Pension Fennia

co-operation

high quality

interaction

active

safe

responsible

efficiency

entrepreneurship

expert

development

productive

# 2010

THE BOARD OF DIRECTORS' REPORT AND FINANCIAL STATEMENTS *high qual*

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# The Board of Directors' report and Financial Statements

# The Board of Directors' report for the year 2010

## Investment environment in 2010

In 2010, the world economy recovering from the financial crisis grew at a rate of almost 5 per cent. Of the developed economies, the US economy grew by nearly 3 per cent, Europe by 1.7 per cent, and Japan by 4.3 per cent. The economy of developing markets grew at a faster rate of over 7 per cent. The strong growth of the global economy can largely be considered the result of successful monetary-policy recovery measures.

The economic development in Europe in 2010 was very clearly divided into two. The northern European economies, such as Germany and partly also Finland benefited from the economic growth of developing markets through their exports. The German economy in particular seems to be developing favourably after a long-running reform of the economic structures and the financial crisis. On the other hand, many euro zone countries ended up in an acute debt crisis in 2010. The debt servicing ability of Greece, Ireland, Portugal and partly of Spain, too, was questioned, and other euro zone countries were forced to support the bond markets of those countries with guarantee activities several times during the year.

Inflation was moderate at under two per cent, excluding some developing markets. China removed extensive, inflation-inducing economic recovery actions by tightening the monetary policy. In other developing markets the overheating of the economy and rise of prices was mainly visible in the price of food. In developed economies the high volume of unused capacity curbed the rise of prices.

Although unemployment decreased globally in 2010, the employment rate has not yet returned to the level preceding the financial crisis. The lower rate of employment is an indication of the still continuing redistribution of the global labour markets and the fact that the domestic economies of developed countries are recovering slowly, because saving needs burden the consumer demand.

The central bank rates were kept at a record-low level in developing countries. The central banks of developed countries were forced to re-start quantitative easing in late 2010, which is highly exceptional in terms of economic history and indicates the uncertainty of the economic situation.

In the equities markets of northern Europe investment income was high in the wake of global economic growth. The equities investments in the developing markets also provided a good yield throughout the year, but North America did not start to rise until the latter half of the year. Bond markets provided a good yield especially in early 2010 as the reference rates fell, and credit margins considerably supported typical bond investments. Money-market returns were very modest last year. On the whole, 2010 was a favourable year for institutional investors such as Pension Fennia.

## Changes in the operating environment

At the beginning of 2010 the amendments agreed on in the collective labour agreement entered into force. Labour market organisations agreed, for example, on the level of the earnings-related pension contribution for 2010–2014, increase of the age limit of part-time pension to 60 years for those born after 1952, and removal of accrual from reduction in earnings. In addition, it was agreed that the pension level lowering effect of the life expectancy coefficient will be relieved for those on disability pension, and the age limit for continued unemployment allowance will be increased by one year to 60 years for those born after 1954.

The labour market organisations and the government have agreed on the aim to raise the average retirement age by at least three years by 2025. This work is still ongoing, and the current estimate is that decisions in the matter will not be made until during the next government after the parliamentary election of spring 2011. The focus of the discussion on the subject has changed from raising the old-age pension age to extending the working careers.

The regulations concerning the investment operations and solvency of pension institutions were temporarily amended in late 2008 due to the international financial market crisis. The fixed-term law was originally in force until the end of 2010, but in summer a decision was made to extend it to the end of 2012. The law includes measures the effects of which support the real solvency margin and measures that relieve the solvency requirements temporarily.

The pensions acts of self-employed persons, farmers, employees and seamen were amended as of 1 January

2011 so that the definition of a self-employed person within earnings-related pension acts is expanded. In the future, a shareholder who works on a managerial position in a limited liability company and owns alone more than 30 per cent of the shares of the company or holds alone more than 30 per cent of the votes given by the shares shall also be considered a self-employed person. A person working in a managerial position in another community shall also be considered a self-employed person, if he or she has the authority in the community corresponding with the above percentages. Around 220,000 self-employed persons and 79,000 farmers are insured within the pension systems for self-employed persons. As a result of the amendment the number of those insured under YEL is estimated to increase by 8,000 new insured and those insured under MYEL by at most 400. Furthermore, some 10,000 persons insured under TyEL are estimated to transfer to YEL insurances by 2014.

In accordance with the government platform, competition is promoted in the earnings-related pension industry on the basis of the study on the competition conditions within the earnings-related pension scheme, and possibilities for portfolio transfers between all parties and related transfers of solvency margins are examined. The matter has not, however, proceeded during the current government, and the Ministry of Social Affairs and Health is expected to provide guidelines for the future.

The Ministry of Social Affairs and Health is preparing a reform of the gross margin and solvency act. The reform would increase the opportunities of employment pension institutions for profitable and more flexible investment operations in the next few years when the economic growth may be slow. The goal would also be to improve the risk assessment of investment operations of employment pension institutions. According to the expert group focusing on the matter the reforms can be implemented in three stages.

The most important reforms in the first stage are basing the classification of bonds denominated in euro on credit ratings, reform of the solvency limit parameters, specification of the restrictions concerning the use of derivatives, and confirming the supplementary coefficient of pension liabilities quarterly. The first stage reforms are planned to enter into force on 31 March 2011.

The second stage of the reform would include the amendments the preparation of which requires further investigation, but which should justifiably enter into force before the expiration of the temporary solvency legislation on 1 January 2013. These would include, for example, procedures for introducing separate solvency regulations for exceptional conditions, and new rules for the administration and supervision of investment operations.

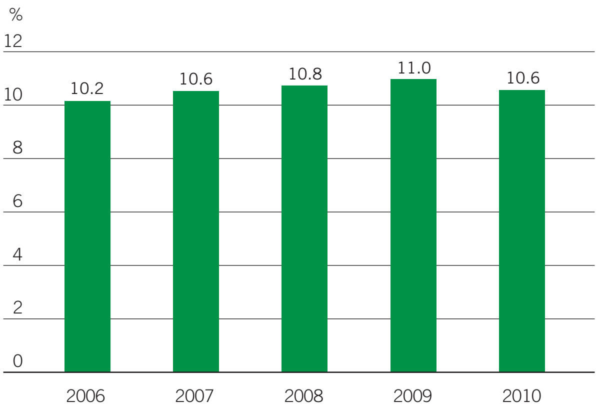
The third stage would see the implementation of the long-term reforms of the solvency mechanism and gross margin regulations that could enter into force in 2014.

## Reaching the goals

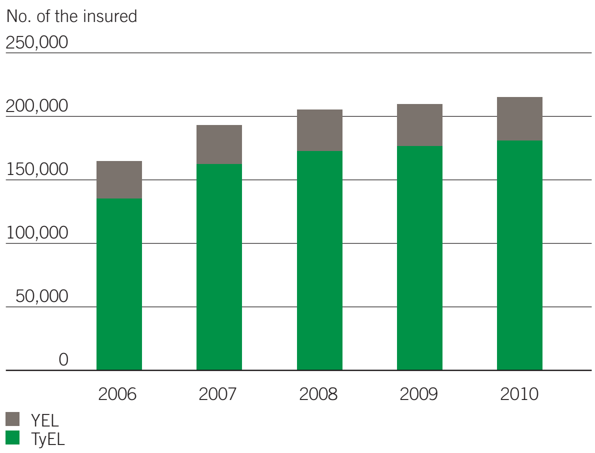
The key goal of investment operations in 2010 was to secure solvency in any circumstances. Pension Fennia's investment income was at a good level. Return on invested capital, calculated at fair values and including operating expenses, the unallocated returns and expenses of investment operations and other interest items in the profit and loss account, stood at 10.0 per cent for the financial year. The amount of solvency margin was 2.8 times the solvency limit at the closing of accounts. Solvency margin increased by 35 per cent, from € 907 million to € 1,226 million, and was 21.4 per cent of technical provisions.

Cost-efficiency was emphasised through the year in all operations. Administration cost surplus stood at € 11.8 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 opti-

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




Pension Fennia's no. of insured 31 Dec.



misation 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 2010, the company was number one in the transfer business between pension companies measured by the number of YEL policies and number three measured by the number of TyEL policies. Around 3,250 TyEL policies and nearly 4,000 YEL policies were gained through new customer prospecting. The said TyEL portfolio covers some 6,800 employees. Thanks to the strong local presence of Fennia Group and Local Insurance associations, the market share in new customer prospecting remained significantly higher than the relative market share.

Pension Fennia's market share has increased steadily since the beginning of its operations. Despite the growth as the earnings-related pension insurer of SMEs and self-employed persons, the company's total market share decreased slightly in 2010. This was due to, for example, the fact that the total market of TyEL insurance companies grew as a number of pension foundations were dissolved into employment pension companies.

## Development of operations

The customer processes in insurance business were examined in spring 2010. The purpose of overall examination of the processes is to respond to new external and internal requirements inevitably created by the changes in the operating environment. By developing the electronic services in the insurance business Pension Fennia wants to facilitate and increase the use of electronic services, thus ensuring customer satisfaction. The goal is also to make the customer service processes more cost-efficient and streamlined, and manage the growing number of customers without increasing personnel. The key issue in the development of customer service is to provide customers and partners with an opportunity for easy and quick customer service both by telephone and online.

According to the industry-specific customer satisfaction survey carried out in late 2010, Pension Fennia's customer satisfaction has remained at a very good level. In a comparison between pension companies Pension Fennia's customer satisfaction is above average and the second best in the industry. Pension Fennia received best ratings for expertise, readiness and willingness to serve, quick handling of issues, and keeping its promises. The customers' willingness to recommend is also at a very high level and the second best in the industry.

In customer service Pension Fennia continues to invest strongly in multi-channel supply. The partners' extensive network of operations guarantees strong local presence and customer service. Strong expertise in employment pension insuring and telephone and online services ensures knowledgeable and flexible services.

Pension Fennia has close co-operation with Fennia Group and Local Insurance Group. Co-operation with Handelsbanken and the Savings Bank Group is also being developed further. Continuous development of the local support network and co-operation is very important for the operations.

In pension handling, long-term development of core operations creates results and is shown as smoothly running and more efficient operations. To ensure the high standard and uniform quality of customer service the follow-up and measuring of quality was developed last year. The base work for setting the quality indicators consisted of listening to telephone calls and conducting analyses for further actions. The development work of telephone services will continue in 2011. The quality of written advisory services was also evaluated, and criteria was set for future quality assessment.

Development projects aimed at the overall application of the last institution principle (Vilma) which will enter into force at the turn of the year 2012 were started during the year. The amendment requires extensive changes in information systems as well as instructions for advisory services, training and process changes. This development work is still ongoing and will continue through 2011.

In pension record service the goal is to shift the focus to electronic services. Hence the development work of the electronic pension record has been started in the pension sector.

The introduction of SEPA payments was prepared for in payment of pensions in terms of information systems and processes.

One of the key conclusions of the management evaluation carried out in 2009 was that the supervisors are strong in the management of issues, but their leadership skills should be developed. The most room for improvement was seen in the supervisors' skills to support the well-being at work of the personnel and give corrective feedback. From this premise a development programme of coaching management was developed for supervisors. The development programme was started in autumn 2010 and will continue to spring 2011.

The personnel planning process was also developed during 2010. The goal was to link personnel planning more closely to the company's strategic goals and develop the long-term nature and anticipation of the planning. Specifying discussions were conducted with all supervisors on the needs related to the number of personnel and quality and on other future views related to the personnel and preparing for them. The developing of the process continues.

In 2010, Pension Fennia completed an extensive scenario work the goal of which was to create tools for strategic planning and models for anticipating the changes of the operating environment. In addition to the expert project group, the scenario work involved a large number of the company's experts and management. The scenario work created alternative models for what may happen in our operating environment and what forces of change affect Pension Fennia and the entire earnings-related pension industry. The forces of change, such as the continuing volatility of the investment markets and emphasis on cost-efficiency, will require also from Pension Fennia new kind of agility and ability to react to the future with anticipation.

## Insurance portfolio and premiums written

At year-end 2010, Pension Fennia was responsible for insuring 216,240 persons' pension provision. The number of TyEL insurances increased by about 450 policies to 22,950, and the number of the insured totalled 181,520. At the end of 2010, the number of insured employment relationships was around 4,600 higher than in the previous year. The number of YEL insured increased by about 1,140 entrepreneurs during the year and stood at 34,720 at the year-end.

The average TyEL premium was 21.6 per cent of salaries/reported earnings. The employee's share was on average 4.7 per cent. Premiums written for the year 2010 stood at € 1,126.2 million. Of this amount, TyEL insurances accounted for € 996.4 million and YEL insurances for € 137.7 million before deduction of credit losses. Credit losses on premium receivables stood at € 7.8 million.

The amount of credit losses on TyEL premiums for 2010 totalled € 6.3 million. Credit losses on YEL premiums stood at € 1.5 million. Unpaid overdue premium receivables amounted to around € 41.5 million on 31 December 2010. The amount of credit losses decreased by € 2.4 million on the previous year, and the amount of open insurance premiums was at the previous year's level.

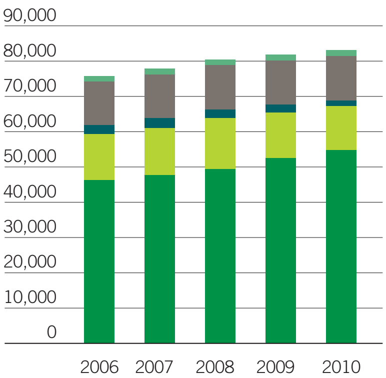
## Pensions and well-being at work

In 2010, Pension Fennia handled a total of 16,900 pension matters, of which 8,400 were new. The number of new applications decreased by around 9 per cent on the previous year, which was mainly due to the expected decrease in the number of unemployment pension applications, because new unemployment pensions in accordance with the earnings-related pension acts will no longer be granted as of the year 2012. The number of applications in other pension types remained almost at the previous year's level. For example, the number of old-age pension applications was at the same high level as in 2009. Continuing at work after reaching the old-age pension age seems to be gradually increasing. On the basis of a sampling of those retired on old-age pension in 2010 the customers of Pension Fennia retire on average at the age of 63.5 years. The number of rehabilitation applications has not yet increased significantly, although the importance of rehabilitation is emphasised in public discussion as one means to extend the working careers.

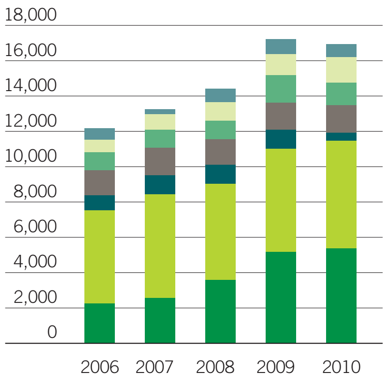
At the end of 2010, the number of pension recipients was 83,000. In 2010, a total of € 846 million was paid out in pensions in accordance with basic cover and € 16 million in accordance with supplementary cover. Pensions were paid to 50 different countries, including Zimbabwe, the Bahamas, and Indonesia.

The key area of pension advisory service was still producing pension records to some 272,000 customers. Customer service reached the goals set for the utilisation of the pension record. When the customers are looking

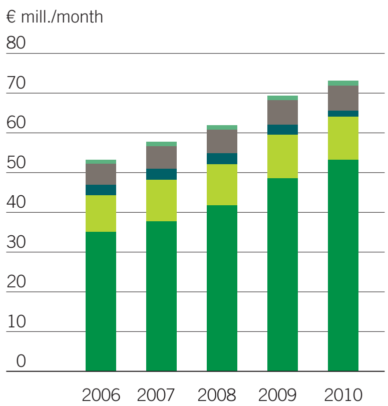
No. of pensioners 31 Dec.




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

Technical provisions, € mill.

| | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| **Premium reserve** | | |
| Future pensions | **3,248.5** | 3,291.9 |
| Provision for current bonuses | **15.9** | 12.1 |
| Provision for future bonuses | **218.7** | 140.8 |
| Provision linked to equity income | **58.6** | -45.2 |
| | **3,541.6** | 3,399.6 |
| **Claims reserve** | | |
| Current pensions | **2,398.0** | 2,132.4 |
| Equalisation provision | **261.0** | 236.6 |
| | **2,659.0** | 2,369.0 |
| **Total** | **6,200.6** | **5,768.6** |

for more detailed information, they also use more and more the Pension Fennia website that provides advice, for example, for reading the pension record and submitting missing information.

The division of inquiries into two, namely basic questions and extensive investigations and advice, is more clearly visible in the customer service. The diversity of employment relationships, numerous employments and working under different pension acts make the mapping of the overall situation and finding the suitable alternatives for the customer more challenging.

As a whole pension services proceeded in 2010 as planned, and balance was maintained between basic work and system development work. The level of customer service was good.

The goal of the Efekti service is to help Pension Fennia's client companies to build and develop the work done in companies to promote well-being at work. Year 2010 was a time of development in services offered by Pension Fennia to its customers, which will be visible to client companies as a revamped service model in 2011.

In the service model for large employers the key item is mapping of disability risks. As of 2011 Pension Fennia provides large employers annually with Efekti disability risk mapping that offers the know-how of Pension Fennia experts more efficiently for the use of client companies. An important part of disability risk management is the active co-operation between the client company and its occupational health care service provider and the pension company. In this co-operation the experts of Efekti service act in a consultative role and coach the supervisors of our client companies if necessary.

The online services are mainly directed at smaller employers. Of the different mapping tools offered to client companies, the Efekti working community inquiry achieved a major role in 2010 specifically as a tool for mapping coping at work in the working community. The online services and training offered to client companies will be developed further in 2011.

## Technical provisions and covering assets

Pension Fennia's technical provisions stood at € 6,200.6 million at the end of 2010. Technical provisions included € 681.2 million of liabilities accrued from employees' share of premium.

Claims reserve also includes equalisation provision which stood at € 261.0 million at the end of 2010, of which basic benefit accounted for € 255.4 million. The amount of the equalisation provision is securing. Insurance business as a whole made a profit in 2010 despite the temporary decrease in the contribution.

The average return on equities of the pension system to be transferred to the technical provisions was around 20.7 per cent on 31 December 2010, and the amount of provision for bonuses linked to return on equities was around € 58.6 million on 31 December 2010.

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 € 6,808 million, or 9.5 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 € 486 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 2010.

Total investment income on invested capital stood at 9.9 per cent before operating expenses and unallocated income and costs of investment operations. The technical rate of interest is determined semi-annually on the basis of the average solvency of earnings-related pension institutions. In 2010, the technical rate of interest stood at 3.5 per cent until 30 June 2010 and at 4.5 per cent from 1 July 2010–31 December 2010.

The net return on investment operations in the profit and loss account stood at € 395.9 million. Capital losses generated in equity, fixed-income and real estate investments amounted to € 47.0 million and capital gains to € 314.5 million. Value readjustments of € 49.9 million were made in equities and shares, € 4.5 million in bonds, and € 8.2 million in real estate. Value adjustments on equities, bonds and real estate stood at € 23.4 million. Valuation differences increased by € 224.8 million during the financial year. The net return on investment operations at fair values stood at € 620.7 million.

In the equities market, 2010 was the second year of high returns in a row. The development inside the equi-

Investment distribution 2010

| Investment assets at fair values | 31 Dec. 2010 | | Return | 31 Dec. 2009 | | Return |
|---|---|---|---|---|---|---|
| (includes accumulated interest) | € mill. *) | % | % | € mill. *) | % | % |
| **Fixed-income investments** | **3,627.3** | **53.6** | **5.0** | **3,608.2** | **58.5** | **5.7** |
| Loans | 453.6 | 6.7 | 3.4 | 492.6 | 8.0 | 3.6 |
| Bonds of OECD/EEA public corporations | 1,208.0 | 17.9 | 4.9 | 1,822.0 | 29.6 | 5.6 |
| Bonds of other corporations | 1,377.1 | 20.4 | 6.8 | 987.8 | 16.0 | 8.9 |
| Other money-market instruments and deposits | 588.6 | 8.7 | 1.0 | 305.8 | 5.0 | 2.3 |
| **Equities** | **1,686.9** | **24.9** | **22.5** | **1,153.5** | **18.7** | **33.7** |
| Listed equities | 1,488.7 | 22.0 | 24.8 | 983.8 | 16.0 | 44.3 |
| Private equity investments | 98.3 | 1.5 | 7.0 | 66.6 | 1.1 | -18.8 |
| Unlisted equities | 99.9 | 1.5 | 5.2 | 103.2 | 1.7 | 11.9 |
| **Real estate investments** | **799.4** | **11.8** | **8.2** | **754.4** | **12.2** | **3.3** |
| Direct real estate investments | 653.0 | 9.7 | 7.1 | 646.9 | 10.5 | 6.9 |
| Real estate investment funds and joint investment companies | 146.5 | 2.2 | 14.0 | 107.5 | 1.7 | -14.2 |
| **Other investments** | **648.3** | **9.6** | **9.4** | **649.3** | **10.5** | **16.4** |
| Hedge fund investments | 648.3 | 9.6 | 9.4 | 649.3 | 10.5 | 16.4 |
| **Total investments** | **6,761.9** | **100.0** | **10.0** | **6,165.5** | **100.0** | **10.1** |

*) Includes € -2.7 million of derivatives outside the balance sheet.

ties market was, however, inconsistent. The best returns on equities were obtained from investments in the Nordic countries and developing markets. The poorest results were recorded from markets that suffered from problems in euro zone countries experiencing economic difficulties. Return on listed equities for 2010 was 24.8 per cent and that of unlisted equities 5.2 per cent.

The yield of hedge funds reached the target level of returns expected from the asset class. The return on Pension Fennia's hedge funds in 2010 was 9.4 per cent. The returns were divided evenly between different hedge fund strategies.

In private equity funds, the domestic company acquisition market did not achieve its full potential in 2010. Due to the major emphasis on domestic investments in the private equity portfolio and slightly smaller size of target companies compared with the market the yield of the investments was moderate at 7.0 per cent.

Fixed-income investments also provided a good yield. Although the interest rates rose towards the end of the year, long interest rates were nevertheless at a lower level compared with the beginning of the year. During 2010, the interest rate risk was reduced in Pension Fennia's fixed-income portfolio and the proportion of credit risk was increased. Furthermore, bonds of the euro zone problem countries were underweighted in bond investments.

The return on capital employed in bond investments, including derivatives and fixed-income funds, was 5.8 per cent. Due to the narrowing of credit risk margins the best yield was provided by high-risk corporate bonds. The return on the money-market portfolio was 1.0 per cent. The modified duration of the bond portfolio on 31 December 2010 was 3.46 years.

The rental markets of real estate were divided into two: the occupancy rate of residential flats was at a historically high level, while that of office space was at a record-low level. The rents of residential flats continued to rise, and after a short decrease the rents of office space began to stabilise at a lower level. The situation is not expected to improve in the near future, as companies move to newer and more efficient buildings. In business premises, shopping centres remained fully occupied as the sales in the shops continued to increase.

Interest in the best real estate among investors was great, and their prices increased as the required rate of return fell. Higher risk items continued to suffer from lack of demand, and their value decreased slightly. The volume of real estate deals increased in the European growth centres, but in Finland the figures were almost at the previous year's level.

No major real estate acquisitions or sales were implemented during the year. The most significant ongoing development project is the residential tower in Leppävaara, Espoo, which is being built in co-operation with Keva and Etera. The project is due for completion by the end of 2011.

The return on real estate investments calculated on invested capital stood at 8.2 per cent.

The demand for TyEL premium loans has steadied following the economic recovery and stabilisation of the financial markets. However, the demand for financing remained lively and was directed especially at the need for working capital and company reorganisation. Companies are now decentralising their financing.

Advance credit losses of € 1.2 million net were entered for the loans in the financial year. Return on capital employed after the credit losses was 3.4 per cent. Year 2011 will be challenging for companies with difficulties or debt for obtaining additional financing.

## Total operating expenses and personnel

Total operating expenses for 2010 were € 54.0 million. Operating expenses covered with expense loading stood at € 39.4 million and operating expenses covered from the investment income at € 8.4 million. € 1.8 million of operating expenses related to working capacity maintenance were paid from the disability loading of the premium. Total operating expenses included € 4.4 million of statutory charges which are covered with a separate share of premium. Personnel costs accounted for 38 per cent of the cost of insurance business and investment operations, and IT costs accounted for 34 per cent. In IT costs the investment in the claims system in 2010 was still significant. Expense loading totalled € 50.6 million for the year and other income € 0.6 million. Loading profit stood at € 11.8 million, and 76.9 per cent of the loading profit was spent on operating expenses of insurance business.

The company employed an average of 253 persons in the year 2010. At year-end 2010, 249 people were permanently employed, and 14 had a fixed-term employment relationship. 10 people were on maternity or child care leave, 3 on part-time pension and 2 on partial disability pension. A total of 21 new employees were hired, and 3 fixed-term employments were made permanent. 17 employment relationships ended, 5 of them due to retirement.

Pension Fennia has invested in working capacity maintenance by encouraging the personnel to take care of both mental and physical well-being. The personnel has been motivated to exercise by arranging exercising events, offering opportunities for fitness testing and follow-up, and by distributing information on healthy lifestyle to maintain working capacity and health.

The operating plan of Pension Fennia occupational health care includes regular check-ups. In addition to those, working community-specific check-ups were conducted in a few working communities which included personal check-ups as well as overall mapping of the state of the working community and needs for development. A model of early support was drawn up together with occupational health care, the goal of which is to prevent factors that may reduce the employee's working capacity or even threaten their working ability.

## Principles of rewarding

The Appointment and Remuneration Committee prepared in 2010 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 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, Controller unit and part of 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 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 (86%) 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 2010 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. In 2010, the Controller unit was transferred from the goal reward system to the incentive reward system. The goals of the Controller unit have been derived from the goals set for the Chief Financial Officer by the Board of Directors 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 are delayed by 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. As of 2010 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 required rate of return on technical provisions is determined on the basis of the discount rate used in the calculation of the technical provisions, supplementary coefficient for pension liabilities, and the average equity income of pension institutions.

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 € 395.9 million. The interest paid on technical provisions for the same period stood at € 209.1 million. The technical provisions linked to return on equities increased by € 103.8 million. Therefore the book result of investment operations was € 83.0 million. The valuation differences increased by € 224.8 million. The result of investment operations at fair values including other interest items of the profit and loss account was € 307.8 million. Loading profit was € 11.8 million. The profit on insurance business stood at € 24.7 million. The combined total result of Pension Fennia was € 344.3 million.

Provision for future bonuses increased by € 77.9 million. € 15.9 million was transferred to be used on premium discounts.

The solvency margin at the year-end amounted to € 1,225.6 million, or 21.4 per cent of the technical provisions. Valuation differences accounted for € 734.2 million of the solvency margin. The minimum amount of solvency margin is € 114.6 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 € 986.8 million and 16.5 per cent of the technical provisions.

The profit and loss account shows a surplus of € 1,306,492.23.

## 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 2010, 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.

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. The Board receives annually a report on the progress of the measures in accordance with the risk management plan drawn up by the risk management unit which is independent of the risk-taking operations, and regarding investment operations a report on risks related to investments drawn up by the Controller unit.

The members of the Executive Group are responsible for ensuring in their own sectors that internal supervision is implemented and that the line-specific risk management processes are appropriate. Each line and, if necessary, unit draws up a risk management plan for operations. 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 and on the company's website.

## Internal and external auditing

The task of Pension Fennia's Internal Audit is to produce evaluation, securing and consultation services for the supervision, risk management and administration processes of the company's operations. The purpose of Internal Audit is to promote the introduction of operating and control models of internal supervision and risk management in the company. Internal Audit 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 Audit has provided the Executive Group and 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 19 April 2010, the Annual General Meeting of Pension Fennia re-elected Heikki Nikku, Marja Rantanen and Jukka Tikka to the Supervisory Board at the suggestion of central employer organisations, and re-elected Håkan Nystrand and elected Timo Korpijärvi and Markku Palokangas as new members at the suggestion of central employee organisations. In addition, the following persons were re-elected to the Supervisory Board: Pentti Jussila, Taisto Lehti and Lasse Savonen. Pertti Karjalainen was elected as a new member to the Supervisory Board. Antti Tiitola resigned from the Supervisory Board by a notice dated on 29 March 2010.

The Annual General Meeting elected Per-Olof Johansson, Authorised Public Accountant, and Ulla Nykky, Authorised Public Accountant, auditors; Tuija Korpelainen, Authorised Public Accountant, and Pekka Hietala, Authorised Public Accountant, were elected deputy auditors.

In its meeting on 23 November 2010, the Supervisory Board of Pension Fennia re-elected Board members Olavi Nieminen and Ralf Wickström, and deputy member Reija Lilja. Pekka Sairanen was the Chairman of the Board of Directors in 2010, 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 2011.

The Appointment and Remuneration Committee of the Board of Directors was formed by the Chairman and Deputy Chairmen of the Board in 2010. Members of the Audit Committee of the Board of Directors in 2010 were Heikki Ropponen, Heikki Kauppi and Olavi Nieminen.

In 2010 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 23 November 2010, 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 2011.

Members suggested by the policyholders to the Election Committee in 2010 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 2010.

By a decision made by the Supervisory Board on 23 November 2010, members suggested by the policyholders re-elected to the Election Committee for the calendar year 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 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 2011.

The Board of Directors convened 10 times during the year, and the participation percentage was 98. 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, Customer Relations; Eeva Grannenfelt, Director, Chief Investment Officer; Irmeli Heino, Director, Finance and Human Resources; Mikko Karpoja, Director, Actuarial Services and Risk Management; 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 Sakari Kalske, Director of the IT Services and Development unit; Timo Stenius, Director, Customer Finance and Real Estates; and Seppo Mattila, Medical Director. 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 2010, Pension Fennia group included 39 housing and real estate companies as subsidiaries. Pension Fennia group owns 40 per cent of the shares of its associated undertaking Tyvene Oy and 40 per cent of the shares of Insurance Company Fennia Life.

## 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 € 26,693,869.58, and retained earnings amounting to € 1,528,356.87.

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 € 1,306,492.23 surplus for the financial year be disposed as follows: € 25,000 be reserved for the public good or similar purpose, € 1,275,000.00 be transferred to the contingency reserve, and € 6,492.23 be retained in the profit and loss account. No interest is paid on the guarantee capital for the year 2010.

## Significant events after the close of the financial year

The economic data obtained during the first weeks of the year suggest that the economic growth will continue at a good level at least for some time. The rise of the interest rates has given worrying signals on the increase of inflation. The situation is, however, considered stable for the time being. A timeout was taken in the handling of the European debt crisis, and the markets are waiting for proposals and decisions due in March from the economic decision-makers for solving the debt problems in Europe.

Pension Fennia's solvency margin is still at a securing level.

The area of responsibility of Irmeli Heino, Director, Finance and Human Resources, includes also risk management as of 15 February 2011. Sarianne Kirvesmäki, Director of the Controller unit was appointed Director, Risk Management. The area of responsibility of Director Mikko Karpoja includes, in addition to Actuarial Services, Internal Audit as of 15 February 2011.

## Future outlook

The recovery measures of the economic policy were increased in late 2010 especially in the USA. The positive economic tone created by the recovery activities seems to continue for the time being, and the global economy is also anticipated to developed positively in 2011.

The most significant risks in the investment market in the current year will probably result from the debt problems in the euro zone, the overheating of the developing markets, and the fear of inflation that might raise the interest rates further. Development in the longer term is affected by the fact that the large debts will continue to burden the economic growth of many developed countries for a long time.

The companies seem to be in good shape, and they are expected to have even exceptional reserves for investments. The pressures on salary raises have so far remained very moderate in the global labour market competition, so the increase in demand is quite directly visible in the profits of companies. The good performance of companies is also expected to show positively in the returns of the portfolios of institutional investors.

Reflationary monetary and financial policies are probably coming to an end for now. Cautious dissolving of the economic recovery activities is expected to begin in Europe and the USA during 2011. The development of the employment rate will probably continue positively after the recovery activities. Credible and sustainable long-term plans are expected to be provided for the debt servicing of governments.

The economic growth in Finland in the near future seems very positive, and there is no considerable inflation pressure in sight. As with nearly all developed countries, the problems in the Finnish economy in the longer term are related to the durability of the public economy.

The year 2011 will be interesting for the development of the earnings-related pension scheme. The government platform to be formed after the parliamentary election in the spring will outline the pension policy for the next four years.

In 2010, the discussion on raising the old-age pension age limit evolved into a discussion on extending the working careers. The working group focusing on extending the working careers is currently mapping out the means for extending the working careers. They include, for example, age limits for pensions, accruals, indices and other conditions related to the granting and financing of pensions. They require handling in the Parliament, so any amendments will not enter into force until the next government.

From the point of view of the durability of the public economy it is considered 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 33.5 years in 2010, 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.

The permanent changes of solvency regulation of the private-sector earnings-related pension institutions is also being prepared for. The Ministry of Social Affairs and Health is expected to appoint working groups to study the changes required as soon as the new government has been formed.

By developing competitive conditions it is possible to affect the type of pension institutions operating on the market. The great challenge is to create equal conditions for all operators.

The Pension Fennia Board of Directors wishes to thank all personnel and the operative management for a job well done in the financial year 2010.

# Profit and loss account

| EUR 1,000 | Group 2010 | Group 2009 | Parent company 2010 | Parent company 2009 |
|---|---|---|---|---|
| **Technical account** | | | | |
| Premiums written | 1,126,247 | 1,096,254 | 1,126,247 | 1,096,254 |
| Investment income | 693,533 | 661,705 | 699,882 | 667,429 |
| Revaluations on investments | | | | |
| Claims incurred | | | | |
| Claims paid | -1,045,852 | -993,067 | -1,045,852 | -993,067 |
| Change in claims paid | -289,988 | -91,570 | -289,988 | -91,570 |
| | -1,335,840 | -1,084,637 | -1,335,840 | -1,084,637 |
| Change in premium reserve | -142,015 | -295,424 | -142,015 | -295,424 |
| Operating expenses | -31,364 | -30,543 | -31,364 | -30,543 |
| Investment expenses | -310,611 | -347,206 | -315,557 | -352,288 |
| **Balance on technical account/margin** | **-50** | **148** | **1,354** | **790** |
| **Non-technical account** | | | | |
| Other income | 3 | 135 | 3 | 135 |
| Share of the result of associated undertakings | 5,639 | 4,187 | | |
| Profit from operations | 5,592 | 4,470 | | |
| Appropriations | | | | |
| Change in depreciation difference | | | -50 | 27 |
| Income taxes | | | | |
| Calculated tax | 100 | 132 | | |
| Minority interest in the result for the financial year | 280 | 310 | | |
| **Profit/loss for the financial year** | **5,972** | **4,912** | **1,306** | **952** |

# Balance sheet

| EUR 1,000 | Group 2010 | Group 2009 | Parent company 2010 | Parent company 2009 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Intangible assets** | | | | |
| Intangible rights | 99 | 167 | 99 | 167 |
| | 99 | 167 | 99 | 167 |
| **Investments** | | | | |
| Investments in land and buildings | | | | |
| Land and buildings | 431,207 | 437,373 | 286,891 | 284,255 |
| Loan receivables from group companies | | | 213,219 | 218,825 |
| Loan receivables from real estates | 60,347 | 60,782 | | |
| | 491,554 | 498,155 | 500,110 | 503,079 |
| Investments in group companies and participating interests | | | | |
| Shares and participations in associated undertakings | 28,024 | 22,386 | 16,654 | 16,655 |
| | | 22,386 | 16,654 | 16,655 |
| Other investments | | | | |
| Equities and shares | 2,799,005 | 2,088,475 | 2,798,100 | 2,087,569 |
| Money-market instruments | 2,214,192 | 2,490,769 | 2,214,192 | 2,490,769 |
| Loans guaranteed by mortgages | 221,933 | 253,984 | 221,933 | 253,984 |
| Other loan receivables | 228,563 | 235,407 | 228,563 | 235,407 |
| Deposits | 16,800 | 28,000 | 16,800 | 28,000 |
| | 5,480,494 | 5,096,634 | 5,479,588 | 5,095,729 |
| | 6,000,072 | 5,617,176 | 5,996,352 | 5,615,463 |
| **Debtors** | | | | |
| Direct insurance business | | | | |
| Policyholders | 116,995 | 85,374 | 116,995 | 85,374 |
| Other debtors | | | | |
| Receivables from participating interests | | | 2 | 1 |
| Receivables from associated undertakings | 2 | 1 | | |
| Receivables from own real estate companies | | | 2,599 | 4,524 |
| Receivables from partner companies | 4 | | 4 | 3 |
| Other debtors | 113,046 | 57,981 | 113,046 | 57,980 |
| | 113,052 | 57,982 | 115,652 | 62,508 |
| **Other assets** | | | | |
| Tangible assets | | | | |
| Furniture and fixtures | 1,923 | 1,979 | 1,923 | 1,979 |
| Other tangible assets | 353 | 353 | 353 | 353 |
| | 2,277 | 2,332 | 2,277 | 2,332 |
| Money in hand and cash at bank | 19,931 | 7,117 | 19,682 | 6,895 |
| | 22,208 | 9,449 | 21,958 | 9,228 |

| EUR 1,000 | Group 2010 | Group 2009 | Parent company 2010 | Parent company 2009 |
|---|---|---|---|---|
| **Prepayments and accrued income** | | | | |
| Accrued interest and rent | 43,670 | 55,042 | 43,670 | 55,042 |
| Other prepayments and accrued income | 4,279 | 23,980 | 4,095 | 23,713 |
| | 47,950 | 79,022 | 47,766 | 78,755 |
| **Total assets** | 6,300,376 | 5,849,169 | 6,298,822 | 5,851,494 |

| EUR 1,000 | Group 2010 | Group 2009 | Parent company 2010 | Parent company 2009 |
|---|---|---|---|---|
| **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 | 27,648 | 26,718 | 27,330 | 26,455 |
| Profit/loss brought forward | -17,008 | -20,971 | 222 | 220 |
| Profit/loss for the financial year | 5,972 | 4,912 | 1,306 | 952 |
| | 21,741 | 15,789 | 33 904 | 32,672 |
| **Minority interest** | 12,646 | 13,180 | | |
| **Accrued appropriations** | | | | |
| Depreciation difference | | | 154 | 104 |
| **Technical provisions** | | | | |
| Premium reserve | 3,541,637 | 3,399,622 | 3,541,637 | 3,399,622 |
| Claims reserve | 2,659,013 | 2,369,025 | 2,659,013 | 2,369,025 |
| | 6,200,650 | 5,768,646 | 6,200,650 | 5,768,646 |
| **Creditors** | | | | |
| Direct insurance business | 3,905 | 4,346 | 3,905 | 4,346 |
| Calculated tax debt | 499 | 599 | | |
| Other creditors | 26,724 | 23,836 | 26,608 | 23,537 |
| | 31,128 | 28,781 | 30,513 | 27,883 |
| **Accruals and deferred income** | 34,212 | 22,773 | 33,602 | 22,188 |
| **Total liabilities** | 6,300,376 | 5,849,169 | 6,298,822 | 5,851,494 |

Financial Statements

# Accounting principles 2010

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 2010 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. Subsidiaries acquired during the financial year have been consolidated as from the day of acquisition. Subsidiaries sold during the financial year have been consolidated until the day of transfer. 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 and Tyvene 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 2010.

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.

Money-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 2010. Foreign currency denominated other investments are entered at the rate of the acquisition date. The rates quoted on 31 December 2010 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 negative. Deferred tax receivable has not been entered in the balance sheet, because it cannot be utilised later.

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 determined by the Board of Directors 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.

## 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 exceptive law (853/2008) is in force (until the end of 2012), 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 exceptive law (853/2008) passed in autumn 2008. Originally 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.

# Notes to the profit and loss account

| EUR 1,000 | 2010 | 2009 |
|---|---|---|
| **PREMIUMS WRITTEN** | | |
| Direct insurance | | |
| TyEL basic insurance | | |
| Employer contribution | 770,169 | 759,459 |
| Employee contribution | 218,540 | 209,565 |
| | 988,709 | 969,025 |
| TEL supplementary pension insurance | 1,349 | 1,591 |
| YEL minimum coverage insurance | 136,189 | 125,637 |
| YEL supplementary pension insurance | | 1 |
| Total premiums written | 1,126,247 | 1,096,254 |
| | | |
| Items deducted from premiums written | | |
| Credit loss on premiums | | |
| TyEL | 6,346 | 8,947 |
| YEL | 1,496 | 1,329 |
| | 7,842 | 10,277 |
| | | |
| **CLAIMS PAID** | | |
| Direct insurance | | |
| Paid to pensioners | | |
| TyEL basic insurance | 729,974 | 681,977 |
| TEL supplementary pension insurance | 15,445 | 15,717 |
| YEL minimum coverage insurance | 115,782 | 108,946 |
| YEL supplementary insurance | 635 | 653 |
| | 861,836 | 807,294 |
| Paid/refunded clearing of PAYG pensions | | |
| TyEL pensions | 199,123 | 200,832 |
| YEL pensions | 30,836 | 27,252 |
| 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 | -41,319 | -40,800 |
| Government contribution of YEL | -18,841 | -15,061 |
| 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) | 20 | 14 |
| | 169,820 | 172,236 |
| | 1,031,656 | 979,530 |
| | | |
| Claims administration costs | 12,440 | 12,160 |
| Working capacity maintenance expenses | 1,756 | 1,377 |
| Total claims paid | 1,045,852 | 993,067 |

| EUR 1,000 | Group 2010 | Group 2009 | Parent company 2010 | Parent company 2009 |
|---|---|---|---|---|
| **NET INVESTMENT INCOME** | | | | |
| **Investment income** | | | | |
| Income from investments in group companies | | | | |
| Dividend income | | | 308 | 88 |
| Income from real estate investments | | | | |
| Interest income | | | | |
| From group companies | | | 9,557 | 10,607 |
| Others | 1,350 | 2,171 | 26 | 23 |
| Other income | 59,226 | 56,914 | 57,753 | 55,708 |
| | 60,576 | 59,086 | 67,336 | 66,338 |
| Income from other investments | | | | |
| Dividend income | 26,909 | 17,296 | 26,909 | 17,296 |
| Interest income | 98,403 | 139,900 | 98,403 | 139,900 |
| Other income | 117,726 | 134,080 | 117,726 | 134,080 |
| | 243,038 | 291,276 | 243,038 | 291,276 |
| Total | 303,615 | 350,362 | 310,682 | 357,702 |
| Value readjustments | 62,606 | 164,305 | 62,606 | 164,305 |
| Gains on realisation | 327,312 | 147,038 | 326,594 | 145,422 |
| Total | 693,533 | 661,705 | 699,882 | 667,429 |
| **Investment expenses** | | | | |
| Costs on real estate investments | -21,527 | -21,582 | -34,816 | -35,299 |
| Costs on other investments | -152,705 | -77,681 | -152,705 | -77,681 |
| Interest costs and expenses on other liabilities | -1,415 | -1,667 | -1,415 | -1,667 |
| | -175,647 | -100,929 | -188,937 | -114,646 |
| Value adjustments and depreciation | | | | |
| Value adjustments | -26,076 | -55,252 | -24,626 | -54,034 |
| Planned depreciation on buildings | -8,232 | -8,620 | -1,344 | -1,204 |
| | -34,307 | -63,872 | -25,970 | -55,237 |
| Losses on realisation | -100,656 | -182,405 | -100,650 | -182,405 |
| Total | -310,611 | -347,206 | -315,557 | -352,288 |
| **Net investment income in the profit and loss account** | 382 922 | 314,499 | 384,326 | 315,141 |

| EUR 1,000 | 2010 | 2009 |
|---|---|---|
| **PROFIT AND LOSS ACCOUNT ITEM OPERATING EXPENSES** | | |
| Insurance policy acquisition costs | | |
| Direct insurance remunerations | 1,667 | 1,672 |
| Other insurance policy acquisition costs | 7,927 | 7,184 |
| | 9,594 | 8,856 |

| EUR 1,000 | 2010 | 2009 |
|---|---|---|
| Insurance management costs | 11,713 | 11,346 |
| Administration costs | | |
| The Finnish Centre for Pensions' share of costs | 3,848 | 3,989 |
| Judicial administration charge | 301 | 279 |
| Supervisory fee of the Financial Supervision Authority | 160 | 162 |
| Other items | | |
| | 4,308 | 4,430 |
| Other administration costs | 5,748 | 5,911 |
| Total | 31,364 | 30,543 |
| **TOTAL OPERATING EXPENSES BY OPERATION** | | |
| Claims paid | | |
| Expenses related to claims administration | 12,440 | 12,160 |
| Working capacity maintenance expenses | 1,756 | 1,377 |
| | 14,196 | 13,537 |
| Operating expenses | 31,364 | 30,543 |
| Investment expenses | | |
| Costs on real estate investments | 1,716 | 1,527 |
| Costs on other investments | 6,724 | 6,067 |
| | 8,440 | 7,595 |
| Total | 54,000 | 51,675 |
| **NOTES CONCERNING PERSONNEL AND MEMBERS OF THE OPERATIONAL ELEMENTS** | | |
| **Personnel expenses** | | |
| Salaries and bonuses | 14,815 | 14,563 |
| Pension expenses | 2,879 | 2,832 |
| Other social security expenses | 864 | 777 |
| Total | 18,558 | 18,172 |
| **Salaries and bonuses of the management** | | |
| Managing Director | 347 | 363 |
| Board of Directors | 210 | 162 |
| Supervisory Board | 68 | 71 |
| Total | 625 | 596 |

Managing Director Lasse Heiniö's salary amounted to € 318,640 and fringe benefits to € 28,662. 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.

| | 2010 | 2009 |
|---|---|---|
| **Fees paid to the auditors** | | |
| Fees paid to Ernst & Young Oy | | |
| Audit | 174 | |
| Tax consultation | 5 | |
| Other services | 2 | |
| **Average number of personnel during the financial year** | | |
| Office personnel | 219 | 218 |
| Sales personnel | 26 | 27 |
| Real estate personnel | 8 | 6 |

# Notes to the balance sheet

| EUR 1,000 | Remaining acquisition cost 2010 | Book value 2010 | Fair value 2010 | Remaining acquisition cost 2009 | Book value 2009 | Fair value 2009 |
|---|---|---|---|---|---|---|
| **INVESTMENTS AT FAIR VALUE AND VALUATION DIFFERENCES, PARENT COMPANY** | | | | | | |
| Investments in land and buildings | | | | | | |
| Land and buildings | 57,396 | 58,957 | 70,262 | 56,560 | 58,121 | 68,709 |
| Land and buildings in group companies | 120,086 | 132,978 | 204,617 | 121,046 | 133,938 | 198,088 |
| Other land and buildings | 92,097 | 94,956 | 162,281 | 89,337 | 92,196 | 157,489 |
| Loan receivables from group companies | 213,219 | 213,219 | 213,219 | 218,825 | 218,825 | 218,825 |
| Investments in participating interests | | | | | | |
| Shares and participations | 16,654 | 16,654 | 42,243 | 16,655 | 16,655 | 36,304 |
| Other investments | | | | | | |
| Equities and shares | 2,798,100 | 2,798,100 | 3,305,197 | 2,087,569 | 2,087,569 | 2,363,174 |
| Money-market instruments | 2,214,192 | 2,214,192 | 2,256,282 | 2,490,769 | 2,490,769 | 2,558,789 |
| Loans guaranteed by mortgages | 221,933 | 221,933 | 221,933 | 253,984 | 253,984 | 253,984 |
| Other loans | 228,563 | 228,563 | 228,563 | 235,407 | 235,407 | 235,407 |
| Deposits | 16,800 | 16,800 | 16,800 | 28,000 | 28,000 | 28,000 |
| | 5,979,040 | 5,996,352 | 6,721,397 | 5,598,151 | 5,615,463 | 6,118,768 |
| The remaining acquisition cost of money-market instruments includes | | | | | | |
| The difference between the nominal value and acquisition cost, released or charged to interest income | -4,006 | | | -4,491 | | |
| Book value includes<br>Revaluations entered as income | 17,312 | | | 17,312 | | |
| Valuation difference (difference between fair value and book value) | | | 725,045 | | | 503,305 |

| EUR 1,000 | 2010 | 2009 |
|---|---|---|
| **LOAN RECEIVABLES** | | |
| **Loan receivables itemised by guarantee, parent company** | | |
| Bank guarantee | 131,188 | 142,128 |
| Guarantee insurance | 35,929 | 34,977 |
| Insurance policy | 220 | 385 |
| Other guarantee | 23,991 | 29,632 |
| The remaining acquisition cost | 191,328 | 207,122 |
| | | |
| Non-guarantee remaining acquisition cost total | 37,235 | 28,285 |

| EUR 1,000 | 2010 | 2009 |
|---|---|---|
| **Total pension loan receivables, parent company** | | |
| Other loans guaranteed by mortgages | 832 | 1,131 |
| Other loan receivables | 125,739 | 126,596 |
| The remaining acquisition cost | 126,572 | 127,728 |
| **Loans to related parties, parent company** | | |
| Loans to group companies | 213,219 | 158,791 |
| 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 | 23,102 | 38,611 |
| 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 | 2010 | 2009 |
|---|---|---|
| **DERIVATIVES** | | |
| **Non-hedging derivatives** | | |
| Other receivables | | |
| Derivatives, book value | 321 | 258 |
| Other liabilities | | |
| Derivatives, book value | 500 | 255 |
| Derivatives, changes in value | 400 | 55 |
| Other prepayments and accrued income and accruals and deferred income | | |
| Derivatives | -11,375 | -14,464 |
| **SHARES AND PARTICIPATIONS IN PARTICIPATING INTERESTS** | | |
| **Shares and participations** | | |
| Original acquisition cost, 1 Jan. | 16,655 | 16,651 |
| Increase | | |
| Decrease | -1 | |
| Transfers | | 4 |
| Remaining acquisition cost, 31 Dec. | 16,654 | 16,655 |

| **SHARES AND PARTICIPATIONS** | **Holding of all shares, %** | **votes, %** | **Book value** |
|---|---|---|---|
| Fennia Life Insurance Company | 40.0 | 40.0 | 16,651 |
| Tyvene Oy | 40.0 | 40.0 | 3 |
| Total shares and participations | | | 16,654 |

| EUR 1,000 | Shares, % | Book value 31 Dec. 2010 | Market value 31 Dec. 2010 |
|---|---|---|---|
| **OTHER INVESTMENTS, PARENT COMPANY** | | | |
| **Finnish non-listed equities and shares** | | | |
| 3Step IT Group Oy | 17.50 | 9,510 | 17,219 |
| Aina-Group Oyj | 14.89 | 5,087 | 5,087 |
| Anvia Oy | 0.00 | 1 | 1 |
| Arek Oy | 4.00 | 560 | 560 |
| Avara Management Oy | 34.80 | 1,350 | 1,350 |
| European Batteries Oy | 6.61 | 2,000 | 2,000 |
| Exilion Capital Oy | 25.00 | 33 | 33 |
| Fibrogen Europe | 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 | 1.73 | 15 | 15 |
| Midinvest Oy | 8.38 | 349 | 349 |
| Mitron Group Oy | 12.50 | 1,000 | 1,000 |
| Sato Oyj | 5.40 | 17,921 | 17,921 |
| Sisu Akselit Oy | 9.59 | 842 | 1,467 |
| Team Botnia Oy | 0.93 | 2 | 2 |
| Tieto ESY Oy | 3.96 | 188 | 188 |
| Wedeco Oy | 8.89 | 956 | 1,143 |
| Vivago Oy | 1.36 | 72 | 72 |
| Finnish non-listed equities and shares total | | 45,778 | 54,299 |
| **Finnish listed equities and shares** | | | |
| Almamedia Oyj | 0.30 | 1,840 | 1,863 |
| Amanda Capital Plc | 0.88 | 346 | 346 |
| Amer Sports Corporation | 0.20 | 1,353 | 2,503 |
| Aspo Plc | 0.46 | 854 | 1,011 |
| Atria Plc | 0.66 | 1,137 | 1,137 |
| Cargotec Corporation | 0.26 | 3,509 | 5,464 |
| Cramo Oyj | 0.26 | 981 | 1,517 |
| Electrobit Group | 0.39 | 335 | 335 |
| Elisa Corporation | 0.27 | 6,135 | 7,403 |
| Finnair Plc | 0.39 | 2,148 | 2,520 |
| Fiskars Corporation | 0.37 | 3,521 | 5,199 |
| Fortum Corporation | 0.23 | 34,781 | 45,060 |
| HKScan Corporation | 0.23 | 809 | 809 |
| Huhtamäki Oyj | 0.34 | 3,746 | 3,746 |
| Ilkka-Yhtymä Group | 1.87 | 2,149 | 3,276 |
| Kemira Oyj | 0.29 | 4,582 | 5,221 |
| Kesko Corporation | 0.28 | 7,603 | 9,472 |
| Kone Corporation | 0.28 | 11,744 | 26,208 |
| Konecranes Plc | 0.34 | 4,192 | 6,487 |
| Lassila & Tikanoja Plc | 0.31 | 1,329 | 1,768 |
| Lemminkäinen Group | 0.81 | 3,720 | 4,160 |
| Lännen Tehtaat plc | 2.45 | 2,713 | 2,713 |
| Metso Corporation | 0.30 | 11,220 | 18,810 |
| M-Real Corporation | 0.37 | 3,061 | 3,061 |
| Neste Oil Corporation | 0.42 | 12,966 | 12,966 |
| Nokia Corporation | 0.17 | 48,811 | 48,811 |
| Nokian Tyres Plc | 0.15 | 2,905 | 5,360 |
| Oriola-KD Corporation | 1.30 | 5,246 | 6,274 |
| Orion Corporation | 0.47 | 8,722 | 10,896 |
| Outokumpu Oyj | 0.22 | 5,477 | 5,477 |
| Outotec Oyj | 0.37 | 4,400 | 7,861 |
| PKC Group Oyj | 1.69 | 3,163 | 5,082 |

| EUR 1,000 | Shares, % | Book value 31 Dec. 2010 | Market value 31 Dec. 2010 |
|---|---|---|---|
| Pohjola Bank plc | 0.37 | 7,209 | 8,342 |
| Pöyry Plc | 0.42 | 2,288 | 2,288 |
| Raisio Plc | 0.76 | 1,955 | 2,810 |
| Ramirent Group | 0.23 | 2,090 | 2,463 |
| Rapala VMC Corporation | 0.99 | 2,158 | 2,675 |
| Rautaruukki Corporation | 0.24 | 5,744 | 5,922 |
| Sampo plc | 0.33 | 27,554 | 37,093 |
| Sanoma Corporation | 0.42 | 10,469 | 11,111 |
| Sponda Plc | 0.18 | 1,682 | 1,940 |
| SRV Group Plc | 0.12 | 124 | 298 |
| Stockmann Plc | 0.54 | 10,190 | 10,881 |
| Stora Enso Oyj | 0.33 | 19,722 | 19,722 |
| Talentum Oyj | 1.29 | 1,129 | 1,129 |
| Technopolis Plc | 0.73 | 1,574 | 1,889 |
| Teleste Corporation | 1.21 | 970 | 970 |
| Tieto Corporation | 0.20 | 2,149 | 2,230 |
| Tikkurila Oyj | 0.29 | 2,000 | 2,090 |
| UPM-Kymmene Corporation | 0.32 | 21,728 | 21,728 |
| Uponor Oyj | 0.39 | 3,611 | 3,958 |
| Vaahto Group Plc Oyj | 0.43 | 121 | 121 |
| Vacon Oyj | 0.75 | 3,058 | 4,485 |
| Wärtsilä Corporation | 0.27 | 7,931 | 15,417 |
| YIT Corporation | 0.41 | 5,827 | 9,791 |
| Finnish listed equities and shares total | | 346,780 | 432,166 |
| **Foreign listed equities** | | | |
| A.P Moller - Maersk A/S | 0.015 | 1,661 | 2,236 |
| ABB Ltd | 0.006 | 1,536 | 2,198 |
| Acergy SA | 0.024 | 1,126 | 1,558 |
| Ahold Koninklijke NV | 0.011 | 1,314 | 1,314 |
| Aker Solutions AS | 0.011 | 298 | 382 |
| Alfa Laval AB | 0.017 | 493 | 1,106 |
| Allianz AG | 0.007 | 2,749 | 2,935 |
| Assa Abloy AB | 0.019 | 1,005 | 1,374 |
| AstraZeneca PLC | 0.004 | 1,934 | 2,070 |
| Atlas Copco AB | 0.037 | 2,928 | 5,868 |
| Boliden AB | 0.037 | 883 | 1,525 |
| Carlsberg A/S | 0.008 | 749 | 749 |
| Celesio AG | 0.039 | 1,206 | 1,228 |
| Danisco A/S | 0.021 | 494 | 684 |
| Danske Bank A/S | 0.006 | 771 | 863 |
| db x-trackers - MSCI Emerging Market TRN Index ETF | 0.024 | 10,590 | 11,200 |
| DnB NOR ASA | 0.012 | 1,633 | 1,972 |
| DSV A/S | 0.024 | 708 | 827 |
| DTC A/S | 0.011 | 715 | 715 |
| E.ON AG | 0.005 | 2,339 | 2,339 |
| Electrolux AB | 0.037 | 1,720 | 2,343 |
| FLSmidth & Co A/S | 0.038 | 910 | 1,428 |
| Fred Olsen Energy ASA | 0.015 | 266 | 331 |
| Getinge AB | 0.013 | 227 | 471 |
| Hennes & Mauritz AB | 0.023 | 6,558 | 8,245 |
| Indexchange Investment AG - DAX fund | 0.005 | 18,600 | 20,813 |
| Investor AB | 0.011 | 697 | 803 |
| iShares FTSE 100 ETF | 0.023 | 9,999 | 10,308 |
| iShares MSCI Japan Index Fund | 0.262 | 8,842 | 9,798 |

| EUR 1,000 | Shares, % | Book value 31 Dec. 2010 | Market value 31 Dec. 2010 |
|---|---|---|---|
| Koninklijke KPN NV | 0.008 | 1,310 | 1,310 |
| LM Ericsson AB | 0.023 | 5,516 | 5,927 |
| Lundin Petroleum AB | 0.013 | 191 | 373 |
| Marine Harvest | 0.013 | 323 | 356 |
| Mobistar SA | 0.043 | 1,184 | 1,261 |
| Nestle SA | 0.001 | 1,733 | 2,233 |
| NKT Holding A/S | 0.042 | 397 | 399 |
| Nordea Bank AB | 0.052 | 13,607 | 17,298 |
| Norsk Hydro ASA | 0.008 | 520 | 689 |
| Novartis AG | 0.003 | 2,524 | 2,944 |
| Novo Nordisk A/S | 0.007 | 1,566 | 2,954 |
| Orkla ASA | 0.025 | 1,778 | 1,854 |
| Petroleum Geo-Services ASA | 0.046 | 978 | 1,165 |
| Renewable Energy Corp AS | 0.010 | 210 | 228 |
| Roche Holding AG | 0.004 | 2,666 | 2,706 |
| Royal Caribbean Cruises Ltd | 0.007 | 265 | 531 |
| Royal Dutch Shell PLC | 0.003 | 2,535 | 3,017 |
| Sandvik AB | 0.025 | 2,957 | 4,314 |
| Schibsted ASA | 0.037 | 682 | 882 |
| Seadrill Ltd | 0.009 | 592 | 1,011 |
| Seawell Ltd | 0.022 | 218 | 240 |
| Skandinaviska Enskilda Banken AB | 0.023 | 2,023 | 3,129 |
| Skanska AB | 0.028 | 1,236 | 1,635 |
| SKF AB | 0.022 | 919 | 1,923 |
| SPDR S&P 500 ETF Trust | 0.006 | 36,244 | 39,997 |
| SSAB Svenska Stal AB | 0.010 | 254 | 315 |
| Statoil ASA | 0.006 | 3,116 | 3,465 |
| Storebrand ASA | 0.060 | 1,198 | 1,511 |
| Swedbank AB | 0.018 | 954 | 1,779 |
| Svenska Cellulosa AB | 0.018 | 1,236 | 1,303 |
| Svenska Handelsbanken AB | 0.020 | 2,405 | 2,876 |
| TELE2 AB | 0.009 | 537 | 623 |
| Telefonica SA | 0.001 | 797 | 814 |
| Telenor ASA | 0.009 | 1,430 | 1,823 |
| TeliaSonera AB | 0.076 | 16,486 | 20,267 |
| Total SA | 0.003 | 2,379 | 2,379 |
| Unilever NV | 0.005 | 1,914 | 2,074 |
| Vodafone Group PLC | 0.002 | 1,305 | 1,628 |
| Volvo AB | 0.034 | 3,672 | 6,609 |
| Yara International ASA | 0.012 | 1,246 | 1,514 |
| Foreign listed equities total | | 204,054 | 245,040 |

| EUR 1,000 | Book value 31 Dec. 2010 | Market value 31 Dec. 2010 |
|---|---|---|
| **Capital trusts** | | |
| Aboa Venture II Ky | 97 | 97 |
| Access Capital LP | | 1,399 |
| Access Capital LP II A | | 2,607 |
| Access Capital LP II B | 1,162 | 1,162 |
| Aloitusrahasto Vera Oy | 500 | 500 |
| Amanda III Eastern Private Equity Ky | 4,922 | 5,137 |
| Armada Mezzanine Fund III Ky | 1,542 | 1,542 |
| Auda Capital IV Co-Investement Fund LP | 1,528 | 1,577 |
| Auda Capital IV(Cayman)LP | 4,257 | 4,575 |
| Conor Technology Fund I Ky | 603 | 603 |
| European Fund Investments UK | 907 | 907 |
| Finnmezzanine III Ky | 2,306 | 2,306 |
| Finnmezzanine Rahasto II Ky | 168 | 168 |
| Finnventure Rahasto V Ky | 151 | 978 |
| GrowHow Rahasto I Ky | 703 | 703 |
| Helmet SME Ventures Ky | 42 | 42 |
| Industri Kapital 2000 Ltd | 2,786 | 3,184 |
| Industri Kapital 2007 Ltd | 12,962 | 13,378 |
| Intera Fund I Ky | 3,251 | 4,340 |
| Inveni Secondaries Fund I Ky | 282 | 282 |
| Inveni Secondaries Fund I Follow on Ky | 5 | 131 |
| Inveni Secondaries Fund II Follow on Ky | 299 | 299 |
| Inveni Secondaries Fund III KY | 244 | 244 |
| Inveni Secondaries II Ky | 1,070 | 1,070 |
| Kasvurahastojen Rahasto Ky | 290 | 290 |
| Lapin Rahasto I Ky | 28 | 28 |
| Macquarie European Infrastructure Fund II | 3,722 | 3,722 |
| MB Equity Fund III | 3,446 | 3,446 |
| MB Equity Fund IV Ky | 1,967 | 1,967 |
| Mediatonic Fund I Ky | 251 | 251 |
| Metal Fund KY | | 56 |
| Midinvest Fund I Ky | | 793 |
| Midinvest Fund II Ky | 620 | 620 |
| Nordic Capital IV Ltd | 68 | 111 |
| Nordic Capital VII Ltd | 12,050 | 12,050 |
| Nordic Mezzanine Fund II LP | 1,562 | 1,562 |
| Nordic Mezzanine Fund III LP | 1,509 | 1,509 |
| Power Fund II Ky | 1,702 | 1,702 |
| Profita Fund I Ky | 31 | 61 |
| Profita Fund II Ky | 304 | 342 |
| Profita Fund III Ky | 1,748 | 1,748 |
| Promotion Capital I Ky | 21 | 21 |
| Promotion Equity I Ky | 557 | 557 |
| Selected Opportunities Fund Ky | 10,500 | 13,325 |
| Sentica Kasvurahasto II Ky | 1,747 | 2,328 |
| Sentica Terveysteknologia I Ky | 535 | 535 |
| Teknoventure rahasto II Ky | 517 | 675 |
| Teknoventure rahasto III Ky | 614 | 614 |
| Terveysrahasto Oy | 2,131 | 2,741 |
| Capital trusts total | 85,711 | 98,288 |
| **Equity funds** | | |
| Aberdeen Global - Asia Pacific Fund | 24,905 | 37,136 |
| Aberdeen Global - Asian Smaller Companies Fund | 22,166 | 28,159 |
| Aberdeen Global - Emerging Markets Equity Fund | 47,523 | 54,355 |
| Allianz RCM Europe Growth Fund, W | 45,000 | 50,132 |
| CapMan Public Market Fund FCP - SIF CA1 | 3,779 | 7,078 |

| EUR 1,000 | Book value 31 Dec. 2010 | Market value 31 Dec. 2010 |
|---|---|---|
| Danske Kestävä Arvo Osake Kasvu-osuus | 5,074 | 6,220 |
| East Capital China East Asia Fund | 13,437 | 15,623 |
| East Capital Lux - Russian Fund | 10,623 | 10,623 |
| Evli Greater Russia B Sijoitusrahasto | 4,277 | 6,381 |
| Fidelity Active Strategy - Europe Fund | 31,475 | 39,204 |
| Fidelity Active Strategy Sicav - Japan Fund | 22,465 | 33,318 |
| Fidelity European Dynamic Growth (ex Mid Cap) Fund | 19,269 | 23,617 |
| Fidelity Funds - Emerging Asia Fund | 34,276 | 37,411 |
| FIM Sahara Sijoitusrahasto | 10,000 | 10,431 |
| FIM Varainhoito 100 | 10,337 | 10,811 |
| Fondita European Small Cap B | 3,532 | 4,598 |
| Fondita Nordic Micro Cap B | 22,366 | 32,063 |
| FORTIS L FUND - China Equity Fund IC | 4 | 5 |
| Fourton Fokus Suomi A, rahasto | 20,093 | 28,278 |
| Fourton Hannibal rahasto | 3,979 | 3,979 |
| Fourton Odysseus rahasto | 8,205 | 12,772 |
| Fourton Stamina rahasto | 8,662 | 12,785 |
| GAM Star Plc - China Equity Fund | 33,028 | 34,378 |
| Handelsbanken Latinamerikafond | 14,424 | 25,814 |
| ICECAPITAL Africa Fund B | 6,566 | 6,566 |
| Nomura Funds Ireland - Japan Strategy Value Fund | 20,010 | 21,673 |
| Nuveen Global Investors Fund plc - Tradewinds Global All-Cap Fund | 55,691 | 62,786 |
| OP-Latinalainen Amerikka rahasto | 15,000 | 16,801 |
| PYN Populus erikoissijoitusrahasto | 5,994 | 7,353 |
| Seligson & Co Russian Prosperity Fund Euro | 30,006 | 37,471 |
| SP Maailma Osake B rahasto | 11,600 | 14,669 |
| T. Rowe Price -US Large Cap Growth Equity Fund | 29,755 | 35,036 |
| T. Rowe Price -US Large Cap Value Equity Fund | 33,342 | 35,825 |
| T. Rowe Price -US Smaller Companies Equity Fund | 7,173 | 11,700 |
| Taaleritehtaan Lydian Lion Equity Fund | 5,000 | 5,336 |
| UB Nordic | 1,500 | 1,523 |
| William Blair SICAV - Global Growth Fund, B | 25,000 | 25,265 |
| Equity funds total | 665,537 | 807,175 |
| **Fixed-income funds** | | |
| Aktia Inflation Bond+ s. D | 31,733 | 36,746 |
| Alcentra European Loan Fund | 10,000 | 10,260 |
| Ares Enhanced Credit Opportunities Offshore Fund Ltd, Class A | 7,900 | 7,900 |
| BlackRock Global Funds - Local Emerging Markets Short Duration Bond Fund | 10,000 | 10,460 |
| BlueBay Emerging Market Select Bond Fund | 35,093 | 39,241 |
| BlueBay Investment Grade Bond Fund | 100,000 | 111,346 |
| BlueBay Structured Funds, Global Diversified Corporate Bond Fund | 75,131 | 83,396 |
| Evli European High Yield Bond Fund | 20,042 | 20,992 |
| Highland Restoration Capital Partners Offshore L.P. - Class | 6,539 | 8,111 |
| Investec Emerging Markets Debt Fund, I | 35,001 | 35,314 |
| Muzinich Funds - Americayield Fund | 75,000 | 88,013 |
| Nordea 1 European High Yield Bond Fund X | 73,919 | 73,919 |
| Nordea 1 US High Yield Bond Fund X | 15,000 | 15,147 |

| EUR 1,000 | Book value 31 Dec. 2010 | Market value 31 Dec. 2010 |
|---|---|---|
| OCM European Credit Opportunities Fund (Cayman) Ltd | 2,741 | 2,741 |
| OCM Opportunities Fund VII | 3,334 | 4,846 |
| OCM Opportunities Fund VIIb | 4,923 | 7,302 |
| PIMCO Diversified Income Fund | 55,000 | 55,183 |
| Schroder International Selection Fund - Emerging Markets Debt Absolute Return Fund | 30,000 | 30,204 |
| Schroder International Selection Fund - Euro Corporate Bond | 112,648 | 115,918 |
| Stone Harbor Investment Funds Plc - Emerging Markets Debt Fund I | 24,761 | 24,761 |
| Stone Harbor Investment Funds Plc - Emerging Markets Local Currency Debt Fund I | 25,000 | 25,392 |
| Stone Harbor Investment Funds Plc - High Yield Bond Fund | 35,000 | 40,843 |
| T. Rowe Price -Global High Yield Bond Fund | 15,000 | 15,073 |
| Fixed-income funds total | 803,764 | 863,108 |
| **Real estate investment funds** | | |
| Archstone German Residential Fund | 15,000 | 15,589 |
| Avara Asunnot Oy, A-osake | 18 | 29 |
| Avara Asunnot Oy, E-osake | 10,699 | 19,058 |
| Aventum Aasia REIT Plus K | 8,000 | 8,036 |
| Capman Hotels RE I Ky | 14,379 | 14,379 |
| DOF Development Fund CV | 65 | 105 |
| EPI Russia I Ky | 5,818 | 5,818 |
| Exilion Real Estate I Ky | 12,924 | 12,924 |
| Henderson Central London Office | 3,498 | 3,505 |
| Icecapital European Property Fund | 384 | 445 |
| Icecapital Housing Fund I | 10,450 | 10,450 |
| ING Dutch Office Fund II NV | 17,797 | 17,797 |
| ING Property Fund Central and Eastern Europe | 5,051 | 5,051 |
| ProLogis European Properties Fund II | 5,368 | 5,368 |
| Sponda Fund I Ky | 10,567 | 10,567 |
| Tishman Speyer European Core Fund | 6,804 | 6,804 |
| Tishman Speyer European Strategic Office Fund Scots Feeder L.P. | 5,028 | 5,028 |
| UK Shopping Centre Feeder Fund | 13,973 | 13,973 |
| Real estate investment funds total | 145,822 | 154,925 |
| **Hedge Funds** | | |
| Blue Mountain Credit Alternatives Fund Ltd. Q2 - Eligible | 24,068 | 30,151 |
| Bluebay Value Recovery Fund | 4,570 | 4,622 |
| Brevan Howard Fund Limited - Class E US | 29,273 | 32,024 |
| Canyon Value Realization Fund - Class B 03-08 | 15,771 | 21,345 |
| Capula Global Relative Value Fund Ltd - Class C | 24,466 | 37,405 |
| Chestnut Fund Ltd | 236 | 246 |
| Cheyne Special Situations Fund Inc. Class E-2 Unrestricted | 1,467 | 1,467 |
| D.E.Shaw Oculus International Fund | 16,144 | 25,089 |
| Davidson Kempner International Ltd - class C | 14,741 | 20,952 |
| Deephaven Global Multi-Strategy (Market Neutral) Fund | 882 | 892 |

| EUR 1,000 | Book value 31 Dec. 2010 | Market value 31 Dec. 2010 |
|---|---|---|
| DKR Soundshore Oasis Fund Ltd. Class A - Sub Class U -Series 1 | 356 | 420 |
| Drake Global Opportunities Fund, Series 1, Class C | 369 | 369 |
| Eton Park Overseas Fund Ltd class B1 new issue series | 26,391 | 31,684 |
| Farringdon Alpha One | 15,000 | 21,028 |
| Frontpoint Offshore Strategic Credit Fund Ltd | 28,563 | 39,011 |
| Glenview Capital Partners Ltd, Series AA/59 | 10,309 | 12,830 |
| Goldentree Offshore Ltd Series C/12 | 13,185 | 19,636 |
| GSO Special Situations Overseas Fund, class C-34A | 32,111 | 35,741 |
| Highbridge Capital Corporation Feeder Fund - Class C | 3,244 | 4,726 |
| Highland Crusader Fund II Ltd, Class D | 661 | 668 |
| Indus Asia Pacific Fund Ltd - Class A | 14,749 | 18,522 |
| King Street Capital Ltd, Class A series 1 | 15,305 | 21,923 |
| Level Global Overseas Ltd class C sub-class 1 series 27 | 14,749 | 18,398 |
| Marathon Overseas Liquidating Offshore Fund | 341 | 341 |
| Marathon Special Opportunity Fund Ltd. Class E7 | 22,564 | 23,875 |
| OZ Overseas Fund II / E Prime Shares | 15,716 | 21,465 |
| Paulson Advantage Plus Ltd | 33,120 | 41,833 |
| Paulson Gold Fund Ltd | 10,122 | 16,238 |
| Pershing Square International, Ltd. USD, C class, 1 E | 19,452 | 25,489 |
| Polygon Global Opportunities Fund Class E | 2,471 | 2,517 |
| RAB Octane Fund Limited | 274 | 290 |
| RAB Special Situations Fund Limited - Class G | 1,585 | 1,678 |
| Samlyn Offshore Ltd - class As/65 | 14,749 | 22,301 |
| SEB Alternative Investment - Institutional Portfolio | 1,479 | 1,479 |
| Shepherd Investments International Ltd Class AQ-B2 | 8,323 | 10,136 |
| Shepherd Select Asset Fund Ltd. | 115 | 131 |
| Silver Point Capital Offshore Fund, Ltd. (Class D-272-H-272-20) | 13,416 | 22,113 |
| Taconic Opportunity O/S FD Class SP2 A/S 2NR | 11,061 | 11,506 |
| Tisbury Fund Ltd - Euro Class | 181 | 181 |
| TPG-AXON Partners (Offshore) Ltd. J/66 | 7,059 | 8,033 |
| Treesdale Fixed Income Fund Ltd, Class B - Series 1 | 1,542 | 1,542 |
| Vicis Capital Fund (International) - Class A - Series 114 | 8,076 | 8,099 |
| Winton Futures Fund Ltd - Lead Series Class B | 4,490 | 8,261 |
| York Investment Limited Class C | 14,546 | 20,174 |
| Hedge Funds total | 497,291 | 646,832 |
| **Guarantee capital** | | |
| Mutual Insurance Company Fennia | 3,364 | 3,364 |
| **Other investments total** | **2,798,100** | **3,305,197** |

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

Financial Statements

| EUR 1,000 | Parent company 2010 | Parent company 2009 |
|---|---|---|
| **COLLATERALS AND CONTINGENT LIABILITIES** | | |
| **Collaterals given on own behalf** | | |
| Pledges given as security for derivatives trade | 9,490 | 1,590 |
| **Liabilities resulting from derivative contracts** | | |
| **Non-hedging derivatives** | | |
| **Interest rate derivatives** | | |
| Option contracts | | |
| Bought options | | |
| Nominal value of underlying instruments | 50,000 | 100,000 |
| Fair value of contracts | 320 | 255 |
| Set options | | |
| Nominal value of underlying instruments | 100,000 | 100,000 |
| Fair value of contracts | -140 | 45 |
| Open future contracts | | |
| Sold futures | | |
| Nominal value of underlying instruments | 130,000 | 105,200 |
| Fair value of contracts | 84 | 1,041 |
| 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 | 758,155 | 709,893 |
| Fair value of contracts | -2,045 | -9,317 |
| Closed forward and future contracts | | |
| Nominal value of underlying instruments | 46,635 | 21,724 |
| Fair value of contracts | -229 | -373 |
| **Investment commitments** | | |
| Capital trusts | 100,230 | 100,108 |
| Fund investments | 3,923 | 7,451 |
| Real estate investment funds | 9,561 | 7,830 |
| **Leasing and rent liabilities** | | |
| Leasing liabilities in the current financial year | 15 | 28 |
| Leasing liabilities in the future financial years | 4 | 6 |
| **Other contingent liabilities** | | |
| Liability for the VAT debt of the tax liability group in accordance with Value Added Tax Act, Section 188 | -5,449 | -2,583 |
| Restitution liability for VAT deduction from new buildings and renovation of real estates | 3,664 | 3,487 |

| EUR 1,000 | Parent company 2010 | Parent company 2009 |
|---|---|---|
| **TECHNICAL PROVISIONS** | | |
| Premium reserve | | |
| Future pensions | 3,248,480 | 3,291,904 |
| Provision for future bonuses | 218,669 | 140,817 |
| Provision for current bonuses | 15,902 | 12,125 |
| Provision linked to equity income | 58,586 | -45,224 |
| Total premium reserve | 3,541,637 | 3,399,622 |
| Claims reserve | | |
| Current pensions | 2,397,971 | 2,132,428 |
| Equalisation amount | 261,042 | 236,597 |
| Total claims reserve | 2,659,013 | 2,369,025 |
| Total technical provisions | 6,200,650 | 5,768,646 |
| **SOLVENCY MARGIN** | | |
| Capital and reserves after the proposed distribution of profit | 33,904 | 32,672 |
| Accrued appropriations | 154 | 104 |
| Valuation difference between fair values of assets and book values of balance sheet items | 734,216 | 509,402 |
| Provision for future bonuses | 218,669 | 140,817 |
| Deferred acquisition costs and intangible assets | -99 | -167 |
| Other items | | |
| Share of the clearing reserve equated with the solvency margin | 238,717 | 224,587 |
| | 1,225,559 | 907,416 |
| Solvency margin required under the Act on Employment Pension Insurance Companies, Section 17 | 114,584 | 107,802 |
| Equalisation provision included in the technical provisions for years with plenty of contingencies | 261,042 | 236,597 |
| 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 | 986,843 | 682,829 |
| 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 | 301,260 | 229,303 |

| EUR 1,000 | Group 2010 | Group 2009 | Parent company 2010 | Parent company 2009 |
|---|---|---|---|---|
| **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 | 31 | | |
| Revaluation reserve | 84 | 84 | | |
| Loan amortisation reserve | 233 | 233 | | |
| Non-restricted reserves | 26,455 | 24,855 | 26,455 | 24,855 |
| Transfer from retained earnings | 875 | 1,600 | 875 | 1,600 |
| Profit/loss from previous financial years | -16,058 | -19,361 | 1,172 | 1,830 |
| Used during the financial year | -950 | -1,610 | -950 | -1,610 |
| Profit for the financial year | 5,972 | 4,912 | 1,306 | 952 |
| Total capital and reserves | 21,741 | 15,789 | 33,904 | 32,672 |
| **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 | 20,059 | 14,107 | 32,222 | 30,990 |
| Total | 21,741 | 15,789 | 33,904 | 32,672 |
| **Distributable profits, parent company** | | | | |
| Profit for the financial year | | | 1,306 | 952 |
| Other distributable reserves | | | | |
| Non-restricted reserves | | | 27,330 | 26,455 |
| Accumulated profit | | | 222 | 220 |
| Total distributable profits | | | 28,858 | 27,626 |

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

**Disposal of profit**

The Board of Directors proposes that the € 1,306,492.23 surplus for the financial year be disposed as follows:

| | |
|---|---|
| to be transferred to the contingency reserve | EUR 1,275,000,00 |
| to be transferred to the Board's expense account | EUR 25,000,00 |
| to be retained on the profit and loss account | EUR 6,492,23 |

# Internal supervision and risk management

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 refers to identification, evaluation, limiting and supervision of risks resulting from business operations and those essentially related thereto. The Board of Directors approves all important principles concerning risk management. The aim is to identify all significant internal and external risks in order to be able to react to them appropriately and on time. The identification of risks is aimed to be carried out so comprehensively that all risks that essentially affect the reaching of the goals set can be reasonably identified. The significance of the effects of risks and the probability of their realisation are evaluated, so that appropriate operating principles and procedures can be developed for managing them. Furthermore, the Board of Directors shall ensure to a sufficient extent that Pension Fennia has a risk supervision function that is independent of the risk-taking function.

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 annually 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 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 (excluding investment risks) drawn up to the Board of Directors for approval. He is supported in these tasks by the Executive Group. The Investment Line and Controller unit prepare the risk management plan of investment operations to the Board of Directors for approval. In these tasks the Managing Director is supported by the Investment Committee.

Pension Fennia's risk management plan deals with the strategic goals of insurance business and investment operations and the risks related thereto, and determines the company's risk-bearing capacity and risk-taking willingness. The plan also handles insurance technique risks, risks related to market share and the development of operating expenses, operational risks, and external threats. 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.

A more detailed risk management plan for investment operations has been approved in connection with the investment plan. The investment plan verifies the trading limits, restrictions and decision-making authorities concerning investments. The risk management plan for investment operations includes descriptions for key investment risks (strategic risks, equity, interest rate, currency and credit risks, risks related to alternative investments and real estate investments, and operational risks) and their management.

In addition, each line and unit must draw up their own risk management plan for their operations. The risk management plan for investment operations serves as the risk management plan for operations of the Investment line. The risk management plan is based on a procedure in which the risks related to operations are identified, their effect is estimated, the means of risk management are defined, and the supervisory measures for monitoring the operations are agreed upon. The risk management process is integrated into operational planning, and a key task of the process is to ensure the realisation of the company's strategic goals and other key tasks related to operations. The Board of Directors annually receives a report drawn up by the risk management unit independent of the risk-taking parties on the progress of measures in accordance with the risk management plan. The Board of Directors annually evaluates, on the basis of a report drawn up by the company's Internal Audit, whether internal supervision has been appropriately organised.

If necessary, the Board of Directors shall take corrective measures.

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 steers the operations.

In addition, the following have been organised in Pension Fennia for risk management:
- Controller unit whose tasks include monitoring the investment risk and the company's financial performance.
- Risk supervision function which is independent of the risk-taking function. Independent risk supervision is not organised as a separate unit. Instead, independent risk supervision is carried out e.g. in the Controller unit, financial management, insurance technique, and the actuary and risk management unit.
- Internal Audit which is part of the internal supervision system. Internal Audit has such a position in the organisation as to ensure independent and objective audit. Internal Audit has its own operating plan.
- Project 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.
- 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 members of the Executive Group are responsible for supervising in their own operations that internal supervision is realised and that the risk management processes are appropriate. Processes that concern several lines and units include process groups that support the operations across the lines and units.

## 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 € 1,226 million at the end of 2010. Solvency margin without the paralleled amount stood at € 987 million. Solvency margin increased by € 318 million in 2010 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 Controller unit independent of the investment operations reports about the company's total risk position and risk-bearing capacity to the Board of Directors and operational management.

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 2010, the company's equalisation provision stood at around € 261 million which is a securing amount.

## Risks related to investment operations and their management

The selection of the investment strategy is regulated e.g. by the asset category-specific yield 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.

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 interest rate risk is managed by following and changing the duration of investments. Credit risk is managed by decentralising investments to different lines of business and credit classes, and geographically. Counterparty risk is managed in case of bonds by limiting both individual investments by credit class and the combined share of a specific credit class of the bond portfolio. Liquidity risk is managed by keeping the money-market portfolio sufficiently large and by keeping a sufficient part of investments in other asset categories in liquid items. Protection against direct exchange rate risk is mainly achieved and the risk 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 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.

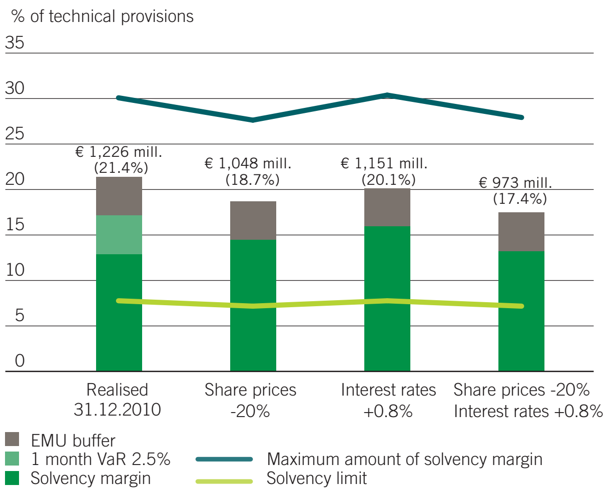
The company's actuary has prepared a report on the requirements set by the nature and yield requirement of the technical provisions and maintaining solvency and liquidity to the Board of Directors for risk management and arranging investment operations. The investment plan includes a statement by the 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 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 investments 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 Controller unit reports 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 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 2010 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 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.

### Stress test and VaR (1 month, 2.5%)



Investment risk distribution and risk figures 2010

| | Market value € mill. | Risk distribution € mill. | Return % | Volatility % |
|---|---|---|---|---|
| **Fixed-income investments** | **3,627.3** | **3,627.3** | **5.0** | |
| Loans | 453.6 | 453.6 | 3.4 | |
| Bonds | 2,585.1 | 2,333.5 | | 2.5 |
| Bonds of OECD/EEA public corporations | 1,208.0 | 956.5 | 4.9 | |
| Bonds of other corporations | 1,377.1 | 1,377.1 | 6.8 | |
| Other money-market instruments and deposits | 588.6 | 840.2 | 1.0 | |
| **Equity investments** | **1,686.9** | **1,686.9** | **22.5** | |
| Listed equities | 1,488.7 | 1,488.7 | 24.8 | 17.0 |
| Private equity investments | 98.3 | 98.3 | 7.0 | |
| Unlisted equity investments | 99.9 | 99.9 | 5.2 | |
| **Real estate investments** | **799.4** | **799.4** | **8.2** | |
| Direct real estate investments | 653.0 | 653.0 | 7.1 | |
| Real estate funds and joint investment companies | 146.5 | 146.5 | 14.0 | |
| **Other investments** | **648.3** | **648.3** | **9.4** | |
| Hedge fund investments | 648.3 | 648.3 | 9.4 | 3.5 |
| **Total investments** | **6,761.9** | **6,761.9** | **10.0** | **2.8** |

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 3.5 years.

The graph below shows the volatilities of listed equities, hedge funds, bonds and total returns of the realised yield. The period starts at the beginning of 2005 and ends at the end of 2010. The calculation has been made using the exponential smoothing method in which the latest observations are given greater weight than older ones.

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 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.

Volatilities of realised returns 2005–2010


The Ministry of Social Affairs and Health is preparing the reform of the so-called gross margin and solvency act, and the first stage reforms would enter into force on 31 March 2011. The new solvency framework would take into account the credit rating of bonds denominated in euro. In addition, the correlation structure and certain volatility and yield expectation parameters would change. In the future, there would be separately determined correlations between all subclasses.

## 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 and 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 according to the average solvency margin level in the industry and partially according to the average equities yield. 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 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 unemployment loading of the equalisation provision have been used to lower the TyEL (TEL) premium since the year 2002. The discounts will 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.

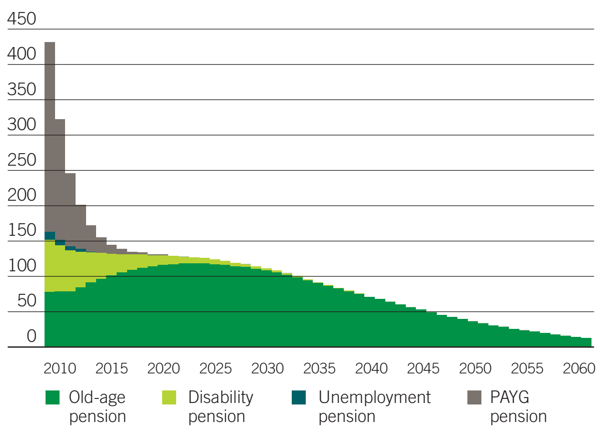
Pension Fennia's technical provisions that formed the basis of the financial statements liabilities for 2010 on 31 December 2009 were divided into insurance premium and claims reserves as shown in the table. The equalisation provision stood at € 242 million on 31 December 2009, and its lower limit was around € 67 million and upper limit € 405 million. The diagram also shows 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.

### Insurance technique liabilities

| | 31 Dec. 2009 |
|---|---|
| **Premium reserve** | |
| TyEL insurance | 3,167.5 |
| TEL supplementary pension insurance | 30.8 |
| Supplementary insurance reserve | 153.0 |
| Provision linked to equity income | -45.2 |
| Total | 3,306.1 |
| YEL basic insurance | 13.2 |
| YEL supplementary pension insurance | 2.4 |
| Total | 15.6 |
| **Total premium reserve** | **3,321.7** |
| **Claims reserve** | |
| TyEL insurance | |
| Current pensions | 2,164.2 |
| Equalisation provision | 236.2 |
| Total | 2,400.3 |
| TEL supplementary insurance | |
| Current pensions | 45.2 |
| Equalisation provision | 5.5 |
| Total | 50.7 |
| TEL total | 2,451.0 |
| YEL basic insurance | 3.0 |
| YEL supplementary pension insurance | 3.8 |
| YEL total | 6.8 |
| **Total claims reserve** | **2,457.8** |

### Dissolution of technical provisions for TyEL (31 Dec. 2009) into pensions



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 and 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 operational risks related to business have been identified while drawing up risk management plans, and their administration measures have been recorded in the risk management plans of lines. The key operational risks are related to e.g. person risks, system and process risks and legal risks.

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.

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 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 duties of the security team operating in the company 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.

# 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 | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Premiums written, € mill. | 1,126.2 | 1,096.3 | 1,088.9 | 968.1 | 889.3 |
| Pensions paid and other compensations, € mill. [1)] | 1,031.6 | 979.5 | 889.7 | 780.8 | 710.4 |
| Net investment income at fair values, € mill. | 620.7 | 570.9 | -759.8 | 237.5 | 434.6 |
| Yield on invested capital, % | 10.0 | 10.1 | -12.1 | 4.0 | 8.2 |
| Turnover, € mill. | 1,518.4 | 1,421.8 | 668.4 | 1,206.8 | 1,261.7 |
| Total operating expenses, € mill. | 54.0 | 51.7 | 49.0 | 43.4 | 53.6 [2)] |
| % of turnover | 3.6 | 3.6 | 7.3 | 3.6 | 4.2 |
| Operating costs covered with expense loading of ins. premium, € mill. | 40.0 | 38.7 | 36.8 | 35.4 | 42.4 [2)] |
| % of TyEL payroll and YEL reported earnings | 0.8 | 0.8 | 0.7 | 0.8 | 1.0 |
| Total result, € mill. | 344.3 | 236.7 | -718.9 | -24.4 | 148.3 |
| Technical provisions, € mill. | 6,200.6 | 5,768.6 | 5,381.7 | 5,652.5 | 5,269.7 |
| Solvency margin, € mill. [3)] | 1,225.6 | 907.4 | 645.5 | 1,156.3 | 1,202.4 |
| % of technical provisions [4)] | 21.4 | 16.8 | 12.9 | 22.7 | 25.7 |
| Ratio to the solvency limit | 2.8 | 2.7 | 2.6 | 1.7 | 1.7 |
| Equalisation provision, € mill. | 261.0 | 236.6 | 258.1 | 260.1 | 256.6 |
| Pension assets, € mill. [5)] | 6,934.9 | 6,278.0 | 5,637.7 | 6,242.5 | 5,861.3 |
| Transfer to client bonuses, % of TyEL payroll | 0.35 | 0.27 | 0.14 | 0.38 | 0.20 |
| Paid client bonuses, % of TyEL payroll | 0.27 | 0.14 | 0.37 | 0.20 | 0.33 |
| TyEL payroll, € mill. | 4,590.0 | 4,491.7 | 4,522.7 | 4,047.1 | 3,636.2 |
| YEL reported earnings, € mill. | 646.3 | 646.3 | 607.3 | 565.6 | 517.4 |
| No. of TyEL policyholders [6)] | 22,950 | 22,500 | 21,810 | 20,250 | 18,900 |
| No. of TyEL insured | 181,520 | 176,900 | 173,260 | 162,940 | 135,450 |
| No. of YEL policyholders | 34,720 | 33,580 | 32,920 | 31,610 | 29,930 |
| No. of pensioners | 82,980 | 81,600 | 80,200 | 77,610 | 75,660 |

1) Claims paid in the profit and loss account excluding administrative costs of claims handling and working capacity maintenance activities.
2) Includes € 8.1 million of immediately written-off building costs of activated IT applications resulting from the change of calculation principles.
3) In 2010 includes an item of € 238.7 million from clearing reserve paralleled with solvency margin (2009: € 224.6 million and 2008: € 208.8 million).
4) 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.
5) Technical provisions + valuation differences.
6) Insurances of employers that have made an insurance contract.

| INVESTMENT DISTRIBUTION | 2010 | | 2009 | | 2008 | | 2007 | | 2006 | |
|---|---|---|---|---|---|---|---|---|---|---|
| (includes accumulated interest) | € mill. | % | € mill. | % | € mill. | % | € mill. | % | € mill. | % |
| Loans | 453.6 | 6.7 | 492.6 | 8.0 | 383.6 | 7.0 | 237.7 | 3.9 | 243.1 | 4.3 |
| Bonds | 2,585.1 | 38.2 | 2,809.8 | 45.6 | 2,178.6 | 39.8 | 1,884.1 | 30.9 | 2,146.7 | 37.8 |
| of which fixed-income funds | 863.5 | | 479.4 | | 74.2 | | 350.1 | | 441.0 | |
| Other money-market instruments and deposits | 588.6 | 8.7 | 305.8 | 5.0 | 849.6 | 15.5 | 438.8 | 7.2 | 186.2 | 3.3 |
| Equities and shares | 2,335.2 | 34.5 | 1,802.9 | 29.2 | 1,284.9 | 23.5 | 2,847.5 | 46.6 | 2,457.8 | 43.3 |
| Real estate | 799.4 | 11.8 | 754.4 | 12.2 | 771.2 | 14.1 | 698.2 | 11.4 | 638.7 | 11.3 |
| of which real estate investment funds | 146.5 | | 107.5 | | 126.1 | | 84.3 | | 17.4 | |
| **Total investments** | **6,761.9** | | **6,165.5** | | **5,467.9** | | **6,106.3** | | **5,672.4** | |
| Bond portfolio modified duration | 3.46 | | 4.03 | | 3.63 | | 5.88 | | | |

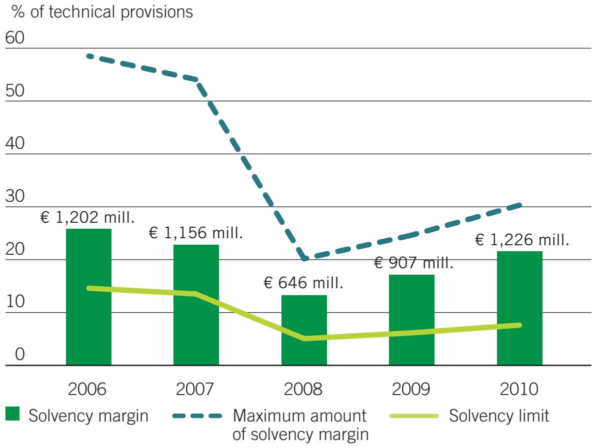
| INVESTMENT INCOME SPECIFICATION AND RESULT, € mill. | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| **Direct net income** | **162.2** | **172.2** | **214.4** | **136.9** | **167.7** |
| Loans | 17.1 | 17.6 | 14.2 | 9.9 | 10.3 |
| Bonds | 70.8 | 93.6 | 80.6 | 58.6 | 66.6 |
| Other money-market instruments and deposits | 1.7 | 8.0 | 32.7 | 12.0 | 15.6 |
| Equities and shares | 30.1 | 18.5 | 54.2 | 29.2 | 48.0 |
| Real estate | 37.3 | 37.0 | 38.1 | 29.7 | 31.2 |
| Unallocated income, costs and operating expenses 1) | 5.1 | -2.6 | -5.3 | -2.5 | -4.0 |
| **Changes in book value 2)** | **233.8** | **145.3** | **-640.1** | **102.2** | **201.5** |
| Equities and shares | 155.4 | 223.9 | -475.5 | 69.5 | 177.8 |
| Bonds | 72.7 | -75.4 | -157.4 | 1.6 | 16.2 |
| Real estate | 5.3 | -12.3 | -14.1 | 31.0 | 7.1 |
| Other investments | 0.2 | 9.1 | 6.9 | 0.1 | 0.3 |
| **Net investment income at book value** | **395.9** | **317.5** | **-425.7** | **239.1** | **369.2** |
| **Change in valuation differences 3)** | **224.8** | **253.4** | **-334.1** | **-1.6** | **65.4** |
| Equities and shares | 201.0 | 106.5 | -314.6 | 45.3 | 63.2 |
| Bonds | 5.5 | 152.8 | -46.4 | -51.5 | -45.9 |
| Real estate | 18.2 | -0.4 | 21.2 | 4.5 | 47.8 |
| Other investments | 0.0 | -5.5 | 5.7 | 0.1 | 0.2 |
| **Net investment income at fair values** | **620.7** | **570.9** | **-759.8** | **237.5** | **434.6** |
| **Yield requirement on the technical provisions 4)** | **-312.9** | **-324.5** | **29.3** | **-272.4** | **-271.3** |
| **Investment result at book value** | **83.0** | **-7.0** | **-396.4** | **-33.2** | **97.9** |
| **Investment result at fair values** | **307.8** | **246.4** | **-730.4** | **-34.8** | **163.2** |
| Proportion of derivatives in net investment income | -79.3 | 17.6 | -93.6 | 41.0 | 25.1 |

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. 2010 | Net investment income at fair values, € mill. 2010 | Invested capital, € mill. 2010 | Yield on invested capital, % 2010 | Yield on invested capital, % 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|---|---|
| Loans | 15.9 | 468.1 | 3.4 | 3.6 | 4.2 | 4.3 | 4.2 |
| Bonds | 149.1 | 2,550.4 | 5.8 | 6.8 | -6.0 | 0.5 | 2.0 |
| of which fixed-income funds | 49.7 | 588.9 | 8.4 | 19.9 | -41.3 | 0.6 | 6.6 |
| Other money-market instruments and deposits | 3.2 | 314.9 | 1.0 | 2.3 | 5.6 | 4.2 | 2.9 |
| Equities and shares | 386.6 | 2,110.1 | 18.3 | 25.8 | -30.8 | 5.0 | 13.9 |
| Real estate | 60.9 | 746.6 | 8.2 | 3.3 | 6.4 | 11.1 | 15.0 |
| of which real estate investment funds | 16.5 | 117.6 | 14.0 | -14.2 | -9.8 | 11.9 | -14.2 |
| **Total investments** | **615.6** | **6,190.1** | **9.9** | **10.2** | **-12.0** | **4.1** | **8.3** |
| Unallocated income, costs and operating expenses from investment operations 1) | 5.1 | | 0.1 | 0.0 | -0.1 | 0.0 | -0.1 |
| **Net investment income at fair values** | **620.7** | | **10.0** | **10.1** | **-12.1** | **4.0** | **8.2** |

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)**

| | -10 | -09 | -08 | -07 | -06 |
|---|---|---|---|---|---|
| Solvency limit | 7.6 | 6.1 | 5.0 | 13.6 | 14.7 |
| Minimum amount of solvency margin 1) | 2.0 | 2.0 | 2.0 | 9.1 | 9.8 |
| Maximum amount of solvency margin | 30.3 | 24.5 | 20.0 | 54.5 | 59.0 |
| Solvency margin 2) | 21.4 | 16.8 | 12.9 | 22.7 | 25.7 |

1) In 2010 the minimum amount according to the permanent law 5.0.
2) In 2008–2010 includes a part from clearing reserve paralleled with the solvency margin. In 2010 includes an item of € 238.7 mill. from clearing reserve paralleled with the solvency margin. Without the paralleling solvency margin is 16.5%.

| **LOADING PROFIT, € mill.** | **2010** | **2009** | **2008** | **2007** | **2006** |
|---|---|---|---|---|---|
| Administration costs in insurance premium | 48.7 | 47.0 | 46.8 | 39.2 | 39.6 |
| Share of premium available to cover operating expenses resulting from compensation decisions | 1.9 | 1.7 | 1.6 | 1.8 | |
| Other income | 0.6 | 0.7 | 0.6 | 0.5 | 0.7 |
| Operating expenses by operation 1) | 39.4 | 38.2 | 36.3 | 35.0 | 42.1 |
| **Loading profit** | **11.8** | **11.2** | **12.7** | **6.6** | **-1.9** |
| **Operating exp./loading profit, %** | **76.9%** | **77.4%** | **74.2%** | **84.1%** | **104.6%** |

1) Does not include the judicial administration charge, insurance supervision fee and collection expenses which were € 0.5 mill. for 2010. The effect of change of calculation principles in 2006 was € -8.1 mill.

| **PERFORMANCE ANALYSIS, € mill.** | **2010** | **2009** | **2008** | **2007** | **2006** |
|---|---|---|---|---|---|
| **Sources of surplus** | | | | | |
| **Insurance business surplus** | **24.7** | **-20.9** | **-1.1** | **3.8** | **-13.1** |
| **Investment surplus at fair values** | **307.8** | **246.4** | **-730.4** | **-34.8** | **163.2** |
| + Net investment income at fair values 1) | 620.7 | 570.9 | -759.8 | 237.5 | 434.6 |
| - Yield requirement on technical provisions | -312.9 | -324.5 | 29.3 | -272.4 | -271.3 |
| **Loading profit** | **11.8** | **11.2** | **12.7** | **6.6** | **-1.9** |
| **Total surplus** | **344.3** | **236.7** | **-718.9** | **-24.4** | **148.3** |
| **Distribution of surplus** | | | | | |
| **Change in solvency** | **328.5** | **224.5** | **-725.2** | **-39.7** | **140.9** |
| **Change in equalisation provision** | **24.4** | **-21.5** | **-2.0** | **3.4** | **-13.5** |
| **Change in solvency margin** | **304.0** | **246.0** | **-723.3** | **-43.1** | **154.3** |
| Change in provision for future bonuses | 77.9 | -8.3 | -390.8 | -43.1 | 86.7 |
| Change in valuation differences | 224.8 | 253.4 | -334.1 | -1.6 | 65.4 |
| Change in accrual of closing entries | 0.1 | 0.0 | 0.0 | 0.0 | -0.1 |
| Profit for the financial year | 1.3 | 1.0 | 1.7 | 1.6 | 2.4 |
| **Transfer to client bonuses** | **15.9** | **12.1** | **6.3** | **15.3** | **7.4** |
| **Total** | **344.3** | **236.7** | **-718.9** | **-24.4** | **148.3** |

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, 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 € 1,306,492.23 surplus for the financial year be disposed as follows: € 25,000 be reserved for the public good or similar purpose, € 1,275,000.00 be transferred to the contingency reserve, and € 6,492.23 be retained in the profit and loss account. No interest is paid on the guarantee capital for the year 2010.

Helsinki, 7 March 2011

BOARD OF DIRECTORS

Pekka Sairanen

| | | |
|---|---|---|
| Timo Vallittu | Heimo Aho | Jukka Ahtela |
| Heikki Kauppi | Eero Lehti | Olavi Nieminen |
| Antti Rinne | Heikki Ropponen | Ralf Wickström |

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.–31.12.2010. 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 and 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, 18 March 2011

Per-Olof Johansson, Authorized Public Accountant

Ulla Nykky, Authorized Public Accountant *co-operation* *high qual*

intera

active *safe* *responsible*

efficie

entrepreneurship

*development* exper

*produ*

# Corporate Governance Statement 2010

# Corporate Governance Statement 2010

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.pensionfennia.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.

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 19 April 2010.

## 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 2010. On average 70 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 23 November 2010 the members of the Election Committee for the calendar year 2011. 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 2010. On average 75 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 11 times in 2010. On average 98 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 2010, 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 five 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 Audit. The committee reports to the Board of Directors.

In 2010, the Audit Committee was chaired by Heikki Ropponen, and the members were Heikki Kauppi and Olavi Nieminen. The Audit Committee convened six times, and 94 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 2010 Per-Olof Johansson, Authorised Public Accountant, and Ulla Nykky, Authorised Public Accountant, as auditors of the company, and Tuija Korpelainen, Authorised Public Accountant, and Pekka Hietala, Authorised Public Accountant, as deputy auditors. The company paid auditing fees of € 174,332 and € 6,442 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. 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 Audit. 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 line, and has followed the progress of administration measures presented in both of these plans through the reports and interim reports it has received.

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 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 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 Controller unit, and in terms of the operating cost of the investment line and balancing in the financial management and financial services, and in terms of insurance technique risks in the insurance technique 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 result, solvency and gross margin position and their sensitivity, investment income, and investment allocation. 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 market valuation of the capital market instruments is done in the Controller unit on the basis of the latest quotations available. As for unlisted equities, private equity funds and real estate funds, the Controller unit ensures that the market values have been priced in accordance with the agreed principles.

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 Controller unit concerning solvency margin, gross margin, returns, allocation, 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, and Corporate Financing for risk reporting concerning loans.

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 Audit 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 audit functions were reorganised as of 15 February 2011. Risk Management was transferred under the Director responsible for Finance 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 Audit was transferred under the company's Actuary. The organisational position, areas of duties, responsibility and authority of Internal Audit 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 Audit.

## 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 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**
Born 1948, Master of Laws,
M.Sc. (Econ. & Bus. Adm.)
Deputy Managing Director,
Federation of Finnish Trade
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, Trafotek Oy,
Teknoware Oy and Teknopower 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:

**Jyrki Kaskinen**, born 1961
Chairman of the Board
Respicio Oy

**Heikki Nikku**, born 1956
Managing Director
Logica Suomi Oy

**Marja Rantanen**, born 1943
Managing Director
Lahden Lounaspörssi Oy

**Jukka Tikka**, born 1953
Managing Director
Länsi-Savo Oy

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

**Kalevi Vuorisalo**, born 1945
Industrial Counsellor
Teknikum Yhtiöt 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

**Anssi Vuorio**, born 1965
Director
Trade Union Pro

### Other members of the Supervisory Board:

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

**Oiva Iisakka**, born 1956
Managing Director
Nooa Säästöpankki Oy

**Tauno Jalonen**, born 1945
Managing Director
Suomen Yrittäjien Sypoint Oy

**Pentti Jussila**, born 1949
Director
Kuljetusliike I Lehtonen Oy

**Pertti Karjalainen**, born 1969
Managing Director
Attendo Oy

**Jari Kostamo**, born 1957
Managing Director
MDC Group Oy

**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
A-Clinic Foundation

**Lasse Savonen**, born 1951
Commercial Counsellor

**Stefan Wentjärvi**, born 1967
Managing Director
Blue1 Oy

**Jarkko Wuorinen**, born 1951
Managing Director
Savonlinnan Viisaudenhammas Oy

*Efekti services* premises & residences

YEL insuring *financing services*

investment operations

*partnership* vocational rehabilitation

*pension provision* *pension advice*

TyEL insuring

**Mutual Insurance Company**
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