Fennia

**2012** Annual Report and Financial Statements

**FENNIA**

# Contents

# Positive result for Fennia

Successful sales and excellent investment returns produced a positive result for Fennia in 2012. Operating profit increased to EUR 35 million. The company's investment result was outstanding and solvency strengthened.

We set ambitious targets and succeeded, for which both our loyal customers and competent personnel deserve thanks. We also achieved the best result in Fennia's history in the transfer of statutory insurance in the corporate customer segment last year.

The high quality of our service is also demonstrated by the fact that according to a study carried out by EPSI Rating, we are the most recommended insurance company in the sector among entrepreneurs and companies. We welcome feedback and build our services together with you.

However, the growth in the number of customers and the increased business activity brought with them an increase in claims paid and the number of claims. We still have a lot of work to do in terms of loss prevention and risk management.

The economic outlook in Finland is not very bright at present. It is extremely difficult to forecast all of the short- and long-term effects of the European debt crisis on the business environment. While companies are suffering due to factors outside of their control, focus must be placed on good performance in the core business. This is our goal at Fennia.

Despite all this, after considering the competitive situation, the markets and the opportunities, I still think that the outlook for 2013 and the development of the operating environment look fairly positive. The expectations of SMEs for economic development in the near future are also hopeful.

The outlook for an increase in Fennia's premium income is positive. We will continue our productive work and to develop a competitive Fennia.

In accordance with our values, the customer is number one for everyone here at Fennia. Continuous development will be even more important to us in the future than ever before. I want our good results to also benefit you, our customers.

Thank you for working with us this past year.

**Antti Kuljukka**
Managing Director

# Report of the Board of Directors 2012

The operating profit of Fennia Mutual Insurance Company grew to EUR 35 million. The company's investment result was good and solvency strengthened.

## Insurance business

Premiums written for non-life insurance increased to EUR 376 million (EUR 359 million). Direct insurance premiums written were up five per cent to EUR 375.6 million (EUR 358.7 million). Premiums written for reinsurance assumed was EUR 0.4 million (EUR 0.4 million). Credit losses decreased and were EUR 1.3 million (EUR 2.0 million).

The company's loss ratio decreased to 82.1 per cent (99.7%). Technical provisions for the comparison year (2011) increased by a total of EUR 52 million due to the decrease in the discount rate from 3.5 per cent to 3.0 per cent and the increase in the life expectancy of the population. The combined effect of these changes in the calculation bases for technical provisions increased the loss ratio and the combined ratio for 2011 by 14.8 percentage points. In 2012, the company's claims incurred grew due to increases in both the number of claims reported and the amount of average loss. The claims incurred for 2012 decreased by approximately EUR 10 million due to the unwinding of the provision for claims outstanding reserved during previous years to cover pension liabilities for motor liability insurance.

Operating expenses were EUR 88 million (EUR 86 million). The expense ratio was 24.2 per cent (24.8%). The company's combined ratio declined to 106.3 per cent (124.5% and comparable combined ratio for 2011 was 109.7%), claims accounting for 73.9 per cent (76.6%) and operating expenses and claims handling expenses for 32.4 per cent (33.1%).

Premiums written for statutory accident insurance (workers' compensation) grew 5 per cent to EUR 88 million (EUR 84 million). The loss ratio for the line was 99 per cent (92%). Premiums written for other accident and health insurances increased 10 per cent to EUR 32 million (EUR 29 million). The loss ratio for the line took an upturn, but remained unsatisfactory, at 101 per cent (112%).

Premiums written for motor liability insurance totalled EUR 72 million (EUR 72 million). Exceptional items included in the figures for both 2012 and 2011 affect the comparison between the years, but the profitability of the line improved. Premiums written for voluntary motor vehicle insurance rose 4 per cent to EUR 62 million (EUR 60 million). The loss ratio of the line weakened to 87 per cent (81%).

The premiums written for fire and other property insurance for companies amounted to EUR 44 million. In the private household segment, premiums written for fire and other property insurance rose 9 per cent to EUR 41 million. The results of both the corporate and private household segments were unsatisfactory.

## Investments

The return on investments at current values was 9.1 per cent (0.8%), and investment income at current values amounted to EUR 116 million (EUR 10 million). The company's net investment income entered at profit or loss was EUR 72 million (EUR 28 million).

At year-end, Fennia's investment assets at current values (incl. accrued interests) stood at EUR 1,294 million (EUR 1,249 million). Bonds and long-term fund investments accounted for 44 per cent of the investment portfolio, and money market investments and deposits for 7 per cent. Shares, equity fund investments and private equity funds accounted for 22 per cent, real estate investments for 25 per cent and other investments for 3 per cent.

## Result and solvency

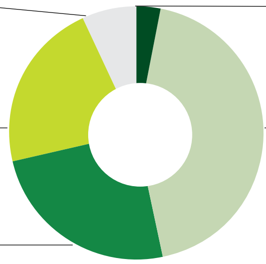
Fennia's operating profit was EUR 35 million (operating loss EUR 69 million). The company's balance on the technical account was below the targeted level, but the excellent investment result contributed to the positive operating profit. In 2011, the change in the calculation bases for technical provisions burdened the balance on the technical account, increasing the operating loss by EUR 52 million.

The company's equalisation provision grew by EUR 7 million, and stood at EUR 164 million (EUR 157 million) at year-end. The company's solvency margin increased to EUR 310 million (EUR 253 million), and solvency capital to EUR 473 million (EUR 410 million). The solvency ratio i.e. the solvency capital in proportion to the premiums earned increased to 129.4 per cent (117.5%).

## Administration and staff

During the year under review, the members of Fennia's Board of Directors were Eero Lehti (Chairman); Matti Pörhö (Vice Chairman); Jouko Kemppi, Managing Director; Lars Koski, Managing

**FENNIA MUTUAL INSURANCE COMPANY**
**Investment Portfolio 31 Dec. 2012**
EUR 1,294 Million (EUR 1,249 Million)




**Return on investments 9.1% (0.8%)**
* Rate of return by investment category

Director; Eva Liljeblom, Professor; Timo Salli, Managing Director; Paul Stucki, Managing Director and Antti Vaahto, Chairman of the Board. The deputy member of the Board of Directors was Lasse Heiniö.

The Board of Directors held a total of 11 meetings during the year under review. The attendance rate of the full members was 85 per cent and that of the deputy member 72 per cent.

Antti Kuljukka acted as Managing Director.

At the Annual General Meeting held on 16 April 2012, Managing Director Pekka Auramaa, Managing Director Ari Penttilä, Managing Director Harri Vuontelo, Managing Director Jaana Kotro and CEO Pekka Rantamäki were appointed to the Supervisory Board as new members.

At its meeting on 19 November 2012, Fennia's Supervisory Board appointed Managing Director Jussi Järventaus and Managing Director Mikael Ahlbäck to Fennia's Board of Directors as new members from 1 January 2013. Mikael Ahlbäck was also appointed as the new Chairman of the Board. From 1 January 2013, Eero Lehti, Antti Vaahto and Lasse Heiniö, who were due to resign, left the Board of Directors.

The company employed an average of 1,067 people (1,039) in 2012.

## Group structure

The consolidated financial statements of Fennia Mutual Insurance Company include Fennia Life Insurance Company, in which the Company has a 60 per cent holding, on the basis of the sub-group financial statements. Mutual Insurance Company Pension Fennia, which belongs to the Fennia Group, owns 40 per cent of Fennia Life.

Finnish Loss Survey Ltd., in which the company has a 100 per cent holding, and eFennia Oy have also been included in the consolidated accounts. Fennia owns 20 per cent of the company and has 63.6 per cent of the voting rights. Fennia Asset Management Ltd, in which Fennia Life has a 100 per cent holding, also belongs to the Fennia Group.

At the end of 2012, the Group also included 31 real estate companies, 16 of which belonged to the Fennia Life sub-group. The associated undertaking Uudenmaan Pääomarahasto Oy was also consolidated to the Group.

## Consolidated accounts

The result of the Group's life insurance business was good and the solvency position strengthened. Premiums written for life insurance increased 14 per cent to EUR 91 million (EUR 79 million). Claims paid grew to EUR 64 million (EUR 62 million). Operating expenses for life insurance were EUR 11 million (EUR 10 million). The expense ratio (of expense loading) was 117.4 per cent (113.4%).

Fennia Asset Management's first full reporting year was successful in terms of portfolio management. The company's result was negative due to a slower than expected increase in sales. Efforts to extend the asset management business as part of Fennia Group's established services will continue during the current year.

The Group's investment result at current values amounted to

EUR 202 million (EUR -28 million), of which unit-linked insurances accounted for EUR 29 million (EUR -46 million). The Group's valuation difference was EUR 182 million (EUR 114 million).

The Group's operating profit was EUR 48 million (operating loss EUR 65 million), and non-restricted capital and reserves stood at EUR 222 million (EUR 195 million). The Group's solvency capital rose notably to EUR 573 million (EUR 478 million).

## Risk management and solvency management

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

The steering of the risk management system is based on a three-defence-line model, which is described in more detail in the section 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.

Insurance operations are based on taking insurance risks, diversifying the risks within the insurance portfolio and managing them. 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 contributions received. Insurance risks also include major loss risks, such as disaster risks and the risk inherent in the adequacy of reinsurance covers.

The most important instruments for managing insurance risks relate to risk selection, pricing, insurance terms and conditions and the acquisition of reinsurance cover. In calculating the technical provisions, different quantitative methods are used, the management of which plays 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.

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

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 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. The main instruments for managing market risks are related to the selection of investment instruments, diversification of the investment portfolio and risk limitation.

The objective of managing operational risks is to reduce the probability of unexpected losses. Operational risks are defined as a risk of loss caused by inadequate or failed internal processes, personnel, systems or external factors. Legal risks are included in operational risks. The most efficient risk management measures are targeted at the most serious operational risks.

## Outlook for the current year

Low growth forecasts for 2013 will make it difficult to achieve good returns on investments. For Fennia's key customer segment, Finnish SMEs, the current year will bring stable but relatively low growth. Fennia will continue to develop its electronic services and improve the efficiency of its core business.

# Profit and Loss Account 1 Jan. 2012–31 Dec. 2012

| EUR 1,000 | Group 2012 | Group 2011 | Parent Company 2012 | Parent Company 2011 | Notes |
|---|---|---|---|---|---|
| **TECHNICAL ACCOUNT** | | | | | 2 |
| **Non-life insurance** | | | | | |
| **Premiums earned** | | | | | |
| Premiums written | 376,031 | 359,102 | 376,031 | 359,102 | 1 |
| Reinsurers' share | -5,629 | -4,932 | -5,629 | -4,932 | |
| | 370,403 | 354,169 | 370,403 | 354,169 | |
| Total change in the provision for unearned premiums | -4,851 | -5,404 | -4,851 | -5,404 | |
| **Premiums earned in total** | 365,552 | 348,766 | 365,552 | 348,766 | |
| **Claims incurred** | | | | | |
| Claims paid | -290,943 | -277,225 | -290,943 | -277,225 | |
| Reinsurers' share | 1,728 | 1,056 | 1,728 | 1,056 | |
| | -289,216 | -276,169 | -289,216 | -276,169 | |
| Change in the provision for outstanding claims | -29,317 | -83,918 | -29,317 | -83,918 | |
| Reinsurers' share | 4,439 | 489 | 4,439 | 489 | |
| | -24,878 | -83,429 | -24,878 | -83,429 | |
| **Claims incurred in total** | -314,094 | -359,598 | -314,094 | -359,598 | |
| **Net operating expenses** | -88,290 | -86,486 | -88,290 | -86,486 | 4 |
| Balance on technical account before the change in equalisation provision | -36,831 | -97,319 | -36,831 | -97,319 | |
| **Change in equalisation provision** | -6,698 | 60,323 | -6,698 | 60,323 | |
| Balance on technical account | -43,529 | -36,996 | -43,529 | -36,996 | |

| EUR 1,000 | Group 2012 | Group 2011 | Parent Company 2012 | Parent Company 2011 | Notes |
|---|---|---|---|---|---|
| **TECHNICAL ACCOUNT** | | | | | |
| **Life insurance** | | | | | |
| **Premiums written** | | | | | |
| Premiums written | 90,508 | 79,461 | | | |
| Reinsurers' share | -787 | -760 | | | |
| **Premiums written in total** | 89,721 | 78,701 | | | |
| **Share of net investment income** | 63,461 | -26,973 | | | |
| **Gross claims incurred** | | | | | |
| Claims paid | -63,608 | -61,790 | | | |
| Change in the provision for outstanding claims | -4,941 | -6,264 | | | |
| **Claims incurred in total** | -68,549 | -68,054 | | | |
| **Change in the provision for unearned premiums** | -63,358 | 30,655 | | | |
| **Net operating expenses** | -10,537 | -9,754 | | | |
| Balance on technical account | 10,739 | 4,575 | | | |

| EUR 1,000 | Group 2012 | Group 2011 | Parent Company 2012 | Parent Company 2011 | Notes |
|---|---|---|---|---|---|
| **NON-TECHNICAL ACCOUNT** | | | | | |
| Balance on technical account, non-life insurance | -43,529 | -36,996 | | | |
| Balance on technical account, life insurance | 10,739 | 4,575 | | | |
| **Investment income** | 167,958 | 134,989 | 101,216 | 86,870 | 6 |
| **Revaluations on investments** | 18,543 | 1,923 | | | |
| **Investment charges** | -51,597 | -115,850 | -29,402 | -58,996 | 6 |
| **Revaluation adjustments on investments** | -1,265 | -19,206 | | | |
| | 133,639 | 1,856 | 71,814 | 27,874 | |
| **Transfer of part of net investment income** | -63,461 | 26,973 | | | |
| **Other income** | | | | | |
| Other | 6,297 | 4,817 | 113 | 62 | |
| **Other charges** | | | | | |
| Other | -5,305 | -4,638 | 95 | 128 | |
| **Share of associated undertakings' profits** | 194 | 115 | | | |
| **Tax on profit on ordinary activities** | | | | | |
| Tax for the financial year | -6,843 | -1,505 | -4,351 | – | |
| Tax from previous periods | -380 | 150 | -210 | 145 | |
| Deferred tax | -1,712 | 748 | | | |
| | -8,935 | -606 | -4,561 | 145 | |
| Profit/loss on ordinary activities after tax | 29,638 | -3,905 | 23,932 | -8,786 | |
| **Minority interests** | -2,868 | -1,437 | | | |
| **Appropriations** | | | | | |
| Change in depreciation difference | | | 407 | 209 | |
| Profit/loss for the financial year | 26,770 | -5,342 | 24,339 | -8,577 | |

# Balance Sheet 31 Dec. 2012

| EUR 1,000 | Group 2012 | Group 2011 | Parent Company 2012 | Parent Company 2011 | Notes |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Intangible assets** | | | | | |
| Other long-term liabilities | 30,444 | 26,775 | 26,233 | 21,951 | 13 |
| Advance payments | 20,639 | 12,255 | 19,982 | 12,159 | 13 |
| | 51,083 | 39,030 | 46,215 | 34,110 | |
| **Investments** | | | | | 7 |
| Investments in land and buildings | | | | | |
| Land and buildings | 351,360 | 309,655 | 120,386 | 116,174 | 8 |
| Loans to affiliated undertakings | | | 125,427 | 115,978 | 8 |
| Loans to associated undertakings | 1,768 | 1,541 | | | |
| | 353,128 | 311,195 | 245,813 | 232,153 | |
| Investments in affiliated and associated undertakings | | | | | |
| Equities and holdings in affiliated undertakings | | | 25,982 | 25,982 | 9 |
| Equities and holdings in associated undertakings | 3,408 | 3,272 | | | 9 |
| | 3,408 | 3,272 | 25,982 | 25,982 | |
| Other investments | | | | | |
| Equities and holdings | 869,217 | 661,679 | 548,641 | 408,421 | 12 |
| Debt securities | 464,605 | 695,064 | 289,736 | 448,031 | |
| Loans guaranteed by mortgages | 9,707 | 21,054 | 6,555 | 4,481 | |
| Other loans | 24,940 | 24,787 | 24,224 | 21,735 | 10 |
| Deposits | 16,908 | 6,734 | 1,000 | - | |
| | 1,385,375 | 1,409,318 | 870,157 | 882,669 | |
| Deposits with ceding undertakings | 57 | 46 | 57 | 46 | |
| **Investments in total** | 1,741,969 | 1,723,831 | 1,142,009 | 1,140,849 | |
| **Investments covering unit-linked insurances** | 323,262 | 270,305 | | | |
| **Debtors** | | | | | |
| Arising out of direct insurance operations | | | | | |
| Policyholders | 61,881 | 61,185 | 61,275 | 60,458 | |
| Arising from reinsurance operations | 776 | 747 | 776 | 747 | |
| Other debtors | 60,012 | 62,521 | 56,279 | 66,924 | |
| Deferred tax receivables | 436 | 339 | | | |
| | 123,106 | 124,792 | 118,331 | 128,130 | |

| EUR 1,000 | Group 2012 | Group 2011 | Parent Company 2012 | Parent Company 2011 | Notes |
|---|---|---|---|---|---|
| **Other assets** | | | | | |
| Tangible assets | | | | | |
| Equipment | 7,344 | 7,971 | 6,796 | 7,290 | 13 |
| Stocks | 311 | 318 | 298 | 306 | |
| | 7,655 | 8,289 | 7,095 | 7,596 | |
| Cash at bank and in hand | 46,656 | 18,679 | 39,678 | 10,954 | |
| | 54,311 | 26,968 | 46,772 | 18,549 | |
| **Prepayments and accrued income** | | | | | |
| Interest and rents | 12,227 | 13,268 | 8,651 | 8,667 | |
| Other | 13,068 | 10,378 | 10,506 | 7,796 | |
| | 25,295 | 23,647 | 19,157 | 16,463 | |
| | 2,319,026 | 2,208,573 | 1,372,484 | 1,338,102 | |

# Balance Sheet 31 Dec. 2012

| EUR 1,000 | Group 2012 | Group 2011 | Parent Company 2012 | Parent Company 2011 | Notes |
|---|---|---|---|---|---|
| **LIABILITIES** | | | | | |
| **Capital and reserves** | | | | | 16 |
| Initial fund | 4,339 | 4,339 | 4,339 | 4,339 | |
| Guarantee capital | 3,364 | 3,364 | 3,364 | 3,364 | |
| Revaluation reserve | 885 | 885 | 885 | 885 | |
| Security reserve | 177,596 | 186,173 | 177,596 | 186,173 | |
| At the disposal of the Board | 59 | 59 | 59 | 59 | |
| Profit brought forward | 17,178 | 13,943 | | | |
| Profit/loss for the financial year | 26,770 | -5,342 | 24,339 | -8,577 | |
| | 230,190 | 203,420 | 210,580 | 186,242 | |
| **Appropriations** | | | | | |
| Accumulated depreciation difference | | | 1,534 | 1,941 | |
| **Minority interests** | 31,289 | 28,661 | | | |
| **Consolidation difference** | – | 426 | | | |
| **Technical provisions** | | | | | |
| Non-life insurance: Provision for unearned premiums | 114,539 | 109,688 | 114,539 | 109,688 | |
| Life-insurance: Provision for unearned premiums | 409,215 | 398,166 | | | |
| Non-life insurance: Claims outstanding | 841,884 | 812,567 | 841,884 | 812,567 | |
| Reinsurers' share | -7,033 | -2,593 | -7,033 | -2,593 | |
| | 834,851 | 809,973 | 834,851 | 809,973 | |
| Life insurance: Claims outstanding | 145,157 | 141,379 | | | |
| Equalisation provision, non-life insurance | 163,596 | 156,899 | 163,596 | 156,899 | |
| **Technical provisions in total** | 1,667,358 | 1,616,105 | 1,112,986 | 1,076,560 | |
| **Technical provisions for unit-linked insurances** | 325,426 | 271,955 | | | |
| **Creditors** | | | | | |
| Arising out of reinsurance operations | 1,477 | 1,379 | 1,071 | 1,019 | |
| Other creditors | 26,296 | 55,959 | 23,614 | 52,993 | |
| Deferred tax | 9,988 | 8,179 | | | |
| | 37,761 | 65,517 | 24,685 | 54,012 | |
| **Accruals and deferred income** | 27,001 | 22,489 | 22,699 | 19,348 | |
| | 2,319,026 | 2,208,573 | 1,372,484 | 1,338,102 | |

# Parent Company Cash Flow Statement

| EUR 1,000 | 2012 | 2011 |
|---|---|---|
| **INDIRECT CASH FLOW STATEMENT** | | |
| **Cash flow from business operations** | | |
| Profit/loss on ordinary activities after tax | 23,932 | -8,786 |
| Adjustments | | |
| Change in technical provisions | 36,426 | 28,510 |
| Value adjustments and revaluations on investments | -554 | 11 418 |
| Depreciation according to plan | 11,661 | 10,575 |
| Other | -33,650 | -5,914 |
| Cash flow before change in net working capital | 37,816 | 35,802 |
| Change in net working capital: | | |
| Decrease/increase in non-interest-earning receivables | 2,344 | -12,267 |
| Decrease/increase in non-interest-earning payables | -652 | 7,909 |
| Cash flow from business operations before financial items and taxes | 39,508 | 31,444 |
| Interest paid on other financial expenses from operations | -347 | -428 |
| Taxes | -5,702 | -10,561 |
| **Cash flow from business operations** | 33,458 | 20,456 |
| **Cash flow from capital expenditures** | | |
| Capital expenditure on investments (excl. funds) | -22,132 | -45,400 |
| Capital gain from investments (excl. funds) | 38,557 | 6,197 |
| Investments and income from the sale of tangible and intangible assets and other assets (net) | -21,160 | -17,330 |
| **Cash flow from capital expenditures** | -4,735 | -56,534 |
| Change in funds | 28,724 | -36,078 |
| **Funds on 1 Jan.** | 10,954 | 47,032 |
| **Funds on 31 Dec.** | 39,678 | 10,954 |
| | 28,724 | -36,078 |

# Accounting Principles

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

## Book value of investments

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

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

Debt securities are entered in the Balance Sheet at acquisition cost. The acquisition cost is calculated using the average price. The difference between their par 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 are readjusted to the value of investments, with an impact on the result, in those cases where the current value exceeds the book value.

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 IT systems. Those expenses, as well as equipment, are entered in the Balance Sheet at acquisition cost less planned depreciation.

Premium receivables are presented in the Balance Sheet at probable value and other receivables at their par value, or at a probable value permanently lower than this. Receivables that, on the basis of experience from previous years, are likely to expire have been deducted from the par value of premium receivables, resulting in their probable value. Receivables that are likely to remain unsettled are entered as a credit loss.

## Depreciation according to plan

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

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

## Revaluations on investments

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

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

## Current value of investments

The current values of the real estate are defined annually by site, on the basis of calculations made by the company's own experts. Prudent valuation has been used in the Financial Statements. External assessments on the current values of the real estate have been made in cases where there has been a need to verify the correct level of prudent valuation. In such cases, the assessments are carried out by a Finnish company specialising in real estate assessments in addition to its other operations.

Shares and participations in a life insurance company that is a subsidiary are valued at the cautiously estimated market price, which is based on the subsidiary's net asset value.

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

## Staff pension schemes

Pension insurance cover has been arranged for the staff of the Group companies by means of TyEL insurance with Mutual Insurance Company Pension Fennia. Pension insurance premiums are entered in the profit and loss account on the accrual basis.

## Appropriations and treatment of deferred tax

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

In the consolidated accounts, optional reserves and the depreciation difference are divided into the change in deferred tax and share of profit/loss for the financial year, and deferred tax and share of capital and reserves. The rate of tax used is 24.5 per cent.

## Non-life insurance: Claims outstanding

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

Due to the low interest rate level, the company lowered the technical rate of interest used in the discounting of technical provisions by 0.5 percentage points in 2011. The provision for outstanding claims pertaining to annuities is calculated by discounting, applying an interest rate of 3.0 per cent. Discounting is not applied to other parts of the provision for outstanding claims.

The mortality model used by Finnish insurance companies was updated in 2011 as a result of the observed increase in life expectancy. Due to the change, the company increased the provision for claims outstanding on pension provisions at the end of 2011. This had a substantial impact on the technical provisions of statutory accident and motor liability insurance and negligible significance to voluntary accident and general liability insurance.

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

## Technical provisions in life insurance

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

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

- In individual life and pension insurance, including capital redemption insurance, the interest rate applied is 4.5 per cent for contracts that have commenced before 1 January 1999 and 3.5 per cent for contracts that have commenced after this, and 2.5 per cent for contracts that have commenced after 1 March 2003. In pension insurance, the interest rate applied is 1 per cent for contracts that have commenced after 9 October 2012. In life insurance, including capital redemption insurance, the interest rate applied is 1.5 per cent for contracts that have commenced after 1 March 2012. In some redemption contracts, the interest rate applied is 2 per cent.
- In insurance for unregistered supplementary group pension, the interest rate is 3.5 per cent. For technical provisions accrued before 1 January 1999 the impact of the change in the interest rate (from 4.25 per cent to 3.5 per cent) has been capitalised under the technical provisions and will be written off through straight-line depreciation over a period of 15 years. The technical rate of interest for group pension insurance beginning after 1 January 2011 is 2 per cent.
- In order to fulfil the 4.5 and 3.5 per cent interest rate requirement for pension and savings insurance policies, the technical provisions have been supplemented both during the reporting year and in previous financial statements. The supplementary provision for the guaranteed interest rate on 31 December 2012 is approximately EUR 34.1 million. By cancelling the supplementary provision for the guaranteed interest rate, the annual calculated interest requirement for these con tracts in the near future will be 2.8 per cent.
- Deferred acquisition costs have been deducted from the premium reserve in individual pension insurance for contracts that have commenced before 1 January 2010. The amortisation period of this zillmerisation is insurance-specific and at maximum 5 years. The zillmerisation has been planned in such a manner that the future expense loading will suffice to cover related amortisation.

## 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 has to 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 duration of the insurance and surrender right 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 additional interest rate on the insurance contract in question. The level of technical interest for the contract is taken into account in the amount of additional interest to be paid on the insurance. When the company's net income from investments is low, the level of distributed bonuses is reduced. Thus the total interest rate of insurance policies with lower technical interest rates may remain below the highest technical interest rate. When the net income from investments is high, insurance policies with lower technical interest rates may be credited a higher total interest rate than insurance policies with higher technical interest rates.

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 company's aim is to achieve competitive bonuses in comparison with other insurance companies and other low-risk forms of investment.

The level of bonuses is limited by the owners' requirements for return on capital, as well as the company's solvency target. The solvency goal 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 that the investment plan requires in order to achieve the annual targeted return.

Fennia Life's Board of Directors confirms the amount of additional interest rate on a quarterly basis, in advance. The amount of future bonuses can, however, be changed during the course of a quarter 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, 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 targets are in force until further notice and the company reserves the right to alter the bonus targets.

## Implementing the Principle of Fairness in 2012

Fennia Life's bonuses in 2012 correspond to the targets set for the company's 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 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 company's return on investment in 2012 was good. Due to the low interest rate level and future Solvency II regulations, EUR 13 million was transferred from the investment profits to the supplementary provision for the guaranteed interest rate in the Financial Statements to cover the costs of the company's interest rate promises in the coming years. The provision for future bonuses was not increased in the Financial Statements. Some of the bonuses granted in 2012 were financed from the provision for bonuses reserved in previous years. The supplementary provision for the guaranteed interest rate was decreased as planned.

The risk-free interest rate has remained low for both short-term and long-term government bonds since 2009. The total interest credited by Fennia Life has clearly exceeded the risk-free interest rate of the corresponding investment period from 2009 to 2012. The duration of the insurance and surrender right have been taken into account in distributing bonuses. For that reason, the total interest credited on pension insurance has been slightly higher than the interest credited on savings insurance. The table below indicates the total interest credited by Fennia Life in 2012:

Total annual interest on with-profit policies in 2012

| 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 % | 3.55 % | 3.55 % | 3.50 % |
| 2.50 % | 3.10 % | 3.50 % | | 2.90 % |
| 2.00 % | | | 3.50 % | 2.90 % |
| 1.50 % | (since 1 March) 3.08 % | | | (since 1 March) 2.88 % |
| 1.00 % | | (since 9 Oct.) 3.40 % | | 2.90 % |

## Consolidated accounts

Fennia's consolidated accounts include the Parent Company and all the subsidiaries in which the Parent Company either directly or indirectly holds more than half of the voting rights. Fennia Life Insurance Company Ltd belongs to the Fennia Group as a subsidiary. Fennia Life and its subsidiaries are combined with the Groups consolidated accounts on the basis of the consolidated accounts of the Fennia Life sub-group. Finnish Loss Survey Ltd. (SVT) (100 per cent ownership) and eFennia Oy (20 per cent ownership, voting rights 63.6 per cent) are subsidiaries of Fennia, and Fennia Asset Management Ltd is a subsidiary of Fennia Life (100 per cent ownership). The other subsidiaries included in the consolidated accounts are real estate companies. At the end of 2012, the Group had 31 real estate companies, 16 of which belonged to the Fennia Life sub-group.

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

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

The companies in which the Group holds 20–50 per cent of the voting rights have been included in the consolidated accounts as associated undertakings using the equity method of accounting. However, holdings (20–50 per cent) in mutual real estate undertakings and property companies are not included. This has no significant impact on the Group's results and capital and reserves.

## Group companies 31 Dec. 2012

**New subsidiaries included in Fennia's consolidated financial statements**

Kiinteistö Oy Tampereen Uusi Rautatienkatu 21
Kiinteistö Oy Tampereen Rautatienkatu 23

**The following subsidiaries are included in the consolidated financial statements**

eFennia Oy
Emmelia Oy
Finnish Loss Survey Ltd.
Asunto Oy Espoon Myllynkivi
Asunto Oy Helsingin Vattuniemenkuja 8
Asunto Oy Helsingin Viikinportti
Asunto Oy Keravan Jaakonkulma
Asunto Oy Oulun Alppilan Ruusu
Kiinteistö Oy Eagle Lahti
Kiinteistö Oy Ornant
Kiinteistö Oy Ruosilantie 4-6
Kiinteistö Oy Ruosilantie 11
Kiinteistö Oy Tampereen Rautatienkatu 21
Kiinteistö Oy Televisiokatu 1
Kiinteistö Oy Televisiokatu 3

**Fennia Life Insurance Company**

**New subsidiaries**

Kiinteistö Oy Uudenmaankatu 24
Kiinteistö Oy Biolinja 27
Kiinteistö Oy Espoon Portti 1-5

**Subsidiaries**

Fennia Asset Management Ltd.
Kiinteistö Oy Kalevankatu 9
Kiinteistö Oy Teohypo
Kiinteistö Oy Espoon Niittyrinne 1
Kiinteistö Oy Kaakkurin Liikekeskus
Kiinteistö Oy Vaajakosken Varaslahdentie 6
Kiinteistö Oy Sellukatu 5
Kiinteistö Oy Vasaraperän Liikekeskus
Kiinteistö Oy Koivuhaanportti 1-5
Kiinteistö Oy Mikkelin Hallituskatu 1
Kiinteistö Oy Vasaramestari
Kiinteistö Oy Konalan Ristipellontie 25
Asunto Oy Jyväskylän Jontikka 2
Asunto Oy Tampereen Vuoreksen Puistokatu 76

**Associated undertakings included in the consolidated financial statements**

Uudenmaan Pääomarahasto Oy

# Notes to the Accounts, Parent Company

## NOTES TO THE PROFIT AND LOSS ACCOUNT AND BALANCE SHEET

| EUR 1,000 | 2012 | 2011 |
|---|---|---|
| **1. PREMIUMS WRITTEN** | | |
| Non-life insurance | | |
| Direct insurance | | |
| Finland | 375,600 | 358,659 |
| Reinsurance | 431 | 442 |
| Gross premiums written before reinsurers' share | 376,031 | 359,102 |

## 2.BALANCE ON TECHNICAL ACCOUNT BY GROUP OF INSURANCE CLASS, PARENT COMPANY

| Group of insurance class<br>EUR 1,000 | Year | Premiums written before reinsurers' share | Premiums earned before reinsurers' share | Claims incurred before reinsurers' share | Operating expenses before reinsurers' commissions and profit participation | Reinsurance balance | Balance on technical account before the change in collective item and equalisation provision |
|---|---|---|---|---|---|---|---|
| Statutory accident | 2012 | 88,146 | 89,417 | -87,928 | -10,964 | -266 | -9,741 |
| insurance | 2011 | 83,810 | 82,600 | -106,245 | -10,685 | -230 | -34,561 |
| (workers' compensation) | 2010 | 71,927 | 71,977 | -67,031 | -9,160 | -422 | -4,636 |
| Non-statutory accident | 2012 | 32,210 | 30,719 | -30,856 | -9,540 | -108 | -9,785 |
| and health | 2011 | 29,262 | 28,046 | -31,409 | -9,243 | -93 | -12,699 |
| | 2010 | 26,174 | 25,158 | -24,430 | -7,760 | -82 | -7,114 |
| Motor | 2012 | 71,721 | 71,290 | -45,939 | -19,994 | -370 | 4,986 |
| liability | 2011 | 72,052 | 71,512 | -78,400 | -19,897 | -452 | -27,238 |
| | 2010 | 69,254 | 69,015 | -57,308 | -17,553 | -326 | -6,171 |
| Motor, other classes | 2012 | 62,378 | 61,296 | -53,406 | -17,093 | -204 | -9,407 |
| | 2011 | 59,807 | 59,216 | -47,649 | -16,549 | -202 | -5,185 |
| | 2010 | 58,034 | 58,577 | -44,677 | -14,556 | -185 | -841 |
| Fire and other | 2012 | 75,927 | 74,165 | -74,885 | -20,101 | 3,336 | -17,485 |
| damage to property | 2011 | 71,071 | 69,910 | -65,958 | -19,734 | -1,678 | -17,459 |
| | 2010 | 65,975 | 65,322 | -66,264 | -17,072 | -2,183 | -20,198 |
| General liability | 2012 | 23,244 | 22,346 | -13,447 | -4,622 | -492 | 3,785 |
| | 2011 | 21,987 | 21,336 | -18,161 | -4,438 | 3 | -1,261 |
| | 2010 | 19,221 | 18,756 | -12,905 | -3,647 | -95 | 2,108 |
| Other | 2012 | 21,973 | 21,520 | -13,970 | -5,935 | -1,228 | 388 |
| | 2011 | 20,670 | 20,641 | -13,090 | -5,890 | -593 | 1,068 |
| | 2010 | 20,585 | 20,277 | -10,380 | -5,356 | -818 | 3,723 |
| **DIRECT INSURANCE** | 2012 | 375,600 | 370,753 | -320,432 | -88,249 | 670 | -37,258 |
| **TOTAL** | 2011 | 358,659 | 353,260 | -360,912 | -86,437 | -3,246 | -97,335 |
| | 2010 | 331,170 | 329,083 | -282,996 | -75,104 | -4,112 | -33,129 |
| Reinsurance | 2012 | 431 | 427 | 172 | -172 | 0 | 427 |
| | 2011 | 442 | 438 | -231 | -191 | 0 | 16 |
| | 2010 | 378 | 353 | -115 | -178 | 1 | 61 |
| **TOTAL** | 2012 | 376,031 | 371,181 | -320,261 | -88,421 | 670 | -36,831 |
| | 2011 | 359,102 | 353,698 | -361,143 | -86,628 | -3,246 | -97,319 |
| | 2010 | 331,548 | 329,436 | -283,111 | -75,282 | -4,111 | -33,068 |
| Technical underwriting | | | | | | | |
| income and expenses | 2010 | | | | | | 6,159 |
| Change in equalisation | 2012 | | | | | | -6,698 |
| provision | 2011 | | | | | | 60,323 |
| | 2010 | | | | | | -491 |
| **BALANCE ON** | 2012 | | | | | | -43,529 |
| **TECHNICAL ACCOUNT** | 2011 | | | | | | -36,996 |
| | 2010 | | | | | | -27,400 |

| EUR 1,000 | 2012 | 2011 |
|---|---|---|
| **3. ITEMS DEDUCTED FROM PREMIUMS WRITTEN** | | |
| Credit loss on outstanding premiums | 1,262 | 1,978 |
| Pay-as-you-go premiums | 22,833 | 24,779 |
| Premium tax | 58,194 | 55 454 |
| Fire brigade charge | 833 | 781 |
| Traffic safety charge | 707 | 672 |
| Industrial safety charge | 1,555 | 1,531 |
| | 85,383 | 85,194 |

| EUR 1,000 | 2012 | 2011 |
|---|---|---|
| **4. OPERATING EXPENSES** | | |
| **Total operating expenses by activity** | | |
| Claims paid | 30,070 | 28,883 |
| Net operating expenses | 88,290 | 86,486 |
| Investment charges | 2,805 | 3,012 |
| Other charges | -103 | -129 |
| Total | 121,062 | 118,252 |
| **Depreciation according to plan by activity** | | |
| Claims paid | 2,861 | 2,394 |
| Net operating expenses | 6,305 | 5,890 |
| Investment charges | 389 | 194 |
| Total | 9,556 | 8,477 |
| **Operating expenses in Profit and Loss Account** | | |
| Policy acquisition costs | | |
| Direct insurance commissions | 6,846 | 5,872 |
| Commissions on reinsurance assumed and profit sharing | 62 | 71 |
| Other policy acquisition costs | 35,509 | 34,880 |
| | 42,418 | 40,824 |
| Policy management expenses | 28,703 | 29,023 |
| Administrative expenses | 17,301 | 16,781 |
| Commissions on reinsurance ceded and profit sharing | -131 | -142 |
| Total | 88,290 | 86,486 |

| EUR 1,000 | 2012 | 2011 |
|---|---|---|
| **5. STAFF EXPENSES, PERSONNEL AND EXECUTIVES** | | |
| **Staff expenses** | | |
| Salaries and commissions | 53,231 | 50,227 |
| Pension expenses | 9,555 | 9,095 |
| Other social expenses | 4,713 | 4,727 |
| Total | 67,499 | 64,049 |
| **Executives' salaries and commissions** | | |
| Managing Director and substitute for the Managing Director | 563 | 643 |
| Board of Directors | 149 | 155 |
| Supervisory Board | 140 | 151 |
| Total | 851 | 949 |

The age of retirement of the Managing Director is defined according to TyEL.

| | 2012 | 2011 |
|---|---|---|
| **Average number of personnel during the financial year** | | |
| Office personnel | 573 | 568 |
| Sales personnel | 494 | 471 |
| Total | 1,067 | 1,039 |
| **Auditors' commissions** | | |
| Audit | 57 | 42 |
| Tax consulting | 5 | 9 |
| Other services | 32 | 1 |
| Total | 93 | 52 |

| EUR 1,000 | 2012 | 2011 |
|---|---|---|
| **6. NET INVESTMENT INCOME** | | |
| **Investment income** | | |
| Income from investments in affiliated undertakings | | |
| Dividend income | 60 | 108 |
| Income from investments in land and buildings | | |
| Interest income | | |
| From affiliated undertakings | 3,597 | 3,863 |
| Other income | | |
| From affiliated undertakings | 486 | 487 |
| From other undertakings | 21,014 | 18,544 |
| | 25,097 | 22,894 |
| Income from other investments | | |
| Dividend income | 8,743 | 7,538 |
| Interest income | 16,317 | 20,339 |
| Other income | 2,001 | 1,736 |
| | 27,061 | 29,613 |
| Total | 52,219 | 52,615 |
| Value readjustments | 6,555 | 1,214 |
| Gains on realisation of investments | 42,443 | 33,042 |
| TOTAL | 101,216 | 86,870 |
| **Investment charges** | | |
| Charges arising from investments in land and buildings | | |
| To affiliated undertakings | -10,415 | -9,992 |
| To other undertakings | -3,576 | -3,642 |
| | -13,991 | -13,634 |
| Charges arising from other investments | -3,072 | -3,360 |
| Interest and other expenses on liabilities | | |
| To other undertakings | -347 | -427 |
| Total | -17,411 | -17,422 |
| Value adjustments and depreciations | | |
| Value adjustments on investments | -6,000 | -12,631 |
| Planned depreciation on buildings | -2,105 | -2,098 |
| | -8,106 | -14,729 |
| Losses on realisation of investments | -3,886 | -26,845 |
| TOTAL | -29,402 | -58,996 |
| **Net investment income on the Profit and Loss Account** | 71,814 | 27,874 |

| EUR 1,000 | Investments 31 Dec. 2012 Remaining acquisition cost | Book value | Current value | Investments 31 Dec. 2011 Remaining acquisition cost | Book value | Current value |
|---|---|---|---|---|---|---|
| **7. CURRENT VALUE AND VALUATION DIFFERENCE ON INVESTMENTS** | | | | | | |
| **Investments in land and buildings** | | | | | | |
| **Real estate** | 24,384 | 35,694 | 74,111 | 22,902 | 34,664 | 70,977 |
| Real estate shares in affiliated undertakings | 70,402 | 70,402 | 80,786 | 69,143 | 69,143 | 77,687 |
| Real estate shares in associated undertakings | 7,108 | 7,158 | 9,456 | 8,041 | 8,091 | 10,652 |
| Other real estate shares | 6,914 | 7,133 | 8,132 | 4,006 | 4,275 | 5,375 |
| Loans from affiliated undertakings | 125,427 | 125,427 | 125,427 | 115,978 | 115,978 | 115,978 |
| **Investments in affiliated undertakings** | | | | | | |
| Equities and holdings | 25,982 | 25,982 | 38,626 | 25,982 | 25,982 | 38,626 |
| **Other investments** | | | | | | |
| Equities and holdings | 548,641 | 548,641 | 606,164 | 408,421 | 408,421 | 439,126 |
| Debt securities | 289,736 | 289,736 | 311,099 | 448,031 | 448,031 | 455,323 |
| Loans guaranteed by mortgages | 6,555 | 6,555 | 6,555 | 4,481 | 4,481 | 4,481 |
| Other loans | 24,224 | 24,224 | 24,224 | 21,735 | 21,735 | 21,735 |
| Deposits | 1,000 | 1,000 | 1,000 | - | - | - |
| **Deposits with ceding undertakings** | 57 | 57 | 57 | 46 | 46 | 46 |
| | 1,130,430 | 1,142,009 | 1,285,638 | 1,128,768 | 1,140,849 | 1,240,008 |
| The remaining acquisition cost of debt securities comprises the difference between the amount repayable at maturity and purchase price, which has been released to interest income (+) or charged to interest income (-) | -5,479 | | | -2,213 | | |
| Book value comprises | | | | | | |
| Revaluations entered as income | | 10,593 | | | 11,096 | |
| Other revaluations | | 986 | | | 986 | |
| | | 11,579 | | | 12,082 | |
| Valuation difference (difference between current value and book value) | | | 143,629 | | | 99,158 |

| EUR 1,000 | Changes in investments in land and buildings 1 Jan. 2012–31 Dec. 2012<br>Land and buildings and real estate shares | Investment loans in affiliated undertakings |
|---|---|---|
| **8. INVESTMENTS IN LAND AND BUILDINGS** | | |
| **Acquisition cost, 1 Jan.** | 134,605 | 115,978 |
| Increase | 6,662 | 25,805 |
| Decrease | -1,072 | -16,356 |
| **Acquisition cost, 31 Dec.** | 140,195 | 125,427 |
| **Accumulated depreciation, 1 Jan.** | -35,661 | |
| Accumulated depreciation related to decreases and transfers | - | |
| Depreciation for the financial year | -2,105 | |
| **Accumulated depreciation, 31 Dec.** | -37,766 | |
| **Value adjustments, 1 Jan.** | -4,281 | |
| Value adjustments during the financial year | - | |
| Reversed impairment | 778 | |
| **Value adjustments, 31 Dec.** | -3,503 | |
| **Revaluations, 1 Jan.** | 21,511 | |
| Decrease | -50 | |
| **Revaluations, 31 Dec.** | 21,461 | |
| **Book value, 31 Dec.** | 120,386 | 125,427 |
| Land and buildings and real estate shares occupied for own activities: | | |
| Remaining acquisition cost | 15,858 | |
| Book value | 16,352 | |
| Current value | 19,659 | |

| EUR 1,000 | |
|---|---|
| **9. INVESTMENTS IN AFFILIATED UNDERTAKINGS** | **Changes in investments in affiliated undertakings 1 Jan. 2012–31 Dec. 2012** |
| **Acquisition cost, 1 Jan. / 31 Dec.** | 25,982 |
| **Book value, 31 Dec.** | 25,982 |

| EUR 1,000 | 2012 | 2011 |
|---|---|---|
| **10. OTHER INVESTMENTS** | | |
| **Other loans by security** | | |
| Other security | 24,224 | 21,735 |
| **11. DEBTORS** | | |
| **Other debtors** | | |
| Affiliated undertaking | 1,302 | 6,676 |

| EUR 1,000 | Holding % | Book value 31 Dec. 2012 | Current value 31 Dec. 2012 |
|---|---|---|---|
| **12. EQUITIES AND HOLDINGS IN OTHER COMPANIES** | | | |
| **Other investments** | | | |
| **Domestic equities and holdings** | | | |
| Aloitusrahasto Vera Oy | 0.6791 | 500 | 500 |
| Autovahinkokeskus Oy | 11.5972 | 278 | 278 |
| Mutual Insurance Company Pension-Fennia | | 1,689 | 1,689 |
| Fortum | 0.0189 | 2,372 | 2,372 |
| Holiday Club Resorts Oy | 2.5765 | 1,451 | 1,462 |
| Kemira Oyj | 0.0739 | 1,210 | 1,349 |
| Kesko Oyj, series B | 0.0799 | 1,110 | 1,323 |
| Kone Oyj, series B | 0.0063 | 742 | 781 |
| Konecranes Oyj | 0.0140 | 211 | 227 |
| Kytäjä Golf Oy | 5.0000 | 960 | 960 |
| Metso Oyj | 0.0329 | 1,522 | 1,585 |
| Neste Oil Oyj | 0.0103 | 256 | 258 |
| Nokia Oyj | 0.0071 | 711 | 783 |
| Nokian Renkaat Oyj | 0.0078 | 311 | 311 |
| Panostaja Oyj | 6.7048 | 2,810 | 2,810 |
| Sampo Oyj, series A | 0.0063 | 812 | 857 |
| Stora Enso Oyj, series R | 0.0110 | 352 | 354 |
| Terveysrahasto Oy, B-shares | 3.2201 | 419 | 419 |
| UPM-Kymmene Oyj | 0.0067 | 312 | 312 |
| Uudenmaan Pääomarahasto Oy | 13.7094 | 2,000 | 2,000 |
| Wärtsilä Oyj Abp | 0.0096 | 567 | 620 |

| EUR 1,000 | Holding % | Book value 31 Dec 2012 | Current value 31 Dec 2012 |
|---|---|---|---|
| **Foreign equities and holdings** | | | |
| **Neatherlands** | | | |
| Koninklijke KPN NV (Royal) | 0.0065 | 345 | 345 |
| Royal Dutch Shell Plc | 0.0013 | 1,017 | 1,314 |
| **Spain** | | | |
| Telefonica S.A. | 0.0015 | 674 | 674 |
| **Cyprus** | | | |
| PROSAFE SE | 0.0696 | 1,006 | 1,025 |
| **Luxembourg** | | | |
| Oriflame Cosmetics SA | 0.0719 | 960 | 963 |
| **Norway** | | | |
| Fred Olsen Energy ASA | 0.0390 | 786 | 854 |
| StatoilHydro ASA | 0.0017 | 1,000 | 1,040 |
| **France** | | | |
| GDF Suez | 0.0017 | 622 | 622 |
| Sanofi-Aventis | 0.0015 | 1,098 | 1,425 |
| **Sweden** | | | |
| K III Sweden AB - C | 3.0800 | 1,299 | 1,313 |
| Nordea Bank AB FDR | 0.0011 | 307 | 318 |
| **Germany** | | | |
| Volkswagen Ag | 0.0027 | 1,068 | 1,304 |
| **Switzerland** | | | |
| Novartis AG | 0.0005 | 506 | 619 |
| **United States** | | | |
| Intel Corporation | 0.0024 | 1,865 | 1,876 |

| EUR 1,000 | Book value 31 Dec 2012 | Current value 31 Dec 2012 |
|---|---|---|
| **Unit trusts** | | |
| Aberdeen Asia Pacific Fund A2 | 707 | 1,697 |
| Aberdeen Indirect Property Partners | 1,149 | 1,149 |
| Aktia America B | 2,580 | 2,978 |
| Aktia Em Mrkt Local Currency Bond+ D | 3,710 | 4,601 |
| Aktia Em Mrkt Local Currency T-Bill+ D | 5,480 | 5,669 |
| Aktia Global Government Bond+ | 4,503 | 4,631 |
| Alfred Berg Korko B | 7,500 | 7,513 |
| Allianz Global Investors - Euro High Yield Bond IT | 2,187 | 2,432 |
| Aviva Investors - Global Short Duration High Yield | 10,000 | 10,331 |
| Aviva Investors SICAV - Global High Yield Bond I | 4,640 | 5,315 |
| BGF European Fund A2 | 4,666 | 4,786 |
| Bluebay Emerging Markets Bond Fund R | 13,648 | 17,403 |
| Bluebay Emerging Markets Corporate Bond Fund | 16,284 | 19,164 |
| Bluebay Emerging Mkts Local Currency Bond I USD | 23,535 | 26,638 |
| Bluebay High Yield Bond Fund I | 20,952 | 30,890 |
| BNP Paribas L1 - Bond World Emerging Local | 10,000 | 10,368 |
| Brummer & Partners Lynx Fund | 2,004 | 2,024 |
| Brummer & Partners Nektar Fund | 2,007 | 2,067 |
| CRM US Equity Opportunities - Class S USD | 8,737 | 8,925 |
| DNB OBX ETF | 3,025 | 3,358 |

| EUR 1,000 | Book value 31 Dec 2012 | Current value 31 Dec 2012 |
|---|---|---|
| Eaton Vance Emerald PPA Emerg Mkts Equity Fund | 7,226 | 7,594 |
| Enter Select | 1,630 | 1,697 |
| EPI Baltic I Oy | 399 | 399 |
| eQ Emerging Dividend Units | 6,224 | 7,145 |
| eQ Emerging Markets Local Currency Credit | 1,000 | 1,011 |
| Evli Euro Liquidity B | 12, 801 | 13,033 |
| Evli European High Yield B | 5,993 | 6,897 |
| Fidelity Active Strategy - Emerging Markets Fund | 4,003 | 4,826 |
| Fidelity Active Strategy - Europe Fund | 2,102 | 2,875 |
| Fidelity China Focus | 987 | 1,318 |
| FIM Brands | 296 | 324 |
| FIM Brazil | 1,291 | 1,988 |
| FIM BRIC+ | 816 | 840 |
| FIM Euro | 3,431 | 3,725 |
| FIM Euro High Yield | 2,370 | 2,654 |
| FIM Kehittyvä Korko | 2,366 | 2,570 |
| FIM Likvidi | 4,008 | 4,021 |
| FIM Unioni | 337 | 384 |
| Fondita Nordic Micro Cap B | 3,019 | 3,780 |
| Fourton Odysseus | 2,030 | 2,871 |
| Goldman Sachs Global Emerging Markets Debt | 7,431 | 13,426 |
| Handelsbanken Eurooppa Selective A I | 1,647 | 1,896 |
| Handelsbanken Pohjoismaat Selective A I | 2,202 | 2,396 |
| iShares FTSE Xinhua China 25 Index Fund | 7,190 | 7,664 |
| iShares Russell 2000 Value Fund ETF | 1,766 | 1,948 |
| iShares S&P 500 Index | 813 | 819 |
| iShares STOXX Europe 600 ETF | 4,429 | 4,526 |
| iShares STOXX Europe 600 Health Care ETF | 1,535 | 1,666 |
| Jo Hambro European Select Values EUR | 4,251 | 4,484 |
| JPM US Select 130/30 A acc-USD | 6,643 | 8,625 |
| JPMorgan Funds - Emerging Markets Corporate Bond F | 1,000 | 1,003 |
| Kauppakeskuskiint. FEA Ky | 18,711 | 18,711 |
| Kempen International Fund Euro Credit Fund | 6,000 | 6,493 |
| Limited Life Credit Opportunity AX EUR | 10,000 | 10,605 |
| Market Vectors Agribusiness ETF | 2,800 | 2,800 |
| Muzinich Funds - Americayield Fund Hedged Acc | 1,986 | 2,256 |
| Muzinich Funds - Europeyield Fund | 14,000 | 14,469 |
| Muzinich Short Duration High Yield Fund I | 25,475 | 26,452 |
| Odin Finland II | 3,679 | 3,679 |
| Pioneer Funds - Euro High Yield | 30,704 | 31,057 |
| chroder ISF US Small & Mid-Cap Equity | 2,427 | 3,412 |
| SEB European Equity Small Caps | 2,435 | 2,653 |
| SEB Money Manager B | 15,032 | 15,126 |
| SEB Money Manager Plus BI | 8,180 | 9,449 |
| SEB Sverigefond | 4,168 | 4,258 |
| Seligson & Co Euro Corporate Bond A | 5,009 | 5,286 |
| Seligson & Co Kehittyvät markkinat I A | 879 | 879 |
| Seligson & Co OMX Helsinki 25-indeksiosuus ETF | 3,791 | 3,982 |
| Seligson & Co Rahamarkkinarahasto AAA | 157 | 158 |
| SKY Harbor Global Funds - US High Yield Fund | 11,200 | 11,241 |
| Sponda Fund I Ky | 5,426 | 5,426 |
| SPYDR Standard & Poors 500 Index Ser.1 Standard | 10,835 | 12,166 |
| Taaleritehdas Rupla Osake A (Kasvu) | 1,825 | 1,825 |
| Vanguard MSCI Emerging Markets ETF | 12,417 | 13,457 |

| EUR 1,000 | Book value 31 Dec 2012 | Current value 31 Dec 2012 |
|---|---|---|
| WestLB Mellon Compass Fund - Euro Corporate Bond | 5,117 | 5,613 |
| William Blair Sicav - Emerging Leaders Growth | 7,227 | 7,455 |
| William Blair US All Cap Growth Fund D | 8,632 | 8,735 |
| XACT OMX 30 Index Fund | 5,098 | 5,642 |
| XACT OMX Stockholm BI ETF | 2 061 | 2,061 |
| **Capital trusts** | | |
| Access Capital LP | 0 | 1,787 |
| Auda Capital III L.P. | 949 | 949 |
| Duke Street Capital VI LP | 1,662 | 1,662 |
| Euro Choice IV GB Limited | 2,133 | 2,133 |
| Fennia Avainrahasto Ky | 2,174 | 2,174 |
| MB Equity Fund III Ky | 985 | 1,371 |
| MB Equity Fund IV Ky | 1,076 | 1,076 |
| Mediatonic Fund I Ky | 346 | 346 |
| Midinvest Fund II Ky | 360 | 360 |
| Nexit Infocom 2000 Fund Limited Partnership | 135 | 135 |
| Nokia Venture Partners II, L.P | 334 | 334 |
| Partners Group European Buyout | 3,432 | 3 794 |
| Partners Group European Mezzanine | 3,326 | 3,326 |
| Permira Europe II LP2 | 431 | 431 |
| Permira Europe IV LP2 | 1,448 | 1,505 |
| Selected Mezzanine Funds I Ky | 4,575 | 4,837 |
| Selected Private Equity Funds I Ky | 3,058 | 3,058 |
| Teknoventure Rahasto III Ky | 2,138 | 2 859 |
| The First European Fund Investments UK Ltd Partnership | 464 | 464 |
| The Triton Fund II L.P. | 1,257 | 1 257 |
| The Triton Fund III L.P. | 4,343 | 4 343 |
| **Other** | 7,051 | 7,337 |
| | 548,641 | 606,164 |

| EUR 1,000 | Other long-term expenses | Advance payments | Equip-ment | Total |
|---|---|---|---|---|
| **13. CHANGES IN INTANGIBLE AND TANGIBLE ASSETS** | | | | |
| **Acquisition cost, 1 Jan. 2012** | 45,519 | 12,159 | 16,674 | 74 352 |
| Fully depreciated in the previous year | -710 | | -150 | -859 |
| Increase | 11,395 | 18,054 | 2,273 | 31,722 |
| Decrease | - | -10,230 | -1,369 | -11,600 |
| **Acquisition cost, 31 Dec. 2012** | 56,205 | 19,982 | 17,428 | 93,615 |
| **Accumulated depreciation, 1 Jan. 2012** | -23,568 | | -9,384 | -32,952 |
| Fully depreciated in the previous year | 710 | | 150 | 859 |
| Accumulated depreciation related to decreases and transfers | | | 1,046 | 1,046 |
| Depreciation for the financial year | -7,114 | | -2,442 | -9,556 |
| **Accumulated depreciation, 31 Dec. 2012** | -29,972 | | -10,631 | -40,603 |
| **Book value, 31 Dec. 2012** | 26,233 | 19,982 | 6,796 | 53,012 |

| EUR 1,000 | 2012 | 2011 |
|---|---|---|
| **14. KEY FIGURES PERTAINING TO SOLVENCY** | | |
| **Solvency margin** | | |
| Capital and reserves after proposed profit distribution | 210,580 | 186,242 |
| Appropriations | 1,534 | 1,941 |
| Valuation difference between current value and | | |
| Balance Sheet book value of assets | 143,629 | 99,158 |
| Capitalised intangibles | -46,215 | -34,110 |
| Other items | - | -461 |
| | 309,528 | 252,769 |
| **Minimum solvency margin required under the Finnish Insurance Companies Act,** | | |
| **Chapter 11, Section 7** | 76,246 | 71,515 |
| **Equaliisation provision for years with large numbers of losses included in technical provisions** | 163,596 | 156,899 |
| **Solvency margin and equalisation provision to premiums earned from the preceding 12 months** | 40% | 40% |
| - for the year 2012 | 129% | |
| - for the year 2011 | 117% | |
| - for the year 2010 | 155% | |
| - for the year 2009 | 138% | |
| - for the year 2008 | 101% | |
| **15. CREDITORS** | | |
| **Other creditors** | | |
| Affiliated undertakings | 817 | 1,134 |

| EUR 1,000 | 2012 |
|---|---|
| **16. CAPITAL AND RESERVES** | |
| **Restricted** | |
| Initial fund, 1 Jan. / 31 Dec. | 4,339 |
| Guarantee capital, 1 Jan. / 31 Dec. | 3 364 |
| Revaluation reserve, 1 Jan. / 31 Dec. | 885 |
| **Restricted in total** | 8,587 |
| **Non-restricted** | |
| Security reserve, 1 Jan. 2012 | 186,173 |
| Transfer from loss brought forward | -8,577 |
| Security reserve, 31 Dec. 2012 | 177,596 |
| At the disposal of the Board, 1 Jan. / 31 Dec. | 59 |
| Profit brought forward | |
| Loss brought forward | -8,577 |
| Transfer to security reserve | 8,577 |
| Profit brought forward | - |
| Profit for the financial year | 24,339 |
| **Non-restricted in total** | 201,993 |
| **Capital and reserves in total** | 210,580 |
| **Revaluation reserve, 31 Dec. 2012** | |
| Revaluations on investments | 458 |
| Revaluations on fixed assets | 426 |
| | 885 |
| **Distributable profit, 31 Dec. 2012** | |
| Profit for the financial year | 24,339 |
| Security reserve | 177,596 |
| At the disposal of the Board | 59 |
| | 201,993 |

| EUR 1,000 | 2012 | 2011 |
|---|---|---|
| **17. GUARANTEE AND LIABILITY COMMITMENTS** | | |
| **Own liabilities** | | |
| **Liabilities from derivative contracts** | | |
| Interest rate derivatives | | |
| Forward and futures contracts | | |
| Value of underlying instrument | – | 13,729 |
| Current value | – | -173 |
| Negative valuation differences on non-hedging derivative contracts are charged against the profit. | | |
| **Securities given as collateral for derivatives trade** | 51 | 2,006 |
| **Leasing and leasehold commitments** | 7,207 | 4,090 |
| **Assets pledged as collateral** | 181 | 181 |
| **Other liabilities** | | |
| As regards group registering for VAT taxation, the company is responsible for the value-added tax payable by the group jointly with the other members of the value-added tax liability group of Varma Mutual Pension Insurance Company | | |
| Affiliated undertakings | 9 | -152 |
| Other undertakings | 5,932 | 6,233 |
| **Adjustment liability of real estate investment VAT according to Section 120** | 66 | 77 |
| **Investment commitments** | | |
| Commitment to invest in equity funds | 28,248 | 33,402 |

**18. LOANS TO RELATED PARTIES AND RELATED PARTY TRANSACTIONS**

The company has granted a total of EUR 2,044,444.00 in loans to related parties.
The company has no liabilities or contingent liabilities to related parties.
The company has no related party transactions conducted according to other than standard business practices.

**Notes concerning the Group**

Copies of Fennia's Consolidated Financial Statements are available at the company's headquarters, Televisiokatu 1, Helsinki.

**GROUP ANALYSIS OF RESULTS (EUR million)**

| | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| **Non-life insurance** | | | | | |
| Premiums earned | 335 | 334 | 324 | 349 | 366 |
| Claims incurred | -284 | -256 | -282 | -360 | -314 |
| Net operating expenses | -68 | -72 | -75 | -86 | -88 |
| Other technical underwriting income (net) | 0 | 0 | 6 | 0 | 0 |
| **Balance on technical account before** | **-19** | **6** | **-27** | **-97** | **-37** |
| rebates and change in equalisation provision | | | | | |
| Investment income (net), revaluations | -12 | 62 | 66 | 29 | 70 |
| Other income (net) | 1 | 1 | 0 | 1 | 2 |
| Share of associated undertakings' profit | 0 | 0 | 1 | 0 | 0 |
| **Operating profit/loss** | **-30** | **68** | **40** | **-67** | **35** |
| Change in equalisation provision | -3 | -32 | 0 | 60 | -7 |
| **Non-life insurance profit/loss before extraordinary items** | **-34** | **37** | **39** | **-7** | **29** |
| | | | | | |
| **Life insurance** | | | | | |
| Premiums written | 54 | 70 | 60 | 79 | 90 |
| Investment income (net), | | | | | |
| revaluations and revaluation adjustments on investments | -84 | 91 | 81 | -27 | 63 |
| Claims paid | -76 | -53 | -51 | -62 | -64 |
| Change in technical provision before bonuses | | | | | |
| and rebates and change in equalisation provision | 87 | -84 | -62 | 23 | -66 |
| Net operating expenses | -7 | -7 | -8 | -10 | -11 |
| Other technical income | | | | | |
| **Technical underwriting result rebates and change in equalisation provision** | **-25** | **16** | **20** | **3** | **13** |
| Other income (net) | 0 | 0 | 0 | -1 | -1 |
| | | | | | |
| **Operating profit/loss** | **-25** | **16** | **20** | **2** | **12** |
| Change in equalisation provision | -1 | 0 | -1 | -1 | -1 |
| Bonuses and rebates | 0 | -4 | -4 | 2 | -1 |
| | | | | | |
| **Life insurance profit/loss before extraordinary items** | **-26** | **12** | **15** | **4** | **10** |
| | | | | | |
| Extraordinary income | - | - | - | - | - |
| Extraordinary charges | - | - | - | - | - |
| **Profit/loss before appropriations and tax** | **-60** | **48** | **54** | **-3** | **39** |
| Income tax and other direct tax | -1 | -3 | -11 | -1 | -9 |
| Minority interests | 10 | -5 | -6 | -1 | -3 |
| **Group's profit/loss for the financial year** | **-50** | **41** | **37** | **-5** | **27** |

# Key Figures

| | | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|
| **Group Key Figures (*)** | | | | | | |
| Turnover | EUR million | 309 | 567 | 540 | 442 | 603 |
| Premiums written | EUR million | 401 | 410 | 392 | 439 | 467 |
| Operating profit/loss | EUR million | -55 | 84 | 59 | -65 | 48 |
| Profit/loss before extraordinary items, untaxed reserves and tax | EUR million | -60 | 48 | 54 | -3 | 39 |
| Total result | EUR million | -87 | 172 | 75 | -95 | 116 |
| Solvency capital | EUR million | 362 | 529 | 583 | 478 | 573 |
| Average number of personnel | | 1,038 | 1,067 | 1,087 | 1,238 | 1,270 |
| **Non-life Insurance Key Figures** | | | | | | |
| Premiums written | EUR million | 347 | 340 | 332 | 359 | 376 |
| Loss ratio | % | 85.0 | 76.6 | 87.0 | 103.1 | 85.9 |
| Loss ratio excl. unwinding of discount | % | 81.0 | 72.5 | 82.9 | 99.7 | 82.1 |
| Expense ratio | % | 20.4 | 21.6 | 23.2 | 24.8 | 24.2 |
| Combined ratio | % | 105.4 | 98.2 | 110.2 | 127.9 | 110.1 |
| Combined ratio excl. unwinding of discount | % | 101.4 | 94.1 | 106.0 | 124.5 | 106.3 |
| Operating profit/loss | EUR million | -30 | 68 | 40 | -67 | 35 |
| Total result | EUR million | -62 | 129 | 56 | -87 | 80 |
| Return on assets, | % | -4.1 | 11.2 | 5.0 | -5.2 | 6.3 |
| Net investment income at current values | EUR million | -44 | 123 | 83 | 10 | 116 |
| income on invested capital | % | -3.8 | 11.5 | 6.8 | 0.8 | 9.1 |
| .. Solvency margin | EUR million | 153 | 246 | 285 | 253 | 310 |
| Equalisation provision | EUR million | 185 | 217 | 217 | 157 | 164 |
| Solvency capital | EUR million | 338 | 462 | 502 | 410 | 473 |
| of technical provisions | % | 42.1 | 56.7 | 60.5 | 44.5 | 49.8 |
| Solvency ratio | % | 101,1 | 138.5 | 155.0 | 117.5 | 129.4 |
| Average number of personnel | | 954, | 986, | 995, | 1,039, | 1,067, |
| **Life Insurance Key Figures** | | | | | | |
| Premiums written | EUR million | 55 | 70 | 60 | 79 | 91 |
| Expense ratio (of expense loading) | %* | 90.0 | 99.1 | 105.2 | 113.4 | 117.4 |
| Operating profit/loss | EUR million | -25 | 16 | 20 | 2 | 12 |
| Total result | EUR million | -38 | 43 | 24 | -9 | 36 |
| Return on assets | % | -3.5 | 11.0 | 7.6 | 1.9 | 9.5 |
| Net investment income at current value | EUR million | -27 | 60 | 43 | 7 | 58 |
| income on invested capital | % | -4.4 | 10.7 | 7,2 | 1.1 | 9.3 |
| Solvency margin | EUR million | 48 | 88 | 106 | 98 | 130 |
| Equalisation provision | EUR million | 5 | 5 | 6 | 6 | 7 |
| Solvency capital | EUR million | 52 | 93 | 112 | 105 | 137 |
| Solvency ratio | % | 9.4 | 16.0 | 18.5 | 17.4 | 21.8 |
| Average number of personnel | | 29 | 31 | 42 | 47 | 48 |

*Key figures according to the consolidated accounts

| INVESTMENT PORTFOLIO AT CURRENT VALUES | 2012 | | 2011 | | 2010 | | 2009 | | 2008 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | EUR million | % | EUR million | % | EUR million | % | EUR million | % | EUR million | % |
| Loans [1] | 36,4 | 2.8 | 27,9 | 2.2 | 20,3 | 1.6 | 10,7 | 0.9 | 4,8 | 0.5 |
| Bonds [1), 2)] | 565,8 | 43.7 | 459,7 | 36.8 | 586,0 | 46.5 | 655,4 | 55.6 | 556,1 | 52.2 |
| *includes fixed-income funds | 282,2 | 21.8 | 166,7 | 13.4 | 150,4 | 11.9 | 164,6 | 14.0 | 107,4 | 10.1 |
| Other money market investments and deposits [1), 2), 3)] | 86,2 | 6.7 | 187,5 | 15.0 | 72,2 | 5.7 | 707,0 | 6.0 | 201,9 | 18.9 |
| *includes fixed-income funds | 49,3 | 3.8 | 18,7 | 1.5 | 21,1 | 1.7 | 49,8 | 4.2 | 57,0 | 5.3 |
| Equities and holdings | 283,3 | 21.9 | 270,5 | 21.7 | 269,5 | 21.4 | 173,5 | 14.7 | 109,8 | 10.3 |
| Investments in land and buildings [4] | 318,1 | 24.6 | 302,4 | 24.2 | 297,4 | 23.6 | 249,6 | 21.2 | 152,6 | 14.3 |
| *includes unit trusts and UCITS | 25,9 | 2.0 | 21,7 | 1.7 | 22,0 | 1.7 | 21,6 | 1.8 | 22,0 | 2.1 |
| Other investments | 4,2 | 0.3 | 0,5 | 0.0 | 154,0 | 1.2 | 19,6 | 1.7 | 40,6 | 3.8 |
| **Investments in total** | **1,294,0** | **100.0** | **1,248,5** | **100.0** | **1,260,7** | **100.0** | **1,179,5** | **100.0** | **1,065,8** | **100.0** |
| **Modified duration of the bond portfolio** | **4,28** | | **4,10** | | **3,34** | | **2,79** | | **3,83** | |

1) Includes accrued interests.

2) Of fixed-income funds, long-term funds are included in bonds and short-term funds are included in other money market investments.

3) Includes deposits included in Investments in the Balance Sheet.

4) Includes investments in those unit trusts and comparable UCITS that invest in real estate and real estate undertakings.

| NET INVESTMENT INCOME | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| | EUR million | EUR million | EUR million | EUR million | EUR million |
| **Direct net income** | **34,8** | **35,2** | **36,9** | **36,4** | **39,3** |
| Loan receivables | 2,1 | 1,9 | 1,0 | 0,4 | 0,4 |
| Bonds | 11,4 | 15,9 | 22,0 | 20,9 | 22,5 |
| Other money market investments and deposits | 2,5 | 2,4 | 0,5 | 5,5 | 6,7 |
| Equities and holdings | 7,8 | 6,9 | 4,2 | 1,5 | 2,1 |
| Investments in land and buildings | 13,0 | 10,8 | 10,7 | 9,1 | 9,1 |
| Other investments | 0,1 | 0,1 | 0,1 | 0,1 | -0,4 |
| Sundry income, charges and operating expenses | -2,1 | -2,8 | -1,6 | -1,2 | -1,1 |
| **Changes in value in the accounts** [1] | **37,0** | **-7,3** | **28,9** | **26,9** | **-51,0** |
| Equities and holdings | 13,5 | -16,4 | 11,5 | 9,1 | -26,9 |
| Bonds | 21,5 | 7,6 | 18,8 | 23,0 | -19,4 |
| Investments in land and buildings | 3,1 | 0,8 | -1,1 | -7,0 | -4,9 |
| Other investments | -1,0 | 0,7 | -0,3 | 1,7 | 0,2 |
| **Net investment income at book value** | **71,8** | **27,9** | **65,8** | **63,2** | **-11,7** |
| **Change in valuation differences** [2] | **44,5** | **-17,5** | **17,1** | **60,1** | **-31,8** |
| Equities and holdings | 10,8 | -16,9 | 21,2 | 7,4 | -29,5 |
| Bonds | 30,0 | -10,4 | -6,8 | 51,2 | -3,7 |
| Investments in land and buildings | 3,6 | 11,6 | 4,7 | 1,8 | 8,6 |
| Other investments | 0 | -1,9 | -2,0 | -0,3 | -7,2 |
| **Net investment income at current values** | **116,3** | **10,4** | **82,9** | **123,3** | **-43,5** |
| Share of net investment income accounted for by derivatives | -1,2 | -0,9 | -12,3 | -0,5 | -0,8 |

1) Gains and losses on realisation of investments and other changes in value in the accounts

2) Off-balance sheet changes in value

## NET INVESTMENT INCOME ON INVESTED CAPITAL 1 JAN. 2012–31 DEC. 2012

| | Net investment net income current values[1] | Invested capital[2] | Yield, % on invested capital | | | | |
|---|---|---|---|---|---|---|---|
| | EUR million | EUR million | | | | | |
| | 2012 | 2012 | 2012 | 2011 | 2010 | 2009 | 2008 |
| Loan receivables | 2,1 | 33,8 | 6.1 | 7.4 | 6.5 | 7.5 | 9.1 |
| Bonds[3] | 63,0 | 4 97,0 | 12.7 | 2.4 | 5.1 | 16.4 | -0.1 |
| *of which fixed-income funds | 34,4 | 233,5 | 14.7 | 0.9 | 11.4 | 40.4 | -18.7 |
| Other money market investments and deposits[3] | 2,5 | 197,5 | 1.3 | 1.7 | 1.8 | 3.8 | 4.6 |
| *of which fixed-income funds | 1,1 | 57,6 | 2.0 | 1.4 | 1.8 | 5.8 | 2.5 |
| Equities and holdings | 32,1 | 250,2 | 12.8 | -9.7 | 18.7 | 15.6 | -32.6 |
| Investments in land and buildings[4] | 19,6 | 293,9 | 6.7 | 7.9 | 5.5 | 2.1 | 9.7 |
| *of which unit trusts and UCITS | 3,4 | 21,4 | 16.1 | 3.1 | 6.6 | -11.1 | -16.1 |
| Other investments | -0,9 | 0,8 | -123.4 | -14.9 | -11.4 | 4.3 | -16.2 |
| **Investments in total** | **118,4** | **1 273,2** | **9.3** | **1.0** | **7.0** | **11.6** | **-3.7** |
| Sundry income, charges and operating expenses | -2,1 | -2,1 | | | | | |
| **Net investment income at current values** | **116,3** | **1 271,1** | **9.1** | **0.8** | **6.8** | **11.5** | **-3.8** |

1) Net investment income at current values = Changes in the market values between the end and beginning of the review period – cash flows. Cash flow is the difference between purchases/costs and sales/income.

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

3) Includes income from fixed-income funds recorded in the investments in question.

4) Includes income from unit trusts and UCITS recorded in investements in real estate

# Calculation Methods for the Key Figures

## Key figures

**Turnover =**

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

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

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

**Return on assets at current values (%) =**

+/- operating profit or loss
+ financial expenses
+ unwinding of discount
+/- change in valuation differences on investments

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+ Balance Sheet total
- technical provisions for unit-linked insurances
+/- valuation differences on investments

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

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

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

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

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

## Non-life insurance

**Premiums written** = premiums written before reinsurers' share

**Loss ratio % =**
claims incurred
premiums earned

**Loss ratio (excl. unwinding of discount) % =**
claims incurred (excl. unwinding of discount) %
premiums earned

**Expense ratio % =**
operating expenses
premiums earned

Key figures are calculated after reinsurers' share.

**Combined ratio %** = loss ratio + expense ratio

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

**Solvency margin** see calculation in the Notes

**Solvency capital** = solvency margin + equalisation provision + minority interest

**Solvency capital, % of technical provisions =**
solvency capital
+ technical provisions
- equalisation provision

Technical provisions are calculated after reinsurers' share.

**Solvency ratio % =**
solvency capital
premiums earned

Premiums earned are calculated for the previous twelve months after reinsurers' share.

## Life insurance

**Premiums written** = premiums written before reinsurers' share

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

**Solvency margin** see calculation in the Notes

**Solvency capital** = solvency margin + equalisation provision + minority interest

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

Technical provisions are calculated after reinsurers' share.

# Risks and Risk and Solvency Management

## Risk and solvency management in general

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

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

## 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 reliable governance system. It is the responsibility of Fennia's Board of Directors to ensure that the special characteristics of the subsidiaries 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 has the primary responsibility to see to it 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 subsidiaries abide by the Fennia Group's risk and solvency management policy where applicable.

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 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.

1. The first defence line 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 ma nagement 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 implementation of the risk and solvency management processes in the business areas and support functions (first defence line).

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 Management, the Managing Director bears

the overall responsibility for the appropriate preparation and implementation of risk and solvency management in accordance with the Board of Directors' decisions.

- Business areas and support functions
  Each business area 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 binding risk and solvency management documentation.

- Actuarial function
  The 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. The Risk Management function and its processes have been integrated into the Fennia Group's organisation to ensure their independence from the operational activities, which means that the function is free from influences that might compromise the objective, equal and independent performance of its tasks.

The following five co-ordination teams have been set up under the Risk Management function, through which it carries out part of its tasks:

- Co-ordination team for insurance risks;
- Co-ordination team for financial market risks;
- Co-ordination team for operational risks;
- Co-ordination team for risks inherent in quantitative methods; and
- Co-ordination team for risks inherent in the business environment.

The main tasks of these co-ordination teams include the processing of the strategies, processes and reporting procedures that are needed to continually identify, measure, monitor, manage and report risks and their interrelations.

- Compliance function
  The Compliance function, which belongs to the second defence line, is responsible for ensuring that operations comply with applicable laws, decrees and administrative regulations, financial sector self-regulation and the Fennia Group's internal guidelines, and that customer relationships are managed according to the concluded insurance and other contracts and appropriate procedures. The function also has the task of promoting compliance through proactive legal advice.

- Internal audit
  The tasks of the third defence line are the responsibility of an entirely independent internal audit.

## Risk management

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

Within the Group, the whole made up of risk management strategies and processes is divided into the following sub-areas:

1. Risk identification
   The business areas 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. Risk identification and assessment is co-ordinated by the co-ordination teams working under the risk management committee and the Risk Management function.

2. Risk measurement
   During the risk measurement process, the severity of the risks and their interdependencies are evaluated to

the extent 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. Risk measurement is based on the Value-at-Risk method. Risk severity and dependency measurement and the methods used in measurement are the responsibility of the Risk Management function, which also co-ordinates them.

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 ap propriate 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, the Risk Management function in particular, carries out independent quantitative and qualitative risk monitoring such that the first defence line can draw on this monitoring as well as possible.

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, the Risk Management function in particular, 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 shall be reported within the Group without undue delay according to the agreed reporting channels. As a general rule, the business areas and support functions report to the relevant co-ordination team under the Risk Management function, through which the Risk Management function gathers information on risks, among other things. The Risk Management function reports the risks to the risk management committees and the relevant Boards of Directors as part of the regular reporting of the function. In serious and urgent matters, the business areas and support functions also report directly to the Managing Director, who reports the matter to the Board of Directors. Similarly, in serious and urgent matters, the Risk Management function can report directly to the Managing Director or the Board of Directors.

These risk management strategies and processes are applied to all of the risk areas of the holistic risk map created to facilitate risk management, which are:

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

## 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 contributions received. Insurance risks also include major loss risks (e.g. disaster risks) and the risk inherent in the adequacy of reinsurance covers.

The 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.

The technical provisions also involve market risks, such as inflation risk and discount rate risk.

Insurance operations are based on taking insurance risks, diversifying the risks within the insurance portfolio and managing them. The most important instruments for managing the risk inherent in unearned premiums relate to 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 are 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. The pricing requires accurate and adequate information and sufficient knowledge about the insured target. Only this makes it possible to appropriately apply different risk analyses and determine a sufficient level of insurance premium.

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

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

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

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

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

QUANTITATIVE DATA ON RISK VARIABLES FOR TECHNICAL PROVISIONS IN NON-LIFE INSURANCE FINANCIAL STATEMENTS

| | Impact of change on Fennia's solvency capital | |
|---|---|---|
| **Discount interest** | Decrease of 0.1 percentage points | EUR - 4 million |
| **Inflation risk** | Increase of 1% | EUR - 6 million |
| **Mortality** | Average age increase of 1 yr | EUR - 10 million |

## Market risks

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 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 market risks are related to the selection of investment instruments, diversification of the investment portfolio and risk limitation.

A prerequisite for managing market risks is to invest assets in property and instruments with risks that can be identified, measured, monitored, managed and reported. In addition, predetermined 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 risk management.

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

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

QUANTITATIVE DATA ON RISK VARIABLES IN FENNIA'S INVESTMENT PORTFOLIO

| | Impact of change on Fennia's solvency capital | |
|---|---|---|
| **Fixed-income investments** | Interest rate + 1 percentage point | EUR - 30 million |
| **Equity investments** | Change in value -20% | EUR - 48 million |
| **Real estate investments** | Change in value -10% | EUR - 32 million |

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 - 15 million |
| **Equity investments** | Change in value -20% | EUR - 21 million |
| **Real estate investments** | Change in value -10 % | EUR - 15 million |

## 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.

A counterparty risk mainly arises (because credit margin risk is treated as market risk) from

- the other party to a derivative contract, in which case only the possible positive market value of the contract is exposed to the risk;
- outstanding reinsurance receivables and the reinsurers' portion of the claims outstanding;
- receivables from insurance customers and
- customer financing.

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

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

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

The objective of managing the customer financing counterparty risk is to limit the negative impacts of counterparty risks arising from customer and other liabilities on profit and loss to an acceptable level. The credit process plays a key role in managing the customer financing counterparty risk. The primary objective of credit process management is to ensure the reliability of the counterparty. In this assessment, the risks are assessed, after which the counterparty is classified according to an in-house developed model. Customer financing counterparty risks are reduced by determining customer-specific security and covenant terms and conditions.

## Operational risks

Operational risks within the Fennia Group refer to a risk of loss resulting from:
- inadequate or failed internal processes
- personnel
- systems
- external factors.

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

The objective of managing operational risks is to reduce the probability of unexpected losses, i.e. to minimise risks. The most efficient risk management measures are targeted at the most serious operational risks. The most serious operational risks are risks which 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 audits, risk indicators, scenario-based estimates, internal damage and loss data and near miss situations. The scenario-based estimates in particular play a key role in the proactive assessment of operational risks. The business areas and support functions hold primary responsibility for collecting data on operational risks and reporting it to the Risk Management function.

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 areas and support functions to understand and manage operational risks.

Preparedness and contingency plans have been drawn up for the most important business areas 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 categories:

- 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
- risks related to the activities of external operators.

## 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 a risk area in its own right.

In the management of risks inherent in quantitative methods, attention is paid to risks which relate to
- mathematical theory,
- the quality of information,
- estimation and parametrisation,
- documentation,
- validation,
- personnel,
- information systems and
- processes.

A guiding principle in managing the risks inherent in quantitative methods is efficient questioning of the methods and processes. This means that an independent and expert party should critically analyse and assess 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 real-world 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 or logic of the method. Reliability can only be achieved through high-quality data.

The validation of a quantitative method comprises 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.

## 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 combination of these.

The management of investment, 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.

Insurance operations are based on risk diversification within the insurance portfolio in order not to put too much weight on a single insurance target under the company's responsibility. This risk is managed through, among other things, risk selection guidelines and reinsurance.

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

## 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 (cash-flow-based asset and liability matching risk).

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;
- The amount of non-liquid investments in the portfolio is limited;
- Liquidity conditions are included in significant reinsurance contracts where necessary.

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

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

## Strategic risks

Strategic risks refer to risks which are related to the insurance company's strategy and result from incorrect business decisions, incorrect or failed implementation of business decisions or the inability to adjust business operations to changing conditions or to take the desired future state into consideration.

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 macrorisks, which are related for example to changes in demographic, social security and culture trends, changes in regulation, authority supervision and policy and changes in climate and geopolitical trends.

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

Strategic risks inherent in internal operations can be, for example, expansion risks, risks related to internal development and 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.

## Reputation risk

Reputation risk refers to a risk of damage to the Fennia brand or the public image of a single company belonging to the Fennia Group. Reputation risks can also result from partners, if their values and/or operating principles differ from those of the Fennia Group.

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

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

The management of reputation risk is based on good 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. Once the risks affecting reputation risk have been identified, various risk-reducing measures, reporting procedures and internal communications can be required within the organisation.

Successful reputation risk management is also 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 significantly suffer from non-compliance with laws, regulations and provisions and requirements set by authorities.

## 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 and
- 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 an excessive risk intentionally and immorally taken by one company and the resulting loss are transferred to be borne by the parent company or the other subsidiaries either in part or in full.

Conflict of interest risks arise when the interests of the subsidiaries, the parent company and/or 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 internal control system and particularly the risk management and compliance system and related reporting procedures within the Group. The roles and responsibilities of the various bodies must also be clear and identified from the Group's perspective.

## 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 Fennia Group's risk profile to keep solvency and risk-taking under control and within the permitted limits.

## Preparation for Solvency II

The preparation of the Solvency II framework is still in progress, and the date of its entry into force is uncertain.

During 2012, risk management was developed towards compliance with the future Solvency II regulations. The most significant investments were made in the development and streamlining of technical calculation and internal and external reporting.

The objective is to make the practical transition towards the Solvency II system gradually during 2013 and 2014.

# Board of Directors' Proposal on the Disposal of Profit

Fennia's distributable profits were EUR 201,992,981.38. The company's profit for the financial year was EUR 24,338,652.66. The Board of Directors proposes that no interest on guarantee capital be paid and that the profit for the financial year be transferred to the security reserve.

Helsinki, 5 March 2013

| | | |
|---|---|---|
| Mikael Ahlbäck | Matti Pörhö | Antti Kuljukka<br>Managing Director |
| Jussi Järventaus | Jouko Kemppi | Lars Koski |
| Eva Liljeblom | Timo Salli | Paul Stucki |

# Auditors' Report

**To the Annual General Meeting of Fennia Mutual Insurance Company**

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Fennia Mutual Insurance Company for the year ended 31 December, 2012. 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 Companies 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 15 March 2013
KPMG OY AB

| | |
|---|---|
| Mikko Haavisto | Alex Wahlroos |
| Authorized Public Accountant | Authorized Public Accountant |

# Statement of the Supervisory Board

The Supervisory Board of Fennia Mutual Insurance Company has examined the Company's Financial Statements for the year 2012 and the Consolidated Financial Statements as well as the Auditors' Report. We have no objections concerning them.

The Supervisory Board proposes that the Annual General Meeting to be convened on 23 April 2013 approve the Financial Statements and the Consolidated Financial Statements and adopt the proposal of the Board of Directors for the allocation of the result for the financial year.

Helsinki, 25 March 2013

On behalf of the Supervisory Board

Janne Ylinen
Chairman of the Supervisory Board

# Board of Directors, Management and Supervisory Board 1 January 2013

## Board of Directors

CHAIRMAN
(since 16 January 2013)
**Mikael Ahlbäck**
Managing Director
Rani Plast Ltd
Teerijärvi

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

BOARD MEMBERS

**Jussi Järventaus**
Managing Director
The Federation of Finnish Enterprises
Helsinki

**Jouko Kemppi**
Chairman of the Board
Kemppi Oy
Lahti

**Lars Koski**
Managing Director
Laihian Mallas Oy
Laihia

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

**Timo Salli**
Managing Director
Katsa Oy
Tampere

**Paul Stucki**
Managing Director
Orfer Oy
Orimattila

SECRETARY TO THE BOARD
**Heimo Äikäs**
General Counsel
Fennia Mutual Insurance Company
Helsinki

## Auditors

AUDITORS
KPMG OY AB

**Mikko Haavisto**
Authorised Public Accountant

**Alex Wahlroos**
Authorised Public Accountant

DEPUTY AUDITORS

**Tiia Kataja**
Authorised Public Accountant

**Marcus Tötterman**
Authorised Public Accountant

## Management

**Antti Kuljukka**
Managing Director

**Kimmo Kilpinen**
Deputy Managing Director
Substitute for the Managing Director
Customer Relations

**Eero Eriksson**
Deputy Managing Director
Investments

**Timo Ahvonen**
Director
Group Services and Development

**Pasi Karppi**
IT Management Director

**Riitta Lassila**
Director
Claims

**Timo Parkkisenniemi**
Director
Insurance Services

**Risto Heimo**
Appointed Actuary

## Physicians

**Mikael Hedenborg**
Doctor of Medical Science
Specialist in Occupational Health
Chief Physician

**Pekka Paavolainen**
Professor
Doctor of Medical Science
Specialist in Orthopaedics and Traumatology

**Mika Paavola**
Doctor of Medical Science
Specialist in Orthopaedics and Traumatology

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

**Juha Liira**
Doctor of Medical Science
Specialist in Occupational Health and Medicine

**Heikki Österman**
Licentiate of Medicine
Specialist in Orthopaedics and Traumatology

## Supervisory Board

CHAIRMAN
**Janne Ylinen**
Managing Director
Kokkolan Halpa-Halli Oy
Kokkola

VICE CHAIRMEN
**Jukka Tikka**
Managing Director
Länsi-Savo Oy
Mikkeli

**Seppo Kukkola**
rakennusneuvos (Finnish honorary title), Managing Director
Kukkola-Yhtiöt Oy
Rovaniemi

SUPERVISORY BOARD MEMBERS

**Antti Aho**
Chairman of the Board
Lääkärikeskus Aava Oy
Helsinki

**Pekka Auramaa**
Managing Director
Kuljetusliike Y. Auramaa Oy
Eura

**Jarmo Halonen**
Managing Director
Elecster Oyj
Toijala

**Björn Hartman**
Managing Director
Hartman Rauta Oy
Vaasa

**Nanna Hietala**
Administrative Director
MSK-Group Oy
Ylihärmä

**Jouko Hälikkä**
Customer Manager
Yrittäjäin Fennian Kenttä Ry
Helsinki

**Ilkka Jalonen**
Partner
Länsiauto Oy
Espoo

**Juha Järvi**
Managing Director
Ka-Mu Oy
Karstula

**Marianne Kaasalainen**
Managing Director
Oy Patrol Trading Ab
Espoo

**Jouko Kauhanen**
Chairman of the Board
Actiw Oy
Naarajärvi

**Hannu Kekäläinen**
Chairman of the Board
Check Point Finland Oy
Piikkiö

**Johanna Koskelainen**
Managing Director
Kymppi-Eristys Oy
Oulu

**Matti Koskenkorva**
Chairman of the Board, yrittäjäneuvos (Finnish honorary title)
Panostaja Oyj
Tampere

**Jaana Kotro**
Managing Director
Teknopower Oy
Turku

**Pekka Kuivalainen**
Managing Director
Pisla Oy
Viitasaari

**Heikki Kääriäinen**
Managing Director
Linja-autoliitto r.y.
Helsinki

**Maunu Lehtimäki**
Managing Director
Evli Pankki Plc
Helsinki

**Markus Lindblom**
Managing Director
RTV-Yhtymä Oy
Riihimäki

**Vesa Luhtanen**
Managing Director
L-Fashion Group Oy
Lahti

**Hannu Löytönen**
teollisuusneuvos (Finnish honorary title)
Managing Director
Betset Oy
Kyyjärvi

**Tauno Maksniemi**
Managing Director
RTK-Palvelu Oy
Helsinki

**Martti Paunu**
Managing Director
Väinö Paunu Oy
Tampere

**Ari Penttilä**
Managing Director
Matkapojat Oy
Tampere

**Tapio Pitkänen**
Managing Director
Omatalo Oy
Sonkajärvi

**Maria Planting**
Chairman of the Board
E. Ahlström Oy
Helsinki

**Pekka Rantamäki**
CEO
Sava-Group Oy
Helsinki

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

**Meliina Ruokonen**
Chairman of the Board
Aarikka Oy
Helsinki

**Ali U. Saadetdin**
Chairman of the Board
Solteq Oyj
Tampere

**Seppo Saajos**
Chairman of the Board
Saajos Group
Lohja

**Juhani Saario**
Chairman of the Board
Lahden Autokori Oy
Lahti

**Mikko Sillanpää**
Chairman of the Board
Kart Oy
Espoo

**Kaj Ström**
Chairman of the Board
Motoral Oy
Helsinki

**Hannu Teiskonen**
Chairman of the Board
HT Laser Oy
Keuruu

**Markus Tötterman**
Chairman of the Board
Oy Arwidson Ab
Tuusula

**Heikki Vauhkonen**
Managing Director
Tulikivi Corporation
Helsinki

**Rauno Vennola**
Managing Director
Terra-Team Ltd
Espoo

**Harri Vuontelo**
Lahti

**Jarkko Wuorinen**
Managing Director
Ahlman & Wuorinen Development AWD Oy
Savonlinna

**Jens Österberg**
Managing Director
Oy Petsmo Products Ab
Vaasa

Fennia Mutual Insurance Company
Televisiokatu 1, HELSINKI
Postal address FI-0017 FENNIA
Phone +358 10 5031
Fax +358 10 503 5300
www.fennia.fi
m.fennia.fi