Fennia Life

Annual Report and Financial Statements 2016

Contents

During my watch

Fennia Life Insurance Company was established in 1998 by Fennia Insurance Company and earnings-related pension company Pension Fennia. Before the establishment of our own life insurance company, which will soon turn 20, life insurance solutions were offered through, for example, Nova Life Insurance Company. Fennia's contributions to Nova Life's insurance portfolio were subsequently transferred to Fennia Life.

The oldest insurance policy that is still valid today started on 5 August 1980.

It is a pure life insurance policy. Almost 40 years ago, we assumed through the insurance policy the risk of the death of the insured up to a certain amount. The oldest insurance policy based on savings started on 1 July 1986 (Sesam group pension).

Of the current insurance policies, the termination date furthest in the future is around 12 November 2096, when the youngest insured person in the insurance portfolio turns 100; the person benefits from so-called lifelong pension. In individual pension insurance, the youngest insured person will turn 100 on 23 April 2092 and in risk life insurance, the youngest person insured will reach the maximum age of 90 years on 31 March 2091.

We have close to 80 years of liabilities ahead of us. And, according to the Insurance Contracts Act, once we have signed the contract, our liability remains unchanged unless the policyholder expressly wants to make changes.

I have had the great honour to be part of this continuum for ten years as the company's Managing Director. I am also very proud to hand the reins over to my successor, Alexander Schoschkoff, at a point in time where the company is in excellent shape and has experienced significant growth over the past five years.

I wish to express my warmest gratitude to our customers for the trust they have shown in us, both in the past and in the future. In this change situation, I would like to take the opportunity to thank our skilled personnel for their dedicated work over the past decade. Thank you to the Board of Directors for their trust and to the shareholders for their patience; for using the company's profit primarily for the insured's benefits and the company's solvency.

A warm thank you also to all our co-operation partners for actively making use of Fennia Life's services. Without your help we could not have reached the significant growth we have seen in recent years.

We work each day to further improve our services and manage the company so that the person receiving group pension mentioned above can celebrate their 100th birthday on 12 November 2096 while enjoying the pension paid by us.

Seppo Rinta

Managing Director of Fennia Life until 1 April 2017
Fennia's Deputy Managing Director and deputy to the Group CEO as of 1 April 2017

Report of the board of directors

Fennia Life Insurance Company increased its premium income compared to the previous year. The risk level of investments was lowered due to the low interest rate level and market uncertainty.

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

Insurance business

Fennia Life's total premium income, including the reinsurers' share, increased to EUR 207.1 million (EUR 199.8 million). Of the company's total premiums written, life insurance accounted for EUR 170.2 million (EUR 165.4 million) and pension insurance for EUR 36.8 million (EUR 34.4 million). The premiums written for pension insurance taken out by companies continued to grow despite the decline in the premiums written for private pension insurance policies. Premium income on unit-linked insurances increased to EUR 165.0 million (EUR 158.3 million), accounting for 80 per cent (79%) of total premium income. Premiums written on regular premium contracts stood at EUR 57.0 million (EUR 52.9 million), accounting for 28 per cent (26%) of total premiums written.

Claims paid rose to EUR 90.7 million (EUR 83.2 million). Surrenders amounted to EUR 40.4 million (EUR 30.6 million). The repayment of benefits amounted to EUR 6.4 million (EUR 3.4 million). Pensions were paid in the amount of EUR 34.6 million (EUR 33.7 million) and death and disability benefits in the amount of EUR 5.1 million (EUR 11.5 million).

Operating expenses amounted to EUR 14.0 million (EUR 13.5 million). Taking into account fee and commission income from funds which form the investments of the unit-linked insurance, the expense ratio was 94.8 per cent (100.8 per cent).

The total return on with-profit insurance savings varied between 1.0 and 4.5 per cent in 2016, depending on the line of insurance and quarter of the year. Client bonuses granted totalled EUR 2.4 million, of which EUR 0.4 million was funded from provisions for bonuses reserved earlier. The company continued to increase the technical provisions, which will help prepare for the costs of the technical rate of interest that will be credited to life insurance.

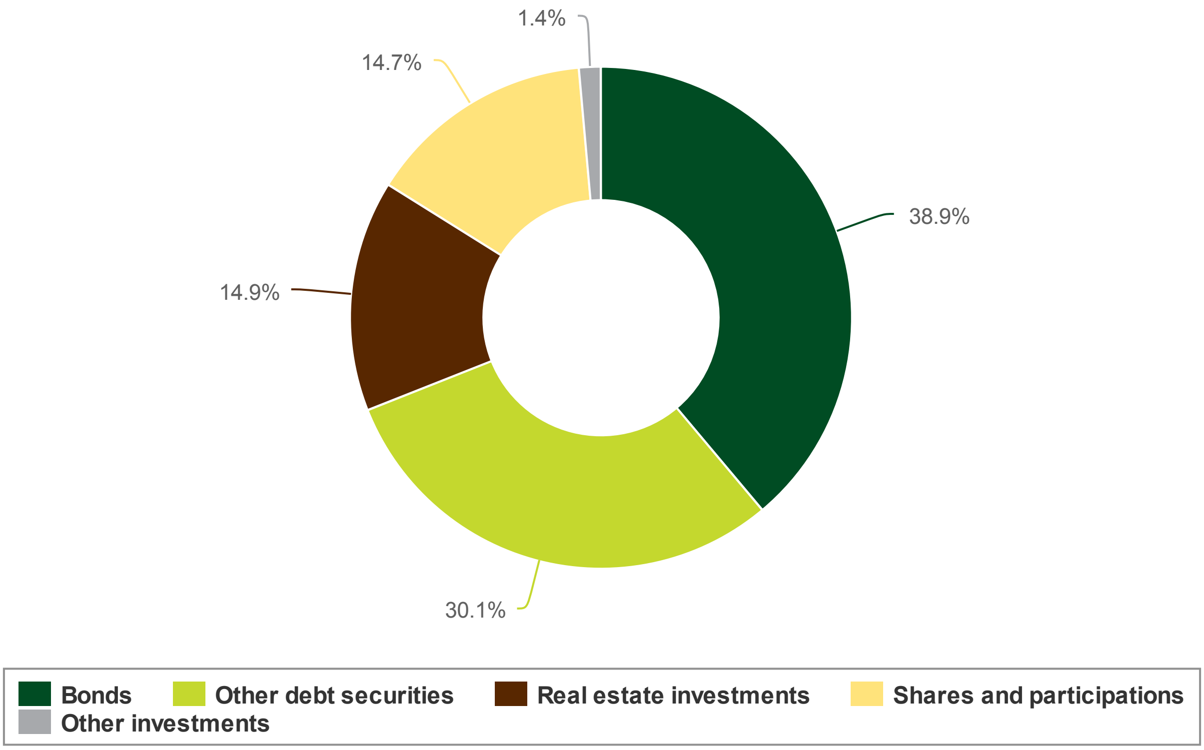
Investments

The company's return on investments at current values amounted to EUR 30.5 million (EUR 34.7 million), i.e. 4.3 per cent (5.0%) on the invested capital. The company's net investment income was EUR 91.8 million (EUR 122.1 million), of which unit-linked insurances accounted for EUR 62.7 million (EUR 46.7 million). The risk level of the investment portfolio was reduced further during the financial year. The investment result of the comparison year includes an exceptionally large amount of capital gains.

At year-end, the current value of investments stood at EUR 756 million (EUR 749 million). Bonds and long-term fund investments accounted for 39 per cent of the investment portfolio, and money market investments and deposits for 30 per cent. Shares, equity fund investments and capital trusts accounted for 15 per cent, real estate investments for 15 per cent, and loan receivables and other investments for 1 per cent. Assets covering unit-linked insurances grew strongly to EUR 903 million (EUR 723 million).

Distribution of FenniaLife's investment portfolio 31.12.2016 EUR 749.3 (720.5) million

Return on investments 4.3 (5.0) %



Result

The company's operating profit was EUR 12.8 million (EUR 3.0 million). The Group's operating profit was EUR 10.2 million (EUR 2.6 million). The company transferred an interest rate supplement of EUR 20 million (EUR 70 million) from the result to the technical provisions at the end of the financial year. At year-end, the supplementary provision for the guaranteed interest rate stood at EUR 136 million.

Administration and staff

During the year under review, the members of Fennia Life's Board of Directors were: Mikael Ahlbäck (Chairman); Matti Ruohonen (Vice Chairman); Managing Director Antti Kuljukka; CEO Juha-Pekka Halmeenmäki and Deputy Managing Director Eero Eriksson.

The Board of Directors held a total of 9 meetings during the year under review. The attendance rate of the members was 100 per cent.

Seppo Rinta acted as Managing Director.

The company employed an average of 53 people (54) in 2016.

Remuneration

The starting point for remuneration at Fennia Group and thus also at Fennia Life is to provide encouraging, fair and reasonable remuneration to management and personnel that is in line with the short- and long-term interests of both the Group and Group companies. Fennia Life's remuneration schemes are based on achieving pre-defined targets that are derived from the company's strategic targets. Fennia Group's pay policy defines the principles related to salary and rewards. At Fennia, the pay policy is 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, pre-defined maximum amounts of remuneration and a force majeure clause, which gives the Board of Directors the right to amend the schemes 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

Fennia Asset Management Ltd, in which the company has a 100 per cent holding, is included in the consolidated accounts.

In addition, at year-end, Fennia Life Group included twelve real estate companies wholly owned by the company.

Asset Management

The company's profitability improved during the financial year. The profit for the financial year was EUR 0.8 million (EUR 0.3 million). The company's capital and reserves grew and at the end of the financial period amounted to EUR 2.1 million (EUR 1.4 million).

The Group's solvency at the end of the financial period was good, the solvency ratio was 35.7 per cent and the company's own funds amounted to EUR 2.1 million (calculated minimum requirement for own funds is EUR 0.5 million).

The amount of client assets managed by Fennia Asset Management grew, standing at EUR 286 million (EUR 234 million) at year-end. The new capital was mainly allocated to a fund investing in business premises because the low interest rate level and volatile equity market steered investors' focus towards real estate investments.

Risk management and solvency management

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

A risk management committee has been set up for the Group's insurance companies to prepare, steer and co-ordinate tasks related to risk and solvency management and to communicate information.

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

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

Solvency and Financial Condition Report

Fennia Life's Solvency and Financial Condition Report will be published on 19th May 2017 on Fennia's website www.fennia.fi.

Outlook for the current year

A moderate rise in the interest rate level combined with the gradual recovery of the economy will bring stability to business operations. However, the current discussion on plans concerning the taxation of savings products and the decision that has already been made regarding the taxation of death benefits may cause instability in the life insurance market.

Profit and Loss Account

EUR 1,000	Group 2016	Group 2015	Parent Company 2016	Parent Company 2015	Note
Technical Account					
Premiums written					
Premiums written	207,062	199,823	207,062	199,823	1
Reinsurers' share	-1,181	-877	-1,181	-877	
	205,881	198,946	205,881	198,946	
Investment income	79,649	126,986	81,724	125,659	3, 4
Revaluations on investments	56,280	39,896	56,280	39,896	3, 4
Claims incurred					
Claims paid	-90,651	-83,181	-90,651	-83,181	2
Reinsurers' share	350	50	350	50	
Change in the provision for outstanding claims	-11,502	-3,373	-11,502	-3,373	
Portfolio transfer	-	5,025	-	5,025	
Claims incurred in total	-101,803	-81,479	-101,803	-81,479	
Change in the provision for unearned premiums					
Total change in the provision for unearned premiums	-170,619	-278,895	-170,619	-278,895	
Portfolio transfer	-	59,222	-	59,222	
	-170,619	-219,673	-170,619	-219,673	
Net operating expenses	-14,046	-13,544	-14,046	-13,544	5
Investment charges	-44,554	-43,139	-43,325	-41,164	3, 4
Revaluation adjustments on investments	-2,900	-2,295	-2,900	-2,295	3, 4
Balance on technical account	7,888	5,699	11,192	6,347	
Non-Technical Account					
Other income					
Income from investment services operations	2,910	2,212			
Other	3		3	-	
	2,913	2,213	3	-	
Other charges					
Expenses from investment services operations	-2,120	-1,959			
Depreciation on goodwill	-241	-241	-241	-241	
Other	-2	-	-2	-	
	-2,363	-2,199	-242	-241	
Profit on ordinary activities			10,953	6,106	
Appropriations					
Change in depreciation difference			16	27	
Tax on profit					
Tax for the financial year	-1,931	-1,077	-1,931	-1,066	
Tax from previous periods	-38	84	-38	84	
Deferred tax	1,294	549			

	-676	-445	-1,969	-982
Minority interests	-10	4		
Profit for the financial year	7,753	5,272	9,000	5,151

Balance Sheet

EUR 1,000	Group 2016	Group 2015	Parent Company 2016	Parent Company 2015	Note
ASSETS					
Intangible assets					
Other long-term expenses	3,836	3,430	3,832	3,392	12
Goodwill	1,925	2,166	1,925	2,166	
Advance payments	802	1,373	802	1,373	
	6,563	6,968	6,559	6,930	
Investments					
Real estate investments					
Land and buildings and real estate shares	76,377	106,696	60,667	87,700	7
Investment loans to affiliated undertakings			16,740	17,395	
Loans to associated undertakings	1,843	1,843	1,843	1,843	
	78,220	108,540	79,250	106,938	
Investments in affiliated undertakings					
Holdings in subsidiaries			2,000	1,400	
Other investments					
Shares and participations	272,404	249,313	272,404	249,313	11
Debt securities	336,130	333,718	336,130	333,718	
Loans guaranteed by mortgages	2,904	2,951	2,904	2,951	
Deposits	2,000	3,000	2,000	3,000	
	613,438	588,983	613,438	588,983	
Investments in total	691,658	697,522	694,688	697,321	6
Investments covering unit-linked insurances	900,910	721,071	900,910	721,071	10
Debtors					
Arising out of direct insurance operations					
Policyholders	894	623	894	623	
Arising out of reinsurance operations	350	50	350	50	
Other debtors	14,014	3,700	13,836	3,639	
	15,257	4,373	15,079	4,312	
Other assets					
Tangible assets					
Machinery and equipment	319	418	317	408	12
Other tangible assets	12	12	12	12	
	331	430	329	421	
Cash at bank and in hand	27,532	20,369	25,328	18,862	
	27,863	20,799	25,658	19,283	
Prepayments and accrued income					
Interest and rents	5,646	4,690	5,643	4,687	
Other	2,386	3,540	2,357	3,527	
	8,033	8,231	8,000	8,214	
	1,650,284	1,458,964	1,650,894	1,457,130	

EUR 1,000	Group 2016	Group 2015	Parent Company 2016	Parent Company 2015	Note
LIABILITIES					
Capital and reserves					
Subscribed capital	27,751	27,751	27,751	27,751	13
Premium fund	10,723	10,723	10,723	10,723	
At the disposal of the Board	8	8	8	8	
Profit brought forward	42,642	37,371	52,509	47,357	
Profit for the financial year	7,753	5,272	9,000	5,152	
	88,878	81,125	99,992	90,992	
Appropriations					
Accumulated depreciation difference			23	39	
Minority interests	390	303			
Technical provisions					
Provision for unearned premiums	485,309	485,125	485,309	485,125	
Claims outstanding	152,738	151,699	152,738	151,699	
	638,047	636,824	638,047	636,824	
Technical provisions for unit-linked insurances					
Technical provisions	903,219	722,320	903,219	722,320	15
Creditors					
Arising out of reinsurance operations	899	543	899	543	
Deferred tax	3,998	5,292			
Other creditors	10,498	9,374	4,763	3,621	14
	15,395	15,209	5,662	4,164	
Accruals and deferred income	4,355	3,182	3,952	2,791	
	1,650,284	1,458,964	1,650,894	1,457,130	

Parent Company Cash Flow Statement

EUR 1,000	2016	2015
Cash flow from business operations		
Profit on ordinary activities before extraordinary items	8,984	5,125
Adjustments:		
Change in technical provisions	182,121	282,268
Value adjustments and revaluations on investments	-54,851	-21,803
Depreciation according to plan	1,130	1,288
Other	-9,631	-76,055
Cash flow before change in net working capital	127,751	190,822
Change in net working capital		
Increase/decrease in non-interest-earning receivables	-11,740	-1,444
Increase in non-interest-earning payables	858	911
Cash flow from business operations before financial items and taxes	116,870	190,289
Interest paid on other financial expenses from operations	-5	-3
Taxes	-804	-2,550
Cash flow from business operations	116,062	187,737
Cash flow from capital expenditures		
Capital expenditure on investments (excl. funds)	-120,534	-251,403
Capital gain from investments (excl. funds)	11,605	77,039
Investments and income from the sale of tangible and intangible assets and other assets (net)	-667	-3,709
Cash flow from capital expenditures	-109,595	-178,073
Cash flow from financing		
Dividends paid	-	-3,400
Cash flow from financing	-	-3,400
Change in funds	6,467	6,265
Funds on 1 Jan.	18,862	12,597
Funds on 31 Dec.	25,328	18,862
	6,467	6,265

Accounting principles

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

Book value of investments

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

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

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

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

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

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

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

Investments covering unit-linked insurances are valued at their current value.

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 have also been recorded on the capitalisation of information systems. During the financial period, additional depreciations were also recorded on computer hardware used less than three years.

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

Depreciation according to plan

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

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

Revaluations on investments

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

Current value of investments

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

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

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

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

Foreign currency items

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

Staff pension schemes

Pension insurance cover has been arranged for the staff by means of TyEL insurance with Etera Mutual Pension Insurance Company. Pension expenditure during the financial year is entered on the accrual basis as an expense. A reserve entered as an expense was entered for the financial year for compensation paid to personnel covered by TyEL supplementary insurance that ended on 31 December 2016. All company personnel are also included in the defined contribution supplementary insurance policy, which has been taken out with Fennia Life Insurance Company.

Appropriations and treatment of deferred tax

Finnish legislation allows certain optional untaxed reserves and depreciation above plan to be made in the final accounts. In the final accounts of the Group companies, deferred tax is not deducted from appropriations, revaluations transferred to reserves and valuation differences on investments. Revaluations entered as income are taxable income. Deferred tax receivables arising from timing differences between accounting and taxation are not entered in the annual accounts of the Group companies, and the Group companies have no corresponding deferred tax liabilities. Deferred tax liabilities resulting from consolidation measures are entered in the consolidated accounts.

In the consolidated accounts, 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 tax rate used is 20.0 per cent.

Technical provisions

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

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

– For individual life and pension insurance, the technical rate of interest applied is between 1 and 4.5 per cent, depending on the starting date of the insurance. For new 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.
– 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 for pension and savings insurance policies that have a technical rate of interest of 2.0 to 4.5 per cent, the technical provisions have been supplemented both during the reporting year and in previous financial statements. The supplementary provision for the guaranteed interest rate as of 31 December 2016 is approximately EUR 136.0 million. Due to 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 the return that corresponds, for savings insurance policies, to the return on the 12-month Euribor and, for pension insurance policies, to the return on the German 10-year government bond. 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 2016

Fennia Life's bonuses in 2016 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 2016 was moderate. In response to the extremely low interest rate level that has continued for some time, EUR 20 million was transferred 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. This will be used to secure the company's ability to cover the high technical rate of interest also in future. The supplementary provision for the guaranteed interest rate was decreased according to plan.

The risk-free interest rate has remained low for both short-term and long-term government bonds since 2009. Between 2009 and 2016, 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 2016:

Total annual interest on with-profit policies in 2016

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%	2.95%	2.95%	2.50%
2.00%			2.90%	
1.50%	1.85%			1.65%
1.00%	1.83%	2.90%	2.90%	1.45%
0.00%			2.90%	1.45%

Consolidated Financial Statements

Fennia Life's consolidated accounts include all the subsidiaries in which the parent company either directly or indirectly holds more than half of the voting rights. Fennia Asset Management Ltd (100% ownership) was consolidated to the company, and the other twelve (13 in 2015) subsidiaries consolidated into the Group are real estate companies.

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

Group companies

Group companies 31 Dec. 2016

The following subsidiaries are included in the consolidated financial statements

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

Notes to the Accounts, Parent Company

Notes to the Profit and Loss Account and Balance Sheet

1. Premiums written

EUR 1,000	2016	2015
Direct insurance		
Finland	207,062	199,827
Reinsurance	-	-4
Gross premiums written before reinsurers’ share	207,062	199,823
Items deducted from premiums written		
Credit loss on outstanding premiums	13	12
Direct insurance premiums written		
Life insurance		
Unit-linked individual life insurance	131,442	123,896
Other individual life insurance	3,845	5,682
Unit-linked capital redemption policy	18,258	20,279
Other capital redemption policy	347	761
Employees’ group life insurance	5,312	5,065
Other group life insurance	11,015	9,702
	170,219	165,385
Pension insurance		
Unit-linked individual pension insurance	4,772	5,193
Other individual pension insurance	6,160	7,093
Unit-linked group pension insurance	10,504	8,943
Other group pension insurance	15,407	13,214
	36,843	34,443
	207,062	199,827
Regular premiums	57,029	52,917
Single premiums	150,034	146,910
	207,062	199,827
Premiums from with-profit policies	42,086	41,517
Premiums from unit-linked insurance	164,976	158,311
	207,062	199,827

2. Claims paid

EUR 1,000	2016	2015
Direct insurance		
Life insurance	53,437	42,027
Pension insurance	37,214	41,154
	90,651	83,181
Reinsurance	-	-
Claims paid in total	90,651	83,181
Of which:		
Surrenders	40,432	30,610
Repayment of benefits	6,410	3,399
Other	43,809	49,173
	90,651	83,181
Share of unit-linked insurances of claims paid	44,074	50,469
Life insurance: bonuses and rebates		
Impact of bonuses and rebates attached to life insurance policies on the balance on technical account	1,964	5,493
Change in provisions for future bonuses for the financial year	-182	-411

In the financial accounts, EUR 20,000,000 was transferred from the result on 31 December 2016 to cover the cost of the technical rate of interest for individual and group pensions. Of the technical rate of interest for 2016, EUR 11,211,505 was financed from the supplementary provision for the guaranteed interest rate. Of the EUR 1,048,564 in supplementary interest that was granted in 2016, EUR 18,166 was financed from the provision for bonuses. A total of EUR 419,896 in bonuses on risk life insurance policies was paid, covered entirely from the provision for bonuses. The bonuses granted to insurances during 2016 met the bonus objectives for the financial year. A non-recurring additional bonus of EUR 933,226 was additionally paid in the financial accounts to some group pension insurance policies.

The bonuses credited to insurances during 2015 totalled EUR 2,036,335, which met the bonus objectives for the financial year. Provisions for bonuses accumulated during previous years were decreased by EUR 411,450. During the financial year, EUR 70,000,000 was transferred from the result to the supplementary provision for the guaranteed interest rate.

3. Net investment income

EUR 1,000	2016	2015
Investment income		
Income from investments in land and buildings		
Interest income		
Affiliated undertakings	571	618
From other undertakings	148	167
	719	785
Other income	9,274	10,053
	9,992	10,839
Income from other investments		
Dividend income	13,019	10,963
Interest income	7,337	6,140
Other income	2,437	3,257
	22,793	20,361
Total	32,785	31,200
Value readjustments	12,247	5,211
Gains on realisation of investments	36,706	89,249
Total	81,738	125,659
Investment charges		
Charges arising from investments in land and buildings		
To affiliated undertakings	-3,300	-3,263
To other undertakings	-921	-1,261
	-4,222	-4,524
Charges arising from other investments	-3,237	-3,419
Interest and other expenses on liabilities	-5	-3
Total	-7,463	-7,946
Value adjustments and depreciations		
Value adjustments on investments	-10,775	-21,009
Losses on realisation of investments	-25,100	-12,210
Total	-43,339	-41,164
Net investment income before revaluations and revaluation adjustments	38,399	84,495
Revaluations on investments	56,280	39,896
Revaluation adjustments on investments	-2,900	-2,295
	53,379	37,602
Net investment income on the Profit and Loss Account	91,779	122,097

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

EUR 1,000	**2016**	**2015**
Investment income	22,429	24,989
Investment charges	-15,552	-6,173
Net investment income before revaluations and revaluation adjustments and value adjustments and readjustments	6,877	18,817
Revaluations on investments	56,280	39,896
Revaluation adjustments on investments	-2,900	-2,295
Value adjustments on investments	-4,151	-11,940
Value readjustments	6,618	2,218
Net investment income on the Profit and Loss Account	62,724	46,696

5. Operating expenses

EUR 1,000	2016	2015
Operating expenses in the Profit and Loss Account		
Policy acquisition costs		
Direct insurance commissions	2,459	1,744
Commissions on reinsurance assumed and profit sharing		
Other policy acquisition costs	4,183	4,108
Total policy acquisition costs	6,642	5,852
Policy management expenses	5,542	5,591
Administrative expenses	2,016	2,277
Commissions on reinsurance ceded	-154	-176
Total	14,046	13,544
Total operating expenses by activity		
Claims paid	507	465
Net operating expenses	14,046	13,544
Investment charges	1,646	1,427
Total	16,199	15,436
Depreciation according to plan by activity		
Claims paid	154	36
Net operating expenses	906	1,160
Investment charges	70	92
Total	1,130	1,288
Staff expenses, personnel and executives		
Staff expenses		
Salaries and commissions	3,831	3,894
Pension expenses	1,003	1,123
Other social expenses	313	284
Total	5,147	5,301
Executives' salaries and commissions		
Board of Directors and Managing Director	353	319
The age of retirement of the Managing Director is defined according to TyEL		
Average number of personnel during the financial year	53	54
	53	54
	-	-
Auditors' commissions		
Audit	25	25
Tax consulting	-	5
	25	30

6. Current value and valuation difference on investments

EUR 1,000	Investments 31 Dec. 2016 Remaining acquisition cost	Investments 31 Dec. 2016 Book value	Investments 31 Dec. 2016 Current value	Investments 31 Dec. 2015 Remaining acquisition cost	Investments 31 Dec. 2015 Book value	Investments 31 Dec. 2015 Current value
Real estate investments						
Real estate	3,718	3,718	4,260	3,718	3,718	4,280
Real estate shares in affiliated undertakings	49,459	49,459	57,357	76,525	76,525	83,748
Real estate shares in associated undertakings	5,797	5,797	7,166	5,764	5,764	5,764
Other real estate shares	1,692	1,692	1,692	1,692	1,692	1,692
Investment loans to affiliated undertakings	16,740	16,740	16,740	17,395	17,395	17,395
Loans to associated undertakings	1,843	1,843	1,843	1,843	1,843	1,843
Investments in affiliated undertakings						
Shares and participations	2,000	2,000	2,000	1,400	1,400	1,400
Other investments						
Shares and participations	272,404	272,404	291,375	249,313	249,313	270,399
Debt securities	336,130	336,130	337,029	333,718	333,718	334,767
Loans guaranteed by mortgages	2,904	2,904	2,904	2,951	2,951	2,951
Deposits	2,000	2,000	2,000	3,000	3,000	3,000
	694,688	694,688	724,366	697,321	697,321	727,240
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 (-)	-11,960			-6,874		
Valuation difference (difference between current value and book value)			29,679			29,919
Current value and valuation difference of derivatives						
Hedging derivatives			1,787	-	-	-
Non-hedging derivatives	-1,153	-1,153	-1,153	-361	-361	-232
Valuation difference (difference between current value and book value)			1,787			129
Valuation difference, total			31,466			30,048

7. Changes in investments in land and buildings

EUR 1,000	Land and buildings and real estate shares	Investment loans to affiliated undertakings	Investment loans to associated undertakings
Acquisition cost, 1 Jan.	99,110	17,395	1,843
Increase	33	260	-
Decrease	-31,692	-915	-
Acquisition cost, 31 Dec.	67,450	16,740	1,843
Value adjustments, 1 Jan.	-11,410		
Accumulated value adjustments related to decreases	4,920		
Value readjustments	-		
Increase	-294		
Value adjustments, 31 Dec.	-6,783		
Book value, 31 Dec.	60,667	16,740	1,843
Land and buildings and real estate shares occupied for own activities			
Remaining acquisition cost	280		
Book value	280		
Current value	280		

8. Investments in affiliated and associated undertakings

EUR 1,000	
Acquisition cost, 1 Jan.	3,800
Increase	-
Acquisition cost, 31 Dec.	3,800
Value adjustments, 1 Jan.	-2,400
Value readjustments	600
Value adjustments, 31 Dec.	-1,800
Book value, 31 Dec.	2,000

9. Debtors

EUR 1,000	
Other debtors	
Affiliated undertakings	546

10. Investments covering unit-linked insurances

EUR 1,000	2016 Original acquisition cost	2016 Current value	2015 Original acquisition cost	2015 Current value
Shares and participations	656,437	765,022	546,851	621,052
Debt securities	87,167	88,210	66,610	63,961
Cash at bank and in hand	47,678	47,678	36,058	36,058
Total	791,282	900,910	649,519	721,071
Investments covering unit-linked insurances				
corresponding to technical provisions	791,282	900,910	649,519	721,071
Cash at bank and in hand, and other debtors include net insurance premiums that have not yet been invested		2,361		1,604

11. Shares and participations in other companies

EUR 1,000	Holding %	Book value, 31 Dec. 2016	Current value, 31 Dec. 2016
Domestic shares			
Pihlajalinna Oyj	1.3813	4,488	4,868
Uudenmaan Pääomarahasto Oy	13.2193	1,929	1,929
Amplus Holding Oy	19.9686	1,831	3,576
Holiday Club Resorts Oy	1.8534	1,097	1,097
Other		1,707	3,354
		11,051	14,823
Foreign shares			
K III Sweden AB		707	722
Other		62,635	70,464
		63,343	71,186
Unit trusts			
Aktia Likvida+ D		5,636	5,693
BNP Paribas InstiCash Money 3M EUR		23,244	23,247
Brummer & Partners Lynx Fund		1,002	1,147
Cassiopeia Fund		2,000	2,075
CUMULUS FUND - CLASS C- EUR Main Class		1,563	1,563
Danske Invest Yhteisökorko Kasvu		45,026	45,243
Danske Invest Yhteisökorko Plus Kasvu		5,001	5,018
Evli Euro Liquidity B		4,000	4,000
FIM Likvidi		3,446	3,456
Golden China Fund		956	1,691
ING L Liquid - Euribor 3M		2,996	2,996
Nordea Korko S Kasvu (Moderate Yield Fund)		28,997	29,014
Oddo Asset Management Oddo Tresorerie 3-6 Mois		18,986	18,986
OP-Euro A		9,003	9,007
Seligson & Co Rahamarkkinarahasto AAA		5,525	5,532
Other		15	15
		157,398	158,685
Capital trusts			
Aberdeen Indirect Property Partners		609	609
Duke Street Capital VI LP		669	669
ESR Fennica Toimitilat I		21,000	22,081
Euro Choice IV GB Limited		2,757	4,265
MB Equity Fund IV Ky		2,364	3,446
Partners Group European Buyout		2,541	2,962
Partners Group European Mezzanine		1,614	1,685
Selected Mezzanine Funds I Ky		1,068	1,624
Selected Private Equity Funds I Ky		1,719	2,887
The Triton Fund III L.P.		3,780	3,927
The Triton Fund II L.P.		523	523
WasaGroup Fund I		500	500
Other		1,468	1,502
		40,612	46,680

12. Changes in intangible and tangible assets

EUR 1,000	Intangible rights and other long-term expenses	Goodwill	Advance payments	Equipment	Total
Acquisition cost, 1 Jan. 2016	7,145	2,407	1,373	800	11,724
Fully depreciated in the previous financial year	-53	-		-176	-229
Increase	1,373	-	802	142	2,316
Decrease	-	-	-1,373	-82	-1,454
Acquisition cost, 31 Dec. 2016	8,465	2,407	802	684	12,357
Accumulated depreciation, 1 Jan. 2016	-3,368	-241		-392	-4,000
Fully depreciated in the previous financial year	53	-		176	229
Accumulated depreciation related to decreases and transfers	-	-		46	46
Depreciation for the financial year	-933	-241		-197	-1,370
Accumulated depreciation, 31 Dec. 2016	-4,248	-481		-367	-5,097
Value adjustments, 1 Jan. 2016	-385				-385
Value adjustments during the financial year	-				
Value adjustments, 31 Dec. 2016	-385				-385
Book value, 31 Dec. 2016	3,832	1,925	802	317	6,876

13. Capital and reserves

EUR 1,000	**2016**
Restricted	
Subscribed capital 1 Jan./31 Dec.	27,751
Premium Fund, 1 Jan./31 Dec.	10,723
Restricted in total	38,474
Non-restricted	
At the disposal of the Board 1 Jan./31 Dec.	8
Profit brought forward, 1 Jan.	47,357
Profit for the previous financial year	5,152
Profit brought forward, 31 Dec.	52,509
Profit for the financial year	9,000
Non-restricted in total	61,517
Capital and reserves in total	99,992
Distributable profit, 31 Dec. 2016	
Profit for the financial year	9,000
At the disposal of the Board	8
Profit brought forward	52,509
Distributable profit	61,517

14. Creditors

EUR 1,000	**2016**	**2015**
Other creditors		
To affiliated undertakings	275	532

15. Technical provisions for unit-linked insurances

EUR 1,000	2016	2015
Provision for unearned premiums	883,398	712,962
Claims outstanding	19,821	9,358
	903,219	722,320

16. Guarantee and liability commitments

EUR 1,000	2016	2015
Liabilities from derivative contracts		
Non-hedging		
Currency derivatives		
Forward and futures contracts		
Open		
Value of underlying instrument	45,303	80,394
Current value	-1,153	-232
Hedging		
Interest rate derivative		
Interest rate swap		
Open		
Value of underlying instrument	322,000	-
Current value	1,787	-

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 net result of closed interest rate derivatives for the financial year was EUR -5,246,626.51, of which EUR 14,016.49 was allocated to the financial year.

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

Value-added tax liabilities

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.

	2016	2015
Affiliated undertakings	168	193
Other undertakings	262	565

Investment commitments

	2016	2015
Commitment to invest in equity funds	7,117	26,590

Loans to related parties and related party transactions

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

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

17. Notes concerning the Group

Fennia Life Insurance Company’s parent company is Fennia Mutual Insurance Company. The domicile of the company is Helsinki.

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

Financial Statements' Key Figures

Analysis of Results

EUR 1,000	2016	2015	2014	2013	2012
Premiums written	205,881	198,946	151,413	93,526	89,721
Investment income (net), revaluations and revaluation adjustments on investments	88,475	121,449	62,839	88,420	63,237
Claims paid	-90,301	-83,131	-77,490	-84,221	-63,615
Change in technical provisions before bonuses and rebates and change in equalisation provision	-180,322	-221,123	-116,909	-84,177	-65,897
Net operating expenses	-14,046	-13,544	-11,947	-10,606	-10,766
Other technical underwriting income			156		
Technical underwriting result before bonuses and rebates and change in equalisation provision	9,688	2,596	8,062	2,942	12,680
Other income (net)	550	13	-7	-1,036	-838
Operating profit	10,238	2,610	8,055	1,906	11,842
Change in equalisation provision	0	8,595	-723	-618	-954
Bonuses and rebates	-1,800	-5,493	-501	5,849	-1,448
Profit before untaxed reserves and tax	8,438	5,712	6,831	7,137	9,440
Taxes	-676	-445	-2,102	-1,407	-4,120
Minority interests	-10	4			
Group's profit for the financial year	7,753	5,272	4,729	5,730	5,321
Gross premiums written (EUR 1,000)	207,062	199,823	152,544	94,462	90,508
Expense ratio of expense loading	105.6 %	113.8 %	122.8 %	117.3 %	119.9 %
Expense ratio of Balance Sheet total	1.1 %	1.3 %	1.3 %	1.3 %	1.4 %
Total result (EUR 1,000)	14,170	-37,650	29,739	852	35,991
Return on assets	5.1 %	5.5 %	7.8 %	5.6 %	9.5 %

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

Investment portfolio at current values

	Basic distribution				Risk distribution						
	31.12.2016		**31.12.2015**		**31.12.2016**		**2015**		**2014**	**2013**	**2012**
	EUR million	%	EUR million	%	EUR million	%	%	EUR million	%	%	%
Fixed-income investments, total	**525.0**	**69.5**	**447.0**	**59.7**	**525.0**	**69.5**	**59.7**	**373.8**	**51.9**	**50.2**	**59.4**
Loans[1]	3.1	0.4	3.2	0.4	3.1	0.4	0.4	3.2	0.4	1.2	0.5
Bonds	294.0	38.9	291.9	39.0	294.0	38.9	39.0	295.5	41.0	39.1	47.5
Other money market instruments and deposits[1] [2]	227.9	30.1	151.9	20.3	227.9	30.1	20.3	75.1	10.4	9.9	11.4
Equity investments, total	**111.3**	**14.7**	**134.5**	**17.9**	**111.3**	**14.7**	**17.9**	**183.5**	**25.5**	**27.5**	**21.0**
Listed equities [3]	76.9	10.2	94.3	12.6	76.9	10.2	12.6	134.3	18.6	21.3	14.3
Private equity [4]	23.3	3.1	25.9	3.5	23.3	3.1	3.5	27.5	3.8	3.7	4.0
Unlisted equities [5]	11.1	1.5	14.2	1.9	11.1	1.5	1.9	21.7	3.0	2.5	2.6
Real estate investments, total	**112.4**	**14.9**	**161.3**	**21.5**	**112.4**	**14.9**	**21.5**	**155.5**	**21.6**	**21.0**	**19.3**
Direct real estate	89.1	11.8	114.7	15.3	89.1	11.8	15.3	112.1	15.6	15.7	16.2
Real estate funds and UCITS	23.4	3.1	46.6	6.2	23.4	3.1	6.2	43.4	6.0	5.2	3.1
Other investments	**7.2**	**0.9**	**6.5**	**0.9**	**6.5**	**0.9**	**0.9**	**6.4**	**0.9**	**0.9**	**0.3**
Hedge funds [6]	6.5	0.9	6.8	0.9	6.5	0.9	0.9	5.5	0.8	0.8	0.3
Commodities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investments [7]	0.7	0.1	-0.3	0.0	0.0	0.0	0.0	0.9	0.1	0.1	0.0
Investments in total	**755.9**	**100.0**	**749.3**	**100.0**	**755.3**	**99.9**	**100.0**	**719.3**	**99.8**	**99.6**	**100.0**
Effect of derivatives [8]	-		-		0.7	0.1	0.0	1.3	0.2	0.4	0.0
Total investments at fair value	**755.9**	**100.0**	**749.3**	**100.0**	**755.9**	**100.0**	**100.0**	**720.5**	**100.0**	**100.0**	**100.0**
Modified duration of the bond portfolio	**2.89**										

1) Includes accrued interests

2) Including cash at bank and in hand and settlement receivables and settlement liabilities

3) Including mixed funds, if these cannot be allocated elsewhere

4) Including private equity funds, mezzanine funds, and infrastructure investments

5) Including unlisted real-estate investment companies

6) Including all types of hedge fund shares, regardless of the fund's strategy

7) Including items that cannot be allocated to other investment types

8) Includes the effect of derivatives on the difference between risk-adjusted breakdown and basic breakdown

Net investment income on invested capital

	Market value of net investment returns [8]	Invested capital [9]	Yield, % on invested capital				
	2016	2016	2016	2015	2014	2013	2012
Return €/ % on inv. capital	EUR million	EUR million	%	%	%	%	%
Fixed-income investments, total	**4.8**	**460.0**	**1.0**	**0.5**	**5.3**	**0.5**	**9.6**
Loans[1]	0.0	2.9	1.4	6.1	3.8	3.8	4.0
Bonds	3.9	282.0	1.4	-0.5	5.8	0.2	11.8
Other money market instruments and deposits[1] [2]	0.8	175.1	0.5	2.5	2.6	1.3	1.2
Equity investments, total	**5.9**	**118.2**	**5.0**	**16.7**	**13.4**	**16.8**	**13.0**
Listed equities [3]	2.6	82.9	3.1	18.5	12.0	18.4	14.5
Private equity [4]	3.1	23.8	12.9	14.1	13.6	15.0	9.2
Unlisted equities [5]	0.3	11.5	2.4	11.6	23.1	10.7	11.3
Real estate investments, total	**18.6**	**130.9**	**14.2**	**7.9**	**5.7**	**9.4**	**5.7**
Direct real estate	17.4	96.6	17.5	8.4	3.4	11.5	3.2
Real estate funds and UCITS	1.7	34.2	4.9	6.6	12.1	-3.0	20.1
Other investments	**2.2**	**5.3**	**42.1**	**3.3**	**10.7**	**23.3**	**-23.6**
Hedge funds [6]	-0.3	6.8	-4.7	4.5	8.9	3.1	-1.6
Commodities							
Other investments [7]	2.5	-1.5	-163.9	-108.2	22.9		0.0
Investments in total	**32.0**	**714.1**	**4.5**	**5.2**	**7.6**	**5.5**	**9.5**
Sundry income, charges and operating expenses	-1.5				0.0		
Net investment income at current value	**30.5**	**714.1**	**4.3**	**5.0**	**7.4**	**5.2**	**9.3**

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 – cash flows during the period. Cash flows refers to the difference between sales/profits and purchases/costs

9) Invested capital = Market value at the beginning of the reporting period + daily/monthly time-weighted cash flows

Calculation methods for the key figures

Premiums written = premiums written before reinsurers' share

Expense ratio (% of expense loading) =
+ operating expenses before change in deferred acquisition costs
+ claims settlement expenses
expense loading

Expense ratio (% of Balance Sheet total) =
+ total operating expenses
opening Balance Sheet total

Total result = operating profit (loss) +/- change in off-balance sheet valuation differences

Return on assets at current values (%) =
+/- operating profit or loss
+ financial expenses
+ unwinding of discount
+/- change in valuation differences on investments
+ Balance Sheet total
- technical provisions for unit-linked insurances
+/- valuation differences on investments

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

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

Net investment income on invested capital at current values (%)
Net investment income at current values in relation to invested capital 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 = Average number of employees at the end of each calendar month.

Risks and management of risks and solvency

1 Risk and solvency management in general

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

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

2 Organisation of risk and solvency management

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

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

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. The other Group companies are real estate companies.

A risk management committee has been set up for the Group's insurance companies to prepare, steer and co-ordinate tasks related to risk and solvency management and to communicate information. The primary task of this risk management committee is to support Fennia's and Fennia Life's Managing Directors in issues related to risk and solvency management. The committee is chaired by Fennia's Managing Director, and Fennia Life's Managing Director is a member of the committee.

A separate risk management committee has been set up for Fennia Asset Management. 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 the owner of the risk management framework and is responsible for, among other things, the interpretation, development and planning of and reporting on risk and solvency management, and supports, monitors and assesses the first defence line's implementation of the risk and solvency management processes.
3. The third defence line is in charge of ensuring the effectiveness and efficiency of internal control and risk and solvency management.

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

- Managing Director

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

- Business and support functions

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

- Actuarial function

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

- Risk Management function

  The Risk Management 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 reporting on risk and solvency management. The task of the function is to maintain an overall picture of the Group's and Group companies' risk profile. 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 function

  The Compliance function, 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 Compliance function 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 Compliance function 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 function and the Compliance function have been integrated into the Fennia Group's organisation to ensure their independence from the operational activities, which means that the functions 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 management 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 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.

4. 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.

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 and Compliance functions report the risks to the risk management committees and to the relevant Boards of Directors as part of the functions' regular reporting.

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 risks
- 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 risks) 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. Technical provision risks relate to the uncertainty of the assumptions made when calculating the technical provisions and to unfavourable deviations of the estimated claim amounts, operating expenses and their cash flows from the actual expenses.

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

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

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

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

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

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

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

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

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

3.2 Financial market risks

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

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

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

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

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

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

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

	Impact of change on Fennia’s solvency capital	
Fixed income investments	Interest rate +1 percentage point	EUR -14 million
Equity investments	Change in value -20%	EUR -15 million
Real estate investments	Change in value -10%	EUR -9 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, monitored, managed and reported.

Counterparty risks are mainly caused by (the credit 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, and
- receivables from insurance customers.

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

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

3.4 Operational risks

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

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

Legal risks are included in operational risks. Strategic and reputation risks have been excluded from operational risks.

The objective of managing operational risks is to reduce the probability of unexpected losses by taking preventive risk management measures. The most effective risk-management measures are targeted at the most serious operational risks, meaning risks that are unlikely to materialise but when they do, they have a major impact on operations.

The Fennia Group’s operational risk management framework is based on collecting data on operational risks from various sources, which include, for example, internal and Compliance audits, risk indicators, scenario-based estimates, data on internal occurrences of damage and near-miss situations, and internal risk mapping. The scenario-based estimates in particular play a key role in the proactive assessment of operational risks. The business and support functions hold primary responsibility for collecting data on operational risks and reporting it to the Risk Management and Compliance functions.

On the basis of the data collected from various sources, a risk profile is created for the operational risks and the necessary reports are produced for the Board of Directors and other internal purposes. In the longer term, systematic risk assessment improves the level of risk management and helps business and support functions to understand and manage operational risks.

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.

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

- internal malpractices,
- personnel risks,
- legal risks,
- problems and business interruption losses related to information, telecommunications and telephone systems,
- risks related to customers, products and business practices,
- risks related to processes, and
- risks related to the activities of external operators.

3.5 Risks inherent in quantitative methods

A quantitative method refers to the creation of numerical estimates by applying statistical, economical, 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, monitored, managed 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
- 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 and 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 risk refers to all kinds of risk concentrations involving losses which may be high enough to jeopardise the insurance company's solvency or financial position. Concentration risks most often arise from investment operations, but they may also arise from insurance operations, and from the combined effect of these.

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

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

3.7 Liquidity risk

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

Liquidity risk is divided into short- and long-term risk. Short-term liquidity risk refers to risks that are related to asset and liability cash flows lasting less than 4 months (cash management risks). Long-term liquidity risk refers to asset and liability matching risks spanning several years, even decades into the future.

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

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

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

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

3.8 Strategic risks

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

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

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

- strategic macro risks, which are related for example to changes in demographic, social security and culture trends, changes in regulation, authority supervision and policy or changes in climate and geopolitical trends,

- sector-specific strategic risks that relate to changes in competition in the insurance or financial sector and in the demand of policyholders or investors, and

- strategic risks inherent in internal operations, such as, for example, risks related to expansion or to internal development or to the availability of additional 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 Fennia brand or to the public image of an individual company belonging to the Fennia Group. Reputation risk can also be caused by 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 risk 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-reducing measures can be implemented within the organisation.

Successful reputation risk management is partly based on clear and well-thought-out external communications. It is important for the message to be correct and communicated to the right recipient by the right emitter.

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 and 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 (risk budgeting). The set risk-specific restrictions must efficiently limit the risk profile to keep solvency and risk-taking under control and within the permitted limits.

Board of Directors' Proposal on the Disposal of Profit

Fennia Life's distributable profits totalled EUR 61,517,421.74. The company's profit for the financial year was EUR 9,000,106.05. The Board of Directors proposes that the profit for the financial year be used such that EUR 1,500,000.00 be paid in dividends and EUR 7,500,106.05 be transferred to retained earnings.

Helsinki, 7 March 2017

Mikael Ahlbäck	Matti Ruohonen	Eero Eriksson
Juha-Pekka Halmeenmäki	Antti Kuljukka	Seppo Rinta Managing Director

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

Auditor’s report

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

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Fennia Life Insurance Company Ltd. (business identity code 1496059-8) for the year ended 31 December, 2016. The financial statements comprise the balance sheets, the income statements, 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.

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

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 on 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 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 company 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Other Reporting Requirements

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises information included in 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 information included in the report of the Board of Directors and, in doing so, consider whether the information included in the report of the Board of Directors 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 in the information included in the report of the Board of Directors, we are required to report this fact. We have nothing to report in this regard.

Helsinki 10 March, 2017
KPMG OY AB

Petri Kettunen
Authorised Public Accountant, KHT

Marcus Tötterman
Authorised Public Accountant, KHT

Board of Directors

Chairman

Mikael Ahlbäck
Industrial Counsellor, Group CEO
Ab Rani Plast Oy
Teerijärvi

Vice Chairman

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

Board Members

Eero Eriksson
Deputy Managing Director
Fennia Mutual Insurance Company
Helsinki

Juha-Pekka Halmeenmäki
Managing Director
Invalidisäätiö
Helsinki

Antti Kuljukka
Managing Director
Fennia Mutual Insurance Company
Helsinki

Secretary to the Board

Sanna Elg
General Counsel
Fennia Mutual Insurance Company
Espoo

Fennia Life's Board of Directors and Management 1 January 2017

Auditors

KPMG OY AB

Petri Kettunen
Authorised Public Accountant

Alex Wahlroos
Authorised Public Accountant

Deputy Auditors

KPMG OY AB

Tiia Kataja
Authorised Public Accountant

Marcus Tötterman
Authorised Public Accountant

Fennia Life's Board of Directors and Management 1 January 2017

Management

Seppo Rinta
Managing Director

Johanna Ahvenainen (Secretary to the Management Board)
Corporate Counsel

Olli Hokkanen
Head of IT

Ari Koskinen
Director, Customer Service, Development of Services and Products

Päivi Ojala
Actuaries Director

Aarni Pursiainen
Investment Director

Kari Wilén
Sales and Marketing Director

Fennia Life's Board of Directors and Management 1 January 2017

Physicians

Lauri Keso
Doctor of Medical Science, Specialist in Internal Medicine and Rheumatology

Fennia Life’s Board of Directors and Management 1 January 2017