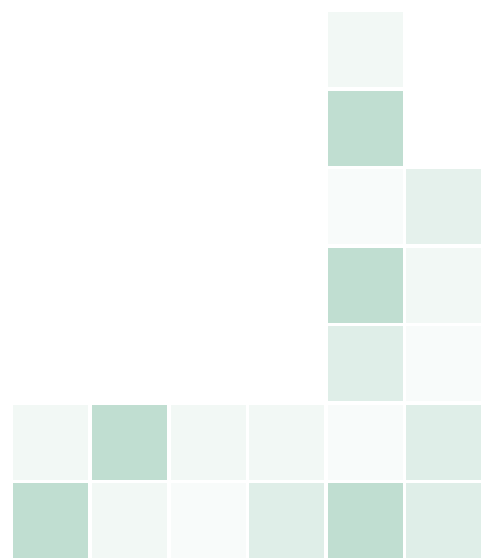
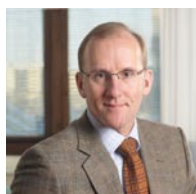


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# Fennia

Annual Report and  
Financial Statements 2006





## Fennia continued to forge ahead in the insurance market in 2006

**F**ennia exceeded the 10 per cent market share mark by a good margin in 2006. A market share of over 10 per cent is a historic achievement, as this is the first time Fennia has reached this mark during its 125 years of operation. The excellent growth in market share is based on the company's strong and active hold on the market and its bold decision to differentiate itself as the Insurance Specialist Store.

The overall result for 2006 was good. The company's premiums written grew by 9.0 per cent, whereas according to preliminary information provided by the Federation of Finnish Financial Services, the average increase recorded in the non-life insurance sector was 3.4 per cent. Fennia's better-than-average growth is accounted for by the positive development of motor liability insurance and statutory accident insurance (workers' compensation), in particular. The company's solvency

is solid, and, following an uncertain beginning to 2006, income on investment rose to a good level.

The result, backed by several customer satisfaction surveys, shows that there is a need for personal and flexible insurance policies offered by the Insurance Specialist Store. Fennia considers it important for clients to be able to arrange their insurance with experts in the field. The keys to a positive result for both our clients and for Fennia are good customer service and personnel well-being combined with the ability to offer flexible insurance packages.

Fennia continues to seek growth in the future. However, we want to grow in a controlled manner, taking our clients' needs into consideration. In our scale of values, the client is always number one – a principle that is visible in all our activities.

Antti Kuljukka  
Managing Director

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## Board of Directors' Report

The operating profit of the Fennia Mutual Insurance Company in 2006 was EUR 26 million. The company's solvency remained solid, standing at 127 per cent. Direct insurance premiums written increased by 9.0 per cent, totalling EUR 326 million.

### Insurance operations

Premiums written for non-life insurance amounted to EUR 327 million (EUR 297 million). Direct insurance premiums written were EUR 326 million (EUR 299 million), or an increase of 9.0 per cent. Preliminary information indicates that the company's market share continued to rise, ending at 10.3 per cent (9.8%). The loss ratio rose to 86.4 per cent (83.7%), although major claims increased only slightly. Credit losses amounted to EUR 2 million.

Operating expenses were EUR 65 million (EUR 60 million). The increase was due to investments in sales, personnel investments in business development and growth, and depreciations concerning information systems. With the growth in premiums written, the expense ratio developed favourably, to 20.5 per cent (21.0%). The amount of capitalisation on information systems was EUR 16 million at year-end.

The company's combined ratio developed negatively, rising to 106.9 per cent (104.8%), claims accounting for 80.5 per cent (78.0%) and operating expenses and claims handling expenses for 26.4 per cent (26.7%). The combined ratio excluding unwinding of discount was 103.3 per cent (100.9%).

Premiums written for statutory accident insurance (workers' compensation) grew to EUR 89 million (EUR 81 million). Fennia has succeeded well in transfer transactions between companies in many

successive years. The loss ratio was 82 per cent (87%). Premiums written for other accident and health insurance increased by 5 per cent to EUR 16 million. The loss ratio went up to 92 per cent (83%), and the result of this insurance line was unsatisfactory.

Premiums written for motor liability insurance grew to EUR 73 million (EUR 66 million), i.e. more than 10 per cent, due to active efforts by the company to increase sales. The loss ratio was 98 per cent (94%). Premiums written for voluntary motor vehicle insurance rose by 7 per cent to EUR 53 million (EUR 49 million). The profitability of this insurance line was negatively affected by increases in both average loss and claims frequency. The result for the line deteriorated, the loss ratio rising to 80 per cent (77%).

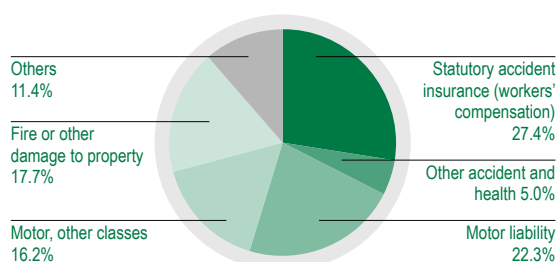
Premiums written for fire and other damage to property in the company segment increased by 7 per cent to just under EUR 36 million. In the private household segment premiums written totalled over EUR 29 million, a growth of 6 per cent. Although there were no major losses during the year under review, the loss ratio of both the company and the private household segment began to rise.

Fennia's co-operation agreement with Kesko on insurance benefits terminated at the end of the financial year.

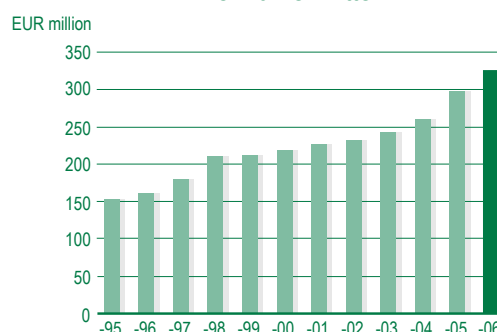
### Investment operations

The net investment income at current value amounted to EUR 49 million (EUR 63 million). Net investment income on invested capital was 4.7 per cent (6.6%).

Premiums written by insurance class 2006



Premiums written



At year-end, Fennia's investment assets at current values (incl. accrued interests) stood at EUR 1,054 million (EUR 985 million). Bonds and long-term fund investments accounted for 56 per cent of the investment portfolio, and money market investments and deposits for 9 per cent. Shares, equity fund investments and capital trusts accounted for 19 per cent, real estate investments for 11 per cent and other investments for 8 per cent.

### Result and solvency

Fennia's operating profit was EUR 26 million (EUR 31 million). The technical underwriting result weakened, but as a result of the strong investment income, the operating profit decreased only slightly compared with the previous year.

The equalisation provision grew by EUR 5 million to EUR 195 million (EUR 190 million). The solvency margin increased to EUR 204 million (EUR 192 million) and solvency capital to EUR 399 million (EUR 382 million). The solvency ratio, which describes the company's solvency, was 127 per cent, a slight decrease from the previous year. Despite this, the company's solvency is very solid.

### Administration and staff

During the year under review, the composition of the Fennia Board of Directors was as follows: Eero Lehti, President, (Chairman); Esko Penttilä, Chairman of the Board, (Vice Chairman); Ernst Gylfe, Chairman of the Board; Lasse Koski, Managing Director; Eva Liljebloom, Professor; Rauno Mattila, Chairman of

the Board; Erkki Moisander, Managing Director (until 29 November 2006); Matti Pörhö, Managing Director and Antti Vaahto, Managing Director. Deputy members of the Board of Directors were Lasse Heiniö, Managing Director and Hannu Ketola, Managing Director (until 31 December 2006).

The Board of Directors held a total of ten meetings during the year under review. The attendance rate of the full members was 72 per cent and that of the deputy members 83 per cent.

Hannu Ketola has acted as the company's Managing Director. At its meeting on 28 November 2006, Fennia's Supervisory Board appointed Fennia Life's Managing Director and substitute for Fennia's Managing Director, Antti Kuljukka, the company's new Managing Director as of 1 January 2007, and Field Director Kimmo Kilpinen was appointed Deputy Managing Director and substitute for the Managing Director, also as of 1 January 2007.

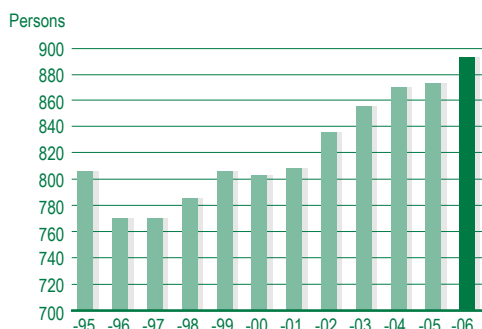
At the Annual General Meeting convened on 26 April 2006 Ari Rinta-Jouppi, Managing Director, Timo Salli, Managing Director, and Antti Aho, Chairman of the Board, were appointed to the Supervisory Board as new members.

The Company employed on average 892 people (873) in 2006.

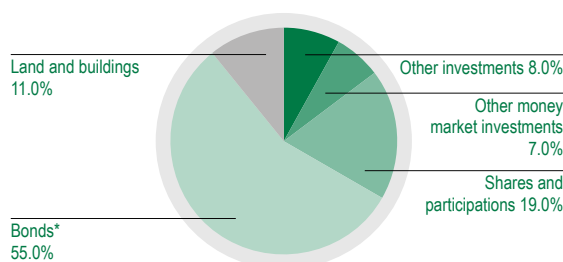
### Group structure

The consolidated financial statements of Fennia Mutual Insurance Company include Fennia Life Insurance Company on the basis of the subgroup's consolidated financial statements. Fennia has a

Number of staff



Investment portfolio Dec. 31, 2006



\*Includes fixed-income funds

60 per cent holding in Fennia Life. 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.

At the end of 2006, the Group also included 14 real estate companies, ten of which belonged to the Fennia Life sub-group. During the year under review Fennia sold the following real estates: Kiinteistö Oy Helsingin Linnavuori and Kiinteistö Oy Tuusulan Tuotantotie 3. Fennia Life established the following real estate companies: Kiinteistö Oy Sellukatu 5 and Kiinteistö Oy Vaajakosken Haapaniementie 1, and sold Kiinteistö Oy Vaunusepätie 11, which had been established during the financial year.

### Consolidated accounts

The result for the Group's life insurance business was good, and the solvency trend in life insurance was positive. Life insurance premiums written before reinsurers' share amounted to EUR 70 million (EUR 64 million). Claims paid grew to EUR 74 million (EUR 33 million). Operating expenses for life insurance were EUR 7 million (EUR 6 million). The expense ratio (of expense loading) was 102.1 per cent (99.6%).

The Group's investment result was good. The net investment income at book value amounted to EUR 105 million (EUR 111 million), of which unit-linked insurances accounted for EUR 30 million (EUR 38 million). The total amount of value adjustments

impacting the result was EUR 46 million (EUR 67 million), net gains on realisation of investments accounting for EUR 31 million. The Group's valuation difference remained at the previous year's level of EUR 83 million.

The Group's operating profit was EUR 41 million (EUR 49 million). The Group's non-restricted capital and reserves stood at EUR 154 million (EUR 134 million).

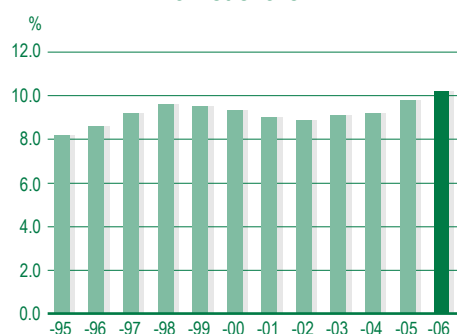
The Group's solvency capital grew to EUR 454 million (EUR 432 million), and the level of solvency remained solid.

### Risk management

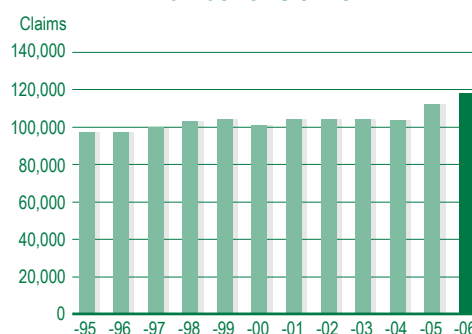
Risk management in the Fennia Group is based on the risk management plan, which is discussed annually by the Boards of Directors. Risk management is co-ordinated and supervised by an executive team for risk management appointed by the Managing Director. The adequacy of internal control is assessed by 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 controlled 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.

Market share



Number of Claims



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' ability to carry risks 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**

Fennia's prospects for the current financial year remain good. However, the competitive situation has changed markedly compared with previous years. New operators are entering the insurance market for small companies, and full-service finance houses are investing in cross-selling, particularly in the private household sector. In the corporate sector, too, competition has clearly become more challenging.

Investment activities have developed positively in the first part of the year. However, after several successive years of excellent investment activity we should be prepared to face increasing uncertainty and uneven development in the investment market.

## Profit and Loss Account

EUR thousand	Group 2006	Group 2005	Parent Company 2006	Parent Company 2005	Notes
<b>Technical Account</b>					2
Non-life Insurance					
Premiums earned					
Premiums written	326,594	296,756	326,594	296,756	1
Reinsurers' share	-4,886	-4,727	-4,886	-4,727	
	321,708	292,029	321,708	292,029	
Change in the provision for unearned premiums	-7,611	-6,518	-7,611	-6,518	
Premiums earned in total	314,097	285,511	314,097	285,511	
Claims incurred					
Claims paid	-225,964	-200,559	-225,964	-200,559	
Reinsurers' share	724	920	724	920	
	-225,241	-199,639	-225,241	-199,639	
Change in the provision for outstanding claims	-45,404	-39,089	-45,404	-39,089	
Reinsurers' share	-610	-327	-610	-327	
	-46,014	-39,417	-46,014	-39,417	
Claims incurred in total	-271,255	-239,056	-271,255	-239,056	
Change in collective guarantee item	-432	-416	-432	-416	
Net operating expenses	-64,507	-60,037	-64,507	-60,037	5
Balance on technical account before the change in equalisation provision	-22,097	-13,998	-22,097	-13,998	
Change in equalisation provision	-4,715	-20,081	-4,715	-20,081	
<b>Balance on technical account</b>	<b>-26,813</b>	<b>-34,079</b>	<b>-26,813</b>	<b>-34,079</b>	

EUR thousand	Group 2006	Group 2005	Parent Company 2006	Parent Company 2005	Notes
<b>Technical Account</b>					
Life insurance					
Premiums written					
Premiums written	70,000	63,584			
Reinsurers' share	-251	-214			
Premiums written in total	69,750	63,369			
Share of net investment income	56,724	65,309			
Claims incurred					
Claims paid	-74,038	-32,953			
Reinsurers' share		147			
	-74,038	-32,807			
Change in the provision for outstanding claims	-15,008	-14,094			
Claims incurred in total	-89,046	-46,900			
Change in the provision for unearned premiums					
Change in the provision for unearned premiums	-22,843	-64,500			
Net operating expenses	-6,906	-6,045			
<b>Balance on technical account</b>	<b>7,679</b>	<b>11,233</b>			

EUR thousand	Group 2006	Group 2005	Parent Company 2006	Parent Company 2005	Notes
<b>Non-Technical Account</b>					
Balance on technical account, non-life insurance	-26,813	-34,079	-26,813	-34,079	
Balance on technical account, life insurance	7,679	11,233			
Investment income	114,779	104,582	67,492	60,554	7
Revaluations on investments	21,305	28,782			
Investment charges	-30,805	-22,729	-18,837	-14,816	7
Revaluation adjustments on investments	-346	-6			
	104,933	110,628	48,655	45,737	
Transfer of part of net investment income	-56,724	-65,309			
Other income					
Other	1,253	1,337	47	24	
Other charges					
Other	-889	-731	-420	-452	
Share of associated undertakings' profits	183	57			
Tax on profit on ordinary activities					
Tax for the financial year	-7,679	-3,698	-5,789	-787	
Tax from previous periods	907	25	569	20	
Deferred tax	186	109			
	-6,586	-3,565	-5,220	-767	
Profit on ordinary activities	23,034	19,573	16,249	10,463	
Appropriations					
Change in depreciation difference			653	382	
Minority interests	-2,827	-3,973			
<b>Profit for the financial year</b>	<b>20,207</b>	<b>15,600</b>	<b>16,902</b>	<b>10,845</b>	

# Balance Sheet

EUR thousand	Group 2006	Group 2005	Parent Company 2006	Parent Company 2005	Notes
<b>ASSETS</b>					
Intangible assets					
Other long-term expenses	15,403	9,136	14,423	8,394	14
Advance payments	2,799	4,130	2,799	4,130	14
	18,202	13,266	17,221	12,523	
Investments					
Investments in land and buildings					8
Land and buildings	134,396	133,482	85,440	90,139	9
Loans to affiliated undertakings			7,993	6,107	9
	134,396	133,482	93,433	96,247	
Investments in affiliated and associated undertakings					
Shares and participations in affiliated undertakings			25,179	25,379	10
Associated undertakings	562	379	422	422	10
	562	379	25,601	25,801	
Other investments					
Shares and participations	450,147	426,011	282,454	279,766	13
Debt securities	843,975	782,109	539,209	482,613	
Other loans	12,476	13,236	12,476	12,136	11
Deposits with credit institutions	25,710	14,900	18,780	6,200	
	1,332,308	1,236,256	852,920	780,715	
Deposits with ceding undertakings	63	181	63	181	
	1,467,329	1,370,298	972,016	902,944	
Investments covering unit-linked insurances					
	207,093	193,172			
Debtors					
Arising out of direct insurance operations					
Policyholders	65,240	55,380	64,918	54,985	
Arising out of reinsurance operations	500	700	500	700	
Other debtors	20,215	16,126	17,846	14,986	
	85,955	72,206	83,264	70,671	
Other assets					
Tangible assets					
Equipment	5,401	5,638	4,970	5,033	14
Stocks	199	266	186	253	
	5,599	5,904	5,156	5,287	
Cash at bank and in hand	5,929	6,827	2,150	2,737	
	11,529	12,731	7,307	8,023	
Prepayments and accrued income					
Interest and rents	14,549	14,985	9,749	10,261	
Other	4,332	6,964	3,202	6,042	
	18,881	21,949	12,952	16,303	
<b>Total assets</b>	<b>1,808,989</b>	<b>1,683,621</b>	<b>1,092,760</b>	<b>1,010,465</b>	

EUR thousand	Group 2006	Group 2005	Parent Company 2006	Parent Company 2005	Notes
<b>LIABILITIES</b>					
Capital and reserves					16
Initial fund	4,339	4,339	4,339	4,339	
Guarantee capital	3,364	3,364	3,364	3,364	
Revaluation reserve	885	885	885	885	
Security reserve	120,872	110,034	120,872	110,034	
At the disposal of the Board	59	59	59	59	
Profit brought forward	12,614	7,859			
Profit for the financial year	20,207	15,600	16,902	10,845	
	162,339	142,139	146,420	129,526	
Appropriations					
Accumulated depreciation difference			2,128	2,781	
Optional reserves			332	332	
			2,460	3,113	
Minority interest	27,623	26,223			
Technical provisions					
Non-life insurance: Provision for unearned premiums	98,018	90,408	98,018	90,408	
Life-insurance: Provision for unearned premiums	368,314	359,076			
Non-life insurance: Claims outstanding	607,164	561,760	607,164	561,760	
Reinsurers' share	-1,472	-2,081	-1,472	-2,081	
	605,692	559,678	605,692	559,678	
Life insurance: Claims outstanding	93,618	78,610			
Equalisation provision, non-life insurance	194,701	189,986	194,701	189,986	
Collective guarantee item, non-life insurance	11,241	10,809	11,241	10,809	
Technical provisions in total	1,371,585	1,288,565	909,653	850,880	
Technical provisions for unit-linked insurances	207,636	194,032			
Creditors					
Arising out of reinsurance operations	1,255	893	1,009	831	
Other creditors	15,480	14,164	13,917	11,305	
Deferred tax	667	827			
	17,402	15,884	14,926	12,136	
Accruals and deferred income	22,404	16,778	19,300	14,810	
<b>Total liabilities</b>	<b>1,808,989</b>	<b>1,683,621</b>	<b>1,092,760</b>	<b>1,010,465</b>	

## Parent Company Cash Flow Statement

EUR thousand	2006	2005
Cash flow from business operations		
Profit on ordinary activities	16,249	10,463
Adjustments		
Change in technical provisions	58,773	66,432
Value adjustments and revaluations on investments	1,529	-945
Depreciation according to plan	6,040	5,171
Other	-11,469	-19,217
Cash flow before change in net working capital	71,122	61,903
Change in net working capital:		
Increase in non-interest-earning receivables	-7,241	-11,132
Increase in non-interest-earning payables	2,584	4,210
Cash flow from business operations before financial items and taxes	66,464	54,982
Interest paid for other financial expenses from operations	-266	-307
Taxes	-2,511	-767
Cash flow from business operations	63,687	53,907
Cash flow from capital expenditures		
Capital expenditure on investments (excl. funds)	-72,905	-65,651
Capital gain from investments (excl. funds)	16,955	20,291
Investments and income from the sale of tangible and intangible assets and other assets (net)	-8,324	-8,050
Cash flow from capital expenditures	-64,274	-53,410
Change in funds	-586	497
Funds at 1 Jan.	2,737	2,240
Funds at 31 Dec.	2,150	2,737
	-586	497

## Accounting Principles

The financial statements have been compiled in accordance with the Finnish Accounting Act, Companies Act and Insurance Companies Act as well as decisions, instructions and regulations of the Ministry of Social Affairs and Health and the Insurance Supervision Authority.

### Book value of investments

The variable expenses arising from acquisition are included in acquisition costs.

Buildings and structures are presented in the balance sheet at the lower of acquisition cost less 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 difference between par value and acquisition cost is accrued as interest income, or interest payable, over the life of the debt security instrument, and as increase or decrease of their acquisition cost. The acquisition cost is calculated using the average price. The changes in value arising from the variation in interest rates are not entered.

Value adjustments that have been made earlier are readjusted to the original acquisition cost and entered with the impact on the result if the current value increases.

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. At the date of closing the accounts there are no derivative contracts in force.

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

### Book value of other assets than investments

Intangible assets and equipment are entered in the Balance Sheet at acquisition cost less planned

depreciation. The variable expenses arising from acquisition are included in acquisition costs.

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. However, receivables that are likely to remain unsettled are entered as 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
IT systems work expenses	7 years
Other long-term liabilities	10 years
Business and industrial premises and offices	30–40 years
Components in buildings	10–15 years
Vehicles and computer hardware	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 real estate are defined by site. The current values of a significant part of real estate are assessed every few years. The assessments are carried out by a Finnish company specialising in real estate assessment in addition to its other operations. The current values of the real estate are defined on the basis of the assessments of each site. The current value of other real estate is determined annually by the Group's own experts mainly on the basis of regional market value statistics.

Shares and participations in a life insurance company, which is a subsidiary, are valued at the cautiously estimated market price.

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.

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 financial statements, 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 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

A pension insurance cover has been arranged for the staff of the Group companies by means of TEL 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

The Finnish legislation allows certain optional untaxed reserves and depreciation above plan to be made in the final accounts. In the final accounts of 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 presented in the final accounts of Group companies in accordance with the principle of prudence, and the Group companies have no corresponding deferred tax liabilities.

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%.

### 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. The provision for outstanding claims pertaining to annuities is calculated by discounting, applying an interest rate of 3.5 %. Discounting is not applied to other parts of the provision for outstanding claims.

The provision for claims outstanding includes the equalisation provision, which, too, has to 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 Insurance Supervision Authority.

### Technical provisions in life insurance

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% for contracts that have commenced before 1 January 1999 and 3.5% for contracts that have commenced after this, and 2.5% for contracts that have commenced after 1 March 2003.
- In insurance for unregistered supplementary group pension, the interest rate is 3.5%. For technical provisions accrued before 1 January 1999 the impact of the change in the interest rate

(from 4.25% to 3.5%) has been capitalised under the technical provisions and will be written off through straight-lined depreciation over a period of 15 years.

Deferred acquisition costs have been deducted from the premium reserve in individual life and pension insurance. 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 in life insurance

According to the Insurance Companies Act, Chapter 13, Section 3, 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, if the solvency requirements do not prevent it. The Principle of Fairness determines how valuation differences should be divided between the shareholders and the policyholders without entitling any of the individual persons belonging to these groups to the valuation differences in question.

Fennia Life aims at giving a total return (before deduction of operating expenses) on policyholders' with-profit insurance savings which is at least 0.25–1.0% higher than a riskless interest rate with corresponding maturity. The total return consists of the technical interest and additional interest on the contract in question (client bonuses). According to law, continuity should be pursued for the level of the total return.

Fennia Life aims to maintain the company's solvency ratio at a level that in the long term allows the company to take investment risks so as to achieve the level of total return mentioned above. This solvency goal entails that more funds are tied up in the company than there are liabilities towards customers.

### 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 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%, voting rights 63.6%). The other subsidiaries included in the consolidated accounts are real estate companies. At the end of 2006, the Group had 14 real estate companies, 10 of which belonged to the Fennia Life sub-group. The planned depreciations made in the accounts of the real estate subsidiaries differ from those made in the Parent Company in terms of depreciation times. In the subsidiaries the depreciation time for buildings is 17–75 years and for building components 10–20 years.

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 intra-group cross-shareholdings have been eliminated. Minority interests in results and in capital and reserves are presented as separate items. Intra-group cross-shareholdings are eliminated by 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 and the insignificant negative goodwill on consolidation has been entered as income.

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% of the voting rights have been included in the consolidated accounts as associated undertakings by using the equity method of accounting. However, holdings (20–50%) 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.

# Notes to the Accounts, Parent Company

## Notes to the Profit and Loss Account and Balance Sheet

EUR thousand

2006

2005

### 1. Premiums written

Non-life insurance		
Direct insurance		
Finland	325,732	298,835
Reinsurance	862	-2,079
Gross premiums written before reinsurers' share	326,594	296,756

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

Group of insurance class	Year	Premiums written before reinsurers' share	Gross premiums earned before reinsurers' share	Gross claims incurred before reinsurers' share	Gross operating expenses before reinsurance commissions and profit participation	Re-insurance balance	Balance on technical account before change in guarantee item and equalisation provision
EUR thousand							
Statutory accident insurance	2006	89,412	89,362	-73,380	-9,979	-290	5,714
	2005	80,686	80,689	-70,175	-9,096	-247	1,172
(workers' compensation)	2004	65,406	65,434	-71,600	-8,089	-95	-14,351
Non-statutory accident and health	2006	16,424	16,022	-14,757	-6,800	-83	-5,618
	2005	15,582	15,025	-12,536	-6,296	-77	-3,884
	2004	14,330	14,195	-12,732	-5,615	-247	-4,398
Motor liability	2006	72,522	68,707	-67,326	-12,656	-667	-11,942
	2005	65,691	61,175	-57,712	-11,940	-525	-9,002
	2004	54,228	52,941	-41,456	-10,678	-682	124
Motor, other classes	2006	52,632	52,481	-42,164	-9,362	-89	866
	2005	49,215	47,927	-36,897	-9,103	-105	1,822
	2004	44,887	43,457	-32,542	-8,447	-403	2,065
Fire and other damage to property	2006	57,505	55,969	-47,356	-17,288	-2,297	-10,971
	2005	53,808	52,376	-39,485	-15,788	-2,093	-4,990
	2004	49,186	48,736	-36,951	-14,303	-2,539	-5,057
General liability	2006	19,209	17,932	-15,224	-3,211	-744	-1,247
	2005	16,676	15,524	-11,944	-2,930	-594	56
	2004	16,032	15,237	-12,134	-2,640	-148	315
Miscellaneous	2006	18,027	17,654	-10,879	-5,139	-532	1,104
	2005	17,176	16,651	-10,081	-4,817	-413	1,339
	2004	15,497	15,230	-9,205	-4,346	-588	1,092
<b>Direct insurance in total</b>	2006	325,732	318,127	-271,085	-64,434	-4,702	-22,095
	2005	298,835	289,368	-238,831	-59,970	-4,054	-13,487
	2004	259,566	255,230	-216,620	-54,118	-4,703	-20,211
Reinsurance	2006	862	856	-283	-141	-2	430
	2005	-2,079	870	-818	-146	-2	-95
	2004	2,615	2,560	-1,937	-376	-3	244
<b>Total</b>	2006	326,594	318,984	-271,369	-64,576	-4,704	-21,665
	2005	296,756	290,238	-239,648	-60,116	-4,055	-13,582
	2004	262,181	257,790	-218,558	-54,494	-4,706	-19,967
Change in collective guarantee item	2006						-432
	2005						-416
	2004						-400
Change in equalisation provision	2006						-4,715
	2005						-20,081
	2004						-13,727
<b>Balance on technical account</b>	2006						-26,813
	2005						-34,079
	2004						-34,093

EUR thousand	2006	2005
<b>3. Items deducted from premiums written</b>		
Credit loss on outstanding premiums	2,187	1,957
Premium tax	45,069	41,355
Fire brigade charge	660	623
Traffic safety charge	597	551
Industrial safety charge	1,387	1,247
	49,900	45,734
<b>4. Changes in the estimate relating to technical provisions affecting the comparability of the result *)</b>		
*) Increase (+) or decrease (-) in technical provisions		
Change in equalisation provision		
Change in calculation basis	-	-5,792
	-	-5,792

EUR thousand	2006	2005
<b>5. Operating expenses</b>		
<b>Total operating expenses by activity</b>		
Claims paid	18,272	16,334
Net operating expenses	64,507	60,037
Investment charges	2,061	1,862
Other charges	304	376
<b>Total</b>	<b>85,145</b>	<b>78,610</b>
<b>Depreciation according to plan by activity</b>		
Claims paid	1,214	842
Net operating expenses	2,383	1,984
Investment charges	159	113
<b>Total</b>	<b>3,756</b>	<b>2,939</b>
<b>Operating expenses in Profit and Loss Account</b>		
Policy acquisition costs		
Direct insurance commissions	5,474	3,855
Commissions on reinsurance assumed and profit participations	21	26
Other policy acquisition costs	29,321	26,967
<b>Total</b>	<b>34,816</b>	<b>30,848</b>
Policy management expenses	15,865	14,785
Administrative expenses	13,895	14,483
Commissions on reinsurance ceded and profit participations	-68	-79
<b>Total</b>	<b>64,507</b>	<b>60,037</b>
<b>6. Staff expenses, personnel and executives</b>		
<b>Staff expenses</b>		
Salaries and commissions	38,024	35,769
Pension expenses	6,188	5,837
Other social expenses	4,164	3,868
<b>Total</b>	<b>48,376</b>	<b>45,474</b>
<b>Executives' salaries and commissions</b>		
Managing Director and substitute for the Managing Director	438	371
Board of Directors	161	100
Supervisory Board	71	118
<b>Total</b>	<b>669</b>	<b>589</b>
The previous Managing Director has decided to take his opportunity to retire at the age of 60 by means of a voluntary pension insurance.		
<b>Average number of personnel during the financial year</b>		
Office personnel	369	353
Sales personnel	523	520
<b>Total</b>	<b>892</b>	<b>873</b>

EUR thousand	2006	2005
<b>7. Net investment income</b>		
Investment income		
Income from investments in affiliated undertakings		
Dividend income	157	58
Income from investments in land and buildings		
Interest income		
From affiliated undertakings	298	166
Other income		
From affiliated undertakings	105	79
From other undertakings	9,287	9,128
Total	9,691	9,372
Income from other investments		
Dividend income	11,179	9,585
Interest income	18,639	18,252
Other income	4,176	1,117
Total	33,994	28,954
Total	43,842	38,384
Value readjustments		
Gains on realisation of investments	23,460	21,128
Total	67,492	60,554
Investment charges		
Charges arising from investments in land and buildings		
To affiliated undertakings	-1,048	-1,149
To other undertakings	-3,737	-4,349
Total	-4,785	-5,497
Charges arising from other investments	-3,278	-5,848
Interest and other expenses on liabilities		
To other undertakings	-266	-307
Total	-266	-307
Total	-8,329	-11,652
Value adjustments and depreciations		
Value adjustments on investments	-1,719	-96
Planned depreciation on buildings	-2,284	-2,231
Total	-4,003	-2,327
Losses on realisation of investments	-6,505	-837
Total	-18,837	-14,816
Net investment income on the Profit and Loss Account	48,655	45,737

EUR thousand	Investments, 31 Dec. 2006			Investments, 31 Dec. 2005		
	Remaining acquisition cost	Book value	Current value	Remaining acquisition cost	Book value	Current value
<b>8. Current value and valuation difference on investments</b>						
Investments in land and buildings						
Real estate	36,493	50,519	68,846	37,799	52,278	69,351
Real estate shares in affiliated undertakings	27,298	27,298	29,128	29,936	29,936	31,594
Real estate shares in associated undertakings	3,771	3,821	6,051	3,901	3,951	6,181
Other real estate shares	3,508	3,801	5,061	3,674	3,974	5,356
Loans to affiliated undertakings	7,993	7,993	7,993	6,107	6,107	6,107
Investments in affiliated undertakings						
Shares and participations	25,179	25,179	39,660	25,379	25,379	39,860
Investments in associated undertakings						
Shares and participations	422	422	422	422	422	422
Other investments						
Shares and participations	282,454	282,454	324,175	279,766	279,766	315,033
Debt securities	539,209	539,209	531,729	482,613	482,613	482,258
Other loans	12,476	12,476	12,476	12,136	12,136	12,136
Deposits with credit institutions	18,780	18,780	18,780	6,200	6,200	6,200
Deposits with ceding undertakings	63	63	63	181	181	181
	957,647	972,016	1,044,383	888,115	902,944	974,678
The remaining acquisition cost of debt securities comprises that difference between the amount repayable at maturity and purchase price, which has been released to interest income (+) or charged to interest income (-)						
	-11,488			-20,127		
Book value comprises						
Unrealised gains entered as income		13,384			13,836	
Other revaluations		986			993	
		14,369			14,829	
Valuation difference (difference between current value and book value)			72,367	71,734		

EUR thousand	Land and buildings and real estate shares	Loans to affiliated undertakings
<b>9. Investments in land and buildings</b>		
Acquisition cost, 1 Jan.	105,253	6,107
Increase	1,268	3,700
Decrease	-4,102	-1,814
Acquisition cost, 31 Dec.	102,419	7,993
Accumulated depreciation, 1 Jan.	-29,903	
Accumulated depreciation related to decreases and transfers	278	
Depreciation for the financial year	-2,284	
Accumulated depreciation, 31 Dec.	-31,909	
Value adjustments, 1 Jan.	-6,753	
Value adjustments related to decreases and transfers	221	
Value adjustments during the financial year	-73	
Value adjustments, 31 Dec.	-6,605	
Revaluations, 1 Jan.	21,542	
Decrease	-7	
Revaluations, 31 Dec.	21,535	
<b>Book value, 31 Dec.</b>	<b>85,440</b>	<b>7,993</b>
Land and buildings and real estate shares occupied for own activities:		
Remaining acquisition cost	14,610	
Book value	15,624	
Current value	19,889	

EUR thousand	Shares and participations in affiliated undertakings	Shares and participations in associated undertakings
<b>10. Investments in affiliated and associated undertakings</b>		
Acquisition cost, 1 Jan.	25,379	422
Decrease	-200	-
Acquisition cost, 31 Dec.	25,179	422
Book value, 31 Dec.	25,179	422
	2006	2005
<b>11. Other investments</b>		
Other loans by security		
Other security	12,476	12,136
	12,476	12,136
<b>12. Debtors</b>		
Other debtors		
Affiliated undertakings	541	1,033

EUR thousand	Holding %	Book value 31 Dec. 2006	Current value 31 Dec. 2006
<b>13. Shares and participations in other companies</b>			
<b>Other investments</b>			
<b>Domestic shares and participations</b>			
Mutual Insurance Company Pension-Fennia		1,689	1,689
F-Musiikki Oy	9.1398	553	553
Fortum Corporation	0.0055	620	1,049
Kytäjä Golf Oy	2.8750	919	920
Nokia Corporation	0.0018	1,066	1,144
Panostaja Oyj, Series A	3.6218	500	969
Stora Enso Oyj, Series R	0.0082	535	605
UPM-Kymmene Corporation	0.0086	704	860
Uudenmaan Pääomarahasto Oy	28.5714	2,000	2,000
<b>Unit trusts</b>			
AB Japan Strategic Value		1,400	1,451
Aberdeen Indirect Property Partners		552	552
Aberdeen International Asia Pacific Fund A2		681	1,086
ABN Amro Multi-Manager Funds - European Equities I		2,250	3,182
AIG Japan New Horizon Fund / Class Y		929	929
Arvopaperirahasto Aksjefondet Odin Finland		850	1,279
Auda Global Feeder Class B		8,008	9,003
Bluebay Emerging Market Bond Fund R		15,500	16,606
Bluebay High Yield Bond Fund R		34,800	36,872
Brevan Howard Fund Class B		1,800	1,820
Carnegie Fund - East-European Sub Fund		1,200	1,538
Cognis I Fund Class B Series 5 2006		2,000	2,015
East Capital Eastern European Fund		2,469	2,951
Eaton Vance Emerald - US Value Fund A2		2,361	2,361
Erikoissijoitusrahasto Avenir B		3,000	4,912
Erikoissijoitusrahasto eQ Arvonkasvattajat A		1,000	2,407
Erikoissijoitusrahasto eQ Pikkujättiläiset A		1,933	5,073
Erikoissijoitusrahasto FOURTON Odysseus		1,009	1,581
Erikoissijoitusrahasto ICECAPITAL European Stock Index B		1,000	1,322
Evli Tavoiteobligaatio B		3,000	3,071
Fairfield Investors (Euro) Ltd		3,166	4,002
Fidelity Funds Australia Fund (AUD)		1,604	1,857
Fidelity Funds European Aggressive Fund		4,934	5,484
FIM Brazil Sijoitusrahasto		750	907
FIM Emerging Europe Sijoitusrahasto		506	643
FIM Fenno Sijoitusrahasto		2,530	4,314
FIM Russia Sijoitusrahasto		875	1,796
FIM Unioni Sijoitusrahasto		2,507	2,797
GLG European Long-Short Fund I		1,200	1,242
HSBC GIF - European Currencies High Yield Bond C		7,777	8,801
IFTSE100 - Ishares Plc - ETF Fund		1,387	1,708
ING (L) Renta Fund Emerging Markets Debt (Hard Currency)		13,223	14,294
JPMorgan Funds - Europe Dynamic Mega Cap A (acc) -EUR		6,125	7,267
JPMorgan Funds - JF Japan Equity A -USD		2,775	2,775
JPMorgan Funds - US Dynamic A		1,514	1,563
Kaupthing Manager Selection Europe C 2 E		1,501	1,718
Kaupthing Manager Selection North America C 2		995	995
MLIIF European Fund A2		6,125	7,254
MLIIF US Flexible Equity Fund A2		2,587	2,602
Nektar		1,696	2,335

EUR thousand	Holding %	Book value 31 Dec. 2006	Current value 31 Dec. 2006
Nikko Exchange Traded Index Fund Topix		2,196	2,753
O'Connor Market Neutral Long/Short M1		1,800	1,875
OMXH25-indeksiosuus		2,158	3,411
Parvest US Small Cap - Classic C Fund		1,800	2,024
Peloton Multi-Strategy Fund Euro Class		1,200	1,231
Pictet Funds - Asian Equities (ex-Japan)		656	1,072
SEB Alt. Investment - SEB Institutional Portfolio Class I		1,916	1,916
SEB Gyllenberg Money Manager A		25,106	25,216
SEB Hedge Fund of Funds Moderate (I) Series I		8,032	9,411
Seligson & Co Rahamarkkinarahasto A/10		6,760	7,037
Sijoitusrahasto eQ Monityyli Eurooppa A		1,003	1,255
Sijoitusrahasto ICECAPITAL Euro Floating Rate B		2,000	2,084
Sijoitusrahasto ICECAPITAL Global Utilities & Energy B		1,500	3,103
Sijoitusrahasto Odin Norden		500	781
Sijoitusrahasto SEB Asia ex. Japan Fund - acc		3,205	3,703
Sijoitusrahasto SEB Eastern Europe Fund - acc		2,364	2,919
Sijoitusrahasto SEB Europe Fund - inc		7,331	8,750
Sijoitusrahasto SEB Gyllenberg Finlandia B		1,286	1,555
Sijoitusrahasto SEB Gyllenberg Small Firm B		584	697
Sijoitusrahasto SEB Japan Fund - acc		2,890	3,049
Sponda Kiinteistörahasto I Ky		3,023	3,023
SPY Standard & Poors Depository 500 Index Series 1		2,826	3,083
T.Rowe Price US Large Cap Growth A		3,831	3,831
Tisbury Europe Fund		1,927	1,927
UBS Neutral Alpha Strategies (Euro) Ltd - Class B Series 1		5,000	5,436
XMTCH (Lux) on MSCI Euro ETF		3,891	5,589
Zenit		988	1,569
<b>Capital trusts</b>			
MB Equity Fund III Ky		520	520
Access Capital LP		3,087	3,087
Auda Capital III L.P.		1,804	1,804
Duke Street Capital IV LP		513	513
Duke Street Capital VI LP		720	720
Bio Fund Ventures II Ky		937	937
The Triton Fund I L.P.		1,749	1,749
The Triton Fund II L.P.		1,340	1,340
The First European Fund Investments UK Ltd Partnership		2,245	2,245
Nexit Infocom 2000 Fund Limited Partnership		1,099	1,099
Permira Europe II LP2		1,924	1,924
Nokia Venture Partners II L.P.		904	904
<b>Other</b>		11,737	14,883
		282,454	324,175

EUR thousand	Other long-term expenses	Advance payments	Equip- ment	Total
<b>14. Changes in intangible and tangible assets</b>				
Acquisition cost, 1 Jan.	10,451	4,130	11,910	26,491
Fully depreciated in the previous financial year	-198		-204	-401
Increase	8,158	5,956	1,698	15,813
Decrease	-	-7,287	-601	-7,888
Acquisition cost, 31 Dec.	18,412	2,799	12,803	34,014
Accumulated depreciation, 1 Jan.	-2,057	-	-6,877	-8,934
Fully depreciated in the previous financial year	198	-	204	401
Accumulated depreciation related to decreases and transfers	-	-	466	466
Depreciation for the financial year	-2,129	-	-1,627	-3,756
Accumulated depreciation, 31 Dec.	-3,989	-	-7,833	-11,822
Book value, 31 Dec.	14,423	2,799	4,970	22,192

EUR thousand	2006	2005
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**15. Key figures pertaining to solvency**

Solvency margin		
Capital and reserves after proposed profit distribution	146,420	129,526
Accumulated appropriations	2,460	3,113
Valuation difference between current value and		
Balance Sheet book value of assets	72,367	71,734
Capitalised intangibles	-17,221	-12,523
	204,026	191,849
Minimum solvency margin required under the Finnish Insurance Companies Act, Chapter 11, Section 2		
	58,382	53,630
Equalisation provision for years with large numbers of losses included in technical provisions		
	194,701	189,986
Equalisation provision to its full value (%)		
	54%	56%
Solvency ratio (%)		
Solvency margin and equalisation provision to premiums earned from the preceding 12 months		
- for the year 2006	127%	
- for the year 2005	134%	
- for the year 2004	135%	
- for the year 2003	140%	
- for the year 2002	140%	

EUR thousand	2006	2005
<b>16. Capital and reserves</b>		
Restricted		
Initial fund, 1 Jan. / 31 Dec.	4,339	
Guarantee capital, 1 Jan. / 31 Dec.	3,364	
Revaluation reserve, 1 Jan. / 31 Dec.	885	
Restricted in total	8,587	
Non-restricted		
Security reserve, 1 Jan. 2006	110,034	
Transfer from profit brought forward	10,845	
Reversals of revaluations	-7	
Security reserve, 31 Dec. 2006	120,872	
At the disposal of the Board, 1 Jan. / 31 Dec.	59	
Profit brought forward	10,845	
Transfer to security reserve	-10,845	
Profit brought forward		
Profit for the financial year	16,902	
Non-restricted in total	137,833	
<b>Capital and reserves in total</b>	<b>146,420</b>	
<b>Revaluation reserve, 31 Dec. 2006</b>		
Revaluations on investments	642	
Revaluations on fixed assets	243	
	885	
<b>Distributable profit, 31 Dec. 2006</b>		
Profit for the financial year	16,902	
Security reserve	120,872	
At the disposal of the Board	59	
	137,833	
<b>17. Creditors</b>		
Other creditors		
Affiliated undertakings	951	959
<b>18. Guarantee and liability commitments</b>		
Own liabilities		
Leasehold commitments	7,948	8,370
Other liabilities		
As regards VAT group registration, 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	21	11
Other undertakings	685	4,257
Investment liabilities		
Commitment to invest in equity funds	39,377	10,027

## Key Figures

### Group analysis of results

(EUR million)	2002	2003	2004	2005	2006
<b>Non-life Insurance</b>					
Premiums earned	226	232	251	286	314
Claims incurred	-187	-214	-217	-239	-271
Net operating expenses	-46	-48	-54	-60	-65
Other technical underwriting income (net)	0	0	0	0	0
<b>Balance on technical account before the change in equalisation provision</b>					
Investment income (net), revaluations	11	38	43	45	48
Other income (net)	0	0	0	1	0
Share of associated undertakings' profit	0	0	0	0	0
<b>Operating profit</b>	3	7	22	32	27
Change in equalisation provision	-21	1	-14	-20	-5
<b>Non-life insurance profit/loss before extraordinary items</b>					
	-18	8	9	12	22
<b>Life Insurance</b>					
Premiums written	49	60	68	63	70
Investment income (net), revaluations and revaluation adjustments on investments	2	30	37	65	57
Claims paid	-14	-15	-19	-33	-74
Change in technical provision before bonuses and rebates and change in equalisation provision	-29	-64	-71	-73	-31
Net operating expenses	-5	-6	-5	-6	-7
<b>Technical underwriting result before bonuses and rebates and change in equalisation provision</b>					
	2	6	11	17	15
Other income (net)	0	0	0	0	0
<b>Operating profit</b>	2	5	11	17	15
Change in equalisation provision	0	0	0	0	-1
Bonuses and rebates	-1	-1	-1	-5	-7
<b>Life insurance profit before extraordinary items</b>					
	1	4	9	11	8
Extraordinary income	-	-	-	-	-
Extraordinary charges	-	-	-	-	-
<b>Profit/loss before appropriations and tax</b>					
	-17	12	18	23	30
Income tax and other direct tax	0	0	0	-4	-7
Minority interests	0	-2	-4	-4	-3
<b>Group's profit/loss for the financial year</b>					
	-17	10	14	16	20

### Key figures

(EUR million)	2002	2003	2004	2005	2006
<b>Group Key Figures</b>					
Turnover	298	373	409	468	497
Premiums written	284	306	331	360	397
Operating profit/loss	5	13	33	49	41
Profit/loss before extraordinary items, untaxed reserves and tax	-17	12	18	23	30
Total result				77	42
Solvency capital	321	343	369	432	454
Average number of personnel	876	901	921	945	962
<b>Non-life Insurance Key Figures</b>					
Premiums written	235	245	262	297	327
Loss ratio, %	82.7	92.2	86.3	83.7	86.4
Loss ratio excl. unwinding of discount, %				79.8	82.7
Expense ratio, %	20.5	20.9	21.6	21.0	20.5
Combined ratio, %	103.2	113.0	107.9	104.8	106.9
Combined ratio excl. unwinding of discount, %				100.9	103.2
Operating profit/loss *	3	7	22	32	27
Total result				48	27
Return on assets, %				5.7	3.6
Net investment income at current value				63	49
income on invested capital, %				6.6	4.7
Solvency margin	159	168	170	192	204
Equalisation provision	157	156	170	190	195
Solvency capital	316	324	340	382	399
of technical provisions, %	58.7	56.2	55.3	57.8	55.8
Solvency ratio, %	139.6	139.8	135.1	133.7	126.9
Average number of personnel	836	855	870	873	892
<b>Life Insurance Key Figures</b>					
Premiums written	49	60	69	64	70
Expense ratio (of expense loading), % *	140.1	139.1	112.9	99.6	102.1
Operating profit/loss *	2	5	11	17	15
Total result				27	13
Return on assets, %				8.6	5.5
Net investment income at current value				38	25
income on invested capital, %				8.0	4.9
Solvency margin	45	55	66	85	89
Solvency capital	47	57	68	87	93
Solvency ratio, %	13.2	14.3	15.5	18.1	18.2
Average number of personnel	22	23	24	25	26

\*Key figures according to the consolidated accounts

## Investment portfolio at current values

	2006		2005	
	EUR million	%	EUR million	%
Loans <sup>1)</sup>	20.5	1.9	18.2	1.9
Bonds <sup>1), 2)</sup>	589.4	55.9	553.0	56.2
* includes fixed-income funds	81.7	7.8	77.5	7.9
Other money market investments and deposits <sup>1), 2), 3)</sup>	69.3	6.6	86.8	8.8
* includes fixed-income funds	32.3	3.1	70.1	7.1
Shares and participations	197.5	18.7	173.1	17.6
Investments in land and buildings <sup>4)</sup>	113.2	10.7	113.1	11.5
* includes unit trusts and UCITS	4.1	0.4	0.6	0.1
Other investments	64.1	6.1	40.6	4.1
<b>Investments in total</b>	<b>1,054.0</b>	<b>100.0</b>	<b>984.7</b>	<b>100.0</b>
<b>Modified duration of the bond portfolio</b>	<b>4.05</b>		<b>4.03</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

	2006	2005
	EUR million	EUR million
<b>Direct net income</b>	<b>35.5</b>	<b>26.7</b>
Loans	0.4	0.4
Bonds	16.6	16.2
Other money market investments and deposits	2.3	2.3
Shares and participations	10.9	7.5
Investments in land and buildings	5.2	4.1
Other investments	1.7	-2.3
Sundry income, charges and operating expenses	-1.6	-1.4
<b>Changes in value in the accounts <sup>1)</sup></b>	<b>13.1</b>	<b>19.0</b>
Shares and participations	12.1	7.0
Bonds	0.9	13.1
Investments in land and buildings	0.1	-1.8
Other investments	0.0	0.7
<b>Net investment income at book value</b>	<b>48.7</b>	<b>45.7</b>
<b>Change in valuation differences <sup>2)</sup></b>	<b>0.6</b>	<b>17.1</b>
Shares and participations	5.3	18.2
Bonds	-8.6	-3.7
Investments in land and buildings	1.3	0.8
Other investments	2.6	1.9
<b>Net investment income at current value</b>	<b>49.3</b>	<b>62.8</b>
Share of net investment income accounted for by derivatives	1.5	-3.6

<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

<b>Net investment income on invested capital 1 Jan.–31 Dec. 2006</b>	Net investment income at current values <sup>1)</sup> EUR million 2006	Invested capital <sup>2)</sup> EUR million 2006	Yield % on invested capital 2006	Yield % on invested capital 2005
Loans	0.4	19.4	1.9	2.4
Bonds <sup>3)</sup>	8.9	583.3	1.5	4.9
<i>* of which fixed-income funds</i>	5.2	78.0	6.7	12.3
Other money market investments and deposits <sup>3)</sup>	2.8	100.2	2.8	2.2
<i>* of which fixed-income funds</i>	1.4	49.8	2.9	2.2
Shares and participations	27.8	184.5	15.1	22.0
Real estate <sup>4)</sup>	6.6	110.0	6.0	2.7
<i>* of which unit trusts and UCITS</i>	0.0	1.2	4.0	3.7
Other investments	4.3	48.9	8.9	0.5
<b>Investments in total</b>	<b>50.8</b>	<b>1,046.3</b>	<b>4.9</b>	<b>6.7</b>
Sundry income, charges and operating expenses	-1.6			
<b>Net investment income at current values</b>	<b>49.3</b>	<b>1,046.3</b>	<b>4.7</b>	<b>6.6</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, non-life insurance + technical interest credited to insurances during the year, life insurance +/- 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 the values on the balance sheet for the current and previous financial period.

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

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

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

### Non-life insurance

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

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

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

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

Key figures are calculated after reinsurers' share.

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

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

**Solvency margin** see calculation in the Notes

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

**Solvency capital, % of technical provisions** = solvency capital /  
(technical provisions - equalisation provision)

Technical provisions are calculated after reinsurers' share.

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

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

### **Life insurance**

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

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

**Solvency margin** see calculation in the Notes

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

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

Technical provisions are calculated after reinsurers' share.

# Risks and Risk 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 supervision 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 affect the company's financial performance negatively. 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 in Fennia is based on the risk management plan, which is discussed annually by the Boards of Directors. The 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.

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

The executive team for risk management 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 operative 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. In 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 for 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. 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 submitted to the Insurance 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 using an interest rate of 3.5%. 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.

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

		Impact of change on Fennia's solvency capital
Discount rate	Decrease of 0.1 percentage points	EUR -4 million
Inflation risk	Increase of 1%	EUR -3 million
Mortality	Average age increase of 1 yr	EUR -9 million

### 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 decreased 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. These risks are limited by risk selection and by defining upper limits for the cover to be granted. Risk and cost equivalent rating are 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 2.5 and 4.5%, and the average rate for the entire technical provisions with guaranteed return is approximately 3.7%. 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.

### 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 -24 million
Equity investments	Change in value -20%	EUR -28 million
Real estate investments	Change in value -10%	EUR -12 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 -13 million
Equity investments	Change in value -20%	EUR -17 million
Real estate investments	Change in value -10%	EUR -5 million

### Market risks

Market risks consist of the impacts of interest rates, currency and equity prices, volatilities 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 long-term volatility of each investment grade.

The monitoring of market risk is divided into interest, equity, property, capital fund and hedge fund risks. Currency and credit risks are quantified and taken into account separately when setting the level of the overall risk. The interest rate risk of fixed-income portfolios is monitored by the modified duration method.

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 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 inefficient internal processes, personnel or IT systems. Potential losses may also be due to changes in the operating or juridical environment.

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 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 crises.

## Board of Directors' Proposal on the Disposal of Profit

The distributable capital and reserves of the Fennia Group stood at EUR 151,905,630.30 and that of the Parent Company at EUR 137,832,598.64.

The Parent Company's profit for the financial year was EUR 16,901,904.17. 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, 8 March 2007

Eero Lehti	Esko Penttilä	Antti Kuljukka Managing Director
Ernst Gylfe	Lasse Koski	Eva Liljebloom
Rauno Mattila	Matti Pörhö	Antti Vaahto

## Auditors' Report

### To the Owners of Fennia Mutual Insurance Company

We have audited the accounting records, the financial statements, the Board of Directors' Report and the administration of Fennia Mutual Insurance Company for the financial year 1 January–31 December 2006. The Board of Directors and the Managing Director have prepared the financial statements, which include the Board of Directors' Report, consolidated and parent company income statements, balance sheets, cash flow statement and notes to the financial statements. Based on our audit we submit the following statement on the financial statements, the Board of Directors' Report and the administration of the parent company.

The undersigned Kalervo Virtanen has scrutinised the accounts and administration during the financial year and at the end of the year, and submitted a separate report thereon.

We have conducted the audit in accordance with Finnish Generally Accepted Auditing Standards. We have audited the accounting records, and the financial statements, the disclosures and the presentation of information, including the accounting principles and the principles employed in the preparation of the Board of Directors' Report, to an extent sufficient to give us reasonable assurance that the financial statements and the Board of Directors' Report are free of material misstatement. The purpose of the audit of administration has been to examine that the actions of the Supervisory Board, the Board of Directors and the Managing Director of the parent company have legally complied with the rules of the Insurance Companies Act and the Finnish Companies Act.

In our opinion, the financial statements and the Board of Directors' Report have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements and Board of Directors' Report. The financial statements and the Board of Directors' Report give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company result of operations, as well as of the financial position. The Board of Directors' Report is consistent with the financial statements. The financial statements, including the consolidated financial statements, may be adopted and the Supervisory Board, the Board of Directors and the Managing Director of the parent company may be discharged from liability for the period audited by us. The proposal made by the Board of Directors regarding the disposition of distributable profit is in compliance with the Insurance Companies Act.

Helsinki, 21 March, 2007

Marja Tikka  
Authorised Public Accountant

Kalervo Virtanen  
Authorised 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 2006 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 24 April 2007 adopt the financial statements and the consolidated financial statements as well as the proposal of the Board of Directors for the disposal of the surplus for the financial year.

Helsinki, 16 April 2007

On behalf of the Supervisory Board

Eino Rajamäki  
Chairman of the Supervisory Board



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