



Mutual Insurance Company Pension-Fennia **2000**

Managing Director's Review

Satisfactory result for the year

The year under review was the second complete year of operations for Pension Fennia, and the launching of the company's operations can now be considered successfully completed. The number of insured grew rapidly during the year. At the end of 2000, our company had insured 107,600 TEL employees, a 6.6 per cent increase on previous year. The total number of insured at year end was 126,400. The growth exceeded the average in the sector, partly due to the focus of our portfolio on small and medium-sized companies, where the growth of employment has been most marked in the past year or so. In addition, transfer transactions, i.e. portfolio changes in terms of insurance policies and insured persons transferred from one pension insurance company to another, has been positive for three consecutive years now and this has also added to the number of insured.

The company's solvency is good. The solvency margin in proportion to technical provisions was 24.3 per cent at year end, compared with less than 20 per cent at the time we started operating. However, the collapse of stock market prices lowered our solvency from the high level reached at the end of 1999, thanks mainly to the exceptionally positive development of share prices during the year.

The slow development of the stock market also meant that the investment result was well below the record performance of 1999. In terms of other investments, our investment result was up to or exceeded the average for the sector.

The solvency margin accumulated by pension insurance companies has made it possible to increase the risks taken in investment activities. During a rather short period of time, it has become clear that investments in shares can have a major impact on the company's performance. For the management of pension funds, it is important that Pension Fennia's solvency remains good

and that the long-term yield on the funds will improve with the increased risks. Fluctuations in the results for different years can further be reduced by spreading the investments.

Clarity a continuous challenge

When I leave my post at the beginning of June, exactly 37 years will have elapsed since my first employment within the earnings-related pension scheme, which at that time had existed for only two years. This scheme had been created in collaboration by three parties: the state and the social partners, i.e. the employees and the employers. This three-party system has worked excellently, and the different interests of the three parties have suitably emphasised the different aspects of the system.

The challenges for the future relate on one hand to the need to simplify the system, and on the other hand to ensuring the profitability and security of the investment activities in a changing and increasingly complex investment environment. To ensure successful management of investment activities, all the pension institutions will need to give them greater attention and care. The resources of the smallest players, in particular, will be put to the test in the intensifying competition that is already in progress.

I should like to thank Pension Fennia's clients for the trust they have shown in our company and our employees for their invaluable contribution to launching the company's operations. I also wish to thank the numerous people with whom I have co-operated in the course of my work for the earnings-related pension scheme over the years.

Risto Kausto

Auditors' Report

To the Shareholders of Mutual Insurance Company Pension-Fennia

We have audited the accounting records, the financial statements, and the administration of Mutual Insurance Company Pension-Fennia for the financial year 1 January - 31 December 2000. The financial statements, which include the report of the Board of Directors, consolidated and parent company income statements, balance sheets and notes to the financial statements, were prepared by the Board of Directors and the Managing Director. Based on our audit we submit the following statement on the financial statements and the administration of the company.

The undersigned Risto Järvinen, Authorised Public Accountant, has been responsible for scrutinising the accounts and administration during the financial year and after the end of the year and has submitted a separate report thereon.

We have conducted the audit in accordance with good auditing practice. This means that the accounts and the accounting principles, contents and mode of presentation have been examined to an extent sufficient to establish that the essential parts of the financial statements have been

correctly drawn up. The purpose of the audit of administration has been to examine the compliance of the operations of the Supervisory Board, the Board of Directors and the Managing Director with the provisions of the Act on Employment Pension Insurance Companies, the Insurance Companies Act and the Finnish Companies Act.

The financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company result of operations, and of their financial position. We recommend that the financial statements, including the consolidated financial statements, can be adopted and the Supervisory Board, the Board of Directors and Managing Director of the parent company can be released from liability for the period audited by us. The proposal by the Board of Directors on how to dispose of the surplus is in compliance with the Insurance Companies Act.

Helsinki, April 2nd, 2001

Risto Järvinen
Authorised Public Accountant

Kristian Hallbäck
Authorised Public Accountant

Profit and Loss Account, Pension Fennia**PROFIT AND LOSS ACCOUNT**

1 Jan. to 31 Dec., 2000

FIM m	Parent Company		Group	
	2000	1999	2000	1999
Technical Account				
Premiums written	3 209.3	2 972.6	3 209.3	2 972.6
Investment income	2 466.2	1 487.6	2 457.3	1 470.1
Paid to guarantee fund	-37.5	-30.9	-37.5	-30.9
Claims incurred				
Claims paid	-2 605.3	-2 418.4	-2 605.3	-2 418.4
Total change in the provision for outstanding claims	-712.4	-404.7	-712.4	-404.7
	-3 317.7	-2 823.1	-3 317.7	-2 823.1
Change in the provision for unearned premiums	-1 426.6	-1 163.1	-1 426.6	-1 163.1
Change in uncovered liabilities				
Obligatory uncovered liabilities	-34.7	-47.6	-34.7	-47.6
Statutory charges	-3.2	0.7	-3.2	0.7
Net operating expenses	-75.8	-80.4	-74.2	-80.4
Investment charges	-797.3	-341.3	-803.0	-340.3
Technical underwriting result/balance	-17.3	-25.6	-30.3	-42.1
Non-Technical Account				
Closing entries				
Change in depreciation difference	38.4	38.4		
Change in optional reserves	38.2	37.8		
Income tax				
Tax for the financial year	-12.8	-7.7	-12.8	-7.7
Deferred tax			11.4	10.4
	-12.8	-7.7	-1.5	2.7
Share of associated undertakings' profit			25.5	2.1
Minority interest in the profit for the financial year			-1.9	-2.2
Profit/loss for the financial year	8.1	4.5	-4.3	-35.1

Balance Sheet, Pension Fennia

BALANCE SHEET	Parent Company		Group	
FIM m	2000	1999	2000	1999
ASSETS				
Intangible assets				
Intangible rights	0.8	1.1	0.8	1.1
Other long-term expenses	3.8		3.8	
	4.6	1.1	4.6	1.1
Investments				
Investments in land and buildings				
Land and buildings	1 290.0	1 418.5	2 042.3	2 143.1
Loans to affiliated undertakings	745.4	714.6		
Loans to affiliated real estate companies				32.1
	2 035.3	2 133.1	2 042.3	2 175.2
Investments in affiliated and associated undertakings				
Shares and participations in affiliated undertakings	99.4	60.0		
Shares and participations in associated undertakings			126.7	62.1
Other investments				
Shares	4 322.4	3 091.7	4 325.9	3 095.5
Debt securities	11 204.8	9 935.7	11 204.8	9 935.7
Loans guaranteed by mortgages	637.2	616.4	637.2	616.4
Other loans	891.1	996.9	891.1	996.9
Deposits with credit institutions	20.0	72.6	20.0	72.6
	17 075.6	14 713.3	17 079.0	14 717.0
	19 210.2	16 906.4	19 248.0	16 954.3
Uncovered liabilities				
Obligatory uncovered liabilities		34.7		34.7
Debtors				
Arising out of direct insurance operations				
Policyholders	191.6	215.3	191.6	215.3
Other debtors				
Affiliated undertakings	0.2	1.7		
Associated undertakings			0.2	1.7
Affiliated real estate companies	9.0	31.4		
Group companies	1.1		1.1	
Arising out of portfolio transfer	151.0	215.7	151.0	215.7
Other debtors	205.3	44.5	205.7	43.4
	558.2	508.5	549.6	476.0
Other assets				
Tangible assets				
Equipment	13.1	13.2	13.8	13.4
Other tangible assets	2.0	1.8	2.0	1.8
	15.1	15.0	15.8	15.2
Cash at bank and in hand	25.5	9.5	26.3	10.3
	40.7	24.5	42.1	25.4
Prepayments and accrued income				
Interest and rents	334.6	377.8	334.6	377.8
Other	180.5	216.0	183.4	220.7
	515.1	593.8	518.0	598.5
	20 328.8	18 069.0	20 362.3	18 090.1

Balance Sheet, Pension Fennia

BALANCE SHEET	Parent Company		Group	
	FIM m	2000	1999	2000
LIABILITIES				
Capital and reserves				
Initial fund	20.0	20.0	20.0	20.0
Guaranteed capital	10.0	10.0	10.0	10.0
Revaluation reserve	30.0	30.0	2.5	2.5
			32.5	32.5
Non-restricted reserves	79.7	75.8	79.7	75.8
Profit brought forward	0.2	0.2	4.2	44.7
Profit for the financial year	8.1	4.5	-4.3	-35.1
	88.0	80.5	79.6	85.4
	118.0	110.5	112.1	117.9
Minority interest				
			62.6	64.1
Untaxed reserves				
Depreciation difference	1.0	0.8		
Optional reserves	38.4	76.9		
	39.4	77.7		
Technical provisions				
Provision for unearned premiums	13 263.0	11 836.3	13 263.0	11 836.3
Provision for outstanding claims	6 607.2	5 894.8	6 607.2	5 894.8
	19 870.2	17 731.1	19 870.2	17 731.1
Creditors				
Arising out of direct insurance operations	8.2	8.2	8.2	8.2
Amounts owed to credit institutions	0.1	0.2	0.1	0.2
Deferred tax			16.1	26.5
Other creditors	224.0	74.6	222.3	73.2
	232.4	83.0	246.7	108.1
Accruals and deferred income				
	68.8	66.7	70.7	68.9
	20 328.8	18 069.0	20 362.3	18 090.1