

# MANDATUM LIFE INSURANCE BALTIC SE

## INTERIM REPORT 1-3Q/2011

Business name: MANDATUM LIFE INSURANCE BALTIC SE

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Beginning of reporting period: 01.01.2011

End of reporting period: 30.09.2011

CEO: Imre Madison

Auditor: Ernst & Young Baltic AS

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## **I. Management report in 1-3Q 2011**

Mandatum Life Insurance Baltic SE (hereinafter referred to as the Company) belongs to a Finnish financial group Sampo Group. The Company is a fully owned subsidiary of Mandatum Life Insurance Company Ltd.

The Company is domiciled within Estonia with its headquarters in Tallinn and it operates through branches in Latvia and Lithuania.

The Company's core activities include offering investment and wealth management solutions through unit-linked life insurance.

### **1. Management of the Company**

The Company's Management Board had seven members at the end of the third quarter of 2011. The acting Chairman of the Management Board and the CEO is Imre Madison. Other members of the Management Board are Uldis Mucinieks, responsible for sales management and Latvian Branch Manager; Ilona Stare, responsible for policy administration and IT management and COO of the Latvian Branch; Rasa Kasperaviciute, responsible for risk management and product development matters and COO of the Lithuanian Branch; Erkki Sadam, responsible for the Company's legal and procurement matters; Paul Lukka, responsible for investment and wealth management and Timo Pursiala, responsible for financial and business control matters.

Management Board member Rytis Ambrazevicius submitted a letter of resignation to leave the company on 19th July 2011, which was also accepted by the Company's Supervisory Board. The reason for leaving was a job offer from a leading Lithuanian mobile operator. Until the new Lithuanian Branch Manager is appointed, the Company's Management Board will have seven members and the duties of Lithuanian Branch Manager are temporarily performed by Rasa Kasperaviciute. The new Lithuanian Branch Manager will start on his position at the beginning of January 2012.

The Company's Chief Actuary is Rasa Povilaviciute. The Company's Internal Auditor is Arlet Rebane.

The Company's Supervisory Board had three members. Timo Laitinen, the Senior Vice President of Mandatum Life Insurance Company Ltd. is the acting Chairman of the Supervisory Board. The other members of the Supervisory Board are Jukka Pirskanen, Head of Investment Management of Mandatum Life Insurance Company Ltd.; and starting from 1 July 2011, Timo Vuorinen, the Chairman of the Supervisory Board of If P&C.

### **2. Business results of the Company**

As at 30.09.2011, the Company serviced a total of 37 837 life insurance contracts in the Baltic countries. The biggest share of total insurance contracts in force at the end of the third quarter of 2011 consisted of unit-linked insurance contracts (total of 25 892 contracts). As at 30.09.2011, the Company had 41 854 insured persons in its contracts portfolio in the Baltics.

The Company's received payments totalled 34 090 076 euros in the first three quarters of 2011; this represents a decrease by 24% and 10 895 944 euros on the figures of the first three quarters of 2010.

As at 30.09.2011, the Company's client assets under management (AUM) amounted to 144 701 503 euros, which is a decrease of 12.2% and 20 209 816 euros compared to the figures as at 31.12.2010. The biggest share of AUM was formed by unit-linked insurance contracts which formed 125 104 595 euros and 86.5% of clients' total AUM.

The Company's market share in the Baltic life insurance market (based on contractual payments received) in the first three quarters of 2011 was 16.3%. As at 31.09.2011, the market share by countries based on contractual payments received in Estonia was 18.5%, in Latvia 10.2% and in Lithuania 17.6%.

The Company's market share (based on contractual payments received from unit-linked investment contracts) of the first three quarters of 2011 was 26.2%. As at 31.09.2011, the Company's market share by countries based on contractual payments received from unit-linked investment contracts in Estonia was 39.3%, in Latvia 23.5% and in Lithuania 23.7%.

In the first three quarters of 2011, the Company paid claims in the amount of 30 221 392 euros, which is 10 966 684 euros more than in the first three quarters of 2010. The majority of pay-outs were expiries, partial surrenders and surrenders of unit-linked insurance contracts.

As for the management of investments (technical provision and the Company's own capital portfolios) the Company cooperates with Sampo plc. Net income from investment activities (net of investment expenses) in the Baltic countries in the first three quarters of 2011 was positive, totalling to 170 507 euros. Investment income of the Company's own capital portfolio in the first three quarters of 2011 was positive, amounting to 59 893 euros.

As at 31.09.2011, the total size of the investment portfolio (except investments related to unit-linked life insurance contracts) reached 27.4 million euros. At the end of the first three quarters of 2011, Mandatum Life Insurance Baltic SE's investment portfolio mostly comprised of money market instruments.

As at 31.09.2011, owner's equity was 10 054 383 euros, of which 3 515 600 euros was formed by share capital.

As at 31.09.2011 the total amount of assets included in the available solvency margin was 9 191 764 euros, the required solvency margin was 2 413 125 euros and the solvency surplus was 6 778 639 euros.

The Company's operating expenses (which include acquisition expenses, administrative expenses and investment expenses) increased in the first three quarters of 2011 by 12.4% in comparison with the same period of 2010, amounting to 4 226 927 euros. Acquisition expenses accounted for 53.4% of all operational expenses in the first three quarters of 2011 in the Baltic countries.

In the first three quarters of 2011, Mandatum Life Insurance Baltic SE's profit for the period amounted to 104 317 euros. In the same period of the previous year, the Company made a profit of 1 612 523 euros. The main reasons for the decrease in profit in comparison with the first three quarters of 2010 were a one-time technical income received in April 2010, increased operating expenses in 2011, decreased sales income, and lower net income from investment activities.

The Company's balance sheet volume reached 156 651 945 euros as at 31.09.2011; the decrease was 19 115 490 euros in comparison with the end of 2010. Technical provisions from insurance contracts amounted to 14 426 940 euros at the end of the first three quarters of 2011; financial liabilities from investment contracts were 22 260 060 euros and financial liabilities from insurance contracts formed 108 014 503 euros.

### ***3. Personnel of the Company***

As at 31.09.2011 there were 111 employees working in the Company. The number of employees increased by 6 employees compared with last year. Salaries and wages (including payroll taxes) for the period amounted to 2 180 005 euros. The Supervisory Board members were not remunerated. The Company paid remuneration (including taxes) to members of the Management Board for carrying out their tasks which amounted to 351 197 euros.

### ***4. Sales and Development Activities***

In the first three quarters of 2011, the Company's main sales channel was its own sales team.

In offering investment and wealth management solutions through unit-linked insurance contracts, the Company follows each client's risk profile, and their experience and goals in investing.

The Company continued to develop its risk product portfolio to provide its clients with extended opportunities of life insurance cover.

### ***5. Other activities***

The Company continues preparations in order to fulfil the Solvency 2 requirements of the EU insurance sector, which according to last known information take effect starting from 1 January 2014.

The external auditor of the Company is Ernst & Young Baltic AS.

The Company's reinsurer is Mandatum Life Insurance Company Ltd.

The Company's investment and operational risk management takes place through working groups across the Baltic countries.

The Company is the member of the Insurance Association in Estonia, Latvia and Lithuania, and the founding member of Chamber of Service Economy.




Imre Madison  
CEO

Tallinn, 24 November 2011

## II. Signatures of the Management Board

The Company's Management Board has prepared the Interim Report of 1-3Q of 2011 on pages 7-13.

Imre Madison                      Chairman of the Management Board                                            28.11.2011

Erkki Sadam                      Member of the Management Board                                            28.11.2011

### III. Statement of financial position

<i>in Euros</i>	30.09.2011	31.12.2010	Notes
<b>ASSETS</b>			
Cash and cash equivalents	454 296	6 501 373	
Reinsurers' share of insurance liabilities	56 735	74 477	
<b>Financial assets</b>			
Financial assets designated as being at fair value through profit and loss	153 042 142	167 380 869	
Receivables related to insurance activities and other	1 553 186	446 892	
Accrued income and prepaid expenses	535 198	459 128	
<b>Property, plant and equipment</b>	147 561	119 932	0
<b>Intangible assets</b>	862 827	784 764	<b>Error! eference source not found.</b>
<b>TOTAL ASSETS</b>	<b>156 651 945</b>	<b>175 767 435</b>	
<b>LIABILITIES AND OWNER'S EQUITY</b>			
Insurance payables	150 756	290 946	
Accrued expenses and deferred income	448 179	615 103	
Financial liabilities from insurance contracts	108 014 503	136 937 968	
Financial liabilities from investment contracts	22 260 060	14 143 196	
Technical provision from insurance contracts	14 426 940	13 830 155	
Financial liabilities from investment transactions	1 297 124	0	
<b>Total liabilities</b>	<b>146 597 562</b>	<b>165 817 368</b>	
Share capital	3 515 600	3 515 141	
Share premium	3 509 422	3 509 881	
Legal reserve	204 792	132 366	
Unrealized foreign exchange	619	827	
Retained profits	2 823 950	2 791 852	
<b>Total owner's equity</b>	<b>10 054 383</b>	<b>9 950 067</b>	
<b>TOTAL LIABILITIES AND OWNER'S EQUITY</b>	<b>156 651 945</b>	<b>175 767 435</b>	

## IV. Statement of Comprehensive Income

<i>in Euros</i>	1-9/ 2011	1-9/ 2010
Gross premiums	2 975 787	3 063 079
Reinsurers' share of gross premiums	-234 130	-548 370
<b>Net premiums</b>	<b>2 741 657</b>	<b>2 514 709</b>
Investment income	497 581	381 554
Fair value gains and losses	-198 713	537 521
Realised gains and losses	-13 601	132 018
<b>Net income from investments</b>	<b>285 267</b>	<b>1 051 093</b>
Fee income	2 014 787	2 200 825
Reinsurance commission income	-25 726	45 221
Other income	1 168 501	804 383
<b>Total revenue</b>	<b>3 157 562</b>	<b>3 050 429</b>
Paid insurance claims net of reinsurance and claims handling expenses related to out-payments	-1 116 651	-1 172 798
Increase of insurance technical provisions net of reinsurance	-623 231	-38 831
<b>Net insurance claims and the change of technical provisions</b>	<b>-1 739 882</b>	<b>-1 211 629</b>
<b>Change in value of unit-linked financial liabilities and assets</b>	<b>-6 660</b>	<b>68 417</b>
<b>Change in value of financial liabilities from insurance contracts with guaranteed interest</b>	<b>-106 493</b>	<b>-101 165</b>
Acquisition expenses	-2 258 104	-1 967 073
Administrative expenses	-1 769 707	-1 626 045
Investment expenses	-199 116	-166 339
<b>Expenses</b>	<b>-4 226 927</b>	<b>-3 759 457</b>
<b>Profit/loss before income tax</b>	<b>104 525</b>	<b>1 612 397</b>
Income tax expenses	0	0
<b>Profit/loss for the period</b>	<b>104 525</b>	<b>1 612 397</b>
<b>Other comprehensive income</b>		
Exchange differences	-208	126
<b>Total comprehensive income for the period</b>	<b>104 317</b>	<b>1 612 523</b>

## V. Quarterly Statement of Comprehensive Income

<i>in Euros</i>	7-9/ 2011	7-9/ 2010
Gross premiums	988 022	1 004 741
Reinsurers' share of gross premiums	-80 838	-179 934
<b>Net premiums</b>	<b>907 184</b>	<b>824 807</b>
Investment income	186 618	97 130
Fair value gains and losses	-155 532	278 327
Realised gains and losses	-397	1 579
<b>Net income from investments</b>	<b>30 689</b>	<b>377 036</b>
Fee income	608 661	672 702
Reinsurance commission income	-43 879	14 524
Other income	782 319	287 851
<b>Total revenue</b>	<b>1 347 101</b>	<b>975 077</b>
Paid insurance claims net of reinsurance and claims handling expenses related to out-payments	-364 403	-331 540
Increase of insurance technical provisions net of reinsurance	-262 603	-16 318
<b>Net insurance claims and the change of technical provisions</b>	<b>-627 006</b>	<b>-347 858</b>
<b>Change in value of unit-linked financial liabilities and assets</b>	<b>-12 240</b>	<b>-313</b>
<b>Change in value of financial liabilities from insurance contracts with guaranteed interest</b>	<b>-37 565</b>	<b>-27 713</b>
Acquisition expenses	-696 041	-682 538
Administrative expenses	-496 921	-510 936
Investment expenses	-57 922	-42 781
<b>Expenses</b>	<b>-1 250 884</b>	<b>-1 236 255</b>
<b>Profit/loss before income tax</b>	<b>357 279</b>	<b>564 781</b>
Income tax expenses	0	0
<b>Profit/loss for the period</b>	<b>357 279</b>	<b>564 781</b>
<b>Other comprehensive income</b>		
Exchange differences	4	149
<b>Total comprehensive income for the period</b>	<b>357 283</b>	<b>564 930</b>

## VI. Statement of Cash-flows

<i>in Euros</i>	1-9/ 2011	1-9/ 2010	Notes
<b>Cash flow from operating activities</b>			
Premiums received	2 975 678	3 064 167	
Financial liability inflow	31 046 510	41 771 672	
Paid claims and claims handling expenses related to pay-outs	-1 162 374	-1 255 027	
Financial liability outflow	-27 719 274	-16 600 113	
Reinsurance payments	15 456	16 273	
Expenses	-4 105 340	-3 714 050	
Other revenue and other expenses	1 115 850	650 111	
Purchases of shares and investment fund units	-187 759 632	-194 008 053	
Proceeds from the sale of shares and investment fund units	185 042 824	161 970 341	
Purchases of bonds and other fixed income securities	-33 581 664	-7 145 307	
Proceeds from the sale of bonds and other fixed income securities	27 534 452	6 000 605	
Investments in term deposits	0	-12 089 454	
Proceeds on term deposits	238 691	13 505 534	
Interests received	741 452	489 375	
Dividends received	2 568	5 129	
Investment expenses	-199 116	-166 339	
<b>Net cash provided by operating activities</b>	<b>-5 813 919</b>	<b>-7 505 136</b>	
<b>Cash flow from investing activities</b>			
Purchases of tangible and intangible assets	-233 317	-362 309	0Error! eference source not found.
<b>Net cash provided by investment activities</b>	<b>-233 317</b>	<b>-362 309</b>	
<b>TOTAL CASH FLOW</b>	<b>-6 047 236</b>	<b>-7 867 445</b>	
Cash and cash equivalents at the beginning of the period	6 501 373	9 418 436	
Change in cash and cash equivalents	-6 047 236	-7 867 445	
Foreign currency translation effects	159	44	
Cash and cash equivalents at the end of the period	454 296	1 551 035	

## VII. Statement of changes in owner's equity

<i>in Euros</i>	Share capital	Share premium	Legal reserve	Unrealised foreign exchange rate	Retained earnings	Total equity
<b>As at 31.12.2009</b>	<b>3 515 141</b>	<b>3 509 881</b>	<b>67 009</b>	<b>572</b>	<b>1 408 682</b>	<b>8 501 285</b>
Increase of legal reserve	0	0	65 357	0	-65 357	0
Other comprehensive income	0	0	0	255	0	255
Profit for the year 2010	0	0	0	0	1 448 527	1 448 527
<b>As at 31.12.2010</b>	<b>3 515 141</b>	<b>3 509 881</b>	<b>132 366</b>	<b>827</b>	<b>2 791 852</b>	<b>9 950 067</b>
Increase of legal reserve	0	0	72 426	0	-72 426	0
Fund emission	459	-459	0	0	0	0
Other comprehensive income	0	0	0	-208	0	-208
<b>Profit for the period</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>104 525</b>	<b>104 525</b>
<b>As at 30.09.2011</b>	<b>3 515 600</b>	<b>3 509 422</b>	<b>204 792</b>	<b>619</b>	<b>2 823 950</b>	<b>10 054 383</b>

## VIII. Notes

### 1. Basis of preparation

Mandatum Life Insurance Baltic SE's Interim Report of 1-3 Quarters 2011 is prepared in accordance with IAS 34 "Interim Financial Reporting".

The Company's Annual Accounts for 2010 have been prepared in accordance with International Financial Reporting Standards (IFRS). In preparing the interim financial statements, the same accounting policies and management estimates of computation are applied as in the financial statements for 2010. The annual financial statements are available on our website at [www.mandatumlife.ee](http://www.mandatumlife.ee). The accounting principles are therefore not described in this Interim Report.

All amounts in the notes are presented in Euros, unless stated otherwise.

### 2. Property, plant and equipment

<i>in Euros</i>	Acquisition cost	Accumulated depreciation	Carrying value
<b>As at 31.12.2010</b>	<b>315 884</b>	<b>-195 952</b>	<b>119 932</b>
Additions	63 195	0	63 195
Foreign exchange adjustments	47	-38	9
Write-offs	-2 959	2 959	0
Depreciation charges	0	-35 575	-35 575
<b>As at 30.09.2011</b>	<b>376 167</b>	<b>-228 606</b>	<b>147 561</b>

Equipment comprises of IT, office equipment and furniture.

### 3. Intangible assets

<i>in Euros</i>	Acquisition cost	Accumulated depreciation	Carrying value
<b>As at 31.12.2010</b>	<b>1 333 821</b>	<b>-549 057</b>	<b>784 764</b>
Additions	169 632	0	169 632
Foreign exchange adjustments	441	-36	405
Write-offs	-28 574	28 574	0
Depreciation charges	0	-91 974	-91 974
<b>As at 30.09.2011</b>	<b>1 475 320</b>	<b>-612 493</b>	<b>862 827</b>

#### 4. Related party disclosures

The associated parties are considered to be the parent company Mandatum Life Insurance Company Ltd, other Sampo Group's companies, and members of the Management and the Supervisory Board. As at 30.06.11 Sampo plc held over 20% of Nordea Bank's share capital, Nordea Bank is considered as an associated company to Sampo plc.

Members of the Management Board received a total of 351 thousand euros in the 1-3Q 2011 pursuant to service contracts, payroll tax included. The Supervisory Board received no separate remuneration or severance pay.

<b>ASSETS in Euros</b>	<b>30.09.2011</b>	<b>31.12.2010</b>
<b>Cash and cash equivalents</b>		
Nordea Bank (associated company to Sampo plc)	2 992	213 471
<b>Reinsurers' share of insurance liabilities</b>		
Mandatum Life Insurance Company Ltd (parent company)	67 501	394 304
<b>Financial assets</b>		
Financial assets designated as being at fair value through p/l		
Mandatum Life Insurance Company Ltd (parent company)	58 148 474	61 820 683
Other receivables		
If P&C Insurance Company Ltd. (a consolidation group enterprise)	94	3 587
Mandatum Life Insurance Company Ltd (parent company)	164 016	0
Accrued income and prepaid expenses		
Mandatum Life Insurance Company Ltd (parent company)	194 741	74 968
If P&C Insurance Company Ltd (a consolidation group enterprise)	15 208	13 196
<b>LIABILITIES in Euros</b>	<b>30.09.2011</b>	<b>31.12.2010</b>
<b>Insurance payables</b>		
Mandatum Life Insurance Company Ltd (parent company)	107 905	187 378
<b>Accrued expenses and deferred income</b>		
If P&C Insurance Company Ltd (a consolidation group enterprise)	167	602
Mandatum Life Insurance Company Ltd (parent company)	0	7 728
<b>INCOME STATEMENT in Euros</b>	<b>1-9/ 2011</b>	<b>1-9/ 2010</b>
<b>Ceded premiums</b>		
Mandatum Life Insurance Company Ltd (parent company)	234 130	548 370
<b>Reinsurance commissions</b>		
Mandatum Life Insurance Company Ltd (parent company)	-25 726	45 221
<b>Other income</b>		
If P&C Insurance Company Ltd (a consolidation group enterprise)	527	537
Mandatum Life Insurance Company Ltd (parent company)	522 957	227 674
<b>Reinsurers' share in claims paid and in change provisions</b>		
Mandatum Life Insurance Company Ltd (parent company)	38 927	78 913
<b>Expenses</b>		
Commissions fees to brokers		
If P&C Insurance Company Ltd (a consolidation group enterprise)	370	392
Transport expenses		
If P&C Insurance Company Ltd (a consolidation group enterprise)	7 422	8 764
Nordea Bank (associated company to Sampo plc)	19 238	10 935
Other expenses		
If P&C Insurance Company Ltd (a consolidation group enterprise)	11 992	56 843
Sampo plc (ultimate parent company)	38 331	19 477
Mandatum Life Insurance Company Ltd (parent company)	78 079	44 906