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# FENNIA 2010

ANNUAL REPORT AND FINANCIAL STATEMENTS

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## A good year for Fennia

### – Companies' adaptation measures reflected in Fennia's premium income

In 2010 Fennia Mutual Insurance Company returned an operating profit of EUR 39 million. The company's investment result was good and solvency strengthened.

Non-life insurance premiums written decreased some two per cent last year and totalled EUR 332 million. Premiums written in statutory accident insurance were also down, primarily as a result of the decline in payroll caused by the weakened real economy, the effects of which are evident in payroll with a delay.

However, our client companies succeeded in adjusting their activities to the challenging conditions and managed to hold their ground, so that we avoided major credit losses.

The year 2010 was marked by numerous losses, leading to a strong increase in claims incurred compared to the previous year.

The adverse weather conditions at the beginning of the year caused a number of business fires and increased the number of cases of motor vehicle damage and road accidents. Adding to this the storms and destruction caused by thunder storms in the summer, we can only conclude that the elements

got the better of Fennia's laudable risk management work.

However, the extent of the devastation caused by natural forces, the financial losses incurred and the wide news coverage given to them increased people's awareness of the need for insuring against risks. Consequently, there is a demand for our purposeful risk management work and insurance products.

In my view, the outlook for 2011 and developments in the operating environment seem rather positive. The economic situation seems to be recovering, businesses are better off than in the previous year, and consumers have confidence in their own financial situation. SMEs estimate that 2011 will be fairly good for business, but economic growth is no longer expected to accelerate to any great extent. In light of these estimates, the outlook for an increase in Fennia's premium income in the current year is positive.

However, the threatening prospects of the global economy and the effects of natural catastrophes will face the insurance business and investment activities with their own challenges.



Natural disasters bring a strong element of unpredictability to risk management. Unfortunately, we will not be able to avoid catastrophes in the future either, but we can mitigate the adversities caused by them through foresight.

We at Fennia are guided by the principle The customer is number one – always. Our personnel are determined to develop their skills and succeed in customer encounters, so that you can sincerely recommend our services.

We wish to express our thanks to you, our customers, for your excellent co-operation!

Antti Kuljukka  
Managing Director

# Board of Directors' Report 2010

The operating profit of the Fennia Mutual Insurance Company in 2010 was EUR 39 million. The decrease in operating profit was largely the result of the considerable weakening of the company's technical underwriting result. The company's investment result was good and solvency strengthened.

## Insurance operations

Premiums written for non-life insurance amounted to EUR 332 million (EUR 340 million). Direct insurance premiums written were down two per cent to EUR 331 million (EUR 339 million). Preliminary information indicates that the company's market share decreased to approximately 9.6 per cent (10.1%). Premiums written for reinsurance assumed were below half a million euros (EUR 2 million). 2010 was marked by a high incidence of damage due to exceptional weather. The extremely cold weather and other adverse weather conditions at the beginning of the year caused a considerable amount of fire damage and other property damage, and the stormy summer increased the amount of property damage. Claims incurred increased strongly, particularly as they were lower than usual in the previous year. The loss ratio, excluding unwinding of discount, decreased considerably to 82.9 per cent (72.5%). Credit losses

remained at the previous year's level and were below EUR 3 million.

Operating expenses were EUR 75 million (EUR 72 million). As a result of increased expenses and decreased premiums written, the expense ratio was 23.2 per cent (21.6%). The company's combined ratio, excluding the technical rate of interest, weakened to the unsatisfactory level of 106.0 per cent (94.1%), claims accounting for 74.6 per cent (64.9%) and operating expenses and claims handling expenses for 31.4 per cent (29.2%).

Premiums written for statutory accident insurance totalled EUR 72 million (EUR 82 million), down 12.2 per cent. The decrease is primarily the result of the decline in payroll caused by the weakened real economy, the fluctuations of which are reflected in the payroll with a delay. A large part of Fennia's clientele are SMEs, and its insurance portfolio is vulnerable to cyclical fluctuations in the national economy. The loss ratio for the line improved greatly and was 94 per cent (69%). Premiums written for other accident and health insurance increased by nearly 10 per cent to EUR 26 million. The loss ratio for the line took an upturn as a result of tariff solutions taken during several years. The loss ratio was 97 per cent (113%).

Premiums written for motor liability

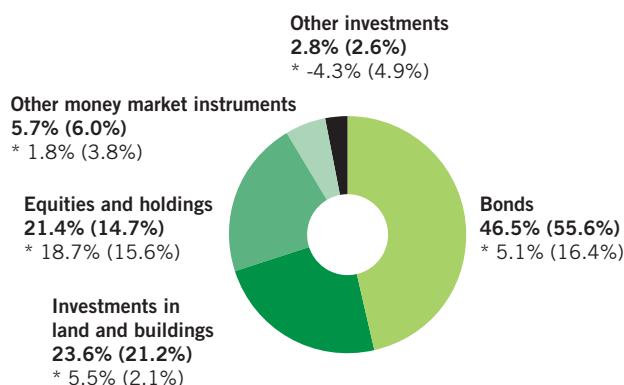
insurance remained at the previous year's level of EUR 69 million. The loss ratio was 83 per cent (81%). Premiums written for voluntary motor vehicle insurance decreased slightly to EUR 58 million (EUR 59 million). As a result of difficult winter conditions, the loss ratio for the line decreased and was 77 per cent (71%).

Premiums written for fire and other property insurance for companies remained at the previous year's level and stood at EUR 40 million. In the private household segment, premiums written for fire and other property insurance increased slightly to EUR 35 million. The loss ratio of the corporate sector decreased considerably as a result of the significant increase in property insurance claims caused by several major losses.

Non-life insurance companies have had a collective guarantee item in their balance sheets for statutory accident and motor liability insurances. This collective guarantee item was abolished as a result of a legislative amendment that came into effect at the end of last year. Therefore, the collective guarantee item in the company's Balance Sheet was released. The collective guarantee item for statutory accident insurance was transferred under the 'pay-as-you-go' system, where it will be released during the next three years, with impact

**FENNIA, PARENT COMPANY****INVESTMENT PORTFOLIO 31 DEC. 2010****EUR 1,261 MILLION (EUR 1,180 MILLION)****Return on investments 6.8% (11.5%)**

\* Rate of return by investment category



on the level of the accident insurance premiums. The collective guarantee item for motor liability insurance was transferred to the equalisation provision that was originally used to fund it.

**Investments**

The net investment income at current value amounted to EUR 83 million (EUR 123 million). Net investment income on invested capital was 6.8 per cent (11.5%).

At year-end, Fennia's investment assets at current values (incl. accrued interest) stood at EUR 1,261 million (EUR 1,180 million). Bonds and long-term fund investments accounted for 47 per cent of the investment portfolio, and money market investments and deposits for 6 per cent. Shares, equity fund investments and private equity funds accounted for 21 per cent, real estate investments for 24 per cent and other investments for 2 per cent.

**Result and solvency**

Fennia's operating profit was EUR 39 million (EUR 69 million). The operating profit decreased as a result of a considerable weakening of the technical underwriting result. As a result of the legislative amendment concerning the collective guarantee item, the operating profit for 2010 improved by a one-off sum of EUR 6 million.

As a result of the unfavourable development in claims, EUR 6 million was released from the equalisation provision, but as a result of the change concerning the collective guarantee item, it grew with the one-off sum of slightly more than EUR 6 million. Consequently, the equalisation provision settled at around the same level as the previous year, at EUR 217 million. The company's solvency margin increased to EUR 285 million (EUR 246 million), and solvency capital to EUR 502 million (EUR 462 million). The solvency ratio in proportion to the premiums earned increased to 155.0 per cent (138.5%).

**Administration and staff**

During the year under review, the members of Fennia's Board of Directors were Eero Lehti (Chairman); Esko Penttilä (Vice Chairman); Jouko Kemppe, Managing Director; Lars Koski, Managing Director; Eva Liljebloom, Professor; Rauno Mattila; Antti Vaahto, Chairman of the Board, Juha Valkamo, Managing Director and Juhani Vesterinen, Chairman of the Board. The deputy member of the Board of Directors was Lasse Heiniö.

The Board of Directors held a total of nine meetings during the year under review. The attendance rate of the full members was 81 per cent and that of the deputy member 67 per cent.

Antti Kuljukka acted as Managing Director.

At the Annual General Meeting held on 19 April 2010, Customer Manager Jouko Hälikkää, Managing Director Marianne Kaasalainen, Managing Director Seppo Kukkola and Managing Director Heikki Vauhkonen were appointed to the Supervisory Board as new members.

The company employed an average of 995 people (986) in 2010.

**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 subgroup's Consolidated Financial Statements. Mutual Insurance Company Pension Fennia, which belongs to the Fennia Group, owns 40 per cent of Fennia Life.

The Consolidated Financial Statements also include eFennia Oy. Fennia owns 20 per cent of the company and has 63.6 per cent of the voting rights. In addition, Suomen Vahinkotarkastus Oy, in which the company has a 100 per cent holding following an additional acquisition in 2010, has been consolidated to the Group.

At the end of 2010, the Group also included 31 real estate companies,

seventeen of which belonged to the Fennia Life sub-group. In addition, the associated undertaking Uudenmaan Pääomarahasto Oy was consolidated to the Group.

### Consolidated accounts

The result of the Group's life insurance business was good and the solvency position strengthened. Life insurance premiums written totalled EUR 60 million (EUR 70 million). Claims paid decreased to EUR 52 million (EUR 53 million). Operating expenses for life insurance were EUR 8 million. The expense ratio (of expense loading) weakened and was 105.2 per cent (99.1%).

The Group's investment result at current values amounted to EUR 163 million (EUR 241 million), of which unit-linked insurances accounted for EUR 43 million (EUR 59 million). The Group's valuation difference grew to EUR 144 million (EUR 128 million).

The Group's operating profit was EUR 59 million (EUR 84 million). The Group's non-restricted capital and reserves stood at EUR 200 million (EUR 163 million).

The Group's solvency capital increased to EUR 583 million (EUR 529 million).

### Risk management

Risk management in the Fennia Group is based on the risk management plan, which is discussed annually by the Boards of Directors. Risk management is co-ordinated and steered by a risk management executive team appointed by the Managing Director. The adequacy

of internal control is assessed by internal audits, which are independent of business activities.

Insurance operations are based on taking risks and managing them in a controlled way. The most important risks relate to risk selection and pricing, acquisition of reinsurance cover and the adequacy of technical provisions. The risk pertaining to risk selection is managed by carrying out risk analyses and complying with approved risk selection guidelines. Product-specific loss frequencies and the development of claims expenditure are continuously monitored.

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.

The management of operational risks aims at ensuring that no risks relating to processes, personnel, information systems, security or legal issues that could jeopardise the operations of the company arise. The responsibility for the management of operational risks in practice lies with the business units. The company carries out risk surveys regularly and updates its business contingency plan on a continuous basis.

### Outlook

The positive economic cycle that started last year is expected to continue in 2011. The domestic production volume

will probably grow, likely resulting in improved employment. Reaching the level of production that preceded the financial crisis that began in 2008 is still a long way away. The positive economic development is threatened by the inability to solve the European debt crisis. The escalation of the unrest in the Middle East and the resulting rise in oil prices may have a negative impact on the economy.

Last year's exceptional weather conditions are not expected to recur on the same scale, although the very cold weather at the beginning of the year indicates they might. More active business operations are reflecting economic recovery, and we believe that will result in a rise in the premiums written. In particular, the premiums written for statutory accident insurance will probably grow. If realised, these things will make it possible for us to achieve our objective of lowering the loss ratio, supported by long-term risk management work.

The company has several large development programmes under way, one of the most significant being the implementation of the Solvency II framework. Increasing the efficiency of risk management and making it a system that guides the activities of the entire company is a demanding task that requires considerable efforts, but will in the end serve the interests of the customer.

# Profit and Loss Account 1 Jan. 2010–31 Dec. 2010

EUR 1,000	Group 2010	Group 2009	Parent Company 2010	Parent Company 2009	Notes
<b>Technical Account</b>					2
<b>Non-life insurance</b>					
<b>Premiums earned</b>					
Premiums written	331,548	340,169	331,548	340,169	1
Reinsurers' share	-5,230	-5,865	-5,230	-5,865	
	326,318	334,304	326,318	334,304	
Total change in the provision for unearned premiums	-2,113	-156	-2,113	-156	
Portfolio transfer	-	-199	-	-199	
	-2,113	-355	-2,113	-355	
<b>Premiums earned in total</b>	324,206	333,949	324,206	333,949	
<b>Other technical underwriting income</b>	12,584	-	12,584	-	
<b>Claims incurred</b>					
Claims paid	-257,769	-246,001	-257,769	-246,001	
Reinsurers' share	1,427	2,780	1,427	2,780	
	-256,341	-243,222	-256,341	-243,222	
Total change in the provision for outstanding claims	-25,343	-11,094	-25,343	-11,094	
Portfolio transfer	-	-157	-	-157	
	-25,343	-11,251	-25,343	-11,251	
Reinsurers' share	-441	-1,258	-441	-1,258	
	-25,783	-12,509	-25,783	-12,509	
<b>Claims incurred in total</b>	-282,125	-255,731	-282,125	-255,731	
<b>Change in collective guarantee item</b>	-	-426	-	-426	
<b>Net operating expenses</b>	-75,149	-72,131	-75,149	-72,131	4
<b>Other technical underwriting expenses</b>	-6,424	-	-6,424	-	
Balance on technical account before the change in equalisation provision	-26,908	5,661	-26,908	5,661	
<b>Change in equalisation provision</b>					
Total change in equalisation provision	-491	-31,753	-491	-31,753	
Portfolio transfer	-	-66	-	-66	
	-491	-31,819	-491	-31,819	
Balance on technical account	-27,400	-26,158	-27,400	-26,158	

EUR 1,000	Group 2010	Group 2009	Parent Company 2010	Parent Company 2009	Notes
<b>Technical Account</b>					
<b>Life insurance</b>					
<b>Premiums written</b>					
Premiums written	60,165	70,010			
Reinsurers' share	-528	-447			
<b>Premiums written in total</b>	59,637	69,563			
<b>Share of net investment income</b>	81,361	91,191			
<b>Claims incurred</b>					
Claims paid	-51,686	-53,272			
Reinsurers' share	438	-			
	-51,248	-53,272			
Change in the provision for outstanding claims	-7,594	-7,106			
<b>Claims incurred in total</b>	-58,842	-60,378			
<b>Change in the provision for unearned premiums</b>	-58,595	-81,178			
<b>Net operating expenses</b>	-8,180	-7,322			
Balance on technical account	15,381	11,875			

EUR 1,000	Group 2010	Group 2009	Parent Company 2010	Parent Company 2009	Notes
<b>Non-Technical Account</b>					
Balance on technical account, non-life insurance	-27,400	-26,158			
Balance on technical account, life insurance	15,381	11,875			
<b>Investment income</b>	163,103	179,622	97,448	91,106	6
<b>Revaluations on investments</b>	30,061	25,901			
<b>Investment charges</b>	-45,274	-52,419	-31,691	-27,860	6
<b>Revaluation adjustments on investments</b>	-762	-40			
	147,127	153,065	65,757	63,246	
<b>Transfer of part of net investment income</b>	-81,361	-91,191			
<b>Other income</b>					
Other	1,200	1,675	18	37	
<b>Other charges</b>					
Other	-1,042	-1,045	-243	-344	
<b>Share of associated undertakings' profits</b>	537	278			
<b>Tax on profit on ordinary activities</b>					
Tax for the financial year	-10,556	-924	-9,796	-685	
Tax from previous periods	63	-33	69	-	
Deferred tax	-564	-2,070			
	-11,057	-3,026	-9,727	-685	
Profit on ordinary activities after tax	43,387	45,473	28,405	36,097	
<b>Minority interests</b>	-5,960	-4,728			
<b>Appropriations</b>					
Change in depreciation difference			74	-195	
Profit for the financial year	37,427	40,744	28,479	35,901	

## Balance Sheet 31 Dec. 2010

EUR 1,000	Group 2010	Group 2009	Parent Company 2010	Parent Company 2009	Notes
<b>ASSETS</b>					
<b>Intangible assets</b>					
Other long-term liabilities	16,987	16,768	15,606	15,580	13
Advance payments	12,460	6,080	9,603	3,789	13
	29,447	22,848	25,209	19,369	
<b>Investments</b>					7
Investments in land and buildings					
Land and buildings	310,331	256,672	117,521	100,604	8
Loans from affiliated undertakings			120,999	95,208	8
Loans to associated undertakings	1,391	1,391			
	311,722	258,063	238,520	195,812	
Investments in affiliated and associated undertakings					
Equities and holdings in affiliated undertakings			25,982	25,179	9
Equities and holdings in associated undertakings	3,231	3,739	-	422	9
	3,231	3,739	25,982	25,601	
Other investments					
Equities and holdings	609,615	539,364	368,687	340,528	12
Debt securities	742,756	795,300	479,848	497,435	
Loans guaranteed by mortgages	3,939	1,120	3,939	1,120	
Other loans	16,325	9,556	16,325	9,556	10
Deposits	1,200	3,690	-	-	
	1,373,836	1,349,030	868,799	848,638	
Deposits with ceding undertakings	26	47	26	47	
<b>Investments in total</b>	1,688,816	1,610,880	1,133,327	1,070,098	
<b>Investments covering unit-linked insurances</b>	300,154	243,736			
<b>Debtors</b>					
Arising out of direct insurance operations					
Policyholders	56,447	58,979	56,022	58,545	
Arising from reinsurance operations	1,563	633	1,125	633	
Other debtors	36,917	36,388	30,797	38,089	
Deferred tax receivables	282	288			
	95,210	96,288	87,944	97,267	

EUR 1,000	Group 2010	Group 2009	Parent Company 2010	Parent Company 2009	Notes
<b>Other assets</b>					
Tangible assets					
Equipment	8,062	7,857	7,342	7,490	13
Stocks	314	281	302	268	
	8,376	8,138	7,644	7,758	
Cash at bank and in hand	64,914	34,402	47,032	23,808	
	73,290	42,540	54,676	31,566	
<b>Prepayments and accrued income</b>					
Interest and rents	16,972	16,368	11,658	10,320	
Other	6,038	5,928	4,036	3,998	
	23,010	22,296	15,695	14,318	
	2,209,927	2,038,587	1,316,851	1,232,618	

# Balance Sheet 31 Dec. 2010

EUR 1,000	Group 2010	Group 2009	Parent Company 2010	Parent Company 2009	Notes
<b>LIABILITIES</b>					
<b>Capital and reserves</b>					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	157,694	121,792	157,694	121,792	
At the disposal of the Board	59	59	59	59	
Profit brought forward	4,996	153			
Profit for the financial year	37,427	40,744	28,479	35,901	
	208,763	171,336	194,819	166,340	
<b>Appropriations</b>					
Accumulated depreciation difference			2,149	2,223	
<b>Minority interests</b>	28,324	22,151			
<b>Consolidation difference</b>	851	-			
<b>Technical provisions</b>					
Non-life insurance: Provision for unearned premiums	104,284	102,172	104,284	102,172	
Life-insurance: Provision for unearned premiums	399,553	396,776			
Non-life insurance: Claims outstanding	728,649	703,306	728,649	703,306	
Reinsurers' share	-2,105	-2,545	-2,105	-2,545	
	726,544	700,761	726,544	700,761	
Life insurance: Claims outstanding	134,743	128,233			
Equalisation provision, non-life insurance	217,222	216,730	217,222	216,730	
Collective guarantee item, non-life insurance	-	12,584	-	12,584	
<b>Technical provisions in total</b>	1,582,346	1,557,255	1,048,050	1,032,247	
<b>Technical provisions for unit-linked insurances</b>	301,595	244,693			
<b>Creditors</b>					
Arising out of reinsurance operations	1,415	800	1,160	542	
Other creditors	47,374	12,931	43,380	12,208	
Deferred tax	8,876	8,313			
	57,665	22,045	44,540	12,750	
<b>Accruals and deferred income</b>	30,384	21,108	27,292	19,058	
	2,209,927	2,038,587	1,316,851	1,232,618	

# Parent Co. Cash Flow Statement

EUR 1,000	2010	2009
<b>Indirect cash flow statement</b>		
<b>Cash flow from business operations</b>		
Profit on ordinary activities after tax	28,405	36,097
Adjustments		
Change in technical provisions	15,804	44,687
Value adjustments and revaluations on investments	-2,538	-7,887
Depreciation according to plan	8,826	8,252
Other	-18,341	-20,656
Cash flow before change in net working capital	32,155	60,492
Change in net working capital:		
Decrease/increase in non-interest-earning receivables	7,459	-995
Increase/decrease in non-interest-earning payables	5,788	-8,330
Cash flow from business operations before financial items and taxes	45,402	51,167
Interest paid on other financial expenses from operations	-355	-529
Taxes	-3,545	1,681
<b>Cash flow from business operations</b>	<b>41,502</b>	<b>52,320</b>
<b>Cash flow from capital expenditures</b>		
Capital expenditure on investments (excl. funds)	-34,244	-46,733
Capital gain from investments (excl. funds)	28,424	21,870
Investments and income from the sale of tangible and intangible assets and other assets (net)	-12,458	-7,082
<b>Cash flow from capital expenditures</b>	<b>-18,278</b>	<b>-31,945</b>
Change in funds	23,224	20,375
<b>Funds on 1 Jan.</b>	<b>23,808</b>	<b>3,433</b>
<b>Funds on 31 Dec.</b>	<b>47,032</b>	<b>23,808</b>
	23,224	20,375

# 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.

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 handled 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 handled 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:

Intangible rights (computer software)	3–7 years
Capitalised IT systems work expenses	3–7 years
Other long-term liabilities	10 years
Business and industrial premises and offices	20–75 years
Components in buildings	10–20 years
Vehicles and computer hardware	3–5 years
Office machinery and equipment	7 years

## Revaluations on investments

Revaluations and revaluation adjustments on investments in the nature of investment assets and on investments covering unit-linked insurances are entered with impact on the result. Revaluations on investments in the nature of fixed assets and their reversals are entered in the revaluation reserve under restricted capital and reserves. Planned depreciation is made on revaluations entered as income arising from buildings.

## Current value of investments

The 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 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 26 per cent.

#### **Change in the accounting principles concerning non-life insurance**

An amendment to legislation concerning the 'collective guarantee item' came

into force at the end of 2010. Non-life insurance companies had to prepare for possible joint liability in statutory accident insurance and motor liability insurance by establishing a special collective guarantee item in their balance sheets. As a result of the amendment the stipulation requiring advance preparation through the collective guarantee item was rescinded, and non-life insurance companies are no longer required to include a collective guarantee item in their balance sheets.

As stipulated in the amendment, the sums corresponding to the item at the end of the previous financial period were entered as income in the Profit and Loss Account under Other technical underwriting income. The collective guarantee amount for accident insurance accumulated by 31 December 2010 was entered as expense in the Profit and Loss Account under Other technical underwriting expenses and in the Balance Sheet in the Pay-as-you-go balance. The collective guarantee amount for motor liability insurance accumulated by 31 December 2010 was entered in the Profit and Loss Account as Change in equalisation provision and in the Balance Sheet in Equalisation provision.

#### **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. During 2009, the company adopted new calculation bases for the provision for claims outstanding. As a result of the change, the provision for outstanding claims in statutory accident insurance fell by some EUR 3 million in 2009. However, as the technical provisions for the property insurance line increased by more than EUR 3 million, the change has no real impact on the

overall amount of the technical provisions or on the loss ratio. The provision for outstanding claims pertaining to annuities is calculated by discounting, applying an interest rate of 3.0 per cent in patient insurance and 3.5 per cent in other insurance lines. Discounting is not applied to other parts of the provision for outstanding claims.

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 some redemption contracts, the interest rate applied is 2 per cent or 1 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 interest rate for individual pension insurance contracts that have commenced before 1 January 1999 is 4.5 per cent. In order to meet the interest rate requirement, technical provisions were increased in previous years by a total of EUR 17 million, resulting in an annual required rate of return on these contracts of approximately 3.5 per cent.
- In 2010, technical provisions were increased by EUR 8 million in order to meet the interest rate requirement.

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 7 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 the Insurance Companies Act, Chapter 13, Section 2, 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 according to at least a riskless interest rate on policyholders' with-profit insurance savings. 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 target is set in such a way that all the solvency limits set by legislation are exceeded and so that the company is able to take risks in its investment operations to the extent 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.

### 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. The accounts of Fennia Life

and its subsidiaries are consolidated with the Group's accounts on the basis of the consolidated accounts of the Fennia Life sub-group. eFennia Oy is a subsidiary of Fennia (holding 20 per cent, voting rights 63.6 per cent). Finnish Loss Survey Ltd became a subsidiary of Fennia (holding 100 per cent) following an additional acquisition made in 2010. The other subsidiaries included in the consolidated accounts are real estate companies. At the end of 2010, the Group had 31 real estate companies, 17 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. 2010

#### New subsidiaries included in

#### Fennia's consolidated financial statements

Suomen Vahinkotarkastus SVT Oy  
Kiinteistö Oy Ruosilantie 11  
Kiinteistö Oy Tampereen Rautatiekatu 21

#### The following subsidiaries are included

#### in the consolidated financial statements

eFennia Oy  
Emmelia Oy  
Asunto Oy Espoon Myllynkivi  
Asunto Oy Helsingin Vattuniemenkuja 8  
Asunto Oy Helsingin Viikinportti  
Asunto Oy Keravan Jaakonkulma  
Asunto Oy Linnankoskenkatu 11  
Asunto Oy Oulun Alppilan Ruusu  
Kiinteistö Oy Eagle Lahti  
Kiinteistö Oy Joensuun Metropol  
Kiinteistö Oy Ornant  
Kiinteistö Oy Ruosilantie 4-6  
Kiinteistö Oy Televisiokatu 1  
Kiinteistö Oy Televisiokatu 3

### Vakuutusosakeyhtiö Henki-Fennia

#### new subsidiaries

Asunto Oy Tampereen Vuoreksen Puistokatu 76  
Kiinteistö Oy Espoon Juvankartanon tie 5  
Kiinteistö Oy Espoon Kiilaniityntie 2

#### subsidiaries

Asunto Oy Jyväskylän Jontikka  
Kiinteistö Oy Espoon Niittyrinne 1  
Kiinteistö Oy Kaakkurin Liikekeskus  
Kiinteistö Oy Kalevankatu 9  
Kiinteistö Oy Koivuhaanportti 1-5  
Kiinteistö Oy Mikkelin Hallituskatu 1  
Kiinteistö Oy Nevametsä  
Kiinteistö Oy Pirkkalan Tuottotie 2  
Kiinteistö Oy Sellukatu 5  
Kiinteistö Oy Teohypo  
Kiinteistö Oy Tuusulan Pakkasraitti 2A  
Kiinteistö Oy Vaajakosken Varaslahdentie 6  
Kiinteistö Oy Vasaramestari  
Kiinteistö Oy Vasaraperän Liikekeskus

#### 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

	2010	2009
<b>1. Premiums written</b>		
Non-life insurance		
Direct insurance		
Finland	331,170	338,599
Reinsurance	378	1,570
Gross premiums written before reinsurers' share	331,548	340,169

## 2. Balance on technical account by group of insurance class

Group of insurance class	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
<b>EUR 1,000</b>							
Statutory accident insurance (workers' compensation)	2010	71,927	71,977	-67,031	-9,160	-422	-4,636
	2009	81,955	81,964	-56,645	-8,694	-416	16,209
	2008	87,785	87,836	-83,168	-8,424	-408	-4,164
Non-statutory accident and health	2010	26,174	25,158	-24,430	-7,760	-82	-7,114
	2009	23,674	22,638	-25,489	-7,247	-80	-10,179
	2008	21,569	20,315	-23,488	-6,692	-78	-9,944
Motor liability	2010	69,254	69,015	-57,308	-17,553	-326	-6,171
	2009	69,198	69,647	-55,254	-16,938	-1,405	-3,949
	2008	69,730	71,952	-62,981	-16,592	-444	-8,065
Motor, other classes	2010	58,034	58,577	-44,677	-14,556	-185	-841
	2009	59,151	59,515	-42,784	-14,116	532	3,147
	2008	60,866	59,879	-50,709	-13,614	1,249	-3,194
Fire and other damage to property	2010	65,975	65,322	-66,264	-17,072	-2,183	-20,198
	2009	65,097	65,038	-54,335	-16,506	-1,535	-7,338
	2008	64,750	64,000	-49,068	-16,132	-2,134	-3,334
General liability	2010	19,221	18,756	-12,905	-3,647	-95	2,108
	2009	19,429	19,275	-8,411	-3,471	-305	7,088
	2008	20,653	20,071	-11,096	-3,315	634	6,295
Other	2010	20,585	20,277	-10,380	-5,356	-818	3,723
	2009	20,096	20,193	-13,043	-5,062	-928	1,160
	2008	20,257	20,108	-10,517	-4,989	-204	4,397
<b>DIRECT INSURANCE</b>	2010	331,170	329,083	-282,996	-75,104	-4,112	-33,129
<b>TOTAL</b>	2009	338,599	338,270	-255,959	-72,035	-4,136	6,139
	2008	345,609	344,161	-291,027	-69,757	-1,385	-18,008
Reinsurance	2010	378	353	-115	-178	1	61
	2009	1,570	1,544	-1,293	-204	-99	-52
	2008	912	921	-796	-150		-25
<b>TOTAL</b>	2010	331,548	329,436	-283,111	-75,282	-4,111	-33,068
	2009	340,169	339,814	-257,252	-72,239	-4,236	6,087
	2008	346,522	345,082	-291,824	-69,907	-1,385	-18,033
Change in collective provision	2010						
	2009						-426
	2008						-468
Technical underwriting income and expenses	2010						6,159
Change in equalisation provision	2010						-491
	2009						-31,819
	2008						-3,363
<b>BALANCE ON TECHNICAL ACCOUNT</b>	2010						-27,400
	2009						-26,158
	2008						-21,863

EUR 1,000	2010	2009
<b>3. Items deducted from premiums written</b>		
Credit loss on outstanding premiums	2,521	2,699
Pay-as-you-go premiums	21,907	20,217
Premium tax	52,069	51,440
Fire brigade charge	739	737
Traffic safety charge	689	689
Industrial safety charge	1,247	1,472
	79,172	77,254
<b>4. Operating expenses</b>		
<b>Total operating expenses by activity</b>		
Claims paid	26,837	25,458
Net operating expenses	75,149	72,131
Investment charges	2,296	2,174
Other charges	246	334
Total	104,528	100,097
<b>Depreciation according to plan by activity</b>		
Claims paid	2,617	2,283
Net operating expenses	3,943	3,803
Investment charges	171	163
Total	6,732	6,249
<b>Operating expenses in Profit and Loss Account</b>		
Policy acquisition costs		
Direct insurance commissions	4,236	3,015
Commissions on reinsurance assumed and profit sharing	58	84
Other policy acquisition costs	30,979	29,088
Total	35,272	32,187
Policy management expenses	24,729	25,959
Administrative expenses	15,280	14,092
Commissions on reinsurance ceded and profit sharing	-133	-108
Total	75,149	72,131

EUR 1,000	2010	2009
<b>5. Staff expenses, personnel and executives</b>		
<b>Staff expenses</b>		
Salaries and commissions	46,508	44,591
Pension expenses	8,259	7,813
Other social expenses	4,068	4,116
<b>Total</b>	<b>58,835</b>	<b>56,520</b>
<b>Executives' salaries and commissions</b>		
Managing Director and substitute for the Managing Director	678	468
Board of Directors	148	134
Supervisory Board	147	147
<b>Total</b>	<b>973</b>	<b>750</b>
The age of retirement of the Managing Director is defined according to TyEL.		
<b>Average number of personnel during the financial year</b>		
Office personnel	547	446
Sales personnel	448	540
<b>Total</b>	<b>995</b>	<b>986</b>
<b>Auditors' commissions</b>		
Audit	49	46
Tax consulting	14	4
Other services	1	1
<b>Total</b>	<b>63</b>	<b>50</b>

EUR 1,000	2010	2009
<b>6. Net investment income</b>		
<b>Investment income</b>		
Income from investments in affiliated undertakings		
Dividend income	120	150
Income from investments in land and buildings		
Interest income		
From affiliated undertakings	3,056	1,487
Other income		
From affiliated undertakings	232	221
From other undertakings	16,629	12,243
	19,917	13,951
Income from other investments		
Dividend income	5,257	3,087
Interest income	23,595	26,829
Other income	1,588	1,155
	30,440	31,071
Total	50,477	45,173
Value readjustments	4,455	19,225
Gains on realisation of investments	42,515	26,709
<b>TOTAL</b>	<b>97,448</b>	<b>91,106</b>
<b>Investment charges</b>		
Charges arising from investments in land and buildings		
To affiliated undertakings	-7,933	-3,246
To other undertakings	-3,164	-3,128
	-11,097	-6,374
Charges arising from other investments	-2,136	-1,904
Interest and other expenses on liabilities		
To other undertakings	-355	-529
	-355	-529
Total	-13,588	-8,807
Value adjustments and depreciations		
Value adjustments on investments	-1,917	-11,337
Planned depreciation on buildings	-2,094	-2,003
	-4,012	-13,341
Losses on realisation of investments	-14,092	-5,712
<b>TOTAL</b>	<b>-31,691</b>	<b>-27,860</b>
<b>Net investment income on the Profit and Loss Account</b>	<b>65,757</b>	<b>63,246</b>



**Changes in investments in land and buildings**  
1 Jan. 2010–31 Dec. 2010

EUR 1,000	Land and buildings and real estate shares	Investment loans in affiliated undertakings
<b>8. Investments in land and buildings</b>		
<b>Acquisition cost, 1 Jan.</b>	114,649	95,208
Increase	20,117	36,415
Decrease	-936	-10,624
<b>Acquisition cost, 31 Dec.</b>	133,830	120,999
<b>Accumulated depreciation, 1 Jan.</b>	-31,469	
Depreciation for the financial year	-2,094	
<b>Accumulated depreciation, 31 Dec.</b>	-33,563	
<b>Value adjustments, 1 Jan.</b>	-4,111	
Value adjustments related to decreases and transfers	-280	
Value adjustments during the financial year	110	
<b>Value adjustments, 31 Dec.</b>	-4,281	
<b>Revaluations, 1 Dec.</b>	21,535	
<b>Revaluations, 31 Dec.</b>	21,535	
<b>Book value, 31 Dec.</b>	117,521	120,999
Land and buildings and real estate shares occupied for own activities:		
Remaining acquisition cost	12,580	
Book value	13,074	
Current value	15,696	

**Changes in investments**  
**in affiliated and associated undertakings**  
1 Jan. 2010–31 Dec. 2010

EUR 1,000	Equities and holdings in affiliated undertakings	Equities and holdings in associated undertakings
<b>9. Investments in affiliated and associated undertakings</b>		
<b>Acquisition cost, 1 Jan.</b>	25,179	422
Increases	381	-
Transfers between items	422	-422
<b>Acquisition cost, 31 Dec.</b>	25,982	-
<b>Book value, 31 Dec.</b>	25,982	-

EUR 1,000	2010	2009
<b>10. Other investments</b>		
<b>Other loans by security</b>		
Other security	16,325	9,556
	16,325	9,556
<b>11. Debtors</b>		
<b>Other debtors</b>		
Affiliated undertakings	983	5,780

EUR 1,000	Holding %	Book value 31 Dec. 2010	Current value 31 Dec. 2010
<b>12. Equities and holdings in other companies</b>			
<b>Other investments</b>			
<b>Domestic equities and holdings</b>			
Aloitusrahasto Vera Oy	0.6791	500	500
Amer Sports Oyj, series A	0.0153	143	194
Elisa Oyj	0.0083	209	224
Eläke-Fennia, keskinäinen vakuutusyhtiö		1,689	1,689
European Batteries Oy, B series	9.1241	1,250	1,250
Fortum Oyj	0.0117	1,791	2,349
K III Sweden AB - C	3.0800	536	565
Kemira Oyj	0.0143	225	259
Kesko Oyj, series B	0.0178	340	416
Kone Oyj, series B	0.0081	544	748
Konecranes Oyj	0.0202	337	387
Kytäjä Golf Oy	4.3750	840	840
Metso Oyj	0.0118	497	741
Nokia Oyj	0.0070	2,015	2,015
Nokian Renkaat Oyj	0.0118	316	413
Outokumpu Oyj, series A	0.0079	200	200
Outotec Oyj	0.0168	230	356
Panostaja Oyj	4.3726	2,398	3,167
Pohjola Bank Oyj, series A	0.0097	197	219
Sampo Oyj, series A	0.0091	880	1,021
Stockmann Oyj Abp, series B	0.0168	163	192
Stora Enso Oyj, series R	0.0168	656	791
Terveysrahasto Oy, B share	3.1405	639	783
UPM-Kymmene Oyj	0.0091	506	622
Uudenmaan Pääomarahasto Oy	13.7094	2,000	2,000
YIT Oyj	0.0174	329	411
<b>Foreign shares, listed</b>			
<b>Spain</b>			
Telefonica S.A.	0.0013	1,006	1,103
<b>Great Britain</b>			
Royal Dutch Shell Plc	0.0014	1,017	1,251

EUR 1,000	Holding %	Book value 31 Dec. 2010	Current value 31 Dec. 2010
<b>France</b>			
GDF Suez	0.0018	981	1,074
<b>Sweden</b>			
Nordea Bank AB FRD	0.0009	262	299
TeliaSonera AB	0.0015	354	404
<b>Unit trusts</b>			
Aberdeen Asia Pacific Fund A2		696	1,591
Aberdeen Indirect Property Partners		1,024	1,024
Aktia America B		2,520	2,750
Aktia Emerging Market Local Currency Bond+ D		8,308	9,078
BGF European Fund A2		4,335	4,960
Bluebay Emerging Market Local Currency Bond I USD		12,500	13,129
Bluebay Emerging Market Bond Fund R		13,323	17,951
Bluebay Emerging Market Corporate Bond Fund		4,500	4,842
Bluebay High Yield Bond Fund R		24,839	36,993
Brevan Howard Fund Class B		1,800	3,150
Cognis I Fund Class B Series 1		1,050	1,050
CRM US Equity Opportunities - Class S USD		11,811	11,905
DB X-trackers DJ Euro Stoxx 50 ETF		3,704	3,895
Eaton Vance Emerald - US Value Fund A2		2,054	2,168
Eaton Vance Emerald PPA Emerging Markets Equity Fund		9,980	11,771
Enter Select		4,600	4,615
EPI Baltic I Oy		397	397
eQ Pikkujättiläiset 2 (Kasvu)		675	1,937
eQ Suomiliiga 1 K		830	830
Fidelity Active Strategy - Europe Fund		2,100	2,620
Fidelity China Focus		985	1,401
Fidelity European High Yield A Acc Euro		20,949	27,006
FIM Brazil		1,203	2,541
FIM Euro High Yield		4,000	4,004
FIM Fenno		5,243	6,322
FIM Russia		3,429	4,176
FIM Visio		1,987	1,987
Fourton Odysseus		2,024	3,125
GS Global Emerging Markets Debt Portfolio		7,064	12,310
Handelsbanken Eurooppa Selective A I		4,937	4,937
Handelsbanken Pohjoismaat Selective A I		5,000	5,013
ICECAPITAL European Stock Index B		1,941	1,941
ICECAPITAL Global Utilities & Energy B		1,500	2,946
iShares MSCI Bric Index Fund		2,167	2,573
iShares Russell 2000 Value Fund ETF		2,844	2,982
JPM US Select 130/30 A acc-USD		6,542	7,683
JPMF Emerging Markets Equity A (acc)-USD		8,283	9,622
KauppaKeskiint. FEA Ky		14,730	14,730
Limited Life Credit Opportunity AX EUR		10,000	10,909
Lyxor ETF DJ Turkey Titans 20		1,203	1,209
Market Vectors Rare Earth Strategic Metals		988	988
Market Vectors Russia ETF		718	1,132
Montanaro European Smaller Companies-EUR		2,025	2,235
Muzinich Funds - Americayield Fund Hedged Acc		2,000	2,171
Odin Finland II		2,283	2,758
OP-High Yield A		4,006	4,010
Powershares QQQ (Nasdaq 100 Index)		1,791	2,324
Schroder ISF US Small & Mid-Cap Equity		2,427	3,088

EUR 1,000	Book value 31 Dec. 2010	Current value 31 Dec. 2010
SEB European Equity Small Caps	4,710	5,758
SEB Gyllenberg Finlandia B	993	993
SEB Gyllenberg Money Manager A	7,078	7,099
SEB Gyllenberg Money Manager Plus BI	11,645	12,817
SEB Gyllenberg Small Firm B	1,161	1,469
SEB Multi-Manager Currency IC Fund	1,954	1,954
Seligson & Co Rahamarkkinarahasto A	1,160	1,162
Seligson kehittyvät markkinat rahasto (instituutio sarja)	1,000	1,005
Sponda Fund I Ky	5,847	5,847
SPYDR Standard & Poors 500 Index Ser.1 Standard	10,831	11,744
Stone Harbor High Yield Bond Fund I - EUR A	7,297	8,006
TT International European Equity Fund Class D	4,366	4,766
Vanguard Emerging Markets ETF	12,647	13,997
William Blair US All Cap Growth Fund D	9,656	9,738
<b>Capital trusts</b>		
Access Capital LP		1,516
Auda Capital III L.P.	1,387	1,387
Duke Street Capital VI LP	1,933	1,933
Euro Choice IV GB Limited	554	554
Fennia Avainrahasto Ky	1,628	1,628
MB Equity Fund III Ky	987	1,254
MB Equity Fund IV Ky	652	652
Nokia Venture Partners II L.P.	388	388
Partners Group European Buyout	2,487	2,487
Partners Group European Mezzanine	2,001	2,092
Permira Europe II LP2	1,471	1,471
Permira Europe IV LP2	1,023	1,023
Selected Mezzanine Funds I Ky	2,963	2,963
Selected Private Equity Funds I Ky	1,422	1,422
Teknoventure Rahasto III Ky	921	921
The First European Fund Investments UK Ltd Partnership	940	940
The Triton Fund I L.P.	353	353
The Triton Fund II L.P.	1,291	1,291
The Triton Fund III L.P.	2,706	2,706
<b>Other</b>	6,872	8,009
	368,687	430,604

EUR 1,000	Other long-term expenses	Advance payments	Equipment	Total
<b>13. Changes in intangible and tangible assets</b>				
<b>Acquisition cost, 1 Jan. 2010</b>	30,623	3,789	15,329	49,741
Fully depreciated in the previous year	-1,993		-898	-2,891
Increase	4,681	8,892	2,393	15,966
Decrease	-	-3,078	-1,438	-4,516
<b>Acquisition cost, Dec. 31 2010</b>	33,311	9,603	15,386	58,300
<b>Accumulated depreciation, 1 Jan. 2010</b>	-15,043	-	-7,840	-22,883
Fully depreciated in the previous year	1,993		898	2,891
Accumulated depreciation related to decreases and transfers	-	-	975	975
Depreciation for the financial year	-4,655	-	-2,077	-6,732
<b>Accumulated depreciation, 31 Dec. 2010</b>	-17,705	-	-8,043	-25,749
<b>Book value, 31 Dec. 2010</b>	15,606	9,603	7,342	32,551

EUR 1,000	2010	2009
<b>14. Key figures pertaining to solvency</b>		
<b>Solvency margin</b>		
Capital and reserves after proposed profit distribution	194,819	166,340
Appropriations	2,149	2,223
Valuation difference between current value and		
Balance Sheet book value of assets	116,633	99,520
Capitalised intangibles	-25,209	-19,369
Other items	-3,158	-3,048
	285,235	245,666
<b>Minimum solvency margin required under the Finnish Insurance Companies Act, Chapter 11, Section 7</b>	67,366	67,366
<b>Equalisation provision for years with large numbers of losses included in technical provisions</b>	217,222	216,730
<b>Equalisation provision to its full value (%)</b>	60%	57%
<b>Solvency ratio (%)</b>		
<b>Solvency margin and equalisation provision to premiums earned from the preceding 12 months</b>		
- for the year 2010	155%	
- for the year 2009	138%	
- for the year 2008	101%	
- for the year 2007	126%	
- for the year 2006	127%	

EUR 1,000	2010	2009
<b>15. Creditors</b>		
<b>Other creditors</b>		
Affiliated undertakings	830	746
<b>16. Capital and reserves</b>		
<b>Restricted</b>		
Initial fund, 1 Jan. / 31 Dec.	4,339	
Guarantee capital, 1 Jan. / 31 Dec.	3,364	
Revaluation reserve, 1 Jan. / 31 Dec.	885	
<b>Restricted in total</b>	<b>8,587</b>	
<b>Non-restricted</b>		
Security reserve, 1 Jan. 2010	121,792	
Transfer from profit brought forward	35,901	
Security reserve, 31 Dec. 2010	157,694	
At the disposal of the Board, 1 Jan. / 31 Dec.	59	
Profit brought forward	35,901	
Transfer to security reserve	-35,901	
Profit brought forward	-	
Profit for the financial year	28,479	
<b>Non-restricted in total</b>	<b>186,232</b>	
<b>Capital and reserves in total</b>	<b>194,819</b>	
<b>Revaluation reserve, 31 Dec. 2010</b>		
Revaluations on investments	458	
Revaluations on fixed assets	426	
	885	
<b>Distributable profit, 31 Dec. 2010</b>		
Profit/loss for the financial year	28,479	
Security reserve	157,694	
At the disposal of the Board	59	
	186,232	

EUR 1,000	2010	2009
<b>17. Guarantee and liability commitments</b>		
<b>Own liabilities</b>		
<b>Liabilities from derivative contracts</b>		
Interest rate derivatives		
Forward and futures contracts		
Value of underlying instrument	100,213	104,440
Current value	-163	1,394
Currency derivatives		
Forward and futures contracts		
Value of underlying instrument	12,943	23,572
Current value	11	-417
Negative valuation differences on non-hedging derivative contracts are charged against the profit.		
<b>Securities given as collateral for derivatives trade</b>	2,503	4,012
<b>Leasing and leasehold commitments</b>	4,499	5,272
<b>Assets pledged as collateral</b>	180	-
<b>Other liabilities</b>		
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	222	274
Other undertakings	-5,671	-2,858
<b>Adjustment liability of real estate investment VAT according to Section 120</b>	151	254
<b>Investment commitments</b>		
Commitment to invest in equity funds	40,135	49,323

#### 18. Loans to related parties and related party transactions

The company has granted a total of EUR 6,000,000 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.

# Key Figures

GROUP ANALYSIS OF RESULTS (EUR million)	2006	2007	2008	2009	2010
<b>Non-life insurance</b>					
Premiums earned	314	317	335	334	324
Claims incurred	-271	-290	-284	-256	-282
Net operating expenses	-65	-65	-68	-72	-75
Other technical underwriting income (net)	0	0	0	0	6
<b>Balance on technical account before rebates and change in equalisation provision</b>	<b>-22</b>	<b>-39</b>	<b>-19</b>	<b>6</b>	<b>-27</b>
Investment income (net), revaluations	48	49	-12	62	66
Other income (net)	0	1	1	1	0
Share of associated undertakings' profit	0	0	0	0	1
<b>Operating profit/loss</b>	<b>27</b>	<b>11</b>	<b>-30</b>	<b>68</b>	<b>40</b>
Change in equalisation provision	-5	13	-3	-32	0
<b>Non-life insurance profit/loss before extraordinary items</b>	<b>22</b>	<b>24</b>	<b>-34</b>	<b>37</b>	<b>39</b>
<b>Life insurance</b>					
Premiums written	70	63	54	70	60
Investment income (net), revaluations and revaluation adjustments on investments	57	40	-84	91	81
Claims paid	-74	-55	-76	-53	-51
Change in technical provision before bonuses and rebates and change in equalisation provision	-31	-32	87	-84	-62
Net operating expenses	-7	-7	-7	-7	-8
Other technical income		8			
<b>Technical underwriting result rebates and change in equalisation provision</b>	<b>15</b>	<b>16</b>	<b>-25</b>	<b>16</b>	<b>20</b>
Other income (net)	0	0	0		
<b>Operating profit/loss</b>	<b>15</b>	<b>16</b>	<b>-25</b>	<b>16</b>	<b>20</b>
Change in equalisation provision	-1	-1	-1	0	-1
Bonuses and rebates	-7	-6	0	-4	-4
<b>Life insurance profit/loss before extraordinary items</b>	<b>8</b>	<b>9</b>	<b>-26</b>	<b>12</b>	<b>15</b>
Extraordinary income	-	-	-	-	-
Extraordinary charges	-	-	-	-	-
<b>Profit/loss before appropriations and tax</b>	<b>30</b>	<b>33</b>	<b>-60</b>	<b>48</b>	<b>54</b>
Income tax and other direct tax	-7	-8	-1	-3	-11
Minority interests	-3	-3	10	-5	-6
<b>Group's profit/loss for the financial year</b>	<b>20</b>	<b>22</b>	<b>-50</b>	<b>41</b>	<b>37</b>

Key Figures		2006	2007	2008	2009	2010
<b>Group Key Figures</b>						
Turnover	EUR million	497	486	309	567	540
Premiums written	EUR million	397	393	401	410	392
Operating profit/loss	EUR million	41	27	-55	84	59
Profit/loss before extraordinary items, untaxed reserves and tax	EUR million	30	33	-60	48	54
Total result	EUR million	42	15	-87	172	75
Solvency capital	EUR million	454	451	362	529	583
Average number of personnel		962	990	1 038	1 067	1 087
<b>Non-life Insurance Key Figures</b>						
Premiums written	EUR million	327	330	347	340	332
Loss ratio	%	86.4	91.7	85.0	76.6	87.0
Loss ratio excl. unwinding of discount.	%	82.7	87.8	81.0	72.5	82.9
Expense ratio	%	20.5	20.4	20.4	21.6	23.2
Combined ratio	%	106.9	112.1	105.4	98.2	110.2
Combined ratio excl. unwinding of discount.	%	103.2	108.3	101.4	94.1	106.0
Operating profit/loss	EUR million *	27	11	-30	68	40
Total result	EUR million	27	9	-62	129	56
Return on assets,	%	3.6	1.8	-4.1	11.2	5.0
Net investment income at current values	EUR million	49.3	48.2	-43.5	123.3	82.9
income on invested capital,	%	4.7	4.3	-3.8	11.5	6.8
Solvency margin	EUR million	204	218	153	246	285
Equalisation provision	EUR million	195	182	185	217	217
Solvency capital	EUR million	399	400	338	462	502
of technical provisions	%	55.8	51.9	42.1	57.4	60.3
Solvency ratio	%	126.9	126.3	101.1	138.5	155.0
Average number of personnel		892	910	954	986	995
<b>Life Insurance Key Figures</b>						
Premiums written	EUR million	70	63	55	70	60
Expense ratio (of expense loading)	% *	102.1	89.6	90.0	99.1	105.2
Operating profit/loss	EUR million *	15	16	-25	16	20
Total result	EUR million	13	11	-38	43	24
Return on assets	%	5.5	6.4	-3.5	11.0	7.6
Net investment income at current value	EUR million	25	27	-27	60	43
income on invested capital	%	4.9	4.6	-4.4	10.7	7.2
Solvency margin	EUR million	89	91	48	88	106
Equalisation provision	EUR million	3	4	5	5	6
Solvency capital	EUR million	93	95	52	93	112
Solvency ratio	%	18.2	16.1	9.4	16.0	18.5
Average number of personnel		26	27	29	31	42

\* Key figures according to the consolidated accounts

Investment portfolio at current values	2010		2009		2008		2007		2006	
	EUR mill.	%	EUR mill.	%	EUR mill.	%	EUR mill.	%	EUR mill.	%
Loans <sup>1)</sup>	20.3	1.6	10.7	0.9	4.8	0.5	18.4	1.7	20.5	1.9
Bonds <sup>1), 2)</sup>	586.0	46.5	655.4	55.6	556.1	52.2	605.6	55.4	589.4	55.9
<i>*includes fixed-income funds</i>	150.4	11.9	164.6	14.0	107.4	10.1	96.8	8.8	81.7	7.8
Other money market investments and deposits <sup>1), 2), 3)</sup>	72.2	5.7	70.7	6.0	201.9	18.9	112.5	10.3	69.3	6.6
<i>*includes fixed-income funds</i>	21.1	1.7	49.8	4.2	57.0	5.3	39.8	3.6	32.3	3.1
Equities and holdings	269.5	21.4	173.5	14.7	109.8	10.3	171.7	15.7	197.5	18.7
Investments in land and buildings <sup>4)</sup>	297.4	23.6	249.6	21.2	152.6	14.3	109.0	10.0	113.2	10.7
<i>*includes unit trusts and UCITS</i>	22.0	1.7	21.6	1.8	22.0	2.1	12.3	1.1	4.1	0.4
Other investments	15.4	1.2	19.6	1.7	40.6	3.8	76.6	7.0	64.1	6.1
<b>Investments in total</b>	<b>1,260.7</b>	<b>100.0</b>	<b>1,179.5</b>	<b>100.0</b>	<b>1,065.8</b>	<b>100.0</b>	<b>1,093.8</b>	<b>100.0</b>	<b>1,054.0</b>	<b>100.0</b>
<b>Modified duration of the bond portfolio</b>	<b>3.34</b>		<b>2.79</b>		<b>3.83</b>		<b>4.01</b>		<b>4.05</b>	

<sup>1)</sup> Includes accrued interests.

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

<sup>3)</sup> Includes deposits included in Investments in the Balance Sheet.

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

Net investment income	2010	2009	2008	2007	2006
	EUR mill.	EUR mill.	EUR mill.	EUR mill.	EUR mill.
<b>Direct net income</b>	<b>36.9</b>	<b>36.4</b>	<b>39.3</b>	<b>43.1</b>	<b>35.5</b>
Loan receivables	1.0	0.4	0.4	0.4	0.4
Bonds <sup>1)</sup>	22.0	20.9	22.5	21.2	16.6
Other money market investments and deposits	0.5	5.5	6.7	4.4	2.3
Equities and holdings <sup>1)</sup>	4.2	1.5	2.1	9.8	10.9
Investments in land and buildings	10.7	9.1	9.1	6.9	5.2
Other investments <sup>1)</sup>	0.1	0.1	-0.4	1.9	1.7
Sundry income, charges and operating expenses	-1.6	-1.2	-1.1	-1.4	-1.6
<b>Changes in value in the accounts <sup>1)</sup></b>	<b>28.9</b>	<b>26.9</b>	<b>-51.0</b>	<b>6.2</b>	<b>13.1</b>
Equities and holdings <sup>1)</sup>	11.5	9.1	-26.9	11.6	12.1
Bonds <sup>1)</sup>	18.8	23.0	-19.4	-9.0	0.9
Investments in land and buildings	-1.1	-7.0	-4.9	3.9	0.1
Other investments <sup>1)</sup>	-0.3	1.7	0.2	-0.4	0.0
<b>Net investment income at book value</b>	<b>65.8</b>	<b>63.2</b>	<b>-11.7</b>	<b>49.3</b>	<b>48.7</b>
<b>Change in valuation differences <sup>2)</sup></b>	<b>17.1</b>	<b>60.1</b>	<b>-31.8</b>	<b>-1.1</b>	<b>0.6</b>
Equities and holdings	21.2	7.4	-29.5	-2.0	5.3
Bonds	-6.8	51.2	-3.7	-2.6	-8.6
Investments in land and buildings	4.7	1.8	8.6	-1.9	1.3
Other investments	-2.0	-0.3	-7.2	5.4	2.6
<b>Net investment income at current values</b>	<b>82.9</b>	<b>123.3</b>	<b>-43.5</b>	<b>48.2</b>	<b>49.3</b>
Share of net investment income accounted for by derivatives	-12.3	-0.5	-0.8	1.0	1.5

<sup>1)</sup> Gains and losses on realisation of investments and other changes in value in the accounts

<sup>2)</sup> Off-balance sheet changes in value

<sup>1)</sup> The grouping of loans granted to real estate companies has been changed. The information for 2009 has been changed accordingly.

## Net investment income on invested capital 1 Jan. 2009–31 Dec. 2010

	Net investment net income current values <sup>1)</sup>	Invested capital <sup>2)</sup>	Yield, % on invested capital				
	EUR mill.	EUR mill.	2010	2009	2008	2007	2006
	2010	2010					
Loan receivables	1.0	14.8	6.5	7.5	9.1	2.1	1.9
Bonds <sup>3)</sup>	34.0	671.9	5.1	16.4	-0.1	1.8	1.5
<i>*of which fixed-income funds</i>	19.0	166.1	11.4	40.4	-18.7	2.2	6.7
Other money market investments and deposits <sup>3)</sup>	0.9	48.2	1.8	3.8	4.6	3.9	2.8
<i>*of which fixed-income funds</i>	0.5	29.7	1.8	5.8	2.5	3.6	2.9
Equities and holdings	36.9	197.3	18.7	15.6	-32.6	10.6	15.1
Investments in land and buildings <sup>4)</sup>	14.3	258.9	5.5	2.1	9.7	8.7	6.0
<i>*of which unit trusts and UCITS</i>	1.4	21.4	6.6	-11.1	-16.1	8.8	4.0
Other investments	-2.6	22.5	-11.4	4.3	-16.2	7.3	8.9
<b>Investments in total</b>	<b>84.4</b>	<b>1,213.6</b>	<b>7.0</b>	<b>11.6</b>	<b>-3.7</b>	<b>4.5</b>	<b>4.9</b>
Sundry income, charges and operating expenses	-1.6						
<b>Net investment income at current values</b>	<b>82.9</b>	<b>1,213.6</b>	<b>6.8</b>	<b>11.5</b>	<b>-3.8</b>	<b>4.3</b>	<b>4.7</b>

<sup>1)</sup> 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.

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

<sup>3)</sup> Includes income from fixed-income funds recorded in the investments in question.

<sup>4)</sup> Includes income from unit trusts and UCITS recorded in investments 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
- + 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' means the technical interest credited to insurances during the year plus/minus any changes in the supplementary liability of the interest.

In non-life insurance, the expression '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 % =**

$\frac{\text{claims incurred}}{\text{premiums earned}}$

**Loss ratio (excl. unwinding of discount) % =**

$\frac{\text{claims incurred (excl. unwinding of discount)}}{\text{premiums earned}} \%$

**Expense ratio % =**

$\frac{\text{operating expenses}}{\text{premiums earned}}$

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 =**

$\frac{\text{solvency capital}}{\text{+ technical provisions} - \text{equalisation provision}}$

Technical provisions are calculated after reinsurers' share.

**Solvency ratio % =**

$\frac{\text{solvency capital}}{\text{premiums earned}}$

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  
+  $\frac{\text{claims settlement expenses}}{\text{expense loading}}$

**Solvency margin** see calculation in the Notes

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

**Solvency ratio (%) =**

$\frac{\text{solvency capital}}{\text{+ technical provisions} - \text{equalisation provision} - 75\% \text{ of technical provisions for unit-linked insurances}}$

Technical provisions are calculated after reinsurers' share.

# Risks and Risk Management

## General principles of risk management

Fennia's risk management is based on the risk management policy approved by the Board of Directors.

Risk management as an element of internal control refers to the identification, assessment, limitation and monitoring of the risks arising from and inherently related to the business. The task of risk management is to identify the risks and opportunities that affect the implementation of Fennia's strategy. The aim of risk management is to ensure the achievement of the objectives set out in the strategy and action plans and to make sure that the risks taken by the companies are in proportion to the risk-bearing capacity.

A risk refers to any incident that is likely to have a negative effect on the company's financial performance. In Fennia's classification risks are divided into one-sided and two-sided risks. One-sided risks are those that only involve a danger of loss and that companies try to avoid or minimise, such as operational risks and factors constituting an external threat. Two-sided risks are those that companies take to achieve a good result, such as insurance and investment risks and strategic risks.

## Risk management organisation

The Board of Directors is responsible for arranging internal control. Risk management at Fennia is based on the risk management plan, which is discussed annually by the Boards of Directors. The risk management executive team co-ordinates and steers risk management maintenance and development. Internal audits, which are

independent of business activities, are used to monitor and assess the adequacy of internal control and risk management.

On the level of the Fennia Group, the joint impacts of risks shared by Fennia and Fennia Life must be taken into account.

In determining Fennia's annual risk limits, the joint impacts of both insurance and investment risks for the past two years are considered. Together with the reinsurance unit, the company's actuary draws up a proposal for the risk management executive team concerning the deployment of the company's risk bearing capacity. The final proposal is discussed and approved by the Board of Directors.

The risk management executive team handles issues such as the company's and the business units' risk management plans, major concentrations of risks, the management of single and comprehensive risks and the company's insurance cover. In addition, the executive team develops and assesses the risk strategy, the efficiency of capital deployment and the allocation of risk capital.

The business units identify and analyse the risks that threaten their operations and objectives, in the context of both the annual planning process and daily operational activities. The importance of anticipating and being prepared for risks is assessed by analysing the probability of the risk materialising and the potential costs thereby incurred.

## Non-life insurance risks

Insurance business is based on risk-taking and risk management. The main risks in non-life insurance operations

relate to the choice and pricing of risks insured, the acquisition of reinsurance cover and the adequacy of technical provisions. The objective is profitable business, and correct pricing of risks plays a key role in the conclusion of insurance contracts. Capital must also be correctly dimensioned to ensure the company's risk-bearing capacity.

The risk pertaining to risk selection is controlled by statistical study of previous losses, which provides the basis for rating the risks. It is vital that the data on which the rating is based is accurate. Insurance terms and conditions are an essential tool for controlling risks. The risk pertaining to risk selection is also controlled by carrying out risk analyses and by complying with risk selection guidelines specifying the types of risks that can be insured and the maximum permitted sums insured. Major losses are reported and analysed immediately.

Insurance companies hedge against major losses or loss events by reinsurance. At Fennia, the share retained is dimensioned appropriately to match the company's financial strength. The Board of Directors confirms the reinsurance programme annually. Risks relating to the procurement of reinsurance cover include availability and price. The risk involved in reinsurance and the related credit risk are reduced by only accepting as reinsurers companies that have a sufficiently high financial strength rating. Moreover, there are limits on the maximum share of a single reinsurer in any reinsurance programme.

A technical provisions risk arises when insufficient provisions are available to cover claims outstanding for costs arising from losses that have occurred

but are not yet indemnified. A technical provisions risk arises particularly in those insurance lines that have a long claims settlement period. The adequacy of technical provisions is monitored regularly, as are reservations of losses entailing continuous indemnification. It is the responsibility of the non-life insurance actuary to draw up guidelines and evaluate the adequacy of technical provisions. The actuarial function is also responsible for the development and maintenance of the various systems and methods required to calculate technical provisions, in order to avoid under-provision.

The technical provision risk is increased by inflation risk, mortality risk and interest rate risk. Inflation risk concerns losses that have a long-term impact on cash flow, in particular outstanding claims pertaining to statutory annuities. The risk arising from fluctuations in interest rates is also related to outstanding claims pertaining to annuities. When calculating the claims provision, the long-term cash flows resulting from these claims are discounted using the technical interest rate. If the future return on the assets that cover pension liability is not at least equal to the technical interest rate, the risk will materialise. Mortality risk refers to the uncertainty related to the assessment of claims expenditure, which results from the uncertainty of assessing the future mortality rate. In non-life insurance, the mortality risk mainly concerns the pension liability for statutory insurance.

### Actuarial assumptions and models used in non-life insurance

An insurance company must have solid calculation bases for determining technical provisions, in order to ensure that it can meet its liabilities under all circumstances. The technical provision is calculated according to the calculation bases, which must be

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

Impact of change on Fennia's solvency capital		
Discount rate	Decreases 0.1 percentage point	EUR -4 million
Inflation risk	Increase of 1%	EUR -6 million
Mortality	Average age increase of 1 yr	EUR -10 million

### QUANTITATIVE DATA ON THE RISK VARIABLES OF THE INVESTMENT PORTFOLIO OF FENNIA'S PARENT COMPANY

Impact of change on Fennia's solvency capital		
Fixed income investments	Interest rate +1 percentage point	EUR -16 million
Equity investments	Change in value -20%	EUR -54 million
Real estate investments	Change in value -10%	EUR -30 million

### QUANTITATIVE DATA ON RISK VARIABLES AFFECTING THE INVESTMENT PORTFOLIO OF FENNIA LIFE

Impact of change on Fennia Life's solvency capital		
Fixed income investments	Interest rate +1 percentage point	EUR -8 million
Equity investments	Change in value -20%	EUR -27 million
Real estate investments	Change in value -10%	EUR -10 million

submitted to the Financial Supervisory Authority before the end of the financial period.

The provision for unearned premiums is calculated for each contract by a method proportioned to the duration of the insurance period.

The provision for outstanding claims pertaining to annuities is calculated by discounting them. The interest rate is 3.5 per cent in lines other than in patient insurance, where the rate is 3.0 per cent. Discounting is not applied to other parts of the provision for outstanding claims. Pension liabilities are determined using the mortality model drawn up by the Federation of Accident Insurance Institutions and the Finnish Motor Insurers' Centre, which is generally applied in the industry.

In the case of single major losses, provisions are made for compensation payable for each loss on the basis of reports from claims departments concerned. All pension costs and major material damages and liability losses are provided for in each case of loss or damage according to the instructions provided by the company's actuary. The provision for minor losses and IBNR

losses is based on statistics.

A provision for expense loading is made on the provision for claims outstanding for the future handling of losses that have occurred before the date of closing the accounts. The provision for expense loading is calculated as a proportional share of the total premium income of each class of insurance.

### Life insurance risks

The main risk pertaining to technical provisions in life insurance is the interest rate risk related to the guaranteed technical interest rate. The technical provisions also include a surrender risk, which is most significant in insurance based on technical interest. In pension policies, surrenders are only possible in exceptional cases, and therefore the risk relating to surrenders is highest in savings policies and capital redemption contracts. This risk is reduced by sanctions included in the first years of the contracts.

Of the technical risks relating to life insurance, the most significant are death and disability cover. These risks are limited by risk selection and by defining

upper limits for the cover to be granted. The risk and cost equivalent rating is of crucial importance. Major single claims are limited by means of reinsurance. Of the technical risks relating to pension insurance, the most significant is the longevity risk.

### **Actuarial assumptions and models in life insurance**

The technical interest rate used in the calculation of technical provisions with guaranteed return varies between 1.0 and 4.5 per cent, and the average rate for the overall technical provisions with guaranteed return is approximately 3.5 per cent. The mortality assumptions applied in life and pension insurance are those generally applied in the industry.

### **Investment risks relating to insurance**

The Fennia Group's investment operations are aimed at achieving the highest possible returns at acceptable levels of risk, so as to ensure that Fennia and Fennia Life exceed the required solvency ratio and that their investment assets are sufficient and structurally appropriate to cover the companies' technical provisions. The biggest risks threatening investment performance are decreases in the value of investments, and returns that fall below the level required by the technical provisions. To limit these risks, the investment portfolio is diversified as far as possible. The Boards of Directors of the companies annually approve their investment plans, which define the targeted allocation of the investment portfolio and the minimum and maximum limits by asset class, the organisation of investment operations and executive and decision-making powers.

### **Market risks**

Market risks consist of the impacts of interest rates, currency and equity prices, volatility or the impacts of other changes

in market prices on the companies' result and financial strength. The market risk affecting the entire portfolio is assessed and measured using risk factors derived from the characteristic statistical features of the realised returns of each investment asset category.

The monitoring of market risk is divided by asset class into risks related to interest, equity, property, and private equity fund and hedge fund investments. The risks are also theoretically combined at the level of the entire portfolio. Currency and credit risks are taken into account as part of the above-mentioned risk classes, whereas the interest rate risk is also monitored as a separate risk sub-class.

When determining the risk level, the requirements set by technical provisions for investment allocation and yield are taken into account. To predict investment market trends, calculations are made on the basis of various scenarios. The main method used in market risk management is investment allocation reporting, including the associated key figures and the value-change risk/risk-bearing capacity ratio.

The risk profile is in practice determined as a target allocation by asset class, also including the minimum and maximum limits by asset class. The investment risk, calculated on the basis of fixed risk parameters by asset class, is proportioned according to the non-restricted solvency margin, which represents the risk-bearing capacity. A maximum limit has also been determined for the ratio between these. The risk ratio is reported weekly.

### **Credit risk**

In securities investments and client financing, the credit risk consists of the borrower's ability to meet their liabilities. Credit risk is usually determined by the borrower's creditworthiness rating. The risk of a fall in the credit rating constitutes part of the credit risk.

In investment securities, the credit risk often affects bonds and money-market instruments by issuer and as a so-called counterparty risk, for example, in derivative commitments. The credit risks affecting a loan portfolio are identified and measured on the basis of credit rating and degree of diversification. The credit risk is managed by limits on the degree of portfolio diversification, credit rating and choice of instrument, and, in the case of commercial papers, by borrower-specific limitations.

### **Liquidity risk**

A liquidity risk implies that the company is unable to meet its payment obligations. The risk may arise from the company's inability to anticipate liquidity needs or inability to sell invested assets within the required time frame.

The company's liquidity requirements are taken into account when building the investment portfolio. No liquidity risk is expected to materialise in the current conditions.

### **Operational risk**

Operational risks are defined as losses attributable to inadequate or ineffective internal processes, personnel or IT systems. Potential losses may also be due to changes in the operating environment or to juridical factors.

The persons responsible for the company's business areas review the risks in conjunction with annual operational planning by conducting risk analyses for each function. This review is followed by an assessment of the impacts of the risks on the business and risk materialisation probabilities.

All operations are conducted in compliance with the legislation currently in force, and with the regulations and guidelines issued by authorities. For the most important business areas, contingency plans are drawn up to ensure that key functions can be continued in the event of a crisis.

# Board of Directors' Proposal on the Disposal of Profit

Fennia's distributable profits were EUR 186,231,812.02. The company's profit for the financial year was EUR 28,479,227.10. 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, 7 March 2011

Eero Lehti

Esko Penttilä

Antti Kuljukka  
Managing Director

Lars Koski

Eva Liljeblom

Juha Valkamo

Juhani Vesterinen

# Auditors' Report

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

## 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 Oy for the year ended 31 December, 2010. 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 and 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, 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, 18 March 2011

KPMG Oy Ab

Jaakko Nyman  
Authorized Public Accountant

Sirpa Eriksson  
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 2010 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 18 April 2011 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, 28 March 2011

On behalf of the Supervisory Board

Matti Pörhö  
Chairman of the Supervisory Board

# Fennia's Board of Directors and Management 1 Jan. 2011

## BOARD OF DIRECTORS

### Chairman:

#### Eero Lehti

Commercial Counsellor  
(Finnish honorary title)  
Chairman of the Board  
Taloustutkimus Oy  
Kerava

### Varapuheenjohtaja:

#### Esko Penttilä

Traffic Counsellor  
(Finnish honorary title)  
Chairman of the Board  
Matkapojat Oy  
Tampere

### Board Members:

#### Jouko Kemppe

Chairman of the Board  
Kemppe Oy  
Lahti

#### Lars Koski

Managing Director  
Laihian Mallas Oy  
Laihia

#### Eva Liljebloom

Rector  
Hanken School of  
Economics  
Helsinki

#### Rauno Mattila

Industrial Counsellor  
(Finnish honorary title)  
Investo  
Omaisuudenhoito Oy  
Turku

#### Antti Vaahto

Board member  
Vaahto Group Plc Oyj  
Lahti

#### Juha Valkamo

Managing Director  
Oy Primula Ab  
Helsinki

#### Juhani Vesterinen

Chairman of the Board  
Promeco Group Oy  
Tallinna

### Deputy Member:

#### Lasse Heiniö

Managing Director  
Eläke-Fennia  
Espoo

### Secretary to the Board:

#### Heimo Äikäs

General Counsel  
Fennia  
Helsinki

## AUDITORS

KPMG OY AB

### Auditors:

#### Jaakko Nyman

Authorised Public  
Accountant

#### Sirpa Eriksson

Authorised Public  
Accountant

### Deputy Auditors:

#### Riitta Pyykkö

Authorised Public  
Accountant

#### Jari Nurmi

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 and client  
financing

#### Matti Heiskanen

Deputy HR Director

#### Pasi Karppi

Information  
Management Director

#### Timo Ahvonen

Development Director

#### Timo Parkkisenniemi

Director  
Insurances and claims

#### Eliisa Anttila

Communications  
Director

#### Sirkku Rahkola

Finance Director

#### Heimo Äikäs

General Counsel

#### 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 Occupational  
Medicine

#### Heikki Österman

Licentiate of Medicine  
Specialist in  
Orthopaedics and  
Traumatology

## SUPERVISORY BOARD

## Chairman:

**Matti Pörhö**

Commercial Counsellor  
(Finnish honorary title)  
Pörhön Autoliike Oy  
Oulu

## Vice Chairmen:

**Mikael Ahlbäck**

Managing Director  
Rani Plast Oy Ab  
Teerijärvi

**Jukka Tikka**

Managing Director  
Länsi-Savo Oy  
Mikkeli

## Board Members:

**Antti Aho**

Chairman of the Board  
Lääkärikeskus-Yhtymä  
Helsinki

**Juhani Enkovaara**

Board member  
Eho Oy  
Helsinki

**Juha Gröhn**

Managing Director  
Atria Suomi Oy  
Nurmo

**Jarmo Halonen**

Managing Director  
Elecster Oyj  
Toijala

**Björn Hartman**

Managing Director  
Oy C.J. Hartman Ab  
Vaasa

**Nanna Hietala**

Managing Director  
MSK-Group Oy  
Ylihärmä

**Jouko Hälikkä**

Customer Manager  
Yrittäjän Fennian  
Kenttä Ry  
Helsinki

**Ilkka Jalonen**

Managing Director  
LänsiAuto Oy  
Espoo

**Juha Järvi**

Managing Director  
Meteco Oy  
Karstula

**Marianne Kaasalainen**

Managing Director  
Oy Patrol Trading Ab  
Espoo

**Tom Kaisla**

Managing Director  
Eilakaisla Oy  
Toimialapalvelu  
Helsinki

**Jouko Kauhanen**

Chairman of the Board  
Naaraharju Oy  
Naarajärvi

**Hannu Kekäläinen**

Chairman of the Board  
Check Point Finland Oy  
Piikkiö

**Björn Kolster**

Chairman of the Board  
Oy Kolster ab  
Helsinki

**Johanna Koskelainen**

Managing Director  
Kymppi-Eristys Oy  
Oulu

**Matti Koskenkorva**

Chairman of the Board  
Panostaja Oyj  
Tampere

**Seppo Kukkola**

Managing Director  
Kukkola-Yhtiöt Oy  
Rovaniemi

**Heikki Kääriäinen**

Managing Director  
Linja-autoliitto ry  
Helsinki

**Jyrki Laakkonen**

Managing Director  
Kauppahuone  
Laakkonen Oy  
Joensuu

**Maunu Lehtimäki**

Managing Director  
Evli Pankki Oyj  
Helsinki

**Pekka Lillbacka**

Managing Director  
Lillbacka Powerco Oy  
Härmä

**Markus Lindblom**

Chairman of the Board  
RTV-Yhtymä Oy  
Riihimäki

**Vesa Luhtanen**

Managing Director  
L-Fashion Group Oy  
Lahti

**Hannu Löytönen**

Industrial Counsellor  
(Finnish honorary title)  
Managing Director  
Betsset Oy  
Kyyjärvi

**Jarmo Murtonen**

Managing Director  
Parma Oy  
Nummela

**Pekka Niemi**

Managing Director  
Sunborn Oy  
Turku

**Martti Paunu**

Managing Director  
Väinö Paunu Oy  
Tampere

**Maria Planting**

Chairman of the Board  
E.Ahlström Oy  
Helsinki

**Ari Rinta-Jouppi**

Managing Director  
Rinta-Joupin  
Autoliike Oy  
Tervajoki

**Meliina Ruokonen**

Board member  
Aarikka Oy  
Helsinki

**Ali U. Saadetdin**

Chairman of the Board  
Solteq Oyj  
Tampere

**Seppo Saajos**

Managing Director  
Saajos Oy  
Lohja

**Juhani Saario**

Chairman of the Board  
Lahden Autokori Oy  
Lahti

**Timo Salli**

Managing Director  
Katsa Oy  
Tampere

**Pertti J. Siikarla**

Managing Director  
Yrittäjien  
Oikeussuoja Oy  
Helsinki

**Mikko Sillanpää**

Managing Director  
Kart Oy  
Espoo

**Kaj Ström**

Chairman of the Board  
Oy Motoral Ab  
Helsinki

**Paul Stucki**

Chairman of the Board  
Orfer Oy  
Orimattila

**Hannu Teiskonen**

Chairman of the Board  
HT Lasertekniikka Oy  
Keuruu

**Markus Tötterman**

Chairman of the Board  
Oy Arwidson Ab  
Tuusula

**Heikki Vauhkonen**

Managing Director  
Tulikivi Oyj  
Helsinki

**Rauno Vennola**

Managing Director  
Terra-Team Oy  
Espoo

**Jarkko Wuorinen**

Managing Director  
Wiisaudenhammas-  
Yhtiöt  
Savonlinna

**Janne Ylinen**

Managing Director  
Halpa-Halli Oy  
Kokkola

**Jens Österberg**

Managing Director  
Oy Petsmo Products Ab  
Vaasa



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