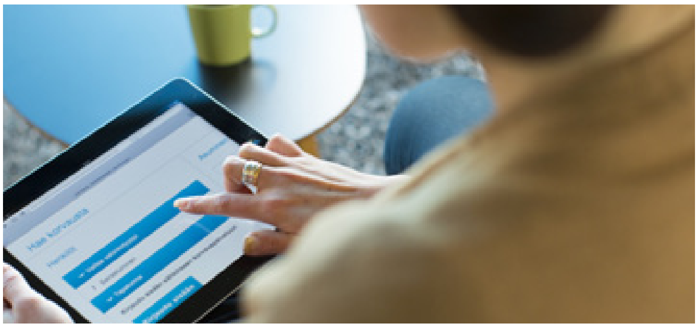
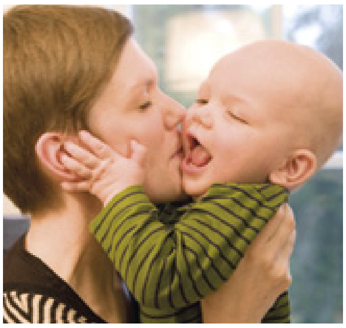
Close to you throughout your life





LocalTapiola Mutual Insurance Company

Investment operations and market risk management 2012

LOCALTAPIOLA
Mutual Insurance Company

LocalTapiola General

LocalTapiola General's investment assets amount to EUR 3.0 billion. Most of the investments made by LocalTapiola General are managed by professionals at Tapiola Asset Management and LocalTapiola Real Estate Asset Management.

Close to you throughout your life

LocalTapiola includes enthusiastic drivers, mothers and fathers, athletes, pet owners, boaters, house builders, world travellers, investors and entrepreneurs. Therefore, we offer the same solutions we want and use ourselves. We handle your most important matters with competence and genuine care.

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LocalTapiola's online reporting

LocalTapiola's online annual report 2012 and the companies' annual reports and investment reviews will be available during week 15 in PDF format at the following address:

www.vuosiraportti2012.lahitapiola.fi

LocalTapiola in brief

LocalTapiola Group is a mutual, full-service financial house that offers services for private customers, farmers, entrepreneurs, corporate customers and organisations. LocalTapiola Group consists of 20 regional companies, LocalTapiola General, LocalTapiola Life, Tapiola Bank, Tapiola Asset Management and LocalTapiola Real Estate Asset Management. LocalTapiola Pension is the Group's earnings-based pension insurance partner.

Investment operations

LocalTapiola General's investment operations had an excellent year in 2012. Despite the challenging economic environment, return on investment was 8.0 per cent. In 2012, return on investment was clearly higher than in 2011, led by equity investments (14.1%) and fixed income investments (7.8%). Thanks to very successful final exits, unlisted equity investments yielded a return of 33.3 per cent.

Economic environment in 2012

The slowing trend in global economic growth that began in summer 2010 continued in 2012. Southern European countries had already entered a new recession in autumn 2011 and, by spring 2012, the eurozone's problems had impacted the global economy. Of the major economic areas, the eurozone, the United Kingdom and Japan were in recession after the third quarter of the year. In the United States, economic growth remained close to two per cent owing to the recovery of the housing and labour markets, although uncertainty about the budget policy for 2013 undermined the willingness of companies and households to invest. Weakening demand in developed economies affected emerging economies as global trade slowed. The slowdown in growth was much stronger than expected – especially in Asia.

Due to the poor growth outlook, economic policies have been very active. China initiated systematic economic stimulus measures as early as in spring 2012. The People's Bank of China strived to encourage banks to lend money to private households and curbed the strengthening of the country's currency against major Western currencies. Towards the end of the year, China's central government also launched new investments in infrastructure. In August, the European Central Bank promised to purchase the bonds of the most indebted euro countries, provided that the countries in question request financial aid from the eurozone's stability fund and commit to balancing their budgets. This was deemed to have significantly reduced the risk of the eurozone disintegrating. The Federal Reserve, the Bank of England and the Bank of Japan also sought to maintain economic confidence and low interest rates by continuing their quantitative easing policies of purchasing large amounts of bonds from the markets.

Investment market returns were excellent despite the worsening of the economic downturn. Central banks' "zero interest" policies and the successful management of systemic risks in the eurozone encouraged investors to take risks, and share prices increased sharply on all Western stock exchanges. As regards currencies, the euro strengthened slightly against the dollar (2%) and the pound (3%) and significantly more against the yen (14%).

Outlook for 2013

In the light of global economic indicators, it seems likely that the global economy will have passed its nadir in the first quarter of the year and that growth will slowly begin to recover. The eurozone will still be in recession at the beginning of the year, and proper growth will only start in the second half of the year. In Southern Europe, overall output will probably decrease throughout 2013, which will hamper efforts to stabilise public-sector economies. In emerging economies, growth will strengthen, led by China. Russia's economic outlook has only begun to weaken in the past few months due to the cyclicality of the country's economy. Correspondingly, the situation in Russia will start to improve later than in other major emerging economies.

Despite the improved outlook for the global economy, several serious risks still persist. In the United States, the public economy needs significantly stricter measures. However, modest growth continues in components of private demand, such as consumption and investments. If the country's enormous budget deficit is balanced too quickly, the world's largest economy could descend into another recession. The eurozone debt crisis has abated somewhat thanks to the ECB's support measures and policy guidelines, but the sustainability of problem countries' debt could easily be called into question again if their economies continue to perform weakly. Meanwhile, political tensions in the Middle East and North Africa can raise the price of oil and create inflation pressure from raw materials. The quantitative easing policies being employed by central banks may also increase the prices of raw materials and food, which would be particularly detrimental for emerging economies.

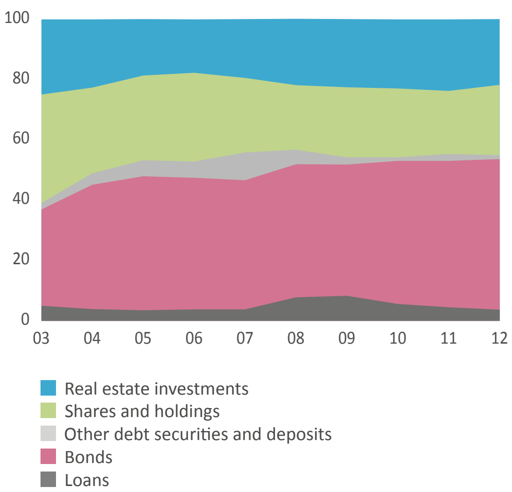
Due to significant risks, Western central banks are likely to continue their reflationary policies even if economic growth picks up faster than expected. High liquidity and systemic risks will keep interest rates low in reliable countries. On the other hand, the expected returns on the bonds of core countries and highly rated companies have already fallen so low that investors seeking positive real returns must also take greater risks. This will increase the demand for lower-quality corporate bonds (high yield), emerging economies' bonds and equities. Due to economic uncertainty, major fluctuations may continue to occur in the value of higher-risk assets.

In 2013, company profits are expected to grow by 10 per cent, which, despite being widely known on the markets, is certainly an optimistic forecast given the current economic situation. In Europe, the best performers were financial services and cyclical industries, such as the automotive industry, industrial services and chemistry. Poor performers, on the other hand, were the energy sector, basic industries, operators with structural problems and public utility undertakings. In these sectors, dividend income decreased sharply in 2012.

TABLE 1. Allocation and returns

	Distribution, EUR m	Distribution, %	Return, %
Loan receivables	112.9	3.7	3.3
Bonds	1,511.0	49.9	8.5
Other debt securities and deposits	37.9	1.3	1.9
Fixed income investments	**1,661.8**	**54.9**	**7.8**
Listed shares	389.4	12.8	20.5
Private equity funds	145.5	4.8	10.2
Unlisted equity investments	168.5	5.6	6.1
Equity investments	**703.4**	**23.2**	**14.1**
Direct real estate investments	533.3	17.6	3.3
Real estate mutual funds and collective investments	127.4	4.2	3.4
Real estate investments	**660.7**	**21.8**	**3.3**
Other investments	**0.0**	**0.0**	
Total investments	**3,025.9**	**100.0**	**8.0**

1. Allocation development, %



In 2013, despite weak economic growth, equity investments will be supported by the valuation of shares in relation to interest income. Companies generally have strong balance sheets and cash flows, which enables good dividends. The improving economic outlook for the United States with respect to the housing market is also a positive development. The biggest risks for equity markets continue to be associated with Europe, financial market functionality and persistently weak economic growth, which will slow down the launching of investments.

Allocation

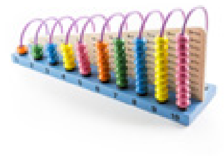
In 2012, LocalTapiola General's net investment income at current value amounted to EUR 234.8 million (EUR 96.3 million), or 8.0 per cent (3.4%). Investment assets at current value totalled EUR 3,025.9 million (EUR 2,839.2 million). The average five-year annual return on investment was 4.0 per cent and the average ten-year annual return was 6.0 per cent. In 2012, bonds and shares were allocated a slightly larger weighting, while loans and real estate investments had a smaller weighting.

The measures required by the central company merger were implemented in Local Insurance Mutual Company's investment operations in 2012. The annual return on Local Insurance's investment assets was 8.8%, and the assets were allocated as follows: shares: 19%, fixed income investments: 62%, real estate: 19%. In 2012, the return on Local Insurance Mutual Company's shares (taking the effect of hedging derivatives into account) was 4.8%, while the return on fixed income investments was 9.7% and that on real estate 10.3%. Investment assets at current value stood at EUR 694 million.

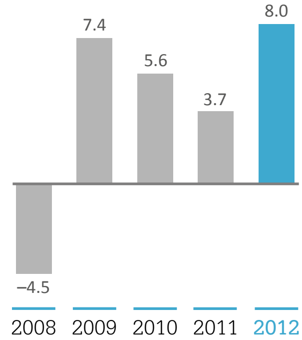
In its investment operations, LocalTapiola uses asset managers who have signed the United Nations' Principles for Responsible Investment.

Equity investments

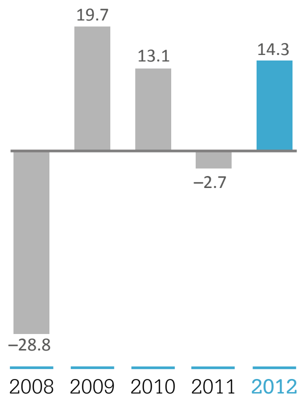
Despite the weakness of the global economy and the continuous economic problems in the eurozone, 2012 was an excellent year on the equity markets. Share prices increased in both Europe and the United States by about 20 per cent. Willingness to take risks began to improve, especially towards to end of the summer, thanks to support measures taken by central banks. Even though slower economic growth had a negative effect on companies' turnovers, profitability remained good. However, profit forecasts were decreased throughout the year and economic growth was modest in 2012.



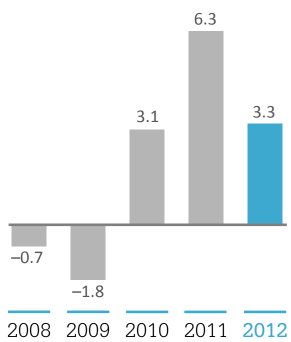
2. Development of return on investment, %



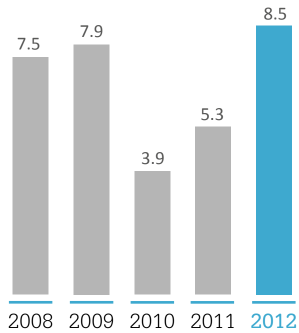
3. Development of return on equity investments, %



4. Development of return on real estate investments, %



5. Development of return on bonds, %

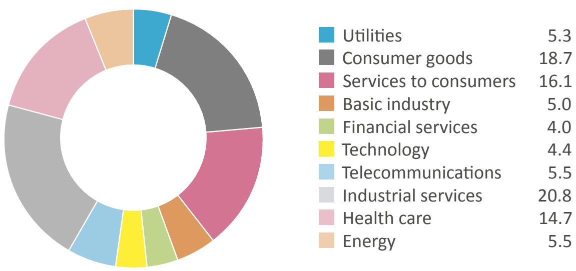


LocalTapiola General's equity investments totalled EUR 703.4 million (EUR 593.3 million), accounting for 23.2 per cent (20.9%) of all investments. Listed shares amounted to EUR 389.4 million, of which EUR 89.7 million was in funds. Finnish shares accounted for 16.3 per cent of listed direct equity investments. Equity investments returned 14.1 per cent (–2.7%).

Investments in private equity funds

At the end of 2012, there were a total of 47 funds in LocalTapiola General's private equity fund portfolio, with a total fair value of about EUR 145.5 million (EUR 121.1 million). In 2012, many private equity fund investments were made in new funds of both target fund management companies and fund management companies already in the portfolio.

6. Direct equity investments by industry, %



7. Direct equity investments by region, %

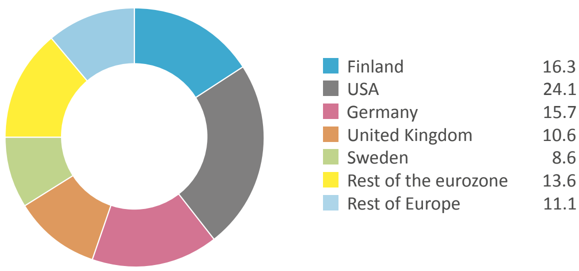
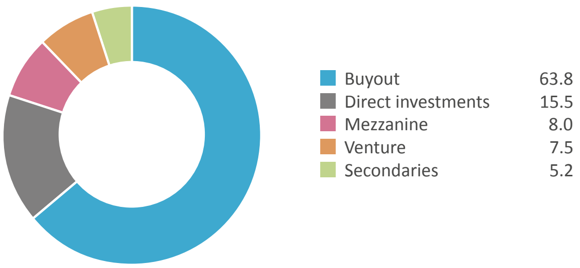


TABLE 2. 10 largest equity investments

	Market value, EUR m	% of equity investments
REED ELSEVIER NV	8.3	2.8
eBay Inc	7.0	2.4
Kone Corporation	6.4	2.2
Adidas Ag	6.4	2.2
VOLKSWAGEN AG	6.4	2.2
Varian Medical Systems Inc	6.2	2.1
Sanofi-Aventis	6.1	2.1
STADA ARZNEIMITTEL AG	6.1	2.1
Nestle Sa	5.9	2.0
WPP Group plc	5.7	1.9

8. Private equity investments by type, %



The funds' investment activity remained at the same level as in 2011 and portfolio companies continued to develop favourably, which was also reflected in the companies' valuations. Private equity funds yielded a good return of 10.2 per cent (18.9 per cent) in 2012.

Direct investments in non-listed companies

At the end of 2012, there were a total of 22 portfolio companies in the direct investment portfolio, with a total current value of about EUR 27.7 million (EUR 36.6 million). All but two of the portfolio companies were Finnish. No new initial investments were made during the year. However, one small additional investment was made in an existing portfolio company. Final exits were completed from four portfolio companies and partial exits were made from two portfolio companies.

Particularly successful final exits increased return on unlisted investments (excluding holdings and fixed-asset shares within LocalTapiola Group) to a very good 33.3 per cent (18.3) in 2012.

At the end of 2012, the combined fair value of LocalTapiola General's holdings and fixed-asset shares within LocalTapiola Group was EUR 143.3 million (EUR 148.1 million).

Fixed income investments

In the fixed income investment market, 2012 was a repeat of 2011. The market was dominated by debt problems in peripheral European countries, which escalated during the summer. The spreads of the peripheral countries decreased clearly at the beginning of the year, when the ECB brought plenty of additional liquidity to the markets through three-year LTRO operations. However, during the summer, market concerns about the ability of Spain and Italy to honour their debt payments drove spreads to record highs. The ECB intervened strongly in July by cutting interest rates to record lows and hinting at unlimited support measures in order to keep the eurozone together.

The second half of the year favoured risky investments, including the government bonds of the peripheral countries. Furthermore, the ECB's interest rate cut in the summer brought an increasing amount of liquidity to all areas of the fixed income investment market. As a consequence, returns on the government bonds of low-risk countries such as Finland and Germany have remained low. The markets generally assume that the ECB will actively support the fixed income markets in the near future and that a decrease in key interest rates is likely in the first half of next year. If the peripheral countries were to be pressured to sell their government bonds, it is presumable that they would ask the ECB to buy the bonds in order to control the widening of spreads. The yield on German 10-year bonds came to 1.32 per cent at year-end, after having been 1.83 per cent at the beginning of the year.

Money markets were relatively calm in 2012, although interest rates decreased steadily throughout the year and were close to zero at year-end. The ECB's LTRO liquidity operations and key interest rate cut in the summer also led to strong demand for money market instruments. Interest rates will remain very low in the first half of 2013.

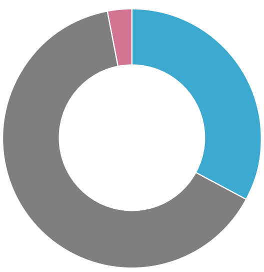
The ECB's liquidity injection also affected the corporate bond market. At the beginning of the year, spreads decreased in all sectors. However, the summer uncertainty regarding the peripheral European countries widened spreads temporarily. The spreads of banks were particularly vulnerable to the escalation of the debt crisis. Spreads began to decrease again after the summer as a result of the positive attitude towards risks and, as the end of the year approached, they were at the same levels as during the initial phases of the 2008 financial crisis. As the underlying rates are at a record low, returns on corporate bonds are, in absolute terms, at their lowest-ever levels.

Other bond classes, such as covered and sub-sovereign bonds are also at record lows. Although the potential for additional return is rather limited, this trend is likely to continue in the first half of 2013.

Insurance companies' durations were shorter than the benchmark index in 2012. The government bonds of peripheral European countries were significantly underweighted, whereas the weighting of corporate bonds was increased – especially those of Finnish companies. Covered bonds were overweighted. Overall, good-quality investments were favoured in order to reduce volatility.

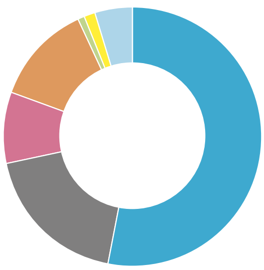
The market value of LocalTapiola General's fixed income portfolio, including fixed income funds and money market investments, stood at EUR 1,661.8 million (EUR 1,444.6 million), or 54.9 per cent (50.8%) of investments. Government bonds accounted for 33.0 per cent of fixed income investments. Corporate bonds, covered corporate bonds and other public-sector loans accounted for 64.5 per cent of fixed income investments, while money market investments accounted for 2.5 per cent. The modified duration of the portfolio, which measures its interest rate risk, was 4.2 years (4.6 yrs). Fixed income investments, including fixed income funds and money market investments, returned 7.8 per cent (5.1%).

9. Fixed income investments by type, %



Government	33.0
Corporate and covered bonds	64.5
Money market	2.5

10. Fixed income investments by credit rating, %



AAA	53.3
AA	18.7
A	8.8
BBB	12.4
BB	1.0
B	1.3
Not rated	4.6

Loans

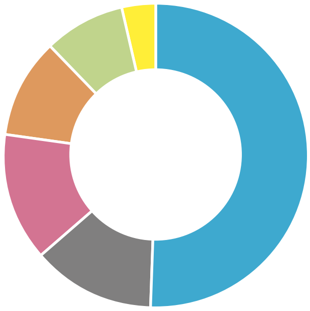
The proportion of loan receivables in LocalTapiola General's total investments decreased. The majority of the loan portfolio consisted of investment loans tailored for companies. Loan receivables returned 3.3 per cent in 2012.

Real estate investments

The escalation of the euro crisis had a negative effect on real estate markets in the eurozone in 2012. The advancing economic recession and public-sector crisis clearly weighed real estate markets down, especially in southern Europe. In the UK market, transaction volumes remained relatively high despite increased economic uncertainty, and the atmosphere took a clear turn for the worse. With Germany's strong economy, institutional investors looked more and more at the German real estate market. The real estate market remained active in Sweden, too, although high prices had already began to slow down transactions.

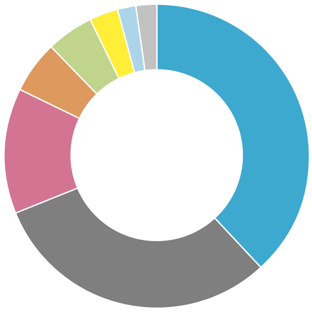
Standing at about EUR 2.0 billion, transaction volumes in the Finnish real estate market were low for the fourth consecutive year. Despite the uncertainty, real estate transactions – including some major ones – were being made. The challenges in the financial markets contributed to making transactions more difficult to conclude. Return requirements for the best sites in central Helsinki continued to fall. However, in other submarkets, the decrease levelled off and, in some cases, turned into a slight increase. Return requirements for riskier sites increased during the year and demand for investments in these sites was low. Changes in the real economy are reflected in the commercial real estate market, and decision-making regarding the rental of premises slowed down in the autumn. Rent levels rose for prime properties in central Helsinki. Otherwise, rents remained mainly unchanged. Keeping occupancy rates at their current level will require real estate owners to be active, and the renting of premises is conditional upon their good location and condition.

11. Real estate investments by type, %



Office	50.7
Commercial	13.1
Residential	13.5
Logistics	10.7
Hotel	8.4
Other	3.6

12. Real estate investments by region, %

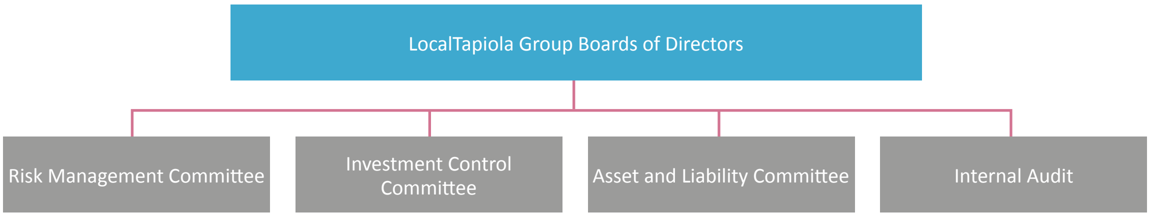


Espoo	38.2
Helsinki	30.7
Vantaa	13.4
Oulu	5.7
Tampere	4.9
Lahti	3.2
Turku	1.8
Other	2.1

At the end of 2012, the market value of LocalTapiola General's real estate portfolio totalled EUR 660.7 million (EUR 673.7 million). The allocation to real estate investments fell to 21.8 per cent (23.7%) and real estate investments returned 3.3 per cent (6.3%) in 2012. The total return on real estate investments was weighed down by the buildings occupied by LocalTapiola General itself. The most significant additions to the real estate portfolio were additional investments in real estate funds and projects under construction. The value of the assets in real estate funds amounted to EUR 127.4 million. The most important construction project was Asunto Oy Helsingin Vanhalinna. Almost all of the share capital of As Oy Helsingin Puistokulma was sold in 2012. The average vacancy rate rose to 4.4 per cent (2.8%).

Market risk management

13. Market risk management organisation



Operating principles

The aim of LocalTapiola General's investment operations is to secure its solvency and maximise returns with a managed risk position. Asset allocation is guided by the limits set by solvency, the structure of technical provisions and eligibility for the solvency margin, as well as the return requirements. In the long term, investment returns must exceed the total return targets required by the customer benefit policy. Investment operations aim to reach a high and stable return in the long term in all conditions while avoiding the risk of losing capital.

Investments are diversified sufficiently across and within the various classes of instruments. Individual risks and responsibilities are controlled by establishing investment limits and criteria. Investment operations must ensure adequate liquidity under all circumstances. In addition, the investment portfolio must be sufficiently simple.

Organisation of market risk management

LocalTapiola General set up an Asset and Liability Committee in 2007. The Committee, which is appointed by and reports directly to the Board of Directors, is an organ whose tasks include balance sheet risk management and monitoring, development and decision-making. Furthermore, it is responsible for ensuring that the management of the company's balance sheet risks – especially its market risks – is appropriately organised and that the company's capital is efficiently used. The Committee prepares a proposal for the Board of Directors on strategic market risk-taking and associated limits at regular intervals. The limits cover investment price and interest rate risks, including the characteristics and requirements of technical provisions. The Asset and Liability Committee monitors the defined risk limits as well as the results of risk-taking. The Committee is also responsible for making decisions related to the Group's capital management and capitalisation and for reporting to the Board of Directors on the requirements set on the company by the nature of the capital.

The Board of Directors appoints an Investment Control Committee, which is responsible for the practical organisation of investment operations and the operational supervision of market risks. The Investment Control Committee includes the Group's investment manager, the companies' investment managers, the insurance companies' CEOs, the actuarial managers, the CEOs of four regional companies and members appointed from among the insurance companies' employees by the Board of Directors.

The Risk Management Committee is responsible to the Board of Directors for organising risk management and monitoring solvency.

The internal audit function supports and verifies the monitoring of investment guidelines.

Risk management processes

The risk management process is based on instructions (investment plan, derivatives policy and the ALCO investment plan frameworks), monitoring the operational implementation of the instructions, regular risk reporting and self-assessment. In addition, the company takes market risks based on its approved solvency management, capital management and liquidity management principles and market risk strategy.

The company's Board of Directors annually confirms an investment plan that determines the targeted allocation of investments and expected returns, instrument-specific ranges, diversification and liquidity targets, and powers of decision.

The purpose of diversification is to secure a sufficient level of return regardless of market conditions, both within and between instrument categories. This principle applies to different industries, countries and investment targets. Individual risks and responsibilities are controlled by establishing limits and investment criteria. Adequate liquidity is ensured by the structure of the investment portfolio.

LocalTapiola Group strives for efficient and functional liquidity management to ensure operational continuity of Group companies and adequate protection of the Group against liquidity risk and to determine a sufficient liquidity reserve, taking the companies' risk-carrying capacity and resilience into account.

As regards derivatives, a more detailed policy approved by the Board of Directors is used. The policy sets out the principles governing the use of derivatives. Derivatives can be used to reduce risks such as those relating to equity, foreign exchange and fixed income investments.

In-depth analysis, diversification, derivatives and counterparty risk limits are used to secure freedom of action in all market conditions. Real estate investment risks are analysed separately.

Investment risks and returns are monitored using standard market risk and reporting methods. The reports are used to regularly monitor the development of fixed income, real estate and equity investments, as well as any risks related to them. The reports also ensure compliance with the operational principles defined in the investment plan. The company has taken into use a risk management system based on investment-specific risk monitoring.

Market risk and solvency management

The effect of market risks on the company's solvency is monitored and managed in accordance with the current solvency practice (Solvency I). Furthermore, solvency is monitored in compliance with the solvency regulations applied to conglomerates. Preparations for the future Solvency II framework are underway. In the short term, the current solvency practice is the more significant and limiting system.

The most significant change in solvency calculation is that, under Solvency II, technical provisions will be assessed at fair value, in addition to assets. Hence, the value of technical provisions will be particularly dependent on interest rates, and the significance of interest rate risk management will increase. Another significant change is the minimum solvency capital requirement based on the company's risk level. The purpose of market risk management is to secure the company's solvency for the next twelve months with sufficient probability. The risk of investment value changes is continuously monitored with a probabilistic model based on historic investment values and the correlation of value changes between different investment classes. The risk is monitored using both long-term average values for volatility and estimated key risk figures for a shorter period of time. The volatility of fixed income and equity investments and the expected short-term risks decreased during the year.

When necessary, investment operations are controlled more strictly, in accordance with what is known as the traffic light principle, and are based on continuous market risk monitoring. A green light indicates a situation where asset managers are able to operate within the normal limits of the investment plan. A yellow light indicates a situation in which increases in investment market risks or a neutral investment allocation within the investment plan are no longer acceptable in view of the risk content of the balance sheet. A red light indicates a situation in which the balance sheet risks are too high and risk reduction measures are required. In the yellow and red risk positions, stricter limits for investment risks, as well as possible risk reduction measures, are defined. The total risk is determined in such a manner that the solvency margin can remain secure, even if a risk is realised. If, however, the need for capital is apparent, the capital management principle approved by the company shall be followed.

14. LocalTapiola General's market risks

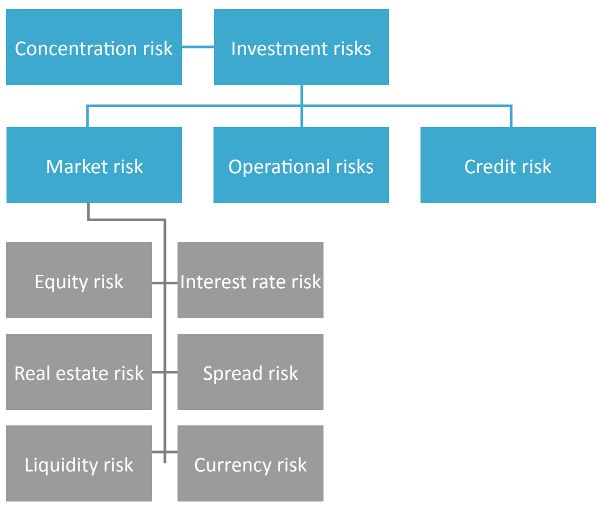
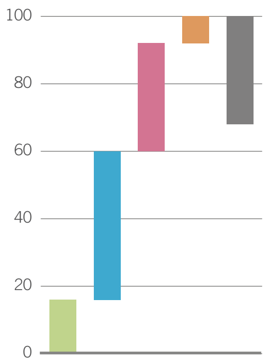


TABLE 3. Sensitivity of LocalTapiola General's investments and solvency to market scenarios as of 31 December 2012

		Impact of change		
	31 Dec 2012	Share prices –20%	Value of real estate –10%	Interest rate +1 percentage point
Solvency capital, EUR m	1,791.7	–166.5	–79.6	–79.9
Solvency ratio, %	82.2	–7.6	–3.7	–3.7
Return on investment, %	8.1	–4.7	–2.3	–2.3

15. Investment risks, %



An estimate of LocalTapiola General's market risk distribution under Solvency II at the end of 2012.

LocalTapiola General's market risks

LocalTapiola General's most significant market risks are the equity risks, interest rate risks and credit risks associated with fixed income investments, as well as real estate investment risks in accordance with figure 14. Market risks may be realised in the form of lower-than-expected income cash flow or decreased asset values. Within the Solvency II framework, market risks are related to technical provisions in market terms and in terms of the capital adequacy requirement in addition to investment assets. LocalTapiola General's market risk distribution in accordance with Solvency II is presented in figure 15. Risk values are based on the risk models and parameters prescribed by the latest official regulations (EIOPA). The benefit of diversification is realised as asset values move in different directions, creating a situation in which the total risk of the investment assets is lower than the sum of individual risks. The sensitivity of investments and solvency to market changes is shown in table 3.

Market risk is managed by diversifying investments by asset class, geographical location and industry. A key tool for controlling investment operations is basic asset class allocation. Allocation trends are presented in figures 1 and 16. In addition, Solvency II risk can be reduced by changing the sensitivity of the investment assets to interest rates in accordance with technical provisions, as well as by using derivative hedging.

Equity risks

The objective of equity investments is to achieve a higher return than the benchmark index in the long term, at a lower risk level. Additionally, investments aim to secure the value of capital. For this reason, a value investment philosophy has been selected as the guiding investment principle. It requires, among other things, a thorough knowledge of investment targets. In the main, equity investments are made in profitable and solvent growth companies. The equity portfolio must also be sufficiently diversified to avoid individual risk concentrations. Diversification concerns individual companies, geographical areas and industries. Further information on equity investments and allocations can be found under "Equity investments" in the section "Investment operations".

Equity investments are controlled with allocation and diversification limits. These include the following:

- The total proportion of listed shares may add up to a maximum of 17 per cent of the company's equity investments.
- No single company's shares in the equity portfolio may account for more than 5 per cent of the portfolio's value.
- The equity portfolio must contain the shares of no fewer than 30 and no more than 100 companies.
- The 50 largest equity investments account for at least 90 per cent of the value of equity investments.
- The proportion of any one industry must be under 20 per cent of the equity portfolio.

Listed equity investments are handled by Tapiola Asset Management Ltd.

Investments in unlisted limited companies (private equity investments) are made when they are seen to have particularly high return potential. The operative targets of these investments are confirmed annually by the investment committee and the operations are controlled with investment plan limits. The total amount of private equity investments in the form of shares may total a maximum of 5 per cent of the company's investment assets.

Fixed income risks

The primary objective of LocalTapiola General's fixed income investments is to secure the value of investments and to achieve an investment income that is at least equivalent to the return requirement on technical provisions. A secondary objective is to seek a return exceeding the benchmark index with moderate risk allocation within the fixed income portfolio.

Fixed income risks consist of interest rate fluctuations and the investment target's credit risks. In addition to the interest rate of government bonds and the intra-bank interest rate, interest rate risk is also affected by fluctuations in individual corporate bond interest spread.

Corporate bonds are used to achieve a higher return on the fixed income portfolio. Investments are made in stable companies with good credit ratings. Primarily, investments are weighted towards bonds with short maturities, which are generally held to maturity. Credit risk is minimised by diversifying investments across many issuers and by setting a maximum for the proportion of a single issuer in the portfolio.

Fixed income investments are controlled by the following allocation and diversification limits, among other factors: Investment limits are based on companies' official credit ratings. As regards countries, the credit ratings used are primarily those estimated by LocalTapiola.

- Government bonds must make up at least 10 per cent of the fixed income investment portfolio.
- The proportion of corporate bonds and commercial paper may not exceed 50 per cent.
- Other bonds issued by public corporations and covered bonds may not account for more than 50 per cent of the portfolio.
- At least 50 per cent must be invested in bonds with the highest credit ratings (AAA–AA).
- Country risk must be diversified across the entire eurozone, and excessive concentration in any single country is to be avoided.

Fixed income investments are handled by Tapiola Asset Management Ltd. Further information on fixed income investments and allocations can be found under "Fixed income investments" in the section "Investment operations".

Real estate risks

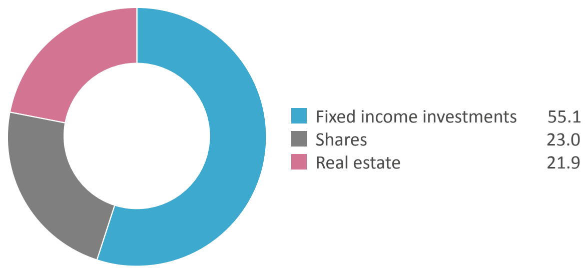
In the Finnish market, real estate investments are mainly direct investments in real estate. The objectives of indirect real estate investments, such as real estate funds, can include diversification of the real estate investment portfolio, thus reducing the portfolio's risk, as well as making investments in international real estate markets or in special targets in Finland.

Real estate investments are handled by LocalTapiola Real Estate Asset Management Ltd.

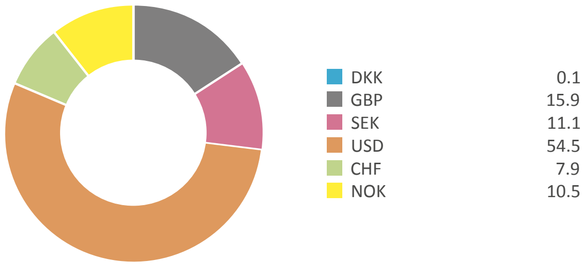
The return on direct real estate investments consists of changes in net operating income and capital appreciation. Real estate risks may be realised in the form of both loss in value or decreased income cash flow.

Real estate is a long-term investment covering very long liabilities, as lease agreements are often linked to inflation. The risk-to-return ratio of the real estate portfolio is kept low by ensuring well-founded purchases and a consistent sale programme. The real level of the cash flow and related location-specific risks are managed by an active and result-oriented lease and agreement policy. An economical life cycle for the assets is ensured by professional real estate management. New investments are made in positively developing submarkets, mainly in the largest cities. The multi-purpose usability and sales potential of the targets is taken into account when making investments. Besides the healthy economic structure of the municipalities, additional criteria include the inhabitant base and user demand. At least 70 per cent of real estate investments must be in Finland.

16. Investment allocation 31 Dec 2012, %



17. Currency allocation 31 Dec 2012, %



Real estate investments may account for a maximum of 25 per cent of the company's investment assets. Further information on real estate investments and allocations can be found under "Real estate investments" in the section "Investment operations".

Currency risks

Direct currency risk is related to investments quoted in foreign currencies while the business operations are euro-denominated. In addition, exchange rate fluctuations may affect the business operations of individual companies and industries and thus have an indirect impact on changes in equity investment values.

A maximum value has been set for unhedged currency risk (currency position). The minimum hedging ratio of a currency position is also determined by more detailed, company-specific investment limits and legislation. At the end of 2012, the company's unhedged currency position totalled EUR 179.2 million. The open currency position allocation is presented in figure 17.

Liquidity risks

Liquidity risk is realised if companies cannot liquidate their assets to cover their due payment obligations and may be caused, for instance, by large claims paid, unexpected changes in premium income behaviour or new sales.

This can be divided into two areas. Market liquidity risk is realised if the investment markets are not able to sell investment instruments sufficiently rapidly and with little loss. Financial liquidity risk is realised when the sources of funding are not enough to cover expected and unexpected needs over a specific time horizon.

The purpose of short-term money market investments is to secure the required liquidity for the company under all circumstances. To secure sufficient liquidity in the longer term, 2–20 per cent of assets must be in money market investments. Investments required by liquidity limits are made in instruments that can be converted into cash quickly, usually without incurring capital losses.

The main instruments for money market investments and cash management are bank deposits and certificates of deposit issued by banks operating in Finland. An investment analysis is conducted annually concerning money market counterparties, and the bank counterparty risk is diversified.

LocalTapiola is close to you throughout your life

LocalTapiola is close to you everywhere in Finland. Our 20 regional companies offer you comprehensive insurance, banking, savings and investment services. We are your partner in matters related to security, well-being and the economy.

Welcome to the new LocalTapiola!

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