Fennia

Mutual Insurance Company Pension-Fennia 1999

Managing Director's Review

During 1999, reorganisation continued in the insurance sector in Finland. The reorganisation of pension and life insurance companies was realised during the previous year, and it was in this context that the operations of Pension Fennia were launched. Last year saw moves between insurance consortiums and banks to seek partners for cooperation, which resulted in one case in the creation of a joint banking and insurance underwriting group. Earlier it had been assumed that such cooperation or incorporation would take place between Finnish partners, but it has now become clear that part of the consortiums will operate internationally, at least on the Nordic level.

It seems that out of the decisions made, there are emerging three financial groups operating in the insurance and banking sector in Finland. Almost the entire life insurance market, and some 70 per cent of the statutory pension insurance market, will be controlled by these groups. In addition to these large financial groups there will be groups specialising exclusively in insurance underwriting. These will compete for clients with their own products and with more flexible service solutions than the large groups. It can be foreseen that claims services in particular will become an important factor in competition.

Right timing for the competition study

The timing of the study on competition conditions in the statutory earnings-related pension scheme was right. The working group makes several recommendations to promote competition and make operations more efficient. Among other things, the initiatives to facilitate the formation of a new pension institution are welcomed. In their modest way, these challenge the dominant tendency towards larger and larger consortiums in the insurance as in other sectors.

To increase effective investment, the working group proposes that the guaranteed interest would be defined retrospectively, on the basis of the actual returns. The idea is that as all pension institutions aim at maximising their returns on their investments and competing for clients with the help of bonuses, it is clearer to define the guaranteed interest on the basis of the actual development.

On the other hand, when the possibility of using the solvency margin buffer of the companies to fulfil the interest requirement, and of changing the interest rate during the year if necessary are taken into account, it seems that the most appropriate method would actually be to determine the guaranteed interest in advance. More important than the timing, however, is of course the actual interest rate, which should be as high as possible in the conditions at a given time. This was the purpose of the creation of the solvency margin buffer in the first place.

The most important amendment to the statutory earnings-related pension scheme during the past year was the legislation on measures to raise the age of retirement and to promote the continuation of working. The legislation entered into force at the turn of the year. The objective is to raise the age of retirement from the present level by two to three years and thus decrease the pressure to raise pension contributions.

Pension Fennia's start was excellent

Pension Fennia's result for the year 1999 - its first whole year of operations - can be considered excellent. The company reached the targets relating to the expansion of its market share, reduction in operating expenses, increase in solvency, investment result, and client bonuses.

Among other things Pension Fennia's success in the round of the transfer of earnings-related pension insurances contributed to the growth of the market share. The company's transfer result in premiums written in the round of the transfer was by far the best in the sector.

With respect to operating expenses, the objective has been to reduce the expenses over the next few years to a total level clearly lower than the share of premium reserved for operating expenses. As we have already reached a level of operating expenses that is below the administration costs in premiums, we can be satisfied with the result achieved.

The excellent investment result was mainly caused by the favourable development of the stock exchange prices of shares in Nokia and Sonera. To spread the risks, the proportion of these shares in the portfolio has been systematically reduced since the end of 1999. The excellent investment result meant that the company's solvency grew considerably and it also made possible a competitive transfer to client bonuses.

Pension Fennia's excellent result for the past year justifies us to look forward to the future years with confidence and encourages us to carry out our tasks with more determination. Our modern premises also create good external circumstances for this.

We have also received positive feedback from the client satisfaction surveys, in which Pension Fennia was placed either first or second, depending upon the survey, among the top two. It seems that in spite of the reorganisation process in the sector, clients feel that they can get better service and that their voice is better heard in a smaller company.

I would like to thank our clients and partners for our successful cooperation and the trust they have shown our company. Pension Fennia's personnel has reached a level of performance that exceeds the set targets by far. I would like to thank them for their industrious and competent performance.

Risto Kausto

Pension Fennia

	1999	1998
Premiums written, FIM m	2 973	2 694 *
Pensions paid, FIM m	2 540	2 426 *
Balance sheet total, FIM m	18 069	16 684
Solvency margin, FIM m	4 938	2 913
- % of the lowest limit of the target zone	143	143
Number of persons insured	119 700	111 500
Number of pensioners	65 220	63 637

Auditors' Report

To the Shareholders of Mutual Insurance Company Pension-Fennia

We have audited the accounting records, the financial statements, and the administration of Mutual Insurance Company Pension-Fennia for the financial year 1 January - 31 December 1999. The financial statements, which include the report of the Board of Directors, consolidated and parent company income statements, balance sheets and notes to the financial statements, were prepared by the Board of Directors and the Managing Director. Based on our audit we submit the following statement on the financial statements and the administration of the company.

The undersigned Risto Järvinen, Authorised Public Accountant, has been responsible for scrutinising the accounts and administration during the financial year and after the end of the year and has submitted a separate report thereon.

We have conducted the audit in accordance with good auditing practice. This means that the accounts and the accounting principles, contents and mode of presentation have been examined to an extent sufficient to establish that the essential parts of the financial statements have been correctly drawn up. The purpose of the audit of administration has been to examine the compliance of the operations of the Supervisory Board, the Board of Directors and the Managing Director with the provisions of the Act on Employment Pension Insurance Companies, the Insurance Companies Act and the Finnish Companies Act.

The financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company result of operations, and of their financial position. We recommend that the financial statements, including the consolidated financial statements, can be adopted and the Supervisory Board, the Board of Directors and Managing Director of the parent company can be released from liability for the period audited by us. The proposal by the Board of Directors on how to dispose of the surplus is in compliance with the Insurance Companies Act.

Helsinki, April 4th, 2000

Risto Järvinen
Authorised Public Accountant

Kristian Hallbäck
Authorised Public Accountant

Profit and Loss Account, Pension Fennia

PROFIT AND LOSS ACCOUNT

Jan. 1 to Dec. 31, 1999	**Parent Company**		**Group**	
FIM m	**1999**	1998	**1999**	1998
Technical Account				
Premiums written	2 972.6	5 923.8	2 972.6	5 923.8
Investment income	1 487.6	6 939.3	1 470.1	6 912.9
Paid to guarantee fund	28.5	11.4	28.5	11.4
Settled claims on guarantee fund	-30.9	-14.3	-30.9	-14.3
Claims incurred				
Claims paid	-2 446.9	-4 927.5	-2 446.9	-4 927.5
Total change in the provision for outstanding claims	-404.7	12 305.2	-404.7	12 305.2
Portfolio transfer		-13 042.2		-13 042.2
	-2 851.7	-5 664.5	-2 851.7	-5 664.5
Change in the provision for unearned premiums				
Total change in the provision for unearned p	-1 163.1	21 955.4	-1 163.1	21 955.4
Portfolio transfer		-28 415.3		-28 415.3
	-1 163.1	-6 459.9	-1 163.1	-6 459.9
Change in uncovered liabilities				
Obligatory uncovered liabilities				
Total change	-47.6	-134.3	-47.6	-134.3
Portfolio transfer		47.0		47.0
Other uncovered liabilities				
Total change		-6.5		-6.5
Portfolio transfer		3.3		3.3
	-47.6	-90.6	-47.6	-90.6
Statutory charges	0.7	-9.2	0.7	-9.2
Net operating expenses	-80.4	-114.2	-80.4	-114.2
Investment charges	-341.3	-526.6	-340.3	-513.8
Investment revaluation adjustments		-4.2		-4.2
Technical underwriting result	-25.6	-9.0	-42.1	-22.5
Non-Technical Account				
Direct taxes on ordinary activities				
Tax for the financial year	-7.7	-23.7	-7.7	-23.7
Profit on ordinary activities after tax	-33.3	-32.7	-49.8	-46.3
Decrease (+) or increase (-) in depreciation difference	-0.6	36.8	-0.7	36.9
Decrease (+) or increase (-) in optional reserves	38.4		37.7	-2.2
Profit for the financial year before minority interest	4.5	4.1	-12.7	-11.6
Minority interest in the profit for the financial year			-2.2	-2.2
Profit/loss for the financial year	4.5	4.1	-10.5	-9.4

Balance Sheet, Pension Fennia

BALANCE SHEET

Dec. 31, 1999	Parent Company		Group	
FIM m	1999	1998	1999	1998
ASSETS				
Intangible assets				
Other long-term expenses	1.1	0.9	1.1	0.9
Investments				
Investments in land and buildings				
Land and buildings	1 418.5	1 372.9	2 143.1	2 093.8
Loans to affiliated undertakings	715.4	666.3	32.1	0.5
	2 133.9	2 039.1	2 175.2	2 094.3
Investments in significant participating interest				
Other shares and participations	60.0	60.0	60.0	60.0
Other investments				
Shares	3 091.7	1 746.1	3 095.5	1 749.9
Debt securities	9 935.7	9 622.5	9 935.7	9 622.5
Loans guaranteed by mortgages	616.4	695.7	616.4	695.7
Other loans	996.9	1 088.6	996.9	1 088.6
Depostis with credit institutions	72.6	67.0	72.6	67.0
	14 713.3	13 219.9	14 717.0	13 223.8
	16 907.2	15 319.1	16 952.2	15 378.1
Uncovered liabilities				
Obligatory uncovered liabilities	34.7	82.4	34.7	82.4
Debtors				
Arising out of direct insurance operations				
Policyholders	215.3	301.9	215.3	301.9
Other debtors				
Arising out of portfolio transfer	215.7	278.3	215.7	278.3
Other debtors	76.8	54.6	45.1	29.8
	507.7	634.8	476.0	610.0
Other assets				
Tangible assets				
Equipment	13.2	9.8	13.4	9.8
Other tangible assets	1.8	0.1	1.8	0.1
	15.0	9.9	15.2	9.9
Cash at bank and in hand	9.5	18.8	10.3	19.4
	24.5	28.7	25.4	29.3
Prepayments and accrued income				
Interest and rents	377.8	440.0	377.8	440.3
Other	216.0	177.6	220.7	179.5
	593.8	617.7	598.5	619.8
	18 069.0	16 683.5	18 088.0	16 720.4

Pension Fennia

BALANCE SHEET

Dec. 31, 1999	Parent Company		Group	
FIM m	1999	1998	1999	1998
LIABILITIES				
Capital and reserves				
Restricted				
Initial fund	20.0	20.0	20.0	20.0
Guaranteed capital	10.0	10.0	10.0	10.0
Revaluation reserve			2.5	2.5
	30.0	30.0	32.5	32.5
Non-restricted				
Non-restricted reserves	75.8	72.3	75.8	72.3
Profit brought forward	0.2	0.2	-50.1	-36.6
Profit for the financial year	4.5	4.1	-10.5	-9.4
	80.5	76.6	15.1	26.2
	110.5	106.6	47.6	58.7
Minority interest			64.1	66.3
Untaxed reserves				
Accumulated depreciation difference	0.8	0.1	0.8	0.1
Optional reserves	76.9	115.3	93.8	131.6
	77.7	115.4	94.7	131.7
Technical provisions				
Provision for unearned premiums	11 836.3	10 673.2	11 836.3	10 673.2
Provision for outstanding claims	5 894.8	5 490.0	5 894.8	5 490.0
	17 731.1	16 163.3	17 731.1	16 163.3
Creditors				
Amounts owed to credit institutions	0.2	0.2	0.2	0.2
Other creditors	10.6	3.9	9.2	4.2
	10.8	4.1	9.4	4.4
Accruals and deferred income	138.9	294.2	141.1	296.0
	18 069.0	16 683.5	18 088.0	16 720.4