Fennia Life

Annual Report and Financial Statements 2015

Contents

Partners are necessary for success

At Fennia Life, in the conference room next to my office, is a painting called "Russian Torkas", painted by Gösta Diehl in 1955. It was presented to Fennia by Teollisuusvakuutus on our centennial in 1982. The painting is fascinating: in my opinion it depicts two people or groups of people and the connection or connections between them. Depending on the situation, I've taken the message of the painting – the necessity of co-operation – into use in our company.

At the start of the year, youths who have given entrepreneurship a try through Junior Achievement Finland, took part in the JobShadow event which allowed them to follow a director around for a day.

The day was a rewarding one – also for the people being shadowed. I was accompanied for the whole day by a student who had set up a security business with two fellow students. I was almost jealous listening to their enthusiasm for the partnership. Most of the other students were also practicing to become entrepreneurs together with someone.

Computers can beat humans at chess these days – no sweat. But the combination of a human and a computer can still beat a computer. When Finland plays well as a team, it can win the Ice Hockey World Championships. The list is endless.

A strong will and excellent tools no longer guarantee a company's success. Everyone needs partners and networks in order to manage their business successfully. This is particularly obvious in new forms of entrepreneurship.

Fennia Life is no exception to this rule. You can sense from the pages of our Annual Report how many things have taken dynamic leaps forward. Achieving this success has required many partners. At this point I would like to offer my sincerest thanks to you and all of our customers for your trust in us. Without a competent and dedicated personnel, a company cannot succeed.

Thank you for a successful year to everyone at Fennia Group and particularly to my Fennia Life team.

Seppo Rinta
toimitusjohtaja

Report of the board of directors

Fennia Life Insurance Company's premiums written continued their strong growth during 2015. The company carried on its preparations for the Solvency II framework requirements that entered into force at the beginning of 2016 and the implemented measured affected the company's investment operations in particular.

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

Insurance business

Fennia Life's total premium income including the reinsurers' share rose by 31 per cent and the strong growth for the second consecutive year led to the company's highest-ever premium income at EUR 199.8 million (EUR 152.5 million). Of the company's total premiums written, life insurance accounted for EUR 165.4 million (EUR 124.6 million) and pension insurance for EUR 34.4 million (EUR 27.9 million). The premiums written for pension insurance taken out by companies continued to grow despite the decline in the premiums written for private pension insurance policies. On 1 February 2015, a group pension insurance portfolio transferred to Fennia Life from Nordea Life Insurance Finland and the savings and premium income of the transferred portfolio strengthened Fennia Life's position as a provider of companies' pension insurance. Premiums written on unit-linked insurances increased dramatically to EUR 158.3 million (EUR 109.8 million), accounting for 79 per cent (72%) of the company's total premiums written. Premiums written on regular premium contracts stood at EUR 52.9 million (EUR 47.6 million), accounting for 26 per cent (31%) of total premiums written.

Claims paid rose to EUR 83.2 million (EUR 77.5 million). There were slightly more surrenders than in the comparison year and they accounted for EUR 30.6 million (EUR 27.7 million) of claims paid. The repayment of benefits amounted to EUR 3.4 million (EUR 7.4 million). Pensions were paid in the amount of EUR 33.7 million (EUR 32.2 million) and death and disability benefits in the amount of EUR 11.5 million (EUR 5.4 million).

Operating expenses increased to EUR 13.5 million (EUR 11.9 million). The increase in operating expenses has resulted from a growth in the volume of business and investments made in it. The growth in investments also materialised as increased expense loading. Taking into consideration fee and commission income from funds which form the investments of the unit-linked insurance, the expense ratio was 100.8 per cent (108.8 per cent).

The total return on with-profit insurance savings varied between 2.4 and 4.5 per cent in 2015, depending on the line of insurance and quarter of the year. Client bonuses granted totalled EUR 2.0 million, of which EUR 0.4 million was funded from provisions for bonuses reserved earlier. The company continued to increase the technical provisions, which will help prepare for the costs of the technical interest rate that will be credited to life insurance. An interest rate supplement of EUR 70.0 million (EUR 14.0 million) was transferred from the result to the technical provisions.

Investments

The company's return on investments at current values amounted to EUR 34.7 million (EUR 49.6 million), i.e. 5.0 per cent (7.4%) on the invested capital. The company's net investment income was EUR 122.1 million (EUR 64.9 million), of which unit-linked insurances accounted for EUR 46.7 million (EUR 34.9 million). The risk level of the investment portfolio was reduced over the course of the year and due to the successful timing of realisations the investment result includes an exceptionally large amount of capital gains.

At year-end, the current value of investments stood at EUR 749 million (EUR 721 million). Bonds and long-term fund investments accounted for 39 per cent of the investment portfolio, and money market investments and deposits for 20 per cent. Shares, equity fund investments and capital trusts accounted for 18 per cent, real estate investments for 22 per cent, and loan receivables and other investments for 1 per cent. Assets covering unit-linked insurances grew strongly to EUR 723 million (EUR 511 million).

Result and solvency

The company's operating profit was EUR 3.0 million (EUR 10.2 million). The Group's operating profit was EUR 2.6 million (EUR 8.1 million).

The company's solvency margin was EUR 114.1 million (EUR 152.0 million). The company's equalisation provision of EUR 8.6 was withdrawn. The company's solvency capital was EUR 114.1 million (EUR 160.6 million). The solvency in relation to technical provisions decreased primarily due to the increase in the technical provisions, and the solvency ratio fell to 14.0 per cent (23.4%).

Administration and staff

During the year under review, the members of Fennia Life's Board of Directors were: Managing Director Mikael Ahlbäck (Chairman); Matti Ruohonen (Vice Chairman); Managing Director Antti Kuljukka; CEO Juha-Pekka Halmeenmäki (as of 1 Sep. 2015) and Deputy Managing Director Eero Eriksson.

The Board of Directors held a total of 11 meetings during the year under review. The attendance rate of the members was 96 per cent.

Seppo Rinta acted as Managing Director.

The company employed an average of 54 people (50) in 2015.

Remuneration

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

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

Group Structure

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

In addition, at year-end, Fennia Life Group included 13 real estate companies wholly owned by the company.

Asset Management

Fennia Asset Management's profitability improved during 2015. The Group's profit for the financial year was EUR 253,789.50 (EUR -7,214.19). The company's capital and reserves at the end of the financial period were EUR 1.4 million (EUR 1.1 million).

The Group's solvency at the end of the financial period was good, the solvency ratio was 24.29% and the company's own funds amounted to EUR 1.3 million (calculated minimum requirement for own funds is EUR 0.4 million).

The amount of client assets managed by Fennia Asset Management grew, standing at EUR 234 million (EUR 193 million) at year-end. The new capital was mainly allocated to a fund investing in business premises because the current low interest rate level and volatile equity market steered investors' focus towards real estate investments.

Risk management and solvency management

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

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

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

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

Outlook for the current year

The uncertainty on the investment markets will continue and will make it challenging to meet the return requirement on high guaranteed-return insurance portfolios. The company does not consider the market environment to be attractive with regard to risk-taking, instead it is heading forward fully informed of risks while simultaneously securing its solvency position.

The digitalisation of service models, the changing of the structures of social welfare, health care and social security, together with the lengthening of the pension entitlement period and increase in wealth, create excellent opportunities for active and flexible institutions like Fennia Life to improve the financial security of, in particular, self-employed persons, their families and their companies' personnel, together with the solutions offered by asset management and non-life insurance.

Profit and Loss Account

1,000 €	Group 2015	Group 2014	Parent Company 2015	Parent Company 2014	Note
Technical Account					
Premiums written					
Premiums written	199,823	152,544	199,823	152,544	1
Reinsurers' share	-877	-1,131	-877	-1,131	
	198,946	151,413	198,946	151,413	
Investment income	126,986	60,354	125,659	61,461	3, 4
Revaluations on investments	39,896	35,838	39,896	35,838	3, 4
Other technical underwriting income	-	156	-	156	
Claims incurred					
Claims paid	-83,181	-77,490	-83,181	-77,490	2
Reinsurers' share	50		50		
Change in the provision for outstanding claims	-3,373	-4,796	-3,373	-4,796	
Portfolio transfer	5,025	-	5,025	-	
Claims incurred in total	-81,479	-82,286	-81,479	-82,286	
Change in the provision for unearned premiums					
Total change in the provision for unearned premiums	-278,895	-113,336	-278,895	-113,336	
Portfolio transfer	59,222	-	59,222		
	-219,673	-113,336	-219,673	-113,336	
Net operating expenses	-13,544	-11,947	-13,544	-11,947	5
Investment charges	-43,139	-31,122	-41,164	-30,135	3, 4
Revaluation adjustments on investments	-2,295	-2,231	-2,295	-2,231	3, 4
Balance on technical account	5,699	6,838	6,347	8,932	
Non-Technical Account					
Other income					
Income from investment services operations	2,212	1,789			
Other		-	-	-	
	2,213	1,789	-	-	
Other charges					
Expenses from investment services operations	-1,959	-1,796			
Depreciation on goodwill	-241	-	-241	-	
	-2,199	-1,796	-241	-	
Tax on profit on ordinary activities					
Tax for the financial year	-1,077	-1,674	-1,066	-1,674	
Tax from previous periods	84	-520	84	-520	
Deferred tax	549	92			
	-445	-2,102	-982	-2,194	
Profit on ordinary activities			5,125	6,738	
Minority interests	4				
Appropriations					
Change in depreciation difference			27	8	
Profit for the financial year	5,272	4,729	5,151	6,746	

Balance Sheet

1,000 €	Group 2015	Group 2014	Parent Company 2015	Parent Company 2014	Note
ASSETS					
Intangible assets					
Other long-term expenses	3,430	3,716	3,392	3,633	12
Goodwill	2,166	-	2,166	-	
Advance payments	1,373	887	1,373	887	
	6,968	4,603	6,930	4,521	
Investments					
Real estate investments					
Land and buildings and real estate shares	106,696	106,370	87,700	86,572	7
Investment loans to affiliated undertakings			17,395	17,879	
Loans to associated undertakings	1,843	2,098	1,843	2,098	
	108,540	108,468	106,938	106,549	
Investments in affiliated undertakings					
Holdings in subsidiaries			1,400	1,150	
Other investments					
Shares and participations	249,313	368,368	249,313	368,368	11
Debt securities	333,718	155,348	333,718	155,348	
Loans guaranteed by mortgages	2,951	3,001	2,951	3,001	
Deposits	3,000	-	3,000	-	
	588,983	526,717	588,983	526,717	
Investments in total	697,522	635,185	697,321	634,416	6
Investments covering unit-linked insurances	721,071	509,441	721,071	509,441	10
Debtors					
Arising out of direct insurance operations					
Policyholders	623	627	623	627	
Arising out of reinsurance operations	50	-	50	-	
Other debtors	3,700	4,548	3,639	4,640	
	4,373	5,176	4,312	5,267	
Other assets					
Tangible assets					
Machinery and equipment	418	406	408	397	12
Other tangible assets	12	12	12	12	
	430	418	421	409	
Cash at bank and in hand	20,369	13,615	18,862	12,597	
	20,799	14,034	19,283	13,006	
Prepayments and accrued income					
Interest and rents	4,690	2,630	4,687	2,626	
Other	3,540	2,076	3,527	2,072	
	8,231	4,705	8,214	4,698	
	1,458,964	1,173,144	1,457,130	1,171,349	

1,000 €	Group 2015	Group 2014	Parent Company 2015	Parent Company 2014	Note
LIABILITIES					
Capital and reserves					
Subscribed capital	27,751	27,751	27,751	27,751	13
Premium fund	10,723	10,723	10,723	10,723	
At the disposal of the Board	8	8	8	8	
Profit brought forward	37,371	36,041	47,357	44,011	
Profit for the financial year	5,272	4,729	5,152	6,746	
	81,125	79,253	90,992	89,240	
Appropriations					
Accumulated depreciation difference			39	66	
Minority interests	303	-			
Technical provisions					
Provision for unearned premiums	485,125	412,631	485,125	412,631	
Claims outstanding	151,699	154,071	151,699	154,071	
	636,824	566,701	636,824	566,701	
Technical provisions for unit-linked insurances					
Technical provisions	722,320	510,175	722,320	510,175	16
Creditors					
Arising out of reinsurance operations	543	631	543	631	
Deferred tax	5,292	5,840			
Other creditors	9,374	7,996	3,621	2,286	14
	15,209	14,467	4,164	2,917	
Accruals and deferred income	3,182	2,547	2,791	2,250	
	1,458,964	1,173,144	1,457,130	1,171,349	

Parent Company Cash Flow Statement

1,000 €	2015	2014
Cash flow from business operations		
Profit on ordinary activities before extraordinary items	5,125	6,738
Adjustments:		
Change in technical provisions	282,268	118,133
Value adjustments and revaluations on investments	-21,803	-25,524
Depreciation according to plan	1,288	969
Other	-76,055	-16,021
Cash flow before change in net working capital	190,822	84,295
Change in net working capital		
Increase/decrease in non-interest-earning receivables	-1,444	-3,029
Increase in non-interest-earning payables	911	-1,076
Cash flow from business operations before financial items and taxes	190,289	80,190
Interest paid on other financial expenses from operations	-3	-8
Taxes	-2,550	-2,732
Cash flow from business operations	187,737	77,450
Cash flow from capital expenditures		
Capital expenditure on investments (excl. funds)	-251,403	-86,764
Capital gain from investments (excl. funds)	77,039	18,223
Investments and income from the sale of tangible and intangible assets and other assets (net)	-3,709	-855
Cash flow from capital expenditures	-178,073	-69,396
Cash flow from financing		
Dividends paid	-3,400	-
Cash flow from financing	-3,400	-
Change in funds	6,265	8,054
Funds on 1 Jan.	12,597	4,543
Funds on 31 Dec.	18,862	12,597
	6,265	8,054

Accounting principles

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

Book value of investments

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

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

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

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

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

Derivative contracts are mainly used for hedging investment portfolios. In accounting terms, however, they are treated as non-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.

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

Book value of assets other than investments

Other long-term expenses which have been capitalised are basic renovation expenses for real estate and planning expenses for information systems and, in addition, goodwill has been capitalised in the Balance Sheet during the financial year. Those expenses, as well as equipment, are entered in the Balance Sheet at acquisition cost less planned depreciation. Impairment write-offs have also been recorded on the capitalisation of information systems.

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

Depreciation according to plan

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

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

Revaluations on investments

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

Current value of investments

The value of real estate and shares in real estate is entered at values not exceeding market-based current values. The investments are evaluated by an external authorised real-estate appraiser using the net present value rule based on cash flow.

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 funds are valued at acquisition cost or at the estimated current value of the fund reported by the administrative company.

Derivative contracts are valued at their current value on the date of closing the accounts. The possible maximum loss on non-hedging derivatives is deducted from the solvency margin.

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

Foreign currency items

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

Staff pension schemes

Pension insurance cover has been arranged for the staff by means of TyEL insurance with Etera Mutual Pension Insurance Company. Pension insurance premiums are entered in the profit and loss account on the accrual basis. All company personnel are also included in the defined contribution supplementary insurance policy, which has been taken out with Fennia Life Insurance Company.

Appropriations and treatment of deferred tax

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

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

Technical provisions

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

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

– For individual life and pension insurance, the technical rate of interest applied is between 1 and 4.5 per cent, depending on the starting date of the insurance. For new insurance contracts, the technical rate of interest is 1 per cent.
– For capital redemption contracts, the technical rate of interest applied is between 0 and 2.5 per cent, depending on the starting date and the target group of the contract.

– The technical interest rate for group pension insurance is 0 to 3.5 per cent. The technical interest rate for new group pension insurance is 1 per cent.

In order to fulfil the technical interest rate requirement for pension and savings insurance policies that have a technical interest rate of 2.0 to 4.5 per cent, the technical provisions have been supplemented both during the reporting year and in previous financial statements. The supplementary provision for the guaranteed interest rate as of 31 December 2015 is approximately EUR 127.0 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 for a period of more than 15 years.

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, in so far 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 yield 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 2015

Fennia Life's bonuses in 2015 correspond to the targets set by the company in its Principle of Fairness. The yield 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 2015 was moderate. In response to the extremely low interest rate level that has continued for some time, EUR 70 million was transferred to the supplementary provision for the guaranteed interest rate in order to cover the cost of the technical interest rate in the coming years. This will be used to secure the company's ability to cover the high technical interest rate also in future. Part of the bonuses granted in 2015 were financed from the provision for bonuses reserved during previous years. The supplementary provision for the guaranteed interest rate was decreased according to plan.

The risk-free interest rate has remained low for both short-term and long-term government bonds since 2009. Between 2009 and 2015, 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 2015:

Total annual interest on with-profit policies in 2015

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%	3.60%	3.60%	2.50%
2.00%			3.60%	
1.50%	2.60%			2.40%
1.00%	2.60%	3.60%	3.60%	2.40%
0.00%			3.60%	2.40%

Consolidated Financial Statements

Fennia Life’s consolidated accounts include all the subsidiaries in which the Parent Company either directly or indirectly holds more than half of the voting rights. Fennia Asset Management Ltd (100% ownership) was consolidated to the company, and the other thirteen (14 in 2014) subsidiaries consolidated into the Group are real estate companies.

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

Group companies

Group companies 31 Dec. 2015

The following subsidiaries are included in the consolidated financial statements

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

Notes to the Accounts, Parent Company

Notes to the Profit and Loss Account and Balance Sheet

1. Premiums written

1,000 €	2015	2014
Direct insurance		
Finland	199,827	152,505
Reinsurance	-4	39
Gross premiums written before reinsurers' share	199,823	152,544
Items deducted from premiums written		
Credit loss on outstanding premiums	12	5
Direct insurance premiums written		
Life insurance		
Unit-linked individual life insurance	123,896	92,862
Other individual life insurance	5,682	7,016
Unit-linked capital redemption policy	20,279	7,915
Other capital redemption policy	761	3,169
Employees' group life insurance	5,065	6,365
Other group life insurance	9,702	7,314
	165,385	124,641
Pension insurance		
Unit-linked individual pension insurance	5,193	5,368
Other individual pension insurance	7,093	7,576
Unit-linked group pension insurance	8,943	3,623
Other group pension insurance	13,214	11,297
	34,443	27,864
	199,827	152,505
Regular premiums	52,917	47,635
Single premiums	146,910	104,871
	199,827	152,505
Premiums from with-profit policies	41,517	42,737
Premiums from unit-linked insurance	158,311	109,768
	199,827	152,505

2. Claims paid

1,000 €	2015	2014
Direct insurance		
Life insurance	42,027	43,142
Pension insurance	41,154	34,356
	83,181	77,498
Reinsurance	-	-8
Claims paid in total	83,181	77,490
Of which:		
Surrenders	30,610	27,669
Repayment of benefits	3,399	7,415
Other	49,173	42,414
	83,181	77,498
Share of unit-linked insurances of claims paid	50,469	34,621
Life insurance: bonuses and rebates		
Impact of bonuses and rebates attached to life insurance policies on the balance on technical account	5,493	1,096
Change in provisions for future bonuses for the financial year	-411	-1,043

In the financial accounts, EUR 70,000,000 was transferred from the result on 31 December 2015 to cover the cost of the technical rate of interest for individual and group pensions. Of the bonuses granted in 2015, EUR 411,450 was financed from the provision for bonuses. Of the 4.5 per cent technical rate of interest on individual pension insurance and savings insurance, 2.5 per cent was financed from the supplementary provision for the guaranteed interest rate, in the amount of EUR 3,198,007, and of the 2.5 per cent technical rate of interest, 0.5 per cent was financed from the supplementary provision for the guaranteed interest rate, in the amount of EUR 315,981. Of the 3.5 per cent technical rate of interest on both group and individual pension insurance and savings insurance, 1.5 per cent was financed from the supplementary provision for the guaranteed interest rate, in the amount of EUR 3,597,748. EUR 440,903 in life insurance bonuses were paid, and the provision for bonuses was increased by EUR 21,681. 45 per cent of the assets reserved in the equalisation provision on 31 December 2014 was transferred to the provision for bonuses, i.e. EUR 3,867,967. The bonuses credited to insurances during 2015 totalled EUR 2,036,335, which met the bonus objectives for the financial year.

The bonuses credited to insurances during 2014 totalled EUR 1,544,301, which met the bonus objectives for the financial year. Provisions for bonuses accumulated during previous years were decreased by EUR 448,342. During the financial year, EUR 14,000,000 was transferred from the result to the supplementary provision for the guaranteed interest rate.

3. Net investment income

1,000 €	2015	2014
Investment income		
Income from investments in land and buildings		
Interest income		
Affiliated undertakings	618	584
From other undertakings	167	162
	785	746
Other income	10,053	9,788
	10,839	10,534
Income from other investments		
Dividend income	10,963	8,604
Interest income	6,140	6,536
Other income	3,257	2,341
	20,361	17,481
Total	31,200	28,015
Value readjustments	5,211	6,145
Gains on realisation of investments	89,249	27,301
Total	125,659	61,461
Investment charges		
Charges arising from investments in land and buildings		
To affiliated undertakings	-3,263	-3,249
To other undertakings	-1,261	-1,022
	-4,524	-4,271
Charges arising from other investments	-3,419	-2,549
Interest and other expenses on liabilities	-3	-8
Total	-7,946	-6,828
Value adjustments and depreciations		
Value adjustments on investments	-21,009	-14,229
Losses on realisation of investments	-12,210	-9,078
Total	-41,164	-30,135
Net investment income before revaluations and revaluation adjustments	84,495	31,326
Revaluations on investments	39,896	35,838
Revaluation adjustments on investments	-2,295	-2,231
	37,602	33,608
Net investment income on the Profit and Loss Account	122,097	64,933

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

1,000 €	**2015**	**2014**
Investment income	24,989	13,605
Investment charges	-6,173	-5,884
Net investment income before revaluations and revaluation adjustments and value adjustments and readjustments	18,817	7,721
Revaluations on investments	39,896	35,838
Revaluation adjustments on investments	-2,295	-2,231
Value adjustments on investments	-11,940	-7,797
Value readjustments	2,218	1,343
Net investment income on the Profit and Loss Account	46,696	34,875

5. Operating expenses

1,000 €	2015	2014
Operating expenses in the Profit and Loss Account		
Policy acquisition costs		
Direct insurance commissions	1,744	1,191
Commissions on reinsurance assumed and profit sharing		3
Other policy acquisition costs	4,108	3,440
Total policy acquisition costs	5,852	4,634
Policy management expenses	5,591	5,470
Administrative expenses	2,277	2,063
Commissions on reinsurance ceded	-176	-219
Total	13,544	11,947
Total operating expenses by activity		
Claims paid	465	376
Net operating expenses	13,544	11,947
Investment charges	1,427	1,302
Total	15,436	13,625
Depreciation according to plan by activity		
Claims paid	36	31
Net operating expenses	1,160	954
Investment charges	92	94
Total	1,288	1,080
Staff expenses, personnel and executives		
Staff expenses		
Salaries and commissions	3,894	3,314
Pension expenses	1,123	735
Other social expenses	284	239
Total	5,301	4,289
Executives' salaries and commissions		
Board of Directors and Managing Director	319	285
The age of retirement of the Managing Director is defined according to TyEL		
Average number of personnel during the financial year		
Office personnel	36	31
Sales personnel	18	19
	54	50
	-	-
Auditors' commissions		
Audit	25	25
Tax consulting	5	29
Other commissions	-	11
	30	65

6. Current value and valuation difference on investments

1,000 €	Investments 31 Dec. 2015			Investments 31 Dec. 2014		
	Remaining acquisition cost	Book value	Current value	Remaining acquisition cost	Book value	Current value
Real estate investments						
Real estate	3,718	3,718	4,280	1,767	1,767	1,900
Real estate shares in affiliated undertakings	76,525	76,525	83,748	79,110	79,110	84,536
Real estate shares in associated undertakings	5,764	5,764	5,764	4,002	4,002	4,002
Other real estate shares	1,692	1,692	1,692	3,460	3,460	3,592
Investment loans to affiliated undertakings	17,395	17,395	17,395	17,879	17,879	17,879
Loans to associated undertakings	1,843	1,843	1,843	2,098	2,098	2,098
Investments in affiliated undertakings						
Shares and participations	1,400	1,400	1,400	1,150	1,150	1,150
Other investments						
Shares and participations	249,313	249,313	270,399	368,368	368,368	427,593
Debt securities	333,718	333,718	334,767	155,348	155,348	161,266
Loans guaranteed by mortgages	2,951	2,951	2,951	3,001	3,001	3,001
Deposits	3,000	3,000	3,000	-	-	-
	697,321	697,321	727,240	634,416	634,416	705,118
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 (-)	-6,874			-5,465		
Valuation difference (difference between current value and book value)			29,919			70,702

7. Changes in investments in land and buildings

1,000 €	Land and buildings and real estate shares	Investment loans to affiliated undertakings	Investment loans to associated undertakings
Acquisition cost, 1 Jan.	98,198	17,879	2,098
Increase	3,614	834	-
Decrease	-2,701	-1,318	-255
Acquisition cost, 31 Dec.	99,110	17,395	1,843
Value adjustments, 1 Jan.	-11,626		
Accumulated value adjustments related to decreases	6		
Value readjustments	1,753		
Increase	-1,542		
Value adjustments, 31 Dec.	-11,410		
Book value, 31 Dec.	87,700	17,395	1,843

8. Investments in affiliated and associated undertakings

1,000 €	
Acquisition cost, 1 Jan.	3,800
Increase	-
Acquisition cost, 31 Dec.	3,800
Value adjustments, 1 Jan.	-2,650
Value readjustments	250
Value adjustments, 31 Dec.	-2,400
Book value, 31 Dec.	1,400

9. Debtors

1,000 €	
Other debtors	
Affiliated undertakings	342

10. Investments covering unit-linked insurances

1,000 €	2015 Original acquisition cost	2015 Current value	2014 Original acquisition cost	2014 Current value
Shares and participations	546,851	621,052	377,254	439,561
Debt securities	66,610	63,961	50,843	52,448
Cash at bank and in hand	36,058	36,058	17,431	17,431
Total	649,519	721,071	445,529	509,441
Investments covering unit-linked insurances corresponding to technical provisions	649,519	721,071	445,529	509,441
Cash at bank and in hand, and other debtors include net insurance premiums that have not yet been invested		1,604		1,377

11. Shares and participations in other companies

1,000 €	Holding %	Book value, 31 Dec. 2015	Current value, 31 Dec. 2015
Domestic shares			
Amplus Holding Oy	19.9686	1,831	3,576
Fingrid Oyj	0.1805	203	1,500
Holiday Club Resorts Oy	1.8534	1,097	1,097
Pihlajalinna Oyj	1.3813	4,488	4,683
Uudenmaan Pääomarahasto Oy	13.2193	1,929	1,929
Other		1,698	2,007
		11,246	14,792
Foreign shares			
Candlewood Structured Credit Fund Ltd		3,179	3,621
K III Sweden AB		634	634
Other		66,154	67,502
		69,966	71,757
Unit trusts			
Aktia Em Mrkt Local Currency Bond+ D		5,491	5,491
Aktia Likvida+ D		8,584	8,607
BlackRock Global Funds - US Dollar High Yield Bond		11,443	11,443
BNP Paribas InstiCash USD		13,244	13,245
Brummer & Partners Lynx Fund		1,002	1,244
Cassiopeia Fund/The		2,000	2,009
Cumulus Energy Fund		1,774	1,774
Danske Invest SICAV - Emerging Markets Debt Hard C		8,110	8,110
Evli Europe B		4,442	6,438
Evli North America B		4,326	6,333
FIM Likvidi		3,446	3,450
Fondita Nordic Micro Cap B		1,300	2,890
Golden China Fund		956	1,779
Nordea Korko S Kasvu (Moderate Yield Fund)		12,997	12,997
Pictet Emerging Local Currency Debt I		4,790	4,790
Seligson & Co Global Top 25 Brands A		963	1,564
Seligson & Co Rahamarkkinarahasto AAA		3,514	3,520
Taaleri Sicav - Taaleri Rhein Value Equity		2,325	3,337
WestLB Euro High Yield Bond A		4,217	4,259
WestLB Mellon Compass Fund - Euro Corporate Bond		7,293	8,035
Other		8	8
		102,225	111,325
Capital trusts			
Aberdeen Indirect Property Partners		708	708
Duke Street Capital VI LP		870	870
ESR Fennica Toimitilat I		21,000	22,509
Euro Choice IV GB Limited		3,311	4,705
Kauppakeskuskiint. FEA Ky		19,496	19,496
MB Equity Fund IV Ky		2,190	3,065
Omakylä Asuntorahasto Ky		500	683
Partners Group European Buyout		2,815	3,654
Partners Group European Mezzanine		1,681	1,851

Permira Europe IV LP2	523	669
Selected Mezzanine Funds I Ky	1,930	2,702
Selected Private Equity Funds I Ky	2,894	3,515
Teknoventure Rahasto III Ky	865	1,002
The Triton Fund III L.P.	2,454	2,454
TPKM Pysäköintilaitos Ky	2,680	2,680
WasaGroup Fund I	500	500
Other	1,458	1,461
	65,876	72,526

12. Changes in intangible and tangible assets

1,000 €	Intangible rights and other long-term expenses	Goodwill	Advance payments	Equipment	Total
Acquisition cost, 1 Jan. 2015	6,847	-	887	771	8,505
Fully depreciated in the previous financial year	-589	-		-38	-627
Increase	887	2,407	1,373	203	4,869
Decrease	-	-	-887	-136	-1,024
Acquisition cost, 31 Dec. 2015	7,145	2,407	1,373	800	11,724
Accumulated depreciation, 1 Jan. 2015	-3,102	-		-375	-3,477
Fully depreciated in the previous financial year	589	-		38	627
Accumulated depreciation related to decreases and transfers	-	-		104	104
Depreciation for the financial year	-855	-241		-159	-1,255
Accumulated depreciation, 31 Dec. 2015	-3,368	-241		-392	-4,000
Value adjustments, 1 Jan. 2015	-111				-111
Value adjustments during the financial year	-274				-274
Value adjustments, 31 Dec. 2015	-385				-385
Book value, 31 Dec. 2015	3,392	2,166	1,373	408	7,339

13. Capital and reserves

1,000 €	**2015**
Restricted	
Subscribed capital 1 Jan./31 Dec.	27,751
Premium Fund, 1 Jan./31 Dec.	10,723
Restricted in total	38,474
Non-restricted	
At the disposal of the Board 1 Jan./31 Dec.	8
Profit brought forward, 1 Jan. 2014	44,011
Profit for the previous financial year	6,746
Dividend distribution	-3,400
Profit brought forward, 31 Dec. 2014	47,357
Profit for the financial year	5,152
Non-restricted in total	52,517
Capital and reserves in total	90,992
Distributable profit, 31 Dec. 2014	
Profit for the financial year	5,152
At the disposal of the Board	8
Profit brought forward	47,357
Distributable profit in total	52,517

14. Creditors

1,000 €	**2015**	**2014**
Other creditors		
To affiliated undertakings	532	767

15. Technical provisions for unit-linked insurances

1,000 €	**2015**	**2014**
Provision for unearned premiums	712,962	506,562
Claims outstanding	9,358	3,614
	722,320	510,175

16. Guarantee and liability commitments

1,000 €	2015	2014
Liabilities from derivative contracts		
Currency derivatives		
Forward and futures contracts		
Open		
Value of underlying instrument	80,394	-
Current value	-232	-
Equity derivatives		
Option contracts		
Acquired		
Value of underlying instrument	-	200
Current value	-	-112
Negative valuation differences in non-hedging derivative contracts are charged against the profit		
Value-added tax liabilities		
As regards group registering for VAT taxation, the company is responsible for the value-added tax payable by the group jointly with the other members of the value-added tax liability group of Fennia Mutual Insurance Company.		
Affiliated undertakings	193	249
Other undertakings	565	389
Investment commitments		
Commitment to invest in equity funds	26,590	17,637
Loans to related parties and related party transactions		
The company has no loans, liabilities or contingent liabilities to related parties.		
The company has no related party transactions conducted according to other than standard business practices.		

17. Key figures pertaining to solvency

1,000 €	2015	2014
Solvency margin		
Capital and reserves after proposed profit distribution	90,992	85,840
Optional reserves and accumulated depreciation difference	39	66
Valuation difference between current value and Balance Sheet book value of assets	30,048	70,702
Intangible assets not entered as expenses	-6,930	-4,521
Other items	-	-88
Solvency margin in total	114,149	152,000
Equalisation provision for years with large numbers of losses included in technical provisions	-	8,595
Solvency capital	114,149	160,595
Solvency margin required under the Finnish Insurance Companies Act, Chapter 11, Section 12	40,013	35,303
Solvency capital to technical provisions less equalisation provision and 75% of provisions relating to unit-linked insurances	14.0 %	23.4 %

18. Notes concerning the Group

Fennia Life Insurance Company’s parent company is Fennia Mutual Insurance Company. The domicile of the company is Helsinki.
Copies of Fennia's Consolidated Financial Statements are available at the parent company's headquarters, Televisiokatu 1, Helsinki.

Financial Statements' Key Figures

Analysis of Results

1,000 €	2015	2014	2013	2012	2011
Premiums written	198,946	151,413	93,526	89,721	78,701
Investment income (net), revaluations and revaluation adjustments on investments	121,449	62,839	88,420	63,237	-27,537
Claims paid	-83,131	-77,490	-84,221	-63,615	-61,800
Change in technical provisions before bonuses and rebates and change in equalisation provision	-221,123	-116,909	-84,177	-65,897	23,121
Net operating expenses	-13,544	-11,947	-10,606	-10,766	-9,978
Other technical underwriting income		156			
Technical underwriting result before bonuses and rebates and change in equalisation provision	2,596	8,062	2,942	12,680	2,508
Other income (net)	13	-7	-1,036	-838	-828
Operating profit	2,610	8,055	1,906	11,842	1,679
Change in equalisation provision	8,595	-723	-618	-954	-747
Bonuses and rebates	-5,493	-501	5,849	-1,448	2,017
Profit before untaxed reserves and tax	5,712	6,831	7,137	9,440	2,949
Taxes	-445	-2,102	-1,407	-4,120	-585
Minority interests	4				
Group's profit for the financial year	5,272	4,729	5,730	5,321	2,364
Gross premiums written (EUR 1,000)	199,823	152,544	94,462	90,508	79,461
Expense ratio of expense loading	113.8 %	122.8 %	117.3 %	119.9 %	116.0 %
Expense ratio of Balance Sheet total	1.3 %	1.3 %	1.3 %	1.4 %	1.3 %
Solvency margin (EUR 1,000)	114,149	152,000	128,973	129,971	98,319
Minimum solvency margin (EUR 1,000)	40,013	35,303	33,565	32,326	30,647
Equalisation provision (EUR 1,000)		8,595	7,872	7,254	6,300
Solvency capital (EUR 1,000)	114,149	160,595	136,845	137,226	104,619
Solvency ratio	14.0 %	23.4 %	21.0 %	21.8 %	17.4 %
Total result (EUR 1,000)	-37,650	29,739	852	35,991	-8,736
Return on assets	5.5 %	7.8 %	5.6 %	9.5 %	1.9 %

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

Investment portfolio at current values

	Basic distribution								Risk distribution				
	2015		2014		2013		2012		2015		2014	2013	2012
	EUR million	%	EUR million	%	EUR million	%	EUR million	%	EUR million	%	%	%	%
Fixed-income investments, total	**447.0**	**59.7**	**373.8**	**51.9**	**348.2**	**50.2**	**408.6**	**59.4**	**447.0**	**59.7**	**51.9**	**50.2**	**59.4**
Loans [1]	3.2	0.4	3.2	0.4	8.5	1.2	3.2	0.5	3.2	0.4	0.4	1.2	0.5
Bonds	291.9	39.0	295.5	41.0	270.9	39.1	327.0	47.5	291.9	39.0	41.0	39.1	47.5
Other money market instruments and deposits [1) 2)]	151.9	20.3	75.1	10.4	68.8	9.9	78.5	11.4	151.9	20.3	10.4	9.9	11.4
Equity investments, total	**134.5**	**17.9**	**184.8**	**25.6**	**193.0**	**27.8**	**144.3**	**21.0**	**134.5**	**17.9**	**25.5**	**27.5**	**21.0**
Listed equities [3]	94.3	12.6	135.5	18.8	150.2	21.7	98.5	14.3	94.3	12.6	18.6	21.3	14.3
Private equity [4]	25.9	3.5	27.5	3.8	25.8	3.7	27.7	4.0	25.9	3.5	3.8	3.7	4.0
Unlisted equities [5]	14.2	1.9	21.7	3.0	17.0	2.5	18.1	2.6	14.2	1.9	3.0	2.5	2.6
Real estate investments, total	**161.3**	**21.5**	**155.5**	**21.6**	**145.3**	**21.0**	**132.5**	**19.3**	**161.3**	**21.5**	**21.6**	**21.0**	**19.3**
Direct real estate	114.7	15.3	112.1	15.6	109.1	15.7	111.1	16.2	114.7	15.3	15.6	15.7	16.2
Real estate funds and UCITS	46.6	6.2	43.4	6.0	36.3	5.2	21.5	3.1	46.6	6.2	6.0	5.2	3.1
Other investments	**6.5**	**0.9**	**6.4**	**0.9**	**6.6**	**0.9**	**2.2**	**0.3**	**6.8**	**0.9**	**0.9**	**0.9**	**0.3**
Hedge funds [6]	6.8	0.9	5.5	0.8	5.7	0.8	2.1	0.3	6.8	0.9	0.8	0.8	0.3
Commodities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investments [7]	-0.3	0.0	0.9	0.1	0.9	0.1	0.1	0.0	0.0	0.0	0.1	0.1	0.0
Investments in total	**749.3**	**100.0**	**720.5**	**100.0**	**693.1**	**100.0**	**687.6**	**100.0**	**749.6**	**100.0**	**99.8**	**99.6**	**100.0**
Effect of derivatives [8]		-		-		-			-0.3	0.0	0.2	0.4	0.0
Total investments at fair value	**749.3**	**100.0**	**720.5**	**100.0**	**693.1**	**100.0**	**687.6**	**100.0**	**749.3**	**100.0**	**100.0**	**100.0**	**100.0**
Modified duration of the bond portfolio	**2.43**		**4.67**		**4.06**								

1) Includes accrued interests

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

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

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

5) Including unlisted real-estate investment companies

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

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

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

Net investment income on invested capital

Return €/ % on inv. capital	Market value of net investment returns [8)] 2015 EUR million	Invested capital [9)] 2015 EUR million	Yield, % on invested capital 2015 %	2014 %	2013 %	2012 %	2011 [10)] %
Fixed-income investments, total	**1.9**	**402.6**	**0.5**	**5.3**	**0.5**	**9.6**	
Loans [1)]	0.2	2.9	6.1	3.8	3.8	4.0	
Bonds	-1.4	275.3	-0.5	5.8	0.2	11.8	3.4
Other money market instruments and deposits [1) 2)]	3.1	124.4	2.5	2.6	1.3	1.2	1.3
Equity investments, total	**21.6**	**129.6**	**16.7**	**13.4**	**16.8**	**13.0**	**-8.3**
Listed equities [3)]	15.9	86.2	18.5	12.0	18.4	14.5	
Private equity [4)]	3.7	25.8	14.1	13.6	15.0	9.2	
Unlisted equities [5)]	2.0	17.6	11.6	23.1	10.7	11.3	
Real estate investments, total	**12.0**	**152.1**	**7.9**	**5.7**	**9.4**	**5.7**	**8.7**
Direct real estate	9.2	109.4	8.4	3.4	11.5	3.2	
Real estate funds and UCITS	2.8	42.7	6.6	12.1	-3.0	20.1	
Other investments	**0.2**	**6.5**	**3.3**	**10.7**	**23.3**	**-23.6**	**-3.4**
Hedge funds [6)]	0.3	6.4	4.5	8.9	3.1	-1.6	
Other investments [7)]	-0.1	0.1	-108.2	22.9		0.0	
Investments in total	**35.8**	**690.9**	**5.2**	**7.6**	**5.5**	**9.5**	**1.4**
Sundry income, charges and operating expenses	**-1.0**			0.0			
Net investment income at current value	**34.7**	**690.9**	**5.0**	**7.4**	**5.2**	**9.3**	**1.1**

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

10) The data for 2011 is not entirely comparable with 2012–2015.

Calculation methods for the key figures

Premiums written = premiums written before reinsurers' share

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

Expense ratio (% of Balance Sheet total) =
<u>+ total operating expenses</u>
opening Balance Sheet total

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

Solvency margin

+ capital and reserves after proposed profit distribution
+ appropriations
+/- valuation differences on investments
+/- deferred tax
- intangible assets
+/- other statutory items

Solvency capital = solvency margin + equalisation provision + minority interest

Solvency ratio (%) =
<u>solvency capital</u>
+ technical provisions
- equalisation provision
- 75% of technical provisions for unit-linked insurances

Technical provisions are calculated after reinsurers' share.

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.

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

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

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

Risks and management of risks and solvency

1 Risk and solvency management in general

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

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

2 Organisation of risk and solvency management

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

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

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

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

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

A separate risk management committee has been set up for Fennia Asset Management. It is chaired by the Managing Director of Fennia Asset Management.

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

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

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

- Managing Director

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

- Business and support functions

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

- Actuarial function

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

- Risk Management function

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

- Compliance function

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

- Internal audit

  The internal audit supports the Group in achieving its goals by offering a systematic approach to the assessment and development of the efficiency of the organisation's risk management, control and leadership and administrative processes.

- The task of the internal audit is to monitor and assess the sufficiency and efficiency of the Group's internal control and other administration in the following areas, among others:
  - achievement of the Group's strategy and goals
  - scope and reliability of the solvency management process
  - efficiency of risk management
  - cost-effectiveness and appropriateness of the use of resources
  - compliance with laws and regulations and internal operating principles, plans and instructions
  - accuracy, sufficiency and appropriateness of information
  - securing assets

The Risk Management function and the Compliance function have been integrated into the Fennia Group's organisation to ensure their independence from the operational activities, which means that the functions are free from influences that might compromise the objective, equal and independent performance of their tasks. The internal audit is independent of both the first and second defence line operations.

3 Risk management

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

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

1. Risk identification

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

2. Risk measurement

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

3. Risk monitoring

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

4. Risk management

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

5. Risk reporting

The materialisation of risks and their effects as well as near-miss situations are reported within the Group in accordance with the agreed reporting process. The Risk Management and Compliance functions report the risks to the risk management committees and to the relevant Boards of Directors as part of the functions' regular reporting.

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

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

3.1 Insurance risks

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

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

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

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

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

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

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

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

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

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

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

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

3.2 Financial market risks

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

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

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

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

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

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

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

	Impact of change on Fennia's solvency capital	
Fixed income investments	Interest rate +1 percentage point	EUR -10 million
Equity investments	Change in value -20%	EUR -19 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 credit margin risk is treated as a financial market risk):

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

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

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

3.4 Operational risks

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

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

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

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

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

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

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

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

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

3.5 Risks inherent in quantitative methods

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

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

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

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

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

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

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

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

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

3.6 Concentration risks

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

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

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

3.7 Liquidity risk

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

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

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

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

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

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

3.8 Strategic risks

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

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

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

- strategic macro risks, which are related for example to changes in demographic, social security and culture trends, changes in regulation, authority supervision and policy or changes in climate and geopolitical trends,
- sector-specific strategic risks that relate to changes in competition in the insurance or financial sector and in the demand of policyholders or investors, and
- strategic risks inherent in internal operations, such as, for example, risks related to expansion or to internal development or to the availability of additional capitalisation.

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

3.9 Reputation risk

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

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

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

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

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

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

3.10 Group risks

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

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

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

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

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

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

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

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

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

4 Solvency management

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

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

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

Board of Directors’ Proposal on the Disposal of Profit

Fennia Life’s distributable profits totalled EUR 52,517,315.69. The company’s profit for the financial year was EUR 5,151,635.13. The Board of Directors proposes that no dividend be paid and that the profit for the financial year be transferred to retained earnings.

Helsinki, 8 March 2015

Mikael Ahlbäck	Matti Ruohonen	Eero Eriksson
Antti Kuljukka	Seppo Rinta Managing Director	

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

Auditor's report

To the Annual General Meeting of Fennia Life Insurance Company Ltd

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Fennia Life Insurance Company Ltd for the year ended 31 December, 2015. The financial statements comprise the consolidated balance sheet, income statement and cash flow statement and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

Responsibility of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of financial statements and report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company or the Managing Director are guilty of an act or negligence which may result in liability in damages towards the company or have violated the Insurance Company Act, the Limited Liability Companies Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

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

Opinion

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Helsinki 21 March 2016
KPMG OY AB

Petri Kettunen
Authorized Public Accountant

Alex Wahlroos
Authorized Public Accountant

Board of Directors

Chairman

Mikael Ahlbäck
Managing Director
Ab Rani Plast Oy
Teerijärvi

Vice Chairman

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

Board Members

Eero Eriksson
Deputy Managing Director
Fennia Mutual Insurance Company
Helsinki

Juha-Pekka Halmeenmäki
Managing Director
Invalidisäätiö
Helsinki

Antti Kuljukka
Managing Director
Fennia Mutual Insurance Company
Helsinki

Secretary to the Board

Sanna Elg
General Counsel
Fennia Mutual Insurance Company
Espoo

Fennia Life's Board of Directors and Management 1 January 2016

Auditors

KPMG OY AB

Petri Kettunen
Authorised Public Accountant

Alex Wahlroos
Authorised Public Accountant

Deputy Auditors

KPMG OY AB

Tiia Kataja
Authorised Public Accountant

Marcus Tötterman
Authorised Public Accountant

Fennia Life's Board of Directors and Management 1 January 2016

Management

Seppo Rinta
Managing Director

Johanna Ahvenainen (Secretary to the Management Board)
Corporate Counsel

Olli Hokkanen
Head of IT

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

Päivi Ojala
Actuaries Director

Aarni Pursiainen
Investment Director

Kari Wilén
Sales and Marketing Director

Fennia Life’s Board of Directors and Management 1 January 2016

Physicians

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

Fennia Life’s Board of Directors and Management 1 January 2016