lack an active market. There is usually no other source of information for the companies' financial position than the companies' own reporting and balance books.

The private equity fund company as the main stakeholder of these companies is in the best position to present investors with a summary of this information. That is why private equity funds use an approach in which the market value is considered to be made up of the value that the fund reports for the underlying investments in its quarterly reporting. Although the value cannot be deemed to reflect an active market and is not particularly transparent, it is considered to be the best estimate of the value of the units. The assumptions applied to funds building new infrastructure and real estate funds are largely the same as those applied to private equity funds. However, when it comes to real estate funds, the fund company has the possibility to employ an external expert to value the underlying real estate.

As far as the company's own real estate holdings are concerned, the company uses third-party valuations carried out by companies with expertise in the real estate market necessary for determining the market value.

D.5. Other information

There is no other material information to report on valuation for solvency purposes.

E. Capital management

E.1. Own funds

Aktia Group's internal target is to allocate capital between the parent company and the subsidiaries such that all the companies achieve a capitalisation ratio that is adequate, yet as efficient as possible. In November 2021, the life insurance company issued a Tier 2 capital loan with a nominal value of EUR 56 million, which considerably strengthened the company's own funds.

The company's own funds were EUR 194.6 (245.8) million on 31 December 2022, and they were entirely made up of basic funds. During the year, the company paid, in two instalments, a total of EUR 35 million in dividend to Aktia Bank.

The Tier 1 own funds available to meet both the solvency capital requirement (SCR) and the minimum capital requirement (MCR) were made up of the share capital of EUR 23.2 (23.2) million and the reconciliation reserve of EUR 122.3 (167.0) million. In the FAS balance sheet, the reconciliation reserve corresponds to other reserves and retained earnings, the valuation differences between the items in the FAS and solvency balance sheets and net deferred taxes.

Table 10

Own funds (1 000 euros)	31.12.2022	31.12.2021
Basic own funds in FAS	85 246	126 907
Share capital and share premium account	23 225	23 225
Other funds and retained earnings	62 021	103 682
Valuation differences	75 400	79 179
Intangible assets	-1 546	-1 004
Investments	-295	49 223
Technical provisions (net)	70 271	30 570
Other assets and liabilities	6 971	390
Deferred taxes	-15 080	-15 836
Total basic own funds tier 1	**145 566**	**190 250**
Subordinated liabilities	48 993	55 570
Total basic own funds tier 2	**48 993**	**55 570**

Tier 2 own funds consist of the above-mentioned capital loan issued in 2021. Of this, EUR 37.6 (54.4) million was eligible own funds to meet the SCR and EUR 4.4 (5.5) million was eligible own funds to meet the MCR. The decrease in Tier 2 own funds during the year is due to the rise in interest rates, and the decrease in the eligible Tier 2 own funds to meet the SCR and MCR is due to the decrease in the capital requirements in question.

Table 11

Eligible own funds (1 000 euros)	31.12.2022	31.12.2021
Total eligible own funds to meet SCR	**183 181**	**244 689**
basic own funds tier 1	145 566	190 250
basic own funds tier 2	37 614	54 439
Total eligible own funds to meet MCR	**149 924**	**195 756**
basic own funds tier 1	145 566	190 250
basic own funds tier 2	4 357	5 506

The decrease in Tier 1 own funds during the year is mainly attributable to the change in the market value of assets and technical provisions, above all as a result of the change in the interest rate level, and dividend payment. The decrease in valuation differences has somewhat reduced the net position of the deferred tax liabilities. The company only accounts for deferred tax assets in the solvency calculation balance sheet to the extent that there is a corresponding amount of deferred tax liabilities on the liabilities side of the balance sheet, which means that no net deferred tax assets are considered in own funds. The deferred tax assets and liabilities on the reporting date are presented in Appendix 1.

Without the transitional measure for technical provisions, own funds would have been EUR 159.1 (206.8) million on 31 December 2022, of which EUR 110.1 (151.2) million is made up of Tier 1 own funds. Tier 2 own funds totalled EUR 49.0 (55.6) million, of which, EUR 42.1 (55.6) million was eligible own funds to meet the SCR and EUR 4.6 (5.9) million was eligible own funds to meet the MCR.

In 2022, the company paid a dividend of EUR 20 million during the first quarter and a dividend of EUR 15 million during the second quarter. The company's dividend policy requires the company to pay 60–80% of the IFRS result as dividend every year, provided that the conditions for the payment, such as meeting the capital requirement, are met also after the dividend payment.

After the reporting date, in February 2023, the company's Board of Directors proposed to the Annual General Meeting the payment of a dividend of EUR 6.3 million, which reduces the Tier 1 own funds by the same amount. The dividend payment is expected to take place during the first quarter of 2023. Moreover, the decrease in the technical provisions according to the transitional measure plan reduces the Tier 1 own funds by around EUR 3.5 million as of the beginning of 2023.

The company does not apply the transitional measures to the non-standard classification of capital.

The company's own funds are described further in Appendix 5.

E.2. Solvency capital requirement and minimum capital requirement

The company applies the standard formula to calculate the SCR. The SCR was EUR 75.2 million (108.9) on 31 December 2022, and its distribution into different risk modules is shown in Table 12.

Table 12

Solvency Capital Requirement per risk module (1 000 euros)	31.12.2022	31.12.2021
Market risk	62 754	83 027
Counterparty default risk	769	2 298
Life underwriting risk	45 766	67 395
Health underwriting risk	1 894	3 449
Diversification	-23 902	-34 980
Basic Solvency Capital Requirement	**87 281**	**121 189**
Operational risk	3 028	3 525
Adjustment for loss-absorbing capacity - technical provisions	0	0
Adjustment for loss-absorbing capacity - deferred taxes	-15 080	-15 836
Solvency Capital Requirement	**75 229**	**108 879**

The MCR was EUR 21.8 million (27.5) on 31 December 2022, and the input data used for this calculation are shown in the table in Appendix 7.

Without the transitional measures, the SCR would have been EUR 84.2 (118.6) million on 31 December 2022, and the MCR would have been EUR 23.1 (29.7) million on the same date.

All sub-risks for the basic solvency capital requirement decreased during the year. In terms of market risks, the changes are partly due to the materialisation of risks, because a smaller amount of investments also means a smaller risk. This applies especially to the equity and spread risk. Active efforts have been made to reduce the spread risk in the allocation. Real estate risk was reduced by significant sales during the year and a decrease in the loan-to-value ratio. Interest rate risk is the only market risk to have clearly risen, which can be explained by the fact that the rising interest rates and hedging measures have changed the direction of the interest rate risk, and the interest rate risk is thus currently open towards rising interest rates rather than declining ones. The main reasons for the decrease in insurance risks are the rise in the interest rate level and the decrease in unit-linked insurance savings and the changes made to the interpretation of their contractual boundaries. These changes are explained further in sections C.1., C.2. and C.3.

The loss-reducing effect of deferred taxes has somewhat decreased due a decrease in valuation differences. The effect has become smaller because the company also does not take into account any net deferred tax assets in the stress scenarios.

The MCR fell clearly during 2022. The main reason for the fall was the decrease in the best estimate for technical provisions used as input data, which, in terms of insurance with profit participation, was especially due to a rise in the interest rate level and, in terms of unit-linked insurance, to a decrease in insurance savings.

The company does not use company-specific parameters and does not apply the simplified calculations referred to in Articles 90–112 of the Commission Delegated Regulation.

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

The company 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

The company does not apply a partial internal model or an internal model in the solvency calculation.

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

The company's own funds exceeded both the minimum capital requirement and the solvency capital requirement throughout 2022.

E.6. Other information

There is no other information to report on the company's financing.

Aktia

Appendix

Appendix 1 (1/2)
Balance sheet 31.12.2022 (1 000 euros) (S.02.01.02)

		Solvency II value
Assets, 1 000 euros		**C0010**
Intangible assets	**R0030**	**-**
Deferred tax assets	**R0040**	**12 260**
Pension benefit surplus	**R0050**	**-**
Property, plant and equipment held for own use	**R0060**	**143**
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	**497 661**
Property (other than for own use)	R0080	48 696
Holdings in related undertakings, including participations	R0090	-
Equities	R0100	2 609
Equities - listed	R0110	-
Equities - unlisted	R0120	2 609
Bonds	R0130	281 473
Government bonds	R0140	90 850
Corporate bonds	R0150	190 623
Structured notes	R0160	-
Collateralised securities	R0170	-
Collective investments undertakings	R0180	164 395
Derivatives	R0190	488
Deposits other than cash equivalents	R0200	-
Other investments	R0210	-
Assets held for index-linked and unit-linked contracts	**R0220**	**1 001 595**
Loans and mortgages	**R0230**	**-**
Loans on policies	R0240	-
Loans and mortgages to individuals	R0250	-
Other loans and mortgages	R0260	-
Reinsurance recoverables from:	**R0270**	**-4 459**
Non-life and health similar to non-life	R0280	-
Non-life excluding health	R0290	-
Health similar to non-life	R0300	-
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	-4 459
Health similar to life	R0320	100
Life excluding health and index-linked and unit-linked	R0330	-4 560
Life index-linked and unit-linked	R0340	-
Deposits to cedants	**R0350**	**-**
Insurance and intermediaries receivables	**R0360**	**229**
Reinsurance receivables	**R0370**	**-**
Receivables (trade, not insurance)	**R0380**	**28 822**
Own shares (held directly)	**R0390**	**-**
Amounts due in respect of own fund items or initial fund called up but not yet paid in	**R0400**	**-**
Cash and cash equivalents	**R0410**	**14 732**
Any other assets, not elsewhere shown	**R0420**	**3 795**
Total assets	**R0500**	**1 554 777**

Appendix 1 (2/2)
Balance sheet 31.12.2022 (1 000 euros) (S.02.01.02)

Liabilities, 1 000 euros		Solvency II value
		C0010
Technical provisions - non-life	**R0510**	**-**
Technical provisions - non-life (excluding health)	R0520	-
Technical provisions calculated as a whole	R0530	-
Best estimate	R0540	-
Risk margin	R0550	-
Technical provisions - health (similar to non-life)	R0560	-
Technical provisions calculated as a whole	R0570	-
Best estimate	R0580	-
Risk margin	R0590	-
Technical provisions - life (excluding index-linked and unit-linked)	**R0600**	**318 554**
Technical provisions - health (similar to life)	R0610	12 576
Technical provisions calculated as a whole	R0620	-
Best estimate	R0630	12 452
Risk margin	R0640	124
Technical provisions - life (excluding health and index-linked and unit-linked)	R0650	305 978
Technical provisions calculated as a whole	R0660	-
Best estimate	R0670	285 289
Risk margin	R0680	20 689
Technical provisions - index-linked and unit-linked	**R0690**	**981 726**
Technical provisions calculated as a whole	R0700	-
Best estimate	R0710	975 397
Risk margin	R0720	6 329
Contingent liabilities	**R0740**	**-**
Provisions other than technical provisions	**R0750**	**-**
Pension benefit obligations	**R0760**	**-**
Deposits from reinsurers	**R0770**	**-**
Deferred tax liabilities	**R0780**	**27 340**
Derivatives	**R0790**	**24 417**
Debts owed to credit institutions	**R0800**	**-**
Financial liabilities other than debts owed to credit institutions	**R0810**	**2 317**
Insurance and intermediaries payables	**R0820**	**1 295**
Reinsurance payables	**R0830**	**510**
Payables (trade, not insurance)	**R0840**	**340**
Subordinated liabilities	**R0850**	**48 993**
Subordinated liabilities not in Basic Own Funds	R0860	-
Subordinated liabilities in Basic Own Funds	R0870	48 993
Any other liabilities, not elsewhere shown	**R0880**	**3 719**
Total liabilities	**R0900**	**1 409 211**
Excess of assets over liabilities	**R1000**	**145 566**

Appendix 2

Premiums, claims and expenses by line of business 2022 (1 000 euros) (S.05.01.02)

1 000 euros		Life insurance obligations: Health insurance	Life insurance obligations: Insurance with profit participation	Life insurance obligations: Index-linked and unit-linked insurance	Life insurance obligations: Other life insurance	Life insurance obligations: Annuities stemming from non-life insurance and relating to health insurance obligations	Life insurance obligations: Annuities stemming from non-life insurance and relating to insurance obligations other than health insurance	Life reinsurance obligations: Health reinsurance	Life reinsurance obligations: Life reinsurance	Total
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
Premiums written										
Gross	R1410	12 426	4 678	112 472	12 613	-	-	-	-	142 189
Reinsurers' share	R1420	91	21	-	888	-	-	-	-	999
Net	R1500	12 335	4 657	112 472	11 725	-	-	-	-	141 190
Premiums earned										
Gross	R1510	12 426	4 678	112 472	12 613	-	-	-	-	142 189
Reinsurers' share	R1520	91	21	-	888	-	-	-	-	999
Net	R1600	12 335	4 657	112 472	11 725	-	-	-	-	141 190
Claims incurred										
Gross	R1610	6 565	37 752	64 047	3 637	-	-	-	-	112 001
Reinsurers' share	R1620	-	-	-	390	-	-	-	-	390
Net	R1700	6 565	37 752	64 047	3 246	-	-	-	-	111 610
Changes in other technical provisions										
Gross	R1710	-117	30 715	150 985	138	-	-	-	-	181 721
Reinsurers' share	R1720	-	-	-	-	-	-	-	-	-
Net	R1800	-117	30 715	150 985	138	-	-	-	-	181 721
Expenses incurred	**R1900**	**5 625**	**2 747**	**7 154**	**3 961**	**-**	**-**	**-**	**-**	**19 487**
Other expenses	**R2500**									**875**
Total expenses	**R2600**									**20 362**

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Appendix 3 (1/2)
Life and Health SLT Technical Provisions 31.12.2022 (1 000 euros) (S.12.01.02)

1 000 euros		Insurance with profit participation	Index-linked and unit-linked insurance	Index-linked and unit-linked insurance: Contracts without options and guarantees	Index-linked and unit-linked insurance: Contracts with options or guarantees	Other life insurance	Other life insurance: Contracts without options and guarantees	Other life insurance: Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Accepted reinsurance	Total (life other than health insurance, incl. unit-linked)
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150
Technical provisions calculated as a whole	**R0010**	-	-			-			-	-	-
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	R0020	-	-			-			-	-	-
Technical provisions calculated as a sum of BE and RM											
Best Estimate											
Gross Best Estimate	**R0030**	**382 533**		**975 397**	**-**		**-52 880**	**-**	**-**	**-**	**1 305 050**
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080	-24		-	-		-4 535	-	-	-	-4 560
Best estimate minus recoverables from reinsurance/SPV and Finite Re - Total	R0090	382 558		975 397	-		-48 345	-	-	-	1 309 609
Risk Margin	**R0100**	**7 660**	**6 329**			**13 028**			**-**	**-**	**27 018**
Amount of the transitional on Technical Provisions											
Technical Provisions calculated as a whole	R0110	-	-			-			-	-	-
Best estimate	R0120	-44 364		-	-		-	-	-	-	-44 364
Risk margin	R0130	-	-			-			-	-	-
Technical provisions - Total	**R0200**	**345 830**	**981 726**			**-39 852**			**-**	**-**	**1 287 704**

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Appendix 3 (2/2)

Life and Health SLT Technical Provisions 31.12.2022 (1 000 euros) (S.12.01.02)

1 000 euros		Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health insurance (reinsurance accepted)	Total (health similar to life isurance)
			Contracts without options and guarantees	Contracts with options or guarantees			
		C0160	C0170	C0180	C0190	C0200	C0210
Technical provisions calculated as a whole	**R0010**	**-**			**-**	**-**	**-**
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	R0020	-			-	-	-
Technical provisions calculated as a sum of BE and RM							
Best Estimate							
Gross Best Estimate	**R0030**		**4 754**	**7 698**	**-**	**-**	**12 452**
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080		101	-1	-	-	100
Best estimate minus recoverables from reinsurance/SPV and Finite Re - Total	R0090		4 653	7 699	-	-	12 352
Risk Margin	**R0100**	**124**			**-**	**-**	**124**
Amount of the transitional on Technical Provisions							
Technical Provisions calculated as a whole	R0110	-			-	-	-
Best estimate	R0120		-	-	-	-	-
Risk margin	R0130	-			-	-	-
Technical provisions - Total	**R0200**	**12 576**			**-**	**-**	**12 576**

Appendix 4

Impact of Long Term Guarantees Measures and Transitionals 31.12.2022 (1 000 euros) (S.22.01.21)

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
Technical provisions	R0010	1 300 280	44 364	-	5 304	-
Basic own funds	R0020	194 559	-35 491	-	-4 319	-
Eligible own funds to meet Solvency Capital Requirement	R0050	183 181	-31 016	-	-3 608	-
Solvency Capital Requirement	R0090	75 229	8 950	-	1 422	-
Eligible own funds to meet Minimum Capital Requirement	R0100	149 924	-35 220	-	-4 278	-
Minimum Capital Requirement	R0110	21 787	1 358	-	202	-

Appendix 5 (1/2)
Own Funds 31.12.2022 (1 000 euros) (S.23.01.01)

1 000 euros		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35						
Ordinary share capital (gross of own shares)	R0010	21 751	21 751		-	
Share premium account related to ordinary share capital	R0030	1 473	1 473		-	
Initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual and mutual-type undertakings	R0040	-	-		-	
Subordinated mutual member accounts	R0050	-		-	-	-
Surplus funds	R0070	-	-	-		
Preference shares	R0090	-		-	-	-
Share premium account related to preference shares	R0110	-		-	-	-
Reconciliation reserve	R0130	122 341	122 341			
Subordinated liabilities	R0140	48 993		-	48 993	-
An amount equal to the value of net deferred tax assets	R0160	-				-
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180	-	-	-	-	-
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	R0220	-				
Deductions						
Deductions for participations in financial and credit institutions	R0230	-	-	-	-	-
Total basic own funds after deductions	**R0290**	**194 559**	**145 566**	**-**	**48 993**	**-**
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300	-			-	
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual-type undertakings callable on demand	R0310	-			-	
Unpaid and uncalled preference shares callable on demand	R0320	-			-	-
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330	-			-	-
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340	-			-	
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350	-			-	-
Supplementary member calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360	-			-	
Supplementary member calls – other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370	-			-	-
Other ancillary own funds	R0390	-			-	-
Total ancillary own funds	**R0400**	**-**			**-**	**-**
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	194 559	145 566	-	48 993	-
Total available own funds to meet the MCR	R0510	194 559	145 566	-	48 993	
Total eligible own funds to meet the SCR	R0540	183 181	145 566	-	37 614	-
Total eligible own funds to meet the MCR	R0550	149 924	145 566	-	4 357	
SCR	**R0580**	**75 229**				
MCR	**R0600**	**21 787**				
Ratio of eligible own funds to SCR	**R0620**	**243,5 %**				
Ratio of eligible own funds to MCR	**R0640**	**688,1 %**				

Appendix 5 (2/2)

Own Funds 31.12.2022 (1 000 euros) (S.23.01.01)

1 000 euros		
		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	145 566
Own shares (held directly and indirectly)	R0710	-
Foreseeable dividends, distributions and charges	R0720	-
Other basic own fund items	R0730	23 225
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	-
Reconciliation reserve	**R0760**	**122 341**
Expected profits		
Expected profits included in future premiums (EPIFP) – Life business	R0770	65 414
Expected profits included in future premiums (EPIFP) – Non-life business	R0780	830
Total expected profits included in future premiums (EPIFP)	**R0790**	**66 244**

Appendix 6

Solvency Capital Requirement - for undertakings on Standard Formula 31.12.2022 (1 000 euros) (S.25.01.21)

1 000 euros		**Gross SCR**	**USP**	**Simplifications**
		C0110	**C0090**	**C0120**
Market risk	R0010	62 754		-
Counterparty default risk	R0020	769		
Life underwriting risk	R0030	45 766	-	-
Health underwriting risk	R0040	1 894	-	-
Non-life underwriting risk	R0050	-	-	-
Diversification	R0060	-23 902		
Intangible asset risk	R0070	-		
Basic Solvency Capital Requirement	**R0100**	**87 281**		

Calculation of Solvency Capital Requirement, 1 000 euros		**Value**
		C0100
Operational risk	R0130	3 028
Loss-absorbing capacity of technical provisions	R0140	-
Loss-absorbing capacity of deferred taxes	R0150	-15 080
Capital requirement for business operated in accordance with Article 4 of Directive 2003/41/EC	R0160	-
Solvency Capital Requirement excluding capital add-on	**R0200**	**75 229**
Capital add-on already set	R0210	-
Solvency Capital Requirement	**R0220**	**75 229**
Other information on SCR		**-**
Capital requirement for duration-based equity risk sub-module	R0400	-
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	-
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	-
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430	-
Diversification effects due to RFF nSCR aggregation for Article 304	R0440	-

Approach to tax rate, 1 000 euros		**Yes/No**
		C0109
Approach based on average tax rate	R0590	2 - No

Calculation of loss-absorbing capacity of deferred taxes, 1 000 euros		**LAC DT**
		C0130
LAC DT	R0640	-15 080
LAC DT justified by reversion of deferred tax liabilities	R0650	-15 080
LAC DT justified by reference to probable future taxable economic profit	R0660	-
LAC DT justified by carry back, current year	R0670	-
LAC DT justified by carry back, future years	R0680	-
Maximum LAC DT	R0690	-18 062

Appendix 7

Minimum Capital Requirement - Both life and non-life insurance activity 31.12.2022 (1 000 euros) (S.28.02.01)

1 000 euros		Non-life activities MCR(L,NL) Result	Life activities MCR(L,L) Result
		C0070	C0080
Linear formula component for life insurance and reinsurance obligations	**R0200**	**975**	**21 071**

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0090	C0100	C0110	C0120
Obligations with profit participation - guaranteed benefits	R0210	-		345 854	
Obligations with profit participation - future dicretionary benefits	R0220	-		21 674	
Index-linked and unit-linked insurance obligations	R0230	-		975 397	
Other life (re)insurance and health (re)insurance obligations	R0240	12 352		-	
Total capital at risk for all life (re)insurance obligations	R0250		1 022 756		3 676 707

Overall MCR calculation		Value
		C0130
Linear MCR	R0300	21 787
SCR	R0310	75 229
MCR cap	R0320	33 853
MCR floor	R0330	18 807
Combined MCR	R0340	21 787
Absolute floor of the MCR	R0350	3 700
Minimum Capital Requirement	**R0400**	**21 787**

Notional non-life and life MCR calculation, 1 000 euros		Non-life activities	Life activities
		C0140	C0150
Notional linear MCR	R0500	975	21 071
Notional SCR excluding add-on (annual or latest calculation)	R0510	3 328	71 901
Notional MCR cap	R0520	1 498	32 355
Notional MCR floor	R0530	832	17 975
Notional Combined MCR	R0540	975	21 071
Absolute floor of the notional MCR	R0550	2 500	3 700
Notional MCR	R0560	2 500	21 071

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