Fennia Life

Annual Report 2019

Contents

Managing director's review

In 2019, Fennia Life celebrated its 21st year of operations. The company's business covers voluntary life insurance, pension insurance and life insurance savings policies as part of the Fennia Group's service offering.

Fennia Life's business developed favourably, and the company's premium income was EUR 241 million (EUR 164 million), an increase of +46 per cent compared to the previous year. The growth in premium income was mainly the result of the strong growth in investment insurance sales, which is non-recurring in nature.

Measured in terms of expense loading, operating income grew 4.5 per cent and amounted to EUR 18.3 million (EUR 17.5 million). The company's expense ratio (including fund fees) improved to its best level over the past ten years, to 89.5 per cent (90.2 %). The company's result for 2019 was EUR 37.2 million (EUR 22.6 million), which is the highest in the company's operating history. The result was significantly influenced by profits received on the sale of shares.

The return on investments was 8.8 per cent (2.4 %). The return on the equity markets in 2019 was high, and the interest rate level was still historically low. The insurance savings of Fennia Life's customers grew by more than 20 per cent, thanks to both the good development of the capital markets and the growth in premium income.

The SCR ratio, which describes the company's solvency, was 184 per cent (214.8 %) at the turn of the year. The company does not apply transitional provisions. Fennia Life's solvency continues to be at a good level. The decrease in the solvency ratio compared to the previous year was mainly due to the fall in the interest rate level, the changes that were made to the calculation of the technical provisions and the larger dividends paid to the parent company.

Fennia Life's development in 2019 was consistent with the targets of the company's strategy period for 2018–2022. The main goals during the strategy period are to increase business volume and improve the expense ratio, which is intended as a means of safeguarding the company's future cost-competitiveness. The company's investments were, and continue to be, aimed at digitalising our operations in order to automate and boost the efficiency of our business processes and to meet customers' online service needs. Existing products are being renewed and expanded to include more features.

Fennia Life’s outlook for 2020 changed (in March) to uncertain, due to the prevailing coronavirus epidemic. Its impacts on the operations of our client companies, the weakened economic outlooks and the sharply falling capital markets will, in our estimation, have a negative impact on the company’s insurance sales, insurance premiums obtained from the existing insurance portfolio and return on investment operations. The company’s solvency position is nevertheless relatively good.

Stability is supported by the investment portfolio’s low level of risk-taking and hedging the technical provisions in accordance with the ALM operating model that was cascaded in 2019.

Tremendous thanks to our customers for the trust they show in us – they are the reason we exist. Our vision is to provide the best customer experience, and we must work hard to achieve that. Last year, Fennia Life again did well in a Taloustutkimus survey that compared Finnish life insurance companies, being rated second-best in the sector by corporate customers. Thanks also to our personnel and our administration for their excellent work contribution and co-operation in 2019.

Alexander Schoschkoff
Managing Director

Report of the board of directors

Fennia Life Insurance Company specialises in voluntary life, pension and savings insurance and insurance asset management.

Fennia Life Insurance Company's result for 2019 was good. The company's expense ratio improved from the comparison year. The development of the capital markets was a positive surprise and, in investment operations, it was reflected in the higher- than-anticipated returns.

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

Insurance business

Fennia Life's total premium income, after the reinsurers' share, increased to EUR 240.0 million (EUR 163.1 million). The increase in premium income was influenced by, in addition to business development, customers' preparations for future tax reforms. The number of subscriptions for new savings contracts and surrenders grew at the end of the year. Of the company's total premiums written, life insurance accounted for EUR 208.7 million (EUR 129.9 million) and pension insurance for EUR 32.3 million (EUR 34.2 million).

Premiums written on unit-linked insurances amounted to EUR 204.1 million (EUR 126.6 million), accounting for 84.7 per cent (77.1 %) of the company's total premium income. Premiums written on regular premium contracts stood at EUR 53.4 million (EUR 54.2 million), accounting for 22.2 per cent (33.0 %) of total premiums written.

Claims paid totalled EUR 177.7 million (EUR 95.6 million). Surrenders amounted to EUR 123.5 million (EUR 44.8 million). The repayment of benefits amounted to EUR 3.4 million (EUR 3.1 million). Pensions were paid in the amount of EUR 39.7 million (EUR 37.8 million) and death and disability benefits in the amount of EUR 7.8 million (EUR 5.8 million).

Operating expenses totalled EUR 15.6 million (EUR 14.8 million). The company's expense ratio was 89.5 per cent (90.2 %), taking into account the fee and commission income from funds which form the investments of the unit-linked insurance.

The total return on with-profit insurance savings varied between 0.6 and 4.5 per cent in 2019, depending on the line of insurance and quarter of the year. Client bonuses granted totalled EUR 2.1 million, of which EUR 1.6 million was funded from the provisions for future bonuses reserved earlier.

Fennia Life's solvency ratio was 166.0 per cent (223.7 %). The biggest factors affecting the decrease were the changes made to the calculation of the technical provisions, the lower interest rate level and the proposed dividend distribution. Fennia Life does not apply transitional provisions in calculating the technical provisions.

Investments

The company's return on investments at current values amounted to EUR 57.1 million (EUR 17.8 million), i.e. 7.6 per cent (2.4 %) on the invested capital. The company's net investment income was EUR 181.3 million (EUR -39.4 million), of which unit- linked insurances accounted for EUR 140.2 million (EUR -58.3 million) of the net result. Gains on the realisation of investments were EUR 39.2 million higher than last year. Compared to last year, the decreased impairments, larger reversals of impairments and revaluations also improved the result by EUR 183.7 million.

At year-end, the current value of the investments was EUR 821.7 million (EUR 761.4 million). Bonds and long-term fund investments accounted for 66.9 per cent (45.5 %) of the investment portfolio, and money market investments and deposits for 10.7 per cent (28.4 %). Equities, equity fund investments and private equity funds accounted for 6.9 per cent (12.2 %), real estate investments for 10.8 per cent (12.9 %) and loan receivables and other investments for 4.7 per cent (1.1 %). Assets covering unit-linked insurances grew to EUR 1,238 million (EUR 1,027 million).

At the start of 2019, Fennia Life adopted a new model of balance sheet management. As a result, the company has started using interest rate derivatives to hedge against changes in the value of its market-consistent technical provisions. The objective of interest rate hedging is to reduce the negative impact of a change in market rates on the company's market-consistent result and solvency position.

These interest rate hedges have been implemented as hedging instruments in accounting. Changes in the value of derivatives are not entered through profit or loss when the hedge is within the limits defined by the efficiency calculation. The hedges were efficient throughout 2019. The hedge rate in 2019 varied between 60–80 per cent and ended the year in the upper range of that scale. Derivative contracts were implemented with counterparties with a good credit rating. In derivative contracts, variation margin is exchanged daily against changes in market value.

Ancillary activities

Fennia Life has the right to act as, among other things, a representative of managers of investment service companies and alternative investment funds and to market and sell their services and products to customers on their behalf.

Result

The Group's operating profit was EUR 47.7 million (EUR 23.1 million), and the company's operating profit was EUR 47.4 million (EUR 24.1 million). The company decreased the interest rate supplement reserved previously by EUR 9.5 million (EUR 10.4 million) and the reserve for future bonuses by EUR 1.6 million (EUR 0.9 million). At year-end, the supplementary provision for the guaranteed interest rate stood at EUR 105.2 million (EUR 114.7 million).

Administration and staff

During the year under review, the members of Fennia Life's Board of Directors were Group CEO Antti Kuljukka (Chairman), Chief Actuary Simo Sarvamaa (Vice Chairman as of 28 March 2019), Harri Pärssinen, Matti Ruohonen (Vice Chairman until 28 March 2019), Juha-Pekka Halmeenmäki until 6 September 2019, and Juha-Pekka Kallunki as of 17 September 2019.

The Board of Directors held a total of 10 meetings during the year under review. The attendance rate of the members was 95 per cent.

Alexander Schoschkoff acted as the company's Managing Director. The company employed an average of 53 people (52) in 2019.

Remuneration

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

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

Group Structure

At the end of the financial year, the Fennia Life Group comprised nine (11) real estate companies wholly owned by the company and one (1) real estate company in which the company's holding was 88 per cent. Two real estate companies were sold during the year.

Risk 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.

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

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

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

Solvency and Financial Condition Report

Fennia Life's Solvency and Financial Condition Report will be published at the latest on 19 May 2020 on Fennia's website.

Outlook for the current year

In 2020, we anticipate an increase in the volume of risk insurances and positive development in the expense ratio. The company's overall result will, however, depend on the development of the capital markets, as a large part of the company's fee and commission income is tied to the value of the insurance savings. Investment income is expected to be lower than it was in 2019.

Financial Statements

Profit and Loss Account

The figures are in thousands of euros.

	Note	Parent Company 2019	Parent Company 2018	Group 2019	Group 2018
Technical Account					
Premiums written					
Premiums written	1	240 966	164 142	240 966	164 142
Reinsurers' share		-1 022	-1 063	-1 022	-1 063
		239 945	163 079	239 945	163 079
Investment income	3, 4	119 049	77 344	121 055	76 606
Revaluations on investments	3, 4	94 712	13 095	94 712	13 095
Claims incurred					
Claims paid	2	-178 025	-95 519	-178 025	-95 519
Reinsurers' share		309	-32	309	-32
Change in the provision for outstanding claims		-8 326	-2 340	-8 326	-2 340
Claims incurred in total		-186 042	-97 890	-186 042	-97 890
Change in the provision for unearned premiums					
Total change in the provision for unearned premiums		-171 926	13 378	-171 926	13 378
		-171 926	13 378	-171 926	13 378
Net operating expenses	5	-15 566	-14 826	-15 566	-14 826
Investment charges	3, 4	-31 236	-83 157	-32 471	-83 501
Revaluation adjustments on investments	3, 4	-1 263	-46 665	-1 263	-46 665
Balance on technical account		47 672	24 358	48 443	23 276
Non-Technical Account					
Other income					
Income from investment services operations				-	1 488
Other		1	3	1	3
		1	3	1	1 491
Other charges					
Expenses from investment services operations				-	-1 384
Depreciation on goodwill		-241	-241	-241	-241
Other				-5	-
		-241	-241	-246	-1 624
Profit on ordinary activities		47 433	24 120	48 198	23 143
Appropriations					
Change in depreciation difference		-5	-22		
Tax on profit					
Tax for the financial year		-10 132	-2 255	-10 132	-2 255
Tax from previous periods		-52	772	-52	772
Deferred tax				-572	199
		-10 184	-1 483	-10 756	-1 283
Minority interests				16	6
Profit for the financial year		37 244	22 615	37 457	21 865

Balance Sheet

The figures are in thousands of euros.

Assets

	Note	Parent Company 2019	Parent Company 2018	Group 2019	Group 2018
Intangible assets					
Other long-term expenses	12	3 035	2 667	3 035	2 667
Goodwill		1 203	1 444	1 203	1 444
Advance payments		872	1 628	872	1 628
		5 111	5 739	5 111	5 739
Investments					
Real estate investments					
Land and buildings and real estate shares	7	64 569	60 760	63 980	72 061
Real estate investment funds		8 353	8 353	8 353	8 353
Investment loans to affiliated undertakings		8 201	15 056		
Loans to associated undertakings		1 843	1 843	1 843	1 843
		82 967	86 012	74 177	82 258
Other investments					
Shares and participations	11	248 195	294 509	248 195	294 509
Debt securities		395 414	282 804	395 414	282 804
Loans guaranteed by mortgages		2 697	2 787	2 697	2 787
		646 306	580 101	646 306	580 101
Investments in total	6	729 273	666 113	720 483	662 359
Investments covering unit-linked insurances	10	1 235 561	1 024 979	1 235 561	1 024 979
Debtors					
Arising out of direct insurance operations					
Policyholders		138	111	138	111
Arising out of reinsurance operations		309	50	309	50
Other debtors		18 938	21 860	18 711	21 552
		19 384	22 021	19 158	21 713
Other assets					
Tangible assets					
Machinery and equipment	12	248	283	248	283
Other tangible assets		12	12	12	12
		261	296	261	296
Cash at bank and in hand		32 006	52 450	32 029	52 503
		32 267	52 746	32 289	52 799
Prepayments and accrued income					
Interest and rents		6 542	4 132	6 544	4 138
Other		2 632	3 077	2 717	3 080
		9 174	7 209	9 261	7 219
		2 030 770	1 778 806	2 021 863	1 774 807

Liabilities

	Note	Parent Company 2019	Parent Company 2018	Group 2019	Group 2018
Capital and reserves					
Subscribed capital	13	27 751	27 751	27 751	27 751
Premium fund		10 723	10 723	10 723	10 723
At the disposal of the Board		8	8	8	8
Profit brought forward		89 079	72 464	75 602	59 737
Profit for the financial year		37 244	22 615	37 457	21 865
		164 806	133 562	151 542	120 085
Appropriations					
Accumulated depreciation difference		66	62		
Minority interests				369	384
Technical provisions					
Provision for unearned premiums		421 455	449 851	421 455	449 851
Claims outstanding		150 473	152 745	150 473	152 745
		571 928	602 597	571 928	602 597
Technical provisions for unit-linked insurances					
Technical provisions	15	1 237 902	1 026 981	1 237 902	1 026 981
Creditors					
Arising out of reinsurance operations		774	720	774	720
Deferred tax				4 170	3 598
Other creditors	14	44 157	11 639	43 975	17 183
		44 931	12 359	48 919	21 501
Accruals and deferred income		11 137	3 245	11 203	3 259
		2 030 770	1 778 806	2 021 863	1 774 807

Parent Company Cash Flow Statement

The figures are in thousands of euros.

	2019	2018
Cash flow from business operations		
Profit on ordinary activities before extraordinary items	37 249	22 638
Adjustments:		
Change in technical provisions	180 252	-11 038
Value adjustments and revaluations on investments	-101 912	81 752
Depreciation according to plan	942	1 028
Other	-38 356	-7 706
Cash flow before change in net working capital	78 174	86 673
Change in net working capital		
Increase/decrease in non-interest-earning receivables	173	-8 312
Increase in non-interest-earning payables	35 835	5 102
Cash flow from business operations before financial items and taxes	114 182	83 464
Interest paid on other financial expenses from operations	-18	-124
Taxes	-2 092	-3 351
Cash flow from business operations	112 071	79 989
Cash flow from capital expenditures		
Capital expenditure on investments (excl. funds)	-174 794	-73 952
Capital gain from investments (excl. funds)	48 558	9 314
Investments and income from the sale of tangible and intangible assets and other assets (net)	-280	-1 411
Cash flow from capital expenditures	-126 516	-66 049
Cash flow from financing		
Dividends paid	-6 000	-3 000
Cash flow from financing	-6 000	-3 000
Change in funds	-20 444	10 940
Funds on 1 Jan.	52 450	41 510
Funds on 31 Dec.	32 006	52 450
	-20 444	10 940

Accounting principles

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-consistent 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 periodised over the life of each derivative contract.

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

Book value of assets other than investments

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

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

Depreciation according to plan

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

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

Revaluations on investments

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

Current value of investments

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

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

Derivative contracts are valued at their current value on the date of closing the accounts. Receivables are valued at the lower of par value or probable value.

Foreign currency items

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

Staff pension schemes

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

Appropriations and treatment of deferred tax

In the Group companies' financial statements and in the consolidated financial statements, deferred tax is entered in total, and receivables are entered up to an amount of probable taxable income in the future, against which they can be booked. Deferred tax is calculated according to the confirmed rate of tax on the date of closing the accounts.

Technical provisions

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

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

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

In order to fulfil the technical interest rate requirement, the technical provisions have been supplemented in previous financial statements. The supplementary provision for the guaranteed interest rate as of 31 December 2019 is approximately EUR 105.2 million. As a result of the supplementary provision, the minimum annual return requirement for investment operations on the part of these policies is 1.0 per cent.

Principle of Fairness

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

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

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

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

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

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

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

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

Implementation of the Principle of Fairness in 2019

Fennia Life's bonuses in 2019 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 2019 was moderate. In response to the extremely low interest rate level that has continued for some time, the company has annually transferred part of its result to the supplementary provision for the guaranteed interest rate in order to cover the cost of the technical rate of interest in the coming years. At the closing of the accounts on 31 December 2019, no such transfer was made. The supplementary provision for the guaranteed interest rate was decreased according to plan.

The technical rate of interest for new pension insurance contracts has remained low (0–1 per cent) for several years. In order to ensure continuity in the level of bonuses paid, EUR 3.8 million was transferred from the result for 2017 to the provision for future bonuses to be used to cover the cost of the bonuses on pension insurance contracts with a technical rate of interest of 0 or 1 per cent. The bonuses paid 2019 were funded from provisions for bonuses reserved earlier.

The risk-free interest rate has remained low for both short-term and long-term government bonds since 2009. Between 2009 and 2019, 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.

Total annual interest on with-profit policies in 2019

Technical interest rate	Individual savings insurance	Individual pension insurance	Group pension insurance	Capital redemption policy
4.50%	4.50%	4.50%		
3.50%	3.50%	3.50%	3.50%	
2.50%	2.50%	2.50%	2.50%	2.50%
2.00%			2.00%	
1.50%	1.50%			1.50%
1.00%	1.00%	1.70%	1.70%	1.00%
0.00%			1.70%	0.60%

The surplus from risk life insurance is paid out as extra sums to risk life insurance policies in connection with loss events. The extra sums paid in 2019, amounting to EUR 1,086,741 were funded from provisions for bonuses reserved in the previous financial statement. The sums paid per insurance were increased in 2018.

Consolidated Financial Statements

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

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

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

Group

Group companies 31 Dec. 2018

The following subsidiaries are included in the consolidated financial statements

- 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
- Asunto Oy Jyväskylän Jontikka 2, sold 27 June 2019
- Asunto Oy Tampereen Vuoreksen Puistokatu 76, sold 27 June 2019

Notes to the Accounts, Parent Company

Notes to the Profit and Loss Account and Balance Sheet

1. Premiums written

The figures are in thousands of euros.

	2019	2018
Direct insurance		
Finland	240 966	164 142
Reinsurance	-	-
Gross premiums written before reinsurers' share	240 966	164 142
Items deducted from premiums written		
Credit loss on outstanding premiums	11	12
Direct insurance premiums written		
Life insurance		
Unit-linked individual life insurance	132 421	81 344
Other individual life insurance	2 354	3 383
Unit-linked capital redemption policy	55 435	28 974
Other capital redemption policy	253	122
Employees' group life insurance	5 658	5 315
Other group life insurance	12 565	10 774
	208 686	129 911
Pension insurance		
Unit-linked individual pension insurance	4 449	4 466
Other individual pension insurance	4 318	4 928
Unit-linked group pension insurance	11 792	11 776
Other group pension insurance	11 722	13 061
	32 281	34 231
	240 966	164 142
Regular premiums	53 445	54 224
Single premiums	187 521	109 918
	240 966	164 142
Premiums from with-profit policies	36 870	37 582
Premiums from unit-linked insurance	204 097	126 560
	240 966	164 142

2. Claims paid

The figures are in thousands of euros.

	2019	2018
Direct insurance		
Life insurance	134 629	52 605
Pension insurance	43 396	42 913
	178 025	95 519
Reinsurance	-	-
Claims paid in total	178 025	95 519
Of which:		
Surrenders	123 546	44 770
Repayment of benefits	3 380	3 100
Other	51 099	47 649
	178 025	95 519
Share of unit-linked insurances of claims paid	67 580	34 685
Life insurance: bonuses and rebates		
Impact of bonuses and rebates attached to life insurance policies on the balance on technical account	481	39
Change in provisions for future bonuses for the financial year	-606	-492

Of the technical rate of interest in 2019, EUR 9,511,477 was funded from supplementary provisions for the guaranteed interest rate. Of the client bonuses in 2019, totalling EUR 1,086,741, EUR 605,515 was funded from provisions for bonuses reserved earlier. For risk life insurance, extra sums paid amounted to EUR 1,022,510 and were funded entirely from provisions made for the extra sums. Client bonuses paid in 2019 complied with the bonus objectives for the financial year.

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

3. Net Investment income

The figures are in thousands of euros.

	2019	2018
Investment income		
Income from investments in associated undertakings		
Interest income		
From other undertakings	564	228
Income from investments in land and buildings		
Interest income		
Affiliated undertakings	193	319
From other undertakings	147	147
	340	466
Other income	7 045	7 834
	7 385	8 301
Income from other investments		
Dividend income	18 633	20 147
Interest income	9 930	9 236
Other income	1 985	3 488
	30 548	32 871
Total	38 497	41 399
Value readjustments	23 218	5 752
Gains on realisation of investments	57 334	30 193
Total	119 049	77 344
Investment charges		
Charges arising from investments in land and buildings		
To affiliated undertakings	-2 283	-2 724
To other undertakings	-1 443	-1 231
	-3 725	-3 955
Charges arising from other investments	-3 962	-4 264
Interest and other expenses on liabilities	-18	-124
Total	-7 705	-8 344
Value adjustments and depreciations		
Value adjustments on investments	-14 755	-53 933
Losses on realisation of investments	-8 776	-20 880
Total	-31 236	-83 157
Net investment income before revaluations and revaluation adjustments	87 813	-5 812
Revaluations on investments	94 712	13 095
Revaluation adjustments on investments	-1 263	-46 665
	93 449	-33 570
Net investment income on the Profit and Loss Account	181 262	-39 383

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

The figures are in thousands of euros.

	2019	2018
Investment income	47 658	29 385
Investment charges	-6 256	-12 257
Net investment income before revaluations and revaluation adjustments and value adjustments and readjustments	41 402	17 127
Revaluations on investments	94 712	13 095
Revaluation adjustments on investments	-1 263	-46 665
Value adjustments on investments	-13 099	-45 411
Value readjustments	18 484	3 603
Net investment income on the Profit and Loss Account	140 236	-58 251

5. Operating expenses

The figures are in thousands of euros.

	2019	2018
Operating expenses in the Profit and Loss Account		
Policy acquisition costs		
Direct insurance commissions	2 678	2 429
Commissions on reinsurance assumed and profit sharing		
Other policy acquisition costs	4 729	4 832
Total policy acquisition costs	7 407	7 261
Policy management expenses	6 204	5 405
Administrative expenses	2 104	2 369
Commissions on reinsurance ceded	-148	-211
Total	15 566	14 825
Total operating expenses by activity		
Claims paid	828	978
Net operating expenses	15 566	14 826
Investment charges	1 753	1 646
Total	18 148	17 450
Depreciation according to plan by activity		
Claims paid	181	160
Net operating expenses	760	838
Investment charges		29
Total	942	1 028
Staff expenses, personnel and executives		
Staff expenses		
Salaries and commissions	3 906	4 323
Pension expenses	1 190	1 141
Other social expenses	233	206
Total	5 330	5 670
Executives' salaries and commissions		
Board of Directors and Managing Director	298	286
The age of retirement of the Managing Director is defined according to TyEL		
Average number of personnel during the financial year	53	52
	53	52
Auditors' commissions		
Audit	30	23
Tax consulting	-	-
Other	-	-
	30	23

6. Current value and valuation difference on investments

The figures are in thousands of euros.

	Investments 31 Dec. 2019, Remaining acquisition cost	Investments 31 Dec. 2019, Book value	Investments 31 Dec. 2019, Current value	Investments 31 Dec. 2018, Remaining acquisition cost	Investments 31 Dec. 2018, Book value	Investments 31 Dec. 2018, Current value
Real estate investments						
Real estate shares in affiliated undertakings	47 361	47 361	54 190	48 715	48 715	59 949
Real estate shares in associated undertakings	15 633	15 633	15 633	10 353	10 353	10 353
Real estate investment funds	1 575	1 575	1 575	1 692	1 692	1 692
Other real estate shares	8 353	8 353	8 730	8 353	8 353	8 482
Investment loans to affiliated undertakings	8 201	8 201	8 201	15 056	15 056	15 056
Loans to associated undertakings	1 843	1 843	1 843	1 843	1 843	1 843
Other investments						
Shares and participations	248 195	248 195	264 361	294 509	294 509	317 135
Debt securities	395 414	395 414	395 681	282 804	282 804	282 970
Loans guaranteed by mortgages	2 697	2 697	2 697	2 787	2 787	2 787
	729 273	729 273	752 911	666 113	666 113	700 267
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 (-)	-5 741			-9 068		
Valuation difference (difference between current value and book value)			23 638			34 154
Current value and valuation difference of derivatives						
Hedging derivatives			30 498			4 803
Non-hedging derivatives			244	-223	-223	-215

	Investments 31 Dec. 2019, Remaining acquisition cost	Investments 31 Dec. 2019, Book value	Investments 31 Dec. 2019, Current value	Investments 31 Dec. 2018, Remaining acquisition cost	Investments 31 Dec. 2018, Book value	Investments 31 Dec. 2018, Current value
Valuation difference (difference between current value and book value)			30 741			4 811
Valuation difference, total			54 380			38 966

7. Changes in investments in land and buildings

The figures are in thousands of euros.

	Land and buildings and real estate shares	Investment loans to affiliated undertakings	Investment loans to associated undertakings
Acquisition cost, 1 Jan.	68 341	15 056	1 843
Increase	5 214	150	-
Decrease	-1 574	-7 005	-
Acquisition cost, 31 Dec.	71 982	8 201	1 843
Value adjustments, 1 Jan.	-7 582		
Accumulated value adjustments related to decreases	-		
Value readjustments	585		
Increase	-416		
Value adjustments, 31 Dec.	-7 413		
Book value, 31 Dec.	64 569	8 201	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 group companies and affiliated undertakings

Subsidiaries	**Holding %**
Kiinteistö Oy Espoon Niittyrinne 1	100
Kiinteistö Oy Koivuhaanportti 1-5	100
Kiinteistö Oy Konalan Ristipellontie 25	100
Kiinteistö Oy Mikkelin Hallituskatu 1	88
Kiinteistö Oy Sellukatu 5	100
Kiinteistö Oy Teohypo	100
Kiinteistö Oy Vaajakosken Varaslahdentie 6	100
Kiinteistö Oy Vasaramestari	100
Kiinteistö Oy Vasaraperän Liikekeskus	100
Munkinseudun Kiinteistö Oy	100
Affiliated undertakings	
Tyvene Oy	25
Kiinteistö Oy Sähkötie 14-16	33
Kiinteistö Oy Gigahertsi	33

9. Debtors

The figures are in thousands of euros.

Other debtors	
Affiliated undertakings	240

10. Investments covering unit-linked insurances

The figures are in thousands of euros.

	2019, Original acquisition cost	2019, Current value	2018, Original acquisition cost	2018, Current value
Shares and participations	906 026	1 029 250	813 702	836 526
Debt securities	151 097	147 467	131 143	125 072
Cash at bank and in hand	58 844	58 844	63 382	63 382
Total	1 115 967	1 235 561	1 008 227	1 024 979
Investments covering unit-linked insurances corresponding to technical provisions	1 115 967	1 235 561	1 008 227	1 024 979
Cash at bank and in hand, and other debtors include net insurance premiums that have not yet been invested		3 067		2 468

11. Shares and participations in other companies

The figures are in thousands of euros.

	Holding %	Book value, 31 Dec. 2019	Current value, 31 Dec. 2019
Domestic shares			
Amplus Holding Oy	19,97 %	1 831	3 576
Fingrid Oyj, sarja B	0,18 %	203	1 500
Holiday Club Resorts Oy	1,76 %	1 097	1 097
Pihlajalinna Abp	1,17 %	4 034	4 034
Uudenmaan Pääomarahasto Oy	13,22 %	722	722
Other		914	1 292
		8 801	12 221
Foreign shares			
Sweden			
K III Sweden		433	504
Other		20 350	26 624
		20 783	27 128
Unit trusts, domestic			
Aktia Emerging Market Local Currency Bond+ Class D		4 005	4 294
Aktia Emerging Markets Bond+		3 000	3 013
Danske Institutional Liquidity Fund		3 811	3 811
Erikoisisjoitusrah. Fennica Toimitilat I		8 353	8 730
Evli European High Yield		1 037	1 054
Evli Nordic Corporate Bond Class B		3 001	3 001
Evli Nordic Corporate Bond Class IB		11 500	11 775
Nordea AAA Government Bond Fund Class I		5 963	5 963
Nordea Moderate Yield Fund Class S Acc		27 455	27 455
Nordea Pro Euro Bond Class A K Acc		10 294	10 408
Other		402	404
		78 822	79 907
Unit trusts, foreign			
France			
ODDO BHF Jour Class CI EUR		18 882	18 882
Ireland			
BlackRock ICS Euro Liquid Environmentally Aware		1 999	1 999
BlackRock ICS Ultra Short Bond Fund Premier Acc		15 933	15 933
BlackRock ICS US Dollar Liquidity Premier Acc		8 088	8 761
iShares MSCI EM SRI UCITS ETF		510	511
iShares MSCI Europe SRI UCITS ETF		2 483	2 556
M&G European Loan Fund Class C EUR Acc		12 212	12 656
Muzinich EM Short Duration USD Acc A		4 037	4 246
SPDR S&P Euro Dividend Aristocrats UCITS ETF		2 493	2 519
Luxembourg			
Aberdeen EM Corporate Bond Class A Acc USD		8 431	9 217
BNP Paribas InstiCash Money 3M EUR Class I		8 970	8 970
Danske Emerging Markets Debt HC Class IH EUR		2 601	2 635
M&G European Credit Investment Fund Class E		15 516	16 072
M&G European High Yield Credit Investment Class E		2 000	2 109
NN L Liquid - Euribor 3M		7 998	7 998
ODDO BHF Euro Corporate Bond Class CI-EUR		11 894	12 203

	Holding %	Book value, 31 Dec. 2019	Current value, 31 Dec. 2019
ODDO BHF Euro High Yield Bond Class CI-EUR		7 500	7 818
SLI European Corporate Bond Fund Class D		6 291	6 291
United States			
Goldman Sachs ActiveBeta EM Equity ETF		1 282	1 314
Invesco FTSE RAFI Emerging Markets ETF		1 338	1 349
Other		457	472
		219 736	224 420
Capital trusts, domestic			
MB Equity Fund IV Ky		1 574	1 574
Other		563	1 062
Capital trusts, foreign			
Great Britain			
Euro Choice IV GB Limited		730	2 163
Guernsey			
Partners Group European Buyout		2 339	2 435
Partners Group European Mezzanine		980	980
The Triton Fund III L.P.		561	627
Other		480	480
		7 228	9 322

12. Changes in intangible and tangible assets

The figures are in thousands of euros.

	Intangible rights and other long-term expenses	Good will	Advance payments	Equipment	Total
Acquisition cost, 1 Jan. 2019	9 449	2 407	1 628	397	13 880
Depreciation in full during the previous year	-4 130			-1	-4 131
Increase	1 237	-	965	56	2 258
Decrease	-	-	-1 720	-63	-1 783
Acquisition cost, 31 Dec. 2019	6 557	2 407	872	388	10 224
Accumulated depreciation, 1 Jan. 2019	-6 028	-963		-113	-7 104
Depreciation in full during the previous year	4 130			1	4 131
Accumulated depreciation related to decreases and transfers	-	-		46	46
Depreciation for the financial year	-463	-241		-73	-777
Accumulated depreciation, 31 Dec. 2019	-2 361	-1 203		-140	-3 704
Value adjustments, 1 Jan. 2019	-755				-755
Value adjustments during the financial year	-405				-405
Value adjustments, 31 Dec. 2019	-1 160				-1 160
Book value, 31 Dec. 2019	3 035	1 203	872	248	5 359

13. Capital and reserves

The figures are in thousands of euros.

	2019
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.	72 464
Profit for the previous financial year	22 615
Dividend pay-out	-6 000
Profit brought forward, 31 Dec.	89 079
Profit for the financial year	37 244
Non-restricted in total	126 332
Capital and reserves in total	164 806
Distributable profit, 31 Dec. 2019	
Profit for the financial year	37 244
At the disposal of the Board	8
Profit brought forward	89 079
Distributable profit	126 332

14. Creditors

The figures are in thousands of euros.

	2019	2018
Other creditors		
To affiliated undertakings	549	604

15. Technical provisions for unit-linked insurances

The figures are in thousands of euros.

	2019	2018
Provision for unearned premiums	1 201 899	1 001 577
Claims outstanding	36 003	25 405
	1 237 902	1 026 981

16. Guarantee and liability commitments

The figures are in thousands of euros.

	2019	2018
Liabilities from derivative contracts		
Non-hedging		
Currency derivatives		
Forward and futures contracts		
Open		
Value of underlying instrument	12 262	66 490
Current value	244	-215
Hedging		
Interest rate derivative		
Interest rate swap		
Open		
Value of underlying instrument	406 280	325 000
Current value	30 498	4 803
Securities received in derivatives trading		
Danske Bank A/S	2 470	-
Nordea Bank Abp	34 300	5 300
Value-added tax liabilities		
Affiliated undertakings	88	249
Other undertakings	789	477
Investment commitments		
Commitment to invest in equity funds	5 559	5 720
Outstanding instalments of contract price for unfinished construction projects.	348	5 562

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

The realised result of closed and matured hedging derivatives is accrued in the result over the original life of the derivative contract. The realised net result of matured hedging interest rate derivatives closed in the financial year was EU R 5,062,062.71, of which EUR 533,445.73 was allocated to the financial year. From the results of hedging interest rate derivatives closed in previous financial years, losses of EUR 654,267.22 were allocated to the financial year.

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

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

Loans to related parties and related party transactions

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

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

17. Notes concerning the Group

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

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

Financial Statements' Key Figures

Analysis of Results

The figures are in thousands of euros.

	2019	2018	2017	2016	2015
Premiums written	239 945	163 079	165 728	205 881	198 946
Investment income (net), revaluations and revaluation adjustments on investments	182 032	-40 465	68 353	88 475	121 449
Claims paid	-177 716	-95 551	-104 219	-90 301	-83 131
Change in technical provisions before bonuses and rebates and change in equalisation provision	-180 733	11 038	-94 911	-180 322	-221 123
Net operating expenses	-15 566	-14 826	-14 806	-14 046	-13 544
Other technical underwriting income					
Technical underwriting result before bonuses and rebates and change in equalisation provision	47 961	23 276	20 144	9 688	2 596
Other income (net)	-245	-133	281	550	13
Operating profit	47 717	23 143	20 425	10 238	2 610
Change in equalisation provision	0	0	0	0	8 595
Bonuses and rebates	481	0	-4 439	-1 800	-5 493
Profit before untaxed reserves and tax	48 198	23 143	15 986	8 438	5 712
Taxes	-10 756	-1 283	-2 145	-676	-445
Minority interests	16	6	1	-10	4
Group's profit for the financial year	37 457	21 865	13 842	7 753	5 268
Gross premiums written (EUR 1,000)	240 966	164 142	166 687	207 062	199 823
Expense ratio of expense loading	101,1 %	101,9 %	103,6 %	105,6 %	113,8 %
Expense ratio of Balance Sheet total	1,0 %	1,0 %	1,0 %	1,1 %	1,3 %
Total result (EUR 1,000)	63 328	23 036	30 877	14 170	-37 650
Return on assets	8,3 %	3,5 %	4,5 %	5,1 %	5,5 %

Investment portfolio at current values

	Basic distribution, 31.12.2019, million euros	Basic distribution, 31.12.2019, per cent	Basic distribution, 31.12.2018, million euros	Basic distribution, 31.12.2018, per cent	Risk distribution, 31.12.2019, million euros	Risk distribution, 31.12.2019, per cent	Risk distribution, 2018, per cent
Fixed-income investments, total	**642,4**	**78,2**	**565,4**	**74,3**	**642,4**	**78,2**	**74,3**
Loans (footnote 1)	4,7	0,6	2,9	0,4	4,7	0,6	0,4
Bonds	550,0	66,9	346,5	45,5	550,0	66,9	45,5
Other money market instruments and deposits (footnotes: 1, 2)	87,7	10,7	215,9	28,4	87,7	10,7	28,4
Equity investments, total	**56,9**	**6,9**	**92,7**	**12,2**	**56,9**	**6,9**	**12,2**
Listed equities (footnote 3)	40,5	4,9	70,0	9,2	40,5	4,9	9,2
Private equity (footnote 4)	8,8	1,1	14,8	1,9	8,8	1,1	1,9
Unlisted equities (footnote 5)	7,6	0,9	7,8	1,0	7,6	0,9	1,0
Real estate investments, total	**88,6**	**10,8**	**97,9**	**12,9**	**88,6**	**10,8**	**12,9**
Direct real estate	88,0	10,7	88,9	11,7	88,0	10,7	11,7
Real estate funds and UCITS	0,5	0,1	9,0	1,2	0,5	0,1	1,2
Other investments	**33,9**	**4,1**	**5,4**	**0,7**	**33,9**	**4,1**	**0,7**
Hedge funds (footnote 6)	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Commodities	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Other investments (footnote 7)	33,9	4,1	5,4	0,7	33,9	4,1	0,7
Investments in total	**821,7**	**100,0**	**761,4**	**100,0**	**821,7**	**100,0**	**100,0**
Effect of derivatives (footnote 8)	-						
Total investments at fair value	**821,7**	**100,0**	**761,4**	**100,0**	**821,7**	**100,0**	**100,0**
Modified duration of the bond portfolio	**1,4**						

Footnotes:

1) Includes accrued interests.

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

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

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

5) Including unlisted real-estate investment companies.

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

7) Including derivatives and other items that cannot be allocated to other investments.

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, 2019, million euros (footnote 8)	Invested capital, 2019, million euros (footnote 9)	Yield, % on invested capital, 2019, per cent	Yield, % on invested capital, 2018, per cent	Yield, % on invested capital, 2017, per cent	Yield, % on invested capital, 2016, per cent	Yield, % on invested capital, 2015, per cent
Fixed-income investments, total	**9,1**	**597,7**	**1,5**	**0,5**	**0,2**	**1,0**	**0,5**
Loans (footnote 1)	0,1	2,8	2,7	3,7	3,7	1,4	6,1
Bonds	7,8	463,1	1,7	0,5	0,1	1,4	-0,5
Other money market instruments and deposits (footnotes: 1, 2)	1,2	131,8	0,9	0,5	0,3	0,5	2,5
Equity investments, total	**14,9**	**59,1**	**25,2**	**7,6**	**11,3**	**5,0**	**16,7**
Listed equities (footnote 3)	16,3	39,5	41,2	-9,5	7,5	3,1	18,5
Private equity (footnote 4)	-1,8	12,1	-14,7	19,9	32,3	12,9	14,1
Unlisted equities (footnote 5)	0,4	7,6	5,0	-	5,8	2,4	11,6
Real estate investments, total	**6,9**	**90,3**	**7,6**	**6,7**	**5,4**	**14,6**	**7,9**
Direct real estate	6,9	89,8	7,6	6,7	5,6	18,1	8,4
Real estate funds and UCITS	0,0	0,5	4,9	7,1	3,8	4,9	6,6
Other investments	**27,8**	**0,6**	**4292,4**	**113,9**	**1025,2**	**42,1**	**3,3**
Hedge funds (footnote 6)	0,0	0,0	0,0	-99,3	-10,7	-4,7	4,5
Commodities	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Other investments (footnote 7)	27,8	0,6	4292,4	114,0	-739,9	-163,9	-108,2
Investments in total	**58,6**	**747,8**	**7,8**	**2,5**	**3,5**	**4,5**	**5,2**
Sundry income, charges and operating expenses	-1,5	0,00					
Net investment income at current value	**57,1**	**747,8**	**7,6**	**2,4**	**3,3**	**4,3**	**5,0**

Footnotes:

1) Includes accrued interests.

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

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

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

5) Including unlisted real-estate investment companies.

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

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

8) Change in the market values between the end and beginning of the reporting period minus cash flows during the period. Cash flows refers to the difference between sales or profits and purchases or costs.

9) Invested capital is market value at the beginning of the reporting period plus daily or monthly time-weighted cash flows.

Calculation methods for the key figures

Premiums written is premiums written before reinsurers' share.

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

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

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

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

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

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

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

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

Risks and management of risks and solvency

1 Risk and solvency management in general

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

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

2 Organisation of risk and solvency management

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

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

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

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

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

1. The first defence line, i.e. business and support functions, has the primary responsibility for daily risk management and reporting in accordance with the agreed policy.
2. The second defence line is responsible for, among other things, the interpretation, development and planning of and reporting on risk and solvency management, and supports, monitors and assesses the first defence line's implementation of the risk and solvency management processes.
3. The third defence line is in charge of ensuring the effectiveness and efficiency of internal control and risk and solvency management.

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

- Managing Director

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

- Business and support functions

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

- Actuarial function

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

- Risk management

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

- Compliance

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

- Internal audit

The internal audit supports the Group in achieving its goals by offering a systematic approach to the assessment and development of the efficiency of the organisation's risk management, control and leadership and administrative processes. The task of the internal audit is to monitor and assess the sufficiency and efficiency of the Group's internal control and other administration in the following areas, among others:

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

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

3 Risk management

Risk refers to an uncertain event and its consequence, which can be a threat or an opportunity for the company. The Group's risk management strategies and processes are divided into the following sub-areas:

1. Risk identification

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

2. Risk measurement

During the risk measurement process, the severity of the risks and their interdependencies are evaluated to the extent that is

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

3. Risk management

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

4. Risk monitoring

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

5. Reporting of risks

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

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

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

3.1 Insurance risks

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

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

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

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

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

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

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

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

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

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. Thus, the duration of the contracts affects the biometric risks inherent in the technical provision risk. If the assumptions made turn out to be insufficient and the insurance premiums cannot be adjusted, the technical provisions must be supplemented by an amount equalling the expected loss.

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

3.2 Financial market risks

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

Investment operations and balance sheet 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 balance sheet management strategy is based on the following principles:

- operations are guided by the return on market-consistent equity
- all balance sheet risks and the return for bearing the risks are actively monitored
- the aim is to safeguard the interests of the insured and the continuity of operations to a high degree of probability.

To achieve the targets, the investment assets have been divided into three parts:

- Hedging portfolio

The hedging portfolio is used to protect against the market risks of the market-consistent technical provisions, limiting their movement to within a specified range, and to seek moderate additional returns through active credit risk selection and a tactical view on interest rates. The balance sheet protection that the hedging portfolio provides enables risk taking in the investment portfolio.

The hedging portfolio's assets are invested mainly in short-term corporate bonds with a high credit rating, money market instruments and swap contracts. The hedging portfolio also includes the Group's cash management.

- Investment portfolio

The investment portfolio includes all other investment assets that have not been allocated to the hedging or strategic portfolio. The aim of the investment portfolio is to offer a good risk/return ratio and a good long-term return level. The investment portfolio is further divided into liquid and illiquid parts.

The liquid investment portfolio's assets are mainly targeted to the equity and fixed income markets. In the investment portfolio's liquid part, each asset class will have a set target weight in the portfolio and a benchmark index that describes the performance of the asset class. The neutral allocation is determined annually in the ALM plan, based on the risk/return view for the coming year and the company's risk-taking capacity and appetite.

The illiquid part of the investment is mainly targeted at properties and unlisted equity and fixed income investments. The purpose of the illiquid part is to bring an absolute return and to improve the excess return/risk ratio.

- Strategic portfolio

Strategic investments also have other objectives besides investment returns. These are, for example, holdings in partner and client companies, client and personnel loans and holdings in subsidiaries.

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

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

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

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

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

Impact of change on Fennia Life’s assets

Fixed income investments	Interest rate +1 percentage point	EUR -68 million
Equity investments	Change in value -20%	EUR -9 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, managed, monitored and reported.

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

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

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

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

3.4 Operational risks

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

- inadequate or failed internal processes

- personnel
- systems
- external factors.

Legal risks are included in operational risks. Risks arising from strategic decisions have been excluded from operational risks. The objective of managing operational risks at Fennia is to

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

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

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

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

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

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

Preparedness and contingency plans have been drawn up for the key business and support functions to support the management of and recovery from unlikely but severe disturbances.

3.5 Risks inherent in quantitative methods

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

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

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

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

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

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

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

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

The validation of a quantitative method covers processes and procedures which aim to verify that the method is appropriate and reliable and functions in the desired manner.

Validation is used to identify possible weaknesses and limitations of the method as well as problems related to its use, and to assess and manage their impacts.

3.6 Concentration risks

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

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

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

3.7 Liquidity risk

Liquidity risk refers to a risk of not being able to meet future payment obligations or of only being able to meet them through special measures. Liquidity risk is divided into short- and long-term risk. Short-term liquidity risk refers to risks that are related to asset and liability cash flows lasting less than four months (cash management risks). Long-term liquidity risk refers to asset and liability matching risks spanning several years, even decades, into the future.

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

- a minimum allocation is given to money market investments
- convertibility into cash is required of equity and fixed income investments
- money market investments are diversified and counterparty limits are set for them
- 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
- strategic risks inherent in internal operations, such as, for example, risks related to expansion or to internal development or to the availability of additional capitalisation.

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

3.9 Reputation risk

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

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

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

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

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

3.10 Group risks

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

- transaction risks
- contagion risks
- conflict of interest risks
- concentration risks
- risks related to administration.

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

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

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

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

Risks related to administration result from the fact that some of the operations are organised on the Group level and some on the level of individual companies. The differences in the companies' administrative systems can lead to co-ordination challenges and additional risks. The management of group risks is based on a clear Group structure. In complicated ownership patterns, group risks become more important. In addition, appropriate group risk management is based on planning and monitoring business on the level of both the individual companies and the Group. That is the only way to ensure and monitor the development of the group objectives and their achievement.

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

4 Solvency management

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

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

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

Board of Directors' Proposal on the Disposal of Profit

Fennia Life's distributable profits totalled EUR 126,331,856.46. The company's profit for the financial year was EUR 37,243,959.80. The Board of Directors proposes to the annual general meeting that the profit for the financial year be used such that EUR 12,000,000 be paid in dividends and EUR 25,243,959.80 be transferred to retained earnings.

Helsinki, 6 March 2020

Antti Kuljukka

Simo Sarvamaa

Juha-Pekka Kallunki

Harri Pärssinen

Alexander Schoschkoff
Managing Director

Auditor's report

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

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

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, 2019. The financial statements comprise the balance sheets, profit and loss accounts, cash flow statements and notes for the group as well as for the parent company.

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

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

Basis for Opinion

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

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

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

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

Materiality

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

Most significant assessed risks of material misstatement

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

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

Valuation of investment assets (Accounting Principles pages 9-11 and notes to the Financial Statements pages 33–34, 37, 49)

MOST SIGNIFICANT ASSESSED RISKS OF MATERIAL MISSTATEMENT

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

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

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

AUDITOR’S RESPONSE TO THE RISKS

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

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

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

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

Calculation of technical provisions (Accounting Principles page 11-13 and notes to the Financial Statements page 52-53)

MOST SIGNIFICANT ASSESSED RISKS OF MATERIAL MISSTATEMENT

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

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

At the beginning of 2019 company introduced a new asset and liability management model whereby company uses interest rate derivatives to hedge the interest rate risk of market-based technical provisions. The purpose of interest rate hedging is to reduce the unfavorable impact of changes in market interest rates on the company's market-based result and solvency position. These interest rate derivatives are treated as hedging derivatives in the book keeping.

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

AUDITOR'S RESPONSE TO THE RISKS

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

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

In implementing the new asset and liability management model we have reviewed the compliance of the risk management principles adopted and tested internal controls that verify the reporting process of market-based technical provisions and it's hedging derivatives. We have also evaluated the adequacy of hedge accounting for interest rate derivatives and compared the valuation of derivatives to market quotations.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Other Reporting Requirements

Information on our audit engagement

We were first appointed as auditors by the Annual General Meeting on the year 2007, and our appointment represents a total period of uninterrupted engagement of 13 years.

Other Information

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

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

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial

statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

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

Helsinki 6 March 2020

KPMG Oy Ab

PETRI KETTUNEN

Authorised Public Accountant, KHT

Board of directors and management

Board of Directors

Chairman

Antti Kuljukka

Group CFO Fennia Group

Helsinki

Vice Chairman

Simo Sarvamaa

Chief Actuary

Fennia Mutual Insurance Company

Naantali

Board Members

Juha-Pekka Halmeenmäki

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

Helsinki

Juha-Pekka Kallunki

University of Oulu

Oulu

Harri Pärssinen

M.Sc. (Econ.), CPA

Helsinki

Secretary to the Board

Sanna Elg

Chief Legal Officer

Fennia Mutual Insurance Company

Espoo

Fennia Life's Board of Directors and Management 1 January 2020

Auditors

KPMG Oy Ab

Petri Kettunen

Authorised Public Accountant

Deputy Auditors

KPMG Oy Ab

Fredrik Westerholm

Authorised Public Accountant

Management

Alexander Schoschkoff

Managing Director

Johanna Ahvenainen

Director, Corporate Counsel, Compliance Officer

Juha-Pekka Kurttila

Director, Sales Managers

Ari Koskinen

Director, Service and Product Development, IT

Päivi Ojala

Chief Actuary

Kari Wilén

Director, Sales and Account Management

Fennia Life's Board of Directors and Management 1 January 2020

Physicians

Lauri Keso

Doctor of Medical Science, Specialist in Internal Medicine and Rheumatology

Fennia Life’s Board of Directors and Management 1 January 2020