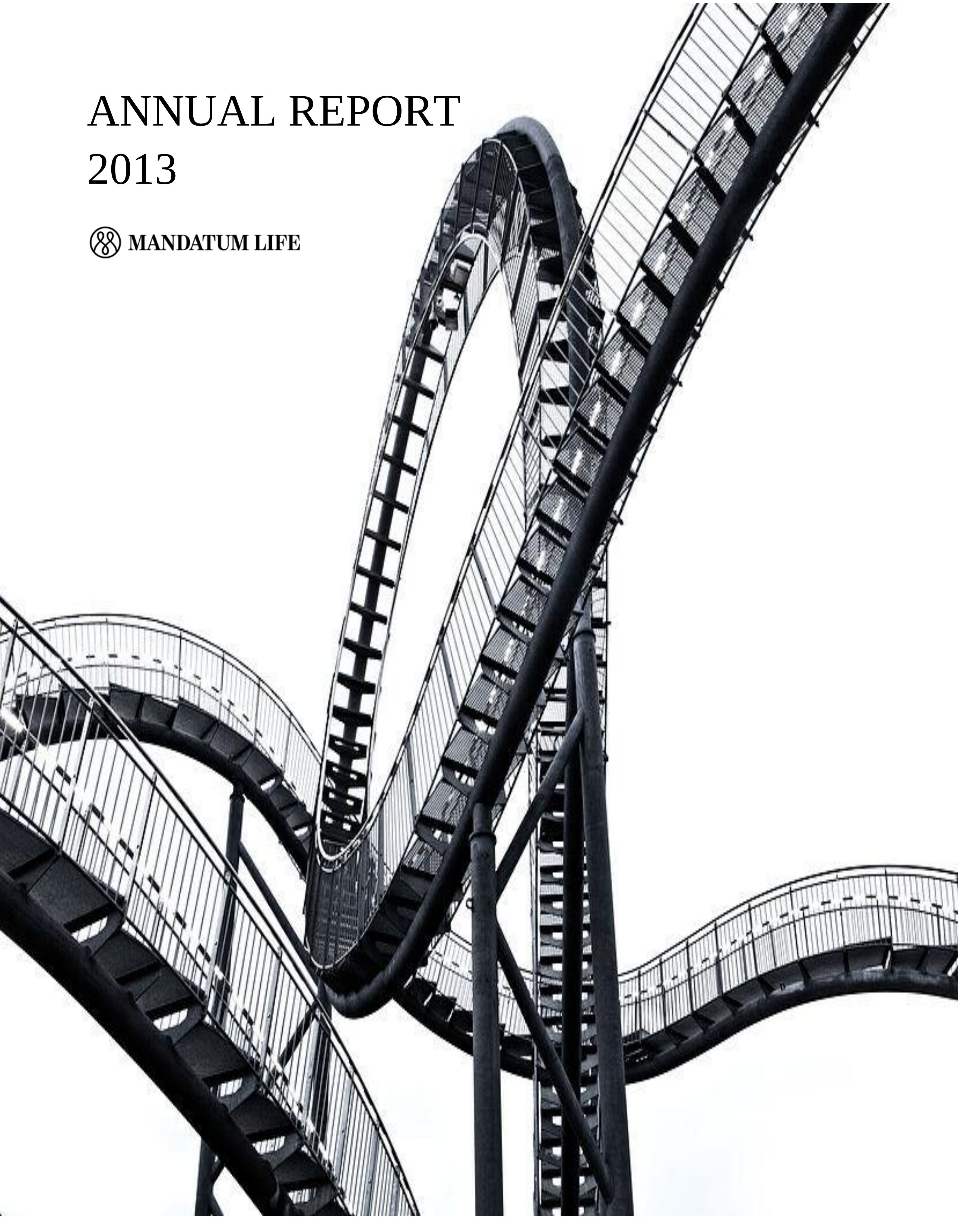
ANNUAL REPORT 2013

MANDATUM LIFE



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I. Management report for 2013

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 2013 was the seventh year of active operations as a single pan-Baltic company, and the fifteenth year of active operations in the Baltic countries.

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, term life, accident and critical illness-related are complementary insurance activities. Other activities include the administration of insurance saving 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, www.mandatumlife.lv, and www.mandatumlife.lt.

Information about Mandatum Life Finland and Sampo plc can be found on web sites

www.mandatumlife.fi and www.sampo.com.

2. Management

The Company's Management Board consisted of five members at the end of 2013. The 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; Ilona Stare, responsible for policy administration, IT management, Latvian sales and the Latvian Branch Manager; Rasa Kasperaviciute, responsible for risk management, product development, actuarial and finance matters; and Timo Pursiala, responsible for business control and investment management matters.

In 2013 two members of the Management Board left the Company: Paul Lukka, the Head of Investments and Wealth Management and Tomas Stonys, the Head of Baltic Sales and the Lithuanian Country Manager. Their working tasks and responsibility areas were redistributed among other managers of the Company and other members of the Management Board; therefore no new recruitments were required.

The Company's Supervisory Board consisted of three members at the end of 2013. 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 Jukka Pirskanen, the Head of Wealth Management of Mandatum Life Finland and Paula Salonen, the CEO of the Finnish life insurance company Kaleva.

The Chief Actuary of Mandatum Life is Airi Heinapuu.

3. Business results

Mandatum Life's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Global economies continued to recover in the year 2013. Fundamental indicators are back on the pre-crisis levels in many business sectors, and general confidence about the developments of economies in the coming year(s) is positive. The EU and the euro zone are less vulnerable than a year ago but the recovery process is still on-going.

The economy of the Baltic countries continued to grow in 2013; average wages are increasing in almost all business sectors and unemployment levels are decreasing. Consumer confidence levels in all the Baltic countries are higher than a year ago. The majority of Baltic residence capital is still accumulated in bank accounts and bank deposits. Deposit rates have not increased much from the low levels of 2012: annual interest rates are in the range 0.5% - 1% which is well below inflation rates of consumer prices. Therefore bank deposits continue to earn negative real value for customers' money. It is a clear sign that customers are still not ready to carry investment risk but rather keep their money in a secured guaranteed solution until they feel confident about taking investment risk once again.

Mandatum Life Finland is carefully following the development and trends on investment markets. Its investment portfolios, which are also available to the customers of Mandatum Life Baltic, are actively managed. Starting from 2013, Mandatum Life's investment strategy includes three main investment directions: 1) actively managed absolute return investment baskets; the goal is to deliver stable investment return to our customers over a longer time period; 2) relative return investment baskets; the goal is to deliver investment return that is higher in comparison with the baskets' benchmark; 3) passively managed index baskets in cooperation with BlackRock, the global market leader of index funds and one of the world's biggest asset manager; the goal is to deliver global stock markets investment return by using BlackRock iShares.

The Company's business focus is on increasing unit-linked assets under management by concluding unit-linked insurance single payment policies and unit-linked insurance wealth management policies, and on increasing the Company's total sum at risk. Unit-linked insurance policies with regular savings, and term life and accident and illness-related complementary insurances are actively offered to private customers and corporate customers. Mandatum Life does not offer annuity insurance solutions to the second funded pension pillar customers in any Baltic country. Neither does the Company conclude any new business in insurance savings with guaranteed interest in any Baltic country.

3.1. Life insurance industry in the Baltic countries in 2013

In the Baltic life insurance market, the total of contractual payments received was 322,423 thousand euros in 2013 (294,418).

The biggest life insurance market in the Baltic countries is in Lithuania where contractual payments received totalled 181,303 thousand euros (166,437), followed by the Estonian life insurance market with 73,145 thousand euros (66,594), and then by the Latvian life insurance market with 67,975 thousand euros (61,387).

In the Baltic unit-linked insurance market, the total of contractual payments received was 179,803 thousand euros in 2013 (165,001).

The biggest unit-linked insurance market in the Baltics is in Lithuania where unit-linked insurance payments received totalled 127,159 thousand euros (116,850). In Estonia, unit-linked insurance payments received totalled 29,614 thousand euros (26,912). In Latvia unit-linked insurance payments received totalled 23,029 thousand euros (21,239).

Mandatum Life's total market share (based on total contractual payments received) in the Baltic countries as at 31.12.2013 reached 9.7% (11.3%).

Mandatum Life's unit-linked insurance market share (based on total contractual payments received) in the Baltic countries reached 16.2% (18.7%) as at 31.12.2013.

Mandatum Life's unit-linked insurance market share in Lithuania as at 31.12.2013 reached 12.8% (14.4%), in Estonia 25.4% (31.2%) and in Latvia 23.2% (27.1%).

3.2. Contracts portfolio

As at 31.12.2013 Mandatum Life serviced a total of 33,826 life insurance contracts (34,526). The biggest share of total insurance contracts in force consisted of unit-linked insurance contracts, representing a share of 70% (69%).

As at 31.12.2013, Mandatum Life's contracts portfolio included 37,986 insured persons (38,124).

In 2013, Mandatum Life concluded 3,510 new contracts (1,948) and surrendered, matured or terminated for other reasons 4,210 contracts (4,388).

3.3. Contractual payments received and assets under management

Contractual payments received by Mandatum Life in the Baltics totalled 31,986 thousand euros in 2013 (33,403).

Contractual payments received from new business in 2013 (such as contractual payments received from new contracts concluded in 2013 and additional lump sum payments received for unit-linked insurance contracts) totalled 20,871 thousand euros (22,160), and contractual payments received from previous years contracts in force totalled 11,115 thousand euros (11,219).

As at 31.12.2013, Mandatum Life's financial liabilities from investment and insurance contracts, e.g. customer assets under management (AUM) were 159,302 thousand euros (153,030). The biggest share in AUM was constituted by financial liabilities from unit linked contracts, which formed 92% (91%) of customers' total AUM.

3.4. Claims incurred

For Mandatum Life in 2013, the total claims incurred with other pay-outs were 24,636 thousand euros (23,917). The majority of pay-outs from contracts were made from unit-linked AUM. As for the number of contracts, contracts were mostly surrendered and matured in regular saving guaranteed interest insurance. The surrender ratio (the share of total claims incurred from total contractual payments received) in 2013 reached 77% (72%).

3.5. Investments

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

As for the management of investments the Company has a partnership with Sampo plc. 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 2013 was 537 thousand euros (1,300). Investment income of the Company's own capital portfolio was 302 thousand euros in 2013 (617).

At the end of 2013, the total size of the investment portfolio (except investments related to unit-linked insurance contracts) reached 26,652 thousand euros (27,631). 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. Equities represented less than 10% of the Company's technical provisions and own capital investment portfolio in 2013.

The annual investments return on the Company's technical provisions and own capital investment portfolio in 2013 was 3.37% (7.3%).

3.6. Customer bonuses

Mandatum Life did not pay additional bonuses into guaranteed interest life insurance contracts for 2013 in any Baltic country (as in 2012). 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 Company's average annual return for the last three years of the Company's technical provisions investment portfolio was 4.19%.

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 customers. The Company's Management Board and Supervisory Board are responsible for risks, and 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.

In all Baltic countries internal audits are conducted by the Company's own internal auditor. Annual plan for the internal audit has been approved by the Supervisory Board. In 2013, seven internal audits and seven follow-up internal audits were performed in Mandatum Life.

3.8. Owner's equity and solvency margin

As at 31.12.2013 the Company's owner's equity was 10,572 thousand euros (11,083), of which 3,516 thousand euros (3,516) 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 9,810 thousand euros (10,245) on 31 December 2013, whereas the required solvency margin was 2,496 thousand euros (2,413). The solvency surplus was 7,314 thousand euros (7,832) and therefore all requirements (including that of the minimum required solvency margin of 3,700 thousand euros) were met.

3.9. Operating expenses

Mandatum Life's operating expenses (which include acquisition expenses, administrative expenses and investment expenses) increased by 5% in comparison with 2012. The growth of operating expenses was related to the increase in the Company's acquisition costs.

Total expenses (including expenses related to pay-outs) were 6,339 thousand euros in 2013 (6,036). Acquisition expenses accounted for 55% (51%) of all operational expenses in 2013. Administrative expenses accounted for 39% (42%) and other expenses for 6% (7%) of all operational expenses.

3.10. Operating profit

In 2013, Mandatum Life's loss for the financial year totalled 511 thousand euros (profit of 895 in 2012). The operating loss, excluding the Company's own capital investment portfolio income, was 813 thousand euros (profit of 174 in 2012). Mandatum Life's return on equity (ROE, i.e. the ratio of annual business result against the annual average owner's equity) was -4.8 % in 2013 (8.9%).

3.11. Balance sheet

Mandatum Life's balance sheet volume reached 170,613 thousand euros as at 31.12.2013 (164,946). Total liabilities from insurance and investment contracts were 159,302 thousand euros at the end of 2013 (153,030); financial liabilities for unit-linked insurance contracts formed 145,922 thousand euros thereof (139,508).

4. Personnel of the Company

As at 31.12.2013, there were 110 (119) employees working in Mandatum Life, of whom 49 (54) were employed in the sales area. In the Estonian unit there were 41 (47) employees, in the Latvian branch 30 (32) employees, and in the Lithuanian branch 39 (40) employees. Additionally, 9 (9) employees were on maternity leave or on leave for some other reason as at the end of 2013, of whom 5 (7) were from the Estonian unit, 2 (0) from the Latvian branch, and 2 (2) from the Lithuanian branch.

Salaries and wages (including payroll taxes) for the financial year were 3,377 thousand euros (3,274). The Supervisory Board members were not remunerated. Mandatum Life paid remuneration to members of the Management Board for carrying out their tasks, which totalled 376 thousand euros in 2013 (594).

Members of the Management Board may receive annual bonus in the maximum amount of 4 months' base salary and a long-term motivational pay bonus in the maximum amount of 2 months' base salary.

The annual bonus of the Management Board members depends on the Company's calendar year business result in the Baltics, such as customers' total payments to contracts, unit-linked insurance contracts' total assets under management, the Company's total sum at risk, the Company's total expenses excluding sales commissions and the Company's profit / loss excluding the Company's own capital net investment income.

The Management Board members' long-term motivational pay bonus depends on the same business results as set for the annual bonus. The annual payments of long-term motivational pay bonus are locked and available for the members of the Management Board only after having worked for the company for three years.

5. Activities in the Baltic countries

5.1. Sales and development activities

The Company's main sales channel is its own sale. In each Baltic country there is a sales team focused on selling unit-linked insurance & wealth management solutions and a sales team focused on regular saving solutions.

The Company's own sales teams focus on fulfilling the needs that affluent clients and high net worth individuals, entrepreneurs and corporate customers have in relation to investment, wealth management and life insurance solutions.

The bank-assurance cooperation with Danske Bank was continued based on the agency agreement concluded in 2007. Danske Bank delivers mainly life insurance risk business to the Company. Other sales channels such as If P&C and insurance brokers represent a minor share of the total contractual payments received but their importance is growing in the sales of the Company's risk covers. The Company launched a new sales cooperation with tied insurance agent networks in Lithuania in 2013. The importance of different sales channels varies from country to country. However, the Company's own sales teams are the core sales channels in all the Baltic countries.

In October 2013 four new accident and sickness-related complementary insurances were launched in Estonia. So far the Company provided accident and sickness-related complementary insurances only in Latvia and Lithuania. The features and price level of the Company's risk products makes Mandatum Life one of the leading provider of life insurance solutions in the Baltics. The Company won several group insurance risk tenders in the Baltics in 2013.

5.2. Other activities

The Company centralized its cash management activities, thereby also improving the Company's liquidity management. The Company continues to centralize its main administrative Baltic processes and activities; including the administration of unit-linked assets in one location.

To strengthen the Company's process management competences and skills, the Company's back-office unit managers and specialists from Estonia, Latvia and Lithuania underwent a series of Process Management trainings.

The Company's Latvian Branch successfully performed the Euro project by the end of 2013.

In 2013, the external auditor was Ernst & Young Baltic AS.

In 2013, the reinsurer was Mandatum Life Insurance Company Ltd.

6. Outlook for 2014

The Baltic economies and their export volumes are still affected by the economic situation of their neighbouring countries, especially the Nordic region, Germany and Russia. Bank deposit annual interest rates remain below the domestic inflation rates of the Baltic countries. Unemployment remains rather high but nevertheless stable. The annual growth of the Baltic countries' GDP is estimated to be around 2%. There is a continuous pressure on wages in all Baltic countries, which is one of the biggest risks to the productivity of the companies.

The Lithuanian government is very anxious to convert to euro in Lithuania as from 2015. For the Lithuanian branch this would mean similar preparations, especially regarding IT developments which Estonia made in 2010 and Latvia in 2013 while preparing for the conversion to euro.

The Company's Management Board considers the situation as challenging for investments and wealth management area as it was in 2013.

The Company's main priorities in 2014 include the following: development of its investments, wealth management and life insurance solutions offered in the Baltic countries, improving customer service and customer satisfaction with Mandatum Life, constant increase of customers assets under management and total sum at risk, continuing with cost-efficient unification of pan-Baltic processes and operations, increase of total fee income to maintain sustainable and profitable business in all Baltic countries and continuing development of the Company towards being a respected partner to its customers and a favoured employer in the Baltic financial sector.

7. Significant post-balance sheet events

From 01.01.2014, the official currency of the Company's Latvian Branch is euro.

From 01.01.2014 the Company implemented changes in its internal transfer pricing principles. It will change the rules of how the Company reallocates some of its pan-Baltic direct expenses between the Baltic countries. It will have the biggest positive effect on the Company's operations in Estonia while the effect will be most negative for the Company's operations in Latvia.

Imre Madison
Chairman of the Management Board

In Tallinn, 31st January 2014

II. Annual accounts

1. Statement of financial position

in thousands of euros	**31.12.2013**	31.12.2012	Notes
Assets			
Cash and cash equivalents	307	306	III.3.1
Reinsurers' share of insurance liabilities	53	56	III.3.9.1
Financial assets			
- Financial instruments	168,627	162,726	III.3.2.1III.3.2.2
- Receivables related to insurance activities and other	258	339	III.3.3.2
Accrued income and prepaid expenses	456	492	III.3.3.3
Deferred tax assets	104	104	III.3.23
Property, plant and equipment	47	86	III.3.4
Intangible assets	761	837	III.3.5
Total assets	**170,613**	**164,946**	
Liabilities and owner's equity			
Insurance payables	175	276	III.3.6
Accrued expenses and deferred income	564	557	III.3.7
Financial liabilities for insurance contracts	112,885	111,544	III.3.8.1
Financial liabilities for investment contracts	33,037	27,964	III.3.8.2
Technical provision for insurance contracts	13,380	13,522	III.3.9.1
Total liabilities	**160,041**	**153,863**	
Share capital	3,516	3,516	
Share premium	3,509	3,509	
Legal reserve	262	217	
Retained earnings	3,285	3,841	
Total owner's equity	**10,572**	**11,083**	III.3.12
Total liabilities and owner's equity	**170,613**	**164,946**	

Notes on the accounts presented on pp 12-51 form an integral part of the Annual Accounts.

2. Statement of comprehensive income

in thousands of euros	**2013**	2012	Notes
Gross premiums	3,652	3,805	III.3.13
Premiums ceded to reinsurers	-431	-427	III.3.14
Net premiums	**3,221**	**3,378**	
Investment income	693	765	III.3.15
Fair value gains and losses	242	1,240	III.3.16
Realised gains and losses	-26	-14	III.3.17
Investment expenses	-125	-139	III.3.22
Net income from investments	**784**	**1,852**	
Fee income	2,279	2,249	III.3.18
Reinsurance commission income	175	178	III.3.14
Other income	1,252	1,195	III.3.19
Total other revenue	**3,706**	**3,622**	
Paid insurance claims net of reinsurance (III.3.14) and claims handling expenses related to pay-outs	-2,193	-3,112	
Increase of insurance technical provisions net of reinsurance (III.3.14)	123	904	
Net insurance claims and change of technical provisions	**-2,070**	**-2,208**	III.3.20
Change in value of unit-linked financial liabilities and assets	-90	-87	III.3.21
Change in value of financial liabilities from insurance contracts with guaranteed interest	-130	-138	III.3.8.5
Acquisition expenses	-3,455	-3,075	
Administrative expenses	-2,477	-2,553	
Total expenses	**-5,932**	**-5,628**	III.3.22
Profit/loss before income tax	**-511**	**791**	
Income tax	0	104	III.3.23
Profit/loss for the financial year	**-511**	**895**	
Other comprehensive income			
Exchange differences	0	1	
Total comprehensive income/loss for the financial year	**-511**	**896**	

Notes on the accounts presented on pp 12-51 form an integral part of the Annual Accounts.

3. Statement of cash flows

in thousands of euros	2013	2012	Notes
Cash flow from operating activities			
Premiums received	3,657	3,814	
Financial liability inflow	28,231	29,723	
Paid claims and claims handling expenses related to pay-outs	-2,287	-3,174	
Financial liability outflow	-22,947	-19,510	
Reinsurance payments	-166	-159	
Expenses	-5,732	-5,286	
Other revenue and other expenses	1,301	1,120	
Purchases of shares and investment fund units	-36,135	-37,661	
Proceeds from the sale of shares and investment fund units	32,261	29,490	
Purchases of bonds and other fixed income securities	-11,463	-17,199	
Proceeds from the sale of bonds and other fixed income securities	12,748	17,945	
Interest received	751	759	
Dividends received	3	2	
Investment expenses	-125	-139	
Net cash provided by operating activities	**97**	**-275**	
Cash flow from investing activities			
Purchases of tangible and intangible assets	-96	-146	III.3.4, III.3.5
Net cash provided by investing activities	**-96**	**-146**	
TOTAL CASH FLOW, net	**1**	**-421**	
Cash and cash equivalents at the beginning of the period	306	727	
Change in cash and cash equivalents	1	-421	
Cash and cash equivalents at the end of the period	307	306	

Notes on the accounts presented on pp 12-51 form an integral part of the Annual Accounts.

4. Statement of changes in owner's equity

in thousands of euros	Share capital	Share premium	Legal reserve	Unrealised foreign exchange rate	Retained earnings	Total equity
As at 31.12.2011	**3,516**	**3,509**	**204**	**-1**	**2,959**	**10,187**
Profit for the financial year	0	0	0	0	895	895
Other comprehensive income	0	0	0	1	0	1
Total comprehensive income for the year 2012	**0**	**0**	**0**	**1**	**895**	**896**
Increase of legal reserve	0	0	13	0	-13	0
As at 31.12.2012	3,516	3,509	217	0	3,841	11,083
Loss for the financial year	0	0	0	0	-511	-511
Total comprehensive loss for the year 2013	**0**	**0**	**0**	**0**	**-511**	**-511**
Increase of legal reserve	0	0	45	0	-45	0
As at 31.12.2013	3,516	3,509	262	0	3,285	10,572

Notes on the accounts presented on pp 12-51 form an integral part of the Annual Accounts.

III. Notes on the accounts

1. Accounting policies

1.1. Basis of preparation

The Company's 2013 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 designated at their fair value with changes through profit and loss.

The preparation of financial reports in conformity with the 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 sheet 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 euros, 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 Estonian headquarter 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 in the Company as a whole. All inter-company balances, profits and transactions are eliminated in full.

Financial statements of the Company for the year that ended on 31 December 2013 were authorised by the members of the Management Board on 4 March 2014.

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 and 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.

Adoption of new and/or changed IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations

During the year the Company has adopted the following IFRS amendments:

• Amendment to IAS 1 Financial Statement Presentation - Presentation of Items of Other Comprehensive Income (OCI). This amendment changes the Companying of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Company's financial position or performance. Since the Company has just one OCI item, the change to its presentation is minimal.

• Amendments to IAS 19 Employee Benefits. These amendments range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. This amendment did not impact the financial statements of the Company, because the Company does not have material defined benefit obligations.

• Amendment to IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities. The amendment introduces common disclosure requirements. These disclosures would provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity's financial position. This amendment did not impact the financial statements of the Company, because the Company does not have netting arrangements.

• IFRS 13 Fair Value Measurement. The main reason of issuance of IFRS 13 is to reduce complexity and improve consistency in application when measuring fair value. It does not change when an entity is required to use fair value but, rather, provides guidance on how to measure fair value under IFRS when fair value is required or permitted by IFRS. The implementation of this standard did not have a material impact on the amounts recognised in these financial statements; however it resulted in additional disclosures.

Standards issued but not yet effective

The Company has not applied the following IFRS and IFRIC interpretations that have been issued as of the date of authorisation of these financial statements for issue, but which are not yet effective:

Amendments to IAS 19 Employee Benefits (effective for financial years beginning on or after 1 July 2014, once endorsed by the EU)

The amendments address accounting for the employee contributions to a defined benefit plan. Since the Company's employees do not make such contributions, the implementation of this amendment will not have any impact on the financial statements of the Company.

Amendment to IAS 27 Separate Financial Statements (effective for financial years beginning on or after 1 January 2014)

As a result of the new standards IFRS 10, IFRS 11 and IFRS 12 this standard was amended to contain accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. IAS 27 Separate Financial Statements requires an entity preparing separate financial statements to account for those investments at cost or in accordance with IFRS 9 Financial Instruments. The implementation of this amendment will not have any impact on the financial statements of the Company.

Amendment to IAS 28 Investments in Associates and Joint Ventures (effective for financial years beginning on or after 1 January 2014)

As a result of the new standards IFRS 10, IFRS 11 and IFRS 12 this standard was renamed and addresses the application of the equity method to investments in joint ventures in addition to associates. The implementation of this amendment will not have any impact on the financial statements of the Company.

Amendment to IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (effective for financial years beginning on or after 1 January 2014)

This amendment clarifies the meaning of "currently has a legally enforceable right to set-off" and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The Company has not yet evaluated the impact of the implementation of this amendment.

Amendment to IAS 36 Impairment of Assets (effective for financial years beginning on or after 1 January 2014)

This amendment adds a few additional disclosure requirements about the fair value measurement when the recoverable amount is based on fair value less costs of disposal and removes an unintended consequence of IFRS 13 to IAS 36 disclosures. The amendment will not have any impact on the financial position or performance of the Company, however may result in additional disclosures.

Amendment to IAS 39 Financial Instruments: Recognition and Measurement (effective for financial years beginning on or after 1 January 2014)

The amendment provides relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendment will not have any impact on the financial position or performance of the Company, since it does not apply hedge accounting.

IFRS 9 Financial Instruments (effective for financial years beginning on or after 1 January 2015, once endorsed by the EU)

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

Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment Entities (effective for financial years beginning on or after 1 January 2014)

The amendments apply to entities that qualify as investment entities. The amendments provide an exception to the consolidation requirements of IFRS 10 by requiring investment entities to measure their subsidiaries at fair value through profit or loss, rather than consolidate them. The implementation of this amendment will not have any impact on the financial statements of the Company, as the Company is not an investment entity.

Improvements to IFRSs

Effective for financial years beginning on or after 1 January 2013:

In May 2012 the IASB issued as omnibus of necessary, but non-urgent amendments to its five standards:

- IFRS 1 First-time adoption of IFRS;
- IAS 1 Presentation of Financial Statements;
- IAS 16 Property, Plant and Equipment;
- IAS 32 Financial instruments: Presentation;
- IAS 34 Interim Financial Reporting.

Effective for financial years beginning on or after 1 July 2014, once endorsed by the EU:

In December 2013 IASB issued omnibus of necessary, but non-urgent amendments to the following standards:

- IFRS 1 First-time adoption of IFRS;
- IFRS 2 Share-based Payment;
- IFRS 3 Business Combinations;
- IFRS 8 Operating Segments;
- IFRS 13 Fair value Measurement;
- IAS 16 Property, Plant and Equipment;
- IAS 24 Related Party Disclosures;
- IAS 38 Intangible Assets;
- IAS 40 Investment property.

The adoption of these amendments may result in changes to accounting policies or disclosures but will not have any impact on the financial position or performance of the Company.

The Company plans to adopt the above mentioned standards and interpretations on their effectiveness date provided they are endorsed by the EU.

1.3. Foreign currency translation

Financial statements are presented in euros, 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 euro are translated into the reporting currency at the end-of-period exchange rates, while income statements are translated using the exchange rate of the European Central Bank 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 as at 31.12.2013

1 EUR = 0.7028 LVL

1 EUR = 3.4528 LTL

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 customers 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 as held to maturity or 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 note 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 at fair value 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).

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 policy, 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 policy. 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 sheet day based on their current fair value; i.e. not deducting potential transaction costs arising out of the sale of assets. Also, fair values of financial instruments measured at amortised cost are disclosed in note 3.3.1.

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 sheet day and official exchange rates from the European Central Bank; 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.

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 and losses”. Income from interests and dividends arising from respective securities is recognised in the income statement under the item “Investment income”.

All assets and liabilities for which fair value is measured in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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 accrued.

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 measured at amortised cost, using the effective interest rate 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. The category also comprises cash and term deposits.

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. Improvement costs are added to the carrying amount of a property when it is probable that the future economic benefits attributable to the assets will flow to the Company and the cost of the assets can be measured reliably. Costs for repairs and maintenance are recognised as expenses for the period in which they were incurred. 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 sheet 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 that 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. 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

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 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.

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 customers (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 customers but instead deducted from customers' 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 due date 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".

Fee income

Fee income includes fees related to deposit components for insurance and investment 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.

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 customers through all past years up to 2013 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 customer, 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 customer 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.

Insurance technical provisions

Insurance technical provisions cover liabilities for the insurance component.

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. The provision for unearned premiums is calculated under the *pro rata temporis* method.

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. 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 by 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.

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.

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 based on liability adequacy test the value of liabilities is sufficient, they will not be amended.

However, if test shows that the total amount of liabilities is inadequate, then the entire deficiency is recognised in profit or loss.

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 the Company (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. This means that reinsurance arrangements concern only the insurance component of contracts issued by the Company and does not concern unbundled deposit components and financial liabilities.

Reinsurance items which are included in accounts are as follows:

<u>Reinsurance premiums</u> are paid by the Company to the reinsurer; in the income statement this decreases the overall level of premiums;

For some contracts, the reinsurer will also pay <u>reinsurance commissions</u> to the Company. It is shown in the income statement under other revenue;

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

<u>The reinsurance share in liabilities</u> (which consists of reinsured amounts that are related to the outstanding claim provision) is accounted for in the balance sheet on the asset side as reinsurance assets. In the income statement the <u>reinsurance share in paid claims and in the change of technical provisions</u> 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 mainly 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 note 1.8.

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 earnings rather than doing this from normal profits. As at 1 January 2014, the income tax rate is 21/79 of net dividends (21% on gross profits), the same level as in 2013. 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 3,285 thousand euros as at 31 December 2013. 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 2013 and 2012 is 15%.

The Lithuanian branch had a profit margin of 3,137,748 Lithuanian litas in 2013. 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 all investment income and 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 2013 was a profit of 914,111 Lithuanian litas.

Due to the accrued tax loss, the Lithuanian branch does not have to pay income tax. Tax losses carried forward as at 31 December 2013 are 47,994,006 Lithuanian litas as presented in the following table:

Tax year	Amount of tax losses (LTL)
2003	6,836,074
2004	17,970,885
2005	21,852,424
2007	1,334,623

Tax losses can be carried forward indefinitely.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse based on tax rates enacted or substantially enacted on the balance sheet date. Deferred tax assets have been recognized in the balance sheet to the extent the management believes they will be realised in the foreseeable future, based on taxable profit forecasts. If it is probable that part of the deferred tax assets is not going to be realised, this part of the deferred tax asset is not recognized in the financial statements.

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 2013, the Latvian branch of the Company 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)
2006	1,311,058
2008	667,504
2009	211,121
2010	179,047
2011	457,629
2012	464,207
2013	469,480

The Company's Latvian branch has the right to take over the tax losses accrued by AAS Sampo Dziviba 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 from the taxable income of the Company's Latvian branch.

The tax losses that occurred till the year 2007 may be covered in chronological sequence from taxable income of the next eight taxation periods; tax losses starting from 2008 may be covered in chronological sequence from taxable income of the next periods.

Deferred tax assets were not recognized as the branch 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 and also considering subsequent events. 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

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.

In the calculation of technical provisions and financial liabilities the company use discount rates between 2.5%-4% depending on contract. The table below shows insurance technical provisions and financial liabilities (except unit-linked*) proportions by discounting rate.

Discount rate	31.12.2012	31.12.2013
0%	0%	6%
2.0%	0%	0%
2.5%	3%	4%
3.0%	9%	3%
3.5%	59%	55%
4.0%	29%	32%

* Which still contains unit-linked financial liabilities that cover pending pay-outs as described in note 2.3.

Actuarial assumptions applied to insurance liabilities are also discussed under Risk management, specifically in the section related to insurance risk in note 2.6; under the Liability Adequacy test in 3.10 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

Risk management overview

Risk is an essential and inherent element of the Company's business activities and operating environment. For financial sector companies in general, the core competences of business are skilful pricing of risks and proper management of arising risk exposures. A high quality risk management process is a necessary prerequisite of successful business.

The sole shareholder of the Company 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 the Company are presented below.

In the Company, the key objectives for risk management are to:

– Ensure that risks affecting profitability and other material risks are identified, assessed and analysed;

– Ensure that risks are properly priced and the return on investment risk is adequate;

– Ensure that capital is adequate in relation to current risks that are inherent in business activities and the existing environment;

– Limit and mitigate fluctuations in financial results and in the value of the Company;

– Ensure the overall efficiency, quality, security and continuity of operations.

To meet these objectives, the Company'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 continuous monitoring of risks involved in business operations and business environment;

– Sound pricing of insurance policies and careful risk/return consideration of investments, which are prerequisites for achieving the targeted financial performance and profitability over time;

– Management of risk exposures and constant adjustment of liability, investment and operative processes' risks in order to maintain a sound risk-to-return ratio. Management responsibilities and authorisations are defined in separate documents;

– Measurement, analysis and reporting of risks, results and profitability.

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 customer 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, the Company 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 arise from the type and nature of the Company's activities. These include direct or indirect losses resulting from inadequate or failed internal processes, people, and systems, or from external events.

The Company performs 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 2013 will be described in relevant sections further on in this report.

However, the main highlights related to results in those areas during the year 2013 would involve the following:

– Unit-linked liabilities slightly increased due to new premium income and investment return in unit-linked funds;

– Insurance sum at risk slightly increased but there were no major changes in the overall insurance risk position;

– Investment returns of the Company's technical provisions and own capital portfolios were positive but slightly below the average level of guaranteed interest of traditional savings products;

– The Company's solvency surplus decreased due to losses from the Company's operations.

Risk governance

In 2013, the Company continued with further strengthening 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 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 policy.

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 Head of Risk Management and she is responsible for the overall coordination of risk management issues and for monitoring the implementation of risk management related decisions. Tasks are shared with another responsible person, who is reporting to the member of the Management Board.

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 Head of Risk Management. Minutes of the RMC meetings are regularly presented to the Company's Management Board. Among other tasks the RMC also organises annual risk self-assessment and prepares action plans of risk mitigation.

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 Head of Risk Management. Tasks of the ORMC include the following:

– Analysing realised operational risk incidents and near misses

– Monitoring numerical indicators of operational risk;

– 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 Business Controller. 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 Policy is approved annually by the Supervisory Board. The members of the Management Board receive monthly reports on investments.

Sampo plc's investment organization makes the day-to-day investment decisions based on principles set in the Company's Investment Policy.

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 & compliance unit is 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 & Compliance 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 for identifying, assessing, monitoring and managing their own risks as well as implementing adequate internal controls.

Internal audit 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

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 earnings. 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 the owners have decided not to pay out dividends, nor has there been any need to raise additional capital.

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 3.7 million euros (KtS § 71);

– 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 earnings 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.

Table 2-1: Meeting capital requirements

In thousands of euros	**31.12.2013**	31.12.2012	31.12.2011	31.12.2010	31.12.2009
Share capital requirement (KtS § 56)	3,000	3,000	3,000	3,000	3,000
The Company's share capital	3,516	3,516	3,516	3,515	3,515
Surplus	**516**	**516**	**516**	**515**	**515**
Minimum solvency margin (Kts § 71)	3,700	3,500	3,500	3,200	3,200
The Company's solvency margin	9,810	10,245	9,323	9,165	8,014
Surplus	**6,110**	**6,745**	**5,823**	**5,665**	**4,814**
Required solvency margin (calculated according to KtS § 73)	2,496	2,413	2,338	2,411	2,003
The Company's solvency margin (available solvency margin)	9,810	10,245	9,323	9,165	8,014
Surplus	**7,314**	**7,832**	**6,985**	**6,754**	**6,011**

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.

In the Company, the approach to market risk is based on analysis of technical provisions interest level and current solvency position. A common feature for all with profit technical provisions is the guaranteed rate and the bonuses.

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 is under regular monitoring and management.

The Company's market risks arise mainly from interest rate risk related to fixed income assets, equity investments and insurance liabilities with a guaranteed interest rate. The Supervisory Board annually approves the Investment Policy, which sets principles and limits for investment activities. The general objective is to maintain the required solvency and to ensure that investments are sufficient and eligible for covering insurance technical provisions and financial liabilities.

The Company manages two 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 Company's investment portfolio which contains 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. Managing these assets means that the Company must also follow requirements set for restricted assets by the Estonian Insurance Activities Act (§ 77).

The investment portfolio also contains all other assets including own capital, buffer for the technical provision portfolio if, due to estimations or restrictions, the technical provision portfolio is not sufficient to cover respective liabilities.

Market risk control is separated from portfolio management activities. Market risks and limits set out in the Investment Policy are controlled by the Asset and Liability Committee on a regular basis and reported to the Company's Supervisory Board.

The return on the Company's investment portfolio was 3.37 % in 2013 (7.28 % in 2012). At the end of the year the market value of the Company's investment portfolio was 26,652 thousand euros (27,631 thousand euros). The portion of equities in the investment portfolio increased from 4.5% to 5.9 %. The proportion of money market instruments increased from 1.3 % to 5.1 % and government bonds decreased from 6.2 % to 3.1 % The corporate bonds weight decreased from 88.0% to 85.9 %.

Table 2-2: Allocation of the Company's investment portfolio by asset classes

in thousands of euros	**2013**	2012
Equities total	1,577	1,237
Government bonds	*833*	*1,727*
Corporate bonds	*22,883*	*24,306*
Money market	*1,359*	*361*
Fixed Income total	25,075	26,394
Portfolio total	26,652	27,631

Note that this is different from accounting allocation by instruments that is used in the financial statements. Cash on bank account (151 thousand euro) belonging to the Company's investment portfolio is recognised there as cash and cash equivalents.

Interest rate risks and equity risks

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

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 rates risk of the technical provisions increases. Insurance technical provisions and financial liabilities (except unit-linked financial liabilities where, risk is borne by policyholders) by guaranteed interest rate in thousands of euros are compared to running yields of investment portfolio assets in the table below.

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. Maturities in years for insurance technical provisions and financial liabilities (except unit-linked financial liabilities where the risk is borne by policyholders) are compared to investment portfolio assets in the table 2.4.

The majority of the Company's fixed income investments are made in debt instruments issued by corporations.

This increases the risk arising from increased credit spreads which, in turn, lead to value alterations. Credit risk is described more closely under note 2.5.

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

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

Table 2-3: Insurance technical provisions and financial liabilities (except unit-linked financial liabilities where, risk is borne by policyholders) by guaranteed interest rate compared to running yields of accounted assets at 31.12.2013 and 31.12.2012.

31.12.2013								in thousands of euros
Guaranteed interest rate	0.00%	2.0%	2.50%	3.00%	3.50%	4.00%		Total
Insurance technical provisions and financial liabilities (except unit-linked*)	1,075	1,0	625	633	9,786	5,639		17,759
Reinsured amount	53	0	0	0	0	0		53
Insurance technical provisions and financial liabilities (except unit-linked*) net of reinsurance	1,022	1,0	625	633	9,786	5,639		17,706
Running yields	0%-0.99%	1.0%-1.99%		2.0%-2.99%	3.0%-3.99%	4%, and more	Not determined (funds and equities)	Total
Fixed Income assets and equities accounted to investment portfolio**	5,162	2,999		3,399	6,435	6,928	1,727	26,652
31.12.2012								in thousands of euros
Guaranteed interest rate	0.00%	2%	2.50%	3.00%	3.50%	4.00%		Total
Insurance technical provisions and financial liabilities (except unit-linked*)	1,686	0	606	1,484	10,001	4,916		18,693
Reinsured amount	56	0	0	0	0	0		56
Insurance technical provisions and financial liabilities (except unit-linked*) net of reinsurance	1,630	0	606	1,484	10,001	4,916		18,637
Running yields	0%-0.99%	1.0%-1.99%		2.0%-2.99%	3.0%-3.99%	4%, and more	Not determined (funds and equities)	Total
Fixed Income assets and equities accounted to investment portfolio**	5,587	3,531		3,965	6,452	6,859	1,237	27,631

* Which still contains unit-linked financial liabilities that cover pending pay-outs as described in 2.3.

**For callable bonds yield to call date is indicated.

Table 2-4: Maturities in years for insurance technical provisions and financial liabilities (except unit-linked financial liabilities where the risk is borne by policyholders) **and investment portfolio assets at 31.12.2013 and 31.12.2012.**

31.12.2013								in thousands of euros
Remaining maturity in years	Not fixed	0-1.9	2-5.9	6-10.9	11-15.9	16-19.9	20-upwards	Total
Insurance technical provisions and financial liabilities (except unit-linked*)	1,004	2,614	6,231	4,851	1,716	682	661	17,759
Reinsured amount	53	0	0	0	0	0	0	53
Insurance technical provisions and financial liabilities (except unit-linked*) net of reinsurance	951	2,614	6,231	4,851	1,716	682	661	17,706
Assets accounted to the investment portfolio **	1,577	9,212	14,864	999	0	0	0	26,652
31.12.2012								in thousands of euros
Remaining maturity in years	Not fixed	0-1.9	2-5.9	6-10.9	11-15.9	16-19.9	20-upwards	Total
Insurance technical provisions and financial liabilities (except unit-linked*)	1,516	2,601	4,453	6,140	2,169	955	859	18,693
Reinsured amount	56	0	0	0	0	0	0	56
Insurance technical provisions and financial liabilities (except unit-linked*) net of reinsurance	1,460	2,601	4,453	6,140	2,169	955	859	18,637
Assets accounted to the investment portfolio **	1,237	12,478	12,147	1,769	0	0	0	27,631

* Which still contains unit-linked financial liabilities that cover pending pay-outs as described in 2.3.

**For callable bonds maturity is indicated to call date.

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 is carried by customers, 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, bear market may increase the surrender of contracts by policyholders, i.e. the outgoing cash flow of the Company.

The values of financial assets are subject to change in the underlying market variables. The sensitivity analysis of investment portfolio in case of different market risk scenarios are illustrated 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 2013.

Table 2-5: The Company's investment portfolio's sensitivity to market changes on 31 December 2013 and 2012

	Risk in thousands of euros		
	Interest Rate		Equity
	1% Parallel Shift Down	1% Parallel Shift Up	20% Fall in Prices
2013	+603	-574	-315
2012	+674	-643	+247

Commitments made by the Company are expressed on the guaranteed interest level and in the customers' expectations regarding the additional interest. The guaranteed interest rate of insurance policies in the Company's portfolio varies between (0%) 2% 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 is generally not to be more than 10% of the previous annual payment.

Currency risk

Insurance contracts were based on Euros, Latvian Lats, Lithuanian Litas and US dollars. All investments were in Euros; there was also a small currency position in US dollars. According to the Estonian Insurance Activities Act, Latvian Lats and Lithuanian Litas may be covered in Euros, so these positions do not create currency risk. From 1 January 2014 Latvia converted to Euro.

Table 2-6: The currency positions of portfolio of investments and liabilities (except investments for unit-linked life insurance contracts) **in thousands of euros as at 31.12.2013 and 31.12.2012.**

31.12.2013					in thousands of euros
Currency	EUR	LTL	LVL	USD	Total
Insurance technical provisions and financial liabilities (except unit-linked*)	12,125	3,543	1,942	149	17,759
Reinsured amount	31	22	0	0	53
Insurance technical provisions and financial liabilities (except unit-linked*) net of reinsurance	12,094	3,521	1,942	149	17,706
Assets accounted to the investment portfolio	26,652	0	0	0	26,652
31.12.2012					in thousands of euros
Currency	EUR	LTL	LVL	USD	Total
Insurance technical provisions and financial liabilities (except unit-linked*)	13,562	3,688	1,333	110	18,693
Reinsured amount	29	23	2	2	56
Insurance technical provisions and financial liabilities (except unit-linked*) net of reinsurance	13,533	3,665	1,331	108	18,637
Assets accounted to the investment portfolio	27,186	444	0	0	27,631

* Which still contains unit-linked financial liabilities that cover pending pay-outs as described in 2.3.

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.

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 Policy that has been approved by the Company's Supervisory Board. The Company's needs for liquidity are continuously analysed. As the major part of the Company's liabilities is 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 table 2.4.

Table 2-7: The remaining maturities of unit-linked financial liabilities, where the risk is borne by the policyholder as at 31.12.2013 and 31.12.2012.

31.12.2013								in thousands of euros
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	11,844	28,096	22,348	11,552	22,373	45,331	141,544
31.12.2012								in thousands of euros
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	11,298	18,512	29,418	11,817	16,567	46,726	134,338

The table 2-7 indicates amounts as at 31.12.2013 and 31.12.2012, 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 estimation of future undiscounted cash-flows has so far been considered as being impractical.

The difference in the total between this table and the figures given in note 3.8.3 and in note 3.8.4 are explained in 2.3 with an explanation of portfolios managed by the Company. Unit-linked financial liabilities shown in note 3.8.3 of 109,088 thousand euros also contain financial liabilities that cover pending pay-outs of 581 thousand euros. The maturity of this amount was included in the tables 2-3, 2-4 and 2-6 shown in 2.3.

2.4. Risk Concentrations for Investment Operations

In the Investment Policy the Supervisory 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.

Five largest concentrations in the investment portfolio as of 31.12.2013 were: Nordea Bank 2,392 thousand euros (8.9 %), Svenska Handelsbanken 1,673 thousand euros (6.3 %), Skandinaviska Enskilda Banken 1,600 thousand euros (6.0%), Rabobank Nederland 1,252 thousand euros (4.7%), Ålandsbanken 1,186 thousand euros (4.5%).

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. 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 the Company's Investment Policy. 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.

Table 2-8. Investment portfolio credit ratings for fixed income instruments as at 31.12.2013 and 31.12.2012

	2013		2012	
the ratings of fixed income investments	Investments in thousands of euros	% of total	Investments in thousands of euros	% of total
AAA-AA+	525	2.1%	533	2.0%
AA-A+	7,927	31.8%	5,380	20.4%
A-BBB+	5,885	23.6%	10,918	41.4%
BBB-BB+	4,359	17.5%	4,871	18.5%
BB-C	566	2.0%	543	2.1%
Not rated	5,662	22.7%	4,128	15.7%
Total	24,924	100%	26,373	100%

Credit rating for parent company is applied to subsidiaries without a credit rating. The fixed income investments classified as not rated are issued by issuers with no credit rating.

Table 2-9: The credit exposure by financial assets as at 31.12.2013 and 31.12.2012

in thousands of euros	31.12.2013			31.12.2012		
	Other	Unit-linked	Total	Other	Unit-linked	Total
Financial instruments	24,924	1,329	26,253	26,373	1,586	27,959
-Bonds and other fixed rate securities	24,924	0	24,924	26,373	0	26,373
-Cash covering UL liabilities	0	1,329	1,329	0	1,200	1,200
-Term deposits	0	0	0	0	386	386
Receivables-related insurance activities and other	258	0	258	339	0	339
Accrued income and prepaid expenses	456	0	456	492	0	492
Reinsurers' share of insurance liabilities	53	0	53	56	0	56
Cash and cash equivalents	307	0	307	306	0	306
Total	25,998	1,329	27,327	27,566	1,586	29,152

2.6. Insurance risk

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

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 illnesses, 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 2013 would mean approximately 0.47 million euros of additional claims costs for the Company (see the table 2-10 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.

It is impractical (impossible due to practical reasons) to disclose the sensitivity for insurance technical provisions in respect of discount rate, mortality rate and expenses. The Company has shown the impact due to changes in assumptions through liability adequacy test (please see point 3.11).

Please also note that the Company has additional uncertainty for policies issued since 21 December 2012. For these policies the Company uses gender neutral pricing (based on a judgment by Court of Justice of the European Union).This is a crucial change since gender has always been one of the key pricing factors for our products. According to the actuarial statistics, males and females have different risk levels; therefore gender-neutral pricing is a step back from risk-based pricing. Portfolio gender mix is monitored regularly. If real gender mix differs significantly from assumed company will review pricing or reserving principles.

However, 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 health declarations 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.

Table 2-10: The actual risk claims with risk charges in case of death, invalidity, sickness and accident risk cover being taken out in all policies as at 31.12.2013

Total (in thousands of euros)		Content
Risk claim	469	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	2,184	The Company takes risk charges to cover risk claims and expenses related to settle these claims. This includes risk premiums or 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	21%	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 2013.

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 37,500 euros, depending on the treaty, if all policies per one insured are reinsured. Total retention per one insured might be bigger, if some policies or parts of policies are not reinsured or reinsured according to separate treaties or kept in separate IT systems. The Company does not have a catastrophe reinsurance treaty, as the Company's own retention per one insured/coverage is quite small.

Table 2-11: The concentration of the underwriting risk by countries and its own retention as at 31.12.2013 and 31.12.2012.

in millions of euros	Total sum at risk before reinsurance			Reinsured amount			After reinsurance (Company's own retention)		
Country	**31.12.13**	31.12.12	change	**31.12.13**	31.12.12	change	**31.12.13**	31.12.12	change
Estonia	69	57	21.1%	25	19	31.6%	44	38	15.8%
Latvia	79	70	12.9%	37	32	15.6%	42	38	10.5%
Lithuania	388	369	5.1%	111	106	4.7%	277	263	5.3%
Total	536	496	8.1%	173	157	10.2%	363	339	7.1%

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.

Table 2-12: The underwriting risk and its concentration and the Company's own retention by cover types and groups of sum at risk at 31.12.2013 and 31.12.2012.

31.12.2013

in millions of euros

Risk	Group of sum at risk in thousands of euros		Total sum at risk before reinsurance	%	Reinsured amount	%**	After reinsurance (own retention)	%***
Death (basic insurance)		Total	248	100%	96	39%	152	61%
	Less than 100		230	93%	81	35%	149	65%
	100 or higher		18	7%	15	83%	3	17%
Accidental death		Total	82	100%	34	41%	48	59%
	Less than 100		76	93%	29	38%	47	62%
	100 or higher		6	7%	5	83%	1	17%
Accidental disability		Total	72	100%	27	38%	45	63%
	Less than 100		63	88%	20	32%	43	68%
	100 or higher		9	12%	7	78%	2	22%
Accidental trauma*		Total	78	100%	0	0%	78	100%
Accidental daily allowance*		Total	0.25	100%	0	0%	0.25	100%
Critical Illness		Total	55	100%	16	29%	39	71%
	Less than 100		54	98%	16	30%	38	70%
	100 or higher		1	2%	0	0%	1	100%
Waiver of premium*		Total	0.92	100%	0.44	48%	0.48	52%

31.12.2012								
Risk	Group of sum at risk in thousands of euros		Total sum at risk before reinsurance	%	Reinsured amount	%**	After reinsurance (own retention)	%***
Death (basic insurance)		Total	221	100%	82	37%	139	63%
	Less than 100		204	92%	70	34%	134	66%
	100 or higher		17	8%	12	71%	5	29%
Accidental death		Total	77	100%	32	42%	45	58%
	Less than 100		72	94%	28	39%	44	61%
	100 or higher		5	6%	4	80%	1	20%
Accidental disability		Total	70	100%	27	39%	43	61%
	Less than 100		61	87%	20	33%	41	67%
	100 or higher		9	13%	7	78%	2	22%
Accidental trauma*		Total	77	100%	0	0%	77	100%
Accidental daily allowance*		Total	0.27	100%	0	0%	0.27	100%
Critical Illness		Total	50	100%	15	30%	35	70%
	Less than 100		49	98%	15	31%	34	69%
	100 or higher		1	2%	0	0%	1	100%
Waiver of premium*		Total	1.11	100%	0.54	49%	0.57	51%

* All less than 100
** Proportion of reinsured amount of the total sum
*** Proportion of own retention of the total sum

The Company had seven annuity contracts in Lithuania, five in Latvia and eleven in Estonia in force as at 31.12.2013, for which the pay-out period had arrived. The Company does not guarantee the Estonian 3rd 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 31.12.2013 there were 22 contracts in force in Lithuania, 275 contracts in Latvia and none in Estonia. Net insurance technical provisions and financial liabilities as at 31.12.2013 for these annuities amounted to 995 thousand euros. 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 under Market risk in note 2.3 and discount rate assumptions were covered under Liabilities in note 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 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.

Maturities of the Company's liabilities are shown in table 2-4. Changes in technical provisions can be found in note 3.9 and in financial liabilities in note 3.8. Claims data can be found in note 3.20.

2.7. Operational risk

Overview of operational risks

Operational risk is the risk of loss resulting from inadequate or failed processes, from personnel and systems, or from external events.

The risks may realise as a consequence of:

– Internal misconduct;

– External misconduct;

– Insufficient human resources management;

– Insufficiencies in operating policies as far as customers, products or business activities are concerned;

– Damage to physical property;

– Interruption of activities and system failures;

– Defects in the operating process.

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

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).

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 and other risks in all principal areas of business activities. 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.

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 incident register and reported to the ORMC. All losses and possible risk of losses that exceed 1,000 euros must additionally be reported to Mandatum Life Insurance Company Ltd.

The Company 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 customers' 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.

Internal audit

In 2013, seven internal audits and seven follow-up audits were performed by the Company's internal auditor. The audited areas included handling of customer complaints, security of server rooms, implementation of unisex tariffs, anti-money laundering process, contracts management, exceptions handling in sales process, the investment solution "Portfolio Management Service".

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

Planned developments in risk management

The Company continuously develops its risk management framework, systems and processes, and is constantly improving the corporate governance of the Company. This work is based on internal needs and regulatory requirements, the most important of which is the upcoming Solvency II. 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.

Preparations for Solvency II

The Solvency II Framework Directive was adopted by the European Parliament in April 2009. On 27 September 2013 EIOPA published the final draft of its Guidelines for the preparation of Solvency II. The Estonian Financial Supervision Authority intends to comply with all of the EIOPA Guidelines as from 2014.

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 is in the process of preparing for Solvency II and continuously monitors the development of the framework. Preparatory actions are being performed in order to secure compliance with Solvency II by the required deadlines. This includes modelling of the Company's cash – flows in the actuarial software Moses. The work will continue during the upcoming years.

3. Notes to the financial statements

3.1. Cash and cash equivalents

In thousands of euros	31.12.2013	31.12.2012
Cash at bank	307	306
Total	307	306

3.2. Financial instruments

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 technical provisions, own capital and other financial liabilities (as described in 2.3).

Breakdown of investments by classes:

in thousands of euros	31.12.2013	31.12.2012
Shares and investment fund units	1,577	1,237
Bonds and other fixed rate securities, including	24,924	26,373
Floating rate debt instruments	*6,266*	*9,388*
Fixed rate debt instruments (from 2.25% to 7.92%)	*17,450*	*16,645*
Discount bonds	*1,208*	*0,340*
Total	26,501	27,610

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 customers whereby customers may choose asset management services under their unit-linked life insurance and investment baskets to regular unit-linked customers. The company has a claim against the assets in the Mandatum Life Finland balance sheet. Cash covering financial liabilities of unit-linked business is held on behalf of customers and will be invested in unit linked funds.

in thousands of euros	31.12.2013	31.12.2012
Investment fund units	66,160	67,287
Shares	225	186
Term deposits	0	386
Cash covering financial liabilities of unit-linked business	1,329	1,200
Financial assets under Capital Redemption Policy with Mandatum Life Finland	74,412	66,057
Total	142,126	135,116

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

in thousands of euros	Fair value 31.12.2013	Carrying value 31.12.2013	Fair value 31.12.2012	Carrying value 31.12.2012
Financial assets				
Shares and investment fund units	1,577	1,577	1,237	1,237
Investment fund units covering unit-linked insurance	66,160	66,160	67,287	67,287
Financial assets under Capital Redemption Policy with Mandatum Life Finland	74,412	74,412	66,057	66,057
Shares covering unit-linked insurance	225	225	186	186
Bonds and other fixed rate securities	24,924	24,924	26,373	26,373
Total	167,298	167,298	161,140	161,140
Financial liabilities				
Financial liabilities from insurance contracts	109,088	109,088	107,152	107,152
Financial liabilities from investment contracts	33,037	33,037	27,964	27,964
Total	142,125	142,125	135,116	135,116

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 policy. Accrued interest income is included in financial assets.

The management assessed that cash and cash equivalents, receivables related to insurance activities and other, accrued income and prepaid expenses, insurance payable and accrued expenses and deferred income approximate their carrying values largely due to the short-term maturities of these amounts. The carrying amount is a reasonable approximation of fair value.

The own non-performance risk as at 31.12.13 was assessed to be insignificant.

Financial instruments measured at fair value are categorised within the three-level fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole:

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.

Recurring fair value measurement of assets and liabilities 31.12.2013

in thousands of euros	Level 1	Level 2	Level 3	Total fair value
Financial assets				
Receivables related to insurance activities and other	0	258	0	258
Shares and investment fund units	1,577	0	0	1,577
Investment fund units covering unit-linked insurance	0	65,689	471	66,160
Shares covering unit-linked insurance	225	0	0	225
Financial assets under Capital Redemption Policy with Mandatum Life Finland	4,557	67,805	2,050	74,412
Bonds and other fixed rate securities	0	24,924	0	24,924
Total	6,359	158,676	2,521	167,556
Financial liabilities				
Financial liabilities from insurance contracts	225	107,073	471	107,769
Financial liabilities from investment contracts	4,557	26,421	2,050	33,028
Total	4,782	133,494	2,521	140,797

Recurring fair value measurement of assets and liabilities 31.12.2012

in thousands of euros	Level 1	Level 2	Level 3	Total fair value
Financial assets				
Receivables related to insurance activities and other	0	339	0	339
Shares and investment fund units	1,237	0	0	1,237
Investment fund units covering unit-linked insurance	0	66,794	493	67,287
Shares covering unit-linked insurance	186	0	0	186
Financial assets under Capital Redemption Policy with Mandatum Life Finland	2,705	61,554	1,798	66,057
Bonds and other fixed rate securities	0	26,373	0	26,373
Total	4,128	155,060	2,291	161,479
Financial liabilities				
Financial liabilities from insurance contracts	186	105,248	493	105,927
Financial liabilities from investment contracts	2,704	23,100	1,798	27,602
Total	2,890	128,348	2,291	133,529

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.

Reconciliation of movements in level 3 financial instruments measured at fair value

in thousands of euros	As at 1 January 2013	Total gains/ (-loss) in income statement	Purchases	Sales	Transfers into level	As at 31 December 2013
Financial assets						
Investment fund units covering unit-linked insurance	493	-188	10,851	-10,685	0	471
Financial assets under Capital Redemption Policy with Mandatum Life Finland	1,798	-1,693	1,263	-120	802	2,050
Total	2,291	-1,881	12,114	-10,805	802	2,521
Financial liabilities						
Financial liabilities from insurance contracts	493	-188	10,851	-10,684	0	471
Financial liabilities from investment contracts	1,798	-1,693	1,263	-120	802	2,050
Total	2,291	-1,830	12,114	-10,805	802	2,521

Management is not aware of any material changes in assumptions used for level 3 investments evaluation. Mandatum Life bears no investment risk as financial instruments are related to unit-linked insurance.

In the reporting period that ended on 31 December 2013, the amount of investments measured at fair value reclassified from level 1 to level 3 totalled 80 thousand euros, and from level 2 to level 3 totalled 722 thousand euros. These are financial instruments of the companies in financial distress and subject of restructuring not quoted on active market or revalued equity investments with no quoted price on markets.

Reconciliation of movements in level 3 financial instruments measured at fair value

in thousands of euros	As at 1 January 2012	Total gains/(-loss) in income statement	Purchases	Sales	As at 31 December 2012
Financial assets					
Investment fund units covering unit-linked insurance	1,794	-253	15,370	-16,418	493
Financial assets under Capital Redemption Policy with Mandatum Life Finland	1,620	77	103	-2	1,798
Total	3,414	-176	15,473	-16,420	2,291
Financial liabilities					
Financial liabilities from insurance contracts	1,794	-253	15,370	-16,418	493
Financial liabilities from investment contracts	1,620	77	103	-2	1,798
Total	3,414	-176	15,473	-16,420	2,291

3.3. Financial assets carried at amortised cost

3.3.1. Financial instruments carried at amortised cost

in thousands of euros	**31.12.2013**	31.12.2012
Cash covering financial liabilities of unit-linked business	1,329	1,200
Term deposits covering unit-linked insurance	0	386
Total	1,329	1,586

3.3.2. Receivables related to insurance activities and other

in thousands of euros	**31.12.2013**	31.12.2012
Receivables related to direct insurance activities	19	24
Receivables related to reinsurers	191	186
Receivables from trading in securities	30	116
Other receivables	18	13
Total	258	339

3.3.3. Accrued income and prepaid expenses

in thousands of euros	**31.12.2013**	31.12.2012
Accrued income	289	338
Prepaid expenses	167	154
Total	456	492

3.4. Property, plant and equipment

in thousands of euros	Acquisition cost	Accumulated depreciation	Carrying value
As at 31.12.2011	**383**	**-244**	**139**
Depreciation charges	0	-53	-53
As at 31.12.2012	**383**	**-297**	**86**
Additions	4	0	4
Write-off	-7	7	0
Depreciation charges	0	-43	-43
As at 31.12.2013	**380**	**-333**	**47**

Equipment comprises IT equipment and furniture.

3.5. Intangible assets

in thousands of euros	Acquisition cost	Accumulated depreciation	Carrying value
As at 31.12.2011	**1,521**	**-654**	**867**
Additions	146	0	146
Write-off	-32	32	0
Depreciation charges	0	-176	-176
As at 31.12.2012	**1,635**	**-798**	**837**
Additions	92	0	92
Foreign exchange adjustments	-6	1	-5
Depreciation charges	0	-163	-163
As at 31.12.2013	**1,721**	**-960**	**761**

3.6. Insurance payables

in thousands of euros	31.12.2013	31.12.2012
Total insurance payables related to direct insurance, including		
payables to policyholders	66	169
Payables related to reinsurance	109	107
Total	175	276

3.7. Accrued expenses and deferred income

in thousands of euros	31.12.2013	31.12.2012
Employee-related liabilities	148	155
Supplier-related liabilities	54	107
Other accrued expenses and deferred income	230	177
Tax liabilities, including	**132**	**118**
personal income tax	68	47
social tax	54	55
unemployment insurance tax	4	5
funded pension	3	3
VAT	1	3
other taxes	2	5
Total	564	557

3.8. Financial liabilities from insurance and investment contracts

3.8.1. Total financial liabilities from insurance contracts

in thousands of euros	31.12.2013	31.12.2012
Financial liabilities from unit-linked insurance contracts (note 3.8.3)	109,088	107,152
Financial liabilities from with-profit insurance contracts (note 3.8.5)	3,797	4,392
Total	112,885	111,544

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 euros	31.12.2013	31.12.2012
Financial liabilities from unit-linked investment contracts (note 3.8.4)	33,037	27,964
Total	33,037	27,964

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 euros	2013	2012
As at 1 January	**107,152**	**102,145**
Premiums received	18,850	18,608
Pay-outs deducted	-16,541	-15,558
Fees deducted (note 3.18)	-2,154	-2,136
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)	-328	-4,677
Change due to changes in unit prices and other changes (note 3.21)	2,249	8,718
Foreign exchange adjustments	-140	52
As at 31 December	**109,088**	**107,152**

3.8.4. Financial liabilities from unit-linked investment contracts

in thousands of euros	2013	2012
As at 1 January	**27,964**	**15,406**
Premiums received	9,113	10,575
Pay-outs deducted	-5,576	-3,859
Fees deducted (note 3.18)	-46	-41
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)	514	4,743
Change due to changes in unit prices and other changes (note 3.21)	1,146	1,120
Foreign exchange adjustments	-78	20
As at 31 December	**33,037**	**27,964**

3.8.5. Financial liabilities from with-profit insurance contracts

in thousands of euros	2013	2012
As at 1 January	**4,392**	**4,585**
Premiums received	371	416
Pay-outs deducted	-830	-610
Fees deducted (note 3.18)	-79	-72
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)	-177	-68
Guaranteed interest, bonuses and other change	130	138
Foreign exchange adjustments	-10	3
As at 31 December	**3,797**	**4,392**

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 euros	31.12.2013	31.12.2012
Life insurance provision	13,062	12,932
Outstanding claims provision	318	590
Total technical provisions from insurance contracts	**13,380**	**13,522**
Reinsurers' share in the technical provision	53	56
Total technical provisions from insurance contracts and relevant reinsurance assets	13,327	13,466

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

3.9.2. Life insurance provision

in thousands of euros	2013	2012
As at 1 January	**12,932**	**14,093**
Gross premiums	3,651	3,805
Pay-outs	-2,005	-2,905
Reclassification of products or changes between insurance technical liabilities and financial liabilities (note 3.8.3, note 3.8.4 and note 3.8.5)	-8	2
Other changes in value (including fees, risk premiums and interest, foreign exchange adjustments)	-1,508	-2,063
As at 31 December	**13,062**	**12,932**

3.9.3. Outstanding claims provision

in thousands of euros	2013	2012
As at 1 January	**590**	**309**
Claims paid during the year	-2,005	-2,905
Other change in outstanding claims provision (including foreign exchange adjustments)	1,733	3,186
As at 31 December	**318**	**590**
Reinsurers' share in the outstanding claims provision	53	56

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 Outstanding Claim provision contains two areas: incurred but unreported claims (IBNR) and estimated expected expenses that are estimated using assumptions (in thousands of euros);

Outstanding Claim provision	Amount	Proportion
Known occurred claims not yet paid and initiated pay-outs (such as maturity and lapses)	201	63%
IBNR	99	31%
Estimated expenses	18	6%
Total	318	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 percentage 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.

In 2013 the Company changed its reserving principles for level term life run-off portfolio. Changes were made in order to have the same methodology for all term life generations in all the countries. The same rules are used for insurance technical provision calculations as described under note 0; changes were made regarding the assumptions (e.g. mortality, expenses, and interest rates). Recalculated reserves (32.3 thousand euros) were 58.6 thousand euros less than before re-calculations (90.9 thousand euros). Due to the methodology change the Company earned one time profit in amount of 58.6 thousands euros.

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 of mortality statistics for years 2010-2012 received from the Statistical Offices of the Baltic countries have been used, and the base of mortality is taken as average of these three years. 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 and strategy enacted by the Company. Cancellation rates fall between 1% and 25% in Estonia, 2.0% and 25% in Latvia and 3% and 25% 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 groups of policies, where partial surrender is possible.

Discount rate. The Company uses the same discount rate as its parent company Mandatum Life Finland. The rate used for the yield curve is the euro deposit swap rate, which is derived from euro deposit rate and euro swap rate. The rates fall between -0.21% and 2.85% depending on the maturity (the maximum of up to thirty years is 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 for inflation.

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 out 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 future changes in the contract.

Liability adequacy test is performed for the majority of contracts; there are only few contracts left out from liability adequacy testing. The liability adequacy test only takes into account the contracts in force, and therefore liability adequacy test is not performed for outstanding claims provision.

According to the liability adequacy test, the overall amount of the Company's liabilities from insurance contracts is sufficient.

The Company has set several values of assumptions used for sensitivity calculations – results are calculated for each assumption separately by changing every main assumption three times.

The objective of sensitivity analyses is to recognize how sensitive the liabilities are to changes in assumptions and therefore the purpose is to estimate how the changes in the circumstances can affect the Company's liabilities. Liabilities change the most when we change assumptions of expected expenses, surrender rates and mortality, and also the expected inflation and the yield curve.

- If the expenses were 1.5 times higher, the liabilities would be almost 8.6% higher, whereas if the expenses were 1.2 times less than expected, then the required liabilities would be 2.9% lower.
- If the mortality rates were doubled then the liabilities would be 6.6% higher, whereas if the mortality rates were two times less than expected, then the liabilities would decrease by 3.7%.
- If the total surrender rates were doubled then the liabilities would increase by 4.5% in comparison with the initial assumptions, whereas if the surrender rates were 1.5 times less than expected, the liabilities would be 2.3% lower.

No analysed scenarios show deficiency on the Company level.

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, the assumptions have to be changed on an individual basis.

3.12. Owner’s equity

The number of shares was 5,500 as at 31.12.2013 (as at 31.12.2012 it was 5,500).

As at 31.12.2013, the Company’s share capital was 3,516 thousand euros and the Company’s total owner’s equity was 10,572 (11,083) thousand euros.

Accordingly to the Company’s Articles of Association, the minimum share capital for the Company shall be 1,278,400 euros and the maximum share capital shall be 5,113,600 euros.

The Company’s potential income tax liability

As at 31.12.2013 the Company’s retained earnings were 3,285 (3,841) thousand euros. The maximum possible income tax liability related to the distribution of the Company’s retained earnings as dividends is 690 thousand euros. The Company can therefore pay 2,595 thousand euros in net dividends.

3.13. Gross premiums

in thousands of euros	2013	2012
Risk products	430	368
Traditional savings products	1,271	1,512
Universal life products	66	75
Risk premiums in unit-linked insurance contracts	869	870
Supplementary insurance	1,016	980
Total	3,652	3,805

3.14. Net income from reinsurance

in thousands of euros	2013	2012
Reinsurers' share of gross premiums	-431	-427
Reinsurers' share in claims paid	94	62
Changes to reinsurers’ share in technical provisions	-3	19
Reinsurance commission income	175	178
Total	-165	-168

3.15. Investment income

in thousands of euros	2013	2012
Interest income of bonds and other fixed rate securities	690	762
Dividends	3	2
Interest income on bank account	0	1
Total	693	765

3.16. Fair value gains and losses

in thousands of euros	2013	2012
Shares and investment fund units	340	175
Bonds and other fixed rate securities	-98	1,065
Total	242	1,240

3.17. Realised gains and losses

in thousands of euros	2013	2012
Bonds and other fixed rate securities	-26	-14
Total	-26	-14

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 euros	2013	2012
Acquisition fees	395	372
Renewal fees	1,759	1,730
Lapse and cancellation fees	121	141
Other fees	4	6
Total	2,279	2,249

3.19. Other income

in thousands of euros	2013	2012
Commission fee for intermediation of fund units	1,237	1,191
Commissions from sale of other insurance contracts	0	1
Other income (tangible assets sales, exchange gains)	15	3
Total	1,252	1,195

3.20. Net insurance claims and the change of technical provisions

in thousands of euros	2013	2012
Indemnities paid for insured events and maturity pay-outs	-1,600	-2,370
Surrender amounts	-405	-535
Expenses related to pay-outs (note 3.22)	-282	-269
Total paid insurance claims and expenses related to pay-outs	-2,287	-3,174
Reinsurers' share in paid claims	94	62
Total paid insurance claims and expenses related to pay-outs, net of reinsurance	**-2,193**	**-3,112**
Change in life insurance provision	-147	1,166
Change in outstanding claims provision	273	-281
Total increase in insurance technical provisions	126	885
Change in reinsurers' share in technical provisions	-3	19
Total increase of insurance technical provisions net of reinsurance	**123**	**904**
Net insurance claims and the change of technical provisions	-2,070	-2,208

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

in thousands of euros	2013	2012
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)	-3,395	-9,838
Change in value of investments attributable to unit-linked policyholders	3,305	9,751
Total	-90	-87

3.22. Expenses

Breakdown of expenses by source

in thousands of euros	2013	2012
Personnel expenses	3,750	3,739
Commissions paid to intermediaries	432	253
Expenses on premises	608	609
Office expenses	140	182
Depreciation	207	229
Other expenses	1,202	1,024
Total	6,339	6,036

Breakdown of expenses by life cycle

in thousands of euros	2013	2012
Acquisition expenses	3,455	3,075
Administrative expenses	2,477	2,553
Expenses related to pay-outs	282	269
Investments expenses	125	139
Total	6,339	6,036

3.23. Income tax

in thousands of euros	Latvia	Lithuania	Estonia	Total
Net income subject to taxation	-724	909	-696	-511
Rate of taxation	15%	15%		
Calculated income tax	-109	136	0	27
Increase (or reduction) in tax resulting from:				
non-deductible expenses	117	320	0	437
non-taxable income	0	-416	0	-416
Recognized deferred tax assets	0	0	0	0
Unrecognised deferred tax assets	-8	-40	0	-48
Current income tax for year	0	0	0	0
Total income tax	0	0	0	0

Calculation of deferred profit tax assets

in euros

Deferred tax sheet	Deferred tax assets (liabilities)		
	2013		
	Temporary differences	Rate	Tax
Taxable losses	13 900 025	15%	2 085 004
Unrecognized deferred tax assets of accrued taxable losses	-13 204 937	15%	-1 980 741
Recognized deferred tax assets	695 088	15%	104 263

3.24. Operating lease

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

in thousands of euros	2013	2012
Premises	462	475
Cars	80	120
IT equipment	8	3
Total	550	598

Future minimum lease rental payables under non-cancellable operating leases as at 31 December 2013 are as follows:

Not later than one year	144
Later than one year and not later than five years	115
Total	259

3.25. Related party disclosures

3.25.1. Transactions with the members of the Management Board and the Supervisory Board

The Supervisory Board received no separate remuneration or severance pay. Members of the Management Board received a total of 376 thousand euros in 2013 (in 2012 this was 594 thousand euros) pursuant to service contracts, payroll tax included. The members of the Management Board who left the Company did not receive extra compensation. Additionally the members of the Management Board received a total of 24 thousand euros according to the Company's long-term motivational pay scheme, payroll taxes included.

The maximum amount of termination benefit according to the agreements as at 31.12.13 is 155 thousand euros.

3.25.2. Other transactions with related parties

ASSETS in thousands of euros	31.12.2013	31.12.2012
Cash and cash equivalents Nordea Bank Finland Plc (associated company to Sampo plc)	12	14
Reinsurance receivables		
Mandatum Life Insurance Company Limited (parent company)	244	241
Financial assets		
Financial assets designated as being at fair value through profit and loss		
Mandatum Life Insurance Company Limited (parent company)	74,412	66,057
Other receivables		
Mandatum Life Insurance Company Limited (parent company)	25	56
Accrued income and prepaid expenses		
If P&C Insurance Company Ltd (consolidation group enterprise)	6	5
Mandatum Life Insurance Company Limited (parent company)	104	171

LIABILITIES in thousands of euros	**31.12.2013**	31.12.2012
Insurance payables		
Mandatum Life Insurance Company Limited (parent company)	109	107
Accrued expenses and deferred income		
Sampo plc (ultimate parent company)	16	17
If P&C Insurance Company Ltd. (consolidation group enterprise)	2	2

STATEMENT OF INCOME in thousands of euros	**2013**	2012
Premiums ceded to reinsurers		
Mandatum Life Insurance Company Limited (parent company)	430	427
Reinsurance commissions		
Mandatum Life Insurance Company Limited (parent company)	175	178
Other income		
If P&C Insurance Company Ltd (consolidation group enterprise)	0	1
Mandatum Life Insurance Company Limited (parent company)	564	533
Reinsurers' share in claims paid and in the change of provisions		
Mandatum Life Insurance Company Limited (parent company)	91	81
Expenses		
Commission fees to brokers		
If P&C Insurance Company Ltd (consolidation group enterprise)	3	3
Transport expenses		
If P&C Insurance Company Ltd (consolidation group enterprise)	12	16
Nordea Bank Finland Plc (associated company to Sampo plc)	20	34
Other expenses		
Mandatum Life Insurance Company Ltd (parent company)	70	34
If P&C Insurance Company Ltd (consolidation group enterprise)	35	31
Nordea Bank Finland Plc (associated company to Sampo plc)	2	0
Sampo plc (ultimate parent company)	64	67

3.26. Events after the reporting date

As from 1 January 2014, Latvia joined the euro zone and the Latvian lats (LVL) was replaced by the euro (EUR). Proceeding from this, the Company converted its accounting into euros. The financial reporting for the year 2014 and onwards will be prepared in euros.

Comparative data will be converted with the official exchange rate 0.7028 LVL = 1 EUR.

This event did not have material impact on the financial statements of the Company.

IV. Independent Auditor's Report

Building a better working world

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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 statement of financial position as at 31 December 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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 2013, 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, 04 March 2014

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

Tiina Sõmer
Authorised Auditor's number 441

V. Proposal to cover the loss

The Company's retained earnings:

Net loss for 2013	-511,593 euros
Total retained earnings	3,285,611 euros

The Management Board hereby proposes to cover the loss by retained earnings.

Imre Madison	Chairman of the Management Board	....	04.03.2014
Erkki Sadam	Member of the Management Board	....	04.03.2014
Ilona Stare	Member of the Management Board	....	04.03.2014
Rasa Kasperaviciute	Member of the Management Board	....	04.03.2014
Timo Pursiala	Member of the Management Board	....	04.03.2014

VI. Signatures of the Management Board for the Annual Report 2013

The Company's Management Board has approved the Management Report and Annual Accounts for the year 2013.

The Annual Report as compiled by the Management Board consists of the Management Report, Annual Accounts, Proposal to cover the loss and the 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	..................04.03.2014
Erkki Sadam	Member of the Management Board	..................04.03.2014
Ilona Stare	Member of the Management Board	..................04.03.2014
Rasa Kasperaviciute	Member of the Management Board	..................04.03.2014
Timo Pursiala	Member of the Management Board	..................04.03.2014

VII.Sales revenue according to EMTAK 2008

EMTAK	Business area	Total
65111	life insurance	3,651,500 euros

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