Fennia

Annual Report and Financial Statements 2018

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Managing director’s review

The transformation of working life affects the insurance business. The majority of new jobs in Finland are being created in sectors that provide various services and rely on human capital. These business sectors are low risk in terms of statutory accident insurance, which means their insurance premiums are naturally lower. This working-life trend is apparent at Fennia in the form of lower premium income.

In 2018, the investment markets were very demanding and challenging. The uncertainty was especially reflected directly in the fourth-quarter result.

Fennia Group’s overall strong solvency enables the creation of even more diverse customer services in the areas of coping with damage, asset management, increasing wealth and financial security.

On 27 November 2018, Fennia Mutual Insurance Company acquired the entire share capital of Folksam Non-Life Insurance, a company with long traditions in the non-life insurance business. The transaction will increase Fennia’s market share by two percentage points, and the company’s premium income from non-life insurance will increase by an estimated EUR 70 million.

The general meetings in February decided on the merger and approved the merger plan. We estimate that the corporate merger will be completed by summer 2019. By integrating our operations, merging and combining our strengths, we are aiming to boost our competitiveness, but, above all, we want to continuously develop and offer the best customer experience to all new and current Fennia customers – companies, entrepreneurs and households.

Last year, close to 50,000 new household customers chose Fennia as their insurance company. According to a survey carried out by EPSI Rating, Fennia was the only insurance company that succeeded in improving its customer satisfaction, as assessed by private customers, and was ranked second in the survey.

The feedback from customers is proof of successful actions to facilitate and improve their day-to-day lives, smooth communication and good co-operation with partners.

We nicely implemented our mission, that is the purpose of our existence: For business and life. I wish to warmly thank our customers, as well as everyone in the Fennia Group for their solid commitment to serving our customers.

Antti Kuljukka
Group CEO

Report of the board of directors

Fennia Mutual Insurance Company's result for the year 2018 was unsatisfactory. The risk ratio was very good, although slightly weaker than it was in the comparison year. This was the second-best risk ratio achieved in the past six-year period. The investment markets were challenging, and the uncertainty was especially reflected in the fourth-quarter result.

Fennia acquired the entire share capital of Folksam Non-Life Insurance on 27 November 2018. The transaction increases Fennia's premiums written on non-life insurance by an estimated EUR 70 million and, once the operations are integrated, it will bring considerable economies of scale in operating costs (Folksam's operating costs in 2018 were EUR 28.0 million).

It is estimated that Folksam Non-Life Insurance will be absorbed by Fennia Group's parent company in May 2019. Fennia paid EUR 106 million for Folksam Non-Life Insurance and recorded EUR 74 million in goodwill for the Group. The goodwill will be amortized over a period of ten years. Folksam Non-Life Insurance's result for 2018 will be combined with the consolidated result only for December 2018. The transaction will thus only have a minor impact on the 2018 consolidated result. As part of the integration, Folksam Non-Life Insurance's name was changed to Fennia Non-Life Insurance Company Ltd on 27 February 2019.

Insurance business

Premiums written for Fennia's non-life insurance before the reinsurers' share amounted to EUR 383 million (EUR 394 million). Direct insurance premiums written decreased to EUR 382.3 million (EUR 393.3 million). Premiums written for reinsurance assumed amounted to EUR 0.5 million (EUR 0.4 million). Credit losses amounted to EUR 1.4 million (EUR 1.4 million).

Changes in the bases for calculating the technical provisions were implemented moderately during the financial year. The provision for claims settlement costs was increased by approximately EUR 2.2 million. The collective provision for motor liability insurance was reduced by EUR 1 million. The technical provisions thus increased by EUR 1.2 million due to the change in the bases. The change increased the loss ratio by 0.3 percentage points.

The company's operating expenses amounted to EUR 100 million (EUR 100 million). The company's combined ratio excluding unwinding of discount was 99.7 per cent (96.6 %). The company's combined ratio, excluding changes in the calculation bases, was 99.4 per cent (93.6 %), with claims (risk ratio) accounting for 63.3 per cent (61.4 %) and operating expenses and claims handling expenses (operating expense ratio) for 36.0 per cent (32.2 %).

In the financial statements, the underwriting result includes non-recurring costs of EUR 1.1 million related to the Folksam Non- Life Insurance transaction; these costs slightly weakened the company's combined ratio.

Premiums written for statutory accident insurance (workers' compensation) decreased to EUR 75 million (EUR 82 million). The insurance line's profitability remained at the level of the previous year, and its loss ratio was 73 per cent. Premiums written for other accident and health insurance decreased by 2 per cent to EUR 43 million (EUR 44 million). The line's loss ratio weakened for the second year in a row, and was 89 per cent (81 %).

Premiums written for motor liability insurance decreased to EUR 65 million (EUR 67 million). The decline in premiums written that can be attributed to the price competition following the amendments to the act governing motor liability insurance also continued during the 2018 financial year. The company succeeded in terms of the number of insurance policies as the portfolio grew moderately. Despite the increased competition, the insurance line's loss ratio continued to be very good, at 57 per cent (55 %). Along with the favourable development of the motor liability insurance portfolio, premiums written for voluntary motor vehicle insurance rose to EUR 73 million (EUR 71 million). In contrast to motor liability insurance, the result for motor vehicle insurance was weak. The loss ratio worsened significantly to 84 per cent (77 %).

Premiums written on fire and other property insurance fell 4 per cent to EUR 85 million (EUR 89 million). The decline is due to the decrease in premiums written on corporate insurance policies. Premiums written for home insurance were roughly at the same level as in the previous year. The profitability of the insurance class improved to 75 per cent (78 %). In terms of major losses, the year was favourable for the company.

Investments

The company's return on investments at current values amounted to EUR 28 million (EUR 79 million), i.e. 1.6 per cent (4.7 %) on the invested capital. The subsidiary Fennia Life's fair value increase was EUR 26 million. The company's net income from investments was EUR 0.5 million (EUR 59 million). The change in net investment income entered in the company's result is mainly due to the currency derivatives' loss of EUR 12 million (profit EUR 19.6 million) and to capital gains on the sale of real estate in the comparison year (EUR 19.7 million).

At year-end, the current value of Fennia's investments stood at EUR 1,721 million (EUR 1,706 million). Bonds and long-term fund investments accounted for 21 per cent of the investment portfolio, and money market investments and deposits for 22 per cent. Shares, equity fund investments and private equity funds accounted for 27 per cent, real estate investments for 26 per cent and other investments for 4 per cent.

Result

The company's operating loss was EUR 7.8 million (operating profit EUR 61.2 million). The technical underwriting result weakened slightly compared to the previous year, as premiums earned decreased more than claims incurred. The decrease in operating profit was especially influenced by the lower return on investments in 2018 compared to 2017.

The company's equalisation provision grew by EUR 24 million to EUR 336 million (EUR 312 million).

Administration and staff

During the year under review, the members of Fennia's Board of Directors were Mikael Ahlbäck (Chairman); Matti Pörhö (Vice Chairman); Jussi Järventaus, LL.M. with court training; Lars Koski, Managing Director; Eva Liljeblom, Professor; Jyrki Mäkynen, Managing Director; Timo Salli, Managing Director; and Paul Stucki, Vice Chairman of the Board.

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.

Group CEO Antti Kuljukka has served as the company's Managing Director. The company employed an average of 859 people (892) 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. Fennia's 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 (pay policy) have been drawn up for the Group. Fennia Group's pay policy defines all of the principles related to salary and rewards for Fennia employees. At Fennia, the pay policy is 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 pay policy also defines 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 line with the pay policy, rewards have been built in such a way as to prevent unhealthy risk-taking. Fennia's remuneration schemes include, among other things, predefined 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

The consolidated financial statements of the Fennia Mutual Insurance Company include Fennia Life Insurance Company, in which the Company has a 100 per cent holding, on the basis of the sub-group financial statements.

On 1 April 2018, Fennia Mutual Insurance Company acquired the entire share capital of Fennia Asset Management Ltd. from Fennia Life Insurance Company in an inter-group transaction. Fennia Asset Management was granted authorisation by the Financial Supervisory Authority to act as a representative for the 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 Asset Management Ltd is included in Fennia Mutual Insurance Company's consolidated financial statements. Fennia Asset Management Ltd's subsidiary Fennia Property Development Ltd, which was established on 23 April 2018 and which Fennia Asset Management Ltd has a 70 per cent holding in, is also included in the consolidated financial statements.

Fennia Mutual Insurance Company acquired the entire share capital of Folksam Non-Life Insurance in a transaction that took place on 27 November 2018. Folksam Non-Life Insurance is included in the consolidated financial statements for the final month of the 2018 financial year.

Also included in the consolidated financial statements are eFennia, in which Fennia has a 20 per cent holding and 63.6 per cent of the voting rights, and Fennia-service Ltd, which was established on 9 February 2018 and is wholly owned by Fennia.

At the end of 2018, the Group also included 26 real estate companies, 12 of which belonged to the Fennia Life subgroup. The associated undertaking Uudenmaan Pääomarahasto Oy was also consolidated to the Group.

Consolidated Financial Statements

The operating profit of the Group's life insurance business was EUR 24 million (EUR 21 million). Life insurance premiums written amounted to EUR 164 million (EUR 167 million). Claims paid totalled EUR 96 million (EUR 104 million). Operating expenses for life insurance were EUR 15 million (EUR 15 million). The expense ratio (of expense loading) was 101.9 per cent (103.6 %).

Fennia Life decreased the interest rate supplement reserved previously by EUR 10.4 million and the reserve for future bonuses by EUR 0.9 million.

Fennia Asset Management's profitability improved, and the company's operating profit was EUR 1.5 million (EUR 1.0 million). The amount of client assets managed by the company grew 10 per cent and amounted to EUR 3.1 billion (EUR 2.9 billion), of which the Group's internal assets accounted for EUR 2.5 billion.

Folksam Non-Life Insurance's operating loss was EUR 12.4 million (operating profit EUR 4.5 million). Premiums written amounted to EUR 71.6 million (EUR 74.6 million) and claims paid totalled EUR 66.0 million (EUR 53.8 million). The company lowered the technical rate of interest used in the discounting of technical provisions in its own financial statements to 1.5 per cent (2.0 %), which increased the company's claims outstanding by EUR 6.2 million.

Folksam's operating expenses amounted to EUR 19.6 million (EUR 19.7 million). The company's combined ratio, excluding unwinding of discount, was 117.6 per cent (96.5 %). The combined ratio, excluding changes in the calculation bases, was 108 per cent.

Folksam's financial statement information is included in Fennia's consolidated financial statements for one month.

The Group's operating loss was EUR 1 million (operating profit EUR 82 million).The weakened operating profit was mainly due to lower investment returns and the weakening of the balance on the technical account. The results of subsidiaries improved somewhat compared to the previous year. Net investment income amounted to EUR -53 million (EUR 128 million), of which unit-linked insurances accounted for EUR -58 million (EUR 55 million). The Group's return on invested capital was 0.2 per cent.

The Group's non-restricted capital and reserves stood at EUR 309 million (EUR 329 million).

Risk management and solvency management

The risk management and solvency management principles that are approved by the Boards of Directors of the Group companies serve as the foundation for the Fennia Group's risk management and solvency management. In the Fennia Group, risk management means co-ordinated strategies, processes, principles and measures to identify, measure, manage, monitor and report risks that the Group and the Group companies are exposed to. Solvency management, on the other hand, means strategies, processes, principles and measures to steer and determine the Group's and the Group companies' risk-bearing capacity, risk appetite, risk tolerance and restrictions of their essential risks.

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) plans approved by the Boards of Directors, which determine, among other things, the allocation of investments and the rights and responsibilities of those involved in investment activities. The companies' risk-bearing capacity is taken into account in determining investment allocation.

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

Statement of non-financial information

Fennia publishes a separate statement of non-financial information. The statement is published on Fennia's website, www.fennia.fi.

Corporate Social Responsibility Report

Fennia will publish a separate Corporate Social Responsibility Report. The report will be published on Fennia's website www.fennia.fi.

Solvency and Financial Condition Report

Fennia's, Fennia Life's, Fennia Non-Life Insurance's and Fennia Group's Solvency and Financial Condition Reports will be published at the latest on 3 June 2019 on Fennia's website www.fennia.fi.

Outlook for the current year

It is estimated that the non-life business that is part of the Fennia Group will report a combined ratio for 2019 that is slightly weaker than it was in the comparison year 2018. This is mainly due to costs related to the integration of Folksam's business. The life insurance result for 2019 is expected to be on a par with the comparison year. The significance of asset management on the result will remain small.

A moderate investment result is expected for 2019, but the outcome may differ significantly from the estimate if the market outlook changes.

Fennia initiated co-determination negotiations on 11 March 2019. The objectives of the negotiations are to reorganise non-life insurance operations, eliminate overlapping functions and harmonise models of operation.

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					2
Non-life insurance					
Premiums earned					
Premiums written	386 880	393 675	382 795	393 675	1
Reinsurers' share	-4 412	-5 898	-4 209	-5 898	
	382 469	387 776	378 586	387 776	
Change in the provision for unearned premiums	1 603	8 634	-578	8 634	
Premiums earned in total	384 071	396 411	378 007	396 411	
Claims incurred in total					
Claims paid	-317 678	-295 199	-312 492	-295 199	
Reinsurers' share	14 011	795	13 992	795	
	-303 667	-294 404	-298 500	-294 404	
Change in the provision for outstanding claims	32 385	-19 763	35 483	-19 763	
Reinsurers' share	-22 538	19 475	-23 176	19 475	
	9 847	-289	12 307	-289	
Claims incurred in total	-293 820	-294 693	-286 193	-294 693	
Net operating expenses	-101 963	-100 229	-100 363	-100 418	4
Balance on technical account before the change in equalisation provision	-11 712	1 489	-8 549	1 300	
Change in equalisation provision	-15 727	-30 467	-24 474	-30 467	
Balance on technical account	-27 439	-28 978	-33 023	-29 167	
Technical Account					
Life insurance					
Premiums written					
Premiums written	164 142	166 687			
Reinsurers' share	-1 063	-960			
Premiums written in total	163 079	165 728			
Share of net investment income	-39 615	68 576			
Other technical underwriting income					
Claims incurred in total					
Claims paid	-95 505	-104 438			
Reinsurers' share	-32	219			
Change in the provision for outstanding claims	-2 340	-3 252			
Portfolio transfer					
Claims incurred in total	-97 877	-107 471			
Change in the provision for unearned premiums	13 378	-96 099			

	Group 2018	Group 2017	Parent Company 2018	Parent Company 2017	Note
Portfolio transfer					
Net operating expenses	-14 658	-14 798			
Balance on technical account	24 306	15 936			
Non-Technical Account					
Balance on technical account, non-life insurance	-27 439	-28 978			
Balance on technical account, life insurance	24 306	15 936			
Investment income	141 948	167 200	80 481	109 639	6
Revaluations on investments	13 095	49 813			
Investment charges	-160 909	-80 801	-80 027	-50 272	6
Revaluation adjustments on investments	-46 665	-8 278			
	-52 532	127 933	454	59 367	
Transfer of part of net investment income	39 615	-68 576			
Other income					
Income from investment services operations	5 181	3 732			
Other	4 486	1 428	44	25	
	9 667	5 161	44	25	
Other charges					
Investment charges	-6 320	-4 231			
Other	-4 315	-469	223	515	
	-10 635	-4 700	223	515	
Profit/loss on ordinary activities	-17 017	46 776	-32 301	30 740	
Share of associated undertakings' loss/profit		51			
Profit/loss before appropriations and tax	-17 017	46 827	-32 301	30 740	
Appropriations					
Change in depreciation difference			-237	-283	
Tax on profit					
Tax for the financial year	-2 590	-6 875	-202	-3 693	
Tax from previous periods	884	310	313	-388	
Deferred tax	134	206			
	-1 571	-6 359	111	-4 081	
Minority interests	-915	-449			
Profit/loss for the financial year	-19 503	40 020	-32 427	26 376	

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	50 461	46 719	45 475	43 541	13
Goodwill	74 989	1 685			
Advance payments	14 310	12 230	12 682	11 795	13
	139 760	60 634	58 157	55 336	
Investments					7
Real estate investments					
Land and buildings and real estate shares	371 222	361 854	179 123	162 000	8
Investment loans to affiliated undertakings			116 522	122 565	8
Loans to associated undertakings	1 843	1 843			
	373 065	363 698	295 645	284 565	
Investments in affiliated and associated undertakings					
Shares and participations in affiliated undertakings			174 484	53 220	9
Shares and participations in associated undertakings	2 070	2 070			9
	2 070	2 070	174 484	53 220	
Other investments					
Shares and participations	1 138 293	1 172 955	817 852	874 204	12
Debt securities	575 428	488 384	132 921	193 967	
Loans guaranteed by mortgages	33 254	32 865	30 467	30 010	
Other loans	29 290	37 127	28 483	36 335	10
Deposits	1 100	1 000	1 100	1 000	
	1 777 365	1 732 330	1 010 823	1 135 517	
Deposits with ceding undertakings	82	28	24	28	
Total investments	2 152 583	2 098 126	1 480 976	1 473 329	
Investments covering unit-linked insurances	1 024 979	1 015 618			
Debtors					
Arising out of direct insurance operations					
Policyholders	84 811	70 579	67 458	70 179	
Arising out of reinsurance operations	594	960	544	823	
Other debtors	90 081	81 670	67 707	73 820	
Deferred tax receivables	2 086	649			
	177 572	153 858	135 708	144 822	
Other assets					
Tangible assets					
Machinery and equipment	9 553	8 336	8 968	7 960	13
Stocks	606	306	289	293	
	10 159	8 642	9 256	8 253	
Cash at bank and in hand	123 346	108 595	44 663	62 480	
	133 504	117 237	53 920	70 732	
Prepayments and accrued income					
Interest and rents	7 158	7 164	1 033	1 777	

	Group 2018	Group 2017	Parent Company 2018	Parent Company 2017	Note
Other	17 046	18 679	12 617	15 682	
	24 204	25 844	13 651	17 459	
	3 652 602	3 471 316	1 742 412	1 761 678	

	Group 2018	Group 2017	Parent Com-pany 2018	Parent Company 2017	Note
LIABILITIES					
Capital and reserves					16
Initial fund	7 703	7 703	7 703	7 703	
Revaluation reserve	583	583	583	583	
Security reserve	278 174	251 798	278 174	251 798	
At the disposal of the Board	59	59	59	59	
Profit brought forward	50 342	36 699			
Profit for the financial year	-19 503	40 020	-32 427	26 376	
	317 358	336 861	254 092	286 519	
Appropriations					
Accumulated depreciation difference			1 571	1 334	
Minority interests	2 349	1 822			
Technical provisions					
Non-life insurance: Provision for unearned premiums	156 172	126 297	126 875	126 297	
Life insurance: Provision for unearned premiums	449 851	468 716			
Non-life insurance: Claims outstanding	1 112 202	1 023 595	988 112	1 023 595	
Reinsurers' share	-14 418	-28 903	-5 727	-28 903	
	1 097 784	994 692	982 386	994 692	
Life insurance: Claims outstanding	152 745	154 139			
Equalisation provision, non-life insurance	372 457	311 784	336 258	311 784	
Technical provisions in total	2 229 010	2 055 628	1 445 518	1 432 773	
Technical provisions for unit-linked insurances	1 026 981	1 017 761			
Creditors					
Arising out of reinsurance operations	2 786	3 330	422	2 592	
Other creditors	29 919	20 665	16 018	16 774	
Deferred tax	9 871	7 369			
	42 576	31 364	16 440	19 366	
Accruals and deferred income	34 328	27 881	24 790	21 687	
	3 652 602	3 471 316	1 742 412	1 761 678	

Parent Company Cash Flow Statement

Indirect cash flow statement

The figures are in thousands of euros.

	2018	2017
Cash flow from business operations		
Profit on ordinary activities	-32 190	26 659
Adjustments		
Change in technical provisions	12 746	22 121
Value adjustments and revaluations on investments	20 470	15 775
Depreciation according to plan	13 152	27 544
Other	4 295	-51 401
Cash flow before change in net working capital	18 473	40 698
Change in net working capital:		
Increase/decrease in non-interest-earning receivables	8 776	13 535
Increase/decrease in non-interest-earning payables	178	-7 453
Cash flow from business operations before financial items and taxes	27 427	46 781
Interest paid on other financial expenses from operations	-102	-111
Taxes	3 974	-1 462
Cash flow from business operations	31 299	45 207
Cash flow from capital expenditures		
Capital expenditure on investments (excl. funds)	-29 960	-61 184
Capital gain from investments (excl. funds)	-4 082	55 593
Investments and income from the sale of tangible and intangible assets and other assets (net)	-15 073	-14 990
Cash flow from capital expenditures	-49 115	-20 581
Cash flow from financing		
Dividends paid/Interest paid on guarantee capital and other profit distribution	-	-
Change in funds	-17 816	24 627
Funds on 1 Jan.	62 480	37 853
Funds on 31 Dec.	44 663	62 480
	-17 816	24 627

Notes to the accounts

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. Planned depreciation is made on revaluations entered as income arising from buildings.

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. Receivables that, on the basis of experience from previous years, are likely to expire have been deducted from the par value of premium receivables, resulting in their probable value. Receivables that are likely to remain unsettled are entered as a credit loss.

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, 3–7 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, 20–75 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 are entered with impact on the result. Investments covering unit-linked insurances are valued at their current value, and the change is entered with impact on the result.

Revaluations on investments in the nature of fixed assets and their reversals are entered in the revaluation reserve under restricted capital and reserves. Planned depreciation is made on revaluations entered as income arising from buildings.

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.

The current value of shares and participations in a life insurance company, which is a subsidiary, is based on the Embedded Value (EV) model. The subsidiary's EV is based on the adapted Solvency II balance sheet.

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 according to their market quotation on the date of closing the accounts, or if this is not available, according to discount and termine curves based on swap market quotations on the date of closing the accounts as well as according to the exchanges rates 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. Currency conversion differences on the technical account have not been transferred to the investment income/charges in the profit and loss account. This has no impact on the profit and loss account, giving a true and fair view of the results.

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.

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. The deferred tax liabilities and deferred tax receivables resulting from consolidation measures, as well as revaluations transferred to reserves and timing differences are entered in the consolidated financial statements.

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 per cent.

Non-life insurance: Claims outstanding

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

Claims outstanding include the claims payable by the company after the financial year, arising from major losses and other insured events that have occurred during or before the financial year.

At the same time, certain collectively calculated items of technical provisions were changed. The provisions for claims handling expenses increased by approximately EUR 2.2 million. Collective provisions for motor liability insurance decreased by EUR 1 million. Thus, technical provisions increased by EUR 1.2 million due to changes in the calculation basis.

The provision for outstanding claims pertaining to annuities is calculated by discounting, applying an interest rate of 1.5 per cent (1.5 %). Discounting is not applied to other parts of the provision for outstanding claims.

In calculating pension provisions, the company uses the mortality model, which was updated in 2016 and is generally applied by insurance companies, with a confidence level of 75 per cent.

The provision for claims outstanding also includes the equalisation provision, which must be shown separately in the balance sheet. The equalisation provision is a buffer for years when large numbers of losses occur. The amount of the equalisation provision is determined in accordance with the calculation bases prescribed for the company by the Finnish Financial Supervisory Authority in 2016.

Technical provisions in life insurance

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 distributed to life insurance policies as extra sums paid in connection with loss events. The extra sums paid in 2018, amounting to

EUR 392,692, were funded funded from provisions for bonuses reserved in the previous financial statement. The sums paid per insurance were increased in 2018.

Consolidated Financial Statements

Fennia's consolidated financial statements include the parent company and all the subsidiaries in which the parent company either directly or indirectly holds more than half of the voting rights. Fennia Life Insurance Company Ltd belongs to the Fennia Group as a subsidiary. The financial statements of Fennia Life and its subsidiaries are consolidated with the Group's financial statements on the basis of the consolidated financial statements of the Fennia Life sub-group. The Group also includes Fennia Asset Management Ltd, Fennia Property Development Ltd, of which Fennia Asset Management Ltd. owns 70 per cent, and Fennia-service Ltd. eFennia Oy is also consolidated to the Group (holding 20 per cent, voting rights 63.6 per cent). The other subsidiaries included in the consolidated financial statements are real estate companies. At the end of 2018, the Group had 26 real estate companies, 12 of which belonged to the Fennia Life sub-group.

Fennia acquired the total stock of Folksam Non-life Insurance Company Ltd on 27 November 2018. The purchase price, including expenses arising from the transaction, amounted to a total of EUR 106 million. It was entered under own equity, but also partly as technical provisions, shares and debt securities, but at significant part, EUR 74 million, as consolidation difference, to be depreciated in 10 years. Folksam's result for 2018 is included in the consolidated financial statements for the last month of the financial year.

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. Minority interests in results and in capital and reserves are presented as separate items. 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 will be written off in 10 years.

In the accounts of the real estate subsidiaries, the revaluations at the time of acquisition have been reversed, as they have affected the acquisition price of the shares.

The companies in which the Group holds 20–50 per cent of the voting rights have been included in the consolidated financial statements as associated undertakings using the equity method of accounting. However, holdings (20–50 per cent) in mutual real estate undertakings and property companies are not included. This has no significant impact on the Group's results and capital and reserves.

Two special investment funds managed by Fennia Asset Management Ltd, Fennica Properties I and Fennica Building Plot Fund, non-UCITS, were not included in the consolidated financial statements.

Real estate from Fennia, Fennia Life and Etera Mutual Pension Insurance Company was transferred into Fennica Properties I as a distribution in kind at its establishment in 2013. The transfer was recorded in the Group's result for 2013 as EUR 12 million in capital gains. Fennia and Fennia Life have not made any further subscriptions to the fund since its establishment. The profit sharing paid by the fund is entered in the company's investment income at the moment of payment. The profit sharing paid by the fund (EUR 3.7 million in 2018 and a total of EUR 9.3 million in previous years) based on the result, is entered in the companies' investment income at the moment of payment. The current value of the units of Fennica Properties I special investment fund in the consolidated financial statements was EUR 39.9 million. On 31 December 2018, Fennia Group's participating interest in the fund was 19 per cent.

Real estate from Fennia was transferred into Fennica Building Plot Fund as a distribution in kind at its establishment in 2017. The transfer was recorded in the Group's result for 2017 as EUR 2.8 million in capital gains. In addition, Fennia sold real estate to the fund, and the sale was recorded in the Group's result as EUR 0.6 million in capital gains. The fund has not paid any profit sharing. The current value of the units of Fennica Building Plot Fund in the consolidated financial statements was EUR 14.9 million. On 31 December 2018, Fennia Group's participating interest in the fund was 30 per cent.

The Group's participating interests in the funds are included in the balance sheet as real estate fund units at purchase price and the valuation difference between their current value and purchase price is included in the valuation differences for the Group's investments. Consolidation to the consolidated financial statements is unnecessary in order to give a true and fair view of the consolidated result of operations and of the financial position, as the participating interests are investments from the perspective of the Group, and thus their inclusion in investments gives a true and fair view of the Group.

Group companies

The following subsidiaries are included in the consolidated financial statements

- eFennia Oy
- Folksam Non-Life Insurance Ltd
- Fennia-service Ltd
- Fennia Asset Management Ltd
- Fennia Property Development Ltd
- Asunto Oy Espoon Myllynkivi
- Asunto Oy Helsingin Vattuniemenkuja 8
- Asunto Oy Helsingin Viikinportti
- Asunto Oy Keravan Jaakonkulma
- Kiinteistö Oy Eagle Lahti
- Kiinteistö Oy Joensuun Metropol
- Kiinteistö Oy Kyllikinportti 2
- Kiinteistö Oy Ruosilantie 4-6
- Kiinteistö Oy Ruosilantie 11
- Kiinteistö Oy Televisiokatu 1
- Kiinteistö Oy Televisiokatu 3
- Kiinteistö Oy Tampereen Rautatienkatu 21
- Kiinteistö Oy Tampereen Ratapihan kulma
- Kiinteistö Oy Vantaan Kaivokselantie 9
- Fennia Life Insurance Company Ltd
    - Subsidiaries
        - Kiinteistö Oy Teohypo
        - Kiinteistö Oy Espoon Niittyrinne 1
        - Kiinteistö Oy Vaajakosken Varaslahdentie 6
        - Kiinteistö Oy Sellukatu 5
        - Kiinteistö Oy Vasaraperän Liikekeskus
        - Kiinteistö Oy Koivuhaanportti 1-5
        - Kiinteistö Oy Mikkelin Hallituskatu 1
        - Kiinteistö Oy Vasaramestari
        - Kiinteistö Oy Konalan Ristipellontie 25
        - Asunto Oy Jyväskylän Jontikka 2
        - Asunto Oy Tampereen Vuoreksen Puistokatu 76
        - Munkinseudun Kiinteistö Oy

Associated undertakings included in the consolidated financial statements

- Uudenmaan Pääomarahasto 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
Non-life insurance		
Direct insurance		
Finland	382 338	393 284
Reinsurance	457	390
Gross premiums written before reinsurers' share	382 795	393 675

2. Balance on technical account by group of insurance class, Parent Company

Group of insurance class	Year	Gross premiums written before reinsurers' share	Gross premiums earned before reinsurers' share	Claims incurred before reinsurers' share	Operating expenses before reinsurers' commissions and profit participation	Reinsurance balance	Balance on technical account before the change in collective item and equalisation provision
Statutory accident insurance (workers' compensation)	2018	74 549	74 602	-59 791	-12 590	-250	1 972
Statutory accident insurance (workers' compensation)	2017	81 962	81 934	-52 975	-12 814	-245	15 900
Statutory accident insurance (workers' compensation)	2016	82 392	82 307	-96 523	-13 395	-296	-27 908
Non-statutory accident and health	2018	43 490	42 935	-39 800	-11 645	-103	-8 613
Non-statutory accident and health	2017	44 244	44 731	-29 573	-11 766	-110	3 281
Non-statutory accident and health	2016	45 165	43 952	-33 514	-12 132	-121	-1 815
Motor liability	2018	65 231	66 952	-39 590	-20 041	-139	7 182
Motor liability	2017	67 149	72 379	-65 682	-20 353	-278	-13 934
Motor liability	2016	78 334	79 411	-52 898	-21 784	-266	4 462
Motor, other classes	2018	73 198	73 166	-62 267	-22 026	-41	-11 168
Motor, other classes	2017	71 433	73 915	-55 756	-21 217	-27	-3 085
Motor, other classes	2016	76 916	76 800	-60 266	-20 968	81	-4 353
Fire and other damage to property	2018	80 783	80 449	-51 838	-21 713	-11 835	-4 937
Fire and other damage to property	2017	84 207	85 250	-82 895	-22 076	15 460	-4 262
Fire and other damage to property	2016	86 505	86 435	-63 152	-22 790	-647	-154
General liability	2018	21 992	20 566	-5 426	-5 460	-1 656	8 024
General liability	2017	20 699	19 975	-12 289	-5 377	332	2 642
General liability	2016	23 470	23 553	-12 811	-5 382	1 563	6 923
Other	2018	23 093	23 101	-18 117	-6 906	818	-1 104
Other	2017	23 591	23 727	-15 646	-6 840	-579	663
Other	2016	24 233	24 333	-10 816	-7 034	-662	5 821

Group of insurance class	Year	Gross premiums written before reinsurers' share	Gross premiums earned before reinsurers' share	Claims incurred before reinsurers' share	Operating expenses before reinsurers' commissions and profit participation	Reinsurance balance	Balance on technical account before the change in collective item and equalisation provision
DIRECT INSURANCE TOTAL	2018	382 338	381 772	-276 829	-100 382	-13 204	-8 644
DIRECT INSURANCE TOTAL	2017	393 284	401 911	-314 816	-100 444	14 554	1 205
DIRECT INSURANCE TOTAL	2016	417 016	416 790	-329 980	-103 485	-348	-17 022
Reinsurance	2018	457	445	-180	-170	0	95
Reinsurance	2017	390	398	-146	-157	0	95
Reinsurance	2016	338	335	-221	-149	0	-36
TOTAL	2018	382 795	382 217	-277 009	-100 552	-13 204	-8 549
TOTAL	2017	393 675	402 309	-314 962	-100 601	14 554	1 300
TOTAL	2016	417 353	417 125	-330 202	-103 634	-348	-17 058
Change in equalisation provision	2018						-24 474
Change in equalisation provision	2017						-30 467
Change in equalisation provision	2016						-12 993
BALANCE ON TECHNICAL ACCOUNT	2018						-33 023
BALANCE ON TECHNICAL ACCOUNT	2017						-29 167
BALANCE ON TECHNICAL ACCOUNT	2016						-30 051

3. Items deducted from premiums written

The figures are in thousands of euros.

	2018	2017
Credit loss on outstanding premiums	1 426	1 417
Pay-as-you-go premiums	26 324	25 877
Premium tax	64 064	66 193
Fire brigade charge	806	899
Traffic safety charge	652	671
Industrial safety charge	1 343	1 386
	94 616	96 443

4. Operating expenses

The figures are in thousands of euros.

	2018	2017
Total operating expenses by activity		
Claims paid	35 838	40 303
Net operating expenses	100 363	100 418
Investment charges	4 337	4 356
Other charges	-223	-516
	140 314	144 562
Depreciation according to plan by activity		
Claims paid	3 941	10 908
Net operating expenses	6 849	14 241
Investment charges	459	464
	11 248	25 613
Operating expenses in the Profit and Loss Account		
Policy acquisition costs		
Direct insurance commissions	9 288	9 311
Commissions on reinsurance assumed and profit sharing	60	47
Other policy acquisition costs	47 110	47 848
	56 458	57 205
Policy management expenses	22 063	23 800
Administrative expenses	22 031	19 595
Commissions on reinsurance ceded and profit sharing	-189	-182
	100 363	100 418

5. Staff expenses, personnel and executives

The figures are in thousands of euros.

	2018	2017
Staff expenses		
Salaries and commissions	52 513	51 313
Pension expenses	9 493	9 019
Other social expenses	5 323	5 259
	67 329	65 591
Executives' salaries and commissions		
Managing Director and substitute for the Managing Director	820	804
Board of Directors	275	237
Supervisory Board	58	51
	1 154	1 092
The age of retirement of the Managing Director is defined according to TyEL		
Average number of personnel during the financial year	859	892
Auditors' commissions		
Audit	56	68
Tax consulting	5	4
Other services	12	4
	73	76

Other than audit services provided for the companies in the Fennia Group by KPMG Oy Ab in the financial year was EUR 106,178.95. The services comprised tax services EUR 10,524.50 and other services EUR 36,340.09.

6. Net investment income

The figures are in thousands of euros.

	2018	2017
Investment income		
Income from investments in affiliated undertakings		
Dividend income	3 108	1 584
Interest income		
Income from investments in land and buildings	3 108	1 584
Interest income		
From affiliated undertakings	2 071	2 265
Other income		
From affiliated undertakings		198
From other undertakings	17 342	15 111
	19 413	17 574
Income from other investments		
Dividend income	15 313	12 781
Interest income	5 147	7 628
Other income	2 303	1 372
	22 763	21 781
Total	45 283	40 939
Value readjustments	6 518	5 563
Gains on realisation of investments	28 681	63 137
TOTAL	80 481	109 639
Investment charges		
Charges arising from investments in land and buildings		
To affiliated undertakings	-8 930	-9 152
To other undertakings	-3 842	-5 604
	-12 772	-14 756
Charges arising from other investments	-5 499	-4 592
Interest and other expenses on liabilities		
To other undertakings	-102	-111
	-102	-111
Total	-18 373	-19 459
Value adjustments and depreciations		
Value adjustments on investments	-26 987	-21 338
Planned depreciation on buildings	-1 904	-1 931
	-28 891	-23 268
Losses on realisation of investments	-32 763	-7 544
TOTAL	-80 027	-50 272
Net investment income on the Profit and Loss Account	454	59 367

7. 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	Investments 31 Dec. 2017, Book value	Investments 31 Dec. 2017, Current value
Real estate investments						
Real estate	13 148	15 276	68 402	14 362	16 770	71 602
Real estate shares in affiliated undertakings	71 964	71 964	119 580	62 493	62 493	103 059
Real estate shares in associated undertakings	55 214	55 214	57 298	57 717	57 717	59 781
Other real estate shares	36 586	36 670	38 000	24 935	25 020	26 003
Investment loans to affiliated undertakings	116 522	116 522	116 522	122 565	122 565	122 565
Investments in affiliated undertakings						
Shares and participations	174 484	174 484	206 658	53 220	53 220	59 194
Other investments						
Shares and participations	817 852	817 852	876 869	874 204	874 204	937 725
Debt securities	132 921	132 921	132 764	193 967	193 967	191 936
Loans guaranteed by mortgages	30 467	30 467	30 467	30 010	30 010	30 010
Other loans	28 483	28 483	28 483	36 335	36 335	36 335
Deposits	1 100	1 100	1 100	1 000	1 000	1 000
Deposits with ceding undertakings	24	24	24	28	28	28
	1 478 764	1 480 976	1 676 167	1 470 836	1 473 329	1 639 238
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 (-)	-8 115			-6 885		
Book value comprises						
Revaluations entered as income		1 578			1 859	
Other revaluations		634			634	
		2 212			2 493	
Valuation difference (difference between current value and book value)			195 191			165 909

	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	Investments 31 Dec. 2017, Book value	Investments 31 Dec. 2017, Current value
Current value and valuation difference of derivatives						
Non-hedging derivatives	-827	-827	-808	-97	-97	2 177
Valuation difference (difference between current value and book value)			19			2 274
Valuation difference, total			195 210			168 183

8. Real estate investments

The figures are in thousands of euros.

	Changes in investments in land and buildings, Land and buildings and real estate shares	Changes in investments in land and buildings, Investment loans in affiliated undertakings
Acquisition cost, 1 Jan.	197 133	122 565
Increase	12 191	
Decrease	-6 770	-6 043
Transfers between accounts	7 924	
Acquisition cost, 31 Dec.	210 479	116 522
Accumulated depreciation, 1 Jan.	-29 830	
Accumulated depreciation related to decreases	2 387	
Depreciation for the financial year	-1 904	
Accumulated depreciation, 31 Dec.	-29 347	
Value adjustments, 1 Jan.	-15 479	
Value adjustments related to decreases and transfers		
Value adjustments during the financial year	-204	
Value readjustments	3 499	
Value adjustments, 31 Dec.	-12 184	
Revaluations, 1 Jan.	10 175	
Decrease	-	
Revaluations, 31 Dec.	10 175	
Book value, 31 Dec.	179 123	116 522
Land and buildings and real estate shares occupied for own activities:		
Remaining acquisition cost	15 795	
Book value	15 744	
Current value	19 752	

9. Investments in affiliated undertakings

The figures are in thousands of euros.

Changes in investments in affiliated undertakings 1. Jan. 2018 - 31. Dec. 2018

	Shares and participations in affiliated undertakings
Acquisition cost, 1 Jan.	**53 220**
Increase	121 456
Acquisition cost, 31 Dec.	**174 676**
Accumulated value adjustments, 1 Jan.	
Value adjustments	-192
Accumulated value adjustments, 31 Dec.	**-192**
Book value, 31 Dec.	**174 484**

10. Other investments

The figures are in thousands of euros.

	2018	2017
Other loans by security		
Other security	28 483	36 335

11. Debtors

The figures are in thousands of euros.

	2018	2017
Other debtors		
Affiliated undertakings	1 974	4 836

12. Shares and participations in other companies

The figures are in thousands of euros.

	Holding %	Book value 31 Dec. 2018	Current value 31 Dec. 2018
Domestic shares and participations			
Holiday Club Resorts Oy	1,7639 %	1 097	1 097
Nordia Rahasto Oy	19,5246 %	1 679	1 679
Panostaja Oyj	6,6026 %	3 316	3 316
Pihlajalinna Oyj	8,8371 %	17 191	17 191
Revenio Group Oyj	1,1220 %	282	3 384
Uudenmaan Pääomarahasto Oy	13,7094 %	1 054	1 054
Other		3 153	3 719
Foreign shares and participations			
Denmark			
SOS - International A/S	11,5000 %	398	11 217
United States			
Broadcom Inc	0,0010 %	281	571
NVIDIA CORP	0,0009 %	142	641
Other		109 667	131 405
Unit trusts			
Domestic			
Aktia Em Mrkt Local Currency Bond+ D		28 179	28 179
Erikoisisjoitusrah. Fennica Toimitilat I E-osuus		31 000	31 418
Erikoissijoitusrahasto Fennica Tontit C-osuus		14 500	14 927
Evli Euro Likvidi B		5 009	5 012
Evli Short Corporate Bond B		51 864	51 962
FIM Forest Non-UCITS Fund		1 000	1 101
FIM IG Green ESG		3 500	3 500
Nordea Korko S Kasvu (Moderate Yield Fund)		12 629	12 629
OP-Euro A		5 993	5 993
Other		26	26
Foreign			
Cayman Islands			
Cassiopeia Fund/The		4 000	4 052
Golden China Fund		1 934	3 784
Ireland			
First Trust Eurozone AlphaDEX UCITS ETF		4 033	4 033
Institutional Cash Series PLC - Institutional Euro		4 984	4 984
Institutional Cash Series PLC - Institutional US D		102 493	108 363
iShares Edge MSCI Europe Multifactor UCITS ETF EUR		8 944	8 944
Muzinich Funds - Emerging Markets Short Duration F		10 301	10 301
Muzinich Funds - EnhancedYield Short-Term Fund		26 550	26 738
Muzinich Funds Asia Credit Opportunities Fund		5 743	5 743
Nomura Funds Ireland - Nomura US High Yield Bond F		18 982	18 982
Specialist Investor Funds PLC - M&G European Loan		75 519	76 481
Luxembourg			
Aberdeen Global - Emerging Markets Corporate Bond		38 674	39 656
BNP Paribas InstiCash Money 3M EUR		41 793	41 793
BNP Paribas InstiCash USD		30 539	32 418
European Specialist Investment Funds - M&G Europea		29 825	29 825

	Holding %	Book value 31 Dec. 2018	Current value 31 Dec. 2018
Oddo Compass Euro Credit Short Duration Fund		40 044	40 044
Ossiam Shiller Barclays Cape Us Sector Value Tr Eu		17 264	17 823
Taaleri Sicav - Taaleri Rhein Value Equity		8 047	10 454
France			
Oddo Asset Management Oddo Tresorerie 3-6 Mois		24 385	24 385
Sweden			
Brummer & Partners Lynx Fund		1 971	1 971
Other		9	9
Capital trusts, domestic			
MB Equity Fund IV Ky		1 966	3 446
Selected Mezzanine Funds I Ky		521	1 005
Selected Private Equity Funds I Ky			1 452
Fennia Avainrahasto II Ky		2 082	2 082
Fennia Avainrahasto Ky		1 737	1 737
Juuri Rahasto I Ky		4 891	4 936
Korona Fund III Ky		1 266	1 266
Muut		863	1 091
Capital trusts, foreign			
Great Britain			
Euro Choice IV GB Limited		1 090	3 226
Duke Street Capital VI LP		588	588
Guernsey			
Partners Group European Buyout		1 477	1 485
Partners Group European Mezzanine		1 392	1 410
The Triton Fund III L.P.		2 843	3 091
Jersey			
Triton Smaller Mid-Cap Fund I L.P.		854	854
United States			
Kayne Anderson Senior Credit Fund		7 466	7 580
Other		819	819
		817 852	876 869

13. Changes in intangible and tangible assets

The figures are in thousands of euros.

	Other long-term expenses	Advance payments	Equipment	Total
Acquisition cost, 1 Jan. 2018	113 596	11 795	21 619	147 010
Fully depreciated in the previous financial year	-352		-3 883	-4 235
Increase	10 764	13 518	3 718	28 000
Decrease	-	-12 630	-729	-13 359
Acquisition cost, 31 Dec. 2018	124 009	12 682	20 725	157 416
Accumulated depreciation, 1 Jan. 2018	-51 385		-13 659	-65 044
Fully depreciated in the previous financial year	352		3 883	4 235
Accumulated depreciation related to decreases and transfers	-		437	437
Depreciation for the financial year	-8 830		-2 418	-11 248
Accumulated depreciation, 31 Dec. 2018	-59 863		-11 758	-71 621
Value adjustments, 1 Jan. 2018	-18 671			-18 671
Value adjustments during the financial year	-			
Value adjustments, 31 Dec. 2018	-18 671			-18 671
Book value, 31 Dec. 2018	45 475	12 682	8 968	67 125

14. Creditors

The figures are in thousands of euros.

	2018	2017
Other creditors		
To affiliated undertakings	1 988	524

15. Capital and reserves

The figures are in thousands of euros.

	2018
Restricted	
Initial fund 1 Jan./31 Dec.	7 703
Revaluation reserve 1 Jan./31 Dec.	583
Restricted in total	8 286
Non-restricted	
Security reserve, 1 Jan.	251 798
Reversal of the funded revaluation reserve	
Transfer from profit brought forward	26 376
Security reserve, 31 Dec.	278 174
At the disposal of the Board 1 Jan./31 Dec.	59
Profit brought forward	-
Profit for the previous financial year	26 376
Transfer to contingency fund	-26 376
Profit brought forward	-
Profit for the financial year	-32 427
Non-restricted in total	245 806
Capital and reserves in total	254 092
Revaluation reserve, 31 Dec. 2018	
Revaluations on investments	337
Revaluations on fixed assets	246
	583
Distributable profit, 31 Dec. 2018	
Profit for the financial year	-32 427
Security reserve	278 174
At the disposal of the Board	59
	245 806

16. Guarantee and liability commitments

The figures are in thousands of euros.

	2018	2017
Own liabilities		
Liabilities from derivative contracts		
Non-hedging		
Currency derivatives		
Forward and futures contracts		
Open		
	189	232
Value of underlying instrument	982	889
Current value	-808	2 177
Securities given as collateral for derivatives trade		
Leasing and leasehold commitments	6 086	6 776
Other liabilities		
For the company itself	344	174
For other companies	382	51
Adjustment liability of real estate investments according to Section 120 of the Value Added Tax Act	-	11
Investment commitments		
		29
Commitment to invest in equity funds	35 207	545
Commitment to pay out shares in property investments	16 952	6 952
Outstanding instalments of contract price for unfinished construction projects	3 490	4 398

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 realised net result of matured hedging interest rate derivatives closed in the financial year was EUR -2,302,644.48, of which EUR 77,367.91 was timed for the financial year.

From the results of hedging interest rate derivatives closed in previous financial years, losses of EUR 458,721.60 were timed for the financial year.

Negative valuation differences from non-hedging derivative contracts are entered with impact on the result.

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.

17. Loans to related parties and related party transactions

The company has granted a total of EUR 3,986,283,38 in loans to related parties.

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

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

Notes concerning the Group

Copies of Fennia's Consolidated Financial Statements are available at the company's headquarters, Kyllikinportti 2, Helsinki.

Group analysis of results

The figures are in millions of euros.

	2014	2015	2016	2017	2018
Non-life insurance (footnote 1)					
Premiums earned	418	417	412	396	384
Claims incurred	-329	-329	-326	-295	-294
Net operating expenses	-99	-95	-103	-100	-102
Other technical underwriting income (net)	-	-	-	-	-
Balance on technical account before the change in equalisation provision	**-10**	**-7**	**-17**	**1**	**-12**
Investment income (net) and revaluations	83	90	17	59	-13
Other income (net)	1	1	1	0	-1
Share of associated undertakings' profit/loss	-1	0	0	0	-
Operating profit/loss	**73**	**84**	**1**	**61**	**-25**
Change in equalisation provision	-44	-44	-13	-30	-16
Non-life insurance profit/loss before extraordinary items	**30**	**40**	**-12**	**31**	**-41**
Life insurance					
Premiums written	151	199	206	166	163
Investment income (net), revaluations and revaluation adjustments on investments	63	122	89	69	-40
Claims paid	-77	-83	-90	-104	-96
Change in technical provisions before bonuses and rebates and change in equalisation provision	-117	-221	-180	-95	11
Net operating expenses	-12	-13	-14	-15	-15
Other technical underwriting income	-	-	-	-	-
Technical underwriting result before bonuses and rebates and change in equalisation provision	**9**	**3**	**10**	**20**	**24**
Other income (net)	0	0	1	0	0
Operating profit	**9**	**3**	**11**	**21**	**24**
Change in equalisation provision	-1	9	0	0	0
Bonuses and rebates	-1	-5	-2	-4	0
Life insurance profit/loss before extraordinary items	**7**	**6**	**9**	**16**	**24**
Profit before appropriations and tax	**37**	**46**	**-3**	**47**	**-17**
Income tax and other direct tax	-9	-8	0	-6	-2
Minority interests	0	0	0	0	-1
Group's profit/loss for the financial year	**27**	**37**	**-4**	**40**	**-20**

1) Figures for non-life insurance also include Folksam for the time the company was a part of the Group

Key figures

		2014	2015	2016	2017	2018
Group Key Figures						
Turnover	million euros	728	840	737	704	511
Premiums written	million euros	583	629	624	560	551
Operating profit/loss	million euros	82	87	11	82	-1
Profit/loss before appropriations and tax	million euros	37	46	-3	47	-17
Total result	million euros	109	12	49	113	-5
Average number of personnel		1 263	1 157	1 044	1 012	1 009
Non-life Insurance Key Figures						
Premiums written	million euros	430	429	417	394	387
Loss ratio	per cent	78,6	78,8	79,1	74,3	76,5
Loss ratio excl. unwinding of discount	per cent	75,5	75,6	75,8	71,3	73,9
Expense ratio	per cent	23,8	22,9	25,1	25,3	26,6
Combined ratio	per cent	102,4	101,7	104,1	99,7	103,1
Combined ratio excl. unwinding of discount	per cent	99,3	98,5	100,9	96,6	100,6
Operating profit/loss	million euros (footnote 1)	73	84	1	61	-25
Total result	million euros	80	52	26	81	15
Return on assets	per cent	5,6	3,7	2,1	4,9	1,2
Net investment income at current value	million euros	89	59	42	79	27
income on invested capital	per cent	6,2	3,9	2,7	4,7	1,6
Average number of personnel		1 077	1 043	935	892	876
Life Insurance Key Figures						
Premiums written	million euros	153	200	207	167	164
Expense ratio (of expense loading)	per cent (footnote 1)	120,4	112,0	103,9	103,6	100,8
Operating profit/loss	million euros (footnote 1)	9	3	11	21	24
Total result	million euros	30	-38	14	31	23
Return on assets	per cent	7,8	5,5	5,1	4,5	3,5
Net investment income at current value	million euros	50	35	30	25	18
income on invested capital	per cent	7,4	5,0	4,3	3,3	2,4
Average number of personnel		50	54	53	52	52

1) Key figures according to the consolidated accounts.

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 (footnote 8)	Risk distribution, 31 Dec. 2018, per cent (footnotes: 8, 10)	Risk distribution, 2017, per cent (footnotes: 8, 10)	Risk distribution, 2016, per cent (footnotes: 8, 10)	Risk distribution, 2015, per cent (footnotes: 8, 10)	Risk distribution, 2014, per cent (footnotes: 8, 10)
Fixed-income investments, total	**811,5**	**47,1**	**847,4**	**49,7**	**811,5**	**47,1**	**49,7**	**51,5**	**55,9**	**53,6**
Loans (footnote 1)	64,9	3,8	72,2	4,2	64,9	3,8	4,2	3,7	2,4	2,4
Bonds	363,0	21,1	481,6	28,2	363,0	21,1	28,2	28,6	29,9	43,9
Other money market instruments and deposits (footnotes: 1, 2)	383,6	22,3	293,6	17,2	383,6	22,3	17,2	19,2	23,7	7,3
Equity investments, total	**458,8**	**26,7**	**410,2**	**24,0**	**458,8**	**26,7**	**24,0**	**21,0**	**20,1**	**21,7**
Listed equities (footnote 3)	200,4	11,6	314,7	18,4	200,4	11,6	18,4	14,9	12,7	13,6
Private equity (footnote 4)	35,6	2,1	29,9	1,8	35,6	2,1	1,8	1,9	2,1	2,4
Unlisted equities (footnote 5)	222,8	12,9	65,6	3,8	222,8	12,9	3,8	4,1	5,4	5,8
Real estate investments, total	**442,0**	**25,7**	**433,0**	**25,4**	**442,0**	**25,7**	**25,4**	**27,0**	**23,1**	**23,7**
Direct real estate	394,1	22,9	377,3	22,1	394,1	22,9	22,1	21,4	19,6	20,1
Real estate funds and UCITS	47,9	2,8	55,6	3,3	47,9	2,8	3,3	5,6	3,5	3,6
Other investments	**9,0**	0,5	**15,4**	0,9	**9,0**	0,5	0,9	**0,8**	**0,9**	**0,8**
Hedge funds (footnote 6)	9,8	0,6	13,2	0,8	9,8	0,6	0,8	0,8	0,9	0,7
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)	-0,8	0,0	2,2	0,1	-0,8	0,0	0,1	0,0	0,0	0,1
Total investments	**1 721,4**	**100,0**	**1 706,0**	**100,0**	**1 721,4**	**100,0**	**100,0**	**100,3**	**100,0**	**99,8**
Effect of derivatives (footnote 9)								-0,3	-0,3	0,0
Total investments at fair value	**1 721,4**	**100,0**	**1 706,0**	**100,0**	**1 721,4**	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**

	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 (footnote 8)	Risk distribution, 31 Dec. 2018, per cent (footnotes: 8, 10)	Risk distribution, 2017, per cent (footnotes: 8, 10)	Risk distribution, 2016, per cent (footnotes: 8, 10)	Risk distribution, 2015, per cent (footnotes: 8, 10)	Risk distribution, 2014, per cent (footnotes: 8, 10)
Modified duration of the bond portfolio	1,20									

Footnotes:

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) Risk distribution can be presented for comparison periods as the information arises (not retrospectively).

If the figures for comparison periods are presented and the periods are not entirely comparable, this should be disclosed.

9) Includes the effect of derivatives on the difference between risk-adjusted breakdown and basic breakdown. The effect of derivatives can be positive or negative.

After the difference is adjusted the final sum of the risk distribution is the same as the basic distribution.

10) The relative proportion is calculated using the total of the line 'Total investments at fair value' as the divisor.

Net investment income on invested capital

	Market value of net investment returns, 2018, million euros (footnote 8)	Invested capital, 2018, million euros (footnote 9)	Yield, % on invested capital, 2018, per cent	Yield, % on invested capital, 2017, per cent	Yield, % on invested capital, 2016, per cent	Yield, % on invested capital, 2015, per cent	Yield, % on invested capital, 2014, per cent
Fixed-income investments, total	**10,6**	**875,7**	**1,2**	**0,1**	**2,5**	**0,8**	**4,3**
Loans (footnote 1)	0,0	67,9	0,0	2,7	-1,1	6,4	-7,0
Bonds	0,6	410,9	0,1	-0,1	4,0	-0,3	5,2
Other money market instruments and deposits (footnotes: 1, 2)	10,0	396,9	2,5	-0,4	0,3	2,4	2,9
Equity investments, total	**19,6**	**375,2**	**5,2**	**9,3**	**2,7**	**12,9**	**9,1**
Listed equities (footnote 3)	-25,9	257,6	-10,0	9,7	7,0	19,6	12,4
Private equity (footnote 4)	4,2	31,0	13,6	24,4	12,3	12,5	11,2
Unlisted equities (footnote 5)	41,2	86,5	47,7	1,0	-11,9	2,5	0,7
Real estate investments, total	**17,8**	**434,7**	**4,1**	**6,1**	**6,2**	**6,3**	**9,0**
Direct real estate	14,8	386,8	3,8	7,0	6,0	6,2	8,8
Real estate funds and UCITS	3,0	47,9	6,2	2,5	6,8	6,8	10,0
Other investments	**-16,2**	**16,7**	**-97,0**	**921,3**	**-51,0**	**2,3**	**10,1**
Hedge funds (footnote 6)	-1,2	12,0	-9,7	1,6	-4,7	4,5	8,6
Commodities							
Other investments (footnote 7)	-15,1	4,8	-316,5	-202,3	143,5		
Total investments	**31,7**	**1702,3**	**1,9**	**4,9**	**3,1**	**4,1**	**6,4**
Sundry income, charges and operating expenses	-4,2						
Net investment income at current value	**27,5**	**1702,3**	**1,6**	**4,7**	**2,7**	**3,9**	**6,2**

Footnotes:

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/profits and purchases/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

KEY FIGURES

Turnover is non-life insurance turnover from plus life insurance turnover.

Non-life insurance turnover is premiums earned before re-insurers' share plus net investment income on the profit and loss account plus other income.

Life insurance turnover is premiums earned before re-insurers' share plus net investment income on the profit and loss account plus other income.

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 operating profit or loss plus financial expenses plus un-winding 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.

In life insurance, 'unwinding of discount' refers to the technical interest credited to insurances during the year plus/minus any changes in the supplementary liability of the interest.

In non-life insurance, 'unwinding of discount' refers to the effect of the process of unwinding the discounted claims outstanding on the claims incurred, when discounting the capital value of pension liabilities. The rate is calculated by multiplying the discounted provision for claims outstanding at the beginning of the year by the effective technical rate of interest at the end of the previous year.

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.

Non-life insurance

Premiums written is premiums written before reinsurers' share.

Loss ratio in per cent is claims incurred divided by premiums earned.

Loss ratio excluding unwinding of discount in per cent is claims incurred excluding unwinding of discount divided by premiums earned.

Expense ratio in per cent is operating expenses divided by premiums earned.

Key figures are calculated after reinsurers' share.

Combined ratio in per cent is loss ratio plus expense ratio.

Combined ratio excluding unwinding of discount in per cent is loss ratio excluding unwinding of discount plus expense ratio.

Life insurance

Premiums written is premiums written before reinsurers' share.

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

Risks and management of risks and solvency

1 Risk and solvency management in general

The risk and solvency management framework of the Fennia Group, which includes the parent company Fennia Mutual Insurance Company (hereinafter Fennia) and its subsidiaries Fennia Life Insurance Company (hereinafter Fennia Life), Folksam Non-Life Insurance Company Ltd (hereinafter Folksam Non-Life Insurance, and after 27 February 2019 Fennia Non- Life Insurance Company Ltd) and Fennia Asset Management Ltd (hereinafter Fennia Asset Management), 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 Boards of Directors of Fennia and Fennia Life are responsible for ensuring that the companies abide by the Group's risk and solvency management policy. They are responsible above all for ensuring that the companies have 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.

The Board of Directors of Fennia Asset Management is responsible for ensuring that the company abides by the Fennia Group's risk management policy to the extent where the company's special characteristics do not require deviations from it.

Other Group companies abide by the Fennia Group's risk and solvency management policy where applicable. Other Group companies are mostly 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.

For Fennia Asset Management, similar issues are discussed by the extended executive group of the company. It is chaired by the Managing Director of Fennia Asset Management.

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 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

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 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 risks
- liquidity risk
- strategic risks
- reputation risk
- group risks

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.

Certain non-life insurance lines, such as statutory accident insurance and motor liability insurance, are subject to specific legislation, which determines the scope of the insurance cover, preventing any alterations to the insurance terms and conditions in this respect. Certain provisions applicable to statutory accident insurance and motor liability insurance also restrict the insurance company's liability. In claims pertaining to annuities, the inflation risk and the long-term compensation risks related to medical expenses have been transferred to the pay-as-you-go pool under the joint responsibility of the companies operating in the insurance sector.

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. In managing major loss risks, it is important for the structure of the outward reinsurance and the portion of risks/losses remaining under the company's responsibility to be dimensioned according to the solvency and the insurance liabilities to ensure efficient risk transfer.

The use of reinsurance implies ancillary risks, such as reinsurance availability, price and counterparty risks. In non-life insurance, the reinsurance risk and the related counterparty risk are reduced by only accepting companies with a sufficiently high financial strength rating as reinsurers. Moreover, limits are set on the maximum share of a single reinsurer in any reinsurance programme. In life insurance operations, the use of outward reinsurance is minor and therefore concentrated on a few counterparties.

Quantitative data on risk variables for technical provisions in non-life insurance financial statements

Impact of change on technical provisions, excluding the equalisation provision

Discount interest	Decrease of 0.1 percentage point	EUR +12 million
Inflation risk	Increase of 1%	EUR +6 million
Mortality	Average age increase of 1 yr	EUR +13 million

Quantitative data on risk variables for technical provisions in Folksam Non-Life Insurance's financial statements

Impact of change on technical provisions, excluding the equalisation provision

Discount interest	Decrease of 0.1 percentage point	EUR +1.5 million
Inflation risk	Increase of 1%	EUR +0.3 million
Mortality	Average age increase of 1 yr	EUR +1.8 million

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, managed, monitored 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 as well as 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 restrictions are determined to ensure sufficient diversification also within asset classes.

Quantitative data on risk variables in Fennia's investment portfolio

Impact of change on assets

Fixed income investments	Interest rate +1 percentage point	EUR -15 million
Equity investments	Change in value -20%	EUR -84 million
Real estate investments	Change in value -10%	EUR -44 million

Quantitative data on risk variables in Folksam Non-Life Insurance's investment portfolio

Impact of change on assets

Fixed income investments	Interest rate +1 percentage point	EUR -3 million
Equity investments	Change in value -20%	EUR -2 million
Real estate investments	Change in value -10%	EUR -1 million

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

Impact of change on 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;
- outstanding reinsurance receivables and the reinsurers' portion of the claims outstanding;
- receivables from insurance customers
- customer financing.

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.

In managing the counterparty risk in reinsurance operations, the counterparty risk has been limited by setting requirements on, among other things, the credit ratings of reinsurers and the maximum amount of liability per reinsurer. As with the derivative contract counterparty risk, the ratings given by credit rating agencies are used as a tool in assessing the creditworthiness of reinsurers.

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.

The objective of managing the customer financing counterparty risk is to limit the negative impacts of counterparty risks arising from customer and other liabilities on profit and loss to an acceptable level. The credit process plays a key role in managing these counterparty risks. In managing the credit process, it is important to ensure the reliability of the counterparties by assessing risks and by categorising the counterparty thereafter according to the internally developed model. Customer financing counterparty risks are reduced by determining customer-specific security and covenant terms and conditions.

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:

- internal malpractices,
- personnel risks,
- 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 parametrisation
- 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.

Especially in customer financing within investment operations, the investment and insurance operations are assessed from a holistic perspective prior to granting credit in order to be able to assess the joint risk concentrations.

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,

- the amount of non-liquid investments in the portfolio is limited
- liquidity conditions are included in significant reinsurance contracts where necessary.

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 capitalisation.

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
- risks related 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’s distributable profits totalled EUR 245,805,584.10. The company’s loss for the financial year was EUR 32,426,972.92 The Board of Directors proposes that the loss for the financial year be covered by reducing the security reserve.

Helsinki, 8 March 2019

Mikael Ahlbäck

Matti Pörhö

Anni Ronkainen

Risto Tornivaara

Eva Liljeblom

Jyrki Mäkynen

Tomi Yli-Kyyny

Paul Stucki

Henry Backlund

Antti Kuljukka
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 Mutual Insurance Company

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Fennia Mutual Insurance Company (business identity code 0196826-7) for the year ended 31 December, 2017. 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 11-13 and notes to the Accounts pages 46-58)

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.

The Company acquired the entire share capital of Folksam Non-Life Insurance Company Ltd at 27.11.2018 for the purchase price of 106 million euros including expenses. In the Company’s financial statements the acquisition increases the amount of shares in subsidiaries. In the consolidated financial statements the purchase price is allocated to assets and liabilities of Folksam at the time of the acquisition. In the consolidated financial statements a goodwill of 74 million euros was recognized which will be depreciated within 10 years.

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.

As regards the acquisition we have assessed the appropriateness of the Company’s accounting treatment for both the parent Company and the Fennia Group. We reviewed the contracts relating to the acquisition and the accounting treatment of the acquisition related costs. In addition, we evaluated the conformity of Folksam’s accounting principles with Fennia's accounting principles. From the point of view of the Fennia Group's financial position, we audited the appropriateness of the acquisition cost calculation and the accounting and valuation principles of the acquisition price for the assets and liabilities of the acquired company.

Calculation of technical provisions (Accounting principles page 14)

MOST SIGNIFICANT ASSESSED RISKS OF MATERIAL MISSTATEMENT

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

For the parent company operating as non-life insurance company and as at 27.11.2018 acquired Folksam Non-Life Insurance Company Ltd the major risk in terms of technical provisions is the sufficiency of the claim provision. Technical provision calculation relies both on complex actuarial models and assumptions requiring management judgement, which relate to for example life expectancy of annuity claimants or the discount rate to be applied. The annuity provision shall be estimated conservatively both in terms of the discount rate applied and forthcoming payments.

The subsidiary Fennia Life Insurance Company Ltd 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 on investments. The discounting 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 its 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. For Folksam Non- Life Insurance Company Ltd's claim provision we have assessed the conformity of calculation principles and calculation models with the Fennia Group's accounting principles.

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 that 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

* The pages mentioned in the Auditors' Report refer to pages in the Financial Statements.

** In the online version of the Annual Report, the corresponding information is found under Accounting Principles.

Statement of the supervisory board

The Supervisory Board of Fennia Mutual Insurance Company has examined the Company's Financial Statements for the year 2018 and the Consolidated Financial Statements as well as the Auditors' Report. We have no objections concerning them.

The Supervisory Board proposes that the Annual General Meeting to be convened on 16 April 2019 approve the Financial Statements and the Consolidated Financial Statements and adopt the proposal of the Board of Directors for the allocation of the result for the financial year.

Helsinki, 20 March 2019

On behalf of the Supervisory Board

Janne Ylinen

Chairman of the Supervisory Board

Fennia's board of directors and management

Supervisory Board

Chairman

Janne Ylinen

Managing Director

Kokkolan Halpa-Halli Oy

Kokkola

Vice Chairmen

Marianne Kaasalainen

Managing Director

Oy Patrol Trading Ab

Espoo

Board Members

Michael Cedercreutz

Executive Chairman

Oy Victor Ek Ab

Helsinki

Risto Finne

Chairman of the Board

Kuopion Konepaja Oy

Kuopio

Virve Groning

Executive Manager

UFF

Rajamäki

Jarmo Halonen

Managing Director

Elecster Oyj

Toijala

Ilkka Jalonen

Chairman

Ilja Consulting Oy

Espoo

Juha Järvi

Managing Director

Ka-Mu Oy

Karstula

Pia Kauma

Member of Parliament

Espoo

Hannu Kekäläinen

Chairman of the Board

Check Point Finland Oy

Piikkiö

Heimo Keskinen

Chairman of the Board

Ravintolakolmio Oy

Helsinki

Anne Ketola

Kyrö

Jaana Kokko

CEO

Oulun Autokuljetus Oy

Oulu

Petteri Kolinen

CEO

Design Forum

Espoo

Matti Koskenkorva

Counsellor of Entrepreneurship (Finnish honorary title)

Tampere

Jaana Kotro

Administration partner

Teknopower Oy

Turku

Perttu Kouvalainen

CEO

Fabrik Oy

Joensuu

Pekka Kuivalainen

Managing Director

Pisla Oy

Viitasaari

Matti Kurttio

Chairman of the Board

Tormets Oy

Tornio

Mari Laaksonen

Managing Director

CleanMarin Oy

Helsinki

Maunu Lehtimäki

Managing Director

Evli Bank Plc

Helsinki

Markus Lindblom

Managing Director

RTV-Yhtymä Oy

Riihimäki

Heli Lindqvist

CEO

Lukkotalo - Lukko ja Kone Oy

Espoo

Hannu Löytönen

Industrial Counsellor (Finnish honorary title)

Managing Director

Betset Oy

Kyyjärvi

Tauno Maksniemi

Senior partner, CEO

Broadview Oy Ltd

Helsinki

Jouko Manninen

Mayor

Town of Kuusamo

Kuusamo

Mikko Markkanen

CEO

Crazy Town Oy

Jyväskylä

Antti Mykkänen

Fennia’s personnel representative:

Yrittäjäin Fennian Kenttä ry

Lahti

Ari Penttilä

Managing Director

Matkapojat Oy

Tampere

Raimo Puustinen

Managing Director

Pohjois-Karjalan Kirjapaino Oyj

Joensuu

Pekka Rantamäki

CEO

Rantamäki Advisors Oy

Hyvinkää

Ari Rinta-Jouppi

Managing Director

Rinta-Joupin Autoliike Oy

Tervajoki

Ali U. Saadetdin

Chairman of the Board

Solteq Plc

Tampere

Seppo Saajos

Chairman of the Board

Saajos Group

Lohja

Kaj Ström

Chairman of the Board

Motoral Oy

Helsinki

Juhana Tikka

CEO

Kaakon Viestintä Oy

Mikkeli

Virpi Utriainen

CEO

Nuori Yrittäjyys ry

Espoo

Heikki Vauhkonen

Managing Director

Tulikivi Corporation

Helsinki

Henrik Wikström

Director, Finance and Administration

Sarlin Group Oy Ab

Kauniainen

Jarkko Wuorinen

Managing Director

Ahlman & Wuorinen Development AWD Oy

Savonlinna

Jens Österberg

Managing Director

Oy Petsmo Products Ab

Vaasa

Fennia's Board of Directors and Management 1 January 2019

Board of Directors

Chairman

Mikael Ahlbäck

Industrial Counsellor, Group CEO

Ab Rani Plast Oy

Teerijärvi

Vice Chairman

Matti Pörhö

Commercial Counsellor (Finnish honorary title), CEO

Pörhön Autoliike Oy

Oulu

Board Members

Henry Backlund

Chairman of the Board

Dermoshop Oy

Korsnäs

Eva Liljeblom

Professor

Hanken School of Economics, Helsinki

Lund University, Sweden

Helsinki

Jyrki Mäkynen

Managing Director

Oy HM Profiili Ab

Seinäjoki

Anni Ronkainen

Executive Vice President, Chief Digital Officer

Kesko Corporation

Helsinki

Paul Stucki

Managing Director

Orfer Oy

Orimattila

Risto Tornivaara

Senior Advisor

Sitra

Vantaa

Tomi Yli-Kyyny

Managing Director

Caruna Networks Oy

Helsinki

Secretary to the Board

Sanna Elg

Chief Legal Officer Fennia

Espoo

Fennia's Board of Directors and Management 1 January 2019

Auditors

KPMG Oy Ab

Petri Kettunen

Authorised Public Accountant

Deputy Auditor

KPMG Oy Ab

Fredrik Westerholm

Authorised Public Accountant

Management of Fennia Group

Antti Kuljukka

Group CEO

Sanna Elg (Secretary)

Chief Legal Officer

Eero Eriksson

Managing Director, Fennia Asset Management

Kimmo Kilpinen

Deputy Managing Director

Mika Manninen

Group CFO

Alexander Schoschkoff

Managing Director, Fennia Life Insurance

Fennia's Board of Directors and Management 1 January 2019

Physicians

Mikael Hedenborg

Doctor of Medical Science

Specialist in Occupational Health Chief Physician

Special competence in insurance medicine

Lauri Keso

Doctor of Medical Science

Specialist in Internal Medicine and Rheumatology

Special competence in insurance medicine

Juha Liira

Doctor of Medical Science

Specialist in Occupational Health and Medicine

Special competence in insurance medicine

Teemu Paatela

Licentiate of Medicine

Specialist in Orthopaedics

Mika Paavola

Doctor of Medical Science

Specialist in Orthopaedics and Traumatology

Timo Yrjönen

Doctor of Medical Science

Specialist in Orthopaedics

Heikki Österman

Licentiate of Medicine

Specialist in Orthopaedics and Traumatology

Fennia's Board of Directors and Management 1 January 2019