



NOVA

L I F E I N S U R A N C E C O M P A N Y

O P E R A T I O N S A N D P E R F O R M A N C E 1 9 9 7



SAMPO LIFE
TO MERGE WITH
NOVA IN 1999



SAMPO LIFE

Nova Life Insurance Company and Sampo Life Insurance Company will join forces at the end of 1998 when Sampo Life is to merge with Nova. The new company will operate under the name of Sampo Life Insurance Company Limited.

The insured benefits will remain unchanged. The new company will be composed of two successful and financially strong companies the product lines of which supplement each other.

In the new Sampo Life, premiums written will exceed FIM two billion and the balance-sheet FIM 15 billion. On the basis of the financial statements for 1997, the company's solvency will be on a par with Nova's present solvency. The Sampo Group will own 60 percent of the company, Varma-Sampo Mutual Pension Insurance Company 35.2 percent, and Kaleva Mutual Insurance Company 4.8 percent.



Contents

Nova's key figures	4 – 5
Managing Director's Report	6 – 7
Healthy growth and profitability	8 – 9
Annual Report 1997	10 – 12
	33 – 38
Statement of source and application of funds.....	14
Profit and loss account.....	15
Balance Sheet	16 – 17
Notes on the accounts	
<i>Accounting principles</i>	18 – 19
<i>Notes to the profit and loss account</i>	20 – 22
<i>Notes to the balance sheet</i>	23 – 30
<i>Calculation formulas for the key figures</i>	30 – 31
Auditor's report	39
Statement of the Supervisory Board	39
Sampo Life to merge with Nova	40 – 41
The people behind the performance.....	42

Nova Life Insurance Company focuses on collective life assurance and supplementary pension insurance arrangements for corporate management and staff. By specializing in this way, Nova aims to achieve a pioneering standing of major significance on the Finnish insurance market. Novas market share of group pension insurances is almost 60%.

Nova's key figures

	1997	1996	1995		1997	1996	1995			
1. Solvency (FIM million)				3. Efficiency						
Solvency margin	1 898	1 440	794	Staff	107	102	94			
Minimum solvency margin	408	358	324	Operating expenses, of premiums written %	5.5	5.7	1.7			
Equalization provision	30	31	28	Total operating expenses, of opening balance %	0.8	0.8	0.9			
Solvency capital	1 928	1 470	823	Expense ratio %	89.8	99.8	62.4			
Provision for future bonuses	307	261	206	4. Volume						
KEY FIGURES PERTAINING TO SOLVENCY				Number of insured	99 500	92 700	84 400			
Solvency ratio	119.4	116.9	110.4	Pensioners	16 700	15 500	15 000			
Solvency margin ratio	465.5	402.0	245.1	Premiums written, FIM million	1 081	948	2 823			
Relative change in solvency capital before distribution of profit %	10.7	8.2	8.4	Claims paid, FIM million	631	538	541			
Return on invested capital %	14.2	12.0	12.3	Technical provisions, FIM million	9 985	8 745	7 936			
Return on capital %	12.9	10.8	11.8	Balance sheet at current value, FIM million	12 088	10 298	8 960			
2. Profit (FIM million)				Market share, of premiums written %	9.6	8.0	40.0			
PROFIT				Market share, of group pension insurance premiums written %	58.0	54.0	88.0			
Investment result				5. Investments at current values (FIM million)						
Net investment income	999	530	563		1997	1996	1995			
Technical rate of interest on technical provisions	-347	-318	-269		%	%	%			
Investment result	652	212	294	Investments in land and buildings						
Administrative result	7	0	29	Hydro power plants	0	0.0	745	7.7	676	7.9
Technical result	28	14	27	Other	1 113	9.5	1 097	11.3	1 205	14.0
Total result	687	227	349	Shares	2 908	24.9	2 076	21.4	866	10.1
USE OF PROFIT				Bonds	4 011	34.3	3 991	41.1	3 070	35.7
Client bonuses	-165	-121	-127	Other debt securities	1 900	16.3	446	4.6	1 181	13.7
Transfer to provision for future bonuses	-378	-41	-98	Loans receivable	1 276	10.9	1 233	12.7	1 426	16.6
Other reserves	54	-11	-17	Other investments	473	4.0	124	1.3	183	2.1
Depreciation on goodwill	-2	-2	-2		11 681	100.0	9 712	100.0	8 607	100.0
Taxes	-64	-15	-26							
Profit for the financial year	132	37	79							

For calculation formulas, see pp. 30 - 31



Nova's official accounts can be viewed at the company's head office, at Bulevardi 7, Helsinki.



Some 90% of Nova's liabilities comprise long-term pension liabilities. This means the company can pursue a long-range investment policy that ensures a good return in all economic situations.



Kari Stadigh, *managing director*

Importance of investments emphasized

While premiums written in the entire life assurance sector declined compared with 1996, total premiums written in voluntary pension-insurance rose by 26 percent. In Nova, premiums written in pension insurance were 36 percent up on 1996. Nova's business idea, to concentrate on supplementary pension solutions designed for companies, company managements and private individuals, thus proved opportune. Pension insurance became increasingly popular in all sectors in 1997.

At the end of the year, Nova's market share of group life assurance was close on 60 percent. Nova has not, unlike its competitors, focused on selling so-called unit-linked insurance, since this sector is one of the strengths of the future mergerpartner, Sampo Life. The bonuses granted on Nova's pension insurance depend on the result of the company's insurance and investment operations. For this reason, special attention was being paid to the development of the company's own investment operations, which have a significant impact on the company's competitiveness.

In the prevailing favourable conditions, foreign investments were increased to FIM 2.2 billion compared with some FIM 1 billion at the end of the previous year. The share of investments in land and buildings of Nova's investment portfolio was reduced from FIM 1.7 billion

to approximately FIM 1 billion by selling the hydro power plants owned by the company. Derivatives were actively used to hedge against market movements. As a result, net investment income rose by 88 percent, to some FIM 1 billion. The objectives linked to share and interest indices, which had been set for the company's investment activities were clearly exceeded. During the financial year, the average return on the current value of investments, changes in value included, is some 14 percent per year, while the five-year average exceeds 12 percent.



Thanks to the profitable result, the client bonuses granted in addition to the technical rate of interest were among the highest in the insurance industry and totalled FIM 165 million. Of the profit for 1997, as an exceptional measure, a good FIM 300 million was set aside in the provision for future bonuses to finance client bonuses to be granted during the next three years. An additional provision of FIM 330 million was made to provide future benefits required in view of the increased expectation of life. The bulk of this provision had been financed earlier. It is proposed that approximately FIM 22 million be distributed in dividends to the company's owners.

With the increase in value of Nova's investment assets, the company's solvency margin rose by 32 percent, to FIM 1.9 billion. At year-end, the solvency margin was 19 percent of the

technical provisions. The increased solvency is a solid basis for the company's competitiveness and for the further development of the investment operations, even within the framework of future solvency regulations that will be imposed on life assurance companies.

In addition to the good result of the company's investment operations during 1997, the aims set for operations by the Board of Directors were exceeded. The entire staff deserves credit for the overall result. I also wish to thank our clients for the confidence they have shown in Nova.

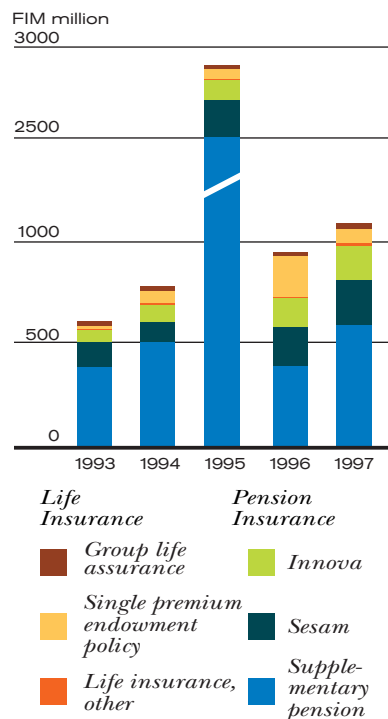
April 1998

In Nova, premiums written for 1997 amounted to FIM 1 081 million. Premium volume has grown at a steady pace in recent years except for 1995, when the Savings Banks' Pension Fund liabilities were transferred to Nova.

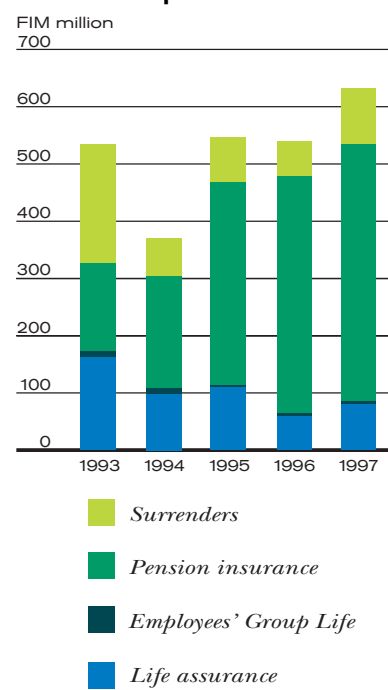


Healthy growth and profitability

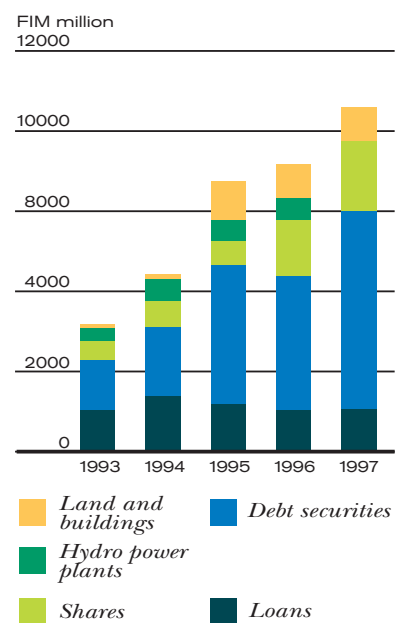
Premiums written



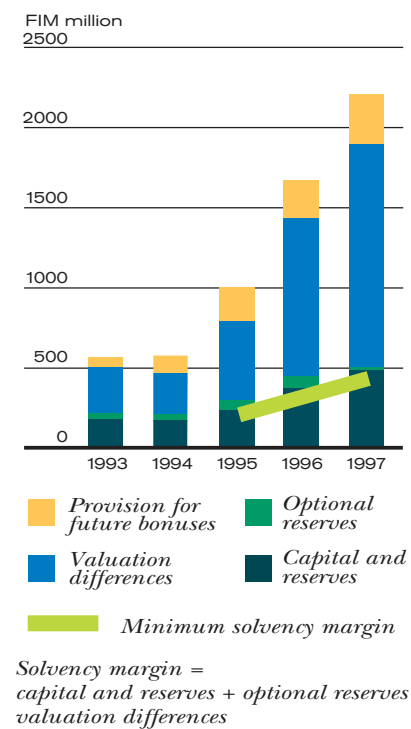
Claims paid



Investment portfolio at book value

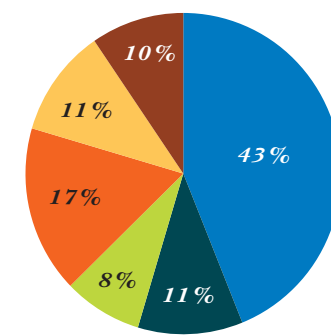


Solvency



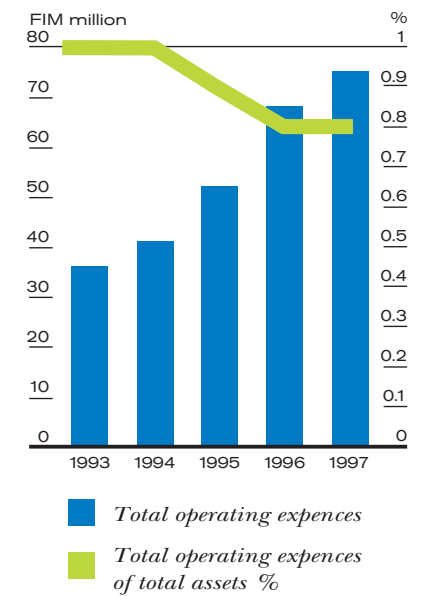
Investment portfolio 31.12.1997

Market value FIM 11 681 million



- Finnish debt securities
- Land and buildings
- Loans
- Finnish shares
- Foreign shares
- Foreign debt securities

Operating expenses



Annual Report 1997

Premiums written

In Nova, premiums written for 1997 amounted to FIM 1 081 million (FIM 948 million in 1996). The increase over 1996 was 14 percent. During the year under review, pension insurance accounted for FIM 977 million or, 90 percent of premiums written. In Nova's main class of insurance, group pension insurance, premiums written rose by 40 percent.

In terms of premiums written, the largest classes of insurance were Nova's supplementary pension at FIM 595 million (FIM 397 million), and Sesam pension insurance, at FIM 218 million (FIM 186 million). During the year under review, individual pension insurance, Innova, produced FIM 164 million (FIM 136 million) in premiums written. Premiums written in individual life assurance dropped compared with 1996 and stood at FIM 83 million (FIM 202 million). The decline was due to the fact that premiums written in single premium endowment assurance decreased to FIM 69 million (FIM 186 million). Premiums written in group life assurance was FIM 15 million (FIM 14 million). In employees' group life assurance, premiums written is determined according to the former market share of life assurance companies. At Nova, premiums written in employees' group life assurance came to FIM six million (FIM 9 million).

Premiums written for 1997 include transfers of liabilities from 16 pension funds to a total of FIM 337 million. At the end of the financial year, Nova's insurance portfolio covered 99 500 insured persons (92 700).

Investments

Nova aims at ensuring a good real return on its investments in the long term. Thanks to Nova's solvency, a significant proportion of the investment portfolio consists of shares. Investments are to an increasing extent made abroad, in order to improve the ratio between return and risk. From the viewpoint of those insured, a successful investment policy provides both a good nominal return and inflation protection.

In the favourable conditions prevailing in 1997, Nova's investment activities proved successful. During the year, the rise in share prices and fall in interest rates greatly promoted the growth of Nova's solvency margin and hence the company's solvency ratio. Nova continued to spread its investments in 1997, as a result of which the market value of foreign investments had risen to FIM 2.2 billion at year end, representing 19 percent of the investment portfolio.

At the end of the financial year, the market value of Nova's investment portfolio was FIM 11.7 billion and had risen by 20 percent compared with 1996. Bonds and other debt securities accounted for 54 percent of the investment portfolio, shares for 25 percent, loans to clients for 11 percent and land and buildings for 10 percent. The difference between current value and book value pertaining to investments was FIM 1 401 million.

At year end, the book value of Nova's investment portfolio was FIM 10 280 million. The total sum of debt securities grew by 35 percent and totalled FIM 5 446 million at the end of the year. Foreign



bonds remained more or less at the same level as in 1996 and totalled FIM 744 million. In Finnish interest rate investments, the focus remained on long-term bonds. Short-term deposits stood at FIM 459 million (FIM 124 million). The bulk of the increase, FIM 276 million, originates from items denominated in foreign currencies. The relative proportion of shares in the investment portfolio grew during the financial year. At the end of the financial year, the book value of share investments totalled FIM 2 098 million (FIM 1 662 million). Foreign shares, the book value of which trebled, produced the net increase. In addition, FIM 166 million was committed to European Private Equity funds in 1997. Capital is being committed to these funds over a period of several years as the funds make new investments. The portfolio of investment loans remained almost unchanged and was worth FIM 1 276 million at the end of the year.

Investments in hydro power plants representing a book value of FIM 664 million were realized during the financial year. Other investments in land and buildings totalled FIM 1 001 million and were at the same level as in 1996. In investing in land and buildings, Nova continued to focus on adapting properties acquired in the liability transfer so as to

From the point of view of a life assurance company's clients, it is essential that the company they have chosen is successful as both an insurer and an investor. Nova's result for 1997 indicates success in both areas.



Foreigners' investments in Finnish listed companies, Finnish companies' acquisitions of foreign companies and the number of Finns stationed abroad have increased. For life assurance, internationalization means new challenges and opportunities for which Nova has prepared itself.

meet the company's long-term aims. The company sold 11 properties and acquired three properties in 1997. As a result of these transactions, the floor area of leased premises decreased. The degree of under-utilization of real estate dropped to 5.6 percent (8.9 percent). Five low-rent residential buildings subsidized by the State were also acquired in connection with liability transfers.

Total continuous income from the investment portfolio - interest, dividends and annual income from real estate - amounted to FIM 554 million during the financial year and was seven percent up on 1996. Interest income from debt securities rose by 11 percent, to FIM 322 million (FIM 291 million). Dividends, including avoir fiscal, were FIM 86 million (FIM 37 million). Interest income from loans fell with the decline in the interest rate level and was FIM 72 million (FIM 94 million). Income from investments in land and buildings, after scheduled depreciation and before gains on realization and appreciation, was FIM 74 million (FIM 94 million). The decline in yield was due to the sale of a hydro power plant at the beginning of 1997.

Net investment income rose to FIM 999 million (FIM 530 million). Bond transactions generated net gains on realization of FIM 55 million (FIM 78 million). Sales of share investments provided net gains on realization of FIM 368 million (FIM 91 million). A value adjustment of FIM 36 million (FIM 52 million) on share investments was entered, while FIM 13 million (FIM 32 million) was entered as value re-adjustments from previous years. Additional value re-adjustments amounting to FIM four million were also entered. In connection with the sales of hydro power plants, net gains on

realization of somewhat less than FIM 93 million were entered. A value adjustment of FIM 12 million on the real estate portfolio was entered, while FIM nine million was entered as value re-adjustments from previous years. In accordance with the investment strategy approved by the company's Board of Directors, the company also invested in derivatives. In accordance with the principle of prudence, a value adjustment of FIM 23 million was entered on derivatives pertaining to share investments. The result for the financial year does not include valuation gains of approximately FIM 50 million on equity derivatives, mainly to be entered as income in 1998.

Transfer of Savings Banks' Pension Fund

In 1995, a transfer of liabilities totalling FIM 2 275 million and affecting 14 700 people was carried out. The principle behind the transfer was that the client bonuses to be granted on the transferred portfolio would be defined on the basis of the return on the simultaneously transferred assets.

At the beginning of 1998, the benefits pertaining to the transferred portfolio were raised by two percent. This increase equals that granted on Nova's other corresponding policies. In addition, technical provisions were raised by the full amount required to cover the additional liability originating from the increased expectation of life. It is estimated that benefits can be increased also in the future in accordance with the practice applied to Nova's portfolio in general.

L I F E I N S U R A N C E C O M P A N Y

N O V A



A C C O U N T S 1 9 9 7

Statement of source and application of funds

WORKING CAPITAL FLOW CALCULATION

(FIM 1,000)

	PARENT COMPANY	
	1997	1996
Source of funds		
Cash-flow financing		
Profit before interest expenses, extraordinary items, untaxed reserves and tax	141 382	62 391
Adjustment items		
Changes in technical provisions	1 239 345	809 768
Deficit in cover of technical provisions	3 558	4 674
Value adjustments and revaluation on investments	54 351	117 939
Depreciation	5 476	5 037
	1 444 112	999 809
Capital financing		
Increase in capital and reserves	0	125 000
	0	125 000
Source of funds in total	1 444 112	1 124 809
Application of funds		
Profit distribution		
Tax	63 331	14 855
Dividends	21 875	15 000
Other profit distribution	0	0
	85 206	29 855
Investments		
Increase in investments (net)	1 622 246	732 015
Increase in intangible and tangible assets (net)	2 402	3 137
	1 624 648	735 152
Repayment of capital and loans		
Decrease in long-term liabilities	0	0
Application of funds in total	1 709 854	765 007
Increase / decrease in working capital	-265 742	359 802
Change in working capital		
Change in debtors	-12 367	36 223
Change in cash at bank and in hand	-149 730	230 366
Change in prepayments and accrued income	-10 853	-27 466
Change in deposits received from reinsurers	453	-594
Change in creditors	5 494	107 388
Change in accruals and deferred income	-98 739	13 885
Increase / decrease in working capital	-265 742	359 802

Profit and loss account

(FIM 1,000)

	PARENT COMPANY		GROUP	
	1.1. - 31.12. 1997	1.1. - 31.12. 1996	1.1. - 31.12. 1997	1.1. - 31.12. 1996
Technical account				
Premiums written				
Premiums written	1 080 810	947 550	1 080 810	947 550
Reinsurers' share	-6 624	-7 777	-6 624	-7 777
	<u>1 074 186</u>	<u>939 773</u>	<u>1 074 186</u>	<u>939 773</u>
Investment income	1 340 308	884 118	1 345 549	883 912
Revaluation on investments	0	38 000	0	38 000
Claims incurred				
Claims paid	-630 995	-538 114	-630 995	-538 114
Reinsurers' share	4 055	3 459	4 055	3 459
	<u>-626 940</u>	<u>-534 655</u>	<u>-626 940</u>	<u>-534 655</u>
Change in the provision of claims				
Total change	-573 005	-331 679	-573 005	-331 679
Reinsurers' share	-123	194	-123	194
	<u>-573 128</u>	<u>-331 485</u>	<u>-573 128</u>	<u>-331 485</u>
Claims incurred in total	-1 200 068	-866 140	-1 200 068	-866 140
Change in the gross provision for unearned premiums				
Total change	-666 632	-480 138	-666 632	-481 130
Portfolio transfers	0	-992	0	0
Reinsurers' share	415	1 855	415	1 855
	<u>-666 217</u>	<u>-479 275</u>	<u>-666 217</u>	<u>-479 275</u>
Change in deficit in cover of technical provisions	-3 558	-4 674	-3 558	-4 674
Net operating expenses	-59 073	-54 023	-59 073	-54 023
Investment charges	-341 524	-392 542	-349 069	-397 511
Other technical charges	-272	-446	-272	-446
Technical result	<u>143 782</u>	<u>64 791</u>	<u>141 478</u>	<u>59 616</u>
Non-technical account				
Other expenses				
Depreciation on goodwill	-2 400	-2 400	-2 400	-2 400
Direct taxes on ordinary activities				
Tax for financial year	-61 491	-13 104	-61 495	-13 104
Tax for previous financial years	-1 840	-1 750	-1 840	-1 750
Profit on ordinary activities after tax	<u>78 051</u>	<u>47 537</u>	<u>75 743</u>	<u>42 362</u>
Increase in depreciation difference	26 703	-12 170	26 703	-12 170
Increase in optional reserves	27 450	1 550	22 403	-617
Minority interest in the profit for the financial year	0	0	25	1 789
Profit for the financial year	<u>132 204</u>	<u>36 917</u>	<u>124 874</u>	<u>31 364</u>

Balance sheet

(FIM 1,000)

	PARENT COMPANY		GROUP	
	31.12.1997	31.12.1996	31.12.1997	31.12.1996
Assets				
Intangible assets				
Intangible rights	2 985	3 860	2 985	3 860
Goodwill	4 800	7 200	4 800	7 200
	7 785	11 060	7 785	11 060
Investments				
Investments in land and buildings				
Hydro power plants	0	664 220	0	664 220
Other land and buildings and shares therein	854 118	815 365	1 063 745	1 046 814
Loans to group companies	147 294	185 236	0	0
	1 001 412	1 664 821	1 063 745	1 711 034
Other investments				
Stocks and shares	2 098 107	1 662 060	2 108 667	1 670 337
Debt securities	5 445 655	4 028 444	5 445 655	4 028 444
Loans guaranteed by mortgages	1 106 862	1 052 051	1 106 862	1 052 051
Other loans	169 182	180 951	169 182	180 951
Deposits	458 980	123 966	458 980	123 966
	9 278 786	7 047 472	9 289 346	7 055 749
Deposits with ceding undertakings	54	63	54	63
Investments in total	10 280 252	8 712 356	10 353 145	8 766 846
Deficit in cover of technical provisions	1 758	5 316	1 758	5 316
Debtors				
From direct insurance operations				
Policyholders	19 760	46 901	19 760	46 901
Other debtors	16 150	1 377	20 488	8 310
	35 910	48 278	40 248	55 211
Other assets				
Tangible assets				
Equipment	7 865	7 664	7 865	7 664
Cash at bank and in hand	109 957	259 687	109 957	259 687
	117 822	267 351	117 822	267 351
Prepayments and accrued income				
Accrued interest and rent	157 983	200 647	157 982	200 647
Other prepayments and accrued income	85 375	53 563	85 375	53 563
	243 358	254 210	243 357	254 210
Assets	10 686 885	9 298 571	10 764 115	9 359 994

Balance sheet

(FIM 1,000)

	PARENT COMPANY		GROUP	
	31.12.1997	31.12.1996	31.12.1997	31.12.1996
Liabilities				
Capital and reserves				
Restricted				
Share capital	62 500	62 500	62 500	62 500
Reserve fund	177 500	177 500	177 500	177 500
	240 000	240 000	240 000	240 000
Non-restricted				
Profit brought forward	140 080	125 038	138 000	128 511
Profit for the financial year	132 205	36 917	124 874	31 364
	272 285	161 955	262 874	159 875
Capital and reserves in total	512 285	401 955	502 874	399 875
Minority interest	0	0	60 563	60 134
Optional reserves				
Accumulated depreciation difference	2 196	28 899	2 196	28 899
Optional reserves	14 647	42 097	37 321	54 494
	16 843	70 996	39 517	83 393
Technical provisions				
Provision for unearned premiums on life assurance	5 537 052	4 870 420	5 537 052	4 870 420
Reinsurers' share	-5 476	-5 061	-5 476	-5 061
	5 531 576	4 865 359	5 531 576	4 865 359
Life assurance claims outstanding	4 454 035	3 881 030	4 454 035	3 881 030
Reinsurers' share	-866	-990	-866	-990
	4 453 169	3 880 040	4 453 169	3 880 040
Technical provisions in total	9 984 745	8 745 399	9 984 745	8 745 399
Deposits received from reinsurers	1 337	1 790	1 337	1 790
Creditors				
Reinsurance creditors	485	511	485	511
Other creditors				
Other creditors	22 595	28 063	25 998	19 035
	23 080	28 574	26 483	19 546
Accruals and deferred income	148 595	49 857	148 596	49 857
Liabilities	10 686 885	9 298 571	10 764 115	9 359 994

Notes on the accounts

ACCOUNTING PRINCIPLES

Instructions and regulations

The accounts have been compiled in accordance with the Accounting Act, Companies Act and Insurance Companies Act and the instructions and regulations issued by the insurance supervision authority, the Ministry of Social Affairs and Health.

Current value of investments, valuation principles and accrual

The current value of investments is defined per investment object and the balance sheet items are specified in the notes to the accounts. The current value of securities is determined according to the public quotation on the date of closing the books, if this exists. Otherwise, the acquisition cost or net asset value is used for current value.

As the regulations of the Ministry of Social Affairs and Health permit, debt securities have been entered at acquisition cost when the reason for the decrease in value is due solely to fluctuation in interest rates. The difference between the par value and purchase price of debt securities is allocated to interest income, and the counter-item is included

in the acquisition cost. The matching value items included in acquisition costs are specified in the notes to the accounts.

Stocks and shares classified as investments are shown on the balance sheet at the lower of acquisition cost or current value. Stocks and shares classified as fixed assets are shown at the lower of acquisition cost or current value if the devaluation has been considered permanent. Stocks and shares classified as investments are valued using an average price.

Unrealized changes in value on derivative contracts is entered against profits only if the change in the value of the hedged asset has been booked. If the aim of the derivative contract was other than hedging, only unrealized valuation loss is entered against profits.

The current value of real estate, i.e. the likely realizable value, is defined every year property by property. Properties have been appraised by an external valuer.

Real estate has been entered at acquisition cost less scheduled depreciation, or at the likely realizable value if this is lower. Scheduled depreciation on investments in real estate is entered from the beginning of 1995 or from the acquisition date if this was later.

Revaluations, value adjustments and re-adjustments of investments are entered against profits. Value adjustments are entered under investment charges. That part of former value adjustments on investments which has been compensated by a rise in

current value is entered against profits as an acquisitions cost.

Depreciation

The acquisition cost of equipment, intangible rights and buildings has been capitalized, and is entered during its effective period as depreciation under expenses. The depreciation is determined according to a predefined depreciation schedule. The amount is calculated according to the straight-line method, as a percentage of the original acquisition cost. Depreciation on buildings was begun according to residual values at the end of 1994, at which point remaining useful life was estimated.

Depreciation is calculated according to the following lifespan estimates:

<i>Residential and commercial buildings</i>	<i>50-60 years</i>
<i>Hydropower plants</i>	<i>50-70 years</i>
<i>Industrial buildings and warehouses</i>	<i>40 years</i>
<i>Equipment installed at hydropower plants</i>	<i>40 years</i>
<i>Technical equipment in the buildings</i>	<i>15 years</i>
<i>Other long-term expenditure</i>	<i>10 years</i>
<i>Computers, software, cars</i>	<i>5 years</i>
<i>Other equipment</i>	<i>10 years</i>
<i>Office machines</i>	<i>7 years</i>
<i>Goodwill</i>	<i>5 years</i>

In the case of significant renovation projects, the lifespan of properties has been re-estimated. Scheduled depreciation on real estate is entered under investment charges.

The difference between depreciation based on the Business Taxation Act and scheduled depreciation has been entered as a separate item in the profit and loss account, and the accrued difference is shown under optional reserves in the balance sheet.

Total operating expenses and depreciation on both equipment and capitalized IT software are included in profit and loss account items by function. Depreciation related to claims functions is now included under claims incurred. Depreciation related to the acquisition and management of insurance and general administrative costs is included under operating expenses. Depreciation related to investment management is included in investment charges. There is an itemized list depreciations by function in the Notes.

Pension scheme

The employment pension scheme for Nova's personnel is based on pension insurance policies from Pension-Varma and Nova. The premiums are entered in the profit and loss account on the accrual basis.

Deferred tax liability corresponding to optional reserves, depreciation difference and revaluation

There is not likely to be any tax liability on optional reserves and depreciation difference. When the entering covers costs, tax liability is not realized. The applicable corporate tax rate would be 28%.

Foreign currency items

Liabilities denominated in foreign currencies have been converted to Finnish markka according to the middle rates quoted by the Bank of Finland on the day of closing of the books. Investments in foreign currencies have been entered at the exchange rate on the day of acquisition or that on day of closing the books if this was lower. The current value of foreign currency investments was calculated according to the middle rates quoted by the Bank of Finland on the day of the closing of the books.

Principle of equity of Insurance Companies Act

The principle of equity laid down in the Insurance Companies Act requires that a reasonable part of the surplus produced by insurance policies is used for client bonuses paid on policies. Nova's objective is to ensure that client bonuses in the long run will compensate as well as possible for inflation effects. In paying client bonuses, every effort will be made to ensure continuity and to avoid radical changes, should the level of interest rates change. The company will adapt to the new environment over a certain transition period. In investments, the risk level is defined in a manner which ensures that the company's solvency will meet the long-term solvency requirements set for life assurance companies. In practice, the company has aimed at a solvency which, on the average, equals some four times the minimum requirement under EU-regulations. Under EU-regulations, the minimum solvency requirement is four percent.

Consolidated accounts

On December 31, 1997 the Nova Group included the parent company, Nova Life Insurance Co. Ltd., and 57 Finnish housing and real estate companies.

Combined housing and real estate companies have been treated as direct investments in real estate in the consolidated accounts. Depreciation entries made by Group companies which diverge from the Group depreciation schedule have been replaced by scheduled depreciation.

The consolidated accounts have been compiled by combining the profit and loss accounts, balance sheet items, and notes to the accounts produced by the parent company and the 57 subsidiaries. Income and charges from inter-group transactions, receivables and liabilities and mutual share ownership have been eliminated. Minority interest in the profit for the financial year and of capital and reserves is shown as a separate item on the profit and loss account and the balance sheet.

Mutual share ownership has been eliminated by the acquisition method. Consolidated goodwill is allocated entirely to the subsidiaries' asset items within the limits permitted by their current value. Depreciation has been deducted from the amount allocated to buildings in accordance with the depreciation schedule.

Notes to the profit and loss account

PARENT COMPANY

(FIM 1,000)

1997 1996

PREMIUMS WRITTEN

Direct insurance		
Domestic		
Life assurance		
Individual life assurance	82 635	201 918
Employees' group life assurance	6 000	9 355
Other group life assurance	14 596	14 222
Pension insurance		
Individual pension insurance	164 299	138 527
Optional pension insurance	813 099	582 766
	1 080 629	946 788
Reinsurance	214	805
Gross premiums written	1 080 843	947 593
Credit loss on premiums	-33	-43
	1 080 810	947 550
Analysis of premiums written		
Continuous premiums	450 067	382 506
Single premiums	630 562	564 282
	1 080 629	946 788
Premiums on policies entitling to a refund	1 080 629	946 788

CLAIMS PAID

Direct insurance		
Life assurance	85 131	61 751
Pension insurance	449 201	413 274
Surrenders	96 553	59 371
	630 885	534 396
Reinsurance	110	3 718
	630 995	538 114

ANALYSIS OF NET INVESTMENT INCOME

(FIM 1,000)

	1997	1996
Investment income		
Income from investments in land and buildings		
Dividends	0	179
Interests received		
Group companies	13 929	15 706
Other	0	0
Other income		
Group companies	84 423	104 740
Other	39 418	47 292
	137 770	167 917
Income from other investments		
Dividends	86 513	37 456
Interest received	421 302	413 474
Other income	4 399	1 646
	512 214	452 576
Total	649 984	620 493
Value re-adjustments	27 168	38 086
Gains on realization of investments	663 156	225 539
Investment income in total	1 340 308	884 118
Investment charges		
Expenses on investments in land and buildings	-61 685	-72 923
Expenses on other investments	-18 737	-10 635
Interest paid and other expenses on liabilities	-23 654	-20 928
Total	-104 076	-104 486
Value adjustments on investments	-76 266	-187 171
Scheduled depreciation on buildings	-5 135	-5 907
Loss on realization of investments	-156 047	-94 978
Investment charges in total	-341 524	-392 542
Revaluation on investments	0	38 000
Net investment income	998 784	529 576
Avoir fiscal tax credit included in income from dividends	18 018	8 528
Items included in other income and charges from other investments		
Exchange rate gains	3 814	1 278
Exchange rate losses	6 999	1 952

ANALYSIS OF OPERATING EXPENSES

(FIM 1,000)

	1997	1996
<i>Operating expenses by function</i>		
Claims paid	6 935	6 278
Operating expenses	59 073	54 023
Investment charges	8 725	7 689
Other expenses	0	0
Total	74 733	67 990
<i>Scheduled depreciation by function</i>		
Claims paid	415	409
Operating expenses	2 258	1 904
Investment charges	403	324
Total	3 076	2 637
<i>Staff expenses</i>		
Salaries and fees	24 486	22 197
Monetary value of fringe benefits	970	865
Pension expenses	6 563	6 650
Other indirect staff expenses	2 519	2 148
Total	34 538	31 860
The retirement age of managing director is 65 years and that of other managers 60-65 years.		
Average number of personnel	107	97
<i>Operating expenses in the profit and loss account</i>		
Insurance policy acquisition costs		
Commissions on direct insurance business	7 354	6 967
Commissions, assumed reinsurance	0	4
Other acquisition costs	24 086	23 426
	31 440	30 397
Change in deferred insurance acquisition costs	0	0
Insurance policy management expenses	14 152	12 993
Administrative costs	13 553	10 633
Commissions, ceded reinsurance	-72	0
Total	59 073	54 023

Notes to the balance sheet

PARENT COMPANY

(FIM 1,000)

CURRENT VALUE OF INVESTMENTS AND VALUATION DIFFERENCE

	Remaining acquisition cost	1997 Book value	Current value	Remaining acquisition cost	1996 Book value	Current value
<i>Investments in land and buildings</i>						
Land and buildings	94 503	94 503	94 650	686 405	769 405	851 325
Shares in group companies	695 822	695 822	797 305	633 445	633 445	724 278
Other real estate shares	63 793	63 793	73 258	76 735	76 735	81 886
Loans to group companies	147 294	147 294	147 294	185 236	185 236	185 236
<i>Other investments</i>						
Stocks and shares	2 098 107	2 098 107	2 908 354	1 662 060	1 662 060	2 075 674
Debt securities	5 445 655	5 445 655	5 911 457	4 028 444	4 028 444	4 436 540
Loans guaranteed by mortgages	1 106 862	1 106 862	1 106 862	1 052 051	1 052 051	1 052 051
Other loans	169 182	169 182	169 182	180 951	180 951	180 951
Deposits	458 980	458 980	472 934	123 966	123 966	123 966
<i>Deposits with ceding undertakings</i>	54	54	54	63	63	63
	10 280 252	10 280 252	11 681 350	8 629 356	8 712 356	9 711 970

The remaining acquisition
cost of debt securities includes
the difference between par
value and purchase price,
allocated to interest
income or its disposals

63 128

35 974

Book value includes
revaluations
entered as income

0

83 000

Difference between current
value and book value

1 401 098

999 614

INVESTMENTS IN LAND AND BUILDINGS

(FIM 1,000)



Changes in land and buildings

	Buildings	1997 Land and water areas and real estate shares	Loans receivable	Buildings	1996 Land and water areas and real estate shares	Loans receivable
Acquisition cost, Jan. 1	257 334	1 361 645	185 236	257 277	1 436 612	143 452
Increases	631	136 674	3 784	57	59 563	72 250
Decreases	-164 485	-561 408	-41 726	0	-134 530	-30 466
Acquisition cost, Dec. 31	93 480	936 911	147 294	257 334	1 361 645	185 236
Revaluation, Jan. 1	0	38 000	0	0	0	0
Increases	0	0	0	0	38 000	0
Decreases	0	-38 000	0	0	0	0
Revaluation, Dec. 31	0	0	0	0	38 000	0
Accumulated scheduled depreciation/value adjustments, Jan. 1	35 281	142 113	0	7 916	32 040	0
Scheduled depreciation/ value adjustments and value re-adjustments	3 709	4 858	0	27 365	110 073	0
Decreases	-9 688	0	0	0	0	0
Accumulated scheduled depreciation/ value adjustments, Dec. 31	29 302	146 971	0	35 281	142 113	0
Book value after scheduled depreciation/ value adjustments, Dec. 31	64 178	789 940	147 294	222 053	1 257 532	185 236
Accumulated depreciation in excess of schedule, Jan. 1	26 864			15 155		
Depreciation above/ below schedule	-26 864			11 709		
Accumulated depreciation in excess of schedule, Dec. 31	0			26 864		
Value of buildings after total depreciation, Dec. 31	64 178			195 189		

Land and buildings used for own activities

Remaining acquisition costs	5 901	3 404
Book value	5 901	3 404
Current value	5 750	2 801

SHARES IN OTHER COMPANIES

(FIM 1,000)

*Investments**Stocks and shares*

Name of the company	Number	Percentage of shares	Percentage of votes	Par value	Book value 31.12.1997
A. Ahlstrom Corporation	3 750	0.77 %	0.14 %	3 750	30 480
Aamulehti Corporation	63 400	0.66 %	1.09 %	634	11 255
Arctos Capital Oy	150 000	2.18 %	2.18 %	3 000	3 525
Asko Oyj	539 805	1.53 %	1.53 %	5 398	43 996
Aspo Group Ltd	7 600	0.17 %	0.17 %	76	1 748
Kiinteistö Oy Bomba	1 000	1.85 %	1.85 %	10	10
Björkboda Lås Oy Ab	1 225	12.25 %	12.25 %	1 225	1 225
Ab Chips Oy Ltd	41 475	1.24 %	0.11 %	415	3 107
Cultor Oyj	326 568	1.42 %	2.00 %	3 919	51 569
Efore Oy	37 500	1.89 %	0.84 %	375	4 511
Elcoteq Network Corporation	25 400	0.11 %	0.02 %	51	1 740
Elecster Oyj	117 000	3.12 %	0.55 %	585	2 651
Enso Oyj	1 477 918	0.48 %	0.60 %	14 779	62 705
Finnair Oyj	46 300	0.05 %	0.05 %	232	1 821
Finnlines Ltd	220 800	1.13 %	1.13 %	2 208	17 992
Oy G.W. Sohlberg Ab	100 000	3.70 %	0.93 %	4 000	20 160
Helsinki Telephone Company Ltd	196 150	0.41 %	0.11 %	981	17 033
Helsinki Telephone Corporation	598				3 058
HK Ruokatalo Oy	18 700	0.78 %	0.08 %	935	1 870
Huhtamäki Oy	15 300	0.05 %	0.03 %	306	3 371
Instrumentarium Corporation	250 300	1.24 %	1.14 %	2 503	36 871
Interbank Ltd	1 100 000	9.97 %	9.74 %	11 000	11 400
Jaakko Pöyry Group Oyj	184 500	1.35 %	1.35 %	923	10 701
KCI Konecranes International Plc	10 500	0.07 %	0.07 %	84	1 208
Kemira Oyj	773 000	0.60 %	0.60 %	7 730	32 089
Kesko Ltd	400 900	0.45 %	0.01 %	4 009	23 005
Kone Corporation	5 220	0.08 %	0.03 %	261	3 367
Kyro Corporation	339 200	0.86 %	0.86 %	339	9 802
Lassila & Tikanoja Plc	805 148	5.34 %	5.34 %	8 051	58 223
Lemminkäinen Oy	41 965	0.26 %	0.26 %	420	1 613
Lännen Tehtaat Oy	270 443	4.20 %	4.20 %	2 704	15 459
Länsivoima Oy	99 070	1.52 %	1.52 %	991	19 461
Merita Plc	1 781 620	0.21 %	0.07 %	17 816	27 214
Metra Corporation	386 894	0.72 %	0.79 %	7 738	37 810
Metsä-Serla Corporation	59 000	0.04 %	0.01 %	590	2 508
Metsä Tissue Corporation	81 500	0.27 %	0.27 %	815	4 279
MTV Corporation	1 100	2.00 %	2.00 %	550	26 829
Neste Oy	14 300	0.01 %	0.01 %	143	1 888
Nokia Corporation	590 836	0.20 %	0.50 %	2 954	87 683
Norvestia Oy Ab	773 863	15.16 %	9.91 %	15 477	51 363
Novo Group Plc	15 390	0.28 %	0.28 %	77	1 809
Okmetic Ltd	1 896	7.78 %	7.78 %	1 896	16 002
Olvi Plc	61 666	3.22 %	0.66 %	617	4 933
Orion Corporation	82 780	0.12 %	0.13 %	828	9 940
Outokumpu Oyj	226 064	0.18 %	0.18 %	2 261	13 072
Partek Corporation	342 426	0.71 %	0.71 %	3 424	30 745
Pihakozza Oy	400	7.84 %	13.61 %	68	2 000
Ponsse Oy	24 900	0.71 %	0.71 %	125	1 935
Raisio Group Plc	1 800	0.01 %	0.01 %	18	1 050
Rautakirja Oyj	114 000	1.76 %	1.66 %	2 280	39 603
Rautaruukki Corporation	318 500	0.23 %	0.23 %	3 185	13 041
Sampo Insurance Company Ltd	295 628	0.48 %	0.48 %	1 478	18 243
Santasalo-JOT Ltd	148 600	1.44 %	1.44 %	1 486	6 489
Oy Stockmann Ab	84 750	0.59 %	0.10 %	1 695	18 776
Finnish Power Grid Plc	60	1.80 %	0.80 %	6 000	12 000
Suunto Oyj	21 000	0.39 %	0.39 %	105	1 145
Tamfelt Oyj Abp	188 133	2.83 %	4.32 %	1 881	21 417
Tampereen Kiinteistö Invest Oy	915 625	25.00 %	25.00 %	45 781	63 000
Tamro Corporation	124 000	0.14 %	0.14 %	1 240	3 708
Tulikivi Oy	30 100	1.70 %	5.76 %	602	1 873
UPM-Kymmene Corporation	210 400	0.08 %	0.08 %	2 104	22 934

Name of the company	Number	Percentage of shares	Percentage of votes	Par value	Book value 31.12.1997
Vaahto Group Ltd Oy	62 000	2.16 %	2.85 %	310	1 810
Vaisala Oy	113 600	2.65 %	3.19 %	1 136	30 927
Valmet Corporation	97 600	0.12 %	0.12 %	976	7 323
Valtameri Oyj	60 330	3.66 %	0.70 %	603	3 917
Viking Line Ab	40 000	0.37 %	0.37 %	40	6 941
Werner Söderström Osakeyhtiö - WSOY	475 860	3.97 %	1.20 %	4 759	48 097
YIT-Corporation	32 500	0.13 %	0.13 %	325	1 999
Bank of Åland Ltd	38 533	0.80 %	0.04 %	385	3 732
Other					2 369
					1 157 430
Investment funds					
Carnegie Korke	215 155				21 618
Carnegie Likvidi	100 000				10 000
Erikoissijoitusrahasto Phalanx	1 000 000				10 000
Finnmezzanine Rahasto I Ky	18 944				9 472
Finnventure Rahasto I Ky	82				3 165
Finnventure Rahasto II Ky	71				3 550
Finnventure Rahasto III Ky	56				2 800
Gyllenberg Momentum	30 000				15 000
Gyllenberg Small Firm	19 824				10 091
Interbank Vipu	175 728				24 600
PSP-Kasvuosake	100 000				10 000
Sponsor Fund I Ky	26				17 536
Other					1 078
					138 910
Stocks and shares in foreign companies					
Akzo Nobel N.V., The Netherlands	9 100	0.013 %			6 002
ING Groep N.V., The Netherlands	22 362	0.002 %			4 154
VastNed Offices/Industrial N.V., The Netherlands	54 504	0.499 %			8 149
Burmah Castrol PLC, Great-Britain	51 400	0.024 %			4 486
County Hotels Group PLC, Great-Britain	992 172	3.969 %			8 336
Diageo PLC, Great-Britain	88 200	0.002 %			3 470
Nycomed Amersham PLC, Great Britain	65 060	0.067 %			7 029
Premier Farnell PLC, Great Britain	91 000	0.034 %			3 183
Reuters Holdings PLC, Great Britain	60 000	0.004 %			3 102
Telecom Italia S.p.A., Italy	171 430	0.008 %			3 033
Ito-Yokado Co, Japan	15 000	0.004 %			3 470
Fokus Banken ASA, Norway	190 000	0.289 %			4 841
Norsk Hydro ASA, Norway	90 000	0.039 %			19 942
Orkla ASA, Norway	24 000	0.049 %			5 884
Carrefour, France	1 500	0.004 %			4 064
Castorama Dubois, France	6 000	0.037 %			3 897
LVMH, France	4 000	0.005 %			3 573
Saint-Gobain, France	7 900	0.009 %			5 835
Total, France	9 300	0.004 %			3 842
Aga Ab, Sweden	54 000	0.022 %			3 889
Astra Ab, Sweden	135 000	0.008 %			12 330
Autoliv Inc., Sweden	25 000	0.024 %			4 364
CityMail Sweden Ab, Sweden	6 792	1.369 %			7 640
Ericsson Tel Ab, Sweden	127 000	0.013 %			13 090
Investor Ab, Sweden	20 000	0.010 %			5 258
Netcom Systems, Sweden	45 000	0.047 %			3 486
Fresenius Medical Care AG, Germany	10 000	0.014 %			3 596
Hoechst AG, Germany	20 000	0.003 %			3 778
Metro AG, Germany	21 240	0.023 %			3 728
Veba AG, Germany	17 500	0.004 %			4 870
Volkswagen AG, Germany	1 800	0.007 %			4 229
Holderbank, Switzerland	1 000	0.020 %			3 803
Nestle SA, Switzerland	740	0.002 %			4 520
Chr. Hansen Holding A/S, Denmark	7 000	0.138 %			4 373
Falck A/S, Denmark	15 000	0.127 %			3 718
Novo Nordisk A/S, Denmark	10 000	0.013 %			5 629
Amgen Inc., United States of America	12 000	0.005 %			3 079
Stocks and shares in 165 other foreign companies					215 727
					417 399

Name of the company	Number	Percentage of shares	Percentage of votes	Par value	Book value 31.12.1997
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Foreign investment funds

Key International Trust, Cayman Islands					175 562
Hambro European Ventures III, Great Britain					12 439
Schroder Ventures European Fund, Great Britain					8 721
Industri Kapital, Sweden					6 630
Nektar, Sweden					7 000

210 352

Options

85 454

Total investment assets					2 009 546
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Fixed assets

Stocks and shares

Insurance Company Sampo Pension Ltd	295	9.83 %	9.83 %	2 950	20 301
Retro Life Assurance Company Ltd	12 019	17.17 %	17.17 %	1 202	9 193
Nordben Life and Pension Ltd	900 000	14.98 %	15.00 %	50 529	16 000
Rahastopalvelu RP Oy	2 000	10.00 %	10.00 %	20	20
Unsa Oy	425 930	7.50 %	7.50 %	42 593	42 593
Other					454

Total fixed assets					88 561
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OTHER LOANS

(FIM 1,000)

1997

1996

Loans specified by security

Bank guarantee	43 672	83 051
Insurance policy	4 729	8 242
Other guarantee	120 781	89 658

Remaining acquisition cost	169 182	180 951
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CHANGES IN INTANGIBLE AND TANGIBLE ASSETS

(FIM 1,000)

	1997 Intangible rights	1997 Goodwill	1997 Equipment	1997 Total
Acquisition cost, Jan. 1	5 012	12 000	12 118	29 130
Acquisitions	138	0	2 479	2 617
Sales and disposal	-3	0	-1 150	-1 153
Acquisition cost, Dec. 31.	5 147	12 000	13 447	30 594
Accumulated scheduled depreciation, Jan. 1	1 152	4 800	4 454	10 406
Scheduled depreciation	1 013	2 400	2 063	5 476
Sales and disposal	-3	0	-935	-938
Accumulated scheduled depreciation, Dec. 31	2 162	7 200	5 582	14 944
Acquisition cost after scheduled depreciation, Dec. 31	2 985	4 800	7 865	15 650
Accumulated depreciation in excess of schedule, Jan. 1	29	0	2 006	2 035
Depreciation above/below schedule	17	0	144	161
Accumulated depreciation in excess of schedule, Dec. 31	46	0	2 150	2 196
Net expenditure after total depreciation, Dec. 31	2 939	4 800	5 715	13 454

CAPITAL AND RESERVES

(FIM 1,000)

	1997	1996
Restricted		
Share capital	62 500	62 500
Reserve fund	177 500	177 500
	240 000	240 000
Non-restricted		
Profit brought forward	161 955	140 038
Distribution of dividends	-21 875	-15 000
	140 080	125 038
Profit for the financial year	132 205	36 917
	272 285	161 955
Total	512 285	401 955

OPTIONAL RESERVES

(FIM 1,000)

	1997	1996
<i>Accumulated depreciation difference</i>		
Intangible assets	46	29
Equipment	2 150	2 006
Land and buildings	0	26 864
Total	2 196	28 899
<i>Optional reserves</i>		
Credit loss reserve, Jan. 1	14 247	15 797
Change	400	-1 550
Credit loss reserve, Dec. 31	14 647	14 247
Transition reserve, Jan. 1	27 850	27 850
Change	-27 850	0
Transition reserve, Dec. 31	0	27 850
Total	14 647	42 097
Optionat reserves in total	16 843	70 996

NON-AMORTIZED ACQUISITION COSTS

DEDUCTED FROM PROVISION FOR UNEARNED PREMIUMS

(FIM 1,000)

	1997	1996
Zillmerization of individual life assurance	795	910
Zillmerization of individual pension insurance	0	0
	795	910

Zillmerization is amortized in 2 to 5 years.

Technical rate of interest

The following interest rates were used as the basis for calculating technical provisions

Optional employment pension insurance	4.25 %
Other insurances	4.50 %

The effect of client bonuses and discounts on profit

The effect of index increases granted on profit was FIM 165 million.

In addition, FIM 307 million has been reserved for subsequent client bonuses.

AMOUNTS DUE TO OR FROM GROUP COMPANIES

(FIM 1,000)

	1997	1996
<i>Due from</i>		
Investments		
Loans receivable	147 294	185 236
Debtors		
Accounts receivable	3 541	1 377
Total	150 835	186 613
<i>Due to</i>		
Creditors		
Accounts payable	9 571	7 360
Total	9 571	7 360

CONTINGENT LIABILITIES

(FIM 1,000)

	1997 Premiums received and paid	1997 Market value	1997 Contract value	1996 Contract value
<i>Derivative contracts</i>				
<i>Interest rate derivatives</i>				
Forward contracts 1)		25 754	5 048 956	4 077 663
Swaps		8 297	208 423	208 423
<i>Currency derivatives</i>				
Forward contracts		-123	105 217	0
Options				
Purchased	4 020	2 033	1 448 494	851 983
Sold	4 020	4 704	1 539 319	920 320
<i>Equity derivatives</i>				
Forward contracts		-775	143 950	66 617
Options				
Purchased	106 582	133 438	358 815	108 934
Sold	1 570	514	26 403	121 560

Unrealized appreciations on derivative contracts is entered against profits FIM -26.862 million.

1) This does not include the contract value of closed purchases and sales of interest rate derivatives amounting to FIM 36 763.930 million. The profits from these closed contracts, FIM 1.909 million, have been recognized in the profit and loss account.

<i>Securities given as collateral for derivatives trading</i>		
Book value	1997	1996
	57 531	60 405
Market value	61 896	76 164
<i>Other liabilities</i>		
<i>Uncalled commitment to subscribe units in equity funds</i>		
Domestic capital funds	1997	1996
	100 898	18 912
Foreign capital funds	166 672	0

KEY FIGURES PERTAINING TO SOLVENCY

(FIM 1,000)

	1997	1996
Solvency margin		
Capital and reserves after proposed profit distribution	490 410	380 080
Optional reserves and accumulated depreciation difference	16 843	70 996
Difference between current value and book value of investments	1 401 098	999 614
Acquisition costs and intangibles not entered under expenses and other items	-10 492	-11 060
	<u>1 897 859</u>	<u>1 439 630</u>
Solvency margin requirement according to chapter 11, section 4, of the Insurance Companies Act	407 736	358 256
Equalization provision for high loss years included in technical provisions	30 447	30 614
Ratio of solvency margin and equalization provision to technical provisions net of reinsurance, less equalization provision	19.4 % *)	16.9 %

*) If provision for future bonuses is deducted from technical provisions when ratio is calculated, the outcome is 20.0 percent.

Calculation formulas for the key figures

Solvency margin

Refers to the assets in excess of liabilities at current values, which are available to ensure the company's continuous operations.

The solvency margin, the calculation of which is laid down in law, mainly comprises:

Capital and reserves after proposed distribution of profit

- + *optional reserves and accumulated depreciation difference*
- + *valuation difference of assets*
- + *subordinated loans*

Minimum solvency margin

Refers to the minimum amount of assets in excess of liabilities that a company is required by law to have if it is to continue its operations without being subject to special monitoring.

Equalization provision

Refers to an item under technical provisions required under the solvency requirement which is designed to ensure that technical provisions are adequate even in circumstances where the factors affecting the technical provisions to a major degree fluctuate unfavourably. The supervisory authorities have set minimum requirements and calculation rules for this item.

Solvency capital

The total of solvency margin and equalization provision.

Provision for future bonuses

The provision for future bonuses is an item under technical provisions which should be used for client bonuses or for supplementing technical provisions.

Solvency ratio

Refers to the ratio of the company's assets to its technical provisions. A solvency ratio of 119 means that the company has FIM 1.19 in assets against every FIM 1 owed to clients. The company uses the 'surplus' of FIM 0.19 to safeguard the insurance savings lodged with it and to ensure that client bonuses remain at a level which corresponds to its client bonus policy.

Definition:

$$\frac{100 + 100 \times \text{solvency capital}}{\text{technical provisions less equalization provision}}$$

Solvency margin ratio

Refers to the ratio between the company's solvency margin and the statutory minimum solvency margin. A solvency margin ratio of 466% means that the company's solvency margin is 4.66 times the statutory minimum solvency margin according to EU provisions.

Definition:

$$\frac{100 \times \text{solvency margin}}{\text{minimum solvency margin}}$$

Change in solvency capital before distribution of profit and client bonuses

Refers to changes in solvency capital during the period under review before distribution of the client bonuses decided on by the company, distribution of profit to shareholders, and taxes. This item does not include any changes in solvency margin arising from new share capital acquired by the company during the period under review.

Relative change in solvency capital before distribution of profit and client bonuses

The change in solvency capital before distribution of profit and client bonuses in proportion to the total of average technical provisions during the accounting period and solvency capital at the beginning of the year.

A figure of 10.7% for this item means that, in addition to the technical rate of interest and including the change in differences between current value and book value, the company has generated a yield of 10.7% on capital held, which can be used at the company's discretion for distribution of profit or for improving solvency. In addition, the company's entire total solvency is at its disposal.

Definition:

$$\frac{\text{Change in solvency capital before distribution of profit and client bonuses}}{\text{average technical provisions for the period under review other than equalization provision and provision for future bonuses + solvency capital at the beginning of the year}}$$

Return on invested capital

This item stands at 14.2%, which means that the company's return on assets, including change in differences between current value and book value before client bonuses and distribution of profit, was 14.2%.

Definition:

$$\frac{\text{Change in solvency capital before distribution of profit and client bonuses + technical rate of interest requirement for technical provisions}}{\text{average technical provisions for the period under review other than equalization provision and provision for future bonuses + solvency capital at the beginning of the year}}$$

Return on capital

Definition:

$$\frac{\text{Operating profit + technical rate of interest requirement for technical provisions + change in differences between current value and book value of investments}}{\text{average balance sheet for the period under review + average differences between current value and book value}}$$

Operating expenses

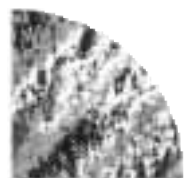
Operating expenses are expenses for insurance acquisition and management and general administrative expenses; reinsurance commissions are also included in operating expenses. Expenses for claims functions are included under claims incurred and investment function expenses are included under investment charges.

Expense ratio

In the key figures, operating expenses also include the costs for claims functions entered under claims incurred and depreciation on fixed assets. Similarly, total loadings includes all loading items.

Definition:

$$\frac{100 \times \text{operating expenses}}{\text{total loadings}}$$



For Security and Good Return

NOVA

International operations

Foreigners subscribed for shares in Finnish companies to an increasing extent and foreign company acquisitions increased in the year under review as did the number of Finns stationed abroad. As for life assurance, internationalization means new challenges and new competitive conditions.

Nova owns 15 percent of the stock of shares of Nordben Life and Pension Insurance Co Ltd. Nordben's primary objective is to underwrite insurance for citizens of the Nordic countries working abroad. Through its associate, MIA Office Europe S.C., Nova provides its multinational corporate clients with insurance coverage.

Claims incurred

Claims incurred during the financial year totalled FIM 631 million (FIM 538 million) and rose by 17 percent compared with 1996. At year end, the number of pensioners was 16 700 (15 500).

Claims of FIM 85 million (FIM 65 million) were paid under life assurance policies. The amount is 31 percent up on 1996. Pension payments were nine percent up on 1996 and amounted to FIM 449 million (FIM 413 million). Surrenders accounted for FIM 96 million (FIM 59 million) of claims.

Operating expenses and personnel

The company's total operating expenses increased by somewhat less than 10 percent, to FIM 75 million. In addition to the operating expenses entry in the profit and loss account, total operating expenses include administrative expenses for investments and claims

paid. In proportion to total assets, total operating expenses remained at the previous year's level, i.e. 0.8 percent. The entry "operating expenses" in the profit and loss account came to FIM 59 million, an increase of nine percent on the previous year. Compared with premiums written, operating expenses remained low, at five percent.

The company employed an average of 107 permanent staff during the year under review, against 97 in the previous year. The staff has been increased in response to new challenges facing the company and the management of the growing insurance portfolio. After the end of the financial year, the five employees of international operations joined Pension-Varma.

Some administrative, marketing and investment services were bought from Nova's partnership companies. Various data processing services were purchased from Oy Eläkesysteemi Ab, Octel Oy and Pension-Varma. These expenses are included under expenses for the function concerned.

Salaries and commissions paid to the Supervisory Board, Board of Directors and managing director totalled FIM 1 133 063 (FIM 1 105 081). Salaries and commissions paid to other staff amounted to FIM 23 352 853 (FIM 21 092 204). Salaries and commissions paid by the Group to the Supervisory Board, Board of Directors, managing director and house managers came to FIM 1 157 549. Other salaries and commissions paid to the staff by the Group totalled FIM 23 352 853.

Result and solvency

Profits for 1997, after taxes, provisions and client bonuses stood at FIM 132 million (FIM 37 million). Profits for the financial year include a FIM 27 million



In the financial period of 1997, a total of 10 percent of the technical provisions at the beginning of the year were used for the benefit of the clients. Funds have been set aside in the provision for future bonuses included in the technical provisions. These funds will finance client bonuses during the next three years.

mandatory entry of transitional provision. In addition, FIM 26 million in previously made depreciation exceeding scheduled depreciation was entered as income in connection with the hydro power plants. Return on investments proved to be good. The company's operating profit for the financial year was FIM 686 million, or FIM 460 million more than in 1996.

Nova's objective is to ensure that client bonuses in the long run will compensate as well as possible for inflation effects. In paying client bonuses, every effort will be made to ensure continuity and to avoid radical changes, should the level of interest rates change. The company will adapt to a new environment over a certain transition period. During the financial year, dropping interest rates were taken into account by setting aside, into the provision for future bonuses included in the technical provisions, part of the profit for the financial year. These funds will be used to finance client bonuses during the next three years.

In 1997, Nova credited a yield of 6.3 - 6.8 percent on technical provisions, depending on the class of insurance. This means that technical provisions were increased by an annual 2.0 - 2.2 percent or by altogether FIM 165 million in addition to the technical rate of interest. Of the profit for the financial year, FIM 307 million was reserved for future client bonuses. In the financial year, an additional provision of FIM 330 million was also set aside for the insured persons to provide future benefits required in view of the increased life expectation. The transfer was made without collecting any additional premiums. Of the profit for the financial year, a

total of some 10 percent of the technical provisions at the beginning of the year was used in favour of our clients.

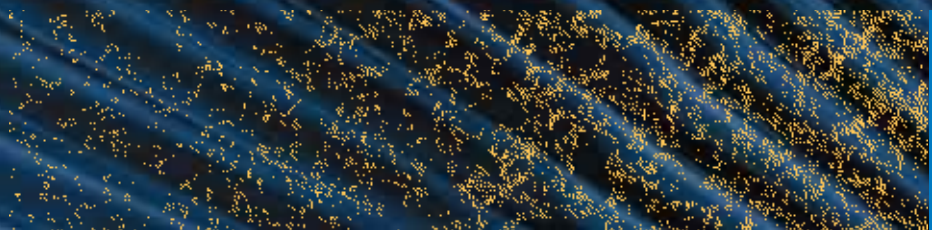
The company's technical provisions stood at FIM 9 985 million at the end of the financial year. The increase over the previous year was 14 percent.

In investments, risks have been spread in a manner meant to ensure that the company can meet the long-term solvency requirements set for life assurance companies. In practice, the company has aimed at a solvency which, on the average, equals some four times the minimum requirement under EU-regulations. Under EU-regulations, the minimum solvency requirement is four percent.

Nova's solvency improved significantly in the financial year. The company's solvency margin increased by 32 percent and totalled FIM 1 898 million at year end, i.e. FIM 459 million more than in 1996. The difference between current and book values of the investment portfolio



Nova's solvency improved significantly during the financial year. The solvency margin increased by 32 percent and totalled 19 percent of the technical provisions at the end of 1997.





increased by FIM 402 million. At year end, the solvency margin was 19.4 percent (16.9 percent) of technical provisions. The solvency margin, the equalization provision of the technical provisions and the provision for future bonuses together came to 22.4 percent (19.8 percent) of technical provisions at the end of 1997.

Group structure and ownership

Pension-Varma Mutual Insurance Co. Ltd. is the parent company of Nova Life Insurance Co.

The Nova Life Insurance Company is owned by Pension-Varma Mutual Insurance Co. Ltd. (50 percent), Industrial Insurance Company Ltd. (Sampo Group, 25 percent) and Enterprise Fennia Mutual Insurance Company (25 percent).

The Nova Life Insurance Co. Group includes 57 (57) Finnish housing and real estate companies, which are Nova subsidiaries.

Structural reform

In November 1997, Nova's owners reached a noteworthy agreement under which Sampo Insurance Company Limited will buy the 25 percent share of Nova owned by Enterprise Fennia Mutual Insurance Company, provided that the structural rearrangement agreed on in the same

connection between the employment pension insurers Pension-Varma and Pension-Sampo will materialize in 1998. This rearrangement is meant to lead to the establishment of Varma-Sampo Mutual Pension Insurance Company and Mutual Insurance Company Pension-Fennia. In this connection, Nova and Sampo Life will merge. The merger is scheduled to take place on December 31, 1998. The name of the new company will be Sampo-Life Insurance Company Limited. The ownership structure of the new company will be the following: Sampo Group 60 percent, the new Varma-Sampo Mutual Pension Insurance Company 35 percent and the Mutual Insurance Company Kaleva five percent. The policies of Enterprise Fennia Mutual Insurance Company's clients underwritten by Nova will be transferred as a partial portfolio transfer to a life assurance company to be established by Enterprise Fennia Mutual Insurance Company. The transfer will take place within one year of the implementation of the employment pension insurance arrangement, if Enterprise Fennia Mutual Insurance Company, at a later stage, insists on such a solution. The portfolio to be transferred represents

somewhat less than one tenth of Nova's total portfolio. The arrangement requires the consent of the Ministry of Social Affairs and Health. Until the demand referred to above has been made, the policies of Enterprise Fennia Mutual Insurance Company will be handled by Nova in accordance with previous practice.

The merger of Nova and Sampo Life is significant for the future of the two companies. The companies' main business areas supplement each other. Owing to the services provided to Pension-Varma's clients and as a close cooperation partner of a company underwriting employment pension insurance, Nova has become the leading group pension insurer in Finland. Sampo Life possesses thorough know-how as an underwriter of insurance for private individuals and small and medium-sized companies and as a provider of unit-linked insurance solutions. Both companies are financially very strong and they grant competitive client bonuses. At the end of the year under review, their total assets amounted to close on FIM 15 billion, while their combined premiums written stood at approximately FIM two billion.

Significant events that took place after the end of the financial year

After the end of the financial period, it was agreed that the Sampo Life Insurance Company Limited will be merged with Nova in the merger scheduled to take place on December 31, 1998. The name of the company will be Sampo Life Insurance Company Limited.

On February 12, 1998, Nova signed an agreement to sell 21 business properties to the listed company Kiinteistösi joitus Oy Citycon

at a purchase price of FIM 264 million. The transaction will take place at the beginning of March 1998. Following the deal, Nova will own 16 percent of Citycon.

Outlook

The most important objective for 1998 is to make sure that the merger of Nova and Sampo Life will turn out to be a success and to ensure that the new Sampo Life gets off to a good start at the beginning of 1999. In addition to daily business routines, the staffs of the two companies continue coordinating operations. Therefore, each company concentrates on its main business areas. Nova focuses its operations on underwriting group pension insurance for corporate clients, especially for key employees of those clients. As far as other classes of insurance are concerned, the company is concentrating on uniting the functions of Nova and Sampo Life and on getting acquainted with the products of the latter. Sampo Life's know-how in underwriting unit-linked insurance is being used in product development.

Amidst large changes, Nova has decided not to set up any growth targets for 1998 but is endeavouring to maintain its position as a remunerative market leader and forerunner in its key areas.

The insurance savings entrusted to Nova are invested in accordance with the policy pursued in previous years. Particular attention will be paid to the progress made in the EMU-process and every attempt will be made to adapt to possible changes in market conditions. In evaluating the return/risk ratios of the different items of property, the balance sheet structure of the new Sampo Life will be taken into account.



The most important objective for 1998 is to make sure the merger of Nova and Sampo Life will turn out to be a success and to ensure that the new Sampo Life will get off to a good start at the beginning of 1999.





Company administration

At the Annual General Meeting on April 4, 1997, the following members of the Supervisory Board due to resign were re-elected until the AGM to be held in 2000: Messrs Gösta Engman, Mikael von Frenckell, Matti Ilmari, Veikko Kasurinen and Juhani Pohjolainen.

Mr Jan Heikkilä who had resigned, was replaced until the AGM in 1998, the end of his term of office, by Mr Mauri Jaakonaho.

At an extraordinary shareholders' meeting on May 29, 1997, the number of Supervisory Board members was set at 16. Since the number of members was increased by one, Mr Matti Honkala was elected a member. His term of office will expire at the AGM to be held in 2000.

The composition of the Supervisory Board is thus: Messrs Gösta Engman, Mikael von Frenckell, Matti Honkala, Henrik Höglund, Matti Ilmari, Mauri Jaakonaho, Jussi Järventaus, Veikko

Kasurinen, Jouko Kemppe, Eero Lehti, Juhani Mustamo, Pekka Niemi, Carl G. Nordman, Jalo Paananen, Juhani Pohjolainen and Ossi Virolainen.

Mr Ossi Virolainen was elected chairman of the Supervisory Board and Mr Matti Ilmari vice-chairman, both until the AGM to be held in 1998.

The present members of the Board of Directors, Messrs Kari Elo, Ralf Lehtonen, Jouko K. Leskinen, Paavo Pitkänen, Kari Stadigh and Asko Tanskanen and the deputy members, Messrs Matti Niemi, Matti London and Juha Toivola, have been elected until the AGM to be held in 1999.

Mr Paavo Pitkänen was chairman of the Board of Directors and Mr Jouko K. Leskinen was vice-chairman.

Board proposal for disposal of the profit


The non-restricted capital and reserves of the Nova Life Insurance Company,

which include a surplus of FIM 132 204 444.83 for the financial year, totalled FIM 272 284 615.35. According to the consolidated financial statements, non-restricted capital and reserves amounted to FIM 262 873 954.50.

The Board proposes that the non-restricted capital and reserves shown in the balance sheet be distributed as follows:

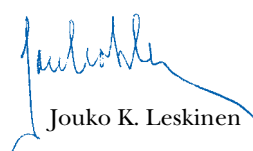
Dividend, 35 percent on share capital
FIM 21 875 000.00.
To the profit and loss account
FIM 250 409 615.35.

Helsinki, February 27. 1998


Paavo Pitkänen



Kari Elo


Ralf Lehtonen


Jouko K. Leskinen


Asko Tanskanen


Kari Stadigh
managing director


Jorma Leinonen
Deputy managing director
Chief actuary

Auditor's report

To the shareholders of Nova Life Insurance Company

We have audited the books, annual accounts and administration of Nova Life Insurance Company for the financial year of January 1 to December 31, 1997. The annual accounts drawn up by the Board and the managing director include an annual report, a profit and loss account, a balance sheet, and notes to the accounts for the Group and the parent company. On the basis of our audit, we make the following report on the annual accounts and administration.

Risto Järvinen, Authorized Public Accountant, assisted by the Tilintarkastajien Oy - Ernst & Young, Authorized Public Accounting Firm, has monitored the bookkeeping and administration during and after the financial year. A separate report on this audit has been submitted.

The audit was performed according to generally accepted auditing standards. The company's books and the accounting principles and presentation of the annual

accounts were studied on a sufficient scale to determine that the accounts do not contain any material errors or defects. The audit of the administration confirmed that the Supervisory Board, Board of Directors and managing director have acted in accordance with the provisions of the Insurance Companies Act and The Companies Act.

It is our opinion that the annual accounts were drawn up in accordance with the Accounting Act and other relevant provisions and regulations. The accounts give a true and fair view of the result and financial position of the Group and the parent company, within the meaning of the Accounting Act. We recommend that the annual accounts and consolidated accounts can be approved and that the members of the Supervisory Board and the Board of Directors and the managing director can be discharged from liability for the financial period under audit. The Board proposal for the disposal of non-restricted capital and reserves is in accordance with the Insurance Companies Act.

Helsinki, March 11. 1998



Risto Järvinen
Authorized Public Accountant



Per-Olof Johansson
Authorized Public Accountant



Ritva Saari
Authorized Public Accountant

Statement of the Supervisory Board

Having examined the annual accounts, the consolidated accounts, and the auditors' report, the Supervisory Board of Nova Life Insurance Company recommends that the accounts be approved, and concurs with the Board proposal for disposal of the profit.

Helsinki, March 31. 1998
For the Supervisory Board



Ossi Virolainen, *chairman*

Head office of new Sampo Life taking shape in a factory setting on the Sinebrychoff site

To move into spacious, light premises is an ideal way for Sampo Life to get off to a good start. The renovation of the historically valuable and protected factories in the Sinebrychoff city block is proceeding rapidly. Work is scheduled to be completed in early 1999 after which the company will move into the new premises.

New Sampo Life and Varma-Sampo supplement the Group

The present Sampo Life and Nova will merge at the turn of 1998/1999. In connection with the structural reform of employment pension insurance scheduled to take place in the summer of 1998, Pension-Varma and Pension-Sampo will join forces and form Varma-Sampo. The reform will bring about a clear-cut division of operations. In their particular areas, the new companies supplement the Sampo-Varma Group. Competition will be more distinct since Enterprise Fennia Mutual Insurance Company, which previously used the services of Nova and Pension-Varma,

will form a separate life and employment pension insurance group.

Clients already benefit from cooperation between Nova and Sampo Life

Two successful life assurance companies supplementing each other have already started joining forces. The experiences of supplementary employment pension coverage and group pension solutions for corporate managements accumulated by Nova over a period of ten years is right away at the disposal of the entire Sampo Group. Sampo Life, on its part, will supplement Nova's know-how as an insurer of individuals and small and medium-sized companies and as an underwriter of unit-linked insurance. The staffs of the two companies and their extensive field organizations are already working for the benefit of their common objectives.

Know-how and solvency ensure continuous growth

The recent history of life and pension insurance is characterized by rapid growth. The merger and a company stronger than ever will ensure continuous growth and the ability to face international challenges. The new



To restore a factory is a great challenge both from the viewpoint of architecture and of construction engineering. Shortly after work had begun, the managing director of the new Sampo Life, Mr Kari Stadigh, and deputy managing director, Mr Matti Rantanen, visited the site.



SAMPO LIFE
TO MERGE WITH
NOVA IN 1999



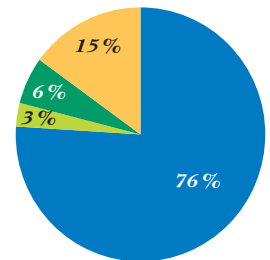
SAMPO LIFE

Sampo Life will immediately aim to become the market leader. The combined assets of Nova and Sampo Life totalled close on FIM 15 billion at the end of 1997. The solvency ratio, solvency margin in proportion to technical provisions, was some 20 percent. Top-level solvency and specialization in investing pension liabilities provide and will continue to provide the most important competitive edge, namely a continuous good return on the clients' insurance investments.

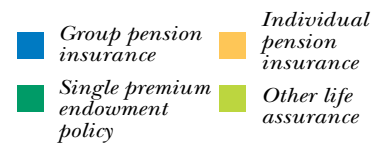
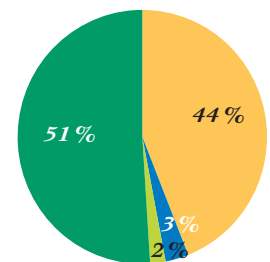
The know-how and solvency of two successful companies will be combined in new Sampo Life.

Premiums written

NOVA
Total FIM 1 081 million

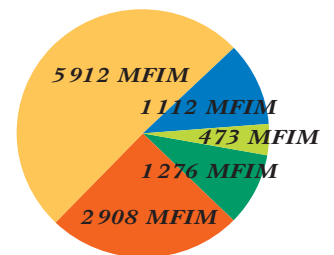


Sampo Life
Total FIM 1 136 million

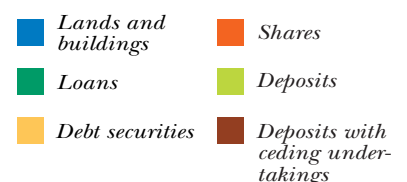
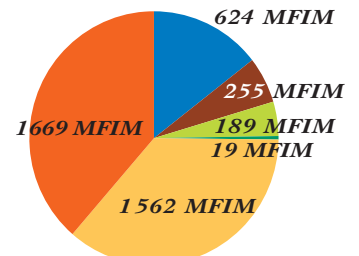


Current value of investments

NOVA
Total FIM 11 681 million



Sampo Life
Total FIM 4 318 million



Like Nova, Sampo Life produced an excellent result for 1997 both in insurance and investments. Premiums written totalled FIM 1 136 million. Net investment income was FIM 323 million. The grand total of the balance sheet was FIM 4 389 million and solvency ratio 16.1 percent



The people behind the performance

Supervisory Board

Chairman
Ossi Virolainen,
Deputy Chief
Executive
Outokumpu Oyj

Vice-chairman
Matti Ilmari,
Chief Executive Officer
ABB Oy Group

Mikael von Frenckell,
Chairman of the Board
Tamfelt Corp.

Gösta Engman,
Executive Vice
President
RAUTARUUKKI OYJ

Matti Honkala,
Senior Executive
Vice President
Kesko Corporation

Henrik Höglund,
Chief Executive
Officer
KWH Group Ltd

Mauri Jaakonaho,
Executive Vice
President
Valmet Corporation

Jussi Järventaus,
Managing Director
Federation of Finnish
Enterprises

Veikko Kasurinen,
Senior Vice President
and CFO
Alko Group Ltd

Jouko Kemppe,
Managing Director
Kemppe Oy

Eero Lehti,
Chairman
of the Board
Taloustutkimus Oy

Juhani Mustamo,
Managing Director
Savon Voima Oy

Pekka Niemi,
Managing Director
Kuntoutusyhtymä -
Rehab Group

Carl G. Nordman,
Managing Director
Oy Aga Ab

Jalo Paananen,
Chairman of the
Board
Makron Oy

Juhani Pohjolainen,
Deputy Managing
Director
Enso Oyj

Board of Directors

Chairman
Paavo Pitkänen
Managing Director
Pension Varma
Mutual Insurance
Company

Vice-Chairman
Jouko K. Leskinen
Chief Executive
Officer
Sampo Insurance
Company Ltd

Managing Director
Kari Elo,
Enterprise-Fennia
Mutual Insurance
Company

Director
Ralf Lehtonen,
Pension Varma
Mutual Insurance
Company

Managing Director
Kari Stadigh, Nova
Life Insurance
Company Ltd

Deputy Managing
Director
Asko Tanskanen,
Pension Varma
Mutual Insurance
Company

Deputies:

Deputy Managing
Director
Matti London,
Enterprise-Fennia
Mutual Insurance
Company

Deputy Managing
Director
Matti Niemi,
Pension Varma Mutual
Insurance Company

President
Juha Toivola,
Industrial Insurance
Company Ltd

Directors

Kari Stadigh,
Managing Director

Jorma Leinonen,
Deputy Managing
Director, Chief Actuary

Lars Bergström,
Director

Hannele Relander,
Director

Esa Lomma,
Director

Timo Hukka,
Director

Ulla Kangas,
Director



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NOVA