

# MANDATUM LIFE INSURANCE BALTIC SE

## INTERIM REPORT 1-2Q/2011

Business name: MANDATUM LIFE INSURANCE BALTIC SE

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Beginning of reporting period: 01.01.2011

End of reporting period: 30.06.2011

CEO: Imre Madison

Auditor: Ernst & Young Baltic AS

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## **I. Management report in 1-2Q 2011**

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

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

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

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

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

Management Board member Rytis Ambrazevicius submitted a letter of resignation to leave the company on 19th July 2011, which was also accepted by the Company's Supervisory Board. The reason for leaving was a job offer from a leading Lithuanian mobile operator.

Starting from 16 June 2011, the Company's Chief Actuary is Rasa Povilaviciute. Airi Viiart, the Company's Chief Actuary until then, is on maternity leave. The Company's Internal Auditor is Arlet Rebane.

The Company's Supervisory Board had three members. Timo Laitinen, the Senior Vice President of Mandatum Life Insurance Company Ltd. is the acting Chairman of the Supervisory Board. The other members of the Supervisory Board are Kaisa Aalto-Luoto, Human Resources Manager of Mandatum Life Insurance Company Ltd, and Jukka Pirskanen, Head of Investment Management of Mandatum Life Insurance Company Ltd.

The Company's Supervisory Board member Kaisa Aalto-Luoto will be on maternity leave starting from 1 July 2011. For this reason, the Company's general meeting of stockholders has appointed Timo Vuorinen, the Chairman of the Supervisory Board of If P&C, as a new member of the Company's Supervisory Board instead of Kaisa Aalto-Luoto starting from 1 July 2011.

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

As at 30.06.2011, the Company serviced a total of 38 434 life insurance contracts in the Baltic countries. The biggest share of total insurance contracts in force at the end of second quarter of 2011 consisted of unit-linked insurance contracts (total of 26 297 contracts). As at 30.06.2011, the Company had 42 550 insured persons in its contracts portfolio in the Baltics.

The Company's received payments totalled 28 133 067 euros in the first half of 2011; this represents a decrease by 17% and 5 693 701 euros on the figures of the first half of 2010.

As at 30.06.2011, the Company's client assets under management (AUM) amounted to 168 805 668 euros, which is an increase of 2.4% and 3 894 349 euros compared to the figures as at 31.12.2010. The biggest share of AUM was formed by unit-linked insurance contracts which formed 150 154 478 euros and 89% of clients' total AUM.

The Company's market share in the Baltic life insurance market (based on contractual payments received) in the first half of 2011 was 19.5%. The market share has decreased by 4.3% in 2011 compared with the end of the second quarter in 2010. As at 31.06.2011, the market share by countries based on contractual payments received in Estonia was 21.4%, in Latvia 10.7% and in Lithuania 21.6%.

The Company's market share (based on contractual payments received from unit-linked investment contracts) of the first half of 2011 was 31.1%, which held the leading position on the Baltic unit-linked insurance market. In comparison with the end of the first half of 2010, the Company's market share based on contractual payments received from unit-linked investment contracts has decreased by 6.6% in 2011. As at 31.06.2011, the Company's market share by countries based on contractual payments received from unit-linked investment contracts in Estonia was 47.2%, in Latvia 25.5% and in Lithuania 28.6%.

In the first half of 2011, the Company paid claims in the amount of 15 404 940 euros, which is 658 359 euros more than in the first half of 2010. The majority of pay-outs were expiries, partial surrenders and surrenders of unit-linked insurance contracts.

As for the management of investments (technical provision and the Company's own capital portfolios) the Company cooperates with Sampo plc. Net income from investment activities (net of investment expenses) in the Baltic countries in the first half of 2011 was positive, totalling to 113 384 euros. Investment income of the Company's own capital portfolio in the first half of 2011 was positive, amounting to 53 693 euros.

As at 31.06.2011, the total size of the investment portfolio (except investments related to unit-linked life insurance contracts) reached 26.99 million euros. At the end of the first half of 2011, Mandatum Life Insurance Baltic SE's investment portfolio mostly comprised of money market instruments.

As at 31.06.2011, owner's equity was 10 063 082 euros, of which 3 515 600 euros was formed by share capital.

As at 31.06.2011 the total amount of assets included in the available solvency margin was 9 260 447 euros, the required solvency margin was 2 552 864 euros and the solvency surplus was 6 707 583 euros.

The Company's operating expenses (which include acquisition expenses, administrative expenses and investment expenses) increased in the first half of 2011 by 17.9% in comparison with the same period of 2010, amounting to 12 976 043 euros. Acquisition expenses accounted for 52.5% of all operational expenses in the first half of 2011 in the Baltic countries.

In the first half of 2011, Mandatum Life Insurance Baltic SE's profit for the period amounted to 113 015 euros. In the same period of the previous year, the Company made a profit of 1 047 593 euros. The main reasons for the decrease in profit in comparison with the first half of 2010 were a one-time technical income received in April 2010, increased operating expenses in 2011, decreased sales income, and lower net income from investment activities.

The Company's balance sheet volume reached 180 043 570 euros as at 31.06.2011; the increase was 4 276 135 euros in comparison with the end of 2010. Technical provisions from insurance contracts amounted to 14 155 142 euros at the end of the first half of 2011; financial liabilities from investment contracts were 29 622 004 euros and financial liabilities from insurance contracts formed 125 028 522 euros.

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

As at 31.06.2011 there were 117 employees working in the Company. The number of employees increased by 9 employees compared with last year. Salaries and wages (including payroll taxes) for the period amounted to 1 561 666 euros. The Supervisory Board members were not remunerated. The Company paid remuneration (including taxes) to members of the Management Board for carrying out their tasks which amounted to 242 559 euros.

### ***4. Sales and development activities***

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

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

The Company continued to expand its wealth management services in the Baltics by employing additional wealth managers.

In the first half of 2011, the Company organized several investment seminars to its wealthy clients and supported several tennis and golf events in all three countries.

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

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

The Company continues preparations in order to fulfil the Solvency 2 requirements of the EU insurance sector starting from the year 2013. In relation to that, the Company started the implementation of insurance software that supports the calculation of future cash flows of the company in all three Baltic States.

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

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

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

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



Imre Madison  
CEO

Tallinn, 29 July 2011

## II. Signatures of the Management Board

The Company's Management Board has prepared the Interim Report of the 1-2Q of 2011 on pages 7-12.

Imre Madison

Chairman of the Management Board



11.08.2011

Erkki Sadam

Member of the Management Board



11.08.2011

### III. Statement of financial position

<i>in Euros</i>	30.06.2011	31.12.2010	Notes
<b>ASSETS</b>			
Cash and cash equivalents	726 172	6 501 373	
Reinsurers' share of insurance liabilities	46 812	74 477	
<b>Financial assets</b>			
-Financial assets designated as being at fair value through profit and loss	177 567 186	167 380 869	
- Receivables related to insurance activities and other	250 690	446 892	
Accrued income and prepaid expenses	513 644	459 128	
<b>Property, plant and equipment</b>	136 220	119 932	VIII.2
<b>Intangible assets</b>	802 846	784 764	VIII.3
<b>TOTAL ASSETS</b>	<b>180 043 570</b>	<b>175 767 435</b>	

#### LIABILITIES AND OWNER'S EQUITY

Insurance payables	603 518	290 946	
Accrued expenses and deferred income	571 302	615 103	
Financial liabilities from insurance contracts	125 028 522	136 937 968	
Financial liabilities from investment contracts	29 622 004	14 143 196	
Technical provision from insurance contracts	14 155 142	13 830 155	
<b>Total liabilities</b>	<b>169 980 488</b>	<b>165 817 368</b>	
Share capital	3 515 600	3 515 141	
Share premium	3 509 422	3 509 881	
Legal reserve	204 792	132 366	
Unrealized foreign exchange	616	827	
Retained profits	2 832 652	2 791 852	
<b>Total owner's equity</b>	<b>10 063 082</b>	<b>9 950 067</b>	
<b>TOTAL LIABILITIES AND OWNER'S EQUITY</b>	<b>180 043 570</b>	<b>175 767 435</b>	

## IV. Statement of Comprehensive Income

<i>in Euros</i>	1-6/ 2011	1-6/ 2010
Gross premiums	1 987 764	2 058 337
Reinsurers' share of gross premiums	-153 291	-368 436
<b>Net premiums</b>	<b>1 834 473</b>	<b>1 689 901</b>
Investment income	310 963	284 425
Fair value gains and losses	-43 180	259 194
Realised gains and losses	-13 204	130 438
<b>Net income from investments</b>	<b>254 579</b>	<b>674 057</b>
Fee income	1 406 127	1 528 124
Reinsurance commission income	-30 038	30 697
Other income	800 353	516 532
<b>Other revenue</b>	<b>2 176 442</b>	<b>2 075 352</b>
Paid insurance claims net of reinsurance and claims handling expenses related to out-payments	-752 248	-841 258
Increase of insurance technical provisions net of reinsurance	-360 628	-22 513
<b>Net insurance claims and the change of technical provisions</b>	<b>-1 112 876</b>	<b>-863 771</b>
<b>Change in value of unit-linked financial liabilities and assets</b>	<b>5 580</b>	<b>68 730</b>
<b>Change in value of financial liabilities from insurance contracts with guaranteed interest</b>	<b>-68 928</b>	<b>-73 452</b>
Acquisition expenses	-1 562 062	-1 284 536
Administrative expenses	-1 272 786	-1 115 108
Investment expenses	-141 195	-123 558
<b>Expenses</b>	<b>-2 976 043</b>	<b>-2 523 202</b>
<b>Profit/loss before income tax</b>	<b>113 227</b>	<b>1 047 616</b>
Income tax expenses	0	0
<b>Profit/loss for the period</b>	<b>113 227</b>	<b>1 047 616</b>
<b>Other comprehensive income</b>		
Exchange differences	-211	-23
<b>Total comprehensive income for the period</b>	<b>113 015</b>	<b>1 047 593</b>

## V. Quarterly Statement of Comprehensive Income

<i>in Euros</i>	4-6/ 2011	4-6/ 2010
Gross premiums	997 162	1 031 086
Reinsurers' share of gross premiums	33 003	-191 214
<b>Net premiums</b>	<b>1 030 165</b>	<b>839 872</b>
Investment income	167 615	124 073
Fair value gains and losses	60 007	-87 792
Realised gains and losses	171	-59 571
<b>Net income from investments</b>	<b>227 793</b>	<b>-23 290</b>
Fee income	680 833	785 617
Reinsurance commission income	-48 190	14 780
Other income	414 171	287 604
<b>Other revenue</b>	<b>1 046 814</b>	<b>1 088 001</b>
Paid insurance claims net of reinsurance and claims handling expenses related to out-payments	-438 911	-428 957
Increase of insurance technical provisions net of reinsurance	-202 513	209 110
<b>Net insurance claims and the change of technical provisions</b>	<b>-641 424</b>	<b>-219 847</b>
<b>Change in value of unit-linked financial liabilities and assets</b>	<b>3 435</b>	<b>6 306</b>
<b>Change in value of financial liabilities from insurance contracts with guaranteed interest</b>	<b>-35 047</b>	<b>-37 155</b>
Acquisition expenses	-817 503	-689 393
Administrative expenses	-668 893	-569 643
Investment expenses	-70 251	-60 765
<b>Expenses</b>	<b>-1 556 647</b>	<b>-1 319 801</b>
<b>Profit/loss before income tax</b>	<b>75 089</b>	<b>334 086</b>
Income tax expenses	0	0
<b>Profit/loss for the period</b>	<b>75 089</b>	<b>334 086</b>
<b>Other comprehensive income</b>		
Exchange differences	22	48
<b>Total comprehensive income for the period</b>	<b>75 111</b>	<b>334 135</b>

## VI. Statement of Cash-flows

<i>in Euros</i>	1-6/ 2011	1-6/ 2010	Notes
<b>Cash flow from operating activities</b>			
Premiums received	1 986 149	2 050 431	
Financial liability inflow	26 088 845	31 672 695	
Paid claims and claims handling expenses related to pay-outs	-789 828	-877 671	
Financial liability outflow	-13 377 805	-12 178 982	
Reinsurance payments	-8 560	95 850	
Expenses	-2 808 784	-2 541 688	
Other revenue and other expenses	759 002	445 117	
Purchases of shares and investment fund units	-128 376 167	-152 638 201	
Proceeds from the sale of shares and investment fund units	116 181 744	125 300 265	
Purchases of bonds and other fixed income securities	-23 776 419	-3 754 484	
Proceeds from the sale of bonds and other fixed income securities	17 784 127	4 990 605	
Investments in term deposits	0	-10 862 230	
Proceeds on term deposits	238 691	12 669 647	
Interests received	572 834	413 409	
Dividends received	2 568	5 129	
Investment expenses	-141 195	-123 558	
<b>Net cash provided by operating activities</b>	<b>-5 664 798</b>	<b>-5 333 666</b>	
<b>Cash flow from investing activities</b>			
Purchases of tangible and intangible assets	-110 562	-257 538	VIII.2VIII.3
<b>Net cash provided by investment activities</b>	<b>-110 562</b>	<b>-257 538</b>	
<b>TOTAL CASH FLOW</b>	<b>-5 775 360</b>	<b>-5 591 204</b>	
Cash and cash equivalents at the beginning of the period	6 501 373	9 418 436	
Change in cash and cash equivalents	-5 775 360	-5 591 204	
Foreign currency translation effects	159	245	
Cash and cash equivalents at the end of the period	726 172	3 827 477	

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

<i>in Euros</i>	Share capital	Share premium	Legal reserve	Unrealised foreign exchange rate	Retained earnings	Total equity
<b>As at 31.12.2009</b>	<b>3 515 141</b>	<b>3 509 881</b>	<b>67 009</b>	<b>572</b>	<b>1 408 682</b>	<b>8 501 285</b>
Increase of legal reserve	0	0	65 357	0	-65 357	0
Other comprehensive income	0	0	0	255	0	255
Profit for the year 2010	0	0	0	0	1 448 527	1 448 527
<b>As at 31.12.2010</b>	<b>3 515 141</b>	<b>3 509 881</b>	<b>132 366</b>	<b>827</b>	<b>2 791 852</b>	<b>9 950 067</b>
Increase of legal reserve	0	0	72 426	0	-72 426	0
Fund emission	459	-459	0	0	0	0
Other comprehensive income	0	0	0	-211	0	-211
<b>Profit for the period</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>113 227</b>	<b>113 227</b>
<b>As at 30.06.2011</b>	<b>3 515 600</b>	<b>3 509 422</b>	<b>204 792</b>	<b>616</b>	<b>2 832 652</b>	<b>10 063 082</b>

## VIII. Notes

### 1. Basis of preparation

Mandatum Life Insurance Baltic SE's Interim Report of 1-2 Quarter 2011 is prepared in accordance with IAS 34 "Interim Financial Reporting".

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

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

### 2. Property, plant and equipment

<i>in Euros</i>	Acquisition cost	Accumulated depreciation	Carrying value
<b>As at 31.12.2010</b>	<b>315 884</b>	<b>-195 952</b>	<b>119 932</b>
Additions	38 806	0	38 806
Foreign exchange adjustments	46	-600	-554
Depreciation charges	0	-21 964	-21 964
<b>As at 30.06.2011</b>	<b>354 736</b>	<b>-218 516</b>	<b>136 220</b>

Equipment comprises IT, office equipment and furniture.

### 3. Intangible assets

<i>in Euros</i>	Acquisition cost	Accumulated depreciation	Carrying value
<b>As at 31.12.2010</b>	<b>1 333 821</b>	<b>-549 057</b>	<b>784 764</b>
Additions	71 267	0	71 267
Foreign exchange adjustments	442	-17	425
Depreciation charges	0	-53 610	-53 610
<b>As at 30.06.2011</b>	<b>1 405 530</b>	<b>-602 684</b>	<b>802 846</b>

### 4. Related party disclosures

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

Members of the Management Board received a total of 243 thousand euros in the 1-2Q 2011 pursuant to service contracts, payroll tax included. The Supervisory Board received no separate remuneration or severance pay.

<b>ASSETS</b> <i>in Euros</i>	<b>30.06.2011</b>	<b>31.12.2010</b>
<b>Cash and cash equivalents</b>		
Nordea Bank (associated company to Sampo plc)	61 156	213 471
<b>Reinsurers' share of insurance liabilities</b>		
Mandatum Life Insurance Company Ltd (parent company)	95 661	394 304
<b>Financial assets</b>		
Financial assets designated as being at fair value through p/l		
Mandatum Life Insurance Company Ltd (parent company)	72 539 672	61 820 683
Other receivables		
If P&C Insurance Company Ltd. (a consolidation group enterprise)	9	3 587
Mandatum Life Insurance Company Ltd (parent company)	133 946	0
Accrued income and prepaid expenses		
Mandatum Life Insurance Company Ltd (parent company)	169 745	74 968
If P&C Insurance Company Ltd (a consolidation group enterprise)	14 406	13 196
<b>LIABILITIES</b> <i>in Euros</i>	<b>30.06.2011</b>	<b>31.12.2010</b>
<b>Insurance payables</b>		
Mandatum Life Insurance Company Ltd (parent company)	53 590	187 378
<b>Accrued expenses and deferred income</b>		
If P&C Insurance Company Ltd (a consolidation group enterprise)	203	602
Mandatum Life Insurance Company Ltd (parent company)	8 689	7 728
<b>INCOME STATEMENT</b> <i>in Euros</i>	<b>1-6/ 2011</b>	<b>1-6/ 2010</b>
<b>Ceded premiums</b>		
Mandatum Life Insurance Company Ltd (parent company)	153 291	368 436
<b>Reinsurance commissions</b>		
Mandatum Life Insurance Company Ltd (parent company)	-30 038	30 697
<b>Other income</b>		
If P&C Insurance Company Ltd (a consolidation group enterprise)	354	342
Mandatum Life Insurance Company Ltd (parent company)	344 383	136 884
<b>Reinsurers' share in claims paid and in change provisions</b>		
Mandatum Life Insurance Company Ltd (parent company)	10 214	71 844
<b>Expenses</b>		
Commissions fees to brokers		
If P&C Insurance Company Ltd (a consolidation group enterprise)	361	163
Transport expenses		
If P&C Insurance Company Ltd (a consolidation group enterprise)	4 903	6 736
Nordea Bank (associated company to Sampo plc)	12 477	4 920
Other expenses		
If P&C Insurance Company Ltd (a consolidation group enterprise)	8 219	36 137
Sampo plc (ultimate parent company)	47 315	19 477
Mandatum Life Insurance Company Ltd (parent company)	62 389	31 693