Annual Report and Financial Statements 2007

Fennia's market growth continued in 2007

Thanks to good premium income, Fennia Mutual Insurance Company's market position was strengthened further. The return on investment for the entire year reached a good level, despite the fluctuations in equity prices at the end of the year. Fennia's solvency remained strong.

Fennia's good sales outcome is the result of long-term work. The company's foundation for success is a focus on customer service and tight control of operating expenses; but bold specialisation as the Insurance Specialist Store has boosted Fennia's role as a provider of insurance services tailored to the client's needs.

Over the past few years, Fennia has experienced solid success in the transfer transactions related to statutory accident insurance. Unlike other non-life insurance companies, Fennia has attained positive end results every year for the last six years, including in both the number of employees and premium income.

The basic business of a non-life insurance company is to provide insurance. And from time to time, incidents of considerable loss or damage are also seen in the insurance business. Such was the case for Fennia in 2007. Several instances of companies suffering losses, on a larger than average scale, increased the loss ratio and, consequently, the combined ratio.

In 2007 Fennia developed its regional organisation to better respond to the service needs of its customers and to guarantee that the Insurance Specialist Store provides expert insurance services throughout Finland. The Uusimaa region was divided into two areas – Eastern Uusimaa and Western Uusimaa – which helped to increase Fennia's presence in the growing markets and its local reach, and strengthened its sales and customer service support. The corresponding regional organisation for client contacts was also renewed in all areas. Sales managers with supervisory responsibility now handle the individual client segment business for both non-life and life insurance. The change highlights the emphasis now placed on customer relations rather than on products. Overall, this organisational change supports growth, customer relations and sales teams led by coaching.

2008 brings with it a challenging economic situation. The growth prospects of the global economy are weakening compared with previous years, and the development in the markets is becoming inconsistent. It appears that economic development in Finland and the confidence of Finnish companies will continue on a rather stable basis, at least for this year. Here at Fennia, based on the messages received from Finnish SMEs, we are looking forward to 2008 with confidence, in terms of the non-life insurance business.

In addition to a long-term and secure investment policy, the main areas of operation for 2008 are developing risk management and profitability measures and continuing the renewal of the basic insurance systems.

Antti Kuljukka
Managing Director

Contents

The operating profit of the Fennia Mutual Insurance Company in 2007 was EUR 10 million. The decrease in operating profit was largely the result of the considerable weakening of the company's technical underwriting result. The company's relative solvency decreased, but nevertheless remained solid at a solvency ratio of 126 per cent.

Insurance operations

The amendments to the provisions concerning the pay-as-you-go system of the Employment Accidents Insurance Act, the Motor Liability Insurance Act, the Patient Injuries Act and the Environmental Impairment Liability Insurance Act came into force at the beginning of 2007. The accounting regulations concerning the pay-as-you-go system items also changed. The items that the insurance companies are jointly responsible for will no longer be included in premium income or claims paid. The pay-as-you-go system mainly consists of index increases to disability pensions. In 2007, the amount for Fennia was EUR 21 million. As a result of the changed regulations, a lump sum provision for outstanding claims for statutory insurance lines, totalling EUR 3 million, was released in the annual accounts.

The Profit and Loss Account and the Balance Sheet, or the Key Figures for previous years have not been made comparable with those for 2007, so the change and its impacts are described below. The increased figures for premiums written and claims incurred and loss ratios described in this Board of Directors' Report have been made comparable by calculating the figures for 2007 to a certain extent in accordance with the previous accounting practice.

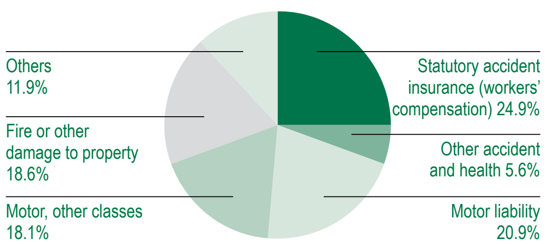
Premiums written for non-life insurance amounted to EUR 330 million (EUR 327 million). The comparable direct insurance premiums written totalled EUR 350 million (EUR 326 million), or an increase of 7.4 per cent. Preliminary information indicates that the company's market share still continued to rise, ending at 10.5 per cent (10.3%). There were three financially considerable losses in the company's insurance portfolio. The loss ratio rose to 91.7 per cent, and the comparable loss ratio was 93.0 per cent (86.4%). The company's credit losses entered in the annual accounts were EUR 5 million (EUR 2 million). The increase was caused by retroactive credit loss entries for motor liability insurance and motor vehicle insurance for 2005–2006.

Operating expenses were EUR 65 million, as in the previous year. The total amount was decreased by a reinsurance commission of EUR 1.4 million. With the growth in premiums written, the expense ratio developed favourably to 20.4 per cent, the comparable expense ratio being 19.3 per cent (20.5%).

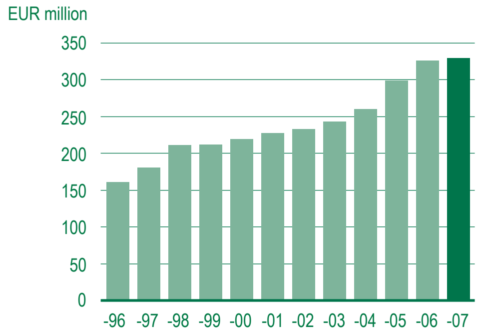
The company's combined ratio developed negatively, rising to 112.1 per cent, claims accounting for 84.7 per cent and operating expenses and claims handling expenses for 27.4 per cent. The combined ratio comparable to the previous year was 112.4 per cent (106.9%). The combined ratio excluding unwinding of discount was 108.3 per cent (103.2%).

Premiums written for statutory accident insurance (workers' compensation) were EUR 82 million. Growth comparable to the previous year was 7.3 per cent. Fennia succeeded well in transfer transactions between companies. The loss ratio, 86 per cent, remained good,

Premiums written by insurance class 2007



Premiums written



with the comparable loss ratio being 88 per cent (82%). The premiums written for other accident and health insurance increased by 12 per cent to EUR 18 million. The loss ratio went up to 104 per cent (93%), and the result of this insurance line was inadequate.

Premiums written for motor liability insurance were EUR 69 million. Besides the changes to the entry of pay-as-you-go premiums, the decrease was caused by credit loss entries for previous years. The loss ratio rose to 114 per cent, the comparable loss ratio being 117 per cent (99%). The result for this insurance line was unsatisfactory. Premiums written for voluntary motor vehicle insurance rose by 13 per cent to EUR 59 million (EUR 53 million). The result for the line deteriorated considerably, the loss ratio rising to 89 per cent (80%).

Premiums written for fire and other damage to property in the company segment increased by 7 per cent to just under EUR 39 million. In the private household segment premiums written totalled EUR 31 million, a growth of slightly less than 7 per cent. The loss ratio of both the company and the private household segment was on the rise, as the loss ratio began to increase in the second half of the year in particular. The greatest company segment loss in Fennia's history occurred during the financial year.

Investments

The net investment income at current value amounted to EUR 48 million (EUR 49 million). Net investment income on invested capital was 4.3 per cent (4.7 %).

At year-end, Fennia's investment assets at current values (incl. accrued interests) stood at EUR 1,094 million (EUR 1,054 million). Bonds and long-term fund investments accounted for 55 per cent of the investment portfolio, and money market investments and deposits for 10 per cent. Shares, equity fund investments and capital trusts accounted for 16 per cent, real estate investments for 10 per cent and other investments for 9 per cent.

Result and solvency

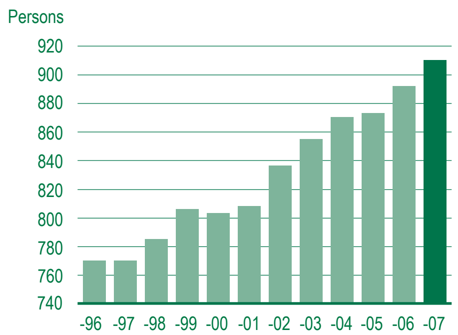
Fennia's operating profit was EUR 10 million (EUR 26 million). The operating profit decreased as a result of a considerable weakening of the technical underwriting result. A EUR 3 million lump sum resulting from changes in the pay-as-you-go system had a positive effect on the operating profit for 2007.

As a result of an unfavourable development in claims, EUR 13 million was released from the equalisation provision, bringing the sum to EUR 182 million (EUR 195 million). The solvency margin stood at EUR 218 million (EUR 204 million) and the solvency capital totalled EUR 400 million (EUR 399 million). The solvency ratio, which describes the company's solvency, was 126 per cent, and the solvency remained very solid.

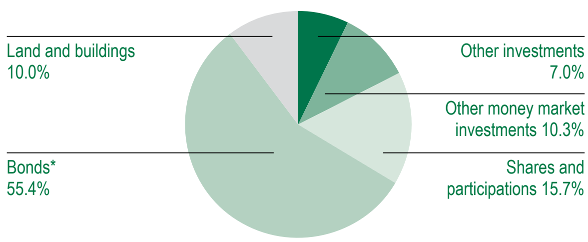
Administration and staff

During the year under review, the composition of the Fennia Board of Directors was as follows: Eero Lehti, President, (Chairman); Esko Penttilä, Chairman of the Board, (Vice Chairman); Ernst Gylfe, Chairman of the Board (until 31 December 2007); Jouko Kemppi, Chairman of the Board (from 16 April 2007); Lasse Koski, Managing Director; Eva Liljeblom, Professor; Rauno Mattila, Chairman of the Board; Matti Pörhö, Managing Director (until 31 December 2007) and Antti Vaahto,

Number of staff



Investment portfolio Dec. 31, 2007



* Includes fixed-income funds

Managing Director. Juha Valkamo, Managing Director, started as a member of the Board of Directors as of 1 January 2008. Deputy member of the Board of Directors was Lasse Heiniö.

The Board of Directors held a total of nine meetings during the year under review. The attendance rate of the full members was 68 per cent and that of the deputy members 89 per cent.

Antti Kuljukka has acted as Managing Director.

At the Annual General Meeting convened on 24 April 2007 Erkki Hanhirova, President; Antero Huhta, Managing Director; Juha Järvi, Managing Director; Mervi Kuutti, Insurance Salesperson, employees' representative; Matti Pörhö, Managing Director; Vesa Luhtanen, Managing Director and Janne Ylinen, Managing Director were appointed the to Supervisory Board as new members.

The Company employed on average 910 people (892) in 2007.

Group structure

The consolidated financial statements of Fennia Mutual Insurance Company include Fennia Life Insurance Company on the basis of the subgroup's consolidated financial statements. Fennia has a 60 per cent holding in Fennia Life. Mutual Insurance Company Pension Fennia, which belongs to the Fennia Group, owns 40 per cent of Fennia Life.

The consolidated financial statements also include eFennia Oy. Fennia owns 20 per cent of the company and has 63.6 per cent of the voting rights.

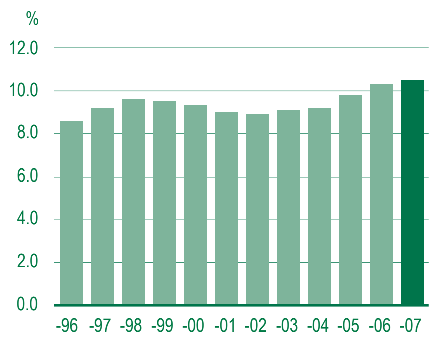
At the end of 2007, the Group also included 15 real estate companies, eleven of which belonged to the Fennia Life sub-group. During the year under review Fennia Life acquired the following real estate companies: Kiinteistö Oy Pirkkalan Tuottotie, Kiinteistö Oy Nevametsä in Hollola, Kiinteistö Oy Vasaraperän Liikekeskus in Oulu, Kiinteistö Oy Koivuhaanportti 1–5 in Vantaa and Kiinteistö Oy Tuusulan Pakkasraitti 2 A. During the year Henki-Fennia sold Kiinteistö Oy Helsingin Navigatortalo, Kiinteistö Oy Malminkaari 9, Kiinteistö Oy Tevi and Kiinteistö Oy Vaajakosken Haapaniementie 1.

Consolidated accounts

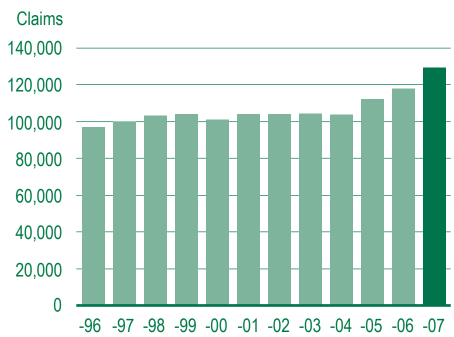
The result for the Group's life insurance business was good, and the solvency ratio in life insurance remained strong. Life insurance premiums written before reinsurers' share amounted to EUR 63 million (EUR 70 million). Claims paid decreased to EUR 55 million (EUR 74 million). Operating expenses for life insurance were EUR 7 million. The expense ratio (of expense loading) was 89.6 per cent (102.1%).

The Group's investment result was good despite an unstable market situation. The net investment income at book value amounted to EUR 89 million (EUR 105 million), of which unit-linked insurances accounted for EUR 8 million (EUR 30 million). The total amount of value adjustments impacting the result was EUR 21 million (EUR 46 million), net gains on realisation of investments accounting for EUR 32 million. The Group's valuation difference decreased to EUR 71 million (EUR 83 million).

Market share



Number of Claims



The Group's operating profit was EUR 37 million (EUR 41 million). The Group's non-restricted capital and reserves stood at EUR 175 million (EUR 154 million).

The Group's solvency capital was EUR 451 million (EUR 454 million), and the level of solvency remained solid.

Risk management

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

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

Investment activities are based on the investment plans approved by the Boards of Directors, which determine, among other things, the allocation of investments and the rights and responsibilities of those involved in investment activities. The companies' ability to carry risks is taken into account in determining investment allocation.

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

Outlook

The global economy's growth prospects are weakening compared with the previous years, and development in the main market areas is becoming uneven.

However, economic development in Finland is stable and confidence in the current year is solid among Finnish companies.

Based on information from our main client group, Finnish SMEs, we can look forward to 2008 with confidence as regards non-life insurance business.

Besides a cautious investment policy, the main focus areas for 2008 are the development of risk management and profitability measures and continued development of basic systems.

Profit and Loss Account

EUR thousand	Group 2007	Group 2006	Parent Company 2007	Parent Company 2006	Notes
Technical Account					2
Non-life Insurance					
Premiums earned					
Premiums written	329,968	326,594	329,968	326,594	1
Reinsurers' share	-10,873	-4,886	-10,873	-4,886	
	319,095	321,708	319,095	321,708	
Change in the provision for unearned premiums	-2,557	-7,611	-2,557	-7,611	
Premiums earned in total	316,537	314,097	316,537	314,097	
Claims incurred					
Claims paid	-245,235	-225,964	-245,235	-225,964	
Reinsurers' share	6,856	724	6,856	724	
	-238,380	-225,241	-238,380	-225,241	
Change in the provision for outstanding claims	-56,819	-45,404	-56,819	-45,404	
Reinsurers' share	5,073	-610	5,073	-610	
	-51,746	-46,014	-51,746	-46,014	
Claims incurred in total	-290,126	-271,255	-290,126	-271,255	
Change in collective guarantee item	-450	-432	-450	-432	
Net operating expenses	-64,705	-64,507	-64,705	-64,507	4
Balance on technical account					
before the change in equalisation provision	-38,743	-22,097	-38,743	-22,097	
Change in equalisation provision	13,086	-4,715	13,086	-4,715	
Balance on technical account	-25,657	-26,813	-25,657	-26,813	

EUR thousand	Group 2007	Group 2006	Parent Company 2007	Parent Company 2006	Notes
Technical Account					
Life Insurance					
Premiums written					
Premiums written	63,157	70,000			
Reinsurers' share	-457	-251			
Premiums written in total	62,699	69,750			
Share of net investment income	39,917	56,724			
Other technical income	8,000				
Claims incurred					
Claims paid	-55,178	-74,038			
Total change in the provision for outstanding claims	-16,421	-15,008			
Portfolio transfer	542				
	-15,879	-15,008			
Claims incurred in total	-71,057	-89,046			
Change in the provision for unearned premiums					
Change in the provision for unearned premiums	-81,651	-22,843			
Portfolio transfer	58,198				
	-23,453	-22,843			
Net operating expenses	-6,975	-6,906			
Balance on technical account	9,132	7,679			

EUR thousand	Group 2007	Group 2006	Parent Company 2007	Parent Company 2006	Notes
Non-Technical Account					
Balance on technical account, non-life insurance	-25,657	-26,813	-25,657	-26,813	
Balance on technical account, life insurance	9,132	7,679			
Investment income	132,484	114,779	76,699	67,492	6
Revaluations on investments	9,298	21,305			
Investment charges	-47,043	-30,805	-27,404	-18,837	6
Revaluation adjustments on investments	-5,956	-346			
	88,783	104,933	49,295	48,655	
Transfer of part of net investment income	-39,917	-56,724			
Other income					
Other	1,362	1,253	126	47	
Other charges					
Other	-763	-889	-284	-420	
Share of associated undertakings' profits	38	183			
Tax on profit on ordinary activities					
Tax for the financial year	-8,884	-7,679	-6,320	-5,789	
Tax from previous periods	532	907	261	569	
Deferred tax	144	186			
	-8,209	-6,586	-6,060	-5,220	
Profit on ordinary activities	24,770	23,034	17,420	16,249	
Appropriations					
Change in depreciation difference			515	653	
Minority interests	-3,161	-2,827			
Profit for the financial year	21,609	20,207	17,935	16,902	

Balance Sheet

EUR thousand	Group 2007	Group 2006	Parent Company 2007	Parent Company 2006	Notes
ASSETS					
Intangible assets					
Other long-term expenses	16,906	15,403	15,997	14,423	13
Advance payments	3,767	2,799	3,478	2,799	13
	20,673	18,202	19,475	17,221	
Investments					7
Investments in land and buildings					
Land and buildings	136,761	134,396	74,938	85,440	8
Loans to affiliated undertakings			15,752	7,993	8
Loans to associated undertakings	90				
	136,851	134,396	90,690	93,433	
Investments in affiliated and associated undertakings					
Equities and holdings in affiliated undertakings			25,179	25,179	9
Equities and holdings in associated undertakings	601	562	422	422	9
	601	562	25,601	25,601	
Other investments					
Equities and holdings	497,279	450,147	295,671	282,454	12
Debt securities	938,910	843,975	591,346	539,209	
Loans guaranteed by mortgages	800		800		
Other loans	1,842	12,476	1,842	12,476	10
Deposits with credit institutions	15,480	25,710	5,700	18,780	
	1,454,312	1,332,308	895,360	852,920	
Deposits with ceding undertakings	60	63	60	63	
	1,591,823	1,467,329	1,011,710	972,016	
Investments covering unit-linked insurances	225,588	207,093			
Debtors					
Arising out of direct insurance operations					
Policyholders	62,672	65,240	62,319	64,918	
Arising out of reinsurance operations	3,490	500	3,490	500	
Other debtors	48,930	20,215	32,636	17,846	
	115,091	85,955	98,445	83,264	
Other assets					
Tangible assets					
Equipment	4,851	5,401	4,625	4,970	13
Stocks	183	199	171	186	
	5,034	5,599	4,796	5,156	
Cash at bank and in hand	9,301	5,929	3,180	2,150	
	14,335	11,529	7,976	7,307	
Prepayments and accrued income					
Interest and rents	16,623	14,549	10,936	9,749	
Other	5,303	4,332	3,507	3,202	
	21,926	18,881	14,442	12,952	
Total assets	1,989,437	1,808,989	1,152,049	1,092,760	

EUR thousand	Group 2007	Group 2006	Parent Company 2007	Parent Company 2006	Notes
LIABILITIES					
Capital and reserves					15
Initial fund	4,339	4,339	4,339	4,339	
Guarantee capital	3,364	3,364	3,364	3,364	
Revaluation reserve	885	885	885	885	
Security reserve	137,774	120,872	137,774	120,872	
At the disposal of the Board	59	59	59	59	
Profit brought forward	15,919	12,614			
Profit for the financial year	21,609	20,207	17,935	16,902	
	183,948	162,339	164,355	146,420	
Appropriations					
Accumulated depreciation difference			1,613	2,128	
Optional reserves			332	332	
			1,945	2,460	
Minority interest	30,329	27,623			
Technical provisions					
Non-life insurance: Provision for unearned premiums	100,576	98,018	100,576	98,018	
Life-insurance: Provision for unearned premiums	430,625	368,314			
Non-life insurance: Claims outstanding	663,983	607,164	663,983	607,164	
Reinsurers' share	-6,544	-1,472	-6,544	-1,472	
	657,438	605,692	657,438	605,692	
Life insurance: Claims outstanding	110,039	93,618			
Equalisation provision, non-life insurance	181,615	194,701	181,615	194,701	
Collective guarantee item, non-life insurance	11,691	11,241	11,691	11,241	
Technical provisions in total	1,491,984	1,371,585	951,320	909,653	
Technical provisions for unit-linked insurances	226,976	207,636			
Creditors					
Arising out of reinsurance operations	2,296	1,255	2,082	1,009	
Other creditors	32,388	15,480	12,960	13,917	
Deferred tax	498	667			
	35,182	17,402	15,042	14,926	
Accruals and deferred income	21,019	22,404	19,386	19,300	
Total liabilities	1,989,437	1,808,989	1,152,049	1,092,760	

Parent Company Cash Flow Statement

EUR thousand	2007	2006
Cash flow from business operations		
Profit on ordinary activities	17,420	16,249
Adjustments		
Change in technical provisions	41,667	58,773
Value adjustments and revaluations on investments	4,751	1,529
Depreciation according to plan	6,699	6,040
Other	-6,616	-11,469
Cash flow before change in net working capital	63,921	71,122
Change in net working capital:		
Increase in non-interest-earning receivables	-18,667	-7,241
Increase in non-interest-earning payables	3,402	2,584
Cash flow from business operations before financial items and taxes	48,656	66,464
Interest paid on other financial expenses from operations	-265	-266
Taxes	-6,334	-2,511
Cash flow from business operations	42,057	63,687
Cash flow from capital expenditures		
Capital expenditure on investments (excl. funds)	-47,403	-72,905
Capital gain from investments (excl. funds)	12,941	16,955
Investments and income from the sale of tangible and intangible assets and other assets (net)	-6,565	-8,324
Cash flow from capital expenditures	-41,027	-64,274
Change in funds	1,030	-586
Funds on 1 Jan.	2,150	2,737
Funds on 31 Dec.	3,180	2,150
	1,030	-586

ACCOUNTING PRINCIPLES

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

Book value of investments

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

Buildings and structures are presented in the balance sheet at the lower of acquisition cost less planned depreciation or current value. Real estate shares and land and water areas are presented at the lower of acquisition cost or current value. Planned depreciation is made on revaluations entered as income arising from buildings.

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

Debt securities are entered in the Balance Sheet at acquisition cost. The difference between par value and acquisition cost is accrued as interest income, or interest payable, over the life of the debt security instrument, and as increase or decrease of their acquisition cost. The acquisition cost is calculated using the average price. Changes in value arising from the variation in interest rates are not entered.

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

Derivative contracts are mainly used for hedging investment portfolios. In accounting terms, however, they are handled as non-hedging instruments. The profits and losses resulting from the termination or expiry of contracts are entered as income or expenses for the financial year. At the date of closing the accounts there are no derivative contracts in force.

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

Book value of other assets than investments

Intangible assets and equipment are entered in the Balance Sheet at acquisition cost less planned depreciation. The variable expenses arising from acquisition are included in acquisition costs.

Premium receivables are presented in the balance sheet at probable value and other receivables at their par value, or at a probable value permanently lower than this. Receivables that on the basis of experience from previous years are likely to expire have been deducted from the par value of premium receivables, resulting in their probable value. However, receivables that are likely to remain unsettled are entered as credit loss.

Depreciation according to plan

Depreciation according to plan is calculated as a straight-line depreciation on the acquisition cost based on the estimated economic life of the asset.

The average estimated depreciation times are as follows:

Intangible rights (computer software)	3–7 years
IT systems work expenses	7 years
Other long-term liabilities	10 years
Business and industrial premises and offices	30–40 years
Components in buildings	10–15 years
Vehicles and computer hardware	5 years
Office machinery and equipment	7 years

Revaluations on investments

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

Current value of investments

The current values of real estate are defined by site. The current values of a significant part of real estate are assessed every few years. The assessments are carried out by a Finnish company specialising in real estate assessment in addition to its other operations. The current values of the real estate are defined on the basis of the assessments of each site. The current value of other real estate is determined annually by the Group's own experts mainly on the basis of regional market value statistics.

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

Quoted securities and securities that are otherwise subject to public trading are valued at the last bid price in continuous trading on the balance sheet date or, if this is not available, at the latest trading price. Unquoted securities are valued at the estimated market price, the undepreciated portion of acquisition cost or a value based on net asset value.

Receivables are valued at the lower of par value or probable value.

Foreign currency items

Transactions in foreign currency are entered at the exchange rate of the transaction date. In the 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 income and expenses concerned or as investment income and charges, if they are related to financing operations. Currency conversion differences on the technical account have not been transferred to the investment income/charges on the profit and loss account. This has no impact on the profit and loss account, giving a true and fair view of the results.

Staff pension schemes

A pension insurance cover has been arranged for the staff of the Group companies by means of TyEL insurance with the Mutual Insurance Company Pension-Fennia. Pension insurance premiums are entered in the profit and loss account on the accrual basis.

Appropriations and treatment of deferred tax

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

In the consolidated accounts, optional reserves and depreciation difference are divided into the change in deferred tax and share of profit/loss for the financial year, and deferred tax and share of capital and reserves. The rate of tax used is 26%.

Change in the accounting principles concerning non-life insurance

Amendments to the provisions concerning the pay-as-you-go system of the Employment Accidents Insurance Act, the Motor Liability Insurance Act, the Patient Injuries Act and the Environmental Impairment Liability Insurance Act came into force at the beginning of 2007.

At the same time, the Insurance Supervisory Authority provided new accounting regulations, according to which pay-as-you-go system items will as of 1 January 2007 no longer be included in the company's insurance premiums or claims paid. The pay-as-you-go system items refer to the expenses of the above-mentioned statutory insurance lines, for which the companies are jointly responsible. The pay-as-you-go system essentially consists of index increases of pensions and, to a lesser degree, of medical treatment expenses incurred as a result of damages occurred more than ten years ago.

The insurance companies pay the central organisations (the Federation of Accident Insurance Institutions, the Finnish Motor Insurers' Centre, the Patient Insurance Centre and the Environmental Insurance Centre) annually as a pay-as-you-go contribution an equal share that is proportioned according to their premium income, which the insurance companies can incorporate into the premium that they collect. The insurance premium to be paid to the central organisations is deducted from the premium income. The central organisations pay each insurance company an amount that covers its annual pay-as-you-go claim expenses. The paid claims do not include any pay-as-you-go system claims for statutory insurance lines.

Non-life insurance: Claims outstanding

Claims outstanding include the claims payable by the company after the financial year, arising from major losses and other insured events that have occurred during or before the financial year.

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

The provision for claims outstanding includes the equalisation provision, which, too, has to be shown separately in the balance sheet. The equalisation provision is a buffer for years when large numbers of losses occur. The amount of the equalisation provision is determined on the calculation bases prescribed for the company by the Insurance Supervision Authority.

Technical provisions in life insurance

No technical rate of interest is applied to unit-linked insurances.

For other insurances, the technical provisions are calculated separately for each insurance and the technical rate of interest applied varies as follows:

- In individual life and pension insurance, including capital redemption insurance, the interest rate applied

is 4.5% for contracts that have commenced before 1 January 1999 and 3.5% for contracts that have commenced after this, and 2.5% for contracts that have commenced after 1 March 2003. In some redemption contracts, the interest rate applied is 2%.
- In insurance for unregistered supplementary group pension, the interest rate is 3.5%. For technical provisions accrued before 1 January 1999 the impact of the change in the interest rate (from 4.25% to 3.5%) has been capitalised under the technical provisions and will be written off through straight-lined depreciation over a period of 15 years.
- In order to lower the technical interest rate requirement for individual pension insurance contracts that have commenced before 1 January 1999, technical provisions were increased by EUR 10 million, resulting in a return requirement for these contracts of approximately 3.6%.

Deferred acquisition costs have been deducted from the premium reserve in individual life and pension insurance. The amortisation period of this zillmerisation is insurance-specific and at maximum 7 years. The zillmerisation has been planned in such a manner that the future expense loading will suffice to cover related amortisation.

Principle of Fairness in life insurance

According to the Insurance Companies Act, Chapter 13, Section 3, a so-called Principle of Fairness must be observed in life insurance with respect to such policies which, according to the insurance contract, entitle to bonuses and rebates granted on the basis of any surplus yielded by the policies. This principle requires that a reasonable part of the surplus has to be returned to these policies as bonuses, if the solvency requirements do not prevent it. The Principle of Fairness determines how valuation differences should be divided between the shareholders and the policyholders without entitling any of the individual persons belonging to these groups to the valuation differences in question.

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

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

Consolidated accounts

Fennia's consolidated accounts include the Parent Company and all the subsidiaries in which the Parent Company either directly or indirectly holds more than half of the voting rights. Fennia Life Insurance Company Ltd belongs to the Group as a subsidiary. The accounts of Fennia Life and its subsidiaries are consolidated with the Group's accounts on the basis of the consolidated accounts of the Fennia Life sub-group. eFennia Oy is a subsidiary of Fennia (holding 20%, voting rights 63.6%). The other subsidiaries included in the consolidated accounts are real estate companies. At the end of 2007, the Group had 15 real estate companies, 11 of which belonged to the Fennia Life sub-group. The planned depreciations made in the accounts of the real estate subsidiaries differ from those made in the Parent Company in terms of depreciation times. In the subsidiaries the depreciation time for buildings is 20–75 years and for building components 10–20 years.

The consolidated accounts have been drawn up as combinations of the profit and loss accounts, balance sheets and notes of the Parent Company and the subsidiaries. Amounts due to or from group companies, internal gains and losses, profit distribution and intra-group cross-shareholdings have been eliminated. Minority interests in results and in capital and reserves are presented as separate items. Intra-group cross-shareholdings are eliminated by using the acquisition method. The consolidation difference is entered under the fixed asset items concerned and depreciated according to their depreciation plan. The unallocated part of goodwill on consolidation has been written off.

In the accounts of the real estate subsidiaries, the revaluations at the time of acquisition have been reversed, as they have affected the acquisition price of the shares.

The companies in which the Group holds 20–50% of the voting rights have been included in the consolidated accounts as associated undertakings by using the equity method of accounting. However, holdings (20–50%) in mutual real estate undertakings and property companies are not included. This has no significant impact on the Group's results and capital and reserves.

Notes to the Profit and Loss Account and Balance Sheet

EUR thousand	2007	2006
1. Premiums written		
Non-life Insurance		
Direct insurance		
Finland	329,074	325,732
Reinsurance	893	862
Gross premiums written before reinsurers' share	329,968	326,594

2. Balance on technical account by group of insurance class

Group of insurance class EUR thousand	Year	Premiums written before reinsurers' share	Gross premiums earned before reinsurers' share	Gross claims incurred before reinsurers' share	Gross operating expenses before commissions and profit participation	Re-insurance balance	Balance on technical account before change in guarantee item and equalisation provision
Statutory accident	2007	81,841	81,871	-69,996	-7,822	-351	3,702
insurance	2006	89,412	89,362	-73,380	-9,979	-290	5,714
(workers' compensation)	2005	80,686	80,689	-70,175	-9,096	-247	1,172
Non-statutory accident	2007	18,402	17,470	-18,178	-5,880	-72	-6,660
and health	2006	16,424	16,022	-14,757	-6,800	-83	-5,618
	2005	15,582	15,025	-12,536	-6,296	-77	-3,884
Motor	2007	68,736	71,170	-79,497	-16,341	-368	-25,035
liability	2006	72,522	68,707	-67,326	-12,656	-667	-11,942
	2005	65,691	61,175	-57,712	-11,940	-525	-9,002
Motor, other classes	2007	59,479	57,476	-51,609	-12,794	78	-6,849
	2006	52,632	52,481	-42,164	-9,362	-89	866
	2005	49,215	47,927	-36,897	-9,103	-105	1,822
Fire and other	2007	61,240	60,201	-54,834	-15,231	1,989	-7,875
damage to property	2006	57,505	55,969	-47,356	-17,288	-2,297	-10,971
	2005	53,808	52,376	-39,485	-15,788	-2,093	-4,990
General liability	2007	19,888	19,185	-11,830	-3,078	171	4,448
	2006	19,209	17,932	-15,224	-3,211	-744	-1,247
	2005	16,676	15,524	-11,944	-2,930	-594	56
Miscellaneous	2007	19,488	19,163	-15,309	-4,829	1,035	61
	2006	18,027	17,654	-10,879	-5,139	-532	1,104
	2005	17,176	16,651	-10,081	-4,817	-413	1,339
Direct insurance	2007	329,074	326,536	-301,252	-65,974	2,482	-38,208
in total	2006	325,732	318,127	-271,085	-64,434	-4,702	-22,095
	2005	298,835	289,368	-238,831	-59,970	-4,054	-13,487
Reinsurance	2007	893	874	-802	-157		-86
	2006	862	856	-283	-141	-2	430
	2005	-2,079	870	-818	-146	-2	-95
Total	2007	329,968	327,410	-302,054	-66,132	2,482	-38,294
	2006	326,594	318,984	-271,369	-64,576	-4,704	-21,665
	2005	296,756	290,238	-239,648	-60,116	-4,055	-13,582
Change in collective	2007						-450
guarantee item	2006						-432
	2005						-416
Change in equalisation	2007						13,086
provision	2006						-4,715
	2005						-20,081
Balance on	2007						-25,657
technical account	2006						-26,813
	2005						-34,079

EUR thousand	2007	2006
3. Items deducted from premiums written		
Credit loss on outstanding premiums	5,035	2,187
Pay-as-you-go premium	21,351	
Premium tax	49,728	45,069
Fire brigade charge	701	660
Traffic safety charge	740	597
Industrial safety charge	1,477	1,387
	79,032	49,900
4. Operating expenses		
Total operating expenses by activity		
Claims paid	21,906	18,272
Net operating expenses	64,705	64,507
Investment charges	2,278	2,061
Other charges	162	304
Total	89,051	85,145
Depreciation according to plan by activity		
Claims paid	1,750	1,214
Net operating expenses	2,760	2,383
Investment charges	161	159
Total	4,672	3,756
Operating expenses in Profit and Loss Account		
Policy acquisition costs		
Direct insurance commissions	2,992	5,474
Commissions on reinsurance assumed and profit sharing	37	21
Other policy acquisition costs	26,306	29,321
Total	29,335	34,816
Policy management expenses	21,922	15,865
Administrative expenses	14,875	13,895
Commissions on reinsurance ceded and profit sharing	-1,426	-68
Total	64,705	64,507
5. Staff expenses, personnel and executives		
Staff expenses		
Salaries and commissions	40,782	38,024
Pension expenses	6,987	6,188
Other social expenses	4,424	4,164
Total	52,193	48,376
Executives' salaries and commissions		
Managing Director and substitute for the Managing Director	500	438
Board of Directors	171	161
Supervisory Board	81	71
Total	753	669

No loans have been granted to the Managing Director or to the Board of Directors.
There are no guarantee or liability commitments affecting the Managing Director or the Board of Directors.
The age of retirement of the Managing Director is 63.

Average number of personnel during the financial year	2007	2006
Office personnel	377	369
Sales personnel	533	523
Total	910	892

EUR thousand	2007	2006
6. Net investment income		
Investment income		
Income from investments in affiliated undertakings		
Dividend income	114	157
Income from investments in land and buildings		
Interest income		
From affiliated undertakings	336	298
Other income		
From affiliated undertakings	25	105
From other undertakings	9,263	9,287
Total	9,624	9,691
Income from other investments		
Dividend income	10,826	11,179
Interest income	26,018	18,639
Other income	3,790	4,176
Total	40,634	33,994
Total	50,373	43,842
Value readjustments	1,738	190
Gains on realisation of investments	24,589	23,460
Total	76,699	67,492
Investment charges		
Charges arising from investments in land and buildings		
To affiliated undertakings	-636	-1,048
To other undertakings	-2,889	-3,737
Total	-3,524	-4,785
Charges arising from other investments	-3,450	-3,278
Interest and other expenses on liabilities		
To other undertakings	-265	-266
Total	-265	-266
Total	-7,240	-8,329
Value adjustments and depreciations		
Value adjustments on investments	-6,489	-1,719
Planned depreciation on buildings	-2,028	-2,284
Total	-8,516	-4,003
Losses on realisation of investments	-11,648	-6,505
Total	-27,404	-18,837
Net investment income on the Profit and Loss Account	49,295	48,655

EUR thousand	Investments Dec. 31, 2007 Remaining acquisition cost	Book value	Current value	Investments Dec. 31, 2006 Remaining acquisition cost	Book value	Current value
7. Current value and valuation difference on investments						
Investments in land and buildings						
Real estate	26,781	40,354	56,652	36,493	50,519	68,846
Real estate shares in affiliated undertakings	27,298	27,298	29,303	27,298	27,298	29,128
Real estate shares in associated undertakings	3,771	3,821	6,051	3,771	3,821	6,051
Other real estate shares	3,171	3,464	4,689	3,508	3,801	5,061
Loans to affiliated undertakings	15,752	15,752	15,752	7,993	7,993	7,993
Investments in affiliated undertakings						
Equities and holdings	25,179	25,179	45,694	25,179	25,179	39,660
Investments in associated undertakings						
Equities and holdings	422	422	422	422	422	422
Other investments						
Equities and holdings	295,671	295,671	333,025	282,454	282,454	324,175
Debt securities	591,346	591,346	582,988	539,209	539,209	531,729
Loans guaranteed by mortgages	800	800	800			
Other loans	1,842	1,842	1,842	12,476	12,476	12,476
Deposits with credit institutions	5,700	5,700	5,700	18,780	18,780	18,780
eposits with ceding undertakings	60	60	60	63	63	63
	997,794	1,011,710	1,082,976	957,647	972,016	1,044,383
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 (-)	991			-11,488		
Book value comprises						
Revaluations entered as income		12,931			13,384	
Other revaluations		986			986	
		13,916			14,369	
Valuation difference (difference between current value and book value)			71,266			72,367

EUR thousand	Land and buildings and real estate shares	Loans to affiliated undertakings
8. Investments in land and buildings		
Acquisition cost, 1 Jan.	102,419	7,993
Increase	2,999	9,420
Decrease	-18,167	-1,662
Acquisition cost, 31 Dec.	87,251	15,752
Accumulated depreciation, 1 Jan.	-31,909	
Accumulated depreciation related to decreases and transfers	6,440	
Depreciation for the financial year	-2,028	
Accumulated depreciation, 31 Dec.	-27,497	
Value adjustments, 1 Jan.	-6,605	
Value adjustments related to decreases and transfers	255	
Value adjustments, 31 Dec.	-6,351	
Revaluations, 1 Jan.	21,535	
Revaluations, 31 Dec.	21,535	
Book value, 31 Dec.	74,938	15,752
Land and buildings and real estate shares occupied for own activities:		
Remaining acquisition cost	5,234	
Book value	6,046	
Current value	7,129	

EUR thousand	Equities and holdings in affiliated undertakings	Equities and holdings in associated undertakings
9. Investments in affiliated and associated undertakings		
Acquisition cost, 1 Jan.	25,179	422
Acquisition cost, 31 Dec.	25,179	422
Book value, 31 Dec.	25,179	422

	2007	2006
10. Other investments		
Other loans by security		
Other security	1,842	12,476
	1,842	12,476
11. Debtors		
Other debtors		
Affiliated undertakings	640	541

EUR thousand	Holding %	Book value 31 Dec. 2007	Current value 31 Dec. 2007
12. Equities and holdings in other companies			
Other investments			
Domestic equities and holdings			
Mutual Insurance Company Pension-Fennia		1,689	1,689
F-Musiikki Oy	9.1398	553	553
Kytäjä Golf Oy	2.8750	759	759
Nokia Oyj	0.0008	505	896
Panostaja Oyj, sarja A	3.6218	500	950
Panostaja Oyj, sarja B	2.5551	530	992
Uudenmaan Pääomarahasto Oy	28.5714	2,000	2,000
Unit trusts			
AB Japan Strategic Value		917	917
Aberdeen Indirect Property Partners		1,064	1,064
Aberdeen International Asia Pacific Fund A2		685	1,253
Arvopaperirahasto Aksjefondet Odin Finland		1,850	2,186
Auda Global Feeder Class B		8,008	9,434
Bluebay Emerging Market Bond Fund R		16,305	17,521
Bluebay High Yield Bond Fund R		35,371	38,650
Brevan Howard Fund Class B		1,800	2,199
Cognis I Fund Class B Series 1		2,000	2,147
CQS Capital Structure Arbitrage Feeder Fund A		1,876	1,876
East Capital Russia Fund		2,170	2,182
Eaton Vance Emerald - US Value Fund A2		2,591	2,591
EPI Baltic I Oy		523	523
Erikoissijoitusrahasto Avenir B		3,000	5,076
Erikoissijoitusrahasto Blue White Alternative Beta A		2,000	2,057
Erikoissijoitusrahasto eQ Arvonkasvattajat 2 K		1,000	2,394
Erikoissijoitusrahasto eQ Pikkujättiläiset 2 K		1,933	5,321
Erikoissijoitusrahasto FOURTON Odysseus		1,020	1,635
Erikoissijoitusrahasto ICECAPITAL European Stock Index B		2,000	2,367
Erikoissijoitusrahasto Nordea Korkosalkku Kasvu		4,000	4,044
Fairfield Investors (Euro) Ltd		3,203	4,228
FIM Brazil Sijoitusrahasto		766	1,290
FIM Emerging Europe Sijoitusrahasto		518	743
FIM Fenno Sijoitusrahasto		2,562	4,423
FIM Unioni Sijoitusrahasto		3,500	3,938
FIM Visio Sijoitusrahasto		2,012	2,022
Franklin U.S. Opportunities Fund		1,280	1,280
GLG European Long-Short Fund I		1,200	1,442
Global Advantage Emerging Markets High Value Subfund		1,100	1,264
HSBC GIF - European Currencies High Yield Bond C		3,510	3,912
ING (L) Renta Fund Emerging Markets Debt (Hard Currency)		19,267	19,267
JPMorgan Funds - Emerging Markets Equity A (acc) -USD		2,713	3,307
JPMorgan Funds - Europe Dynamic Mega Cap A (acc) -EUR		5,808	6,308
JPMorgan Funds - JF Japan Equity A -USD		1,803	1,803
Kauppakeskuskiinteistöt FEA Ky		4,717	4,717
Kaupthing Manager Selection Europe C 2 E		1,505	1,729
Kaupthing Manager Selection North America C 2		927	927

EUR thousand	Book value 31 Dec. 2007	Current value 31 Dec. 2007
Montanaro European Smaller Companies -EUR	1,693	1,693
Nektar	1,696	2,737
O'Connor Market Neutral Long/Short M1	1,800	2,194
Peloton Multi-Strategy Fund Euro Class	1,201	1,545
Pictet Funds (LUX) - US Equity Selection-P Cap-USD	1,521	1,521
Pictet Funds (LUX) Emerging Markets-P Cap-EUR	1,981	2,354
SEB Alt. Inv.- SEB Institutional Portfolio Class I	1,969	1,969
SEB Alt. Inv.- SEB Institutional Portfolio Class P	2,000	2,068
SEB Choice Japan Fund	1,758	1,758
SEB Gyllenberg Money Manager A	36,260	36,709
SEB Hedge Fund of Funds Moderate (€) Sarja I	8,044	10,403
SEB Lux (F) Europafond	5,906	6,794
Seligson & Co Rahamarkkinarahasto A	3,028	3,108
Sijoitusrahasto Aktia Inflation Bond+ D	4,001	4,104
Sijoitusrahasto eQ Clean Energy 1 K	1,000	1,047
Sijoitusrahasto eQ Eurooppa Monityyli 2 K	1,007	1,290
Sijoitusrahasto eQ Suomiliiga 1 K	881	881
Sijoitusrahasto Evli Tavoiteobligaatio B	3,000	3,118
Sijoitusrahasto Handelsbanken Euro-Obligaatio A/1000	4,031	4,046
Sijoitusrahasto ICECAPITAL Euro Floating Rate B	2,000	2,090
Sijoitusrahasto ICECAPITAL Global Utilities & Energy B	1,500	3,477
Sijoitusrahasto Odin Norden	500	748
Sijoitusrahasto SEB Gyllenberg European Equity Value B	6,635	6,635
Sijoitusrahasto SEB Gyllenberg Finlandia B	1,115	1,115
Sijoitusrahasto SEB Gyllenberg Small Firm B	562	581
Sijoitusrahasto Seligson & Co OMX Helsinki 25 -indeksiosuusrahasto	1,568	2,563
Sponda Kiinteistörahasto I Ky	5,968	5,968
SPY Standard & Poors Depository 500 Index Series 1	2,826	2,851
SWIP Pan-European Smaller Companies Fund E Acc	870	870
T.Rowe Price US Large Cap Growth A	3,274	3,274
Tisbury Europe Fund	2,045	2,045
UBS Neutral Alpha Strategies (Euro) Ltd - Class B Series 1	5,000	5,658
XMTCH (Lux) FCP - XMTCH (Lux) on MSCI EMU Large Cap Units	1,859	2,875
Zenit	988	1,546
Capital trusts		
MB Equity Fund III Ky	579	579
Access Capital LP	1,232	1,232
Auda Capital III L.P.	1,388	1,388
Duke Street Capital VI LP	1,280	1,280
The Triton Fund II L.P.	1,320	1,320
The First European Fund Investments UK Ltd Partnership	2,099	2,099
Nexit Infocom 2000 Fund Limited Partnership	1,061	1,061
Permira Europe II LP2	1,428	1,428
Permira Europe IV LP2	635	635
Nokia Venture Partners II L.P.	726	726
Midinvest Fund EP II Ky	592	592
Other	10,802	13,172
	295,671	333,025

EUR thousand	Other long-term expenses	Advance payments	Equip-ment	Total
13. Changes in intangible and tangible assets				
Acquisition cost, 1 Jan.	18,412	2,799	12,803	34,014
Fully depreciated in the previous financial year	-11		-1,242	-1,253
Increase	4,849	5,488	1,521	11,858
Decrease	-213	-4,808	-340	-5,361
Transfers between items	198		204	401
Acquisition cost, 31 Dec.	23,235	3,478	12,946	39,659
Accumulated depreciation 1 Jan.	-3,989	-	-7,833	-11,822
Fully depreciated in the previous financial year	11	-	-	11
Accumulated depreciation related to decreases and transfers	-178	-	1,102	924
Depreciation for the financial year	-3,082	-	-1,590	-4,672
Accumulated depreciation 31 Dec.	-7,238	-	-8,321	-15,559
Book value, 31 Dec.	15,997	3,478	4,625	24,100

EUR thousand	2007	2006
14. Key figures pertaining to solvency		
Solvency margin		
Capital and reserves after proposed profit distribution	164,355	146,420
Accumulated appropriations	1,945	2,460
Valuation difference between current value and		
Balance Sheet book value of assets	71,266	72,367
Capitalised intangibles	-19,475	-17,221
	218,092	204,026
Minimum solvency margin required under the Finnish Insurance Companies Act,		
Chapter 11, Section 2	63,937	58,382
Equalisation provision for years with large numbers of losses		
included in technical provisions	181,615	194,701
Equalisation provision to its full value (%)	51%	54%
Solvency ratio (%)		
Solvency margin and equalisation provision to premiums earned		
from the preceding 12 months		
- for the year 2007	126%	
- for the year 2006	127%	
- for the year 2005	134%	
- for the year 2004	135%	
- for the year 2003	140%	

EUR thousand	2007	2006
15. Capital and reserves		
Restricted		
Initial fund, 1 Jan. / 31 Dec.	4,339	
Guarantee capital, 1 Jan. / 31 Dec.	3,364	
Revaluation reserve, 1 Jan. / 31 Dec.	885	
Restricted in total	8,587	
Non-restricted		
Security reserve 1 Jan. 2007	120,872	
Transfer from profit brought forward	16,902	
Security reserve, 31 Dec. 2007	137,774	
At the disposal of the Board, 1 Jan. / 31 Dec.	59	
Profit brought forward	16,902	
Transfer to security reserve	-16,902	
Profit brought forward		
Profit for the financial year	17,935	
Non-restricted in total	155,768	
Capital and reserves in total	164,355	
Revaluation reserve, 31 Dec. 2007		
Revaluations on investments	445	
Revaluations on fixed assets	440	
	885	
Distributable profit, 31 Dec. 2007		
Profit for the financial year	17,935	
Security reserve	137,774	
At the disposal of the Board	59	
	155,768	
16. Creditors		
Other creditors		
Affiliated undertakings	1,389	951
17. Guarantee and liability commitments		
Own liabilities		
Leasehold commitments	6,900	7,948
Other liabilities		
As regards VAT group registration, the company is responsible for the value-added tax payable by the group jointly with the other members of the value-added tax liability group of Varma Mutual Pension Insurance Company		
Affiliated undertakings	151	21
Other undertakings	-704	685
Investment commitments		
Commitment to invest in equity funds	35,132	39,377

Key Figures

Group analysis of results

(EUR million)	2003	2004	2005	2006	2007
Non-life Insurance					
Premiums earned	232	251	286	314	317
Claims incurred	-214	-217	-239	-271	-290
Net operating expenses	-48	-54	-60	-65	-65
Other technical underwriting income (net)	0	0	0	0	0
Balance on technical account before the change in equalisation provision	-31	-20	-14	-22	-39
Investment income (net), revaluations	38	43	45	48	49
Other income (net)	0	0	1	0	1
Share of associated undertakings' profit	0	0	0	0	0
Operating profit	7	22	32	27	11
Change in equalisation provision	1	-14	-20	-5	13
Non-life insurance profit before extraordinary items	8	9	12	22	24
Life Insurance					
Premiums written	60	68	63	70	63
Investment income (net), revaluations and revaluation adjustments on investments	30	37	65	57	40
Claims paid	-15	-19	-33	-74	-55
Change in technical provision before bonuses and rebates and change in equalisation provision	-64	-71	-73	-31	-22
Net operating expenses	-6	-5	-6	-7	-7
Other technical income					8
Technical underwriting result before bonuses and rebates and change in equalisation provision	6	11	17	15	26
Other income (net)	0	0	0	0	0
Operating profit	5	11	17	15	26
Change in equalisation provision	0	0	0	-1	-1
Bonuses and rebates	-1	-1	-5	-7	-16
Life insurance profit before extraordinary items	4	9	11	8	9
Extraordinary income	-	-	-	-	-
Extraordinary charges	-	-	-	-	-
Profit before appropriations and tax	12	18	23	30	33
Income tax and other direct tax	0	0	-4	-7	-8
Minority interests	-2	-4	-4	-3	-3
Group's profit for the financial year	10	14	16	20	22

Key figures

(EUR million)	2003	2004	2005	2006	2007
Group Key Figures					
Turnover	373	409	468	497	486
Premiums written	306	331	360	397	393
Operating profit	13	33	49	41	37
Profit before extraordinary items, untaxed reserves and tax	12	18	23	30	33
Total result			77	42	25
Solvency capital	343	369	432	454	451
Average number of personnel	901	921	945	962	990
Non-life Insurance Key Figures					
Premiums written	245	262	297	327	330
Loss ratio, %	92.2	86.3	83.7	86.4	91.7
Loss ratio excl. unwinding of discount, %			79.8	82.7	87.8
Expense ratio, %	20.9	21.6	21.0	20.5	20.4
Combined ratio, %	113.0	107.9	104.8	106.9	112.1
Combined ratio excl. unwinding of discount, %			100.9	103.2	108.3
Operating profit *	7	22	32	27	11
Total result			48	27	9
Return on assets, %			5.7	3.6	1.8
Net investment income at current value			62.8	49.3	48.2
income on invested capital, %			6.6	4.7	4.3
Solvency margin	168	170	192	204	218
Equalisation provision	156	170	190	195	182
Solvency capital	324	340	382	399	400
of technical provisions, %	56.2	55.3	57.8	55.8	51.9
Solvency ratio, %	139.8	135.1	133.7	126.9	126.3
Average number of personnel	855	870	873	892	910
Life Insurance Key Figures					
Premiums written	60	69	64	70	63
Expense ratio (of expense loading), % *	139.1	112.9	99.6	102.1	89.6
Operating profit/loss *	5	11	17	15	26
Total result			27	13	21
Return on assets, %			8.6	5.5	6.4
Net investment income at current value			38	25	27
income on invested capital, %			8.0	4.9	4.6
Solvency margin	55	66	85	89	91
Solvency capital	57	68	87	93	95
Solvency ratio, %	14.3	15.5	18.1	18.2	16.1
Average number of personnel	23	24	25	26	27

* Key figures according to the consolidated accounts

Investment portfolio at current values

	2007 EUR million	%	2006 EUR million	%	2005 EUR million	%
Loans [1]	18.4	1.7	20.5	1.9	18.2	1.9
Bonds [1), 2)]	605.6	55.4	589.4	55.9	553.0	56.2
** includes fixed-income funds*	96.8	8.8	81.7	7.8	77.5	7.9
Other money market investments and deposits [1), 2), 3)]	112.5	10.3	69.3	6.6	86.8	8.8
** includes fixed-income funds*	39.8	3.6	32.3	3.1	70.1	7.1
Equities and holdings	171.7	15.7	197.5	18.7	173.1	17.6
Investments in land and buildings [4]	109.0	10.0	113.2	10.7	113.1	11.5
** includes unit trusts and UCITS*	12.3	1.1	4.1	0.4	0.6	0.1
Other investments	76.6	7.0	64.1	6.1	40.6	4.1
Investments in total	1,093.8	100.0	1,054.0	100.0	984.7	100.0
Modified duration of the bond portfolio	4.01		4.05		4.03	

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.

Net investment income

	2007 EUR million	2006 EUR million	2005 EUR million
Direct net income	43.1	35.5	26.7
Loans	0.4	0.4	0.4
Bonds	21.2	16.6	16.2
Other money market investments and deposits	4.4	2.3	2.3
Equities and holdings	9.8	10.9	7.5
Investments in land and buildings	6.9	5.2	4.1
Other investments	1.9	1.7	-2.3
Sundry income, charges and operating expenses	-1.4	-1.6	-1.4
Changes in value in the accounts [1]	6.2	13.1	19.0
Equities and holdings	11.6	12.1	7.0
Bonds	-9.0	0.9	13.1
Investments in land and buildings	3.9	0.1	-1.8
Other investments	-0.4	0.0	0.7
Net investment income at book value	49.3	48.7	45.7
Change in valuation differences [2]	-1.1	0.6	17.1
Equities and holdings	-2.0	5.3	18.2
Bonds	-2.6	-8.6	-3.7
Investments in land and buildings	-1.9	1.3	0.8
Other investments	5.4	2.6	1.9
Net investment income at current value	48.2	49.3	62.8
Share of net investment income accounted for by derivatives	1.0	1.5	-3.6

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

2) Off-balance sheet changes in value

Net investment income on invested capital 1 Jan.–31 Dec. 2007	Net investment income at current values [1] EUR million 2007	Invested capital [2] EUR million 2007	Yield, % on invested capital 2007	Yield, % on invested capital 2006	Yield, % on invested capital 2005
Loans	0.4	21.0	2.1	1.9	2.4
Bonds [3]	11.1	610.6	1.8	1.5	4.9
* *of which fixed-income funds*	2.0	91.8	2.2	6.7	12.3
Other money market investments and deposits [3]	5.1	129.1	3.9	2.8	2.2
* *of which fixed-income funds*	1.7	46.7	3.6	2.9	2.2
Equities and holdings	18.9	177.8	10.6	15.1	22.0
Real estate [4]	8.9	102.1	8.7	6.0	2.7
* *of which unit trusts and UCITS*	0.6	6.6	8.8	4.0	3.7
Other investments	5.2	70.6	7.3	8.9	0.5
Investments in total	49.6	1,111.3	4.5	4.9	6.7
Sundry income, charges and operating expenses	-1.4				
Net investment income at current values	48.2	1,111.3	4.3	4.7	6.6

[1] Net investment income at current values = Changes in the market values between the end and beginning of the review period – cash flows. Cash flow is the difference between purchases/costs and sales/income.

[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

KEY FIGURES

Turnover =

Non-life insurance turnover
+ premiums earned before reinsurers' share
+ net investment income on the profit and loss account
+ other income

Life insurance turnover
+ premiums written before reinsurers' share
+ net investment income on the profit and loss account
+ other income

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

Return on assets at current values (%) =
+/- operating profit or loss
+ financial expenses
+ unwinding of discount, non-life insurance
+ technical interest credited to insurances during the year, life insurance
+/- change in valuation differences on investments
+ balance sheet total
- technical provisions for unit-linked insurances
+/- valuation differences on investments

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

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

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

NON-LIFE INSURANCE

Premiums written = premiums written before reinsurers' share.

Loss ratio % =
claims incurred
premiums earned

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

Expense ratio % =
operating expenses
premiums earned

Key figures are calculated after reinsurers' share.

Combined ratio % = loss ratio + expense ratio

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

Solvency margin see calculation in the Notes

Solvency capital = solvency margin + equalisation provision + minority interest

Solvency capital, % of technical provisions =

solvency capital
\+ technical provisions
\- equalisation provision

Technical provisions are calculated after reinsurers' share.

Solvency ratio % =

solvency capital
premiums earned

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

LIFE INSURANCE

Premiums written = premiums written before reinsurers' share.

Expense ratio (% of expense loading) =

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

Solvency margin see calculation in the Notes

Solvency capital = solvency margin + equalisation provision + minority interest

Solvency ratio (%) =

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

Technical provisions are calculated after reinsurers' share.

Risks and Risk Management

General principles of risk management

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

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

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

Risk management organisation

The Board of Directors is responsible for arranging internal control. Risk management in Fennia is based on the risk management plan, which is discussed annually by the Boards of Directors. The executive team for risk management co-ordinates and steers risk management maintenance and development. Internal audits, which are independent of business activities, are used to monitor and assess the adequacy of internal control and risk management.

On the level of the Fennia Group, the joint impacts of risks shared by Fennia and Fennia Life must be allowed for.

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

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

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

Non-life insurance risks

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

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

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

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

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

Actuarial assumptions and models used in non-life insurance

An insurance company must have solid calculation bases for determining technical provisions, in order to ensure that it can meet its liabilities under all circumstances. The technical provision is calculated according to the calculation bases, which must be submitted to the Insurance Supervisory Authority before the end of the financial period.

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

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

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

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

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

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

Life insurance risks

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

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

Actuarial assumptions and models in life insurance

The technical interest rate used in the calculation of technical provisions with guaranteed return varies between 2.0 and 4.5%, and the average rate for the entire technical provisions with guaranteed return is approximately 3.4%. The mortality assumptions applied in life and pension insurance are those generally applied in the industry.

Investment risks relating to insurance

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

Quantitative data on the risk variables of the investment portfolio of Fennia's parent company

		Impact of change on Fennia's solvency capital
Fixed income investments	Interest rate +1 percentage point	EUR -29 million
Equity investments	Change in value -20%	EUR -21 million
Real estate investments	Change in value -10%	EUR -11 million

Quantitative data on risk variables affecting the investment portfolio of Fennia Life

		Impact of change on Fennia Life's solvency capital
Fixed income investments	Interest rate +1 percentage point	EUR -18 million
Equity investments	Change in value -20%	EUR -19 million
Real estate investments	Change in value -10%	EUR -7 million

Market risks

Market risks consist of the impacts of interest rates, currency and equity prices, volatilities or the impacts of other changes in market prices on the companies' result and financial strength. The market risk affecting the entire portfolio is assessed and measured using risk factors derived from the long-term volatility of each investment grade.

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

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

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

Credit risk

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

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

Liquidity risk

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

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

Operational risk

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

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

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

Board of Directors' Proposal on the Disposal of Profit

The distributable capital and reserves of the Fennia Group stood at EUR 173,892,003.92 and that of the Parent Company at EUR 155,767,991.36.

The Parent Company's profit for the financial year was EUR 17,935,392.72. The Board of Directors proposes that no interest on guarantee capital be paid and that the profit for the financial year be transferred to the security reserve.

Helsinki, 6 March 2008

Eero Lehti	Esko Penttilä	Antti Kuljukka Managing Director
Jouko Kemppi	Lasse Koski	Eva Liljeblom
Rauno Mattila	Antti Vaahto	Juha Valkamo

Auditors' Report

To the Owners of Fennia Mutual Insurance Company

We have audited the accounting records, the financial statements, the Board of Directors' Report and the administration of Fennia Mutual Insurance Company for the financial year 1 January–31 December 2007. The Board of Directors and the Managing Director have prepared the financial statements, which include the Board of Directors' Report, consolidated and parent company income statements, balance sheets, cash flow statement and notes to the financial statements. Based on our audit we submit the following statement on the financial statements, the Board of Directors' Report and the administration of the parent company.

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

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

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

Helsinki, 19 March, 2008

KPMG OY AB

Nils Blummé, Authorised Public Accountant

Sirpa Eriksson, Authorised Public Accountant

Statement of the Supervisory Board

The Supervisory Board of Fennia Mutual Insurance Company has examined the Company’s financial statements for the year 2007 and the consolidated financial statements as well as the Auditors’ Report. We have no objections concerning them.

The Supervisory Board proposes that the Annual General Meeting to be convened on 24 April 2008 adopt the financial statements and the consolidated financial statements as well as the proposal of the Board of Directors for the disposal of the surplus for the financial year.

Helsinki, 16 April 2008

On behalf of the Supervisory Board

Matti Pörhö
Chairman of the Supervisory Board

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