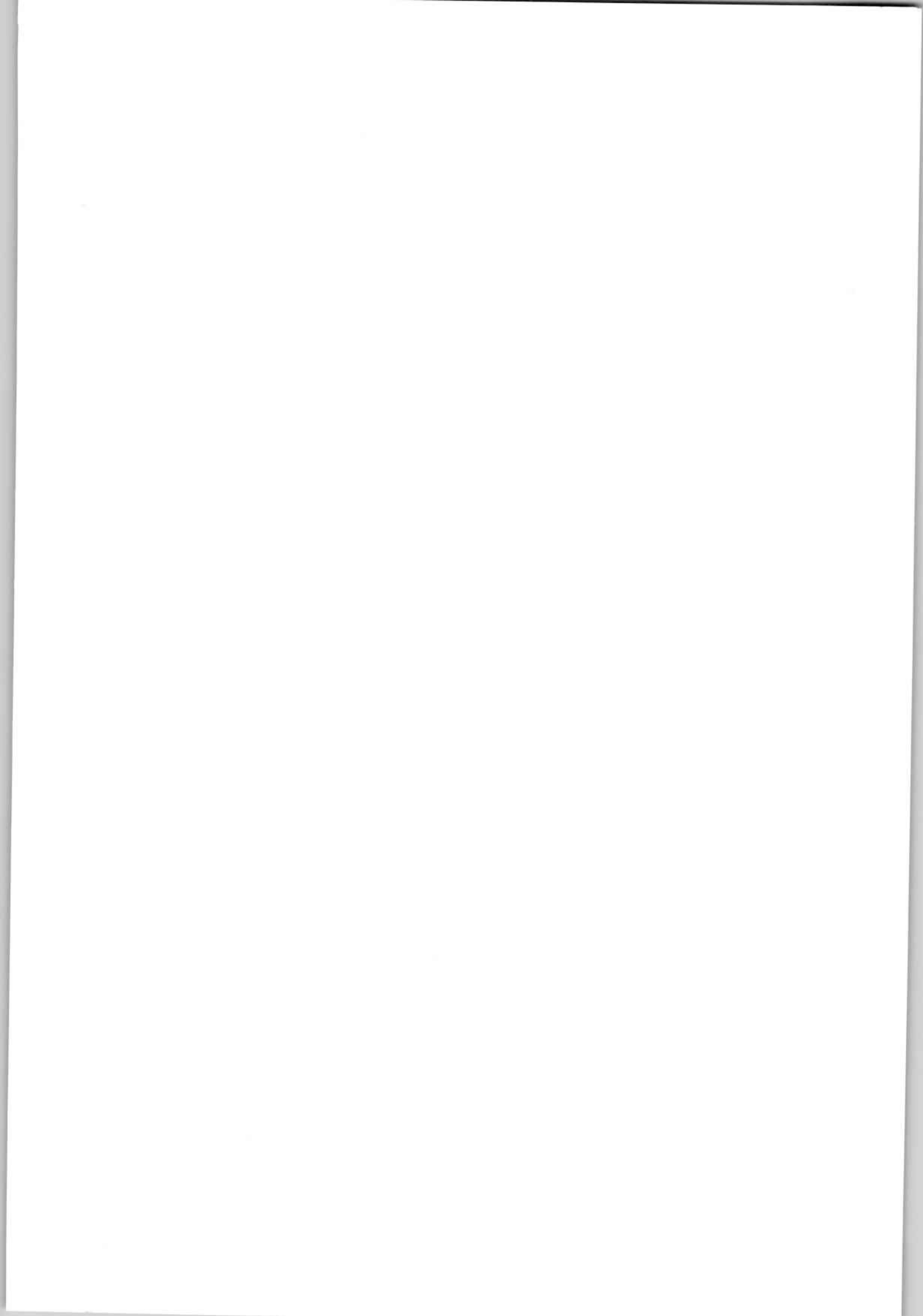


Kansa General Insurance Company Ltd

1985

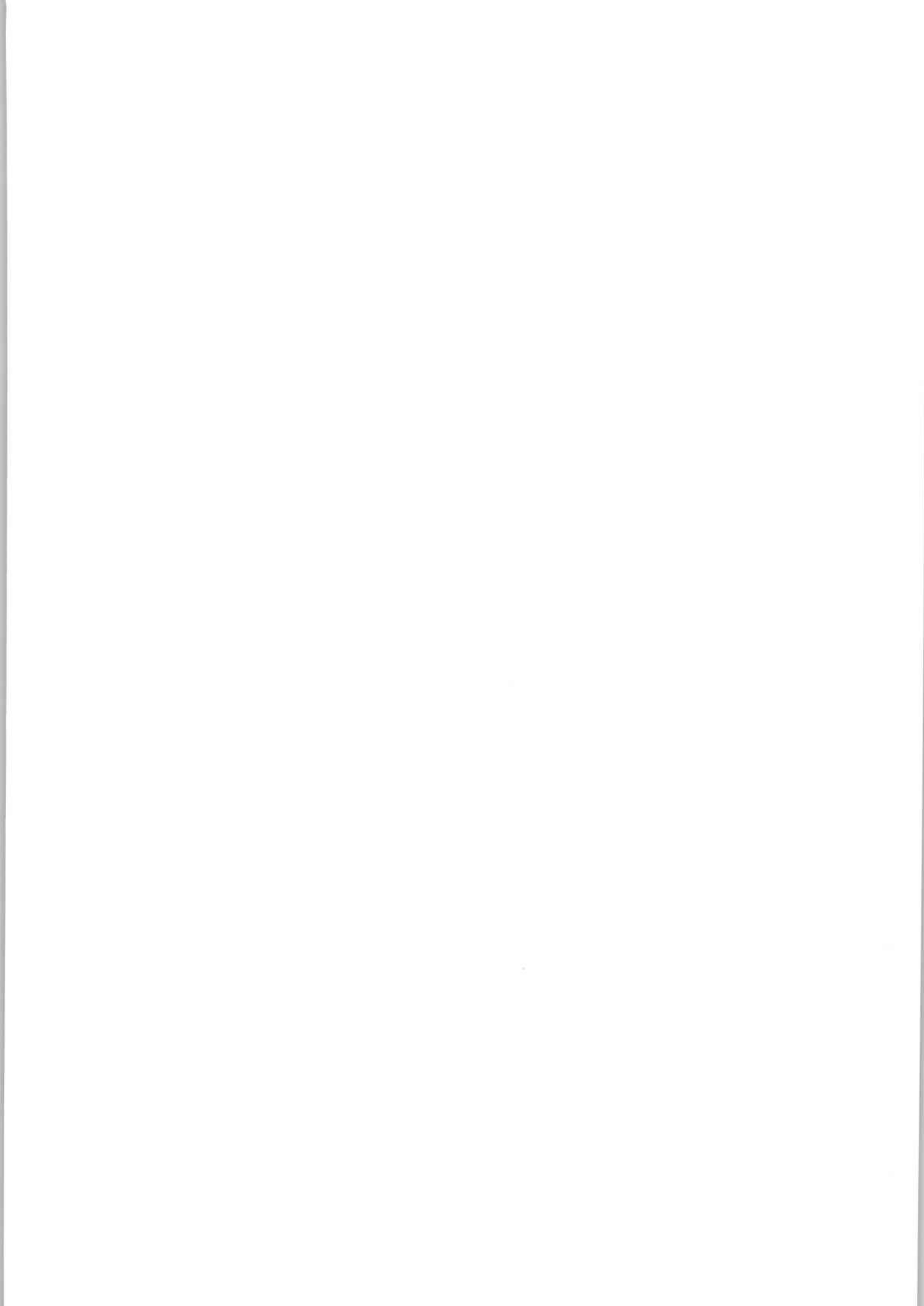




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FIM 100 = \$ 18 = £ 13



Kansa General Insurance Company Ltd Annual Report 1985

OPERATIONS REVIEW

The year under review was the 66th for the Company. The Company's capital stock was increased from FIM 100 million to FIM 117.5 million. Kansa Life Insurance Company Ltd owns 50 percent of the capital stock, Kansa Corporation Ltd 33.6 percent, Kansa Pension Insurance Company Ltd 7.8 percent, Haka Construction Cooperative 5.3 percent and Eka Co-op 3.2 percent. The Company is a subsidiary of Kansa Corporation Ltd.

In the Group, Kansa General is engaged in general insurance and reinsurance in Finland and abroad. The Company's international insurance and domestic reinsurance are managed by Kansa Reinsurance Company Ltd within the framework of an internal division of labor.

PREMIUMS WRITTEN

The table below shows the trend in premiums written for the different classes of insurance and as a whole:

FIM million	Premiums written Change		
	1985	1984	%
Workers' compensation	57.6	63.2	— 8.8
Other accident	43.5	35.1	23.9
Fire	30.8	27.5	12.3
Homeowners' comprehensive	97.1	85.2	13.9
Motor third party liability	129.5	117.7	10.0
Motor physical damage	64.8	55.7	16.3
International direct	193.5	223.5	—13.4
Miscellaneous	26.4	22.8	15.8
Direct insurance	643.2	630.7	2.0
Reinsurance assumed	429.4	263.2	63.1
Total	1,072.6	893.9	20.0
Reinsurance ceded	73.3	125.9	—41.8
Premiums retained	999.3	768.0	30.1

The Company's retention was 93 percent, as opposed to 86 percent the previous year.

Gross premiums earned totaled FIM 967.4 million.

Premiums from direct insurance rose 2.0 percent.

The growth in domestic direct insurance was 10.4 percent.

There was rapid growth in other accident insurance, homeowners' comprehensive and motor physical damage insurance. Premiums were reduced

in workers' compensation and international direct insurance.

The premiums for assumed reinsurance increased by 63.1 percent.

CLAIMS INCURRED

Claims incurred, totaled FIM 801.1 million.

The loss ratio improved in workers' compensation and other accident, in motor third party liability and in fire insurance. In fire insurance there was one fire during the year in which losses of FIM one million were sustained. The losses sustained in a fire in the Helsinki Labor Hall on December 10, 1985 amounted to FIM 1.3 million.

The loss of ratio in motor physical damage and homeowners' comprehensive insurance deteriorated during the year because of two storms and severe winter cold.

INTERNATIONAL INSURANCE

After sustaining considerable losses for a number of years, the Company's international operations began to show a profit. The Company's international business was managed under contract by its sister company, Kansa Reinsurance, which both underwrote insurance directly in the Company's name and retroceded some of its own business in the Company. Overall, the Company sustained a loss on this business, although when the investment income related to the business is taken into account, the result was satisfactory.

Of the Company's international branch offices, Canada turned in a good performance and Hong Kong a satisfactory one. The third branch office in France only began operations during the year under review. No conclusions about its success can be drawn at this point.

OPERATION EXPENSES

Operating expenses amounted to FIM 289.5 million; growth from the previous year amounted to 21.7 percent. Operating expenses incurred in international insurance totaled FIM 91.4 million and were included under that heading in the income statement. Operating expenses incurred in domestic direct insurance rose by 29.7 percent, or relatively more quickly than premiums written. The growth in operating expenses was due in part to improved service and to a stepped-up effort in marketing. Measures to curb rising operating expenses have been undertaken.

PERSONNEL AND SALARIES

The Company employed a staff of 309 on average during 1985.

Salaries and remunerations totaling FIM 35,032,000 were paid, of which the Board of Directors and President accounted for FIM 358,000.

Domestic marketing staff were transferred from Kansa General to the Kansa Corporation on January 1, 1985. This led to a major shift of operating expenses from salaries and social expenses to other operating expenses.

SOLVENCY MARGIN

The solvency ratio, which is calculated on the book values and market prices, is the ratio of the Company's net assets to premiums retained before deduction of reinsurance commissions, showed the following trend:

FIM million	1985	1984	1983	1982
Net premiums written	996	808	519	448
Shareholders' equity	352	289	184	95
Equalization fund	116	110	153	226
Provisions	20	18	14	11
Total	488	417	351	332
Of net premiums written	49 %	52 %	68 %	74 %
Valuation differences	99	127	175	181
Total	587	544	526	513
Of net premiums written	59 %	67 %	101 %	115 %

In assessing the above solvency margin, it should be borne in mind that shareholder's equity was increased with FIM 270 million in preferred stock, which was subscribed entirely by Kansa Corporation and

APPRECIATION

Appreciation of FIM 48.4 million on investment assets was entered during the year.

INVESTMENT

Realized investment income excluding appreciation was FIM 93.8 million. The decline from the previous year was 19.4 percent. This income includes sales profits on investment assets of FIM 8.3 million.

The investment assets of Kansa General stood at FIM 1,062.9 million at the end of the year. Real estate and shares therein accounted for FIM 516.8 million, loans for FIM 276.0 million and domestic and foreign bonds for FIM 179.2 million.

OTHER FACTORS AFFECTING FINANCIAL PERFORMANCE

Depreciation totaling FIM 6.1 million was made on investments and fixed assets, while the maximum depreciation permitted under the Business Taxation Act was FIM 8.7 million.

The increase in the reserve for bad debts was FIM 2.3 million.

The equalization fund increased by FIM 6.3 million and stood at FIM 116.2 million at the end of the year under review.

The stock of HGIC Corporation owned by the Company was sold to Kansa Reinsurance Company Limited. The sale realized a profit of FIM 6.9 million included in the sundry revenues of the income statement.

entered in the trade registry on March 13, 1986.

The financial performance of Kansa General and the Company's financial position are shown in the income statement and balance sheet presented below.

Income statement

January 1 — December 31, 1985

	1985	1984
Premiums written		
Direct insurance	+ 643,133,447.65	+ 630,654,462.88
Reinsurance assumed	+ 429,423,005.36	+ 263,224,918.56
	<u>+ 1,072,556,453.01</u>	<u>+ 893,879,381.44</u>
Credit loss on premiums	— 4,022,513.00	— 2,681,198.00
Investments		
Revenues	+ 271,335,531.06	+ 205,582,058.13
Expenses	— 177,567,563.42	— 89,252,689.12
Appreciation of investments	+ 48,400,000.00	+ 96,600,000.00
	<u>+ 142,167,967.64</u>	<u>+ 212,929,369.01</u>
Change in unearned premiums	— 105,135,880.00	— 89,709,590.00
Underwriting revenues	+ 1,105,566,027.65	+ 1,014,417,962.45
Claims incurred		
Claims paid	— 592,098,504.51	— 532,626,326.43
Change in claims reserve	— 215,369,720.00	— 219,009,030.00
	<u>— 807,468,224.51</u>	<u>— 751,635,356.43</u>
Underwriting margin	+ 298,097,803.14	+ 262,782,606.02
Reinsurers' share of		
Premiums	— 73,300,628.53	— 125,945,199.36
Change in unearned premiums	+ 71,086,950.00	+ 28,994,670.00
Claims paid	+ 50,684,617.05	+ 95,828,519.68
Change in claims reserve	— 38,851,060.00	+ 11,573,180.00
	<u>+ 9,619,878.52</u>	<u>+ 10,451,170.32</u>
Net underwriting margin	+ 307,717,681.66	+ 273,233,776.34
Operating expenses		
Salaries and fees	— 35,032,163.68	— 60,397,935.78
Social expenses	— 9,353,887.42	— 12,406,055.90
Other items	— 245,107,859.92	— 164,970,740.99
	<u>— 289,493,911.02</u>	<u>— 237,774,732.67</u>
Operating profit before depreciation	+ 18,223,770.64	+ 35,459,043.67
Depreciation		
On investments	— 1,450,711.00	— 2,240,670.00
On fixed assets	— 4,665,753.06	— 6,388,655.02
	<u>— 6,116,464.06</u>	<u>— 8,629,325.02</u>
Operating profit	+ 12,107,306.58	+ 26,829,718.65
Sundry revenues	+ 8,475,986.48	+ 2,796,015.07
Sundry expenses	— 740,665.50	— 16,515.43
Change in provisions		
Credit loss reserve	— 2,262,707.18	— 3,560,137.09
Advance expense entry	—	—
	<u>— 2,262,707.18</u>	<u>— 3,560,137.09</u>
Direct taxes	— 4,332,155.85	— 6,046,711.90
Net profit	+ 13,247,764.53	+ 20,002,369.30

Balance sheet

December 31, 1985

ASSETS

	1985	1984
Financial assets		
Cash and balances in banks	102,307,185.90	221,768,236.53
Reinsurance receivables		
Unearned premiums	172,574,870.00	101,487,920.00
Claims reserve	95,303,630.00	134,154,690.00
Deposits	30,322,523.15	39,832,711.89
Other receivables	287,377,614.69	134,772,116.50
	<u>585,578,637.84</u>	<u>410,247,438.39</u>
Accrued credits and deferred charges		
Premiums	107,384,927.00	98,392,876.00
Interest	15,802,554.30	17,208,516.96
Other items	71,949,352.93	2,330,257.86
	<u>195,136,834.23</u>	<u>117,931,650.82</u>
Other financial assets		
Short-term receivables	73,299,950.05	155,821,575.96
Other receivables	43,413,207.35	156,236,670.16
	<u>116,713,157.40</u>	<u>312,058,246.12</u>
	<u>999,735,815.37</u>	<u>1,062,005,571.86</u>
Investment assets		
Commercial loans	276,044,198.61	420,482,700.83
Bonds	179,188,770.16	136,550,604.98
Stocks and shares	80,384,934.66	83,520,870.65
Real estates and shares therein	468,445,500.41	316,515,918.25
Appreciation	48,400,000.00	96,600,000.00
	<u>516,845,500.41</u>	<u>413,115,918.25</u>
Other investment assets	10,460,950.65	4,849,844.36
	<u>1,062,924,354.49</u>	<u>1,058,519,939.07</u>
Fixed assets		
Stocks and shares	208,492,590.67	197,059,872.42
Appreciation	—	21,000,000.00
	<u>208,492,590.67</u>	<u>218,059,872.42</u>
Real estates and shares therein	98,569,327.17	78,800,253.75
Furniture and fixtures	7,406,100.00	8,328,100.00
Other fixed assets	4,970,812.29	4,678,781.92
	<u>319,438,830.13</u>	<u>309,867,008.09</u>
	<u>2,382,098,999.99</u>	<u>2,430,329,519.02</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

	1985	1984
Liabilities		
Reinsurance payables		
Deposits	31,203,706.65	376,576,609.10
Other items	19,478,831.16	136,524,784.71
	<u>50,682,537.81</u>	<u>513,101,393.81</u>
Accrued charges and deferred credits		
Prepaid premiums	5,742,210.00	206,680.00
Other items	48,754,793.02	35,331,519.91
	<u>54,497,003.02</u>	<u>35,538,199.91</u>
Other debts		
Pension loans	23,897,564.70	22,544,433.00
Other items	68,547,586.36	60,750,255.91
	<u>92,445,151.06</u>	<u>83,294,688.91</u>
Underwriting reserves		
Unearned premiums	493,560,710.00	388,424,830.00
Claims reserve	1,318,696,790.00	1,103,327,070.00
	<u>1,812,257,500.00</u>	<u>1,491,751,900.00</u>
	<u>2,009,882,191.89</u>	<u>2,123,686,182.63</u>
Provisions		
Credit loss reserve	17,333,700.00	15,070,992.82
Advance expense entry	2,616,349.49	2,616,349.49
	<u>19,950,049.49</u>	<u>17,687,342.31</u>
Shareholders' equity		
Appropriated		
Common stock	117,500,000.00	100,000,000.00
Contingency fund	158,857,765.36	106,357,765.36
Appreciation fund	62,069,193.36	62,069,193.36
	<u>338,426,958.72</u>	<u>268,426,958.72</u>
Unappropriated		
Profit brought forward	592,035.36	589,666.06
Net profit for the period	13,247,764.53	20,002,369.30
	<u>13,839,799.89</u>	<u>20,592,035.36</u>
	<u>352,266,758.61</u>	<u>289,018,994.08</u>
	<u>2,382,098,999.99</u>	<u>2,430,392,519.02</u>

Statements of changes in financial position

Funds provided	1985	1984
Operating profit	18,223,770.64	35,459,043.67
Sundry revenues and expenses	7,735,320.98	2,779,499.64
Change in underwriting reserves	320,505,600.00	308,718,620.00
Change in other liabilities	—434,309,590.74	421,632,118.15
Change in shareholders' equity	70,000,000.00	80,000,000.00
	<u>— 17,844,899.12</u>	<u>848,589,281.46</u>
 Funds used	 1985	 1984
Change in financial assets	— 62,269,756.49	463,191,022.84
Change in investment assets	5,855,126.42	323,575,229.37
Change in fixed assets	14,237,575.10	39,776,317.35
Distribution of profit	24,332,155.85	22,046,711.90
	<u>— 17,844,899.12</u>	<u>848,589,281.46</u>

Notes to the financial statements

The financial statements for the previous year were regrouped to correspond to the statements for 1985 which were drawn up in accordance with the accounting principles issued by the Ministry of Social Affairs and Health.

Receivables and payables were converted to Finnish money at the official buying rate of the Bank of Finland in effect on the day the books were closed.

SPECIFICATION OF PREMIUMS

Direct insurance	1985	1984
Workers' compensation	57,613,585.37	63,186,441.04
Other accident	43,522,565.93	35,129,746.57
Fire	30,895,049.44	27,477,837.00
Surrenders	— 49,207.85	— 1,945.95
	<u>30,845,841.59</u>	<u>27,475,891.05</u>
Homeowners' comprehensive	97,084,061.59	85,234,689.79
Motor third party liability	129,479,681.86	117,694,029.95
Motor physical damage	64,753,983.75	55,664,920.02
International	193,456,792.28	223,518,980.16
Miscellaneous	26,376,935.28	22,749,764.30
	<u>643,133,447.65</u>	<u>630,654,462.88</u>
Reinsurance assumed		
Domestic gross	289,289,039.67	166,692,160.62
Commissions	— 89,459,766.61	— 53,223,923.77
Domestic net	<u>199,829,273.06</u>	<u>113,468,236.85</u>
International gross	265,401,187.74	196,123,616.58
Commissions	— 35,807,455.44	— 49,366,934.87
International net	<u>229,593,732.30</u>	<u>149,756,681.71</u>
	<u>429,423,005.36</u>	<u>263,224,918.56</u>
Reinsurance ceded		
Domestic gross	9,878,180.87	9,656,830.24
Commissions	— 2,496,007.10	— 3,084,562.57
Domestic net	<u>7,382,173.77</u>	<u>6,572,267.67</u>
International gross	192,063,435.50	175,580,830.39
Commissions	— 126,144,980.74	— 56,207,898.70
International net	<u>65,918,454.76</u>	<u>119,372,931.69</u>
	<u>73,300,628.53</u>	<u>125,945,199.36</u>

SPECIFICATION OF TRANSFERRED INCOME

	1985	1984
Premium tax	64,916,922.61	55,130,507.28
Fire brigade charges	2,147,040.43	1,871,707.72
Traffic safety charges	1,922,448.00	1,581,599.00
Occupational safety contributions	1,134,009.60	1,263,943.18
Contribution under § 58 of Accident Insurance Act	255,152.16	442,380.11
	<u>70,375,572.80</u>	<u>60,290,137.29</u>

SPECIFICATION OF INVESTMENTS

Revenues	1985	1984
Interest	133,948,286.85	92,854,347.79
Dividends	8,607,463.66	11,553,665.88
Index increment	527,588.12	505,559.23
Revenues from real estate	8,081,271.71	9,070,079.96
Revenues from shares in real estate	52,192,471.26	41,372,357.73
Profit on sales	8,254,248.16	17,463,458.34
Exchange gains	58,181,101.51	30,499,710.97
Other revenues	1,543,099.79	2,262,878.23
	<u>271,335,531.06</u>	<u>205,582,058.13</u>
Expenses		
Interest	60,159,639.35	33,285,479.88
Expenditure on real estate	7,047,435.80	6,206,685.34
Expenditure on shares in real estate	24,104,924.17	24,114,162.89
Loss on sales	928,460.06	1,084,010.16
Depreciation	3,011,929.72	310,143.10
Exchange losses	81,395,802.98	19,098,320.68
Other expenses	919,371.34	5,153,887.07
	<u>177,567,563.42</u>	<u>89,252,689.12</u>

STATUTORY RESULT ANALYSIS

	1985	1984
Net premiums earned	+ 961,184,381.48	+ 704,538,064.08
Investment income	+ 93,767,967.64	+ 116,329,369.01
Claims incurred	— 789,287,667.46	— 687,762,656.75
Operating expenses	— 289,493,911.02	— 237,774,732.67
Gain subject to random fluctuation	— 23,829,229.36	—104,669,956.33
Change in equalization fund	— 1,760,000.00	+ 34,341,000.00
Change in accumulated balance in motor third party liability	— 4,587,000.00	+ 9,188,000.00
Appreciation of investments	+ 48,400,000.00	+ 96,600,000.00
Trading profit	+ 18,223,770.64	+ 35,459,043.67

Solvency trends

Year	Equalization reserve	Percent of its full amount
1981	240,676,000.00	47.8
1982	206,044,000.00	37.3
1983	138,956,000.00	21.8
1984	104,615,000.00	11.0
1985	106,375,000.00	7.6

SPECIFICATION OF STOCKS AND SHARES

	Percentage of the stock	Number of shares	Nominal value	Book value
Investment assets				
Stocks and shares				
Sotka Oy	14.55	9,600	4,800,000.00	9,600,000.00
Other companies	—	—	—	70,784,934.66
				80,384,934.66
Shares in real estate companies	—	621,007	30,618,559.00	445,545,622.18
Fixed assets				
Stocks and shares				
Kansa Reinsurance (Latin America), S.A. "KANLA"	50.00	50,000	\$ 1,000,000.00	14,277,125.00
Kansa International, Inc. ..	40.00	12,500	\$ 1,250.00	7,828,250.00
Kansa Reinsurance Company Ltd	48.00	480,010	48,001,000.00	48,434,583.35
Kansa Financial Services Ltd	48.00	9,600	9,600,000.00	12,000,000.00
Suomen Yrityskehitys Oy ..	40.00	6,000	6,000,000.00	6,000,000.00
VK-paino Oy	10.40	312	156,000.00	1,377,992.00
Evanston Services, Inc. ..	40.80	306,488	\$ 1,532,440.00	83,358,901.90
Folksam Holdings (U.K.) Limited	12.00	720,000	£ 720,000.00	2,682,460.00
Arch Insurance Co., Ltd. ..	32.50	314,384	HK\$ 3,143,840.00	594,311.00
Haka-Auto Oy	27.90	12,000	120,000.00	30,360,000.00
Other companies	—	21,202	—	1,578,967.42
				208,492,590.67
Shares in real estate companies	—	728,785	4,190,110.00	59,999,805.58

The book value of the fixed assets includes appreciations made in previous years as follows:

Shares	53,000,000.00
Real estates	9,069,193.36
	62,069,193.36

TAXABLE VALUES

	1985	1984
Investment assets		
Stocks and shares	29,624,003.80	21,977,319.06
Shares in real estate companies	129,782,576.74	105,869,852.84
Real estate	59,334,484.00	56,906,197.00
Fixed assets		
Stocks and shares	44,315,373.00	110,413,962.39
Shares in real estate companies	19,741,383.02	15,118,881.68
Real estate	69,894,003.00	11,356,050.00

INTER-GROUP RECEIVABLES AND DEBTS

	1985	1984
Inter-group receivables		
Reinsurance receivables	180,825,103.73	66,674,880.00
Accrued credits and deferred charges	1,266,773.45	1,995,095.63
Short-term receivables	65,091,369.21	145,164,892.35
Commercial loans	40,183,341.50	30,209,054.00
	<u>287,366,587.89</u>	<u>244,043,921.98</u>
Inter-group debts		
Reinsurance payables	516,468,576.00	275,439,140.00
Accrued charges and deferred credits	1,194,878.25	1,099,041.10
Other debts	52,779,246.96	46,491,100.56
	<u>570,442,701.21</u>	<u>323,029,281.66</u>

PLEDGED ASSETS

	1985	1984
Mortgages pledged as collateral for company debts	8,837,550.00	8,837,550.00
Shares pledged as collateral for company debts	3,011,629.59	1,077,604.81
Bonds pledged as collateral for company debts	22,264,625.00	24,836,004.00
Shares pledged as collateral for a group company	252,786,033.99	17,020,483.20

CHANGES IN SHAREHOLDERS' EQUITY

	January 1, 1985	Changes	December 31, 1985
Appropriated			
Common stock	100,000,000.00		
Increase of share capital		+ 17,500,000.00	117,500,000.00
Contingency fund	106,357,765.36		
Paid-in surplus		+ 52,500,000.00	158,857,765.36
Appreciation fund	62,069,193.36		62,069,193.36
	<u>268,426,958.72</u>	<u>+ 70,000,000.00</u>	<u>338,426,958.72</u>
Unappropriated			
Profit brought forward	589,666.06		
From 1984 profit		+ 2,369.30	592,035.36
Net profit for the period			
Net profit for 1984	20,002,369.30		
Brought forward		— 2,369.30	
Paid dividend		— 20,000,000.00	
Net profit for 1985		+ 13,247,764.53	13,247,764.53
	<u>20,002,369.30</u>	<u>— 6,754,604.77</u>	<u>13,247,764.53</u>
	20,592,035.36	— 6,752,235.47	13,839,799.89
Total	289,018,994.08	+ 63,247,764.53	352,266,758.61

Application of profit

A net profit for the period of FIM 13,247,764.53 and a profit brought forward of FIM 592,035.36 are at the disposal of the Annual General Meeting.

The Board of Directors proposes that the Annual General Meeting approve the transfers made in the fi-

nancial statements and a dividend of 10 percent, i.e. FIM 10,000,000.00 be paid on the shares registered at the beginning of the financial year and FIM 3,247,764.53 be carried forward.

Helsinki, March 20, 1986

KANSA GENERAL INSURANCE COMPANY LTD
Board of Directors

Erkki Pesonen
Chairman

Arvo Palo

Jaakko Aalto

Onni Katajainen
President

AUDITORS' REPORT

We have examined the annual report, the accounting records and the administration of Kansa General Insurance Company Ltd for the financial year 1985. The examination was carried out in accordance with generally accepted auditing standards.

Oy Widenius, Sederholm & Someri Ab carried out the supervisory audit and issued a separate report thereon.

Mr. Jyrki Peltonen, deputy senior examiner of the Insurance Department of the Ministry of Social Affairs and Health, was present at the audit and, having examined the underwriting reserve calculations in particular, indicated that he had found no cause for comment.

The financial statements, showing a net profit of FIM 13,247,764.53, have been prepared in accordance with the current regulations.

We recommend:

that the income statement and balance sheet be adopted;
that the unappropriated earnings be dealt with in accordance with the proposal in the annual report;
that the members of the Board of Directors and the President be released from liability.

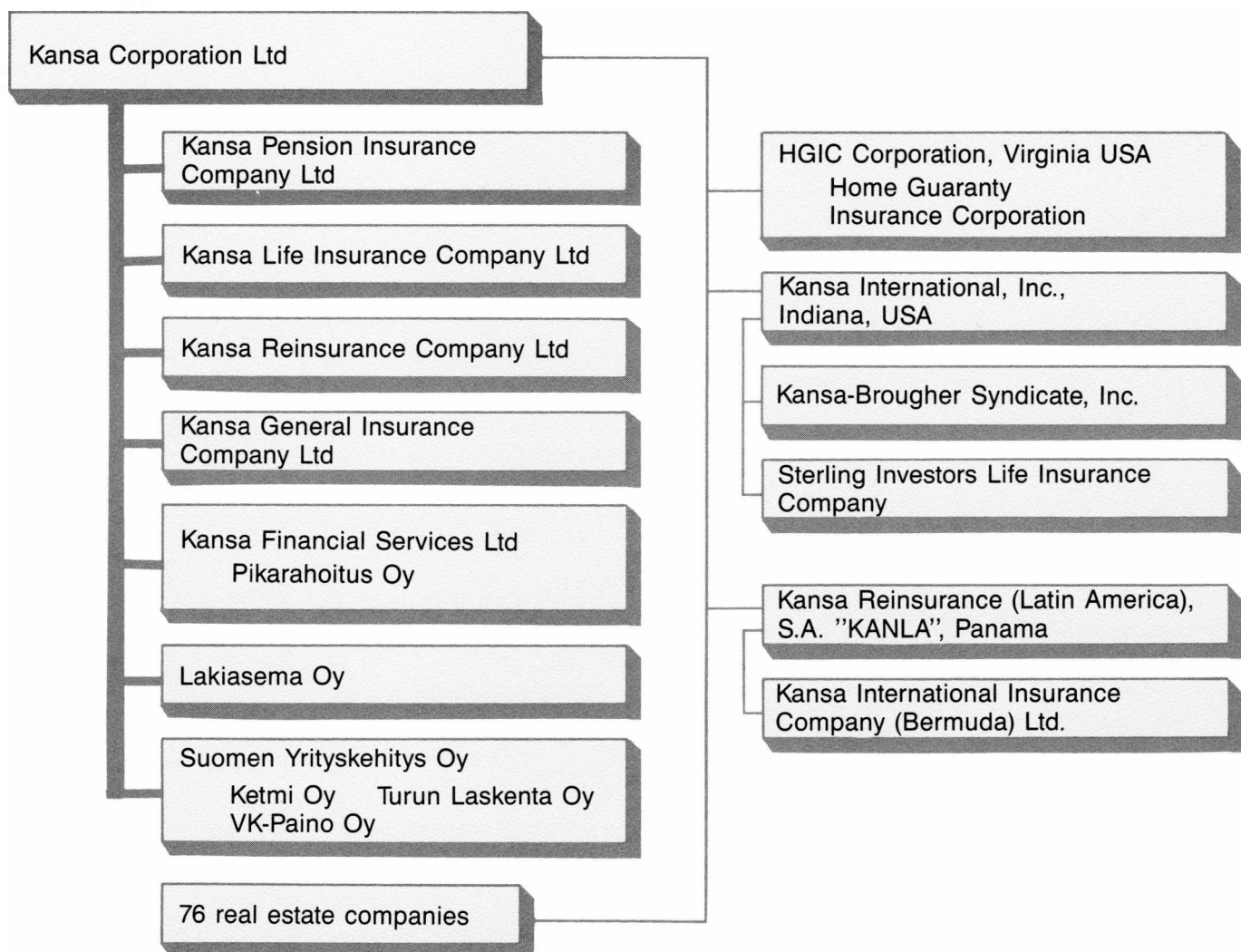
Helsinki, April 17, 1986

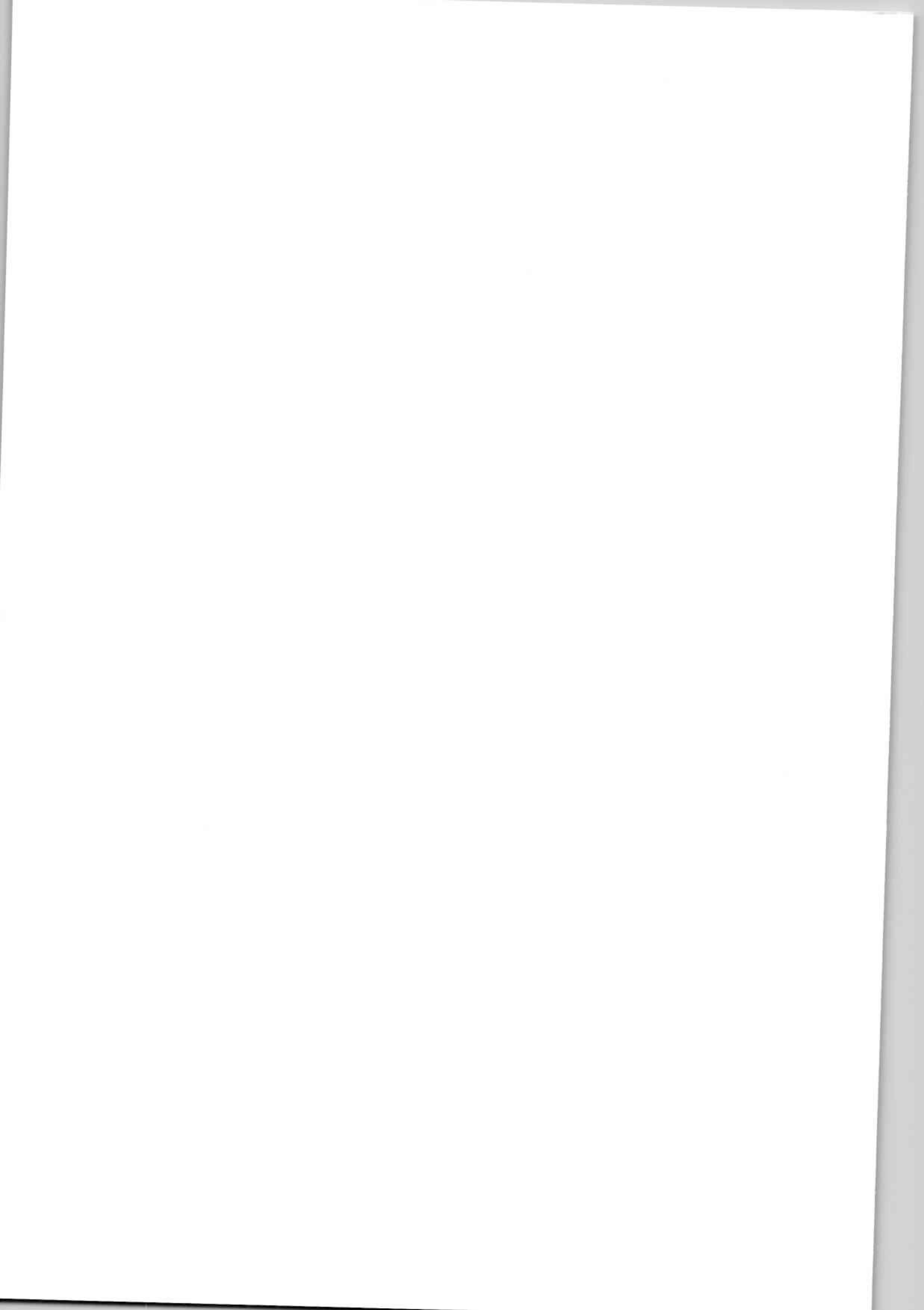
Oy Widenius, Sederholm & Someri Ab

Heikki Koskelainen
Authorized Public Accountant

Markku Pajunen
Authorized Public Accountant

Organization of Kansa Group





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