PENSION FENNIA YEAR 2011

The Board of Directors' report and Financial Statements

The Board of Directors' report for the year 2011

INVESTMENT ENVIRONMENT IN 2010

At the beginning of 2011, global economic growth seemed to continue in the positive direction of the previous year, but the earthquake in Japan in the spring, debt problems of some eurozone countries and the USA, and the accelerating inflation rate in emerging countries early in the year made the economic outlook considerably weaker during the year.

According to estimates, the economic growth in the eurozone last year was around 1.6 per cent, which was mainly the result of strong growth in Germany (over 3%). Economic growth also weakened in the USA and stood at 1.8 per cent in 2011, and the growth in China was down by more than one percentage point to 9.2 per cent.

Like in the previous year, the inflation rate increased globally, mainly due to energy and raw material prices. Consumer prices rose in the eurozone by 2.7 per cent, in the USA by 3.2 per cent, and in China by as much as 5.4 per cent. Base inflation remained moderate, but has risen to nearly 2 per cent in the Western countries.

The unemployment rate in the eurozone stayed at a high level, at over 10 per cent. Employment developed favourably in Germany, but for instance in Spain the unemployment rate is alarmingly high and continues to rise. In the USA the unemployment situation began to improve, but only barely reached the 9 per cent level, which is unhealthy in the usually dynamic US labour market.

The total budget deficit of the eurozone countries at annual level was 4 per cent of GDP, but there is big variation between different countries. The US budget deficit was 8.6 per cent and that of Great Britain as high as 9.4 per cent. The problem in the eurozone is the structure of the economic union, not the economic situation on the whole. In addition to debt problems of individual countries, the Southern European countries suffer from a chronic and worsening competitiveness problem, which makes it more difficult to set straight the indebtedness and economic development as the exchange rates are fixed.

The European Central Bank was still concerned about the inflation early in the year and raised the ECB interest rate by a total of 0.5 percentage points, but was forced to lower it again in November–December, as the economic outlook weakened considerably. The interest rates were at an historically low level in the Western countries in late 2011.

The year 2011 was a difficult one for the investment market. Pension Fennia's performance was negative, although better than that of many other institutional investors. In the equities market a falling trend dominated already in spring due to the earthquake in Japan. The deepening of the debt problems in the eurozone in late summer again triggered suspicion concerning the state of the banking sector and pushed company-risk bearing investments and bonds of the European problem countries to a steep downhill. During the autumn there were several attempts to solve the weak budget construction of the eurozone, but the final solution still seems to be missing. The European Central Bank has supported the liquidity and financing of the banking system, which has considerably eased the situation, but at the same time accumulated unparalleled risks.

CHANGES IN THE OPERATING ENVIRONMENT

According to the government programme of Prime Minister Jyrki Katainen's government, the issues concerning earnings-related pension policy shall be prepared in co-operation with key labour market organisations. The government and labour market organisations have to find an agreement on a long-term solution for extending the working careers, securing the financing of the earnings-related pension scheme, and ensuring sufficient pension provision, including index protection.

Labour market organisations have undertaken to negotiate on and implement the measures in order to reach the goals set for extending the working careers. They will be directed at the beginning, middle and end of the career. Special attention will be paid to the prevention of the causes of disability and to developing the professional skills throughout the career.

Guidelines of the government programme on the measures for the development of the earnings-related pension scheme:
- A working group will be appointed to assess the potential need to change the earnings-related pension index scheme.
- The availability of high-quality occupational health care services must be ensured, while also refocusing occupational health care activities to better support the extension of careers.
- In order to foster increasingly successful rehabilitation, provision of timely rehabilitation without delays will be ensured.
- Responsibility for the preparation of legislation pertaining to the earnings-related pension scheme will be concentrated in the Ministry of Social Affairs and Health.
- Reform of the solvency regulations applied to the earnings-related pension scheme will continue.
- The relationship of the competition and cooperation between the authorised pension providers, i.e. employee pension institutions will be clarified on the basis of earlier competition-related reports.
- The development needs related to the regulation of employee pension institutions' well-being at work activities and the related funding models, aimed at improving the transparency of well-being services and remedying the competitive situation between employee pension institutions, must be assessed on the basis of proposals made by the Ministry of Social Affairs and Health's working group on well-being at work.
- The employee pension institutions' principles of good governance will be developed.
- The provisions laid down in the Employee Benefit Funds Act and Pension Funds Act concerning earnings-related pensions will be compiled into a new employee pension fund act.

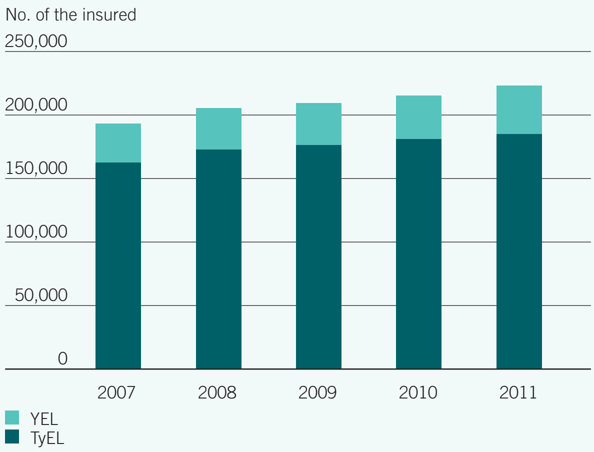
The act on the amendment of private sector employee pension legislation and the act on giving the pension record entered into force on 1 January 2012. The act on giving the pension record in 2012 will be in force until the end of 2012. As of 2012, earnings paid by the State, municipalities and the church that accrue pension are also shown in the pension record.

According to the prepared proposal, as of 2013 private sector pension institutions would send a pension record in writing to the insured only every third year. In the future, pension institutions would be obliged to check the correctness of the information shown in the pension record retroactively for six years.

The regulations concerning the investment operations and solvency of pension institutions were temporarily eased in late 2008 due to the international financial market crisis. The fixed-term law will be in force until the end of 2012. The working group of the Ministry of Social Affairs and Health has finished the further development project on the second phase of solvency regulation. The government will present the bill to the Parliament. The Ministry of Social Affairs and Health has also drawn up a memo on the functioning of competition of the earnings-related pension scheme on the basis of the government programme.

Pension Fennia's market share measured by premium income 31 Dec.

Pension Fennia's no. of insured 31 Dec.



REACHING THE GOALS

The key goal of investment operations in 2011 was to secure solvency in any circumstances. Pension Fennia's investment income was the best in the earnings-related pension industry, although the yield was negative. Return on invested capital, calculated at fair values and including operating expenses, the unallocated returns and expenses of investment operations and other interest items in the profit and loss account, stood at -1.6 per cent for the financial year.

The culmination of the European debt crisis also affected the development of Pension Fennia's solvency in 2011, as the investment yield was negative. Solvency ratio i.e. the amount of solvency margin in proportion to the technical provisions used in solvency calculation decreased from 21.4 per cent at the beginning of the year to 16.5 per cent at the year-end. At the same time the figure indicating the amount of solvency margin in proportion to the investments risk, solvency position, decreased from 2.8 to 2.6. The amount of solvency margin decreased by 20%, from € 1,226 million to € 976 million.

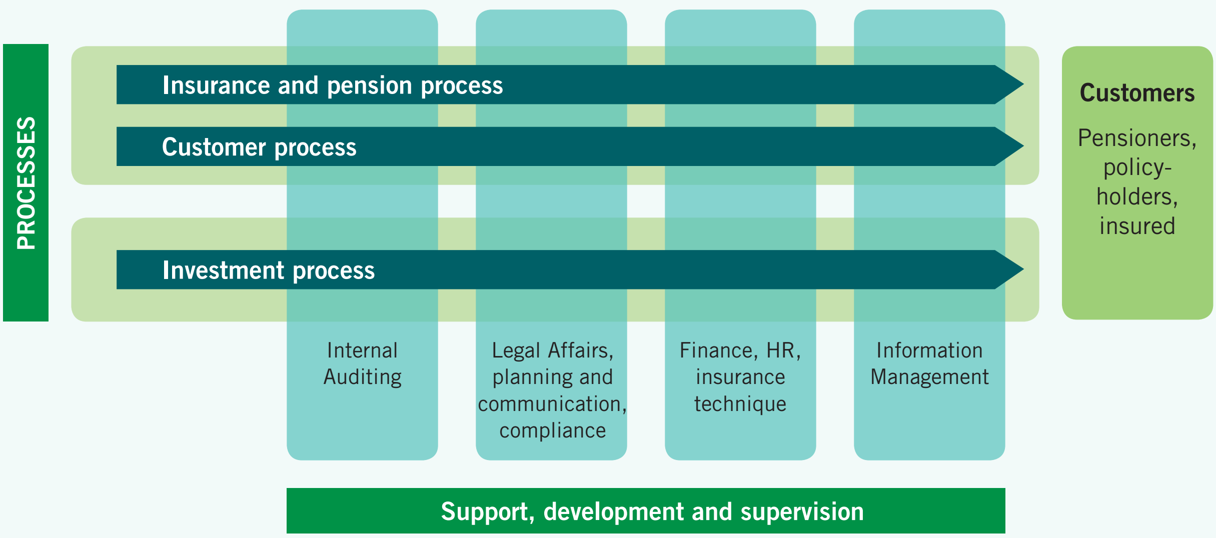
Cost-efficiency was emphasised through the year in all operations. Administration cost surplus stood at € 12.2 million, or 23.1 per cent of the loading profit. Pension Fennia's operating expenses mainly consist of two large items; personnel expenses and IT expenses. The optimisation of expenses has played a key role in improving efficiency.

Pension Fennia continued to strengthen its position as the pension insurer of SMEs and self-employed persons. In 2011, the company was number one in the transfer business between pension companies measured by the number of YEL policies and number two measured by the number of TyEL policies. Over 3,100 TyEL policies and nearly 7,500 YEL policies were gained through new customer prospecting. The said TyEL portfolio covers some 6,400 employees.

Thanks to the strong local presence of its partners, Pension Fennia's market share in new customer prospecting has remained considerably higher than its relative market position. The market share in new customer prospecting of TyEL policies was around 17 per cent and that of YEL policies around 21 per cent. Despite the growth, the company's total market share decreased slightly in 2011. This was due to the fact that the total market of TyEL insurance companies grew as pension foundations were dissolved into employment pension companies.

DEVELOPMENT OF OPERATIONS

Pension Fennia's steering model was adjusted in 2011. The new, more process-oriented steering model aims at enhancing operations and emphasising the customer perspective. Power of decision has been transferred to a greater extent to the management groups of processes. The Executive Group of the company shall outline the



company level framework on the basis of which the management groups shall make independent decisions. This speeds up decision-making, reduces bureaucracy, and increases the co-operation between processes, information management and other support units. A new management group of project and information management was set up in connection with the reform of the steering model.

Pension Fennia's main processes are the investment process, customer process, and insurance and pension process. The purpose of support functions is to support the main processes and manage the tasks under their area of responsibility. The support functions are represented in the management groups of the main processes.

In customer service Pension Fennia focuses on multichannel supply and close co-operation with its partners. The partners' extensive network of operations combined with Pension Fennia's strong expertise in employment pension insuring guarantees comprehensive and knowledgeable service to customers. The developing of telephone and online services in turn makes it easier and more flexible to handle the insurance matters.

The development of the insurance process was continued by starting the project for electronic pension application. The benefit of electronic pension application will be seen especially as more cost-efficient, faster and higher quality service. Another significant benefit is the faster service to partners and customers. We are investing in electronic services, and during the year under review we especially marketed electronic invoices to our customers. The campaign was successful, as the number of electronic invoices to our entrepreneur customers tripled on the previous year. In the customer service of policyholders we focused on further improvement of our commended telephone service with the goal of "one-stop shop principle" in customer service.

According to an industry-specific survey conducted by Taloustutkimus Oy, Pension Fennia's customer satisfaction and corporate image have remained at a very good level. In a comparison between pension companies Pension Fennia received the second best general rating. Of customer satisfaction factors Pension Fennia received the best ratings for expertise, keeping its promises, readiness and willingness to serve, and accessibility. As for the probability to recommend, Pension Fennia received the best rating in the industry measured by the net recommendation index.

Long-term development of the pension process was shown as efficient high-quality services. To develop the standard of customer service and ensure its uniform quality, the follow-up and measuring of quality continued in different areas of the pension process last year.

Development projects related to the application of advisory services for the overall employment pension provision were implemented during the year. That required changes in information systems and processes as well as training and instructions concerning the advisory work.

Changes in information systems and processes required by SEPA payments were implemented in the payment of pensions during the year. The first pensions were successfully paid as SEPA transactions on schedule in October 2011.

The goal of the HR unit is to support Pension Fennia's operations and realisation of the strategy by means of personnel management. In order to reach its goals better and more effectively the HR unit initiated a reform of its operating model in 2011. The most important change in the operating model is the division of customer responsibilities inside HR by process to HR partners, as well as the re-defining and development of HR processes.

Anticipating personnel planning and development of expertise are still key areas of personnel work. During the year under review, Pension Fennia also invested in putting the model of early support to practice through training provided to both the personnel and supervisors. The model helps to prevent the weakening of the employees' working capacity. Our goal is to create a culture of caring and equal treatment. Our goal is that the personnel retires on old-age pension in good condition. On the other hand, we aim to support the working capacity of the personnel at different phases of their career.

The personnel survey of 2012 continues the surveys conducted in 2005–2011. Job satisfaction is very high among the personnel of Pension Fennia, and it continued to develop in the positive direction. The key strengths are found in the management culture and a strong employer image. The implementation of changes has been carried out considerably better than in Finnish expert organisations in general, the supervisors are interested in new ideas and initiatives and give feedback on work. Work motivation is high and the personnel is committed.

In 2010, Pension Fennia completed an extensive scenario work which involved the company's management and experts. In the annual strategy process the expert group examines signs on the realisations of the scenarios. The results of the work are reviewed in connection with the company's planning process.

Pension Fennia has a strategy club which brings the company's personnel in contact with strategy work. In the strategy club around twenty employees of the company from different parts of the organisation participate in strategy work by preparing and commenting the company's strategy. After the strategy club was started one third of Pension Fennia's employees are involved in strategy work.

INSURANCE PORTFOLIO AND PREMIUMS WRITTEN

At year-end 2011, Pension Fennia was responsible for insuring 224,980 persons' pension provision. The number of TyEL insurances increased by about 670 policies to 23,620, and the number of the insured totalled 185,660. At the end of 2011, the number of insured employment relationships was around 4,140 higher than in the previous year. The number of YEL insured increased by about 4,600 entrepreneurs during the year and stood at 39,320 at the year-end.

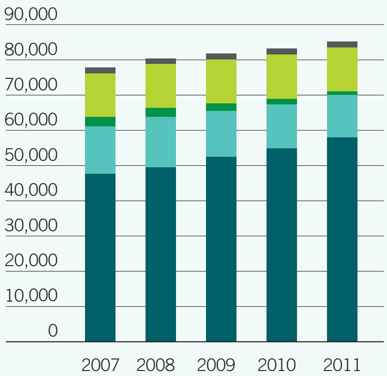
The average TyEL premium was 22.1 per cent of salaries/reported earnings. The employee's share was on average 5.0 per cent. Premiums written for the year 2011 stood at € 1,198.2 million. Of this amount, TyEL insurances accounted for € 1,043.2 million and YEL insurances for € 163.4 million before deduction of credit losses. Credit losses on premium receivables stood at € 8.4 million.

The amount of credit losses on TyEL premiums for 2011 totalled € 7.1 million. Credit losses on YEL premiums stood at € 1.3 million. Unpaid overdue premium receivables amounted to around € 49.3 million on 31 December 2011. The amount of credit losses increased by € 0.5 million and the amount of open insurance premiums increased by € 7.8 million on the previous year.

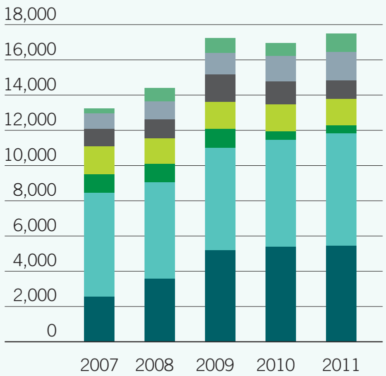
PENSIONS AND WELL-BEING AT WORK

In 2011, Pension Fennia handled a total of 17,400 pension matters, of which 8,600 were new pension applications. The number of new applications increased slightly on the previous year. The number of old-age pension applications increased by more than 10 per cent as the baby boom generations retired on old-age pension. Working alongside pension continued to increase. The customers of Pension Fennia retired on old-age pension on average at the age of 63.5 years. The number of rehabilitation applications has increased steadily and has doubled during the last five years. Public discussion and various measures to support continuing at work had the desired effect on the number of applications. Active co-operation with employers in the implementation of vocational rehabilitation was enhanced. The 40 per cent decrease in the number of part-time pension applications was expected, because the age limit for receiving part-

No. of pensioners 31 Dec.



No. of pension applications handled (new applications and appeals) 31 Dec.



Pensions paid 31 Dec.

Disability pension
Old-age pension
Survivors' pension
Unemployment pension
Rehabilitation
Part-time pension
Other

time pension was raised as of the beginning of 2011. The number of applications in other pension types remained approximately at the previous year's level.

At the end of 2011, the number of pension recipients was nearly 85,000. In 2011, a total of € 904 million was paid out in pensions in accordance with basic cover and € 16 million in accordance with supplementary cover. Pensions were paid to 50 different countries.

Pension advisory service sent pension records to some 271,000 customers. The sending of pension records has decreased the customers' need for personal pension advice, which was seen, for example, as decrease in the number of estimate calculations sent at the customer's request.

On the whole pension services proceeded in 2011 as planned. The customer service level of the pension process remained high, although there were several system development projects in progress alongside the basic work.

Pension Fennia offers its customers disability risk management services under the name Efekti. Efekti service offers our client companies and entrepreneurs support for disability risk management and promotion of well-being at work. The means include mappings, training, working community surveys, and a comprehensive info package on our Efekti website. Revamped in 2010, the Efekti service was introduced in full scale in 2011.

In 2011, the Efekti service launched Efekti training as a new form of service. A total of 19 Efekti training events were arranged in different parts of Finland. The subjects of the training were: management of absences due to illness, coaching management, will generation Y challenge the traditional age management, and the ABC of development discussions. The feedback on all training subjects was very positive (rated 4 on a scale from 1–5), the participants were ready to recommend the training to others, and they got a positive impression of Pension Fennia.

Efekti working community surveys were implemented with commendable activity in our client companies, although slightly less than anticipated. Efekti working community survey is a high-quality product which the users consider to be a good tool for development. Our customers rated Efekti working community survey at 8.7 on a scale from 0–10.

In the service for major accounts, a key role is played by disability risk management which requires active co-operation between the company management, the customer's occupational health care, and Pension Fennia's expert. The Efekti service expert consults our customer on the detected disability risks and realised disability pensions. The main emphasis of the co-operation lies in finding ways to extend the working careers of persons with impaired working capacity by means of vocational rehabilitation. That is partly reflected in the fact that the number of applications for vocational rehabilitation is also increasing and co-operation between rehabilitation activities and the Efekti service becomes closer in order to provide the customers with the best service process in the industry.

We will continue to develop the Efekti service in the coming years together with our customers.

Technical provisions, € mill.

	31 Dec. 2011	31 Dec. 2010
Premium reserve		
Future pensions	**3,305.2**	3,248.5
Provision for current bonuses	**13.2**	15.9
Provision for future bonuses	**94.2**	218.7
Provision linked to equity income	**-41.6**	58.6
	3,371.0	3,541.6
Claims reserve		
Current pensions	**2,650.1**	2,398.0
Equalisation provision	**236.2**	261.0
	2,886.3	2,659.0
Total	**6,257.3**	**6,200.6**

TECHNICAL PROVISIONS AND COVERING ASSETS

Pension Fennia's technical provisions stood at € 6,257.3 million at the end of 2011. Technical provisions included € 747.4 million of liabilities accrued from employees' share of premium.

Claims reserve also includes equalisation provision which stood at € 236.2 million at the end of 2011, of which basic benefit accounted for € 231.0 million. The amount of the equalisation provision was securing. The result of insurance business as a whole was negative in 2011.

The average return on equities of the pension system to be transferred to the technical provisions was around -17.6 per cent on 31 December 2011, and the amount of provision for bonuses linked to return on equities was around € -41.6 million on 31 December 2011.

The assets covering technical provisions meet the requirements of the Statute on Gross Margin and those of the Financial Supervisory Authority. Listed gross margin amounted to € 6,889 million, or 9.8 per cent more than the technical provisions to be covered. Pension Fennia's open foreign exchange position, or assets not hedged against exchange rate fluctuations amounted to € 433 million.

INVESTMENT OPERATIONS

The goal of investment operations is to achieve as high real returns in the long term as possible, keeping the solvency margin in efficient use and the risks at the level confirmed by the Board of Directors. Securing the solvency in all circumstances was emphasised in the investment operations in 2011.

Total investment income on invested capital stood at -1.4 per cent before operating expenses and unallocated income and costs of investment operations. The required rate of return on technical provisions is determined on the basis of the discount rate (3%) used in the calculation of the technical provisions, supplementary coefficient for pension liabilities, and the average equity income of pension institutions. The supplementary coefficient for pension liabilities was previously adjusted twice a year, at the beginning of January and the beginning of July. As the first stage of the reform of solvency regulation in the private sector employee pension system entered into force on 31 March 2011, the supplementary coefficient shall be determined quarterly as of 1 October 2011. The supplementary coefficient was 1.10 per cent for the period from 1 January–30 June 2011, 1.24 per cent for the period from 1 July–30 September 2011, and 1.01 per cent for the period from 1 October–31 December 2011. The technical rate of interest is still determined semi-annually on the basis of the average solvency of earnings-related pension institutions. In 2011, the technical rate of interest stood at 4.5 per cent until 30 June 2011 and at 4.75 per cent from 1 July 2011–31 December 2011.

The net return on investment operations in the profit and loss account stood at € 26.1 million. Capital losses

Investment distribution 2011

Investment assets at fair values	**31 Dec. 2011**		**Return**	**31 Dec. 2010**		**Return**
(includes accumulated interest)	€ mill. [2]	%	%	€ mill. [2]	%	%
Fixed-income investments	**3,813.5**	**56.3**	**3.3**	**3,627.3**	**53.6**	**5.0**
Loans	390.1	5.8	3.5	453.6	6.7	3.4
Bonds of OECD/EEA public corporations	1,036.0	15.3	4.2	1,208.0	17.9	5.6
Bonds of other corporations	1,651.6	24.4	3.5	1,377.1	20.4	8.9
Other money-market instruments and deposit, which include receivables and debts directed at the investments [1]	735.8	10.9	1.6	588.6	8.7	1.0
Equities	**1,297.5**	**19.2**	**-15.5**	**1,686.9**	**24.9**	**22.5**
Listed equities	1,079.7	15.9	-18.4	1,488.7	22.0	24.8
Private equity investments	114.4	1.7	5.4	98.3	1.5	7.0
Unlisted equities	103.4	1.5	7.4	99.9	1.5	5.2
Real estate investments	**900.0**	**13.3**	**9.2**	**799.4**	**11.8**	**8.2**
Direct real estate investments	674.9	10.0	8.4	653.0	9.7	7.1
Real estate investment funds and joint investment companies	225.1	3.3	12.1	146.5	2.2	14.0
Other investments	**761.9**	**11.2**	**-2.7**	**648.3**	**9.6**	**9.4**
Hedge fund investments	740.8	10.9	-3.3	648.3	9.6	9.4
Other investments	21.1	0.3	40.6	-	-	-
Total investments	**6,772.8**	**100.0**	**-1.6**	**6,761.9**	**100.0**	**10.0**

1) As of 1 January 2011 money-market investments also include receivables and debts directed at the investments.

2) Includes € 23.4 million of derivatives outside the balance sheet.

generated in equity, fixed-income and real estate investments amounted to € 171.2 million and capital gains to € 208.6 million. Value readjustments of € 2.4 million were made in equities and shares, € 1.1 million in bonds, € 3.8 million in other investments, and € 9.3 million in real estate. Value adjustments on equities, bonds and real estate stood at € 185.2 million. Valuation differences decreased by € 134.0 million during the financial year. The net return on investment operations at fair values stood at € -107.9 million.

Year 2011 was filled with problems in the equities markets. At the beginning of the year the market was burdened by political unrest in Northern Africa. The next shock was the earthquake in Japan and the subsequent nuclear accident. The flow of problems did not end there; during the summer, discussion on the US debt ceiling and problems in the most indebted European countries, especially Greece, pushed the equities markets to a steep downhill. The poor year for equities was also visible in Pension Fennia's return on listed equities which stood at -18.4 per cent.

Despite the poor year for equities, return on unlisted equities and private equity funds were at a satisfactory level. Return on unlisted equities stood at 7.4 per cent and that on private equity funds at 6.1 per cent.

Return on all fixed-income investments stood at 3.3. per cent in 2011. Particularly the 4.2 per cent return on investments in state bonds and bonds of public corporations can be considered very good in an environment in which the interest markets were dominated by a major crisis. The state bond portfolio carried a very heavy overweight of eurozone countries with the highest credit rating throughout 2011. There were very few investments in the problem areas.

The yield of hedge funds stood at -3.3 per cent in 2011. Hedge funds effectively decentralised the risks of the investment portfolio especially compared with equities investments, but naturally the negative yield is not completely satisfactory.

In the real estate market the number of deals was lower than expected, as the investors were only interested in the best items. Hence the values of prime objects increased somewhat, while the values of higher risk real estate items continued to decrease. The utilisation rate of residential flats was record high, while the rental market of offices continued to decline. Users increasingly found their way to new objects with efficient premises and central location, as a result of which the premises in old office buildings in less attractive areas continued to lose tenants.

During the year, additional investments were made in own renovation and new building projects and real estate funds. Including changes in value, Pension Fennia's real estate investments grew by around € 100 million. The most important completed new building object was the Sello high-rise with 151 flats of which Pension Fennia owns a part.

The return on real estate investments calculated on invested capital stood at 9.2 per cent.

The amount of corporate financing loans decreased somewhat and stood at € 387 million at the year-end. New loans totalled around € 30.3 million. The total return on the loans was fairly good at 3.5 per cent despite the low interest rate level, and credit losses were small.

TOTAL OPERATING EXPENSES AND PERSONNEL

Total operating expenses for 2011 were € 56.6 million. Operating expenses covered with expense loading stood at € 40.6 million and operating expenses covered from the investment income at € 10.2 million. € 1.9 million of operating expenses related to working capacity maintenance were paid from the disability loading of the premium. Total operating expenses included € 3.9 million of statutory charges which are covered with a separate share of premium.

Personnel costs accounted for 40 per cent of the cost of insurance business and investment operations, and IT costs accounted for 35 per cent. Expense loading totalled € 52.8 million for the year. Loading profit stood at € 12.2 million, and 76.9 per cent of the loading profit was spent on operating expenses of insurance business.

The company employed an average of 256 persons in the year 2011. At year-end 2011, 259 people were permanently employed, and 18 had a fixed-term employment relationship. 11 people were on maternity or child care leave, 2 on part-time pension and 2 on partial disability pension. A total of 22 new employees were hired, and 10 fixed-term employments were made permanent. 9 employment relationships ended, 4 of them due to retirement.

On the basis of the personnel plan for 2011, the situation with resources is good in almost all units. The ongoing and upcoming projects bind a considerable amount of resources in different parts of the organisation in the current and coming years. For example, the need for resources resulting from projects or child care leaves will be covered by hiring employees for a fixed term as needed. The process-like method of operation has further improved the opportunities for better utilisation of personnel resources through internal movement. The building of internal movement and different learning paths will be more and more important in the future along with development of expertise. As a result of the model of early support the company has also tackled the deterioration of working capacity more efficiently.

PRINCIPLES OF REWARDING

The Financial Supervisory Authority issued a recommendation on rewarding to the organisations supervised by it in March 2011. The Financial Supervisory Authority recommended that all the organisations supervised by it comply with the decree on rewarding issued by the Ministry of Finance to credit institutions and investment service companies. Due to the recommendation the Appointment and Remuneration Committee prepared in 2011 an updated salary and reward policy for approval by the Board of Directors and outlined in more detail the principles of rewarding applied in Pension Fennia for the whole personnel. Pension Fennia's rewarding policy mostly complied with the recommendation of the Financial Supervisory Authority already before the recommendations. Pension Fennia has a goal reward system that concerns the majority of the personnel, incentive reward system for the Executive Group, incentive reward system for the extended Executive Group, Risk Management and Controller unit and part of the investment organisation, and result reward system concerning the sales staff. The members of the Board of Directors are not included in any of Pension Fennia's reward systems.

The Appointment and Remuneration Committee annually prepares the incentive indicators and rewarding principles of the Executive Group as well as the rewards to be paid to the Executive Group and realisation of the indicators used as the basis of goal reward for approval by the Board of Directors. As for other personnel groups, the Managing Director approves the reward indicators and rewards to be paid in accordance with the policy of the Appointment and Remuneration Committee.

The majority of the personnel (78%) is covered by the goal reward system approved by the Board of Directors. The goal reward comprises of two parts, the company's performance (30% of the reward) and the share based on reaching the goals set for processes (70% of the reward). The amount of possible maximum reward for 2011 was 10 per cent of the annual salary. The indicators are the key figures that describe the development of the operations and efficiency of the main processes, and these indicators are applied as different combinations to all those covered by the system. The indicators have mainly been the same from one year to another to allow observing the development of operations and increase in efficiency.

In the result reward system of the sales organisation the rewards are determined on the basis of reaching the sales goals set.

In the Executive Group personal goals derived from the company's strategic goals have been set for each director. In addition, the goals of each director's result card are noted and the management work is evaluated for the purposes of the reward. In investment operations the portfolio managers have an incentive reward system derived from the strategic goals of investment operations and asset type/team-specific and personal goals. The goals of the Risk Management and Controller unit have been derived from the goals set for the Chief Financial Officer by the Board of Directors, the development goals of the investment process, and personal goals.

The maximum amount of reward has been confirmed for all those covered by the goal reward systems, and part of the rewards is paid in the year following their determination and the rest are delayed over the next three years. The Board of Directors has reserved the opportunity to not pay the rewards. Half of the maximum reward is paid for reaching the goals set in the incentive reward system. Incentive rewards are also limited by taking into account the risk position of the company's solvency and the company's financial standing.

A regularly updated report on salaries and reports in which the salaries, rewards and other benefits of the Managing Director, other management and administration are described in more detail can be viewed on Pension Fennia's website.

RESULT AND SOLVENCY

The book net returns on investment operations, including such interest items of the profit and loss account that are not entered under investment income, amounted to € 26.1 million. The interest paid on technical provisions for the same period stood at € 249.3 million. The technical provisions linked to return on equities were dissolved by € 100.7 million, including the estimate error from the previous year. Therefore the book result of investment operations was € -122.6 million. The valuation differences decreased by € 134.0 million. The result of investment operations at fair values including other interest items of the profit and loss account was € 256.6 million. Loading profit was € 12.2 million. The loss on insurance business stood at € -24.1 million. The combined total result of Pension Fennia was € -268.5 million.

Provision for future bonuses decreased by € 124.5 million. € 13.2 million was transferred to be used on premium discounts.

The solvency margin at the year-end amounted to € 975.9 million, or 16.5 per cent of the technical provisions. Valuation differences accounted for € 600.2 million of the solvency margin. The minimum amount of solvency margin is € 118.0 million.

The share of the clearing reserve paralleled with the solvency margin (EMU buffer) in accordance with exceptive law 853/2008 has been taken into account in the figures. The amount of the solvency margin without the EMU buffer is € 730.0 million and 11.9 per cent of the technical provisions.

The profit and loss account shows a surplus of € 1,568,016.76.

INTERNAL SUPERVISION AND RISK MANAGEMENT

The Board of Directors is obliged to evaluate the state of the company's internal supervision annually. This evaluation is based on the report drawn up by Internal Auditing. As for the year 2011, the Board of Directors evaluated that internal supervision has been appropriately arranged. The Board was assisted by the Audit Committee whose tasks included e.g. monitoring the company's financial position, financial reporting, and the sufficiency and appropriateness of internal supervision and risk management.

Risk Management was transferred on 15 February 2011 to Director responsible for Finance and HR Irmeli Heino, and Director of the Controller unit Sarianne Kirvesmäki was appointed director of Risk Management as of the same date. She continues as the head of the Risk Management and Controller unit.

The Board of Directors has approved a risk management plan covering all operations of Pension Fennia; the plan is divided into two parts: risk management plan for investment operations to be approved in connection with the investment plan and risk management plan for other operations. The risk management process has been integrated into operations planning, and a key task of the process is to ensure the realisation of the company's strategic goals and other important projects related to operations. An intermediate report drawn up by the Risk Management and Controller unit has been submitted to the Audit Committee on the progress of the measures in accordance with the risk management plan. The Board receives the final report on the risk management measures. Regarding investment operations, the Board receives a report on risks related to investments in June and November.

The members of the Executive Group are responsible for ensuring in their own sectors that internal supervision is implemented and that the risk management processes are appropriate. Each process and unit draws up a risk management plan for operations under co-ordination of the Risk Management and Controller unit. The most important operational risks are related to, for example, life and health risks, information systems, processes, safety and legal affairs. The risk management plans for operations are based on a method in which the risks related to operations are identified, their effect is assessed, the risk management means are determined, and means of supervision are agreed on to monitor the measures.

Investment risks are prepared for using the solvency margin. The key figures used in the follow-up and evaluation of the total risk position of investment operations are the ratio of solvency margin to technical provisions and to the solvency limit in accordance with the statutes. Solvency margin, solvency position and the risk key figures of different asset categories are continuously followed. While the exceptive law is in force, solvency is also followed without the effect of the reliefs of the exceptive law.

Insurance business risks are related to the sufficiency of insurance premium and technical provisions in the short and long term. The risk management of insurance business is based on premium bases and bases for technical provisions that meet the security requirements, which are the same for all companies. The company has prepared for fluctuations of insurance business with the equalisation provision included in the technical provisions. According to stipulations, the company has appointed an actuary whose task is to see inside the company, for example, that the actuarial methods are appropriate.

Risk management is described in more detail in the notes to the financial statements.

INTERNAL AND EXTERNAL AUDITING

Mikko Karpoja was appointed the Director of Actuarial Services and Internal Auditing on 15 February 2011. Internal Auditing carries out independent and objective evaluation, securing and consultation services, the purpose of which is to create added value to the organisation and enhance its operations. Internal Auditing supports the organisation in reaching its goals by offering a systematic approach for the evaluation and development of the efficiency of the organisation's risk management, supervision, management and administration processes. Internal Auditing annually draws up an operating plan that is approved by the Board of Directors. Observations are reported to the Executive Group and Audit Committee, and a report is annually drawn up for the Board of Directors. Internal Auditing has provided the Board of Directors with an evaluation of internal supervision on

an annual basis.

External auditing of operations is carried out by the auditors elected by the Annual General Meeting. In addition, the company's operations are supervised by the Financial Supervisory Authority.

ADMINISTRATION

On 18 April 2011, the Annual General Meeting of Pension Fennia elected Tero Jussila and Timo Suominen to the Supervisory Board at the suggestion of central employer organisations, and re-elected Pertti Porokari and Marjaana Valkonen and elected Jaana Ylitalo as a new member at the suggestion of central employee organisations. In addition, the following persons were re-elected to the Supervisory Board: Oiva Iisakka, Erkki Moisander and Stefan Wentjärvi. Kari Happonen, Kyösti Pöyry and Pekka Rantamäki were elected as new members to the Supervisory Board. Anssi Vuorio and Pentti Jussila resigned from the Supervisory Board.

The Annual General Meeting elected Ulla Nykky, Authorised Public Accountant, and Pekka Hietala, Authorised Public Accountant, auditors; Tuija Korpelainen, Authorised Public Accountant, and Pasi Hirvonen, Authorised Public Accountant, were elected deputy auditors.

In its meeting on 22 November 2011, the Supervisory Board of Pension Fennia re-elected Board members Heikki Kauppi, Antti Rinne and Pekka Sairanen. In addition, Jussi Mustonen was elected as an ordinary member to replace Heikki Ropponen. Pekka Sairanen was the Chairman of the Board of Directors in 2011, Timo Vallittu the First Deputy Chairman and Heimo Aho the Second Deputy Chairman. The Board of Directors re-elected from among themselves Pekka Sairanen the Chairman, Timo Vallittu the First Deputy Chairman and Heimo Aho the Second Deputy Chairman for the year 2012.

The Appointment and Remuneration Committee of the Board of Directors was formed by the Chairman and Deputy Chairmen of the Board in 2011. Members of the Audit Committee of the Board of Directors in 2011 were Heikki Ropponen, Heikki Kauppi and Olavi Nieminen. In its meeting on 19 December 2011, the Board of Directors re-elected Heikki Kauppi and Olavi Nieminen as members and elected Jukka Ahtela as a new member of the Audit Committee.

In 2011 Taisto Lehti was the Chairman of the Supervisory Board, Marjaana Valkonen the First Deputy Chairman, and Klaus Saarikallio the Second Deputy Chairman. In its meeting on 22 November 2011, the Supervisory Board decided to elect Taisto Lehti the Chairman of the Supervisory Board, Marjaana Valkonen the First Deputy Chairman, and Klaus Saarikallio the Second Deputy Chairman for the calendar year 2012.

Members suggested by the policyholders to the Election Committee in 2011 were from the Board of Directors of Pension Fennia Eero Lehti, and from the Supervisory Board Taisto Lehti and Klaus Saarikallio. Members suggested by the insured to the Election Committee were from the Board of Directors of Pension Fennia Antti Rinne, and from the Supervisory Board Pertti Porokari and Marjaana Valkonen. Taisto Lehti was elected the Chairman of the Election Committee and Marjaana Valkonen was elected the Deputy Chairman for 2011. By a decision made by the Supervisory Board on 22 November 2011, members suggested by the policyholders re-elected to the Election Committee for the calendar year 2012 were from the Board of Directors of Pension Fennia Eero Lehti, and from the Supervisory Board Taisto Lehti and Klaus Saarikallio. Members suggested by the insured re-elected to the Election Committee were from the Board of Directors of Pension Fennia Antti Rinne, and from the Supervisory Board Pertti Porokari and Marjaana Valkonen. Taisto Lehti was elected as the Chairman of the Election Committee and Marjaana Valkonen as the Deputy Chairman for the calendar year 2012.

The Board of Directors convened 12 times during the year, and the participation percentage was 97.5. The shareholders' general meeting convened once. The Supervisory Board and the Election Committee of the Supervisory Board convened twice each.

The Executive Group comprises the following persons: Lasse Heiniö, Managing Director; Matti Carpén, Deputy Managing Director, Director responsible for customer, insurance and pension processes and information management; Eeva Grannenfelt, Director, Chief Investment Officer; Irmeli Heino, Director, Finance, Risk Management and Human Resources; Mikko Karpoja, Director, Actuarial Services and Internal Auditing; and Mika Ahonen, Director, Legal Affairs, Planning and

Communication. The Executive Group convenes in an extended form in connection with planning rounds or when otherwise summoned. In addition to the abovementioned, the extended Executive Group includes Kaj Laaksonen, Director of Sales; Sarianne Kirvesmäki, Director of Risk Management; Aaro Mutikainen, Director of Information Management (as of 9 January 2012); Timo Stenius, Director, Customer Finance and Real Estates; and Seppo Mattila, Medical Director until 31 December 2011, and Timo Leino, Medical Director as of 1 January 2012. The Investment Committee includes the Managing Director as the Chairman, and Eeva Grannenfelt, Timo Stenius and Irmeli Heino as members.

Pension Fennia gives a separate report about its corporate governance in connection with the financial statements and the Board of Directors' report.

PENSION FENNIA AND THE GROUP

Pension Fennia is a mutual insurance company, and decisions at the Annual General Meeting are made by policyholders, the insured and the guarantee capital owner as prescribed in the Articles of Association. The policyholders hold about 80 per cent and the insured about 20 per cent of the votes.

At year-end 2011, Pension Fennia group included 40 housing and real estate companies as subsidiaries. Pension Fennia owns 40 per cent of the shares and votes of its associated undertaking Tyvene Oy, 40 per cent of the shares and votes of Insurance Company Fennia Life, and 54 per cent of the shares and 41.1 per cent of the votes of Avara Oy.

PENSION FENNIA'S CAPITAL AND RESERVES AND THE BOARD OF DIRECTORS' PROPOSAL ON THE DISPOSAL OF PROFIT

Pension Fennia's capital and reserves consist of restricted capital and reserves which includes guarantee capital of € 1,681,879.26 and initial fund of € 3,363,758.53, and non-restricted capital and reserves which includes contingency fund of € 635,750.36, contingency reserve of € 27,968,869.58, and retained earnings amounting to € 1,796,373.63.

The guarantee capital is divided into ten guarantee shares numbered from 1–10. An interest decided by the shareholders' general meeting is paid on the guarantee capital annually. The interest rate may not be higher than the guaranteed rate of interest applied in policies under the Employees Pensions Act plus one percentage point. The repayment of the guarantee capital is made out of the value of the guarantee share which is obtained by dividing the amount of guarantee capital by the number of guarantee shares in the same proportion from the guarantee capital of each guarantee share owner.

The Board of Directors proposes that the € 1,568,016.76 surplus for the financial year be disposed as follows: € 25,000 be reserved for the public good or similar purpose, € 1,540,000.00 be transferred to the contingency reserve, and € 3,016.76 be retained in the profit and loss account. No interest is paid on the guarantee capital for the year 2011.

SIGNIFICANT EVENTS AFTER THE CLOSE OF THE FINANCIAL YEAR

It was announced in February 2012 that Tapiola and Local Insurance Group will merge to form a mutual financial group that will start operations on 1 January 2013. The earnings-related pensions taken from Pension Fennia via Local Insurance Group will stay in Pension Fennia. Pension Fennia is part of Fennia Group which is a strong national player and has a particularly strong position among SMEs and self-employed persons.

The economic data received during the first weeks of 2012 indicates at least temporary, USA-driven improvement of the economic cycle, although its enduring is pure guesswork. The inflation pressure of emerging countries seems to have subsided, and there is room for recovery measures if required. The situation in Europe has remained difficult, although it is hoped that the letter of intent on the harmonisation of economic policy agreed on between governments in the autumn would be verified in early 2012. The ECB has played an important role in securing the financing of the European banking system, and further measures are to be expected.

In investment operations the year has started favourably. Pension Fennia's solvency is still at a securing level.

FUTURE OUTLOOK

In global economy the year 2012 started in a confusing mood. The debt crisis of the eurozone countries is still acute, although corrective measures have progressed. Credit rating agencies are lowering their risk estimates on many eurozone countries, because the outlook for growth is very poor also due to tightening financial policy. The global economy once again depends on the USA and emerging economies, but not much trust can be placed especially on the cyclic rise in the USA because of indebtedness of consumers and uncertainty of economic policy actions. For example, the World Bank lowered its forecast on the global growth for 2012 to 2.6 per cent in January and warned that the continuing of the European debt crisis would result in much gloomier times for the world economy.

The inflation rate has been globally increasing over the last two years from the low levels during the financial crisis, but seems to be subsiding in emerging economies, and it is not expected to become a problem despite the massive quantitative recovery measures by the central banks. Regarding prices, the symptoms on the increase of oil price are somewhat problematic, and they are maintained e.g. by the political uncertainty in Iran.

It seems like we still have not survived the aftermath of the financial crisis of 2008; debts have been transferred from the private sector to the state and increasingly to central banks. The environment for economic growth and investments in the next few years will be very challenging, because the debt level must be reduced in developed countries, which will burden the economic cycles for several years, and demographic trends will probably hamper the long-term trend growth of economies.

Although Pension Fennia's solvency ratio decreased during 2011, it is still at a securing level. If the development in the investment market continues to be weak, the solvency ratios of all pension system players can be expected to decline. If extended, such development would inevitably decrease the risk-taking with investments. The problem in such a situation would be that when the economic cycle at some point turns for the better, pension institutions would not possess as many risk-bearing investments as would be preferable that provide a high return during a rising economic cycle. The above is referred to as the problem of pro-cyclicality which is a phenomenon known within the system. The goal is to develop the solvency framework in the solvency working group in such a direction that the detrimental effects of pro-cyclicality would diminish.

From the point of view of the durability of the public economy it is important that working careers can be extended, thus fostering the development of the payroll. According to the Finnish Centre for Pensions, the employment expectancy of Finns was 34.0 years in 2011, which is the 6th highest of the EU-15 countries. The development of the payroll will be decided on the basis of the Finnish employment situation. As some three quarters of the earnings-related pensions are financed directly with the premium income from each year, it is essential from the point of view of the pension scheme that there is enough work in the country for financing pensions. In addition to developing of pension rights, it is to be expected that the government will propose to the Parliament that the solvency regulations be developed. Then the insurance risk would be included in measuring the risk bearing, and the equalisation provision serving as its buffer would be taken into account in the solvency. The government may also propose that the means of competition between employment pension companies be increased by releasing the contribution collected as cover for the companies' expense loading to each company. At the same time the customers must be offered a real opportunity to transfer to a company they consider to be more efficient.

The Pension Fennia Board of Directors wishes to thank all personnel and the operative management for a job well done in the financial year 2011.

Profit and loss account

EUR 1,000	Group 2011	Group 2010	Parent company 2011	Parent company 2010
Technical account				
Premiums written	1,198,246	1,126,247	1,198,246	1,126,247
Investment income	553,921	693,533	559,885	699,882
Revaluation of investments				
Claims incurred				
Claims paid	-1,136,089	-1,045,852	-1,136,089	-1,045,852
Change in claims paid	-227,283	-289,988	-227,283	-289,988
	-1,363,372	-1,335,840	-1,363,372	-1,335,840
Change in premium reserve	170,664	-142,015	170,664	-142,015
Operating expenses	-32,656	-31,364	-32,656	-31,364
Investment expenses	-527,105	-310,611	-531,091	-315,557
Balance on technical account/margin	**-302**	**-50**	**1,677**	**1,354**
Non-technical account				
Other income	3	3	3	3
Share of the result of associated undertakings	6,460	5,639		
Profit from operations	6,161	5,592		
Appropriations				
Change in depreciation difference			-111	-50
Income taxes				
Calculated tax	37	100		
Minority interest in the result for the financial year	289	280		
Profit/loss for the financial year	**6 486**	**5,972**	**1,568**	**1,306**

Balance sheet

EUR 1,000	Group 2011	Group 2010	Parent company 2011	Parent company 2010
ASSETS				
Intangible assets				
Intangible rights	141	99	141	99
	141	99	141	99
Investments				
Investments in land and buildings				
Land and buildings	432,669	431,207	289,079	286,891
Loan receivables from group companies			211,010	213,219
Loan receivables from real estates	60,347	60,347		
	493,016	491,554	500,088	500,110
Investments in group companies and participating interests				
Shares and participations in associated undertakings	66,843	28,024	49,013	16,654
	66,843	28 024	49,013	16,654
Other investments				
Equities and shares	2,780,944	2,799,005	2,779,525	2,798,100
Money-market instruments	2,407,984	2,214,192	2,407,984	2,214,192
Loans guaranteed by mortgages	210,372	221,933	210,372	221,933
Other loan receivables	176,034	228,563	176,573	228,563
Deposits		16,800		16,800
	5,575,334	5,480,494	5,574,454	5,479,588
	6,135,193	6,000,072	6,123,555	5,996,352
Debtors				
Direct insurance business				
Policyholders	91,989	116,995	91,989	116,995
Other debtors				
Receivables from participating interests			6	2
Receivables from associated undertakings	6	2		
Receivables from own real estate companies			5,451	2,599
Receivables from partner companies	21	4	21	4
Other debtors	111,482	113,046	111,482	113,046
	111,509	113,052	116,960	115,652
Other assets				
Tangible assets				
Furniture and fixtures	2,269	1,923	2,269	1,923
Other tangible assets	353	353	353	353
	2,623	2,277	2,623	2,277
Money in hand and cash at bank	18,450	19,931	17,875	19,682
	21,073	22,208	20,497	21,958

EUR 1,000	Group 2011	Group 2010	Parent company 2011	Parent company 2010
Prepayments and accrued income				
Accrued interest and rent	42,814	43,670	42,814	43,670
Other prepayments and accrued income	7,014	4,279	6,649	4,095
	49,827	47,950	49,462	47,766
Total assets	6,409,732	6,300,376	6,402,604	6,298,822

EUR 1,000	Group 2011	Group 2010	Parent company 2011	Parent company 2010
LIABILITIES				
Capital and reserves				
Initial fund	3,364	3,364	3,364	3,364
Guarantee capital	1,682	1,682	1,682	1,682
Revaluation reserve	84	84		
Other reserves	28,923	27,648	28,605	27,330
Profit/loss brought forward	-12,337	-17,008	228	222
Profit/loss for the financial year	6,486	5,972	1,568	1,306
	28,202	21,741	35,447	33,904
Minority interest	13,337	12,646		
Accrued appropriations				
Depreciation difference			265	154
Technical provisions				
Premium reserve	3,370,972	3,541,637	3,370,972	3,541,637
Claims reserve	2,886,296	2,659,013	2,886,296	2,659,013
	6,257,268	6,200,650	6,257,268	6,200,650
Creditors				
Direct insurance business	4,013	3,905	4,013	3,905
Calculated tax debt	461	499		
Other creditors	43,866	26,724	43,672	26,608
	48,340	31,128	47,685	30,513
Accruals and deferred income	62,585	34,212	61,940	33,602
Total liabilities	6,409,732	6,300,376	6,402,604	6,298,822

Accounting principles 2011

The financial statements have been drawn up in accordance with the Accounting Act and Accounting Decree, the Limited Liability Companies Act, the Act on Employment Pension Insurance Companies and the Insurance Companies Act. The financial statements are in compliance with the statutes of the Ministry of Social Affairs and Health on financial statements and consolidated financial statements of insurance companies, as well as the regulations and guidelines issued by the Ministry of Social Affairs and Health and the Financial Supervisory Authority.

CONSOLIDATED FINANCIAL STATEMENTS

Those subsidiaries in which Pension Fennia holds more than half of the votes have been consolidated in the consolidated financial statements. The subsidiaries that were part of Pension Fennia Group in 2011 are real estate companies.

The consolidated financial statements have been compiled in accordance with the accounting principles applied in the parent company as combinations of the profit and loss accounts and balance sheets of the parent company and its subsidiaries. Intra-group income and charges, profit distribution, amounts due to or from group companies and cross-shareholdings have been eliminated. No subsidiaries were sold during the financial year. Minority interests in the profit or loss for the financial year and in capital and reserves are shown as separate items.

Intra-group cross-shareholdings have been eliminated using the acquisition method. The resulting consolidation difference is allocated to the subsidiaries' asset items within the limits permitted by their fair values. The consolidation difference is depreciated in accordance with the planned depreciations of the corresponding asset item. Previous revaluations in group shares are shown in the consolidated balance sheet as a revaluation of real estate owned by a subsidiary.

Pension Fennia's associated undertakings Insurance Company Fennia Life, Tyvene Oy and Avara Oy have been consolidated in the consolidated financial statements using the equity method. Housing and real estate companies have not been treated as associated undertakings in the consolidated financial statements, because their effect on group profit and non-restricted capital and reserves is minimal.

Copies of the consolidated financial statements are available at the parent company head office, address Kansakoulukuja 1, 00100 Helsinki.

PREMIUMS WRITTEN

The TyEL premium income is determined according to the total TyEL payroll and the payment percentage of the insured. The advance premium based on the payroll estimate and collected during the financial year has been adjusted using the adjustment premium estimate in the financial statements. The differences caused by the estimated and realised adjustment payments of the previous year are also entered in the premiums for the financial year.

The YEL premium income is determined according to the self-employed person's reported income and payment percentage.

CLAIMS INCURRED

Claims incurred consist of the pensions paid to the pensioners, rehabilitation costs, clearing of PAYG pensions, operating expenses of claims handling, and the change in the provision for claims.

VALUATION OF INVESTMENTS AND RECEIVABLES IN THE BALANCE SHEET AND DETERMINING THE FAIR VALUES

Investments in land and buildings are entered at the lower of acquisition cost less depreciation plus revaluation, or fair value. The fair values of land and buildings and real estate shares are determined by item in the manner required by the Financial Supervisory Authority. Statements of an external, authorised real estate assessor have mainly served as the basis for determining the fair values.

The value adjustments made on real estate are entered in the profit and loss account under value adjustments. Value readjustments with effect on profit have been made on the sold real estate before entering the capital gain. No revaluations on book values of real estate were made in the financial year 2011.

Equities and shares are entered in the balance sheet at the lower of acquisition cost or fair value. Previous value adjustments on equities are entered in the profit and loss account as value readjustments for the part that the fair value exceeds the book value, but not in amount exceeding the value adjustments made earlier. Equities and shares are entered in the books using the average price principle. Fixed asset shares are valued in the balance sheet at the acquisition cost, because that is considered to correspond to their fair value. The last available closing prices of the financial year are used as fair values for listed equities and shares. The fair value of unlisted equities and shares is the acquisition cost or the probable net realisable value. The fair value used for Fennia Life and other significant unlisted equities is the market value calculated by an external assessor.

Financial market instruments include bonds and money-market instruments. The balance sheet value of money-market instruments is the acquisition cost, adjusted with the difference between the nominal value and the acquisition cost. The difference between the nominal value and the acquisition cost is matched as a deduction or addition in interest income over the maturity of the debt instrument. The amount of matching entries entered under acquisitions is presented in the notes to the balance sheet. However, value adjustments caused by a reason other than change in general interest rate level shall be entered in the profit and loss account.

Foreign currency denominated receivables have been converted into euro at the rate quoted by the European Central Bank on 31 December 2011. Foreign currency denominated other investments are entered at the rate of the acquisition date. The rates quoted on 31 December 2011 have been used to calculate the fair values. If the fair value on the date of closing the accounts is lower than the acquisition cost, the values of the investments have been adjusted. The unallocated rate differences that have arisen during the financial year are entered under other income and expenses from investments, and allocated rate differences have been handled as adjustments of the relevant income and expenses.

Loans, other receivables and deposits are valued at the lower of nominal value or probable value.

Premium receivables consist of the adjustment premium estimate and the due insurance premiums unpaid at the close of the financial year. The due insurance premiums that have been stated disqualified for payment, as well as receivables from companies that have been declared bankrupt are entered as credit losses. Furthermore, reduced receivables from confirmed business restructuring are entered in credit losses. In addition, credit losses are entered from major business restructuring incomplete at the turn of the year on the basis of appraisal.

In the TyEL premium system premium receivables are grouped according to the strongest collection procedure of the insurance as follows: bankruptcy, debt recovery, debt restructuring and other.

Credit losses from YEL premium receivables are principally entered due to expiration.

Derivative contracts have been used by Pension Fennia for targeting at additional income, for allocation changes, enhancing portfolio management, and hedging purposes.

Hedging calculation is only applied to those derivative contracts that meet the requirements set in the instructions of the Financial Supervisory Authority. Derivative contracts for hedging purposes are valued together with the hedged item. If no change in value has been entered in the profit and loss account for the hedged balance sheet item, no entry has been recorded in the profit and loss account for the hedging contract, unless the negative value change exceeds the positive value change in the hedging contract. When a value re-adjustment has been entered for the hedged item, the value change of the derivative used is entered in its entirety as an expense. The income and expenses resulting from a derivative contract are principally entered in the same profit and loss account item as the income and expenses from the hedged balance sheet item or position.

The negative value changes of other derivative contracts are entered in the profit and loss account. The profits and losses resulting from the termination or expiration of contracts during the financial year are entered as income or expenses for the financial year.

In calculating the contribution margin, capital and reserves, and the solvency requirements, foreign currency derivatives are handled as derivatives that decrease the investment risk. Those equity and credit risk derivatives and interest derivatives to which hedging calculation is applied have not been handled in the calculation of the contribution margin and the solvency requirements as derivatives that decrease the investment risk. Regarding the counterparty risk, the rules on limiting risk concentration presented in the instructions of the Financial Supervisory Authority have been followed.

PROVISIONS AND TAX LIABILITIES

No calculated tax liabilities are presented on valuation differences of investments which are shown in the notes. The revaluations entered as income are taxable income. In the consolidated financial statements, the accrued depreciation difference and voluntary provisions are divided into calculated change in tax liabilities and result for the financial year, as well as into calculated tax liabilities, and capital and reserves.

DEPRECIATION AND CALCULATION PRINCIPLES

The acquisition cost of depreciable assets is capitalised and entered as depreciation according to plan under expenses during its economic useful life. Revaluations on depreciable assets entered as income are also depreciated according to plan. Software licenses are shown as intangible rights, and software design and programming costs as other long-term expenses. Other capitalised expenditure related to system projects shall be entered as annual expenses in accordance with section 5:5a of the Accounting Act.

The straight-line depreciation on the original acquisition cost according to the following economic useful lives:

Residential, office and business premises	50 years
Industrial premises and warehouses	40 years
Intangible rights	5 years
Motor vehicles	5 years
Computer hardware and software	4 years
Furniture and fixtures	10 years
Office machines	7 years
Other long-term expenses	5 years

Depreciation on the original acquisition cost calculated as outlay residue write-off:

Technical equipment in buildings	20%

The maximum depreciation allowed under the Act on the Taxation of Business Profits has been made in the case of some buildings.

OPERATING EXPENSES

The operating expenses of the company have been divided into different functions according to the regulations of the Financial Supervisory Authority as shown in the notes. Statutory payments have been included in the administrative costs.

DIRECT TAXES AND SURPLUS FOR THE FINANCIAL YEAR

The deferred tax determined on the basis of the taxable income for the financial year is not realised due to the available confirmed losses and corporate tax credit.

Pension Fennia's surplus for the financial year is determined according to the calculation bases applied for by Pension Fennia and confirmed by the Ministry of Social Affairs and Health.

PENSION ARRANGEMENTS

The statutory pension provision for the personnel is arranged through TyEL insurance. Supplementary pension provision is arranged for part of the personnel through TEL supplementary pension insurance and for investment directors through voluntary pension arrangement. The Managing Director is entitled to retire on old age pension at the age of 60 years on the basis of the TEL supplementary pension insurance. Pension premiums are entered on an accrual basis.

In accordance with the decision of the Board of Directors, supplementary pension to TEL supplementary cover will be bought as one-off payment to those directors appointed by the Board of Directors before 1 January 2011 whose target pension in accordance with their employment contract is not fulfilled at the time of their retirement. Furthermore, a pension rule is applied to the same group that compensates any decrease in the statutory supplementary pension due to increase of the basic pension if they work beyond the retirement age. A provision has been made for future payments in these financial statements. The amount of the provision is adjusted annually.

The members of the operational elements have been insured in accordance with section 8 of the Employees Pensions Act on the basis of which pension accrues from the position of trust and TyEL contribution is paid for the fee for the position of trust.

Pension Fennia's report on salaries and fees is published on the company's website.

TECHNICAL PROVISIONS

The liability resulting from insurance contracts is entered as technical provisions. It comprises the premium and claims reserves. The technical provisions are calculated according to the calculation bases confirmed by the Ministry of Social Affairs and Health. The premium reserve includes the provision for future bonuses which is included in the solvency margin and a part of the technical provisions that depends on the equity income. In the balance sheet the technical provisions are presented in this form. In calculating the technical provisions for solvency, the provision for future bonuses, provision for unearned premiums under the Self-employed Persons' Pensions Act, and, while the temporary act (853/2008) is in force share of the technical provisions comparable with the solvency margin, shall be deducted from the liabilities.

SOLVENCY MARGIN

The solvency margin of an insurance company consists of the difference between assets and liabilities at fair values. In this case, the provision for future bonuses is not included in the technical provisions. The solvency margin must meet the requirements set in the Act on Employment Pension Insurance Companies and the requirements of the temporary act (853/2008). The law will be in force until 31 December 2012.

Notes to the profit and loss account

EUR 1,000	2011	2010
PREMIUMS WRITTEN		
Direct insurance		
TyEL basic insurance		
Employer contribution	797,171	770,169
Employee contribution	237,947	218,540
	1,035,118	988,709
TEL supplementary pension insurance	1,012	1,349
YEL minimum coverage insurance	162,116	136,189
YEL supplementary pension insurance		
Total premiums written	1,198,246	1,126,247
Items deducted from premiums written		
Credit loss on premiums		
TyEL	7,088	6,346
YEL	1,286	1,496
	8,374	7,842
CLAIMS PAID		
Direct insurance		
Paid to pensioners		
TyEL basic insurance	781,091	729,974
TEL supplementary pension insurance	15,179	15,445
YEL minimum coverage insurance	123,844	115,782
YEL supplementary insurance	601	635
	920,715	861,836
Paid/refunded clearing of PAYG pensions		
TyEL pensions	209,993	199,123
YEL pensions	44,024	30,836
Proportion of the insurance premiums of the Unemployment Insurance Fund and the division of costs for pension elements accrued on the basis of unsalaried periods	-41,604	-41,319
Government contribution of YEL	-10,807	-18,841
Compensation under the Act for parents receiving child home care allowance to care for a child aged less than 3 years at home and for students for periods of study (VEKL)	38	20
	201,643	169,820
	1,122,358	1,031,656
Claims administration costs	11,867	12,440
Working capacity maintenance expenses	1,863	1,756
Total claims paid	1,136,089	1,045,852

EUR 1,000	Group 2011	Group 2010	Parent company 2011	Parent company 2010
NET INVESTMENT INCOME				
Investment income				
Income from investments in group companies				
Dividend income			706	308
Income from real estate investments				
Interest income				
From group companies			9,445	9,557
Others	1,492	1,350	13	26
Other income	62,436	59,226	59,735	57,753
	63,928	60,576	69,194	67,336
Income from other investments				
Dividend income	36,084	26,909	36,084	26,909
Interest income	102,733	98,403	102,733	98,403
Other income	123,588	117,726	123,588	117,726
	262,405	243,038	262,405	243,038
Total	326,333	303,615	332,305	310,682
Value readjustments	16,645	62,606	16,645	62,606
Gains on realisation	210,942	327,312	210,934	326,594
Total	553,921	693,533	559,885	699,882
Investment expenses				
Costs on real estate investments	-24,243	-21,527	-36,551	-34,816
Costs on other investments	-134,386	-152,705	-134,386	-152,705
Interest costs and expenses on other liabilities	-3,898	-1,415	-3,898	-1,415
	-162,527	-175,647	-174,835	-188,937
Value adjustments and depreciation				
Value adjustments	-145,713	-26,076	-144,378	-24,626
Planned depreciation on buildings	-8,293	-8,232	-1,305	-1,344
	-154,006	-34,307	-145,683	-25,970
Losses on realisation	-210,572	-100,656	-210,572	-100,650
Total	-527,105	-310,611	-531,091	-315,557
Net investment income in the profit and loss account	26,816	382,922	28,794	384,326

EUR 1,000	2011	2010
PROFIT AND LOSS ACCOUNT ITEM OPERATING EXPENSES		
Insurance policy acquisition costs		
Direct insurance remunerations	2,200	1,667
Other insurance policy acquisition costs	7,712	7,927
	9,913	9,594

EUR 1,000	2011	2010
Insurance management costs	12,216	11,713
Administration costs		
The Finnish Centre for Pensions' share of costs	3,471	3,848
Judicial administration charge	267	301
Supervisory fee of the Financial Supervision Authority	156	160
Other items		
	3,894	4,308
Other administration costs	6,634	5,748
Total	32,656	31,364

TOTAL OPERATING EXPENSES BY OPERATION

	2011	2010
Claims paid		
Expenses related to claims administration	11,867	12,440
Working capacity maintenance expenses	1,863	1,756
	13,731	14,196
Operating expenses	32,656	31,364
Investment expenses		
Costs on real estate investments	2,230	1,716
Costs on other investments	8,016	6,724
	10,246	8,440
Total	56,633	54,000

NOTES CONCERNING PERSONNEL AND MEMBERS OF THE OPERATIONAL ELEMENTS

Personnel expenses

	2011	2010
Salaries and bonuses	17,232	14,815
Pension expenses	3,243	2,879
Other social security expenses	992	864
Total	21,468	18,558

Salaries and bonuses of the management

	2011	2010
Managing Director	376	347
Board of Directors	212	210
Supervisory Board	72	68
Total	660	625

Managing Director Lasse Heiniö's salary amounted to € 346,661 and fringe benefits to € 29,461. The Managing Director is entitled to retire at the age of 60 on the basis of a supplementary pension arrangement in accordance with TEL or other corresponding system. No pension commitments, money loans or guarantees have been granted to members of the Supervisory Board and the Board of Directors.

Fees paid to the auditors

	2011	2010
Fees paid to Ernst & Young Oy		
Audit	138	174
Tax consultation	42	5
Other services	68	2
Average number of personnel during the financial year		
Office personnel	220	219
Sales personnel	27	26
Real estate personnel	9	8

Notes to the balance sheet

EUR 1,000	Remaining acquisition cost 2011	Book value 2011	Fair value 2011	Remaining acquisition cost 2010	Book value 2010	Fair value 2010
INVESTMENTS AT FAIR VALUE AND VALUATION DIFFERENCES, PARENT COMPANY						
Investments in land and buildings						
Land and buildings	54,861	56,422	68,982	57,396	58,957	70,262
Land and buildings in group companies	130,692	143,583	221,112	120,086	132,978	204,617
Other land and buildings	86,214	89,073	168,347	92,097	94,956	162,281
Loan receivables from group companies	211,010	211,010	211,010	213,219	213,219	213,219
Investments in participating interests						
Shares and participations	49,013	49,013	85,618	16,654	16,654	42,243
Other investments						
Equities and shares	2,779,525	2,779,525	3,123,941	2,798,100	2,798,100	3,305,197
Money-market instruments	2,407,984	2,407,984	2,451,577	2,214,192	2,214,192	2,256,282
Loans guaranteed by mortgages	210,372	210,372	210,372	221,933	221,933	221,933
Other loans	176,573	176,573	176,573	228,563	228,563	228,563
Deposits				16,800	16,800	16,800
	6,106,243	6,123,555	6,717,530	5,979,040	5,996,352	6,721,397
The remaining acquisition cost of money-market instruments includes						
The difference between the nominal value and acquisition cost, released or charged to interest income	-2,028			-4,006		
Book value includes Revaluations entered as income	17,312			17,312		
Valuation difference (difference between fair value and book value)			593,975			725,045

EUR 1,000	2011	2010
LOAN RECEIVABLES		
Loan receivables itemised by guarantee, parent company		
Bank guarantee	96,986	131,188
Guarantee insurance	26,866	35,929
Insurance policy	117	220
Other guarantee	20,963	23,991
The remaining acquisition cost	144,933	191,328
Non-guarantee remaining acquisition cost total	31,640	37,235

EUR 1,000	2011	2010
Total pension loan receivables		
Other loans guaranteed by mortgages	766	832
Other loan receivables	99,781	125,739
The remaining acquisition cost	100,547	126,572
Loans to related parties, parent company		
Loans to group companies	211,010	213,219
The loan periods of group companies are 10-20 years. The loans have mostly fixed interest. Securities for loans consist of letters of pledge and real estate mortgages.		
Other loans to related parties	21,868	23,102
The loan periods of loans to other related parties are 5-10 years. The interests of loans are bound to TyEL reference rate. Securities for loans consist of bank guarantees, company mortgages and share certificates of residential flats.		

EUR 1,000	2011	2010
DERIVATIVES		
Non-hedging derivatives		
Other receivables		
Derivatives, book value	14,451	321
Other liabilities		
Derivatives, book value	5,275	500
Derivatives, changes in value	7,328	400
Other prepayments and accrued income and accruals and deferred income		
Derivatives	-38,830	-11,375
SHARES AND PARTICIPATIONS IN PARTICIPATING INTERESTS		
Shares and participations		
Original acquisition cost, 1 Jan.	16,654	16,655
Increase	21,642	
Decrease		-1
Tranfers	10,717	
Remaining acquisition cost, 31 Dec.	49,013	16,654

SHARES AND PARTICIPATIONS	Holding of all shares, %	Holding of all votes, %	Book value
Fennia Life Insurance Company	40.0	40.0	16,651
Tyvene Oy	40.0	40.0	3
Avara Oy	54.0	41.1	32,359
Total shares and participations			49,013

OTHER INVESTMENTS, PARENT COMPANY

EUR 1,000	Shares, %	Book value 31 Dec. 2011	Market value 31 Dec. 2011
Finnish non-listed equities and shares			
3Step IT Group Oy	17.50	8,808	16,092
Aina-Group Oyj	14.89	5,087	5,087
Anvia Oy	0.00	1	1
Arek Oy	4.00	560	560
Arenna Oy	49.55	2,960	7,266
European Batteries Oy	5.86	118	118
Exilion Capital Oy	25.00	33	33
Fibrogen Europe Oy	0.41	136	136
Garantia Insurance Company Ltd	18.00	5,748	5,748
Imatra Region Development Company	0.28	8	8
IWS International Oy	1.56	8	8
Midinvest Oy	8.38	355	355
Mitron Group Oy	18.75	1,500	1,500
Sato Oyj	5.43	17,921	23,987
Team Botnia Oy	0.93	2	2
Thermisol Oy	10.00	100	100
Tieto ESY Oy	3.96	188	188
Wedeco Oy	8.89	956	1,142
Vivago Oy	1.36	72	72
Finnish non-listed equities and shares total		44,560	62,401
Finnish listed equities and shares			
Amer Sports Corporation	0.22	1,641	2,430
Aspo Plc	0.55	1,151	1,151
Atria Plc	0.66	751	751
Cargotec Corporation	0.13	1,609	1,609
Cramo Oyj	0.28	918	918
Electrobit Group	0.39	190	190
Elisa Corporation	0.16	3,810	4,403
Finnair Plc	0.39	1,150	1,150
Fiskars Corporation	0.34	3,400	3,910
Fortum Corporation	0.22	32,629	32,629
HKScan Corporation	0.23	638	638
Huhtamäki Oyj	0.34	3,315	3,315
Ilkka-Yhtymä Group	1.87	2,149	2,640
Kesko Corporation	0.28	7,122	7,122
Kone Corporation	0.29	13,367	25,664
Konecranes Plc	0.13	1,163	1,163
Lassila & Tikanoja Plc	0.28	1,219	1,264
Lännen Tehtaat plc	2.45	2,279	2,279
Metso Corporation	0.30	11,142	12,893
M-Real Corporation	0.28	1,204	1,204
Neste Oil Corporation	0.39	7,828	7,828
Nokia Corporation	0.22	30,860	30,860
Nokian Tyres Plc	0.24	6,434	7,900
Oriola-KD Corporation	1.14	3,053	3,223
Orion Corporation	0.21	4,108	4,445
Outokumpu Oyj	0.89	8,289	8,289
Outotec Oyj	0.39	4,941	6,552
PKC Group Oyj	0.50	967	1,148
Pohjola Bank plc	0.33	6,181	6,181
Pöyry Plc	0.16	506	506
Raisio Plc	0.78	1,995	2,426
Ramirent Group	0.17	990	990
Rapala VMC Corporation	2.35	5,249	5,249
Rautaruukki Corporation	0.42	4,242	4,242
Sampo plc	0.28	23,013	29,601
Sanoma Corporation	0.18	2,571	2,571
Sponda Plc	0.17	1,523	1,523
SRV Group Plc	0.12	124	180
Stockmann Plc	0.79	6,816	6,816
Stora Enso Oyj	0.29	10,752	10,752
Talentum Oyj	0.61	397	397
Technopolis Plc	0.37	797	797
Teleste Corporation	1.17	660	660
Tieto Corporation	0.28	2,249	2,249
Tikkurila Oyj	0.29	1,631	1,631
UPM-Kymmene Corporation	0.29	12,872	12,872
Uponor Oyj	0.11	549	549
Vaahto Group Plc Oyj	0.63	113	113
Vacon Oyj	0.71	3,376	3,376
Wärtsilä Corporation	0.23	7,503	10,267
YIT Corporation	0.20	2,842	3,095
Finnish listed equities and shares total		254,278	284,610
Foreign listed equities			
A.P. Moller - Maersk A/S	0.002	252	255
ABB Ltd	0.006	1,479	1,889
Alfa Laval AB	0.031	1,393	1,902
Assa Abloy AB	0.019	1,005	1,259
AstraZeneca PLC	0.002	992	1,064
Atlas Copco AB	0.031	2,318	4,318
Boliden AB	0.011	265	338
Carlsberg A/S	0.017	1,086	1,090
Chr. Hansen Holding A/S	0.022	470	504
Danske Bank A/S	0.005	490	491
db x-trackers - MSCI Em Asia TRN Index ETF	0.013	12,333	12,410
DNB ASA	0.014	1,686	1,737
Dow Jones Stoxx 50 EX fund	0.097	26,175	29,028
DSV A/S	0.026	691	693
Electrolux AB	0.030	1,025	1,108
Ericsson LM	0.025	5,474	5,846
Fred Olsen Energy ASA	0.015	250	259
Getinge AB	0.013	227	587
Gjensidige Forsikring ASA	0.016	684	715
Hennes & Mauritz AB	0.024	6,969	8,567
Investor AB	0.011	671	720
Lundin Petroleum AB	0.041	1,647	2,468
NKT Holding A/S	0.042	256	257
Nordea Bank AB	0.049	11,427	11,771
Novo Nordisk A/S	0.012	3,234	4,883
Orkla ASA	0.017	960	979
Petroleum Geo-Services ASA	0.046	835	844
Prosafe SE	0.030	325	370
Royal Caribbean Cruises Ltd	0.005	190	193
Sandvik AB	0.025	2,616	2,795
Schibsted ASA	0.037	682	768
Seadrill Ltd	0.010	971	1,241
Sevan Drilling ASA	0.134	294	296
Skandinaviska Enskilda Banken AB	0.023	1,960	2,249

EUR 1,000	Shares, %	Book value 31 Dec. 2011	Market value 31 Dec. 2011
Skanska AB	0.028	1,236	1,407
SKF AB	0.022	919	1,470
SPDR S&P 500 ETF Trust	0.011	70,316	77,595
Statoil ASA	0.006	3,096	3,563
Statoil Fuel & Retail ASA	0.017	283	288
Storebrand ASA	0.037	645	662
Subsea 7 S.A.	0.018	861	930
Swedbank AB	0.023	2,173	2,201
Svenska Cellulosa AB	0.018	1,187	1,259
Svenska Handelsbanken AB	0.025	2,986	3,148
TELE2 AB	0.009	537	601
Telenor ASA	0.006	1,041	1,265
TeliaSonera AB	0.084	17,715	18,959
TGS Nopec Geophysical Company ASA	0.039	684	684
Vanguard MSCI Emerging Market	0.066	20,542	22,148
Volvo AB	0.031	3,378	3,887
Yara International ASA	0.010	834	851
Foreign listed equities total		219,767	244,810

EUR 1,000	Book value 31 Dec. 2011	Market value 31 Dec. 2011
Capital trusts		
Aboa Venture II Ky	26	26
Access Capital LP		1,015
Access Capital LP II A		2,797
Access Capital LP II B	1,089	1,089
Aloitusrahasto Vera Oy	500	500
Amanda III Eastern Private Equity Ky	6,437	7,291
Armada Mezzanine Fund III Ky	1,620	2,030
Auda Capital IV Co-Investement Fund LP	2,087	2,202
Auda Capital IV(Cayman) LP	3,808	5,377
Conor Technology Fund I Ky	709	709
European Fund Investments UK	682	682
Finnmezzanine III Ky	1,823	2,234
Finnmezzanine Rahasto II Ky		24
Finnventure Rahasto V Ky	159	537
GrowHow Rahasto I Ky	725	876
Industri Kapital 2000 Ltd	2,163	2,163
Industri Kapital 2007 Ltd	14,439	16,127
Intera Fund I Ky	4,769	5,009
Intera Fund II Ky	897	897
Inveni Secondaries Fund I Ky	280	280
Inveni Secondaries Fund I Follow-on Ky	1	126
Inveni Secondaries Fund II Follow on Ky	292	292
Inveni Secondaries Fund III KY	96	96
Inveni Secondaries II Ky	1,027	1,027
Kasvurahastojen Rahasto Ky	862	864
Lapin Rahasto I Ky	28	28
Macquarie European Infrastructure Fund II	4,748	4,748
MB Equity Fund III	3,396	4,423
MB Equity Fund IV Ky	2,098	2,103
Mediatonic Fund I Ky	409	409
Metal Fund KY		23
Midinvest Fund I Ky		789
Midinvest Fund II Ky	649	649
Nordic Capital IV Ltd	74	112
Nordic Capital VII Ltd	14,832	14,832
Nordic Mezzanine Fund II LP	1,520	1,578
Nordic Mezzanine Fund III LP	1,501	1,501
Palvelurahasto I Ky	164	164
Power Fund II Ky	2,474	2,474
Profita Fund I Ky		1
Profita Fund II Ky	212	212
Profita Fund III Ky	1,969	1,969
Promotion Capital I Ky	11	11
Promotion Equity I Ky	790	790
Selected Opportunities Fund Ky	13,500	16,325
Sentica Kasvurahasto II Ky	1,703	1,788
Sentica Terveysteknologia I Ky	510	510
Teknoventure rahasto II Ky	481	584
Teknoventure rahasto III Ky	903	1,310
Terveysrahasto Oy	1,772	2,764
Capital trusts total	98,236	114,363

EUR 1,000	Book value 31 Dec. 2011	Market value 31 Dec. 2011
Equity funds		
Aberdeen Global - Asia Pacific Fund	20,006	25,917
Aberdeen Global - Asian Smaller Companies Fund	22,693	26,014
Allianz RCM Europe Growth Fund, W	46,120	49,016
CapMan Public Market Fund FCP - SIF CA1	5,521	7,054
Cumulant Capital Northern Europe Equity Fund	394	394
East Capital China East Asia Fund	16,870	16,929
Fidelity Active Strategy - Europe Fund	27,420	32,873
Fidelity Active Strategy Sicav - Japan Fund	13,217	21,174
Fondita European Small Cap B	6,024	6,024
Fondita Nordic Micro Cap B	27,366	30,763
FORTIS L FUND - China Equity Fund IC	3	4
Fourton Hannibal rahasto	3,213	3,213
Fourton Odysseus rahasto	8,217	9,943
Fourton Stamina rahasto	8,674	10,945
GAM Star Plc - China Equity Fund	15,665	16,229
Handelsbanken Latinamerikafond	11,832	16,480
Heptagon Yacktman US Equity Fund, class I	39,985	42,541
ICECAPITAL Frontier Markets Fund	4,484	4,512
Nomura Funds Ireland - Japan Strategy Value Fund	19,507	21,723
Nuveen Global Investors Fund plc - Tradewinds Global All-Cap Fund	46,383	48,606
PYN Populus erikoissijoitusrahasto	4,679	4,679
Seligson & Co Russian Prosperity Fund Euro	28,919	28,919
SP Maailma Osake B rahasto	11,600	13,494
T. Rowe Price -US Large Cap Growth Equity Fund	13,353	15,992
T. Rowe Price -US Large Cap Value Equity Fund	14,434	15,780
T. Rowe Price -US Smaller Companies Equity Fund	7,433	12,113
UB Nordic	1,301	1,301
William Blair SICAV - Global Growth Fund, B	49,590	49,590
Equity funds total	474,904	532,222
Fixed-income funds		
Aktia Inflation Bond+ s. D	31,788	39,036
Alcentra European Loan Fund Class II-A-01/2011	10,260	10,273
Ares Enhanced Credit Opportunities Offshore Fund Ltd, Class A	8,726	8,823
Aviva Investors Sicav - Global High Yield Bond Fund	20,000	20,217
BlackRock Global Funds - Local Emerging Markets Short Duration Bond Fund	9,529	9,529
BlueBay Emerging Market Select Bond Fund	35,235	40,149
BlueBay Investment Grade Bond Fund	9,863	10,968
BlueBay Structured Funds, Global Diversified Corporate Bond Fund	75,301	85,249
Evli European High Yield Bond Fund	31,503	31,878
FIM Real Fund	10,020	10,343
Goldman Sachs Global High Yield Portfolio	25,000	25,340
Highland Restoration Capital Partners Offshore L.P. - Class	4,967	5,712
Investec Emerging Markets Debt Fund, I	35,001	35,097
Muzinich Funds - Americayield Fund	74,975	80,081
Muzinich Funds - Bondyield ESG Fund	49,092	49,092
Nordea 1 European High Yield Bond Fund X	69,105	71,102
Nordea 1 US High Yield Bond Fund X	85,195	88,878

EUR 1,000	Book value 31 Dec. 2011	Market value 31 Dec. 2011
OCM European Credit Opportunities Fund (Cayman) Ltd	275	275
OCM Opportunities Fund VII	2,275	3,741
OCM Opportunities Fund VIIb	1,890	4,086
PIMCO Diversified Income Fund	42,543	44,227
PIMCO GLIS - Global High Yield Bond Fund	25,000	25,337
Schroder International Selection Fund - Emerging Markets Debt Absolute Return Fund	30,000	30,472
Schroder International Selection Fund - Euro Corporate Bond	5,542	5,637
Stone Harbor Investment Funds Plc - Emerging Markets Debt Fund I	25,000	26,312
Stone Harbor Investment Funds Plc - Emerging Markets Local Currency Debt Fund I	25,000	26,005
Stone Harbor Investment Funds Plc - High Yield Bond Fund	10,564	11,913
T. Rowe Price - Global High Yield Bond Fund	65,526	68,872
Fixed-income funds total	854,176	903,837
Real estate investment funds		
Archstone German Residential Fund	15,000	15,931
Aventum Aasia REIT Plus K	8,266	8,266
Capman Hotels RE I Ky	16,143	16,143
DOF Development Fund CV	65	82
EPI Russia I Ky	6,431	6,431
Exilion Real Estate I Ky	35,566	35,566
Henderson Central London Office	11,344	12,274
Icecapital Housing Fund I	12,613	12,613
ING Dutch Office Fund II NV	17,171	17,171
ING Property Fund Central and Eastern Europe	5,692	5,692
ProLogis European Properties Fund II	5,281	5,281
Sponda Fund I Ky	10,092	10,092
Tishman Speyer European Core Fund	6,910	6,910
Tishman Speyer European Strategic Office Fund Scots Feeder L.P.	5,342	5,342
UK Shopping Centre Feeder Fund	14,776	14,776
Vital Scandinavian Property Fund	12,756	12,804
Real estate investment funds total	183,446	185,372
Hedge funds		
Blue Mountain Credit Alternatives Fund Ltd	24,068	32,485
Bluebay Value Recovery Fund	1,483	1,549
Brevan Howard Fund Limited	29,387	37,271
Canyon Value Realization Fund - Class B	15,575	20,669
Canyon Value Realization Fund Ltd - Class B DI	271	418
Capula Global Relative Value Fund Ltd	24,466	41,105
D.E.Shaw Oculus International Fund	13,430	25,788
Davidson Kempner International Ltd	14,741	21,899
DB Platinum IV DBX SYSTEMATIC ALPHA INDEX	30,000	30,547
Deephaven Global Multi-Strategy Fund Ltd	266	278
Drake Global Opportunities Fund	189	192
Elliot International Ltd	39,195	41,721
Eton Park Overseas Fund Ltd	24,024	27,322
Eton Park Overseas Fund Ltd class S	1,459	1,691
Farringdon Alpha One	15,000	18,375
GLG European Equity Alternative I	30,000	30,561
Goldentree Offshore Ltd	11,444	17,527

EUR 1,000	Book value 31 Dec. 2011	Market value 31 Dec. 2011
Goldentree Offshore Ltd SP	2,280	2,821
GSO Special Situations Overseas Fund, class C	25,593	27,876
GSO Special Situations Overseas Fund, class S	8,902	10,484
Highbridge Multi-Strategy Holdings, Ltd- Class B	666	755
Highland Crusader Fund II Ltd	2,824	2,947
Indus Asia Pacific Fund Ltd	14,620	17,812
King Street Capital Ltd, Class A series 1	10,623	15,479
King Street Capital Ltd, Class A series 3	640	710
King Street Capital Ltd, Class S	664	889
Level Fund - Class R	181	210
Marathon Overseas Offshore Fund	265	265
Marathon Special Opportunity Fund Ltd. Class E7	19,979	20,748
Marathon Special Opportunity Fund Ltd. SP	2,015	2,810
MP Structured Credit Fund Ltd	34,508	35,599
OZ Overseas Fund II	12,342	16,744
Paulson Advantage Plus Ltd	18,453	20,521
Paulson Gold Fund Ltd	10,122	15,014
Pershing Square International	19,452	25,794
Samlyn Offshore Ltd - class A	13,996	20,927
Samlyn Offshore Ltd - class S	842	919
SEB Alternative Investment - Institutional Portfolio	525	525
Shepherd Investments International Ltd	1,687	1,776
Shepherd Investments International Ltd Class S, SP38	201	257
Shepherd Select Asset Fund Ltd.	782	867
Shepherd Select Asset Ltd.	45	53
Silver Point Capital Offshore Fund, Ltd	13,071	21,652
Silver Point Capital Offshore Fund, Ltd. - Class D	813	1,537
Standard Life Investment - Global Absolute Return Strategies	30,000	31,072
Tisbury Fund Ltd - Euro Class	126	126
TPG-AXON Partners (Offshore) Ltd. S2	848	1,385
Treesdale Fixed Income Fund Ltd, Class B	1,144	1,164
Wexford Offshore Spectrum Fund	34,533	37,385
Wexford Offshore Spectrum Fund, SP	707	745
Vicis Capital Fund	3,632	3,761
Viking Global Equities III Ltd	35,511	39,184
Winton Futures Fund Ltd	4,637	9,068
York Investment Limited	14,546	19,406
Hedge funds total	626,651	770,538
Other funds		
Nomura Voltage Mid-Term Source ETF	20,143	22,423
Guarantee capital		
Mutual Insurance Company Fennia	3,364	3,364
Other investments total	**2,779,525**	**3,123,941**

Holdings with a book value of over EUR 1,000 have been specified.

EUR 1,000	Parent company 2011	Parent company 2010
COLLATERALS AND CONTINGENT LIABILITIES		
Collaterals given on own behalf		
Pledges given as security for derivatives trade	13,394	9,490
Liabilities resulting from derivative contracts		
Non-hedging derivatives		
Interest rate derivatives		
Option contracts		
Bought options		
Nominal value of underlying instruments		50,000
Fair value of contracts		320
Set options		
Nominal value of underlying instruments		100,000
Fair value of contracts		-140
Open future contracts		
Sold futures		
Nominal value of underlying instruments	20,000	130,000
Fair value of contracts	-277	84
Interest swap contracts		100,000
Fair value of contracts		-331
The market value does not include the transferred interest for the financial year.		
Currency derivatives		
Open forward and future contracts		
Nominal value of underlying instruments	679,316	758,155
Fair value of contracts	-36,670	-2,045
Closed forward and future contracts		
Nominal value of underlying instruments	53,289	46,635
Fair value of contracts	-1,441	-229
Open option contracts		
Bought options		
Nominal value of underlying instruments	83,022	
Market value of contracts	46	
Set options		
Nominal value of underlying instruments	47,619	
Fair value of contracts	85	
Share derivatives		
Option contracts		
Bought options		
Nominal value of underlying instruments	1,153,750	
Fair value of contracts	17,483	

EUR 1,000	Parent company 2011	Parent company 2010
Set options		
Nominal value of underlying instruments	360,000	
Fair value of contracts	-2,460	
Collaterals received in a transfer in accordance with the Act on Financial Collateral		
Collaterals for derivatives trade	5,885	
Investment commitments		
Capital trusts	87,892	100,230
Fund investments	1,714	3,923
Real estate investment funds	1,448	9,561
Leasing and rent liabilities		
Leasing liabilities in the current financial year	34	15
Leasing liabilities in the future financial years	8	4
Other contingent liabilities		
Liability for the VAT debt of the tax liability group in accordance with Value Added Tax Act, Section 188	6,081	-5,449
Restitution liability for VAT deduction from new buildings and renovation of real estates	3,809	3,664

TECHNICAL PROVISIONS

Premium reserve		
Future pensions	3,305,164	3,248,480
Provision for future bonuses	94,161	218,669
Provision for current bonuses	13,239	15,902
Provision linked to equity income	-41,592	58,586
Total premium reserve	3,370,972	3,541,637
Claims reserve		
Current pensions	2,650,106	2,397,971
Equalisation amount	236,189	261,042
Total claims reserve	2,886,296	2,659,013
Total technical provisions	6,257 268	6,200,650

SOLVENCY MARGIN

Capital and reserves after the proposed distribution of profit	35,447	33,904
Accrued appropriations	265	154
Valuation difference between fair values of assets and book values of balance sheet items	600,227	734,216
Provision for future bonuses	94,161	218,669
Deferred acquisition costs and intangible assets	-141	-99
Other items		
Share of the clearing reserve paralleled with the solvency margin	245,925	238,717
	975,883	1,225,559

EUR 1,000	Parent company 2011	Parent company 2010
Solvency margin required under the Act on Employment Pension Insurance Companies, Section 17	118,044	114,584
Equalisation provision included in the technical provisions for years with plenty of contingencies	236,189	261,042
Solvency margin in accordance with section 16 of the Act on Employment Pension Insurance Companies presented in such a way that it does not include the share of clearing reserve paralleled with the solvency margin	729,959	986,843
The minimum amount of solvency margin for an employment pension company presented without the temporary discounts in accordance with Act 853/2008 for the years 2008–2010	261,670	301,260

EUR 1,000	Group 2011	Group 2010	Parent company 2011	Parent company 2010
CAPITAL AND RESERVES				
Guarantee capital	1,682	1,682	1,682	1,682
Initial reserve	3,364	3,364	3,364	3,364
Construction reserve	86	86		
Revaluation reserve	84	84		
Loan amortisation reserve	233	233		
Non-restricted reserves	27,330	26,455	27,330	26,455
Transfer from retained earnings	1,275	875	1,275	875
Profit/loss from previous financial years	-11,037	-16,058	1,528	1,172
Used during the financial year	-1,300	-950	-1,300	-950
Profit for the financial year	6,486	5,972	1,568	1,306
Total capital and reserves	28,202	21,741	35,447	33,904
Capital and reserves after proposed profit distribution				
Holders of guarantee capital:				
Guarantee capital	1,682	1,682	1,682	1,682
Proposed distribution to holders of guarantee capital				
Policyholders after proposed distribution	26,520	20,059	33,765	32,222
Total	28,202	21,741	35,447	33,904
Distributable profits, parent company				
Profit for the financial year			1,568	1,306
Other distributable reserves				
Non-restricted reserves			28,605	27,330
Accumulated profit			228	222
Total distributable profits			30,401	28,858

Guarantee capital	Number	Nominal value	Book value
Mutual Insurance Company Fennia	10	1,682	1,682

Internal supervision and risk management

INTERNAL SUPERVISION

Internal supervision refers to a process the purpose of which is to ensure the reaching of the goals and objectives set, economical and efficient use of resources, sufficient management of risks related to operations, reliability and correctness of financial and other management information, compliance with laws, orders and instructions, and compliance with the decisions of the operational elements, internal plans, rules and methods of operation.

RISK MANAGEMENT AND ITS GOALS

Risk management is part of internal supervision and its purpose is to support the company in implementing the strategy and reaching the operational goals, secure the continuing of the business operations, and manage the uncertainty factors related thereto or threats related to the company's reputation. Another purpose of risk management is to ensure that the risks taken do not exceed the risk-bearing capacity.

The most important goal of risk management is to identify the key risks concerning the operations in advance and see to it that the probability of their realisation is reduced through management measures. In addition to identification and supervision of risks, the purpose of risk management is to ensure that laws, stipulations, strategies, plans, internal rules and methods of operation are complied with, and that resources are used economically and efficiently. Furthermore, risk management ensures that management, decision-making and operational planning are based on correct and sufficient information.

ORGANISATION AND RESPONSIBILITIES OF RISK MANAGEMENT

The Board of Directors bears overall responsibility for arranging risk management and for the annual evaluation of the state of internal supervision. The Board of Directors approves the risk management principles (risk management policy) and annually a risk management plan related to the steering of the company, and follows the proceeding of the administration measures presented therein through the reports it receives and the intermediate and final account. The company's risk management plan will in the future include the key risks related to investment operations and the management measures for them, which were included in a separate risk management plan for investment operations up to the year 2011. The Board of Directors also determined the company's risk-taking willingness. The Board of Directors is assisted by the Audit Committee whose tasks include e.g. monitoring the company's financial position, financial reporting, the sufficiency and appropriateness of internal supervision and risk management, and handling the plans and reports of Internal Audit.

The Managing Director is responsible for organising and steering of risk management, and for the content of the risk management plan concerning the company's key risks drawn up to the Board of Directors for approval. He is supported in these tasks by the Executive Group, Investment Committee, Director of Risk Management, and risk management co-ordination group. The risk management plan of investment operations that was presented to the Board of Directors for approval separately up to 2011 was prepared in co-operation by the Investment unit and the Risk Management and Controller unit.

The administration of Pension Fennia is handled by:

- Executive Group whose task is to support the Managing Director in steering the company.
- Investment Committee whose task is to support the Managing Director in making investment decisions. A Work Committee also operates under the Investment Committee.
- Operational Executive Group which steered the operations until 31 December 2011. Pension Fennia switched to process-like management on 1 July 2011, and the power of decision was gradually transferred to management groups of processes, and the Operational Executive Group was abolished on 31 December 2011. Pension Fennia's main processes are the investment process, customer process, and insurance and pension process. The purpose of support functions is to support the main processes and manage the basic tasks under their area of responsibility. The support functions are represented in the management groups of the main processes.

According to a decision made by the Board of Directors, risk management and internal auditing were re-organised as of 15 February 2011. Risk management is now handled by the Risk Management and Controller unit under the Director responsible for Finance and HR. At the same time a risk management co-ordination group was set up.

ORGANISATION OF RISK MANAGEMENT AT PENSION FENNIA:

- Director of Risk Management shall see to it at the practical level that the company's risk management and co-ordination thereof have been implemented in accordance with official regulations and the risk management policy approved by the Board of Directors.
- Risk management co-ordination group supports the Director of Risk Management in drawing up risk management principles, risk management plans, SWOTs, and principles of risk mappings, as well as drawing up and development of risk reporting. The group holds expertise in strategic, insurance technique, operational and investment risks.
- The Risk Management and Controller unit evaluates, measures and supervises financial risks independently concerning total risk position (solvency, allocation, investment income and expenses, margin, limits) and asset category-specific risks, and reports on them to the Board of Directors and operational management.
- Independent risk supervision is not organised as a separate unit. Instead, independent risk supervision is carried out e.g. in the Risk Management and Controller unit, financial management, insurance technique, and the actuary and risk management unit.
- Internal Auditing carries out independent and objective evaluation, securing and consultation services, the purpose of which is to create added value to the organisation and enhance its operations. Internal Auditing supports the organisation in reaching its goals by offering a systematic approach for the evaluation and development of the efficiency of the organisation's risk management, supervision, management and administration processes. Internal Auditing assists the company's Board of Directors in evaluating the state of the company's internal supervision.
- Management group of project and information management whose tasks include e.g. monitoring the risks related to development projects.
- Security group whose task is to develop different areas of overall security and supervise the implementation of agreed tasks. The security group operates under the risk management co-ordination group.
- Compliance activities are organised through the Legal Affairs unit.
- Actuary whose task in the company is to take care of e.g. the appropriateness of actuarial methods.

The main process owners and directors of the support unit who act as members of the Executive Group are responsible for supervising the realisation of internal supervision and appropriateness of the risk management process in their own operations and processes. The responsibility also involves the continuous measuring and follow-up of the risks taken inside each process/unit. The processes and units draw up the risk management plans determined in the company's risk management policy and report on their implementation to the Director of Risk Management.

RISK MANAGEMENT PROCESS

Pension Fennia's risk management process is comprehensive and as consistent as possible in all processes/units. The risk management process comprises of four stages: 1) identification of risks, 2) evaluation of risks, 3) planning and implementation of risk management measures, and 4) follow-up and reporting of risk management (the implemented risk management measures).

Pension Fennia's risk management policy handles the goals of risk management and the principles applied to reach those goals, determines the responsibilities of risk management, the risk management process and the company's risk-bearing capacity and risk-taking willingness, and how the risks are reported to the Board of Directors and inside the organisation.

The company's strategic risks are mapped and updated in connection with strategic planning. The planning round starts with analysis of the environment. For the risk mapping the risk management co-ordination group produces a SWOT analysis for the management, and the management carries out the strategy planning related thereto. At this point, development and prevention measures for managing the risks are also drawn up. The risk management plan is integrated with the company's strategic planning.

The risk management plan deals with the strategic goals of insurance business and investment operations, the risks related thereto, and the risk management measures implemented to manage them. The plan also handles insurance technique risks, risks related to market share and the development of operating expenses, operational risks, and external threats, and the risk management measures implemented to manage them. Strategic goals related to insurance business have been set for the market share, efficiency and personnel. The strategic goals and risks of investment operations are related to solvency and yield.

In 2010, Pension Fennia completed an extensive scenario work which will be established as part of strategic planning. Signs of the realisation of the scenarios will be examined in connection with the annual planning process.

FOLLOW-UP AND REPORTING

The realisation of risk management in the company is followed, for instance, through a report drawn up twice a year by the independent Risk Management and Controller unit, as well as monthly electronic report of the Board of Directors and the Managing Director's review. In the intermediate report the Executive Group, Audit Committee and, as separately agreed, also the Board of Directors are informed about the realisation of the risk management plan. The final report is given to the Executive Group, Audit Committee and the Board of Directors.

Regarding strategic risks, risks related to the market share and development of operating costs, key investment risks and SWOT, the Executive Group, Audit Committee and the Board of Directors follow the development on the basis of the reports received by them. Furthermore, the Investment Committee follows financial risks and, among other things, the biggest risk concentrations more closely. Strategic risks are reported to the Board of Directors monthly in the Managing Director's review.

Internal Auditing draws up quarterly a report on the state of internal supervision of the securities process and the independent supervision concerning it. The report is part of the company's evaluation on the state of internal supervision.

The key figures in evaluation and follow-up of the total risk position of investment operations, namely solvency margin in euros, solvency ratio, solvency position and return on invested capital, are calculations of the Risk Management and Controller unit which is separate from the unit taking investment risk. The Risk Management and Controller unit which is independent of the investment operations generally reports on the company's total risk position and risk-bearing capacity to the Board of Directors monthly and to the operational management weekly, and, if necessary, even on a daily basis.

The result of the insurance business is reported to the Board of Directors and Executive Group twice a year. The applied calculation bases are reported to the Board of Directors and Executive Group once a year.

The development of the market share and premiums written are reported to the Executive Group and Board of Directors monthly. Estimated development of operating costs and the development of the administration costs are reported to the Board of Directors monthly. Operating costs and administration cost surplus are reported to the Executive Group 3–4 times a year, and the Executive Group report follows the development of the surplus on a monthly basis.

RISK-BEARING CAPACITY AND RISK-TAKING WILLINGNESS

Solvency margin is used for preparing for investment operation risks. Solvency margin needs to be large enough, so that it can at sufficient probability cover the expected fluctuations of the values and yield of asset items covering the technical provisions. The need for solvency margin depends directly on the risk content of the investment assets. Pension Fennia's solvency margin plus the amount paralleled with the solvency margin stood at € 976 million at the end of 2011. Solvency margin without the paralleled amount stood at € 730 million. Solvency margin decreased by € 250 million in 2011 and was at a securing level.

The most important key figures in evaluating the company's total risk position and the risk-bearing capacity are the amount of solvency margin in proportion to the technical provisions (solvency ratio) and the amount of solvency margin in proportion to the solvency limit in accordance with the regulations (solvency position). The Board of Directors has confirmed the risk-taking willingness for the company's investment operations by setting the primary and secondary goals for the company's investment operations. The Managing Director determines more precisely the solvency position targeted at any given time.

The regulations concerning the investment operations and solvency of pension institutions were temporarily amended by a law due to the international financial crisis in late 2008 (853/2008). The law was passed for a fixed term to end on 31 December 2010. The law was extended, otherwise unchanged, in summer 2010 to end on 31 December 2012. During the period of validity of the law the clearing reserve included in the technical provisions is paralleled temporarily with the solvency margin (so-called EMU buffer). Furthermore, the minimum amount of solvency margin of pension institutions was decreased, and it was made independent of the investment allocation of the pension institution.

The company has prepared for insurance business risks with equalisation provision and clearing reserve included in the technical provisions. The equalisation provision buffers company-specific insurance technique risks while the clearing reserve buffers the uncertainty factors related to the pensions for which the system is jointly responsible, and their financing. The clearing reserve has a system-specific lower limit but no company-specific lower limit. The equalisation provision has company-specific lower and upper limits. At the end of 2011, the company's equalisation provision stood at around € 236 million which is a securing amount.

RISKS RELATED TO INVESTMENT OPERATIONS AND THEIR MANAGEMENT AND REPORTING

The selection of the investment strategy is regulated e.g. by the asset category-specific yield and volatility expectations and correlations on the market, the amount of the company's solvency margin, solvency position, profit margin, and the interest rate required for the liabilities. Optimal return-risk ratio is targeted through versatile decentralisation both between and inside asset categories. Furthermore, the aim is to anticipate the effects of events related to investment operations that are improbable but disastrous if realised. Pension Fennia guards itself from those risks through systematic risk adaptation and derivative protection.

Asset category-specific risks are managed by following over- and under-weight proportioned to the comparison index which reflects the decentralisation inside the asset category. Part of the price risk of equities has been transferred to the responsibility of the system. For that purpose a buffer, unit-linked provision for bonuses, has been set up; it buffers the equity risk by the amount that equals 10 per cent of the technical provisions. Unit-linked provision for bonuses may amount to a maximum of 5 per cent of the technical provisions and a minimum of -10 per cent of the technical provisions.

The price risk of equity investments is managed by decentralising the investments geographically, by line of business, by company, to different investment types and funds. The price risk of the equities portfolio can also be limited with protective equity and equity index derivatives. The interest rate risk is managed by following and changing the duration of investments by buying and selling cash investments with different durations and by using interest rate derivatives. Credit risk is managed by decentralising investments to different lines of business and credit classes, and geographically. In case of bonds, credit risk is managed by limiting both individual investments by credit class and the combined share of a specific credit class of the bond portfolio and by using credit derivatives. Liquidity risk is managed by keeping a sufficient part of investments in liquid items. In the fixed-income portfolio, the aim is to optimise the return/risk ratio of the investments while taking the liquidity of the loans into account. As for direct exchange rate risk, it has been separately estimated by asset category what kind of exchange rate risk the company is willing to take. Exchange rate risk is managed by following the currency position and hedging degree by asset category and by currency. Company analyses, customer monitoring and follow-up of loan securities are carried out in connection with corporate financing loans. In real estate investments, attention is paid to geographical diversification, division of rent income by line of business, timing of acquisitions, and division of types of use. Asset category-specific risks are also managed by using derivatives. The counterparty risk of standardised derivatives is managed through name-specific limitations. The counterparty risk of non-standardised derivatives is managed by using standard agreements approved by ISDA. Individual risk concentrations are limited by the gross margin and solvency act. Operational risks of investment operations are linked, for example, to the valuation of some investments and the availability of delayed market values, and the operational processes of the investment process.

The company's actuary has drawn up a report on the requirements set by the nature and yield requirement of the technical provisions and maintaining solvency and liquidity to the Board of Directors for risk management and arranging investment operations. The investment plan includes a statement by the actuary on whether the company's investment plan meets the requirements set by the nature of the technical provisions to the company's investment operations. The Risk Management and Controller unit has drawn up an estimate of the risks inherent in the investments and the company's risk-bearing capacity in the short and long term to the Board of Directors for the investment plan and the risk management plan of investment operations and their semi-annual updating.

In addition to solvency position and solvency ratio, VaR (Value-at-Risk) figure calculated for the total investment assets and by taking into account the share of the equities risk at the responsibility of the earnings-related pension scheme. In addition, optimisation of the investment portfolio, and stress tests of solvency are carried out. The Risk Management and Controller unit reports

Investment risk distribution and risk figures 2011

	Market value € mill.	%	Risk distribution € mill.	%	Return %	Volatility %
Fixed-income investments	**3,813.5**	**56.3**	**3,707.8**	**54.7**	**3.3**	
Loans	390.3	5.8	390.1	5.8	3.5	
Bonds of OECD/EEA public corporations	1,036.0	15.3	1,008.4	14.9	4.2	3.1
Bonds of other corporations	1,651.6	24.4	1,651.6	24.4	3.5	
Other money-market instruments and deposits, which include receivables and debts directed at the investments	735.8	10.9	657.6	9.7	1.6	
Equity investments	**1,297.5**	**19.2**	**1,403.2**	**20.7**	**-15.5**	
Listed equities	1,079.7	15.9	1,185.4	17.5	-18.4	14.6
Private equity investments	114.4	1.7	114.4	1.7	5.4	
Unlisted equity investments	103.4	1.5	103.4	1.5	7.4	
Real estate investments	**900.0**	**13.3**	**900.0**	**13.3**	**9.2**	
Direct real estate investments	674.9	10.0	674.9	10.0	8.4	
Real estate funds and joint investment companies	225.1	3.3	225.1	3.3	12.1	
Other investments	**761.9**	**11.2**	**761.9**	**11.2**	**-2.7**	
Hedge fund investments	740.8	10.9	740.8	10.9	-3.3	4.4
Other investments	21.1	0.3	21.1	0.3	40.6	
Total investments	**6,772.8**	**100.0**	**6,772.8**	**100.0**	**-1.6**	**3.9**

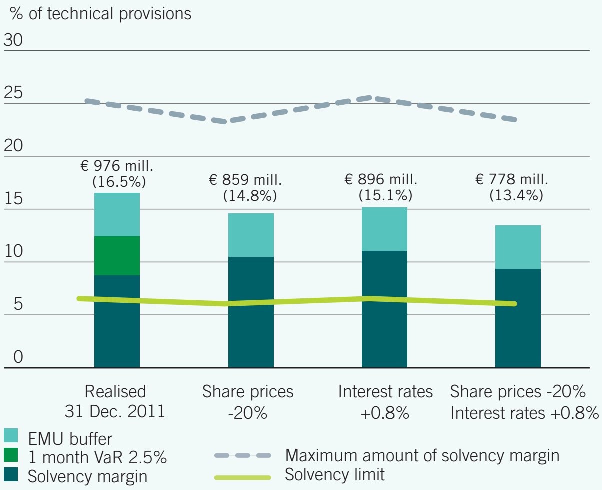
Market value includes accrued interest.
Risk distribution = calculated according to the risk (adjusted with derivatives).
Return = return on invested capital calculated with a time and money-weighted formula (adapted Dietz).
Volatility = annualised mean deviation calculated from two years' monthly return.
The modified duration of bonds is 3.72 years.

about asset category-specific risks and income, including derivatives, monthly to the Board of Directors and weekly to the portfolio managers and members of the Investment Committee. The development of realised returns compared with the company's yield requirement is monitored weekly. The Investment unit follows the development of risk and income on a daily basis. Furthermore, the Risk Management and Controller unit reports the derivative positions and certain risk figures to the portfolio managers on a daily basis.

Stress tests estimate how a change in share prices or interest level would affect the company's solvency. The results of stress test calculations as at 31 December 2011 have been compiled in the graph. In addition, the graph shows VaR of the same day, and the probability that the loss exceeds that sum is 2.5 per cent in one month.

In addition to hedging of assets, derivatives are used for making allocation changes. The principles on the use of derivatives approved by the Board of Directors describe by asset category those types of derivatives and derivative

Stress test and VaR (1 month, 2.5%)

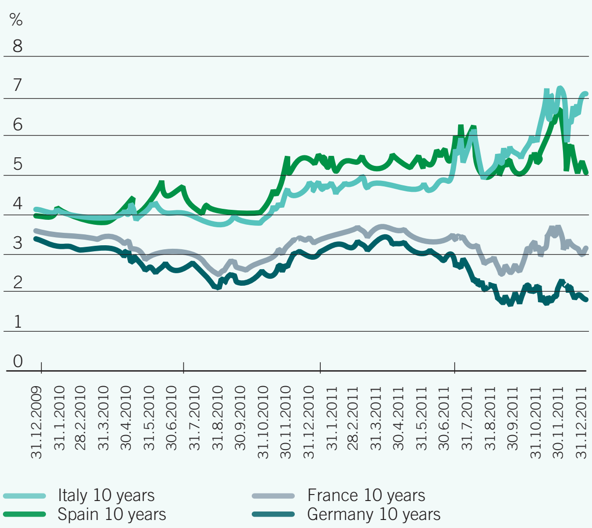


strategies that may be used. The effect of derivatives is presented in the income and risk figures and asset distribution reported to the Board of Directors. New derivative agreements are also regularly reported. A report on the total effect of applying the grounds of the use of derivative agreements on the solvency limit is annually given to the Board of Directors of the company.

The figure below shows a summary of the biggest change in the investment market in recent years. The figure shows the development of the 10-year government loan interest rates of Germany, France, Italy and Spain, or the biggest countries in the eurozone, from 31 December 2009 – 31 December 2011. We can see that it is no longer possible to talk about a single interest rate level even inside the eurozone. At the end of 2009, the difference between Italian and German interest rates was less than 0.8 percentage points and at the end of 2011 it was over 5.3 percentage points. Thus stress testing of one interest rate level, which is traditionally used in investment risk management, is no longer sufficient. The composition of the state loan portfolio has greater significance nowadays.

Investment decisions are prepared and implemented in the Investment line. The market valuation of investment assets and reporting to support operations, official yield, solvency and profit margin reporting and limit monitoring are produced in the Risk Management and Controller unit. Grounds in accordance with the real risk of investments approved by the Board of Directors of Pension Fennia are applied in the solvency rating of investments. Classification in accordance with the risk is made on the basis of the realised volatility and correlations, taking into account the effect of possible extreme observations. In addition, any incomplete yield history and liquidity is taken into account in the classification, unless it is taken into account in volatility and correlation. The effect of applying the grounds on the company's solvency are followed weekly. A report on the application of the rating grounds and its effect on the company's solvency position is annually given to the Board of Directors of the company for approval.

Interest rate development in 2010–2011



RISKS RELATED TO INSURING AND THEIR MANAGEMENT

The key insurance risks are created in deviations of forecasts used in determining the insurance premium from the realised costs especially in terms of new pensions granted and other similar costs. In determining the bases for technical provisions the key insurance risks are created by difference between the realised and forecasted duration of pensions in the long term. The bases for premium and technical provisions that meet the securing requirements are the same to all employment pension companies and they are confirmed by the Ministry of Social Affairs and Health. The common bases include a risk that an individual company's result may in theory be systematically poorer compared with the other companies e.g. if the division of industries of the insured companies deviates significantly from the portfolios of other pension companies. The structure of the insurance portfolio may also lead to a similar situation regarding the expense loading of the common premium.

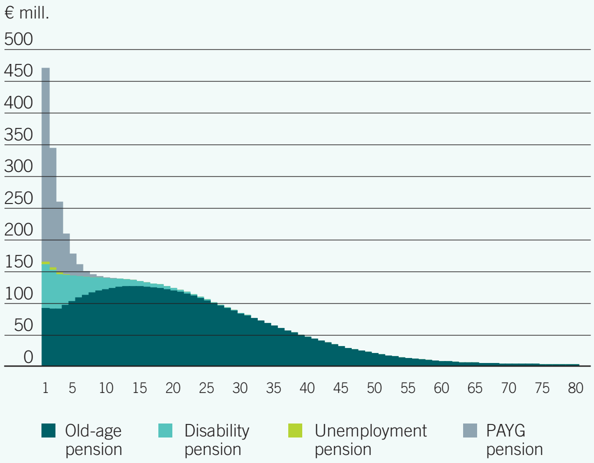
Pension institutions prepare and apply for the bases for the insurance premium, technical provisions and technical rate of interest together. Pension Fennia participates in the preparation of the calculation bases under supervision of their Actuary together with the insurance technique unit. Co-operation between employment pension institutions is compulsory according to the law.

The law also stipulates about the common technical rate of interest which is determined partially according to the average solvency margin level in the industry and according to the average equities yield. A fixed 3 per cent interest rate is used in discounting of the technical provisions. The company's solvency margin in proportion to the average of the system must be followed carefully, because a long-lasting essential deviation below the

Insurance technique liabilities

	31 Dec. 2010
Premium reserve	
TyEL insurance	3,214.5
TEL supplementary pension insurance	29.4
Supplementary insurance reserve	234.6
Provision linked to equity income	59.1
Total	3,537.5
YEL basic insurance	14.1
YEL supplementary pension insurance	2.4
Total	16.5
Total premium reserve	**3,554.0**
Claims reserve	
TyEL insurance	
Current pensions	2,334.8
Equalisation provision	259.4
Total	2,594.2
TEL supplementary insurance	
Current pensions	45.6
Equalisation provision	5.0
Total	50.6
TyEL and TEL total	2,644.7
YEL basic insurance	0.0
YEL supplementary pension insurance	3.7
YEL total	3.7
Total claims reserve	**2,648.5**

Dissolution of technical provisions for TyEL (31 Dec. 2010) into pensions



industry average may become a risk. Pension institutions are mutually jointly responsible for the pensions of a bankrupt pension institution. The amount of solvency margin in proportion to minimum amounts in accordance with the regulations must also be followed carefully.

Fluctuations of the insurance business result have been prepared for with the equalisation provision included in the technical provisions. The positive results accrued to the disability and unemployment loading of the equalisation provision have been used to lower the TyEL premium since the year 2002. The temporary discounts end in 2011. Solutions offered by expert support of well-being at work for promoting working capacity and reducing the disability expenses aim at affecting the pension expenditure.

Pension Fennia's technical provisions that formed the basis of the financial statements liabilities for 2011 on 31 December 2010 were divided into insurance premium and claims reserves as shown below. The equalisation provision stood at € 264 million on 31 December 2010, and its lower limit was around € 68 million and upper limit € 416 million. The diagrams also show the temporal dissolution of the technical provisions of TyEL basic insurance into pensions to be paid.

The companies have no choice of risk. In its active insurance sales, Pension Fennia avoids companies with disruptions in payments. The amount of credit losses can also be affected through efficient collection and follow-up of payment disruptions. Because the level of pension provision must be secured in all situations, the equalisation provision includes a part that the company uses to prepare for unpaid premiums.

The company charges an administrative cost in connection with TyEL and YEL premiums to cover operating costs. The share of insurance premium depending on the number of disability pension decisions is also included in the administrative cost. If the administrative cost were not sufficient for all operating expenses, part of the costs would have to be covered with investment income. In that case the company's result would decline.

Risks related to insuring their management are described in more detail on the company's website.

RISKS RELATED TO THE ACQUISITION AND HANDLING OF INSURANCES AND THEIR MANAGEMENT

Key risks related to the customer base are market, customer and partner risks. When realised negatively, the risks have a declining effect on the growth goals and the market share.

The company prepares for changes in the market and the operating environment both with marketing activities and by developing the technical readiness. Technical readiness aims at facilitating the sales and handling of insurances. Co-operation with the partners is further strengthened by ensuring the right emphasis on different customer segments from the point of view of all. Operations in the customer interface have been strengthened through customer segment-specific measures and service models.

Pension Fennia has its own development programme for reaching the key strategic goals. The development objects have been itemised into separate projects that comply with the project control method. The project programme has been drawn up in such a way that, if required, it can be adapted to the available resources. The persons responsible for the company's business operations have been closely committed to development project steering.

MANAGEMENT OF OPERATIONAL RISKS RELATED TO BUSINESS

The members of the Executive Group are responsible for drawing up risk management plans for their own areas of responsibility and for the risk identification, evaluation and management measures used as the basis of the plans. The progress of the measures is followed regularly during the year, and the realisation of the plans is reported to the risk management unit.

The aim has been to develop the evaluation of the operational risks related to business and the drawing up of risk management plans to make them more strategy-oriented and place more emphasis on the reaching of business goals. The risk mappings of the main processes and support units have been implemented with assistance from the Risk Management and Controller unit and based on the result cards and operating plans of the main processes and support units. The probability of realisation and effect of the identified operational risks of the processes and units are evaluated, and the risk maps for each process and unit are drawn up on the basis of them. The most important risks and measures for managing them have been recorded in the risk management plans of the units. The key operational risks are related to e.g. person risks, system and process risks and legal risks.

Piloting of operational risks was implemented during autumn 2011 as part of the development of evaluation and management of operational risks. The persons who participated in the piloting reported on the realised risks and near misses in their own units to the Risk Management and Controller unit. The experiences drawn from piloting will be utilised in the development of reporting on operational risks.

Operational risks are administered, for example, by separating operations and job descriptions so that dangerous work combinations are not created. The administration of user rights has been developed in such a way that each employee has up-to-date rights needed for the performance of their tasks. Rights that allow dangerous work combinations can be monitored once they have been defined in the system. The supervisors check the rights of their employees every six months.

As for person risks, an efficient system of substitutes has been developed. Process risks are administered e.g. by maintaining working instructions and process descriptions and by arranging regular meetings among those who participate in the processes. Special attention is paid to the smoothness of the processes in the entire organisation. The steering model is under continuous development. Attention has been paid to development of expertise and securing the continuity of operations both inside the lines and in the development projects of the company's HR function. Working capacity maintenance activities are checked annually in accordance with the operating plan for occupational safety and well-being at work. Reward systems are used to support the reaching of goals.

Legal risks are administered as part of the company's compliance operating model. In accordance with the compliance model, persons responsible for compliance have been named to the company's business processes and support units. These persons supervise the business processes and report about any deviations observed concerning legal risks (including e.g. external regulation and compliance with internal procedural instructions and contract risks) to those responsible for the business processes and the company's top management.
The Legal Affairs unit participates in the co-ordination and supervision of the compliance model. If necessary,

the company uses external expert services for the management and determining of legal risks when the task requires special expertise.

OUTSOURCED OPERATIONS

Because the company's own personnel resources are scarce, and it is not possible to prepare its own personnel for the continuous changes of the competence requirements caused by the rapidly developing environment, parts of the production of basic services have been outsourced. Such functions include e.g. operating centre services (Tieto), system work services (Tieto Esy and Arek), work station support services (TeliaSonera), office equipment environment (Xerox), and telephone systems (Merlin and TeliaSonera Finland).

The providers of outsourced services have been selected with emphasis on the their trustworthiness and reliability of delivery. The outsourcing agreements have been drawn up in compliance with the best current practices, including e.g. sanctioned quality level agreements. Contacts are continuously maintained with the service providers and any deviations in the services are acted on.

The concentration of the information technology service providers can be considered a risk for a balanced information technology market. Pension Fennia has aimed at decreasing this risk by decentralising key services to other providers.

OVERALL SECURITY AND SECURING THE CONTINUATION OF BUSINESS OPERATIONS

The company continuously pays attention to the functioning of information systems, the level of data security, securing the continuation of operations and the development of overall security. The operating of the current information and telephone systems is a critical factor in customer service and their operating is strengthened through close co-operation with partners. The introduction and utilisation of new systems and committing partners to new operating models is also in a key position.

The continuity planning of business operations and preparing for exceptional circumstances are part of the management of operational risks. The continuity planning of business operations means preparing for interruptions of business in such a way that the company is able to continue operations and limit losses in case of different disturbances to the business operations. Such disturbances include, for instance, damage or intentional actions concerning personnel, premises, information systems or telecommunication; water damage, fire or interruptions in the supply of e.g. electricity, heat or water.

The duties of the risk management co-ordination group operating in the company include, for instance, independent supervision of operational risks, and development of reporting and management principles. The duties of the security team include evaluation of the status of different aspects of security, creation of development activities, follow-up of development projects, and continuous evaluation of security risks as part of the company's general risk management. The security team convenes regularly and also follows the maintenance of continuity and readiness plans concerning all functions.

Pension Fennia participated in the TATO 2011 readiness exercise for earnings-related pension industry arranged in spring 2011, the primary goal of which was testing the functioning of the key processes of the earnings-related pension industry in case of disturbances, the ability to respond to unexpected changes in the operating environment, and testing the co-ordination ability concerning co-operation and communication within the industry.

Key figures for financial development

The terms used in the key figures tables are the same as those in the profit and loss account and the balance sheet, unless otherwise stated. The figures have been rounded to the nearest five; thus the figures do not necessarily sum up to the total given.

KEY FIGURES	2011	2010	2009	2008	2007
Premiums written, € mill.	1,198.2	1,126.2	1,096.3	1,088.9	968.1
Pensions paid and other compensations, € mill. [1]	1,122.4	1,031.6	979.5	889.7	780.8
Net investment income at fair values, € mill.	-107.9	620.7	570.9	-759.8	237.5
Yield on invested capital, %	-1.6	10.0	10.1	-12.1	4.0
Turnover, € mill.	1,235.4	1,518.4	1,421.8	668.4	1,206.8
Total operating expenses, € mill.	56.6	54.0	51.7	49.0	43.4
% of turnover	4.6	3.6	3.6	7.3	3.6
Operating costs covered with expense loading of ins. premium, € mill.	41.1	40.0	38.7	36.8	35.4
% of TyEL payroll and YEL reported earnings	0.7	0.8	0.8	0.7	0.8
Total result, € mill.	-268.5	344.3	236.7	-718.9	-24.4
Technical provisions, € mill.	6,257.3	6,200.6	5,768.6	5,381.7	5,652.5
Solvency margin, € mill. [2]	975.9	1,225.6	907.4	645.5	1,156.3
% of technical provisions [3]	16.5	21.4	16.8	12.9	22.7
Ratio to the solvency limit	2.6	2.8	2.7	2.6	1.7
Equalisation provision, € mill.	236.2	261.0	236.6	258.1	260.1
Pension assets, € mill. [4]	6,857.5	6,934.9	6,278.0	5,637.7	6,242.5
Transfer to client bonuses, % of TyEL payroll	0.28	0.35	0.27	0.14	0.38
Paid client bonuses, % of TyEL payroll	0.35	0.27	0.14	0.37	0.20
TyEL payroll, € mill.	4,745.5	4,590.0	4,491.7	4,522.7	4,047.1
YEL reported earnings, € mill.	805.8	683.8	646.3	607.3	565.6
No. of TyEL policyholders [5]	23,620	22,950	22,500	21,810	20,250
No. of TyEL insured	185,660	181,520	176,900	173,260	162,940
No. of YEL policyholders	39,320	34,720	33,580	32,920	31,610
No. of pensioners	84,850	82,980	81,600	80,200	77,610

1) Claims paid in the profit and loss account excluding administrative costs of claims handling and working capacity maintenance activities.
2) The figure for 2011 includes an item of € 245.9 million from clearing reserve paralleled with solvency margin (2010: € 238.7 million, 2009: € 224.6 million, 2008: € 208.8 million).
3) Ratio calculated as percentage of the technical provisions used in the calculation of the solvency limit. In 2008–2010 the item paralleled with solvency margin has been deducted from the technical provisions.
4) Technical provisions + valuation differences.
5) Insurances of employers that have made an insurance contract.

INVESTMENT DISTRIBUTION	2011		2010		2009		2008		2007	
(includes accumulated interest)	€ mill.	%	€ mill.	%	€ mill.	%	€ mill.	%	€ mill.	%
Loans	390.1	5.8	453.6	6.7	492.6	8.0	383.6	7.0	237.7	3.9
Bonds	2,687.6	39.9	2,585.1	38.2	2,809.8	45.6	2,178.6	39.8	1,884.1	30.9
of which fixed-income funds	902.0		863.5		479.4		74.2		350.1	
Other money-market instruments and deposits	702.4	10.4	588.6	8.7	305.8	5.0	849.6	15.5	438.8	7.2
Equities and shares	2,059.3	30.6	2,335.2	34.5	1,802.9	29.2	1,284.9	23.5	2,847.5	46.6
Real estate	900.0	13.4	799.4	11.8	754.4	12.2	771.2	14.1	698.2	11.4
of which real estate investment funds	225.1		146.5		107.5		126.1		84.3	
Total investments	**6,739.4**		**6,761.9**		**6,165.5**		**5,467.9**		**6,106.3**	
Bond portfolio modified duration	3.72		3.46		4.03		3.63		5.88	

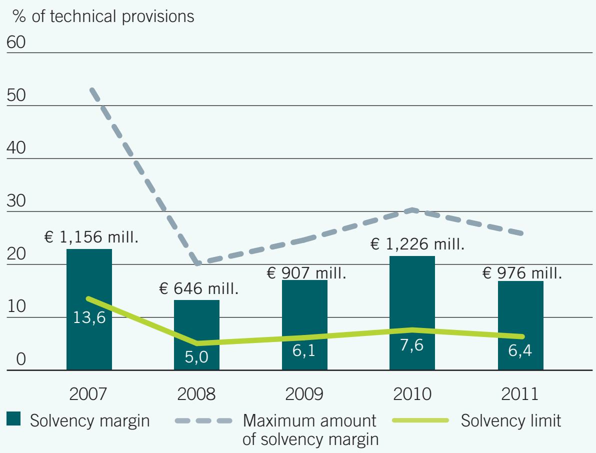
INVESTMENT INCOME SPECIFICATION AND RESULT, € mill.	**2011**	**2010**	**2009**	**2008**	**2007**
Direct net income	**149.6**	**162.2**	**172.2**	**214.4**	**136.9**
Loans	15.4	17.1	17.6	14.2	9.9
Bonds	61.3	70.8	93.6	80.6	58.6
Other money-market instruments and deposits	5.8	1.7	8.0	32.7	12.0
Equities and shares	39.5	30.1	18.5	54.2	29.2
Real estate	40.0	37.3	37.0	38.1	29.7
Unallocated income, costs and operating expenses [1]	-12.4	5.1	-2.6	-5.3	-2.5
Changes in book value [2]	**-123.5**	**233.8**	**145.3**	**-640.1**	**102.2**
Equities and shares	-179.8	155.4	223.9	-475.5	69.5
Bonds	44.5	72.7	-75.4	-157.4	1.6
Real estate	7.4	5.3	-12.3	-14.1	31.0
Other investments	4.4	0.2	9.1	6.9	0.1
Net investment income at book value	**26.1**	**395.9**	**317.5**	**-425.7**	**239.1**
Change in valuation differences [3]	**-134.0**	**224.8**	**253.4**	**-334.1**	**-1.6**
Equities and shares	-154.5	201.0	106.5	-314.6	45.3
Bonds	-9.9	5.5	152.8	-46.4	-51.5
Real estate	27.7	18.2	-0.4	21.2	4.5
Other investments	2.8	0.0	-5.5	5.7	0.1
Net investment income at fair values	**-107,9**	**620.7**	**570.9**	**-759.8**	**237.5**
Yield requirement on the technical provisions [4]	**-148.7**	**-312.9**	**-324.5**	**29.3**	**-272.4**
Investment result at book value	**-122.6**	**83.0**	**-7.0**	**-396.4**	**-33.2**
Investment result at fair values	**-256.6**	**307.8**	**246.4**	**-730.4**	**-34.8**
Proportion of derivatives in net investment income	-47.6	-79.3	17.6	-93.6	41.0

1) Includes such profit and loss account items that are not entered under investment income and in 2010 also a correction related to PAYG pool.
2) Realisation gains and losses and other changes in book value.
3) Also includes changes in value outside the balance sheet.
4) In 2008 the required interest return of € 98.8 mill. corresponding with the supplementary coefficient is not included in the yield requirement on the technical provisions.

NET INVESTMENT INCOME AT FAIR VALUES **1 Jan.–31 Dec. 2011**	Net investment income at fair values, € mill.	Invested capital, € mill.	Yield on invested capital, %	Yield on invested capital, %			
	2011	**2011**	**2011**	**2010**	**2009**	**2008**	**2007**
Loans	14.6	418.4	3.5	3.4	3.6	4.2	4.3
Bonds	95.8	2,543.2	3.8	5.8	6.8	-6.0	0.5
of which fixed-income funds	35.0	787.2	4.5	8.4	19.9	-41.3	0.6
Other money-market instruments and deposits	10.5	638.7	1.6	1.0	2.3	5.6	4.2
Equities and shares	-294.8	2,423.0	-12.2	18.3	25.8	-30.8	5.0
Real estate	75.1	812.3	9.2	8.2	3.3	6.4	11.1
of which real estate investment funds	21.6	177.7	12.1	14.0	-14.2	-9.8	11.9
Other investments	3.3	8.2	40.6	–	–	–	–
Total investments	**-95.4**	**6,843.9**	**-1.4**	**9.9**	**10.2**	**-12.0**	**4.1**
Unallocated income, costs and operating expenses from investment operations [1]	-12.4		-0.2	0.1	0.0	-0.1	0.0
Net investment income at fair values	**-107.9**		**-1.6**	**10.0**	**10.1**	**-12.1**	**4.0**

1) Includes such profit and loss account items that are not entered under investment income and in 2010 also a correction related to PAYG pool.

Solvency margin and its limits



Solvency margin and its limits

(as percentage of the technical provisions used in the calculation of the solvency limit)

	-11	-10	-09	-08	-07
Solvency limit	6.4	7.6	6.1	5.0	13.6
Minimum amount of solvency margin 1)	2.0	2.0	2.0	2.0	9.1
Maximum amount of solvency margin	25.5	30.3	24.5	20.0	54.5
Solvency margin 2)	16.5	21.4	16.8	12.9	22.7

1) In 2011 the minimum amount according to the permanent law 4.3.
2) In 2008–2010 includes a part from clearing reserve paralleled with the solvency margin. In 2011 includes an item of € 245.9 mill. from clearing reserve paralleled with the solvency margin. Without the paralleling solvency margin is 11.9%.

LOADING PROFIT, € mill.	**2011**	**2010**	**2009**	**2008**	**2007**
Administration costs in insurance premium	50.1	48.7	47.0	46.8	39.2
Share of premium available to cover operating expenses resulting from compensation decisions	2.1	1.9	1.7	1.6	1.8
Other income	0.6	0.6	0.7	0.6	0.5
Operating expenses by operation 1)	40.6	39.4	38.2	36.3	35.0
Loading profit	**12.2**	**11.8**	**11.2**	**12.7**	**6.6**
Operating exp./loading profit, %	**76.9%**	**76.9%**	**77.4%**	**74.2%**	**84.1%**

1) Does not include the judicial administration charge, insurance supervision fee and collection expenses which were € 0.4 mill. for 2011.

PERFORMANCE ANALYSIS, € mill.	**2011**	**2010**	**2009**	**2008**	**2007**
Sources of surplus					
Insurance business surplus	**-24.1**	**24.7**	**-20.9**	**-1.1**	**3.8**
Investment surplus at fair values	**-256.6**	**307.8**	**246.4**	**-730.4**	**-34.8**
+ Net investment income at fair values 1)	-107.9	620.7	570.9	-759.8	237.5
- Yield requirement on technical provision	-148.7	-312.9	-324.5	29.3	-272.4
Loading profit	**12.2**	**11.8**	**11.2**	**12.7**	**6.6**
Total surplus	**-268.5**	**344.3**	**236.7**	**-718.9**	**-24.4**
Distribution of surplus					
Change in solvency	**-281.7**	**328.5**	**224.5**	**-725.2**	**-39.7**
Change in equalisation provision	**-24.9**	**24.4**	**-21.5**	**-2.0**	**3.4**
Change in solvency margin	**-256.8**	**304.0**	**246.0**	**-723.3**	**-43.1**
Change in provision for future bonuses	-124.5	77.9	-8.3	-390.8	-43.1
Change in valuation differences	-134.0	224.8	253.4	-334.1	-1.6
Change in accrual of closing entries	0.1	0.1	0.0	0.0	0.0
Profit for the financial year	1.6	1.3	1.0	1.7	1.6
Transfer to client bonuses	**13.2**	**15.9**	**12.1**	**6.3**	**15.3**
Total	**-268.5**	**344.3**	**236.7**	**-718.9**	**-24.4**

1) Includes such interest items that are not entered under investment income and in 2010 also a correction related to PAYG pool.

Guide to key figures

Clearing reserve is a part of the technical provisions for buffering the collectively paid pension expenditure and the insurance premium collected for its funding. Part of the clearing reserve is paralleled with the solvency margin in 2008–2012.

Client bonus reduces a contract employer's TyEL premium.

Equalisation provision serves as a buffer against insurance business fluctuations and is part of the technical provisions. The annual profit on insurance business is added to the equalisation provision and the loss is covered from the equalisation provision.

Invested capital is calculated by adding to the market value, at the beginning of the period, the cash flow for the period weighted with the relative proportion of the whole period which is left from the event date to the end of the period.

Investment distribution at fair values includes derivatives allocated to the asset item below. Investments do not include acquisition price receivables and liabilities.

Investment surplus at book value is calculated as follows: net return on investment and book value adjustment plus the interest items that are included in other items in the profit and loss account less the required rate of return on technical provisions.

Investment surplus at fair values is calculated as follows: book value of investment surplus plus change in valuation differences of assets.

Loading profit is calculated as follows: **expense loading**, collected for covering operating expenses of insurance business, plus any other income, less operating expenses covered from the loading profit. The share of insurance premium depending on the number of disability pension decisions is also included in the expense loading. Statutory payments are not included in calculating the loading profit. Investment management expenses are covered from the investment income and the working capacity maintenance expenses from the disability loading.

Net investment income at fair values is calculated on investment classes corresponding to asset distribution. Derivatives are taken into account according to their nature by asset class. In addition, net investment income takes into account the unallocated income and expenses entered under investment income, as well as operating expenses.

Pension assets = The technical provisions in the balance sheet + valuation differences of assets.

Pensions paid includes payments made to pensioners.

Performance analysis describes the sources and distribution of surplus. The surplus comprises insurance business surplus, loading profit and investment surplus at fair values. The surplus is used for the change of solvency which consists of the change in the equalisation provision and solvency margin, and for transfer to client bonuses.

Premiums written comprise TyEL and YEL premium income less credit losses.

Profit on insurance business for the pensions on the company's responsibility is calculated by subtracting the pension expenditure on the company's responsibility from the profit on equalisation provision and the premium's risk elements.

Provision for current bonuses comprises assets that have been transferred to be used for client bonuses granted to policyholders.

Provision for future bonuses is a part of the company's solvency margin and serves as a buffer against investment yield fluctuations. Part of the total result is transferred to provision for future bonuses.

Provision linked to equity income is a part of premium reserve that serves as a buffer for part of the equity investments. This share of the technical provisions changes according to how equity income is realised in the pension system on average.

Required rate of return on technical provisions is determined on the basis of the discount rate (3%) used in the calculation of technical provisions, the supplement co-efficient of pension liabilities, and average equity income of pension institutions.

Solvency margin is the excess of company assets over liabilities at fair values. Liabilities include technical provision excluding provision for future bonuses. The solvency margin comprises the company's capital and reserves, difference between fair value and book value of assets, provision for future bonuses, and depreciation difference less intangible assets.

Solvency requirements are based on the scrutinising of theoretical risks in investment assets. The central quantity in the scrutinising of solvency is the **solvency limit**. The riskier the company's asset distribution, the higher the solvency limit and the larger solvency margin it requires. The indicators of **solvency** are the proportion of solvency margin to the technical provisions and the proportion of solvency margin to the solvency limit. The item paralleled with the solvency margin shall then be taken into account. The minimum amount of solvency margin is two thirds of the solvency limit in normal conditions, but during the validity of the exceptive law it is 2 per cent of the technical provisions, and if the amount of the solvency margin exceeds the quadruple amount of the solvency limit (upper limit of the target zone) on a second year in a row, the company shall make an extra transfer to client bonuses.

Statutory payments comprise the share of costs of the Finnish Centre for Pensions which acts as the central body of the system, the judicial administration charge of the Pension Appeal Court and supervision charge of the Financial Supervisory Authority.

Technical provisions or the company's liability resulting from insurance contracts comprises the premium and claims reserves. Technical provisions are also referred to as pension liability. The premium reserve is an estimate of the current value of the pension payments based on future occurrences of the insured events for which the company is responsible. The claims reserve is an estimate of the current value of the future compensations of contingencies that have already commenced. In addition, the provisions for current and future bonuses and provisions linked to equity income are included in the premium reserve, and the equalisation provision and clearing reserve are included in the claims reserve. In calculating the technical provisions for solvency, the provision for future bonuses, provision for unearned premiums under the Self-employed Persons' Pensions Act, and, while the exceptive law (853/2008) is in force, share of the technical provisions comparable with the solvency margin shall be deducted from the liabilities

Technical provisions to be covered are calculated by adding debts to the pay-as-you-go pool and policyholders to the technical provisions in the financial statements.

Total operating expenses comprise operating expenses of insurance business, investment operations and working capacity maintenance as well as statutory charges.

Total result comprises the profit on insurance, loading profit and result of investment operations at fair values.

Turnover = premiums written before credit losses and reinsurers' share + book net investment income + other returns.

Valuation difference is the difference between the fair value and book value of assets.

Board of Directors’ Proposal on the Disposal of Profit

The Board of Directors proposes that the € 1,568,016.76 surplus for the financial year be disposed as follows: € 25,000 be reserved for the public good or similar purpose, € 1,540,000.00 be transferred to the contingency reserve, and € 3,016.76 be retained in the profit and loss account. No interest is paid on the guarantee capital for the year 2011.

Helsinki, 5 March 2012

BOARD OF DIRECTORS

Pekka Sairanen

Timo Vallittu	Heimo Aho	Jukka Ahtela
Heikki Kauppi	Eero Lehti	Jussi Mustonen
Olavi Nieminen	Antti Rinne	

Mikko Karpoja
Fellow of the Actuarial Society of Finland,
Actuary in accordance with Chapter 18, Section 8 of the Insurance Companies Act

Auditor's Report

TO THE ANNUAL GENERAL MEETING OF MUTUAL INSURANCE COMPANY PENSION-FENNIA

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Mutual Insurance Company Pension-Fennia for the financial period 1.1.–31.12.2011. The financial statements comprise the consolidated balance sheet, income statement and cash flow statement and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements

RESPONSIBILITY OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

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

Helsinki, 16 March 2012

Ulla Nykky, Authorized Public Accountantt

Pekka Hietala, Authorized Public Accountant

Corporate Governance Statement 2011

Corporate Governance Statement 2011

This Corporate Governance Statement has been drawn up in accordance with Recommendation 54 of the Finnish Corporate Governance Code 2010 and is published in connection with the Board of Directors' Report as a separate report. It is included in Pension Fennia's Annual Report and is also available on the company's website at www.elake-fennia.fi.

Pension Fennia is an employment pension insurance company, and in addition to the Act on Employment Pension Insurance Companies its administration and supervision are governed by the Insurance Companies Act and the Limited Liability Companies Act, as well as statutes, regulations and instructions given by virtue thereof. The company's operational elements are the Annual General Meeting, the Supervisory Board, the Board of Directors and the Managing Director. The labour market organisations played a key role in passing the employment pension acts in the early 1960s, and they still have statutory representation in the administration of employment pension companies as financiers of the earnings-related pension scheme.

The Board of Directors of Pension Fennia approved the instructions concerning the company's corporate governance and good administrative practice on 25 August 2004. The instructions were originally based on the corporate governance recommendations for listed companies which entered into force on 1 July 2004. The Board of Directors of Pension Fennia most recently approved changes to the said instructions on 26 January 2009 due to the amended Finnish Corporate Governance Code that entered into force on 1 January 2009. On the basis of amendments of the Finnish Corporate Governance Code that entered into force on 1 October 2010 Pension Fennia has published a report on salaries and fees that is available on the company's website. The Code can be viewed on the internet at www.cgfinland.fi.

In the legislation concerning insurance companies, including employment pension companies, a requirement has been set for the management of the company to manage the company in accordance with the principles of reliable administration. These principles are formed in practical business life e.g. alongside the development of the corporate governance recommendations. Employment pension companies which exercise significant public and financial power are required to apply the recommendations as broadly as allowed by the legislation. The framework of norms for employment pension companies is, however, very different compared with the framework of norms for listed companies. The purpose and "ownership" of employment pension companies also differs significantly from listed companies. In so far as the framework of norms is the same, the recommendations can be followed as they are, provided that they are not contrary to the purpose of operations of employment pension companies or unless otherwise determined by mutuality. As an employment pension company, Pension Fennia has aimed to build its own corporate governance on the basis of special legislation, complying with the recommendations as applicable. Separate arguments are given for deviating from the recommendations at the end of the report.

OWNERS

Pension Fennia is a mutual insurance company whose owners are the policyholders with a valid insurance in the company in accordance with the Employees' Pensions Act or Self-employed Persons' Pensions Act. Furthermore, owners are the insured covered by each policy under the Employees' Pensions Act, and owners of the guarantee capital.

ANNUAL GENERAL MEETING

The absolute power of decision in Pension Fennia is exercised by the owners in the shareholders' meeting. In the Annual General Meeting the policyholders and owners of the guarantee capital are entitled to vote. In addition, an elected representative of the insured under each TyEL policy has the right to vote.

Detailed information on the determination and division of the voting rights can be found in Pension Fennia's Articles of Association that can be viewed on the company's website.

The Annual General Meeting elects the members of the Supervisory Board and the auditors, and decides on confirming the financial statements and on using the profit shown in the Balance Sheet. The Annual General Meeting decides on granting discharge from liability to the members of the Board of Directors and the Supervisory Board and the Managing Director. In addition, the Annual General Meeting decides on the fees to the members of the Supervisory Board and the auditors, as well as other matters mentioned in the notice of the meeting.

The Annual General Meeting is held annually by the end of May at a time determined by the Board of Directors. An extraordinary General Meeting shall be held, if considered necessary by the Board of Directors or Supervisory Board.

Before the Annual General Meeting the shareholders are given the information required by the law as well as information in accordance with the industry practice, as decided by the Board of Directors in connection with deciding on the notice of the meeting. The notice of the Annual General Meeting shall be published no later than two weeks before the meeting in at least two newspapers published in Helsinki, one of which shall be Swedish-speaking, and on the company's website.

Pension Fennia's Annual General Meeting was lastly held on 18 April 2011.

SUPERVISORY BOARD

Pension Fennia has a Supervisory Board in accordance with the Act on Employment Pension Insurance Companies.

The Annual General Meeting elects 28 members to the Supervisory Board for three years at a time, so that a maximum of ten members resign each year. Seven members are elected from among candidates named by major employer organisations and seven from among candidates named by major employee organisations. The Supervisory Board elects from among themselves a Chairman and a Deputy Chairmen one of whom shall be a person suggested by the representatives of the insured. The Supervisory Board may elect more than one Deputy Chairmen in which case one of the Deputy Chairmen shall be elected the First Deputy Chairman. If the person suggested by the representatives of the insured is not elected the Chairman of the Supervisory Board, he or she shall be elected the First Deputy Chairman. The members of the Supervisory Board of Pension Fennia are introduced at the end of the report.

The operating procedure of the Supervisory Board describes the composition of the Supervisory Board, its duties, and the issues related to arranging a meeting of the Supervisory Board.

The Supervisory Board supervises the company's administration by the Board of Directors and the Managing Director. The duties of the Supervisory Board are listed in the law and in the Articles of Association. The Supervisory Board cannot be given other duties than those mentioned in the law.

The Supervisory Board convened twice in 2011. On average 71 per cent of the members participated in the meetings. According to a decision of the Annual General Meeting, the annual fees paid to the members of the Supervisory Board were as follows: Chairman € 4,500, Deputy Chairmen € 3,000, and members € 1,800. Meeting fee was € 400 per meeting.

ELECTION COMMITTEE OF THE SUPERVISORY BOARD

The Supervisory Board elects for a calendar year at a time the Election Committee of the Supervisory Board which includes four members of the Supervisory Board and two members of the Board of Directors. Half of the members are elected from among persons suggested by the policyholders and half from among those suggested by the representatives of the insured in the Supervisory Board. The Supervisory Board elects a Chairman and Deputy Chairman for the Election Committee from among the members, and one of them shall be a person suggested by the representatives of the insured. The Supervisory Board decides on the fee paid to the members of the Election Committee.

The task of the Election Committee is to prepare a proposal on the election and fees of the members of the Supervisory Board for the Annual General Meeting, and a proposal on the election and fees of the members of the Board of Directors for the Supervisory Board. More detailed orders on the Election Committee are given in the Articles of Association.

The Supervisory Board elected on 22 November 2011 the members of the Election Committee for the calendar year 2012. Members suggested by the policyholders re-elected to the Election Committee were from the Board of Directors of Pension Fennia Eero Lehti, and from the Supervisory Board Managing Director Klaus Saarikallio and Taisto Lehti, Chairman of the Board of Oy Odensö Ab. Members suggested by the insured re-elected to the Election Committee were from the Board of Directors of Pension Fennia Chairman Antti Rinne, and from the Supervisory Board Chairman Pertti Porokari and Director Marjaana Valkonen. Taisto Lehti was elected the Chairman and Marjaana Valkonen the Deputy Chairman of the Election Committee.

The Election Committee convened twice in 2011. On average 83 per cent of the members participated in the meetings. According to a decision of the Supervisory Board, the meeting fees paid were € 500 per meeting to the Chairman, € 400 per meeting to the Deputy Chairman, and € 300 per meeting to members.

BOARD OF DIRECTORS

The election procedure and composition of the Board of Directors are based on legislation. Pension Fennia Board of Directors comprises of ten ordinary members and four deputy members. The Supervisory Board elects the members and deputy members of the Board of Directors for three years at a time so that a maximum of four ordinary members resign annually. Three ordinary members and one deputy member of the Board of Directors are elected from among candidates suggested by major employer organisations and three ordinary members and one deputy member from among those suggested by major employee organisations. The Board of Directors elects for one calendar year at a time the Chairman of the Board of Directors and a Deputy Chairman one of whom shall be a person suggested by the representatives of the insured. The Board of Directors may elect more than one Deputy Chairmen in which case one of the Deputy Chairmen shall be elected the First Deputy Chairman. If the person suggested by the representatives of the insured is not elected the Chairman of the Board of Directors, he or she shall be elected the First Deputy Chairman

The composition of the Board of Directors and eligibility of the members are prescribed in the law. According to the law, members of the Board of Directors must be people with a good reputation who have sufficient knowledge of the employment pension insurance business. There must also be good knowledge of investment operations in the Board of Directors. In addition, the law sets special eligibility requirements which limit the connections of the members of the Board of Directors to other companies. The Chairman of the Board of Directors and two thirds of the other members of the Board of Directors shall be persons who are not at the service of the company or other financial institutions listed in the law, as a managing director or member of an operational element. The company shall submit to the Financial Supervisory Authority a report on the eligibility of the Board members (reliability and suitability) and on fulfilling the requirements that limit the connections as set in the law. The members of the Board of Directors of Pension Fennia are introduced at the end of the report.

The Board of Directors convenes by invitation of the Chairman usually once a month and constitutes a quorum when more than half of the members are present. The Board of Directors shall manage the company with professional skill, and according to cautious business principles and principles concerning reliable administration together with the Managing Director. The management of the company shall promote the interest of the company by acting diligently. The Board of Directors' general task is to take care of the company's administration and appropriate arrangement of operations. The Board of Directors shall see to it that the supervision of accounting and asset management is appropriately arranged. In principle, the Board of Directors is responsible for all the tasks that are not directed to other operational elements of the company or that do not belong to the authority of other operational elements due to their nature.

The operating procedure of the Board of Directors describes and instructs practical working of the Board of Directors. The operating procedure describes the key tasks of the Board of Directors, operating principles, meeting practices and the reports and reviews to be handled in the meetings of the Board of Directors, as well as tasks and compositions of the committees.

The Articles of Association and the operating procedure of the Board of Directors list the tasks of the Board of Directors in addition to those mentioned above. These include:

- To appoint and give notice to the Managing Director and Deputy Managing Director, Actuary, directors and deputy directors
- To decide on convening the shareholders' general meeting
- To decide on the company's goals and strategy
- To decide on the general structure of the company's organisation
- To draw up the financial statements and the Board of Directors' report
- To decide on the company's investment plan and the power of decision related thereto
- To decide on the company's investment operations for the part that has not been delegated
- To see to it that the company has sufficient internal supervision and sufficient risk management systems considering the nature and extent of its operations
- To approve the risk management plan concerning all operations of the company
- To assess annually whether the company's internal supervision is appropriately arranged
- To decide on reward systems of the personnel
- To decide on confirming the rules of the company's consultative committees, election of members and remuneration to the members.

The Board of Directors evaluates its own operations and ways of working once a year with the goal to develop and improve the work of the Board of Directors.

Pension Fennia Board of Directors convened 12 times in 2011. On average 97.5 per cent of the members participated in the meetings. In accordance with the decision of the Supervisory Board, the annual remuneration to the members of the Board of Directors was as follows: Chairman € 20,000, Deputy Chairmen € 16,000, ordinary members € 10,000 and deputy members € 7,000. The meeting fee was € 400 per meeting to the Chairman and Deputy Chairmen of the Board, and € 350 to members and deputy members of the Board.

COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors is assisted by the Appointment and Remuneration Committee and Audit Committee. The committees make proposals and report to the Board of

Directors about tasks appointed to them. The committees hold no power of decision. The tasks of the committees are determined in the operating procedure of the Board of Directors.

APPOINTMENT AND REMUNERATION COMMITTEE

The Appointment and Remuneration Committee is formed in accordance with the operating procedure of the Board of Directors by the Chairman and Deputy Chairmen of the Board of Directors, elected by the Board of Directors from among themselves for one calendar year at a time.

The task of the committee is to appoint the Managing Director and his deputy and to prepare, plan and develop the remuneration and appointment issues of directors appointed by the Board of Directors. The proposals of the Appointment and Remuneration Committee are decided on by the Board of Directors.

In 2011, the Appointment and Remuneration Committee was chaired by Pekka Sairanen, Chairman of the Board of Directors of Pension Fennia, and the members were Deputy Chairmen of the Board of Directors Timo Vallittu and Heimo Aho. The Appointment and Remuneration Committee convened three times, and 100 per cent of the members participated in the meetings. In accordance with the decision of the Supervisory Board, the meeting fee for the Appointment and Remuneration Committee was € 400 per meeting to the Chairman and Deputy Chairmen of the Board.

AUDIT COMMITTEE

The Audit Committee comprises, in accordance with the operating procedure of the Board of Directors, of three members of the Board of Directors elected from among themselves; one of them is elected from the members representing employer organisations and one from members representing employee organisations and one from other members of the Board of Directors. The Chairman or Deputy Chairman cannot be elected to the committee. The Board of Directors appoints the Chairman of the committee.

The task of the Audit Committee is to monitor the company's financial situation, financial reporting, the sufficiency and appropriateness of internal supervision and risk management, and to handle the plans and reports of Internal Auditing. The committee reports to the Board of Directors.

In 2011, the Audit Committee was chaired by Heikki Ropponen, and the members were Heikki Kauppi and Olavi Nieminen. The Audit Committee convened six times, and 100 per cent of the members participated in the meetings. In accordance with the decision of the Supervisory Board, the meeting fee for the Audit Committee was € 350 per meeting to the members of the Committee.

AUDITORS

The Annual General Meeting of Pension Fennia elected in 2011 Ulla Nykky, Authorised Public Accountant, and Pekka Hietala, Authorised Public Accountant, as auditors of the company, and Tuija Korpelainen, Authorised Public Accountant, and Pasi Hirvonen, Authorised Public Accountant, as deputy auditors. The company paid auditing fees of € 141,437.70 and € 110,418.33 as a fee for services not related to auditing to Ernst & Young Oy.

MANAGEMENT

Managing Director and his deputy

The Managing Director and his deputy are appointed by the Board of Directors. The Managing Director's deputy acts as the Managing Director, when the Managing Director is prevented from attending to his duties. The Managing Director takes care of the company's current administration according to the advice and instructions by the Board of Directors. The Managing Director shall see to it that the company's accounting is in compliance with the law and that asset management has been arranged in a reliable manner. The Managing Director shall provide the Board of Directors and its members with the information necessary for handling the duties of the Board of Directors.

According to the law, the Managing Director shall be a person with a good reputation, and he or she shall have a good knowledge of employment pension operations, investment operations and business management. The Managing Director must not be a member of the company's Supervisory Board or Board of Directors. In addition, the law contains some other special requirements concerning the Managing Director.

The Managing Director of Pension Fennia is Lasse Heiniö, Master of Science, Fellow of the Actuarial Society of Finland (born 1951). Mr Heiniö is deputy member of the Board of Fennia, member of the Board of the Finnish Pension Alliance TELA, and member of the Board of AEIP (the European Association of Paritarian Institutions). He has been working as the Managing Director of Pension Fennia as of 1 June 2001.

Executive Group and Investment Committee

The Executive Group that consists of directors appointed by the Board of Directors assists the Managing Director in the company's operative management and planning of operations. The Executive Group is involved in preparing for the Board of Directors, for example, the issues related to the company's strategy, budgeting and organisation.

The Investment Committee handles the important investment issues to be decided on by the Managing Director and prepares the investment proposals and the investment plan to be decided on by the Board of Directors.

DESCRIPTION OF THE MAIN CHARACTERISTICS OF THE INTERNAL SUPERVISION AND RISK MANAGEMENT SYSTEMS RELATED TO THE FINANCIAL REPORTING PROCESS

Pension Fennia's financial reports have been drawn up in accordance with the Accounting Act and Decree that regulate the accounting and financial statements of employment pension companies, the Limited Liability Companies Act and the Insurance Companies Act. Financial reporting is done in compliance with the regulations of the Act on Employment Pension Insurance Companies, the statutes of the Ministry of Social Affairs and Health on financial statements and consolidated financial statements of insurance companies, as well as the regulations and guidelines issued by the Ministry of Social Affairs and Health and the Financial Supervisory Authority.

Pension Fennia publishes financial statements required by the regulations and instructions of the Financial Supervisory Authority, and a six-month interim report. In addition, Pension Fennia publishes a performance review for the first and third quarters of the year.

The most important key figures in evaluating Pension Fennia's total risk position and risk-bearing capacity are the amount of solvency margin in proportion to the technical provisions (solvency ratio) and the amount of solvency margin in proportion to the solvency limit in accordance with the regulations (solvency position). Other key items for financial reporting are the required rate of return on the technical provisions, valuation of investments, and investment income at fair values.

The Board of Directors of Pension Fennia has overall responsibility for arranging internal supervision and risk management, and for annual evaluation of the state of internal supervision. This evaluation is based on the report drawn up by the company's Internal Auditing. The Board of Directors has approved annually the risk management plan related to the steering of the company, and the risk management plan for the investment process, and has followed the progress of administration measures presented in both of these plans through the reports and interim reports it has received. In addition, the Board of Directors approves the company's risk management policy, including the general principles of risk management. In the future, the key risks related to the operations of the investment unit and the measures for managing them will be integrated into the company's risk management plan.

The Board of Directors approves annually as part of the investment plan the bases for classification in accordance with the real risk as referred to in the Act on the Calculation of the Pension Provider's Solvency Border and the Covering of the Technical Provisions. The Risk Management and Controller unit follows weekly the solvency limits based on the legal classification and the classification in accordance with the real risk, and reports about them to the Board of Directors every six months as part of official reporting. The classification criteria are also checked at six-month intervals, and the results are reported via the Investment Committee to the Board of Directors. The classifications of new investments are reported to the Investment Committee monthly or as necessary.

The Risk Management and Controller unit has reported annually about the implementation of the company's risk management plan to the Board of Directors and the company's Executive Group.

Systematic evaluation, measurement, supervision and reporting of risks by a party independent of the investment line is carried out in terms of the total risk position (solvency, allocation, investment income and expenses, gross margin, limits) and asset type-specific returns and risks in the Risk Management and Controller unit. The Board of Directors receives usually monthly reports about the goal and realisation of the investment operations, result, yield contributions, investment allocation, solvency and gross margin position, risks, asset type-specific risks, derivatives and their degree of utilisation, and compliance. The biggest risk concentrations are reported to the Board of Directors quarterly. The management receives weekly, or if necessary, even daily, reports about the investment income, solvency and its sensitivity, and other key figures. The asset type-specific risks and returns, including derivatives, are reported weekly to the portfolio managers and members of the Investment Committee. In addition, derivative positions and certain risk figures are reported daily to the portfolio managers. The aim is to ensure the correctness of the reports through regular balancing routines, good professional skills, and close co-operation and flow of information between the Risk Management and Controller unit and the Investment unit. The correctness of the technical provisions used in the calculation of the solvency limit is confirmed by the insurance technique unit and the Actuary. During the year the technical provisions are estimated in the Risk Management and Controller unit, and their correctness is confirmed through close co-operation with the insurance technique unit and the Actuary. The market valuation of the capital market instruments is done in the

Risk Management and Controller unit on the basis of the latest quotations available. As for unlisted equities, private equity funds and real estate funds, the Risk Management and Controller unit ensures that the market values have been priced in accordance with the agreed principles. The Risk Management and Controller unit runs a regular balancing routine to ensure the correctness of the market values and credit ratings of the securities system. There is a temporal delay related to the determination of the market values, but its effect is minimal.

Pension Fennia's Investment Committee follows the financial and operational risks of investment operations. The risk reporting handled in the Investment Committee is at the responsibility of the Risk Management and Controller unit concerning solvency margin, solvency, gross margin, returns and allocation, as well as asset type-specific operational risk reports of capital market instruments, and asset type analyses. Real Estate Investments is responsible for risk reporting concerning real estate.

As of 2009, the company has had a compliance function which is integrated into the organisation in such a way that persons responsible for the measures required by the compliance activities and reporting them have been appointed to different parts of the organisation.

Matchings of the financial year have been made in the company's business accounting, and the information in the general ledger accounting is in line with the partial accounting systems. During the financial year the balancing is done monthly. The company has up-to-date process descriptions and instructions on financial reporting. The work procedures have been reformed by decreasing manual work processes, automating processes, and building the balancing files.

The accurate technical provisions are calculated annually. During the year, the development of the technical provisions is anticipated using portfolio extracts from the employment register, forecasts of the Finnish Centre for Pensions, and insurance technique analyses.

The operational risks related to Pension Fennia's financial reporting are regularly mapped. The significance of the effects of identified risks and the probability of their realisation are estimated per risk.

The company has Internal Auditing unit that has operated under the Managing Director and reported directly to the Board of Directors.

According to the decision of the Board of Directors, risk management and internal auditing functions were reorganised as of 15 February 2011. Risk Management was transferred under the Director responsible for finance, risk management and HR, under the responsibility of the Risk Management and Controller unit. The Risk Management and Controller unit reports annually about the implementation of the risk management plan to the Board of Directors and the company's Executive Group. At the same time Internal Auditing was transferred under the company's Actuary. The organisational position, areas of duties, responsibility and authority of Internal Auditing are determined in the guidelines approved by the Board of Directors. The Board of Directors of Pension Fennia annually approves the operating plan of Internal Auditing.

SPECIFICATION OF DEVIATION FROM THE RECOMMENDATIONS OF THE CORPORATE GOVERNANCE CODE

Pension Fennia follows the Finnish Corporate Governance Code 2010 for listed companies as applicable to an employment pension company. Deviation from the recommendations of the Corporate Governance Code is mainly based on legislation concerning employment pension companies. Pension Fennia deviates from the recommendations of the Corporate Governance Code as follows:

- Recommendation 1:
  According to the Articles of Association the notice of the general meeting of Pension Fennia shall be published two weeks before the general meeting in at least two newspapers based in Helsinki, one of which shall be a Swedish-language newspaper.

- Recommendations 4, 8, 11 and 12:
  According to the Act on Employment Pension Companies, the members of the Board of Directors are not elected at the general meeting of shareholders, but the election is performed in the Supervisory Board applying methods in accordance with the Articles of Association. There are specific orders in the Act and the Articles of Association concerning the composition of the Board of Directors of an employment pension company. On the other hand, the proposal by the Election Committee on the election of the members of the Supervisory Board is presented in the notice of the general meeting. There are also specific orders in the Act and the Articles of Association concerning the composition of the Supervisory Board which are explained in the notice of the general meeting.

- Recommendation 10:
  According to the Articles of Association of Pension Fennia, the term of the members of the Board of Directors is three years. The purpose of the company's operations and the statutory nature of the election

procedure of the members of the Board of Directors support having a term longer than one year. The Chairman and Deputy Chairmen of the Board of Directors are elected for one calendar year at a time.

- Recommendations 9, 14, 15, 26, 29 and 32:
  The number of independent members of the Board of Directors of an employment pension company and its committees, and the evaluation of their independence are based on law. The composition of the Board of Directors of an employment pension company and the eligibility of the members are prescribed in the law. Furthermore, the law sets specific eligibility requirements that limit the engagement of the members of the Board of Directors to other companies. Pension Fennia must provide the Financial Supervision Authority with a report in accordance with the stipulations on the eligibility of a member of the Board of Directors (reliability and suitability) and that the requirements concerning engagements set in the law are met. Members of the Board of Directors of Pension Fennia may include such persons who act in the operational management or administration of Pension Fennia's major client companies. That is related to the mutual company form of Pension Fennia. More detailed information on the members of the operational elements have been provided separately.

- Recommendations 30 and 33:
  The tasks of the Appointment and Remuneration Committee of the Board of Directors are determined in the operating procedure of the Board of Directors, and the tasks do not include preparation of the appointment and remuneration matters concerning the members of the Board of Directors; that task belongs pursuant to the law to the company's Election Committee.

- Recommendations 16, 35, 38 and 41:
  The shareholding of a member of the Board of Directors and communities under his or her control or those of the Managing Director and the Management Group cannot be disclosed, because a mutual insurance company does not have shares.

- Recommendation 40:
  The remuneration paid for work in the Board of Directors and committees and their determination bases are not decided on by the general meeting, but the decision is made, pursuant to the law by the Supervisory Board to which the Election Committee makes a proposal on the matter.

- Recommendations 42, 44–46:
  These cannot be followed regarding share-based remuneration, because a mutual employment pension insurance company does not have shares.

- Recommendation 51:
  Pension Fennia follows the recommendation on insiders as applicable to a mutual employment pension insurance company.

- Recommendation 55:
  The recommendation on presenting information is followed with the above-mentioned exceptions as applicable to an employment pension insurance company.

BOARD OF DIRECTORS

Chairman:

Pekka Sairanen
Born 1957, M.Sc. (Econ. & Bus. Adm.)
Chairman of the Board, Domus Yhtiöt Oy

Deputy Chairmen:

Timo Vallittu
Born 1953, elementary school
Chairman, Industrial Union TEAM
Representative of employee organisations

Heimo Aho
Born 1949, B.Sc. (Econ. & Bus. Adm.)
Chairman of the Board, SKS Group Oy and subsidiaries of SKS Group
Representative of employer organisations

Other representatives of the labour market organisations:

Jukka Ahtela
Born 1952, Master of Laws,
M.Sc. (Econ. & Bus. Adm.)
Director, Confederation of Finnish Industries EK
Representative of employer organisations

Heikki Kauppi
Born 1955, M.Sc. (Eng.)
Director, the Finnish Association of Graduate Engineers TEK
Representative of employee organisations

Antti Rinne
Born 1962, Master of Laws
Chairman, Trade Union Pro
Representative of employee organisations

Heikki Ropponen (to 31 Dec. 2011)
Born 1948, Master of Laws,
M.Sc. (Econ. & Bus. Adm.)
Deputy Managing Director,
Federation of Finnish Trade
Representative of employer organisations

Jussi Mustonen (as of 1 January 2012)
Born 1955, Licentiate of Social Sciences
Director, Confederation of Finnish Industries EK
Representative of employer organisations

Other members of the Board of Directors:

Eero Lehti
Born 1944, Master of Social Sciences,
Doctor Honoris Causa (University of Vaasa)
Member of Parliament, Chairman of the Board of Taloustutkimus Oy

Olavi Nieminen
Born 1952, Optician
Chairman of the Board,
Piiloset by Finnsusp Oy

Ralf Wickström
Born 1949, Commercial Institute,
diploma in insurance
Chairman of the Board, Federation of the Local Insurance Group

Deputy members:

Nikolas Elomaa
Born 1968, Master of Laws
Director of Policy Development,
Central Organisation of Finnish Trade Unions
Representative of employee organisations

Antti Kuljukka
Born 1961, Master of Social Sciences, eMBA
Managing Director,
Fennia Mutual Insurance Company

Reija Lilja
Born 1954, Ph.D., The London School of Economics and Political Science (Economics)
Research Director, Labour Institute for Economic Research

Rauno Mattila
Born 1946, Technician
Chairman of the Board, Teknopower Oy and Investo Omaisuudenhoito Oy
Representative of employer organisations

SUPERVISORY BOARD

Chairman:

Taisto Lehti, born 1954
Chairman of the Board
Oy Odensö Ab

Deputy Chairmen:

Marjaana Valkonen, born 1952
First Deputy Chairman
Director
Central Organization of Finnish Trade Unions

Klaus Saarikallio, born 1955
Managing Director
Normek Oy

Representatives of employer organisations:

Tero Jussila, born 1958
CFO
Maintpartner Group Oy

Heikki Nikku, born 1956
Managing Director
Logica Suomi Oy

Marja Rantanen, born 1943
Managing Director
Lahden Lounaspörssi Oy

Timo Suominen, born 1954
CFO
Empower Oy

Jukka Tikka, born 1953
Managing Director
Länsi-Savo Oy

Pentti Virtanen, born 1964
Managing Director
FSP Finnish Steel Painting Oy

Representatives of employee organisations:

Timo Korpijärvi, born 1962
Communications Manager
The Finnish Metalworkers' Union

Håkan Nystrand, born 1955
Chairman
METO – Forestry Experts' Association

Markku Palokangas, born 1957
Director of Industrial Sector
Trade Union Pro

Tuula A. Paunonen, born 1955
Chief Accountant
Länsi-Savo Oy

Pertti Porokari, born 1964
Chairman
Union of Professional Engineers in Finland UIL

Jaana Ylitalo, born 1969
1st deputy chairman
Service Union United PAM

Other members of the Supervisory Board:

Kaj Ericsson, born 1943
Member of Investment Council
Harry Schaumans Stiftelse

Kari Happonen, born 1958
President and CEO
Ixonos Plc

Oiva Iisakka, born 1956
Managing Director
Nooa Säästöpankki Oy

Pertti Karjalainen, born 1969
Managing Director
Attendo Oy

Jari Kostamo, born 1957
Managing Director
Markkinointi-instituutti

Tauno Maksniemi, born 1959
Managing Director
RTK-Palvelu Oy

Erkki Moisander, born 1953
Managing Director
Federation of the Local Insurance Group

Lasse Murto, born 1943
Professor

Kyösti Pöyry, born 1952
Managing Director
Paperinkeräys Oy

Pekka Rantamäki, born 1953
CEO
Teknos Group Oy

Lasse Savonen, born 1951
Honorary Commercial Counsellor

Stefan Wentjärvi, born 1967
Managing Director
Blue1 Oy

Jarkko Wuorinen, born 1951
Managing Director
Ahlman & Wuorinen Development AWD Oy

MUTUAL INSURANCE COMPANY
PENSION FENNIA

Kansakoulukuja 1
FI-00100 HELSINKI
Postal address FI-00041 PENSION FENNIA
Telephone +358 10 5031
Fax +358 10 503 7680
www.pensionfennia.fi