



# ANNUAL REPORT 2012

## MANDATUM LIFE INSURANCE BALTIC SE

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CEO: Imre Madison

Auditor: Ernst & Young Baltic AS

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# I. Management report for 2012

## 1. Ownership and corporate governance

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

Mandatum Life was registered on 02.01.2007 in Tallinn, the Republic of Estonia. The Company is domiciled within Estonia with its headquarters in Tallinn and branches in Latvia and Lithuania. For Mandatum Life the year 2012 was the sixth year of active operations as a single pan-Baltic company, and the fourteenth year of active operations in the Baltic countries.

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

Mandatum Life acts in full compliance with all licenses which have been issued and is subjected to financial supervision as conducted by the Estonian Financial Supervision Authority.

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

More information about Mandatum Life and its business activities in the Baltic countries can also be found on the following web sites: [www.mandatumlife.ee](http://www.mandatumlife.ee),

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

## 2. Management

The Company's Management Board consisted of seven members at the end of 2012. The Chairman of the Management Board and the CEO is Imre Madison. Other members of the Management Board are Erkki Sadam, responsible for the Company's legal and procurement matters; Paul Lukka, responsible for investment management and wealth management; Tomas Stonys, responsible for sales management, customer service and Lithuanian Branch Manager; Ilona Stare, responsible for policy administration, IT management and Latvian Branch Manager; Rasa Kasperaviciute, responsible for risk management and product development matters; and Timo Pursiala, responsible for financial and business control matters. The Company's former Latvian Branch Manager Uldis Mucinieks left the Company on 30<sup>th</sup> November 2012.

The Company's Supervisory Board consisted of three members at the end of 2012. The acting Chairman of the Supervisory Board is Timo Laitinen, the Senior Vice President of Mandatum Life Finland. Other members of the Supervisory Board are Jukka Pirskanen, the Head of Wealth Management of Mandatum Life Finland and Timo Vuorinen, CEO of If P&C Insurance, Finland and Chairman of the Board of If Insurance AS.

Mandatum Life's Chief Actuary is Rasa Povilaviciute.

## 3. Business results

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

Challenges in Europe and the eurozone continued during 2012. The state budgets of several EU countries were under strong pressure, the list of countries asking for monetary support from the EU or the IMF expanded. On the other hand the year 2012 also delivered a lot of positive news from politicians who managed to make decisions to support the recovery of European state budget deficits. As a result we see less pressure on the euro zone and Latvia is even willing to join the euro zone as its 18<sup>th</sup> member in 2014. There are quite a few countries with increasing GDP figures but on the other hand we see also clear signs of the risks in the EU economies still existing and governments should thus continue with budget cutting.

Investment markets have recovered from the bear markets of 2011 but there is still no strong confidence in the future development of the markets. In 2012 investment markets offered return opportunities in different investment risk classes.

Yearly deposit rates of the major Baltic banks dropped below 0.5% at the end of 2012. Although deposits earn clearly negative real value for the customers' money, the total sum of deposits is still increasing in the Baltic countries. It is a clear sign that customers are not ready to invest but rather keep their money in a secured guaranteed solutions until they feel confident about taking investment risks once again.

Mandatum Life Finland carefully follows the development and trends

on investment markets and its investment portfolios which are also available to Mandatum Life Baltic's clients, are actively managed. Mandatum Life's investment philosophy was continually based on the Absolute Return strategy – the goal is to deliver stable investment return to our Nordic and Baltic clients over a longer period of time. The Company's business focus is on increasing unit-linked insurance assets under management by concluding unit-linked insurance lump sum policies and unit-linked wealth management policies, and on increasing the Company's total sum at risk. Regular savings unit-linked insurance policies, and term life and accident and sickness-related complementary insurances are actively offered to private clients and corporate clients.

### 3.1. Life insurance industry in the Baltic countries in 2012

In the Baltic life insurance market, the total of contractual payments received was 294,418 thousand euros in 2012 (287,392).

The biggest life insurance market in the Baltic countries is in Lithuania where contractual payments received totalled 166,437 thousand euros (162,436), followed by Estonian life insurance market with 66,594 thousand euros (65,473), and then by Latvian life insurance market with 61,387 thousand euros (59,213).

In the Baltic unit-linked insurance market, the total of contractual payments received was 165,001 thousand euros in 2012 (165,217).

The biggest unit-linked insurance market in the Baltics is in Lithuania where unit-linked insurance payments received totalled 116,850

thousand euros (114,683). In Estonia unit-linked insurance payments received totalled 26,912 thousand euros (27,571). In Latvia unit-linked insurance payments received totalled 21,239 thousand euros (22,962).

Mandatum Life's total market share (based on total contractual payments received) in the Baltic countries as at 31.12.2012 reached 11.3% (14.2%).

Mandatum Life's unit-linked insurance market share (based on total contractual payments received) in the Baltic countries as at 31.12.2012 reached 18.7% (23.1%).

Mandatum Life's unit-linked insurance market share in Lithuania as at 31.12.2012 reached 14.4% (20.4%), in Estonia 31.2% (34.6%) and in Latvia 27.1% (22.8%).

<b>MANDATUM LIFE'S TOTAL MARKET SHARE (BASED ON ALL PAYMENTS RECEIVED)</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
ESTONIA	12.1%	24.3%	29.6%	16.9%	14.8%
LATVIA	14.6%	15.9%	21.9%	9.4%	9.8%
LITHUANIA	8.5%	11.6%	15.2%	14.9%	10.5%
<b>MANDATUM LIFE'S TOTAL IN THE BALTIC COUNTRIES</b>	<b>10.6%</b>	<b>16.0%</b>	<b>20.4%</b>	<b>14.2%</b>	<b>11.3%</b>

### 3.2. Contracts portfolio

As at 31.12.2012, Mandatum Life serviced a total of 34,526 life insurance contracts (36,966). The biggest share of total insurance contracts in force consisted of unit-linked insurance contracts, representing a share of 69%.

As at 31.12.2012, Mandatum Life's contracts portfolio included 38,124 insured persons (40,919).

In 2012, Mandatum Life concluded 1,948 new contracts (1,778) and surrendered or matured 4,401 contracts (4,154).

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

Contractual payments received by Mandatum Life in the Baltics totalled 33,403 thousand euros in 2012 (41,006).

Contractual payments received from new business in 2012 (such as contractual payments received from new contracts concluded in 2012 and additional lump sum payments received for unit-linked insurance contracts) totalled 22,160 thousand euros (28,960), and contractual payments received from previous years contracts in force totalled 11,219 thousand euros (12,046).

As at 31.12.2012, Mandatum Life's financial liabilities from investment and insurance contracts, e.g. client

assets under management (AUM) were 153,030 thousand euros (136,538). The biggest share in AUM was constituted by financial liabilities from unit linked contracts, which formed 88% (86%) of clients' total AUM.

### 3.4. Claims incurred

For Mandatum Life in 2012, the total claims incurred with other pay-outs were 23,917 thousand euros (47,100). The majority of pay-outs from contracts were made from unit-linked AUM. As for the number of contracts, contracts were mostly surrendered and matured in regular saving guaranteed interest insurance and unit-linked insurance. The surrender ratio (the share of total claims incurred from total

contractual payments received) in 2012 reached 72% (115%).

### 3.5. Investments

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

As for the management of investments the Company has a partnership with Sampo plc. Mandatum Life manages its investment portfolios of technical provisions as a single pan-Baltic portfolio.

Net income from the investment of technical provisions (net of investment expenses) in 2012 was 1,300 thousand euros (320). Investment income of the Company's own capital portfolio was 617 thousand euros in 2012 (101).

At the end of 2012, the total size of the investment portfolio (except investments related to unit-linked insurance contracts) reached 27,631 thousand euros (27,323). Mandatum Life's investment portfolio (excluding investments related to unit-linked insurance contracts) comprised mostly of fixed income instruments such as government and corporate bonds and money market instruments.

The annual investment return on the investment portfolio in 2012 was 7.3% (1.9%).

### 3.6. Client bonuses

Mandatum Life did not pay additional bonuses into guaranteed interest life insurance contracts for 2012 in any Baltic country (the same as in 2011). The guaranteed interest rate for respective insurance contracts in Estonia is 3.5%; in the Latvian branch the guaranteed interest is between 2.5% and 4%, depending on the type of product; in the Lithuanian branch, the

guaranteed interest is between 2.5% and 4%, depending on the type of product. Company's average annual return for the last three years of the Company's technical provisions investment portfolio was 3.9%.

### 3.7. Risk management

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

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

In all Baltic countries internal audits are conducted by the Company's own internal auditor. Annual plan for the internal audit has been approved by the Supervisory Board. In 2012, six internal audits and six follow-up internal audits were performed in Mandatum Life.

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

As at 31.12.2012 the Company's owner's equity was 11,083 thousand euros (10,187), of which 3,516 thousand euros (3,516) was share capital.

The total amount of assets included in the available solvency margin for an insurance undertaking shall not at any time be less than the minimum solvency margin or the required solvency margin and, in case of the requirement for an adjusted solvency margin, not less than the required amount for the adjusted solvency margin. Mandatum Life's available solvency margin was 10,245 thousand euros (9,323) on 31 December 2012, while at the same time the required solvency margin was 2,413 thousand euros (2,338). The solvency surplus was 7,832 thousand euros (6,985) and therefore all requirements (including that of the minimum required solvency margin of 3,500 thousand euros) were met.

### 3.9. Operating expenses

Mandatum Life's operating expenses (which include acquisition expenses, administrative expenses and investment expenses) increased by 2.2% in comparison with 2011.

Total expenses (including expenses related to pay-outs) were 6,036 thousand euros in 2012 (5,904). Acquisition expenses accounted for 51% (50%) of all operational expenses in 2012. Administrative expenses accounted for 42% (41%) and other expenses for 7% (9%) of all operational expenses.

### 3.10. Operating profit

In 2012, Mandatum Life's profit for the financial year totalled 895 thousand euros (239). It includes 104.3 thousand euros of extraordinary one-time profit accounted as deferred tax assets of the Company's Lithuanian operations that have been recognised in the financial statements. The operating



profit, excluding the Company's own capital investment portfolio income was 174 thousand euros (139).

Mandatum Life's return on equity (ROE, i.e. the ratio of annual business result against the annual average owner's equity) was 8.9 % in 2012 (2.6%).

### 3.11. Balance sheet

Mandatum Life's balance sheet volume reached 164,946 thousand euros as at 31.12.2012 (147,324). Total liabilities from insurance and investment contracts were 153,030 thousand euros at the end of 2012 (136,538); financial liabilities for unit-linked insurance contracts formed 135,116 thousand euros thereof (117,551).

## 4. Personnel of the Company

As at 31.12.2012, there were 119 (111) employees working in Mandatum Life, of whom 54 (52) were employed in the sales area. In the Estonian unit there were 47 (45) employees, in the Latvian branch 32 (29) employees, and in the Lithuanian branch 40 (37) employees. Additionally, 9 (13) employees were on maternity leave or on leave for some other reason as at the end of 2012, of whom 7 (7) were from the Estonian unit, 0 (2) were from the Latvian branch, and 2 (4) were from the Lithuanian branch.

Salaries and wages (including payroll taxes) for the financial year were 3,274 thousand euros (2,950). The Supervisory Board members were not remunerated. Mandatum Life paid remuneration to members of the Management Board for carrying out their tasks, which totalled 594 thousand euros in 2012 (452).

Members of the Management Board receive annual bonus in the amount of up to their 4 months' base salary and long-term motivational pay bonus in the amount of up to 2 months' base salary.

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

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

## 5. Activities in the Baltic countries

### 5.1. Sales and development activities

The Company's main sales channel is its own sales, including retail and key account teams, wealth management operations and client service specialists.

The Company's own Money & Life sales team and wealth management team focus on fulfilling the needs that upper middle class private individuals (mass-affluent clients), wealthy individuals, high net worth individuals, entrepreneurs and corporate clients have in relation to investment, wealth management, regular saving and life insurance solutions. The Company's wealth management solutions are developed on the basis of unit-linked insurance lump sum products.

The bank-assurance cooperation with Danske Bank was developed further in 2012. The Company's wealth management consultative portfolio was included to Danske Bank's private banking offering starting from spring 2012. Other

sales channels such as If P&C and insurance brokers represent a minor share of total contractual payments received but their importance is growing in sales of the Company's risk covers. The importance of different sales channels varies from country to country while the Company's own sales teams are the core sales channels in all Baltic countries.

The Company's sales support and marketing activities were much more active in 2012 when compared to previous years. Many such activities had the aim of increasing the awareness of Mandatum Life brand and to promote the Company's special offers to its customers. For the first time, Mandatum Life was advertised in television in Estonia; at the same time other public media channels like radio, print media and online media were also actively used. From May till December, the Company paid additional 1% investment bonus to the contracts of these clients who invested at least 5000 euros to Mandatum Life Fixed Income solution.

In September 2012 a new type of unit-linked insurance service was launched in the Baltics – Portfolio Management Service. This is an investment service that is more focused on mass-affluent private clients by offering active management of five different investment portfolios, having regular communication regarding the main changes in the portfolios' investment allocation and providing easy access to portfolio overviews.

At the very end of the year, on 21 December 2012, the Company launched its product with unisex risk tariffs according to the EU unisex requirements (the principle of equal treatment for men and women). Since then the gender of the insured person is not taken into account when issuing a new insurance policy in the life insurance sector across the EU countries.

The Company launched a web-based E-life service environment for its

Latvian customers in the first half of 2012. Similar E-service was already available to the Company's Estonian and Lithuanian customers.

The Company launched a mobile application to improve the service of its Estonian customers. Also a CRM platform was launched in Estonia in the second half of 2012.

The Company had its first customer satisfaction survey across the Baltics. As a result the Company received feedback according to which its customers are satisfied with the products and the service that the Company provides them.

### 5.2. Other activities

The Company continued to program actuarial software for the Company's cash flow and liabilities adequacy test. The Company makes changes in its processes to decrease the number of customer documentation print-outs and make it digitally available. At the same time, the Company's wealth management customer documentation was simplified.

To strengthen the Company's managerial competences and skills, all business unit managers of the Company in Estonia, Latvia and Lithuania underwent leadership and management trainings.

In 2012, the external auditor was Ernst & Young Baltic AS.

In 2012, the reinsurer was Mandatum Life Insurance Company Ltd.

## 6. Outlook for 2013

The situation of the EU economies and the euro zone challenges have stabilized by the end of 2012 but the year 2013 starts with the worries regarding the United States' high government debt and its possible developments.

Baltic economies and their export volumes are still most affected by the economic situation of their neighbouring countries, especially the Nordic region, Germany and Russia. Also in 2013, the Baltic countries, except Latvia, face a higher inflation than the average in the EU. Annual growth of the Baltic countries' GDP is estimated to be around 3%. There is an increasing pressure on wages in all Baltic countries which might turn the productivity negative once again. We believe unemployment will remain the same in 2013.

The Company's Management Board considers the situation as challenging for investments and wealth management area as it was in 2012.

The Latvian government is very anxious to convert to euro in Latvia starting from 2014. For Latvians it means similar preparations, especially regarding IT developments that Estonia made in 2010 when preparing for conversion to euro. Looking forward we can see some potential problems emerging in Latvia similarly to the euro conversion in Estonia; e.g. postponing major investment and

savings-related decisions before euro is taken into use.

The Company's main priorities in 2013 include the following: development of its Money & Life investments, wealth management and life insurance solutions offered in the Baltic countries, improving client service and client satisfaction with Mandatum Life, constant increase of client assets under management and total sum at risk, continuing with cost-efficient unification of pan-Baltic processes and operations, increase of total fee income to maintain sustainable business in all Baltic countries and continuing development of the Company towards being a respected partner to its clients and a favoured employer in the Baltic financial sector.

## 7. Significant post-balance sheet events

Paul Lukka, a member of the Company's Management Board who is responsible for the Baltic investments and wealth management announced that he would leave the Company as from 1 February 2013. His responsibility areas were distributed between other employees of the Company. The Management Board will continue with six members after Paul Lukka has left the Company.



Imre Madison  
Chairman of the Management Board

Tallinn, 31<sup>st</sup> January 2013

## II. Annual accounts

### 1. Statement of financial position

in thousands of euros	31.12.2012	31.12.2011	Notes
<b>Assets</b>			
Cash and cash equivalents	306	727	III.3.1
Deferred tax assets	104	0	III.3.23
Reinsurers' share of insurance liabilities	56	37	III.3.9.1
Financial assets			
- Financial instruments	162,726	144,732	III.3.2.III.3.2.2
- Receivables related to insurance activities and other	339	388	III.3.3.2
Accrued income and prepaid expenses	492	434	III.3.3.3
Property, plant and equipment	86	139	III.3.4
Intangible assets	837	867	III.3.5
<b>Total assets</b>	<b>164,946</b>	<b>147,324</b>	
<b>Liabilities and owner's equity</b>			
Insurance payables	276	139	III.3.6
Accrued expenses and deferred income	557	460	III.3.7
Financial liabilities for insurance contracts	111,544	106,730	III.3.8.1
Financial liabilities for investment contracts	27,964	15,406	III.3.8.2
Technical provision for insurance contracts	13,522	14,402	III.3.9.1
Total liabilities	153,863	137,137	
Share capital	3,516	3,516	
Share premium	3,509	3,509	
Legal reserve	217	204	
Unrealised foreign exchange rate	0	-1	
Retained profits	3,841	2,959	
Total owner's equity	11,083	10,187	III.3.12
<b>Total liabilities and owner's equity</b>	<b>164,946</b>	<b>147,324</b>	

Notes on the accounts presented on pp 15-52 form an integral part of the Annual Accounts.