Henki-Fennia

FENNIA LIFE
Annual Report and
Financial Statements 2011

Fennia

Fennia Life

Contents

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Weathering the economic storm

Last year, in a similar review, I made the clichéd statement that "2011 will be a challenging year". The reasons behind that statement were the looming economic, environmental and political crises.

And they did come to pass. In July the stock market crashed, and in the autumn there was no news on the European front. In planning for 2012, preparations were made everywhere for a likely crisis or recession.

This year, however, has started off under exceptional circumstances. The news from around the world is just as bad as before. Europe's stability again hangs in the balance. The issue of Finland's sustainability deficit has not been resolved, and GDP growth is still stagnant. The mood in the markets has nonetheless been positive and supportive of risk-taking, and return levels have increased. As market operators, we are perhaps getting used to – even bored of – the same old problems, and the economic "storm" has become our standard working climate.

The measures required to adjust public finances rise to billions of euros. The issue of pension cover in general is a topic of interest this year, too – and not just as a result of the government programme target to extend careers. The need for crisis awareness still exists.

In February 2012, the European Commission published a White Paper on pensions in which it makes several proposals concerning pension schemes to its member states. The White Paper also proposes the development of complementary pension schemes by means of, for example, financial incentives. Perhaps now is the right time for Finland to reconsider its pension legislation and remove obstacles to implementing single-premium and non-tax-deductible pension savings, among other things.

Despite the investment challenges, Fennia Life had a very successful operational year in 2011. The figures in the Report of the Board of Directors illustrate the company's expanding activities in line with our strategy.

Fennia Life employees were extremely successful in facing sales, customer service and development work challenges. Thank you for a job well done!

Fennia's regional organisation's strong efforts to control the personnel risks of our customers were reflected as increased sales of life insurance policies for Fennia Life. Praise is due both to our field staff and field managers.

In October, Fennia Asset Management started operations to supplement the Fennia Group's service package. The new asset management company gives our customers the opportunity to grow their assets and to make the same kind of investments as Fennia makes.

Our professional and broad partner network involved in both managing unit-linked insurance investments and building asset management solutions also deserves our humble gratitude for excellent success in co-operation.

Serving SMEs and self-employed persons, and ensuring their success, is important to us. The majority of our growth last year can be attributed to the success of our customers in their businesses. We will continue along the same path with our customers this year, too.

Thank you for your confidence in us.

Seppo Rinta
Managing Director

Report of the Board of Directors 2011

Fennia Life Insurance Company's operating year was divided. The company's volume grew strongly as a result of strong sales and the increase in the portfolio's premiums written, but because of the difficult investment environment, operating profit declined considerably. The company's solvency position, however, remained at a good level.

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

INSURANCE BUSINESS

Fennia Life's premiums written increased 32 per cent to EUR 79.5 million (EUR 60.2 million), whereas premiums written in the sector fell 32 per cent, according to the statistics of the Federation of Finnish Financial Services. Of the company's total premium income, life insurance accounted for EUR 49.0 million (EUR 31.2 million) and pension insurance for EUR 30.5 million (EUR 29.0 million). Premium income on unit-linked insurances was EUR 37.8 million (EUR 23.5 million), accounting for 48 per cent (39%) of total premium income. Premium income on regular premium contracts stood at EUR 47.4 million (EUR 44.2 million), accounting for 60 per cent (73%) of total premium income.

Claims paid increased to EUR 61.8 million (EUR 51.7 million), with surrenders accounting for EUR 15.1 million (EUR 10.5 million). The repayment of benefits amounted to EUR 4.8 million (EUR 4.0 million). Pensions were paid in the amount of EUR 29.8 million (EUR 28.6 million) and death and disability benefits in the amount of EUR 8.6 million (EUR 4.3 million).

Operating expenses rose to EUR 10.0 million (EUR 8.4 million), largely due to the increase in expenses for the development and maintenance of IT systems. The expense ratio weakened compared to the previous year, and was 116.0 per cent (108 per cent). However, without the fee and commission income, the expense ratio would have been 104.7 per cent (99.7 per cent).

The total return on with-profit insurance savings varied between 3.2 and 4.5 per cent in 2011, depending on the line of insurance and quarter of the year. Client bonuses granted totalled EUR 2.3 million, of which EUR 1.4 million were funded from provisions for bonuses reserved earlier. Due to the low interest rate level, approximately EUR 2.9 million was transferred from the provision for bonuses to the supplementary provision for the guaranteed interest rate. In addition, technical provisions were increased by an interest rate supplement of EUR 3.0 million (EUR 8.0 million).

INVESTMENTS

Fennia Life's net investment income at current values amounted to EUR 6.8 million (EUR 43.1 million). Net investment income on invested capital was 1.2 per cent (7.2 per cent). At year-end, Fennia Life's investment assets at current values (incl. accrued interests) stood at EUR 633 million (EUR 623 million). Bonds and long-term fund investments accounted for 51 per cent of the investment portfolio, and money market investments and deposits for 12 per cent. Shares, equity fund investments and capital trusts accounted for 20 per cent, and real estate investments for 17 per cent.

In addition, the company had EUR 272 million (EUR 302 million) in assets covering unit-linked insurances, with net investment income amounting to EUR -45.6 million (EUR 42.8 million).

RESULT AND SOLVENCY

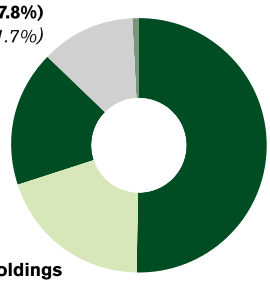
Fennia Life's operating profit was EUR 2.9 million (EUR 19.5 million). The Group's operating profit was EUR 1.7 million (EUR 18.9 million).

The company's solvency margin was EUR 98.3 million (EUR 106.0 million) and solvency capital EUR 104.6 million (EUR 111.6 million). The solvency ratio was 17.4 per cent (18.5 per cent), i.e. at a good level.

ADMINISTRATION AND STAFF

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

HENKI-FENNIA, PARENT COMPANY
INVESTMENT PORTFOLIO 31. Dec. 2011
EUR 633 million (EUR 623 million)



Return on investments1.1 % (7.2%)
**Rate of return by investment category*

Ruohonen (Vice Chairman), Deputy Managing Director Matti Carpén, Director Eeva Grannenfelt, 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 13 meetings during the year under review. The attendance rate of the full members was 85 per cent and that of the deputy members 100 per cent.

The company employed an average of 47 people (42) in 2011.

GROUP STRUCTURE

A decision was made 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. On 29 September 2011, the Financial Supervisory Authority granted the company a licence to operate as an investment service company.

At year-end, Fennia Life Group included 13 real estate companies wholly-owned by the company. During the financial year, Kiinteistö Oy Konalan Ristipellontie 25 in Helsinki was acquired.

RISK MANAGEMENT AND SOLVENCY MANAGEMENT

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

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

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

OUTLOOK FOR THE CURRENT YEAR

Fennia Life's operations are considerably influenced by the economic situation of Finnish entrepreneurs and SMEs. Growth in 2011 was largely based on the success of SMEs. The beginning of 2012 has turned out to be less difficult than the outlook forecast at the end of last year. Despite a number of positive developments, the recession and its threat to economic growth remain, prompting the company to make preparations for possible economic setbacks. This is particularly evident in the risk level set for investment activities. We are simultaneously striving to make full use of the market movements and to be prepared to take quick action to reduce risks.

According to present estimates and to those currently being prepared in the EU, the Solvency II framework for monitoring solvency is causing a considerable amount of work in companies, particularly in their efforts to enact risk management. The bases for calculating solvency are being extensively revised and will change the ways in which life insurance companies take risks in their investment activities. The new regulations will also affect the weightings in companies' insurance product offering.

Fennia Asset Management, which received an operating licence in late 2011, will broaden the Fennia Group's services for customers and thus bring new possibilities to asset management through life insurance.

Profit and Loss Account

EUR 1,000	Group 2011	Group 2010	Parent Company 2011	Parent Company 2010	Notes
TECHNICAL ACCOUNT					
Premiums written					
Premiums written	79 461	60 165	79 461	60 165	1
Reinsurers' share	-760	-528	-760	-528	
	78 701	59 637	78 701	59 637	
Investment income	50 539	68 361	50 333	68 136	3, 4
Revaluations on investments	1 923	30 061	1 923	30 061	3, 4
Claims incurred					
Claims paid	-61 800	-51 692	-61 800	-51 692	2
Reinsurers´share	-	438	-	438	
Change in the provision for outstanding claims	-6 264	-7 594	-6 264	-7 594	
Claims incurred in total	-68 064	-58 849	-68 064	-58 849	
Change in the provision for unearned premiums					
Change in the provision for unearned premiums	30 655	-58 595	30 655	-58 595	
Net operating expenses	-9 978	-8 405	-9 978	-8 405	5
Investment charges	-60 792	-16 975	-60 204	-16 098	3, 4
Revaluation adjustments on investments	-19 206	-762	-19 206	-762	3, 4
Balance on technical account	3 778	14 474	4 160	15 126	
NON-TECHNICAL ACCOUNT					
Other income					
Income from investment services operations	14				
Other expenses					
Expenses from investment services operations	-843				
Tax on profit on ordinary activities					
Tax for the financial year	-1 295	-445	-1 295	-445	
Tax from previous periods	5		5		
Deferred tax	705	86			
	-585	-359	-1 290	-445	
Profit on ordinary activities after tax			2 870	14 682	
Appropriations					
Change in depreciation difference			11	-27	
Profit for the financial year	2 364	14 115	2 881	14 654	

Balance Sheet

EUR 1,000	Group 2011	Group 2010	Parent Company 2011	Parent Company 2010	Notes
ASSETS					
Intangible assets					
Other long-term liabilities	4 402	985	4 200	985	
Advance payments	96	2 857	96	2 857	
	4 498	3 842	4 296	3 842	10
Investments					
Investments in land and buildings					
Land and buildings	74 038	87 187	54 368	64 901	7
Loans to affiliated undertakings			31 748	6 085	
Loans to associated undertakings	1 541	1 391	1 541	1 391	
	75 579	88 578	87 657	72 377	
Investments in affiliated undertakings					
Holdings in subsidiaries			2 000	-	
Other investments					
Equities and holdings	256 372	244 043	256 372	244 043	9
Debt securities	246 466	261 834	246 466	261 834	
Mortgage receivables	16 573		850		
Other loan receivables	2 351		2 351		
Deposits	6 734	1 200	5 950	1 200	
	528 497	507 077	511 990	507 077	
Investments in total	604 076	595 655	601 646	579 455	6
Investments covering unit-linked insurances	270 305	300 154	270 305	300 154	8
Debtors					
Arising out of direct insurance operations					
Policyholders	726	426	726	426	
Arising out of reinsurance operations	-	438	-	438	
Other debtors	2 309	7 063	2 485	7 775	
	3 035	7 926	3 212	8 639	
Other assets					
Tangible assets					
Machinery and equipment	490	536	446	536	10
Equipment	12	12	12	12	
	503	548	458	548	
Cash at bank and in hand	6 515	15 415	6 230	15 401	
	7 017	15 964	6 688	15 949	
Prepayments and accrued income					
Interest and rents	4 596	5 304	4 592	5 273	
Other	2 258	1 773	2 258	1 773	
	6 854	7 077	6 850	7 046	
	895 785	930 619	892 997	915 085	

EUR 1,000	Group 2011	Group 2010	Parent Company 2011	Parent Company 2010	Notes
LIABILITIES					
Capital and reserves					
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 brought forward	27 627	13 512	34 323	19 669	
Profit for the financial year	2 364	14 115	2 881	14 654	
	68 474	66 110	75 687	72 806	
Appropriations					
Accumulated depreciation difference			79	90	
Technical provisions					
Provision for unearned premiums	398 166	399 553	398 166	399 553	
Claims outstanding	141 379	134 743	141 379	134 743	
	539 545	534 296	539 545	534 296	
Technical provisions for unit-linked insurances					
Technical provisions	271 955	301 595	271 955	301 595	14
Creditors					
Arising out of reinsurance operations	360	255	360	255	
Deferred tax	4 232	4 942			
Other creditors	9 348	21 715	3 616	4 361	12
	13 940	26 912	3 976	4 615	
Accruals and deferred income	1 872	1 706	1 756	1 683	
	895 785	930 619	892 997	915 085	

Parent Company Cash Flow Statement

EUR 1,000	2011	2010
Cash flow from business operations		
Profit on ordinary activities before extraordinary items	2 870	14 682
Adjustments:		
Change in technical provisions	-24 391	66 189
Value adjustments and revaluations on investments	43 593	-32 966
Depreciation according to plan	472	331
Other	3 593	-25 851
Cash flow before change in net working capital	26 137	22 385
Change in net working capital		
Decrease/increase in non-interest-earning receivables	-117	1 251
Increase in non-interest-earning payables	-223	486
Cash flow from business operations before financial items and taxes	25 796	24 123
Interest paid on other financial expenses from operations	2	3
Taxes	-2 063	-92
Cash flow from business operations	23 735	24 034
Cash flow from capital expenditures		
Capital expenditure on investments (excl. funds)	-29 766	-42 759
Capital gain from investments (excl. funds)	-2 305	26 293
Investments and income from the sale of tangible and intangible assets and other assets (net)	-835	-878
Cash flow from capital expenditures	-32 906	-17 345
Change in funds	-9 170	6 689
Funds on 1 Jan.	15 401	8 712
Funds on 31 Dec.	6 230	15 401
	-9 170	6 689

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.

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

Value adjustments that have been made earlier are readjusted to the value of investments, with an impact on the result, in those cases where the current value exceeds the book value.

Derivative contracts are mainly used for hedging investment portfolios. In accounting terms, however, they are treated as non-hedging instruments. The profits and losses resulting from the termination or expiry of contracts are entered as income or expenses for the financial year. The negative difference between the current value of the derivative contracts treated as non-hedging and a higher book value/contract rate is entered as an expense. Unrealised income is not entered.

Investments covering 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:

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

REVALUATIONS ON INVESTMENTS

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

CURRENT VALUE OF INVESTMENTS

The 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. All company personnel are also included in the defined contribution supplementary insurance policy, which has been taken out with Fennia Life Insurance Company.

APPROPRIATIONS AND TREATMENT OF DEFERRED TAX

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

In the consolidated accounts, the depreciation difference is divided into the change in deferred tax and share of profit/loss for the financial year, and deferred tax and share of capital and reserves. The rate of tax used is 24.5 per cent (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 rate of interest for group pension insurance beginning after 1 January 2011 is 2 per cent.
- In order to fulfil the 4.5 and 3.5 per cent interest rate requirement for pension and savings insurance policies, the technical provisions have been supplemented both during the reporting year and in previous financial statements. The supplementary provision for the guaranteed interest rate on 31 December 2011 is approximately EUR 24.1 million. By cancelling the supplementary provision for the guaranteed interest rate, the annual calculated interest requirement for these contracts in the near future will be 3.2 percent.

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 Chapter 13, Section 2 of the Insurance Companies Act, a so-called Principle of Fairness must be observed in life insurance with respect to such policies which, according to the insurance contract, entitle to bonuses and rebates granted on the basis of any surplus yielded by the policies. This principle requires that a reasonable part of the surplus has to be returned to these policies as bonuses, in so far as the solvency requirements do not prevent it.

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

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

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

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

The level of bonuses is limited by the owners' requirements for return on capital, as well as the company's solvency target. The solvency goal is set in such a way that all the solvency limits set by legislation are exceeded and so that the company is able to take risks in its investment operations to the extent that the investment plan requires in order to achieve the annual targeted return.

Fennia Life's Board of Directors confirms the amount of additional interest rate on a quarterly basis, in advance. The amount of future bonuses can, however, be changed during the course of a quarter if necessitated by the company's solvency or the general market situation.

The Principle of Fairness can be applied in risk life insurances, on the part of death cover, to specified insurance groups in the form of increased compensation.

Bonus targets are not binding and are not part of the insurance contract between the company and the policyholder. The bonus targets are in force until further notice and the company reserves the right to alter the bonus targets.

IMPLEMENTING THE PRINCIPLE OF FAIRNESS IN 2011

Fennia Life's bonuses in 2011 correspond to the targets set for the company's principle of fairness. The yield to be distributed to insurance policies is determined based on the company's long-term net income on investments. The aim is to retain continuity in the level of bonuses paid, as a result of which the surplus from returns on investments can be accrued as distributable bonuses for the group of insured in question for the coming years. The company's investment returns in 2011 were low. By cancelling the provision for bonuses and the supplementary provision for the guaranteed interest rate reserved in previous years, we were, however, able to credit not just the technical interest rate, but also additional interest on insurance policies in 2011. The risk-free interest rate has remained low for both short-term and long-term government bonds since 2009. The total interest credited by Fennia Life has clearly exceeded the risk-free interest rate of the corresponding investment period from 2009 to 2011. The duration of the insurance and surrender right have been taken into account in distributing bonuses. For that reason, the total interest credited on pension insurance has been slightly higher than the interest credited on savings insurance. The table below indicates the total interest credited by Fennia Life in 2011:

TOTAL INTEREST ON WITH-PROFIT POLICIES IN 2011

Technical interest rate	Individual savings insurance	Individual pension insurance	Group pension insurance	Capital redemption policy
4.50%	4.50%	4.50%		
3.50%	3.65%	3.95%	3.95%	3.50%
2.50%	3.63%	3.95%		3.43%
2.00%			3.95%	3.43%
1.00%				3.43%

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. Fennia Asset Management, established in 2011 (wholly owned), is a new subsidiary. The other thirteen (17 in 2010) subsidiaries consolidated into the Group are 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. 2011

New subsidiaries included in Fennia Life's consolidated financial statements

Fennia Asset Management Ltd.
Kiinteistö Oy Konalan Ristipellontie 25

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 Vasaraperän Liikekeskus
Kiinteistö Oy Koivuhaanportti 1-5
Kiinteistö Oy Mikkelin Hallituskatu 1
Kiinteistö Oy Vasaramestari
Asunto Oy Jyväskylän Jontikka 2
Asunto Oy Tampereen Vuoreksen Puistokatu 76

Notes to the Accounts, Parent Company

EUR 1,000	2011	2010
1. PREMIUMS WRITTEN		
Direct insurance		
Finland	79 444	60 148
Reinsurance	17	17
Gross premiums written before reinsurers' share	79 461	60 165
Items deducted from premiums written		
Credit loss on outstanding premiums	12	14
Direct insurance premiums written		
Life insurance		
Unit-linked individual life insurance	23 703	11 682
Other individual life insurance	10 203	7 863
Unit-linked capital redemption policy	4 773	1 909
Other capital redemption policy	1 278	1 527
Employees' group life insurance	5 358	4 320
Other group life insurance	3 678	3 898
	48 993	31 198
Pension insurance		
Unit-linked individual pension insurance	5 973	6 520
Other individual pension insurance	9 340	9 808
Unit-linked group pension insurance	3 392	3 382
Other group pension insurance	11 746	9 240
	30 451	28 951
	79 444	60 148
Regular premiums	47 442	44 200
Single premiums	32 002	15 948
	79 444	60 148
Premiums from with-profit policies	41 603	36 656
Premiums from unit-linked insurance	37 841	23 493
	79 444	60 148

EUR 1,000	2011	2010
2. CLAIMS PAID		
Direct insurance		
Life insurance	29 467	21 424
Pension insurance	32 333	30 268
Claims paid in total	61 800	51 692
Of which:		
Surrenders	15 135	10 459
Repayment of benefits	4 814	3 999
Other	41 851	37 237
	61 800	51 695
Share of unit-linked insurances of claims paid	19 178	9 486
Life insurance: bonuses and rebates		
Impact of bonuses and rebates attached to life insurance policies on the balance on technical account	855	1 846
Change in provisions for future bonuses for the financial year	-4 313	1 505

In the financial accounts, EUR 3,000,000 was transferred from the result on 31 December 2011 to cover the cost of the technical rate of interest.
In addition, the provision for bonuses remaining from the Nova portfolio transfer, amounting to EUR 2,871,987, was transferred to the supplementary provision for the guaranteed interest rate to cover the costs of the technical rate of interest on individual pension insurances and savings insurance. Of the bonuses granted in 2011, EUR 1,440,819 was financed from the provision for bonuses. Of the 4.5 per cent technical rate of interest on individual pension insurance, 1 per cent was financed from the supplementary provision for the guaranteed interest rate, in the amount of EUR 1,537,312. In addition to this, 0,3 per cent of the technical rate of interest on both group and individual pension insurance was financed from the supplementary provision for the guaranteed interest rate, in the amount of EUR 1,093, 684.
The bonuses credited to insurances during 2011 totalled EUR 2,295,650, which met the bonus objectives for the financial year.
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.

EUR 1,000	2011	2010
3. NET INVESTMENT INCOME		
Investment income		
Income from investments in land and buildings		
Interest income		
From affiliated undertakings	273	28
From other undertakings	114	111
	387	139
Other income	7 572	7 649
	7 959	7 788
Income from other investments		
Dividend income	6 327	6 973
Interest income	10 498	11 536
Other income	1 566	1 543
	18 392	20 052
Total	26 351	27 840
Value readjustments	1 131	5 287
Gains on realisation of investments	22 850	35 009
Total	50 333	68 136
Investment charges		
Charges arising from investments in land and buildings		
To affiliated undertakings	-2 986	-3 460
To other undertakings	-2 160	-751
	-5 146	-4 211
Charges arising from other investments	-2 463	-1 554
Interest and other expenses on liabilities	2	3
Total	-7 607	-5 761
Value adjustments and depreciations		
Value adjustments on investments	-27 441	-1 620
Losses on realisation of investments	-25 155	-8 717
Total	-60 204	-16 098
Net investment income before revaluations and revaluation adjustments	-9 871	52 038
Revaluations on investments	1 923	30 061
Revaluation adjustments on investments	-19 206	-762
	-17 283	29 299
Net investment income in the Profit and Loss Account	-27 154	81 337

EUR 1,000	2011	2010
4. SHARE OF UNIT-LINKED INSURANCE OF NET INVESTMENT INCOME ON THE PROFIT AND LOSS ACCOUNT		
Investment income	5 592	13 912
Investment charges	-13 652	-1 610
Net investment income before revaluations and revaluation adjustments and value adjustments and readjustments	-8 059	12 302
Revaluations on investments	1 923	30 061
Revaluation adjustments on investments	-19 206	-762
Value adjustments on investments	-20 341	-854
Value readjustments	73	2 078
Net investment income in the Profit and Loss Account	-45 610	42 825

EUR 1,000	2011	2010
5. OPERATING EXPENSES		
Operating expenses in the Profit and Loss Account		
Policy acquisition costs		
Direct insurance commissions	649	736
Other policy acquisition costs	2 986	3 246
Total policy acquisition costs	3 635	3 982
Policy management expenses	4 739	3 171
Administrative expenses	1 638	1 340
Commissions on reinsurance ceded	-34	-88
Total	9 978	8 405
Total operating expenses by activity		
Claims paid	334	282
Net operating expenses	9 978	8 405
Investment charges	1 177	1 017
Total	11 489	9 704
Depreciation according to plan by activity		
Claims paid	16	7
Net operating expenses	364	233
Investment charges	92	91
Total	472	331
Staff expenses, personnel and executives		
Staff expenses		
Salaries and commissions	2 802	2 725
Pension expenses	608	483
Other social expenses	182	157
Total	3 592	3 365
Executives' salaries and commissions		
Board of Directors and Managing Director	350	313

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

	2011	2010
Average number of personnel during the financial year		
Office personnel	28	23
Sales personnel	19	19
	47	42
Auditors' commissions		
Audit	20	21
Tax consulting	10	
	31	21

EUR 1,000	Investments, 31 Dec. 2010 Remaining acquisition cost	Investments, 31 Dec. 2010 Book value	Investments, 31 Dec. 2010 Current value	Investments, 31 Dec. 2011 Remaining acquisition cost	Investments, 31 Dec. 2011 Book value	Investments, 31 Dec. 2011 Current value
6. CURRENT VALUE AND VALUATION DIFFERENCE ON INVESTMENTS						
Investments in land and buildings						
Real estate shares in affiliated undertakings	45 115	45 115	48 758	57 416	57 416	61 156
Real estate shares in associated undertakings	2	2	2	2	2	2
Other real estate shares	9 251	9 251	9 251	7 484	7 484	7 484
Investment loans to affiliated undertakings	31 748	31 748	31 748	6 085	6 085	6 085
Investment loans to associated undertakings	1 541	1 541	1 541	1 391	1 391	1 391
Investments in affiliated undertakings						
Shares and participations	2 000	2 000	2 000			
Other investments						
Equities and holdings	256 372	256 372	275 698	244 043	244 043	274 961
Debt securities	246 466	246 466	250 572	261 834	261 834	265 870
Mortgage receivables	850	850	850			
Other loan receivables	2 351	2 351	2 351			
Deposits	5 950	5 950	5 950	1 200	1 200	1 200
	601 646	601 646	628 721	579 455	579 455	618 148
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 (-)	-3 071			-2 764		
Valuation difference (difference between current value and book value)			27 074			38 694
Valuation difference on non-hedging derivatives						6

EUR 1,000	Land and buildings and real estate shares

7. CHANGES IN INVESTMENTS IN LAND AND BUILDINGS

Acquisition cost, 1 Jan.	67 617
Increase	3 950
Decrease	-15 948
Acquisition cost, 31 Dec.	55 619
Value adjustments, 1 Jan.	-2 715
Accumulated impairments related to decreases and transfers	1 464
Value adjustments, 31 Dec.	-1 251
Book value, 31 Dec.	54 368

INVESTMENTS IN AFFILIATED AND ASSOCIATED UNDERTAKINGS

Acquisition cost, 1 Jan.	-
Increase	2 000
Acquisition cost, 31 Dec.	2 000
Book value, 31 Dec.	2 000

DEBTORS

Other debtors	
Affiliated undertakings	805

8. SIJOITUSSIDONNAISTEN VAKUUTUSTEN KATTEENA OLEVAT SIJOITUKSET 31.12.2011

	2011		2010	
EUR 1,000	Original acquisition cost	Current value	Original acquisition cost	Current value
Equities and holdings	246 929	238 698	242 769	280 802
Debt securities	21 785	20 442	12 018	12 702
Deposits with credit institutions	3 954	3 960	-	-
Cash at bank and in hand	7 205	7 205	6 650	6 650
Total	279 873	270 305	261 437	300 154
Investments covering unit-linked insurances corresponding to technical provisions	279 873	270 305	261 437	300 154
Cash at bank and in hand, and other debtors include net insurance premiums that have not yet been invested		1 650		1 440

EUR 1,000	Holding %	Book value 31 Dec. 2011	Current value 31 Dec. 2011
9. SHARES IN OTHER COMPANIES AND OTHER INVESTMENTS			
Domestic shares			
Fortum Corporation	0,0113	1 656	1 656
Kemira Oyj	0,0418	595	595
Arenna Oy	13,5811	885	2 214
Avara Ltd	8,5089	5 901	7 845
Holiday Club Resorts Oy	1,9466	1 000	1 000
Terveysrahasto Oy	3,2201	536	569
Uudenmaan Pääomarahasto Oy	13,2193	1 929	1 929
Other		5 602	5 753
		18 104	21 561
Foreign shares			
Nordea Bank AB		738	747
Royal Dutch Shell Plc		508	712
StatoilHydro ASA		500	528
K III Sweden AB		915	931
Other		2 458	2 532
		5 120	5 451
Unit trusts			
Aktia America B		912	988
Aktia Em Mrkt Local Currency Bond+ D		4 013	4 385
Aktia Em Mrkt Local Currency T-Bill		1 001	1 006
Aviva Investors SICAV-Global High Yield Bond I		3 000	3 007
BGF Euro-Markets A2 EUR		3 611	3 611
Bluebay Emerg. Mkt Corporate Bond Fund		7 000	7 350
eQ Emerging Dividend Units		1 000	1 082
Evli Aktieindexfond Sverige		2 731	2 731
Evli Corporate Bond B (Kasvu)		13 566	14 223
Evli Emerging Markets Equity B		11 926	11 926
Evli Europe B (Kasvu)		1 000	1 012
Evli European High Yield B		6 075	7 106
Evli European Investment Grade B		12 996	13 008
Evli Greater Russia B (Kasvu)		538	538
Evli Pohjois-Amerikka B		6 960	7 042
Evli Ruble Debt B		1 319	1 319
Evli Swedish Small Selection B		1 562	1 562
Evli Tavoitekorko B (Kasvu)		9 094	9 661
Fidelity Active Strategy - Emerging Markets Fund		1 998	1 998
Fidelity Active Strategy - Europe Fund		1 005	1 160
Fondita Nordic Micro Cap B		1 475	1 475
Fourton Odysseus		2 027	2 433
G S Gl H Yield - Euro Hedg Cl		7 060	7 060
Goldman Sachs Global Emerging Markets Debt Loc port E acc		5 855	5 855
Handelsbanken Europe Selective A I		985	985
Handelsbanken Nordic Selective A I		882	882
HSBC GIF Euroland Equity Ac - EUR		1 559	1 559

EUR 1,000	Holding %	Book value 31 Dec. 2011	Current value 31 Dec. 2011
ICECAPITAL Global U & E B		584	1 122
iShares DJ Euro Stoxx 50 ETF		3 459	3 459
iShares DJ Industrial Average (DE) ETF		4 939	5 341
iShares MSCI Thailand Investable Market ETF		974	974
iShares Russell 2000 Value Fund ETF		1 058	1 064
iShares STOXX Europe 600 (DE) ETF		3 045	3 080
JPM US Select 130/30 A acc-USD		2 028	2 547
JPM US Select Equity A USD Acc		2 433	2 862
Limited Life Credit Opportunity AX EUR		6 000	6 374
Morgan Stanley US Advantage A Acc EUR		4 219	4 814
Muzinich Funds - Americayield Fund Hedged Acc		986	1 122
Muzinich Short Duration High Yield Fund I		18 952	19 249
Odin Finland II		862	862
OP-High Yield A		5 000	5 036
Pictet Funds Global Emerging Debt HI Acc EUR		4 654	6 885
Schroder ISF US Small & Mid-Cap Equity		1 271	1 650
Seligson & Co Money Market Fund A		1 608	1 615
Seligson Emerging Markets Fund I A (Institution)		771	771
SPYDR Standard & Poors 500 Index Ser.1 Standard		1 324	1 418
Stone Harbor High Yield Bond Fund I - EUR A		3 551	4 013
Sydinvest Emerg.Mkts. Local Currency Bonds		6 705	6 930
Sydinvest Emerg.Mkts.Bond Engros		5 262	8 686
Taaleritehdas Rupla Osake A (Kasvu)		657	657
Vanguard MSCI Emerging Markets ETF		914	914
Other		1 163	1 193
		193 569	207 603

Capital trusts			
Duke Street Capital VI LP		1 602	1 602
MB Equity Fund III Ky		485	632
MB Equity Fund IV Ky		699	701
The Triton Fund II L.P.		888	888
The Triton Fund III L.P.		3 610	3 610
Permira Europe IV LP2		902	947
Teknoventure Rahasto III Ky		903	1 160
Selected Private Equity Funds I Ky		2 263	2 263
Partners Group European Buyout		3 064	3 064
Partners Group European Mezzanine		1 856	1 938
Selected Mezzanine Funds I Ky		2 500	2 610
Euro Choice IV GB Limited		1 310	1 310
Aberdeen Indirect Property Partners		1 172	1 172
Sponda Fund I Ky		875	875
Kauppakeskuskiint. FEA Ky		14 492	14 492
Other		2 957	3 820
		39 579	41 083

EUR 1,000	Intangible rights and other long-term expenses	Advance payments	Equipment	Total
10. CHANGES IN INTANGIBLE AND TANGIBLE ASSETS, PARENT COMPANY				
Acquisition cost, 1 Jan. 2011	2 369	2 857	780	6 007
Fully depreciated in the previous financial year	-300		-52	-351
Increase	3 547	409	133	4 089
Decrease	-	-3 170	-135	-3 305
Acquisition cost, 31 Dec. 2011	5 616	96	727	6 439
Accumulated depreciation, 1 Jan. 2011	-1 384		-244	-1 629
Fully depreciated in the previous financial year	300		52	351
Accumulated depreciation related to decreases and transfers	-		51	51
Depreciation for the financial year	-332		-140	-472
Accumulated depreciation, 31 Dec. 2011	-1 416		-282	-1 698
Book value, 31 Dec. 2011	4 200	96	446	4 741

EUR 1,000	2011
11. CAPITAL AND RESERVES	
Restricted	
Subscribed capital, 1 Jan. / 31 Dec.	27 751
Premium Fund, 1 Jan. / 31 Dec.	10 723
Restricted in total	38 474
Non-restricted	
At the disposal of the Board, 1 Jan. / 31 Dec.	8
Profit brought forward, 1 Jan. 2011	19 669
Profit for the financial year 2010	14 654
Profit brought forward, 31 Dec. 2011	34 323
Profit for the financial year	2 881
Non-restricted in total	37 213
Capital and reserves in total	75 687
Distributable profit, 31 Dec. 2011	
Profit for the financial year	2 881
At the disposal of the Board	8
Profit brought forward	34 323
Distributable profit in total	37 213

EUR 1,000	2011	2010
12. CREDITORS		
Other creditors		
Affiliated undertakings	264	243
13. PROVISION FOR UNEARNED PREMIUMS		
Deferred acquisition costs have been deducted from the premium reserve (zillmerisation)		
Pension insurance	231	435
	231	435
14. TECHNICAL PROVISIONS FOR UNIT-LINKED INSURANCES		
Provision for unearned premiums	270 488	299 756
Claims outstanding	1 467	1 839
	271 955	301 595
15. GUARANTEE AND LIABILITY COMMITMENTS		
Value-added tax liabilities		
As regards group registering for VAT taxation, the company is responsible for the value-added tax payable by the group jointly with the other members of the value-added tax liability group of Varma Mutual Pension Insurance Company		
Affiliated undertakings	-544	104
Other undertakings	6 025	-5 553
Investment commitments		
Commitment to invest in equity funds	27 225	32 229

Loans to related parties and related party transactions

The company has no loans, liabilities or contingent liabilities to related parties.

The company has no related party transactions conducted according to other than standard business practices..

	Current value	Value of underlying instrument
Equity derivatives		
Forward and futures contracts	-87	6 864

Negative valuation differences on non-hedging derivative contracts are charged against the profit.

Securities given as collateral for derivatives trade		1 004

EUR 1,000	2011	2010
16. KEY FIGURES PERTAINING TO SOLVENCY		
Solvency margin		
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
Solvency margin in total	106 018	87 816
Equalisation provision for years with large numbers of losses included in technical provisions	5 553	5 009
Solvency capital	111 571	92 825
Solvency margin required under the Finnish Insurance Companies Act, Chapter 11, Section 12	30 000	29 107
Solvency capital to technical provisions less equalisation provision and 75% of provisions relating to unit-linked insurances	18,5 %	16,0 %

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

EUR 1,000	2011	2010	2009	2008	2007
KEY FIGURES					
Premiums written	78 701	59 637	69 563	54 207	62 699
Investment income (net), revaluations and revaluation adjustments on investments	-27 537	80 685	90 592	-84 439	39 601
Claims paid	-61 800	-51 254	-53 281	-75 966	-55 181
Change in technical provisions before bonuses and rebates and change in equalisation provision	23 121	-61 799	-84 416	87 123	-32 500
Net operating expenses	-9 978	-8 405	-7 533	-6 801	-7 055
Other technical income					8 000
Technical underwriting result before bonuses and rebates and change in equalisation provision	2 508	18 865	14 925	-25 875	15 565
Other income (net)	-828	0	0	-62	-9
Operating profit	1 679	18 865	14 925	-25 937	15 556
Change in equalisation provision	-747	-544	-290	-686	-618
Bonuses and rebates	2 017	-3 846	-3 579	-214	-6 214
Profit before untaxed reserves and tax	2 949	14 474	11 056	-26 837	8 724
Taxes	-585	-359	-627	275	-2 063
Group's profit for the financial year	2 364	14 115	10 429	-26 562	6 662
Gross premiums written (EUR 1,000)	79 461	60 165	70 010	54 719	63 157
Expense ratio of expense loading	116,0 %	108,1 %	101,9 %	91,0 %	90,6 %
Expense ratio of balance sheet total	1,3 %	1,2 %	1,2 %	0,9 %	1,1 %
Solvency margin (EUR 1,000)	98 319	106 018	87 816	47 765	91 270
Minimum solvency margin (EUR 1,000)	30 647	30 000	29 107	28 090	29 665
Equalisation provision (EUR 1,000)	6 300	5 553	5 009	4 719	4 033
Solvency capital (EUR 1,000)	104 619	111 571	92 824	52 484	95 302
Solvency ratio, %	17,4 %	18,5 %	16,0 %	9,4 %	16,1 %
Total result	-8 736	24 079	42 932	-38 333	11 145
Return on assets	1,9 %	7,6 %	11,0 %	-3,5 %	6,4 %

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

	2011		2010		2009		2008		2007	
EUR 1,000	EUR	%	EUR	%	EUR	%	EUR	%	EUR	%
INVESTMENT PORTFOLIO AT CURRENT VALUES										
Loan receivables [1]	3 201	0,5								
Bonds [1), 2)]	320 125	50,5	335 085	53,8	395 394	65,8	343 210	59,9	338 604	53,6
* includes fixed-income funds	122 616	19,4	107 977	17,3	99 651	16,6	58 735	10,3	67 911	10,7
Other money market investments and deposits [1), 2), 3)]	76 245	12,0	48 480	7,8	25 104	4,2	82 311	14,4	85 162	13,5
* includes fixed-income funds	11 276	1,8	12 761	2,0	12 417	2,1	19 209	3,4	11 221	1,8
Equities and holdings	124 737	19,7	133 473	21,4	87 733	14,6	47 032	8,2	101 135	16,0
Investments in land and buildings [4]	108 667	17,2	93 184	15,0	77 990	13,0	71 154	12,4	56 331	8,9
* includes unit trusts and UCITS	17 197	2,7	17 066	2,7	16 387	2,7	16 630	2,9	7 239	1,1
Other investments	316	0	12 519	2,0	15 051	2,5	29 057	5,1	50 874	8,0
Investments in total	**633 290**	**100,0**	**622 741**	**100,0**	**601 272**	**100,0**	**572 764**	**100,0**	**632 105**	**100,0**
Modified duration of the bond portfolio		**3,70**		**2,86**		**3,00**		**3,41**		**4,13**

1) Includes accrued interests.

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

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

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

	2011	2010	2009	2008	2007
EUR 1,000	EUR	EUR	EUR	EUR	EUR
NET INVESTMENT INCOME					
Direct net income	**15 505**	**19 334**	**18 754**	**27 532**	**22 497**
Loan receivables	54				
Bonds	9 406	13 318	13 451	15 798	12 878
Other money market investments and deposits	977	148	1 740	2 920	2 431
Equities and holdings	3 003	2 231	514	6 963	5 049
Investments in land and buildings	3 731	4 582	4 083	3 102	1 938
Other investments	61	62	72	-283	1 082
Sundry income, charges and operating expenses	-1 727	-1 006	-1 105	-970	-880
Changes in value in the accounts [1])	**2 951**	**19 178**	**13 559**	**-41 608**	**9 388**
Equities and holdings	-6 136	6 727	2 081	-18 156	10 408
Bonds	4 682	12 124	14 971	-17 819	-4 893
Investments in land and buildings	3 745	921	-5 136	-4 123	3 864
Other investments	661	-594	1 642	-1 509	9
Net investment income at book value	**18 456**	**38 512**	**32 313**	**-14 076**	**31 885**
Change in valuation differences [2])	**-11 626**	**4 562**	**27 468**	**-12 749**	**-4 955**
Equities and holdings	-7 688	9 743	4 372	-9 845	-6 451
Bonds	-2 847	-4 801	22 579	710	-1 306
Investments in land and buildings	-98	526	934	1 015	574
Other investments	-994	-906	-417	-4 629	2 228
Net investment income at current values	**6 830**	**43 074**	**59 781**	**-26 825**	**26 930**
Share of net investment income accounted for by derivatives	-953	-3 546	-1 897	4 030	670

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

2) Off-balance sheet changes in value

EUR 1,000	Net investment income at current value [1)] EUR 2011	Invested capital [2)] EUR 2011	Yield - % on invested capital 2011	2010	2009	2008	2007
NET INVESTMENT INCOME ON INVESTED CAPITAL 1 JAN. 2010–31 DEC. 2011							
Bonds [3)]	11 241	333 813	3,4	5,5	15,3	-0,4	2,1
* of which fixed-income funds	2 077	117 291	1,8	9,9	37,7	-21,0	0,8
Other money market investments and deposits [3)]	927	70 502	1,3	1,7	2,8	3,9	3,9
* of which fixed-income funds	-39	11 947	-0,3	2,2	4,4	-1,0	3,1
Equities and holdings	-10 822	129 988	-8,3	18,6	13,7	-25,1	9,0
Real estate [4)]	7 433	85 648	8,7	7,4	-0,2	0,0	21,2
* of which unit trusts and UCITS	640	16 900	3,7	7,8	-15,9	-27,5	3,7
Other investments	-223	6 526	-3,4	-10,1	4,2	-16,5	6,2
Investments in total	**8 557**	**626 477**	**1,4**	**7,4**	**10,9**	**-4,2**	**4,8**
Sundry income, charges and operating expenses	-1 727						
Net investment income at current value	**6 830**	**626 477**	**1,1**	**7,2**	**10,7**	**-4,4**	**4,6**

1) 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.

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

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

4) Includes income from unit trusts and UCITS recorded in 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' refers to the technical interest credited to insurances during the year plus/minus any changes in the supplementary liability of the interest.

Net investment income on invested capital at current values (%)
Net investment income at current values in relation to invested capital is calculated by 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 and Solvency Management

1 GENERAL ABOUT RISK AND SOLVENCY MANAGEMENT

Fennia Life Insurance Company (hereinafter Fennia Life) is jointly owned by Fennia Mutual Insurance Company (hereinafter Fennia) with a 60% holding and Mutual Insurance Company Pension Fennia with a 40% holding. Established in 2011, Fennia Asset Management Ltd (hereinafter Fennia Asset Management) is a wholly owned subsidiary of Fennia Life. Fennia Life belongs to the Fennia Group. The risk and solvency management framework of Fennia Life is described in the policy documents approved by the Group companies' Boards of Directors. The most central of these documents is the risk and solvency management policy which lays down the general principles for managing both risks and solvency in the Group.

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

2 ORGANISATION OF RISK AND SOLVENCY MANAGEMENT

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

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

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

Other subsidiaries abide by the Fennia Group's risk and solvency management policy where applicable.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3 RISK MANAGEMENT

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

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

1. Risk identification
The business areas and support functions of the first defence line identify and assess the risks that threaten their operations and objectives, in the context of both the annual planning process and daily operational activities. Risk identification and assessment is co-ordinated by the co-ordination teams working under the risk management committee and the Risk Management function.

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

3. Risk monitoring
The Group carries out quantitative risk monitoring, consisting of various risk indicators, and qualitative risk monitoring, which includes, among other things, monitoring, assessment and possible testing out of management measures that have been planned and decided upon. The first defence line ensures that appropriate risk monitoring is in place and that sufficient information on risks is obtained for their management. The first defence line monitors the management measures that it has planned and decided upon and assesses their effectiveness. The second defence line, the Risk Management function in particular, carries out independent quantitative and qualitative risk monitoring such that the first defence line can draw on this monitoring as well as possible.

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

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

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

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

3.1 Insurance risks

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

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

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

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

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

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

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

The objective of insurance risk pricing is to achieve the desired risk matching: the bigger the risk, the higher the price and vice versa. The pricing requires accurate and adequate information and sufficient knowledge about the insured target. Only this makes it possible to appropriately apply different risk analyses and determine a sufficient level of insurance premium.

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

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

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

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

3.2 Market risks

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

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

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

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

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

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

QUANTITATIVE DATA ON RISK VARIABLES IN FENNIA LIFE'S INVESTMENT PORTFOLIO

	Impact of change on Fennia's solvency capital	
Fixed income investments	Interest rate +1 percentage point	EUR -11 million
Equity investments	Change in value -20%	EUR -18 million
Real estate investments	Change in value -10%	EUR -12 million

3.3 Counterparty risks

The counterparty risk takes into account possible losses resulting from the unexpected insolvency of the insurance company's counterparties.

As with market risks, a prerequisite for managing counterparty risks is to ensure that the counterparties and related risks can be identified, measured, monitored, managed and reported.

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

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

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

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

3.4 Operational risks

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

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

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

The objective of managing operational risks is to reduce the probability of unexpected losses, i.e. to minimise risks. The most efficient risk management measures are targeted at the most serious operational risks. The most serious operational risks are risks which are unlikely to materialise but when they do, they have a major impact on operations.

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

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

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

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

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

3.5 Risks inherent in quantitative methods

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

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

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

In the management of risks inherent in quantitative methods, attention is paid to risks which relate to

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

A guiding principle in managing the risks inherent in quantitative methods is efficient questioning of the methods and processes. This means that an independent and expert party should critically analyse and assess the methods and processes.

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

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

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

3.6 Concentration risks

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

The management of investment, market and counterparty risks is based on diversification, which basically prevents any significant concentration risks. An exception to this rule is the so called strategic holdings which may lead to major concentration risks.

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

3.7 Liquidity risk

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

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

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

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

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

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

3.8 Strategic risks

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

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

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

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

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

3.9 Reputation risk

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

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

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

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

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

Reputation risk management also involves compliance with laws, regulations and provisions and operating in accordance with the requirements set by authorities. The public image and reliability of an insurance company may significantly suffer from non-compliance with laws, regulations and provisions and requirements set by authorities.

3.10 Group risks

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

- transaction risks;
- contagion risks;
- conflict of interest risks;
- concentration risks and
- risks related to administration.

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

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

Conflict of interest risks arise when the interests of the subsidiaries, the parent company and/or the entire Group collide.

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

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

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

The management of group risks is also based on consistent and transparent definition and implementation of the internal control system and particularly the risk management and compliance system and related reporting procedures within the Group. The roles and responsibilities of the various bodies must also be clear and identified from the Group's perspective.

4 SOLVENCY MANAGEMENT

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

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

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

5 PREPARATION FOR SOLVENCY II

Preparation for Solvency II within the Group in risk and solvency management has reached a stage where the documentation meeting the requirements of the future regulation has essentially been drawn up and the central principles guiding the operations have been laid down. The next step will be the integration of the adopted principles into the organisation's daily operations.

In 2011, the Group responded to future Solvency II challenges, apart from drawing up essential principle documents concerning risk and solvency management, by setting up a Group-level Risk Management function which is independent of the operational business activities according to Solvency II. During 2011, the decision was also made to implement, as of 1 January 2012, a risk management system steering model according to Solvency II to clarify the role and structure of the Risk Management function within the Group.

During 2012 and 2013, the objective is to make the transition in practice towards the future Solvency II risk and solvency management system and market-consistent measurement gradually so that the risk management system will achieve full Solvency II compliance by 31 December 2013. The Group's Risk Management function and the risk management co-ordination teams operating under its supervision will play a key role in co-ordinating this change process.

Board of Directors' Proposal on the Disposal of Profit

Fennia Life's distributable profits totalled EUR 37,212,757.79. The company's profit for the financial year was EUR 2,881,218.08. The Board of Directors proposes that no dividend be paid and that the profit for the financial year be transferred to retained earnings.

Helsinki, 5 March 2012

Eero Lehti   Matti Ruohonen   Matti Carpén

Eeva Grannenfelt   Antti Kuljukka   Antti Vaahto

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, 2011. The financial statements comprise the consolidated balance sheet, income statement and cash flow statement and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

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

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

Helsinki, 15 March 2012

KPMG OY AB

Jaakko Nyman Authorized Public Accountant	Mikko Haavisto Authorized Public Accountant

Fennia Life's Board of Directors and Management 1 Jan. 2012

BOARD OF DIRECTORS

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

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

Board Members:
Matti Carpén
Deputy Managing Director,
Customer Relations,
Insurances, Pensions and IT
Pension Fennia
Helsinki

Eeva Grannenfelt
Director, Investments
Pension Fennia
Järvenpää

Antti Kuljukka
Managing Director
Fennia
Helsinki

Antti Vaahto
Chairman of the Board
Adversum Oy
Lahti

Deputy Members:
Eero Eriksson
Deputy Managing Director
Fennia
Helsinki

Olavi Nieminen
Chairman of the Board
Piiloset by Finnsusp Oy
Lieto

Secretary to the Board:
Heimo Äikäs
General Counsel
Fennia
Helsinki

PHYSICIANS

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

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

MANAGEMENT

Seppo Rinta
Managing Director

Olli Hokkanen
Head of IT

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

Päivi Ojala
Actuaries Director

Aarni Pursiainen
Investment Director

Kari Wilén
Sales and Marketing Director

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