Fennia Life

Annual Report and Financial Statements 2018

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Managing Director's Review

Fennia Life's business developed favourably

In 2018, Fennia Life celebrated 20 years of operations. The company's business covers voluntary life insurance, pension insurance and life insurance savings policies as part of the Fennia Group's service offering.

Fennia Life's business developed favourably, and the company's result for the year was good, totalling EUR 22.6 million (EUR 15.5 million). Measured in terms of expense loading, operating income grew 3.7 per cent on the previous year, amounting to EUR 17.5 million (EUR 16.9 million), and the company's expense ratio improved to the best level in the last ten years, at 90.2 per cent (92.1 %). The SCR ratio, which describes the company's solvency, was 223.7 per cent (203.3 %) at the turn of the year, which can be considered a strong figure.

Investments yielded a return of 2.4 per cent (3.3 %) in a challenging market. The return on the equity markets in 2018 was negative, and interest income was still at a historically low level. The returns on the company's investment operations were improved by the sale of subsidiary Fennia Asset Management Ltd's share capital to parent company Fennia Mutual Insurance Company as part of an inter-group transaction.

During the year under review, the company's development was in line with both the targets of the 2018–2022 strategy period and the Group strategy. Of course, reaching all of the targets will still take some time. Fennia Life's main goals during the strategy period are to increase the volume of our operations, the expense loading, and to significantly further improve the expense ratio, which is intended as means of safeguarding the company's future cost-competitiveness. Last year, the company's investments were aimed at digitalising our operations in order to automate and boost the efficiency of our business processes and to meet the needs of online services and online customer service, which our customers are hoping for. Investments in these areas continue this year, too, and the intention is also to launch new services.

Fennia Life's outlook for 2019 is positive. Part of the reason for this is the acquisition at the end of 2018 in which parent company Fennia Mutual Insurance Company acquired the entire share capital of Folksam Non-Life Insurance. We will also offer Fennia Life products to these new non-life insurance customers. On the other hand, the development of the Finnish economy is expected to be reflected in Fennia Life's business operations. In terms of the capital markets, a potentially weaker latter part of the year may have a negative impact on the company's operations and could affect asset management, investment insurance sales and balance sheet investment returns alike.

Our vision is to provide the best customer experience, and we work hard to achieve that. Fennia Life did well in a survey carried out by Taloustutkimus comparing Finnish life insurance companies, being rated second-best in the sector by corporate customers. According to the survey, Fennia Life was top-ranked in the areas of expertise, problem solving, service orientation and trustworthiness. I express thanks to our personnel and our administration for their good work contribution, and thanks to our customers for their good co-operation this year.

Alexander Schoschkoff
Managing Director

Report of the board of directors

Fennia Life Insurance Company's result for 2018 was good. The company's expense ratio improved compared to the previous years. Returns on investments were lower than they were in the comparison year due to the challenging market environment.

Fennia Life is a wholly owned subsidiary of Fennia Mutual Insurance Company.

Insurance business

Fennia Life's total premium income, before reinsurers' share, amounted to EUR 164.1 million (EUR 166.7 million). Of the company's total premiums written, life insurance accounted for EUR 129.9 million (EUR 132.2 million) and pension insurance for EUR 34.2 million (EUR 34.4 million). Premiums written on unit-linked insurances amounted to EUR 126.6 million (EUR 126.9 million), accounting for 77 per cent (76 %) of total premium income. Premiums written on regular premium contracts stood at EUR 54.2 million (EUR 53.9 million), accounting for 33 per cent (32 %) of total premiums written.

Claims paid totalled EUR 95.5 million (EUR 104.4 million). Surrenders amounted to EUR 44.8 million (EUR 47.4 million). The repayment of benefits amounted to EUR 3.1 million (EUR 5.5 million). Pensions were paid in the amount of EUR 37.8 million (EUR 36.2 million) and death and disability benefits in the amount of EUR 5.8 million (EUR 11.4 million).

Operating expenses totalled EUR 14.8 million (EUR 14.8 million). The company's expense ratio was 90.2 per cent (92.1 %), including the fee and commission income from funds which form the investments of the unit-linked insurance.

The total return on with-profit insurance savings varied between 0.6 and 4.5 per cent in 2018, depending on the line of insurance and quarter of the year. Client bonuses granted totalled EUR 0.9 million, of which EUR 0.9 million was funded from the provisions for future bonuses reserved earlier.

Investments

The company's return on investments at current values amounted to EUR 17.8 million (EUR 24.8 million), i.e. 2.4 per cent (3.3 %) on the invested capital. The company's net investment income was EUR 39.4 million negative (EUR 70.7 million positive), of which unit-linked insurances accounted for EUR 58.3 million (EUR 54.5 million positive) of the negative net result.

At year-end, the current value of investments stood at EUR 761 million (EUR 767 million). Bonds and long-term fund investments accounted for 46 per cent of the investment portfolio, and money market investments and deposits for 28 per cent. Shares, equity fund investments and capital trusts accounted for 12 per cent, real estate investments for 13 per cent, and loan receivables and other investments for one per cent. Assets covering unit-linked insurances grew to EUR 1,027 million (EUR 1,018 million).

Ancillary activities

Fennia Asset Management is authorised by the Finnish Financial Supervisory Authority (FIN-FSA) to operate as a manager of alternative investment funds. The authorisation means that Fennia Asset Management can act as the asset manager and clearing house for the alternative funds managed by it. Fennia Life made the necessary amendments approved by the Financial Supervisory Authority to its Articles of Association to enable the above-mentioned activities.

Result

The company's operating profit was EUR 24.2 million (EUR 22.3 million), and the Group's operating profit was EUR 23.1 million (EUR 20.4 million). The company decreased the interest rate supplement reserved previously by EUR 10.4 million and the reserve for future bonuses by EUR 0.9 million. EUR 3.8 million in provisions for future bonuses was transferred from the comparison year's result to the technical provisions. At year-end, the supplementary provision for the guaranteed interest rate stood at EUR 114.7 million.

Administration and staff

The members of Fennia Life's Board of Directors until 1 October 2018 during the year under review were: Group CEO Antti Kuljukka (Chairman); Matti Ruohonen (Vice Chairman); Juha-Pekka Halmeenmäki; and Deputy Managing Director Seppo Rinta. The members of Fennia Life's Board of Directors after 1 October 2018 were: Group CEO Antti Kuljukka (Chairman); Matti Ruohonen (Vice Chairman); Juha-Pekka Halmeenmäki; and Chief Actuary Simo Sarvamaa.

The Board of Directors held a total of 11 meetings during the year under review. The attendance rate of the members was 94 per cent.

Alexander Schoschkoff acted as the company's Managing Director.

The company employed an average of 56 people (52) in 2018.

Remuneration

The starting point for remuneration in the Fennia Group is to provide encouraging, fair and reasonable remuneration to management and personnel that is in line with the short- and long-term interests of the Group and Group companies. The remuneration schemes are based on achieving pre-defined targets that are derived from the Group's strategic targets. In order to achieve this objective, remuneration principles (including a pay policy) have been drawn up for the Group. Fennia Group's policies define all of the principles related to salary and rewards for Fennia employees. At Fennia, the remuneration principles and the pay policy are viewed as a whole that is influenced not only by an interesting and sufficiently challenging field of tasks, but also by good leadership, personnel benefits and monetary rewards. The remuneration principles and pay policy also define how each Fennia employee can influence the development of their salary by developing themselves and their work, as well as the responsibilities related to salary and rewards within the company.

In building and developing remuneration schemes, the Group's and the company's business strategy, targets and values are taken into account, as are the company's long-term interests, risk management and business continuity, and business practices that are professional and in line with healthy and prudent business principles. The remuneration schemes include, among other things, pre-defined maximum amounts of remuneration and a force majeure clause, which gives the Board of Directors the right to amend the schemes during the period if the company's financial position is jeopardised or if the circumstances have otherwise changed considerably. Remuneration decisions are made according to the 'one above' principle; i.e. the person making the decision is the supervisor of the supervisor of the employee in question.

Group structure

On 1 April 2018, Fennia Life sold the entire share capital of its wholly owned Fennia Asset Management Ltd to Fennia Mutual Insurance Company in an inter-group transaction. Fennia Asset Management is included in Fennia Life's consolidated financial statements for the first three months of the financial year.

At year-end, Fennia Life Group comprised twelve real estate companies wholly owned by the company.

Risk management and solvency management

The risk management and solvency management principles that are approved by the boards of directors of Fennia Group companies serve as the foundation for Fennia Life's risk management. The steering of the risk management system is based on a three-defence-line model, which is described in more detail in the note concerning risk management.

A risk management executive group operates within the Group to prepare, steer and co-ordinate tasks related to risk and solvency management and to communicate related information. A group-level asset-liability committee (ALCO) has been established for the insurance companies' balance-sheet management.

Investment activities are based on the asset-liability management (ALM) plan that is approved by the company's Board of Directors and which determines, among other things, the allocation of investments and the rights and responsibilities of those involved in investment activities. The company's risk-bearing capacity is taken into account in determining the allocation of investments.

A note to the financial statements concerning risks and the management of risks and solvency has been drawn up, detailing Fennia Life's most significant risks and general principles concerning risks and solvency management.

Solvency and Financial Condition Report

Fennia Life's Solvency and Financial Condition Report will be published at the latest on 3 June 2019 on Fennia's website www.fennia.fi.

Outlook for the current year

We expect the result for 2019 to be at the same level or better than the 2018 result. The result will, however, depend on the development of the capital markets, as a large part of the company's premiums earned are tied to the development of the insurance savings. Investment income is expected to be lower than it was in 2018.

Financial Statements

Profit and Loss Account

The figures are in thousands of euros.

	Group 2018	Group 2017	Parent Company 2018	Parent Company 2017	Note
Technical Account					
Premiums written					
Premiums written	164 142	166 687	164 142	166 687	1
Reinsurers’ share	-1 063	-960	-1 063	-960	
	163 079	165 728	163 079	165 728	
Investment income	76 606	60 737	77 344	63 277	3, 4
Revaluations on investments	13 095	49 813	13 095	49 813	3, 4
Claims incurred					
Claims paid	-95 519	-104 438	-95 519	-104 438	2
Reinsurers’ share	-32	219	-32	219	
Change in the provision for outstanding claims	-2 340	-3 252	-2 340	-3 252	
Claims incurred in total	-97 890	-107 471	-97 890	-107 471	
Change in the provision for un-earned premiums					
Total change in the provision for unearned premiums	13 378	-96 099	13 378	-96 099	
	13 378	-96 099	13 378	-96 099	
Net operating expenses	-14 826	-14 806	-14 826	-14 806	5
Investment charges	-83 501	-33 919	-83 157	-34 110	3, 4
Revaluation adjustments on investments	-46 665	-8 278	-46 665	-8 278	3, 4
Balance on technical account	23 276	15 704	24 358	18 054	
Non-Technical Account					
Other income					
Income from investment services operations	1 488	4 751			
Other	3	3	3	3	
	1 491	4 753	3	3	
Other charges					
Expenses from investment services operations	-1 384	-4 231			
Depreciation on goodwill	-241	-241	-241	-241	
Other	-				
	-1 624	-4 472	-241	-241	
Profit on ordinary activities	23 143	15 986	24 120	17 816	
Appropriations					
Change in depreciation difference			-22	-17	
Tax on profit					
Tax for the financial year	-2 255	-3 042	-2 255	-3 042	
Tax from previous periods	772	699	772	699	
Deferred tax	199	199			
	-1 283	-2 145	-1 483	-2 344	
Minority interests	6	1			

	Group 2018	Group 2017	Parent Company 2018	Parent Company 2017	Note
Profit for the financial year	21 865	13 842	22 615	15 455	

Balance Sheet

The figures are in thousands of euros.

	Group 2018	Group 2017	Parent Company 2018	Parent Company 2017	Note
ASSETS					
Intangible assets					
Other long-term expenses	2 667	3 178	2 667	3 176	12
Goodwill	1 444	1 685	1 444	1 685	
Advance payments	1 628	436	1 628	436	
	5 739	5 299	5 739	5 297	
Investments					
Real estate investments					
Land and buildings and real estate shares	72 061	74 365	60 760	61 039	7
Investment loans to affiliated undertakings			15 056	15 897	
Loans to associated undertakings	1 843	1 843	1 843	1 843	
	73 905	76 208	77 659	78 780	
Investments in affiliated undertakings					
Holdings in subsidiaries			-	3 400	
Other investments					
Shares and participations	302 862	300 820	302 862	300 820	11
Debt securities	282 804	294 417	282 804	294 417	
Loans guaranteed by mortgages	2 787	2 854	2 787	2 854	
	588 454	598 092	588 454	598 092	
Investments in total	662 359	674 300	666 113	680 272	6
Investments covering unit-linked insurances	1 024 979	1 015 618	1 024 979	1 015 618	10
Debtors					
Arising out of direct insurance operations					
Policyholders	111	399	111	399	
Arising out of reinsurance operations	50	137	50	137	
Other debtors	21 552	12 856	21 860	12 003	
	21 713	13 392	22 021	12 539	
Other assets					
Tangible assets					
Machinery and equipment	283	377	283	342	12
Other tangible assets	12	12	12	12	
	296	389	296	354	
Cash at bank and in hand	52 503	45 218	52 450	41 510	
	52 799	45 607	52 746	41 864	
Prepayments and accrued income					
Interest and rents	4 138	5 346	4 132	5 343	
Other	3 080	2 597	3 077	2 575	
	7 219	7 943	7 209	7 918	
	1 774 807	1 762 159	1 778 806	1 763 508	

	Group 2018	Group 2017	Parent Company 2018	Parent Company 2017	Note
LIABILITIES					
Capital and reserves					
Subscribed capital	27 751	27 751	27 751	27 751	13
Premium fund	10 723	10 723	10 723	10 723	
At the disposal of the Board	8	8	8	8	
Profit brought forward	59 737	48 896	72 464	60 009	
Profit for the financial year	21 865	13 842	22 615	15 455	
	120 085	101 220	133 562	113 947	
Appropriations					
Accumulated depreciation difference			62	39	
Minority interests	384	390			
Technical provisions					
Provision for unearned premiums	449 851	468 716	449 851	468 716	
Claims outstanding	152 745	154 139	152 745	154 139	
	602 597	622 855	602 597	622 855	
Technical provisions for unit-linked insurances					
Technical provisions	1 026 981	1 017 761	1 026 981	1 017 761	15
Creditors					
Arising out of reinsurance operations	720	738	720	738	
Deferred tax	3 598	3 799			
Other creditors	17 183	9 987	11 639	4 229	14
	21 501	14 525	12 359	4 967	
Accruals and deferred income	3 259	5 409	3 245	3 939	
	1 774 807	1 762 159	1 778 806	1 763 508	

Parent Company Cash Flow Statement

The figures are in thousands of euros.

	2018	2017
Cash flow from business operations		
Profit on ordinary activities before extraordinary items	22 638	15 472
Adjustments:		
Change in technical provisions	-11 038	99 350
Value adjustments and revaluations on investments	81 752	-28 629
Depreciation according to plan	1 028	1 560
Other	-7 706	-13 646
Cash flow before change in net working capital	86 673	74 107
Change in net working capital		
Increase/decrease in non-interest-earning receivables	-8 312	2 570
Increase in non-interest-earning payables	5 102	881
Cash flow from business operations before financial items and taxes	83 464	77 558
Interest paid on other financial expenses from operations	-124	-131
Taxes	-3 351	-852
Cash flow from business operations	79 989	76 575
Cash flow from capital expenditures		
Capital expenditure on investments (excl. funds)	-73 952	-74 691
Capital gain from investments (excl. funds)	9 314	16 121
Investments and income from the sale of tangible and intangible assets and other assets (net)	-1 411	-323
Cash flow from capital expenditures	-66 049	-58 893
Cash flow from financing		
Dividends paid	-3 000	-1 500
Cash flow from financing	-3 000	-1 500
Change in funds	10 940	16 182
Funds on 1 Jan.	41 510	25 328
Funds on 31 Dec.	52 450	41 510
	10 940	16 182

Accounting principles

The financial statements have been compiled in accordance with the decisions, instructions and regulations of the Finnish Accounting Act, Companies Act, Insurance Companies Act, and the authorities responsible for monitoring insurance companies.

Book value of investments

Buildings and structures are presented in the balance sheet at the lower of acquisition cost less the planned depreciation or current value. Real estate shares and land and water areas are presented at the lower of acquisition cost or current value.

Stocks and shares in the nature of investments are presented at the lower of acquisition cost or current value. Stocks and shares in the nature of fixed assets are entered at the lower of acquisition cost or current value, if the value adjustment is considered permanent. The acquisition cost is calculated using the average price.

Debt securities are entered in the balance sheet at acquisition cost. The acquisition cost is calculated using the average price. The difference between their nominal value and acquisition cost is accrued as interest income, or interest payable, over the life of the debt security instrument, and entered as an increase or decrease in their acquisition cost. Changes in value arising from the variation in interest rates are not entered. Value adjustments relating to the issuer's creditworthiness are entered at profit or loss.

Loan receivables and deposits are presented in the balance sheet at nominal value or at a permanently lower likely realisable value.

Value adjustments that have been made earlier on investments are re-adjusted with impact on the result up to the original acquisition cost if the current value increases.

Derivative contracts are mainly used to hedge the exchange rate risk and price risk in the investment portfolios by applying fair value hedging. In accounting terms, however, derivatives are mainly treated as non-hedging instruments, even though they serve as effective hedging instruments. The profits and losses resulting from the termination or expiry of contracts are entered as income or expenses for the financial year. The negative difference between the current value of the derivative contracts treated as non-hedging and a higher book value/contract rate is entered as an expense. Unrealised income is not entered.

Interest rate derivatives are used to hedge the interest rate risk of market-based technical provisions against future changes in value in accordance with the company's risk management. In accounting terms, these interest rate derivatives are treated as hedging instruments. When employing hedge accounting, the negative change in the value of derivatives is not entered as an expense insofar as it is covered by the change in the value of the position being hedged, and provided that the hedging is effective. However, if the negative change in the value of the hedging interest rate derivatives is greater than the positive change in the value of the market-based technical provisions to be hedged, the excess value is entered under value adjustments on investments. The interest for the financial period from the interest rate derivatives is entered as income or expenses for the financial year based on the contract. Profit or loss arising in connection with the closing of interest rate derivatives treated as hedging instruments in accounting are accrued over the life of each derivative contract.

Investments covering unit-linked insurances are valued at their current value, and the change in current value is entered as income or expenses in the profit and loss account.

Book value of assets other than investments

Other long-term expenses, which have been capitalised, are basic renovation expenses for real estate and planning expenses for information systems and, in addition, goodwill has been capitalised in the balance sheet. Those expenses, as well as equipment, are entered in the balance sheet at acquisition cost less planned depreciation. Impairment write-offs are recorded on the capitalisation of information systems if the capitalisation can no longer be considered to produce income in the future.

Premium receivables are presented in the balance sheet at probable value and other receivables at their par value or at a probable value permanently lower than this.

Depreciation according to plan

Depreciation according to plan is calculated as a straight-line depreciation on the acquisition cost based on the estimated economic life of the asset. The average estimated depreciation times are as follows:

- Computer software, 5–7 years
- Planning expenses for information systems, 3–10 years
- Other long-term expenses, 3–10 years
- Goodwill, 10 years
- Business and industrial premises and offices, 20–50 years
- Components in buildings, 10–20 years
- Vehicles and computer hardware, 3–5 years
- Office machinery and equipment, 7 years

Revaluations on investments

Revaluations and revaluation adjustments on investments in the nature of investment assets and on investments covering unit- linked insurances are entered with impact on the result.

Current value of investments

The value of real estate and shares in real estate is entered at values not exceeding market-based current values. The investments are evaluated using the net present value rule based on cash flow. An external authorized real-estate appraiser and the company's own experts take part in setting the annual fair value of real estate investments.

Quoted securities and securities that are otherwise subject to public trading are valued at the last bid price in continuous trading on the balance sheet date or, if this is not available, at the latest trading price. Unquoted securities are valued at the estimated market price, the undepreciated portion of acquisition cost or a value based on net asset value. Private equity investment fund shares are valued at the estimated current value of the fund reported by the administrative company or, if this is not available, at acquisition cost.

Derivative contracts are valued at their current value on the date of closing the accounts.

Receivables are valued at the lower of par value or probable value.

Foreign currency items

Transactions in foreign currency are entered at the exchange rate of the transaction date. In the annual closing of the accounts, currency-denominated receivables and liabilities and current values of investments have been translated into euro using the European Central Bank's benchmark rate on the date of closing the accounts. Exchange rate gains and losses arising during the financial period and in the closing of the accounts are entered as adjustments to the income and expenses concerned or as investment income and charges, if they are related to financing operations.

Staff pension schemes

Pension insurance cover has been arranged for the staff of the Group companies by means of TyEL insurance with Elo Mutual Pension Insurance. Pension expenditure during the financial year is entered on the accrual basis as an expense. All company personnel are also included in the defined contribution supplementary insurance policy, which has been taken out with Fennia Life Insurance Company.

Appropriations and treatment of deferred tax

Finnish legislation allows certain optional untaxed reserves and depreciation above plan to be made in the final accounts. In the final accounts of the Group companies, deferred tax is not deducted from appropriations, revaluations transferred to reserves and valuation differences on investments. Revaluations entered as income are taxable income.

Deferred tax receivables arising from timing differences between accounting and taxation are not entered in the annual accounts of the Group companies, and the Group companies have no corresponding deferred tax liabilities. Deferred tax liabilities resulting from consolidation measures are entered in the consolidated accounts.

In the consolidated financial statements, the depreciation difference is divided into the change in deferred tax and share of profit/loss for the financial year, and deferred tax and share of capital and reserves. The rate of tax used is 20.0 per cent.

Technical provisions

The calculation of technical provisions complies with the provisions and instructions of the Insurance Companies Act, the Ministry of Social Affairs and Health and the Financial Supervisory Authority.

No technical rate of interest is applied to unit-linked insurances. For other insurances, the technical provisions are calculated separately for each insurance and the technical rate of interest applied varies as follows:

- For individual life and pension insurance, the technical rate of interest applied is between 1 and 4.5 per cent, depending on the starting date of the insurance. For new pension insurance contracts, the technical rate of interest is 1 per cent.
- For capital redemption contracts, the technical rate of interest applied is between 0 and 2.5 per cent, depending on the starting date and the target group of the contract.
- The technical interest rate for group pension insurance is 0 to 3.5 per cent. An annual interest rate is applied to new group pension insurance policies (the technical rate of interest is 0%).

In order to fulfil the technical interest rate requirement, the technical provisions have been supplemented in previous financial statements. The supplementary provision for the guaranteed interest rate as of 31 December 2018 is approximately EUR 114.7 million. As a result of the supplementary provision, the minimum annual return requirement for investment operations on the part of these policies is 1.0 per cent.

Principle of Fairness

According to Chapter 13, Section 2 of the Insurance Companies Act, a so-called Principle of Fairness must be observed in life insurance with respect to such policies which, according to the insurance contract, entitle to bonuses and rebates granted on the basis of any surplus yielded by the policies. This principle requires that a reasonable part of the surplus be returned to these policies as bonuses, insofar as the solvency requirements do not prevent it.

Fennia Life aims at giving a long-term gross return on policyholders' with-profit insurance savings that is at minimum based on the risk-free interest rate. The surrender right and the duration of the insurance are taken into account in distributing bonuses. The return to be distributed to clients is determined based on the company's long-term net income on investments.

The total interest rate consists of the technical interest rate and the total amount of bonuses and rebates on the insurance contract in question. The amount of bonuses and rebates is influenced by the level of technical interest on the contract. When the company's net income from investments is low, the level of distributed bonuses is reduced. In this case, the total interest rate on insurance contracts with a low technical rate of interest can remain lower than that on an insurance contract with a high technical rate of interest. When the net income on investments is high, insurance contracts with a low technical rate of interest may achieve a higher total interest rate than insurance contracts with a high technical rate of interest.

The aim is to retain continuity in the level of bonuses paid, as a result of which the surplus from returns on investments can be accrued as distributable bonuses for the group of insured in question for the coming years.

The level of bonuses is limited by the owner's requirements for return on capital, as well as the company's solvency target. The solvency target is set in such a way that all the solvency limits set by legislation are exceeded and so that the company is able to take risks in its investment operations to the extent required by solvency maintenance, by the return requirement on technical provisions and by the return requirement of the owner.

Fennia Life's Board of Directors decides on the distribution of bonuses to insurance contracts annually. The amount of bonuses confirmed in advance can, however, be changed during the course of a year if necessitated by the company's solvency or the general market situation.

The Principle of Fairness can be applied in risk life insurances, on the part of death cover and disability cover, to specified insurance groups in the form of increased compensation.

Bonus targets are not binding and are not part of the insurance contract between the company and the policyholder. The bonus objectives are in force until further notice and the company reserves the right to alter the bonus objectives.

Implementation of the Principle of Fairness in 2018

Fennia Life's bonuses in 2018 correspond to the targets set by the company in its Principle of Fairness. The return to be distributed to insurance policies is determined based on the company's long-term net income on investments. The goal in the level of bonuses is continuity. The company's solvency position is taken into account when distributing bonuses.

The company’s return on investments in 2018 was moderate. In response to the extremely low interest rate level that has continued for some time, the company has annually transferred part of its result to the supplementary provision for the guaranteed interest rate in order to cover the cost of the technical rate of interest in the coming years. At the closing of the accounts on 31 December 2018, no such transfer was made. The supplementary provision for the guaranteed interest rate was decreased according to plan.

The technical rate of interest for new pension insurance contracts has remained low (0–1 per cent) for several years. In order to ensure continuity in the level of bonuses paid, EUR 3.8 million was transferred from the result for 2017 to the provision for future bonuses to be used to cover the cost of the bonuses on pension insurance contracts with a technical rate of interest of 0 or 1 per cent. The bonuses paid 2018 were funded from provisions for bonuses reserved earlier.

The risk-free interest rate has remained low for both short-term and long-term government bonds since 2009. Between 2009 and 2018, the total interest credited by Fennia Life has clearly exceeded the risk-free interest rate of the corresponding investment period. When distributing bonuses, not only the contract’s technical rate of interest, but also the surrender right and the duration of the insurance have been taken into account. For that reason, the total interest credited on pension insurance has been higher than the interest credited on savings insurance.

The table below indicates the total interest credited by Fennia Life in 2018:

Total annual interest on with-profit policies in 2018

Technical interest rate	Individual savings insurance	Individual pension insurance	Group pension insurance	Capital redemption policy
4.50%	4.50%	4.50%		
3.50%	3.50%	3.50%	3.50%	
2.50%	2.50%	2.50%	2.50%	2.50%
2.00%			2.00%	
1.50%	1.50%			1.50%
1.00%	1.00%	1.60%	1.60%	1.00%
0.00%			1.60%	0.60%

The surplus from risk life insurance is paid out as extra sums to risk life insurance policies in connection with loss events the extra sums paid in 2018, amounting to EUR 392,692, were funded from provisions for bonuses reserved in the previous financial statement. The sums paid per insurance were increased in 2018.

Consolidated Financial Statements

Fennia Life’s consolidated financial statements include all the subsidiaries in which the parent company either directly or indirectly holds more than half of the voting rights.

The consolidated financial statements have been drawn up as combinations of the profit and loss accounts, balance sheets and notes of the parent company and the subsidiaries. Amounts due to or from Group companies, internal gains and losses, profit distribution and mutual share ownership have been eliminated. Mutual share ownership is eliminated using the acquisition method. The consolidation difference is entered under the fixed asset items concerned and depreciated according to their depreciation plan. The unallocated part of goodwill on consolidation has been written off.

Group

Group companies 31 Dec. 2018

The following subsidiaries are included in the consolidated financial statements

- Fennia Asset Management Ltd. (Sold 4/2018)
- Asunto Oy Jyväskylän Jontikka 2
- Asunto Oy Tampereen Vuoreksen Puistokatu 76
- Kiinteistö Oy Espoon Niittyrinne 1
- Kiinteistö Oy Koivuhaanportti 1-5
- Kiinteistö Oy Konalan Ristipellontie 25
- Kiinteistö Oy Mikkelin Hallituskatu 1
- Kiinteistö Oy Sellukatu 5
- Kiinteistö Oy Teohypo
- Kiinteistö Oy Vaajakosken Varaslahdentie 6
- Kiinteistö Oy Vasaramestari
- Kiinteistö Oy Vasaraperän Liikekeskus
- Munkinseudun Kiinteistö Oy

Notes to the Accounts, Parent Company

Notes to the Profit and Loss Account and Balance Sheet

1. Premiums written

The figures are in thousands of euros.

	2018	2017
Direct insurance		
Finland	164 142	166 687
Reinsurance	-	-
Gross premiums written before reinsurers' share	164 142	166 687
Items deducted from premiums written		
Credit loss on outstanding premiums	12	11
Direct insurance premiums written		
Life insurance		
Unit-linked individual life insurance	81 344	92 601
Other individual life insurance	3 383	3 247
Unit-linked capital redemption policy	28 974	20 075
Other capital redemption policy	122	145
Employees' group life insurance	5 315	5 283
Other group life insurance	10 774	10 891
	129 911	132 242
Pension insurance		
Unit-linked individual pension insurance	4 466	4 505
Other individual pension insurance	4 928	5 203
Unit-linked group pension insurance	11 776	9 763
Other group pension insurance	13 061	14 975
	34 231	34 446
Regular premiums	54 224	53 898
Single premiums	109 918	112 790
	164 142	166 687
Premiums from with-profit policies	37 582	39 744
Premiums from unit-linked insurance	126 560	126 944
	164 142	166 687

2. Claims paid

The figures are in thousands of euros.

	2018	2017
Direct insurance		
Life insurance	52 605	65 017
Pension insurance	42 913	39 421
	95 519	104 438
Reinsurance	-	-
Claims paid in total	95 519	104 438
Of which:		
Surrenders	44 770	47 400
Repayment of benefits	3 100	5 504
Other	47 649	51 535
	95 519	104 438
Share of unit-linked insurances of claims paid	34 685	43 464
Life insurance: bonuses and rebates		
Impact of bonuses and rebates attached to life insurance policies on the balance on technical account	39	639
Change in provisions for future bonuses for the financial	-492	3 800

Of the technical rate of interest in 2018, EUR 10,355,833 was funded from supplementary provisions for the guaranteed interest rate. A total of EUR 530,314 was granted as bonuses on pension and savings policies in 2018. Of the bonuses, EUR 491,684 was funded from provisions for bonuses reserved earlier. For risk life insurance, extra sums paid amounted to EUR 392,692 and were funded entirely from provisions made for the extra sums. Client bonuses paid in 2018 complied with the bonus objectives for the financial year.

Client bonuses paid in 2018 complied with the bonus objectives for the financial year. At the closing of the accounts on 31 December 2017, EUR 3,800,000 was transferred from the result to bonuses for pension insurance with a low technical rate of interest. Of the technical rate of interest in 2017, EUR 10,921,504 was funded from supplementary provisions for the guaranteed interest rate. Bonuses granted in 2017, EUR 457,776, were funded from the result. For risk life insurance, extra sums paid amounted to EUR 608,412 and were funded entirely from provisions made for the extra sums. Client bonuses paid in 2017 complied with the bonus objectives for the financial year. At the closing of the accounts, an additional non-recurring extra bonus, EUR 181,530, was paid to a part of the group pension insurances.

3. Net Investment income

The figures are in thousands of euros.

	2018	2017
Investment income		
Income from investments in associated undertakings		
Interest income		
From other undertakings	228	-
Income from investments in land and buildings		
Interest income		
Affiliated undertakings	319	332
From other undertakings	147	147
	466	479
Other income	7 834	7 957
	8 301	8 436
Income from other investments		
Dividend income	20 147	16 034
Interest income	9 236	7 609
Other income	3 488	1 758
	32 871	25 402
Total	41 399	33 838
Value readjustments	5 752	5 236
Gains on realisation of investments	30 193	24 203
Total	77 344	63 277
Investment charges		
Charges arising from investments in land and buildings		
To affiliated undertakings	-2 724	-2 777
To other undertakings	-1 231	-1 015
	-3 955	-3 792
Charges arising from other investments	-4 264	-3 963
Interest and other expenses on liabilities	-124	-131
Total	-8 344	-7 886
Value adjustments and depreciations		
Value adjustments on investments	-53 933	-18 141
Losses on realisation of investments	-20 880	-8 082
Total	-83 157	-34 110
Net investment income before revaluations and revaluation adjustments	-5 812	29 167
Revaluations on investments	13 095	49 813
Revaluation adjustments on investments	-46 665	-8 278
	-33 570	41 535
Net investment income on the Profit and Loss Account	-39 383	70 702

4. Share of unit-linked insurance of net investment income on the Profit and Loss Account

The figures are in thousands of euros.

	2018	2017
Investment income	29 385	29 168
Investment charges	-12 257	-7 289
Net investment income before revaluations and revaluation adjustments and value adjustments and readjustments	**17 127**	**21 879**
Revaluations on investments	13 095	49 813
Revaluation adjustments on investments	-46 665	-8 278
Value adjustments on investments	-45 411	-10 724
Value readjustments	3 603	1 816
Net investment income on the Profit and Loss Account	-58 251	54 506

5. Operating expenses

The figures are in thousands of euros.

	2018	2017
Operating expenses in the Profit and Loss Account		
Policy acquisition costs		
Direct insurance commissions	2 429	2 336
Commissions on reinsurance assumed and profit sharing		
Other policy acquisition costs	4 832	4 330
Total policy acquisition costs	7 261	6 666
Policy management expenses	5 405	5 806
Administrative expenses	2 369	2 469
Commissions on reinsurance ceded	-211	-135
Total	14 825	14 806
Total operating expenses by activity		
Claims paid	978	770
Net operating expenses	14 826	14 806
Investment charges	1 646	1 559
Total	17 450	17 135
Depreciation according to plan by activity		
Claims paid	160	157
Net operating expenses	838	1 345
Investment charges	29	58
Total	1 028	1 560
Staff expenses, personnel and executives		
Staff expenses		
Salaries and commissions	4 323	3 886
Pension expenses	1 141	678
Other social expenses	206	225
Total	5 670	4 788
Executives' salaries and commissions		
Board of Directors and Managing Director	286	336
The age of retirement of the Managing Director is defined according to TyEL		
Average number of personnel during the financial year	52	52
	52	52
Auditors' commissions		
Audit	23	29
Tax consulting	-	-
Other	-	2
	23	32

Services, other than audit services, provided by KPMG Oy Ab to the companies in the Fennia Group in the financial year 2018 totalled EUR 11,532.00. The services comprised tax services, EUR 5,580.00, and other services, EUR 5,952.00.

6. Current value and valuation difference on investments

The figures are in thousands of euros.

	Investments 31 Dec. 2018, Remaining acquisition cost	Investments 31 Dec. 2018, Book value	Investments 31 Dec. 2018, Current value	Investments 31 Dec. 2017, Remaining acquisition cost	Invest-ments 31 Dec. 2017, Book value	Invest-ments 31 Dec. 2017, Current value
Real estate investments						
Real estate	-	-	-	3 718	3 718	4 260
Real estate shares in affiliated undertakings	48 715	48 715	59 949	48 508	48 508	58 766
Real estate shares in associated undertakings	10 353	10 353	10 353	7 120	7 120	7 420
Other real estate shares	1 692	1 692	1 692	1 692	1 692	1 692
Investment loans to affiliated undertakings	15 056	15 056	15 056	15 897	15 897	15 897
Loans to associated undertakings	1 843	1 843	1 843	1 843	1 843	1 843
Investments in affiliated undertakings						
Shares and participations	-	-	-	3 400	3 400	3 400
Other investments						
Shares and participations	302 862	302 862	325 617	300 820	300 820	328 814
Debt securities	282 804	282 804	282 970	294 417	294 417	294 536
Loans guaranteed by mortgages	2 787	2 787	2 787	2 854	2 854	2 854
	666 113	666 113	700 267	680 272	680 272	719 484
The remaining acquisition cost of debt securities comprises the difference between the amount payable at maturity and purchase price,which has been released to interest income (+) or charged to interest income (-)	-9 068			-12 041		
Valuation difference (difference between current value and book value)			34 154			39 212
Current value and valuation difference of derivatives						
Hedging derivatives			4 803			182
Non-hedging derivatives	-223	-223	-215	-48	-48	646
Valuation difference (difference between current value and book value)			4 811			876
Valuation difference, total			38 966			40 088

7. Changes in investments in land and buildings

The figures are in thousands of euros.

	Land and buildings and real estate shares	Investment loans to affiliated undertakings	Investment loans to associated undertakings
Acquisition cost, 1 Jan.	69 061	15 897	1 843
Increase	3 001	-	-
Decrease	-3 720	-841	-
Acquisition cost, 31 Dec.	68 341	15 056	1 843
Value adjustments, 1 Jan.	-8 022		
Accumulated value adjustments related to decreases	-		
Value readjustments	898		
Increase	-458		
Value adjustments, 31 Dec.	-7 582		
Book value, 31 Dec.	60 760	15 056	1 843
Land and buildings and real estate shares occupied for own activities			
Remaining acquisition cost	280		
Book value	280		
Current value	280		

8. Investments in affiliated and associated undertakings

The figures are in thousands of euros.

	2018
Acquisition cost, 1 Jan.	3 800
Decrease	-3 800
Acquisition cost, 31 Dec.	
Value adjustments, 1 Jan.	-400
Value readjustments	400
Value adjustments, 31 Dec.	
Book value, 31 Dec.	

9. Debtors

The figures are in thousands of euros.

	2018
Other debtors	
Affiliated undertakings	621

10. Investments covering unit-linked insurances

The figures are in thousands of euros.

	Original acquisition cost, 2018	Current value, 2018	Original acquisition cost, 2017	Current value, 2017
Shares and participations	813 702	836 526	748 562	860 523
Debt securities	131 143	125 072	115 563	115 380
Cash at bank and in hand	63 382	63 382	39 715	39 715
Total	1 008 227	1 024 979	903 840	1 015 618
Investments covering unit-linked insurances corresponding to technical provisions	1 008 227	1 024 979	903 840	1 015 618
Cash at bank and in hand, and other debtors include net insurance premiums that have not yet been invested		2 468		2 495

11. Shares and participations in other companies

The figures are in thousands of euros.

	Holding per cent	Book value, 31 Dec. 2018	Current value, 31 Dec. 2018
Domestic shares			
Amplus Holding Oy	19,97 per cent		3 576
Fingrid Oyj	0,18 per cent		1 500
Holiday Club Resorts Oy	1,76 per cent		1 097
Pihlajalinna Oyj	1,17 per cent		2 270
Uudenmaan Pääomarahasto Oy	13,22 per cent		1 016
Other		1 461	1 846
		1 461	11 306
Foreign shares			
Other		55 051	66 534
		55 051	66 534
Unit trusts, domestic			
Erikoisisjoitusrah. Fennica Toimitilat I E-osuus		8 353	8 482
Evli Euro Likvidi		29 986	29 986
Evli Euro Likvidi B		1 500	1 500
Evli Short Corporate Bond B		30 090	30 090
Nordea Korko S Kasvu (Moderate Yield Fund)		3 982	3 982
OP-Euro A		3 994	3 994
Unit trusts, foreign			
France			
Oddo Asset Management Oddo Tresorerie 3-6 Mois		5 434	5 434
Ireland			
Institutional Cash Series PLC – Institutional US D		31 506	32 712
Muzinich Funds - Emerging Markets Short Duration F		16 316	16 316
Muzinich Funds - EnhancedYield Short-Term Fund		20 481	20 481
Muzinich Short Duration High Yield Fund		15 108	15 841
Specialist Investor Funds PLC - M&G European Loan		24 958	24 958
Luxembourg			
BNP Paribas InstiCash Money 3M EUR		8 680	8 680
Oddo Compass Euro Credit Short Duration Fund		29 953	29 953
		230 343	232 411
Capital trusts, domestic			
MB Equity Fund IV Ky		1 966	3 446
Selected Mezzanine Funds I Ky		347	670
Selected Private Equity Funds I Ky			1 452
WasaGroup Fund I		351	501
Capital trusts, foreign			
Great Britain			
Euro Choice IV GB Limited		1 090	3 226
Guernsey			
Partners Group European Buyout		1 477	1 485
Partners Group European Mezzanine		928	940
The Triton Fund III L.P.		2 488	2 705
Other		941	941
		9 590	15 366

12. Changes in intangible and tangible assets

The figures are in thousands of euros.

	Intangible rights and other long-term expenses	Goodwill	Advance payments	Equip-ment	Total
Acquisition cost, 1 Jan. 2018	9 015	2 407	436	522	12 380
Increase	434	-	1 628	127	2 189
Decrease	-	-	-436	-253	-689
Acquisition cost, 31 Dec. 2018	9 449	2 407	1 628	397	13 880
Accumulated depreciation, 1 Jan. 2018	-5 229	-722		-181	-6 131
Accumulated depreciation related to decreases and transfers	-	-		152	152
Depreciation for the financial year	-799	-241		-84	-1 124
Accumulated depreciation, 31 Dec. 2018	-6 028	-963		-113	-7 104
Value adjustments, 1 Jan. 2018	-610				-610
Value adjustments during the financial year	-145				-145
Value adjustments, 31 Dec. 2018	-755				-755
Book value, 31 Dec. 2018	2 667	1 444	1 628	283	6 022

13. Capital and reserves

The figures are in thousands of euros.

	2018
Restricted	
Subscribed capital 1 Jan./31 Dec.	27 751
Premium Fund, 1 Jan./31 Dec.	10 723
Restricted in total	38 474
Non-restricted	
At the disposal of the Board 1 Jan./31 Dec.	8
Profit brought forward, 1 Jan.	60 009
Profit for the previous financial year	15 455
Dividend pay-out	-3 000
Profit brought forward, 31 Dec.	72 464
Profit for the financial year	22 615
Non-restricted in total	95 088
Capital and reserves in total	133 562
Distributable profit, 31 Dec. 2016	
Profit for the financial year	22 615
At the disposal of the Board	8
Profit brought forward	72 464
Distributable profit	95 088

14. Creditors

The figures are in thousands of euros.

	2018	2017
Other creditors		
To affiliated undertakings	604	354

15. Technical provisions for unit-linked insurances

The figures are in thousands of euros.

	2018	2017
Provision for unearned premiums	1 001 577	996 089
Claims outstanding	25 405	21 672
	1 026 981	1 017 761

16. Guarantee and liability commitments

The figures are in thousands of euros.

	2018	2017
Liabilities from derivative contracts		
Non-hedging		
Currency derivatives		
Forward and futures contracts		
Open		
Value of underlying instrument	66 490	74 582
Current value	-215	646
Hedging		
Interest rate derivative		
Interest rate swap		
Open		
Value of underlying instrument	325 000	322 500
Current value	4 803	182
Value-added tax liabilities		
Affiliated undertakings	249	17
Other undertakings	477	208
Investment commitments		
Commitment to invest in equity funds	5 720	5 950
Outstanding instalments of contract price for unfinished construction projects.	5 562	

The result of closed and matured non-hedging derivatives is entered in full with impact on the result.

The realised result of closed and matured hedging derivatives is accrued in the result over the original life of the derivative contract. The realized net result of matured hedging interest rate derivatives closed in thenfinancial year was EUR -959,919.80, of which EUR 53,791.70 was allocated to the financial year. From the results of hedging interest rate derivatives closed in previous financial years, losses of EUR 586,957.33 were allocated to the financial year.

Negative valuation differences in non-hedging derivative contracts are charged against the profit.

As regards group registering for VAT taxation, the company is responsible for the value-added tax payable by the group jointly with the other members of the value-added tax liability group of Fennia Mutual Insurance Company.

Loans to related parties and related party transactions

The company has no loans, liabilities or contingent liabilities to related parties.

The company has no related party transactions conducted according to other than standard business practices.

17. Notes concerning the Group

Fennia Life Insurance Company's parent company is Fennia Mutual Insurance Company. The domicile of the company is Helsinki. Copies of Fennia's Consolidated Financial Statements are available at the parent company's headquarters, Kyllikinportti 2, Helsinki.

Financial Statements' Key Figures

Analysis of Results

The figures are in thousands of euros.

	2018	2017	2016	2015	2014
Premiums written	163 079	165 728	205 881	198 946	151 413
Investment income (net), revaluations and revaluation adjustments on investments	-40 465	68 353	88 475	121 449	62 839
Claims paid	-95 551	-104 219	-90 301	-83 131	-77 490
Change in technical provisions before bonuses and rebates and change in equalisation provision	11 038	-94 911	-180 322	-221 123	-116 909
Net operating expenses	-14 826	-14 806	-14 046	-13 544	-11 947
Other technical underwriting income					156
Technical underwriting result before bonuses and rebates and change in equalization provision	23 276	20 144	9 688	2 596	8 062
Other income (net)	-133	281	550	13	-7
Operating profit	23 143	20 425	10 238	2 610	8 055
Change in equalisation provision	0	0	0	8 595	-723
Bonuses and rebates	0	-4 439	-1 800	-5 493	-501
Profit before untaxed reserves and tax	23 143	15 986	8 438	5 712	6 831
Taxes	-1 283	-2 145	-676	-445	-2 102
Minority interests	6	1	-10	4	
Group's profit for the financial year	21 865	13 842	7 753	5 272	4 729
Gross premiums written (EUR 1,000)	164 142	166 687	207 062	199 823	152 544
Expense ratio of expense loading	101,9 %	103,6 %	105,6 %	113,8 %	122,8 %
Expense ratio of Balance Sheet total	1,0 %	1,0 %	1,1 %	1,3 %	1,3 %
Total result (EUR 1,000)	23 036	30 877	14 170	-37 650	29 739
Return on assets	3,5 %	4,5 %	5,1 %	5,5 %	7,8 %

The key figures have been calculated on the basis of the Parent Company's figures, excluding the analysis results.

Investment portfolio at current values

	Basic distribution, 31. Dec. 2018, million euros	Basic distribution, 31. Dec. 2018, per cent	Basic distribution, 31. Dec. 2017, million euros	Basic distribution, 31. Dec. 2017, per cent	Risk distribution, 31. Dec. 2018, million euros	Risk distribution, 31. Dec. 2018, per cent	Risk distribution, 2017, per cent	Risk distribution, 2016, per cent	Risk distribution, 2015, per cent	Risk distribution, 2014, per cent
Fixed-income investments, total	**565,4**	**74,3**	**520,5**	**67,8**	**565,4**	**74,3**	**67,8**	**69,5**	**59,7**	**51,9**
Loans (footnote 1)	2,9	0,4	3,0	0,4	2,9	0,4	0,4	0,4	0,4	0,4
Bonds	346,5	45,5	367,1	47,8	346,5	45,5	47,8	38,9	39,0	41,0
Other money market instruments and deposits (footnote 1, 2)	215,9	28,4	150,5	19,6	215,9	28,4	19,6	30,1	20,3	10,4
Equity investments, total	**92,7**	**12,2**	**145,9**	**19,0**	**92,7**	**12,2**	**19,0**	**14,7**	**17,9**	**25,5**
Listed equities (footnote 3)	70,0	9,2	112,6	14,7	70,0	9,2	14,7	10,2	12,6	18,6
Private equity (footnote 4)	14,8	1,9	21,6	2,8	14,8	1,9	2,8	3,1	3,5	3,8
Unlisted equities (footnote 5)	7,8	1,0	11,6	1,5	7,8	1,0	1,5	1,5	1,9	3,0
Real estate investments, total	**97,9**	**12,9**	**99,5**	**13,0**	**97,9**	**12,9**	**13,0**	**14,9**	**21,5**	**21,6**
Direct real estate	88,9	11,7	89,9	11,7	88,9	11,7	11,7	11,8	15,3	15,6
Real estate funds and UCITS	9,0	1,2	9,6	1,2	9,0	1,2	1,2	3,1	6,2	6,0
Other investments	**5,4**	**0,7**	**1,4**	**0,2**	**5,4**	**0,7**	**0,2**	**0,9**	**0,9**	**0,9**
Hedge funds (footnote 6)	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,9	0,9	0,8
Commodities	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Other investments (footnote 7)	5,4	0,7	1,4	0,2	5,4	0,7	0,2	0,0	0,0	0,1
Investments in total	**761,4**	**100,0**	**767,2**	**100,0**	**761,4**	**100,0**	**100,0**	**99,9**	**100,0**	**99,8**
Effect of derivatives (footnote 8)	-				-			0,1	0,0	0,2
Total investments at fair value	**761,4**	**100,0**	**767,2**	**100,0**	**761,4**	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**
Modified duration of the bond portfolio	**1,1**									

1) Includes accrued interests.
2) Including cash at bank and in hand and settlement receivables and settlement liabilities.
3) Including mixed funds, if these cannot be allocated elsewhere.
4) Including private equity funds, mezzanine funds, and infrastructure investments.
5) Including unlisted real-estate investment companies.
6) Including all types of hedge fund shares, regardless of the fund's strategy.
7) Including items that cannot be allocated to other investment types.
8) Includes the effect of derivatives on the difference between risk-adjusted breakdown and basic breakdown

Net investment income on invested capital

Return euros/ per cent on inv. capital	Market value of net investment returns, 2018, million euros (footnote 8)	Invested capital, 2018, million euros (footnote 9)	Yield, per cent on invested capital, 2018, per cent	Yield, per cent on invested capital, 2017, per cent	Yield, per cent on invested capital, 2016, per cent	Yield, per cent on invested capital, 2015, per cent	Yield, per cent on invested capital, 2014, per cent
Fixed-income investments, total	**2,8**	**556,9**	**0,5**	**0,2**	**1,0**	**0,5**	**5,3**
Loans (footnote 1)	0,1	2,9	3,7	3,7	1,4	6,1	3,8
Bonds	1,7	352,7	0,5	0,1	1,4	-0,5	5,8
Other money market instruments and deposits (footnote 1, 2)	1,0	201,2	0,5	0,3	0,5	2,5	2,6
Equity investments, total	**7,6**	**100,3**	**7,6**	**11,3**	**5,0**	**16,7**	**13,4**
Listed equities (footnote 3)	-7,9	82,8	-9,5	7,5	3,1	18,5	12,0
Private equity (footnote 4)	3,5	17,7	19,9	32,3	12,9	14,1	13,6
Unlisted equities (footnote 5)	12,0	-0,2	-	5,8	2,4	11,6	23,1
Real estate investments, total	**6,3**	**94,2**	**6,7**	**5,4**	**14,6**	**7,9**	**5,7**
Direct real estate	5,7	85,3	6,7	5,6	18,1	8,4	3,4
Real estate funds and UCITS	0,6	8,9	7,1	3,8	4,9	6,6	12,1
Other investments	**1,9**	**1,6**	**113,9**	**1025,2**	**42,1**	**3,3**	**10,7**
Hedge funds (footnote 6)	0,0	0,0	-99,3	-10,7	-4,7	4,5	8,9
Commodities							
Other investments (footnote 7)	1,9	1,6	114,0	-739,9	-163,9	-108,2	22,9
Investments in total	**18,6**	**753,0**	**2,5**	**3,5**	**4,5**	**5,2**	**7,6**
Sundry income, charges and operating expenses	-0,8						
Net investment income at current value	**17,8**	**753,0**	**2,4**	**3,3**	**4,3**	**5,0**	**7,4**

1) Includes accrued interests.
2) Including cash at bank and in hand and settlement receivables and settlement liabilities.
3) Including mixed funds, if these cannot be allocated elsewhere.
4) Including private equity funds, mezzanine funds, and infrastructure investments.
5) Including unlisted real-estate investment companies.
6) Including all types of hedge fund shares, regardless of the fund's strategy.
7) Including items that cannot be allocated to other investment types.
8) Change in the market values between the end and beginning of the reporting period minus cash flows during the period. Cash flows refers to the difference between sales or profits and purchases or costs.
9) Invested capital is market value at the beginning of the reporting period plus daily or monthly time-weighted cash flows.

Calculation methods for the key figures

Premiums written is premiums written before reinsurers' share.

Expense ratio in per cent of expense loading is operating expenses before change in deferred acquisition costs plus claims settlement expenses divided by expense loading.

Expense ratio in per cent of balance sheet total is total operating expenses divided by opening balance sheet total.

Total result is operating profit or loss plus change in off-balance sheet valuation differences.

Return on assets at current values in per cent is opeating profit or loss plus financial expenses plus unwinding of discount plus change in valuation differences on investments divided by balance sheet total minus technical provisions for unit-linked insurances plus valuation differences on investments.

The divisor of the key figure is calculated as an average of values on the balance sheet for the current and previous financial period.

Unwinding of discount refers to the technical interest credited to insurances during the year plus or minus any changes in the supplementary liability of the interest.

Net investment income on invested capital at current values is calculated by line of investment and for the total amount of investments with reference to cash flows during the period.

Average number of employees is calculated as average number of employees at the end of each calendar month.

Risks and management of risks and solvency

1 Risk and solvency management in general

Fennia Life Insurance Company (hereinafter Fennia Life) is owned by Fennia Mutual Insurance Company (hereinafter Fennia). The risk and solvency management framework of Fennia Life is described in the policy documents approved by the Group companies' Boards of Directors. The most central of these documents is the risk and solvency management policy, which lays down the general principles for managing both risks and solvency in the Group.

In the Fennia Group, risk management means co-ordinated strategies, processes, principles and measures to identify, measure, manage, monitor and report risks faced by the Group and the Group companies. Solvency management, on the other hand, means strategies, processes, principles and measures to determine and steer the Group's and the Group companies' risk-bearing capacity, risk appetite, risk tolerance and restrictions of their essential risks.

2 Organisation of risk and solvency management

Fennia's Board of Directors, in its capacity as the Board of Directors of the Group's parent company, is the supreme decision- making body within the Group and bears the responsibility for risk and solvency management and for its integration into the Group's governance system. It is the responsibility of Fennia's Board of Directors to ensure that the special characteristics of the companies belonging to the Group and the intra-Group connections (including internal transactions, double capital, transferability of capital and use of capital in general) are taken into consideration appropriately.

The Board of Directors of Fennia Life is responsible for ensuring that the company abides by the Group's risk and solvency management policy. It is responsible for ensuring that the company has a governance system in place, which is adequately organised with regard to the quality, scope and complexity of the operations, including internal control and a risk management system.

Group companies abide by the Fennia Group's risk and solvency management policy where applicable. Fennia Life Insurance's other Group companies are real estate companies.

For management of the insurance companies Balance Sheets, an Asset Liability Committee (ALCO) was set up on the Group level. The main tasks of this committee is to prepare a proposal for the insurance companies' Boards of Directors on an investment strategy (ALM plan), to amend the strategy, if necessary, within the limits set by the Boards of Directors, and to report Balance Sheet risks to the Boards of Directors. The committee is chaired by Fennia's CEO.

The Group has a risk management executive group to prepare, steer and co-ordinate tasks related to risk and solvency management and to communicate information. It is chaired by the Group CFO.

The steering of the risk management system is based on a three-defence-line model, whereby:

1. The first defence line, i.e. business and support functions, has the primary responsibility for daily risk management and reporting in accordance with the agreed policy.

2. The second defence line is responsible for, among other things, the interpretation, development and planning of and reporting on risk and solvency management, and supports, monitors and assesses the first defence line's implementation of the risk and solvency management processes.

3. The third defence line is in charge of ensuring the effectiveness and efficiency of internal control and risk and solvency management.

In the three-defence-line model, responsibility for risk and solvency management is allocated as follows between the various operators:

- Managing Director

Assisted by the Acting Management, the Managing Director bears overall responsibility for the appropriate preparation and implementation of risk and solvency management in accordance with the Board of Directors' decisions.

- Business and support functions

Each business and support function is primarily responsible for daily risk management and reporting in accordance with the agreed policy, monitors the overall risk profile of their own area (supported by the second defence line) and ensures that operations in their area comply with the Group's risk and solvency management documentation.

- Actuarial function

The insurance company's responsible actuary is in charge of the Actuarial function and sees to it that the actuarial methods applied in pricing and in calculating technical provisions are appropriate. The responsible actuary also determines the level of technical provisions. The Actuarial function has a role as an operator of both the first and second defence lines. The Actuarial function participates in the efficient implementation of the risk management system, in the creation of risk management methods in particular, but also in the implementation of the company's own risk and solvency assessment.

- Risk Management function

The Risk Management unit and the Compliance and Operational Risks unit form the Risk Management function. The Risk Management function has the primary responsibility for the quantitative tasks of the second defence line and is responsible for, among other things, the interpretation, development and planning of and guidelines and procedures for risk and solvency management. The task of the function is to maintain an overall picture of the Group's and Group companies' risk profile and to report on it to the company's management. The function also supports the Board of Directors' and Managing Director's and business and support functions' risk and solvency management by, among other things, participating in the development of the risk management system, assessing its functioning and by drawing up analyses to support decision-making concerning the risk position.

- Compliance

The Compliance and Operational Risks unit, which belongs to the second defence line, is responsible for ensuring that operations comply with regulations, financial sector self-regulation and the Group's internal guidelines, and that customer relationships are managed according to the appropriate procedures. The unit also identifies and assesses the impacts of regulatory changes and the risks related to regulatory non-compliance, as well as the sufficiency of measures taken to prevent and rectify possible shortcomings in regulatory compliance. In addition, the unit promotes compliance by providing proactive advice and develops internal procedures with which compliance can be monitored effectively and appropriately.

- Internal audit

The internal audit supports the Group in achieving its goals by offering a systematic approach to the assessment and development of the efficiency of the organisation's risk management, control and leadership and administrative processes.

The task of the internal audit is to monitor and assess the sufficiency and efficiency of the Group's internal control and other administration in the following areas, among others:

- achievement of the Group's strategy and goals
- scope and reliability of the solvency management process
- efficiency of risk management
- cost-effectiveness and appropriateness of the use of resources
- compliance with laws and regulations and internal operating principles, plans and instructions

- accuracy, sufficiency and appropriateness of information
- securing assets

The Risk Management unit and the Compliance and Operational Risks unit have been integrated into the Fennia Group's organisation in a manner that ensures their independence from the operational activities. The units are free from influences that might compromise the objective, equal and independent performance of their tasks. The internal audit is independent of both the first and second defence line operations.

3 Risk management

Risk refers to an uncertain event and its consequence, which can be a threat or an opportunity for the company.

The Group's risk management strategies and processes are divided into the following sub-areas:

1. Risk identification

The business and support functions of the first defence line identify and assess the risks that threaten their operations and objectives, in the context of both the annual planning process and daily operational activities.

2. Risk measurement

During the risk measurement process, the severity of the risks and their interdependencies are evaluated to the extent that is possible. The objective of risk measurement is to create commensurable indicators for different risks and to improve the comparability of risks. Risk measurement and comparison are necessary as they allow the targeting of risk management measures on the risks that are most essential for the operations. As a general rule, risk measurement is based on the Value at Risk method. The Risk Management function co-ordinates the measurement of risk severity and dependency as well as the methods used in measurement.

3. Risk management

During the management process, the risks are prioritised and management measures are planned to control or limit the risks. The first defence line, as the risk owner, carries out appropriate risk management and plans the management measures. The second defence line supports, monitors and assesses the management actions undertaken by the first defence line, but, in order to ensure independence, does not participate in making operational decisions. The management instruments used in the various risk areas are described in more detail in sections 3.1–3.10.

4. Risk monitoring

The Group carries out quantitative risk monitoring, consisting of various risk indicators, and qualitative risk monitoring, which includes, among other things, monitoring, assessment and possible testing out of management measures that have been planned and decided upon. The first defence line ensures that appropriate risk monitoring is in place and that sufficient information on risks is obtained for their management. The first defence line monitors the management measures that it has planned and decided upon and assesses their effectiveness. The second defence line carries out independent quantitative and qualitative risk monitoring to support the risk management work of the first defence line.

5. Risk reporting

The materialisation of risks and their effects as well as near-miss situations are reported within the Group in accordance with the agreed reporting process. The Risk Management unit and the Compliance and Operational Risks unit report the risks to the risk management executive group and the relevant Boards of Directors regularly.

The above-mentioned risk management strategies and processes are applied to all of the risk areas of the risk map drawn up to facilitate risk management, which are:

- insurance risks
- financial market risks
- counterparty risks
- operational risks
- risks inherent in quantitative methods
- concentration risk
- liquidity risks
- strategic risks
- reputation risk
- group risk

3.1 Insurance risks

Insurance risks are related to the insurance company's core business, insurance.

The most significant insurance risks relate to risk selection, sales steering and risk pricing, i.e. they involve a loss risk resulting from the costs arising from future claims (incl. operating expenses) exceeding the insurance premiums received. Insurance risks also include major loss risks (e.g. disaster risk) and the risk inherent in the adequacy of reinsurance covers.

Insurance risks also include a loss risk arising from an unfavourable change in the value of the technical provisions, i.e. the technical provision risk. The technical provisions risk relates to the uncertainty of the assumptions made when calculating the technical provisions and to unfavourable deviations of the estimated claim amounts, operating expenses and their cash flows from the actual expenses.

The actuarial risk factors included in the technical provision risk are, among other things, biometric risks (mortality, longevity, disability and similar risks) and different expiry risks, such as the surrender risk in life insurance.

Certain financial market risks, such as inflation and the discount rate, also apply to the technical provisions.

Insurance operations are based on taking insurance risks, diversifying the risks within the insurance portfolio and managing the risks. The most important instruments for managing the risk inherent in unearned premiums are appropriate risk selection, pricing, insurance terms and conditions, and the acquisition of reinsurance cover.

Risk selection provides guidance to sales and ensures the profitability of insurance operations. Risk selection is managed by statistical study of previous losses, which also provide the basis for pricing. The risk selection guidelines specify the types of risks that can be insured and the maximum permitted sums insured.

The objective of insurance risk pricing is to achieve the desired risk matching: the bigger the risk, the higher the price and vice versa. Pricing requires accurate and adequate information as well as sufficient knowledge about the insured target. Only then can appropriate risk analyses be made and a sufficient level of insurance premiums be decided on.

The importance of insurance terms and conditions is essential when it comes to controlling insurance risks. They determine, for example, the scope of the insurance cover and the restrictions on compensable damages. In managing insurance risk, it is important to exclude undesired risks or to limit them by way of agreements to a desired level.

In calculating the technical provisions, different quantitative methods are used, which play a key role in the management of the technical provision risk. In addition to the methods used, the sufficiency and quality of the available information and its management essentially affect the nature of the technical provision risk.

In life insurance, legislation restricts the right of a life insurance company to increase premiums or to alter the insurance terms and conditions. Thereby the duration of the contracts affects the biometric risks inherent in the technical provision risk. If the assumptions made turn out to be insufficient and the insurance premiums cannot be adjusted, the technical provisions must be supplemented by an amount equalling the expected loss.

Reinsurance is used to hedge against and manage major losses and loss events. The use of reinsurance implies ancillary risks, such as reinsurance availability, price and counterparty risks. In life insurance operations, the use of outward reinsurance is minor and therefore concentrated on a few counterparties.

3.2 Financial market risks

Financial market risk refers to a risk of loss resulting, either directly or indirectly, from fluctuations in the level and volatility of the values of financial market variables, such as interest rates, equities, real estate, exchange rates and interest rate margins.

Investment operations and their management play a special role in managing financial market risks. The most significant risks are related to a decline in the value of investments and the poor matching of the investments with the nature of the technical provisions (ALM risk).

The main instruments for managing financial market risks are the appropriate selection of investment instruments, the diversification of investments and the limitation of risks. Derivative contracts may also be used to limit risks.

A prerequisite for managing financial market risks is to invest assets in property and instruments with risks that can be identified, measured, monitored, managed and reported. In addition, measures are taken concerning new assets and investment instruments prior to their acquisition to ensure that the new assets or investment instruments are manageable and suitable with regard to the business and to risk management.

Sufficient diversification of investments is used to achieve optimal diversification benefits, risk-adjusted returns and asset and liability matching.

A key instrument for managing financial market risks is the limitation of risk from a solvency perspective. Allocation restrictions are used to ensure that investment assets have been allocated sufficiently over different asset classes. In addition, restrictions that are more detailed are determined to ensure sufficient diversification also within asset classes.

Quantitative data on risk variables in Fennia Life's investment portfolio

Impact of change on Fennia Life’s assets

Fixed income investments	Interest rate +1 percentage point	EUR -33 million
Equity investments	Change in value -20%	EUR -15 million
Real estate investments	Change in value -10%	EUR -11 million

3.3 Counterparty risks

The counterparty risk takes into account possible losses resulting from the unexpected insolvency of the insurance company’s counterparties.

As with market risks, a prerequisite for managing counterparty risks is to ensure that the counterparties and related risks can be identified, measured, managed, monitored and reported.

Counterparty risks are mainly caused by (the interest rate margin risk is treated as a financial market risk):

- derivative contract counterparties, in which case only the possible positive market value of the contracts is exposed to the risk;
- receivables from insurance customers.

In managing the derivative contract counterparty risk, the counterparty risk is assessed prior to concluding a contract with the counterparty. The ratings given by credit rating agencies are the main tool used in assessing the creditworthiness of issuers and counterparties. To limit the counterparty risk, a minimum level has been determined for creditworthiness and limits have been set on maximum liability per counterparty.

Counterparty risks also arise from receivables from insurance customers. The counterparty risk arising from premium receivables from customers is usually small, because the non-payment of insurance premiums leads to the cancellation or reduction of the insurance cover.

3.4 Operational risks

Operational risks within the Fennia Group refer to a risk resulting from:

- inadequate or failed internal processes,
- personnel,
- systems, and
- external factors.

Legal risks are included in operational risks. Risks arising from strategic decisions have been excluded from operational risks.

The objective of managing operational risks at Fennia is to

- reduce, in a cost-effective manner, the likelihood that risks will be realised and the impacts of the realised risks, i.e. to reduce the losses resulting from risks
- support business and support functions to achieve the targets set for them using risk management
- help ensure that the Group's operations meet the requirements set for them by authorities and legislation.

The management of operational risks is part of the management of business and support functions. When implemented carefully, the management of operational risks supports the development of operations and the targeting of resources and development efforts.

The management of operational risks is based on identifying operational risks and collecting data on them from various sources, which include, for example, regular risk mapping of business and support functions, internal data on occurrences and losses as well as internal audits. The data collected is also used later in the process to evaluate risks and carry out analyses of the risk position of the Group or parts of the Group.

On the basis of the data collected from various sources, the Compliance and Operational Risks unit develops an overall picture of the Group's and Group companies' operational risks, also taking into account the interdependencies between the risks. The unit monitors the Group's risk profile and reports on it to the Acting Management and the Boards of Directors.

Within the Fennia Group, operational risks are divided into the following risk classes:

- malpractices and non-compliance with instructions,
- risks related to experience of personnel,
- legal risks
- risks related to information, telecommunications and communication systems,
- risks related to sales and customer relationships,
- risks related to processes, and
- risks related to the activities of external operators.

Preparedness and contingency plans have been drawn up for the key business and support functions to ensure that key functions can be continued in the event of a crisis.

3.5 Risks inherent in quantitative methods

A quantitative method refers to the creation of numerical estimates by applying statistical, economic, financial or other mathematical theories and methods. Quantitative methods also include methods which aim to produce a numerical outcome and which are partly or fully based on subjective expert appraisal.

A quantitative method can be erroneous and/or misleading and lead to unreliable reporting and incorrect conclusions and thus incorrect measures undertaken by Management.

Quantitative method risks are included in operational risks, but due to their special nature and importance and to facilitate their handling, these risks are identified, measured, managed, monitored and reported as their own risk area.

In the management of risks inherent in quantitative methods, the focus is on risks related to:

- mathematical theory
- the quality of information
- estimation and parametrization
- documentation
- validation
- personnel
- information systems and
- processes

A guiding principle in managing the risks inherent in quantitative methods is effective questioning of the methods and processes. This means that an independent and expert party, the Risk Management function or an external expert critically assesses the methods and processes.

The management of risks inherent in quantitative methods is based on the structure, mathematical theory and logic of each method being well documented and supported as much as possible by scientific research and/or best practices of the insurance sector. In order to be able to identify a method's strengths and weaknesses, it is important that the mathematical simplifications, numerical methods, approximations and the use of subjective expert appraisal are analysed and documented with sufficient accuracy. The owner and developers of the method must ensure that the various elements of the method function as desired, are suited to the intended purpose and that the method is mathematically correct and the estimated parameters are statistically reliable.

Managing the quality of the data is just as important as managing the structure, theory and logic of the method. Reliability can only be achieved through high-quality data.

The validation of a quantitative method covers processes and procedures which aim to verify that the method is appropriate and reliable and functions in the desired manner. Validation is used to identify possible weaknesses and limitations of the method as well as problems related to its use, and to assess and manage their impacts.

3.6 Concentration risks

Concentration risks refer to all kinds of risk concentrations involving losses which may be high enough to jeopardise the insurance company's solvency or financial position. Concentration risks most often arise from investment operations, but they may also arise from insurance operations, and from the combined effect of these.

The management of investment, financial market and counterparty risks is based on diversification which basically prevents any significant concentration risks. An exception to this rule is the so-called strategic holdings which may lead to major concentration risks. Holdings in subsidiaries belonging to the Group are handled as strategic holdings.

Insurance operations are based on risk diversification within the insurance portfolio, such that the impacts of a single insurance target under the company's responsibility can be limited. This risk is managed through, among other things, risk selection guidelines and reinsurance.

3.7 Liquidity risk

Liquidity risk refers to a risk of not being able to meet future payment obligations or of only being able to meet them through special measures.

Liquidity risk is divided into short- and long-term risk. Short-term liquidity risk refers to risks that are related to asset and liability cash flows lasting less than four months (cash management risks). Long-term liquidity risk refers to asset and liability matching risks spanning several years, even decades into the future.

Short-term liquidity risk is managed by maintaining a sufficient liquidity reserve and by liquidity planning. Liquidity reserve is managed by, among other things, the following principles:

- a minimum allocation is given to money market investments,
- convertibility into cash is required of equity and fixed income investments,
- money market investments are diversified and counterparty limits are set for them, and
- the amount of non-liquid investments in the portfolio is limited.

When planning liquidity, daily forecasts are created on outgoing payments for the next four months. The objective of short- term liquidity risk management is to ensure that there will be no need to realise investments other than money market investments and that there will be no need to use or realise the short-term liquidity reserve built up by asset managers.

Long-term liquidity risk is monitored and reported as a separate risk; however, it is not managed as a separate risk, but instead as part of interest rate risk management.

3.8 Strategic risks

Strategic risks refer to risks that are related to the insurance company's strategy and which result from incorrect business decisions, incorrect or failed implementation of business decisions or from the inability to adjust business operations to changing conditions or so that they are in line with the targeted future state.

Strategy refers to a series of long-term plans and measures used by the insurance company to move from the current state into the desired future state.

Strategic risks entail many different dimensions, and they have been divided into the following groups:

- strategic macro risks, which are related for example to changes in demographic, social security and culture trends, changes in regulation, authority supervision and policy or changes in climate and geopolitical trends,
- sector-specific strategic risks that relate to changes in competition in the insurance or financial sector and in the demand of policyholders or investors, and,
- strategic risks inherent in internal operations, such as, for example, risks related to expansion or to internal development or to the availability of additional capitalisatio.

The basis for the management of strategic risks is to identify the strategic risks of the Group and each subsidiary, to observe various weak signals and to assess how different events, trends and scenarios will affect the sustainability of operations and the development of the financial position in both the short and long term.

3.9 Reputation risk

Reputation risk refers to a risk of damage to the public image of the Fennia Group or of an individual company belonging to the Group. Reputation risk can also be caused by the actions of partners, if their values and/or operating principles differ from those of the Fennia Group.

Reputation risk is usually a consequence of other materialised risks or events, such as the materialisation of operational risks.

The starting point for the management of reputation risks is to identify the possible events that can negatively affect the Group's or a Group company's reputation. Reputation risk differs in nature from other risks in that risk events can be based on real events or on events that fully or partly have no basis in reality (for example a baseless rumour). Reputation risks are often preventable or the effect of the events can usually be reduced.

The management of reputation risk is based on overall knowledge and understanding of the business and its restrictions. Reputation risk cannot be managed as a separate risk area; it is rather an extension of the management of operational risks. When the risks affecting reputation risk have been identified, various risk management measures can be implemented within the organisation. Successful reputation risk management is partly based on clear and well-thought-out external communications.

Reputation risk management also involves compliance with laws, regulations and provisions and operating in accordance with the requirements set by authorities. The public image and reliability of an insurance company may suffer if laws, regulations, provisions and requirements set by authorities are not complied with.

3.10 Group risks

Group risks refer to risks arising from Fennia and its subsidiaries operating in the form of a Group. Group risks can be divided into the following groups:

- transaction risks
- contagion risks
- conflict of interest risks
- concentration risks
- risk relatd to administration

Transaction risks refer to risks that relate to intra-Group transactions, for example appropriate pricing.

Contagion risks include situations in which the problems faced or the risks taken by one company spread to the other Group companies or to the whole Group. This group also includes risks relating to a loss of moral (moral hazard risks), referring to situations in which a risk intentionally and immorally taken by one company and the resulting loss are transferred to be borne by the parent company or other companies either in part or in full.

Conflict of interest risks arise when the interests of some Group companies or those of the entire Group collide.

Concentration risks arise if a single counterparty becomes too significant on the Group level, even though the risk remains within the permitted limits for single companies.

Risks related to administration result from the fact that some of the operations are organised on the Group level and some on the level of individual companies. The differences in the companies' administrative systems can lead to co-ordination challenges and additional risks.

The management of group risks is based on a clear Group structure. In complicated ownership patterns, group risks become more important. In addition, appropriate group risk management is based on planning and monitoring business on the level of both the individual companies and the Group. That is the only way to ensure and monitor the development of the group objectives and their achievement.

The management of group risks is also based on consistent and transparent definition and implementation of the entire Group's internal control system, particularly the risk management system and regulatory compliance monitoring as well as the related reporting procedures. The roles and responsibilities of the various bodies must also be clear and defined from the Group's perspective.

4 Solvency management

Risk-bearing capacity refers to the company's assets that are available for covering losses. Risk appetite refers to the degree of risk the company is willing to take to achieve its business targets; in other words, the extent to which the company is ready to tie its own assets to risk-taking. Risk tolerance refers to the extent to which the company's assets are allowed to fluctuate when seeking to achieve the business targets.

The objective of risk and solvency management within the Group is to support the achievement of business goals and the continuity of business operations. This is done by ensuring that the risks taken are correctly proportioned in relation to risk- bearing capacity, risk appetite and risk tolerance and by creating conditions for trouble-free operations even in the case of unexpected losses by identifying the threats and opportunities that affect the implementation of the business strategy and the achievement of other targets.

General risk appetite and risk tolerance are managed by setting indicators and target limits for the most significant risks and combined risks. The set risk-specific restrictions must efficiently limit the risk profile to keep solvency and risk-taking under control and within the permitted limits.

Board of Directors' Proposal on the Disposal of Profit

Fennia Life's distributable profits totalled EUR 95,087,896.66. The company's profit for the financial year was EUR 22,615,251.55. The Board of Directors proposes that the profit for the financial year be used such that EUR 6,000,000.00 be paid in dividends and EUR 16,615,251.55 be transferred to retained earnings.

Helsinki, 6 March 2019

Antti Kuljukka

Matti Ruohonen

Juha-Pekka Halmeenmäki

Harri Pärssinen

Simo Sarvamaa

Alexander Schoschkoff
Managing Director

This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.

Auditor's report

To the Annual General Meeting of Fennia Life Insurance Company Ltd.

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Fennia Life Insurance Company Ltd (business identity code 1496059-8) for the year ended 31 December, 2018. The financial statements comprise the balance sheets, profit and loss accounts, cash flow statements and notes for the group as well as for the parent company.

In our opinion, the financial statements give a true and fair view of the group's and the company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Audit Committee.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note Auditors' commissions to the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

Most significant assessed risks of material misstatement

Below we have described our assessment of the most significant risks of material misstatement, including risks of material misstatement due to fraud, and presented a summary of our response to those risks.

Valuation of investment assets (Accounting Principles pages 8-10 and notes to the Accounts pages 35-46)

MOST SIGNIFICANT ASSESSED RISKS OF MATERIAL MISSTATEMENT

The investment assets of the Group including investments covering unit-linked insurance contracts constitute the most significant component of assets in the balance sheet.

In general investment assets are valued at acquisition cost or as real estate properties at the lower of acquisition cost less depreciations according to plan or the lower fair value of the aforementioned. Investment assets covering unit-linked insurance contracts are measured at fair value. In addition the fair values of the investments and the net income of the investments at fair value are disclosed in the notes to the financial statements.

Fair values of the investment assets are based either on market quotations or on estimates determined in accordance with the general fair value principles. For those assets for which market value is not available from public markets, the determination of fair value may require management judgement. Such investments include, for example, unlisted capital investments and real estate investments

AUDITOR'S RESPONSE TO THE RISKS

We assessed the appropriateness of the accounting principles and valuation methods applied.

We tested the internal controls over posting and valuation process of securities, derivatives and real estate properties.

We compared the values used in measurement of investment assets to external quotations and to results generated by other valuation methods applied as well as assessed the appropriateness of the company's own valuation procedures.

In addition we considered appropriateness of the notes on investment assets.

Calculation of technical provisions (Accounting Principles page 10-12 and notes to the Financial Statements page 49)

MOST SIGNIFICANT ASSESSED RISKS OF MATERIAL MISSTATEMENT

The technical provisions as specified in the Chapter 9 of the Insurance Companies Act form the most significant balance sheet liability item of both the parent company and the Group.

The company has a portfolio of savings and pension insurance policies that have a guaranteed interest rate (technical rate). The promised technical rate of interest involves risk of return of investments. The discount rate applied in calculation of technical provisions shall be chosen conservatively. Therefore the technical provisions must be topped up with interest rate fulfillment requiring management judgement that secure with reasonable certainty capability to keep given commitments.

Due to the significant book value, related assumptions involving management judgement and complexity of the actuarial models, technical provisions has been identified as an item containing risk of material misstatement.

AUDITOR'S RESPONSE TO THE RISKS

Our audit procedures included the assessment of the recognition and calculation principles and processes in respect of the technical provisions.

We involved our own actuary that evaluated the appropriateness of the assumptions and methods used, by assessing the technical bases applied and considering the appropriateness of the calculation models to verify sufficiency of the technical provisions, among others.

In addition we considered the accuracy of the technical provisions from the accounting perspective and assessed the accuracy of the notes concerning the technical provisions.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence th at is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are

inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other Reporting Requirements

Information on our audit engagement

We were first appointed as auditors by the Annual General Meeting on the year 2007, and our appointment represents a total period of uninterrupted engagement of 12 years.

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors. Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. Our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed, we conclude that there is a material misstatement of the report of the Board of Directors, we are required to report that fact. We have nothing to report in this regard.

Helsinki 8 March, 2019

KPMG Oy Ab

Petri Kettunen
Authorised Public Accountant, KHT

Board of Directions and Management

Board of Directors

Chairman

Antti Kuljukka

Group CFO Fennia Group

Helsinki

Vice Chairman

Matti Ruohonen

Ph.D., Actuary approved by the Ministry of Social Affairs and Health

Turku

Board Members

Juha-Pekka Halmeenmäki

M.A., Actuary approved by the Ministry of Social Affairs and Health

Helsinki

Harri Pärssinen

M.Sc. (Econ.), CPA

Helsinki

Simo Sarvamaa

Chief Actuary

Fennia Mutual Insurance Company

Naantali

Secretary to the Board

Sanna Elg

Chief Legal Officer

Fennia Mutual Insurance Company

Espoo

Fennia Life’s Board of Directors and Management 1 January 2019

Auditors

KPMG Oy Ab

Petri Kettunen
Authorised Public Accountant

Deputy Auditors

KPMG Oy Ab

Fredrik Westerholm
Authorised Public Accountant

Management

Alexander Schoschkoff

Managing Director

Johanna Ahvenainen

Director, Corporate Counsel, Compliance Officer

Juha-Pekka Kurttila

Director, Sales Managers

Ari Koskinen

Director, Service and Product Development, IT

Päivi Ojala

Chief Actuary

Kari Wilén

Director, Sales and Account Management

Fennia Life's Board of Directors and Management 1 January 2019

Physicians

Lauri Keso

Doctor of Medical Science, Specialist in Internal Medicine and Rheumatology

Fennia Life's Board of Directors and Management 1 January 2018