TAPIOLA INSURANCE GROUP

Annual Report 1994

Contents

TAPIOLA

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This is Tapiola

The Tapiola Insurance Group is made up of companies engaged in non-life, life and pension insurance. It was established on 18.6.1982, when the supervisory boards of its predecessor companies decided on a merger. The amalgamated business has operated under the name of Tapiola since 1984.

The third largest insurance group in Finland, Tapiola comprises the main companies: Tapiola General Mutual Insurance Company or Tapiola General, Tapiola Mutual Life Assurance Company or Tapiola Life, Tapiola Corporate Life Insurance Ltd (former Viva Life Assurance Company) and Tapiola Mutual Pension Insurance Company or Tapiola Pension. The subsidiaries Alma Insurance Company Ltd. (former Tapiola International Insurance Company) and Tapiola Data, providing EDP services, belong to the Tapiola General Group.

TAPIOLA GENERAL

Tapiola General Mutual Insurance Company's field of business includes all voluntary and statutory forms of non-life insurance. Tapiola General is Finland's third largest non-life insurance company.

Tapiola General's result for 1994 was still good. The market share was maintained even if the premium income slightly decreased. The claims ratio deteriorated and the investment revenues were smaller than the record-breaking result in 1993.

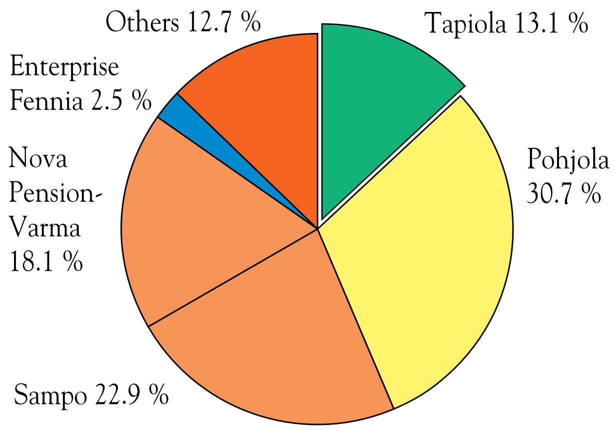
TAPIOLA LIFE

Besides life insurance Tapiola's life insurance companies are also engaged in individual supplementary pension and in voluntary optional employment pension insurances. Combined, Tapiola Life and Tapiola Corporate Life form the fourth largest life insurance company in Finland.

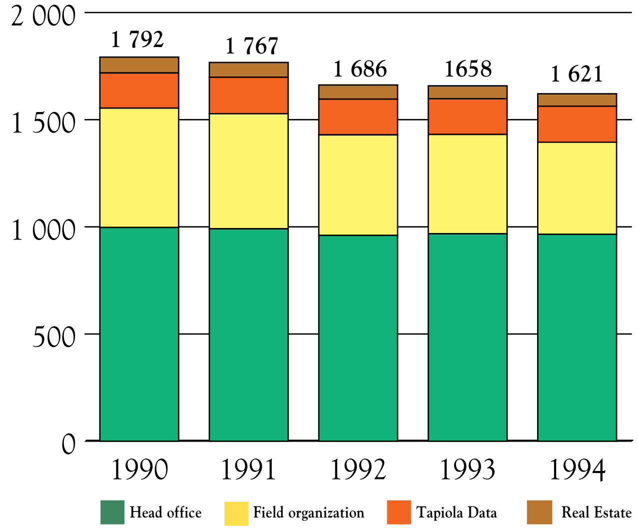
The result for Tapiola Life was quite satisfactory. The cost structure is in order and the solvency is still high. The

MARKET SHARES OF DIRECT INSURANCE 1994

Total premium income FIM 34.2 billion



EMPLOYEES



The staff strength has been cut by reducing the combined number of permanent and fixed-term personnel on long-term leave at the end of the year.

KEY FIGURES FOR TAPIOLA INSURANCE GROUP

	1994 Million FIM	1993 Million FIM	CHANGE Million FIM	%
TURNOVER	**6244.7**	6428.4	–183.7	–2.9
Premium income, direct business	**4508.0**	4311.7	196.3	4.6
Premium income, assumed reinsurance (net of commissions)	**69.3**	52.1	17.2	33.0
TOTAL PREMIUM INCOME	**4577.3**	4363.8	213.5	4.9
CHANGE IN PREMIUM RESERVE	**689.7**	798.7	–109.0	–13.6
NET INCOME FROM INVESTMENTS without appreciations	**1277.8**	1607.2	–329.4	–20.5
Claims paid	**4032.1**	3753.9	278.2	7.4
Changes in claims reserve	**614.0**	739.7	–125.7	–17.0
TOTAL CLAIMS EXPENDITURE	**4646.1**	4493.6	152.5	3.4
OPERATING EXPENSES	**514.1**	516.0	–1.9	–0.4
INVESTMENTS	**21591.3**	20290.4	1300.9	6.4
FIXED ASSETS	**413.5**	324.2	89.3	27.5
UNDERWRITING RESERVE	**23281.7**	21978.0	1303.7	5.9
RESERVES	**541.5**	558.7	–17.2	–3.1
EQUITY CAPITAL	**172.2**	165.0	7.2	4.4
GRAND TOTAL OF THE BALANCE SHEETS	**24620.5**	23166.8	1453.7	6.3

The figures include all companies belonging to the Tapiola Insurance Group. Internal transactions have been eliminated.

premium income from life insurance grew but market share was lost to the bank related life insurance company.

TAPIOLA PENSION

Tapiola Pension's field of business includes statutory employees' and self-employed persons' pension insurances. According to the EU directives the company concentrates on statutory pension insurances.

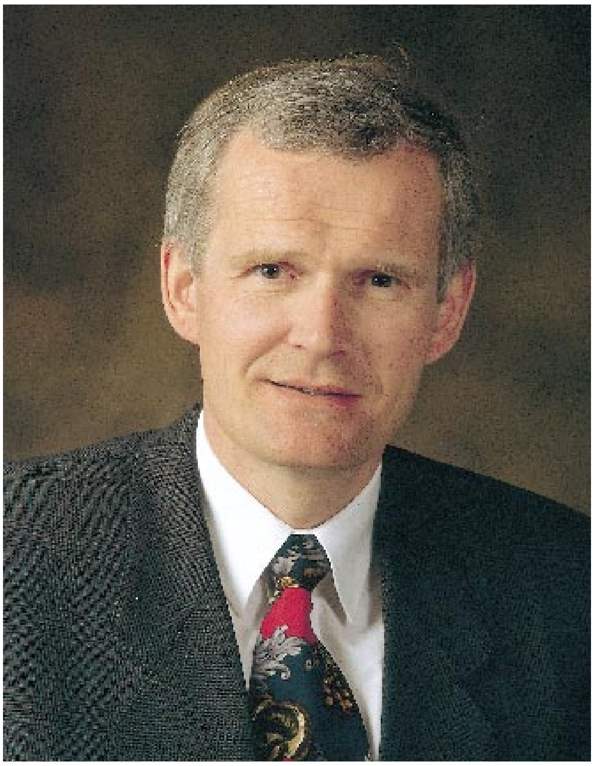
Tapiola Pension is the fourth largest pensions insurance company. The market share grew and the transfers within the employment pensions brought a surplus.

INTERNATIONAL SERVICES

The Tapiola Insurance Group has project-based cooperation with the Swedish Länsförsäkringar, the Norwegian Gjensidige and the Danish Almindelige Brand and Östifterne. Elsewhere in the world, Tapiola's cooperation partner is the Swiss company Winterthur, which has operations in more than 30 countries. Tapiola also cooperates with Ætna Generali network in personal insurances.

Another good year for Tapiola

The Tapiola Insurance Group continued its run of good performances in 1994. Despite the economic and social problems of the country, Tapiola has succeeded well in its primary task of providing economic security.



CEO Asmo Kalpala

The Finnish economy developed more favourably in 1994 than in previous years. After three years of damaging recession, GDP grew by as much as 4 per cent in 1994. Exports, which have been growing strongly since the end of 1991, gradually added much-needed impetus to the domestic market. Indeed, domestic demand, which in 1993 was still wallowing at its 1985 level, finally began to recover in 1994.

The economy is continuing to grow strongly this year. Unemployment is falling slowly, though it still remains at an unacceptably high level. Government indebtedness continues to increase at an alarming rate. Two tax refunds have helped raise domestic demand to its 1987 level.

The development of the insurance branch varied from one insurance class to another. The premium income from non-life insurance fell by about 5 per cent, which was mainly due to a 20 per cent reduction in premiums for motor third party liability insurance. On a more positive note, the premium income from life insurance grew by as much as 32 per cent, and there was a 4.1 per cent increase in the case of statutory employment pension insurance.

Bankruptcies in the insurance branch raised serious questions about the security of insurance customers as well as the management and supervision of insurance companies. The principle of joint and several liability as applied in the Finnish insurance branch is not the solution to these problems. Indeed, it may even exacerbate them. The ability and prerequisites of board members to bear responsibility for their companies as prescribed by law will also become a key issue, although its importance has not yet been fully appreciated.

Europeanized insurance market

The Finnish insurance market was partially Europeanized at the beginning of 1994 when Finland's EEA agreement came into force. Consequently, Finland's membership of the European Union one year later did not really alter the operating conditions of the Finnish insurance branch.

The more Europeanized operating environment is mainly being felt in everyday business in the shape of new EU legislation. A package of new laws was enacted in order to bring Finnish legislation into line with the EU's Third Directive, which came into force on 1.4.1995. One example of the changes is the introduction of a new financial reporting practice for insurance companies. The financial statements contained in this annual report are the last to be published in accordance with the old practice. The 1995 financial statements will be comparable with those of European insurance companies. They will become more open than has been the norm in Finland - a move that Tapiola has long favoured.

Concentration a threat to competition

Foreign companies have not made much of an impact on the Finnish market. A much more significant change from the standpoint of the insurance branch is the strong tendency towards concentration in the financial services sector. One single bank now accounts for more than a half of all corporate financing and almost a half of all household financing. The insurance companies that are closely allied to this particular bank hold the lion's share of Finland's insurance market and about three-quarters of all the insurance companies' invest-

The four companies that make up the Tapiola Insurance Group each have their own Supervisory Board. The chairmen and deputy chairmen of these boards together form the Cooperation Committee, which oversees the activities of the entire group. The members of the Cooperation Committee, seated from left to right: the chairman and deputy chairman of Tapiola General's Supervisory Board, Mr. ***Jarno Mäki*** *and Mr.* ***Pekka Weckman****, the chairman and deputy chairman of Tapiola Life's Supervisory Board, Mr.* ***Erkki Linturi*** *and Mr.* ***Matti Ahde****; standing from left to right: the chairman and deputy chairman of Tapiola Corporate Life's Supervisory Board, Professor* ***Kari Neilimo*** *and Mr.* ***Pekka Räihä****, and the chairman and deputy chairman of Tapiola Pension's Supervisory Board, Mr.* ***Juhani Ahava*** *and Mr.* ***Ilkka Brotherus****. The chairman and deputy chairman of the Cooperation Committee were Mr. Erkki Linturi and Professor Kari Neilimo.*

ment assets. In time, this will lead to far-reaching changes in the economic life of the country.

Viewed against this background, it is clear that the role of mutual insurance companies in the maintenance of competition is now more important than ever. At the same time the mutual companies must take care to ensure the continuity of their risk-carrying capacity. The Tapiola Insurance Group has long pursued this policy. For instance, Tapiola has offered the most favourably non-life insurance premiums throughout the 1990s. Its premium discounts in the years 1990-1994 totalled almost FIM 170 million. During the years in which Tapiola has offered employment pension insurance, i.e. 1984 - 1995, discounts in this class have totalled almost FIM 1 billion. Over the same period Tapiola has paid life insurance policyholders the market's highest rate of interest on savings, averaging 10.5 per cent per annum.

A good year for Tapiola

Tapiola General continued to extend its recent history of fine performances. The company's solvency rose once again and now stands at an extremely high level. Liabilities covered by problematic foreign reinsurance contracts have been continuously reduced over past years. As the administrative costs of these contracts have not been correspondingly reduced, they are now out of all proportion to their related liabilities. For this reason a more active approach to the elimination of these liabilities is being adopted.

A great deal of purposeful work has been done in Tapiola Life in order to ensure future competitiveness. The risk business is in good condition and costs have been brought into line with the demands imposed by market development. In setting growth targets for premium income, economic risks have been taken into consideration with more caution than that shown by certain competitors. The Viva Life Assurance Company continues under the name Tapiola Corporate Life Insurance Company, specializing in voluntary personal insurance for companies.

Tapiola Pension continued to perform well, increasing its market share and maintaining its profitability at a high level.

All in all, the million or so customers of the Tapiola Insurance Group have received their insurance services at extremely competitive prices.

Restructured organization

A significant reorganization was implemented in Tapiola at the end of 1994. The management organizations of the main companies were separated at the beginning of December. The Ministry of Social Affairs and Health's exemption permit, which formerly allowed the group to share a common managing director, expired at the end of November. In addition, the greatly differing development challenges of non-life, life and employment pension insurance favour the differentiation of management team working.

The boards of directors of the Tapiola companies are responsible for ensuring the stable continuance of the companies' activities. This responsibility is underlined in the extremely uncertain conditions of contemporary economic life. Today's greater challenges require that the work of the boards of directors be developed so that the management of economic risks is emphasized in policy formulation and operative decision-making.

The most important change in the activities of the supervisory boards was the division of Supervisory Board of Tapiola Life into two separate supervisory boards - one for Tapiola Life and the other for Tapiola Corporate Life. As a result, the Cooperation Committee of the boards now consists of eight members instead of six. The chairman and deputy chairman of each company sit on the Cooperation Committee.

Following the Regular General Meeting in May 1994 and the assembly of the supervisory boards, the Cooperation Committee has been chaired by Mr. Erkki Linturi. The former chairman, Mr. Sakari Kontio, has now retired after a long and extremely valuable period with Tapiola. At the end of April Director Juhani Mustonen also retired, having given very long and valuable service to both Tapiola and its predecessor, the Pohja Group, in a number of different capacities. Following the merger of the two groups, he acted as the director responsible for investment activities and served as a member of the Board of Directors. I should like to express my deepest gratitude to these gentlemen for their loyal service, and to wish them both a long and happy retirement.

The planning of the field organizational changes progressed through the latter part of last year, enabling the changes to come into effect at the beginning of March 1995.

Steady development is the aim

We now find ourselves faced with a somewhat unpredictable future. Above all else, factors associated with the end of the recession, our membership of the European Union and political changes will give rise to uncertainty. As far as the Tapiola Insurance Group and the insurance branch as a whole is concerned, it is to be hoped that our society will find the path to steady development, that mass unemployment and the public spending deficit will be eliminated in a controlled manner, and that the effects of economic realities will be better understood and appreciated in all areas of social decision-making.

Changes in the operating environment pose a major challenge, especially from the perspective of investment activities. The solvency target of the Tapiola Insurance Group is considerably higher than that set in the EU generally, and the policy pursued in investment risk management is more cautious than EU norms. This is because fulfillment of the EU's minimum requirements is not sufficient to ensure the stability of the Finnish insurance branch. For this reason the government should urgently set about amending the existing legislation so as to tighten up regulations in these areas, and to create the conditions necessary to raise solvency by taxation and other means.

Onward together

I am enthusiastic about the future opportunities for the Tapiola Insurance Group. But we must never loose sight of the basic factors that have brought us success in the past: namely, cost efficiency, first-class service, good products, loss prevention and competitive pricing. All of these factors are dependent on Tapiola's employees. I am delighted to say that we have a committed team who all share the same healthy core values. I should like to thank the entire staff for their fine work, goodwill and understanding during the hard years of recession. The profit-sharing payment for 1994 amounted to FIM 4.03 million. The total amount transferred to the Staff Fund of the Tapiola Insurance Group during the years 1991-1994 now stands at FIM 15.5 million.

To our customers, the actual owners of the Group, I wish to express my sincere thanks for their confidence, without which we would not have succeeded. My thanks also go to all those who have served on our supervisory and advisory boards for their support and cooperation. I am confident that together we shall go on from here to achieve even greater success in the future!

Espoo, 24 March 1995

Asmo Kalpala

TAPIOLA GENERAL MUTUAL INSURANCE COMPANY

TAPIOLA GENERAL MUTUAL INSURANCE COMPANY

Good Result for Tapiola General

Tapiola General maintained its market share. The company's profitability was once again good and its risk-carrying capacity was strengthened.

Tapiola General continued its run of good results. The company held onto its market share and profitability was good despite a slight weakening of the claims ratio and somewhat lower investment revenues that in the peak year of 1993.

Tapiola General's new managing director, Mr. ***Pertti Heikkala*** *(left), and the new deputy managing director, Mr.* ***Per-Olof Bergström*** *(right), are both satisfied with the performance trend of their company.*

The onset of economic recovery in Finland has not yet had time to make any significant impact on the premium income from non-life insurance business. However, non-life premium income did fall less than one might have expected from the substantial reduction in the premium level for motor third party liability insurance.

The reduction is motor third party liability insurance premiums was also reflected in Tapiola General's premium income and sales figures. Sales of new policies fell by 12 per cent, of which 8 percentage points was directly due to the reduction in motor third party liability insurance premiums.

Tapiola General's main operational objectives in 1994 were concerned with specialization in individual customer groups, the further development of service quality, and product development. In order to achieve these aims the sales organization was divided into corporate and household services, the improvement of quality and productivity was continued by means of broad-based development processes, and Tapiola's new home insurance product was introduced to the marketplace. This versatile new product satisfies the insurance needs of even the most demanding private household.

The integration decisions made by Finland also took non-life insurance into a new era of open European competition. Because statutory accident insurance is a form of social insurance, Finland does not believe that it belongs within the scope of EU directives. The EU views the issue differently. Negotiations between Finland and the EU on the status of statutory accident insurance continue. Instability appears to have become a permanent trait of the investment scene. For this reason the emphasis is very much on security in Tapiola General's investment activities. Growing competition from domestic and, increasingly, from foreign quarters highlights the need to pay attention to basic insurance know-how, service quality, efficiency and the protection of customer loyalty.

Tapiola General's subsidiary, Tapiola International, changed its name to Alma Insurance Company in March 1995. The company administers cancelled foreign reinsurance contracts.

Annual Report 1994

1994 was a successful year for Tapiola General. The company maintained its market share, profitability was once again good and risk-carrying capacity was strengthened.

INSURANCE

Direct business

The premium income from direct business totalled FIM 1,398 million, which was 2.8 per cent lower than the previous year's figure. The claims ratio deteriorated somewhat, but was still below its long-term average. The company paid claims totalling FIM 1,133 million.

Credit losses arising from premium receivables amounted to FIM 42 million, which was 3 per cent lower than in the previous year.

The premium income from statutory accident insurance grew by 12 per cent to FIM 257 million. This result was not entirely satisfactory in so far as claims expenditure was bloated by an increased number of occupational disease cases. In other respects the accident insurance result was good.

The premium level of motor third party liability insurance fell at the beginning of the year by an average of 20 per cent. This, combined with the low volume of the automotive trade, resulted in premium income falling by 18 per cent to FIM 271 million. The motor third party liability premium has not been at such a low level for eight years. Premium discounts reduced the accumulated balance of motor third party liability insurance by FIM 43 million. Furthermore, a change was made to the calculated interest on the claims reserve for motor third party liability insurance, thereby increasing claims expenditure by FIM 27 million. All in all, however, the result for the Motor Vehicle Group was satisfactory. The premium income from comprehensive motor vehicle insurance remained more or less unchanged.

The premium income from fire-related insurance classes was FIM 437 million and profitability was good. The premium income from home insurances remained unchanged at FIM 179 million and the result was good. The premium income from farm insurance grew by 4 per cent to FIM 92 million. The result for farm insurance was very satisfactory. The premium income from corporate insurance fell by 4 per cent to FIM 166 million, though the result was still good.

Reinsurance

The premium income from assumed domestic and foreign reinsurance was unchanged from the level of the previous year at FIM 50 million.

The premium income from domestic reinsurance rose by 8 per cent to FIM 29 million. The company has, for instance, reinsured credit insurance business assumed through the Central Pension Security Institute. An increase is the claims reserve, mainly in respect of credit insurance, weakened the result of domestic reinsurance. The result was a loss of FIM 0.4 million, compared with a profit of FIM 6.7 million in the previous year.

The company has adopted a very cautious policy in underwriting foreign reinsurance business. Consequently, premium income from foreign reinsurance declined by 13 per cent to FIM 21 million. The net result before intragroup reinsurance was a loss of FIM 6 million. The company's claims reserve includes a FIM 31 million liability to pay indemnity to Tapiola International.

Reinsurer's share

The company sought to avoid catastrophic losses, as a consequence of which the reinsurers' share of coverage rose to a somewhat above-average figure of FIM 36 million. In the previous year the corresponding costs were FIM 13 million.

INVESTMENTS

Net investment revenues totalled FIM 274 million, which was 11 per cent less than the previous year's figure.

The sum represented 18.9 per cent of premium revenues for own account, the corresponding percentage in 1993 having been 21.1 per cent.

After the deduction of expenses, interest revenues amounted to FIM 187 million. These included devaluation items of FIM 15 million in respect of bonds and debentures. Devaluations of the full amount were made in accordance with the regulations of Ministry of Social Affairs and Health and in line with the general trend of interest rates. Overall, the net reduction in interest revenues for the financial year was FIM 73 million.

The net profit on the sale of investment assets amounted to FIM 102 million, which was FIM 8 million more than in the previous year. The sales profits arose from the realization of shares. Moreover, cancellations of devaluations made in respect of shares in previous years increased investment revenues by FIM 31 million. Devaluations totalling FIM 95 million were made in respect of shares and real estate, the corresponding figure for the previous year having been FIM 115 million. A large proportion of the devaluation item, FIM 82 million, related to real estate assets.

Credit losses arising from outstanding debts other than premium receivables were FIM 6 million, down by a half from the level of the previous year.

The book value of the company's investment assets at the end of the year was FIM 3,761 million.

At the beginning of the year interest-bearing investments were weighted in favour of the money market. In the autumn the emphasis shifted towards short bonds. The value of the share portfolio was partially protected by means of derivative instruments.

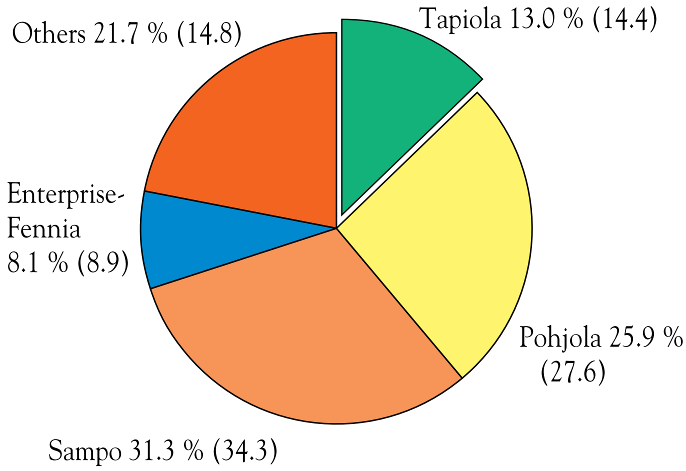
OPERATING EXPENSES AND THE ORGANIZATION

Operating expenses were FIM 330 million, which was FIM 3 million less than in the previous year. The ratio of operating expenses to premium income from direct business rose by 0.4 percentage points from the level of the previous year to stand at 23.6 per cent. The ratio was in line with the annual plan. Reduction of the operating cost ratio is a long-term objective. Although the share of salaries and commissions in operating expenses fell by some FIM 6 million, the overall level of personnel costs remained approximately at the previous year's level due to increased social expenses.

The average number of employees was 1,406 people, 37 fewer than the average for 1993. The company's staff ad-

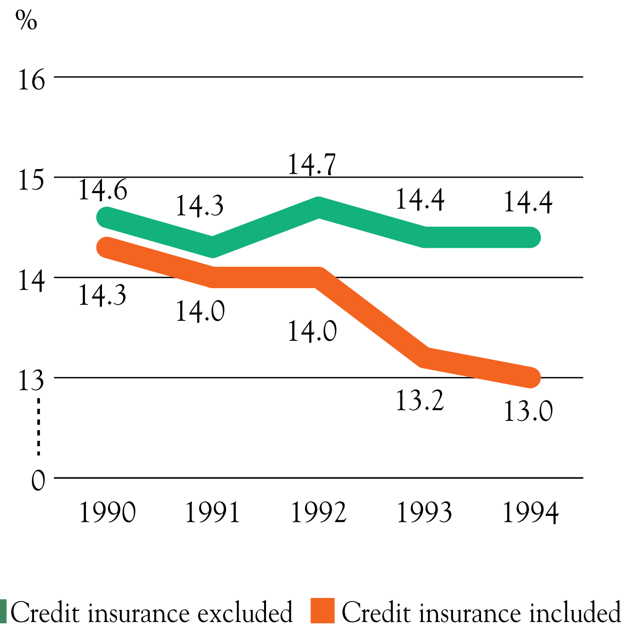
MARKET SHARES 1994

Direct non-life insurance
Total premium income FIM 10.8 billion



(credit insurance excluded)

DEVELOPMENT OF MARKET SHARE IN DIRECT NON-LIFE INSURANCE



PERFORMANCE ANALYSIS

FIM mill.		Statutory industrial injury insurance	Motor third party liability insurance	Comprehen-sive motor vehicle insurance	Fire and other property insurance	Other non-life insurance	Total direct business	Rein-surance	Total insu-rance
Premium income, gross	1994	257	271	260	437	174	1,399	49	1,448
	1993	230	329	266	439	174	1,438	51	1,489
	1992	218	398	288	439	184	1,527	55	1,582
Premium revenues	1994	242	275	275	410	162	1,346	49	1,395
	1993	215	337	270	418	162	1,402	54	1,456
	1992	204	395	284	419	171	1,473	52	1,525
Claim expenses	1994	254	264	176	259	93	1,046	87	1,133
	1993	238	236	183	272	100	1,029	116	1,145
	1992	229	305	218	297	127	1,176	98	1,274
Total net underwriting	1994	–12	11	81	151	69	300	–38	262
	1993	–23	101	87	146	62	373	–62	311
	1992	–25	90	66	122	44	297	–46	251
Net investment revenues	1994								274
	1993								308
	1993								309
Operating expenses	1994								330
	1993								333
	1992								357
Stochastic result	1994								206
	1993								286
	1992								223
Change in the accumulated balance of motor third party liability insurance	1994		–43				–43		–43
	1993		83				83		83
	1992		61				61		61
Change in the equalization reserve	1994								237
	1993								191
	1992								119
Underwriting result	1994								12
	1993								12
	1992								43
Claims ratio%	1994	105.0	83.0*)	68.5	63.2	57.4	75.3*)	177.6	78.8*)
	1993	110.7	92.9	67.8	65.1	61.7	78.0	214.8	83.4
	1992	112.3	91.3	76.8	70.9	74.3	83.3	188.5	87.0

The total claims ratio = (claims expenditure for own account excluding the change in the equalization amount) / (premium revenues for own account less credit losses) x 100
*) The claims ratio includes the change in the accumulated balance of motor third party liability insurance.

MARKET SHARES OF PREMIUM INCOME FROM DIRECT BUSINESS

	1990 %	1991 %	1992 %	1993 %	1994 %
Motor third party liability and comprehensive motor vehicle insurance	16.8	16.9	17.6	17.3	17.5
Statutory industrial accident insurance	12.8	12.0	11.8	12.2	12.3
Fire and other property insurance	15.9	16.0	16.3	16.7	17.1

ministers all the business operations of the Tapiola Insurance Group and receives credits based on the amount of work involved in providing those services to the group companies.

Salaries and commissions paid to members of the Supervisory Board, the Board of Directors and the Managing Director totalled FIM 1,784,570.00. Other salaries and commissions amounted to FIM 149,737,912.03, giving a combined total of FIM 151,522,482.03.

Managing Director Asmo Kalpala was appointed Chief Executive Officer of the Tapiola Insurance Group with effect from 1.12.1994. Mr. Pertti Heikkala took over as the Managing Director of Tapiola General.

CLOSING OF THE ACCOUNTS

The stochastic result was FIM 206 million, which represented 14.7 per cent premium revenues for own account. Although this was FIM 79 million lower than the corresponding result for the previous year, it was still a good performance.

The underwriting result, i.e. the stochastic result without net investment revenues, was down by FIM 45 million from the level of the previous year. This was mainly due to the lowering of motor third party liability insurance premiums and an extraordinary increase of FIM 27 million in the claims reserve.

Tapiola General improved its solvency in 1994. The equalization reserve was increased by FIM 237 million and totalled FIM 1,476 million. The equalization amount, which is the actual equalization reserve plus the accumulated balance of motor third party liability insurance, was FIM 1,731 million at the end of the year.

The solvency ratio calculated for the equalization reserve rose from 96 per cent to 105 per cent. The ratio describing the risk-carrying capacity, i.e. the ratio of risk capital to premium income for own account, rose from 177 per cent to 192 per cent.

The current value of the company's assets has been assessed in the financial statements by adhering to a conservative valuation principle. Real estate has been valued in accordance with instructions issued by the Ministry of Social Affairs and Health.

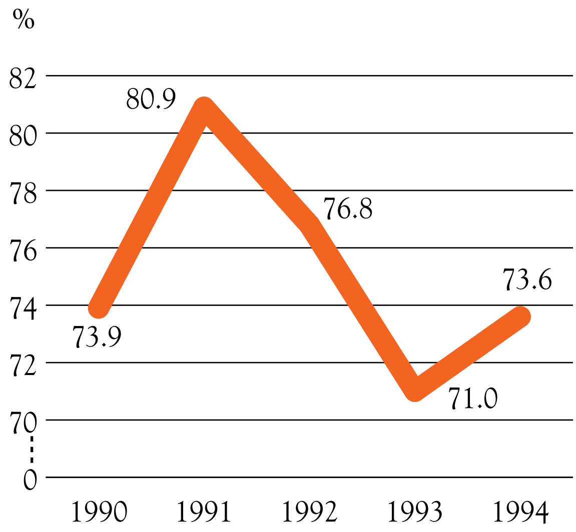
The full amount of depreciation permitted under the Business Taxation Act, i.e. FIM 21 million, was charged on investment and fixed assets.

The credit loss reserve in respect of other receivables was brought into line with the maximum amount permissible. The transitional reserve was reduced by FIM 6 million.

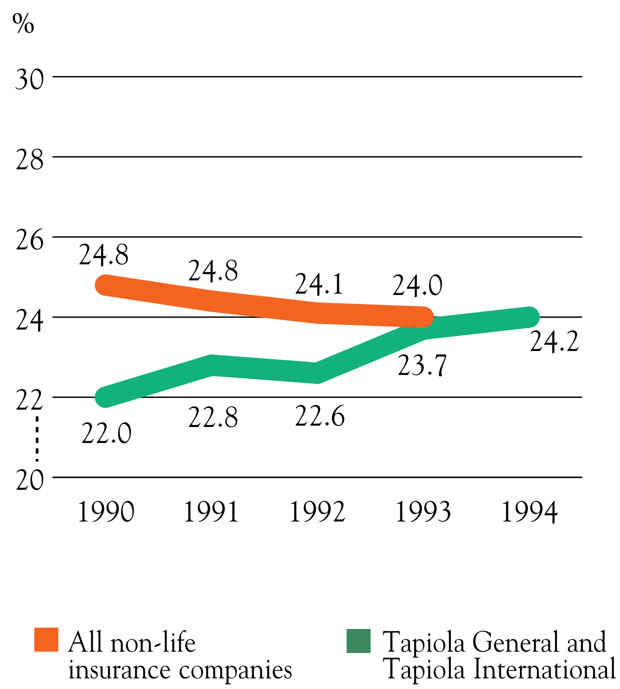
During the financial year, FIM 135,000.00 was paid from the contingency fund in the form of donations for generally beneficial purposes.

DEVELOPMENT OF DIRECT INSURANCE CLAIMS RATIO

Claims expenditure without change in equalization amount/ Premium revenues prior to deduction of reinsurers' share

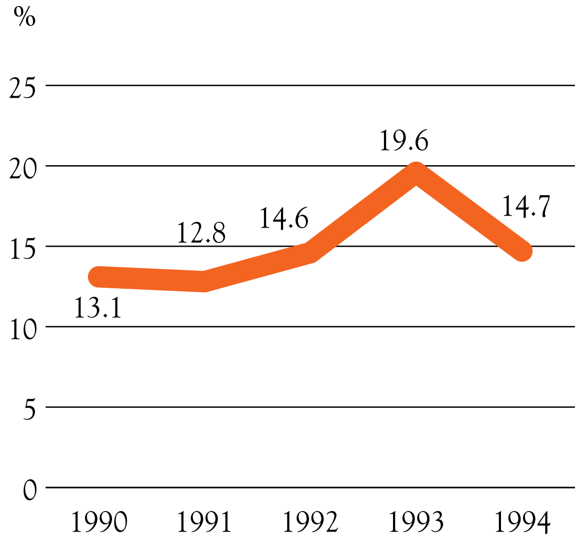


OPERATING EXPENSES OF NON-LIFE INSURANCE IN RELATION TO PREMIUM INCOME

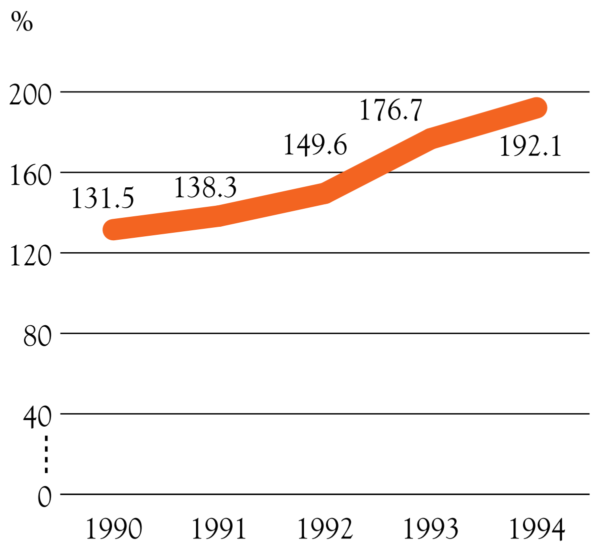


PROFITABILITY OF TAPIOLA GENERAL

The stochastic result in relation to premium revenues for own account



SOLVENCY OF TAPIOLA GENERAL



The company's risk-carrying capacity is described by the ratio of risk capital to premium income for own account.

The company's share of the profit-sharing payment transferred to the Staff Fund of the Tapiola Insurance Group was FIM 2,332,759.46, which is included in the Statement of Income under other expenses.

The Board of Directors recommends that the surplus of FIM 6,559,026.72 be appropriated so that 8 per cent interest, i.e. FIM 840,000.00, be paid on the guarantee capital, FIM 5,500,000.00 be transferred to the general reserve, and FIM 219,026.72 be transferred to the contingency fund.

The balance sheet showed assets totalling FIM 4,591,308,787.30.

CONSOLIDATED FINANCIAL STATEMENTS

The Tapiola General Group comprises Tapiola General Mutual Insurance Company, Tapiola International, Tapiola Safety, Tietotyö Oy and Aura-Karelia Oy, all of which are wholly owned. Tapiola General also owns 51 per cent of Tapiola Data and 60 per cent of Tapiola Book Entry Securities.

Aura-Karelia's association with the Group began on 11.11.1994 and Tietotyö Oy's on 14.12.1994. Tapiola Safety did not actively engage in business operations in 1994.

The Group's result was mainly the outcome of the operations of Tapiola General, Tapiola International, Tapiola Book Entry Securities and Tapiola Data. Tapiola General accounted for all the Group's direct business.

Insurance

The Group's total premium income amounted to FIM 1,467 million, which was 2 per cent lower than in the previous year. Direct business accounted for FIM 1,398 million of the total premium income.

Claims expenditure

The Group's total claims expenditure amounted to FIM 1,312 million. Of this amount, claims paid accounted for FIM 1,202 million, which was 2 per cent higher than in the previous year.

Reinsurance

The Group's premium income from assumed reinsurance was FIM 69 million, which was 17 million more than in the previous year. Reinsurance accounted for 5 per cent of the Group's total premium income. The premium income from foreign reinsurance was FIM 41 million.

Claims paid in respect of assumed reinsurance business amounted to FIM 150 million, 4 per cent less than in the previous year. The claims reserves for reinsurance business was reduced by FIM 77 million, which does not include the change in the equalization reserve.

Reinsurer's share

The costs incurred from the reinsurance of risks insured by the Group were FIM 45 million. There were no corresponding costs in the previous year. The possible insolvency of reinsurance underwriters that have assumed business with Tapiola International may again weaken the Group's reinsurance result in the future. Credit losses of this type have not been included in the closing of the accounts for the year under review.

Investments

Net investment revenues amounted to FIM 259 million, a fall of 27 per cent from the level of the previous year. Without devaluation and revaluation items, these revenues would have amounted to FIM 323 million.

Exchange rate fluctuations had a negative effect on net investment revenues, reducing them by FIM 16 million. Correspondingly, the claims reserve was reduced by FIM 34 million as a result of exchange rate differences. Thus the net effect on the result was an improvement of FIM 18 million.

Bonds and debentures were devalued by FIM 18 million to as to bring them into line with actual market prices.

Operating expenses

The Group's operating expenses totalled FIM 356 million, which was the same as the corresponding figure for 1993.

There was a 3 per cent fall in salaries and commissions, while social expenses rose by 10 per cent and other expenses fell by 1 per cent.

Tapiola General and Tapiola Data together employed an average of 1,575 people in the review year. This was 35 fewer employees than the average for 1993.

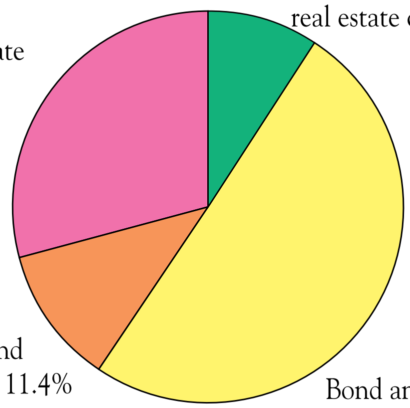
Closing of the accounts

Depreciation charged to investment and fixed assets amounted to FIM 33 million. The credit loss reserve in respect of other receivables was brought it into line with the maximum amount permissible. The credit loss reserve was reduced altogether by FIM 1 million. The transitional reserve was reduced by FIM 9 million.

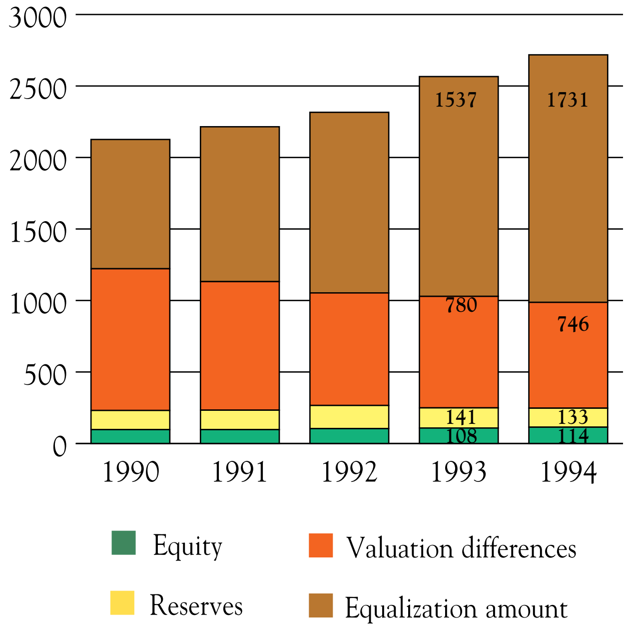
The surplus was FIM 6,888,315.40, of which the minority interest was FIM –28,496.85. The consolidated surplus for the financial year was FIM 6,859,818.56 and the consolidated balance sheet showed assets totalling FIM 4,856,051,688.13.

INVESTMENT ASSETS OF TAPIOLA GENERAL 31.12.1994

Book value FIM 3,761 million



DEVELOPMENT OF TAPIOLA GENERAL'S RISK CAPITAL, FIM MILL.



Solvency of Tapiola General as per 31st December 1994

FIM 1 000 000	**1994**	1993
Equity and free reserve	**114**	108
Equalization reserve	**1 731**	1 537
Invisible assets	**746**	780
Provisions	**133**	141
	2 724	2 566
Net premium written	**1 418**	1 452
Solvency	**192.1 %**	176.7 %

The ratio of the solvency to the premium income for own account illustrates the company´s risk-carrying capacity.

Funds Statement

FIM 1 000	Parent company 1994	Parent company 1993	Group 1994	Group 1993
SOURCE OF FUNDS				
Operating margin appreciations eliminated	**11 676**	10 554	**– 6 415**	– 8 136
Sundry revenues and expenses	**10 384**	2 431	**38 724**	31 339
Change in underwriting reserves	**167 658**	297 588	**88 466**	278 282
Change in other current liabilities	**38 540**	– 25 081	**30 734**	38 793
	228 258	285 492	**151 511**	340 378
APPLICATION OF FUNDS				
Change in liquid assets	**– 186 903**	– 27 695	**– 250 850**	– 38 992
Change in investment assets	**377 696**	296 892	**354 159**	352 175
Change in fixed assets	**34 340**	11 477	**44 955**	22 280
Distribution of profit				
Taxes	**2 151**	3 721	**2 272**	3 718
Interest of guarantee capital	**840**	840	**840**	840
Donations for cultural and charitable purposes	**135**	257	**135**	257
	3 125	4 818	**3 246**	4 815
	228 258	285 492	**151 511**	340 278

Statement of Income 1st January -31st December 1994

FIM 1 000	Parent company 1994	1993	Change %	Group 1994	1993
PREMIUM INCOME					
Direct insurance	+ 1 398 652	+ 1 438 217	– 2.8	+ 1 398 385	+ 1 438 030
Reinsurance	+ 49 520	+ 50 383	– 1.7	+ 69 254	+ 51 952
	+ 1 448 172	+ 1 488 600	– 2.7	+ 1 467 639	+ 1 489 982
CREDIT LOSS ON PREMIUMS	– 42 396	– 43 695	– 3.0	– 42 395	– 43 695
INVESTMENT					
Revenues	+ 466 521	+ 557 158	– 16.3	+ 469 904	+ 565 359
Expenses	– 192 742	– 249 178	– 22.6	– 210 457	– 209 173
	+ 273 779	+ 307 980	– 11.1	+ 259 447	+ 356 186
CHANGE IN PREMIUM RESERVE	+ 21 794	+ 49 181	– 55.7	+ 21 794	+ 49 181
UNDERWRITING REVENUES	+ 1 701 349	+ 1 802 066	– 5.6	+ 1 706 485	+ 1 851 654
CLAIMS					
Claims paid	– 1 133 378	– 1 097 831	+ 3.2	– 1 201 690	– 1 176 059
Change in claims reserve	– 189 452	– 346 769	– 45.4	– 110 261	– 327 464
	– 1 322 830	– 1 444 600	– 8.4	– 1 311 951	– 1 503 523
UNDERWRITING MARGIN	+ 378 519	+ 357 466	+ 5.9	+ 394 534	+ 348 131
REINSURERS´ SHARE OF					
Premium income	– 30 400	– 36 708	– 17.2	– 50 865	– 41 676
Change in premium reserve	– 1 335	– 457	+ 192.1	– 1 336	– 457
Claims paid	+ 30 494	+ 14 528	+ 109.9	+ 67 190	+ 45 997
Change in claims reserve	– 35 253	+ 9 162	– 484.8	– 60 218	– 3 893
	– 36 494	– 13 475	+ 170.8	– 45 229	– 29
UNDERWRITING MARGIN FOR OWN ACCOUNT	+ 342 025	+ 343 991	– 0.6	+ 349 305	+ 348 102
OPERATING EXPENSES					
Salaries and commissions	– 149 438	– 155 178	– 3.7	– 177 281	– 181 846
Other social expenses	– 52 265	– 48 181	+ 8.5	– 62 052	– 56 543
Other operating expenses	– 128 646	– 130 078	– 1.1	– 116 387	– 117 849
	– 330 349	– 333 437	– 0.9	– 355 720	– 356 238
OPERATING MARGIN	+ 11 676	+ 10 554	+ 10.6	– 6 415	– 8 136
DEPRECIATION					
On investments	– 1 342	– 1 429	– 6.1	– 1 342	– 1 429
On fixed assets	– 19 803	– 23 484	– 15.7	– 30 952	– 36 761
On long-term expenses	–	–	–	– 898	– 891
On consolidated assets	–	–	–	– 82	–
	– 21 145	– 24 913	– 15.2	– 33 274	– 39 081
OPERATING LOSS/PROFIT	– 9 470	– 14 359	– 34.0	– 39 689	– 47 217
SUNDRY REVENUES					
Sales profits	+ 884	+ 1	+ 883.0	+ 883	+ 1
Administration charges	+ 11 157	+ 6 113	+ 82.5	+ 11 157	+ 6 113
Other revenues	+ 680	+ 676	+ 0.6	+ 29 530	+ 29 686
	+ 12 721	+ 6 790	+ 87.3	+ 41 570	+ 35 800
OTHER EXPENSES					
Loss on sales of fixed assets	–	– 241	–	0	– 241
Profit-sharing fund	– 2 333	– 4 101	– 43.1	– 2 842	– 4 101
Other revenues	– 3	– 18	– 83.3	– 4	– 120
	– 2 336	– 4 360	– 46.4	– 2 846	– 4 462
CHANGE IN RESERVES					
Credit loss reserve	+ 1 426	+ 47 879	– 97.0	+ 1 426	+ 47 879
Writedowns	–	+ 106 093	–	0	+ 106 093
Transitional reserve	+ 6 369	– 133 116	+ 104.8	+ 8 699	– 133 116
Operating reserve	–	–	–	–	+ 3 700
	+ 7 795	+ 20 856	– 62.6	+ 10 125	+ 24 556
DIRECT TAXES	– 2 151	– 3 721	– 42.2	– 2 272	– 3 718
MINORITY SHARE OF SURPLUS FOR THE FINANCIAL PERIOD	–	–	–	– 28	+ 91
SURPLUS FOR THE FINANCIAL PERIOD	+ 6 559	+ 5 206	+ 26.0	+ 6 860	+ 5 050

Balance Sheet 31st December 1994

	Parent company		Group	
FIM 1 000	**1994**	1993	**1994**	1993
ASSETS				
LIQUID ASSETS				
Cash and equivalents	**46 568**	78 848	**116 664**	103 039
Amounts due from the reinsurers				
Premium reserve	**3 845**	5 181	**3 845**	5 181
Claims reserve	**23 951**	59 204	**47 770**	107 987
Deposits	**5 854**	6 562	**34 738**	60 573
Other items	**42 532**	20 429	**99 498**	130 515
	76 182	91 376	**185 851**	304 256
Accrued credits and deferred charges				
Premiums	**289 690**	324 816	**289 690**	324 816
Interests	**92 811**	107 070	**96 624**	112 316
Due from insurance organizations	**5 189**	5 584	**5 189**	5 584
Other items	**5 292**	11 930	**12 578**	16 488
	392 982	449 400	**404 081**	459 204
Other liquid assets				
Claims for recourse	**80 006**	76 426	**80 006**	76 426
Tax receivable	**279**	2 352	**282**	2 352
Due from consolidated companies	**7 725**	–	**–**	–
Due from cooperating companies	**11 315**	104 492	**11 315**	104 492
Other items	**2 551**	1 618	**8 496**	7 776
	101 876	184 888	**100 099**	191 046
	617 608	804 512	**806 695**	1 057 545
INVESTMENTS				
Promissory note receivables	**639 407**	795 425	**639 407**	795 426
Bonds and debenture loans	**1 894 951**	1 388 800	**1 952 948**	1 462 336
Stocks and shares				
Daughter companies	**4 986**	–	**–**	–
Other items	**424 919**	348 044	**424 919**	351 055
	429 905	348 044	**424 919**	351 055
Real estate shares	**705 281**	759 710	**705 281**	759 710
Real estate	**91 924**	93 135	**91 924**	93 135
	3 761 468	3 385 114	**3 814 479**	3 461 662
FIXED ASSETS				
Stocks and shares				
Daughter companies	**8 151**	8 136	**–**	–
Other items	**27 649**	24 130	**36 473**	24 541
	35 800	32 266	**36 473**	24 541
Real estate shares	**45 142**	35 401	**45 142**	35 401
Real estate	**71 676**	73 655	**71 676**	73 655
Inventories	**12 424**	15 078	**38 703**	45 818
Other fixed assets	**47 191**	41 296	**42 884**	42 439
	212 233	197 696	**234 878**	221 854
	4 591 309	4 387 322	**4 856 052**	4 741 061

Balance Sheet 31st December 1994

FIM 1 000	Parent company 1994	1993	Group 1994	1993
LIABILITIES AND EQUITY				
LIABILITIES				
Amounts due to the reinsurers				
Deposits	**59**	781	**3 096**	7 311
Other items	**14 487**	13 293	**146 413**	160 890
	14 546	14 074	**149 509**	168 201
Accrued charges and deferred credits				
Premiums paid in advance	**14 023**	14 574	**14 023**	16 076
Unsettled income transfer	**25 966**	24 090	**25 966**	24 090
Amount due to the Government	**10 473**	9 589	**10 473**	9 590
Holiday pay	**16 674**	16 932	**21 908**	21 484
Amounts due to insurance organization	**22 385**	13 781	**22 385**	13 781
Other items	**20 551**	15 337	**21 632**	16 296
	110 072	94 303	**116 387**	101 317
Other liabilities				
Premium loans	**12**	38	**969**	1 066
Other bonds and debenture loans	**11 750**	4 750	**11 750**	4 750
Consolidated debt	**148**	25 553	**–**	–
Amount due to cooperating companies	**–**	–	**31 206**	42 601
Bond purchase debts	**40 674**	–	**40 674**	–
Other items	**164**	108	**4 749**	6 574
	52 748	30 449	**89 348**	54 991
Underwriting reserves				
Premium reserve	**481 560**	503 354	**481 560**	503 354
Claims reserve	**3 684 622**	3 495 170	**3 767 648**	3 657 387
	4 166 182	3 998 524	**4 249 208**	4 160 741
	4 343 548	4 137 350	**4 604 452**	4 485 250
RESERVES				
Credit loss reserve	**6 572**	7 998	**6 572**	7 998
Transitional reserve	**126 747**	133 116	**128 491**	137 190
	133 319	141 114	**135 063**	145 188
MINORITY SHARE	**–**	–	**2 601**	2 572
EQUITY				
Undistributable				
Guarantee capital	**10 500**	10 500	**10 500**	10 500
Basic capital	**40 879**	40 879	**40 879**	40 879
Appreciation fund	**3 208**	–	**3 208**	–
	54 587	51 379	**54 587**	51 379
Distributable				
Appreciation fund	**–**	3 208	**–**	3 208
General reserve	**52 500**	48 400	**52 500**	48 400
Legal reserve	**100**	100	**100**	100
Contingency fund	**696**	565	**696**	565
Loss from previous financial periods	–	–	**– 807**	– 651
Surplus for the financial period	**6 559**	5 206	**6 860**	5 050
	59 855	57 479	**59 349**	56 672
	114 442	108 858	**113 936**	108 051
	4 591 309	4 387 322	**4 856 052**	4 741 061

Notes to Balance Sheet 31st December 1994

FIM 1 000	Parent company 1994	1993
INSURANCE RESULT FOR OWN ACCOUNT		
Net premiums earned (less credit loss on premiums)	**+ 1 395 835**	+ 1 456 921
+ net income from investments (no revaluation on investment assets)	**+ 273 779**	+ 307 980
–claims incurred (excluding change in equalization amount)	**– 1 133 481**	– 1 146 456
–operating expenses	**– 330 349**	– 333 437
Gain subject to random fluctuation	**+ 205 784**	+ 285 008
–change in equalization reserve	**– 237 382**	– 191 038
–Change in accumulated loss/profit liability of motor third party liability insurance	**+ 43 274**	– 83 416
Insurance result (= operating margin of balance sheet)	**+ 11 676**	+ 10 554

Notes to Balance Sheet 31st December 1994

SPECIFICATION OF EQUITY

FIM 1 000		Parent company			Group	
Undistributable						
Guarantee capital		10 500			10 500	
Basic capital		40 879			40 879	
Appreciation fund						
Transfer from distributable equity		3 208	54 587		3 208	54 587
Distributable						
Appreciation fund	3 208			3 208		
Transfer to undistributable equity	– 3 208	0		– 3 208	0	
General reserve	48 400			48 400		
From surplus for 1993	4 100	52 500		4 100	52 500	
Legal reserve		100			100	
Contingency fund	565			565		
From surplus for 1993	266			266		
Donations for cultural and charitable purposes	– 135	696		– 135	696	
Loss from previous financial periods				– 651		
Transferred from profit funds				– 156	– 807	
Surplus for previous financial period	5 206			5 050		
Transferred as proposed by AGM:						
To general reserve	– 4 100			– 4 100		
To contingency fund	– 266			– 266		
Interest on guarantee capital	– 840			– 840		
Transferred to profit funds	–	0		+ 156	0	
Surplus for the financial period		6 559	59 855		6 860	59 349
			114 442			113 936

Notes to Balance Sheet 31st December 1994

PROPOSAL CONCERNING APPROPRIATION OF SURPLUS

The Board of Directors proposes that the surplus for the financial period, totalling FIM 6 559 026.72 be appropriated as follows:

8 per cent interest on the guarantee capital	840 000.00
Transfer to general reserve	5 500 000.00
Transfer to contingency fund	219 026.72
	6 559 026.72

If the Board´s proposal concerning the appropriation of the surplus is approved, the equity of the company will be composed as follows:

Undistributable equity		
Guarantee capital	10 500 000.00	
Basic capital	40 879 314.40	
Appreciation fund	3 207 589.10	54 586 903.50
Distributable equity		
General reserve	58 000 000.00	
Legal reserve	100 000.00	
Contingency fund	915 017.23	59 015 017.23
		113 601 920.73

Espoo, 3rd April 1995

Asmo Kalpala **Pertti Heikkala**

Pentti Koskinen **Tom Liljeström**

Auditors' Report

We have examined the bookkeeping, financial statements and administration of the Tapiola General Mutual Insurance Company for the 1994 financial year. The financial statements prepared by the Board of Directors and the Managing Director include an annual report, consolidated and parent company income statements and balance sheets, and notes on the financial statements. On the basis of our audit, we hereby issue the following statement on the financial statements and administration.

Mr. Antti Helenius has performed the supervisory audit of the Company. The bookkeeping as well as the principles, content and presentation of the financial statements have been examined in accordance with generally accepted auditing principles. In our examination of the administration, we have determined that the members of the Board of Directors and the Supervisory Board and the Managing Director have acted in accordance with the law.

The financial statements, which show a surplus for the Parent Company amounting to FIM 6,559,026.72, have been prepared in accordance with both the Bookkeeping Act and other rules and regulations concerning the preparations of financial statements. The financial statements provide, in the manner prescribed in the Bookkeeping Act, accurate and adequate information on the performance and financial standing of both the Group and the Parent Company.

The financial statements of the Parent Company together with its consolidated financial statements can be adopted. The members of the Supervisory Board and the Board of Directors and the Managing Director may be discharged from responsibility for the financial year covered by our audit.

The proposal by the Board of Directors on the appropriation of the surplus is in accordance with the law.

Espoo, 19 April 1995

Salmi, Virkkunen & Helenius Oy Ltd
Authorised Public Accountants

Antti Helenius	**Mauno Tervo**	**Ulla Holmström**
APA	APA	APA

TAPIOLA LIFE INSURANCE COMPANIES

TAPIOLA MUTUAL LIFE ASSURANCE COMPANY
TAPIOLA CORPORATE LIFE INSURANCE COMPANY

TAPIOLA MUTUAL LIFE ASSURANCE COMPANY

Tapiola Life Insurance Companies on Firm Foundations

Tapiola Life for private customers, Tapiola Corporate Life for companies

The solvency of Tapiola's life insurance companies, Tapiola Life and Tapiola Corporate Life, has remained high. They are both well established on firm foundations.

The solvency, joint responsibilities and ownership structures of life insurance companies became topical subjects of debate last year after serious problems had driven two Finnish life companies into liquidation.

In spite of this, the development of the business was positive. There were substantial rises in both the sales and premium income of life and voluntary pension insurance. Tapiola Life successfully achieved its primary objective of further improving on last year's result.

Market share was lost to the new bank-linked life insurance companies. Also sales of single-premium investment insurances were sluggish. Tapiola's market share in traditional life assurance products remains strong, and market share in new sales of individual pension insurance rose.

Viva Life Assurance Company, a subsidiary of Tapiola Life, changed its name to name Tapiola Corporate Life Insurance Company. Tapiola Corporate Life began selling voluntary pension insurance on 1.7.1994. Tapiola Pension transferred its voluntary pension insurance portfolio to the company on 31.12.1994.

*Tapiola's life assurance companies, Tapiola Life and Tapiola Corporate Life, share the same senior management. From left to right: Managing Director **Jari Saine** and Deputy Managing Director **Matti Luukko.***

The product ranges of Tapiola's life assurance companies have been comprehensively renewed in recent years. The requirements of the new Insurance Contracts Act were taken into consideration in last year's renewal work.

New life insurance sales totalled FIM 29.8 million, which was 2.5 per cent higher than the previous year's figure. New individual pension insurance sales were FIM 30.2 million, an increase of 63 per cent.

Sales of voluntary personal insurance continued to follow the strong growth trend of recent years. This is primarily due to the need to supplement social security and the good yield level offered by insurance saving. Tapiola's life insurance products are modern and well suited to the needs of customers. Tapiola's sound financial position has allowed the company to maintain a steady level of policyholder benefits, which ensures that the value of investment savings is preserved. In terms of cost efficiency, Tapiola's life insurance companies are among the very best in the business. And the companies are committed to further improvements in this respect in the future. In the coming years attention will continue to be focused on diversification of the investment portfolio.

Annual Report 1994

INSURANCE

Premium income

Tapiola Life's premium income was FIM 420 million, 12 per cent higher than in the previous year. Of this amount, life insurance accounted for FIM 298 million or 71 per cent. The share of individual pension insurance was FIM 122 million or 29 per cent.

The combined premium income of Tapiola Life and Tapiola Corporate Life was FIM 451 million, which was 11 per cent higher than the previous year's figure. However, market share measured in terms of premium income fell by 4.1 percentage points to stand at 14.8 per cent.

The premium reserve grew by FIM 158 million.

Claims paid

Claims paid by Tapiola Life, excluding surrenders and savings totals were FIM 153 million, 3 per cent higher than the figure for the previous year. Savings totals were FIM 119 million, which was 1 per cent higher than in 1993. Surrenders amounted to FIM 74 million, an 18 per cent decline from the level of the previous year.

The combined total of claims paid by Tapiola Life and Tapiola Corporate Life was FIM 359 million, 4 per cent lower than in the previous year.

INVESTMENTS

Net investment revenues were FIM 156 million. No revaluations were made. Net revenues, excluding devaluations and cancelled devaluations, totalled FIM 190 million.

In the previous year net investment revenues without revaluations but with devaluations and their cancellations were FIM 141 million, i.e. 11 per cent less.

Devaluation items in respect of shares amounted to FIM 6 million in 1994. The corresponding item in 1993 was FIM 10 million.

Devaluations of real estates were FIM 60 million. The corresponding amount in the previous year was FIM 84 million. Cancellations of devaluations made in earlier years, which would increase investment revenues, were FIM 32 million.

Net interest revenues were FIM 122 million, which was 23 per cent lower than in the previous year. Devaluations totalling FIM 14 million were made in respect of bonds and debentures. The devaluations were made in the full amount according to the regulations of Ministry of Social Affairs and Health and in line with the general trend of interest rates.

Net revenues from real estate and real estate shares fell by 11 per cent and were FIM 55 million. Lower interest rates and the number of rental premises that were either unoccupied or being renovated were reflected in the development of investment revenues. Net profits on the sales of investment assets amounted to FIM 11 million in 1994, which was the same as in the previous year.

The book value of investment assets at the end of the year was FIM 3,095 million.

Interest-bearing investments were weighted in favour of the money market in the first half of the year, since the extra yield obtainable from bonds was not regarded as compensating for the interest rate risk. As interest rates rose in the latter part of the year, the emphasis shifted towards short bonds.

OPERATING EXPENSES

Operating expenses in 1994 were FIM 84 million, which was 3 per cent higher than in the previous year.

Salaries and commissions totalled FIM 37 million, which was 3 per cent higher than in the previous year. Social expenses and other operating expenses both rose by just under FIM 1 million.

The company's business operations were administered by staff employed by Tapiola General Mutual Insurance Company. The payments for these services were included in the company's operating expenses under the same items as would have been used if the staff had been directly employed by Tapiola Life.

Salaries and commissions paid to members of the Supervisory Board, the Board of Directors and the Managing Director totalled FIM 717,971.00. Other salaries and commissions amounted to FIM 35,855,073.83. The total salaries and commissions figure was FIM 36,573,044.83.

ADMINISTRATION

Managing Director Asmo Kalpala was appointed Chief Executive Officer of the Tapiola Insurance Group with effect from 1.12.1994. Mr. Jari Saine took over as the Managing Director of Tapiola Life.

Tapiola Corporate Life Insurance Company, a subsidiary of the company, established its own Supervisory Board, to which 13 members were transferred on 4.11.1994. After this date the Supervisory Board consisted of 15 members.

CLOSING OF THE ACCOUNTS

There was a substantial improvement in the company's underwriting result in 1994. The underwriting result incorporates the results of the risk business, cost business, and interest business.

The risk business result, which describes purely insurance operations, was a profit of FIM 40 million. This compares with a profit of FIM 16 million in the previous year.

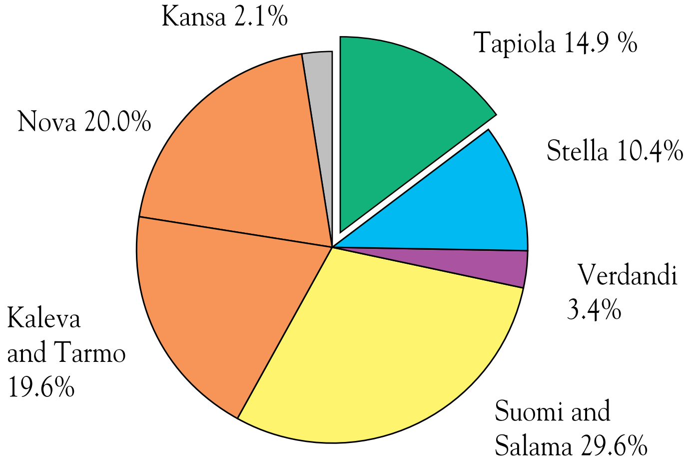
The cost business result, which describes the company's cost efficiency, was a profit of FIM 3 million, which represents a FIM 4 million deterioration compared with the result for the previous year. The interest business result, which describes the performance of investment operations, without revaluations and devaluations, was a profit of FIM 40 million, compared with FIM 85 million in the previous year. When devaluations and their cancellations are taken into consideration, the result was a profit of FIM 6 million, compared with a loss of FIM 2 million in the previous year.

The overall result consisting of the above-mentioned component businesses, without devaluations and revaluations, was a profit of FIM 82 million. The comparable result for the previous year was a profit of FIM 108 million. When devaluations and their cancellations are taken into consideration, the overall result was a profit of FIM 49 million, compared with a profit of FIM 22 million in 1993. No revaluations of real estate assets or real estate shares were made in order to cover additional benefits and index benefits payable to policyholders, whereas revaluations of FIM 69 million were made in the previous year.

The result was very satisfactory. Purposeful work aimed at improving cost efficiency successfully brought costs into line with their corresponding premium component. The result for investment operations cannot be regarded as

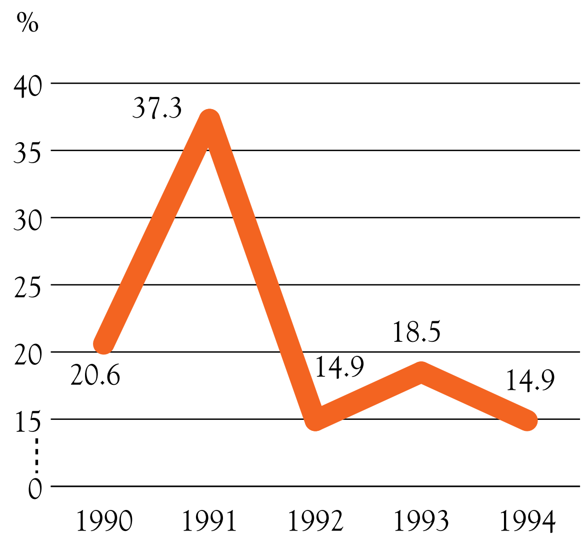
MARKET SHARES 1993

Life, group life and individual as well as optional pension insurance
Total premium income FIM 3.83 billion



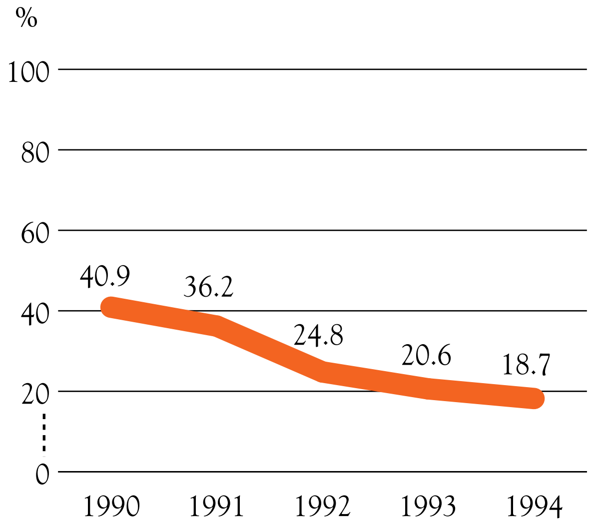
DEVELOPMENT OF TAPIOLA LIFE'S MARKET SHARE

Life, group life and individual as well as optional pension insurance



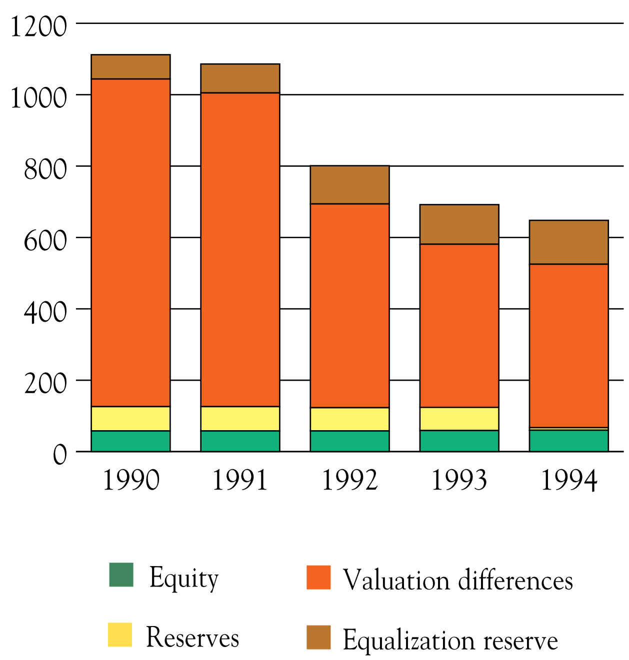
RISK-CARRYING CAPACITY OF TAPIOLA LIFE

Ratio of risk capital to the underwriting reserve



The indicator describing Tapiola Life's solvency shows that the company's solvency is still good despite its fall. It is higher than EC requirements of about 5.1%.

DEVELOPMENT OF TAPIOLA LIFE'S RISK CAPITAL, FIM MILL.



being satisfactory, mainly due to devaluations of real estate assets.

The result of the risk business improved markedly, mainly due to the premiums for children's medical expenses insurance being raised to match claims expenditure.

The ratio of risk capital to the underwriting reserve, which describes the solvency of a life insurance company, fell from 20.6 per cent to 18.2 per cent. Nevertheless, solvency is still good.

Assets have been valued in accordance with conservative calculation principles. However, real estate assets have been valued using calculation principles laid down by the Ministry of Social Affairs and Health and mainly based on yield values. Devaluations of bonds and debentures were made in accordance with changes in market prices.

The full amount of depreciation was charged on investment and fixed assets. The FIM 57 million transitional reserve was reduced to zero. The credit loss reserve was reduced by FIM 1 million.

FIM 80 million was set aside in the closing of the accounts for 1995 index increments and additional benefits for policyholders. This amount was FIM 4 million higher than the corresponding item for the previous year.

The company's share of the profit-sharing payment transferred to the Staff Fund of the Tapiola Insurance Group was FIM 578,303.79, which is included in the Statement of Income under other expenses.

The Board of Directors recommends that the surplus of FIM 2,533,924.97 for the financial year be appropriated so that 8 per cent interest, i.e. FIM 960,000.00, be paid on the guarantee capital, FIM 1,528,905.34 be transferred to the general reserve, and FIM 45,019.63 be transferred to the contingency fund.

The balance sheet showed assets totalling FIM 3,719,554,790.49.

CONSOLIDATED FINANCIAL STATEMENTS

On 31.12.1994 Tapiola Mutual Life Assurance Group consisted of Tapiola Mutual Life Insurance Company, as the parent company, Tapiola Corporate Life Insurance Company (51%) and its sub-groups, and six housing and real estate companies.

The 1993 consolidated financial statements included Tapiola Corporate Life. In other respects group relations were formed on 31.12.1994, so the group companies, with the exception of Tapiola Corporate Life, have not affected the results of Tapiola Mutual Life Assurance Group.

Premium income

The total premium income of the Group was FIM 451 million, 11 per cent higher than in the previous year. The premium reserve grew by FIM 158 million.

Claims paid

Claims paid amounted to FIM 359 million, which was 4 per cent lower than in the previous year.

Investments

Net investment revenues were FIM 160 million. Without revaluations and devaluations, net revenues were FIM 194 million, which was 17 per cent lower than in the previous year. Devaluations of FIM 66 million were recorded, compared with FIM 94 million in 1993. Devaluations of FIM 32 million made in previous years were cancelled in 1994.

No revaluations

Net interest income accounted for FIM 126 million of the net investment revenues. This was 22 per cent less than in the previous year.

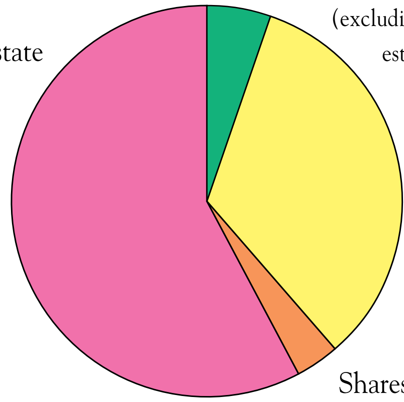
The book value of the Group's investment assets was FIM 4,924 million at the end of the year.

PERFORMANCE ANALYSIS OF TAPIOLA CORPORATE LIFE

COMPOSITION OF THE RESULT	1994 FIM mill.	1993 FIM mill.
Risk business	+7.4	+8.7
Cost business	+2.2	+1.3
Interest business	+2.6	+3.3
Total	*+12.2*	*+13,3*
APPLICATION OF THE RESULT		
Additional benefits	–0.8	–1.9
Discounts	–	–
Equalization reserve	–1.9	–5.5
Revaluations	–	–
Depreciations	–0.1	–0.1
Reserves etc.	–7.3	–3.1
Surplus	*+2.1*	*+2.7*

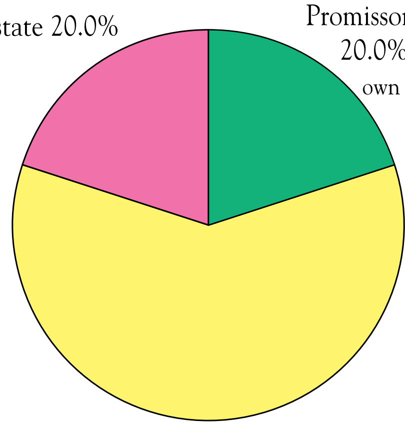
Investment assets of Tapiola Life 31.12.1994

Book value FIM 3,095 million



Investment assets of Tapiola Corporate Life 31.12.1994

Book value FIM 1,808



PERFORMANCE ANALYSIS OF TAPIOLA LIFE

Composition of the result	1994 FIM mill. Preliminary figures	1993 FIM mill.
Risk business	+39.9	+15.9
Cost business	+3.1	+7.7
Interest business	+5.8	-1.5
Result before revaluations	+48.8	+22.0
Application of the result		
policyholder bonuses, discounts and additional benefits	-79.5	-75.8
Equalization reserve etc.	-11.9	-4.7
Total	-91.4	-80.5
Revaluations	-	+68.6
Depreciation etc.	+46.6	-10.5
Result	+ 4.0	+ 0.2

The risk business result is the difference between claims expenditure and premiums applying to the current financial year and intended to cover life and pension insurance risks. The calculated interest for the claims reserve has been taken into consideration as a factor reducing claims expenditure.

The cost business result is the difference between the actual operating expenses and the items intended to cover expenses applying to the financial year and included in the premiums of life and pension insurance. Operating expenses have been allocated here by means of zillmerization.

The interest business result is the difference between the calculated interest for the premium and claims reserves and net investment revenues according to the closing of the accounts of a life or pension insurance company.

Operating expenses

Operating expenses were FIM 92 million, 2 per cent higher than in the previous year.

Salaries and commissions remained at the previous year's level, while social expenses and other operating expenses rose by 6 per cent and 2 per cent, respectively.

Closing of the accounts

The combined result of the risk, cost and interest businesses was FIM 95 million, whereas the comparable result for the previous year was FIM 122 million. The result is calculated without revaluations and devaluations. When devaluations and their cancellations are taken into consideration, the result is a surplus of FIM 61 million, the surplus for 1993 having been FIM 35 million.

The full amount of depreciation was charged to the Group's fixed and investment assets.

The surplus for the financial period was FIM 4,607,896.28, of which the minority interest was FIM 1,036,278.69. The result for the Group was thus a surplus of FIM 3,571,617.59.

Funds Statement

FIM 1 000	Parent company 1994	Parent company 1993	Group 1994	Group 1993
SOURCE OF FUNDS				
Operating margin (appreciations eliminated)	**– 43 244**	– 56 477	**– 36 956**	– 53 135
Sundry revenues and expenses	**– 190**	– 721	**– 238**	– 831
Change in underwriting reserves	**188 242**	135 982	**1 893 028**	140 567
Change in other current liabilities	**– 118 896**	– 10 558	**– 39 000**	– 30 207
Change in minority share	**–**	–	**14 351**	–
	25 912	68 226	**1 831 185**	56 394
APPLICATION OF FUNDS				
Change in liquid assets	**– 22 803**	– 117 126	**– 6 377**	– 121 553
Change in investment assets	**– 29 909**	180 041	**1 760 307**	171 701
Change in fixed assets	**77 770**	3 635	**75 378**	3 697
Distribution of profit				
Taxes	**853**	690	**1 396**	1 563
Interest on guarantee capital	**–**	960	**480**	960
Donations from contingency fund	**1**	26	**1**	26
	854	1 676	**1 877**	2 549
	25 912	68 226	**1 831 185**	56 394

Statement of Income 1st January-31st December 1994

FIM 1 000	Parent company 1994	1993	Change %	Group 1994	1993
PREMIUM INCOME					
Direct assurance	+ 420 248	+ 375 721	+ 11.9	+ 450 877	+ 404 729
Reinsurance	+ 144	+ 100	+ 44.0	+ 144	+ 100
	+ 420 392	+ 375 821	+ 11.9	+ 451 021	+ 404 829
CREDIT ON PREMIUMS	– 182	– 180	+ 0.6	– 199	– 196
INVESTMENTS					
Revenues	+ 321 820	+ 324 146	– 0.7	+ 324 788	+ 329 832
Expenses	– 166 064	– 183 239	– 9.4	– 165 364	– 183 966
Appreciations	–	+ 68 639	– 100.0	–	+ 68 639
	+ 155 756	+ 209 546	– 25.7	+ 159 424	+ 214 505
CHANGE IN PREMIUM RESERVE					
Total change	– 157 775	– 107 241	+ 47.1	– 722 284	– 108 956
Portfolio transfer	–	–	–	+ 564 318	–
	– 157 775	– 107 241	+ 47.1	– 157 966	– 108 956
UNDERWRITING REVENUES	+ 418 191	+ 477 946	– 12.5	+ 452 280	+ 510 182
CLAIMS					
Claims paid	– 345 718	– 357 004	– 3.2	– 358 989	– 373 786
Change in claims reserve					
Total change	– 30 467	– 28 742	+ 6.0	– 1 170 744	– 31 612
Portfolio transfer	–	–	–	+ 1 134 117	–
	– 30 467	– 28 742	+ 6.0	– 36 627	– 31 612
	– 376 185	– 385 746	– 2.5	– 395 616	– 405 398
UNDERWRITING MARGIN	+ 42 006	+ 92 200	– 54.4	+ 56 664	+ 104 784
REINSURERS´ SHARE OF					
Premium income	– 11 425	– 7 962	+ 43.5	– 15 411	– 11 990
Change in premium reserve	+ 1 993	+ 1 100	+ 81.2	+ 2 095	+ 49
Claims paid	+ 8 705	+ 9 245	– 5.8	+ 11 622	+ 14 872
Change in claims reserve	– 98	– 638	– 84.6	– 61	– 1 802
	– 825	+ 1 745	– 147.3	– 1 755	+ 1 129
UNDERWRITING MARGIN FOR OWN ACCOUNT	+ 41 181	+ 93 945	– 56.2	+ 54 909	+ 105 913
OPERATING EXPENSES					
Salaries and commissions	– 37 144	– 36 060	+ 3.0	– 40 215	– 40 251
Social expenses	– 12 837	– 12 051	+ 6.5	– 13 973	– 13 168
Other operating expenses	– 34 444	– 33 672	+ 2.3	– 37 677	– 36 990
	– 84 425	– 81 783	+ 3.2	– 91 865	– 90 409
OPERATING MARGIN	– 43 244	+ 12 162	– 455.6	– 36 956	+ 15 504
DEPRECIATION					
On investments	– 6 566	– 5 587	+ 17.5	– 6 566	– 5 587
On fixed assets	– 3 843	– 4 377	– 12.2	– 3 933	– 4 475
	– 10 409	– 9 964	+ 4.5	– 10 499	– 10 062
OPERATING PROFIT	– 53 653	+ 2 198	– 2 541.0	– 47 455	+ 5 442
SUNDRY REVENUES					
Profit on sales of fixed assets	+ 48	–	+ 100.0	+ 48	–
Other revenues	+ 345	+ 269	+ 28.3	+ 345	+ 269
	+ 393	+ 269	+ 46.1	+ 393	+ 269
SUNDRY EXPENSES					
Transfer to Staff Fund	– 578	– 953	– 39.4	– 626	– 1 062
Other expenses	– 5	– 38	– 86.8	– 5	– 38
	– 583	– 991	– 41.2	– 631	– 1 100
CHANGE IN RESERVES					
Credit loss reserve	+ 630	+ 31 346	– 98.0	– 3 357	+ 31 559
Writedowns	–	+ 25 470	– 100.0	–	+ 26 869
Transitional reserve	+ 56 601	– 56 601	+ 200.0	+ 56 601	– 57 735
	+ 57 231	+ 215	+26 519.1	+ 53 244	+ 693
DIRECT TAXES	– 854	– 690	+ 23.8	– 1 397	– 1 563
MINORITY SHARE OF SURPLUS FOR THE FINANCIAL PERIOD	–	–	–	– 1 036	– 1 337
SURPLUS FOR THE FINANCIAL PERIOD	+ 2 534	+ 1 001	+ 153.2	+ 3 118	+ 2 404

Balance Sheet 31st December 1994

FIM 1 000	Parent company 1994	Parent company 1993	Group 1994	Group 1993
ASSETS				
LIQUID ASSETS				
Cash and equivalents	**69 472**	70 882	**69 738**	71 322
Amounts due from the reinsurers				
Premium reserve	**11 007**	9 014	**12 251**	10 049
Claims reserve	**2 753**	2 851	**3 177**	3 211
	13 760	11 865	**15 428**	13 260
Accrued credits and deferred charges				
Premiums	**9 171**	9 592	**11 740**	11 381
Interests	**51 086**	40 606	**86 350**	40 807
Rents	**4 817**	5 025	**4 817**	5 025
Other items	**1 183**	1 867	**1 711**	1 962
	66 257	57 090	**104 618**	59 175
Other liquid assets				
Amounts due from credit customers	**8 260**	8 264	**8 260**	8 264
Amounts due from consolidated companies	**18 366**	–	–	–
Amounts due from cooperating companies	**26 239**	46 610	**26 239**	46 609
Amounts due from own companies	**95 880**	131 266	**95 880**	131 266
Pension transfers to banks	**172 617**	164 623	**172 617**	164 623
Tax receivables	**1 392**	853	**1 392**	853
Other items	**1 549**	5 142	**2 066**	7 243
	324 303	356 758	**306 454**	358 858
	473 792	496 595	**496 238**	502 615
INVESTMENTS				
Promissory note receivables	**646 723**	622 733	**917 723**	641 733
Bonds and debenture loans	**1 037 272**	1 049 003	**2 122 028**	1 068 647
Stocks and shares	**109 166**	69 326	**111 862**	69 326
Real estate shares				
Daughter companies	**268 413**	–	–	–
Other items	**885 368**	1 205 199	**890 957**	1 205 199
Appreciation	**–**	33 639	**–**	33 639
	1 153 781	1 238 838	**890 957**	1 238 838
Real estate	**148 126**	116 644	**881 359**	116 644
Appreciation	**–**	35 000	**–**	35 000
	148 126	151 644	**881 359**	151 644
	3 095 068	3 131 544	**4 923 929**	3 170 188
FIXED ASSETS				
Stocks and shares				
Daughter companies	**9 371**	9 371	–	–
Other items	**15 123**	15 130	**15 275**	15 283
	24 494	24 501	**15 275**	15 283
Real estate shares				
Daughter companies	**30 914**	–	–	–
Other items	**41 676**	27 666	**41 676**	27 666
	72 590	27 666	**41 676**	27 666
Real estate	**14 644**	15 062	**72 991**	15 062
Inventories	**141**	201	**182**	259
Other fixed assets	**38 826**	9 337	**9 201**	9 611
	150 695	76 767	**139 325**	67 881
	3 719 555	3 704 906	**5 559 492**	3 740 684

Balance Sheet 31st December 1994

FIM 1 000	Parent company 1994	1993	Group 1994	1993
LIABILITIES AND EQUITY				
LIABILITIES				
Amounts due to the reinsurers				
Deposits	**14**	12	**809**	627
Other items	**–**	–	**740**	802
	14	12	**1 549**	1 429
Accrued charges and deferred credits				
Premiums paid in advance	**6 930**	8 004	**6 984**	8 061
Due to the Government	**3 226**	2 666	**4 195**	2 822
Holiday pay	**4 109**	3 984	**4 444**	4 360
Invoices	**18 636**	13 943	**18 636**	13 943
Other items	**7 397**	5 551	**7 781**	5 812
	40 298	34 148	**42 040**	34 998
Other liabilities				
Consolidated debt	**3 556**	20 458	**–**	–
Amounts due to cooperating companies	**12 533**	104 492	**37 335**	104 492
Amounts due to own companies	**19 426**	23 873	**19 426**	23 873
Outstanding cheques	**1 500**	15 600	**1 500**	15 600
Premium loans	**–**	–	**710**	–
Other items	**19 913**	17 554	**57 288**	18 457
	56 928	181 977	**116 259**	162 422
Underwriting reserves				
Premium reserve	**3 222 808**	3 065 032	**3 798 966**	3 076 682
Claims reserve	**331 079**	300 612	**1 499 464**	328 720
	3 553 887	3 365 644	**5 298 430**	3 405 402
	3 651 127	3 581 781	**5 458 278**	3 604 251
RESERVES				
Credit loss reserve	**7 286**	7 916	**11 463**	8 106
Transitional reserve	**–**	56 601	**1 134**	57 735
	7 286	64 517	**12 597**	65 841
MINORITY SHARE	**–**	–	**25 804**	10 417
EQUITY CAPITAL				
Undistributable				
Guarantee capital	**12 000**	12 000	**12 000**	12 000
Basic capital	**26 650**	26 650	**26 650**	26 650
Appreciation fund	**2 100**	–	**2 100**	–
	40 750	38 650	**40 750**	38 650
Distributable				
Appreciation fund	**–**	2 100	**–**	2 100
General reserve	**17 371**	16 370	**17 371**	16 370
Contingency fund	**487**	487	**487**	487
Surplus from previous financial period	**–**	–	**1 087**	164
Surplus for the financial period	**2 534**	1 001	**3 118**	2 404
	20 392	19 958	**22 063**	21 525
	61 142	58 608	**62 813**	60 175
	3 719 555	3 704 906	**5 559 492**	3 740 684

Notes to Balance Sheet 31st December 1994

SPECIFICATION OF EQUITY CAPITAL FIM 1 000	**Parent company**			**Group**		
Undistributable						
Guarantee capital		12 000			12 000	
Basic capital		26 650			26 650	
Appreciation fund						
Transfer from distributable equity		2 100	40 750		2 100	40 750
Distributable						
Appreciation fund	2 100			2 100		
Transfer to undistributable equity	– 2 100	0		– 2 100	0	
General reserve	16 370			16 370		
From surplus for 1993	1 001	17 371		1 001	17 371	
Contingency fund	487			487		
Donations for cultural and charitable purposes	0	487		0	487	
Surplus for previous financial periods				164		
Transferred from profit funds				923	1 087	
Surplus for previous financial period	1 001			2 404		
Transferred as proposed by AGM:						
Dividends	–			– 480		
To general reserve	– 1 001			– 1 001		
To profit funds	–	0		– 923	0	
Surplus for the financial period		2 534	20 392		3 118	22 063
			61 142			62 813

Notes to Balance Sheet 31st December 1994

PROPOSAL CONCERNING APPROPRIATION OF SURPLUS

The Board of Directors proposes that the surplus for the financial period, totalling FIM 2 533 924.97 be appropriated as follows:

8 per cent interest on the guarantee capital	960 000.00
Transfer to general reserve	1 528 905.34
To contingency fund	45 019.63
	2 533 924.97

If the Board´s proposal concerning the appropriation of the surplus is approved, the company´s equity will be composed as follows:

Undistributable equity		
Guarantee capital	12 000 000.00	
Basic capital	26 650 000.00	
Appreciation fund	2 100 000.00	40 750 000.00
Distributable equity		
General reserve	18 900 000.00	
Contingency fund	531 714.83	19 431 714.83
		60 181 714.83

Espoo, 3rd April 1995

Asmo Kalpala **Pertti Heikkala**

Pentti Koskinen **Tom Liljeström**

Jari Saine

Auditors' Report

We have examined the bookkeeping, financial statements and administration of the Tapiola Mutual Life Assurance Company for the 1994 financial year. The financial statements prepared by the Board of Directors and the Managing Director include an annual report, consolidated and parent company income statements and balance sheets, and notes on the financial statements. On the basis of our audit, we hereby issue the following statement on the financial statements and administration.

Mr. Antti Helenius has performed the supervisory audit of the Company. The bookkeeping as well as the principles, content and presentation of the financial statements have been examined in accordance with generally accepted auditing principles. In our examination of the administration, we have determined that the members of the Board of Directors and the Supervisory Board and the Managing Director have acted in accordance with the law.

The financial statements, which show a surplus for the Parent Company amounting to FIM 2,553,924.97, have been prepared in accordance with both the Bookkeeping Act and other rules and regulations concerning the preparations of financial statements. The financial statements provide, in the manner prescribed in the Bookkeeping Act, accurate and adequate information on the performance and financial standing of both the Group and the Parent Company.

The financial statements of the Parent Company together with its consolidated financial statements can be adopted. The members of the Supervisory Board and the Board of Directors and the Managing Director may be discharged from responsibility for the financial year covered by our audit.

The proposal by the Board of Directors on the appropriation of the surplus is in accordance with the law.

Espoo, 19 April 1995

Salmi, Virkkunen & Helenius Oy Ltd
Authorised Public Accountants

Antti Helenius	**Mauno Tervo**	**Ulla Holmström**
APA	APA	APA

TAPIOLA MUTUAL PENSION INSURANCE COMPANY

Tapiola Pension Offers Good Value for Money

The result 1994 was stable and competitive

Throughout its entire history Tapiola Pension has returned annual discounts averaging FIM 82 million to its policyholders.

Tapiola Pension was administered with customary efficiency in 1994. The operating expenses were reduced by FIM 3 million and the costs efficiency was among the best in the business. Despite the low level of operation expenses, the company's high-quality customer service was not compromised. Indeed, data processing and other developments made it possible to achieve further improvements in the quality of customer service.

CEO **Asmo Kalpala** *continues to serve as the managing director of Tapiola Pension. On the right is the company's deputy managing director,* Mr. **Alpo Mustonen.**

The result for 1994 was entirely satisfactory and competitive. The result for investment activities was also good, even though real estate assets were devalued by FIM 73 million. Tapiola Pension continues to offer its customers good value for money.

Questions concerning the supervision and solvency of employment pension institutions came to the fore during 1994 in connection with Vammala Pension Fund and Kansa Pension Insurance Company cases. It may be necessary to develop the supervision of investment activities and solvency. Tapiola Pension has systematically raised its own solvency, even though the company's assets are no longer subject to risks in relation to the devaluation of real estate or shareholdings.

Tapiola Pension strengthened its market position. The market share of statutory employment pension insurance rose by half a percentage point to 12.8 per cent. The net result of TEL policy transfers in terms of premium income was approximately FIM 14 million in favour of Tapiola Pension, having been about FIM 34 million in the previous year.

Sales of new statutory pension insurances amounted to FIM 276 million, which was 28 per cent lower than in the previous year.

Bringing the growth in premium losses to a halt was a positive development. It signals that the Finnish economy has turned the corner and is now moving into recover.

The portfolio of voluntary employment pension insurances was transferred from Tapiola Pension to Tapiola Corporate Life at the end of 1994. In accordance with EU regulations, Tapiola Pension now specializes exclusively in the administration of statutory employment pension insurance.

Annual Report 1994

The economic recession was still reflected in employment pension insurance business. The number of insured persons fell yet again as consequence of lay-offs, unemployment, business failures and other similar factors.

The level of the TEL (Employees' Pensions Act) pension insurance premium rose by 0.1 percentage points in 1994 and averaged 18.6 per cent, which includes a 3 per cent premium contribution from employees. The level of the YEL (Self-employed Persons' Pensions Act) pension insurance premium rose by 1.2 percentage points and was 19.4 per cent.

As a consequence of an amendment to the Employees' Pension Act based on the EEA agreement, Tapiola Mutual Pension Insurance Company can only engage in statutory pension insurance business. As a result, Tapiola Mutual Pension Insurance Company and Tapiola Corporate Life Insurance Company made an agreement on the transfer of the voluntary pension insurance portfolio. The agreement was signed on 30.3.1994 and approved at the Regular General Meeting on 19.5.1994. The Ministry of Social Affairs and Health gave its seal of approval on 23.12.1994. Accordingly, Tapiola Pension transferred the portfolio in question to Tapiola Corporate Life. The value of the transferred liabilities was FIM 1,698 million, which was covered by a transfer of correspondingly valued assets.

Development of Tapiola Pension's insurance portfolio:

	No. at 31.12.94	% change
Insured under TEL pension insurance	111,900	–3
Insured under YEL pension insurance	31,200	–1
Insured under additional TEL pension insurance	7,800	+5
Insured under additional YEL pension insurance	65	–28
TEL pensions to be paid	59,700	+4
YEL pensions to be paid	14,100	+4
Pension applications in 1994	6,900	+3

INSURANCE

Premium income

Tapiola Pension's total premium income rose by 8 per cent from the level of the previous year to reach FIM 2,659 million. A 0.1 percentage point rise in the TEL premium and a 1.2 percentage point increase in the YEL premium slightly raised the company's premium income. However, premium income was weakened by substantially above-average premium discounts.

The company's market share measured in terms of the premium income from TEL and YEL insurances grew by 0.6 and 0.3 percentage points, respectively.

Credit losses arising from premium receivables were FIM 90 million, 3 million more than in 1993. TEL and YEL insurances accounted for FIM 70 million and FIM 20 million of the credit losses, respectively. The government is ultimately responsible for YEL premium losses, and indeed other YEL expenses, if the YEL premiums are insufficient for that purpose. The procedure for recording credit losses in Tapiola is to enter receivables as credit losses as soon as bankruptcy proceedings are initiated or the company receives documents indicating insolvency. The amount of credit losses was reduced somewhat by adjustment entries made after the final wage and salary totals turned out to be smaller than had been anticipated.

Claims paid

Tapiola Pension paid out pensions totalling FIM 2,471 million, which was 12 per cent higher than the corresponding figure for the previous year. The rise was largely due to an increase in payments involved in the division of pension liabilities.

There were no index increments on TEL and YEL pensions in 1994. The index increments on voluntary pensions in 1994 were 3.0 per cent.

INVESTMENTS

Without devaluations and their cancellations, net investment revenues were FIM 903 million, 27 per cent lower than in the previous year. When devaluations and their cancellations are taken into consideration, net revenues amounted to FIM 873 million, which was 22 per cent lower than in 1993.

The devaluation item in respect of investment assets was FIM 30 million, of which FIM 28 million concerned real estate shares. Moreover, losses of FIM 45 million were recorded on the sale of real estate and real estate shares. Cancellations of devaluations made in previous years increased net investment revenues by FIM 0.4 million.

Net interest income amounted to FIM 954 million, which was 23 per cent lower than in the previous year.

Devaluations in respect of bonds and debentures amounted to FIM 10 million. Devaluations of the full amount were made in accordance with the regulations of Ministry of Social Affairs and Health and in line with the general trend of interest rates.

Credit losses recorded as investment expenses were FIM 36.4 million, which was approximately the same as in the previous year. Of this amount, unpaid premiums and delayed payment interest accounted for FIM 35.6 million, loan capital and interest for FIM 0.7 million, and unpaid rents for FIM 0.1 million. The book value of the company's investment assets was FIM 12,855 million at the end of the year.

OPERATING EXPENSES

Operating expenses amounted to FIM 75 million, which was 4 per cent lower than in the previous year. There was a 2 per cent fall in salaries and commissions, an 11 per cent rise in social expenses and an 11 per cent fall in other operating expenses.

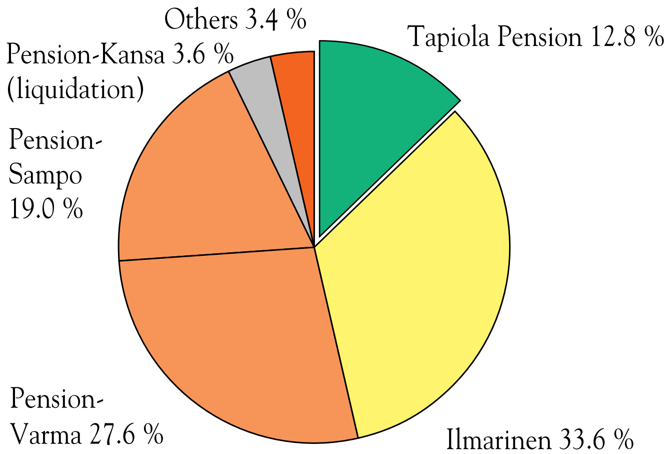
Statutory charges were FIM 58 million. This amount consisted of an FIM 11 million contribution to the Central Pension Security Institute and a FIM 47 million charge levied to cover the credit insurance losses of the same institute.

The company's business operations were administered by the staff of Tapiola General Mutual Insurance Company. The payments for these services were included in the company's operating expenses under the same items as would have been used if the staff had been directly employed by Tapiola Pension.

Salaries and commissions paid to members of the Supervisory Board, the Board of Directors and the Managing

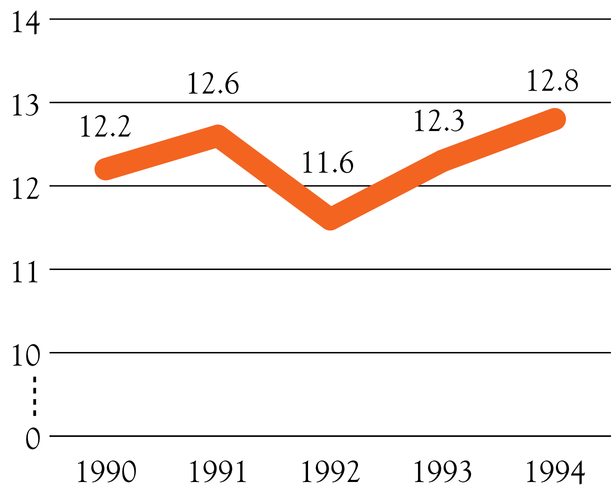
MARKET SHARES 1994

Statutory TEL (employees´ pension) and YEL
(self-employed persons' pension)
Total premium income FIM 19.6 billion



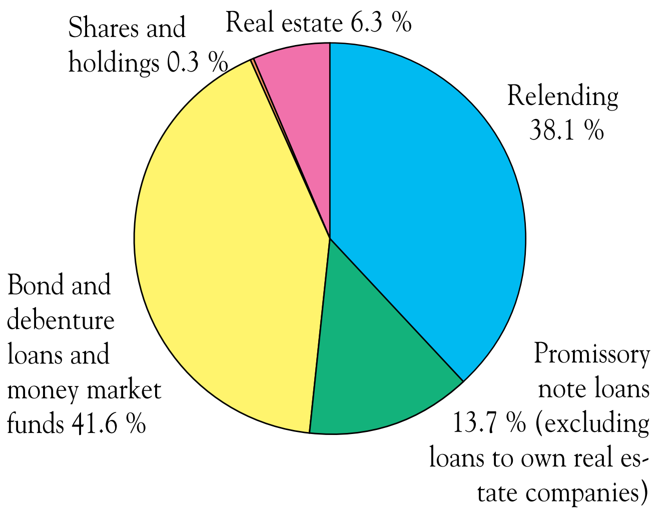
DEVELOPMENT OF TAPIOLA PENSION'S MARKET SHARE

TEL- and YEL insurances

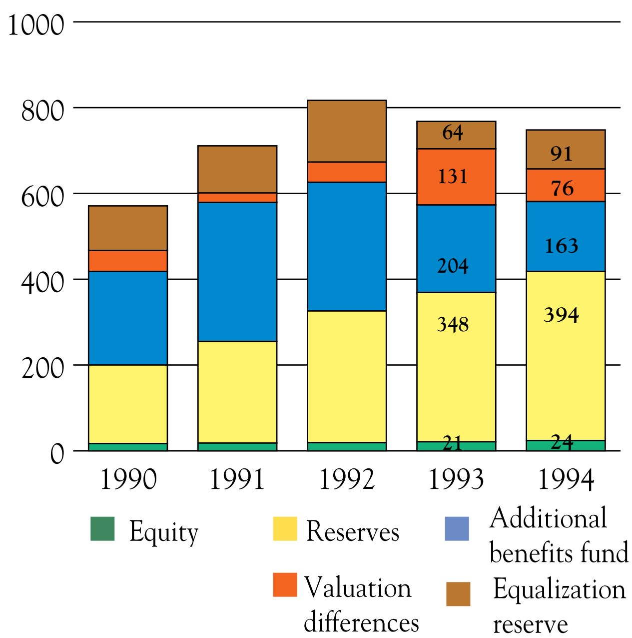


INVESTMENT ASSETS OF TAPIOLA PENSION 31.12.1994

Book value FIM 12,855 billion



DEVELOPMENT OF TAPIOLA PENSION'S RISK CAPITAL, FIM MILL.



Director totalled FIM 870,589.00. Other salaries and commissions amounted to FIM 32,279,667.29. The total salaries and commissions figure was FIM 33,150,256.29.

CLOSING OF THE ACCOUNTS

The underwriting result, which encompasses the risk business, interest business and cost business, was better than that achieved in the previous year. According to preliminary calculations, the risk business result, which describes purely insurance operations, was neutral. The corresponding result for the previous year was a loss of FIM 20 million. According to the technical calculation principles of statutory pension insurance, both the 1993 and 1994 results are included in the risk business result.

The cost business result, which describes the company's cost efficiency, was a profit of FIM 27 million, whereas in the previous year it was a profit of 10 million.

Without devaluation entries and their cancellations, the interest business result, which describes the performance of investment operations, was a profit of FIM 161 million, compared with a profit of FIM 248 million in the previous year. When devaluations and their cancellations are taken into consideration, the interest business result was a surplus of FIM 86 million, whereas in the previous year it was a surplus of FIM 116 million.

The above-mentioned component businesses together make up the overall result, which was a profit of FIM 113 million, compared with a profit of FIM 105 million in the previous year. Without devaluations and their cancellations, the result was a profit of FIM 188 million, compared with FIM 236 million in the previous year. The amount reserved from the result for premium discounts and index increments for customers was FIM 64 million, which was approximately the same as in the previous year.

The result for the company can be regarded as being very satisfactory.

The additional benefits fund available for the premium discounts of customers was FIM 163 million at the end of the year, and in 1995 FIM 54 million will be used for TEL premium discounts.

Assets have been valued in accordance with conservative calculation principles. However, real estate assets have been valued using calculation principles laid down by the Ministry of Social Affairs and Health and based on yield values.

The full amount of depreciation was charged to fixed and investment assets. The credit loss reserve was increased by FIM 46 million to its maximum amount.

PERFORMANCE ANALYSIS OF TAPIOLA PENSION

Composition of the result

	1993 FIM mill.	1992 FIM mill.
Risk business	– 20.0	– 24.8
Cost business	+ 9.6	+ 24.3
Interest business	+ 115.8	+ 263.7
Total	***+105.4***	***+263.2***

Application of the result

Equalization reserve	– 0.1	+ 34.2
Surplus	+ 2.3	+ 1.9
Reserves	+ 40.0	+ 70.0
*TEL portion of the result	+ 19.9	+ 64.0
*Voluntary insurance portion of the result	+ 43.3	+ 93.1
Total	***+105.4***	***+263.2***

** To be used as premium discounts and index increments to the customers.*

The risk business result is the difference between claims expenditure and premiums applying to the current financial year and intended to cover life and pension insurance risks. The calculated interest for the claims reserve has been taken into consideration as a factor reducing claims expenditure.

The cost business result is the difference between the actual operating expenses and the items intended to cover expenses applying to the financial year and included in the premiums of life and pension insurance. Operating expenses have been allocated here by means of zillmerization.

The interest business result is the difference between the calculated interest for the premium and claims reserves and net investment revenues according to the closing of the books of a life or pension insurance company.

The company's share of the profit-sharing payment transferred to the Staff Fund of the Tapiola Insurance Group was FIM 516,074.62, which is included in the Statement of Income under other expenses.

The financial statements show a surplus of FIM 2,796,400.00. The Board of Directors recommends that the 8 per cent interest, i.e. FIM 348,000.00, be paid on the guarantee capital, that FIM 2,400,000.00 be transferred to the general reserve and that FIM 12,400.00 be transferred to the contingency fund. The balance sheet shows assets totalling FIM 14,296,620,830.71.

CONSOLIDATED FINANCIAL STATEMENTS

The Tapiola Mutual Pension Insurance Group is made up of Tapiola Pension and three real estate companies.

In the consolidated financial statements for 1993 the Group included five additional real estate companies, but these were dissociated from the Group on 31.12.1994.

INSURANCE

Premium income

The Group's total premium income amounted to FIM 2,659 million, which was 8 per cent higher than in 1993.

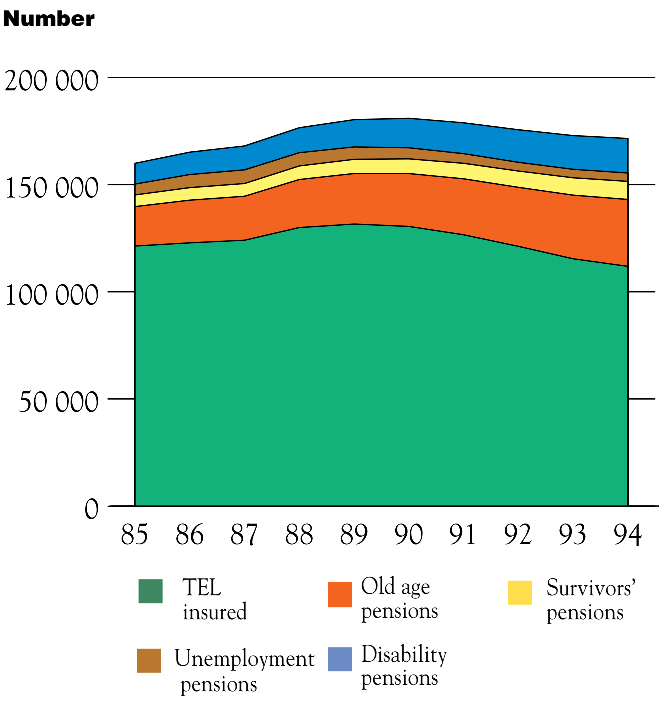
Claims paid

The Group paid out pensions totalling FIM 2,471 million, a 12 per cent increase over the figure for the previous year.

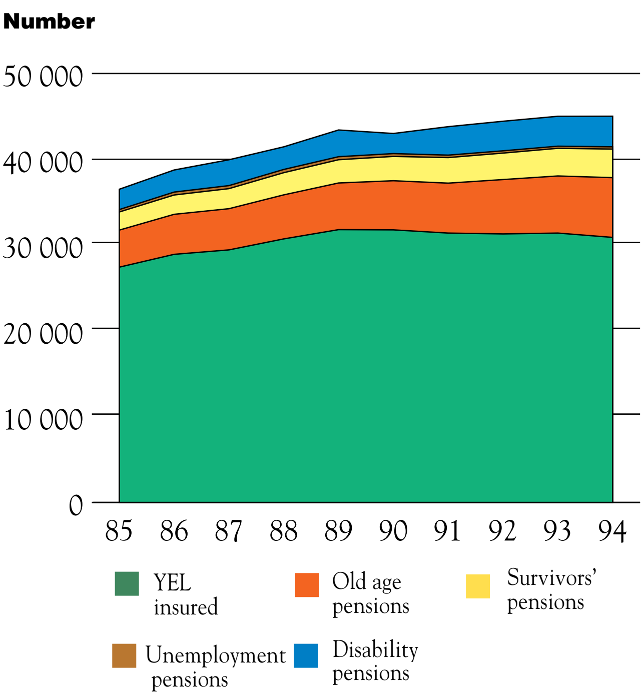
INVESTMENTS

Net investment revenues were FIM 869 million, 22 per cent lower than in the previous year. The total includes a

Tapiola Pension's TEL insurance portfolio



Tapiola Pension's YEL insurance portfolio



devaluation item of FIM 28 million in respect of real estate shares.

The book value of the Group's investment assets was FIM 12,853 million at the end of the year.

OPERATING EXPENSES

The Group's operating expenses amounted to FIM 75 million and statutory charges to FIM 58 million, making a total of FIM 133 million. The Group's operating expenses were 4 per cent lower than in the previous year.

Salaries and commissions fell by 2 per cent, while social expenses rose by 11 per cent, and other operating expenses fell by 11 per cent.

CLOSING OF THE ACCOUNTS

The Group's result was very satisfactory. The full amount of depreciation was charged to fixed assets. The credit loss reserve was increased by FIM 46 million, and the transitional reserve remained unchanged.

The consolidated deficit was FIM 890,681.46 and the consolidated balance sheet showed assets totalling FIM 14,295,768,653.37.

Funds Statement

FIM 1 000	Parent company 1994	Parent company 1993	Group 1994	Group 1993
SOURCE OF FUNDS				
Operating margin	**53 364**	49 521	**49 787**	53 498
Sundry revenues and expenses	**– 511**	– 914	**– 511**	– 914
Change in underwriting reserves	**– 677 777**	1 257 985	**– 677 777**	1 257 985
Change in other current liabilities	**73 857**	– 12 326	**67 410**	– 7 456
	– 551 067	1 294 266	**– 561 091**	1 303 113
APPLICATION OF FUNDS				
Change in liquid assets	**– 2 790**	145 426	**– 2 361**	145 347
Change in investment assets	**– 794 799**	1 130 021	**– 805 252**	1 138 967
Change in fixed assets	**7 579**	17 610	**7 579**	17 610
Change in liabilities deficit	**237 584**	–	**237 584**	–
Consolidated assets, depreciation	**–**	–	**–**	41
Distribution of profit				
Taxes	**975**	825	**975**	764
Interest on guarantee capital	**384**	384	**384**	384
	1 359	1 209	**1 359**	1 148
	– 551 067	1 294 266	**– 561 091**	1 303 113

Statement of Income 1st January-31st December 1994

FIM 1 000	Parent company 1994	Parent company 1993	Change %	Group 1994	Group 1993
PREMIUM INCOME					
Direct insurance	**+ 2 658 669**	+ 2 468 963	+ 7.7	**+ 2 658 669**	+ 2 468 963
Reinsurance	**+ 38**	+ 27	+ 40.7	**+ 38**	+ 27
	+ 2 658 707	+ 2 468 990	+ 7.7	**+ 2 658 707**	+ 2 468 990
CREDIT LOSS ON PREMIUMS	**– 90 042**	– 87 210	+ 3.3	**– 90 042**	– 87 210
INVESTMENTS					
Revenues	**+ 1 030 859**	+ 1 325 719	– 22.2	**+ 1 030 773**	+ 1 325 882
Expenses	**– 158 178**	– 212 959	– 25.7	**– 161 669**	– 209 145
	+ 872 681	+ 1 112 760	– 21.6	**+ 869 104**	+ 1 116 737
CHANGE IN PREMIUM RESERVE					
Total change	**+ 10 768**	– 830 624	+ 101.3	**+ 10 768**	– 830 624
Portfolio accepted	**– 564 318**	+ 91 682	– 715.5	**– 564 318**	+ 91 682
	– 553 550	– 738 942	– 25.1	**– 553 550**	– 738 942
UNDERWRITING REVENUES	**+ 2 887 796**	+ 2 755 598	+ 4.8	**+ 2 884 219**	+ 2 759 575
CLAIMS					
Claims paid	**– 2 471 348**	– 2 204 118	+ 12.1	**– 2 471 348**	– 2 204 118
Change in claims reserve					
Total change	**+ 667 009**	– 427 362	+ 256.1	**+ 667 009**	– 427 362
Portfolio accepted	**– 1 134 117**	+ 46 788	–2524.0	**– 1 134 117**	+ 46 788
	– 467 108	– 380 574	+ 22.7	**– 467 108**	– 380 574
	– 2 938 456	– 2 584 692	+ 13.7	**– 2 938 456**	– 2 584 692
CHANGE IN LIABILITIES DEFICIT					
Statutory deficit	**+ 237 584**	–	–	**+ 237 584**	–
UNDERWRITING MARGIN	**+ 186 924**	+ 170 906	+ 9.4	**+ 183 347**	+ 174 883
REINSURERS´SHARE OF					
Premium income	**– 142**	– 120	+ 18.3	**– 142**	– 120
Claims paid	**+ 107**	–	–	**+ 107**	–
	– 35	– 120	– 70.8	**– 35**	– 120
UNDERWRITING MARGIN FOR OWN ACCOUNT	**+ 186 889**	+ 170 786	+ 9.4	**+ 183 312**	+ 174 763
STATUTORY EXPENSES	**– 58 155**	– 42 558	+ 36.7	**– 58 155**	– 42 558
OPERATING EXPENSES					
Salaries and commissions	**– 33 022**	– 33 855	– 2.5	**– 33 022**	– 33 855
Social expenses	**– 11 745**	– 10 538	+ 11.5	**– 11 745**	– 10 538
Other operating expenses	**– 30 603**	– 34 314	– 10.8	**– 30 603**	– 34 314
	– 75 370	– 78 707	– 4.2	**– 75 370**	– 78 707
OPERATING MARGIN	**+ 53 364**	+ 49 521	+ 7.8	**+ 49 787**	+ 53 498
DEPRECIATION					
On investments	**– 278**	– 628	– 55.7	**– 388**	– 1 473
On fixed assets	**– 2 649**	– 4 814	– 45.0	**– 2 649**	– 4 814
On consolidated assets	**–**	–	–	**–**	– 41
	– 2 927	– 5 442	– 46.2	**– 3 037**	– 6 328
OPERATING PROFIT	**+ 50 437**	+ 44 079	+ 14.4	**+ 46 750**	+ 47 170
SUNDRY REVENUES	**+ 15**	+ 11	+ 36.4	**+ 15**	+ 11
SUNDRY EXPENSES					
Transfer to Staff Fund	**– 516**	– 893	– 42.2	**– 516**	– 893
Other expenses	**– 11**	– 32	– 65.6	**– 11**	– 32
	– 527	– 925	– 43.3	**– 527**	– 925
CHANGE IN RESERVES					
Credit loss reserve	**– 46 154**	– 40 000	+ 15.4	**– 46 154**	– 40 000
Writedowns	**–**	+ 73 840	–	**–**	+ 73 840
Transitional reserve	**–**	– 73 840	–	**–**	– 73 840
	– 46 154	– 40 000	+ 15.4	**– 46 154**	– 40 000
DIRECT TAXES	**– 975**	– 825	+ 18.2	**– 975**	– 764
SURPLUS FOR THE FINANCIAL PERIOD	**+ 2 796**	+ 2 340	+ 19.5	**– 891**	+ 5 492

Balance Sheet 31st December 1994

FIM 1 000	Parent company 1994	Parent company 1993	Group 1994	Group 1993
ASSETS				
LIQUID ASSETS				
Cash and cash equivalents	**114**	109	**114**	109
Accrued credits and deferred charges				
Premiums	**552 135**	411 417	**552 135**	411 417
Interest	**421 506**	492 115	**421 506**	492 115
Amounts due from liability distribution	**134 779**	224 900	**134 779**	224 900
Receivables from liability distribution	**–**	4 147	**–**	4 147
Other items	**1 982**	1 672	**1 982**	1 674
	1 110 402	1 134 251	**1 110 402**	1 134 253
Other liquid assets				
Amounts due from credit accounts (personal)	**26 020**	4 597	**27 372**	5 519
Receivables from Government	**–**	857	**–**	857
Other items	**795**	307	**795**	307
	26 815	5 761	**28 167**	6 683
	1 137 331	1 140 121	**1 138 683**	1 141 045
INVESTMENTS				
Promissory note receivables				
Premium loans	**4 902 050**	5 240 027	**4 902 050**	5 240 027
Other promissory note receivables	**2 095 604**	3 223 408	**2 066 706**	3 200 108
	6 997 654	8 463 435	**6 968 756**	8 440 135
Bonds and debenture loans	**5 343 875**	4 323 638	**5 343 875**	4 323 638
Stocks and shares	**41 405**	30 575	**41 405**	30 575
Real estate shares				
Daughter companies	**13 783**	134 709	**–**	–
Other items	**458 011**	647 617	**458 011**	647 617
	471 794	782 326	**458 011**	647 617
Real estate	**350**	50 182	**40 827**	216 549
	12 855 078	13 650 156	**12 852 874**	13 658 514
FIXED ASSETS				
Stocks and shares	**13 520**	13 520	**13 520**	13 520
Real estate shares	**33 021**	31 644	**33 021**	31 644
Inventories	**53**	75	**53**	75
Other fixed assets	**20 034**	16 458	**20 034**	16 458
	66 628	61 697	**66 628**	61 697
LIABILITIES DEFICIT				
Statutory deficit	**237 584**	–	**237 584**	–
	14 296 621	14 851 974	**14 295 769**	14 861 256

Balance Sheet 31st December 1994

FIM 1 000	Parent company 1994	1993	Group 1994	1993
LIABILITIES AND EQUITY				
LIABILITIES				
Accrued charges and deferred credits				
Premiums paid in advance	**14 607**	596	**14 607**	596
Amount due to liability distribution	**208**	–	**208**	–
Amount due to CPSI	**5 432**	–	**5 432**	–
Due to the Government	**56 402**	8 726	**56 402**	8 726
Holiday pay	**3 857**	3 869	**3 857**	3 869
Other items	**3 665**	2 294	**3 667**	2 299
	84 171	15 485	**84 173**	15 490
Other liabilities				
Amounts due to cooperating companies	**–**	5 394	**590**	12 428
Premium loans	**90**	–	**90**	–
Bond purchase debts	**59 719**	49 452	**59 719**	–
Other items	**519**	310	**519**	49 762
	60 328	55 156	**60 918**	62 190
Underwriting reserves				
Premium reserve	**8 943 185**	8 953 953	**8 943 185**	8 953 953
Claims reserve	**4 790 906**	5 457 915	**4 790 906**	5 457 915
	13 734 091	14 411 868	**13 734 091**	14 411 868
	13 878 590	14 482 509	**13 879 182**	14 489 548
RESERVES				
Credit loss reserve	**319 984**	273 830	**319 984**	273 830
Transitional reserve	**73 840**	73 840	**73 840**	73 840
	393 824	347 670	**393 824**	347 670
EQUITY CAPITAL				
Undistributable				
Guarantee capital	**4 800**	4 800	**4 800**	4 800
Basic capital	**5 000**	5 000	**5 000**	5 000
	9 800	9 800	**9 800**	9 800
Distributable				
General reserve	**11 350**	9 450	**11 350**	9 450
Contingency fund	**261**	205	**261**	205
Loss from previous financial periods	**–**	–	**2 243**	– 909
Surplus for the financial period	**2 796**	2 340	**– 891**	5 492
	14 407	11 995	**12 963**	14 238
	24 207	21 795	**22 763**	24 038
	14 296 621	14 851 974	**14 295 769**	14 861 256

Notes to Balance Sheet 31st December 1994

SPECIFICATION OF EQUITY CAPITAL

FIM 1 000	Parent company			Group		
Undistributable						
Guarantee capital		4 800			4 800	
Basic capital		5 000	9 800		5 000	9 800
Distributable						
General reserve	9 450			9 450		
From surplus for 1993	1 900	11 350		1 900	11 350	
Contingency fund	205			205		
From surplus for 1993	56	261		56	261	
Loss from previous financial periods				– 909		
Transferred from profit funds				3 152	2 243	
Surplus from previous financial period	2 340			5 492		
Transferred as proposed by AGM:						
Interest on guarantee capital	– 384			– 384		
To general reserve	– 1 900			– 1 900		
To contingency fund	– 56			– 56		
To profit funds	–	0		– 3 152	0	
Surplus from the financial period		2 796	14 407		– 891	12 963
			24 207			22 763

Notes to Balance Sheet 31st December 1994

PROPOSAL CONCERNING APPROPRIATION OF SURPLUS

The Board of Directors proposes that the surplus for the financial period, totalling FIM 2 796 400.00 be appropriated as follows:

8 per cent interest on the guarantee capital	384 000.00
Transfer to general reserve	2 400 000.00
Transfer to contingency fund	12 400.00
	2 796 400.00

If the Boards´ proposal concerning the appropriation of the surplus is approved, the company´s equity capital will be composed as follows:

Undistributable equity		
Guarantee capital	4 800 000.00	
Basic capital	5 000 000.00	9 800 000.00
Distributable equity		
General reserve	13 750 000.00	
Contingency fund	272 574.10	14 022 574.10
		23 822 574.10

Espoo, 3rd April 1995

Asmo Kalpala	**Pertti Heikkala**	**Olavi Kuusela**	**Jere Lahti**
Pauli Leimio	**Stig-Erik Leiponen**	**Tom Liljeström**	**Toivo T. Pohjala**
Maj-Len Remahl	**Ritva Savtschenko**	**Pauli Torkko**	**Matti Sutinen**

Auditors' Report

We have examined the bookkeeping, financial statements and administration of the Tapiola Mutual Pension Insurance Company for the 1994 financial year. The financial statements prepared by the Board of Directors and the Managing Director include an annual report, consolidated and parent company income statements and balance sheets, and notes on the financial statements. On the basis of our audit, we hereby issue the following statement on the financial statements and administration.

Mr. Antti Helenius has performed the supervisory audit of the Company. The bookkeeping as well as the principles, content and presentation of the financial statements have been examined in accordance with generally accepted auditing principles. In our examination of the administration, we have determined that the members of the Board of Directors and the Supervisory Board and the Managing Director have acted in accordance with the law.

The financial statements, which show a surplus for the Parent Company amounting to FIM 2,796,400.00, have been prepared in accordance with both the Bookkeeping Act and other rules and regulations concerning the preparations of financial statements. The financial statements provide, in the manner prescribed in the Bookkeeping Act, accurate and adequate information on the performance and financial standing of both the Group and the Parent Company.

The financial statements of the Parent Company together with its consolidated financial statements can be adopted. The members of the Supervisory Board and the Board of Directors and the Managing Director may be discharged from responsibility for the financial year covered by our audit.

The proposal by the Board of Directors on the appropriation of the surplus is in accordance with the law.

Espoo, 19 April 1995

Salmi, Virkkunen & Helenius Oy Ltd
Authorised Public Accountants

Antti Helenius	**Mauno Tervo**	**Ulla Holmström**
APA	APA	APA

TAPIOLA
INSURANCE
GROUP

Accurate and adequate information

The auditor's primary task is to ensure that the closing of the accounts provides accurate and adequate information on the performance and financial standing of the company. This is achieved when the financial statements prepared by the company's management are approved by the auditors. In practice, this takes place so that the principles governing the closing of the accounts are jointly agreed by the auditors and management. Those matters which should be mentioned in the annual report of the board of directors are also agreed. When this practice is followed, it is easy for the auditors to approve the contents of the annual report, balance sheet and statement of income.

In fact, the entire content and main purpose of auditing is neatly summed up by the statement: "*to ensure that the closing of the accounts provides accurate and adequate information*". Even so, there have recently been cases in which customers and the public at large have expressed doubts concerning the information contained in the closing of the accounts of companies - including some of those in the insurance branch.

In this article I shall attempt to comment on matters relating to the auditing and information of an insurance company's finacial statements.

The financial statements of an insurance company differ markedly from those of other companies. This is primarily due to the difficulty of calculating the premium reserve and claims reserve, since the effects of these are still felt years and even decades into the future. Furthermore, reinsurance also poses its own special problems for the auditor.

Three decades ago the Finnish economy began to internationalize. This process was initiated by industry, closely followed by the insurance and banking branches. The early road was a rocky one - everyone suffered losses. The Aura and Pohja insurance companies were also involved in this internationalization process. The losses of the Tapiola Insurance Group were recognized and recorded earlier than in other companies. International insurance operations contracted to a minimum. Then as now, facing facts was the step to the acquisition of wisdom.

The interests of an insurance company's customers are dispersed very widely. Especially in the case of a mutual company, the number of owners, i.e. customers, is huge, and the closing of the accounts is important to all of them. One can also say that the public interests are extremely widespread, even more extensive than in an ordinary listed company.

The new Audit Act, which came into force on 1.1.1995, now requires that in practice only professional auditors (an authorized public accountant or authorized accountant) can perform an audit. Only small firms are exempt from this requirement. This represents adjustment to international practice.

The activities of a company are nowadays highly automated. The auditor strives to ensure that all the systems work properly and that the company's internal control systems are in order.

Cooperation between the auditors, owners and corporate management is very important. This only succeeds in the presence of mutual confidence. As the auditor of both Tapiola and its predecessor company, I can state that this confidence has been excellent in every respect.

The auditor must understand the company, its activities and its problems. The auditor must also have the resolve to put forward objective opinions when he regards them as important or when they differ from those of the company's management. There have been hardly any such differences of opinion between the management and auditor of the Tapiola Insurance Group, and when they have arisen, they have been dealt with in a straightforward and businesslike manner.

I have sometimes compared the job of the auditor to that of a physician. In both cases, frank discussion and mutual confidence are very important.

When the financial markets were deregulated in the 1980s, there was a marked increase in corporate real estate acquisitions. It can be said that the price level exceeded reasonable values at that time. Because of the long reces-

Antti Helenius, A P A, "certifies" in this annual report for the last time that the financial statements of the Tapiola Insurance Group give accurate and adequate information on the performance and financial standing of the company. At the end of 1994 he retired as the chairman of the board of Salmi, Virkkunen & Helenius, a presigious firm of auditors. Mr. Helenius graciously agreed to write this article, calling on decades of experience as one of the country's leading auditors. He has been involved in the auditing of Tapiola and its predecessor company, Aura, since 1957, first as an assistant to one of the firm's founding partners, Henrik Virkkunen, and then to the other, Olle V. Salmi, and later as the chief auditor.

sion that followed this period, prices fell to the correct level and there was minimal market activity. This gave rise to an exceptionally big problem as far the values of equities and real estate were concerned.

Even Tapiola got its fingers burnt with a couple of real estate acquisitions during this "Casino Economy" era. However, compared with other companies, Tapiola emerged from the melee relatively unscathed. While others were closing their eyes to the reality of the situation in the late 1980s, Tapiola set about writing down its inflated asset values. That realism has left the Group with the legacy of a sound financial base.

Actuaries are highly specialized experts of the insurance business. And it is they who produce the calculations on which the auditor must rely. In this respect, too, cooperation with Tapiola has gone very smoothly.

The work of the auditor in insurance and other companies has changed a great deal over the decades. The information value of present-day financial statements cannot even be compared with those of the past. In the 1950s, we didn't even attempt to determine the current value of assets. In fact, because of rampant inflation, all real property values - both equities and real estate - contained hidden value, the amount of which was not even known to the company's management. The significant development of financial statement information in recent years, and its further improvement as a consequence of EU membership, means that it is simply incomparable with that available in the past. I am certain that increasing demands in the years ahead will attract considerably more attention to financial statements and auditing. Financial statement information will become much more important than it was in the past.

It may be that the gap between actuarial mathematics and auditing will be bridged by bringing actuaries into the auditing profession. Ensuring that matters are dealt with correctly also demands more active cooperation between auditors and the Ministry of Social Affairs and Health. Many people find it difficult to read the financial statements of insurance companies. Hopefully, auditors as well as those who prepare and those who read financial statements will understand one another better in the future.

Antti Helenius
Authorized Public Accountant

Management and international services

on 1st March 1995

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Asmo Kalpala

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Managing Director
Per-Olof Bergström
Deputy Managing Director

Markku Haapalainen
Director, Field

Olli-Pekka Laine
Director, Information Systems

TAPIOLA LIFE AND TAPIOLA CORPORATE LIFE

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Managing Director
Matti Luukko
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TAPIOLA PENSION

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Guide to the reader

The terminology used in the Statement of Income and the Balance Sheet of an insurance company deviates from that used in the financial statements of other businesses. The annual report also contains references to ratios which are used exclusively in the insurance industry and are not generally known outside that sphere. In order to make the financial statements easier to understand, the meanings of the most important terms are explained below in alphabetical order.

In the case of the most important ratios, their formulae are also given.

An asterisk (*) means that the term can be found as a headword.

The **accumulated balance of motor third party liability insurance** together with the equalization reserve* make up the equalization amount*. The accumulated balance consists of the accumulated surplus of motor third party liability insurance, which is taken into consideration when determining the insurance premium for future years. Consequently, an insurance company cannot use it for any purpose other than motor third party liability insurance claims.

Avoir fiscal tax credit is a tax credit in favour of a dividend recipient to the extent that the company paying the dividend has already paid tax when distributing the dividend. The income of the dividend recipient then comprises the combined amount of the dividend received and the avoir fiscal tax credit.

The **calculated interest** is the minimum interest that the company must pay on insurance savings. In life assurance and pension insurance with savings, most of the premium increases the insurance savings, i.e. the underwriting reserve*. Interest is annually credited to this underwriting reserve in accordance with the approved basis of calculation. In addition to the calculated interest, additional interest, i.e. the customer bonus*, is also paid on the underwriting reserve.

The **change in the claims reserve** is the difference between the claims reserve at the beginning and end of the year, and is included in the Statement of Income. Claims paid adjusted for the change in the claims reserve indicate the real claims expenditure relating to the financial year.

The difference between **claims expenditure** and claims paid* is that claims based on insured events occurring in the financial year but payable later are also included in claims expenditure. Claims paid are augmented by the change in the claims reserve*, which also includes the change in the equalization amount.

Formula: Claims paid + the claims reserve at the end of the year - the claims reserve at the beginning of the year.

Claims paid is made up of claims paid during the financial year, irrespective of the year in which the loss occurred.

The **claims ratio** means the ratio of claims expenditure without the change in the equalization amount to premium revenues.

In the performance analyses of Tapiola General's individual insurance classes, the claims ratios are calculated on a net basis:

Claims ratio = (claims expenditure for own account without the change in the equalization amount) / (premium revenues for own account - credit losses) x 100. In the case of motor third party liability insurance, the change in the accumulated balance is also deducted from premium revenues.

As far as the curve describing the development of Tapiola General's claims ratio for direct business is concerned, the claims ratio is presented on a gross basis.

The **claims reserve** consists of the claims which the insurance company will have to pay after the end of the financial year in respect of losses and other insured events occurring during the financial year and preceding years. The claims reserve thus represents the company's debt to policyholders and beneficiaries.

The claims reserve also includes an equalization reserve* to provide for years in which the company may incur exceptionally heavy claims expenditure. It is calculated in accordance with principles laid down by the Ministry of Social Affairs and Health. The equalization reserve* and the accumulated balance of motor third party liability insurance* together form the equalization amount*.

The **cost business result** is the difference between the actual operating expenses and the items intended to cover expenses applying to the financial year and included in the premiums of life assurance and pension insurance. Operating expenses have been allocated here by means of zillmerization*.

A **credit loss reserve** is made to cover the eventuality of credit losses arising from premium and other business receivables. The maximum amount of the reserves and the possibilities of adding to them depend on the line of business of the insurance company and on the type of receivable.

The **customer bonus** is the interest that is paid annually on insurance savings in addition to the calculated interest*. The level of the customer bonus depends on the result achieved by the company. The benefit of a personal insurance's customer bonus for the policyholder is that the value of insurance cover is at least preserved.

Direct business means insurance business received directly from Tapiola's customers. Insurance business received from another insurance company is assumed reinsurance business*. Outgoing reinsurance is insurance business passed on by Tapiola to another insurance company.

The **equalization amount** is the combined total of the equalization reserve* and the accumulated balance of motor third party liability insurance*, see claims reserve*.

The **equalization reserve** is a non-distributable reserve set aside for years in which claims are particularly heavy, see claims reserve*.

The **equalization reserve percentage**, i.e. the solvency ratio*, expresses the amount of the equalization reserve* as a percentage of the upper limit of a target zone calculated in accordance with computational rules approved by the Ministry of Social Affairs and Health. The upper limit of the target zone is the amount up to which the coverage of the equalization reserve is justified in order to improve the risk-carrying capacity of the company.

For own account is an expression occurring in connection with, for instance, premium revenues. It means that part of direct business* and assumed reinsurance business* remaining with the company for coverage by the same after the reinsurers' share* has been deducted.

The **funds statement** shows the sources and application of funds. Under "Source of Funds", the funds acquired by the company are categorized under the items of income and capital finance. Under "Application of Funds", the manner in which the funds acquired during the financial year have been used, i.e. their application, is shown as changes in liquid assets, fixed assets and investment assets as well as repayments of liabilities and profit distribution.

Income transfers are charges which are collected from policyholders in their premiums and which the insurance company credits forward to the authorities. The income transfers are premium tax, fire brigade charges, traffic safety payments, industrial safety charges as well as charges pertaining to Section 58 of the Workers' Compensation Insurance Act.

The **interest business result** is the difference between the calculated interest* for the premium and claims reserves and net investment revenues* according to the closing of the books of a life assurance or pension insurance company.

Investment assets mainly consist of loans granted by the company as well as securities and real estate which the company has acquired to cover the technical underwriting reserve*.

Net investment revenues means the difference between the revenues and expenses of investment operations.

The **premium income** is made up of payments received during the financial year in consideration of insurance cover. Received premiums are increased or reduced for changes in premiums outstanding and paid in advance. The income transfers included in the premiums are deducted before entering the premium income on the Statement of Income.

Premium income is itemized under two categories: premiums received by the company directly from policyholders (direct insurance), and premiums received from other insurance companies (reinsurance).

The **premium reserve** is that portion of premium income accrued during the financial year and preceding years, the corresponding risks of which pertain to the period after the end of the financial year in question. The premium reserve is the company's debt to the policyholders. The change in the premium reserve is shown on the Statement of Income.

Premium revenues are premium income* for own account* less the change in the premium reserve*.

Formula: premium revenues = premium income for own account + premium reserve at the beginning of the year - premium reserve at the end of the year.

The **reinsurers' share** means the reinsurance cover that Tapiola purchases from other insurance companies for the risks it does not keep on its own retention. The net expenses or revenues resulting from this ceded reinsurance business as well as the breakdown of such items are shown in the Statement of Income.

Premium and claims reserve receivables arising from reinsurance business are the reinsurers' share of the company's premium reserve* and claims reserve*.

The **result of the transfer operation** is the estimated premium income from statutory pension insurance transferred immediately after the end of the year under review less the premium income which Tapiola Pension has to transfer to other pension insurance companies.

The **risk business result** is the difference between claims expenditure* and premiums applying to the current financial year and intended to cover life assurance and pension insurance risks. The calculated interest* for the claims reserve has been taken into consideration as a factor reducing claims expenditure.

Risk capital means the funds which an insurance company can call upon in loss-making periods. Risk capital consists of equity, reserves, valuation differences* and the equalization amount*.

The **risk-carrying capacity** of a non-life insurance company describes the ratio of risk capital* to premium income for own account.

Formula: (equity + reserves + valuation differences + the equalization amount) / premium income for own account x 100.

The risk-carrying capacity of a life assurance company is the ratio of risk capital to the underwriting reserve*.

Formula: (equity + reserves + valuation differences + the equalization reserve) / (the premium reserve + the claims reserve) x 100.

The **savings business result** is the result for the financial year of individual pension insurance, other than interest and cost business, supplemented by certain technical adjustment items.

Solvency capital is a term used in Tapiola instead of risk capital*.

The **solvency ratio** is expressed as a percentage. It expresses the amount of the equalization reserve as a percentage of the upper limit of a target zone calculated in accordance with computational rules approved by the Ministry of Social Affairs and Health. The upper limit of the target zone is the amount up to which the coverage of the equalization reserve is justified in order to improve the risk-carrying capacity of the company.

Statutory charges of a pension insurance company consist of the company's contribution towards the cost of the Central Pension Security Institute.

The **statutory deficit** is caused by exceptional discounts applied to the TEL premium level. Recovery occurs when the premium level has been raised to an adequate level.

The **stochastic result** means the unequalized annual result for a non-life insurance company It means the premium revenues* for own account pertaining to the financial year plus the net investment revenues* without revaluations*, less claims expenditure (excluding the change in the equalization amount) and operating expenses.

The **stochastic result percentage** = the stochastic result / (premium revenues for own account - credit losses) x 100.

Surrenders are refunds paid to policyholders who have cancelled their life assurance policies. These payments consist of the savings portions included in the premiums paid by the policyholders. Surrenders are included in the Statement of Income under claims paid.

A **transitional reserve** can be established in place of the writedowns and credit loss reserve abolished by the reform of the Business Taxation Act. The period during which the transitional reserve can exist in 1993-1997.

Turnover means the total premium income which has been reduced by the amount of credit losses and augmented by the amount of investment revenues without revaluations*.

The technical **underwriting reserve** is made up of the premium reserve and the claims reserve.

The **valuation difference** is the difference between an asset's current value and its book value, see risk capital*.

Writedowns have been abolished by the reform of the Business Taxation Act. See transitional reserve.

Zillmerization means the allocation of the operating expenses of life assurance over a number of years. In the Notes to the Balance Sheet, Zillmerization appears as non-amortized sales expenses deducted from the premium reserve.