

KANSA

GENERAL INSURANCE COMPANY LTD

1986



OPERATIONS RE

The year under review was the 67th for the Company. The Company's capital stock was increased from FIM 117.5 million to FIM 387.5 million by creating FIM 270 million in preferred stock which was subscribed in total by Kansa Corporation Ltd. This preferred stock confers voting rights in the Company as follows: Kansa Life Insurance Company Ltd 44.8 percent, Kansa Corporation Ltd 40.8 percent, Kansa Pension Insurance Company Ltd 7.0 percent, Eka Co-op 4.8 percent, and Haka Construction Cooperative 2.9 percent. The parent company is 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:

	Premiums written (FIM million)		Change %
	1986	1985	
Worker's compensation	71.8	57.6	24.7
Other accident	46.9	43.5	7.8
Fire	22.1	30.8	-28.2
Homeowners' comprehensive	116.0	97.1	19.5
Motor third party liability	141.5	129.5	9.3
Motor physical damage	74.0	64.8	14.2
International direct	263.6	193.5	36.2
Miscellaneous	28.4	26.4	7.6
Direct insurance	764.3	643.2	18.8
Reinsurance assumed	529.4	429.4	23.3
Total	1,293.7	1,072.6	20.6
Reinsurance ceded	348.6	73.3	575.6
Premiums retained	945.1	999.3	-5.4

The Company's retention was 73 percent, as opposed to 93 percent the previous year.

Gross premiums earned totaled FIM 1,396.5 million.

Premiums from direct insurance rose 18.8 percent. The growth in domestic direct insurance was 11.3 percent. There was rapid growth in workers' compensation, homeowners' comprehensive and international direct insurances. Premiums were reduced in fire insurance.

The premiums for assumed reinsurance increased by 23.3 percent.

CLAIMS INCURRED

Claims incurred, which include the claims paid and the increase in claims reserve, totaled FIM 1,120.5 million.

The loss ratio improved in other accident, fire and homeowners' comprehensive insurances.

In fire insurance there were four fires during the year in which losses of FIM one million were sustained. The losses sustained in a fire at the Eka-Market in Järvenpää on March 31, 1986 amounted to FIM 10.2 million.

The loss ratio deteriorated in motor third party liability, motor physical damage and workers' compensation insurances.

INTERNATIONAL INSURANCE

1986 was a year of high prices on the international market, and especially in the USA. The result for insurance underwritten in 1986 will probably be good for Kansa. The result for the financial year was still affected by the years 1982-85, and the combined result from international operations was unsatisfactory for Kansa General.

The performance of the branch office in Hong Kong was satisfactory. Disappointments were experienced in France and in Canada. Performance by the French office was poorer than anticipated, partly because it was still in the early phases of its operation. In Canada the authorities specified the bases for calculating underwriting reserves, especially in liability insurance. As a consequence, FIM 28 million was added to the reserve for unknown claims.

OPERATING EXPENSES

Operating expenses amounted to FIM 282.1 million, or 2.6 percent less than in the previous year. Operating expenses incurred in international insurance totaled FIM 85.7 million and were included under that heading in the income statement. Operating expenses incurred in domestic direct insurance fell by 0.9 percent. Measures to curb rising operating expenses have been continued.

PERSONNEL AND SALARIES

The Company employed a staff of 310 on average during 1986.

Salaries and remunerations totaling FIM 35,283,000 were paid, of which the Board of Directors and President accounted for FIM 382,000.

Mr. Erkki Pesonen was the Chairman of the Board of Directors until the end of September 1986. In the beginning of October he was succeeded as Group President by Mr. Matti Packalén, M.Sc.(eng.), B.Sc.(econ.).

APPRECIATION

Appreciation of FIM 45.2 million on investment was entered during the year.

INVESTMENT

Realized investment income excluding appreciation was FIM 153.1 million. Growth from the previous year was 63.3 percent. This income includes sales profits on investment assets of FIM 23.4 million.

The investment assets of Kansa General stood at FIM 1,385.1 million at the end of the year. Real estate and shares therein accounted for FIM 605.4 million, loans for FIM 451.0 million and domestic and foreign bonds for FIM 274.7 million.

OTHER FACTORS AFFECTING FINANCIAL PERFORMANCE

The maximum depreciation permitted under the Business Taxation Act, totaling FIM 8.6 million, was made on investments and fixed assets.

The decrease in the reserve for bad debts was FIM 13.3 million and in the advance expense entry FIM 2.6 million.

The equalization fund decreased by FIM 15.8 million and stood at FIM 100.4 million at the end of the year under review.

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, and it showed the following trend:

	FIM million	1986	1985	1984	1983	1982
Net premiums written		1,010	996	808	519	448
Shareholders' equity		612	352	289	184	95
Equalization fund		100	116	110	153	226
Provisions		4	20	18	14	11
Total		716	488	417	351	332
Of net premiums written		71 %	49 %	52 %	68 %	74 %
Valuation differences		100	99	127	175	181
Total		816	587	544	526	513
Of net premiums written		81 %	59 %	67 %	101 %	115 %

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

FIM 100 = \$ 20 = £ 14.

INCOME STATEMENT JANUARY 1 – DECEMBER 31, 1986

	1986	1985
Premiums written		
Direct insurance	+ 764,342,759.00	+ 643,182,655.50
Reinsurance assumed	+ 529,417,378.36	+ 429,423,005.36
	<u>+1,293,760,137.36</u>	<u>+1,072,605,660.86</u>
Credit loss on premiums	– 4,632,981.00	– 4,022,513.00
Investments		
Revenues	+ 273,040,335.57	+ 271,335,531.06
Expenses	– 119,963,751.93	– 177,567,563.42
Appreciation	+ 45,200,000.00	+ 48,400,000.00
	<u>+ 198,276,583.64</u>	<u>+ 142,167,967.64</u>
Change in unearned premiums	+ 102,744,370.00	– 105,135,880.00
Underwriting revenues	<u>+1,590,148,110.00</u>	<u>+1,105,615,235.50</u>
Claims incurred		
Claims paid	– 723,384,271.74	– 592,147,712.36
Change in claims reserve	– 381,297,330.00	– 215,369,720.00
	<u>–1,104,681,601.74</u>	<u>– 807,517,432.36</u>
Underwriting margin	<u>+ 485,466,508.26</u>	<u>+ 298,097,803.14</u>
Reinsurers' share of		
Premiums	– 348,615,308.86	– 73,300,628.53
Change in unearned premiums	– 129,822,340.00	+ 71,086,950.00
Claims paid	+ 175,249,349.45	+ 50,684,617.05
Change in claims reserve	+ 95,340,580.00	– 38,851,060.00
	<u>– 207,847,719.41</u>	<u>+ 9,619,878.52</u>
Net underwriting margin	<u>+ 277,618,788.85</u>	<u>+ 307,717,681.66</u>
Operating expenses		
Salaries and fees	– 35,283,020.53	– 35,032,163.68
Social expenses	– 7,874,875.39	– 9,353,887.42
Other operating expenses	– 238,925,033.00	– 245,107,859.92
	<u>– 282,082,928.92</u>	<u>– 289,493,911.02</u>
Operating profit/loss before depreciation	<u>– 4,464,140.07</u>	<u>+ 18,223,770.64</u>
Depreciation		
On investments	– 820,578.97	– 1,450,711.00
On fixed assets	– 7,744,126.22	– 4,665,753.06
	<u>– 8,564,705.19</u>	<u>– 6,116,464.06</u>
Operating result	<u>– 13,028,845.26</u>	<u>+ 12,107,306.58</u>
Sundry revenues	+ 1,194,184.17	+ 8,475,986.48
Sundry expenses	– 1,451.57	– 740,665.50
Change in provisions		
Credit loss reserve	+ 13,280,000.00	– 2,262,707.18
Advance expense entry	+ 2,616,349.49	–
	<u>+ 15,896,349.49</u>	<u>– 2,262,707.18</u>
Direct taxes	– 4,013,548.94	– 4,332,155.85
Net profit	<u><u>+ 46,687.89</u></u>	<u><u>+ 13,247,764.53</u></u>

BALANCE SHEET

Assets

Financial assets
Cash and balances in banks
Reinsurance receivables
Unearned premiums
Claims reserve
Deposits
Other receivables
Accrued credits and deferred charges
Premiums
Interest
Other items
Other financial assets
Short-term receivables
Other receivables
Investment assets
Commercial loans
Bonds
Stocks and shares
Real estate and shares therein
Appreciation
Other investments
Fixed assets
Stocks and shares
Real estates and shares therein
Furniture and fixtures
Other fixed assets

DECEMBER 31, 1986

1986	1985
430,948,279.43	102,307,185.90
42,752,530.00	172,574,870.00
190,644,210.00	95,303,630.00
26,582,141.92	30,322,523.15
307,946,527.97	287,377,614.69
567,925,409.89	585,578,637.84
118,748,814.00	107,384,927.00
24,806,143.33	15,802,554.30
21,313,815.57	71,949,352.93
164,868,772.90	195,136,834.23
54,961,620.79	73,299,950.05
36,251,199.01	43,413,207.35
91,212,819.80	116,713,157.40
254,955,282.02	999,735,815.37
451,037,128.08	276,044,198.61
274,724,783.87	179,188,770.16
50,039,045.90	80,384,934.66
560,184,207.18	468,445,500.41
45,200,000.00	48,400,000.00
605,384,207.18	516,845,500.41
3,881,682.56	10,460,950.65
385,066,847.59	1,062,924,354.49
215,059,830.89	208,492,590.67
98,192,764.99	98,569,327.17
6,596,920.00	7,406,100.00
5,497,064.66	4,970,812.29
325,346,580.54	319,438,830.13
965,368,710.15	2,382,098,999.99

BALANCE SHEET DECEMBER 31, 1986

Liabilities and
shareholders' equity

	1986	1985
Liabilities		
Reinsurance payables		
Deposits	54,623,924.48	31,203,706.65
Other items	45,133,925.61	19,478,831.16
	99,757,850.09	50,682,537.81
Accrued charges and deferred credits		
Prepaid premiums	4,600,173.00	5,742,210.00
Other items	48,827,532.03	48,754,793.02
	53,427,705.03	54,497,003.02
Other debts		
Pension loans	25,688,195.20	23,897,564.70
Other items	79,317,353.33	68,547,586.36
	105,005,548.53	92,445,151.06
Underwriting reserves		
Unearned premiums	390,816,340.00	493,560,710.00
Claims reserve	1,699,994,120.00	1,318,696,790.00
	2,090,810,460.00	1,812,257,500.00
	2,349,001,563.65	2,009,882,191.89
Provisions		
Credit loss reserve	4,053,700.00	17,333,700.00
Advance expense entry	—	2,616,349.49
	4,053,700.00	19,950,049.49
Shareholders' equity		
Appropriated		
Common stock	387,500,000.00	117,500,000.00
Contingency fund	158,857,765.36	158,857,765.36
Appreciation fund	62,069,193.36	62,069,193.36
	608,426,958.72	338,426,958.72
Unappropriated		
Profit brought forward	3,839,799.89	592,035.36
Net profit for the period	46,687.89	13,247,764.53
	3,886,487.78	13,839,799.89
	612,313,446.50	352,266,758.61
	2,965,368,710.15	2,382,098,999.99

STATEMENT OF CHANGES IN FINANCIAL POSITION

Funds provided

	1986	1985
Operating profit/loss	– 4,464,140.07	18,223,770.64
Sundry revenues and expenses	1,192,732.60	7,735,320.98
Change in underwriting reserves	278,552,960.00	320,505,600.00
Change in other liabilities	60,566,411.76	– 434,309,590.74
Change in shareholders' equity	270,000,000.00	– 70,000,000.00
	<u>605,847,964.29</u>	<u>– 17,844,899.12</u>

Funds used

	1986	1985
Change in financial assets	255,219,466.65	– 62,269,756.49
Change in investment assets	322,963,072.07	5,855,126.42
Change in fixed assets	13,651,876.63	14,237,575.10
Distribution of profit	14,013,548.94	– 24,332,155.85
	<u>605,847,964.29</u>	<u>– 17,844,899.12</u>

NOTES TO THE FINANCIAL STATEMENTS

The financial statements for the previous year were regrouped to correspond to the statements for 1986, 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

	1986	1985
Direct insurance		
Workers' compensation	71,807,157.17	57,613,585.37
Other accident	46,943,113.84	43,522,565.93
Fire	22,088,749.69	30,895,049.44
Homeowners' comprehensive	116,014,903.06	97,084,061.59
Motor third party liability	141,524,274.89	129,479,681.86
Motor physical damage	73,951,852.29	64,753,983.75
International	263,629,423.99	193,456,792.28
Miscellaneous	28,383,284.07	26,376,935.28
	<u>764,342,759.00</u>	<u>643,182,655.50</u>
Reinsurance assumed		
Domestic, gross	197,325,411.09	27,820,039.67
Commissions	– 169,608,252.18	– 348,766.61
Domestic, net	27,717,158.91	27,471,273.06
International, gross	663,399,768.00	526,870,187.74
Commissions	– 161,699,548.55	– 124,918,455.44
International, net	501,700,219.45	401,951,732.30
	<u>529,417,378.36</u>	<u>429,423,005.36</u>
Reinsurance ceded		
Domestic, gross	10,396,192.07	9,878,180.87
Commissions	– 2,718,971.35	– 2,496,007.10
Domestic, net	7,677,220.72	7,382,173.77
International, gross	604,393,807.07	192,063,435.50
Commissions	– 263,455,718.93	– 126,144,980.74
International, net	340,938,088.14	65,918,454.76
	<u>348,615,308.86</u>	<u>73,300,628.53</u>

Specification of transferred income

	1986	1985
Premium tax	69,502,036.00	64,916,922.61
Fire brigade charges	2,103,179.19	2,147,040.43
Traffic safety charges	2,068,751.58	1,922,448.00
Occupational safety contributions	1,413,125.14	1,134,009.60
Contribution under § 58 of Accident Insurance Act	353,281.28	255,152.16
	<u>75,440,373.19</u>	<u>70,375,572.80</u>

Specification of claims paid

	1986	1985
Direct insurance		
Workers' compensation	52,432,169.71	40,750,576.26
Other accident	29,877,926.72	26,820,975.65
Fire	11,643,109.36	9,262,268.81
Homeowners' comprehensive	56,943,994.71	54,243,326.68
Motor third party liability	99,917,231.04	83,550,542.32
Motor physical damage	50,352,313.33	39,435,563.90
International	91,399,014.02	79,269,132.83
Miscellaneous	17,779,581.66	13,676,787.15
	<u>410,345,340.55</u>	<u>347,009,173.60</u>
Reinsurance		
Domestic	35,817,260.75	22,638,725.48
International	277,221,670.44	222,499,813.28
	<u>313,038,931.19</u>	<u>245,138,538.76</u>

Specification of investments

	1986	1985
Revenues		
Interest	157,353,524.64	133,948,286.85
Dividends	10,066,648.84	8,607,463.66
Index increment	521,775.18	527,588.12
Revenues from real estate	8,303,727.11	8,081,271.71
Revenues from shares in real estate	54,559,216.00	52,192,471.26
Profit on sales	23,427,105.39	8,254,248.16
Currency exchange gains	18,274,289.16	58,181,101.51
Other revenues	534,049.25	1,543,099.79
	<u>273,040,335.57</u>	<u>271,335,531.06</u>
Expenses		
Interest	23,245,032.50	60,159,639.35
Expenditure on real estate	8,219,766.50	7,047,435.80
Expenditure on shares in real estate	33,735,952.36	24,104,924.17
Loss on sales	2,177,727.78	928,460.06
Depreciation	347,955.25	3,011,929.72
Currency exchange losses	45,121,767.75	81,395,802.98
Other expenses	7,115,549.79	919,371.34
	<u>119,963,751.93</u>	<u>177,567,563.42</u>

Statutory result analysis

	1986	1985
Net premiums earned	+ 913,433,877.50	+ 961,184,381.48
Investment income	+ 153,076,583.64	+ 93,767,967.64
Claims incurred (excluding change in equalization fund)	- 849,914,672.29	- 789,287,667.46
Operating expenses	- 282,082,928.92	- 289,493,911.02
Gain subject to random fluctuation	- 65,487,140.07	- 23,829,229.36
Change in equalization reserve	+ 5,975,000.00	- 1,760,000.00
Change in accumulated balance in motor third party liability	+ 9,848,000.00	- 4,587,000.00
Appreciation of investments	+ 45,200,000.00	+ 48,400,000.00
Trading profit	- 4,464,140.07	+ 18,223,770.64

Solvency trend

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
1986	100,400,000.00	7.4

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	—	—	—	40,439,045.90
				<u>50,039,045.90</u>
Shares in real estate companies	—	621,007	30,618,559.00	<u>527,994,147.12</u>
Fixed assets				
Stocks and shares				
Kansa Reinsurance (Latin America), S.A. "KANLA"	50.00	50,000	USD 1,000,000.00	14,277,125.00
Kansa International, Inc.	40.00	12,500	USD 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 Yrityskelitys Oy	40.00	6,000	6,000,000.00	6,032,320.00
Clarendon Group Limited	0.97	4,882	USD 4,882.00	7,811,200.00
Evanston Services, Inc.	40.80	306,488	USD 1,532,440.00	83,358,901.90
Folksam Holdings (U.K.) Limited	12.00	720,000	GBP 720,000.00	2,682,460.00
Arch Insurance Co., Ltd.	32.50	314,384	HKD 3,143,840.00	594,311.00
Haka-Auto Oy	27.90	12,000	120,000.00	30,360,000.00
Other companies	—	41,364	—	1,680,679.64
				<u>215,059,830.89</u>
Shares in real estate companies	—	728,785	4,190,110.00	<u>57,421,394.56</u>

The book value of the fixed assets includes appreciation made before the financial year:

Shares	53,000,000.00
Real estates	9,069,193.36
	<u>62,069,193.36</u>

Taxable values

	1986	1985
Investment assets		
Stocks and shares	6,883,183.35	29,624,003.80
Shares in real estate companies	153,766,479.92	129,782,576.74
Real estate	61,478,346.00	59,334,484.00
Fixed assets		
Stocks and shares	44,164,758.00	44,315,373.00
Shares in real estate companies	34,761,032.57	19,741,383.02
Real estate	14,142,907.00	10,559,519.00

Pledged assets

	1986	1985
Mortgages pledged as collateral for company debts	7,141,070.00	8,837,550.00
Shares pledged as collateral for company debts	3,011,629.59	3,011,629.59
Bonds pledged as collateral for company debts	—	22,264,625.00
Shares pledged as collateral for a group company or for company debts	274,293,774.77	252,786,033.99
Other funds pledged as collateral for a group company	270,000,000.00	—

Inter-group receivables and debts

	1986	1985		1986	1985
Inter-group receivables			Inter-group debts		
Reinsurance receivables	239,183,468.00	180,825,103.73	Underwriting reserves	645,312,600.00	516,468,576.00
Accrued credits and deferred charges	476,561.84	1,266,773.45	Accrued charges and deferred credits	1,149,611.35	1,194,878.25
Short-term receivables	53,900,851.46	65,091,369.21	Other debts	62,980,151.00	52,779,246.96
Commercial loans	194,463,205.00	40,183,341.50		<u>709,442,362.35</u>	<u>570,442,701.21</u>
	<u>488,024,086.30</u>	<u>287,366,587.89</u>			

Changes in shareholders' equity

	January 1. 1986	Changes	December 31. 1986
Appropriated			
Common stock	117,500,000.00		
Increase of share capital		+ 270,000,000.00	387,500,000.00
Contingency fund	158,857,765.36	—	158,857,765.36
Appreciation fund	62,069,193.36	—	62,069,193.36
	<u>338,426,958.72</u>	<u>+270,000,000.00</u>	<u>608,426,958.72</u>
Unappropriated			
Profit brought forward	592,035.36		
From 1985 income		+ 3,247,764.53	3,839,799.89
	<u>592,035.36</u>	<u>+ 3,247,764.53</u>	<u>3,839,799.89</u>
Net profit for the period			
Net profit for 1985	13,247,764.53		
Brought forward		— 3,247,764.53	
Dividend		— 10,000,000.00	
Net profit for 1986		+ 46,687.89	46,687.89
	<u>13,247,764.53</u>	<u>— 13,201,076.64</u>	<u>46,687.89</u>
	<u>13,839,799.89</u>	<u>— 9,953,312.11</u>	<u>3,886,487.78</u>
SHAREHOLDERS' EQUITY TOTAL	<u>352,266,758.61</u>	<u>+ 260,046,687.89</u>	<u>612,313,446.50</u>

APPLICATION OF PROFIT

A net profit for the financial year of FIM 46,687.89 and a profit brought forward of FIM 3,839,799.89 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 financial statements and that FIM 46,687.89 be carried forward.

Helsinki, March 26, 1987

KANSA GENERAL INSURANCE COMPANY LTD
Board of Directors

Matti Packalén
Chairman

Jaakko Aalto

Altti Aurela

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 1986. The examination was carried out in accordance with generally accepted auditing standards.

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

Ms. Tarja Mansikkamäki 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, stated that she had found no cause for comment.

The financial statements, showing a net profit of FIM 46,687.89, have been prepared in accordance with the current regulations.

We recommend:

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

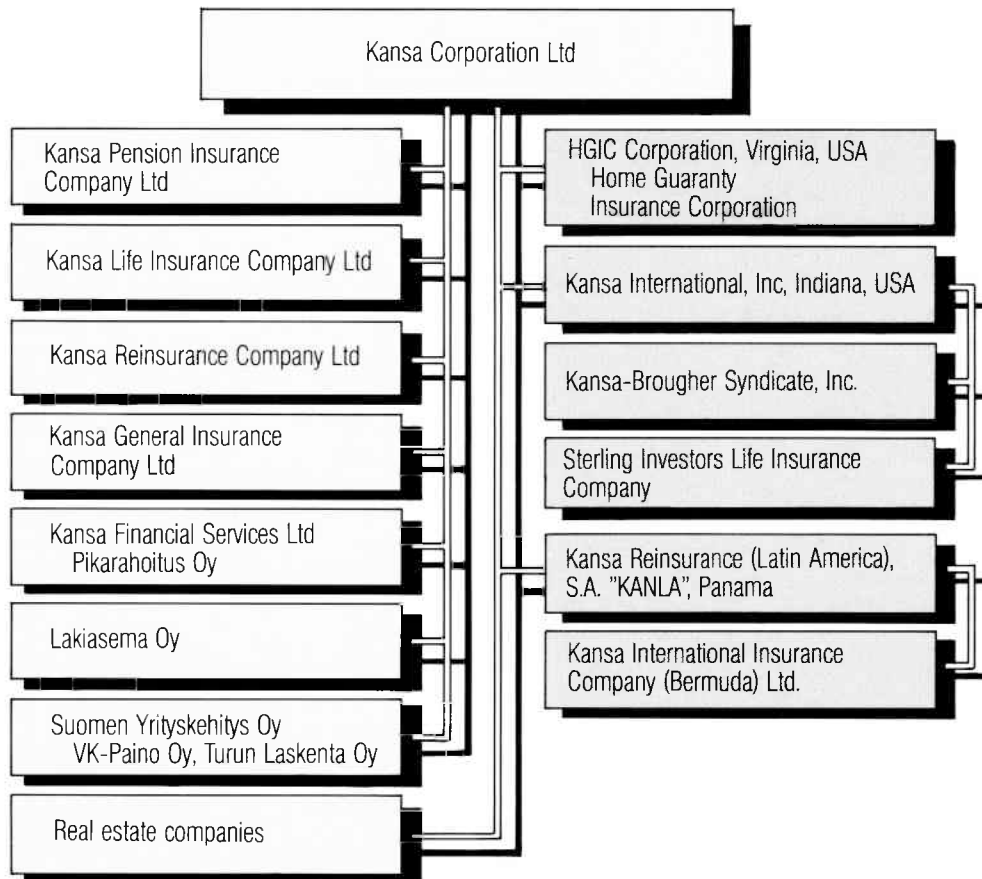
Helsinki, April 16, 1987

Widenius, Sederholm & Someri Oy Ab

Heikki Koskelainen
Authorized Public Accountant

Erkki Simpanen
Authorized Public Accountant

ORGANIZATION OF KANSA GROUP





KANSA

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