Fennia

Annual Report and
Corporate Social Responsibility Report 2017

Contents

A good result – together

Overall, 2017 was a good year for Fennia Mutual Insurance Company. Fennia is doing well, returns on investment grew and solvency is strong.

For business insurance, 2017 was a turning point. We focused on the development of services and proactive safety work in collaboration with our corporate customers. The number of claims declined, and the positive situation could also be taken into account in insurance pricing. In statutory accident insurance in particular, this development was also reflected in a lower premium income.

We also renewed the Fennia Group's structures and organisation last year. The key goal of our renewal was to increase the competitiveness of the Fennia Group.

This Annual and Sustainability Report for 2017 is our first report that more extensively discusses aspects of corporate social responsibility considered essential by our stakeholders.

We carried out a survey on stakeholders' expectations regarding corporate social responsibility, asking which aspects of the Fennia Group's responsibility they considered essential and what we should focus on in our business operations.

The respondents considered financial responsibility and solvency, responsible investments and preventing the shadow economy to be the most essential aspects. Transparent and ethical operations were of course considered to provide a basis for trust in the corporate social responsibility of all business operations.

Fennia has always been a company for entrepreneurs. The respondents to the survey also felt strongly that affecting entrepreneurs' safety and well-being and understanding entrepreneurship, and thus promoting the operating conditions for our customers, were aspects of corporate social responsibility that are very specific to Fennia in particular.

Following the start of the new strategy period at the beginning of the year, the vision of the Fennia Group is to offer the best customer experience. We want customers to have such a positive experience of our customer service that they have a reason to remain and wish to recommend it to others. This is why success in meeting with clients is what matters most to us.

A warm thank you to our customers, employees and partners for their excellent co-operation. We are here for you – for entrepreneurship and life.

Antti Kuljukka
Group CEO

Fennia Group’s strategy

As stated in our mission statement, the Fennia Group is here for business and life. We are a reliable partner to entrepreneurs and we understand the needs of entrepreneurs and their families. We are also a partner to households, which are entrepreneurs in their own life.

The vision of the Fennia Group is to provide the best customer experience. We want customers to have such a positive experience of our customer service that they have a reason to remain and wish to recommend it to others.

The Fennia Group’s strategy for 2018–2022 sets four goals:

- Personnel with a capacity for renewal
- Growing in corporate clients
- Efficient in households
- Solvent

Fennia’s four strategic goals

Personnel with a capacity for renewal

Personnel with a capacity for renewal is a resource that is essential if we are to achieve our strategic goals.

We work every day in a way that allows customers to be confident and certain that their matters are carefully dealt with. We value entrepreneurship and also seek to carry out our tasks every day with an entrepreneurial mindset. We work in a determined, target-oriented and courageous manner with commitment and motivation – as if we were working for our own company.

We lead, coach and work in our community in a manner that allows us to succeed in creating an excellent personnel experience, which is the most likely approach to lead to the best customer experience on the market.

The insurance and financial sector is facing considerable changes. We achieve results responsibly and are here for business and life; this is an important and demanding task. This is why we want Fennia employees to grow with us and to see the capacity for renewal as an opportunity. Together we can create success.

Growing in corporate clients

We will grow profitably in corporate clients through insurance and asset management services. We provide our customers with a comprehensive experience of the Fennia Group’s services as a financial security partner and adviser.

We produce our services efficiently with great care and expertise to provide our customers with the best customer experience – which is so good that they are willing to recommend Fennia to others.

Fennia has always been a company for entrepreneurs. Our expertise, networks and results culminate from serving enterprises and entrepreneurs. We cultivate this expertise; it provides a solid foundation for our future.

Efficient in households

By providing entrepreneurs and their families with services in risk management that they need as private persons, we can also offer similar good services to other households. While we contribute to providing the families of entrepreneurs with financial security, we want to offer other active private customers and households a lifelong relationship as their trusted partner.

Households will enhance the diversification of the Fennia Group's insurance risks and contribute to a more stable risk position. This will reduce the fluctuation of results.

In the household segment, efficiency and ease play an important role in good service – for both the customer and the company. When this is achieved, both the personnel experience and the customer experience are positive.

Solvent

The Fennia Group is financially solvent. As a financially solvent company, we can meet our obligations to our policyholders.

In order to retain our solvency, we must understand the risk that we take on and only take on an amount of risk that we can bear.

We are an expert in risk management and a forerunner in our business.

Responsibility in the Fennia Group's business operations

The Annual and Corporate Social Responsibility Report informs about the Fennia Group's reponsible and sustainable business. The report contains a statement of non-financial information (NFI).

The Fennia Group has started implementing corporate social responsibility, developed communication and training concerning CSR themes as well as renewed some of its organisation and leadership models. Objectives or metrics have not yet been set for all themes included in the materiality assessment. The report presents the operations in 2017 and the present state.

In collaboration with our customers, personnell, co-operation partners and other interest groups, we will develop and integrate corporate social responsibility and the reporting of it in our business operations.

In January 2018, we carried out a materiality assessment on the Fennia Group's responsibility themes. We examined stakeholders' expectations, asking which aspects of responsibility they considered material.

We asked our key stakeholders – personnel, customers, authorities and the media as well as the members of the Board, the Supervisory Board and the regional advisory bodies – to respond to an online survey to find out which aspects of responsibility they considered most important in the Fennia Group's business operations.

The respondents considered financial responsibility and solvency, responsible investments and preventing the shadow economy to be the most important aspects.

Material aspects of responsibility also include the development of customer and employee experience, the promotion of entrepreneurship and environmental well-being. With respect to the environment, the respondents considered material and energy efficiency in particular to be important.

Transparent and ethical operations of course provide a basis for trust in the responsibility of all business operations.

The Annual and Corporate Social Responsibility Report includes a statement of non-financial information as required by the Accounting Act. The Board of Directors and Group CEO of Fennia are responsible for the report and they have approved the information included in the report.

Helsinki, 6 April 2018

Mikael Ahlbäck

Matti Pörhö

Jussi Järventaus

Lars Koski

Eva Liljeblom

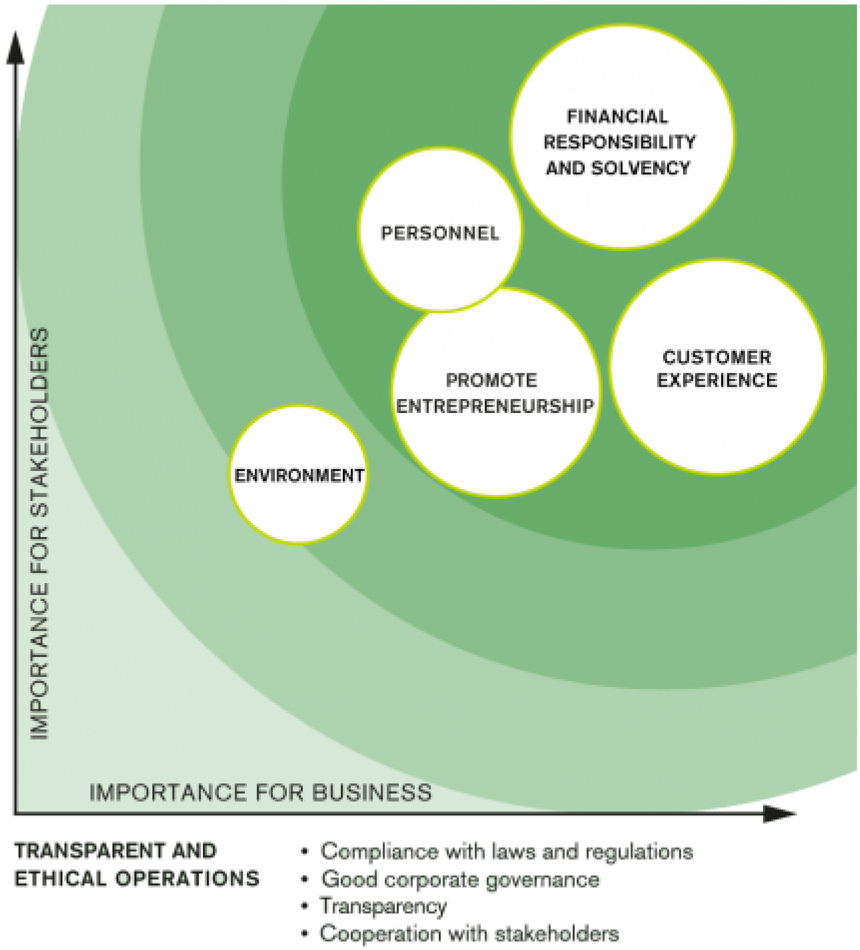
Jyrki Mäkynen

Timo Salli

Paul Stucki

Antti Kuljukka
Group CEO

Fennia’s materiality matrix 2018



Financial responsibility and solvency
Secure solvency
Responsible investments
Prevent shadow economy and corruption

Customer experience
Usability of digital systems
Active communications, dialogue engaging interest groups
Offer the best customer experience

Promote entrepreneurship
Promote safety and well-being
Secure preconditions for entrepreneurship
Understand and promote entrepreneurship

Personnel
Continued training to develop competence and skills
Occupational health and safety
Equal treatment and opportunity

Environment
Material and energy efficiency
Consider environmental well-being
Control climate change

Ethical and responsible business operations

At the Fennia Group, ethical operations mean compliance with laws, regulations, agreed rules and contracts, as well as operations carried out in accordance with Fennia's values and cornerstones, including the related risk management.

We respect human rights in all our operations and work together with the financial sector to prevent corruption, bribery and the shadow economy.

The personnel of the Fennia Group and the representatives of its sales channels have been trained in 2017 to comply with all obligations relating to preventing and detecting money laundering and terrorism funding. Training is arranged annually.

Our operations are based on trust. Our personnel have been provided with guidance and training on the careful and secure processing of personal data and are thus trained to prevent any risks relating to the processing of such data. The observance of the principles of personal data processing is ensured through internal and external audits. In addition, we have a notification channel in place which our personnel can use to report any risks relating to personal data processing.

The 2017 personnel survey also highlighted the importance of ethical management and the Compliance function in the Group. In Fennia, an ethical operator puts ethical responsibility before personal power in decision-making. An ethical operator acts ethically and, as a supervisor, requires the same from his or her team.

The development of ethical and responsible operations also includes, of course, addressing unethical behaviour and the opportunity for each employee to report their observations to independent bodies, the Fennia Group's experts in operational risks and the experts of its Compliance function.

Fennia – for business and life

We offer the Fennia Group’s services and all the expertise of our partners to SMEs, micro and growth companies, not forgetting self-employed people, quickly and flexibly. As companies can be at different stages of their life cycle, we have also created a multi-sectoral network of partners to support entrepreneurs.

While we contribute to providing the families of entrepreneurs with financial security, we believe that we also have much to offer households. Our goal is to offer our customers a lifelong relationship as their trusted partner.

At Fennia, we value entrepreneurship and also seek to carry out our tasks every day with an entrepreneurial mindset. We work in a determined, target-oriented and courageous manner – with commitment and motivation. Our expertise and genuine wish to help customers and solve their problems are palpable. Providing the best customer experience is an important and demanding task for us every day.

Fennia has a long tradition of collaborating with entrepreneurial organisations. Our customers have always felt that promoting entrepreneurship is important, and our stakeholders agree, even today. In collaboration with entrepreneurial organisations, we have offered our corporate customers financial benefits and developed products and services. It is our task to uncompromisingly secure the conditions for entrepreneurship.

National Entrepreneur Award

In autumn 2017, we celebrated the centenary of Finland’s independence at the National Entrepreneur Days in Joensuu and handed out the National Entrepreneur Awards for the 50th time. The award was established in 1968 by the then Fennia and the predecessor of the Federation of Finnish Enterprises.

Hundreds of companies or people have received a National Entrepreneur Award over the years. Last year, Arcusys from Joensuu, FinnSpring from Toholampi, Fondia from Helsinki and Lune Group from Juupajoki were awarded.

Fennia is carrying on the National Entrepreneur Award tradition – rewarding entrepreneurship that creates growth today – together with the Federation of Finnish Enterprises. The National Entrepreneur Award recognises successful and exemplary business operations and capacity for renewal.

The selection criteria for those awarded were:

- the company’s business idea, the originality of its product ideas as well as the continuous, independent development of its operations, services or products;
- the company’s growth in recent years;
- the company’s operational and financial state and capacity for renewal, even in terms of global competition;
- the company’s operational development and social role in its operating and market area;
- the capacity for renewal of the company’s production operations and personnel administration to meet the requirements of today and the objectives set by society;
- established operations i.e. the company has operated for more than five years.

The award can also be granted to a person who has significantly promoted entrepreneurship and entrepreneurial activities in Finland through his or her long-term work.

Did you know

- In 1968, to conclude the Week of Entrepreneurship in Tampere, five enterprises and entrepreneurs were presented with a National Entrepreneur Award for the first time. Those awarded also included **Ensio Rapala** from Vääksy, a manufacturer of fishing lures. At that time, the company exported 98.5 per cent of its production.

- The Fennia Group co-operates with the Federation of Finnish Enterprises, the Finnish Family Firms Association and Junior Achievement Finland. We promote entrepreneurship education as it supports the development of multi-sectoral competence and readiness for working life. We discuss entrepreneurship, risk management, the importance of insurance and growth opportunities with young people. Financial security plays an important role during the first steps of entrepreneurship.

The customer always comes first

The cornerstone of Fennia’s operations is: the customer always comes first. We want our customer service to be easy, fast, expert and friendly – simply the best. Every Fennia employee serving customers always takes up the baton and carries it across the finishing line.

Today the convenience of services and the availability of digital services are taken for granted. In addition, customers often wish to have tailored and personalised web services.

In 2017, Fennia introduced facilitation workshops to better hear its customers’ views. Consumers and entrepreneurs are invited to the workshops to discuss insurance services and test Fennia’s products. Based on the feedback received, Fennia develops operations and digital services.

Fennia also carefully monitors any feedback received through the customer feedback channel. All feedback is discussed in development and executive teams by business area.

The customer is a shareholder in the mutual company

Fennia is a Finnish non-life insurance company owned by its customers with its roots and values deeply embedded in entrepreneurship. Fennia’s line of business includes statutory and voluntary non-life insurance offered to companies, entrepreneurs and households.

Fennia operates on a mutual basis. All customers in a mutual insurance company also become its shareholders with voting rights. The result of a mutual company can be used to develop the company’s service level, and customer shareholders take part in deciding on how this is done. Each of Fennia’s customers is also Fennia’s owner.

Services to cope with loss or damage provide customers with prompt assistance

Fennia’s services that help customers to cope with loss or damage are provided by Fennia’s co-operation partners promptly in the event of damage or illness, right after the insured event.

Fennia’s partners help to speed up and clarify the flow of the customer service process and bring added value compared with the usual handling processes. Referring a customer to a partner enables Fennia to ensure the quality, smoothness and availability of service in advance.

In the guidance of customers Fennia also uses guidance centre services provided by partners to ensure that customers can discuss their damage or loss directly with the right expert. This facilitates and speeds up the service received by the customer as all the services required are provided at the same number. Even a claim for compensation can be completed for the customer during the call.

In 2016, the guidance centre services made available to customers were FenniaHoitaja (FenniaNurse), Fennian Tuulilasivahingot (Fennia’s Windscreen Claims) and Fennian Mobiililaitevahingot (Fennia’s Mobile Device Claims). In addition, Fennia uses guidance centre services for traveller’s insurance claims.

In May 2017, Fennia launched Fennian Autoapu 24h (Fennia’s Car Help 24h), which helps customers smoothly, around the clock. The service helps customers to make arrangements to continue their trip and order breakdown recovery services, and assesses whether a quick fix is possible. The new service covers all new motor vehicle damage claims excluding glass damage claims.

Fennia’s information security service offers assistance 24 hours a day

Technology provides companies with new opportunities, but at the same time information security risks and cybercrime have increased.

The information security environment of a company consists of information systems, software, e-communication and storage devices, for example. Risks relating to this environment include problems in the critical information system, criminal attacks against an information system or property damage to IT equipment. They can result in the loss of important and confidential information or the leakage of such information to third parties.

Fennia's information security insurance introduced in 2017 covers financial losses arising from malicious software attacks, denial of service attacks or information theft against a company's information system. The insurance also covers an assessment of the customer's information security level. The insurance covers financial losses arising from malicious damage, malicious software attacks, information theft, human error or denial of service attacks relating to the company's information system.

The insurance includes Fennian 24h tietoturvapalvelu (Fennia's 24h Information Security Service) which offers assistance 24 hours a day in the event of information security loss or damage. The service completes the claim form for the customer, determines the extent of loss or damage and immediately starts the measures required to recover from the insured event.

The EU's new general data protection regulation, which enters into force in May 2018, will bring major changes in how companies must protect the personal data of their customers, employees and other people.

Under the regulation, controllers are required to notify the data protection authority and the data subject of any data breaches. Our information security insurance helps to prepare for costs arising from such notification. The insurance also includes legal advisor services in the event of data leakage.

According to the regulation, any person who has suffered damage as a result of an infringement of the regulation has the right to receive compensation either from the controller or processor for the damage suffered. The information security insurance can be used to cover this liability.

Customer experience measured by the claims services using NPS

It is important to us that customers have a positive experience of our service. In order to find out how services should be developed, Fennia's claims services use an index, Net Promoter Score (NPS), which describes the customer's willingness to recommend our services to others. These NPS measurements will be extended to cover other services of the Fennia Group.

NPS is a tool for the development of customer experience in which the customer is asked after the service experience how likely it is, on a scale of 0 to 10, that he or she would recommend the company to others.

In addition to personal and empathic service, the customer experience is improved by fast and easy service. Here the development of automatic claims services plays an important role. When a customer receives a compensation decision quickly in the context of simple claims, this also improves the customer experience.

Positive results have also been achieved in Fennia's services that help customers to cope with loss or damage. When a customer receives assistance right after the insured event and the claims handling process is started hand in hand, the customer's service experience is also more positive.

The NPS level of the claims services increased to 60 per cent in 2017 from the poor results measured at the start. The target for 2018 is 65 per cent. In the services that help customers to cope with loss or damage, the NPS measured is, at its best, 80 per cent for the FenniaHoitaja service, for example.

In addition to customer satisfaction measurement, Fennia's claims services invested in personnel training.

Competent personnel with a capacity for renewal

At Fennia, we believe that well-being at work goes hand in hand with productivity. When an employee experiences overall well-being, work is also more enjoyable and productive.

Fennia uses sustainable methods to increase the productivity of work. Internal motivation and its encouragement play a key role. Internal motivation is often based on the opportunity to influence how the work is carried out as well as on professional development, the meaningfulness of work and the sense of community at the workplace.

In the Fennia Group, personnel risks are identified with tools for management of operational risks.

Fennia Academy supports the personnel’s competence

Our personnel’s competence requirements are constantly changing. One of the cornerstones of Fennia’s operations has long been that our level of expertise is second to none. As our operating environment requires a faster pace, tools develop and work becomes more fragmented, competence must also be updated.

In 2017, an internal learning centre, the Fennia Academy, was established for the Group to support the development of the personnel’s competence. The Fennia Academy’s coaching offering includes both entirely new courses created for it and existing courses compiled and combined into a coordinated package. The coaching offering covers digital skills, for example.

Fennia participated in the Responsible Summer Job campaign for the fifth time

In 2017, Fennia was involved in the national Responsible Summer Job campaign for the fifth time. The aim of the campaign is to offer more higher quality summer jobs to young people and ensure a positive summer job experience.

In 2017, the campaign aimed to help young people to identify their strengths and develop their summer job seeking skills. In the study conducted as part of the campaign, providing feedback was identified as the employers’ most important area in need of development.

The Responsible Summer Job campaign challenges employers to offer more higher quality summer jobs to young people. The participating employers commit to six principles of a good summer job: a good application experience, meaningful work, introduction and guidance, fairness and equality, reasonable pay as well as a written contract and testimonial.

Fennia employed more than 50 young people throughout Fennia’s offices for the summer. Their tasks varied considerably, depending on their job, experience and strengths.

Anyone can make a suggestion

At Fennia, each employee, regardless of their position in the organisation, has a personal opportunity to influence the development of their work and work environment and the opportunity to make suggestions to improve the company’s operations.

The purpose of the suggestion activities is to collect suggestions and ideas systematically, assess their potential benefits and reward useful suggestions. One of the most important factors in the development of the company’s operations is the innovativeness of employees in matters concerning their own work and the company.

An employee suggestion is a proposal that reduces costs, increases returns, speeds up and simplifies Fennia’s services or increases the efficiency of working, or improves the operations of the company in some other way. In 2017, Fennia reviewed 160 employee suggestions.

Fennia was granted the “Finland’s Most Inspiring Workplaces” recognition for the results of its personnel survey

Fennia conducts a personnel survey each year, and the results are compared with the Finnish norm for clerical employees. In 2017, the response percentage was excellent, at 91%, as in previous years.

The company’s PeoplePower® rating, which provides an overall picture of the company’s internal state and its ability to meet internal and external challenges, is AA (Good). The result has developed positively during the past three years. The

Commitment, Leadership, Performance and Engagement indexes are on a par with the reference material.

Overall, there was no change in the work capacity index, and the result is at the same level as the average for Finnish companies employing clerical employees. However, there is considerable variation between Fennia's units. Management and supervisory work continue to be Fennia's most important strengths.

The most significant areas in need of development at Fennia are meeting customer expectations concerning the quality of services, strategy communication, trust in the management and future outlook as well as the efficiency of decision-making.

Corporate Spirit, the company that conducts the personnel surveys, granted Fennia the "Finland's Most Inspiring Workplaces" recognition as the PeoplePower rating improved to AA. At Fennia, the recognition is visible in both internal and external communications. The recognition is valid for a year.

Equality and equal opportunities

Fennia's equality policy is implemented in accordance with the Equality and Equal Opportunities Plan adopted in the Group. All employees are treated equally with respect to recruitment, employment conditions, working conditions, personnel training and career development. We have worked to promote equality and equal opportunities and raise awareness in our work community.

Personnel in 2017

Fennia

At the end of 2017, Fennia had a total of 896 permanent employees (928 in 2016) and 86 fixed-term employees (109 in 2016). At the end of the year, 467 of the permanent employees worked in the head office functions and 429 in the sales organisation.

The proportion of men of the entire personnel was 37 per cent and the proportion of women was 63 per cent. During 2017, a total of 80 employees were on long leaves (maternity, parental, child care, job alternation or study leave), while 39 employees were on part-time child care leave at the end of 2017. A total of 12 employees were on part-time pension or partial disability pension.

In 2017, the average age of Fennia employees was approximately 42 years, and the average service time was 12 years.

Approximately 37 per cent of employees had a vocational qualification or college-level degree, and 54 per cent had a university degree.

In 2017, a total of 62 new employees were employed permanently. The average age of the new Fennia employees was 36 years, and their most common educational background was a university degree, which was held by approximately 65 per cent of them.

During the year under review, a total of 129 permanent employment contracts ended. Of these, 17 were ended due to a transfer to another company within the Fennia Group, 83 due to resignation, 20 due to retirement and 9 due to other reasons. Voluntary employee turnover calculated on the basis of the employees who retired or resigned was approximately 11.5 per cent (7.5 per cent in 2016).

Time use at Fennia

Time use is assessed on the basis of theoretical working time, which means that the actual working hours are reduced by various paid and unpaid leaves. Of the theoretical working time, 78.5 per cent was spent in actual work and the rest was accounted for by training, holidays and absences due to illness or other reasons.

The total number of hours worked overtime was 12,350.25, which is approximately 12.6 hours per person a year, calculated based on the number of permanent and fixed-term employees.

Time use	**2017**		**2016**	
	Working hours	%	Working hours	%
Actual working hours	1,483,015	78.5 %	1,469,208	77.2 %
Training *	2,069	0.1 %	3,426	0.2 %
Annual leave or similar	249,026	13.2 %	260,672	13.7 %

Illness, accident	55,383	2.9 %	66,351	3.5 %
Family reason **	69,776	3.7 %	72,872	3.8 %
Other reason ***	30,058	1.6 %	31,486	1.7 %
Theoretical working time	1,889,327	100.0 %	1,904,015	100.0 %

* The hours spent on training do not include time spent on online learning.

** Family reason = maternity, paternity and parental leaves, child care leaves and a child's illness.

*** Other reason = e.g. unpaid absence and study leave.

Fennia Life

At the end of 2017, Fennia Life employed a total of 61 people (60 in 2016), of whom 59 were permanent employees and two fixed-term employees. During 2017, seven of them were on long leaves (maternity, parental, child care, job alternation or study leave). Of the employees, 35 were women and 26 were men. The average age of permanent employees was approximately 44 years, and the average service time, taking into account service time in the entire Group, was approximately nine years.

Fennia Asset Management

At the end of 2017, Fennia Asset Management employed a total of 31 people (11 in 2016), of whom 30 were permanent employees and one had a fixed-term contract. The gender distribution of employees was almost equal: 15 of the employees were men and 16 were women. The average age of employees was 42 years.

Did you know this

- The Fennia Group became a smoke-free workplace in 2017. We believe that by encouraging our employees to quit smoking and by providing a smoke-free workplace we can contribute to their health as well as their coping and well-being at work.
- Every year when Christmas approaches, we ask our personnel to which charity we should donate the money reserved for Christmas presents. In 2017, based on a vote, the money was donated to Cancer Foundation Finland. It will use the donated funds to support Finnish cancer research.

Finance and solvency

Fennia is a significant operator in the Finnish non-life insurance and financing system. We contribute to the process of providing Finnish companies and private persons with financial security by enabling an efficient distribution of risks between various actors.

One of the key aspects of our financial responsibility is to ensure that our products meet the needs of our customers. When selling, we make sure that the solution proposed meets the customer's needs in an appropriate and cost-effective way.

As a mutual insurance company, Fennia's most important financial task is to take care of solvency. As long as our solvency is strong, we can fulfil the promises that we have made to our customers and partners. Some of our promises have a long life span, such as lifelong pensions paid under statutory accident insurance, or involve a large amount of money, such as compensation paid under fire insurance taken out for an industrial plant.

The key elements of our solvency are the prices charged for our insurance, our reinsurance arrangements and the investing of our assets in the financial markets. In terms of taking care of our solvency, high-quality risk management is key to our operations. We see to this ourselves, but as our business requires authorisation, the Financial Supervisory Authority also helps to ensure that the interests of the insured are appropriately secured. We bear part of the same responsibility for securing consumers' position as the authorities that supervise and regulate our operations.

Insurance premiums must cover compensations paid to our customers for insured events and our operating expenses and sufficiently accrue our solvency buffer for uncertainties relating to long-time liabilities. These uncertainties include any changes in life expectancies and uncertainties relating to the investment markets.

In our investment activities, our aim is to achieve steady returns by means of moderate risk-taking. Our goal setting seeks primarily to ensure our ability to meet our long-term obligations, and secondarily we aim at the highest return possible in the long term at our set level of risk-taking.

Responsible investments

Fennia Asset Management committed to the UN's Principles for Responsible Investment (PRI) in 2017. The main starting point for the commitment is that Fennia Asset Management promotes responsible investment by supporting and investing in companies that operate responsibly. Fennia Asset Management is also a member of Finland's Sustainable Investment Forum (FINSIF).

Fennia Asset Management combines responsible investment and its clients' responsibility aspects in a manner that links responsibility with the highest return possible and the best security and risk management.

Environmental well-being is everyone’s business

Our stakeholders value our consideration for environmental well-being, contribution to mitigating climate change and, above all, our material- and energy-efficient operations.

Our environmental responsibility includes promoting and seeking solutions that place less of a burden on the environment. We can affect the amount of loading in many ways through our choices, awareness raising and the formulation of our services.

At the Fennia Group, the carbon footprint is reduced by workspace efficiency, remote working, video conferences, the digitalisation of customer services and good availability of the systems, paperless services in insurance, consideration given to material- and energy-efficiency aspects with co-operation partners and service providers, recycling and optimised energy use in our premises.

We also inform our customers and other stakeholders of how we develop our insurance, investment and financing products and the related services, with the objective of making them more environmentally friendly and providing the best customer experience.

In our non-life insurance business, we secure the financial security of our customers while producing a positive impact on the environment through proactive action preventing fire damage, for example.

Did you know this

- The mitigation of climate change requires changes in the practices of both society and people, but also in our practices as a company. The Fennia Group continues to develop its customer service and switch to paperless service processes. We have informed our personnel and customers how the transition to the Oma Fennia web service and e-invoicing will be reflected in their work and customers’ daily lives. If insurance documents are sent by mail, the annual number of printouts may be as high as dozens of sheets per customer.

- We gave up mixed waste bins in the context of the transfer of the Fennia Group’s head office in April 2017. We encourage our personnel to improve waste sorting, and increase guidance on environmental responsibility at the Group’s workplaces.

- Our experts use the Kompassi service which enables us to easily conduct risk surveys with customers, for example. This way our customers can make certain that the necessary measures have been taken to prevent fires in their properties. In a fire, carbon dioxide is released from wood and soot particles are emitted. These both warm the atmosphere. In addition, the demolition and reconstruction of buildings damaged by fire produce waste. Proactive action and loss prevention in co-operation with our customers are thus environmentally friendly measures.

- Fennia Prize is a design competition for companies. Fennia has been involved in its establishment and as a co-operation partner since 1990, when the prize was awarded for the first time. The individual Fennia Prizes are awarded to companies in recognition of the comprehensive and innovative use of design for creating and realising products, services and business concepts, and in product development, manufacturing and corporate image issues. The competition has highlighted innovations that reduce the carbon footprint, energy or water consumption, improve well-being at work and promote the productivity and safety of health care. Fennia Prize is one of the largest design competitions in Finland. It is organised every other year by the promotion organisation of Finnish design, Design Forum Finland, as well as Fennia and Elo. Fennia Prize 2017 was part of the Finland 100 Programme.

Report of the board of directors

Fennia Mutual Insurance Company's result for the year 2017 was good. The risk ratio improved on the comparison year, and investment operations were successful. In the financial statements, the underwriting result includes a few non-recurring items, which increased the company's combined ratio.

Insurance business

Premiums written for non-life insurance before the reinsurers' share amounted to EUR 394 million (EUR 417 million). Direct insurance premiums written decreased to EUR 393.3 million (EUR 417.0 million). Premiums written for reinsurance assumed amounted to EUR 0.4 million (EUR 0.3 million). Credit losses amounted to EUR 1.4 million (EUR 2.0 million).

The company lowered the technical rate of interest used in the discounting of technical provisions to 1.5 per cent (2.0%). As a result, the technical provisions and claims incurred grew by EUR 52 million. Other changes in the bases for calculating the technical provisions were also implemented during the financial year, resulting in a reduction of just under EUR 52 million in the technical provisions and claims incurred. In addition, the lowering of the discount rate led to an increase in subrogation receivables for accident insurance, which in turn reduced the compensation recovered by EUR 1.6 million. These changes in the bases for calculating the technical provisions improved the company-level risk and loss ratio by 0.3 percentage points for the financial period. The changes made in the calculation bases in the comparison year increased the technical provisions by EUR 20 million, which weakened the risk and loss ratio during that year by 4.8 percentage points.

The company's operating expenses decreased to EUR 100 million (EUR 103 million). The company recorded EUR 13.1 million in information system investment write-offs in its financial statements, of which EUR 6.4 million related to claims handling expenses. This non-recurring, extraordinary item weakened the company's operating expense ratio by 3.3 percentage points.

The company's combined ratio excluding unwinding of discount was 96.6 per cent (100.9%). The company's combined ratio excluding changes in the calculation bases and the information system write-offs declined and was 93.6 per cent (94.7%), with claims (risk ratio) accounting for 61.4 per cent (62.2%) and operating expenses and claims handling expenses (operating expense ratio) for 32.2 per cent (32.5%).

Premiums written for statutory accident insurance (workers' compensation) remained at the previous year's level of EUR 82 million. The profitability of the insurance line improved significantly, and the comparable loss ratio decreased to 73 per cent (89%). Premiums written for other accident and health insurance decreased by 2 per cent to EUR 44 million (EUR 45 million). Although persistent risk-based pricing has improved the line's loss ratio for several years, the loss ratio for the insurance line now weakened slightly to 81 per cent (76%).

Premiums written for motor liability insurance decreased to EUR 67 million (EUR 78 million). The considerable reduction in premiums written results in particular from increasing competition relating to no-claims bonuses in the markets. In October, the company launched a new motor liability insurance product which provides the highest maximum no-claims bonus on the market. This novelty clearly boosted the sales of motor liability insurance policies. Despite the tightening competition, the loss ratio of the insurance line remained very good, at 55 per cent (55%). With the development of motor liability insurance, premiums written for voluntary motor vehicle insurance decreased to EUR 71 million (EUR 77 million). Unlike motor liability insurance, the result for voluntary motor vehicle insurance was weak. The loss ratio was an unsatisfactory 77 per cent (78%).

Premiums written for fire and other property insurance for companies amounted to EUR 44 million (EUR 46 million). The 4 per cent drop in premiums written can be explained by the difficult economic outlook. The financial period saw the largest fire loss in our entire history. Premiums written for home insurance, including liability and legal components, also decreased by 3 per cent to EUR 49 million (EUR 50 million). The loss ratio for the business sector grew in these lines, whereas the loss ratio for households even improved slightly.

Investments

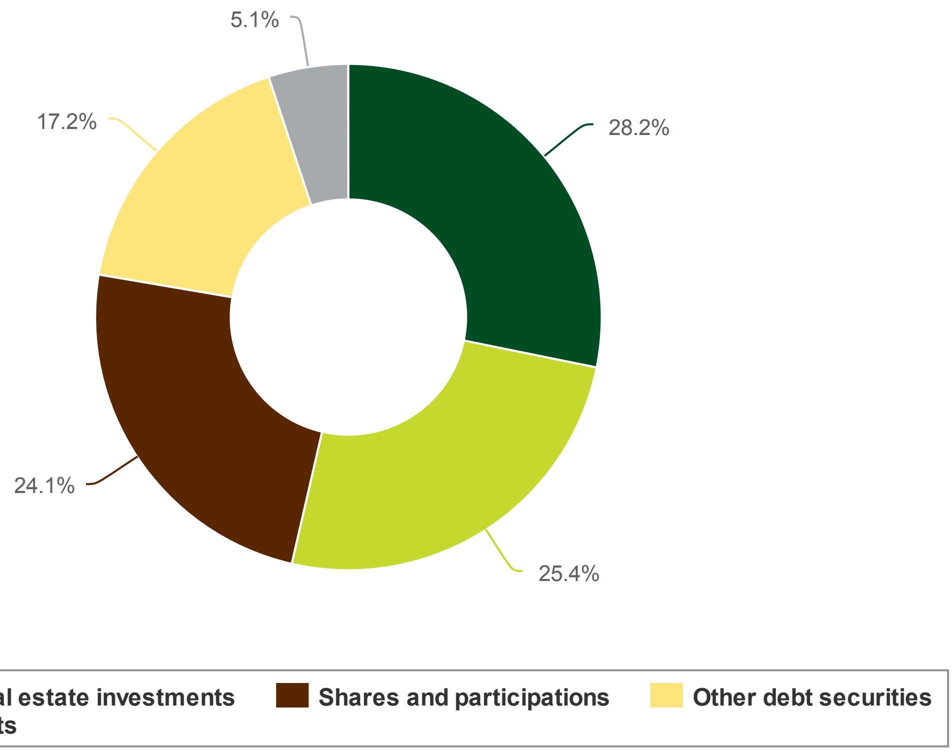
The company's return on investments at current values amounted to EUR 79 million (EUR 42 million), i.e. 4.7 per cent (2.7%) on the invested capital. The company's net income from investments was EUR 59 million (EUR 17 million).

At year-end, the current value of the company's investments stood at EUR 1,706 million (EUR 1,618 million). Bonds and long-term fund investments accounted for 28 per cent of the investment portfolio, and money market investments and deposits for

17 per cent. Shares, equity fund investments and private equity funds accounted for 24 per cent, real estate investments for 25 per cent and other investments for 5 per cent.

Fennia, parent company investment portfolio 31.12.2017 EUR 1.706 million (EUR 1.618 million)

Return on investment 4.7% (2.7%)



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. The other Group companies made the necessary amendments approved by the Financial Supervisory Authority to their Articles of Association to enable the above-mentioned activities.

Result

The company's operating profit was EUR 61.2 million (EUR 0.1 million). The technical underwriting result continued to develop favourably. The growth in operating profit was particularly influenced by higher gains on the realisation of investments than in the comparison year. In addition, the technical underwriting result in the comparison year was burdened by the change in the calculation bases for technical provisions, which lowered the operating profit by EUR 20 million.

The company's equalisation provision grew by EUR 30 million to EUR 312 million (EUR 281 million).

Administration and staff

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

The Board of Directors held a total of 12 meetings during the year under review. The attendance rate of the members was 90 per cent.

Antti Kuljukka, Group CEO, acted as Managing Director.

The company employed an average of 892 people (935) in 2017.

Remuneration

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

In line with the 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 during the period if the company's financial position is jeopardised or if the circumstances have otherwise changed considerably. Remuneration decisions are made according to the 'one above' principle; i.e. the person making the decision is the supervisor of the supervisor of the employee in question.

Group structure

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

eFennia was consolidated to the consolidated financial statements. Fennia owns 20 per cent of the company and holds 63.6 per cent of the voting rights. The Group also includes Fennia Asset Management Ltd, which is wholly owned by Fennia Life.

At the end of 2017, the Group also included 26 real estate companies, 12 of which belonged to the Fennia Life subgroup. The associated undertaking Uudenmaan Pääomarahasto Oy was also consolidated to the Group.

Consolidated Financial Statements

The Group's life insurance business's operating profit was EUR 21 million (EUR 11 million). Life insurance premiums written amounted to EUR 167 million (EUR 207 million). Claims paid totalled EUR 104 million (EUR 90 million). Operating expenses for life insurance were EUR 15 million (EUR 14 million). The expense ratio (of expense loading) decreased and was 103.6 per cent (103.9%).

Fennia Life decreased the interest rate supplement reserved previously by EUR 11 million. A sum of EUR 3.8 million was reserved for future bonuses.

Fennia Asset Management's profitability improved, and the company's profit for the financial year was EUR 1.0 million (EUR 0.8 million). The amount of external client assets managed by the company grew and amounted to EUR 242 million (EUR 192 million) at the end of the year. 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.

The Group's operating profit was EUR 82 million (EUR 11 million). The growth in operating profit was mainly due to the improvement of the balance on technical account, investment income and the subsidiary's result. Net investment income amounted to EUR 128 million (EUR 106 million), of which unit-linked insurances accounted for EUR 55 million (EUR 63 million).

The Group's non-restricted capital and reserves stood at EUR 329 million (EUR 289 million).

Risk management and solvency management

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

The steering of the risk management system is based on a three-defence-line model, which is described in more detail in the note concerning risk management. 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 plans approved by the Boards of Directors, which determine, among other things, the allocation of investments and the rights and responsibilities of those involved in investment activities. The companies' risk-bearing capacity is taken into account in determining investment allocation.

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

Statement of non-financial information

Fennia will publish a separate statement of non-financial information simultaneously with the report of the Board of Directors. The report will be published on Fennia's website www.fennia.fi.

Solvency and Financial Condition Report

Fennia's, Fennia Life's and Fennia Group's Solvency and Financial Condition Reports will be published on Fennia's website www.fennia.fi on 15 June 2018 at the latest.

Outlook for the current year

The companies belonging to the Fennia Group are expected to report strongly positive results for 2018. We expect the combined ratio for non-life insurance to weaken slightly from the 2017 level. The result for life insurance is expected to be on a par with 2017. The impact of asset management by Fennia Asset Management on its result will remain low.

However, the investment result may differ significantly from the estimate if the market outlook changes. The current discussion on plans concerning the taxation of savings products may weaken demand for such products.

Fennia's Board of Directors has decided to establish a subsidiary called Fennia-palvelu Oy. The purpose of the subsidiary is to offer value added services to current and potential insurance customers. The value added services will improve the management of risks relating to customers' financial security. Fennia has submitted a notification on ancillary activities to the Financial Supervisory Authority and updated its Articles of Association with respect to ancillary activities.

Profit and Loss Account

1,000 €	Group 2017	Group 2016	Parent Company 2017	Parent Company 2016	Note
Technical Account					2
Non-life insurance					
Premiums earned					
Premiums written	393,675	417,353	393,675	417,353	1
Reinsurers' share	-5,898	-4,975	-5,898	-4,975	
	387,776	412,378	387,776	412,378	
Change in the provision for unearned premiums	8,634	-228	8,634	-228	
Premiums earned in total	396,411	412,150	396,411	412,150	
Claims incurred in total					
Claims paid	-295,199	-287,023	-295,199	-287,023	
Reinsurers' share	795	1,391	795	1,391	
	-294,404	-285,631	-294,404	-285,631	
Change in the provision for outstanding claims	-19,763	-43,179	-19,763	-43,179	
Reinsurers' share	19,475	2,998	19,475	2,998	
	-289	-40,181	-289	-40,181	
Claims incurred in total	-294,693	-325,812	-294,693	-325,812	
Net operating expenses	-100,229	-103,395	-100,418	-103,395	4
Balance on technical account before the change in equalisation provision	1,489	-17,058	1,300	-17,058	
Change in equalisation provision	-30,467	-12,993	-30,467	-12,993	
Balance on technical account	-28,978	-30,051	-29,167	-30,051	
Technical Account					
Life insurance					
Premiums written					
Premiums written	166,687	207,062			
Reinsurers' share	-960	-1,181			
Premiums written in total	165,728	205,881			
Share of net investment income	68,576	88,699			
Other technical underwriting income					
Claims incurred in total					
Claims paid	-104,438	-90,640			
Reinsurers' share	219	350			
Change in the provision for outstanding claims	-3,252	-11,502			
Portfolio transfer					
Claims incurred in total	-107,471	-101,792			
Change in the provision for unearned premiums	-96,099	-170,619			
Portfolio transfer					
Net operating expenses	-14,798	-13,804			
Balance on technical account	15,936	8,365			

Non-Technical Account					
Balance on technical account, non-life insurance	-28,978	-30,051			
Balance on technical account, life insurance	15,936	8,365			
Investment income	167,200	162,029	109,639	78,244	6
Revaluations on investments	49,813	56,280			
Investment charges	-80,801	-109,271	-50,272	-61,475	6
Revaluation adjustments on investments	-8,278	-2,900			
	127,933	106,138	59,367	16,769	
Transfer of part of net investment income	-68,576	-88,699			
Other income					
Income from investment services operations	3,732	2,910			
Other	1,428	1,641	25	21	
	5,161	4,551	25	21	
Other charges					
Investment charges	-4,231	-2,090			
Other	-469	-1,038	515	340	
	-4,700	-3,128	515	340	
Profit/loss on ordinary activities	46,776	-2,825	30,740	-12,920	
Share of associated undertakings' loss/profit	51	-480			
Profit/loss before appropriations and tax	46,827	-3,305	30,740	-12,920	
Appropriations					
Change in depreciation difference			-283	49	
Tax on profit					
Tax for the financial year	-6,875	-2,223	-3,693	-191	
Tax from previous periods	310	531	-388	568	
Deferred tax	206	1,277			
	-6,359	-416	-4,081	378	
Minority interests	-449	-325			
Profit/loss for the financial year	40,020	-4,046	26,376	-12,494	

Balance Sheet

1,000 €	Group 2017	Group 2016	Parent Company 2017	Parent Company 2016	Note
ASSETS					
Intangible assets					
Other long-term expenses	46,719	58,183	43,541	54,348	13
Goodwill	1,685	1,925			
Advance payments	12,230	14,667	11,795	13,865	13
	60,634	74,776	55,336	68,213	
Investments					7
Real estate investments					
Land and buildings and real estate shares	361,854	333,449	162,000	131,880	8
Investment loans to affiliated undertakings			122,565	124,818	8
Loans to associated undertakings	1,843	1,843			
	363,698	335,293	284,565	256,698	
Investments in affiliated and associated undertakings					
Shares and participations in affiliated undertakings			53,220	53,229	9
Shares and participations in associated undertakings	2,070	2,909			9
	2,070	2,909	53,220	53,229	
Other investments					
Shares and participations	1,172,955	862,918	874,204	594,443	12
Debt securities	488,384	808,548	193,967	472,418	
Loans guaranteed by mortgages	32,865	25,892	30,010	22,987	
Other loans	37,127	31,421	36,335	30,646	10
Deposits	1,000	4,000	1,000	2,000	
	1,732,330	1,732,779	1,135,517	1,122,494	
Deposits with ceding undertakings	28	30	28	30	
Total investments	2,098,126	2,071,011	1,473,329	1,432,451	
Investments covering unit-linked insurances	1,015,618	900,910			
Debtors					
Arising out of direct insurance operations					
Policyholders	70,579	75,728	70,179	74,834	
Arising out of reinsurance operations	960	809	823	459	
Other debtors	81,670	92,225	73,820	80,655	
Deferred tax receivables	649	638			
	153,858	169,400	144,822	155,948	
Other assets					
Tangible assets					
Machinery and equipment	8,336	6,024	7,960	5,705	13
Stocks	306	306	293	293	
	8,642	6,329	8,253	5,998	
Cash at bank and in hand	108,595	66,250	62,480	37,853	
	117,237	72,579	70,732	43,851	
Prepayments and accrued income					
Interest and rents	7,164	11,458	1,777	5,777	
Other	18,679	18,854	15,682	16,235	
	25,844	30,312	17,459	22,013	
	3,471,316	3,318,987	1,761,678	1,722,476	

1,000 €	Group 2017	Group 2016	Parent Company 2017	Parent Company 2016	Note
LIABILITIES					
Capital and reserves					16
Initial fund	7,703	7,703	7,703	7,703	
Revaluation reserve	583	885	583	885	
Security reserve	251,798	264,291	251,798	264,291	
At the disposal of the Board	59	59	59	59	
Profit brought forward	36,699	28,251			
Profit for the financial year	40,020	-4,046	26,376	-12,494	
	336,861	297,142	286,519	260,444	
Appropriations					
Accumulated depreciation difference			1,334	1,051	
Minority interests	1,822	1,709			
Technical provisions					
Non-life insurance: Provision for unearned premiums	126,297	134,931	126,297	134,931	
Life insurance: Provision for unearned premiums	468,716	485,309			
Non-life insurance: Claims outstanding	1,023,595	1,003,832	1,023,595	1,003,832	
Reinsurers' share	-28,903	-9,428	-28,903	-9,428	
	994,692	994,404	994,692	994,404	
Life insurance: Claims outstanding	154,139	152,738			
Equalisation provision, non-life insurance	311,784	281,317	311,784	281,317	
Technical provisions in total	2,055,628	2,048,699	1,432,773	1,410,652	
Technical provisions for unit-linked insurances	1,017,761	903,219			
Creditors					
Arising out of reinsurance operations	3,330	1,987	2,592	1,088	
Other creditors	20,665	21,493	16,774	17,103	
Deferred tax	7,369	7,564			
	31,364	31,044	19,366	18,191	
Accruals and deferred income	27,881	37,174	21,687	32,138	
	3,471,316	3,318,987	1,761,678	1,722,476	

Parent Company Cash Flow Statement

Indirect cash flow statement

EUR 1,000	2017	2016
Cash flow from business operations		
Profit on ordinary activities	26,659	-12,543
Adjustments		
Change in technical provisions	22,121	53,402
Value adjustments and revaluations on investments	15,775	14,414
Depreciation according to plan	27,544	18,847
Other	-51,401	-8,759
Cash flow before change in net working capital	40,698	65,361
Change in net working capital:		
Increase/decrease in non-interest-earning receivables	13,535	-1,749
Increase/decrease in non-interest-earning payables	-7,453	4,043
Cash flow from business operations before financial items and taxes	46,781	67,655
Interest paid on other financial expenses from operations	-111	-207
Taxes	-1,462	-8,294
Cash flow from business operations	45,207	59,154
Cash flow from capital expenditures		
Capital expenditure on investments (excl. funds)	-61,184	-47,841
Capital gain from investments (excl. funds)	55,593	8,589
Investments and income from the sale of tangible and intangible assets and other assets (net)	-14,990	-16,298
Cash flow from capital expenditures	-20,581	-55,550
Cash flow from financing		
Dividends paid/Interest paid on guarantee capital and other profit distribution	-	-
Change in funds	24,627	3,604
Funds on 1 Jan.	37,853	34,249
Funds on 31 Dec.	62,480	37,853
	24,627	3,604

Notes to the accounts

ACCOUNTING PRINCIPLES

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

Book value of investments

Buildings and structures are presented in the balance sheet at the lower of acquisition cost less the planned depreciation or current value. Real estate shares and land and water areas are presented at the lower of acquisition cost or current value. Planned depreciation is made on revaluations entered as income arising from buildings.

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

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

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

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

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

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

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

Book value of assets other than investments

Other long-term expenses which have been capitalised are basic renovation expenses for real estate and planning expenses for information systems and, in addition, goodwill has been capitalised in the balance sheet. Those expenses, as well as equipment, are entered in the balance sheet at acquisition cost less planned depreciation. Impairment write-offs are recorded on the capitalisation of information systems if the capitalisation can no longer be considered to produce income in the future. 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. Receivables that, on the basis of experience from previous years, are likely to expire have been deducted from the par value of premium receivables, resulting in their probable value. Receivables that are likely to remain unsettled are entered as a credit loss.

Depreciation according to plan

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

Computer software	3–7 years
Planning expenses for information systems	5–10 years
Other long-term expenses	5–10 years
Goodwill	10 years
Business and industrial premises and offices	20–75 years
Components in buildings	10–20 years
Vehicles and computer hardware	3–5 years
Office machinery and equipment	7 years

Revaluations on investments

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

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

Current value of investments

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

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

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

Derivative contracts are valued 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. Currency conversion differences on the technical account have not been transferred to the investment income/charges in the profit and loss account. This has no impact on the profit and loss account, giving a true and fair view of the results.

Staff pension schemes

Pension insurance cover has been arranged for the staff of the Group companies by means of TyEL insurance with Elo Mutual Pension Insurance and 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.

Appropriations and treatment of deferred tax

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

In the consolidated financial statements, the depreciation difference is divided into the change in deferred tax and share of profit/loss for the financial year, and deferred tax and share of capital and reserves. The rate of tax used is 20 per cent.

Non-life insurance: Claims outstanding

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

Due to the decreased interest rate level, the company decided at the end of the financial year to lower the technical rate of interest used in the discounting of technical provisions from 2.0 per cent to 1.5 per cent. At the same time, certain collectively calculated items of technical provisions were changed. The change in the provision for claims outstanding by line of insurance was as follows:

statutory accident insurance	EUR -12.5 million
motor liability insurance	EUR 21.0 million
other accident or health insurance	EUR -6.7 million
motor vehicle insurance	EUR -1.3 million

The increase in the provision for claims outstanding arising from the change in the discount rate for statutory accident insurance reduced the compensation recovered through subrogation by EUR 1.6 million.

The provision for outstanding claims pertaining to annuities is calculated by discounting, applying an interest rate of 1.5 per cent (2.0%). Discounting is not applied to other parts of the provision for outstanding claims.

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

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

Technical provisions in life insurance

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

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

– For individual life and pension insurance, the technical rate of interest applied is between 1 and 4.5 per cent, depending on the starting date of the insurance. For new 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’s consolidated financial statements include the parent company and all the subsidiaries in which the parent company either directly or indirectly holds more than half of the voting rights. Fennia Life Insurance Company Ltd belongs to the Fennia Group as a subsidiary. The financial statements of Fennia Life and its subsidiaries are consolidated with the Group’s financial statements on the basis of the consolidated financial statements of the Fennia Life sub-group. eFennia Oy (holding 20 per cent, voting rights 63.6 per cent) is a subsidiary of Fennia and Fennia Asset Management Ltd is a subsidiary of Fennia Life (holding 100 per cent). The other subsidiaries included in the consolidated financial statements are real estate companies. At the end of 2017, the Group had 26 real estate companies, 12 of which belonged to the Fennia Life sub-group.

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

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

The companies in which the Group holds 20–50 per cent of the voting rights have been included in the consolidated financial statements as associated undertakings using the equity method of accounting. However, holdings (20–50 per cent) in mutual real estate undertakings and property companies are not included. In late 2017, two joint ventures were transferred to the ownership of the Group. These were not included in the consolidated financial statements as associated undertakings on 31 December 2017. This has no significant impact on the Group’s results and capital and reserves.

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

Real estate from Fennia, Fennia Life and Etera Mutual Pension Insurance Company was transferred into Fennica Properties I as a distribution in kind at its establishment in 2013. The transfer was recorded in the Group’s result for 2013 as EUR 12 million in capital gains. Fennia and Fennia Life have not made any further subscriptions to the fund since its establishment. The profit sharing paid by the fund is entered in the company’s investment income at the moment of payment. The profit sharing paid by the fund (EUR 3.2 million in 2017 and a total of EUR 6.1 million in previous years) based on the result, is entered in the companies' investment income at the moment of payment. The current value of the units of Fennica Properties I special investment fund in the consolidated financial statements was EUR 40.9 million. On 31 December 2017, Fennia Group's participating interest in the fund was 23 per cent.

Real estate from Fennia was transferred into Fennica Building Plot Fund as a distribution in kind at its establishment in 2017. The transfer was recorded in the Group's result for 2017 as EUR 2.8 million in capital gains. In addition, Fennia sold real estate to the fund, and the sale was recorded in the Group's result as EUR 0.6 million in capital gains. The fund has not paid any profit sharing. The current value of the units of Fennica Building Plot Fund in the consolidated financial statements was EUR 14.5 million. On 31 December 2017, Fennia Group's participating interest in the fund was 34 per cent.

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

Group companies

The following subsidiaries are included in the consolidated financial statements

eFennia Oy
Asunto Oy Espoon Myllynkivi
Asunto Oy Helsingin Vattuniemenkuja 8
Asunto Oy Helsingin Viikinportti
Asunto Oy Keravan Jaakonkulma
Kiinteistö Oy Eagle Lahti
Kiinteistö Oy Joensuun Metropol
Kiinteistö Oy Kyllikinportti 2
Kiinteistö Oy Ruosilantie 4-6
Kiinteistö Oy Ruosilantie 11
Kiinteistö Oy Televisiokatu 1
Kiinteistö Oy Televisiokatu 3
Kiinteistö Oy Tampereen Rautatienkatu 21
Kiinteistö Oy Tampereen Ratapihan kulma
Kiinteistö Oy Vantaan Kaivokselantie 9

Fennia Life Insurance Company

Subsidiaries

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

Associated undertakings included in the consolidated financial statements

Uudenmaan Pääomarahasto Oy

Notes to the Accounts, Parent Company

Notes to the Profit and Loss Account and Balance Sheet

1. Premiums written

EUR 1,000	2017	2016
Non-life insurance		
Direct insurance		
Finland	393,284	417,016
Reinsurance	390	338
Gross premiums written before reinsurers’ share	393,675	417,353

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

Group of insurance class	Year	Gross premiums written before reinsurers' share	Gross premiums earned before reinsurers' share	Claims incurred before reinsurers' share	Operating expenses before reinsurers' commissions and profit participation	Reinsurance balance	Balance on technical account before the change in collective item and equalisation provision
Statutory accident insurance (workers' compensation)	2017	81,962	81,934	-52,975	-12,814	-245	15,900
	2016	82,392	82,307	-96,523	-13,395	-296	-27,908
	2015	88,750	88,851	-91,313	-11,724	-328	-14,513
Non-statutory accident and health	2017	44,244	44,731	-29,573	-11,766	-110	3,281
	2016	45,165	43,952	-33,514	-12,132	-121	-1,815
	2015	43,612	41,888	-34,223	-10,924	-118	-3,377
Motor liability	2017	67,149	72,379	-65,682	-20,353	-278	-13,934
	2016	78,334	79,411	-52,898	-21,784	-266	4,462
	2015	81,695	80,207	-60,787	-20,482	-510	-1,573
Motor, other classes	2017	71,433	73,915	-55,756	-21,217	-27	-3,085
	2016	76,916	76,800	-60,266	-20,968	81	-4,353
	2015	76,385	74,488	-51,252	-19,243	-245	3,748
Fire and other damage to property	2017	84,207	85,250	-82,895	-22,076	15,460	-4,262
	2016	86,505	86,435	-63,152	-22,790	-647	-154
	2015	87,941	86,577	-56,028	-21,349	-2,150	7,050
General liability	2017	20,699	19,975	-12,289	-5,377	332	2,642
	2016	23,470	23,553	-12,811	-5,382	1,563	6,923
	2015	26,107	25,717	-21,564	-5,061	-477	-1,384
Other	2017	23,591	23,727	-15,646	-6,840	-579	663
	2016	24,233	24,333	-10,816	-7,034	-662	5,821
	2015	24,534	24,191	-13,529	-6,633	-732	3,297
DIRECT INSURANCE TOTAL	2017	393,284	401,911	-314,816	-100,444	14,554	1,205
	2016	417,016	416,790	-329,980	-103,485	-348	-17,022
	2015	429,024	421,919	-328,696	-95,416	-4,559	-6,752
Reinsurance	2017	390	398	-146	-157	0	95
	2016	338	335	-221	-149	0	-36
	2015	405	411	-477	-158	0	-224
TOTAL	2017	393,675	402,309	-314,962	-100,601	14,554	1,300
	2016	417,353	417,125	-330,202	-103,634	-348	-17,058
	2015	429,429	422,330	-329,173	-95,574	-4,559	-6,976
Change in equalisation provision	2017						-30,467
	2016						-12,993
	2015						-44,150
BALANCE ON TECHNICAL ACCOUNT	2017						-29,167
	2016						-30,051
	2015						-51,125

3. Items deducted from premiums written

EUR 1,000	2017	2016
Credit loss on outstanding premiums	1,417	1,978
Pay-as-you-go premiums	25,877	25,651
Premium tax	66,193	70,131
Fire brigade charge	899	925
Traffic safety charge	671	885
Industrial safety charge	1,386	1,414
	96,443	100,984

4. Operating expenses

EUR 1,000	2017	2016
Total operating expenses by activity		
Claims paid	40,303	36,139
Net operating expenses	100,418	103,395
Investment charges	4,356	5,722
Other charges	-516	-395
Total	144,562	144,861
Depreciation according to plan by activity		
Claims paid	10,908	5,158
Net operating expenses	14,241	10,852
Investment charges	464	617
Total	25,613	16,627
Operating expenses in the Profit and Loss Account		
Policy acquisition costs		
Direct insurance commissions	9,311	10,618
Commissions on reinsurance assumed and profit sharing	47	39
Other policy acquisition costs	47,848	42,791
	57,205	53,449
Policy management expenses	23,800	30,632
Administrative expenses	19,595	19,553
Commissions on reinsurance ceded and profit sharing	-182	-239
Total	100,418	103,395

5. Staff expenses, personnel and executives

EUR 1,000	2017	2016
Staff expenses		
Salaries and commissions	51,313	56,690
Pension expenses	9,019	11,919
Other social expenses	5,259	6,228
Total	65,591	74,838
Executives' salaries and commissions		
Managing Director and substitute for the Managing Director	804	777
Board of Directors	237	209
Supervisory Board	51	51
	1,092	1,037
The age of retirement of the Managing Director is defined according to TyEL		
Average number of personnel during the financial year	892	935
Auditors' commissions		
Audit	68	58
Tax consulting	4	6
Other services	4	4
	76	68

Other than audit services provided for the companies in the Fennia Group by KPMG Oy Ab in the financial year was EUR 34,367.11. The services comprised tax services EUR 18,905.33 and other services EUR 15,461.78.

6. Net investment income

EUR 1,000	2017	2016
Investment income		
Income from investments in affiliated undertakings		
Dividend income	1,584	120
Interest income		
Income from investments in land and buildings	1,584	120
Interest income		
From affiliated undertakings	2,265	2,072
Other income		
From affiliated undertakings	198	281
From other undertakings	15,111	18,251
	17,574	20,605
Income from other investments		
Dividend income	12,781	9,691
Interest income	7,628	10,597
Other income	1,372	1,567
	21,781	21,855
Total	40,939	42,580
Value readjustments	5,563	9,620
Gains on realisation of investments	63,137	26,044
TOTAL	109,639	78,244
Investment charges		
Charges arising from investments in land and buildings		
To affiliated undertakings	-9,152	-8,861
To other undertakings	-5,604	-2,772
	-14,756	-11,633
Charges arising from other investments	-4,592	-5,925
Interest and other expenses on liabilities		
To other undertakings	-111	-207
	-111	-207
Total	-19,459	-17,765
Value adjustments and depreciations		
Value adjustments on investments	-21,338	-24,034
Planned depreciation on buildings	-1,931	-2,220
	-23,268	-26,254
Losses on realisation of investments	-7,544	-17,455
TOTAL	-50,272	-61,475
Net investment income on the Profit and Loss Account	59,367	16,769

7. Current value and valuation difference on investments

EUR 1,000	Investments 31 Dec. 2016 Remaining acquisition cost	Investments 31 Dec. 2016 Book value	Investments 31 Dec. 2016 Current value	Investments 31 Dec. 2015 Remaining acquisition cost	Investments 31 Dec. 2015 Book value	Investments 31 Dec. 2015 Current value
Real estate investments						
Real estate	14,362	16,770	71,602	18,098	27,684	78,046
Real estate shares in affiliated undertakings	62,493	62,493	103,059	86,016	88,816	126,964
Real estate shares in associated undertakings	57,717	57,717	59,781	10,183	10,183	15,932
Other real estate shares	24,935	25,020	26,003	5,028	5,197	6,507
Investment loans to affiliated undertakings	122,565	122,565	122,565	124,818	124,818	124,818
Investments in affiliated undertakings						
Shares and participations	53,220	53,220	59,194	53,229	53,229	59,203
Other investments						
Shares and participations	874,204	874,204	937,725	594,443	594,443	638,363
Debt securities	193,967	193,967	191,936	472,418	472,418	475,386
Loans guaranteed by mortgages	30,010	30,010	30,010	22,987	22,987	22,987
Other loans	36,335	36,335	36,335	30,646	30,646	30,646
Deposits	1,000	1,000	1,000	2,000	2,000	2,000
Deposits with ceding undertakings	28	28	28	30	30	30
	1,470,836	1,473,329	1,639,238	1,419,897	1,432,451	1,580,883
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 (-)	-6,885			-18,954		
Book value comprises						
Revaluations entered as income		1,859			8,818	
Other revaluations		634			935	
		2,493			9,754	
Valuation difference (difference between current value and book value)			165,909			148,432
Current value and valuation difference of derivatives						
Non-hedging derivatives	-97	-97	2,177	-4,814	-4,814	-4,572
Valuation difference (difference between current value and book value)			2,274			242
Valuation difference, total			168,183			148,674

8. Real estate investments

EUR 1,000	Changes in investments in land and buildings Land and buildings and real estate shares	Investment loans in affiliated undertakings
Acquisition cost, 1 Jan.	157,596	124,818
Increase	26,117	27,030
Decrease	-38,121	-29,283
Transfers between accounts	56,655	
Acquisition cost, 31 Dec.	202,247	122,565
Accumulated depreciation, 1 Jan.	-37,605	
Accumulated depreciation related to decreases	4,592	
Depreciation for the financial year	-1,931	
Accumulated depreciation, 31 Dec.	-34,944	
Value adjustments, 1 Jan.	-9,471	
Value adjustments related to decreases and transfers	-2,803	
Value adjustments during the financial year	-4,249	
Value readjustments	1,044	
Value adjustments, 31 Dec.	-15,479	
Revaluations, 1 Jan.	21,360	
Decrease	-11,184	
Revaluations, 31 Dec.	10,175	
Book value, 31 Dec.	162,000	122,565

Land and buildings and real estate shares occupied for own activities:	
Remaining acquisition cost	15,140
Book value	15,190
Current value	17,210

9. Investments in affiliated undertakings

EUR 1,000

Changes in investments in affiliated undertakings 1. Jan. 2017 - 31. Dec. 2017

	Shares and participations in affiliated undertakings
Acquisition cost, 1 Jan./31 Dec.	**53,229**
Deductions	-9
	53,220

10. Other investments

EUR 1,000	2017	2016
Other loans by security		
Other security	36,335	30,646

11. Debtors

EUR 1,000	2017	2016
Other debtors		
Affiliated undertakings	4,836	2,170

12. Shares and participations in other companies

EUR 1,000	Holding %	Book value 31.12.2017	Current value 31.12.2017
Domestic shares and participations			
Evli Pankki B	1.0671	457	646
Holiday Club Resorts Oy	1.8533	1,097	1,097
Nordia Rahasto Oy	19.5246	1,679	1,679
Panostaja Oyj	6.7048	3,451	3,451
Pihlajalinna Oyj	2.7730	7,060	7,060
Revenio Group Corporation Oyj Shs	1.1322	282	3,234
Uudenmaan Pääomarahasto Oy	13.7094	1,054	1,054
Foreign shares and participations			
Sweden			
K III Sweden AB - C	3.0800	716	833
Singapore			
BROADCOM LTD	0.0010	281	552
The United States			
DOWDUPONT INC	0.0003	279	361
MARRIOTT INTERNATIONAL -CL A	0.0011	278	398
NVIDIA CORP	0.0009	142	887
Unit trusts			
Aberdeen Global - Emerging Markets Corporate Bond		40,988	41,565
Aktia Em Mrkt Local Currency Bond+ D		52,264	52,264
Aktia Likvida+ D		5,000	5,001
BNP Paribas InstiCash Money 3M EUR		31,982	31,982
Brummer & Partners Lynx Fund		2,004	2,109
Cassiopeia Fund/The		4,000	4,178
CUMULUS FUND - CLASS C- EUR Main Class		2,381	2,381
Danske Invest SICAV - Emerging Markets Debt Hard C		16,026	16,026
Danske Invest Yhteisökorko Kasvu		19,998	19,998
Erikoisisjoitusrah. Fennica Toimitilat I E-osuus		31,000	32,228
Erikoissijoitusrahasto Fennica Tontit C-osuus		14,500	14,523
Evli Emerging Markets Credit B		3,967	4,360
Evli Euro Liquidity B		5,000	5,000
Evli Europe B		6,110	7,424
Evli Short Corporate Bond B		41,665	42,419
FIM Forest Non-UCITS Fund		1,000	1,004
FIM Real		3,500	3,566
First Trust Emerging Markets Small Cap AlphaDEX Fu		4,917	5,418
Fondita Nordic Micro Cap B		2,661	6,516
Golden China Fund		1,934	4,522
Goldman Sachs ActiveBeta Emerging Markets Equity E		16,918	18,004
Institutional Cash Series PLC - Institutional US D		20,227	20,227
iShares Edge MSCI Europe Multifactor UCITS ETF EUR		13,873	14,172
iShares MSCI India ETF		10,872	11,780
iShares STOXX Europe 600 Banks ETF		5,808	5,808
iShares STOXX Europe 600 ETF		13,756	13,756

iShares STOXX Europe Small 200 DE	10,149	10,332
Muzinich Funds - Emerging Markets Short Duration F	15,239	15,239
Muzinich Funds - EnhancedYield Short-Term Fund	65,455	67,217
Muzinich Short Duration High Yield Fund	10,989	10,989
Nomura Funds Ireland - Nomura US High Yield Bond F	24,275	24,275
Nordea Korko S Kasvu (Moderate Yield Fund)	6,003	6,003
Oddo Asset Management Oddo Tresorerie 3-6 Mois	25,971	25,971
Oddo Compass Euro Credit Short Duration Fund	38,000	38,648
OP-Euro A	6,007	6,007
OSSIAM SHILLER BARCLAYS CAPE US SECTOR VALUE TR EU	17,264	17,455
SEB Money Manager Plus BI	5,000	5,002
Specialist Investor Funds PLC - M&G European Loan	75,000	76,093
Taaleri Sicav - Taaleri Rhein Value Equity	7,979	12,633
TPKM Pysäköintilaitos Ky	6,892	6,892
Vanguard MSCI Emerging Markets ETF	23,104	24,691
Capital trusts		
MB Equity Fund IV Ky	2,369	3,841
Duke Street Capital VI LP	673	673
The Triton Fund II L.P.	797	797
The Triton Fund III L.P.	3,960	5,616
Permira Europe IV LP2	449	477
Fennia Avainrahasto Ky	1,762	1,762
Selected Private Equity Funds I Ky	925	2,434
Partners Group European Buyout	1,906	2,216
Partners Group European Mezzanine	1,698	1,698
Selected Mezzanine Funds I Ky	853	1,531
Euro Choice IV GB Limited	1,808	4,119
Juuri Rahasto I Ky	2,639	2,639
Korona Fund III Ky	754	754
Other	127,159	154,241
	874,204	937,725

13. Changes in intangible and tangible assets

EUR 1,000	Other long-term expenses	Advance payments	Equipment	Total
Acquisition cost, 1 Jan. 2017	101,200	13,865	19,278	134,344
Fully depreciated in the previous financial year	-401		-793	-1,195
Increase	12,798	11,199	5,022	29,019
Decrease	-	-13,270	-1,889	-15,158
Acquisition cost, 31 Dec. 2017	113,596	11,795	21,619	147,010
Accumulated depreciation, 1 Jan. 2017	-41,314		-13,573	-54,887
Fully depreciated in the previous financial year	401		793	1,195
Accumulated depreciation related to decreases and transfers	-		1,130	1,130
Depreciation for the financial year	-10,472		-2,009	-12,482
Accumulated depreciation, 31 Dec. 2017	-51,385		-13,659	-65,044
Value adjustments, 1 Jan. 2017	-5,539			-5,539
Value adjustments during the financial year	-13,132			-13,132
Value adjustments, 31 Dec. 2017	-18,671			-18,671
Book value, 31 Dec. 2017	43,541	11,795	7,960	63,295

14. Creditors

EUR 1,000	2017	2016
Other creditors		
To affiliated undertakings	524	543

15. Capital and reserves

EUR 1,000	2017
Restricted	
Initial fund 1 Jan./31 Dec.	7,703
Revaluation reserve 1 Jan./31 Dec.	885
Sale of Hämeenkatu 4 by way of capital contribution	-301
Revaluation reserve 31 Dec.	583
Restricted in total	8,286
Non-restricted	
Security reserve, 1 Jan.	264,291
Reversal of the funded revaluation reserve	
Transfer from profit brought forward	-12,494
Security reserve, 31 Dec.	251,798
At the disposal of the Board 1 Jan./31 Dec.	59
Profit brought forward	-
Profit for the previous financial year	-12,494
Transfer to contingency fund	12,494
Profit brought forward	-
Profit for the financial year	26,376
Non-restricted in total	278,233
Capital and reserves in total	286,519
Revaluation reserve, 31 Dec. 2016	
Revaluations on investments	337
Revaluations on fixed assets	246
	583
Distributable profit, 31 Dec. 2016	
Profit for the financial year	26,376
Security reserve	251,798
At the disposal of the Board	59
	278,233

16. Guarantee and liability commitments

EUR 1,000	2017	2016
Own liabilities		
Liabilities from derivative contracts		
Non-hedging		
Currency derivatives		
Forward and futures contracts		
Open		
Value of underlying instrument	232,889	170,692
Current value	2,177	-4,572
The result of closed and matured non-hedging derivatives is entered in full with impact on the result.		
The realised result of closed and matured hedging derivatives is accrued in the result over the original life of the derivative contract.		
The realised net result of matured hedging interest rate derivatives closed in the financial year was EUR -2,302,644.48, of which EUR 77,367.91 was timed for the financial year.		
From the results of hedging interest rate derivatives closed in previous financial years, losses of EUR 458,721.60 were timed for the financial year.		
Negative valuation differences from non-hedging derivative contracts are entered with impact on the result.		
Securities given as collateral for derivatives trade		
Leasing and leasehold commitments	6,776	8,380
Other 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.		
Affiliated undertakings	174	257
Other undertakings	51	173
Adjustment liability of real estate investments according to Section 120 of the Value Added Tax Act	11	22
Investment commitments		
Commitment to invest in equity funds	40,895	52,251

17. Loans to related parties and related party transactions

The company has granted a total of EUR 3,132,575,40 in loans to related parties.

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

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

Notes concerning the Group

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

Group analysis of results (EUR million)

	2013	2014	2015	2016	2017
Non-life insurance					
Premiums earned	390	418	417	412	396
Claims incurred	-326	-329	-329	-326	-295
Net operating expenses	-95	-99	-95	-103	-100
Other technical underwriting income (net)	-	-	-	-	-
Balance on technical account before the change in equalisation provision	**-31**	**-10**	**-7**	**-17**	**1**
Investment income (net) and revaluations	52	83	90	17	59
Other income (net)	2	1	1	1	0
Share of associated undertakings’ profit/loss	0	-1	0	0	0
Operating profit/loss	**22**	**73**	**84**	**1**	**61**
Change in equalisation provision	-17	-44	-44	-13	-30
Non-life insurance profit/loss before extraordinary items	**5**	**30**	**40**	**-12**	**31**
Life insurance					
Premiums written	94	151	199	206	166
Investment income (net), revaluations and revaluation adjustments on investments	88	63	122	89	69
Claims paid	-84	-77	-83	-90	-104
Change in technical provisions before bonuses and rebates and change in equalisation provision	-84	-117	-221	-180	-95
Net operating expenses	-10	-12	-13	-14	-15
Other technical underwriting income	-	-	-	-	-
Technical underwriting result before bonuses and rebates and change in equalisation provision	**3**	**9**	**3**	**10**	**20**
Other income (net)	-1	0	0	1	0
Operating profit	**2**	**9**	**3**	**11**	**21**
Change in equalisation provision	-1	-1	9	0	0
Bonuses and rebates	6	-1	-5	-2	-4
Life insurance profit/loss before extraordinary items	**7**	**7**	**6**	**9**	**16**
Profit before appropriations and tax	**12**	**37**	**46**	**-3**	**47**
Income tax and other direct tax	-1	-9	-8	0	-6
Minority interests	0	0	0	0	0
Group's profit/loss for the financial year	**10**	**27**	**37**	**-4**	**40**

Key figures

		2013	2014	2015	2016	2017
Group Key Figures						
Turnover	EUR million	636	728	840	737	704
Premiums written	EUR million	498	583	629	624	560
Operating profit/loss	EUR million	24	82	87	11	82
Profit/loss before appropriations and tax	EUR million	12	37	46	-3	47
Total result	EUR million	30	109	12	47	113
Average number of personnel		1,262	1,263	1,157	1,044	1,012
Non-life Insurance Key Figures						
Premiums written	EUR million	403	430	429	417	394
Loss ratio,	%	83.7	78.6	78.8	79.1	74.3
Loss ratio excl. unwinding of discount	%	80.1	75.5	75.6	75.8	71.3
Expense ratio,	%	24.3	23.8	22.9	25.1	25.3
Combined ratio,	%	108.0	102.4	101.7	104.1	99.7
Combined ratio excl. unwinding of discount	%	104.4	99.3	98.5	100.9	96.6
Operating profit/loss	EUR million	22	73	84	1	61
Total result	EUR million	34	80	52	26	81
Return on assets	%	3.1	5.6	3.7	2.1	4.9
Net investment income at current value	EUR million	65	89	59	42	79
income on invested capital	%	5.2	6.2	3.9	2.7	4.7
Average number of personnel		1,067	1,077	1,043	935	892
Life Insurance Key Figures						
Premiums written	EUR million	94	153	200	207	167
Expense ratio (of expense loading)	%	114.5	120.4	112.0	103.9	103.6
Operating profit/loss	EUR million	2	9	3	11	21
Total result	EUR million	1	30	-38	14	31
Return on assets	%	5.6	7.8	5.5	5.1	4.5
Net investment income at current value	EUR million	33	50	35	30	25
income on invested capital	%	5.2	7.4	5.0	4.3	3.3
Average number of personnel		50	50	54	53	52

*Key figures according to the consolidated accounts

Investment portfolio at current values

	Basic distribution				Risk distribution [8]					
	31.12.2017		31.12.2016		31.12.2017		2016	2015	2014	2013
	EUR million	%	EUR million	%	EUR million	% [10]	% [10]	% [10]	% [10]	% [10]
Fixed-income investments, total	**847.4**	**49.7**	**833.4**	**51.5**	**847.4**	**49.7**	**51.5**	**55.9**	**53.6**	**51.0**
Loans[1]	72.2	4.2	59.6	3.7	72.2	4.2	3.7	2.4	2.4	3.0
Bonds	481.6	28.2	462.9	28.6	481.6	28.2	28.6	29.9	43.9	37.6
Other money market instruments and deposits[1] [2]	293.6	17.2	310.9	19.2	293.6	17.2	19.2	23.7	7.3	10.4
Equity investments, total	**410.2**	**24.0**	**339.0**	**21.0**	**410.2**	**24.0**	**21.0**	**20.1**	**21.7**	**23.2**
Listed equities [3]	314.7	18.4	241.0	14.9	314.7	18.4	14.9	12.7	13.6	14.9
Private equity [4]	29.9	1.8	31.0	1.9	29.9	1.8	1.9	2.1	2.4	2.5
Unlisted equities [5]	65.6	3.8	67.0	4.1	65.6	3.8	4.1	5.4	5.8	5.8
Real estate investments, total	**433.0**	**25.4**	**437.1**	**27.0**	**433.0**	**25.4**	**27.0**	**23.1**	**23.7**	**24.6**
Direct real estate	377.3	22.1	346.6	21.4	377.3	22.1	21.4	19.6	20.1	21.3
Real estate funds and UCITS	55.6	3.3	90.5	5.6	55.6	3.3	5.6	3.5	3.6	3.3
Other investments	**15.4**	0.9	**13.0**	**0.8**	**15.4**	0.9	**0.8**	**0.9**	**0.8**	**0.9**
Hedge funds [6]	13.2	0.8	13.0	0.8	13.2	0.8	0.8	0.9	0.7	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]	2.2	0.1	0.0	0.0	2.2	0.1	0.0	0.0	0.1	0.1
Total investments	**1,706.0**	**100.0**	**1622.5**	**100.3**	**1706.0**	**100.0**	**100.3**	**100.0**	**99.8**	**99.6**
Effect of derivatives [9]	-				-		-0.3	-0.3	0.0	0.2
Total investments at fair value	**1,706.0**	**100.0**	**1617.9**	**100.0**	**1706.0**	**100.0**	**100.0**	**1561.3**	**100.0**	**100.0**
Modified duration of the bond portfolio	1.90									

1) Includes accrued interests

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

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

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

5) Including unlisted real-estate investment companies

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

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

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

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

9) Includes the effect of derivatives on the difference between risk-adjusted breakdown and basic breakdown. The effect of derivatives can be +/-. After the difference is adjusted the final sum of the risk distribution is the same as the basic distribution.

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

Net investment income on invested capital

	Market value of net investment returns [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	**0.5**	**876.0**	**0.1**	**2.5**	**0.8**	**4.3**	**-0.1**
Loans[1]	1.7	63.9	2.7	-1.1	6.4	-7.0	1.3
Bonds	-0.3	570.0	-0.1	4.0	-0.3	5.2	-0.4
Other money market instruments and deposits[1] [2]	-0.9	242.1	-0.4	0.3	2.4	2.9	0.8
Equity investments, total	**33.1**	**357.2**	**9.3**	**2.7**	**12.9**	**9.1**	**14.4**
Listed equities [3]	25.7	264.2	9.7	7.0	19.6	12.4	17.2
Private equity [4]	6.8	27.9	24.4	12.3	12.5	11.2	5.2
Unlisted equities [5]	0.6	65.1	1.0	-11.9	2.5	0.7	10.1
Real estate investments, total	**27.5**	**450.3**	**6.1**	**6.2**	**6.3**	**9.0**	**9.2**
Direct real estate	25.2	359.0	7.0	6.0	6.2	8.8	10.6
Real estate funds and UCITS	2.3	91.3	2.5	6.8	6.8	10.0	-2.6
Other investments	**21.7**	**2.4**	**921.3**	**-51.0**	**2.3**	**10.1**	**20.8**
Hedge funds [6]	0.2	13.0	1.6	-4.7	4.5	8.6	3.3
Commodities	0.0	0.0					
Other investments [7]	21.5	-10.6	-202.3	143.5			
Total investments	**82.8**	**1685.9**	**4.9**	**3.1**	**4.1**	**6.4**	**5.4**
Sundry income, charges and operating expenses	-3.9						
Net investment income at current value	**78.9**	**1685.9**	**4.7**	**2.7**	**3.9**	**6.2**	**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

KEY FIGURES

Turnover =

Non-life insurance turnover
+ premiums earned before reinsurers' share
+ net investment income on the profit and loss account
+ other income

Life insurance turnover
+ premiums written before reinsurers' share
+ net investment income on the profit and loss account
+ other income

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
<u>+/- change in valuation differences on investments</u>
+ 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.

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

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

Net investment income on invested capital at current values (%)
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.

NON-LIFE INSURANCE

Premiums written = premiums written before reinsurers' share

Loss ratio % =
<u>claims incurred</u>
premiums earned

Loss ratio (excl. unwinding of discount) % =
<u>claims incurred (excl. unwinding of discount) %</u>
premiums earned

Expense ratio % =
<u>operating expenses</u>
premiums earned

Key figures are calculated after reinsurers’ share.

Combined ratio % = loss ratio + expense ratio

Combined ratio (excl. unwinding of discount) % =
loss ratio (excl. unwinding of discount) + expense ratio

LIFE INSURANCE

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

Risks and management of risks and solvency

1 Risk and solvency management in general

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

In the Fennia Group, risk management means co-ordinated strategies, processes, principles and measures to identify, measure, 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. Other Group companies are mostly 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, similar issues are discussed by the extended executive group of the company. It is chaired by the Managing Director of Fennia Asset Management.

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

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

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

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

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

- Managing Director

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

- Business and support functions

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

- Actuarial function

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

- Risk Management

  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 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.

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

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

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

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

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

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

	Impact of change on Fennia’s technical provisions, excluding the equalisation provision	
Discount interest	Decrease of 0.1 percentage point	EUR -12 million
Inflation risk	Increase of 1%	EUR -6 million
Mortality	Average age increase of 1 yr	EUR -13 million

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's investment portfolio

	Impact of change on Fennia’s assets	
Fixed income investments	Interest rate +1 percentage point	EUR -20 million
Equity investments	Change in value -20%	EUR -75 million
Real estate investments	Change in value -10%	EUR -43 million

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

	Impact of change on Fennia Life’s assets	
Fixed income investments	Interest rate +1 percentage point	EUR -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;
- outstanding reinsurance receivables and the reinsurers’ portion of the claims outstanding;
- receivables from insurance customers and
- customer financing.

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

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

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

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

3.4 Operational risks

Operational risks within the Fennia Group refer to a risk of loss 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 and
- processes

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

The management of risks inherent in quantitative methods is based on the structure, mathematical theory and logic of each method being well documented and supported as much as possible by scientific research and/or best practices of the insurance sector. In order to be able to identify a method’s strengths and weaknesses, it is important that the mathematical simplifications, numerical methods 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.

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

3.7 Liquidity risk

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

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

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

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

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

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

3.8 Strategic risks

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

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

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

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

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

- strategic risks inherent in internal operations, such as, for example, risks related to expansion or to internal development or to the availability of additional capitalisation.

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

3.9 Reputation risk

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

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

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

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

Reputation risk management also involves compliance with laws, regulations and provisions and operating in accordance with the requirements set by authorities. The public image and reliability of an insurance company may suffer if laws, regulations 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’s distributable profits totalled EUR 278,232,557.06. The company’s profit for the financial year was EUR 26,376,249.72. The Board of Directors proposes that the profit for the financial year be transferred to the security reserve.

Helsinki, 7 March 2018

Mikael Ahlbäck	Jussi Järventaus	Lars Koski
Eva Liljeblom	Jyrki Mäkynen	Timo Salli
Paul Stucki	Antti Kuljukka Managing director	

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

Auditor's report

To the Annual General Meeting of Fennia Mutual Insurance Company

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Fennia Mutual Insurance Company (business identity code 0196826-7) for the year ended 31 December, 2017. The financial statements comprise the balance sheets, profit and loss accounts, cash flow statements and notes for the group as well as for the parent company.

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

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

Basis for Opinion

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

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

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

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

Materiality

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

Most significant assessed risks of material misstatement

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

MOST SIGNIFICANT ASSESSED RISKS OF MATERIAL MISSTATEMENT	AUDITOR'S RESPONSE TO THE RISKS
Valuation of investment assets (Accounting Principles pages 11-13 and notes to the Accounts pages 45-59)	
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	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.

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

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

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 14)

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

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

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

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

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.

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

Other Reporting Requirements

Information on our audit engagement

We were first appointed as auditors by the Annual General Meeting on the year 2007, and our appointment represents a total period of uninterrupted engagement of 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
Authorised Public Accountant, KHT

Satu Malmi
Authorised Public Accountant, KHT

* The pages mentioned in the Auditors' Report refer to pages in the Financial Statements. In this online version of the Annual Report, the corresponding information is found under Financial Statements. In the PDF version, the corresponding pages are 24–28 (Accounting Principles) and 29, 36–42 (Notes concerning investments).

** In the online version of the Annual Report, the corresponding information is found under Accounting Principles. In the PDF version, the corresponding pages are 24–28.

Statement of the supervisory board

The Supervisory Board of Fennia Mutual Insurance Company has examined the Company's Financial Statements for the year 2017 and the Consolidated Finan-cial Statements as well as the Auditors' Report. We have no objections concerning them.

The Supervisory Board proposes that the Annual General Meeting to be convened on 18 April 2018 approve the Financial Statements and the Consolidated Financial Statements and adopt the proposal of the Board of Directors for the allocation of the result for the financial year.

Helsinki, 21 March 2018

On behalf of the Supervisory Board

Marianne Kaasalainen
Vice Chairman of the Supervisory Board

Administration

Fennia is managed in accordance with the principle of mutuality. The highest decision-making power is exercised in the general meeting of shareholders by the policyholders, i.e. Fennia's clients. Fennia's governing bodies are the supervisory board, the board of directors and the managing director.

Fennia's Supervisory Board

Fennia has a supervisory board, which supervises the administration of the company, which is the responsibility of the board of directors and the managing director. The general meeting of shareholders has elected the 41 members of the supervisory board from among Fennia's policyholders, i.e., customers.

The supervisory board's task is to elect the members of the board of directors and to confirm the remuneration paid to the board members. In addition, the supervisory board issues its statement on the financial statements, the report of the board of directors and the auditing report to the annual general meeting, and advises the board of directors in issues that are far-reaching or significant in principle.

The supervisory board convenes twice a year and as needed. The supervisory board has a working committee that prepares the agenda for general meetings and supervisory board meetings, and an audit committee, which knows the company's operations and organisation. The supervisory board has additionally set up regional advisory committees, whose task is to monitor and support Fennia's regional service operations.

Fennia's Board of Directors

The board of directors takes care of the administration of the company and the appropriate organisation of its operations. As the Board of Directors of the Group's parent company, it is also in charge of the appropriateness of the governance system at the Group level and ensures that the Group is managed as a complete entity. In 2017 there were eight board members.

The board of directors is tasked with managing Fennia in a professional manner, and in accordance with sound and cautious business principles and principles relating to reliable governance. The board of directors administers the tasks that have been set for it in the articles of association, legislation and official regulations.

The key tasks of Fennia's Board of Directors are:

- to decide on the company's targets and strategy; as the parent company's Board of Directors, it also decides on the Group's targets and strategy
- to approve the risk management strategy and the reports concerning risk and solvency assessments
- to monitor the adequacy and efficiency of internal control and the governance system, including the risk management system, and to annually approve the assessments concerning their appropriateness and adequacy
- to ensure that Fennia's solvency level remains within the set targets
- to approve the operating principles that must be complied with at Fennia

The board of directors is also assisted by the nomination and remuneration committee, and by the joint audit committee for Fennia's and Fennia Life's boards of directors. The committees do not make decisions, but instead proposals are submitted to the board of directors for decision.

The nomination and remuneration committee's task is to prepare, plan and develop the remuneration and nomination matters concerning Fennia's Managing Director, his/her alternate and the Deputy Managing Director, and the members of the executive group, and to prepare the entire company's remuneration scheme.

The audit committee is a joint committee of the boards of Fennia and Fennia Life. The audit committee's area of responsibility covers monitoring the sufficiency and appropriateness of internal control, including compliance, risk management and internal auditing. In addition, the audit committee oversees its statutory tasks related to auditing.

Managing Director

Fennia has a managing director, who is elected by the board of directors and whose terms and conditions of employment, salary and bonuses are determined by the board of directors. The managing director oversees the company's day-to-day administration in line with the board's guidelines and regulations. The managing director's tasks include managing and monitoring the company's business operations, arranging risk and solvency management, and bearing responsibility for the development and co-ordination of the company's functions. The company also has two deputy managing directors, one of whom acts as the alternate to the managing director.

Internal audit function

The internal audit is a function that is independent of the businesses and which supports Fennia and its senior management in achieving its targets by offering a systematic approach to the organisation's control, leadership and administrative processes and to the assessment and development of the functionality and efficiency of risk management.

Managing corporate social responsibility

Responsibility is managed operatively both at the Group and business area levels, across organisational boundaries. Each business area includes responsibility in its decision-making. The Group CEO is ultimately responsible for all work related to corporate social responsibility.

Business operations

Fennia Mutual Insurance Company is a Finnish non-life insurance company established in 1882 that is owned by its customers and whose roots and values are deeply embedded in entrepreneurship.
Fennia is an expert in insurance and related services, offering companies, entrepreneurs and households the insurance services they need. Fennia's line of business includes statutory and voluntary non-life insurance and re-insurance.

The Fennia Group comprises three companies: Fennia, specialised in non-life insurance; Fennia Life, which offers voluntary life, pension and savings insurance, and Fennia Asset Management Ltd, which provides asset management services.

Of Fennia Group companies, Fennia operates on a mutual basis, which means the customer is the owner of the company. Fennia Life is a limited liability company that is wholly owned by Fennia, and Fennia Asset Management Ltd is a subsidiary of Fennia Life. The Group additionally comprises 29 real estate companies.

Fennia's shareholders are its policyholders that have valid insurance with the company that has begun, at the latest, during the previous financial year. Taking out reinsurance does not, however, constitute ownership.

Fennia co-operates with Elo Mutual Pension Insurance Company and Etera Mutual Pension Insurance Company. As Fennia's co-operation partners, Elo and Etera offer statutory earnings-related pension insurance to Fennia's customers.

Supervisory Board

Chairman

Janne Ylinen
Managing Director
Kokkolan Halpa-Halli Oy
Kokkola

Vice Chairmen

Marianne Kaasalainen
Managing Director
Oy Patrol Trading Ab
Espoo

Board Members

Pekka Auramaa
Managing Director
Kuljetusliike Y. Auramaa Oy
Eura

Michael Cedercreutz
Executive Chairman
Oy Victor Ek Ab
Helsinki

Risto Finne
Chairman of the Board
Kuopion Konepaja Oy
Kuopio

Jarmo Halonen
Managing Director
Elecster Oyj
Toijala

Ilkka Jalonen
Chairman
Ilja Consulting Oy
Espoo

Juha Järvi
Managing Director
Ka-Mu Oy
Karstula

Pia Kauma
Member of Parliament
Espoo

Hannu Kekäläinen
Chairman of the Board
Check Point Finland Oy
Piikkiö

Heimo Keskinen

Chairman of the Board
Ravintolakolmio Oy
Helsinki

Anne Ketola
Country Manager
SATS Finland Oy (Elixia)
Helsinki

Jaana Kokko
CEO
Oulun Autokuljetus Oy
Oulu

Matti Koskenkorva
Counsellor of Entrepreneurship (Finnish honorary title)
Tampere

Jaana Kotro
Managing Director
Teknopower Oy
Turku

Perttu Kouvalainen
CEO
Fabrik Oy
Joensuu

Pekka Kuivalainen
Managing Director
Pisla Oy
Viitasaari

Matti Kurttio
Chairman of the Board
Tormets Oy
Tornio

Maunu Lehtimäki
Managing Director
Evli Bank Plc
Helsinki

Markus Lindblom
Managing Director
RTV-Yhtymä Oy
Riihimäki

Vesa Luhtanen
Managing Director
L-Fashion Group Oy
Lahti

Hannu Löytönen
Industrial Counsellor (Finnish honorary title)
Managing Director
Betset Oy
Kyyjärvi

Tauno Maksniemi
Senior partner, CEO
Broadview Oy Ltd
Helsinki

Jouko Manninen
Mayor
Town of Kuusamo
Kuusamo

Antti Mykkänen
Fennia's personnel representative:
Yrittäjäin Fennian Kenttä ry
Lahti

Martti Paunu
Managing Director
Väinö Paunu Oy
Tampere

Ari Penttilä
Managing Director
Matkapojat Oy
Tampere

Raimo Puustinen
Managing Director
Pohjois-Karjalan Kirjapaino Oyj
Joensuu

Pekka Rantamäki
CEO
Rantamäki Advisors Oy
Hyvinkää

Ari Rinta-Jouppi
Managing Director
Rinta-Joupin Autoliike Oy
Tervajoki

Ali U. Saadetdin
Chairman of the Board
A Saadetdin Oy
Tampere

Seppo Saajos
Chairman of the Board
Saajos Group
Lohja

Kaj Ström
Chairman of the Board
Motoral Oy
Helsinki

Risto Tornivaara
Managing Director
Danske Bank Oyj
Helsinki

Heikki Vauhkonen
Managing Director
Tulikivi Corporation
Helsinki

Henrik Wikström
Director, Finance and Administration
Sarlin Group Oy Ab

Kauniainen

Jarkko Wuorinen
Managing Director
Ahlman & Wuorinen Development AWD Oy
Savonlinna

Jens Österberg
Managing Director
Oy Petsmo Products Ab
Vaasa

Fennia's Board of Directors and Management 1 January 2018

Board of Directors

Chairman

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

Vice Chairman

Matti Pörhö
Commercial Counsellor (Finnish honorary title), CEO
Pörhön Autoliike Oy
Oulu

Board Members

Jussi Järventaus
LL.M with court training
Espoo

Lars Koski
Managing Director
Laihian Mallas Oy
Laihia

Eva Liljeblom
Professor, Rector
Hanken School of Economics, Helsinki
Helsinki

Jyrki Mäkynen
Oy HM Profiili Ab
Managing Director
Seinäjoki

Timo Salli
Managing Director
Katsa Oy
Tampere

Paul Stucki
Managing Director
Orfer Oy
Orimattila

Secretary to the Board

Sanna Elg
General Counsel
Fennia
Espoo

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

Management of Fennia Group

Antti Kuljukka
Group CEO

Eero Eriksson
Managing Director, Fennia Varainhoito

Kimmo Kilpinen
Deputy Managing Director, Field Director

Mika Manninen
Group CFO

Seppo Rinta
Deputy Managing Director

Alexander Schoschkoff
Managing Director, Henki Life

Secretary of Management Group

Sanna Elg
Chief Legal Officer

Fennia's Board of Directors and Management 1 January 2018

Physicians

Mikael Hedenborg
Doctor of Medical Science
Specialist in Occupational Health
Chief Physician
Special competence in insurance medicine

Lauri Keso
Doctor of Medical Science
Specialist in Internal Medicine and Rheumatology
Special competence in insurance medicine

Juha Liira
Doctor of Medical Science
Specialist in Occupational Health and Medicine
Special competence in insurance medicine

Teemu Paatela
Licentiate of Medicine
Specialist in Orthopaedics

Mika Paavola
Doctor of Medical Science
Specialist in Orthopaedics and Traumatology

Timo Yrjönen
Doctor of Medical Science
Specialist in Orthopaedics

Heikki Österman
Licentiate of Medicine
Specialist in Orthopaedics and Traumatology

Fennia's Board of Directors and Management 1 January 2018