

The background of the cover is composed of several layers of green. At the top, there are multiple thin, curved green lines that sweep across the page. Below these is a solid, medium-green curved shape. At the bottom, there is a larger, solid, darker-green curved shape that also sweeps across the page, creating a sense of depth and movement.

# FENNIA LIFE 2010

THE BOARD OF DIRECTORS' REPORT AND FINANCIAL STATEMENTS



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## The year 2010 better than expected



As I write this review, we are in the midst of the tragedies that have struck Japan and North Africa and the financial stability crisis affecting Europe, so we must anticipate that 2011 will be a challenging year.

The year 2010 also started in an atmosphere of uncertainty. Recovery from the financial crisis had raised the investment income for 2009 to a record-high, and a double recession was expected for the spring. Luckily, this threat subsided after the summer, and the equity market returns for the latter part of the year were excellent. It was also possible to raise the risk level of investments. However, as a result of the sovereign debt crisis in the PIIGS countries, which affected the stability of the Eurozone, the fixed-income investment markets deteriorated substantially during the autumn.

As 2010 was better than expected, this gave Fennia Life excellent opportunities to improve our solvency while our customers received competitive returns on their insurance policies. We also managed to increase our assets for future client bonuses and reduce the return requirements of the technical interest rate portfolio. We will have to make use of all possible buffers in the coming years, particularly to meet the requirements of the new solvency regulatory framework to be introduced in 2013.

Finnish life insurance companies have performed fairly well in the trial calculations testing the requirements of Solvency II, but there is still a lot of room for improvement in the framework. If the requirements of the new solvency framework are set too tight, it may block the possibility for the natural risk taking that is part of economic activities. Without risk taking, a life insurance company cannot achieve adequate results.

The position of life insurance in the Finnish society can be described as somewhat indeterminate. Experts in the various sectors of the economy have taken several steps forward in identifying the basic nature and future opportunities of life insurance. At the same time, the potential of voluntary insurance preparedness for bridging the sustainability gap in the national economy has to a large extent been left untapped.

There is still room for development in the position of Finnish life insurance companies compared to that of foreign insurers and other Finnish actors in the financial sector. We hope that the programme of the new government to be established after the parliamentary election will give us the opportunity to contribute to the economic security of the Finnish society. Our tool in doing this will be our solid expertise in life and health risk management and

the various alternatives offered by insurance asset management.

Fennia Life is a successful expert organisation that is based on the flexibility and co-operation of competent individuals, for the benefit of the customers. In 2010 our activities were marked by the introduction of a new sales operating model and the implementation of system projects that were substantial, considering our size. Our basic tasks were carried out smoothly. Special thanks to all Fennia Life employees for your hard work and achievements last year.

Fennia Life is also a company with an exceptionally wide network of partners, to whom I extend my sincere gratitude for their rewarding and constructive co-operation.

The growth and existence of Fennia Life are based on services that our customers both want and need. Our raison d'être is to build the financial security of our customers.

Thank you for your confidence in us.

Seppo Rinta  
Managing Director

# Board of Directors' Report 2010

Fennia Life Insurance Company's result for 2010 was good. The company's solvency position strengthened and remains very satisfactory.

Fennia Life is jointly owned by the mutual insurance companies Fennia (60%) and Pension Fennia (40%).

## Insurance operations

Fennia Life's premiums written went down to EUR 60.2 million (EUR 70.0 million). Of the company's total premium income, life insurance accounted for EUR 31.2 million (EUR 38.6 million) and pension insurance for EUR 29.0 million (EUR 31.4 million). Premium income on unit-linked insurances was EUR 23.5 million (EUR 28.9 million), accounting for 39 per cent (41%) of total premium income. Premium income on regular premium contracts stood at EUR 44.2 million (EUR 46.8 million), accounting for 73 per cent (67%) of total premium income.

Claims paid decreased to EUR 51.7 million (EUR 53.3 million), with surrenders accounting for EUR 10.5 million (EUR 13.5 million). The repayment of benefits amounted to EUR 4.0 million (EUR 6.8 million).

Operating expenses increased to EUR 8.4 million (EUR 7.5 million). The increase is mainly due to the fact that 11 life insurance sales managers

from Fennia's field organisation were transferred to Fennia Life at the beginning of the year. The expense ratio deteriorated compared to the previous year, at 108.1 per cent (101.9%). However, without the fee and commission income, the expense ratio would have been 99.7 per cent.

The total return on with-profit insurance savings varied between 3.5 and 4.5 per cent in 2010, depending on the line of insurance and quarter of the year. Client bonuses granted totalled EUR 2.3 million, of which EUR 0.5 million were funded from provisions for bonuses reserved earlier. A total of EUR 1.8 million (EUR 0.6 million) in client bonuses was recorded with an impact on the result. A sum of EUR 2.0 million (EUR 3.0 million) was reserved in the technical provisions for future bonuses. In addition, technical provisions were increased by EUR 8.0 million (EUR 7.0 million).

## Investments

Fennia Life's net investment income at current values amounted to EUR 43.1 million (EUR 59.8 million). Net investment income on invested capital was 7.2 per cent (10.7%). At year-end, Fennia Life's investment assets at current values (incl. accrued interests) stood at EUR 623 million (EUR 601 million). Bonds and long-

term fund investments accounted for 54 per cent of the investment portfolio, and money market investments and deposits for 8 per cent. Shares, equity fund investments and capital trusts accounted for 21 per cent, real estate investments for 15 per cent, and other investments for 2 per cent of the portfolio.

In addition, the company had EUR 302 million (EUR 245 million) in assets covering unit-linked insurances, with net investment income amounting to EUR 42.8 million (EUR 58.8 million).

## Result and solvency

Fennia Life's operating profit was EUR 19.5 million (EUR 15.5 million). The Group's operating profit was EUR 18.9 million (EUR 14.9 million).

The company's solvency margin increased to EUR 106.0 million (EUR 87.8 million) and solvency capital to EUR 111.6 million (EUR 92.8 million). Solvency in relation to the technical provisions strengthened, and the solvency ratio rose to 18.5 per cent (16.0%).

## Administration and staff

During the year under review, the members of Fennia Life's Board of Directors were: Eero Lehti (Chairman), Matti Ruohonen (Vice Chairman), Deputy Managing Director Matti

Carpén (as of 25 March 2010), Director Eeva Grannenfelt, Managing Director Lasse Heiniö (until 25 March 2010), Managing Director Antti Kuljukka and Chairman of the Board Antti Vaahto. Deputy Managing Director Eero Eriksson and Managing Director Olavi Nieminen served as deputy members of the Board. Seppo Rinta acted as Managing Director.

The Board of Directors held a total of nine meetings during the year under review. The attendance rate of the full members was 85 per cent and that of the deputy members 89 per cent.

The company employed an average of 42 people (31) in 2010.

### Group structure

At year-end, Fennia Life Group included 17 real estate companies wholly-owned by the company. Acquisitions made during the financial year were: Kiinteistö Oy Kiilaniityntie 2 in Espoo, Kiinteistö Oy Espoon Juvankartanontie 5 and Asunto Oy Tampereen Vuoreksen Puistokatu 76.

### Risk management

Fennia Life's risk management is based on Fennia Group's risk management policy, which is discussed annually by the Boards of Directors and on the risk management plan approved by Fennia Life's

Board of Directors. Internal audits, independent of business activities, are carried out to assess the status of internal control.

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

### Outlook

Fennia Life is set to grow during the present strategy period, both in life insurance and in asset management. Thanks to our own sales organisation, which has operated for almost a year now, Fennia Life has had a more active presence on the market. These newly developed services combined with the recovery of the Finnish economy create good opportunities for growth in the company's business.

As a whole, last year was positive for investors, although the debt problems of certain euro-zone countries threatened to undermine the stability of the entire Euro area. The strengthening global economy creates confidence in positive development, but the problems of the indebted countries are not over yet, and this is

causing uncertainty in the investment and financial markets.

Within the company our efforts are focused on consistent work to implement the Solvency II framework, and on several development projects aimed at improving customer service.

### Recent developments

It was decided to broaden the Fennia Group's service offering by establishing an investment firm as a subsidiary of Fennia Life. The agreement to establish Fennia Asset Management Ltd. was signed on 7 February 2011. Making use of Fennia's investment expertise by offering clients asset management solutions supports Fennia Life's objectives in broadening its range of services in insurance asset management.

# Profit and Loss Account

EUR 1,000	Group 2010	Group 2009	Parent Company 2010	Parent Company 2009	Notes
<b>Technical Account</b>					
<b>Premiums written</b>					
Premiums written	60,165	70,010	60,165	70,010	1
Reinsurers' share	-528	-447	-528	-447	
	59,637	69,563	59,637	69,563	
<b>Investment income</b>	68,361	90,215	68,136	89,873	3, 4
<b>Revaluations on investments</b>	30,061	25,901	30,061	25,901	3, 4
<b>Claims incurred</b>					
Claims paid	-51,692	-53,281	-51,692	-53,281	2
Reinsurers' share	438	-	438	-	
Change in the provision for outstanding claims	-7,594	-7,106	-7,594	-7,106	
<b>Claims incurred in total</b>	-58,849	-60,388	-58,849	-60,388	
<b>Change in the provision for unearned premiums</b>					
Change in the provision for unearned premiums	-58,595	-81,178	-58,595	-81,178	
<b>Net operating expenses</b>	-8,405	-7,533	-8,405	-7,533	5
<b>Investment charges</b>	-16,975	-25,485	-16,098	-24,604	3, 4
<b>Revaluation adjustments on investments</b>	-762	-40	-762	-40	3, 4
Balance on technical account	14,474	11,056	15,126	11,595	
<b>Non-Technical Account</b>					
<b>Tax on profit on ordinary activities</b>					
Tax for the financial year	-445		-445		
Tax from previous periods		-33		-34	
Deferred tax	86	-594			
	-359	-627	-445	-34	
Profit/loss on ordinary activities after tax			14,682	11,561	
<b>Appropriations</b>					
Change in depreciation difference			-27	-40	
<b>Profit/loss for the financial year</b>	<b>14,115</b>	<b>10,429</b>	<b>14,654</b>	<b>11,521</b>	

# Balance Sheet

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	985	1,174	985	1,174	
Advance payments	2,857	2,291	2,857	2,291	
	3,842	3,465	3,842	3,465	10
<b>Investments</b>					
Investments in land and buildings					
Land and buildings	87,187	71,410	64,901	56,998	7
Loans to affiliated undertakings			6,085	-	
Loans to associated undertakings	1,391	1,391	1,391	1,391	
	88,578	72,801	72,377	58,389	
Other investments					
Equities and holdings	244,043	201,694	244,043	201,694	9
Debt securities	261,834	297,865	261,834	297,865	
Deposits	1,200	3,690	1,200	3,690	
	507,077	503,249	507,077	503,249	
<b>Investments in total</b>	595,655	576,050	579,455	561,638	6
<b>Investments covering unit-linked insurances</b>					
<b>unit-linked insurances</b>	300,154	243,736	300,154	243,736	8
<b>Debtors</b>					
Arising out of direct insurance operations					
Policyholders	426	434	426	434	
Arising out of reinsurance operations	438	-	438	-	
Other debtors	7,063	4,709	7,775	5,248	
	7,926	5,143	8,639	5,683	
<b>Other assets</b>					
Tangible assets					
Equipment	536	367	536	367	10
Other tangible assets	12	12	12	12	
	548	379	548	379	
Cash at bank and in hand	15,415	8,716	15,401	8,712	
	15,964	9,096	15,949	9,091	
<b>Prepayments and accrued income</b>					
Interest and rents	5,304	5,982	5,273	5,949	
Other	1,773	1,657	1,773	1,656	
	7,077	7,639	7,046	7,605	
	930,619	845,128	915,085	831,217	

EUR 1,000	Group 2010	Group 2009	Parent Company 2010	Parent Company 2009	Notes
<b>LIABILITIES</b>					
<b>Capital and reserves</b>					
Subscribed capital	27,751	27,751	27,751	27,751	11
Premium fund	10,723	10,723	10,723	10,723	
At the disposal of the Board	8	8	8	8	
Profit/loss brought forward	13,512	3,083	19,669	8,147	
Profit/loss for the financial year	14,115	10,429	14,654	11,521	
	66,110	51,994	72,806	58,152	
<b>Appropriations</b>					
Accumulated depreciation difference			90	63	
<b>Technical provisions</b>					
Provision for unearned premiums	399,553	396,776	399,553	396,776	
Claims outstanding	134,743	128,233	134,743	128,233	
	534,296	525,009	534,296	525,009	
<b>Technical provisions for unit-linked insurances</b>					
Technical provisions	301,595	244,693	301,595	244,693	14
<b>Creditors</b>					
Arising out of reinsurance operations	255	258	255	258	
Deferred tax	4,942	5,028			
Other creditors	21,715	16,722	4,361	1,620	12
	26,912	22,009	4,615	1,878	
<b>Accruals and deferred income</b>					
	1,706	1,423	1,683	1,423	
	930,619	845,128	915,085	831,217	

# Parent Co. Cash Flow Statement

EUR 1,000	2010	2009
<b>Cash flow from business operations</b>		
Profit on ordinary activities before extraordinary items	14,682	11,561
Adjustments:		
Change in technical provisions	66,189	88,285
Value adjustments and revaluations on investments	-32,966	-47,538
Depreciation according to plan	331	759
Other	-25,851	-22,744
Cash flow before change in net working capital	22,385	30,323
Change in net working capital		
Decrease/increase in non-interest-earning receivables	1,251	2,787
Increase in non-interest-earning payables	486	-1,053
Cash flow from business operations before financial items and taxes	24,123	32,056
Interest paid on other financial expenses from operations	3	-80
Taxes	-92	34
<b>Cash flow from business operations</b>	<b>24,034</b>	<b>32,011</b>
<b>Cash flow from capital expenditures</b>		
Capital expenditure on investments (excl. funds)	-42,759	-46,428
Capital gain from investments (excl. funds)	26,293	22,790
Investments and income from the sale of tangible and intangible assets and other assets (net)	-878	-782
<b>Cash flow from capital expenditures</b>	<b>-17,345</b>	<b>-24,420</b>
Change in funds	6,689	7,590
Funds on 1 Jan.	8,712	1,122
Funds on 31 Dec.	15,401	8,712
	6,689	7,590

# Accounting Principles

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

## Book value of investments

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

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

Debt securities are entered in the Balance Sheet at acquisition cost. The 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. The acquisition cost is calculated using the average price. 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.

## 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)	5 years
Other long-term liabilities	10 years
Business and industrial premises and offices	20–50 years
Components in buildings	10–15 years
Vehicles and computer hardware	3–5 years
Office machinery and equipment	7 years

## Revaluations on investments

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

## Current value of investments

The 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.

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.

### Staff pension schemes

Pension insurance cover has been arranged for the staff by means of TyEL insurance with the 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.

Deferred tax liabilities resulting from consolidation measures are entered in the consolidated accounts. In the consolidated accounts, the depreciation difference is divided into the change in deferred tax and share of profit/loss for the financial year, and deferred tax and share of capital and reserves. The rate of tax used is 26 per cent.

### Technical provisions

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

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

- 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 on policyholders' with-profit insurance savings that is at minimum based on the risk-free interest rate. The duration of the insurance and surrender right are taken into account in distributing bonuses. The yield to be distributed to clients is determined based on the company's long-term net income on investments.

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

The aim is to retain continuity in the level of bonuses paid, as a result of which the surplus from returns on investments can be accrued as distributable bonuses for the group of insured in question for the coming years.

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

The level of bonuses is limited by the owners' requirements for return

on capital, as well as the company's solvency target. The solvency 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 Life's consolidated accounts include all the subsidiaries in which the Parent Company either directly or indirectly holds more than half of the voting rights. The seventeen (14 in 2009) subsidiaries included in the consolidated accounts are all real estate companies.

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. Mutual share ownership is eliminated

using the acquisition method. The consolidation difference is entered under the fixed asset items concerned and depreciated according to their depreciation plan. The unallocated part of goodwill on consolidation has been written off.

#### **Group companies 31 Dec. 2010 New subsidiaries included in Fennia Life's consolidated financial statements**

Kiinteistö Oy Espoon Kiilaniityntie 2  
Kiinteistö Oy Espoon  
Juvankartanontie 5  
Asunto Oy Tampereen Vuoreksen  
Puistokatu 76

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

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

# Notes to the Profit and Loss Account and Balance Sheet

EUR 1,000	2010	2009
<b>1. Premiums written</b>		
Direct insurance		
Finland	60,148	69,992
Reinsurance	17	18
Gross premiums written before reinsurers' share	60,165	70,010
Items deducted from premiums written		
Credit loss on outstanding premiums	14	10
<b>Direct insurance premiums written</b>		
Life insurance		
Unit-linked individual life insurance	11,682	10,584
Other individual life insurance	7,863	10,177
Unit-linked capital redemption policy	1,909	8,844
Other capital redemption policy	1,527	100
Employees' group life insurance	4,320	5,257
Other group life insurance	3,898	3,621
	31,198	38,583
Pension insurance		
Unit-linked individual pension insurance	6,520	6,663
Other individual pension insurance	9,808	10,930
Unit-linked group pension insurance	3,382	2,761
Other group pension insurance	9,240	11,054
	28,951	31,408
	60,148	69,992
Regular premiums	44,200	46,797
Single premiums	15,948	23,194
	60,148	69,992
Premiums from with-profit policies	36,656	41,139
Premiums from unit-linked insurance	23,493	28,852
	60,148	69,992

EUR 1,000	2010	2009
<b>2. Claims paid</b>		
Direct insurance		
Life insurance	21,424	24,369
Pension insurance	30,268	28,888
	51,692	53,256
Reinsurance		25
Claims paid in total	51,692	53,281
Of which:		
Surrenders	10,459	13,456
Repayment of benefits	3,999	6,828
Other	37,237	32,972
	51,695	53,256
Share of unit-linked insurances of claims paid	9,486	7,645
<b>Life insurance: bonuses and rebates</b>		
Impact of bonuses and rebates attached to life insurance policies on the balance on technical account	1,846	579
Change in provisions for future bonuses for the financial year	1,505	1,597

The bonuses credited to insurances during 2010 totalled EUR 2,341,226, which met the bonus objectives for the financial year. Provisions for bonuses accumulated during previous years were decreased by EUR 495,026. A transfer of EUR 2,000,000 was made during the financial year to provisions for bonuses.

The bonuses credited to insurances during 2009 totalled EUR 1,981,923, which met the bonus objectives for the financial year. Provisions for bonuses accumulated during previous years were decreased by EUR 1,403,299. A transfer of EUR 3,000,000 was made during the financial year to provisions for bonuses.

EUR 1,000	2010	2009
<b>3. Net investment income</b>		
<b>Investment income</b>		
Income from investments in land and buildings		
Interest income	139	81
Other income	7,649	6,475
	7,788	6,556
Income from other investments		
Dividend income	6,973	3,940
Interest income	11,536	14,040
Other income	1,543	822
	20,052	18,802
Total	27,840	25,358
Value readjustments	5,287	30,881
Gains on realisation of investments	35,009	33,635
Total	68,136	89,873
<b>Investment charges</b>		
Charges arising from investments in land and buildings		
To affiliated undertakings	-3,460	-2,797
To other undertakings	-751	-316
	-4,211	-3,113
Charges arising from other investments	-1,554	-1,433
Interest and other expenses on liabilities	3	-80
Total	-5,761	-4,625
Value adjustments and depreciations		
Value adjustments on investments	-1,620	-9,204
Losses on realisation of investments	-8,717	-10,774
Total	-16,098	-24,604
<b>Net investment income before revaluations and revaluation adjustments</b>	52,038	65,270
Revaluations on investments	30,061	25,901
Revaluation adjustments on investments	-762	-40
	29,299	25,862
<b>Net investment income in the Profit and Loss Account</b>	81,337	91,131

EUR 1,000	2010	2009
<b>4. Share of unit-linked insurance of net investment income on the Profit and Loss Account</b>		
Investment income	13,912	13,970
Investment charges	-1,610	-1,048
<b>Net investment income before revaluations and revaluation adjustments and value adjustments and readjustments</b>	<b>12,302</b>	<b>12,923</b>
Revaluations on investments	30,061	25,901
Revaluation adjustments on investments	-762	-40
Value adjustments on investments	-854	-371
Value readjustments	2,078	20,405
<b>Net investment income in the Profit and Loss Account</b>	<b>42,825</b>	<b>58,818</b>

EUR 1,000	2010	2009
<b>5. Operating expenses</b>		
<b>Operating expenses in the Profit and Loss Account</b>		
Policy acquisition costs		
Direct insurance commissions	736	1,163
Other policy acquisition costs	3,246	1,999
Total policy acquisition costs	3,982	3,162
Policy management expenses	3,171	3,029
Administrative expenses	1,340	1,409
Commissions on reinsurance ceded	-88	-68
Total	8,405	7,533
<b>Total operating expenses by activity</b>		
Claims paid	282	366
Net operating expenses	8,405	7,533
Investment charges	1,017	1,074
Total	9,704	8,972
<b>Depreciation according to plan by activity</b>		
Claims paid	7	29
Net operating expenses	233	635
Investment charges	91	94
Total	331	759
<b>Staff expenses, personnel and executives</b>		
<b>Staff expenses</b>		
Salaries and commissions	2,725	1,897
Pension expenses	483	346
Other social expenses	157	164
Total	3,365	2,407
<b>Executives' salaries and commissions</b>		
Board of Directors and Managing Director	313	259
The age of retirement of the Managing Director is defined according to TyEL.		

EUR 1,000	2010	2009
<b>Average number of personnel during the financial year</b>		
Office personnel	23	23
Sales personnel	19	8
	42	31
<b>Auditors' commissions</b>		
Audit	27	25
Tax consulting		1
Other commissions		1
	27	26

EUR 1,000	Investments, 31 Dec. 2010			Investments, 31 Dec. 2009		
	Remaining acquisition cost	Book value	Current value	Remaining acquisition cost	Book value	Current value
<b>6. Current value and valuation difference on investments</b>						
<b>Investments in land and buildings</b>						
Real estate shares in affiliated undertakings	57,416	57,416	61,156	55,302	55,302	58,516
Real estate shares in associated undertakings	2	2	2	4	4	4
Other real estate shares	7,484	7,484	7,484	1,692	1,692	1,692
Investment loans to affiliated undertakings	6,085	6,085	6,085	-	-	-
Investment loans to associated undertakings	1,391	1,391	1,391	1,391	1,391	1,391
<b>Other investments</b>						
Equities and holdings	244,043	244,043	274,961	201,694	201,694	222,562
Debt securities	261,834	261,834	265,870	297,865	297,865	307,429
Deposits	1,200	1,200	1,200	3,690	3,690	3,690
	579,455	579,455	618,148	561,638	561,638	595,284
The remaining acquisition cost of debt securities comprises						
the difference between the amount repayable at maturity and						
purchase price, which has been released to interest income (+)						
or charged to interest income (-)						
				- 1,807		
Valuation difference (difference between current value and book value)			38,694	33,646		
Valuation difference on non-hedging derivatives			6	492		

EUR 1,000	Land and buildings and real estate shares
<b>7. Changes in investments in land and buildings</b>	
<b>Acquisition cost, 1 Jan.</b>	60,216
Increase	7,402
Decrease	-2
<b>Acquisition cost, 31 Dec.</b>	67,617
<b>Value adjustments, 1 Jan.</b>	-3,218
Value readjustments	503
<b>Value adjustments, 31 Dec.</b>	-2,715
<b>Book value, 31 Dec.</b>	64,901
<b>Debtors</b>	
Other debtors	
Affiliated undertakings	1,464

EUR 1,000	2010		2009	
	Original acquisition cost	Current value	Original acquisition cost	Current value
<b>8. Investments covering unit-linked insurances, Dec. 31 2010</b>				
Equities and holdings	242,769	280,802	205,968	225,390
Debt securities	12,018	12,702	9,722	10,232
Cash at bank and in hand	6,650	6,650	8,114	8,114
<b>Total</b>	<b>261,437</b>	<b>300,154</b>	<b>223,803</b>	<b>243,736</b>
Investments covering unit-linked insurances corresponding to technical provisions	261,437	300,154	223,803	243,736
Cash at bank and in hand, and other debtors include net insurance premiums that have not yet been invested		1,440		957

EUR 1,000	Holding %	Book value 31 Dec. 2010	Current value 31 Dec. 2010
<b>9. Shares in other companies and other investments</b>			
<b>Domestic shares</b>			
Fortum Corporation	0.0101	1,582	2,028
Kone Corporation	0.0079	511	728
Nokia Corporation	0.0072	2,088	2,088
Sampo plc	0.0125	1,184	1,404
UPM-Kymmene Corporation	0.0113	638	779
Avara Ltd	6.8000	3,182	3,182
K III Sweden AB - C	3.0800	536	565
Terveysrahasto Oy, B-osake	3.1405	639	783
Uudenmaan Pääomarahasto Oy	13.2193	1,929	1,929
Other		6,778	8,428
		19,066	21,913
<b>Foreign shares</b>			
Royal Dutch Shell Plc		508	626
Telefonica S.A.		1,006	1,103
TeliaSonera AB		504	596
Other		935	1,085
		2,952	3,409
<b>Unit trusts</b>			
Aberdeen Indirect Property Partners		1,024	1,024
Aktia America B		901	999
Aktia Em Mrkt Local Currency Bond+ D		4,004	4,398
BGF Euro-Markets A2 EUR		7,215	7,951
BGF US Basic Value Fund - Eur		5,560	6,384
Bluebay Emerg. Mkt Corporate Bond Fund		3,000	3,228
Brevan Howard Fund Class B		1,200	2,100
Cognis I Fund Class B Series 1		525	525
DB x-trackers II iBoxx Euro Sov. Euroz. 1-3		2,189	2,189
eQ Pikkujättiläiset 2 (Kasvu)		878	1,674
Evli Corporate Bond A		14,603	15,335
Evli Emerging Markets Equity A		8,217	8,981
Evli Eur. High Yield A		14,855	18,878
Evli Eur. Inv. Grade A		20,631	20,715
Evli Greater Russia A		1,841	3,343
Evli Tavoitekorko B (Kasvu)		9,071	9,688
Evli USA Quant Index A		1,543	1,543
FF Asean Fund (USD)		2,438	2,643
FF Thailand Fund (USD)		1,587	1,710
Fidelity Active Strategy - Europe Fund		1,002	1,211
FIM Fenno		1,600	1,813
Fourton Odysseus		2,024	3,125
Handelsbanken Eurooppa Selective A I		1,975	1,975
Handelsbanken Pohjoismaat Selective A I		2,000	2,011

EUR 1,000	Book value 31 Dec. 2010	Current value 31 Dec. 2010
HSBC GIF Euroland Equity Ac - EUR	2,264	2,322
ICECAPITAL Global U & E B	584	1,147
iShares MSCI Bric Index Fund	2,167	2,573
iShares Russell 2000 Value Fund ETF	1,058	1,118
JPM Emerg. Mkts. Small Cap A A	2,197	2,369
JPM Global Focus A acc-EUR	1,603	1,778
JPM US Select 130/30 A acc-USD	2,012	2,564
JPM US Select Equity A USD Acc	7,053	8,291
Kauppakeskuskiint. FEA Ky	14,730	14,730
Limited Life Credit Opportunity AX EUR	6,000	6,545
Montanaro European Smaller Companies-EUR	751	904
Morgan Stanley US Advantage A Acc EUR	1,000	1,090
Muzinich Funds - Americayield Fund Hedged Acc	2,000	2,171
Odin Finland II	600	714
Pictet Emerging Local Currency Debt	2,613	2,669
Pictet Funds Global Emerging Debt HI Acc EUR	5,740	7,854
Schroder ISF US Small & Mid-Cap Equity	1,271	1,618
SEB Multi-Manager Currency IC Fund	977	977
Seligson & Co Rahamarkkinarahasto A	3,070	3,073
Seligson kehittyvät markkinat rahasto (instituutio sarja)	1,000	1,005
SPDR S&P Dividend ETF	1,382	1,554
Sponda Fund I Ky	916	916
SPYDR Standard & Poors 500 Index Ser.1 Standard	2,960	3,301
SSgA EMU Alpha Eq. Acc EUR	5,607	5,814
Stone Harbor High Yield Bond Fund I - EUR A	7,242	8,028
Sydivest Emerg.Mkts. Local Currency Bonds	6,705	6,889
Sydivest Emerg.Mkts.Bond Engros	5,795	9,073
Taaleritehdas Lyydian Leijona Osake A (Kasvu)	509	743
Taaleritehdas Rupla Osake A (Kasvu)	1,705	2,425
Vanguard Emerging Markets ETF	1,515	1,691
Other	1,180	1,223
	204,087	230,613

**Capital trusts**

Auda Capital III L.P.	555	555
Duke Street Capital VI LP	1,288	1,288
MB Equity Fund IV Ky	652	652
The Triton Fund II L.P.	861	861
The Triton Fund III L.P.	2,367	2,367
Permira Europe II LP2	981	981
Permira Europe IV LP2	682	682
Teknoventure Rahasto III Ky	614	614
Selected Private Equity Funds I Ky	1,422	1,422
Partners Group European Buyout	2,487	2,487
Partners Group European Mezzanine	1,334	1,395
Selected Mezzanine Funds I Ky	1,975	1,975
Euro Choice IV GB Limited	554	554
Other	2,165	3,194
	17,937	19,026

EUR 1,000	Intangible rights and other long-term expenses	Advance payments	Equipment	Total
<b>10. Changes in intangible and tangible assets, Parent Company</b>				
<b>Acquisition cost, 1 Jan. 2010</b>	2,572	2,291	486	5,350
Fully depreciated in the previous financial year	-217	-	-3	-220
Increase	14	683	324	1,022
Decrease	-	-117	-27	-144
<b>Acquisition cost, 31 Dec. 2010</b>	2,369	2,857	780	6,007
<b>Accumulated depreciation, 1 Jan. 2010</b>	-1,398	-	-120	-1,518
Fully depreciated in the previous financial year	217	-	3	220
Depreciation for the financial year	-203	-	-128	-331
<b>Accumulated depreciation, 31 Dec. 2010</b>	-1,384	-	-244	-1,629
<b>Book value, 31 Dec. 2010</b>	985	2,857	536	4,378

EUR 1,000	2010
<b>11. Capital and reserves</b>	
<b>Restricted</b>	
Subscribed capital, 1 Jan. / 31 Dec.	27,751
Premium Fund, 1 Jan. / 31.12.	10,723
<b>Restricted in total</b>	38,474
<b>Non-restricted</b>	
At the disposal of the Board, 1 Jan. / 31 Dec.	8
Profit brought forward, 1 Jan. 2010	8,147
Loss for the financial year 2009	11,521
Profit brought forward, 31 Dec. 2010	19,669
Profit for the financial year	14,654
<b>Non-restricted in total</b>	34,332
<b>Capital and reserves in total</b>	72,806
<b>Distributable profit, 31 Dec. 2010</b>	
Profit for the financial year	14,654
At the disposal of the Board	8
Profit brought forward	19,669
<b>Distributable profit in total</b>	34,332

EUR 1,000	2010	2009
<b>12. Creditors</b>		
<b>Other creditors</b>		
Affiliated undertakings	243	427
<b>13. Provision for unearned premiums</b>		
Deferred acquisition costs have been deducted from the premium reserve (zillmerisation)		
Life insurance	-	9
Pension insurance	435	606
	435	615
<b>14. Technical provisions for unit-linked insurances</b>		
Provision for unearned premiums	299,756	243,938
Claims outstanding	1,839	755
	301,595	244,693
<b>15. Guarantee and liability commitments</b>		
<b>Value-added tax 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	104	124
Other undertakings	-5,553	-2,708
<b>Investment commitments</b>		
Commitment to invest in equity funds	32,229	39,337
<b>Loans to related parties and related party transactions</b>		
The company has no loans, liabilities or contingent liabilities to related parties.		
The company has no related party transactions conducted according to other than standard business practices.		
	<b>Current value</b>	<b>Value of underlying instrument</b>
<b>Currency derivatives</b>		
<b>Currency derivatives</b>		
Forward and futures contracts	6	7,930
<b>Equity derivatives</b>		
Forward and futures contracts	-55	54,524
Negative valuation differences on non-hedging derivative contracts are charged against the profit.		
<b>Securities given as collateral for derivatives trade</b>		2,514

EUR 1,000	2010	2009
<b>16. Key figures pertaining to solvency</b>		
<b>Solvency margin</b>		
Capital and reserves after proposed profit distribution	72,806	58,152
Optional reserves and accumulated depreciation difference	90	63
Valuation difference between current value and Balance Sheet book value of assets	38,700	34,138
Intangible assets not entered as expenses	-3,842	-3,465
Other items	-1,736	-1,071
<b>Solvency margin in total</b>	<b>106,018</b>	<b>87,816</b>
<b>Equalisation provision for years with large numbers of losses included in technical provisions</b>	<b>5,553</b>	<b>5,009</b>
<b>Solvency capital</b>	<b>111,571</b>	<b>92,825</b>
<b>Solvency margin required under the Finnish Insurance Companies Act, Chapter 11, Section 12</b>	<b>30,000</b>	<b>29,107</b>
<b>Solvency capital to technical provisions less equalisation provision and 75% of provisions relating to unit-linked insurances</b>	<b>18.5%</b>	<b>16.0%</b>

#### 17. Notes concerning the Group

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

## Key Figures

Analysis of Results, EUR 1,000	2010 EUR 1,000	2009 EUR 1,000	2008 EUR 1,000	2007 EUR 1,000	2006 EUR 1,000
Premiums written	59,637	69,563	54,207	62,699	69,750
Investment income (net), revaluations and revaluation adjustments on investments	80,685	90,592	-84,439	39,601	56,474
Claims paid	-51,254	-53,281	-75,966	-55,181	-74,041
Change in technical provisions before bonuses and rebates and change in equalisation provision	-61,799	-84,416	87,123	-32,500	-30,759
Net operating expenses	-8,405	-7,533	-6,801	-7,055	-6,984
Other technical income				8,000	
Technical underwriting result before bonuses and rebates and change in equalisation provision	18,865	14,925	-25,875	15,565	14,439
Other income (net)	0	0	-62	-9	-20
Operating profit	18,865	14,925	-25,937	15,556	14,419
Change in equalisation provision	-544	-290	-686	-618	-569
Bonuses and rebates	-3,846	-3,579	-214	-6,214	-6,523
Profit before untaxed reserves and tax	14,474	11,056	-26,837	8,724	7,327
Taxes	-359	-627	275	-2,063	-1,353
Group's profit for the financial year	14,115	10,429	-26,562	6,662	5,974
<b>Gross premiums written (EUR 1,000)</b>	60,165	70,010	54,719	63,157	70,000
<b>Expense ratio of expense loading</b>	108.1%	101.9%	91.0%	90.6%	103.3%
<b>Expense ratio of balance sheet total</b>	1.2%	1.2%	0.9%	1.1%	1.1%
<b>Solvency margin (EUR 1,000)</b>	106,018	87,816	47,765	91,270	89,244
<b>Minimum solvency margin (EUR 1,000)</b>	30,000	29,107	28,090	29,665	25,969
<b>Equalisation provision (EUR 1,000)</b>	5,553	5,009	4,719	4,033	3,415
<b>Solvency capital (EUR 1,000)</b>	111,571	92,824	52,484	95,302	92,659
<b>Solvency ratio, %</b>	18.5%	16.0%	9.4%	16.1%	18.2%
<b>Total result (EUR 1,000)</b>	24,079	42,932	-38,333	11,145	13,370
<b>Return on assets</b>	7.6%	11.0%	-3.5%	6.4%	5.5%

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

## Investment portfolio at current values

EUR 1,000	2010		2009		2008		2007		2006	
	€	%	€	%	€	%	€	%	€	%
Bonds <sup>1), 2)</sup>	335,085	53.8	395,394	65.8	343,210	59.9	338,604	53.6	305,069	55.6
* includes fixed-income funds	107,977	17.3	99,651	16.6	58,735	10.3	67,911	10.7	54,326	9.9
Other money market investments and deposits <sup>1), 2), 3)</sup>	48,480	7.8	25,104	4.2	82,311	14.4	85,162	13.5	66,155	12.0
* includes fixed-income funds	12,761	2.0	12,417	2.1	19,209	3.4	11,221	1.8	18,032	3.3
Equities and holdings	133,473	21.4	87,733	14.6	47,032	8.2	101,135	16.0	92,534	16.8
Investments in land and buildings <sup>4)</sup>	93,184	15.0	77,990	13.0	71,154	12.4	56,331	8.9	43,956	8.0
* includes unit trusts and UCITS	17,066	2.7	16,387	2.7	16,630	2.9	7,239	1.1	1,537	0.3
Other investments	12,519	2.0	15,051	2.5	29,057	5.1	50,874	8.0	41,991	7.6
Investments in total	622,741	100.0	601,272	100.0	572,764	100.0	632,105	100.0	549,704	100.0
<b>Modified duration of the bond portfolio</b>	<b>2.86</b>		<b>3.00</b>		<b>3.41</b>		<b>4.13</b>		<b>4.22</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

EUR 1,000	2010	2009	2008	2007	2006
	€	€	€	€	€
<b>Direct net income</b>	<b>19,334</b>	<b>18,754</b>	<b>27,532</b>	<b>22,497</b>	<b>20,968</b>
Bonds *)	13,318	13,451	15,798	12,878	10,751
Other money market investments and deposits	148	1,740	2,920	2,431	1,836
Equities and holdings *)	2,231	514	6,963	5,049	6,046
Investments in land and buildings	4,582	4,083	3,102	1,938	2,451
Other investments *)	62	72	-283	1,082	325
Sundry income, charges and operating expenses	-1,006	-1,105	-970	-880	-441
<b>Changes in value in the accounts 1)</b>	<b>19,178</b>	<b>13,559</b>	<b>-41,608</b>	<b>9,388</b>	<b>4,970</b>
Equities and holdings *)	6,727	2,081	-18,156	10,408	6,066
Bonds *)	12,124	14,971	-17,819	-4,893	-707
Investments in land and buildings	921	-5,136	-4,123	3,864	-389
Other investments *)	-594	1,642	-1,509	9	
<b>Net investment income at book value</b>	<b>38,512</b>	<b>32,313</b>	<b>-14,076</b>	<b>31,885</b>	<b>25,938</b>
<b>Arvostuserojen muutos 2)</b>	<b>4,562</b>	<b>27,468</b>	<b>-12,749</b>	<b>-4,955</b>	<b>-734</b>
Equities and holdings	9,743	4,372	-9,845	-6,451	2,981
Bonds	-4,801	22,579	710	-1,306	-5,325
Investments in land and buildings	526	934	1,015	574	302
Other investments	-906	-417	-4,629	2,228	1,307
<b>Net investment income at current values</b>	<b>43,074</b>	<b>59,781</b>	<b>-26,825</b>	<b>26,930</b>	<b>25,204</b>
Share of net investment income accounted for by derivatives	-3,546	-1,897	4,030	670	398

<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

\*) The grouping of derivatives has been changed.

The information for 2009 has been changed accordingly.

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

EUR 1,000	Net investment income at current value <sup>1)</sup>	Invested capital <sup>2)</sup>	Yield-% on invested capital				
	€ 2010	€ 2010	2010	2009	2008	2007	2006
Bonds <sup>3)</sup>	20,641	372,564	5.5	15.3	-0.4	2.1	1.6
* of which fixed-income funds	10,959	110,198	9.9	37.7	-21.0	0.8	6.3
Other money market investments and deposits <sup>3)</sup>	393	23,778	1.7	2.8	3.9	3.9	2.9
* of which fixed-income funds	259	11,989	2.2	4.4	-1.0	3.1	3.0
Equities and holdings	18,700	100,374	18.6	13.7	-25.1	9.0	17.8
Real estate <sup>4)</sup>	6,029	80,948	7.4	-0.2	0.0	21.2	5.9
* of which unit trusts and UCITS	1,271	16,239	7.8	-15.9	-27.5	3.7	2.7
Other investments	-1,683	16,583	-10.1	4.2	-16.5	6.2	5.2
<b>Investments in total</b>	<b>44,080</b>	<b>594,248</b>	<b>7.4</b>	<b>10.9</b>	<b>-4.2</b>	<b>4.8</b>	<b>5.0</b>
Sundry income, charges and operating expenses	-1,006						
<b>Net investment income at current value</b>	<b>43,074</b>	<b>594,248</b>	<b>7.2</b>	<b>10.7</b>	<b>-4.4</b>	<b>4.6</b>	<b>4.9</b>

<sup>1)</sup> Net investment income at current value = Changes in the market values between the end and beginning of the review period - cash flows during the period.  
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

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

**Expense ratio (% of expense loading) =**

+ operating expenses before change in deferred acquisition costs  
 + claims settlement expenses  
 expense loading

**Expense ratio (% of Balance Sheet total) =**

+ total operating expenses  
 opening Balance Sheet total

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

**Solvency margin** see calculation in the Notes

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

**Solvency ratio (%) =**

solvency capital  
 + technical provisions  
 - equalisation provision  
 - 75% of technical provisions for unit-linked insurances

Technical provisions are calculated after reinsurers' share.

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

+/-operating profit or loss  
 + financial expenses  
 + unwinding of discount  
 +/-change in valuation differences on investments  
 + balance sheet total  
 - technical provisions for unit-linked insurances  
 +/-valuation differences on investments

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

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

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

Net investment income at current values in relation to invested capital is calculated by 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.

# Risks and Risk Management

Risk management as an element of internal control refers to the identification, assessment, measurement, limitation, reporting and monitoring of the risks arising from and inherently related to the business. The aim of risk management is to ensure that the objectives set out in the strategy and action plans are achieved and to make sure that the risks taken by the company are in proportion to the risk-bearing capacity.

Risk management in the company is based on the Fennia Group's risk management policy and on Fennia Life's risk management plan, which are discussed by the Board of Directors. The Fennia Group's executive team for risk management 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. In addition, the company's solvency is monitored by the Financial Supervisory Authority.

## 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. In addition, the technical provisions include a lapse risk, i.e., the insurance

is not surrendered but premiums are no longer paid. Surrender and lapse risks can be reduced by keeping the insurance policies profitable for the customer compared with other forms of low-risk investment.

Of the technical risks relating to life insurance, the most significant are death and disability cover. Risk business is vulnerable to biometric risks, since changes in the mortality risk, for example, have a direct impact on the amount of claims paid. The possibilities for changing the rates in life insurance are limited. The risks themselves can, however, be 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, and major single claims are limited by means of reinsurance. The reinsurance limit for insurance granted in 2010 was EUR 0.15 million. The limit is set annually. In addition, the company has a catastrophe reinsurance against catastrophes. Of the technical risks relating to pension insurance, the most significant is the longevity risk. Biometric risks are monitored on a continuous basis. Change trends related to mortality and disability are taken into account in the risk selection policy and in the development of new insurance products.

## Actuarial assumptions and models

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 interest rate credited on the policies 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 company's investment operations are aimed at achieving the highest possible returns at acceptable levels of risk, so as to ensure that the company exceeds the required solvency ratio and that its investment assets are sufficient and structurally appropriate to cover the 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 Board of Directors of the company annually approves the company's investment plan which defines the target allocation of the investment portfolio and the minimum and maximum limits by asset class as well as the organisation of investment activities and the authorities to make and execute decisions. In addition, Fennia aims to reduce risks by increasing technical provisions and allocating assets to provisions for future bonuses.

## Market risks

Market risks consist of the impacts of interest rates, currency and equity prices and volatilities, and the impacts of other market risk variables on the company's result and financial strength. The market risk affecting the entire portfolio is assessed and measured in relation to the company's risk-bearing capacity using risk factors derived from the characteristic statistical features of the realised returns of each investment asset category. Efforts have been made to take into consideration to the greatest extent possible the available information about 'heavy tails' in market

risks and other kinds of non-normal distribution.

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.

In 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 key figures and the stress test and risk-bearing capacity calculations. The table above shows the effects of certain market risk scenarios on Fennia Life's solvency capital.

The transition from the Solvency I to the Solvency II regulation will also bring new challenges in terms of measuring of market risks and determining market-based technical provisions. The investment assets must be sufficient and structurally appropriate to cover the technical provisions, also within the Solvency II framework. The investment allocations and the structure of the investment portfolio must be considered in view of the requirements set by Solvency II.

### Credit risk

In securities investments, 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

### QUANTITATIVE DATA ON RISK VARIABLES AFFECTING THE INVESTMENT PORTFOLIO

#### 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

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 its inability to sell invested assets within the required time frame. The majority of insurance policies are, however, pension policies with limited surrender rights. This means that only a small proportion of the insurance policies can be surrendered, and as a result liquidity requirements can be forecasted fairly well.

The company's liquidity requirements are taken into account when building up the investment portfolio. Consequently, a large enough part of the portfolio must consist of sufficiently liquid investments with short maturity.

### Operational risk

Operational risks are defined as losses attributable to ineffective internal processes, selling the wrong kind of insurance policies or providing incomplete or erroneous information. Information technology also involves

risks: for example technology and information systems become outdated and files may be destroyed. Potential losses may also be due to external changes in the operating environment or to juridical factors.

Risks can be reduced by ensuring the well-being, training and appropriate instruction of personnel. In addition, it is possible to prepare for IT risks by keeping the equipment and systems in good condition, taking sufficient back-up copies and by documentation of the systems.

The persons responsible for the company's business operations 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. Risks are monitored, materialised risks and serious incidents are reported, after which corrective measures are taken. No significant operative risks materialised in 2010.

All operations are conducted in compliance with the legislation currently in force, and with the regulations and guidelines issued by authorities. A business contingency plan is drawn up for the company to ensure that key functions can be continued in the event of a crisis.

### Development of risk management

The risk management system will be reviewed and developed in line with the principles set out in Solvency II during 2011 and 2012. The equity requirements under Solvency II are decided on the basis of the company's risk profile, thus encouraging the company to develop its risk management.

# Board of Directors' Proposal on the Disposal of Profit

Fennia Life's distributable profits totalled EUR 34,331,539.71. The company's profit for the financial year was EUR 14,654,301.26. The Board of Directors proposes that no dividend be paid and that the profit for the financial year be transferred to retained earnings.

Helsinki, 7 March 2011

Matti Ruohonen

Matti Carpén

Eeva Grannenfelt

Antti Kuljukka

Seppo Rinta  
Managing Director

# Auditor's 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 Life Insurance Company Ltd

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Fennia Life Insurance Company Ltd for the year ended 31 December, 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 Company 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

# Fennia Life'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

### Vice Chairman:

#### **Matti Ruuhonen**

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

### Board Members:

#### **Matti Carpén**

Deputy Managing Director, Customer  
Relations  
Pension Fennia  
Helsinki

#### **Antti Kuljukka**

Managing Director  
Fennia  
Helsinki

#### **Antti Vaahto**

Board Member  
Vaahto Group PLC Oyj  
Hollola

#### **Eeva Grannenfelt**

Director, Chief Investment Officer  
Pension Fennia  
Järvenpää

## Deputy Members:

#### **Eero Eriksson**

Deputy Managing Director  
Fennia  
Helsinki

#### **Olavi Nieminen**

Chairman of the Board  
Piiliset by Finnsusp Oy  
Lieto

## Secretary to the Board:

#### **Heimo Äikäs**

General Counsel  
Fennia  
Helsinki

## AUDITORS

#### **KPMG Oy Ab**

#### **Jaakko Nyman**

Authorised Public Accountant

#### **Sirpa Eriksson**

Authorised Public Accountant

### Deputy Auditors:

#### **Riitta Pyykkö**

Authorised Public Accountant

#### **Jari Nurmi**

Authorised Public Accountant

## PHYSICIANS

#### **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

## MANAGEMENT

#### **Seppo Rinta**

Managing Director

#### **Olli Hokkanen**

Head of IT

#### **Ari Koskinen**

Director, Development of Services and  
Products & Customer Service

#### **Päivi Ojala**

Actuaries Director

#### **Aarni Pursiainen**

Investment Director

#### **Kari Wilén**

Sales and Marketing Director





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