Procedure for profit calculation

Valid from 01.10.2010

Definitions

Profit – sum additionally calculated to the insurance contract by SEB Life and Pension Baltic SE Estonian Branch (hereinafter the Insurer), which is subject to payment in the events described in the insurance terms and conditions and according to this procedure.

Reducible profit – a scheme for profit calculation, according to which the portion of profit, determined in previous years, is reducible during the insurance period.

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

Profit calculation – finding the amount of profit to be allocated, i.e. adding or reducing the profit.

General

1. The purpose of the profit calculation procedure is to describe the general principles of finding the amount of profit to be allocated, and the principles of adding and reducing profits. The procedure regulates calculation of profits on the following products: pension annuity, children's endowment, dowry endowment, whole life insurance, endowment insurance, pension insurance with risk cover, insurance account, insurance account for pension, SEB pension account, Mortgage endowment, SEB Lifelong Pension, SEB Fixed-term Pension, SEB Lifelong disbursements, and SEB Fixed-term disbursements (hereinafter the Insurance Contract).
2. The rules do not regulate calculation of profit for SEB Pension Contract and Guaranteed Pension Insurance.
3. Provided that the terms and conditions of a specific insurance contract allow this, upon entry into an insurance contract, the policyholder may choose between reducible and non-reducible profit calculation scheme, submitting a respective application to the insurer.
4. The policyholder may change the profit calculation scheme during the insurance period, provided that the terms and conditions of the insurance contract allow this. The policyholder submits an application to change the profit calculation scheme. The change takes effect as of the end of the calendar year following the year of submitting the application.
5. 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 profits for the previous years. The amount of profit, subject to allocation between the policyholders or the amount of profits for previous years, subject to reduction, is decided and approved by the supervisory board of the insurer.
6. The amount of profits calculated for the previous financial year is announced to the policyholders by 30 June of the following financial year.

General principles of determining the amount of profit, subject to reduction and allocation between the policyholders

Contracts with reducible profit

7. Profit is calculated only on the profit obtained in the previous financial year from the investment activity of the assets of contracts with reducible profits. 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 profits. Profit from investment activity is allocated between the policyholder and insurer pursuant to the decision of the insurer's supervisory board.

8. Profits are not calculated on:
   - the profit of insurance risk, commission fee and insurance covers in contracts with reducible profits
   - the profit of other types of contracts
   - the return of the insurer's equity investments
9. The assets of contracts with reducible profits 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.
10. The long-term return target and thereby the profit target of the investment portfolio of contacts with reducible profits is higher than that of the investment portfolio of contracts with non-reducible profits.
11. Pursuant to the higher return target, the insurer invests the assets of contracts with reducible profits in a more risky manner than the assets of contracts with non-reducible profits. 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 profits. Neither does the insurer guarantee higher long-term profits for contracts with reduced profits.
12. The insurer is entitled to reduce the profits of contracts with reducible profits. The insurer is entitled to reduce the profits calculated to policyholders if the annual return of investments of the assets of the contracts with the provision of reduction of profits is lower than the guaranteed interest, calculated for these contracts.
13. The insurer is entitled to reduce the profits calculated to the policyholder within the term of the insurance contract pro rata, meaning that the ratio between the profit to be reduced and the profit earned from the investment activity cannot be higher than the ratio between the amount of the profit calculated in previous years to the contracts with reducible profits and the profit received from the investment activity of previous years. The proportion of profit is 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 are taken into account when determining the profit proportion.

    Example 1 proportional reduction of profit:

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

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

    The maximum reducible profit of contracts with reducible profits for year k = B(k) = A(k)* ratio of profit for previous years

    whereas

    Ratio of profits for previous years = (B(2010)+...+B(k-1))/(A(2010)+...+A(k-1))

Contracts with non-reducible profit

14. Profits are calculated only on the profit obtained from the investment activity of the assets of contracts with non-reducible profits. When calculating profit obtained from the investment activity of contracts with non-reducible profits, the long-term investment profit, i.e. not only the investment profit from the previous financial year, are 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 profits. Profit from investment activity is allocated between the client and insurer pursuant to the decision of the insurer's supervisory board.
15. Profits are not paid on:
    - the profit on insurance risk, commission fee and insurance covers in contracts with non-reducible profits
    - the profit of other types of contracts
    - the return on equity investments
16. The assets of contracts with non-reducible profits 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.
17. The long-term return target and thereby the profit target of the investment portfolio of contacts with non-reducible profits is lower than that of the investment portfolio of contracts with reducible profits.
18. The insurer is not entitled to reduce the profits allocated to the policyholder within the term of the insurance contract with non-reducible profits.

Allocation of added profits between contracts

19. The profit rate is 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 profits. The profit rate is used for determining the amount of profit by contracts.
20. In order to participate in the allocation of profits the contract must be valid as at the end of the financial year. The basis for the determining the amount of profit is the average main insurance reserve of the financial year and the profits earned during the previous financial years.
21. Contracts, which mature during the financial year, participate in profit 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 profit is the average main insurance reserve of the financial year and the profits earned during the previous financial years.
22. Single premium contracts, which begin during the financial year, participate in profit 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 profit is the average main insurance reserve of the financial year.

Determining the amount of profit of contract

23. Profit on contracts with a fixed payment schedule is calculated for a calendar year as follows:

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

where

B_m is the determined profit in which B means the profit and m the calendar year for which calculations are made;

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

T is the period from the beginning of the financial year until the final deadline;

i is the calculated interest.

Profit on contracts with a free payment schedule is calculated for a calendar year as follows:

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

where

B_m is the determined profit in which B means the profit and m the calendar year for which calculations are made;

G_m is the amount of guaranteed interest in which G means the interest and m the the calendar year for which calculations are made;

p is the rate of guaranteed interest of the contract;

i is the calculated interest.

Allocation of reducible profits between contracts

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

Example:

B(k) reduced profits of contracts with reducible profits in year k

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

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

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

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

Implementation of the procedure

25. The principles for calculating profits, described in this procedure, are applied to profit allocation proposals and decisions to be made starting from 01.01.2011.