

# SE SAMPO LIFE INSURANCE BALTIC

## 2008 ANNUAL REPORT

**Business name:** SE SAMPO LIFE INSURANCE BALTIC (since 02.01.2007)

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**Beginning of financial year:** 01.01.2008

**End of financial year:** 31.12.2008

**CEO:** Imre Madison

**Auditor:** Ernst & Young Baltic AS

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## I. Management report of 2008

SE Sampo Life Insurance Baltic (hereinafter: the Company or Sampo Life) is 100% owned by the Finnish life insurance group Mandatum Life Insurance Company Ltd. Finnish financial group Sampo plc. is the sole holder of Mandatum Life Insurance Company Ltd. shares.

The Company was registered on 02.01.2007 in Tallinn, the Republic of Estonia. The Company's domicile is Estonia with headquarter in Tallinn and branches in Latvia and Lithuania. The year 2008 was the Company's second year of active operation as a single pan-Baltic company under the name of SE Sampo Life Insurance Baltic but the 10th year for Sampo Life of active operation in the Baltic life insurance market.

The business operating area of the Company is life insurance in compliance with the issued license. Sampo Life core activities include the conclusion and administration of unit-linked life insurance contracts and contracts with life insurance coverage, as well as the administration of insurance contracts with guaranteed interest.

### 1. *Management of the Company*

The Management Board of the Company had seven members at the end of 2008. The Chairman of the Management Board and the CEO was Imre Madison who was also the head of the Company's Estonian operations. Other members of the Management Board were Chief Legal Officer Erkki Sadam, Investments Manager Paul Lukka, Latvian Branch Manager Uldis Mucinieks, Latvian Branch Operational Director Ilona Stare, Lithuanian Branch Manager Rytis Ambrazevicius and Lithuanian Branch Operational Director Rasa Kasperaviciute.

The Supervisory Board of the Company had three members at the end of 2008. The acting Chairman of the Supervisory Board was Timo Laitinen, the Senior Vice President of Mandatum Life Insurance Company Ltd. Other members of the Supervisory Board were Risto Honkanen, the Senior Vice President of Mandatum Life Insurance Company Ltd. and Petri Vieraankivi, the Vice President of Mandatum Life Insurance Company Ltd.

The Company's Chief Actuary was Airi Viirt and the Company's Business Controller was Timo Pursiala. The Company had local management teams in all Baltic countries for everyday business management.

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

In 2008, the Company focused mainly on the conclusion of new unit-linked life insurance contracts and risk contracts together with wide choice of riders. The Company does not conclude anymore new guaranteed interest insurance contracts.

As at 31.12.2008, the Company serviced in total 43,719 life insurance contracts. The biggest share of the Company's total insurance contracts in force consisted of unit-link life insurance contracts. As at 31.12.2008, the Company had 48,706 insured persons.

The Company's contractual payments received totaled to 481,000 thousand Estonian kroons in year 2008. This is 52% less (-513,000 thousand Estonian kroons) than in year 2007.

The Company's contractual payments received from new business concluded in 2008 totaled to 201,000 thousand Estonian kroons and contractual payments received for old business concluded before year 2008 totaled to 280,000 thousand Estonian kroons.

As at 31.12.2008, the Company's clients assets under management (AUM) were 1,210,000 thousand Estonian kroons, which is 860,000 thousand Estonian kroons less (-42%) than in the end of year 2007. The biggest share in the Company's clients AUM form unit-link insurance contracts which form 83% (1,004,000 thousand Estonian kroons) of the Company's clients total AUM.

The biggest life insurance market is in Lithuania where contractual payments received totaled to 2,425,223 thousand Estonian kroons (-32% versus 2007), followed by Estonian life insurance market with 1,267,375 thousand Estonian kroons (-33% versus 2007) and by Latvian life insurance market with 829,270

thousand Estonian kroons (-25% versus 2007). The Company's market share (based on contractual payments received) was as at 31.12.2008 10.6% (-4.5% versus 2007) and the Company had third position on Baltic's life insurance market. The Company's unit-link market share (based on payments received) was in Baltics 16.0% (third position) as at 31.12.2008.

<b>SAMPO LIFE MARKET SHARE (BASED ON ALL PAYMENTS RECEIVED)</b>	<b>2 006</b>	<b>2 007</b>	<b>2 008</b>	<b>POSITION</b>
ESTONIA	22.0%	15.3%	12.1%	#3
LATVIA	30.0%	28.4%	14.6%	#3
LITHUANIA	6.0%	10.9%	8.5%	#5
<b>SAMPO LIFE TOTAL IN BALTIC'S</b>	<b>14.7%</b>	<b>15.1%</b>	<b>10.6%</b>	<b>#3</b>

In 2008, the Company total claims incurred were 522,000 thousand Estonian kroons, which is 349,000 thousand Estonian kroons more than in year 2007. The majorities of out-payments from insurance contracts were made from unit-link insurance contracts as clients ordered partial out-payments or surrendered their unit-link insurance contracts to protect their investments against the global massive decline of stock markets, especially in second half of 2008.

As to the management of investments, the Company continued its cooperation with Danske Capital AS. The Company is managing its investment portfolios of technical provisions as a single pan-Baltic portfolio.

Net income from investment activities (net of investment expenses) totaled to -2 023 thousand Estonian kroons. In the end of 2008, the size of the Company's investment portfolio (except investments related to unit-linked life insurance contracts) was 314,000 thousand Estonian kroons for technical reserves and 91,000 thousand Estonian kroons for own capital. Total size of the Company's invested assets was 405,000 thousand Estonian kroons. The Company's investment portfolio (except investments related to unit-linked life insurance contracts) comprised mostly of fixed income instruments (99.9% of total invested assets) such as government and corporate bonds, and money market instruments and investments into shares and other equity funds amounted to 0.1% of the total volume of invested assets.

The Company did not pay additional bonuses into guaranteed interest life insurance contracts for year 2008. The guaranteed interest rate in the Company's Estonian unit for respective insurance contracts is 3.5%, in the Latvian branch 2.5% - 4% depending on the product type and in the Lithuanian branch 2.5% - 4% depending on the product type.

Sampo Life follows the risk management principles of the Sampo Group in managing its operational and investments risks. The principal goal of Sampo group's risk management is to ensure that risks have been correctly identified, the measuring of risks is independent, and that there is enough capital to cover the accepted risks. The biggest risk factors at the Company are market risk and interest rate risk of investment portfolios as well as insurance risk of clients. The Company's Management Board is responsible for managing operational and investments risks, but also the Operational Risk Management Committee and the Investments Risk Management Committee are supervising regularly risks and investments management in the Company.

As at 31.12.2008 owner's equity of the Company was 112,500 thousand Estonian kroons of which 55,000 thousand Estonian kroons was share capital.

The total amount of the Company's assets included in the available solvency margin of an insurance undertaking shall not at any time be less than the minimum solvency margin or the required solvency margin, and in case of adjusted solvency margin, not less than the required amount of adjusted solvency margin. The Company's available solvency margin was 107,116 thousand Estonian kroons on 31 December 2008, while required solvency margin was at the same time 28,505 thousand Estonian kroons. Solvency surplus was 78,611 thousand Estonian kroons and therefore all requirements (incl. minimum required solvency margin of 50,069 thousand Estonian kroons) were met.

The Company's operating expenses (acquisition expenses, administrative expenses, claims handling expenses and investment expenses) decreased by 8,712 thousand Estonian kroons in comparison with the year 2007. Savings were reached in acquisition costs and administrative costs.

The Company's total expenses were 86,700 thousand Estonian kroons in year 2008. Acquisition expenses accounted for 49% of the Company's all operational expenses in 2008. Administrative expenses accounted for 44% and other expenses for 7 % of the Company's all operational expenses.

In 2008, the Company's loss for the financial year totaled to 11,397 thousand Estonian kroons compared with the profit of 13,669 thousand Estonian kroons in the previous year. Return on equity (ROE, i.e. the ratio of annual business result to annual average owner's equity) of the Company was -11, 5% in 2008.

The Company's balance sheet volume was 1,360,691 thousand Estonian kroons as at 31.12.2008, the annual decrease being -853,315 thousand Estonian kroons. This decrease was mainly based on the decline of the liabilities resulting from unit-linked life insurance contracts (these liabilities decreased by -881,864 thousand Estonian kroons in 2008). Total liabilities from insurance contracts amounted to 1,208,612 thousand Estonian kroons at the end of 2008; financial liabilities for unit-linked life insurance contracts formed 1,004,250 thousand Estonian kroons thereof.

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

As at 31.12.2008 there were 117 employees working in the Company, 55 of them were related with sales area. In the Company's Estonian unit there were 38 employees, in the Company's Latvian branch 37 employees and in the Company's Lithuanian branch 42 employees. Additionally, 8 employees were on maternity leave as at the end of 2008, of which 5 from the Estonian unit, 1 from the Latvian branch and 2 from the Lithuanian branch.

The Company's salaries and wages (incl. payroll taxes) of the financial year amounted to 39,800 thousand Estonian kroons. The work of the Supervisory Board was not separately remunerated. The remuneration of members of the Management Board for carrying out their tasks totaled to 6900 thousand Estonian kroons in 2008.

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

The Company's main sales channels are own sales, bankassurance in cooperation with Danske Bank, If and brokers. Importance of different sales channels for the Company varies from country to country while bankassurance is most developed in Estonia and brokers channels produces the best results in Lithuania.

The Company started the development of online sales platform in 2008 to be able to launch more cost efficient solutions and to reach to client groups 24 / 7.

In the end of 2008, the Company renewed its web page in Lithuania. Company's web page addresses are [www.sampolifebaltic.com](http://www.sampolifebaltic.com), [www.sampolife.ee](http://www.sampolife.ee), [www.sampolife.lv](http://www.sampolife.lv) and [www.sampolife.lt](http://www.sampolife.lt).

### **5. Other activities**

The Company continues to develop its insurance IT software for all Baltic countries. In 2008, the Company continued on the unification of the administrative management of its pan-Baltic processes.

In 2008, the Company's external auditor was Ernst & Young Baltic AS.

In 2008, the Company's internal audits were carried out by AS PricewaterhouseCoopers.

The reinsurer of the Company was Mandatum Life Insurance Company Ltd.

### **6. Outlook for 2009**

Baltic countries macro-economical situation has been changed dramatically in 2008. The Company management has taken position that Baltic economies will continue to decline the next 2-3 years which will result increasing unemployment, increasing bankruptcies, declining export, state budget deficit, increased risk of local currencies devaluation and inability to serve privates & corporates financial liabilities. Limited credit lines, missing trust between the financial institutions, increasing governments support packages and decline of corporates profits will steam un-estimated directions of global investment markets for 2009.

The Company's main priorities in 2009 will remain professional sales, excellent client service, protection of client assets under management and cost efficient pan-Baltic processes.

The Company's Estonian unit will move its main office to another location in Tallinn in second part of 2009 to have better access for its clients and improve client service level but also to have more cost effective operations in Estonia.

On 18<sup>th</sup> of March 2009 the Company Supervisory Board appointed the Company business controller Timo Pursiala as a member of Management Board.



Imre Madison  
Chairman of the Management Board

In Tallinn, 20 March 2009

## II. Annual accounts

### 1. **Management Board declaration**

The Management Board hereby declares its liability for the correctness of the Company's Annual Accounts of 2008 on pages 8-45 and confirms that, to the best of its knowledge:

- Annual Accounts have been compiled in accordance with international financial reporting standards, adopted by the European Union;
- Annual Accounts correctly and justly reflect the financial state, economic results and cash flows of the Company;
- All known facts that have occurred up to the date of Annual Accounts, i.e. 20.03.2009, have been duly taken into account and presented therein;
- The Company is a continuously operating business entity.

Imre Madison Chairman of the Management Board

Erkki Sadam Member of the Management Board

Uldis Mucinieks Member of the Management Board


Rytis Ambrazevicius Member of the Management Board


Ilona Stare Member of the Management Board


Rasa Kasperaviciute Member of the Management Board


Paul Lukka Member of the Management Board


Timo Pursiala Member of the Management Board

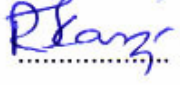
  
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**7. Balance sheet as at 31.12.2008**

<i>in thousands of Estonian kroons</i>	<b>31.12.2008</b>	<b>31.12.2007</b>	<b>Notes</b>
<b>ASSETS</b>			
<b>Cash and cash equivalents</b>	130 490	107 182	II.4
<b>Reinsurance receivables</b>	5 568	4 896	II.5 II.13.1
<b>Financial assets</b>			
Financial assets designated as at fair value through profit and loss	1 187 186	2 087 378	II.6
Financial assets designated as at amortized cost	30 960	12 236	
- Assets arising from direct insurance operations and other	25 100	5 194	II.7.1
- Accrued income and prepaid expenses	5 860	7 042	II.7.2
<b>Property, plant and equipment</b>	1 062	948	II.8
<b>Intangible assets</b>	5 425	1 366	II.9
<b>TOTAL ASSETS</b>	<b>1 360 691</b>	<b>2 214 006</b>	
<b>LIABILITIES AND OWNER'S EQUITY</b>			
Insurance payables	6 557	5 395	II.10
Accrued expenses and deferred income	9 548	14 236	II.11
Financial liabilities from insurance contracts	1 004 250	1 886 114	II.12
Technical provision from insurance contracts	204 362	184 309	II.13
Financial liabilities from trading in securities	23 434	0	
<b>Total liabilities</b>	<b>1 248 151</b>	<b>2 090 054</b>	
Share capital	55 000	55 000	
Share premium	54 918	54 918	
Legal reserve	1 048	365	
Unrealized foreign exchange rate	-15	0	
Retained profits	1 589	13 669	
<b>Total owner's equity</b>	<b>112 540</b>	<b>123 952</b>	II.14
<b>TOTAL LIABILITIES AND OWNER'S EQUITY</b>	<b>1 360 691</b>	<b>2 214 006</b>	

Notes on the accounts presented on pp 13 - 45 form an integral part of the Annual Accounts.

## 8. *Income statement 2008*

<i>in thousands of Estonian kroons</i>	<b>2008</b>	<b>2007</b>	<b>Notes</b>
Gross premiums	71 306	66 689	II.15
Reinsurers' share of gross premiums	-11 285	-9 560	II.16
<b>Net premiums</b>	<b>60 021</b>	<b>57 129</b>	
Investment income	17 464	11 525	II.17
Fair value gains and losses	-12 546	378	II.18
Realized gains and losses	-4 196	822	II.19
<b>Net income from investments</b>	<b>722</b>	<b>12 725</b>	
Fee income	49 479	57 758	II.20
Reinsurance commission income	5 210	4 509	II.16
Other income	11 196	10 396	II.21
<b>Other revenue</b>	<b>65 885</b>	<b>72 663</b>	
Paid insurance claims net of reinsurance and claims handling expenses related to out-payments	-20 592	-15 069	
Increase of insurance technical provisions net of reinsurance	-20 012	-23 775	
<b>Net insurance claims and the change of technical provisions</b>	<b>-40 604</b>	<b>-38 844</b>	II.22
<b>Change in value of unit-linked life insurance contracts</b>	<b>-8 709</b>	<b>3 615</b>	II.23
<b>Change in value of financial liabilities from insurance contracts with guaranteed interest</b>	<b>-4 720</b>	<b>147</b>	
Acquisition costs	-42 906	-47 567	
Administrative costs	-38 341	-43 187	
Investment expenses	-2 745	-3 012	
<b>Expenses</b>	<b>-83 992</b>	<b>-93 766</b>	II.24
<b>Profit/loss before income taxes</b>	<b>-11 397</b>	<b>13 669</b>	
Income tax expenses	0	0	II.25
<b>Profit/loss for the financial year</b>	<b>-11 397</b>	<b>13 669</b>	

Notes on the accounts presented on pp 13 - 45 form an integral part of the Annual Accounts.

**9. Cash-flow statement 2008**

<i>in thousands of Estonian kroons</i>	<b>2008</b>	<b>2007</b>	<b>Notes</b>
<b>Cash flow from operating activities</b>			
Premiums received	71 306	68 847	
Inflows of financial liabilities	408 613	928 621	
Paid claims and claims handling expenses related to out-payments	-22 435	-16 469	
Outflows of financial liabilities	-488 645	-158 231	
Payments of reinsurance	-4 501	-3 292	
Expenses	-79 193	-88 641	
Other revenue and other expenses	10 489	8 684	
Purchases of shares and investment fund units	-2 796 255	-2 147 508	
Proceeds from sale of shares and investment fund units	2 930 378	1 423 085	
Purchases of bonds and other fixed income securities	-262 492	-546 159	
Proceeds from sale of bonds and other fixed income securities	299 850	581 295	
Investments in term deposits	-678 467	-147 752	
Proceeds on term deposits	623 416	143 006	
Received interest	19 616	20 678	
Received dividends	68	58	
Investment expenses	-2 745	-3 012	
<b>Net cash provided by operating activities</b>	<b>29 003</b>	<b>63 210</b>	
<b>Cash flows from investing activities</b>			
Purchases of tangible and intangible assets	-5 490	-2 008	II.8, II.9
Sales of tangible and intangible assets	0	8 963	
Sales of subsidiary	0	5 696	
Received loan	0	1 476	
<b>Net cash provided by investing activities</b>	<b>-5 490</b>	<b>14 127</b>	
<b>TOTAL CASH FLOW, net</b>	<b>23 513</b>	<b>77 337</b>	
Cash and cash equivalents at the beginning of period	107 182	30 253	
Change in cash and cash equivalents	23 513	77 337	
Foreign currency translation effects	-205	-408	
Cash and cash equivalents at the end of period	130 490	107 182	

Notes on the accounts presented on pp 13 - 45 form an integral part of the Annual Accounts.

**10. Statement of changes in owner's equity 2008**

<i>in thousands of Estonian kroons</i>	Share capital	Share premium	Legal reserve	Unrealized foreign exchange rate	Retained earnings	Total equity
<b>As at 31.12.2006</b>	<b>55 000</b>	<b>54 918</b>	<b>365</b>	<b>0</b>	<b>0</b>	<b>110 283</b>
Profit for 2007	0	0	0	0	13 669	13 669
<b>As at 31.12.2007</b>	<b>55 000</b>	<b>54 918</b>	<b>365</b>	<b>0</b>	<b>13 669</b>	<b>123 952</b>
Currency translation adjustments	0	0	0	-15	0	-15
Loss for the financial year	0	0	0		-11 397	-11 397
<b>Total income and expenses for the year</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-15</b>	<b>-11 397</b>	<b>-11 412</b>
Increase of legal reserve	0	0	683	0	-683	0
<b>As at 31.12.2008</b>	<b>55 000</b>	<b>54 918</b>	<b>1 048</b>	<b>-15</b>	<b>1 589</b>	<b>112 540</b>

Notes on the accounts presented on pp 13 - 45 form an integral part of the Annual Accounts.

## II. Notes on the accounts

### 1. Accounting policies

#### 1.1. Basis of preparation

2008 Annual Accounts of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS). International Financial Reporting Standards are standards and interpretations that were 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 reflected in their fair value with changes through the profit and loss.

Preparation of financial reports in conformity with International Financial Reporting Standards requires the adoption of decisions based on estimates and assumptions. The adopted decisions and estimates affect the Company's assets, liabilities, income and expenses presented as at balance day. Although the 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 Estonian kroons, unless stated otherwise.

Pursuant to the Commercial Code of the Republic of Estonia, annual report, including also annual accounts prepared by the Management Board and approved by the Supervisory Board, is approved by the General Meeting of Shareholders. Shareholders are entitled to refrain from approving the annual report prepared and approved by the Management Board and to request the preparation of a new report.

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

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

#### 1.2. Changes in accounting policies

The consolidated financial report is composed based on consistency and comparability principles, which means that the Company continually applies same accounting principles and presentation. Changes in accounting policies and presentation take place only if these are required by new or revised IFRS and interpretations or if new accounting policy and / or presentation give a more objective overview of financial position, financial results and cash flows of the Company.

#### **Revised International Financial Reporting Standards (IFRS), new IFRS standards and interpretations of the International Financial Reporting Interpretations Committee (IFRIC)**

The accounting policies and presentation adopted in preparation of the current financial statements are consistent with those of the previous financial year. In addition, the following new/revised standards have been adopted, which had no material effect on the financial results and disclosures of 2008:

- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions;
- IFRIC 12 Service Concession Agreements;
- IFRIC 13 Customer Loyalty Programmes;
- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction;
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation;
- Amendments to IAS 39 and IFRS 7 Reclassification of Financial Assets.

### **New IFRS standards and interpretations issued but not yet effective**

In the opinion of the management of the Company the new or revised IFRS standards and their interpretations issued by the time of preparing the current consolidated financial statements, but not effective yet, and not applied early by the Company, do not have any effect on the value of the assets and liabilities of the Company as of 31 December 2008. These standards and interpretations will be applied starting from their effective date and are as follows:

IAS 1 Revised Presentation of Financial Statements, effective for financial years beginning on or after 1 January 2009. This amendment introduces a number of changes, including introduction of a new terminology, revised presentation of equity transactions and introduction of a new statement of comprehensive income as well as amended requirements related to the presentation of the financial statements when they are restated retrospectively.

IFRS 8 Operating Segments, effective for financial years beginning on or after 1 January 2009. The standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. IFRS 8 replaces IAS 14 Segment Reporting.

IAS 23 Borrowing costs (revised), effective for annual periods beginning on or after 1 January 2009;

IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements, effective for financial years beginning on or after 1 January 2009;

IFRS 3R Business Combinations and IAS 27R Consolidated and Separate Financial Statements, effective for financial years beginning on or after 1 July 2009;

IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation, effective for financial years beginning on or after 1 January 2009;

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items, effective for financial years beginning on or after 1 July 2009;

IFRS 2 Share-Based Payment (Amendments), effective for financial years beginning on or after 1 January 2009;

IFRIC 15 Agreement for the Construction of Real Estate, effective for financial years beginning on or after 1 January 2009;

IFRIC 17 Distribution of Non-cash Assets to Owners, effective for financial years beginning on or after 1 January 2009;

IFRIC 18 Transfers of Assets from Customers, effective for financial years beginning on or after 1 January 2009.

### **Improvements to IFRS**

In May 2008 IASB issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard; most of the changes are effective for financial years beginning on or after 1 January 2009. The Company anticipates that these amendments to standards will have no material effect on the financial statements.

IFRS 7 Financial Instruments: Disclosures

IAS 1 Presentation of Financial Statements

IAS 8 Accounting Policies, Change in Accounting Estimates and Errors

IAS 10 Events after the Reporting Period

IAS 16 Property, Plant and Equipment

IAS 18 Revenue

IAS 19 Employee Benefits

IAS 20 Accounting for Government Grants and Disclosures of Government Assistance

IAS 23 Borrowing Costs

IAS 27 Consolidated and Separate Financial Statements

IAS 28 Investment in Associates

IAS 29 Financial Reporting in Hyperinflationary Economies

IAS 31 Interest in Joint ventures.

IAS 34 Interim Financial Reporting

IAS 36 Impairment of Assets  
IAS 38 Intangible Assets  
IAS 39 Financial Instruments: Recognition and Measurement  
IAS 40 Investment Property  
IAS 41 Agriculture.

### 1.3. Foreign currency translation

The financial statements are presented in Estonian kroons, which is the functional and reporting currency of the Company. Items included in the financial statements of 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. Assets and liabilities of branches with functional currencies other than EEK are translated into the reporting currency at end-of-period exchange rates, while income statements are translated using exchange rate of the Bank of Estonia at the date of the transaction. Exchange differences resulting from the translation of these items are recognized as translation gains and losses in profit or loss.

The following exchange rates have been applied in the financial statements

1 Estonian kroon (EEK) =	As at 31.12.2008	As at 31.12.2007
Latvian lats (LVL)	22.0977	22.4505
Lithuanian litas (LTL)	4.53157	4.53157

### 1.4. Cash and its equivalents

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

Cash-flow statement is prepared on the basis of direct method.

### 1.5. Financial assets

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

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

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

The Company has not classified any investment held to maturity or available for sale.

Reinsurance receivables are recognized in the balance sheet and their calculation principles are described separately, although they are considered to be financial assets (see point 1.6).

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

Financial assets are recognized 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 through profit and loss.

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

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

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

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

In order to classify financial assets as financial assets measured at fair value through profit or loss they must fulfill 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 the so-called accounting discrepancies; or
- The group of financial assets is managed together and the results measured at fair value in accordance with recorded risk management or investment strategy and the respective information is forwarded to the senior management.

Financial assets are initially recorded at fair value in accordance with a documented risk management and investment strategy. If an owner's equity instrument has no active stock market price and its fair value can not be measured with certain credibility, the fair value can not be used.

Financial assets recognized at fair value are re-evaluated on each balance day based on their current fair value, whereas not deducting potential transaction costs arising out of the sale of assets.

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

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

### **1.5.2. Receivables**

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market nor acquired by the Company for trading. After initial recognition, receivables are recognized at amortized cost, using the effective interest method. Short-term receivables are recognized in the balance sheet at their nominal value that is usually equal to the amortized cost of the receivables.

A receivable is recognized as unlikely recoverable if the Company has got objective proof about the occurrence of loss.

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

### **1.6. Reinsurance receivables**

Reinsurance receivables include reinsurers' share in the technical provisions, still unsettled reinsurers' share in commission fees, paid claims and direct claims handling costs.

### **1.7. Property, plant and equipment**

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

- IT equipment and motor vehicles three years
- Other equipment five years

The depreciation is recognized as expenditure of the accounting period in the income statement under items "Acquisition costs" and "Administrative expenses".

Management decides on each balance day whether there are any signs indicating to the decrease in value. In case of doubts that the value of an asset may drop below its book value, a test of recoverable amount is performed. Recoverable amount of an asset is the higher of an asset's net selling price and its value in use 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 recognized as expense of the accounting period.

If the test of recoverable amount performed on assets that were written down earlier reveals that the recoverable amount is higher than the residual book value, the former write-down is cancelled and the book value of the asset is increased.

An item of property, plant and equipment is derecognized upon disposal or when no further future economic benefits are expected from its use or disposal. Any gains or loss arising on derecognizing of the asset is included in the income statement under items "Other income" or "Acquisition costs" and "Administrative expenses" in the period the asset is derecognized.

## **1.8. Intangible assets**

IT software and other intangible assets are recognized in the Balance Sheet as intangible assets with definite useful lives, 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 improvement in existing software are recognized only to the extent they meet the above-mentioned requirements for being recognized as assets in the Balance Sheet.

Intangible assets with definite useful lives are measured at historical cost less accumulated depreciation and impairment losses. Absorbed depreciation is recognized as expense of the accounting period in the income statement under items "Acquisition costs" and "Administrative expenses".

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

Intangible assets include acquired licenses and software (at the cost of over 15,646 kroons or EUR 1000). Intangible assets are depreciated on the basis of straight-line method over two to ten years.

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

## **1.9. Financial liabilities (except for liabilities from insurance contracts)**

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

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

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

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

## **1.10. Recognition of insurance contracts and investment contracts**

### **1.10.1. Classification**

Pursuant to IFRS 4, contracts concluded between insurance company and clients must be classified for financial reporting as insurance contracts or investment contracts. They are both types of life insurance in the meaning of Article 13 of the Estonian Insurance Activities Act. Pursuant to the standard, only contracts where a significant insurance risk has been transferred must be classified as insurance contracts. Investment contracts are contracts where no significant insurance risk has been transferred. Once a contract has been classified as an insurance contract, it shall remain as such until the expiry. Other contracts shall be tested on a regular basis.

Discretionary participation feature (DPF) is the policyholder's contractual right to receive additional benefits as a supplement to guaranteed benefits. Additional benefits are the bonus (additional interest) paid into the policyholder's reserve or paid out together with the insurance indemnity upon death. Legislation does not provide the specific share of profit to be divided. In accordance with the Company's

business plan for distribution of profits, the calculation of a profit sharing rate for a specific contract group is based on previous year's financial results as a whole, investment result, the profitability of the contract group throughout the duration of contracts, incl. profitability of previous and future periods, amount of guaranteed interest, overall investment environment, profitability of life insurance companies and other similar financial products, solvency and other relevant data. Profit sharing of a specific contract is found as an amount on the basis of the profit sharing rate and an average reserve calculated based on end results of financial year's calendar months.

Liabilities from insurance contracts and with discretionary participation feature may still be recognized pursuant to previous local practice.

Sampo Life has classified all contracts sold as insurance contracts, since they sustain or may sustain a significant risk in case the policyholder exercises his/her right to change the contract in order to increase the insurance risk.

### **1.10.2. Assessment of insurance contracts**

Previous accounting principles are applied to all insurance contracts and profit-sharing investment contracts, but not to the deposit component separated from the main contract.

The Company has unbundled and individually measured determined bonuses and deposit components of all flexible contracts. This includes the part of unit-linked life insurance contracts and universal life insurance contracts related to their surrender value. In order to ensure the uniform accounting of similar contracts, insurance and deposit components are always unbundled and separately accounted for (i.e. deposit component is recognized as financial instrument), without determining the materiality threshold of the insurance component for each specific contract.

The Company does not separate the deposit component of traditional profit-sharing contracts (endowment insurance, insurance for children), as the standard allows them to be accounted for as before.

### **1.10.3. Liabilities from insurance contracts and relevant reinsurance assets**

Liabilities from insurance contracts include technical provisions (life insurance provision, provision for future bonuses and outstanding claims provision) and technical financial liabilities.

*Life insurance provision* includes in the balance sheet those liabilities to policyholders that are classified as insurance contracts under IFRS 4 and related to the insurance component in case of unbundling the deposit component of a contract, including the risk premium's provision for unearned premiums. Life insurance provision may contain actuarial reserve; unearned premium provision; other technical provision and deficiency reserve. Actuarial reserve is calculated separately for each contract in force, subject to the product technical business plan of the respective life insurance class, approved by the Financial Supervision Authority in Estonia and Latvia or other internal guidelines in Lithuania. A number of assumptions are used when assessing the liabilities, such as assumptions for mortality, investment yield and future administrative expenses. Assumptions are the same as used in pricing except discount rate where Estonian, Latvian and Lithuanian regulations are followed. If here would be need to change major reserving assumptions, these would be decided by Supervisory Board. Provision for unearned premiums is calculated under *pro rata temporis* method. Life insurance provision does not include the saving reserve of saving insurance, as this reserve is transferred to financial liabilities.

*Provision for future bonuses* includes the amount that may be determined in future for the benefit of policyholders or contractual beneficiaries in addition to the guaranteed profit. Main assumption to form provision - expected return - will be decided by Investment Risk Management Committee.

*Outstanding claims provision* includes the amount that has been allocated for covering eventual or estimated payments of sums insured and indemnities (incl. claims handling costs), arising from insured events that have occurred prior to the balance day. Outstanding claims provision is estimated case by case by claims handlers and adjusted when needed by actuaries using statistical techniques. Outstanding claims provision includes also the provision for incurred but not yet reported claims (IBNR), assessed by actuaries on the basis of earlier statistics. The unbundled deposit component is not included in the outstanding claims provision, but is recognized as a financial liability. Reinsurers' share in estimated losses is recognized as reinsurance assets.

Insurance technical *Financial liabilities* include the following:

- All bonuses determined for contracts.
- Financial liabilities from unit-linked life insurance contracts where risk is borne by policyholders and the amount of which is directly related to the change in underlying assets' profitability and

value pursuant to the contract. For client it is called investment reserve - these are calculated separately for each contract based on units and value of underlying assets. Unit values are received by respective assets managers.

- Financial liabilities from other insurance contracts in force, including the saving reserve shown to the client that is calculated for each contract in accordance with the technical business plan and price list of savings insurance. If guaranteed interest rate is higher than allowed by regulations, then regulatory rate is used.
- Financial liabilities covering pending payments. These are determined bonuses or investment or savings reserve in the amounts that is asked to pay out, but which payment has not done yet.
- Financial liabilities for other than already mentioned reasons, when it is needed.

There were no significant changes in the assumptions during the years 2007-2008.

#### **1.10.4. Liability adequacy test**

Provisions calculated in accordance with the business plan are based on fixed and 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 provisions or financial liabilities calculated pursuant to the business plan are adequate also in the light of current assumptions. Process how assumptions will be decided is described by internal guideline approved by Management Board. Liabilities calculated in the test are the discounted value of payments to be made under the contract in future (insurance indemnities, expenses), less the discounted value of insurance premiums to be collected from policyholders in future.

If provisions are deemed to be adequate, they are not changed.

If provisions are not adequate, liabilities have been assessed on the basis of new assumptions. The change is thus asymmetrical. So-called better assessments cause no change in the income statement, worse assessments though do.

#### **1.11. Legal reserve**

Pursuant to the Commercial Code, the Company allocates each year at least 5% of its net profit into the legal reserve until the reserve amounts to at least 10% of share capital. The legal reserve is not paid out as dividends, however, it can be used to cover losses and increase the share capital.

#### **1.12. Income**

##### **1.12.1. Gross premiums**

Gross premiums include received or outstanding insurance premiums, where the due date is in the reporting period. Due date shall mean the agreed latest date under the insurance contract. Installments of contracts with flexible payment schedule are recognized when received.

In case of insurance contracts with unbundled deposit component (incl. unit-linked life insurance contracts), only premiums received and outstanding for covering the insurance risk are recognized as gross premiums.

Some clients wish to transfer amounts from one insurance contract into another insurance contract. There is no real outflow or inflow of money and the income statement will recognize the expense as paid claim and income as gross premium. This is the reason why the premiums received recognized in the cash flow statement and gross premiums recognized in the income statement are not comparable. The difference is also caused by the due date of recognition. The same applies to paid claims.

##### **1.12.2. Fee income**

Fee income includes acquisition costs and administrative expenses that have been deducted from the unbundled deposit component of insurance contracts (incl. unit-linked life insurance) in accordance with price lists. Fee income is recognized when earned based on the date of transaction.

### **1.12.3. Investment income**

Interest income is recognized when earned based on the effective interest rate. Dividend income is recognized when received.

### **1.12.4. Other income**

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

## **1.13. Paid insurance claims and claims handling costs**

Paid insurance claims include:

- Indemnities paid for insured events (like benefits in case of death, disability, incapacity for work) during the accounting period;
- Maturity compensations, surrender amounts and claims handling costs.

Paid insurance claims do not include out-payments from deposit component unbundled from insurance as this is only decreasing respective financial liability.

*Claims handling costs* include direct and estimated administrative expenses that are related to paid claims and financial liabilities, fees of loss adjusters and contract administrators together with taxes related thereto, as well as expert fees.

## **1.14. Expenses**

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

*Acquisition costs* are related to the sale of insurance contracts. Acquisition costs 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 to the portfolio, as well as expenses of employees 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, 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 made in the interests of the Company as a whole, e.g. fees of auditors and tax consultants, supervision costs and payments to professional associations are added to administrative expenses.

*Expenses related to payments* – see point 1.13.

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

## **1.15. Operating lease**

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

Assets acquired under the term of operating leases are not included in the balance sheet of the Company. Payments under operational lease are recognized linearly during the lease period as expenditure.

Operating leases are entered as rental expenses under operating expenses. The rental commitments are shown in the Note 26.

## **1.16. Income taxes**

Pursuant to the valid Estonian legislation, corporate profit is not subject to taxation, which is the reason why there are no deferred income tax claims and obligations. Instead of profits, Estonia applies income

tax to dividends paid out of retained profits. As at 1 January 2009, the income tax rate is 21/79 of net dividends as it was in 2008. Corporate income tax on dividends is recognized as corporate income tax expense in the income statement of the period when dividends were declared, irrespective of the period for which the dividends were declared or the moment when the dividends are paid.

The Company's retained profit amounted to 1,589 thousand kroons as at 31.12.2008. The maximum possible tax liability related to the payment of dividends is disclosed in the Note 14.

Income tax charges in branches in Latvia and Lithuania are based on profit for the year. The income tax is calculated pursuant to the local tax legislation.

In Lithuania the income tax rate is 15%, starting from 1 January 2009 – 20%. Lithuanian branch had the profit of 2,972,547 LTL in 2008. Corrections were made considering the term of insurance policies – administration expenses of long term and short term policies were divided in proportion to earned premiums generated by corresponding policy groups. Taxable profit decreased because it is allowed to deduct investment income from technical provisions and financial liabilities, and also to deduct part of change in technical provisions (for short term policies). Income and expenses related with long term (over 10 years) policies are non-taxable. After corrections the taxable result of year 2008 was a profit in the amount of 235,394 LTL.

As at 31 December 2007 tax losses carried forward were 60,591,946 LTL as represented in the following table:

<b>Tax year</b>	<b>Amount of tax losses (LTL)</b>
2003	13,586,209
2004	17,970,885
2005	21,852,424
2007	7,182,428

(Taxable profit of 2006 was covered by tax loss of 2002.)

The Company's Lithuanian branch has right to use tax losses accrued in previous taxation periods for covering taxable income of current period (in chronological sequence during the subsequent taxation periods). Starting from 2008 transferring of tax losses of previous periods is not limited by time.

Deferred tax assets were not formed as the Company does not expect to realize deferred tax assets in the foreseeable future.

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 2007 SE Sampo Life Insurance Baltic Latvian branch has tax losses carried forward from the previous taxation periods. Tax losses carried forward are represented in the following table:

<b>Tax year</b>	<b>Amount of tax losses (LVL)</b>
2002	48,746*
2003	101,784
2004	146,317
2005	212,886
2006	400,674

(\*Taxable profit of 2007 was covered by part of tax loss of 2002)

The Company's Latvian branch has right to take over the tax losses accrued by AAS Sampo Dzīvība in previous taxation periods and utilize the respective losses in the taxation period in which the transfer took place, and in chronological sequence during the subsequent taxation periods (but not more than within 8 years (starting from 2008) after the taxation period when the respective loss was reported to the tax authorities) from the taxable income of the Company's Latvian branch.

Deferred tax asset was not formed as the Company does not expect to realize deferred tax assets

## **2. Risk and capital management**

### **2.1. Overview of main risks and Risk Management in Sampo Life**

#### **2.1.1. Risk management overview**

Risk is an essential and inherent element of Sampo Life's business activities and operating environment. Clearly defined policies and responsibilities, together with a strong commitment to the risk management process, are Company's tools to manage and mitigate the risks. Sampo Life believes that sound risk management is a decisive competitive advantage. Risk awareness and robust risk management increases the attractiveness of the Company from the perspective of owners, customers and potential business partners and satisfies regulators' demands.

The key objectives of the risk and capital management process are to ensure capital adequacy in relation to the risks inherent in business activities, to limit fluctuations in financial results and to guarantee efficient and continued business processes under all circumstances. To meet these objectives, the Company strives to ensure reasonable risk to return ratio and to limit the risks of all operations to acceptable level. This requires all risks to be properly identified and measured.

In Sampo Life, risk is defined as the possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood. In pursuit of returns exceeding the risk-free rate, the possibility of losses has to be accepted. Sampo Life however strives to ensure that the risks of running the business do not exceed approved levels. The approved levels of risks are determined based on the selected risk tolerance.

Risk management deals with the identification of the main risks affecting the business and is part of decisions regarding which risks to take and how to manage the portfolio of risks as efficiently as possible. Risks are constantly monitored in relation to limits and risk management principles. Risk management is based on consistent measurement and reporting of risks.

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

Life insurance business is based on the bearing of risks resulting from the randomness of insured events. It is also subject to investment risks as the insurance payments the Company receives are invested in the financial markets. Operational and business risks are inherent in all business areas.

The Company's risks can be divided into four main categories: insurance related risk (underwriting risk), market risk, credit risk and operational risk. The risks within the insurance related risk (underwriting 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 the 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 has an exposure. Operational risks are the risks arising from the type and nature of operational risk involved in the Company's activities. These include direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.

Big part of Company's risks and result relates to investment assets. In unit-linked policies the customers carry the risks of the investments, however the Company still have some investment risk due to unit-linked assets management process specifics and possible mismatching of unit-linked assets and liabilities. In guaranteed interest rate policies the Company carries the risks from the investments. Other profit elements are generated from carrying insurance related risk (underwriting risk) and expense risk. The insurance related risk (underwriting risk) result is the assumed claims in premium calculations less the actual claims. The expense result is the expense charges from policies less the actual expenses.

Each year the Company is running insurance portfolio profitability analyses which are based on different future scenarios taking into account Company's costs development, investments market returns, claims development, new business volumes and other parameters. These analyses provide better understanding of the Company's risk profile and also give insights about possible future developments.

#### **2.1.3. Risk management governance**

Overall responsibility for the risk management at the Company lies within the Management Board, which is responsible for the active management of all risks following also clear instructions of the Company's

Supervisory Board. The Management Board informs the Supervisory Board about possible risks and dangers and presents action plans for management of these risks and dangers.

The Company follows the risk management principles defined by the Sampo Group where characteristics of a life insurance company have been taken into account. Sampo Life has also implemented risk management principles of the Company, which were approved by the Supervisory Board and which among other things defines the Company's risk classification and risk management organizational structure.

Majority of market and credit risks are followed and actions agreed in the Company's Investment Risks Management Committee (IRMC) meetings which are held on bi-monthly basis. The Company cooperates with Danske Capital AS, member of Danske Group, in active investment management of own capital portfolio and technical provisions portfolio. Liquidity risks are followed more closely by the Company's financial unit and actuaries on everyday basis.

Insurance related risks (underwriting risks) are followed by the Company's actuaries and risk underwriters. The actuaries follow that tariffs and prices are prudent and reports to the Management and Supervisory Boards if changes to the tariffs are needed. The Supervisory Board approves the tariffs and prices, defines the maximum amount of risk to be retained on Company's own account and approves the reinsurance policy. The actuaries monitor the adequacy of technical provisions and reports to the Management and Supervisory Boards if changes in the calculation basis are needed. Main changes to calculation basis of technical provisions are approved by the Supervisory Board.

Operational risks are followed and actions agreed in the Company's Operational Risks Management Committee (ORMC) meetings which are held on quarterly basis. Realized operational risk incidents are reported by Company's business units to the ORMC, where they are collected and analyzed. Risks related with unit-linked insurance contracts asset management are also followed by ORMC. ORMC meetings minutes are regularly presented to Company's Management Board.

All main groups of risks have separate risk management action plans with risks limits, indicators and checking points. Automated controls are always preferred where possible to build up effective risk management systems.

In 2008, the Company further continued to develop and implement risk management systems, which comprise strategies, processes and reporting procedures necessary to monitor, manage and report risks on a continuous basis.

## 2.2. Insurance related risk (underwriting risk)

Insurance companies assume risk through the contracts they underwrite with the clients.

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

The Company offers products where insured events could be following: death; survival of the determined date; temporary or permanent disability or incapacity for work arising from an accident or illness.

Pricing of the portfolio of insurance contracts and determination of obligations related thereto is based on probability theory. The main risk arising from insurance contracts lies in the fact that actual payments exceed recognized/existing insurance obligations. This might happen due to the fact that losses are more frequent and higher than initially forecasted. Insured events are random and their number varies from year to year compared to assessments made on the basis of statistical methods.

The higher the portfolio of similar contracts, the lower the relative difference from expected outcome. A more spread-out portfolio is less likely to be affected by changes in one sub-group of portfolio. For minimizing the deviation from expected outcome, the Company directs the activities through its instructions in order to spread out the risks to accepted levels and to maintain a sufficient population in each category.

Some risks balance naturally each other. Risk of the Company is smaller because of having both mortality and survival risk compared to having these separately.

Uncertainty in estimating future benefits and premiums due arises from the failure to predict future trends, like long-term mortality level and variety in policyholders' behavior (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 they act rationally, general insurance risk can become worse. E.g., it is likely that insured persons whose health has significantly deteriorated meanwhile will be less inclined to cancel contracts with death benefit or decrease the benefit as opposed to those who are still in good health. This leads to the increase of expected mortality as the number of insured persons in the portfolio decreases on the account of voluntary cancellations. The Company has taken these assumptions on behavior of policyholders into account when assessing the obligations. The Company compares regularly estimations used in pricing and in determining obligations with its own experience.

Frequency of losses related to mortality; survival; accidents and illnesses are highly dependent on social conditions (education, healthcare etc), also on epidemics or wide-spread changes in lifestyle such as eating, smoking and (sports) hobbies. As an indication of risk, the effect of doubling actual 2008 level mortality would mean around 6.5 million kroons additional claim cost for the Company.

The exposure to risk is lower for many products where the Company may change risk premiums and expense loadings if needed (for example flexible products in sales in Estonia and Lithuania and riders). Risk is related by delay time needed for the implementation of changes and restrictions of market (competition) or supervision in respect of changes. In case of traditional products, the payment is always fixed and can not be changed in the light of new assessments.

The Company follows underwriting rules to manage insurance risk. The level of policyholder's premium usually depends on the state of health of the insured person. For most cases underwriting is done using signed documents (like health declaration or questionnaires). In some cases where sums are small, the medical status is not asked, but in case of bigger sums also medical investigation is required. The Company limits accepting very high or exceptional risks.

Following illustrates actual risk claims compared to charges (risk premiums) taken in order to cover these claims in case of death risk cover attached to flexible products (*in thousands of Estonian kroons*).

Year	Risk premiums – increase of unearned premium reserve	Paid claims and change of claim reserve	Claim ratio
2008	13 365	2567	19%
2007	11 067	2434	22%

Claims and respective ratios are influenced by underwriting process – claim ratios are expected to be better in earlier insurance years. Company's portfolio is quite young and is expected to grow rapidly. This is why claim ratios look better than in mature portfolio. Underwriting effect is expected to disappear around after 5<sup>th</sup> insurance year. Additionally, claim ratios of young portfolio are very volatile – it is seen also in product group claim ratios. These figures do not include paid savings sums and also expenses related to claims.

The Company has limited own risk by reinsurance. The reinsurance partner of the Company is Mandatum Life Insurance Company Limited (previously named as Sampo Life Insurance Company Ltd.). Reinsurance is bought for death and disability risk, but not for survival risk. Also some product groups related with small risk are not reinsured, e.g. endowment insurance for children, accidental injuries and daily allowances of supplementary accident insurance. Also annuity out-payments are not reinsured. Retention of the Company per one insured/coverage is up to 340,000 kroons, depending on the coverage, currency and country. The Company does not have a Catastrophe reinsurance treaty, as the Company's own retention per one insured/coverage is quite small.

The table below illustrates concentration of the underwriting risk by countries and own retention. Risk amounts are showed in millions of kroons as at 31.12.2008. Sum at risk means sum insured minus respective insurance technical provisions and financial liabilities. In case of uncertain size of benefit, sum insured is defined as maximum possible benefit according to respective terms and conditions. For example in accidental daily allowance in Estonia the sum insured is calculated as 120 days multiplied by daily cover.

Country	Total sum at risk before reinsurance		Reinsured amount		After reinsurance (own retention)		%	
	31.12.08	31.12.07	31.12.08	31.12.07	31.12.08	31.12.07	31.12.08	31.12.07
Estonia	<b>1 350</b>	1 359	<b>653</b>	649	<b>697</b>	711	<b>14%</b>	16%
Latvia	<b>1 615</b>	1 316	<b>835</b>	664	<b>779</b>	652	<b>16%</b>	15%
Lithuania	<b>5 744</b>	4 798	<b>2 377</b>	1 832	<b>3 367</b>	2 966	<b>70%</b>	69%
<b>Total</b>	<b>8 709</b>	7 474	<b>3 866</b>	3 145	<b>4 843</b>	4 329	<b>100%</b>	100%

The table below illustrates the underwriting risk and its concentration and own retention by cover types and group of sum at risk. Risk amounts are showed in millions of kroons as at 31.12.2008.

Risk and group of sum at risk in thousands of kroons	Total sum at risk before reinsurance	%	Reinsured amount	After reinsurance (own retention)	%
<b>Death (main insurance) total</b>	<b>4 317</b>	<b>100%</b>	<b>2 254</b>	<b>2 062</b>	<b>100%</b>
Less than 300	2 596	60%	1 235	1 360	66%
300–599.(9)	994	23%	505	489	24%
600–999.(9)	431	10%	270	160	8%
1000 or higher	296	7%	243	53	3%
<b>Accidental death total</b>	<b>1 186</b>	<b>100%</b>	<b>693</b>	<b>493</b>	<b>100%</b>
Less than 300	669	56%	312	357	72%
300–599.(9)	259	22%	162	97	20%
600–999.(9)	142	12%	114	28	6%
1000 or higher	115	10%	105	10	2%
<b>Accidental disability total</b>	<b>1 275</b>	<b>100%</b>	<b>644</b>	<b>631</b>	<b>100%</b>
Less than 300	591	46%	282	309	49%
300–599.(9)	292	23%	129	163	26%
600–999.(9)	179	14%	85	93	15%
1000 or higher	213	17%	147	66	10%
<b>Accidental trauma (all less than 300)</b>	<b>1 371</b>	<b>100%</b>	<b>0</b>	<b>1 371</b>	<b>100%</b>
<b>Accidental daily allowance total</b>	<b>17</b>	<b>100%</b>	<b>0</b>	<b>17</b>	<b>100%</b>
Less than 300	9	54%	0	9	54%
1000 or higher	8	46%	0	8	46%
<b>Critical illness total</b>	<b>503</b>	<b>100%</b>	<b>254</b>	<b>249</b>	<b>100%</b>
Less than 300	455,9	91%	228	228	92%
300–599.(9)	33,4	7%	17	17	7%
600–999.(9)	6,2	1%	4	2	1%
1000 or higher	7,7	2%	6	2	1%
<b>Waiver of premium total</b>	<b>40</b>	<b>100%</b>	<b>20</b>	<b>20</b>	<b>100%</b>
Less than 300	36	90%	18	18	90%
300 or higher	4	10%	2	2	10%

The Company had 16 annuity contracts as at 31.12.2008, which out-payment period had arrived. The Company does not guarantee the Estonian III pillar pension payments (their amounts) prior to the arrival of payment date. Arrangement on these pension payments agreed upon with a policyholder is based on the price list valid at the time when payments start. Still, the Company has also annuity products both for fixed term and whole life, where the future annuity is guaranteed in advance, 38 contracts in Lithuania and 514 contract in Latvia. Net insurance technical provisions and financial liabilities as at 31.12.2008 of these annuities were 15 724 thousands kroons.

Maturities of Company's liabilities are shown in 2.3.2 and 2.3.4. Changes in technical provisions can be found in the Note 13 and in financial liabilities in the Note 12. Claims data can be found in the Note 22. Actual claims compared to expected claims were higher for surrender amounts.

## **2.3. Market risk**

Market risk is defined as the risk of loss, or of adverse change in the financial position, resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets and liabilities. Market risk of Sampo Life mainly consists of equity price risk and interest rate risk of assets and liabilities. Sampo Life's long-term target is to provide sufficient net income in its investment operations to cover guaranteed interest rate plus bonuses based on principle of fairness as well as the shareholder's return requirement with acceptable level of risk.

### **2.3.1. Market risk management and control**

Market risks are managed by diversifying the investment portfolio and by constant monitoring of the composition of the investments in relation to the characteristics of the insurance liabilities, regulatory requirements, rating ambitions and risk bearing capacity are met. The duration gap between the technical provisions and fixed income investments as well as the currency distribution of assets and liabilities is under constant monitoring and management. Sampo Life's market risk derives mainly from equity investments and interest rate risk related to fixed income assets and insurance liabilities with a guaranteed interest rate.

The Sampo Life's Supervisory Board approves the Investment Strategy annually, which sets principles, limits for investment activities, the organization of investment activities and the powers to make and execute decisions in the investment operations. The objective is to meet the required solvency and to ensure that investments are sufficient and eligible as assets covering technical provisions.

Investment and Risk Management Committee appointed by the Company's Supervisory Board controls regularly that limits and principles set in the Investment Strategy are followed and reports on investment risks to the Sampo Life's Supervisory Board. In 2008, members of the IRMC included the Company's Chairman of the Management Board, Investment Manager, Chief Actuary, controllers from the parent company and representatives of Danske Capital AS (in charge of day-to-day administration of investments). IRMC met 8 times during 2008.

The company's investment operations (technical reserves and own capital portfolio) return in 2008 was 0.31 per cent (4.07 per cent in 2007). At the end of the year market value of the Company's investment assets (technical reserves and own capital portfolio) amounted to EEK 405 million (EEK 373 million in 2007).

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

As depicted in allocation of investment assets (technical reserves and own capital portfolio), Sampo Life mainly invests into fixed income assets.

Interest rate risk refers to the uncertainty in the values of assets and liabilities as well as interest income and expense resulting from changes in market interest rates. When market interest rates rise, the balance sheet values of fixed income securities fall but the interest rate risk of technical provisions decreases.

The intention is to limit these risks by diversifying the investment portfolio and having sufficient and structurally suitable investment assets to cover the Company's technical provisions. The duration of technical provisions and investment assets in interest bearing instruments is under constant monitoring and management. The greater part of the Company's liabilities with guaranteed interest rate products are comprised of long term policies with a low surrender risk. This fact, coupled with high solvency, makes it possible for the investment strategy to look for an extra return, e.g. 2008 favorable money market rates in the Baltic markets.

At the end of the year Company's investment portfolio (including technical reserves and own capital portfolio) 0.1 per cent was invested in equities, 27.1 per cent in government bonds, 11.0 per cent in corporate bonds and 61.8 per cent in money markets.

Equity price risk is the risk of losses due to changes in share prices. Sampo Life's equity investments were cut down substantially during 2008 to EEK 482 thousands (EEK 76 593 thousands in 2007). Sampo Life's equity portfolio is actively managed. The positions and risks in equity portfolio may not exceed the limits set in the Investment Strategy. In the Investment strategy maximum limits for different geographical have been set. The equity investments are mainly managed through funds while Baltic equity investments are managed by Danske Capital AS.

The table below illustrates the allocation of assets of Company's investment assets (technical reserves and own capital portfolio).

In thousands EEK	2008	2007
<b>EQUITIES TOTAL</b>	<b>452</b>	<b>76 593</b>
Government bonds	109 536	64 995
Corporate bonds	45 702	65 430
Money-market	250 197	89 524
<b>FIXED INCOME TOTAL</b>	<b>404 434</b>	<b>219 948</b>
<b>PORTFOLIO TOTAL</b>	<b>404 886</b>	<b>372 696</b>

The values of financial assets are subject to changes in the underlying market variables. The sensitivity analysis of investment assets (including technical provisions portfolio and equity portfolio) to different market risk scenarios are shown in the table below.

SE Sampo Life Insurance Baltic investment portfolio sensitivity to market changes on 31 December 2008

	Risk		
	Interest Rate		Equity
	1% Parallel Shift Down	1% Parallel Shift Up	20% Fall in Prices
SE Sampo Life Insurance Baltic	+1.5%	-1.4%	-0.02%

Despite the large exposure to fixed income instruments the interest rate risk has been limited as the company has allocated its assets largely into short term fixed income instruments due to very favorable short term rates in the Baltic markets. The price risk of equity instruments is limited due to set limits in the company's investment strategy and limited equity weight in the investment portfolio.

Commitments made by the Company are expressed in guaranteed interest level and in the clients' expectations regarding the additional interest. The guaranteed interest rate of insurance policies in the Company's portfolio varies between 2.5% - 4% depending on the product type, sales period and country.

Premiums for flexible with-profit policies are not limited. Premiums for traditional policies with guaranteed interests are mostly fixed, except predetermined dynamics or added dynamics accepted by the insurer as a contract amendment (increase not more than 10% of previous annual payment).

**Insurance technical provisions and financial liabilities** (except unit linked financial liabilities) **by guaranteed interest rate** in thousands kroons compared to running yields of accounted assets are following:

Guaranteed interest rate	0.00%	2.50%	3.00%	3.50%	4.00%	Total
Insurance technical provisions and financial liabilities(except unit linked)	15 637	6 814	11 665	157 305	117 087	308 508
Running yields of fixed income assets	0-2.49%	2.5%-2.99%	3%-3.49%	3.5%-3.99%	Over 4%	Total
Fixed Income assets accounted to technical reserve portfolio	79 751	15 983	13 777	0	204 969	313 756

**Maturities in years of Insurance technical provisions and financial liabilities** (except unit related financial liabilities) in thousands kroons is following:

Maturity in years	Not fixed	0-1.9	2-5.9	6-10.9	11-15.9	16-25.9	26-	Total EEK
Insurance technical provisions and financial liabilities(except unit linked)	15 402	33 955	77 587	80 282	53 185	38 867	9 229	308 508
Assets accounted to technical reserve portfolio	452	222 968	59 649	31 138	0	0	0	314 207

Assets and liabilities of unit-linked life insurance contracts are intended to match and the investment risk lies on the clients – through the choice of investment funds. To a certain extent, one must take into account changes in 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 policyholders' reserve. Additionally, bear market may increase the surrender of contracts by policyholders, i.e. the outgoing cash flow of the Company.

### 2.3.3. Currency risk

Contracts are based on Estonian kroon, Latvian Lats, Lithuanian Litas, Euros and U.S. dollars. Currency risks are managed by keeping assets and liabilities sufficiently balanced across currencies. Maximum allowed open currency into other currencies position i.e. the gap between Estonian kroon, Latvian Lats, Lithuanian Litas, U.S. dollar liabilities that may be covered with technical assets in other currencies (Estonian kroon, Latvian Lats and Lithuanian Litas may also be covered in euros); in the guaranteed interest products is 20% of the value of investment assets. The Company monitors the currency positions of investments on a monthly basis. A more thorough analysis is carried out within the framework of IRMC.

The table below shows **currency positions of technical provisions portfolio investments and liabilities** (except investments of unit-linked life insurance contracts) in thousands of Estonian kroons as at 31.12. 2008.

Currency	EEK	EUR	LTL	LVL	USD	Total EEK
Insurance technical provisions and financial liabilities(except unit linked)	150 718	43 676	59 059	51 451	3 604	308 508
Assets accounted to technical reserve portfolio	89 441	148 477	52 741	23 548	0	314 207

Assets and liabilities of unit-linked life insurance contracts are matching and the investment risk lies wholly on the clients through the choice of investment funds (including currency risk).

### 2.3.4. Liquidity risk

The Company has defined for itself the liquidity risk as the possibility that the Company will 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 coincidence of a number of events. Main sources of the liquidity risk are: claims related to catastrophes, higher degree of contract cancellation or partial payments than forecasted, deterioration of public reputation, general economic decline, and claims from suppliers.

Principles of the Company's liquidity management are recorded. Also, the investment administration contract concluded with Danske Capital AS (who is responsible for investment management) contains detailed requirements for liquidity management. The investment administration contract is based on the investment strategy approved by the Supervisory Board of the Company. The Company's liquidity needs are continuously analyzed and respective reports drafted and future trends projected. As the greater part of the Company's liabilities are comprised of long term policies with a relatively low surrender risk it is possible to forecast reliably the short-term claims expenditure. The Company's investment portfolio is structured by taking into account the liquidity requirements and reallocated if needed. Regular monitoring

of liquidity ensures efficient liquidity management and sufficient resources for both the performance of its obligations.

Maturities of insurance technical provisions and financial liabilities except unit-linked were shown in 2.3.2. Following table illustrates **maturities of Unit-linked financial liabilities** in thousands of Estonian kroons as at 31.12. 2008:

Maturity in years	Not fixed	0-1.9	2-5.9	6-10.9	11-15.9	16-25.9	26-	Total
Unit linked financial liabilities	0	175 083	170 859	69 203	66 428	79 251	40 455	601 279

## 2.4. 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 issuers of securities, counterparties and any other debtors. Credit risk arises from investments as well as insurance and re-insurance contracts. Credit risk in the investment operations includes the risk that a government or corporate issuer will not fulfill its obligations or otherwise obstruct 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 arises from insurance operations through reinsurance contracts. Credit risk related to reinsurers arises through reinsurance receivables and through the reinsurers' portion of technical provisions. Credit risk related to reinsurance is of relatively low volume compared to the credit risk associated with investment assets. Credit risk is managed by limits given in Sampo Life's Investment Strategy. Limits and restrictions are assigned to maximum exposures towards single issuers or per rating class. Before an investment in a new instrument, the credit standing of the issuer is thoroughly assessed as well as the valuation and liquidity of the instrument. Credit ratings mainly from Standard & Poor's and Moody's and Fitch, are used to judge the creditworthiness of issuers and counterparties. The portfolio development and the counterparties credit standing is followed up continuously. Credit risk reporting is based primarily on the rating of the issuer, but instrument ratings are also used.

The table below shows **investment portfolio credit ratings** mainly from Standard & Poor's and Moody's and Fitch at 31.12.2008.

the ratings of fixed income investments	Investments in thousands of Estonian kroons	% of total
AAA-AA+	137 864	34.1%
AA-A+	61 202	15.1%
A-BBB+	181 195	44.8%
BBB-BB+	7 979	2.0%
Not rated	16 195	4.0%
<b>Total</b>	<b>404 434</b>	<b>100%</b>

The table below discloses the credit exposure by financial assets

<i>in thousands of Estonian kroons</i>	<b>31.12.2008</b>			<b>31.12.2007</b>		
	<b>Other</b>	<b>Unit-linked</b>	<b>Total</b>	<b>Other</b>	<b>Unit-linked</b>	<b>Total</b>
<b>Financial assets designated as at fair value through profit and loss</b>	<b>280 780</b>	<b>906 406</b>	<b>1 187 186</b>	<b>286 829</b>	<b>1 800 549</b>	<b>2 087 378</b>
-Shares and investments funds units	452	828 113	828 565	76 592	1 693 584	1 770 176
-Bonds and other fixed rate securities	213 133	19 805	232 938	180 970	98 097	279 067
-Term deposits	67 195	47 321	114 516	29 267	8 550	37 817
-Cash at bank covering unit linked investments	0	11 167	11 167		318	318
<b>Financial assets designated as at amortized cost</b>	<b>30 960</b>	<b>0</b>	<b>30 960</b>	<b>12 236</b>	<b>0</b>	<b>12 236</b>
-Assets arising from direct insurance operations and other	25 100	0	25 100	5 194	0	5 194
-Accrued income and prepaid expenses	5 860	0	5 860	7 042	0	7 042
<b>Reinsurance receivables</b>	<b>5 568</b>	<b>0</b>	<b>5 568</b>	<b>4 896</b>	<b>0</b>	<b>4 896</b>
<b>Cash and cash equivalents</b>	<b>130 490</b>	<b>0</b>	<b>130 490</b>	<b>107 182</b>	<b>0</b>	<b>107 182</b>
<b>Total</b>	<b>447 798</b>	<b>906 406</b>	<b>1 354 204</b>	<b>411 143</b>	<b>1 800 549</b>	<b>2 211 692</b>

## **2.5. Operational risk**

### **2.5.1. Overview of operational risks**

Operational risks are risks of possible losses that may arise as a result of insufficient or non-satisfactory performance of internal processes and systems or may be caused by employees as well as incurred in the result of external effects. Operational risks include strategic risks as well as legal risks and risks related to reputation. Among other sub-risks of operational risk the following risks can be mentioned: organization risk, outsourcing risk, corporate governance risk, policies, procedures and controls risk, IT-system risk, distribution & mis-selling risk, compliance risk, money laundering risk and others. In total the Company has listed 20 sub-groups of operational risk.

The sources of operational risks can be categorized as follows:

1. The Company's internal actions (unauthorized activities of employees, insider dealing, internal theft);
2. External actions affecting the Company (theft from outside, hackers, monetary theft);
3. Shortcomings in the organization of employees' work, risks related to work environment and work culture;
4. Insufficiencies in operating policies as far as customers, products or business activities are concerned;
5. Damage to physical property;
6. Interruption of activities and system failures;
7. Non-satisfactory implementation of sales and marketing plans, insufficient management of business processes;
8. Changes resulting from external environment – changes in legislation, actions of competitors.

Operational risks may present themselves as direct monetary losses, decreasing income and increasing expenditure. Indirect effect stems from possible deterioration of the Company's image and reputation, use of incorrect information, acceptance of unreasonable risks and the Company's general financial results and market position.

### **2.5.2. Operational risks management governance**

The objective of operational risk management in the Company is to enhance the efficiency of internal processes, ensure fulfillment of liabilities and decrease fluctuations in returns. The approach to operational risk management is risk averse and the aim is to minimize operational risks subject to cost-benefit considerations. The coordinated management of operational risks gives management an overall view of the realization and management of risks, as well as of the changes in risk position shown by the risk indicators and analyses of the external environment.

Management of the Company's operational risks is in the direct responsibility of the Management Board. The Company has also established the Operational Risks Management Committee (ORMC) for following of operational risks and for development of their management processes. ORMC constantly assesses the possibilities that these risks will occur as well as possible effects on the Company, analyzing and monitoring regularly the indicators and trends of operational risks. The Company's ORMC reports to the Company's Management Board and also to the Operational Risk Management of Mandatum Life Insurance Company Ltd.

### **2.5.3. Identification and management of operational risks**

The Management Board and ORMC together with managers of units are liable for timely detection of operational risks, implementation of best possible action plans and drawing of sufficient conclusions in order to avoid or lower the probability of risks or to minimize their effect on the Company in future.

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

Environmental and macro analysis is conducted as a part of annual strategy and planning process. Each year the key trends affecting the life insurance industry are identified and their implications to the Company are assessed. On this basis, the main opportunities and threats are identified and prioritized. These assessments outline the most important external operational and business risks.

Self-assessment process is used to map and evaluate the major operational risks and their probabilities and significance, including an evaluation and sufficiency of internal control. The Company carries out

yearly self-assessments of the operational risks in all principal areas of business activities. Self-assessment includes listing as much as possible risks of certain business area or unit, evaluation of those risks based on risk probability and incident impact criteria, defining respective risk indicators and their limits and deciding on action plans to manage these risks and to minimize their possible influence on business results. The most significant operational risks for the Company identified in the operational risk self-assessment process included the following: changes in the external operating environment, not enough developed IT systems, manual phases in processes, human mistakes, investment risk due to insufficient unit-linked assets management, loss of key personnel, fall down of investment markets and sharp decline of assets under management. Action plans for mitigating identified risks or their impact were developed.

One more source of identification of operational risks is incident reporting and analysis. Occurred operational risk events are closely followed in ORMC meetings. Each business unit is responsible for ensuring that the occurred incidents are registered into special database and reported to ORMC. All losses and possible risk of losses exceeding 1000 EUR must be additionally reported to Mandatum Life Insurance Company Ltd.

The Company monitors various risk indicators, e.g. sales indicators in comparison with market growth trends, investment yield in comparison with index funds, results of employee satisfaction surveys, etc. The Company pays special attention to minimizing the possibility of triggering the chain reaction of risks, i.e. the avoidance of situation where the occurrence of a risk or the occurrence of loss is bound to trigger losses in another business area.

Sampo Life has ensured the management of its work processes and saving of knowledge, skills and experience of its employees by compiling and regularly updating guidelines for internal processes. This ensures the safeguarding of intellectual property in case an employee leaves the undertaking, as well as smooth continuation of work processes. The most important internal guidelines include guidelines for insurance contracts administration, risk assessment and claims handling, the operation of insurance basic software, prevention of money laundering and terrorist financing, technical guidelines, etc.

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

During 2008, the Company updated plans for actions in a crisis situation (business continuity planning) in order to ensure the sustainability of its business activities.

#### **2.5.4. Internal audit**

In 2008, 5 internal audits were performed at the Company. The Company's internal auditor was AS PricewaterhouseCoopers. In year 2008, audited areas included corporate governance, reserves calculations, claims and surrender payments, commissions' and incentive pays' calculation and compliance with prevention of money laundering regulations. In the course of internal audits, significant attention is always paid to making suggestions for the mitigation of possible operational risks and implementation of necessary actions.

## **2.6. Risk outlook**

### **2.6.1. Preparations for Solvency II**

The European Commission's Solvency II draft framework directive was published in 2007. 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, to improve international competitiveness of EU insurers and reinsurers and to promote a better regulation. Compared to the existing Solvency I regulation, the regulatory capital requirements in Solvency II will more closely reflect the specific risk profile of each company. This will encourage companies to focus on sound risk management and internal control procedures and thus embed risk awareness throughout the organization.

The Company has initiated to prepare for Solvency II and continuously monitors the development of the framework. As part of the preparations for Solvency II the Company is continuing to develop its risk and capital management systems and processes and is constantly improving corporate governance of the Company. The Company is continuously working with improving internal control, core processes and systems, as well as monitoring and analyzing impacts from changes in the Company's external operating environment to reduce the impact of operational risks.

## 2.6.2. **Emerging risks**

Life insurance business is subject to new types of risk which may emerge. By their very nature these risks are evolving, uncertain, and difficult to quantify. Potential emerging life insurance risks may include e.g. risks related to pandemics. Emerging insurance risks are managed by monitoring the developments in these risks on the basis of industry research, assessments and scenario analyses and by incorporating these risks into the provisioning and pricing processes to the extent possible.

## 2.7. **Capital management**

### 2.7.1. **Capital content and capital management**

Insurance is a highly regulated business with formal rules for minimum capital and capital structure. By capital it is referred to equity capital which consists of share capital, share premium, legal reserve, other reserve and retained profits. Sampo Life evaluates capital requirements on the basis of capital requirements set by law and taking into account company's strategic developments. In recent years owners have decided not to pay out dividends nor has there been a need to acquire additional capital.

### 2.7.2. **Capital requirements set by law**

Insurance Activity Act (later KtS) states 3 capital requirements for life insurance company

- Share capital of an life insurance undertaking shall be at three million euros (KtS §56)
- Available solvency margin shall not be less than the minimum solvency margin, what is 3,2 million euros (KtS § 71)
- Available solvency margin shall not be less than the required solvency margin calculated according to algorithm described in Kts § 73

Definition of available solvency margin is described in KtS § 67. It includes the paid-up share capital and issue premium relating thereto, reserve formed and retained profits reduced by intangible assets; earned losses; participation in other financial institutions, the acquisition cost of treasury shares repurchased, and to what it is allowed to add with the prior consent of the Financial Supervision Authority Subordinated liabilities or other securities with no specified maturity date. SampoLife does not own listed reducable assets or addable subordinated liabilities. Due to that is size and content of available solvency margin generally equal to balance sheet own capital.

### 2.7.3. **Fulfilling of capital requirements**

<i>in thousands of Estonian kroons</i>	<b>31.12.2008</b>	<b>31.12.2007</b>
Share capital requirement	46 940	46 940
Sampo Life Share capital	55 000	55 000
<b>Surplus</b>	<b>8 060</b>	<b>8 060</b>
minimum solvency margin	50 069	50 069
Sampo Life Solvency margin	107 116	122 586
<b>Surplus</b>	<b>57 047</b>	<b>72 516</b>
Required solvency margin	28 505	31 294
Sampo Life Solvency margin	107 116	122 586
<b>Surplus</b>	<b>78 611</b>	<b>91 291</b>

### 3. **Management's assessments**

#### 3.1. **Classification of contracts**

Pursuant to IFRS 4, the Company has issued insurance contracts since these contracts sustain or may sustain significant risk in case the policyholder exercises his/her right to change the contract in order to increase the insurance risk.

The Company has unbundled and individually measured deposit components of all flexible contracts. This includes the part of unit-linked life insurance contracts and saving insurance contracts related to their surrender value, i.e. the part related to investment reserve and saving reserve pursuant to general terms and conditions of insurance contracts.

In order to ensure the uniform accounting of similar contracts, deposit component is always separated and recognized as a financial instrument, without determining the materiality threshold of the insurance component for each specific contract. Past data on deposit component has sometimes been restored using the assessment, in case there has been no exact source data saved. Assessment error is insignificant.

#### 3.2. **Liability adequacy test**

Principal assumptions of Liability adequacy test are as follows:

- *Mortality.* Statistics of local Statistical Offices have been used, corrected pursuant to experiences and statistical methods of the Company and Sampo Group. Underwriting is expected to decrease the basic mortality 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 latest statistics, adjusted by expected future trends and taking into account the activities and strategy of the Company. Cancellation rates fall into the range 1 - 20.0% in a year, depending on the product, country and insured year. Cancellation rate shows how many contracts of those in force at the beginning of insured year will be cancelled by the end of the next insured year.
- *Discount rate.* AAA rated spot rate published by the European Central Bank is used for yield curve. Rates fall into the range 1.75% - 3.996% depending on the maturity.
- *Expense level and inflation.* This is based on the Company's own latest statistics, adjusted by expected future trends and taking into account the activities and strategy of the Company. Inflation assumptions are also based on publicly available projections.

Test shows whether liabilities calculated on the basis of future cash flows are bigger than liabilities calculated on the basis of present methodology. Liabilities calculated in the test are the discounted value of future payments to be made under insurance contract (insurance indemnities, expenses), less the discounted value of future insurance premiums to be received from insured persons. The test does not take into account insignificant future changes in the contract nor contract groups which provision in the portfolio is insignificant.

Test was not applied to some product groups, e.g. to unit-linked life insurance contracts in Estonia, since their financial liability has already been recognized at fair value and the Company has right to change price list also for existing portfolios. If fees for these contracts turn out to be insufficient in future, the flexible nature of contracts enables to adjust the price.

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

The biggest effect on test results stems from assumptions on yield curve, and thereafter on expected expenses, cancellation of contracts and mortality. Shift yield curve used for discounting cash-flows -1pp will still lead to sufficient liabilities of Company, even if some specific product groups are more harmed by that than others. Shift of yield curve -2pp will end up with small deficiency. Mortality will not cause deficiency up to 1.5 times as assumed in test. Increase 2 times as assumed in test will lead to deficiency. Increase of expenses 1.2 times as assumed in test will not cause deficiency, but 1.5 times will.

#### 4. **Cash and cash equivalents**

<i>in thousands of Estonian kroons</i>	<b>31.12.2008</b>	<b>31.12.2007</b>
Cash at bank	20 640	22 734
Short term deposits (up to 3 months)	111 540	78 035
Money market funds	9 477	6 576
Cash covering investments of unit linked contracts (see also Note 6.2)	-11 167	-163
<b>Total</b>	<b>130 490</b>	<b>107 182</b>

#### 5. **Reinsurance receivables**

<i>in thousands of Estonian kroons</i>	<b>31.12.2008</b>	<b>31.12.2007</b>
Receivables due to reinsurers' share in paid claims and due to commission fees	4 347	4 014
Reinsurers' share in technical provisions	1 221	882
<b>Total</b>	<b>5 568</b>	<b>4 896</b>

Reinsurance receivables are short-term (up to 60 days).. There are no receivables that are past due not impaired.

#### 6. **Financial assets designated as at fair value through profit and loss**

##### 6.1. **Investments other than Unit-linked investments**

These investments cover all liabilities except financial liabilities of unit-linked business for the part where the risk is borne by policyholder. It means that these investments cover own capital and technical provisions and other financial liabilities.

##### **Breakdown of investments by classes:**

<i>in thousands of Estonian kroons</i>	<b>31.12.2008</b>	<b>31.12.2007</b>
Shares and investments funds units	452	76 592
Bonds and other fixed rate securities, incl <i>floating rate debt instruments</i>	213 133	180 970
<i>fixed rate debt instruments (from 2, 75% to 5, 8%)</i>	18 571	26 948
<i>discount bonds</i>	156 565	127 910
Term deposits	37 997	26 112
<b>Total</b>	<b>280 780</b>	<b>286 829</b>

The Company's investment operations yielded a return of 0.31% in 2008 (in 2007 4.07% per annum).

##### **Breakdown of bonds and other fixed rate securities by maturity date:**

<i>in thousands of Estonian kroons</i>	<b>31.12.2008</b>	<b>31.12.2007</b>
Up to 1 year	37 997	13 596
1 to 2 years	0	28 709
2 to 3 years	5 491	26 429
3 to 5 years	19 583	19 362
5 to 10 years	81 027	74 202
10 years and more	69 035	18 672
<b>Total</b>	<b>213 133</b>	<b>180 970</b>

Floating rate financial assets at fair value through profit and loss, which are exposed to the interest rate change in the market and thus to the change in cash flows:

<i>in thousands of Estonian kroons</i>	<b>31.12.2008</b>	<b>31.12.2007</b>
Floating rate bonds	18 571	26 948

Fixed rate financial assets at fair value through profit or loss, which are exposed to possible interest rate risk of fair value:

<i>in thousands of Estonian kroons</i>	<b>31.12.2008</b>	<b>31.12.2007</b>
Fixed rate bonds	156 565	127 909
2.0%-2.9%	20 380	0
3.0%-3.9%	88 087	47 721
4.0%-4.9%	33 947	44 324
5.0%-5.9%	14 151	18 236
6%-11%	0	17 629
<b>Total</b>	<b>156 565</b>	<b>127 910</b>

## 6.2. Unit-linked Investments

Unit-linked investments cover financial liabilities of unit-linked business for the part where the risk is borne by policyholder.

<i>in thousands of Estonian kroons</i>	<b>31.12.2008</b>	<b>31.12.2007</b>
Cash at bank covering investments	11 167	318
Investment fund units	817 302	1 627 598
Shares, which are tradable on regulated securities markets of A-Zone countries	10 811	65 986
Term deposits	47 321	8 550
Bonds and other fixed income securities	19 805	98 097
<b>Total</b>	<b>906 406</b>	<b>1 800 549</b>

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

<i>in thousands of Estonian kroons</i>	<b>Fair value 31.12.2008</b>	<b>Carrying value 31.12.2008</b>	<b>Fair value 31.12.2007</b>	<b>Carrying value 31.12.2007</b>
<b>Shares and investments funds units</b>				
Shares and investments funds units	452	452	76 592	76 592
Investment fund units covering unit linked insurance	817 302	817 302	1 627 598	1 627 598
Shares covering unit linked insurance	10 811	10 811	65 986	65 986
<b>Bonds and other fixed rate securities</b>				
Bonds and other fixed rate securities	213 133	213 133	180 970	180 970
Bonds and other fixed income securities covering unit linked insurance	19 805	19 805	98 097	98 097
Term deposits	67 195	67 195	29 267	29 267
Term deposits covering unit linked insurance	47 321	47 321	8 550	8 550
Cash at bank covering unit linked investments	11 167	11 167	318	318
<b>Total</b>	<b>1 187 186</b>	<b>1 187 186</b>	<b>2 087 378</b>	<b>2 087 378</b>

In the table above are presented the values carried at fair value through profit or loss designated as such upon initial recognition. The fair value of securities is assessed using prices in active markets in accordance with a documented risk management and investment strategy. Accrued interest income is included in financial assets.

## 7. *Financial assets designated as at amortized cost*

### 7.1. Receivables related to direct insurance activities and other

<i>in thousands of Estonian kroons</i>	<b>31.12.2008</b>	<b>31.12.2007</b>
Receivables related to direct insurance activities	803	834
Receivables from trading in securities	23 223	1 366
Other receivables	1 074	2 994
<b>Total</b>	<b>25 100</b>	<b>5 194</b>

All receivables related to direct insurance are short-term (up to 60 days). There are no receivables that are past due not impaired.

### 7.2. Accrued income and prepaid expenses

<i>in thousands of Estonian kroons</i>	<b>31.12.2008</b>	<b>31.12.2007</b>
Accrued income	2 738	2 030
Prepaid VAT	112	1 391
Prepaid expenses	3 010	3 621
<b>Total</b>	<b>5 860</b>	<b>7 042</b>

Expected recovery or settlement within 12 month from the balance sheet date.

## 8. *Property, plant and equipment*

<i>in thousands of Estonian kroons</i>	Acquisition cost	Accumulated depreciation	Carrying value
<b>As at 31.12.2006</b>	<b>1 236</b>	<b>-795</b>	<b>441</b>
Additions	892	0	892
Depreciation charges	0	-385	-385
<b>As at 31.12.2007</b>	<b>2 128</b>	<b>-1 180</b>	<b>948</b>
Additions	635	0	635
Exchange differences	0	10	10
Depreciation charges	0	-531	-531
<b>As at 31.12.2008</b>	<b>2 763</b>	<b>-1701</b>	<b>1 062</b>

Equipment comprise IT equipment and furniture.

## 9. *Intangible assets*

<i>in thousands of Estonian kroons</i>	Acquisition cost	Accumulated depreciation	Carrying value
<b>As at 31.12.2006</b>	<b>14 672</b>	<b>-3 989</b>	<b>10 683</b>
Additions	1 117	0	1 117
Compensation of prepayment	-7 467	0	-7 467
Write-off	-1 017	0	-1 017
Disposals	-478	0	-478
Depreciation charges 2007	0	-1 472	-1 472
<b>As at 31.12.2007</b>	<b>6 827</b>	<b>-5 461</b>	<b>1 366</b>
Additions	4 855	0	4 855
Depreciation charges	0	-796	-796
<b>As at 31.12.2008</b>	<b>11 682</b>	<b>-6 257</b>	<b>5 425</b>

## 10. **Insurance payables**

<i>in thousands of Estonian kroons</i>	<b>31.12.2008</b>	<b>31.12.2007</b>
Total insurance payables related to direct insurance, incl.	3 417	2 319
payables to policyholders	2 922	1 741
payables to intermediaries	495	578
Payables related to reinsurance	3 140	3 076
<b>Total</b>	<b>6 557</b>	<b>5 395</b>

All Insurance payables are short-term (up to 12 months).

## 11. **Accrued expenses and deferred income**

<i>in thousands of Estonian kroons</i>	<b>31.12.2008</b>	<b>31.12.2007</b>
Employee related liabilities	3 193	3 331
Suppliers related liabilities	2 794	3 220
Other accrued expenses and deferred income	2 298	6 072
Tax liabilities, incl.	1 263	1 613
personal income tax	555	734
social tax	613	782
unemployment insurance tax	12	12
funded pension	30	29
other taxes	53	56
<b>Total</b>	<b>9 548</b>	<b>14 236</b>

All Accrued expenses and deferred income are short-term (up to 12 months).

## 12. **Financial liabilities from insurance contracts**

### 12.1. **Total financial liabilities from insurance contracts**

<i>in thousands of Estonian kroons</i>	<b>31.12.2008</b>	<b>31.12.2007</b>
Financial liabilities from unit-linked insurance contracts	906 395	1 792 422
Financial liabilities from with-profit insurance contracts	97 855	93 692
<b>Total</b>	<b>1 004 250</b>	<b>1 886 114</b>

### 12.2. **Financial liabilities from unit-linked life insurance contracts**

<i>in thousands of Estonian kroons</i>	<b>31.12.2008</b>	<b>31.12.2007</b>
As at 1 January	1 792 422	908 777
Premiums collected	388 591	904 661
Out-Payments deducted	-470 444	-140 351
Fees deducted	-47 368	-55 621
Other changes (mainly change in fair value)	-756 806	174 956
As at 31 December	906 395	1 792 422

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

<i>in thousands of Estonian kroons</i>	<b>31.12.2008</b>	<b>31.12.2007</b>
As at 1 January	93 692	89 846
Premiums collected	20 508	24 402
Out-Payments deducted	-18 200	-17 880
Fees deducted	-2 027	-2 137
Other Change	3 882	-539
As at 31 December	97 855	93 692

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

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

<i>in thousands of Estonian kroons</i>	<b>31.12.2008</b>	<b>31.12.2007</b>
Life insurance provision	200 086	181 784
Outstanding claims provision	4 276	2 525
<b>Total technical provision from insurance contracts</b>	<b>204 362</b>	<b>184 309</b>
Reinsurers' share in the technical provision	1 221	882
<b>Total technical provision from insurance contracts and relevant reinsurance assets</b>	<b>203 141</b>	<b>183 427</b>

The Company did not have any material changes in assumptions used to measure insurance liabilities.

#### 13.2. Life insurance provision

<i>in thousands of Estonian kroons</i>	<b>31.12.2008</b>	<b>31.12.2007</b>
As at 1 January	181 784	158 255
Gross premiums	71 306	66 690
Out-payments	-19 727	-14 822
Other changes in value (incl. deducted fees and added interest)	-33 277	-28 339
As at 31 December	200 086	181 784
Reinsurers' share in the life insurance provision	288	242

#### 13.3. Provision for bonuses

<i>in thousands of Estonian kroons</i>	<b>31.12.2008</b>	<b>31.12.2007</b>
As at 1 January	0	563
Determination of bonuses for previous accounting year from provision for bonuses	0	-563
Increase of provision for future bonuses for the period	0	0
As at 31 December	0	0

### 13.4. Outstanding claims provision

#### Outstanding claims provision

<i>in thousands of Estonian kroons</i>	<b>31.12.2008</b>	<b>31.12.2007</b>
As at 1 January	2 525	1 742
Payments	-19 727	-14 822
Other change in outstanding claims provision	21 478	15 605
As at 31 December	4 276	2 525
Reinsurers' share in the outstanding claims provision	934	639

### 14. Owner's equity

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

Number of shares was 5500 as at 31.12.2008 (5500 as at 31.12.2007). Nominal value of each share is 10,000 Estonian kroons. Shares belong 100% to the Finnish undertaking Mandatum Life Insurance Company Ltd. As at 31.12.2008, the Company's share capital was 55,000 thousand Estonian kroons and the Company's total owner's equity was 112,540 thousand Estonian kroons.

#### The Company's potential income tax liability

As at 31.12.2008 the Company's retained earnings amounted to 1,589 thousand kroons (31.12.2007: 13,669 thousand kroons). The maximum possible income tax liability related to the distribution of the Company's retained earnings as dividends is 334 thousand kroons. The Company can thus pay 1,255 thousand kroons in net dividends.

### 15. Gross premiums

<i>in thousands of Estonian kroons</i>	<b>2008</b>	<b>2007</b>
Risk products	7 871	6 688
Traditional savings products	34 943	35 813
Universal life products	1 947	1 708
Risk premiums in unit-linked insurance contracts	11 442	9 390
Supplementary insurances	15 103	13 090
<b>Total</b>	<b>71 306</b>	<b>66 689</b>

### 16. Net income from reinsurance

<i>in thousands of Estonian kroons</i>	<b>2008</b>	<b>2007</b>
Reinsurers' share of gross premiums	-11 285	-9 560
Reinsurers' share in claims paid	1 843	1 399
Change in reinsurer's share in technical provisions	-344	-133
Reinsurance commission income	5 210	4 509
<b>Total</b>	<b>-4 576</b>	<b>-3 785</b>

**17. Investment income**

<i>in thousands of Estonian kroons</i>	<b>2008</b>	<b>2007</b>
Term deposit interest income	9 303	3 118
Interest income of bonds and other fixed rate securities	7 756	7 415
Interest income from subsidiary	0	501
Dividends	68	58
Interest income on bank account	337	433
<b>Total</b>	<b>17 464</b>	<b>11 525</b>

**18. Fair value gains and losses**

<i>in thousands of Estonian kroons</i>	<b>2008</b>	<b>2007</b>
Shares and investment fund units	-3 244	2 534
Bonds and other fixed rate securities	-9 302	-2 156
<b>Total</b>	<b>-12 546</b>	<b>378</b>

**19. Realized gains and losses**

<i>in thousands of Estonian kroons</i>	<b>2008</b>	<b>2007</b>
Gains from sale of subsidiary	0	712
Shares and investment fund units	-4 656	409
Bonds and other fixed rate securities	460	-299
<b>Total</b>	<b>-4 196</b>	<b>822</b>

In the tables above are presented the results from financial assets carried at fair value through profit or loss designated as such upon initial recognition.

**20. Fee income**

<i>in thousands of Estonian kroons</i>	<b>2008</b>	<b>2007</b>
Acquisition fees	16 261	23 804
Renewal fees	29 049	32 617
Lapse and cancellation fees	4 169	1 337
<b>Total</b>	<b>49 479</b>	<b>57 758</b>

**21. Other income**

<i>in thousands of Estonian kroons</i>	<b>2008</b>	<b>2007</b>
Commission fee for the intermediation of fund units	10 899	10 038
Commissions from sale other insurance contracts	36	92
Other income (sale of tangible assets, exchange gains)	261	266
<b>Total</b>	<b>11 196</b>	<b>10 396</b>

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

<i>in thousands of Estonian kroons</i>	2008	2007
Indemnities paid for insured events and maturity out-payments	10 927	9 873
Surrender amounts	8 800	4 949
Claims handling expenses related to out-payments	2 708	1 646
<b>Total paid insurance claims and claims handling expenses related to out-payments</b>	<b>22 435</b>	<b>16 468</b>
Reinsurers' share in paid claims	-1 843	-1 399
<b>Total paid insurance claims and claims handling expenses related to out-payments, net of reinsurance</b>	<b>20 592</b>	<b>15 069</b>
Increase of life insurance provision	18 595	23 691
Increase of outstanding claims provision	1 761	780
Increase of provision of bonuses	0	-563
<b>Total increase of insurance technical provisions</b>	<b>20 356</b>	<b>23 908</b>
Change in reinsurer's share in technical provisions	-344	-133
<b>Total increase of insurance technical provisions net of reinsurance</b>	<b>20 012</b>	<b>23 775</b>
<b>Net insurance claims and the change of technical provisions</b>	<b>40 604</b>	<b>38 844</b>

## 23. Change in value of unit-linked life insurance contracts

<i>in thousands of Estonian kroons</i>	2008	2007
Change in value of financial liabilities in unit-linked insurance contracts	749 938	-173 777
Change in value of investments of unit-linked contracts	-758 647	177 392
<b>Total</b>	<b>-8 709</b>	<b>3 615</b>

## 24. Expenses

<i>in thousands of Estonian kroons</i>	2008	2007
Personnel expenses	46 993	46 931
Commissions to intermediaries	6 895	11 341
Expenses on premises	6 772	6 361
Office expenses	3 266	3 840
Depreciation	1 328	1 857
Other expenses	21 446	25 082
<b>Total</b>	<b>86 700</b>	<b>95 412</b>
<b>Breakdown of costs by functions</b>		
Acquisition costs	42 906	47 567
Administrative expenses	38 341	43 187
Claims handling expenses related to out-payments	2 708	1 646
Investments expenses	2 745	3 012
<b>Total</b>	<b>86 700</b>	<b>95 412</b>

## 25. Income tax expenses

<i>in thousands of Estonian kroons</i>	<b>Latvia</b>	<b>Lithuania</b>	<b>Estonia</b>	<b>Total</b>
<b>Net income before income taxes</b>	<b>-14 893</b>	<b>13 470</b>	<b>-9 974</b>	<b>-11 397</b>
Rate of taxation	15%	15%		
Calculated income tax	-2 234	2 021	0	-213
<b>Increase (reduction) in tax resulting from</b>				
non-deductible expenses	85	4 144	0	4 229
non-taxable income	0	-6 005	0	-6 005
Unrecognized deferred tax asset	-2 149	-160	0	-2 309
<b>Income tax expenses, total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

## 26. Operating lease

The Company leases premises and cars under operating lease term.

Lease payments recognized as an expense in the period

<i>in thousands of Estonian kroons</i>	<b>2 008</b>	<b>2 007</b>
Premises	5 005	4 836
Cars	1 208	1 058
<b>Total</b>	<b>6 213</b>	<b>5 894</b>

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

not later than one year	2 015
<b>Total</b>	<b>2 015</b>

## 27. Transactions with associated parties

### 27.1. Transactions with members of Management Board and Supervisory Board members

The Supervisory Board received no separate remuneration or severance pay. Members of the Management Board received in total 6883 (2007: 5540) thousand Estonian kroons in 2008 pursuant to service contracts. The maximum amount of termination benefit according to the agreements is 1710 thousand kroons.

## 27.2. Other transactions with associated parties

<b>ASSETS</b> <i>in thousands of Estonian kroons</i>	<b>31.12.2008</b>	<b>31.12.2007</b>
<b>Reinsurance receivables</b>		
Mandatum Life Insurance Company Limited (parent company)	5 568	4 895
<b>Financial assets</b>		
Financial assets designated as at fair value through p/l		
Mandatum Life Insurance Company Limited (parent company)	28 532	0
Other receivables		
If P&C Insurance Company Ltd. (enterprise of consolidation group)	13	8
Accrued income and prepaid expenses		
If P&C Insurance Company Ltd. (enterprise of consolidation group)	171	44
Sampo plc (ultimate parent company)	163	0
<b>LIABILITIES</b> <i>in thousands of Estonian kroons</i>	<b>31.12.2008</b>	<b>31.12.2007</b>
<b>Insurance payables</b>		
Mandatum Life Insurance Company Limited (parent company)	3 140	3 076
<b>Accrued expenses and deferred income</b>		
If P&C Insurance Company Ltd. (enterprise of consolidation group)	22	78
<b>INCOME STATEMENT</b> <i>in thousands of Estonian kroons</i>	<b>2008</b>	<b>2007</b>
<b>Ceded premiums</b>		
Mandatum Life Insurance Company Limited (parent company)	11 285	9 560
<b>Investment income</b>		
UAB Sampo pensiju fondy valdymas (subsidiary)	0	1 213
<b>Reinsurance commissions</b>		
Mandatum Life Insurance Company Limited (parent company)	5 210	4 509
<b>Other income</b>		
If P&C Insurance Company Ltd. (enterprise of consolidation group)	30	45
UAB Sampo pensiju fondy valdymas (subsidiary)	0	10
<b>Reinsurers' share in claims paid and in change provisions</b>		
Mandatum Life Insurance Company Limited (parent company)	2 186	1 532
<b>Expenses</b>		
Commissions fees to brokers		
If P&C Insurance Company Ltd. (enterprise of consolidation group)	34	117
Expenses of office lease and administration		
If P&C Insurance Company Ltd. (enterprise of consolidation group)	69	164
Transportation expenses		
If P&C Insurance Company Ltd. (enterprise of consolidation group)	123	12
Other expenses		
Mandatum Life Insurance Company Ltd. (parent company)	352	586
If P&C Insurance Company Ltd. (enterprise of consolidation group)	505	382
Sampo plc (ultimate parent company)	753	0

## 28. *Implicit assets*

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

Translation of the Estonian Original

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of SE Sampo Life Insurance Baltic

We have audited the financial statements of SE Sampo Life Insurance Baltic, which comprise the balance sheet as of 31 December 2008, the statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. The audited financial statements, which we have identified on the accompanying pages, are enclosed with the current report.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *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. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 SE Sampo Life Insurance Baltic as of 31 December 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Tallinn, 15 April 2009



Hanno Lindpere  
Ernst & Young Baltic AS



Tiina Sömer  
Authorised Auditor

## V. Proposal to cover loss

Retained earnings of the Company:


Net loss for 2008	11,396,603	Estonian kroons
Total retained earnings	1,588,918	Estonian kroons

The Management Board hereby proposes to cover the loss in 2008 by retained earnings.

Imre Madison Chairman of the Management Board

 29.04.2009

Erkki Sadam Member of the Management Board

 29.04.2009

Uldis Mucinieks Member of the Management Board

 29.04.2009


Rytis Ambrazevicius Member of the Management Board

 29.04.2009

Ilona Stare Member of the Management Board

 29.04.2009

Rasa Kasperaviciute Member of the Management Board

 29.04.2009

Paul Lukka Member of the Management Board

 29.04.2009

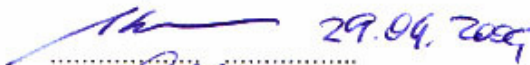
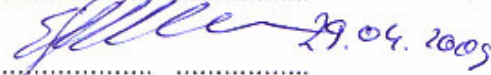
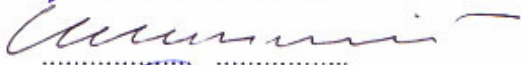
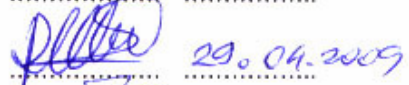





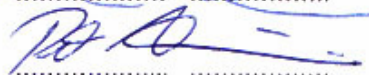
Timo Pursiala Member of the Management Board

 29.4.2009

## VI. Signatures of the Management Board and the Supervisory Board for the Annual Report 2008

The Management Board of the Company has prepared the Management Report and Annual Accounts for the year 2008.

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

Imre Madison	Chairman of the Management Board	 29.04.2009
Erkki Sadam	Member of the Management Board	 29.04.2009
Uldis Mucinieks	Member of the Management Board	
Rytis Ambrazevicius	Member of the Management Board	 29.04.2009
Ilona Stare	Member of the Management Board	 29.04.2009
Rasa Kasperaviciute	Member of the Management Board	 23.04.2009
Paul Lukka	Member of the Management Board	 29.04.2009
Timo Pursiala	Member of the Management Board	
Timo Laitinen	Chairman of the Supervisory Board	
Risto Honkanen	Member of the Supervisory Board	
Petri Vieraankivi	Member of the Supervisory Board	

## VII. Sales revenue according to EMTAK 2008

<b>EMTAK</b>	<b>Business area</b>	<b>Total</b>
65111	life insurance	71 305 748 Estonian kroons