

## RULES FOR CALCULATING BONUSES

1. GENERAL.....	1
2. GENERAL PRINCIPLES OF DETERMINING THE AMOUNT OF BONUSES, SUBJECT TO REDUCTION AND ALLOCATION BETWEEN THE POLICYHOLDERS.....	1
3. ALLOCATION OF ADDED BONUSES BETWEEN CONTRACTS.....	3
4. ALLOCATION OF REDUCIBLE BONUSES BETWEEN CONTRACTS.....	3

## DEFINITIONS

**Bonus** – an amount, additionally calculated to the insurance contract by AS Elu ja Pensionikindlustus, which is subject to payment in the cases as laid down in the insurance terms and conditions and pursuant to the conditions provided in these rules.

**Reducible bonus** – a scheme for calculating bonuses, according to which the portion of bonus, determined in previous years, is reducible during the period of insurance.

**Non-reducible bonus** – a scheme for calculating bonuses, according to which the portion of bonus, determined in previous years, is not reducible during the period of insurance.

**Calculation of bonus** – finding the amount of bonus to be allocated, i.e. adding or reducing the profit.

### 1. GENERAL

1.1. The purpose of the rules for calculating bonuses is to describe the general principles of finding the amount of bonus to be allocated, and the principles of adding and reducing bonuses.

1.2. The rules regulate calculation of bonuses on the following products: life pension insurance, child insurance, dowry insurance, life risk insurance, endowment insurance, pension insurance with risk cover, insurance account, insurance account for pension, SEB pension account, Premium Loan (hereinafter the Insurance Contract).

1.3. The rules do not regulate calculation of profit for pension contracts and guaranteed pension insurance.

1.4. Upon conclusion of an insurance contract, the policyholder may choose between reducible and non-reducible calculation scheme of the share of profit, submitting a respective application to the insurer.

1.5. The policyholder may change the scheme of calculating the share of profit during the period of insurance, submitting a respective application to the insurer. The change will take effect as of the end of the calendar year, following the year of submitting the application.

1.6. At the end of financial year, the management board of the insurer makes a proposal to the supervisory board on either adding or reducing the bonuses for the previous years. The amount of bonus, subject to allocation between the policyholders or the amount of bonuses for previous years, subject to reduction, shall be decided and approved by the supervisory board.

1.7. The amount of bonuses calculated for the previous financial year shall be announced to the policyholders by 30 June of the following financial year.

### 2. GENERAL PRINCIPLES OF DETERMINING THE AMOUNT OF BONUSES, SUBJECT TO REDUCTION AND ALLOCATION BETWEEN THE POLICYHOLDERS

#### 2.1. Contracts with reducible bonuses

2.1.1. Bonuses shall be calculated only on the profit obtained in the previous financial year from the investment activity of the assets of contracts with reducible bonuses. Profit from investment activity is obtained by deducting from the return of the investment portfolio of assets of contracts with reducible contracts the guaranteed interest, calculated on all contracts with reducible bonuses. Profit from investment activity is allocated between the policyholder and insurer pursuant to the decision of the insurer's supervisory board.

**2.1.2.** Bonuses are not calculated on:

- the profit of insurance risk, commission fee and supplementary insurance of contracts with reducible bonuses
- the profit of other types of contracts
- the return of the insurer's equity investments

**2.1.3.** The assets of contracts with reducible bonuses are kept in a separate investment portfolio or separate accounting is kept of their return, if they are maintained in the same portfolio with the assets of other types of contracts, with different investment portfolio or if kept in the same portfolio with other assets of other types of contracts, which have the same investment portfolio.

**2.1.4.** The long-term return target and thereby the bonus target of the investment portfolio of contracts with reducible bonuses is higher than that of the investment portfolio of contracts with non-reducible bonuses.

**2.1.5.** Pursuant to the higher return target, the insurer invests the assets of contracts with reducible bonuses in a more risky manner than the assets of contracts with non-reducible bonuses. Accordingly, the short-term volatility in the return of investment portfolio is higher and the return of investment portfolio may be lower for a short period of time, than that of the contracts with non-reducible bonuses. Neither does the insurer guarantee higher long-term bonuses for contracts with reduced bonuses.

**2.1.6.** The insurer is entitled to reduce the bonuses of contracts with reducible bonuses. The insurer is entitled to reduce the bonuses calculated to policyholders if the annual return of investments of the assets of the contracts with the provision of reduction of bonuses is lower than the guaranteed interest, calculated for these contracts.

**2.1.7.** The insurer shall be entitled to reduce the bonuses calculated to the policyholder within the term of the insurance contract pro rata, meaning that the ratio between the bonus to be reduced and the profit earned from the investment activity cannot be higher than the ratio between the amount of the bonus calculated in previous years to the contracts with reducible bonuses and the profit received from the investment activity of previous years. The proportion of bonus shall be calculated starting from the profit/loss from investments of the 2010 financial year. If the investments of the 2010 financial year have generated a loss, the results of the five (5) previous financial years shall be taken into account when determining the bonus proportion.

**Example 1** proportional reduction of bonus:

A8k) – profit/loss from investment of assets of contracts with reducible bonuses in year k

B(k) allocated/reduced bonuses of contracts with reducible bonuses in year k

The maximum reducible bonus of contracts with reducible bonuses for year k =  $B(k) = A(k) \times \text{ratio of bonus for previous years}$

whereas

Ratio of bonuses for previous years =  $(B(2010) + \dots + B(k-1)) / (A(2010) + \dots + A(k-1))$

**2.2. Contracts with non-reducible bonuses**

**2.2.1.** Bonuses shall be calculated only on the profit obtained from the investment activity of the assets of contracts with non-reducible bonuses. When calculating profit obtained from the investment activity of contracts with non-reducible bonuses, the long-term investment profit (i.e. not only the investment profit from the previous financial year) shall be taken as basis. Profit from investment activity is obtained by deducting from the return of investment portfolio of assets of contracts with non-reducible contracts the guaranteed interest, calculated on all contracts with non-reducible bonuses. Profit from investment activity is allocated between the policyholder and insurer pursuant to the decision of the insurer's supervisory board.

**2.2.2.** Bonuses are not paid on:

- the profit on insurance risk, commission fee and supplementary insurance of contracts with non-reducible bonuses
- the profit of other types of contracts
- the return on equity investments

- 2.2.3. The assets of contracts with non-reducible bonuses are kept in a separate investment portfolio or separate accounting is kept of their return, if they are maintained in the same portfolio with the assets of other types of contracts, with different investment portfolio or if kept in the same portfolio with other assets of other types of contracts, which have the same investment portfolio.
- 2.2.4. The long-term return target and thereby the bonus target of the investment portfolio of contracts with non-reducible bonuses is lower than that of the investment portfolio of contracts with reducible bonuses.
- 2.2.5. The insurer shall not be entitled to reduce the bonuses allocated to the policyholder within the term of the insurance contract with non-reducible bonuses.

### 3. ALLOCATION OF ADDED BONUSES BETWEEN CONTRACTS

- 3.1. The bonus rate shall be the ratio between the profit to be allocated and the reserves serving as basis to calculating the profit for contracts participating in the allocation of bonuses. The bonus rate shall be used for determining the amount of bonus by contracts.
- 3.2. In order to participate in the allocation of bonuses the contract must be valid as at the end of the financial year. The basis for the determining the amount of bonus is the average main insurance reserve of the financial year and the bonuses earned during the previous financial years.
- 3.3. Contracts, which mature during the financial year, participate in bonus allocation proportionally to the time elapsed from the beginning of the financial year to their final term (t). The basis for determining the amount of bonus is the average main insurance reserve of the financial year and the bonuses earned during the previous financial years.
- 3.4. Single premium contracts, which begin during the financial year, participate in bonus allocation in proportion to the time elapsed from the beginning date until the end of the financial year (t). The basis for determining the amount of bonus is the average main insurance reserve of the financial year.
- 3.5. Determining the amount of bonus of contract

Bonus on contracts with fixed payment schedule is calculated for calendar year m ( $B_m$ ) based on the following formula:

$$B_m = (V \cdot p\% + B_{m-1} \cdot (i\% + p\%)) \cdot t/365,$$

where

V is the reserve, serving as basis to bonus calculation;

i is calculated interest.

Bonus on contracts with free payment schedule is calculated for calendar year m ( $B_m$ ) based on the following formula:

$$B_m = \left( G_m \cdot \frac{p\%}{i\%} + B_{m-1} \cdot (i\% + p\%) \right)$$

where

$G_m$  is the amount of guaranteed interest calculated to the contract for calendar year m

p is the rate of guaranteed interest of the contract

i is calculated interest.

### 4. ALLOCATION OF REDUCIBLE BONUSES BETWEEN CONTRACTS

Reducible bonus is allocated between contracts pursuant to the proportion of the amount of bonuses determined/reduced in previous years to the total bonuses of previous years of contracts with reducible bonuses.

Example:

$B(k)$  reduced bonuses of contracts with reducible bonuses in year k

$C(k,i)$  – reducible bonus of contract i in year k

D(k) – total amount of determined/reduced bonuses of previous years of contracts with reducible bonuses, effective at the moment of reduction

F (k,i) – total amount of determined/reduced bonuses of previous years of contract i

$$C(k,i) = B(k) * F(k,i) / D(k)$$

## **5. IMPLEMENTATION OF THE RULES**

The principles for calculating bonuses, described in these rules, shall be applied to bonus allocation proposals and decisions to be made starting from 01.01.2011.