Fennia Life

Annual Report and Financial Statements 2017

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Profitable year for Fennia Life

2017 was the 19th year of operations for Fennia Life. Our result was good, and our business developed moderately. Measured in terms of expense loading, operating income grew more than 10 per cent on the previous year, and the company's expense ratio improved to the best level in the past decade of operations.

The company's solvency has improved significantly during the past two years, and the SCR ratio, which describes solvency, exceeded 200 per cent at the turn of the year, which can be considered a strong figure. However, the current solvency framework only allows lower investment risk-taking than previously, and the still-low interest rate level accentuates the impact of this on the returns received from investing Fennia Life's balance sheet assets.

Fennia Life's business covers voluntary life, pension and savings insurance and insurance asset management as part of the Fennia Group's service offering. The amount of insurance savings increased, although total premium income was clearly lower than in the previous year due to weaker investment insurance sales – this indicates that the strong growth trend seen in these products during previous years has taken a turn.

The current positive development of Finland's economy is expected to be reflected in Fennia Life's business. In 2017, the structures of the Fennia Group were renewed, and this renewal is expected to increase the sale of Fennia Life's products by the Fennia Group.

The nervousness on the capital markets at the beginning of the year is expected to continue, and the low interest rate level will probably weaken returns on investments for the current year, too. With respect to investment insurance and savings products, which have been the company's strongest-growing products in recent years, we also fear that the taxation report, currently being prepared and due for completion after the first quarter, may reduce demand for these products in the future.

The Group strategy for 2018–2022, launched at the end of 2017, sets the following strategic objectives: increase in the corporate customer base, efficient management of household customers, personnel's capacity for renewal and the maintenance of good solvency. The needs and behaviour of our customers are changing with the development of technology, demography and the changes in companies' operations and their internationalisation. Responding to these challenges is a precondition for our continued operations.

In this strategy period, Fennia Life's main goal will be to increase the volume of business and the expense loading and to significantly improve the expense ratio to secure the company's price competitiveness now and in the future.

Achieving this goal will require success in increasing the volume of our operations and further improvements in the efficiency of processes through automation. Through digitalisation we also seek to meet customer demands concerning online transactions and customer service. New web services will also be launched during the current year.

Finally, I extend my humble thanks to our customers whose needs are the reason we exist. Our vision is to offer the best customer experience. This means a lot of work for us. Our personnel and administration deserve thanks for their excellent work and co-operation in 2017.

Alexander Schoschkoff
Managing Director

Report of the board of directors

Fennia Life Insurance Company's result for 2017 was good. The company's expense ratio improved compared with the previous years. Investment income fell short of the previous year's level, but still reached a good level in the challenging market environment.

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

Insurance business

Fennia Life's total premium income, including the reinsurers' share, decreased to EUR 166.7 million (EUR 207.1 million). Of the company's total premiums written, life insurance accounted for EUR 132.2 million (EUR 170.2 million) and pension insurance for EUR 34.4 million (EUR 36.8 million). Premiums written on unit-linked insurances decreased to EUR 126.9 million (EUR 165.0 million), accounting for 76 per cent (80%) of the total premium premiums written. Premiums written on regular premium contracts stood at EUR 53.9 million (EUR 57.0 million), accounting for 32 per cent (28%) of the total premiums written.

Claims paid rose to EUR 104.4 million (EUR 90.7 million). Surrenders amounted to EUR 47.4 million (EUR 40.4 million). The repayment of benefits amounted to EUR 5.5 million (EUR 6.4 million). Pensions were paid in the amount of EUR 36.2 million (EUR 34.6 million) and death and disability benefits in the amount of EUR 11.4 million (EUR 5.1 million).

Operating expenses amounted to EUR 14.8 million (EUR 14.0 million). Taking into account fee and commission income from funds which form the investments of the unit-linked insurance, the expense ratio was 92.1 per cent (94.8%).

The total return on with-profit insurance savings varied between 0.6 and 4.5 per cent in 2017, depending on the line of insurance and quarter of the year. Client bonuses granted totalled EUR 1.2 million, of which EUR 0.6 million was funded from provisions for bonuses reserved earlier. A sum of EUR 3.8 million was reserved in the technical provisions for future bonuses.

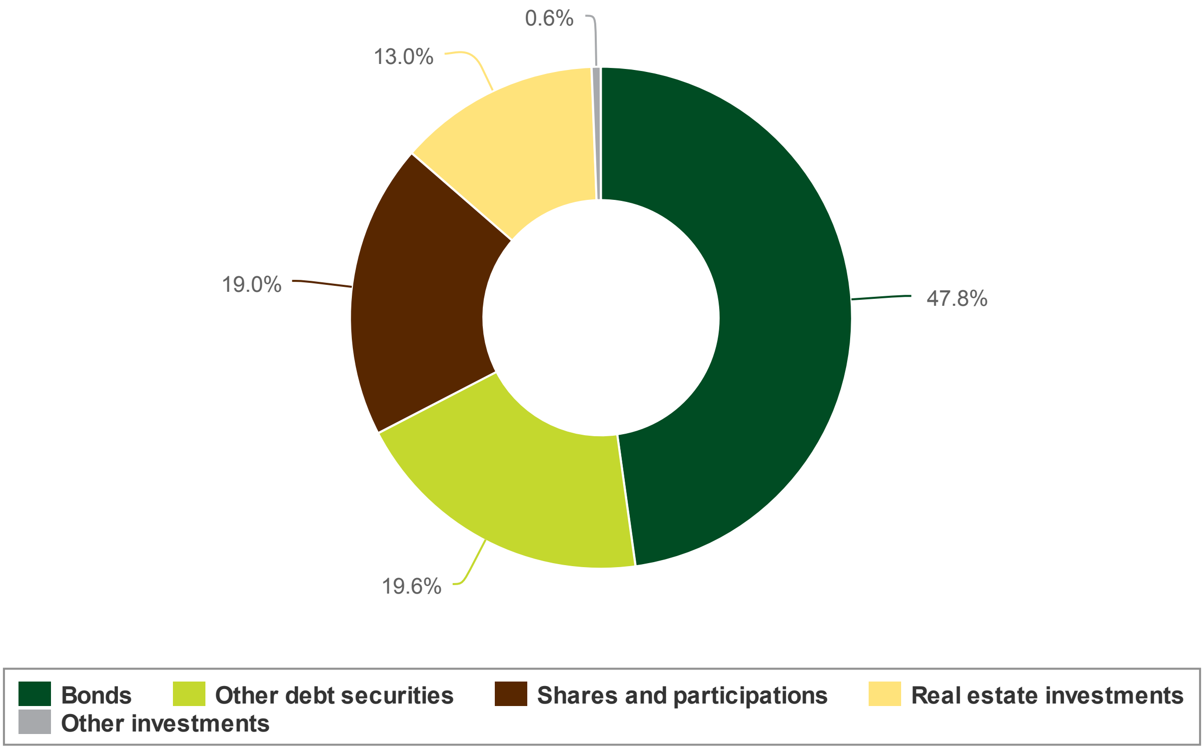
Investments

The company's return on investments at current values amounted to EUR 24.8 million (EUR 30.5 million), i.e. 3.3 per cent (4.3%) on the invested capital. The company's net investment income was EUR 70.7 million (EUR 91.8 million), of which unit-linked insurances accounted for EUR 54.5 million (EUR 62.7 million).

At year-end, the current value of investments stood at EUR 767 million (EUR 756 million). Bonds and long-term fund investments accounted for 48 per cent of the investment portfolio, and money market investments and deposits for 20 per cent. Shares, equity fund investments and capital trusts accounted for 19 per cent, real estate investments for 13 per cent, and loan receivables and other investments for 1 per cent. Assets covering unit-linked insurances grew strongly to EUR 1,018 million (EUR 903 million).

Distribution of FenniaLife's investment portfolio 31.12.2017 EUR 767 (756) million

Return on investments 3.3 (4.3) %



Ancillary activities

During 2017, Fennia Asset Management Ltd was granted authorisation by the Financial Supervisory Authority to act as a representative for the manager of alternative investment funds. The authorisation means that Fennia Asset Management can act as the asset manager and clearing house for the alternative investment funds managed by it. Fennia Life made the necessary amendments approved by the Financial Supervisory Authority to its Articles of Association to enable the above-mentioned activities.

Result

The company's operating profit was EUR 22.3 million (EUR 12.8 million). The Group's operating profit was EUR 20.4 million (EUR 10.2 million). The company transferred EUR 3.8 million from the result for the financial year to future bonuses and decreased the interest rate supplement reserved previously by EUR 11 million. In the comparison year, an interest rate supplement of EUR 20 million was transferred from the result to the technical provisions. At year-end, the supplementary provision for the guaranteed interest rate stood at EUR 125 million.

Administration and staff

During the year under review, the members of Fennia Life's Board of Directors until 31 March 2017 were: Mikael Ahlbäck (Chairman); Matti Ruohonen (Vice Chairman); Managing Director Antti Kuljukka; CEO Juha-Pekka Halmeenmäki and Deputy Managing Director Eero Eriksson. Mikael Ahlbäck's and Eero Eriksson's term in the Board of Directors ended on 31 March 2017. As of 1 April 2017, the members of the Board of Directors were: Group CEO Antti Kuljukka (Chairman); Matti Ruohonen (Vice Chairman); CEO Juha-Pekka Halmeenmäki and Deputy Managing Director Seppo Rinta.

The Board of Directors held a total of 12 meetings during the year under review. The attendance rate of the members was 98 per cent.

Seppo Rinta acted as Managing Director until 31 March 2017, and Alexander Schoschkoff since 1 April 2017.

The company employed an average of 52 people (53) in 2017.

Remuneration

The starting point for remuneration at Fennia Group and thus also at Fennia Life is to provide encouraging, fair, and reasonable remuneration to management and personnel that is in line with the short- and long-term interests of both the Group and Group companies. Fennia Life's remuneration schemes are based on achieving pre-defined targets that are derived from the company's strategic targets. Fennia Group's pay policy defines the principles related to salary and rewards. At Fennia, the pay policy is a whole that is influenced not only by an interesting and sufficiently challenging field of tasks, but also by good leadership, personnel benefits and monetary rewards. The pay policy also defines how each Fennia employee can influence the development of their salary by developing themselves and their work, as well as the responsibilities related to salary and rewards within the company.

In line with the remuneration principles, rewards have been built in such a way as to prevent unhealthy risk-taking. Fennia's remuneration schemes include, among other things, pre-defined maximum amounts of remuneration and a force majeure clause, which gives the Board of Directors the right to amend the schemes if the company's financial position is jeopardised or if the circumstances have otherwise changed considerably. Remuneration decisions are made according to the 'one above' principle; i.e. the person making the decision is the supervisor of the supervisor of the employee in question.

Group structure

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

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

Fennia Asset Management Ltd

The company's profitability improved during the financial year. The profit for the financial year was EUR 1.0 million (EUR 0.8 million). The company's capital and reserves grew and at the end of the financial period amounted to EUR 3.1 million (EUR 2.1 million).

The company's solvency at the end of the financial period was good, the solvency ratio was 24.2 per cent and the company's own funds amounted to EUR 3.1 million (calculated minimum requirement for own funds is EUR 1.0 million).

The amount of Group external client assets managed by Fennia Asset Management grew by 26 per cent, standing at EUR 242 million (EUR 192 million) at year-end. The new capital was mainly allocated to discretionary asset management and to the new special investment fund established on 12 September 2017, Fennica Building Plot Fund, non-UCITS. The low interest rate level and expensively priced equity market steered investors' focus towards real estate investments.

Group investment assets were transferred under the management of Fennia Asset Management during 2017. As a result, the amount of Group internal client assets grew to EUR 2.6 billion.

Risk management and solvency management

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

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.

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

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

Solvency and Financial Condition Report

Fennia Life's Solvency and Financial Condition Report will be published on Fennia's website www.fennia.fi on 19 June 2018 at the latest.

Outlook for the current year

The good economic development is expected to be reflected positively in Fennia Life's business. We expect the result for 2018 to be on a par with the result for 2017 or even better. The investment result may differ significantly from the estimate if the market situation changes. The current discussion on plans concerning the taxation of savings products may weaken demand for such products.

Profit and Loss Account

EUR 1,000	Group 2017	Group 2016	Parent Company 2017	Parent Company 2016	Note
Technical Account					
Premiums written					
Premiums written	166,687	207,062	166,687	207,062	1
Reinsurers' share	-960	-1,181	-960	-1,181	
	165,728	205,881	165,728	205,881	
Investment income	60,737	79,649	63,277	81,724	3, 4
Revaluations on investments	49,813	56,280	49,813	56,280	3, 4
Claims incurred					
Claims paid	-104,438	-90,651	-104,438	-90,651	2
Reinsurers' share	219	350	219	350	
Change in the provision for outstanding claims	-3,252	-11,502	-3,252	-11,502	
Claims incurred in total	-107,471	-101,803	-107,471	-101,803	
Change in the provision for unearned premiums					
Total change in the provision for unearned premiums	-96,099	-170,619	-96,099	-170,619	
	-96,099	-170,619	-96,099	-170,619	
Net operating expenses	-14,806	-14,046	-14,806	-14,046	5
Investment charges	-33,919	-44,554	-34,110	-43,325	3, 4
Revaluation adjustments on investments	-8,278	-2,900	-8,278	-2,900	3, 4
Balance on technical account	15,704	7,888	18,054	11,192	
Non-Technical Account					
Other income					
Income from investment services operations	4,751	2,910			
Other	3	3	3	3	
	4,753	2,913	3	3	
Other charges					
Expenses from investment services operations	-4,231	-2,120			
Depreciation on goodwill	-241	-241	-241	-241	
Other		-2		-2	
	-4,472	-2,363	-241	-242	
Profit on ordinary activities	15,986	8,438	17,816	10,953	
Appropriations					
Change in depreciation difference			-17	16	
Tax on profit					
Tax for the financial year	-3,042	-1,931	-3,042	-1,931	
Tax from previous periods	699	-38	699	-38	
Deferred tax	199	1,294			
	-2,145	-676	-2,344	-1,969	
Minority interests	1	-10			
Profit for the financial year	13,842	7,753	15,455	9,000	

Balance Sheet

EUR 1,000	Group 2017	Group 2016	Parent Company 2017	Parent Company 2016	Note
ASSETS					
Intangible assets					
Other long-term expenses	3,178	3,836	3,176	3,832	12
Goodwill	1,685	1,925	1,685	1,925	
Advance payments	436	802	436	802	
	5,299	6,563	5,297	6,559	
Investments					
Real estate investments					
Land and buildings and real estate shares	74,365	76,377	61,039	60,667	7
Investment loans to affiliated undertakings			15,897	16,740	
Loans to associated undertakings	1,843	1,843	1,843	1,843	
	76,208	78,220	78,780	79,250	
Investments in affiliated undertakings					
Holdings in subsidiaries			3,400	2,000	
Other investments					
Shares and participations	300,820	272,404	300,820	272,404	11
Debt securities	294,417	336,130	294,417	336,130	
Loans guaranteed by mortgages	2,854	2,904	2,854	2,904	
Deposits	-	2,000	-	2,000	
	598,092	613,438	598,092	613,438	
Investments in total	674,300	691,658	680,272	694,688	6
Investments covering unit-linked insurances	1,015,618	900,910	1,015,618	900,910	10
Debtors					
Arising out of direct insurance operations					
Policyholders	399	894	399	894	
Arising out of reinsurance operations	137	350	137	350	
Other debtors	12,856	14,014	12,003	13,836	
	13,392	15,257	12,539	15,079	
Other assets					
Tangible assets					
Machinery and equipment	377	319	342	317	12
Other tangible assets	12	12	12	12	
	389	331	354	329	
Cash at bank and in hand	45,218	27,532	41,510	25,328	
	45,607	27,863	41,864	25,658	
Prepayments and accrued income					
Interest and rents	5,346	5,646	5,343	5,643	
Other	2,597	2,386	2,575	2,357	
	7,943	8,033	7,918	8,000	
	1,762,159	1,650,284	1,763,508	1,650,894	

EUR 1,000	Group 2017	Group 2016	Parent Company 2017	Parent Company 2016	Note

LIABILITIES					
Capital and reserves					
Subscribed capital	27,751	27,751	27,751	27,751	13
Premium fund	10,723	10,723	10,723	10,723	
At the disposal of the Board	8	8	8	8	
Profit brought forward	48,896	42,642	60,009	52,509	
Profit for the financial year	13,842	7,753	15,455	9,000	
	101,220	88,878	113,947	99,992	
Appropriations					
Accumulated depreciation difference			39	23	
Minority interests	390	390			
Technical provisions					
Provision for unearned premiums	468,716	485,309	468,716	485,309	
Claims outstanding	154,139	152,738	154,139	152,738	
	622,855	638,047	622,855	638,047	
Technical provisions for unit-linked insurances					
Technical provisions	1,017,761	903,219	1,017,761	903,219	15
Creditors					
Arising out of reinsurance operations	738	899	738	899	
Deferred tax	3,799	3,998			
Other creditors	9,987	10,498	4,229	4,763	14
	14,525	15,395	4,967	5,662	
Accruals and deferred income	5,409	4,355	3,939	3,952	
	1,762,159	1,650,284	1,763,508	1,650,894	

Parent Company Cash Flow Statement

EUR 1,000	2017	2016
Cash flow from business operations		
Profit on ordinary activities before extraordinary items	15,472	8,984
Adjustments:		
Change in technical provisions	99,350	182,121
Value adjustments and revaluations on investments	-28,629	-54,851
Depreciation according to plan	1,560	1,130
Other	-13,646	-9,631
Cash flow before change in net working capital	74,107	127,751
Change in net working capital		
Increase/decrease in non-interest-earning receivables	2,570	-11,740
Increase in non-interest-earning payables	881	858
Cash flow from business operations before financial items and taxes	77,558	116,870
Interest paid on other financial expenses from operations	-131	-5
Taxes	-852	-804
Cash flow from business operations	76,575	116,062
Cash flow from capital expenditures		
Capital expenditure on investments (excl. funds)	-74,691	-120,534
Capital gain from investments (excl. funds)	16,121	11,605
Investments and income from the sale of tangible and intangible assets and other assets (net)	-323	-667
Cash flow from capital expenditures	-58,893	-109,595
Cash flow from financing		
Dividends paid	-1,500	-
Cash flow from financing	-1,500	-
Change in funds	16,182	6,467
Funds on 1 Jan.	25,328	18,862
Funds on 31 Dec.	41,510	25,328
	16,182	6,467

Accounting principles

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

Book value of investments

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

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

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

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

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

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

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

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

Book value of assets other than investments

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

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

Depreciation according to plan

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

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

Revaluations on investments

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

Current value of investments

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

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

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

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

Foreign currency items

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

Staff pension schemes

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

Appropriations and treatment of deferred tax

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

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

Technical provisions

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

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

– For individual life and pension insurance, the technical rate of interest applied is between 1 and 4.5 per cent, depending on the starting date of the insurance. For new 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 for pension and savings insurance policies that have a technical rate of interest of 2.0 to 4.5 per cent, the technical provisions have been supplemented in previous financial statements. The supplementary provision for the guaranteed interest rate as of 31 December 2017 is approximately EUR 125.0 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 2017

Fennia Life's bonuses in 2017 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 2017 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 2017, 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. Due to the low interest rate level, the company also lowered, as of the beginning of 2018, the technical rate of interest that will be credited to the new premiums of old group pension insurance contracts. In order to ensure continuity in the level of bonuses paid, EUR 3.8 million was transferred from the result for the financial year 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.

Both short-term and long-term risk-free interest rates have remained low since 2009. Between 2009 and 2017, the total interest credited by Fennia Life has clearly exceeded the risk-free interest rate of the corresponding investment period. When distributing bonuses, not only the contract's technical rate of interest, but also the surrender right and the duration of the insurance have been taken into account. For that reason, the total interest credited on pension insurance has been higher than the interest credited on savings insurance. The table below indicates the total interest credited by Fennia Life in 2017:

Total annual interest on with-profit policies in 2017

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%	1.75%	1.75%	1.00%
0.00%			1.75%	0.65%

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. Fennia Asset Management Ltd (100% ownership) was consolidated into the Group, and the other twelve subsidiaries consolidated into the Group are real estate companies.

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

Group companies

Group companies 31 Dec. 2017

The following subsidiaries are included in the consolidated financial statements

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

Notes to the Accounts, Parent Company

Notes to the Profit and Loss Account and Balance Sheet

1. Premiums written

EUR 1,000	2017	2016
Direct insurance		
Finland	166,687	207,062
Reinsurance	-	-
Gross premiums written before reinsurers' share	166,687	207,062
Items deducted from premiums written		
Credit loss on outstanding premiums	11	13
Direct insurance premiums written		
Life insurance		
Unit-linked individual life insurance	92,601	131,442
Other individual life insurance	3,247	3,845
Unit-linked capital redemption policy	20,075	18,258
Other capital redemption policy	145	347
Employees' group life insurance	5,283	5,312
Other group life insurance	10,891	11,015
	132,242	170,219
Pension insurance		
Unit-linked individual pension insurance	4,505	4,772
Other individual pension insurance	5,203	6,160
Unit-linked group pension insurance	9,763	10,504
Other group pension insurance	14,975	15,407
	34,446	36,843
	166,687	207,062
Regular premiums	53,898	57,029
Single premiums	112,790	150,034
	166,687	207,062
Premiums from with-profit policies	39,744	42,086
Premiums from unit-linked insurance	126,944	164,976
	166,687	207,062

2. Claims paid

EUR 1,000	2017	2016
Direct insurance		
Life insurance	65,017	53,437
Pension insurance	39,421	37,214
	104,438	90,651
Reinsurance	-	-
Claims paid in total	104,438	90,651
Of which:		
Surrenders	47,400	40,432
Repayment of benefits	5,504	6,410
Other	51,535	43,809
	104,438	90,651
Share of unit-linked insurances of claims paid	43,464	44,074
Life insurance: bonuses and rebates		
Impact of bonuses and rebates attached to life insurance policies on the balance on technical account	639	1,964
Change in provisions for future bonuses for the financial year	3,800	-182

At the closing of the accounts on 31 December 2017, EUR 3,800,00 was transferred from the result to bonuses for pension insurance with low technical rate of interest. Of the technical rate of interest in 2017, EUR 10,921,504 was funded from supplementary provisions for the guaranteed interest rate. Bonunses granted in 2017, EUR 457,776, were funded from the result. For risk life insurance, extra sums paid amounted to EUR 608,412 and were totally funded from provisions made for the extra sums. Client bonuses paid in 2017, EUR 1,468,461, complied with the bonus objectives for the financial year. At the closing of the accounts, an additional one-time extra bonus was paid to a part of the group pension insurances.

Client bonuses paid in 2016, EUR 1,468,461, complied with the bonus objectives for the financial year. Of the client bonuses, EUR 438,062 was funded from provisions for bonuses reserved earlier. Further, EUR 20,000,000 was transferred from the result to the supplementary provision for the guaranteed interest rate.

3. Net Investment income

EUR 1,000	2017	2016
Investment income		
Income from investments in land and buildings		
Interest income		
Affiliated undertakings	332	571
From other undertakings	147	148
	479	719
Other income	7,957	9,274
	8,436	9,992
Income from other investments		
Dividend income	16,034	13,019
Interest income	7,609	7,337
Other income	1,758	2,437
	25,402	22,793
Total	33,838	32,785
Value readjustments	5,236	12,247
Gains on realisation of investments	24,203	36,706
Total	63,277	81,738
Investment charges		
Charges arising from investments in land and buildings		
To affiliated undertakings	-2,777	-3,300
To other undertakings	-1,015	-921
	-3,792	-4,222
Charges arising from other investments	-3,963	-3,237
Interest and other expenses on liabilities	-131	-5
Total	-7,886	-7,463
Value adjustments and depreciations		
Value adjustments on investments	-18,141	-10,775
Losses on realisation of investments	-8,082	-25,100
Total	-34,110	-43,339
Net investment income before revaluations and revaluation adjustments	29,167	38,399
Revaluations on investments	49,813	56,280
Revaluation adjustments on investments	-8,278	-2,900
	41,535	53,379
Net investment income on the Profit and Loss Account	70,702	91,779

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

EUR 1,000	**2017**	**2016**
Investment income	29,168	22,429
Investment charges	-7,289	-15,552
Net investment income before revaluations and revaluation adjustments and value adjustments and readjustments	21,879	6,877
Revaluations on investments	49,813	56,280
Revaluation adjustments on investments	-8,278	-2,900
Value adjustments on investments	-10,724	-4,151
Value readjustments	1,816	6,618
Net investment income on the Profit and Loss Account	54,506	62,724

5. Operating expenses

EUR 1,000	2017	2016
Operating expenses in the Profit and Loss Account		
Policy acquisition costs		
Direct insurance commissions	2,336	2,459
Commissions on reinsurance assumed and profit sharing		
Other policy acquisition costs	4,330	4,183
Total policy acquisition costs	6,666	6,642
Policy management expenses	5,806	5,542
Administrative expenses	2,469	2,016
Commissions on reinsurance ceded	-135	-154
Total	14,806	14,046
Total operating expenses by activity		
Claims paid	770	507
Net operating expenses	14,806	14,046
Investment charges	1,559	1,646
Total	17,135	16,199
Depreciation according to plan by activity		
Claims paid	157	154
Net operating expenses	1,345	906
Investment charges	58	70
Total	1,560	1,130
Staff expenses, personnel and executives		
Staff expenses		
Salaries and commissions	3,886	3,831
Pension expenses	678	1,003
Other social expenses	225	313
Total	4,788	5,147
Executives’ salaries and commissions		
Board of Directors and Managing Director	336	353
The age of retirement of the Managing Director is defined according to TyEL		
Average number of personnel during the financial year	52	53
	52	53
Auditors' commissions		
Audit	29	25
Tax consulting	-	-
Other	2	-
	32	25

Other than audit services provided for the companies in the Fennia Group by KPMG Oy Ab in the financial year 2017 was EUR 26.426.46. The services comprised tax services EUR 14,979.18 and other services EUR 11,447.28.

6. Current value and valuation difference on investments

EUR 1,000	Investments 31 Dec. 2017 Remaining acquisition cost	Investments 31 Dec. 2017 Book value	Investments 31 Dec. 2017 Current value	Investments 31 Dec. 2016 Remaining acquisition cost	Investments 31 Dec. 2016 Book value	Investments 31 Dec. 2016 Current value
Real estate investments						
Real estate	3,718	3,718	4,260	3,718	3,718	4,260
Real estate shares in affiliated undertakings	48,508	48,508	58,766	49,459	49,459	57,357
Real estate shares in associated undertakings	7,120	7,120	7,420	5,797	5,797	7,166
Other real estate shares	1,692	1,692	1,692	1,692	1,692	1,692
Investment loans to affiliated undertakings	15,897	15,897	15,897	16,740	16,740	16,740
Loans to associated undertakings	1,843	1,843	1,843	1,843	1,843	1,843
Investments in affiliated undertakings						
Shares and participations	3,400	3,400	3,400	2,000	2,000	2,000
Other investments						
Shares and participations	300,820	300,820	328,814	272,404	272,404	291,375
Debt securities	294,417	294,417	294,536	336,130	336,130	337,029
Loans guaranteed by mortgages	2,854	2,854	2,854	2,904	2,904	2,904
Deposits	-	-	-	2,000	2,000	2,000
	680,272	680,272	719,484	694,688	694,688	724,366
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 (-)	-12,041			-11,960		
Valuation difference (difference between current value and book value)			39,212			29,679
Current value and valuation difference of derivatives						
Hedging derivatives			182			1,787
Non-hedging derivatives	-48	-48	646	-1,153	-1,153	-1,153
Valuation difference (difference between current value and book value)			876			1,787
Valuation difference, total			40,088			31,466

7. Changes in investments in land and buildings

EUR 1,000	Land and buildings and real estate shares	Investment loans to affiliated undertakings	Investment loans to associated undertakings
Acquisition cost, 1 Jan.	67,450	16,740	1,843
Increase	1,611	-	-
Decrease	-	-842	-
Acquisition cost, 31 Dec.	69,061	15,897	1,843
Value adjustments, 1 Jan.	-6,783		
Accumulated value adjustments related to decreases	-		
Value readjustments	1,138		
Increase	-2,376		
Value adjustments, 31 Dec.	-8,022		
Book value, 31 Dec.	61,039	15,897	1,843
Land and buildings and real estate shares occupied for own activities			
Remaining acquisition cost	280		
Book value	280		
Current value	280		

8. Investments in affiliated and associated undertakings

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

9. Debtors

EUR 1,000	
Other debtors	
Affiliated undertakings	407

10. Investments covering unit-linked insurances

EUR 1,000	2017 Original acquisition cost	2017 Current value	2016 Original acquisition cost	2016 Current value
Shares and participations	748,562	860,523	656,437	765,022
Debt securities	115,563	115,380	87,167	88,210
Cash at bank and in hand	39,715	39,715	47,678	47,678
Total	903,840	1,015,618	791,282	900,910
Investments covering unit-linked insurances corresponding to technical provisions	903,840	1,015,618	791,282	900,910
Cash at bank and in hand, and other debtors include net insurance premiums that have not yet been invested		2,495		2,361

11. Shares and participations in other companies

EUR 1,000	Holding %	Book value, 31 Dec. 2016	Current value, 31 Dec. 2016
Domestic shares			
Amplus Holding Oy	19.9686	1,831	3,576
Holiday Club Resorts Oy	1.8534	1,097	1,097
Pihlajalinna Oyj	1.3813	3,516	3,516
Uudenmaan Pääomarahasto Oy	13.2193	1,016	1,016
Other		1,646	3,527
		9,106	12,733
Foreign shares			
K III Sweden AB		716	833
Other		60,948	74,791
		61,664	75,624
Unit trusts			
BNP Paribas InstiCash Money 3M EUR		10,215	10,215
Danske Invest Yhteisökorko Kasvu		15,234	15,356
Danske Invest Yhteisökorko Plus Kasvu		5,017	5,065
Erikoisisjoitusrah. Fennica Toimitilat I E-osuus		8,353	8,701
Evli Short Corporate Bond B		20,062	20,366
First Trust Emerging Markets Small Cap AlphaDEX Fu		1,999	2,167
Goldman Sachs ActiveBeta Emerging Markets Equity E		6,081	6,398
iShares Edge MSCI Europe Multifactor UCITS ETF EUR		5,033	5,137
iShares MSCI India ETF		3,032	3,065
iShares STOXX Europe 600 Banks ETF		3,902	3,902
iShares STOXX Europe 600 ETF		3,821	3,821
iShares STOXX Europe Small 200 DE		4,136	4,162
Muzinich Funds - Emerging Markets Short Duration F		15,538	15,538
Muzinich Funds - EnhancedYield Short-Term Fund		50,012	50,860
Muzinich Short Duration High Yield Fund		15,049	15,049
Nordea Korko S Kasvu (Moderate Yield Fund)		4,002	4,002
Oddo Asset Management Oddo Tresorerie 3-6 Mois		5,956	5,956
Oddo Compass Euro Credit Short Duration Fund		30,000	30,366
OP-Euro A		4,004	4,004
Vanguard MSCI Emerging Markets ETF		3,708	3,828
Other		3	3
		215,156	217,961
Capital trusts			
Euro Choice IV GB Limited		1,808	4,119
MB Equity Fund IV Ky		2,351	3,841
Partners Group European Buyout		1,906	2,216
Partners Group European Mezzanine		1,132	1,132
Selected Mezzanine Funds I Ky		569	1,021
Selected Private Equity Funds I Ky		925	2,434
The Triton Fund III L.P.		3,465	4,914
The Triton Fund II L.P.		531	531
WasaGroup Fund I		500	549
Other		1,707	1,738
		14,894	22,495

12. Changes in intangible and tangible assets

EUR 1,000	Intangible rights and other long-term expenses	Goodwill	Advance payments	Equipment	Total
Acquisition cost, 1 Jan. 2017	8,465	2,407	802	684	12,357
Fully depreciated in the previous financial year	-251	-		-118	-369
Increase	802	-	436	180	1,417
Decrease	-	-	-802	-224	-1,025
Acquisition cost, 31 Dec. 2017	9,015	2,407	436	522	12,380
Accumulated depreciation, 1 Jan. 2017	-4,248	-481		-367	-5,097
Fully depreciated in the previous financial year	251	-		118	369
Accumulated depreciation related to decreases and transfers	-	-		172	172
Depreciation for the financial year	-1,232	-241		-103	-1,576
Accumulated depreciation, 31 Dec. 2017	-5,229	-722		-181	-6,131
Value adjustments, 1 Jan. 2017	-385				-385
Value adjustments during the financial year	-225				-225
Value adjustments, 31 Dec. 2017	-610				-610
Book value, 31 Dec. 2017	3,176	1,685	436	342	5,638

13. Capital and reserves

EUR 1,000	2017
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.	52,509
Profit for the previous financial year	9,000
Dividend pay-out	-1,500
Profit brought forward, 31 Dec.	60,009
Profit for the financial year	15,455
Non-restricted in total	75,473
Capital and reserves in total	113,947
Distributable profit, 31 Dec. 2016	
Profit for the financial year	15,455
At the disposal of the Board	8
Profit brought forward	60,009
Distributable profit	75,473

14. Creditors

EUR 1,000	**2017**	**2016**
Other creditors		
To affiliated undertakings	354	275

15. Technical provisions for unit-linked insurances

EUR 1,000	**2017**	**2016**
Provision for unearned premiums	996,089	883,398
Claims outstanding	21,672	19,821
	1,017,761	903,219

16. Guarantee and liability commitments

EUR 1,000	2017	2016
Liabilities from derivative contracts		
Non-hedging		
Currency derivatives		
Forward and futures contracts		
Open		
Value of underlying instrument	74,582	45,303
Current value	646	-1,153
Hedging		
Interest rate derivative		
Interest rate swap		
Open		
Value of underlying instrument	322,500	322,000
Current value	182	1,787

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

The realised result of closed and matured hedging derivatives is accrued in the result over the original life of the derivative contract. The net result of closed interest rate derivatives for the financial year was EUR -5,246,626.51, of which EUR 14,016.49 was allocated to the financial year.

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

Value-added tax liabilities

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

	2017	2016
Affiliated undertakings	17	168
Other undertakings	208	262

Investment commitments

	2017	2016
Commitment to invest in equity funds	6,462	7,117

Loans to related parties and related party transactions

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

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

17. Notes concerning the Group

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

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

Financial Statements' Key Figures

Analysis of Results

EUR 1,000	2017	2016	2015	2014	2013
Premiums written	165,728	205,881	198,946	151,413	93,526
Investment income (net), revaluations and revaluation adjustments on investments	68,353	88,475	121,449	62,839	88,420
Claims paid	-104,219	-90,301	-83,131	-77,490	-84,221
Change in technical provisions before bonuses and rebates and change in equalisation provision	-94,911	-180,322	-221,123	-116,909	-84,177
Net operating expenses	-14,806	-14,046	-13,544	-11,947	-10,606
Other technical underwriting income				156	
Technical underwriting result before bonuses and rebates and change in equalisation provision	20,144	9,688	2,596	8,062	2,942
Other income (net)	281	550	13	-7	-1,036
Operating profit	20,425	10,238	2,610	8,055	1,906
Change in equalisation provision	0	0	8,595	-723	-618
Bonuses and rebates	-4,439	-1,800	-5,493	-501	5,849
Profit before untaxed reserves and tax	15,986	8,438	5,712	6,831	7,137
Taxes	-2,145	-676	-445	-2,102	-1,407
Minority interests	1	-10	4		
Group's profit for the financial year	13,842	7,753	5,272	4,729	5,730
Gross premiums written (EUR 1,000)	166,687	207,062	199,823	152,544	94,462
Expense ratio of expense loading	103.6 %	105.6 %	113.8 %	122.8 %	117.3 %
Expense ratio of Balance Sheet total	1.0 %	1.1 %	1.3 %	1.3 %	1.3 %
Total result (EUR 1,000)	30,877	14,170	-37,650	29,739	852
Return on assets	4.5 %	5.1 %	5.5 %	7.8 %	5.6 %

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

Investment portfolio at current values

	Basic distribution				Risk distribution					
	31.12.2017		31.12.2016		31.12.2017		2016	2015	2014	2013
	EUR million	%	EUR million	%	EUR million	%	%	%	%	%
Fixed-income investments, total	**520.5**	**67.8**	**525.0**	**69.5**	**520.5**	**67.8**	**69.5**	**59.7**	**51.9**	**50.2**
Loans[1]	3.0	0.4	3.1	0.4	3.0	0.4	0.4	0.4	0.4	1.2
Bonds	367.1	47.8	294.0	38.9	367.1	47.8	38.9	39.0	41.0	39.1
Other money market instruments and deposits[1] [2]	150.5	19.6	227.9	30.1	150.5	19.6	30.1	20.3	10.4	9.9
Equity investments, total	**145.9**	**19.0**	**111.3**	**14.7**	**145.8**	**19.0**	**14.7**	**17.9**	**25.5**	**27.5**
Listed equities [3]	112.6	14.7	76.9	10.2	112.6	14.7	10.2	12.6	18.6	21.3
Private equity [4]	21.6	2.8	23.3	3.1	21.6	2.8	3.1	3.5	3.8	3.7
Unlisted equities [5]	11.6	1.5	11.1	1.5	11.6	1.5	1.5	1.9	3.0	2.5
Real estate investments, total	**99.5**	**13.0**	**112.4**	**14.9**	**99.5**	**13.0**	**14.9**	**21.5**	**21.6**	**21.0**
Direct real estate	89.9	11.7	89.1	11.8	89.9	11.7	11.8	15.3	15.6	15.7
Real estate funds and UCITS	9.6	1.2	23.4	3.1	9.6	1.2	3.1	6.2	6.0	5.2
Other investments	**1.4**	**0.2**	**7.2**	**0.9**	**1.4**	**0.2**	**0.9**	**0.9**	**0.9**	**0.9**
Hedge funds [6]	0.0	0.0	6.5	0.9	0.0	0.0	0.9	0.9	0.8	0.8
Commodities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investments [7]	1.4	0.2	0.7	0.1	1.4	0.2	0.0	0.0	0.1	0.1
Investments in total	**767.2**	**100.0**	**755.9**	**100.0**	**767.2**	**100.0**	**99.9**	**100.0**	**99.8**	**99.6**
Effect of derivatives [8]	-		-		0.0	0.0	0.1	0.0	0.2	0.4
Total investments at fair value	**767.2**	**100.0**	**755.9**	**100.0**	**767.2**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Modified duration of the bond portfolio **1.2**

1) Includes accrued interests

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

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

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

5) Including unlisted real-estate investment companies

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

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

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

Net investment income on invested capital

	Market value of net investment returns [8]	Invested capital [9]	Yield, % on invested capital				
	2017	2017	2017	2016	2015	2014	2013
Return €/ % on inv. capital	EUR million	EUR million	%	%	%	%	%
Fixed-income investments, total	**0.8**	**530.3**	**0.2**	**1.0**	**0.5**	**5.3**	**0.5**
Loans[1]	0.1	3.0	3.7	1.4	6.1	3.8	3.8
Bonds	0.2	352.1	0.1	1.4	-0.5	5.8	0.2
Other money market instruments and deposits[1] [2]	0.6	175.2	0.3	0.5	2.5	2.6	1.3
Equity investments, total	**14.3**	**127.4**	**11.3**	**5.0**	**16.7**	**13.4**	**16.8**
Listed equities [3]	7.3	96.9	7.5	3.1	18.5	12.0	18.4
Private equity [4]	6.4	19.8	32.3	12.9	14.1	13.6	15.0
Unlisted equities [5]	0.6	10.6	5.8	2.4	11.6	23.1	10.7
Real estate investments, total	**5.4**	**100.6**	**5.4**	**14.6**	**7.9**	**5.7**	**9.4**
Direct real estate	4.9	86.8	5.6	18.1	8.4	3.4	11.5
Real estate funds and UCITS	0.5	13.8	3.8	4.9	6.6	12.1	-3.0
Other investments	**6.0**	**0.6**	**1025.2**	**42.1**	**3.3**	**10.7**	**23.3**
Hedge funds [6]	-0.2	1.4	-10.7	-4.7	4.5	8.9	3.1
Commodities							
Other investments [7]	6.2	-0.8	-739.9	-163.9	-108.2	22.9	
Investments in total	**26.6**	**758.9**	**3.5**	**4.5**	**5.2**	**7.6**	**5.5**
Sundry income, charges and operating expenses	-1.7					0.0	
Net investment income at current value	**24.8**	**758.9**	**3.3**	**4.3**	**5.0**	**7.4**	**5.2**

1) Includes accrued interests

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

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

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

5) Including unlisted real-estate investment companies

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

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

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

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

Calculation methods for the key figures

Premiums written = premiums written before reinsurers' share

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

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

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

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

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

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

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

Average number of employees = Average number of employees at the end of each calendar month.

Risks and management of risks and solvency

1 Risk and solvency management in general

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

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

2 Organisation of risk and solvency management

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

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

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

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

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

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

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

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

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

- Managing Director

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

- Business and support functions

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

- Actuarial function

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

- Risk Management function

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

- Compliance

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

- Internal audit

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

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

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

3 Risk management

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

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

1. Risk identification

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

2. Risk measurement

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

3. Risk monitoring

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

4. Risk management

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

5. Risk reporting

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

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

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

3.1 Insurance risks

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

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

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

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

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

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

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

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

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

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

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

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

3.2 Financial market risks

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

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

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

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

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

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

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

	Impact of change on Fennia's solvency capital	
Fixed income investments	Interest rate +1 percentage point	EUR -32 million
Equity investments	Change in value -20%	EUR -24 million
Real estate investments	Change in value -10%	EUR -11 million

3.3 Counterparty risks

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

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

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

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

3.4 Operational risks

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

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

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

The objective of managing operational risks at Fennia is to

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

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

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

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

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

- internal malpractices,
- personnel risks,
- legal risks,
- risks related to information, telecommunications and communication systems,
- risks related to sales and customer relationships,
- risks related to processes, and
- risks related to the activities of external operators.

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

3.5 Risks inherent in quantitative methods

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

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

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

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

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

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

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

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

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

3.6 Concentration risks

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

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

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

3.7 Liquidity risk

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

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

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

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

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

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

3.8 Strategic risks

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

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

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

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

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

- strategic risks inherent in internal operations, such as, for example, risks related to expansion or to internal development or to the availability of additional 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 and provisions and requirements set by authorities are not complied with.

3.10 Group risks

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

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

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

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

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

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

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

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

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

4 Solvency management

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

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

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

Board of Directors’ Proposal on the Disposal of Profit

Fennia Life’s distributable profits totalled EUR 75,472,645.11. The company’s profit for the financial year was EUR 15,455,223.37. The Board of Directors proposes that the profit for the financial year be used such that EUR 3,000,000.00 be paid in dividends and EUR 12,472,645.11 be transferred to retained earnings.

Helsinki, 8 March 2018

Antti Kuljukka

Matti Ruohonen

Juha-Pekka Halmeenmäki

Seppo Rinta

Alexander Schoschkoff
Managing Director

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

Auditor's report

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

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Fennia Life Insurance Company Ltd (business identity code 1496059-8) for the year ended 31 December, 2017. The financial statements comprise the balance sheets, profit and loss accounts, cash flow statements and notes for the group as well as for the parent company.

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

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

Basis for Opinion

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

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

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

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

Materiality

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

Most significant assessed risks of material misstatement

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

MOST SIGNIFICANT ASSESSED RISKS OF MATERIAL MISSTATEMENT	AUDITOR'S RESPONSE TO THE RISKS
Valuation of investment assets (Accounting Principles pages 9-10 and notes to the Accounts pages 37-48)	
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	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.

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.

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

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

Calculation of technical provisions (Accounting principles page 11)

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

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of Financial Statements

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

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

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

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 11 years.

Other Information

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

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

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

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

Helsinki 8 March, 2018
KPMG Oy Ab

Petri Kettunen	Satu Malmi
Authorised Public Accountant, KHT	*Authorised Public Accountant, KHT*

Board of Directors

Chairman

Antti Kuljukka
konsernchef
Fenniakonsernen
Helsingfors

Board Members

Juha-Pekka Halmeenmäki
Managing Director
Invalidisäätiö
Helsinki

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

Seppo Rinta
Deputy Managing Director
Fennia Mutual Insurance Company
Espoo

Secretary to the Board

Sanna Elg
General Counsel
Fennia Mutual Insurance Company
Espoo

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

Auditors

KPMG Oy Ab

Petri Kettunen
Authorised Public Accountant

Satu Malmi
Authorised Public Accountant

Deputy Auditors

KPMG Oy Ab

Tiia Kataja
Authorised Public Accountant

Marcus Tötterman
Authorised Public Accountant

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

Management

Alexander Schoschkoff
Managing Director

Johanna Ahvenainen
Corporate Counsel, Compliance Officer

Olli Hokkanen
Director

Ari Koskinen
Director, Customer Service and Development

Päivi Ojala
Actuaries Director

Jarno Mäkinen
Investment Director

Kari Wilén
Sales and Marketing Director

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

Physicians

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

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