



# ANNUAL REPORT

# 2010

## MANDATUM LIFE INSURANCE BALTIC SE

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Beginning of financial year: 01.01.2010

End of financial year: 31.12.2010

CEO: Imre Madison

Auditor: Ernst & Young Baltic AS

# Table of contents of 2010 Annual Report

## **I. MANAGEMENT REPORT FOR 2010**

1. OWNERSHIP AND CORPORATE GOVERNANCE
2. MANAGEMENT
3. BUSINESS RESULTS
4. PERSONNEL OF THE COMPANY
5. ACTIVITIES IN THE BALTIC COUNTRIES
6. OUTLOOK FOR 2011
7. SIGNIFICANT POST-BALANCE SHEET EVENTS

## **II. ANNUAL ACCOUNTS**

1. STATEMENT OF FINANCIAL POSITION AS AT 31.12.2010
2. STATEMENT OF COMPREHENSIVE INCOME 2010
3. STATEMENT OF CASH FLOWS 2010
4. STATEMENT OF CHANGES IN OWNER'S EQUITY 2010

## **III. NOTES ON THE ACCOUNTS**

1. ACCOUNTING POLICIES
2. RISK MANAGEMENT DISCLOSURE
3. NOTES TO FINANCIAL STATEMENTS

## **IV. AUDITOR'S REPORT**

## **V. PROFIT ALLOCATION PROPOSAL**

## **VI. SIGNATURES OF THE MANAGEMENT BOARD FOR THE ANNUAL REPORT 2010**

## **VII. SALES REVENUE ACCORDING TO EMTAK 2008**

# Detailed table of content

<b>I. MANAGEMENT REPORT FOR 2010 .....</b>	<b>6</b>
1. OWNERSHIP AND CORPORATE GOVERNANCE .....	6
2. MANAGEMENT.....	6
3. BUSINESS RESULTS .....	6
3.1. Life insurance industry in the Baltic countries in 2010 .....	7
3.2. Contracts portfolio.....	7
3.3. Contractual payments received and assets under management.....	7
3.4. Claims incurred.....	7
3.5. Investments.....	8
3.6. Client bonuses.....	8
3.7. Risk management.....	8
3.8. Owner's equity and solvency margin.....	8
3.9. Operating expenses .....	8
3.10. Operating profit.....	8
3.11. Balance sheet .....	9
4. PERSONNEL OF THE COMPANY .....	9
5. ACTIVITIES IN THE BALTIC COUNTRIES .....	9
5.1. Sales and development activities.....	9
5.2. Other activities .....	9
6. OUTLOOK FOR 2011 .....	10
7. SIGNIFICANT POST-BALANCE SHEET EVENTS .....	10
<b>II. ANNUAL ACCOUNTS .....</b>	<b>11</b>
1. STATEMENT OF FINANCIAL POSITION AS AT 31.12.2010.....	11
2. STATEMENT OF COMPREHENSIVE INCOME 2010.....	12
3. STATEMENT OF CASH FLOWS 2010 .....	13
4. STATEMENT OF CHANGES IN OWNER'S EQUITY 2010.....	14
<b>III. NOTES ON THE ACCOUNTS.....</b>	<b>15</b>
1. ACCOUNTING POLICIES .....	15
1.1. Basis of preparation.....	15
1.2. Changes in accounting policies .....	15
1.2.1. Adopting new and/or changed IFRSs and IFRIC interpretations .....	15
1.2.2. Standards issued but not yet effective .....	16
1.2.3. Improvements to IFRSs .....	16
1.3. Foreign currency translation .....	17
1.4. Cash and its equivalents .....	17
1.5. Financial assets .....	17
1.5.1. Financial assets measured at fair value through profit and loss.....	17
1.5.2. Investment income.....	18
1.5.3. Receivables .....	18
1.6. Property, plant and equipment.....	18
1.7. Intangible assets.....	18
1.8. Recognition of insurance and investment contracts.....	19
1.8.1. Contract classification .....	19
1.8.2. Gross premiums .....	20
1.8.3. Fee income.....	20

1.8.4.	Financial liabilities from insurance or investment contracts .....	20
1.8.5.	Insurance technical provisions .....	20
1.8.6.	Liability adequacy test .....	21
1.8.7.	Paid insurance claims and expenses related to pay-outs.....	21
1.9.	<i>Reinsurance contracts</i> .....	21
1.10.	<i>Financial liabilities other than liabilities from insurance contracts</i> .....	22
1.11.	<i>Other income</i> .....	22
1.12.	<i>Expenses</i> .....	22
1.13.	<i>Operating lease</i> .....	22
1.14.	<i>Legal reserve</i> .....	22
1.15.	<i>Income taxes</i> .....	23
1.16.	<i>Accounting policies requiring management judgement and key sources of estimation uncertainties in annual report</i> .....	23
2.	<b>RISK MANAGEMENT DISCLOSURE</b> .....	25
2.1.	<i>Overview of main risks and risk management in Mandatum Life</i> .....	25
2.1.1.	Risk management overview .....	25
2.1.2.	The Company's risk profile .....	25
2.1.3.	Risk governance .....	26
2.2.	<i>Capital management</i> .....	27
2.2.1.	Capital content and capital management.....	27
2.2.2.	Legislative capital requirements .....	27
2.2.3.	Meeting capital requirements .....	28
2.3.	<i>Market risk</i> .....	28
2.3.1.	Market risk management and control.....	28
2.3.2.	Interest rate risks and equity risks.....	28
2.3.3.	Currency risk .....	31
2.3.4.	Liquidity risk .....	31
2.4.	<i>Risk Concentrations for Investment Operations</i> .....	32
2.5.	<i>Credit risk</i> .....	32
2.6.	<i>Insurance risk</i> .....	33
2.7.	<i>Operational risk</i> .....	36
2.7.1.	Overview of operational risks.....	36
2.7.2.	Operational risks governance .....	36
2.7.3.	Identification and management of operational risks .....	36
2.7.4.	Internal audit.....	37
2.8.	<i>Risk management outlook</i> .....	37
2.8.1.	Planned developments in risk management .....	37
2.8.2.	Preparations for Solvency II.....	37
3.	<b>NOTES TO FINANCIAL STATEMENTS</b> .....	38
3.1.	<i>Cash and cash equivalents</i> .....	38
3.2.	<i>Financial assets designated at fair value through profit and loss</i> .....	38
3.2.1.	Investments other than unit-linked investments.....	38
3.2.2.	Unit-linked Investments .....	38
3.2.3.	Financial assets and liabilities designated at fair value through profit and loss.....	39
3.2.4.	Determination of fair value and fair value hierarchy.....	40
3.3.	<i>Financial assets designated as being at amortised cost</i> .....	40
3.3.1.	Receivables related to insurance activities and other .....	40
3.3.2.	Accrued income and prepaid expenses.....	40
3.4.	<i>Property, plant and equipment</i> .....	41
3.5.	<i>Intangible assets</i> .....	41
3.6.	<i>Insurance payables</i> .....	41
3.7.	<i>Accrued expenses and deferred income</i> .....	42
3.8.	<i>Financial liabilities from insurance and investment contracts</i> .....	42
3.8.1.	Total financial liabilities from insurance contracts .....	42
3.8.2.	Total financial liabilities from investment contracts .....	42
3.8.3.	Financial liabilities from unit-linked insurance contracts .....	43
3.8.4.	Financial liabilities from unit-linked investment contracts .....	43
3.8.5.	Financial liabilities from with-profit insurance contracts .....	43
3.9.	<i>Technical provisions from insurance contracts and relevant reinsurance assets</i> .....	43
3.9.1.	Total technical provisions from insurance contracts and relevant reinsurance assets.....	43

3.9.2.	Life insurance provision .....	44
3.9.3.	Outstanding claims provision.....	44
3.10.	<i>Changes in assumptions related to insurance technical provisions and financial liabilities.....</i>	<i>44</i>
3.11.	<i>Liability adequacy test .....</i>	<i>45</i>
3.12.	<i>Owner's equity .....</i>	<i>45</i>
3.13.	<i>Gross premiums .....</i>	<i>46</i>
3.14.	<i>Net income from reinsurance.....</i>	<i>46</i>
3.15.	<i>Investment income .....</i>	<i>46</i>
3.16.	<i>Fair value gains and losses.....</i>	<i>46</i>
3.17.	<i>Gains and losses realised.....</i>	<i>46</i>
3.18.	<i>Fee income.....</i>	<i>47</i>
3.19.	<i>Other income.....</i>	<i>47</i>
3.20.	<i>Net insurance claims and the change of technical provisions .....</i>	<i>47</i>
3.21.	<i>Change in value of unit-linked financial liabilities and assets .....</i>	<i>47</i>
3.22.	<i>Expenses .....</i>	<i>48</i>
3.23.	<i>Income tax expenses .....</i>	<i>48</i>
3.24.	<i>Operating lease.....</i>	<i>48</i>
3.25.	<i>Related party disclosures.....</i>	<i>49</i>
3.25.1.	Transactions with Management Board members and Supervisory Board members .....	49
3.25.2.	Other transactions with related parties.....	49
3.26.	<i>Implicit assets.....</i>	<i>50</i>
3.27.	<i>Events after the reporting date.....</i>	<i>50</i>

**IV. AUDITOR'S REPORT ..... 51**

**V. PROFIT ALLOCATION PROPOSAL .....52**

**VI. SIGNATURES OF THE MANAGEMENT BOARD FOR THE ANNUAL REPORT 2010  
53**

**VII. SALES REVENUE ACCORDING TO EMTAK 2008 .....54**

# I. Management report for 2010

## 1. Ownership and corporate governance

Mandatum Life Insurance Baltic SE (hereinafter referred to as the Company or Mandatum Life) is a fully owned subsidiary of Mandatum Life Insurance Company Ltd (hereinafter referred to as the parent company or Mandatum Life Finland). Sampo plc, a Finnish financial group is the sole holder of Mandatum Life Finland's shares.

Mandatum Life was registered on 02.01.2007 in Tallinn, the Republic of Estonia. The Company is domiciled within Estonia with its headquarters in Tallinn and branches in Latvia and Lithuania. For Mandatum Life the year 2010 was the fourth year of active operations as a single pan-Baltic company, and the twelfth year of active operations in the Baltic countries.

The Company changed its legal name from SE Sampo Life Insurance Baltic to Mandatum Life Insurance Baltic SE on 1<sup>st</sup> of July 2010. The Company's name was changed in order to share the principle of 'one company, one strategy, one name' with its parent company in Finland. The Company continues to operate under the same registration number as before. There was no change in the Company's ownership in relation to the change of the legal name.

Mandatum Life's corporate governance is primarily determined on the basis of the Estonian Insurance Activities Act. More detailed provisions regarding the corporate governance can be found in the Company's Articles of Association.

Mandatum Life acts in full compliance with all licenses which have been issued and is subjected to financial supervision as conducted

by the Estonian Financial Supervision Authority.

Mandatum Life's business activities focus on unit-linked insurance, and term life and accident and sickness-related complementary insurance. Other core activities include the administration of insurance contracts with guaranteed interest.

More information about Mandatum Life and its business activities in the Baltic countries can also be found on the following web sites:

[www.mandatumlife.ee](http://www.mandatumlife.ee),  
[www.mandatumlife.lv](http://www.mandatumlife.lv), and  
[www.mandatumlife.lt](http://www.mandatumlife.lt). Information about Mandatum Life Finland and Sampo plc can be found on [www.mandatumlife.fi](http://www.mandatumlife.fi) and [www.sampo.com](http://www.sampo.com) web sites.

## 2. Management

The Company's Management Board consisted of eight members at the end of 2010. The acting Chairman of the Management Board and the CEO is Imre Madison. Other members of the Management Board are Erkki Sadam, responsible for the Company's legal and procurement matters; Paul Lukka, responsible for investment management and wealth management; Uldis Mucinieks, responsible for sales management and Latvian Branch Manager; Ilona Stare, responsible for policy administration and IT management; Rytis Ambrazevicius, responsible for marketing and client service matters and Lithuanian Branch Manager; Rasa Kasperaviciute, responsible for risk management and product development matters; and Timo Pursiala, responsible for financial and business control matters.

The Company's Supervisory Board consisted of three members at the end of 2010. The acting Chairman of the Supervisory Board is Timo Laitinen, the Senior Vice President

of Mandatum Life Finland. Other members of the Supervisory Board are Kaisa Aalto-Luoto, the Director of Human Resources of Mandatum Life Finland, and Jukka Pirskanen, the Head of Wealth Management of Mandatum Life Finland.

Mandatum Life's Chief Actuary is Airi Viiart.

## 3. Business results

Mandatum Life's financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS). Consolidated financial results are presented in Estonian kroons.

In 2010, Mandatum Life continued to change its business focus of new sales towards lump sum unit-linked insurance policies. With the business focus mainly being on the rapid increase of unit-linked insurance assets under management, the Company launched its wealth management operations in the Baltic countries in April 2010. Mandatum Life's wealth management solutions are offered to wealthy clients through unit-linked insurance policies. The sales of regular savings unit-linked insurance policies, and term life and accident and sickness-related complementary insurances were activated for middle-class private clients and corporate clients. New contracts of guaranteed interest insurance were not sold in 2010, but the investment result of the technical provisions of guaranteed interest insurance contracts which are still in force had an impact on Mandatum Life's profitability.

### 3.1. Life insurance industry in the Baltic countries in 2010

In the Baltic life insurance market, the total of contractual payments received was 4,860,757 thousand Estonian kroons in 2010 (against a figure of 4,177,642 thousand Estonian kroons in 2009). This represents an 11% increase on the figures for 2009.

The biggest life insurance market in the Baltic countries is in Lithuania where contractual payments received totalled 2,445,360 thousand Estonian kroons (up 12% against 2009's figure of 2,190,524 thousand), followed by Estonian life insurance market with 1,232,493 thousand Estonian kroons (up 6% against the figure of 1,157,848 thousand for

2009), and then by Latvian life insurance market with 1,183,963 thousand Estonian kroons (up 15% against the figure of 829,270 thousand for 2009).

An overview of the Baltic countries' unit-linked insurance market for the year 2010 is not available as unit-linked insurance market data is no longer reported in Latvia, while Lithuanian and Estonian unit-linked insurance data is available. In Lithuania unit-linked insurance payments received totalled 1,736,929 thousand Estonian kroons (up 16% against 2009's figure of 1,502,074 thousand). In Estonia unit-linked insurance payments received totalled 617,503 thousand Estonian kroons (up 23% against 2009's figure of 500,691 thousand).

Mandatum Life's market share (based on total contractual payments received) in the Baltic countries as at 31.12.2010 reached 19.5% (16.0% as at 31.12.2009) and held the third position on the Baltic life insurance market.

Mandatum Life's unit-linked insurance market share (based on unit-linked insurance contractual payments received) in Lithuania as at 31.12.2010 reached 20.6% (16.1%) and held the third position on the unit-linked insurance market in Lithuania. Mandatum Life's unit-linked insurance market share in Estonia as at 31.12.2010 reached 54.7% (49.7%) and held the leading position on the unit-linked insurance market in Estonia.

<b>MANDATUM LIFE'S TOTAL MARKET SHARE (BASED ON ALL PAYMENTS RECEIVED)</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>POSITION</b>
ESTONIA	12.1%	24.3%	29.6%	2
LATVIA	14.6%	15.9%	17.9%	3
LITHUANIA	8.5%	11.6%	15.2%	4
<b>MANDATUM LIFE'S TOTAL IN THE BALTIC COUNTRIES</b>	<b>10.6%</b>	<b>16.0%</b>	<b>19.5%</b>	<b>3</b>

### 3.2. Contracts portfolio

As at 31.12.2010, Mandatum Life serviced a total of 39,342 life insurance contracts (against a figure of 41,185 in 2009). The biggest share of total insurance contracts in force consisted of unit-linked insurance contracts, representing a share of 68%.

As at 31.12.2010, Mandatum Life's contracts portfolio included 43,661 insured persons (45,776 in 2009).

In 2010, Mandatum Life concluded 3,112 new contracts (against 2,859 in 2009) and surrendered or matured 4,775 contracts (against 5,434 in 2009).

### 3.3. Contractual payments received and assets under management

Contractual payments received by Mandatum Life totalled 945,482

thousand Estonian kroons in 2010 (664,692 thousand in 2009). This represents a 42% increase on the figures for 2009.

Contractual payments received from new business in 2010 (such as contractual payments received from new contracts concluded in 2010 and additional lump sum payments received for unit-linked insurance contracts) totalled 751,522 thousand Estonian kroons (464,873), and contractual payments received from old business totalled 193,960 thousand Estonian kroons (199,819).

As at 31.12.2010, Mandatum Life's financial liabilities from investment and insurance contracts e.g. client assets under management (AUM) were 2,580,302 thousand Estonian kroons (1,859,245), which is 39% more than at the end of 2009. The biggest share in AUM was constituted by financial liabilities from investment contracts (unit-linked insurance

assets), which formed 92% (89%) of clients' total AUM.

### 3.4. Claims incurred

For Mandatum Life in 2010, the total claims incurred with other pay-outs was 413,647 thousand Estonian kroons (240,345), which is 72% more than in 2009. The majority of pay-outs from valid contracts were made from unit-linked AUM. The increase of the sum of total pay-outs versus 2009 was driven by a couple of surrenders of major unit-linked insurance contracts. As for the number of contracts, contracts were mostly surrendered in regular saving guaranteed interest insurance and unit-linked insurance. The surrender ratio (the share of total claims incurred from total contractual payments received) in 2010 reached 44% (36%).

### 3.5. Investments

Mandatum Life's investment objective is to produce the highest possible return on acceptable risk level. Successful investments provide clients with good nominal returns, improve the solvency margin, and satisfy the parent company's return expectations.

As for the management of investments, in 2010 the Company continued its partnership with Danske Capital AS. Mandatum Life manages its investment portfolios of technical provisions as a single pan-Baltic portfolio.

Net income from the investment of technical provisions (net of investment expenses) in 2010 was 5,808 thousand Estonian kroons (against 21,260 thousand in 2009). Investment income of the Company's own capital portfolio was 3,406 thousand Estonian kroons in 2010 (3,892 in 2009).

At the end of 2010, the total size of the investment portfolio (except investments related to unit-linked insurance contracts) reached 416,982 thousand Estonian kroons (405,868). Mandatum Life's investment portfolio (excluding investments related to unit-linked insurance contracts) comprised mostly of fixed income instruments such as government and corporate bonds and money market instruments, including term deposits.

The annual investment return on the investment portfolio in 2010 was 3.1% (7.4%).

### 3.6. Client bonuses

Mandatum Life did not pay additional bonuses into guaranteed interest life insurance contracts for 2010 in any Baltic country (752 thousand Estonian kroons was paid in 2009). The guaranteed interest rate for respective insurance contracts in Estonia is 3.5%; in the Latvian branch the guaranteed interest is between 2.5% and 4%, depending on the type of product; in the Lithuanian branch, the

guaranteed interest is between 2.5% and 4%, depending on the type of product. The reason for not paying any additional bonuses was related to the 2.7% annual return of the Company's technical provisions investment portfolio, which stayed below most of the Company's guaranteed interest rates.

### 3.7. Risk management

Risk is an essential and inherent element of Mandatum Life's business activities and operating environment. A high-quality risk management process is a prerequisite for running the Company's business activities. In managing its insurance risk, market risk, credit risk and operational risk, Mandatum Life follows the risk management principles of Sampo Group. The principal goal of Sampo Group's risk management is to ensure that risks have been correctly identified, assessed and analysed, and that there is enough capital to cover the accepted risks. The biggest risk groups for the Company are those of market risk and the interest rate risk in investment portfolios, as well as the insurance risk of clients. The Company's Management Board and Supervisory Board are responsible for risks, but the Risk Management Committee, the Assets and Liabilities Committee and Operational Risk Management Committee also regularly supervise risk and investment management in Mandatum Life.

Mandatum Life conducts an annual operational self-assessment of risks in each business area. Based on the results of this assessment the annual risk management activity plan is prepared and followed.

The Company's internal audit was insourced and in all Baltic countries internal audits are conducted by the Company's own internal auditor since 2010. In 2010, seven internal audits and three follow-up internal audits were performed in Mandatum Life.

### 3.8. Owner's equity and solvency margin

As at 31.12.2010 Company's owner's equity was 155,685 thousand Estonian kroons (133,016), of which 55,000 thousand Estonian kroons (55,000) was share capital.

The total amount of assets included in the available solvency margin for an insurance undertaking shall not at any time be less than the minimum solvency margin or the required solvency margin and, in case of the requirement for an adjusted solvency margin, not less than the required amount for the adjusted solvency margin. Mandatum Life's available solvency margin was 143,402 thousand Estonian kroons (125,384) on 31 December 2010, while at the same time the required solvency margin was 37,730 thousand Estonian kroons (31,333). The solvency surplus was 105,633 thousand Estonian kroons (94,051) and therefore all requirements (including that of the minimum required solvency margin of 54,763 thousand Estonian kroons) were met.

### 3.9. Operating expenses

Mandatum Life's operating expenses (which include acquisition expenses, administrative expenses and investment expenses) increased by 6.6% in comparison with 2009. Growth of expenses was driven by the increase of total payments received (sales commissions, sales support) and by the investments made in client service.

Total expenses (including expenses related to pay-outs) were 86,732 thousand Estonian kroons in 2010 (81,567). Acquisition expenses accounted for 50% (47%) of all operational expenses in 2010. Administrative expenses accounted for 41% (44%) and other expenses for 9% (9%) of all operational expenses.

### 3.10. Operating profit

In 2010, Mandatum Life's profit for the financial year totalled 22,665

thousand Estonian kroons (against 20,452 in 2009). The operating profit, excluding the Company's own capital investment portfolio income was 19,259 thousand Estonian kroons (16,561). The main drivers of Mandatum Life's positive financial results were increased fee income through growing contractual payments received, the growth of client assets under management and one-time effect from the unification of the Company's guaranteed interest rate of technical provisions investment portfolio.

Mandatum Life's return on equity (ROE, i.e. the ratio of annual business result against the annual average owner's equity) was 18.4% in 2010 (17.3%).

### 3.11. Balance sheet

Mandatum Life's balance sheet volume reached 2,750,163 thousand Estonian kroons as at 31.12.2010 (2,009,958), the annual increase being 740,205 thousand Estonian kroons. This increase was mainly based on the growth of liabilities resulting from unit-linked insurance contracts (these liabilities increased by 645,861 thousand Estonian kroons in 2010). Total liabilities from insurance contracts were 2,580,302 thousand Estonian kroons at the end of 2010 (1,859,245); financial liabilities for unit-linked insurance contracts formed 2,293,562 thousand Estonian kroons thereof (1,572,563).

## 4. Personnel of the Company

As at 31.12.2010, there were 111 (102) employees working in Mandatum Life, of whom 41 (43) were employed in the sales area. In the Estonian unit there were 47 (37) employees, in the Latvian branch 30 (32) employees, and in the Lithuanian branch 34 (33) employees. Additionally, 10 (10) employees were on maternity leave or on leave for some other reason as at the end of 2010, of whom 5 (4) were from the Estonian unit, 1 (none)

was from the Latvian branch, and 4 (6) were from the Lithuanian branch.

Mandatum Life together with the parent company conducts personnel satisfaction surveys in co-operation with the "Great Place to Work" survey team. Staff satisfaction results have improved when compared to 2009 and reached to 81% in 2010, out of a maximum of 100%.

Salaries and wages (including payroll taxes) for the financial year were 45,791 thousand Estonian kroons (42,832). The Supervisory Board members were not remunerated. Mandatum Life paid remuneration to members of the Management Board for carrying out their tasks, which totalled 7,352 thousand Estonian kroons in 2010 (6,737).

## 5. Activities in the Baltic countries

### 5.1. Sales and development activities

Mandatum Life's main sales channel is its own sales, including retail and key account teams, wealth management operations and client service unit. Another sales channel is bank-assurance in cooperation with Danske Bank in Lithuania and in Estonia.

The Company's own sales teams focus on fulfilling the needs that upper middle class private clients, high net worth individuals, entrepreneurs and corporate clients have in relation to investment, wealth management and life insurance solutions. In April 2010 the Company launched its wealth management solutions for wealthy clients in the Baltic countries. These solutions are developed on the basis of unit-linked insurance lump sum products.

Danske bank's share in total contractual payments received is decreasing compared to previous years. Other sales channels such as If P&C and insurance brokers

represent a smaller share of total contractual payments received. The importance of different sales channels varies from country to country while the Company's own sales teams are the core sales channels in all Baltic countries.

Mandatum Life continued with further development of its online service tools E-life in Lithuania and Estonia, and E-investor in Estonia.

In 2010, in order to improve the service to Company's existing clients, a separate client service business unit was established by separating it from policy administration and sales units. Also, Baltic Client Relationship Management (CRM) project was launched to develop common pan-Baltic CRM principles.

Mandatum Life's cooperation with the parent company in Finland is mostly focused on developing investment management and wealth management solutions and offering these solutions to Baltic clients.

### 5.2. Other activities

The Company had a full-year development project in Estonia related to Euro conversion effective from 01.01.2011. All Company's major IT systems and other processes were successfully converted from Estonian kroons to Euros in time.

The Company implemented new insurance software in Latvia. It will enable the Company to develop e-services for Latvian clients in 2011.

The Company launched a common IT network and a common file system across the Baltic countries to manage its internal communication more effectively. The Company's main partners in managing common network and file system across the Baltic countries are NetGroup from Estonia and Latttelecom from Latvia.

The Company started scanning and electronic archiving of its client documentation in all Baltic countries. It is a part of the Company's general

risk management activities also in 2011.

The Company participated in Quantitative Impact Study (QIS) 5 calculations related to the Solvency 2 preparations of the EU insurance sector.

The Finnish Financial Supervisory Authority and the Estonian Financial Supervision Authority (EFSA) conducted the first cross-border audit in Sampo Group entities concerning business contingency systems and processes. Mandatum Life received positive feedback from EFSA; no major risks were discovered. In 2010, the external auditor was Ernst & Young Baltic AS.

In 2010, the reinsurer was Mandatum Life Insurance Company Ltd.

## 6. Outlook for 2011

The macro-economic situation in the Baltic countries continues to recover and the outlook for 2011 is positive.



Imre Madison  
Chairman of the Management Board

Tallinn, 7 February 2011

One of the most critical issues, high unemployment, remains critical also for the year 2011 in all Baltic countries. Mandatum Life's management considers the situation to be still challenging for investments, wealth management and life insurance area. In the legal environment of insurance sector there were several changes made in 2010 to be effective from 01.01.2011 or later. Such changes also have a direct impact on the Company's business, such as MiFID requirements for unit-linked insurance business (in Lithuania and Estonia in 2011), changes in income taxation related to investments profits (Estonia), changes in employee benefit scheme taxation (starting from 2012 in Estonia) and others.

Mandatum Life's management sees a need to unify Estonian, Latvian and Lithuanian Financial Supervision Authorities' requirements for insurance, investments and assets management sectors across the Baltic countries to a higher degree.

Mandatum Life's main priorities in 2011 include the following: strong emphasis on the continuous development of its own sales force, unit-linked insurance related wealth management solutions offered in the Baltic countries, superior client service, increase of client assets under management, cost-efficient pan-Baltic processes, increase of fee income and developing Mandatum Life so that it would be a respected and favoured employer in the Baltic financial sector.

## 7. Significant post-balance sheet events

Since 10<sup>th</sup> of January 2011, the asset manager of the Company's technical provisions and owners equity investment portfolios is Sampo Group. Action was taken in order to manage all assets invested by Sampo Group entities under the same asset manager.

## II. Annual accounts

### 1. Statement of financial position as at 31.12.2010

in thousands of Estonian kroons	31.12.2010	31.12.2009	Notes
<b>Assets</b>			
Cash and cash equivalents	101 724	129 348	III.3.1
Reinsurers' share of insurance liabilities	1 165	1 014	III.3.9.1
Financial assets			
- Financial assets designated at fair value through profit and loss	2 618 942	1 857 753	III.3.2
- Receivables related to insurance activities and other	6 992	7 270	III.3.3.1
Accrued income and prepaid expenses	7 184	4 853	III.3.3.2
Property, plant and equipment	1 877	1 520	III.3.4
Intangible assets	12 279	8 200	III.3.5
<b>Total assets</b>	<b>2 750 163</b>	<b>2 009 958</b>	
<b>Liabilities and owner's equity</b>			
Insurance payables	4 552	6 562	III.3.6
Accrued expenses and deferred income	9 624	11 135	III.3.7
Financial liabilities from insurance contracts	2 142 614	1 647 701	III.3.8.1
Financial liabilities from investment contracts	221 293	0	III.3.8.2
Technical provision from insurance contracts	216 395	211 544	III.3.9.1
Total liabilities	2 594 478	1 876 942	
Share capital	55 000	55 000	
Share premium	54 918	54 918	
Legal reserve	2 071	1 048	
Unrealised foreign exchange rate	13	9	
Retained profits	43 683	22 041	
Total owner's equity	155 685	133 016	III.3.12
<b>Total liabilities and owner's equity</b>	<b>2 750 163</b>	<b>2 009 958</b>	

Notes on the accounts presented on pp 15-50 form an integral part of the Annual Accounts.

## 2. Statement of Comprehensive Income 2010

in thousands of Estonian kroons	2010	2009	Notes
Gross premiums	64 354	68 069	III.3.13
Premiums ceded to reinsurers	-11 512	-11 750	III.3.14
Net premiums	52 842	56 319	
Investment income	8 162	18 285	III.3.15
Fair value gains and losses	2 957	10 250	III.3.16
Realised gains and losses	1 589	264	III.3.17
Net income from investments	12 708	28 799	
Fee income	46 593	42 520	III.3.18
Reinsurance commission income	5 324	5 484	III.3.14
Other income	17 998	9 914	III.3.19
Total other revenue	69 915	57 918	
Paid insurance claims net of reinsurance and claims handling expenses related to pay-outs	-24 055	-32 639	
Increase of insurance technical provisions net of reinsurance	-5 049	-8 321	
Net insurance claims and change of technical provisions	-29 104	-40 959	III.3.20
Change in value of unit-linked financial liabilities and assets	1 280	-822	III.3.21
Change in value of financial liabilities from insurance contracts with guaranteed interest	-2 180	-3 156	III.3.8.5
Acquisition expenses	-43 368	-37 792	
Administrative expenses	-35 936	-36 207	
Investment expenses	-3 493	-3 647	
Total expenses	-82 797	-77 646	III.3.22
<b>Profit before income tax</b>	<b>22 665</b>	<b>20 452</b>	
Income tax expenses	0	0	III.3.23
<b>Profit/loss for the financial year</b>	<b>22 665</b>	<b>20 452</b>	
Other comprehensive income			
Exchange differences	4	24	
<b>Total comprehensive income for the financial year</b>	<b>22 669</b>	<b>20 476</b>	

Notes on the accounts presented on pp 15-50 form an integral part of the Annual Accounts.

### 3. Statement of cash flows 2010

in thousands of Estonian kroons	2010	2009	Notes
Cash flow from operating activities			
Premiums received	64 378	68 362	
Financial liability inflow	858 042	596 761	
Paid claims and claims handling expenses related to pay-outs	-25 729	-35 134	
Financial liability outflow	-360 258	-211 077	
Reinsurance payments	-4 666	-4 484	
Expenses	-79 109	-68 894	
Other revenue and other expenses	16 094	9 653	
Purchases of shares and investment fund units	-3 736 689	-2 822 723	
Proceeds from the sale of shares and investment fund units	3 343 145	2 379 286	
Purchases of bonds and other fixed income securities	-267 893	-107 304	
Proceeds from the sale of bonds and other fixed income securities	112 800	155 018	
Investments in term deposits	-185 901	-535 381	
Proceeds on term deposits	238 754	563 455	
Interest received	9 285	19 846	
Dividends received	80	37	
Investment expenses	-3 493	-3 647	
Net cash provided by operating activities	-21 160	3 774	
Cash flow from investing activities			
Purchases of tangible and intangible assets	-6 463	-4 911	III.3.4, III.3.5
Net cash provided by investing activities	-6 463	-4 911	
<b>TOTAL CASH FLOW, net</b>	<b>-27 623</b>	<b>-1 137</b>	
Cash and cash equivalents at the beginning of the period	129 348	130 490	
Change in cash and cash equivalents	-27 623	-1 137	
Foreign currency translation effects	-1	-5	
Cash and cash equivalents at the end of the period	101 724	129 348	

Notes on the accounts presented on pp 15-50 form an integral part of the Annual Accounts.

#### 4. Statement of changes in owner's equity 2010

in thousands of Estonian kroons	Share capital	Share premium	Legal reserve	Unrealised foreign exchange rate	Retained earnings	Total equity
As at 31.12.2008	55 000	54 918	1 048	-15	1 589	112 540
Profit for the year 2009	0	0	0	0	20 452	20 452
Other comprehensive income	0	0	0	24	0	24
Total comprehensive income for the year 2009	0	0	0	24	20 452	20 476
As at 31.12.2009	55 000	54 918	1 048	9	22 041	133 016
Profit for the financial year	0	0	0	0	22 665	22 665
Other comprehensive income	0	0	0	4	0	4
Total comprehensive income for the year 2010	0	0	0	4	22 665	22 669
Increase of legal reserve	0	0	1 023	0	-1 023	0
As at 31.12.2010	55 000	54 918	2 071	13	43 683	155 685

Notes on the accounts presented on pp 15-50 form an integral part of the Annual Accounts.

# III. Notes on the accounts

## 1. Accounting policies

### 1.1. Basis of preparation

The Company's 2010 Annual Accounts have been prepared in accordance with International Financial Reporting Standards (IFRS). International Financial Reporting Standards are standards and interpretations that have been issued by the International Accounting Standards Board and adopted by the European Union.

Annual Accounts have been drawn up by using the principle of acquisition cost, except for certain financial assets that are recorded in their fair value with changes through profit and loss.

The preparation of financial reports in conformity with International Financial Reporting Standards requires the adoption of decisions based on estimates and assumptions. Decisions and estimates adopted affect the Company's assets, liabilities, income and expenses presented as at balance day. Although those estimates and decisions are based on the best knowledge of the management, the subsequent actual result may be different.

All amounts in the notes are presented in thousands of Estonian kroons, unless stated otherwise.

Pursuant to the Commercial Code of the Republic of Estonia, the General Meeting of Shareholders approves the annual report, which also includes the annual accounts prepared by the Management Board and approved by the Supervisory Board. Shareholders are entitled to refrain from approving the annual report which has been prepared and approved by the Management Board and instead may request the preparation of a new report.

Financial statements include the accounts of the Company and the accounts for the branch offices in Latvia and Lithuania. As individual entities, branches prepare their financial statements for the same period, and use the same accounting principles applied to the Company as a whole. All inter-company balances, profits and transactions are eliminated in full.

In comparison with the annual accounts published previously, the Company has made changes to the presentation of cash and cash equivalents. Cash covering investments in unit-linked contracts is recorded as unit-linked investments (Note 3.2.2), as the aforementioned cash has accrued to acquire investments. Therefore the total amount of cash and cash equivalents decreased by 15,680 thousand Estonian kroons (in 2009 this was 18,018 thousand Estonian kroons) and unit-linked investments increased by the same amount.

Financial statements of the Company for the year that ended on 31 December 2010 were authorised by the members of the Management Board on 28 February 2011.

Financial statements of the parent company, Mandatum Life Insurance Company Ltd, and the ultimate parent of the Company, Sampo plc, are available for public at [www.mandatumlife.fi](http://www.mandatumlife.fi) and [www.sampo.com](http://www.sampo.com).

### 1.2. Changes in accounting policies

The financial report is composed on the basis of consistency and comparability principles, which means that the Company continues to apply the same accounting

principles and presentation format. Changes in accounting policies and presentation take place only if these are required by new or revised IFRS and interpretations, or if the new accounting policy and / or presentation give(s) a more objective overview of the financial position, financial results and cash flow of the Company.

#### 1.2.1. Adopting new and/or changed IFRSs and IFRIC interpretations

The Company has adopted the following new and amended IFRS and IFRIC interpretations during the year:

- Amendment to IFRS 2 *Share-based Payment*
- Amendments to IFRS 3 *Business Combinations* and IAS 27 *Consolidated and Separate Financial Statements*
- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
- IFRIC 12 *Service Concession Arrangements*
- IFRIC 17 *Distributions of Non-cash Assets to Owners*
- IFRIC 18 *Transfers of Assets from Customers*
- Improvements to IFRS (issued in 2008 and 2009 and effective from 1 January 2010 onwards).

Principal effects of these changes are as follows:

#### **Amendments to IFRS 3 *Business Combinations* and IAS 27 *Consolidated and Separate Financial Statements***

Amendments to IFRS 3 introduce significant changes to the

accounting for business combinations occurring after taking effect. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results for the period an acquisition occurs and future reported results.

Amendments to IAS 27 require that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions do not give rise to goodwill, nor do they give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

Other standards and interpretations and their amendments adopted in 2010 did not have an impact on the financial statements of the Company, because the Company did not have the respective financial statement items and transactions addressed by these changes.

### 1.2.2. Standards issued but not yet effective

The Company has not applied the following IFRSs and IFRIC Interpretations which have been issued but are not yet effective:

**Amendments to IFRS 7 *Financial instruments: Disclosures*** (effective for financial years beginning on or after 1 July 2011, once adopted by the EU)

The amendment modifies disclosure requirements for certain transfers of financial assets. The amendment is not expected to have any impact on the consolidated financial statements since the Company does not have these kinds of transfers.

**IFRS 9 *Financial Instruments*** (effective for financial years beginning on or after 1 January 2013, once adopted by the EU).

IFRS 9 will eventually replace IAS 39. The IASB has issued the first two parts of the standard, establishing a new classification and measurement framework for financial assets and requirements on the accounting for financial liabilities. The Company has not yet evaluated the impact of the implementation of this standard.

**Amendments to IAS 12 *Income Taxes*** (effective for financial years beginning on or after 1 January 2012, once adopted by the EU).

The amendment provides a practical solution to the problem of determining whether an entity that is measuring deferred tax related to investment property, measured using the fair value model, expects to recover the carrying amount of the investment property through use or sale by introducing a presumption that recovery of the carrying amount will normally be through sale. The Company has not yet estimated the impact of the implementation of these changes.

**Amendments to IAS 24 *Related Party Disclosures*** (effective for financial years beginning on or after 1 January 2011).

Amendments simplify the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition. They also provide a partial exemption from the disclosure requirements for government-related entities. The implementation of these amendments will have no impact on the financial position or performance of the Company; however it may impact the related parties' disclosures.

**Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*** (effective for financial years beginning on or after 1 February 2010).

The amendment changes the definition of a financial liability to exclude certain rights, options and warrants. The amendment will have no impact on the financial position or performance of the Company, as the Company does not have such instruments.

### 1.2.3. Improvements to IFRSs

In May 2010 IASB issued an omnibus of amendments to its standards. The amendments become effective for annual periods on or after either 1 July 2010 or 1 January 2011, but they are still to be adopted by the EU. The adoption of the following amendments may result in changes to accounting policies but will not have any impact on the financial position or performance of the Company:

- IFRS 3 *Business Combinations*;
- IFRS 7 *Financial instruments: Disclosures*;
- IAS 1 *Presentation of Financial Statements*;
- IAS 27 *Consolidated and Separate Financial Statements*;
- IFRIC 13 *Customer Loyalty Programmes*.

**Amendment to IFRIC 14 IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*** (effective for financial years beginning on or after 1 January 2011).

The amendment modifies the accounting for prepayments of future contributions when there is a minimum funding requirement. This amendment will not have any impact on the consolidated financial statements because the Company does not have any defined benefit assets.

**IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*** (effective for financial years beginning on or after 1 July 2010).

The interpretation provides guidance on accounting for

extinguishing financial liabilities with equity instruments. Since the Company does not have such transactions, IFRIC 19 will not have any impact on its consolidated financial statements.

### 1.3. Foreign currency translation

Financial statements are presented in Estonian kroons, which is the functional and reporting currency of the Company. Items included in the financial statements for each of the Company's entities are measured using their functional currency which is the currency of the primary economic environment in which the entity operates. Foreign currency transactions are translated into the appropriate functional currency using the exchange rates prevailing at the date of each transaction. Monetary balance sheet items denominated in foreign currencies are translated into the functional currency at the rate prevailing at the balance sheet date. Non-monetary balance sheet items measured at historical cost are presented on the balance sheet using the historical rate existing at the date of the transaction.

Assets and liabilities for branches with functional currencies other than EEK are translated into the reporting currency at the end-of-period exchange rates, while income statements are translated using the exchange rate of the Bank of Estonia at the date of the initial transaction. Exchange differences resulting from the translation of these items are recognised as translation gains and losses in the income statement, except for differences relating to items where gains or losses are recognised directly in equity and their change is shown in other comprehensive income.

The following exchange rates have been applied in financial statements

Estonian kroon (EEK)	As at 31.12.10	As at 31.12.09
1 Latvian lats (LVL)	22.0436	22.0504
1 Lithuanian litas (LTL)	4.53157	4.53157

### 1.4. Cash and its equivalents

Cash and cash equivalents includes bank accounts, demand deposits, short-term deposits with an original maturity of three months or less and money market fund shares that have no material market value change risk. The Company has no cash in hand.

### 1.5. Financial assets

Financial assets include cash, short-term financial investments, receivables from clients and other short- and long-term receivables.

Financial assets of the Company are divided into the following categories:

- Fair value through profit or loss;
- Loans and receivables;
- Held to maturity;
- Available for sale.

The Company has not classified any investments which have been held to maturity or which are available for sale.

Reinsurance assets are recognised on the balance sheet and their calculation principles are described separately, although they are considered to be financial assets (see clause 1.9).

Sales and purchases of financial assets are recognised on the trade date, which is the date on which the Company commits to purchase or sell any such asset.

Financial assets are recognised at their acquisition cost, which is the fair value of payment made for the assets. Initial acquisition cost includes all direct transaction costs related to the acquisition of assets, except expenses related to the

acquisition of financial assets measured as being fair through profit and loss.

The recognition of financial assets on the balance sheet will come to an end if the Company loses its contractual rights to cash flows arising from financial assets or if it transfers these cash flows and most of the risks and benefits related to financial assets to a third party.

There is no major difference between the book value and the fair value of financial assets (except for receivables from insurance contracts).

#### 1.5.1. Financial assets measured at fair value through profit and loss

Financial assets measured at fair value through profit or loss includes financial investments and investments related to unit-linked insurance contracts.

In order to classify financial assets as "financial assets which are measured at fair value through profit or loss", they must fulfil the following criteria:

- Assets held for trading;
- Assets classified as such, since this provides more relevant financial information.

Financial assets which are not held for trading may be classified under this group if:

- This serves the purpose of eliminating any differences in the recognition of income and expenses arising from the measurement of assets and related liabilities, i.e. helps to reduce potential accounting discrepancies; or
- Financial assets are managed together and the results are measured at fair value in accordance with the recorded risk management or investment strategy, and the respective information is forwarded to the senior management.

Financial assets are initially recorded at fair value in accordance with a documented risk management and investment strategy. If equity

instrument has no active stock market price and its fair value cannot be measured with certain credibility, then fair value cannot be used.

Financial assets recognised at fair value are re-evaluated on each balance day based on their current fair value; i. e. not deducting potential transaction costs arising out of the sale of assets.

The fair value of financial assets is based on prices quoted on the active market. In the case of securities which have been listed on the stock exchange, the Company uses closing prices for the balance day and official exchange rates from the Bank of Estonia; however, in the case of securities that are not listed, the Company uses all information available to it in respect of the value of a particular investment. The value of term deposits is their carrying value. The carrying value is the cost of the deposit and accrued interest. The carrying value of a term deposit is the approximate fair value for that deposit.

Profit and loss arising from changes in fair value is recognised in the income statement under the item "Fair value gains and losses". Profit and loss from the sale of investments is recognised in the income statement under the item "Realised gains". Income from interests and dividends arising from respective securities is recognised in the income statement under the item "Investment income".

### 1.5.2. Investment income

Interest income is recognised in the income statement as it accrues and is calculated by using the effective interest rate method. Dividend income is recognised when received.

### 1.5.3. Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on the active market, nor acquired by the Company for trading. After initial recognition, receivables are recognised at their amortised

cost, using the effective interest method. Short-term receivables are recognised on the balance sheet at their nominal value, which is usually equal to the amortised cost of the receivables.

A receivable is recognised as unlikely to be recoverable if the Company has received objective proof on the occurrence of a loss.

Receivables also include receivables from insurance activities, i.e. receivables from policyholders and from reinsurers. Receivables are presented in their net amount, i.e. deducting unlikely recoverable and irrecoverable amounts. Receivables that are not recovered (except receivables from policyholders) are assessed separately, i.e. the probability of collection is assessed for each receivable. Receivables that are considered unlikely to be recoverable are deducted from the balance sheet and the income for the accounting period is decreased by the respective amount.

## 1.6. Property, plant and equipment

Property, plant and equipment are measured at their historical cost less accumulated depreciation and any necessary write-downs due to impairment. The cost of these assets is depreciated principally on a straight-line basis over the following estimated useful economic lives:

- IT equipment and motor vehicles: three years;
- Other equipment: five years.

The depreciation is recognised as expenditure for the accounting period in the income statement under the headings "Acquisition expenses", "Administrative expenses", "Expenses related to pay-outs" and "Investment expenses".

The Management decides on each balance day whether there are any signs to indicate a decrease in value. In case there are any doubts that the value of an asset may drop below its book value, a test of the recoverable amount is performed. The

recoverable amount of an asset is the higher selling price for that asset and its value in use as calculated on the basis of discounted cash flow. If the test reveals that the recoverable amount of an asset is lower than its book value, the value of the asset is written down to its recoverable amount. This is recognised as an expense for the accounting period.

If the test for the recoverable amount which has been performed on assets that have already been written down at an earlier date reveals that the recoverable amount is higher than the residual book value, the former write-down is cancelled and the book value of the asset is increased.

An item of property, plant and equipment is effectively 'derecognised' as soon as it has been disposed of or when no further future economic benefits are expected to be gained from its use or disposal. Any gains or losses arising from the 'derecognition' of the asset are included in the income statement under the headings "Other income" or "Acquisition expenses", and "Administrative expenses", and "Investment expenses" in the period in which the asset is derecognised.

## 1.7. Intangible assets

IT software and other intangible assets are recognised in the balance sheet as intangible assets with definite useful life, if it is probable that the expected future economic benefits that are attributable to the assets will flow to the Company and the cost of the assets can be measured reliably. Costs arising from the development of new IT software or from significant improvements in existing software are recognised only to the extent that they meet the aforementioned requirements for being recognised as assets in the balance sheet.

Intangible assets with definite useful life are measured at their historical cost less accumulated depreciation and impairment losses. Absorbed depreciation is recognised as an expense for the accounting period in

the income statement under the headings “Acquisition costs” and “Administrative expenses”.

Where there is any doubt that the value of an intangible asset may have decreased, a test of the recoverable amount is performed according to the same criteria as for cases involving property, plant and equipment.

Intangible assets include acquired licenses and software (at a cost of over 15,6466 kroons or 1,000 EUR). Intangible assets are depreciated on the basis of the straight-line method over a timescale of between two to ten years.

In the Company, there are no intangible assets with an indefinite useful life.

## 1.8. Recognition of insurance and investment contracts

### 1.8.1. Contract classification

Pursuant to International Financial Accounting Standard IFRS 4, each contract with a policyholder should be classified either as an insurance contract or investment contract; the existence of the discretionary participation feature (DPF) should be estimated and the deposit component should be unbundled.

The classification of a contract (and the unbundling of components) determines the measurement principle which is applied to it or to its components.

Contracts in which a significant insurance risk has been transferred must be classified as insurance contracts. If the risk that is

transferred on the basis of the contract is essentially a financial risk rather than a significant insurance risk, the contract is classified as an investment contract. In other words, investment contracts are contracts for which no significant insurance risk has been transferred. Once a contract has been classified as an insurance contract, it shall remain as such until its expiry. Other contracts shall be tested on a regular basis. The discretionary participation feature (DPF) is the policyholder’s contractual right to receive additional benefits as a supplement to guaranteed benefits. Additional benefits are those bonuses (additional interest) which are paid into the policyholder’s reserve or which are paid out together with the insurance indemnity upon the death of an insured person.

#### COMPANY’S CLASSIFICATION OF CONTRACTS

Classification (including unbundling combinations)	Separately measured components	Contract groups
Insurance contract without unbundling deposit/savings component and without DPF	Insurance component	Term life; Loan insurance; Riders; Some contracts during annuity period; Term life cover in Wealth Management Contracts
Insurance contract with unbundling DPF, but without unbundling other deposit/savings component	Insurance component DPF = Bonuses (last one measured as financial liability)	With profit traditional products: Endowment; Children endowment; Scholarship insurance; some annuities; some contracts during the annuity pay-out time
Insurance contract with unbundling deposit/savings component(s) and with unbundling DPF	Insurance component Unit Linked savings Guaranteed savings DPF = Bonuses (last three measured as financial liability)	Unit-linked and Universal life products (might include savings with guaranteed interest, additional interest or bonuses; risk covers; unit-linked savings) Guaranteed savings, unit-linked savings and bonuses will be unbundled from the component which covers risk
Investment contract	Unit-linked savings Guaranteed savings DPF = Bonuses (all three measured as financial liability)	Wealth management contracts, Unit-Linked savings.

In order to ensure the uniform accounting of similar contracts, insurance and deposit components are always unbundled and separately accounted for as stated in the previous table (i.e. the deposit component is recognised as a

financial instrument), without determining the materiality threshold of the insurance and investment components for each specific contract. The deposit component means the part of the contract that acts like an

investment. These are bonuses, UL savings and guaranteed savings mentioned in the previous table.

The Company does not separate the deposit component (other than for determined bonuses) from traditional profit-sharing contracts

(such as endowment insurance, or an endowment for children), as the standard allows them to be accounted for as previously.

### 1.8.2. Gross premiums

Gross premiums are related only with premiums classified as insurance component.

It means that depending on the classification, gross premiums may be at the same premium amounts paid by clients (if there are no components other than the insurance component) but it may also be only a part of it (which means the insurance component if other parts of the premium are unbundled); also this may not be paid by clients but instead deducted from clients' savings (risk premiums that are meant to cover death, disability or sickness benefits).

Depending on the type of insurance and product, gross premiums are recognised when the premium is due, or is charged, calculated or paid. In case of traditional products or products with a fixed payment schedule, gross premium is normally recognised according to the date on which it is due. The date due shall mean the agreed latest date under the insurance contract. Risk premiums of flexible payment schedule products are normally recognised when they are calculated or charged.

Liabilities arising from insurance and investment contracts are considered long-term liabilities. Therefore the insurance premiums and related claims may not be recognised in the same accounting period. This gap is matched by an increase in insurance provisions presented under the expense section of the income statement. Gross premium is accounted for in profit or loss at the same time when the respective life insurance provision is accounted as liability. The change in the life insurance provision is presented as an expense under "Increase of insurance technical provisions net of reinsurance".

### 1.8.3. Fee income

Fee income includes fees related to deposit components for insurance contracts in accordance with price lists. These are acquisition fees, administrative fees, fees related to pay-outs or different single or transaction fees. Fee income is recognised on the date of the transaction and also, in many cases, on accrued basis.

### 1.8.4. Financial liabilities from insurance or investment contracts

Insurance technical *financial liabilities* include the following:

All bonuses determined for contracts at the amounts these have been determined to the clients through all past years up to 2010 and corrected (increased and/or decreased) according to policy status and terms and conditions up to the balance date.

Financial liabilities from unit-linked life insurance contracts where the amount is directly related to the market value of underlying assets. For the client, this is usually called the investment reserve or savings. The value of underlying assets for each contract is received by respective assets managers or is calculated separately for each contract which is based on units and the value of underlying assets. The unit values of an underlying asset portfolio are also received by respective assets managers. It is measured at fair value with changes through profit or loss to keep the same accounting method for respective assets.

Financial liabilities from other insurance contracts contain premiums paid into contracts, to which guaranteed interest is added, and from which fees and risk premiums are deducted. For the client it is often called a savings reserve. If the guaranteed interest rate is higher than that allowed by regulations, then additional liability is calculated to cover this cap.

Financial liabilities covering pending pay-outs. These are determined bonuses or investment or savings reserves to the amounts that are requested for pay-outs, but for which payment has not yet been made.

Financial liabilities for reasons other than those already mentioned, when they are required.

All other liabilities than those related to unit-linked contracts represent liabilities related to contracts with DPF where disclosing fair value is not permitted by IFRS7.

### 1.8.5. Insurance technical provisions

Insurance technical provisions cover liabilities for the insurance component.

#### 1.8.5.1 Life insurance provision

*Life insurance provision* includes those liabilities in the balance sheet for policyholders which are classified as insurance components. A life insurance provision may contain an actuarial provision, a deficiency provision, and an unearned premium provision. An actuarial provision is the probability-weighted present value of future pay-outs (claims, expenses) from which future premiums calculated separately for each contract have been deducted. Several assumptions are used when assessing the liabilities, such as assumptions for mortality, discount rate and future administrative expenses. Assumptions are generally the same as those used in pricing (at the moment of the conclusion of the policy). A deficiency provision is used for the LAT result, and up to early 2010 also for additional provisions calculated due to the necessity to follow stricter discount rate regulations in Lithuania in comparison to those in Estonia. The provision for unearned premiums is calculated under the *pro rata temporis* method.

### 1.8.5.2 Provision for future bonuses

*The provision for future bonuses* includes the amount that may be determined in the future for the benefit of policyholders or contractual beneficiaries in addition to the guaranteed profit. The provision of future bonuses based on the current economic year will be formed as soon as the management may expect to have positive bonuses for this year. The provision will be corrected as soon as the management is able to form any differing expectations in regard to bonuses for the current economic year.

Legislation does not determine the specific share of profit that is to be distributed. In accordance with the Company's business plan for the distribution of profits, the calculation of a profit sharing rate for a specific contract group is based on the previous year's financial results as a whole, plus the investment result, the profitability of the contract group over the duration of related contracts, including the profitability of previous and future periods, the amount of guaranteed interest, the overall investment environment, and finally the profitability of life insurance companies and other similar financial products, their solvency and other relevant data. Profit sharing for a specific contract is calculated as an amount on the basis of the profit sharing rate and an average reserve.

At the end of year (by balance as of 31.12.xx), any final amount and bonus rates will be decided upon by the Supervisory Board and then approved during the Shareholders' meeting. A decision regarding bonuses means that as of the end of the year the provision for future bonuses will be decreased and financial liabilities related to (determined) bonuses will be increased respectively.

### 1.8.5.3 Outstanding claims provision

*The outstanding claims* provision is formed in order to cover known or unknown claims which have already occurred but which have not yet been paid, along with initiated pay-outs (such as policy maturity, or lapses), and estimated related claim handling expenses that arise from the insurance component of contracts. The outstanding claims provision for known cases is estimated on a case by case basis. The provision for claims which have been incurred but have not yet been reported (IBNR) is assessed either on the basis of earlier statistics or by using recommendations by relevant local authorities. The unbundled deposit component is not included in the outstanding claims provision, but is recognised as a financial liability.

### 1.8.6. Liability adequacy test

Liabilities related to insurance contracts are generally calculated on fixed (and some of them on rather conservative) assumptions about future deaths, investment yield, expenses and cancellations. A liability adequacy test is performed once a year in order to test whether the liabilities are also adequate in light of current assumptions. The process for how these assumptions will be determined is described in the internal guidelines that have been approved by the Management Board. The liabilities calculated in the test are the discounted value of payments to be made under the contract in the future (insurance indemnities and expenses), less the discounted value of insurance premiums to be collected from policyholders in the future using a risk-free yield curve for calculating discounts and current best assumptions.

If the provisions are deemed to be adequate, they will not be amended.

If the provisions are not deemed to be adequate, liabilities will be assessed on the basis of new assumptions. The change is

therefore asymmetrical. So-called better assessments cause no change in the income statement, although worse assessments do.

### 1.8.7. Paid insurance claims and expenses related to pay-outs

Paid insurance claims include:

- Indemnities related to the insurance component, which are paid for insured events related to death, accident and sickness during the accounting period;
- Maturity compensation, or surrender amounts related to the insurance component.

Paid insurance claims do not include pay-outs from deposit component as this only serves to decrease the respective financial liability.

*Expenses related to pay-outs* include direct and estimated expenses that are related to the processing and settlement of paid claims and the administration of pay-outs, such as, for example, the salaries of persons dealing with claims handling, or for fees related to the use of experts.

### 1.9. Reinsurance contracts

A reinsurance contract is a contract which meets the IFRS 4 requirements for insurance contracts and on the basis of which Mandatum Life (the cedant) may receive compensation from another insurer (the reinsurer) if it becomes liable for paying compensation based on any other insurance contract it may have issued.

The Company cedes its insurance risk in the normal course of business related to its core services in Mandatum Life Insurance Company Limited. Reinsurance is risk-based. It mainly covers the risk of death and disability. This means that reinsurance arrangements concern only the insurance component of contracts issued by Mandatum Life and does not concern unbundled deposit components and financial liabilities.

Reinsurance items which are included in accounts are as follows: Reinsurance premiums are paid by Mandatum Life to the reinsurer; in the income statement this decreases the overall level of premiums;

The reinsurer will pay reinsurance commissions to Mandatum Life. It is shown in the income statement under other revenue;

Both reinsurance premiums and commissions are accounted for by means of monthly calculations and for the main part on accrued basis;

The reinsurance share in liabilities (which are mainly incurred as reinsured amounts that are related to the outstanding claim provision, but which in smaller amounts are also related to the unearned premium reserve) is accounted for in the balance sheet on the asset side as reinsurance assets. In the income statement the reinsurance share in paid claims and in the change of technical provisions decreases the overall amount of paid claims and the change in technical provisions. The reinsurance share in paid claims and in the outstanding claim provision is estimated on a case-by-case basis.

Ceded reinsurance arrangements do not relieve the Company of its obligations towards policyholders.

Real cash-flows are handled in net amounts and these are not linked to accrued periods.

### 1.10. Financial liabilities other than liabilities from insurance contracts

Financial liabilities include accounts payable to suppliers, accrued expenses and other short- and long-term liabilities. These items are recognised when they become due and are measured during their initial recognition at the fair value of the consideration received less transaction costs. Financial liabilities are further recognised at their amortised cost, using the effective interest rate method.

Short-term financial liabilities are recognised in the balance sheet because an amount to be paid as the amortised cost of short-term financial liabilities is usually equal to their nominal value.

Recognition of a financial liability is ended if that liability has been performed, or has been cancelled or lapsed.

There is no major difference between the book value and the fair value of financial liabilities.

### 1.11. Other income

Other income includes commission fees for the intermediation of insurance contracts for other insurers, commission fees for the intermediation of investment funds, and the gains from the disposal of tangible assets.

### 1.12. Expenses

Operating expenses are broken down into acquisition expenses, administrative expenses, investments expenses and expenses related to pay-outs. The general principle of distributing expenses among entries on the income statement is as follows: those costs that can be precisely identified (commission fees to intermediaries, etc.) are directly shown under the respective item. Where expenses cannot be precisely identified (office expenses, expenses related to premises, etc.), the *pro rata* distribution method is used.

*Acquisition expenses* are related to the sale of insurance contracts. Acquisition expenses include direct costs, e.g. commission fees to intermediaries, costs arising from the paperwork in respect of insurance documents or from the inclusion of contracts in the portfolio, as well as expenses incurred by employees who are directly involved in the conclusion of contracts, and indirect costs such as advertising costs and administrative expenses for issuing policies.

*Administrative expenses* are related to premium collection, portfolio administration, and the handling of bonuses and benefits.

Administrative expenses include expenses related to insurance activities that are not included in acquisition costs, claims handling costs or investment expenses. Other expenses are incurred in the interests of the Company as a whole, e.g. auditor fees and tax consultant fees, supervision costs and payments to professional associations are all added to administrative expenses.

*Expenses related to pay-outs* - see clause 1.8.7

*Investment expenses* include direct expenses related to the administration and management of an investment portfolio, transaction costs arising from the acquisition of financial assets, and other indirect expenses which are divided between investment expenses by means of the *pro rata* distribution method.

### 1.13. Operating lease

Leases in which a significant portion of the risk and the rewards of ownership are retained by the lessor are classified as operating leases and these are included in the lessor's balance sheet.

Assets acquired under the term of operating leases are not included in the Company's balance sheet. Payments that are made under an operational lease are recognised as expenditure linearly during the lease period.

Operating lease payments are entered as rental expenses under operating expenses. Rental commitments are shown in note 3.24.

### 1.14. Legal reserve

Pursuant to the Commercial Code, each year the Company allocates at least 5% of its net profit to the legal reserve until the reserve reaches at least 10% of the share capital balance. The legal reserve is not paid

out as dividends; however, it can be used to cover losses and increase the share capital.

### 1.15. Income taxes

Pursuant to valid Estonian legislation, the retained corporate profits are not subject to taxation and therefore there are no deferred income tax assets or liabilities arising from Estonian operations. Estonia applies income tax to dividends paid out of retained profits rather than doing this from normal profits. As at 1 January 2011, the income tax rate is 21/79 of net dividends (21% on gross profits), the same level as in 2010. Corporate income tax on dividends is recognised as a corporate income tax expense in the income statement for the period in which the dividends were declared, irrespective of the period for which the dividends were declared or the moment at which the dividends are paid out.

The Company's retained profit was 43,683 thousand Estonian kroons as at 31 December 2010. The maximum possible tax liability related to the payment of dividends is disclosed in note 3.12.

Income tax charges in the Latvian and Lithuanian branches are based on profit for the year and are calculated pursuant to the local tax legislation.

The standard income tax rate in Lithuania in 2010 was 15% (20% in 2009).

The Lithuanian branch had a profit margin of 7,021,080 Lithuanian litas in 2010. Corrections were made taking into consideration the term of insurance policies - administration expenses for long- and short term policies were divided in proportion to premiums earned which were generated by corresponding policy groups. Taxable profit decreased because it is permitted to deduct investment income from technical provisions and financial liabilities, and also to deduct part of the change in technical provisions (for short-

term policies). Income and expenses related to long-term policies (those over ten years) are non-taxable. After corrections the taxable result for the year 2010 was a profit of 1,816,975 Lithuanian litas.

As at 31 December 2010 tax losses carried forward were 52,382,556 Lithuanian litas as presented in the following table:

Tax year	Amount of tax losses (LTL)
2003	11,281,588
2004	17,970,885
2005	21,852,424
2007	1,277,659

Tax losses can be carried forward indefinitely, except for those losses which have been incurred as a result of the disposal of securities and (or) derivative financial instruments. Losses from the disposal of securities and (or) derivative financial instruments can be carried forward for five consecutive years and can be only used to reduce the taxable income earned from transactions of the same nature.

Deferred tax assets were not recognized as the Company does not expect to realise deferred tax assets in the foreseeable future. It is specific for life insurance companies in Lithuania that longterm life insurance business is not subject to taxation, therefore it is practically impossible for life insurance companies to realise deferred tax assets.

In Latvia, current corporate income tax is applied at the rate of 15% on taxable income generated by the Company during the taxation period.

As at 31 December 2010, the Latvian branch of Mandatum Life Insurance Baltic SE has tax losses carried forward from the previous taxation periods.

Tax losses carried forward are presented in the following table:

Tax year	Amount of tax losses (LVL)
2002	88,794
2003	266,799
2004	333,010
2005	499,655
2006	1,311,058
2008	667,504
2009	211,121
2010	179,047

The Company's Latvian branch has the right to take over the tax losses accrued by AAS Sampo Dzīvība in previous taxation periods and utilise the respective losses in the taxation period in which the transfer took place, and in a chronological sequence during subsequent taxation periods (but covering a period of not more than eight years after the taxation period in which the respective loss was reported to the tax authorities) from the taxable income of the Company's Latvian branch.

Deferred tax assets were not recognized as the Company does not expect to realise deferred tax assets.

### 1.16. Accounting policies requiring management judgement and key sources of estimation uncertainties in annual report

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

The actual outcome may deviate from results based on estimates and assumptions. Any changes in the estimates will be recognised both in the financial year during which the estimate is reviewed and in all subsequent periods.

The life insurance company's main assumptions concerning the future and the key uncertainties related to balance sheet estimates are related to, for example, assumptions used in actuarial calculations and the determination of fair values for non-quoted financial assets and liabilities. From the Company's perspective, accounting policies concerning these areas are the most complicated and require the most

significant use of estimates and assumptions.

#### Actuarial assumptions

An evaluation of insurance liabilities always involves uncertainty, as technical provisions are based on estimates and assumptions concerning future claims. Estimates are based on statistics that are derived from historical claims which are available to the Company on the balance sheet date.

The uncertainty related to estimates is generally greater when estimating new insurance portfolios or portfolios where the clarification of a loss takes a long time because complete claims statistics are not yet available. In addition to the

historical data, estimates of insurance liabilities take into consideration other issues, such as claims development, the amount of unpaid claims, legislative changes, court rulings and the general economic situation.

Actuarial assumptions applied to insurance liabilities are also discussed under Risk management, specifically in the section related to insurance risk in 2.6; under the Liability Adequacy test in 1.8.6 and 3.11 and under the Insurance technical provisions and financial liabilities and main changes in assumptions in 3.8 - 3.10.

## 2. Risk Management Disclosure

### 2.1. Overview of main risks and risk management in Mandatum Life

#### 2.1.1. Risk management overview

Risk is an essential and inherent element of Mandatum Life's business activities and operating environment. A high-quality risk management process is a prerequisite for running the business. For financial sector companies in general, the core competences of business are skilful pricing of risks and proper management of any risk exposures that may arise.

The sole shareholder of Mandatum Insurance Baltic SE is Mandatum Life Insurance Company Ltd, which belongs to Sampo Group. The overall risk management and internal control principles as well as division of responsibilities of the insurance subsidiaries are defined on the Sampo Group level. The insurance subsidiaries organise their operations according to these principles while taking into account the specific characteristics of the respective business area. Principles for the risk management and the risk governance structure of Mandatum Life are presented below.

In Mandatum Life the key objectives for risk management are to:

- Ensure that risks affecting profitability, as well as other material risks are identified, assessed and analysed;
- Ensure that risks are properly priced;
- Ensure that capital is adequate in relation to current risks that are inherent in business activities and the existing environment;
- Limit and smoothen fluctuations in financial results and in the value of the Company;

- Ensure the overall efficiency, security and continuity of operations.

To meet these objectives, Mandatum Life's risk management process includes the following tasks:

- Definition and clear division of responsibilities, which is a prerequisite for efficient and high-quality operations;
- Identification and constant monitoring of risks involved in business operations and business environment;
- Sound pricing of insurance policies and assessment of risk-return relationship of investments, which are prerequisites for achieving the targeted financial performance and profitability over time;
- Management of risk exposures and constant adjustment of liability and investment risks in order to maintain a sound risk-to-return ratio. Management responsibilities are based on defined limits and respective authorisations;
- Measurement, analysis and reporting of risks, results and profitability.

#### 2.1.2. The Company's risk profile

The profitability of life insurance is dependent on the investment result, the insurance risk result and the expense result. The investment result is the margin between investment return from assets covering other than unit-linked liabilities and the cost of guaranteed and other interest and bonuses in the increase of technical provisions and financial liabilities. In case of unit-linked policies the client carries the risk of the investment; however, the Company still bears some investment risk due to the specifics of unit-linked assets management process and possible low-level mismatching of unit-linked assets and liabilities. The insurance risk result is the margin

between actual claims and the amount of claims assumed in pricing. The expense result is derived from expense charges from policies less the actual expenses.

In addition to risks discussed above, Mandatum Life is exposed to operational risks and business risks, such as failures in internal processes or changes in the economic environment. These risks are inherent in all business areas.

Main categories of the Company's risks include: insurance risks, market risks, credit risks and operational risks. Risks within the insurance risk category are associated with both the perils covered by the specific line of insurance and with the specific process associated with the conduct of insurance business. Market risk arises from the level or volatility of market prices of assets. Credit risk is the risk of default and change in the credit quality of issuers of securities, counter-parties and intermediaries, to whom the Company bears a level of exposure. Operational risks are those that arise from the type and nature of operational risk involved in the Company's activities. These include direct or indirect losses resulting from inadequate or failed internal processes, people, and systems, or from external events.

Each year the Company runs profitability analyses of the insurance contracts portfolio, which are based on different future scenarios taking into account the development of the Company's costs, investment market returns, claims development, new business volumes, and other parameters. These analyses provide an improved understanding of the Company's risk profile and also help to deliver insights about possible future developments.

Development of the Company's risk exposures and solvency position in 2010 will be described in relevant sections further on in this report.

However, the main highlights related to results in those areas during the year 2010 would involve the following:

- Unit-linked liabilities have grown significantly due to increased premium income and good investment return in unit-linked funds;
- There were no major changes in the overall insurance risk position;
- Investment returns of the Company's technical provisions and own capital portfolios were considerably lower than strong results achieved in the year 2009;
- The Company's solvency surplus increased due to profitable operations.

### 2.1.3. Risk governance

In 2010, Mandatum Life continued with further development of its risk management organisation and the implementation of risk management systems, which comprise strategies, processes and reporting procedures that are necessary to monitor, manage and report risks on a continuous basis. The Company's risk management organisation, which is valid after changes introduced during 2010, is described below.

The Company follows the risk management principles defined by Sampo Group in which the specific characteristics of a life insurance company have been taken into account. The Company has also approved the Company's risk management principles, as well as the working principles and approval authorities of the Company's risk management organisation.

The overall responsibility for the risk management and adequacy of the internal control system at the Company lies within the Management Board, which is responsible for active management of all risks and which also follows clear instructions issued by the Company's Supervisory Board. The Management Board informs the Supervisory Board about potential

risks and dangers and presents action plans for the management of those risks and dangers.

One member of the Management Board is appointed as a Risk Manager and she is responsible for the overall coordination of risk management issues and for monitoring the implementation of risk management related decisions.

The Risk Management Committee (RMC) organises and monitors risk management in all risk areas, following both external and internal requirements and guidelines. There is a person responsible for each risk area (operational risk, asset and liability risk, insurance risk, legal and compliance risk, business and reputation risk) in the RMC. The RMC meetings are held on a quarterly basis. The RMC is chaired by the Company's Risk Manager. Minutes of the RMC meetings are regularly presented to the Company's Management Board.

The Operational Risk Management Committee (ORMC) organises the management of operational risk including business continuity planning. The ORMC meetings are held on a quarterly basis. The chairman of the ORMC and the responsible person in the RMC for this risk area is the Company's Risk Manager. Tasks of the ORMC include the following:

- Organising annual operational risk self-assessments and preparing risk mitigation action plans;
- Monitoring numerical indicators of operational risk;
- Analysing realised operational risk incidents and near misses;
- Maintaining and updating the Company's Contingency and Recovery Plan and organising its testing and training;
- Participating in the monitoring of outsourcing activities.

The Asset and Liability Committee (ALCO) is responsible for the risk management of balance sheet (market risk, interest rate risk,

liquidity risk, currency risks and credit risk), including asset liability matching. Cash management is the responsibility of the finance unit; however, cash management performance must be reported to the ALCO. The ALCO meetings are held on a quarterly basis. The chairman of the ALCO and the responsible person in the RMC for this risk area is the Company's Investment Manager, who is a member of the Management Board responsible for the overall coordination of investment management related issues. Tasks of the ALCO include the following:

- Participating in short-term and long-term planning of investments;
- Monitoring investment performance, investment portfolio and changes, asset allocation and limits, market risks, market update and short-term changes, liquidity, and currency positions;
- Monitoring different investment-related reports and assumptions;
- Monitoring outsourced investment activities.

The Company's investment strategy is approved annually by the Supervisory Board. Under normal circumstances, the members of the Management Board receive monthly reports on investments.

In 2010, Danske Capital AS, a member of Danske Group, made day-to-day investment decisions of the Company's own capital and technical provisions portfolio based on the principles set in Mandatum Life Investment Strategy. From 2011 investments of those portfolios will be managed by the investment unit of Sampo plc.

Insurance risks are mainly monitored by the Company's actuarial unit and risk underwriters. The responsible person in the RMC for this risk area is the Company's Chief Actuary. The actuarial unit monitors the adequacy of tariffs and prices and reports to the Management and Supervisory Boards if changes to the tariffs are needed. The Supervisory Board

approves the main tariffs and pricing of products, defines the maximum amount of insurance risk to be retained on the Company's own account and approves the reinsurance policy. The actuarial unit monitors the adequacy of technical provisions on a continuous basis and reports to the Management and Supervisory Boards if changes in the calculation basis are needed. Main changes to the calculation basis of technical provisions are approved by the Supervisory Board. The actuarial unit issues various reports to the Management Board on a monthly or quarterly basis.

The legal department and the Company's compliance coordinators are responsible for risk management in legal and compliance risk areas. The responsible person in the RMC for this risk area is the Company's Chief Legal Officer.

The management of business and reputation risks is the responsibility of the Management Board and the business line managers. The responsible person in the RMC for this risk area is the Company's CEO.

Business units are responsible to identify, assess, monitor and manage their own risks as well as implement adequate internal controls.

Internal auditing evaluates the adequacy and effectiveness of the internal control system and other elements of the governance system. Annual internal audit activity plan is based on performed risk analyses. Audit reports include audit findings and recommendations as well as

related management comments and decisions. Follow-up audits are performed in order to verify compliance with audit recommendations. Automated controls are usually preferred, if possible, in order to build up effective internal control systems.

## 2.2. Capital management

### 2.2.1. Capital content and capital management

The target of capital management is to ensure the adequacy of the available capital in relation to risks arising from the Company's activities and business environment.

Insurance is a highly regulated area of business with formal rules for minimum capital and capital structure. The term 'capital' refers to equity capital, which consists of share capital, share premium, legal reserve, any other reserves, and retained profits. The Company evaluates its capital requirements on the basis of legislative capital requirements and taking into account the Company's strategic development.

In recent years owners have decided not to pay out dividends, nor has there been any need to raise additional capital.

### 2.2.2. Legislative capital requirements

The Insurance Activities Act (hereinafter: the KtS) provides three

capital requirements for a life insurance company:

- The share capital of a life insurance undertaking shall be set at three million euros (KtS § 56);
- The available solvency margin shall not be less than the minimum solvency margin, which is set at 3.5 million euros (KtS § 71) since 01.01.2010);
- The available solvency margin shall not be less than the required solvency margin calculated according to the formula described in Kts § 73.

The definition of an available solvency margin is provided in KtS § 67. It includes the paid-up share capital and issue premium relating thereto, the reserve formed and retained profits reduced by intangible assets; losses suffered; participation in other financial institutions, the acquisition cost of treasury shares repurchased, and what it is allowed to be added with the prior consent of the Financial Supervision Authority to subordinated liabilities or other securities with no specified maturity date.

The Company does not own listed reducible assets or addable subordinated liabilities. Due to this, the size and content of the available solvency margin is generally equal to the Company's own capital on the balance sheet.

### 2.2.3. Meeting capital requirements

in thousands of Estonian kroons	31.12.2010	31.12.2009	31.12.2008	31.12.2007
Share capital requirement (KtS § 56)	46,940	46,940	46,940	46,940
Mandatum Life share capital	55,000	55,000	55,000	55,000
Surplus	8,060	8,060	8,060	8,060
Minimum solvency margin (Kts § 71)	54,763	50,069	50,069	50,069
Mandatum Life solvency margin	143,402	125,384	107,116	122,586
Surplus	88,639	75,315	57,047	72,516
Required solvency margin (calculated according to KtS § 73)	37,730	31,333	28,505	31,294
Mandatum Life solvency margin (available solvency margin)	143,402	125,384	107,116	122,586
Surplus	105,673	94,051	78,611	91,291

### 2.3. Market risk

Market risk refers to fluctuations in financial results and solvency caused by changes in the market values of financial assets and liabilities as well as technical provisions.

Mandatum Life's long-term investment target is to provide sufficient return in order cover the guaranteed interest rate plus bonuses based on the principle of fairness as well as the shareholder's requirement, on an acceptable level of risk.

#### 2.3.1. Market risk management and control

Market risks are managed by diversifying the investment portfolio by means of constantly monitoring the composition of investments in relation to the characteristics of insurance liabilities. The duration gap between the technical provisions and fixed income investments as well as the currency distribution of assets and liabilities is under constant monitoring and management.

Mandatum Life's most significant market risks are interest rate risk, equity investments, and insurance liabilities with a guaranteed interest rate. The Supervisory Board approves annually the

Investment Strategy, which sets principles and limits for investment activities. The Investment Strategy also includes measures and limits for setting the maximum acceptable market risk. The objective is to meet the required solvency and to ensure that investments would be sufficient and eligible in order to cover insurance technical provisions and financial liabilities.

Until 10<sup>th</sup> January 2011, Mandatum Life managed three portfolios:

1) The unit-linked portfolio contains assets that cover as precisely as possible and necessary the respective financial liabilities where the risk is borne by policyholders.

2) The technical provisions portfolio refers to assets that are intended to cover all other insurance technical provisions and financial liabilities net of reinsurance in all countries. These are liabilities that should be guaranteed by the Company. Also, this contains unit-linked financial liabilities that cover pending payouts. Managing these assets means that the Company must also follow requirements set for restricted assets by the Insurance Activities Act (§ 77).

3) The Company's own capital portfolio contains all other assets. Also it contains a buffer for the

technical provision portfolio if, due to estimations or restrictions, the technical provision portfolio is not sufficient to cover respective liabilities or if some limits are otherwise not followed.

The investment strategy refers to the previously mentioned technical provisions and the Company's own capital portfolios.

Market risk control is separated from portfolio management activities. Market risks and limits set out in the Investment Strategy are controlled by the ALCO on a regular basis and reported to the Supervisory Board of Mandatum Life's.

The return on the Company's investment operations (including both the technical provision and the Company's own capital portfolios) was 3.1% in 2010 (7.4% in 2009). At the end of the year the market value of the Company's investment assets (including the technical provision and the Company's own capital portfolios) was 416,985 thousand Estonian kroons (405,868 thousand Estonian kroons).

#### 2.3.2. Interest rate risks and equity risks

The most significant interest rate risk in the life insurance business is that over a long period of time, fixed income investments will not generate a return at least equal to

the guaranteed interest rate of technical provisions. The probability of this risk increases when market interest rates fall and remain at a low level. With the interest rates falling, the solvency position improves in the short term; however, at the same time, the interest rate risk of the technical provisions increases.

The intention is to limit these risks by taking the structural suitability of investment assets in respect to interest rate risk and inflation into account in the composition of investment assets in order to cover the Company's technical provisions.

This risk is managed through constant monitoring and management of the duration gap between liabilities and fixed income investments.

At the end of the year, 0.1% of the Company's total investment portfolio (including technical reserves and the Company's own capital portfolio) was invested in equities, 56.3% in government bonds (27.2%), 6.0% in corporate bonds (20.9%), and 37.5% in money markets (51.8%).

The equity price risk is the risk of loss due to changes in share prices.

Mandatum Life's equity exposure varied between 0.1% and 20.0% during 2010 being at the low weight of 0.1% at the end of the year. Equity investments were 396 thousand Estonian kroons (502 thousand Estonian kroons).

Mandatum Life's equity portfolio is actively managed. The positions and risks in the equity portfolio must not exceed the limits set out in the Investment Strategy. In the Investment Strategy, the maximum limits for different geographical areas have been set.

The table below illustrates the **allocation of the Company's investment assets** (technical provisions and the Company's own capital portfolio) **by asset classes** (note that this is different from accounting allocation by instruments used in the notes to the accounts).

in thousands of Estonian kroons	2010	2009
Equities total	396	502
Government bonds	234,869	110,380
Corporate bonds	25,185	84,793
Money-market	156,535	210,193
Fixed Income total	416,589	405,366
Portfolio total	416,985	405,868

The values of financial assets are subject to changes in the underlying market variables. The sensitivity analysis of investment assets

(including technical provisions portfolio and equity portfolio) in case of different market risk scenarios are shown in the table below. The

effects represent the instantaneous effects of a one-off change in the underlying market variable on fair values as at 31 December 2010.

The table below shows Mandatum Life Insurance Baltic SE's investment portfolio's **sensitivity to market changes** on 31 December 2010 and 2009

	Risk		
	Interest Rate		Equity
	1% Parallel Shift Down	1% Parallel Shift Up	20% Fall in Prices
2010	+1.4%	-1.3%	-0.02%
2009	+1.1%	-1.1%	-0.02%

Commitments made by the Company are expressed on the guaranteed interest level and in the clients' expectations regarding the additional interest. The guaranteed interest rate of insurance policies in the Company's portfolio varies between

(0%) 2.5% and 4% depending on the product type, sales period and country. Premiums for flexible with-profit policies are limited for few products and are not limited for some other products. Premiums for traditional policies with guaranteed

interest are mostly fixed; except for predetermined dynamics or added dynamics which are accepted by the insurer as a contract amendment (such an increase could generally not be more than 10% of the previous annual payment).

Insurance technical provisions and financial liabilities (except unit-linked financial liabilities where, risk is borne by policyholders) by **guaranteed interest rate** in thousands of Estonian kroons compared to running yields of accounted assets are as follows:

Guaranteed interest rate	0.00%	2.50%	3.00%	3.50%	4.00%	Total	
Insurance technical provisions and financial liabilities (except unit-linked*)	19,218	8,738	24,517	147,650	96,525	296,648	
Reinsured amount	1,102	0	24	0	40	1,165	
Insurance technical provisions and financial liabilities (except unit-linked*) net of reinsurance	18,117	8,738	24,493	147,650	96,485	295,483	
Running yields	0-2.49%	2.5%-2.99%	3%-3.49%	3.5%-3.99%	Over 4%	Not determined (funds and equities)	Total
Fixed Income assets and equities accounted to technical reserve portfolio	246,768	0	0	35,114	28,066	396	310,344

\* Which still contains unit-linked financial liabilities that cover pending pay-outs as described in 2.3.1.

**Maturities** in years for insurance technical provisions and financial liabilities (except unit-linked financial liabilities where the risk is borne by policyholders) in thousands of Estonian kroons are as follows:

Remaining maturity in years	Not fixed	0-1.(9)	2-5.(9)	6-10.(9)	11-15.(9)	16-19.(9)	20-upwards	Total EEK
Insurance technical provisions and financial liabilities (except unit-linked*)	16,629	56,704	47,272	89,522	51,586	17,861	17,074	296,648
Reinsured amount	316	786	19	45	0	0	0	1,165
Insurance technical provisions and financial liabilities (except unit-linked*) net of reinsurance	16,314	55,918	47,253	89,477	51,586	17,861	17,074	295,483
Assets accounted to technical provision portfolio	396	199,627	84,257	26,063	0	0	0	310,344

\* Which still contains unit-linked financial liabilities that cover pending pay-outs as described in 2.3.1.

Insurance technical provisions and financial liabilities are grouped here by remaining maturity according to the maturity date fixed in each insurance contract. It does not reflect the best estimate of expected cash-flows, as cash-flows would also be influenced by future premiums, surrenders, partial surrenders, claims, fees, interest, changes in policies, etc. However, it could still be used for a rough estimation of cash-flows. The estimation of future undiscounted cash-flows (showing

data separately for years) has so far been considered as being impractical.

Assets and liabilities for unit-linked life insurance contracts are intended to match whereas the investment risk carried by clients, who make the choice of investment funds or other securities. To a certain extent, one must take into account changes in the market values of unit-linked life insurance contracts, which affect the fund intermediation fees paid by fund managers to the Company as well as fees depending on the policyholders'

reserve. Additionally, the bear market may increase the surrender of contracts by policyholders, i.e. the outgoing cash flow of the Company.

### 2.3.3. Currency risk

Until 31.12.2010 contracts were based on Estonian kroons, Latvian lati, Lithuanian litai, Euros and US dollars. Currency risks are managed by keeping assets and liabilities sufficiently balanced across

currencies. The maximum allowed open currency into other currency position, i.e. the gap between the Estonian kroon, Latvian lats, Lithuanian litas, and US dollar liabilities that may be covered with technical assets in other currencies (Estonian kroons, Latvian lati and

Lithuanian litai may also be covered in Euros), is 20% of the value of investment assets in the guaranteed interest products. The Company monitors the currency positions of investments on a monthly basis.

The table below shows the **currency positions** of the technical provisions portfolio investments and liabilities (except investments for unit-linked life insurance contracts) in thousands of Estonian kroons as at 31.12.2010.

Currency	EEK	EUR	LTL	LVL	USD	Total EEK
Insurance technical provisions and financial liabilities (except unit-linked*)	146,735	66,061	61,204	20,699	1,949	296,648
Reinsured amount	110	162	786	79	28	1,165
Insurance technical provisions and financial liabilities (except unit-linked*) net of reinsurance	146,625	65,899	60,418	20,620	1,921	295,483
Assets accounted to the technical reserve portfolio	396	247,599	33,874	28,475	0	310,344

\* Which still contains unit-linked financial liabilities that cover pending pay-outs as described in 2.3.1.

Unit-linked liabilities where the risk is borne by policyholders do not create the currency risk even if liabilities are agreed in different currencies. In case of unit-linked policies the aim is to match assets and liabilities. The Company pools small transactions together, and this procedure may also create a small profit or loss for the Company.

### 2.3.4. Liquidity risk

The Company has defined the liquidity risk as the possibility that the Company may not have enough available resources for both the performance of its obligations in due time as well as for extraordinary circumstances that can take place as a result of the

coincidence of a number of events. Main sources of a potential liquidity risk are claims related to disasters, a higher degree of contract cancellations or partial payments than forecasted, and deterioration of public reputation, general economic decline, as well as claims from suppliers.

Principles of the Company's liquidity management have been recorded. Also, the investment administration contract contains detailed requirements for liquidity management. The investment administration contract is based on the investment strategy that has been approved by the Company's Supervisory Board. The Company's needs for liquidity are continuously analysed and respective reports are

drafted. As the major part of the Company's liabilities are comprised of long-term policies with a relatively low surrender risk, it is possible to reliably forecast short-term claims expenditure. The Company's investment portfolio is structured by taking into account the liquidity requirements and reallocating funds if necessary. Regular monitoring of liquidity ensures efficient liquidity management and sufficient resources for the performance of the Company's obligations.

Maturities in insurance technical provisions and financial liabilities except for unit-linked financial liabilities, where the risk is borne by policyholders, are shown in 2.3.2.

The following table illustrates the **remaining maturities of unit-linked financial liabilities**, where the risk is borne by the policyholder, in thousands of Estonian kroons as at 31.12.2010:

Remaining Maturity in years	Not fixed	0-1.(9)	2-5.(9)	6-10.(9)	11-15.(9)	16-19.(9)	20-upwards	Total
Unit linked financial liabilities	0	475,155	261,782	545,481	260,732	110,385	630,117	2,283,653

The table indicates amounts as at 31.12.2010, showing them divided between groups according to the remaining maturity date indicated in each insurance contract. It does not reflect the best estimate of expected cash-flows, as cash-flows would also be influenced by future premiums, surrenders, partial surrenders, claims, fees, changes in unit prices, changes in policies, etc. However, it could still be used for a rough estimation of cash-flows.

The difference in the total between this table and the figure given in note 3.8.3 is explained in 2.3.1 with an explanation of portfolios managed by Mandatum Life. Unit-linked financial liabilities shown in section 3.8.3 of 2,072,269 thousand Estonian kroons also contain financial liabilities that cover pending pay-outs of 9,909 thousand Estonian kroons. The maturity of this amount was included in the tables shown in 2.3.2 and 2.3.3.

#### 2.4. Risk Concentrations for Investment Operations

In the Investment Strategy the Management Board has set limits for investments into individual companies and asset classes. The requirements for those assets covering technical provisions, and the credit ratings for investments are taken into account when setting

these limits. Risk concentrations are monitored continuously.

#### 2.5. Credit risk

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

Credit risk in investment operations includes the risk of a government or a corporate issuer not fulfilling its obligations or otherwise obstructing the remittance of funds by debtors, particularly in the context of fixed income securities. The credit risk in investment operations can be divided into issuer risk, counterparty risk and spread risk.

Issuer risk is often associated with a direct holding in a security, while counterparty risk is related to derivatives. The essential difference in terms of risk is that in the case of issuer risk, the entire nominal value of the instrument is at risk, whereas in the case of counterparty risk, it is only the current market value of the derivative contract that is at risk.

Spread risk relates mainly to changes in the credit spreads of

fixed income investments issued by banks and corporations.

In addition to the credit risk associated with investment assets, credit risk also arises from insurance operations through reinsurance contracts. Credit risk related to reinsurers arises through reinsurance receivables and through the reinsurers' share of technical provisions. Credit risk related to reinsurance is of a relatively low volume when compared with the credit risk associated with investment assets. Credit risk is managed by specific limits provided in Mandatum Life's Investment Strategy. Limits and restrictions are assigned to maximum exposures towards single issuers or per rating class. Before an investment in a new instrument is made, the credit standing of the issuer is thoroughly assessed as is the valuation and liquidity of the instrument. In order to judge the creditworthiness of issuers and counterparties, credit ratings mainly from Standard & Poor's and Moody's and Fitch, are used.

Portfolio development and the credit standing of counterparties are monitored continuously. Credit risk reporting is primarily based on the rating of the issuer, but instrument ratings are also used.

The table below shows **investment portfolio credit ratings** for fixed income instruments as at 31.12.2010.

the ratings of fixed income investments	2010		2009	
	Investments in thousands of Estonian kroons	% of total	Investments in thousands of Estonian kroons	% of total
AAA-AA+	219,138	52.7%	113,282	28.0%
AA-A+	88,495	21.2%	128,999	31.8%
A-BBB+	103,444	24.8%	86,561	21.4%
BBB-BB+	5,512	1.3%	6,008	1.4%
Not rated	0	0%	1,200	0.3%
Fixed Income Funds	0	0%	69,316	17.1%
Total	416,589	100%	405,366	100%

Credit rating for parent company is applied to subsidiaries without a credit rating

The table below discloses the **credit exposure by financial assets**.

in thousands of Estonian kroons	31.12.2010			31.12.2009		
	Other	Unit-linked	Total	Other	Unit-linked	Total
Financial assets designated as at fair value through profit and loss	323,725	44,153	367,878	225,308	175,351	400,659
-Bonds and other fixed rate securities	320,203	21,142	341,345	168,262	17,143	185,405
-Cash covering UL liabilities	0	15,680	15,680	0	18,018	18,018
-Term deposits	3,522	7,331	10,853	57,046	140,190	197,236
Receivables-related insurance activities and other	6,992	0	6,992	7,270	0	7,270
Accrued income and prepaid expenses	7,184	0	7,184	4,853	0	4,853
Reinsurers' share of insurance liabilities	1,165	0	1,165	1,014	0	1,014
Cash and cash equivalents	101,724	0	101,724	129,348	0	129,348
Total	440,790	44,153	484,943	367,793	175,351	543,144

## 2.6. Insurance risk

Insurance companies assume a level of risk through the contracts they underwrite with their clients.

The risk involved in each single insurance contract is the possibility that an insured event will eventually occur or that an insured event will occur unexpectedly, i.e. the time of occurrence or the severity of the claim is unknown. An insurance contract is essentially characterised by randomness and unpredictability.

The Company offers products covering the following insured events: death; the survival of a predetermined date; general events related to accidents or illness or specific accidents or illnesses (broken bones, traumas, injuries, critical illness, etc.).

The pricing of the portfolio for insurance contracts and the determination of obligations related thereto is based on the probability theory. The main risk arising from insurance contracts lies in the fact that actual pay-outs exceed recognised insurance obligations. This might happen due to the fact that losses are more frequent and occur in larger amounts than initially forecasted. Insured events are random and their number varies from year to year when compared with assessments made on the basis of statistical methods.

The larger the portfolio of similar contracts is, the smaller is the relative difference from expected outcome. Some risks balance each other naturally. The risk undertaken by the Company is smaller if it has both mortality and survival risk in comparison with having these separately.

Uncertainty in estimating future benefits and the premiums that are due arises from a failure to predict future trends, such as long-term mortality levels and the variety in policyholders' behaviour (e.g. the right of policyholders to cancel the contract, to waive the payment of future premiums, to change the selected dynamics of premium payments, etc.). Provided that policyholders act rationally, the general insurance risk can increase. For example, it is likely that insured persons whose health has significantly deteriorated in the meantime would be less inclined to cancel contracts that carry a death benefit or decrease their benefit as opposed to those who are still in good health. This leads to an increase in expected mortality as the number of insured persons in the portfolio decreases due to voluntary cancellations. The Company has taken these assumptions on the behaviour of policyholders into account when assessing the obligations. The Company regularly compares estimations used in pricing and in determining obligations

against its own experience.

Experience is followed not only on a summary level but on such a detailed level that the concentration of risk, for example by geographical area, risk cover (type of insured event), risk group total amounts before or after reinsurance, etc., could also be estimated.

The frequency of losses related to mortality, survival, accidents, and illnesses is highly dependent on social conditions (education, healthcare, etc.), as well as on epidemics or widespread changes in lifestyle such as eating, smoking and (sports-related) hobbies. As an indication of risk sensitivity, the effect of doubling the recorded mortality, invalidity, sickness and accident rates for 2010 would mean approximately 7 million kroons of additional claims costs for the Company (see the table below). Claims development (according to IFRS 4.44) is not disclosed, as uncertainty about the amount and timing of claims payments is typically resolved within a year.

The exposure to risk is lower for many products in which the Company may change risk premiums and expense loadings if required (for example, in the area of flexible products on sale in Estonia and Lithuania, and in riders). Risk is related to the delay time needed for the implementation of changes and restrictions of the market itself (in the form of competition) or

supervision in respect of changes. In case of traditional products, the payment is always fixed and cannot be changed in the light of new assessments. The Company follows underwriting rules to manage insurance risk. The level of a policyholder's (risk) premium usually depends on the state of health of the insured person. For most cases underwriting is carried out using signed documents (such as a health declaration or questionnaires). In some cases, where relevant amounts are small, the medical status of an applicant is not requested, but in case of bigger amounts a medical investigation is also required. The Company limits the acceptance of very high or exceptional risks.

The following table illustrates the **actual risk claims with risk charges** (*in thousands of Estonian kroons*) in case of death, invalidity, sickness and accident risk cover being taken out in all policies:

	Total	Content
Risk claim	7,383	Includes part of paid claims and the increase of outstanding claims provision that covers the sum at risk (in case of death, invalidity, accident and sickness). It does not cover other technical provisions or financial liabilities, including savings paid out in case of death.
Risk charges	33,708	The Company takes risk charges to cover risk claims. This includes a part of premiums, and a part of the increase in respective provisions. It does not include premiums that the policyholder is contributing to savings and it does not include other expenses the Company charges.
Claim ratio	22%	Risk claim divided by risk charges (that is, assumed claims) in percentages. Actual claims and pay-outs did not exceed the amounts that the Company projected for 2010.

Claims and respective ratios are influenced by the underwriting process - claim ratios are expected to be better in earlier insurance years. The underwriting effect is expected to disappear after the fifth insurance year. These figures do not include paid savings sums or expenses related to claims.

The Company has limited its own risk by reinsurance. The Company's reinsurance partner is Mandatum Life Insurance Company Limited. Reinsurance is bought for death and disability risk, but not for survival risk. Also, some product groups related to small risk levels are not reinsured, e.g. endowment insurance for children, accidental injuries and daily allowances of supplementary

accident insurance. Also, annuity pay-outs are not reinsured. Retention of the Company per one insured/coverage is up to 340,000 kroons, depending on the coverage, currency and country. The Company does not have a catastrophe reinsurance treaty, as the Company's own retention per one insured/coverage is quite small.

The table below illustrates **the concentration of the underwriting risk by countries** and its own retention. Risk amounts are shown in millions of kroons as at 31.12.2010 and 31.12.2009. Sum at risk means the sum insured minus the respective insurance technical provisions and financial liabilities. In case of an uncertain size with regards to the benefit, the sum insured is defined as a maximum possible benefit according to respective terms and conditions. For example, in accidental daily allowance in Estonia the sum insured is calculated as 120 days multiplied by daily cover.

Country	Total sum at risk before reinsurance			Reinsured amount			After reinsurance (Company's own retention)		
	31.12.10	31.12.09	change	31.12.10	31.12.09	change	31.12.10	31.12.09	change
Estonia	1,037	1,152	-10%	506	560	-10%	531	591	-10%
Latvia	1,207	1,417	-15%	743	782	-5%	464	635	-27%
Lithuania	5,512	5,501	0%	2,347	2,322	1%	3,165	3,179	0%
Total	7,756	8,070	-4%	3,597	3,664	-2%	4,160	4,406	-6%

The table below illustrates the **underwriting risk and its concentration** and the Company's own retention by **cover types** and groups of sum at risk. Risk amounts are shown in millions of kroons as at 31.12.2010.

Risk	Group of sum at risk in thousands of kroons	Total sum at risk before reinsurance	%	Reinsured amount	%	After reinsurance (own retention)	%
Death (basic insurance)	Total	3,537	100%	1,954	55%	1,583	100%
	Less than 600	2,772	78%	1,384	71%	1,388	88%
	600 or higher	765	22%	570	29%	195	12%
Accidental death	Total	1,123	100%	679	61%	443	100%
	Less than 600	834	74%	431	64%	402	91%
	600 or higher	289	26%	248	36%	41	9%
Accidental disability	Total	1,125	100%	607	54%	519	100%
	Less than 600	779	69%	374	62%	405	78%
	600 or higher	346	31%	233	38%	113	22%
Accidental trauma*	Total	1,265	100%	0	0%	1,265	100%
Accidental daily allowance*	Total	6	100%	0	0%	6	100%
Critical illness	Total	674	100%	343	51%	331	100%
	Less than 600	649	96%	325	95%	324	98%
	600 or higher	25	4%	18	5%	7	2%
Waiver of premium	Total	27	100%	13	50%	13	100%
	Less than 600	25	95%	13	95%	13	95%
	600 or higher	1	5%	1	5%	1	5%

\* all less than 300

The Company had six annuity contracts in Lithuania, five in Latvia and two in Estonia in force as at 31.12.2010, for which the pay-out period had arrived. The Company does not guarantee the Estonian III pillar pension payments (their amounts) prior to the arrival of the pay-out date. The arrangement on these pension pay-outs that is agreed upon with a policyholder is based on the price list which is valid at the time at which paying-out starts. Even so, the Company also has annuity products both for fixed term and whole life, in which the future annuity is guaranteed in advance, and as at 31.12.2010 there were 30 contracts in force in Lithuania, 380 contracts in Latvia and none in Estonia. Net insurance technical provisions and financial liabilities as at 31.12.2010 for these annuities amounted to 15,459 thousand kroons. Generally, annuity policies carry a longevity risk.

In addition to biometric risks (related to mortality, longevity and similar risks) that have been described above, the Company is exposed to other risks such as the discount rate

risk, risks related to policyholders' behaviour, etc.

The discount rate risk of technical provisions is the main risk affecting the adequacy of liabilities (technical provisions and financial liabilities). The guaranteed interest rate is in many cases fixed in policies for the whole policy period. Therefore, if market interest rates and expected investment returns fall, technical provisions may have to be supplemented. The interest rate risk of assets and liabilities was also discussed in the market risk section 2.3 and discount rate assumptions were covered under Liabilities in section 3.10.

Another significant risk comes from the behaviour of policyholders. Policyholders may cease paying premiums or surrender their policies or use the partial surrender option. All of this has an influence on the expense risk by possibly creating a situation where expense loadings do not cover real expenses. Expense loadings are influenced by the size of policyholders' reserves. To increase policyholders' reserve there is a possibility of increasing premiums,

decreasing partial surrenders, decreasing surrender rates, increasing the duration of policies, etc. Tariffs and prices are reviewed either annually or according to needs, and the Supervisory Board approves all required changes.

Several reports are produced regularly by the actuarial department, and studied carefully by the Management Board in order to monitor insurance risk and underwriting results. For example, among other sources, the adequacy of tariffs is estimated by regular analyses of expected claims when compared to actual claims. Also, other details of sources of profitability are regularly analysed. For example, the comparison of expense loadings against actual expenses and the comparison of investment income against cost of interest and bonuses are performed on a monthly basis.

In addition, every year actuaries conclude profitability analyses for the following year's budgeted new sales based on future cash flows that are projected until the expected maturity

date. The adequacy of liabilities is tested annually.

Maturities of the Company's liabilities are shown in 2.3.2 and 2.3.4. Changes in technical provisions can be found in 3.9 and in financial liabilities in 3.8. Claims data can be found in 3.20.

## 2.7. Operational risk

### 2.7.1. Overview of operational risks

Operational risk is the risk of loss arising from inadequate or failed internal processes, from personnel and systems, or from external events. According to the classification presented in the Company's risk management principles, the Company has listed twenty sub-groups of operational risk. Among the sub-risks for operational risk the following risks are mentioned: organisation risk, outsourcing risk, corporate governance risk, policies, procedures and controls risk, IT-system risk, distribution and miss-selling risk, strategic risk, compliance risk, legal risk, reputation risk, money laundering risk, and others.

The sources of operational risks can be categorised as follows:

- The Company's internal actions (unauthorised activities by employees, insider dealing, internal theft);
- External actions affecting the Company (theft from outside, hackers, monetary theft);
- Shortcomings in the organisation of employees' work, risks related to work environment and work culture;
- Insufficiencies in operating policies as far as clients, products or business activities are concerned;
- Damage to physical property;
- Interruption of activities and system failures;
- Non-satisfactory implementation of sales and marketing plans,

insufficient management of business processes;

- Changes resulting from external environment - changes in legislation, actions taken by competitors.

Operational risks may present themselves as direct monetary losses, decreasing income and increasing expenditure.

### 2.7.2. Operational risks governance

Goals of operational risk management are:

- To ensure simultaneously the efficiency and quality of operations;
- To ensure that operations would be compliant with laws and regulations;
- To ensure the continuity of business operations in exceptional circumstances.

The aim is to minimise operational risks and decrease their negative impact on the Company subject to cost-benefit considerations.

Management of the Company's operational risks is the direct responsibility of the Management Board. The Company has also established the Operational Risks Management Committee (ORMC) for monitoring and coordination of risk management issues regarding operational risks within the Company, and for the development of their management processes. The ORMC also constantly analyses and monitors operational risks together with their indicators and trends identified in self-assessments, as well as the occurred incidents. Besides these tasks, the ORMC is involved in maintaining and updating contingency and recovery plans. The ORMC reports to the Company's Risk Management Committee (RMC).

### 2.7.3. Identification and management of operational risks

The Management Board, the RMC and the ORMC, together with the

unit managers, are liable for timely detection of operational risks, implementation of best possible action plans, and drawing sufficient conclusions in order to avoid or lower the probability of risks or to minimise their effect on the Company in the future.

Operational risks are identified via different sources and methods. The main processes used for identifying operational risks in the Company include environmental and macro analysis, self-assessment process of operational risk, and incident reporting.

Environmental and macro analysis is conducted as part of the annual strategy and planning process in the course of which the key trends in the Company's business environment are identified and their implications for the Company are assessed. Based on this, the main opportunities and threats are identified and prioritised. These assessments outline the most important external operational and business risks. External events are monitored continuously and the Company reacts to these as soon as possible.

The self-assessment process is used to map and evaluate major operational risks and their probabilities and significance, including an evaluation of existing internal controls and the current risk mitigation. The Company carries out annual self-assessments of operational risks in all principal areas of business activities. In addition, some business risks are also captured in the self-assessment process of operational risks. Self-assessment includes listing risks for a certain business line or unit, an evaluation of those risks based on risk probability and incident impact criteria, an evaluation of the risk trend and a comparison of existing risk levels against the Company's tolerance levels. During the self-assessment process respective risk indicators and their limits are also defined and action plans to manage identified risks and to minimise their possible influence on business results

are proposed. Identified risks are analysed and prioritised in the RMC or ORMC meetings.

The most significant operational risks for the Company which were identified during self-assessments of operational risk included the following: risks related to serious fall-down of the economy in the Baltic countries; insufficient IT systems and IT-related modelling; product development; data sufficiency and data quality issues; manual phases in processes; human error; a lack of written descriptions in some areas and a lack of resources in some areas. Action plans for mitigating identified risks or their impact were defined.

Another source of identification of operational risks is incident reporting and analysis. Operational risk events and any near misses, which have occurred, are monitored in the RMC or ORMC meetings. Each business unit is responsible for ensuring that those incidents and near misses that have occurred would be registered in special databases and reported to the ORMC. All losses and possible risk of losses that exceed 1,000 EUR must additionally be reported to Mandatum Life Insurance Company Ltd.

Mandatum Life has ensured the management of its work processes and the saving of the knowledge, skills and experience of its employees by preparing and regularly updating guidelines for internal processes. This ensures the safeguarding of intellectual property in case an employee leaves the Company, as well as ensuring the smooth continuation of work processes and the limitation of operational risks. The most important internal guidelines include guidelines for insurance contract administration, risk underwriting and claims handling, the operation of insurance software, prevention of money laundering and financing of terrorism, technical guidelines and a number of other guidelines related to different aspects of the business and

ongoing operative activities. The Company has also implemented and is obliged to follow various Sampo Group policies, such as policies related to security, communication, compliance and other areas.

The Company also considers the management and control of risks relating to the protection of clients' data to be vital, including the protection of sensitive information.

The Company has prepared and is regularly testing plans for action to be taken in possible crisis situation (including a contingency and recovery plan) in order to ensure the sustainability of its business activities.

Having an internal control system in processes prevents negative incidents. However, should there be an operational risk event or near miss, this must be reported to the ORMC.

#### **2.7.4. Internal audit**

In 2010, seven internal audits and three follow-up audits were performed by the Company's internal auditor. The audited areas included investment accounting and management processes, business continuity planning, transfer pricing, the Company's web services, processes related to the new wealth management product, as well as migration to new IT system in the Latvian branch and the Euro conversion project in Estonia. In the course of internal audits, significant attention is always paid on making suggestions for mitigation of possible operational risks and implementation of necessary actions to be taken.

### **2.8. Risk management outlook**

#### **2.8.1. Planned developments in risk management**

As part of the preparations for Solvency II, the Company continues to develop its risk management framework, systems and processes, and is constantly improving the corporate governance of the

Company. The Company is continuously working to improve internal control, and its core processes and systems, as well as monitoring and analysing impacts from changes in the Company's external operating environment in order to reduce the impact of operational risks. Large-scale planned development issues related to the development of various modelling and reporting capabilities are in preparation for Solvency II compliance.

#### **2.8.2. Preparations for Solvency II**

The Solvency II Framework Directive was adopted by the European Parliament in April 2009. The introduction of a new economic risk-based solvency regime aims to deepen the integration of the insurance and reinsurance market, enhance the protection of policyholders and beneficiaries, improve the international competitiveness of insurers and reinsurers in the EU, and promote the improved regulation. The objective relating to the regulatory capital requirements in Solvency II is that they would more closely reflect the specific risk profile of each company in contrast to the existing Solvency I regulation. If the objective is met, it will encourage companies to focus on sound risk management and internal control procedures and therefore embed risk awareness throughout the organisation.

The Company has initiated the preparation for Solvency II and continuously monitors the development of the framework, including the draft for Solvency II implementing measures. Preparatory actions have been initiated in order to secure compliance with Solvency II by the end of 2012. The work will continue during the upcoming years. The Company also participated in the Quantitative Impact Study 5 (QIS 5) in 2010.

### 3. Notes to financial statements

#### 3.1. Cash and cash equivalents

in thousands of Estonian kroons	31.12.2010	31.12.2009
Cash at bank	33,217	25,516
Short term deposits (up to three months)	84,187	110,051
Money market funds	0	11,800
Cash covering financial liabilities of unit-linked business	-15,680	-18,018
Total	101,724	129,349

#### 3.2. Financial assets designated at fair value through profit and loss

##### 3.2.1. Investments other than unit-linked investments

These investments cover all liabilities except financial liabilities of unit-linked business where the risk is borne by the policyholder. It means that these investments cover own capital and technical provisions (as described in 2.3.1) and other financial liabilities.

Breakdown of investments by classes:

in thousands of Estonian kroons	31.12.2010	31.12.2009
Shares and investment fund units	396	58,019
Bonds and other fixed rate securities, including	320,203	168,262
Floating rate debt instruments	0	4,654
Fixed rate debt instruments (from 2.75% to 5.8%)	297,784	133,394
Discount bonds	22,419	30,214
Term deposits	3,522	57,046
Total	324,121	283,327

##### 3.2.2. Unit-linked Investments

Unit-linked investments cover the financial liabilities of unit-linked business for the areas in which the risk is borne by the policyholder. In the performance of its duties in respect to the management of the investment portfolio of the Wealth Management policies, the Company uses the services of Mandatum Life Insurance Company Limited (hereinafter Mandatum Life Finland). Mandatum Life Finland and the Company have concluded the Capital Redemption Policy. According to the policy, Mandatum Life Finland offers asset management services to clients whereby clients may choose asset management services under their unit-linked life insurance.

in thousands of Estonian kroons	31.12.2010	31.12.2009
Investment fund units	2,017,159	1,387,000
Shares	12,216	12,075
Term deposits	7,331	140,190
Cash covering financial liabilities of unit-linked business	15,680	18,018
Financial assets under Capital Redemption Policy with Mandatum Life Finland	221,293	0
Bonds and other fixed income securities	21,142	17,143
Total	2,294,821	1,574,426

### Carrying values of unit-linked investments

in thousands of Estonian kroons	Cash	Shares and investment fund units	Term deposits covering unit-linked insurance	Bonds and other fixed income securities covering unit-linked insurance	Total
At 1 January 2010	18,018	1,399,075	140,190	17,143	1,574,426
Purchases	15,680	2,784,468	0	16,206	2,816,354
Disposals	-18,018	-2,202,651	-132,859	0	-2,353,528
Reclassification	0	0	0	-12,207	-12,207
Fair value gains and losses (Note 3.21)	0	269,251	0	0	269,251
Foreign exchange adjustments	0	525	0	0	525
At 31 December 2010	15,680	2,250,668	7,331	21,142	2,294,821

### 3.2.3. Financial assets and liabilities designated at fair value through profit and loss

in thousands of Estonian kroons	Fair value 31.12.2010	Carrying value 31.12.2010	Fair value 31.12.2009	Carrying value 31.12.2009
<b>Financial assets</b>				
Shares and investment fund units	396	396	58,019	58,019
Investment fund units covering unit-linked insurance	2,017,159	2,017,159	1,387,000	1,387,000
<b>Financial assets under Capital Redemption Policy with Mandatum Life Finland</b>				
Shares covering unit-linked insurance	12,216	12,216	12,075	12,075
<b>Bonds and other fixed rate securities</b>				
Bonds and other fixed rate securities covering unit-linked insurance	21,142	21,142	17,143	17,143
Cash covering financial liabilities of unit-linked business	15,680	15,680	18,018	18,018
Term deposits	3,522	3,522	57,046	57,046
Term deposits covering unit-linked insurance	7,331	7,331	140,190	140,190
<b>Total</b>	<b>2,618,942</b>	<b>2,618,942</b>	<b>1,857,753</b>	<b>1,857,753</b>
<b>Financial liabilities</b>				
Financial liabilities from insurance contracts	2,072,269	2,072,269	1,572,464	1,572,464
Financial liabilities from investment contracts	221,293	221,293	0	0
<b>Total</b>	<b>2,293,562</b>	<b>2,293,562</b>	<b>1,572,464</b>	<b>1,572,464</b>

The table above shows the values carried at fair value through profit or loss and designated as such upon initial recognition. The fair value of securities is based on published price quotations in an active market in accordance with a documented risk management and investment strategy. Accrued interest income is included in financial assets.

Financial instruments measured at fair value have been classified on three hierarchy levels, depending on whether the market for the instrument is active, or whether the inputs used in the valuation technique are observable.

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

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

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

### 3.2.4. Determination of fair value and fair value hierarchy

in thousands of Estonian kroons	Level 1	Level 2	Level 3	Total fair value
<b>Financial assets</b>				
Shares and investment fund units				
Shares and investment fund units	396	0	0	396
Investment fund units covering unit-linked insurance	0	2,012,886	4,273	2,017,159
Shares covering unit-linked insurance	12,216	0	0	12,216
Financial assets under Capital Redemption Policy with Mandatum Life Finland	117,646	103,647	0	221,293
<b>Bonds and other fixed rate securities</b>				
Bonds and other fixed rate securities	197,729	122,474	0	320,203
Bonds and other fixed rate securities covering unit-linked insurance	0	21,142	0	21,142
Cash covering financial liabilities of unit-linked business	0	15,680	0	15,680
Term deposits	0	3,522	0	3,522
Term deposits covering unit-linked insurance	0	7,331	0	7,331
<b>Total</b>	<b>327,987</b>	<b>2,286,682</b>	<b>4,273</b>	<b>2,618,942</b>
<b>Financial liabilities</b>				
Financial liabilities from insurance contracts	12,216	2,055,780	4,273	2,072,269
Financial liabilities from investment contracts	117,646	103,647	0	221,293
<b>Total</b>	<b>129,862</b>	<b>2,159,427</b>	<b>4,273</b>	<b>2,293,562</b>

The amount of financial instruments classified on level 3 has no material significance. Mandatum Life bears no investment risk as financial instruments are related to unit-linked insurance.

### 3.3. Financial assets designated as being at amortised cost

#### 3.3.1. Receivables related to insurance activities and other

in thousands of Estonian kroons	31.12.2010	31.12.2009
Receivables related to direct insurance activities	486	510
Receivables related to reinsurers	5,004	4,927
Receivables from trading in securities	1,209	1,437
Other receivables	293	396
<b>Total</b>	<b>6,992</b>	<b>7,270</b>

All amounts are receivable within one year. There are no receivables that are past due or impaired.

The carrying amount is a reasonable approximation of fair value.

#### 3.3.2. Accrued income and prepaid expenses

in thousands of Estonian kroons	31.12.2010	31.12.2009
Accrued income	4,905	3,000
Prepaid expenses	2,279	1,853
<b>Total</b>	<b>7,184</b>	<b>4,853</b>

All amounts of accrued income and prepaid expenses are short-term (up to twelve months).

The carrying amount is a reasonable approximation of fair value.

### 3.4. Property, plant and equipment

in thousands of Estonian kroons	Acquisition cost	Accumulated depreciation	Carrying value
As at 31.12.2008	2,763	-1,701	1,062
Additions	1,073	0	1,073
Foreign exchange adjustments	-2	0	-2
Depreciation charges	0	-613	-613
As at 31.12.2009	3,834	-2,314	1,520
Additions	1,109	0	1,109
Foreign exchange adjustments	0	-17	-17
Depreciation charges	0	-735	-735
As at 31.12.2010	4,943	-3,066	1,877

Equipment comprises IT equipment and furniture.

### 3.5. Intangible assets

in thousands of Estonian kroons	Acquisition cost	Accumulated depreciation	Carrying value
As at 31.12.2008	11,682	-6,257	5,425
Additions	3,838	0	3,838
Foreign exchange adjustments	-5	0	-5
Depreciation charges	0	-1,058	-1,058
As at 31.12.2009	15,515	-7,315	8,200
Additions	5,356	0	5,356
Foreign exchange adjustments	-1	0	-1
Depreciation charges	0	-1,276	-1,276
As at 31.12.2010	20,870	-8,591	12,279

### 3.6. Insurance payables

in thousands of Estonian kroons	31.12.2010	31.12.2009
Total insurance payables related to direct insurance, including	1,620	3,556
payables to policyholders	1,213	3,322
payables to intermediaries	407	234
Payables related to reinsurance	2,932	3,007
Total	4,552	6,562

All amounts are payable within one year. Due to the short term nature of payables the carrying amount is a reasonable approximation of fair value.

### 3.7. Accrued expenses and deferred income

in thousands of Estonian kroons	31.12.2010	31.12.2009
Employee-related liabilities	3,557	5,219
Supplier-related liabilities	893	1,222
Other accrued expenses and deferred income	2,993	3,011
Tax liabilities, including	2,181	1,683
personal income tax	1,088	766
social tax	872	768
unemployment insurance tax	86	77
funded pension	37	13
VAT	49	22
other taxes	49	37
Total	9,624	11,135

All amounts of accrued expenses and deferred income are short-term (up to twelve months). The carrying amount is a reasonable approximation of fair value.

### 3.8. Financial liabilities from insurance and investment contracts

#### 3.8.1. Total financial liabilities from insurance contracts

in thousands of Estonian kroons	31.12.2010	31.12.2009
Financial liabilities from unit-linked insurance contracts (Note 3.8.3)	2,072,269	1,572,464
Financial liabilities from with-profit insurance contracts (Note 3.8.5)	70,345	75,238
Total	2,142,614	1,647,701

Financial liabilities from unit linked contracts are measured at fair value through profit and loss.

All other liabilities represent liabilities related to contracts with DPF. As permitted by IFRS 7, the Company has not disclosed fair values for investment contract liabilities with a DPF as fair values or fair value ranges for the DPF cannot be reliably estimated. There is no active market for these instruments, which will be settled with policyholders in the normal course of business.

See the changes in assumptions used to measure insurance liabilities in section 3.10.

#### 3.8.2. Total financial liabilities from investment contracts

in thousands of Estonian kroons	31.12.2010	31.12.2009
Financial liabilities from unit-linked investment contracts (Note 3.8.4)	221,293	0
Total	221,293	0

Financial liabilities from unit linked contracts are measured at fair value through profit and loss.

See the changes in assumptions used to measure insurance liabilities in section 3.10.

### 3.8.3. Financial liabilities from unit-linked insurance contracts

in thousands of Estonian kroons	31.12.2010	31.12.2009
As at 1 January	1,572,464	906,395
Premiums received	674,825	586,412
Pay-outs deducted	-376,597	-180,784
Fees deducted (Note 3.18)	-44,585	-40,574
Reclassification of products or changes between insurance technical liabilities and financial liabilities (Note 3.8.4, Note 3.8.5 and Note 3.9.2)	-10,424	4,566
Change due to changes in unit prices and other changes (Note 3.21)	256,747	297,037
Foreign exchange adjustments	-161	-588
As at 31 December	2,072,269	1,572,464

Mandatum Life started to measure the “Reclassification of products or changes between insurance technical liabilities and financial liabilities” separately from “Other changes” from 2009 onwards.

### 3.8.4. Financial liabilities from unit-linked investment contracts

in thousands of Estonian kroons	31.12.2010	31.12.2009
As at 1 January	0	0
Premiums received	198,404	0
Fees deducted (Note 3.18)	-693	0
Reclassification of products or changes between insurance technical liabilities and financial liabilities (Note 3.8.3, Note 3.8.5 and Note 3.9.2)	12,353	0
Change due to changes in unit prices and other changes (Note 3.21)	11,224	0
Foreign exchange adjustments	5	0
As at 31 December	221,293	0

### 3.8.5. Financial liabilities from with-profit insurance contracts

in thousands of Estonian kroons	31.12.2010	31.12.2009
As at 1 January	75,238	97,855
Premiums received	7,898	10,211
Pay-outs deducted	-12,062	-30,294
Fees deducted (Note 3.18)	-1,315	-1,946
Reclassification of products or changes between insurance technical liabilities and financial liabilities (Note 3.8.3, Note 3.8.4 and Note 3.9.2)	-1,586	-3,515
Guaranteed interest, bonuses and other change	2,180	3,156
Foreign exchange adjustments	-8	-229
As at 31 December	70,345	75,238

## 3.9. Technical provisions from insurance contracts and relevant reinsurance assets

### 3.9.1. Total technical provisions from insurance contracts and relevant reinsurance assets

in thousands of Estonian kroons	31.12.2010	31.12.2009
Life insurance provision	211,467	207,158
Outstanding claims provision	4,928	4,386
Total technical provisions from insurance contracts	216,395	211,544
Reinsurers' share in the technical provision	1,165	1,014
Total technical provisions from insurance contracts and relevant reinsurance assets	215,230	210,530

See the changes in assumptions used to measure insurance liabilities in section 3.10.

### 3.9.2. Life insurance provision

in thousands of Estonian kroons	31.12.2010	31.12.2009
As at 1 January	207,158	200,086
Gross premiums	64,354	68,069
Pay-outs	-21,794	-31,213
Reclassification of products or changes between insurance technical liabilities and financial liabilities (Note 3.8.3, Note 3.8.4 and Note 3.9.2)	-343	-1,051
Other changes in value (including fees, risk premiums and interest, foreign exchange adjustments)	-37,908	-28,733
As at 31 December	211,467	207,158
Reinsurers' share in the life insurance provision	205	162

### 3.9.3. Outstanding claims provision

in thousands of Estonian kroons	31.12.2010	31.12.2009
As at 1 January	4,386	4,276
Claims paid during the year	-21,794	-31,213
Other change in outstanding claims provision (including foreign exchange adjustments)	22,336	31,324
As at 31 December	4,928	4,386
Reinsurers' share in the outstanding claims provision	960	852

### 3.10. Changes in assumptions related to insurance technical provisions and financial liabilities

Changes in assumptions used in the calculation of insurance technical provisions and liabilities concerned the following:

- The Company unified rules for discount rates and due to that discount rate used in Lithuania was changed. This influences life insurance provisions and financial liabilities from with-profit contracts. In addition to Estonian regulations, in the calculation of the Lithuanian portfolio the Company also followed Lithuanian limitations until mid 2010. Every quarter, the new maximum discount rate is published. For example, as at 30.04.2010, the maximum allowed discount rate was 2.28%. Even so, it was not applicable for the entire portfolio and the concrete rate for a specific policy depends on this policy's issue year. For older policies the maximum rate depended upon the current limit and guaranteed rate. In the middle of 2010 we changed it and now all countries follow Estonian limitations only. This change influenced only the Lithuanian portfolio: the rate was changed from 2.28% (with exceptions) to 2.5%-4% depending on the contract's issue date. As a result of these aforementioned changes the Company gained 10 million Estonian kroons.
- The Outstanding Claim provision contains two areas: incurred but unreported claims (IBNR) and estimated expected expenses that are estimated using assumptions.

Outstanding Claim provision	Amount	Proportion
Known occurred claims not yet paid and initiated pay-outs (such as maturity and lapses)	3,388	69%
IBNR	1,304	26%
Estimated expenses	236	5%
Total	4,928	100%

For determining assumptions for IBNR the latest statistics are used for calculating the influence on the amount of provision, such as the delay time between the actual claim and the receipt of the notice regarding the claim. For some riders also more approximate methods are used, such as 5% from premiums.

For determining assumptions for estimated expenses the latest statistics are used in regard to actual past claims expenses which have been allocated to claims.

The Company did not have any other significant or material changes in assumptions used to measure insurance technical provisions and financial liabilities.

### 3.11. Liability adequacy test

Principal assumptions of the liability adequacy test are as follows:

*Mortality.* Official population statistics received from Statistical Offices of the Baltic countries or Eurostat have been used, corrected pursuant to previous experience and statistical methods known to the Company and Sampo Group. Underwriting is expected to decrease the basic mortality by 50% in the first insured year and the effect will decrease linearly to 25% by the sixth insured year.

*Premature cancellation of contracts.* This is based on the Company's own statistics, adjusted by expected future trends and taking into account the activities of and strategy enacted by the Company. Cancellation rates fall between 1.2% and 18% in Estonia, 0.5% and 8.5% in Latvia and 2% and 20% in Lithuania, depending on the product, the country and the insured year. The cancellation rate shows how many contracts of those in force will be cancelled during a year. Also, assumptions for partial surrenders were set for some groups of policies.

*Discount rate.* The AAA rated spot rate published by the European Central Bank is used for the yield curve. Rates fall between 0.603% and 3.754% depending on the maturity (a maximum of up to thirty years used).

*Expense level and inflation.* This is based on the Company's own statistics, adjusted by expected future trends and taking into account the activities and strategy of the Company. For the inflation assumption the 3% flat rate was used.

Tests show whether liabilities calculated on the basis of future cash flows are bigger than liabilities calculated on the basis of the present methodology. Liabilities calculated in the test are the discounted value of future payments to be made under insurance contracts (insurance indemnities, expenses), less the discounted value of future insurance premiums to be received from insured persons. The test does not take into account insignificant future changes in the contract.

Liabilities for contract groups for which the provision in the portfolio is insignificant are not tested. Contract level calculations were also not performed with some liabilities and product groups.

According to the liability adequacy test, the Company's liabilities from insurance contracts are sufficient.

The Company has set several values of assumptions used for sensitivity calculations – results are calculated on average for six scenarios by changing every main assumption separately. The objective of sensitivity analyses is to recognize how much the assumptions should change so that the test would show deficiency. The results that are provided below are such choices where change of assumption caused smallest deficiency (it means previous shift did not result in deficiency). The biggest effect on the test results stems from the assumptions on yield curve, and thereafter on expected expenses in relation to inflation, mortality and surrender rates. The shift of the yield curve used for discounting cash-flows by -0.2% would not end up with deficiency; however, shift by -0.5 percentage points would end up with a small deficiency (a total of 2,862). Deficiency would result also if the mortality rate was 1.5 times bigger (882) or fixed expenses were 1.1 times bigger (393) or partial surrender rates were 3 times bigger (1,308) of those assumed in the test. Inflation applied to fixed expenses will create a small deficiency with a shift of 2 percentage points (778). Here all figures in brackets show a deficiency in thousands of kroons in case similar products in different countries are not allowed to be pooled together (we do not allow cross-subsidizing when calculating deficiency) but still so that products in same country are allowed to be pooled together. If results from different countries were also pooled together, then we would have to shift assumptions much more in order to receive the same amount of deficiency. For many assumptions shifts so big were not even tested (where there would be deficiency if cross-subsidizing between countries was allowed).

All these sensitivities are calculated separately and are not applied together at the same time. The correlation of assumptions will have a significant effect on determining the liabilities, but in order to demonstrate the impact of changes in assumptions, assumptions had to be changed on an individual basis.

It should be noted that movements in these assumptions are non-linear.

### 3.12. Owner's equity

Accordingly to the Company's Articles of Association, the minimum share capital for the Company shall be twenty million (20,000,000) Estonian kroons and the maximum share capital shall be eighty million (80,000,000) Estonian kroons.

The number of shares was 5,500 as at 31.12.2010 (5,500). The nominal value of each share is 10,000 Estonian kroons. Shares belong in their entirety to the Finnish undertaking, Mandatum Life Insurance Company Ltd. As at

31.12.2010, the Company's share capital was 55,000 thousand Estonian kroons and the Company's total owner's equity was 155,685 (133,016) thousand Estonian kroons.

### The Company's potential income tax liability

As at 31.12.2010 the Company's retained earnings were 43,683 thousand kroons (22,041 thousand kroons). The maximum possible income tax liability related to the distribution of the Company's retained earnings as dividends is 9,173 thousand kroons. The Company can therefore pay 34,510 thousand kroons in net dividends.

### 3.13. Gross premiums

in thousands of Estonian kroons	2010	2009
Risk products	3,350	7,332
Traditional savings products	28,141	30,735
Universal life products	3,595	1,728
Risk premiums in unit-linked insurance contracts	12,582	12,375
Supplementary insurance	16,686	15,899
Total	64,354	68,069

### 3.14. Net income from reinsurance

in thousands of Estonian kroons	2010	2009
Reinsurers' share of gross premiums	-11,512	-11,750
Reinsurers' share in claims paid	1,674	2,495
Changes to reinsurers' share in technical provisions	108	61
Reinsurance commission income	5,324	5,484
Total	-4,406	-3,710

### 3.15. Investment income

in thousands of Estonian kroons	2010	2009
Term deposit interest income	2,315	12,344
Interest income of bonds and other fixed rate securities	5,717	5,830
Dividends	80	37
Interest income on bank account	50	74
Total	8,162	18,285

### 3.16. Fair value gains and losses

in thousands of Estonian kroons	2010	2009
Shares and investment fund units	5,683	5,840
Bonds and other fixed rate securities	-2,726	4,410
Total	2,957	10,250

### 3.17. Gains and losses realised

in thousands of Estonian kroons	2010	2009
Shares and investment fund units	1,561	0
Bonds and other fixed rate securities	28	264
Total	1,589	264

In the tables above, the results are shown from financial assets carried at fair value through profit or loss which is designated as such upon initial categorisation.

### 3.18. Fee income

in thousands of Estonian kroons	2010	2009
Acquisition fees	9,321	10,910
Renewal fees	33,664	27,421
Lapse and cancellation fees	3,470	4,176
Other fees	138	13
Total	46,593	42,520

### 3.19. Other income

in thousands of Estonian kroons	2010	2009
Commission fee for intermediation of fund units	17,911	9,712
Commissions from sale of other insurance contracts	11	24
Other income (tangible assets sales, exchange gains)	76	178
Total	17,998	9,914

### 3.20. Net insurance claims and the change of technical provisions

in thousands of Estonian kroons	2010	2009
Indemnities paid for insured events and maturity pay-outs	12,910	13,466
Surrender amounts	8,884	17,747
Expenses related to pay-outs (Note 3.22)	3,935	3,921
Total paid insurance claims and expenses related to pay-outs	25,729	35,134
Reinsurers' share in paid claims	-1,674	-2,495
Total paid insurance claims and expenses related to pay-outs, net of reinsurance	24,055	32,639
Increase in life insurance provision	4,658	8,146
Increase in outstanding claims provision	542	114
Total increase in insurance technical provisions	5,200	8,260
Change in reinsurers' share in technical provisions	-151	-60
Total increase of insurance technical provisions net of reinsurance	5,049	8,320
Net insurance claims and the change of technical provisions	29,104	40,959

### 3.21. Change in value of unit-linked financial liabilities and assets

in thousands of Estonian kroons	2010	2009
Change in unit-linked financial liabilities due to changes in unit prices and due to other changes (Note 3.8.3, Note 3.8.4)	-267,971	-297,037
Change in value of investments attributable to unit-linked policyholders (Note 3.2.2)	269,251	296,215
Total	1,280	-822

### 3.22. Expenses

Breakdown of expenses by source

in thousands of Estonian kroons	2010	2009
Personnel expenses	52,085	47,766
Commissions paid to intermediaries	4,774	4,686
Expenses on premises	6,158	7,404
Office expenses	2,891	2,504
Depreciation	2,010	1,671
Other expenses	18,814	17,536
Total	86,732	81,567

Breakdown of expenses by life cycle

in thousands of Estonian kroons	2010	2009
Acquisition expenses	43,368	37,792
Administrative expenses	35,936	36,207
Expenses related to pay-outs	3,935	3,921
Investments expenses	3,493	3,647
Total	86,732	81,567

### 3.23. Income tax expenses

in thousands of Estonian kroons	Latvia	Lithuania	Estonia	Total
Net income before income taxes	-3,941	31,816	-5,210	22,665
Rate of taxation	15%	15%		
Calculated income tax	-576	4,772	0	4,197
Increase (or reduction) in tax resulting from:				
non-deductible expenses	279	4,174	0	4,453
non-taxable income	0	-7,711	0	-7,711
Unrecognised deferred tax assets from previous year	-113	0	0	-113
Unrecognised deferred tax assets	410	-1,235		-825
Total income tax expenses	0	0	0	0

### 3.24. Operating lease

The Company leases premises and cars under an operating lease term. Lease payments are recognised as an expense in the period in which they occur

in thousands of Estonian kroons	2010	2009
Premises	4,252	4,786
Cars	1,603	1,205
Total	5,855	5,991

Future minimum lease rental payables under non-cancellable operating leases as at 31 December are as follows:

Not later than one year	4,706
Later than one year and not later than five years	144
Total	4,850

### 3.25. Related party disclosures

#### 3.25.1. Transactions with Management Board members and Supervisory Board members

The Supervisory Board received no separate remuneration or severance pay. Members of the Management Board received a total of 7,352 thousand Estonian kroons in 2010 (in 2009 this was 6,736 thousand Estonian kroons) pursuant to service contracts. The maximum amount of termination benefit according to the agreements is 3,981 thousand Estonian kroons.

#### 3.25.2. Other transactions with related parties

<b>ASSETS</b> in thousands of Estonian kroons	31.12.2010	31.12.2009
Cash and cash equivalents		
Nordea Bank Finland Plc (associated company to Sampo plc)	3,340	0
Reinsurance receivables		
Mandatum Life Insurance Company Limited (parent company)	6,170	5,942
Financial assets		
Financial assets designated as being at fair value through p/l		
Mandatum Life Insurance Company Limited (parent company)	967,283	346,366
Other receivables		
If P&C Insurance Company Ltd ( consolidation group enterprise)	56	2
Accrued income and prepaid expenses		
If P&C Insurance Company Ltd ( consolidation group enterprise)	206	80
Mandatum Life Insurance Company Limited (parent company)	1,173	559
Sampo plc (ultimate parent company)	0	222
<b>LIABILITIES</b> in thousands of Estonian kroons	31.12.2010	31.12.2009
Insurance payables		
Mandatum Life Insurance Company Limited (parent company)	2,932	3,007
Accrued expenses and deferred income		
Mandatum Life Insurance Company Limited (parent company)	121	0
If P&C Insurance Company Ltd. (( consolidation group enterprise)	9	15

<b>INCOME STATEMENT</b> in thousands of Estonian kroons	2010	2009
Ceded premiums		
Mandatum Life Insurance Company Limited (parent company)	11,512	11,750
Reinsurance commissions		
Mandatum Life Insurance Company Limited (parent company)	5,324	5,484
Other income		
If P&C Insurance Company Ltd (consolidation group enterprise)	11	24
Mandatum Life Insurance Company Limited (parent company)	5,706	1,265
Reinsurers' share in claims paid and in the change of provisions		
Mandatum Life Insurance Company Limited (parent company)	1,825	2,560
Expenses		
Commission fees to brokers		
If P&C Insurance Company Ltd (consolidation group enterprise)	10	10
Transport expenses		
If P&C Insurance Company Ltd (consolidation group enterprise)	146	181
Nordea Bank Finland Plc (associated company to Sampo plc)		
	271	0
Other expenses		
Mandatum Life Insurance Company Ltd (parent company)	940	418
If P&C Insurance Company Ltd (consolidation group enterprise)	1,110	1,138
Sampo plc (ultimate parent company)	457	567
Nordea Bank Finland Plc (associated company to Sampo plc)		
	6	0

### 3.26. Implicit assets

Minor assets are reported as off-balance amounts. These are items that have not been included in fixed assets based on acquisition costs or some other criterion, and which have been included in acquisition costs, but which still participate in business activities over long periods. The majority of minor assets are made up of computers, telecommunication equipment and fittings. These items are recorded in the register of minor assets.

### 3.27. Events after the reporting date

Starting from 1 January 2010, Estonia joined the Euro area and the Estonian kroon (EEK) was replaced by the euro (EUR). Proceeding from this, the Company converted its accounting into Euros and financial reporting for the year 2010 and afterwards will be prepared in Euros.

Comparative data will be converted at the official exchange rate 15.6466 EEK = 1 EUR.

# IV. Auditor's Report



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Translation of the Estonian Original

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Mandatum Life Insurance Baltic SE

We have audited the accompanying financial statements of Mandatum Life Insurance Baltic SE, which comprise the balance sheet as at 31 December 2010, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (Estonia). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

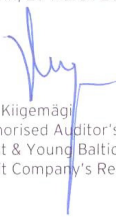
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Mandatum Life Insurance Baltic SE as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Tallinn, 29 March 2011

  
Ivar Kiigemägi  
Authorised Auditor's number 527  
Ernst & Young Baltic AS  
Audit Company's Registration number 58

  
Tiina Somer  
Authorised Auditor's number 441

A member firm of Ernst & Young Global

## V. Profit allocation proposal

Company retained earnings:


Net profit for 2010      22,664,523    Estonian kroons  
Total retained earnings   43,682,992    Estonian kroons

The Management Board hereby proposes to allocate 1,133,226 Estonian kroons to the legal reserve and add 21,531,297 Estonian kroons to retained earnings.

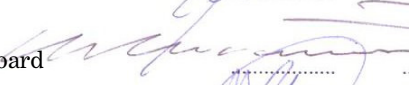
Imre Madison              Chairman of the Management Board

 29.03.2011

Erkki Sadam              Member of the Management Board

 29.03.2011


Uldis Mucinieks        Member of the Management Board

 29.03.2011

Rytis Ambrazevicius    Member of the Management Board

 29.03.2011

Ilona Stare              Member of the Management Board

 29.03.2011


Rasa Kasperaviciute    Member of the Management Board

 29.03.2011

Paul Lukka              Member of the Management Board

 29.03.2011

Timo Pursiala            Member of the Management Board

 29.03.2011

## VI. Signatures of the Management Board for the Annual Report 2010

The Company's Management Board has approved the Management Report and Annual Accounts for the year 2010. The Annual Report as compiled by the Management Board consists of the Management Report, Annual Accounts, Profit allocation proposal and Auditor's Report. The Company's Supervisory Board has reviewed the Annual Report and has approved it for submission to the General Meeting of Shareholders.

Imre Madison Chairman of the Management Board

 29.03.2011

Erkki Sadam Member of the Management Board

 29.03.2011

Uldis Mucinieks Member of the Management Board

 29.03.2011

Rytis Ambrazevicius Member of the Management Board

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Ilona Stare Member of the Management Board

 29.03.2011

Rasa Kasperaviciute Member of the Management Board

 29.03.2011

Paul Lukka Member of the Management Board

 29.03.2011

Timo Pursiala Member of the Management Board

 29.03.2011

## VII. Sales revenue according to EMTAK 2008

EMTAK	Business area	Total
65111	life insurance	64,354,449 Estonian kroons