

Tapiola General's
investment activities
and risk management
2009

TAPIOLA



Table of Contents

1.	Allocation	3
2.	Equity investments	3
	2.1. Investments in venture capital funds	4
	2.2. Direct investments in unlisted Finnish companies.....	4
3.	Fixed-income investments	5
	3.1. Customer loans	5
4.	Real estate investments	6
Risk management		
5.	Bases and operating principles	7
6.	Organisation of market risk management	7
7.	Risk management processes.....	8
	7.1. Market risk and solvency management.....	8
8.	Tapiola General's market risks	9
	8.1. Equity risks.....	10
	8.2. Fixed-income risks.....	10
	8.3. Real estate risks.....	11
	8.4. Currency risks	11
9.	Liquidity risks	11

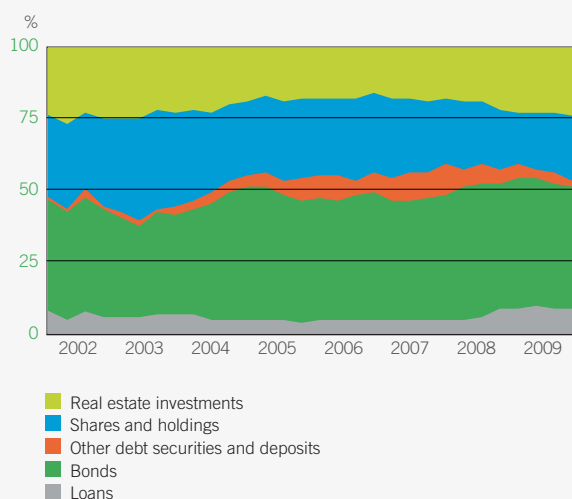
1. Allocation

Tapiola General's investment income at current value was 7.1 per cent (-4.6%). Investment assets at current value stood at EUR 2,616.9 million (EUR 2,444.2 million). Net investment income at current value amounted to EUR 180.8 million (EUR -123.7 million). The average five-year annual return on investment was 5.0 per cent and the average ten-year annual return 5.1 per cent. Equity investments in particular yielded significantly higher returns than in the corresponding period last year. In contrast, income from real estate continued to decline. Equity allocation increased considerably in the investment distribution in 2009 as a result of significant increases in value and decreased money market allocation. Also in fixed-income investments, corporate loan allocation was significantly increased. The total risk of the investment portfolio was moderately increased.

Allocation and income

	Distribution, EUR m	Distribution, %	Return, %
Loans receivable	217.8	8.3	4.2
Bonds	1137.9	43.5	7.9
Other debt instruments and deposits	62.5	2.4	2.5
Fixed-income investments	1418.2	54.2	7.0
Listed equity	388.3	14.8	34.9
Private equity funds	58.0	2.2	-13.6
Unlisted equity	152.7	5.8	3.5
Equity investments	598.9	22.9	19.6
Direct real estate investments	456.6	17.4	1.3
Real estate investment funds and collective investments	135.2	5.2	-12.3
Real estate investments	591.8	22.6	-1.8
Absolute return investments	8.1	0.3	4.4
Other investments	8.1	0.3	4.4
Total investments	2616.9	100.0	7.1

1. Allocation development



2. Equity investments

In 2009, share prices rose by 32.4 per cent in Europe and in Finland, as much as by 44.5 per cent, measured by the OMX Helsinki Cap index. From the start of the year until the beginning of March, share prices remained in steep decline. Measures initiated by governments to support European and American banks and to prevent bankruptcies eased the mood and, as a result, the willingness to take risks increased and share prices started to rise during the spring.

There was a second spurt in share prices in the summer after companies announced second quarter results that exceeded expectations. The increase in share prices was also supported by economic figures that were better than anticipated, prices of raw materials and oil starting to increase, as well as by projects aimed at reviving the economies published by various countries. In Europe, the most successful industries were banks, as well as cyclical industries that were hard hit in 2008, such as basic industry, industrial services, chemical companies and construction materials. Correspondingly, the weakest performers on the index level were defensive utility services, health care and telecommunications.

The equity markets offer interesting investment targets in 2010, as the economic situation is expected to slowly improve after the difficult preceding year. The low interest rate level is another factor encouraging equity investments, which supports investments into the most risky investment targets.

As regards many cyclical companies, expectations and valuations have, however, already risen to fairly high levels and, therefore, their share prices cannot withstand disappointments. Another worrying factor is that the risen unemployment rate weighs down the outlook of cyclical consumer product companies in particular. Banks are still suffering from the weak economy, credit losses and increased solvency requirements, which will weaken their ability to pay dividends in the coming years. Despite the improved economic outlook, it is worthwhile to focus on companies with attractive valuation levels, strong balance sheets and cash flows, as well as good long-term outlook, when selecting equity investments.

Tapiola General's equity investments yielded 19.6 per cent in 2009

Tapiola General's direct listed equity investments yielded 33.9 per cent in 2009, which exceeded the yield of European equity markets. The result was achieved at a risk lower than the general equity market risk.

At the end of 2009, Tapiola General's equity investments totalled EUR 607.0 million, accounting for 23.2 per cent of the investment distribution. The equity portfolio contained 52.0 per cent of direct investments in listed companies, 12.9 per cent of fund investments and 35.1 per cent of unlisted shares. Equity investments yielded 19.6 per cent and equity funds 38.1 per cent.

The proportion of Finnish shares decreased during the year to 24.6 per cent. In equity investments, the allocation on the Nordic countries declined. The allocation on consumer product, basic industry, technology and finance companies increased and the share of other industries declined. The 50 largest equity investments accounted for 90.6 per cent of direct equity investments. Equity investments outside the euro area have, for the most part, been hedged against currency risk.

4. Largest equity investments

	Market value, EUR m	% of direct equity investments
Lassila & Tikanoja plc	10.8	3.5
Kone Corporation	8.0	2.6
Fortum Corporation	7.9	2.5
DnB NOR Bank ASA, Oslo	7.3	2.4
Électricité de France	7.1	2.3
Carl Zeiss Meditec AG	7.1	2.3
Total Sa	6.9	2.2
Nokia Corporation	6.9	2.2
Tesco PLC	6.6	2.1
Zimmer Holdings Inc	6.6	2.1

2.1. Investments in venture capital funds

At the end of 2009, there were a total of 47 funds in Tapiola General's venture capital fund portfolio with a total current value of about EUR 58 million. No new fund commitments were given in 2009; instead, the focus was on monitoring and analysing the current portfolio.

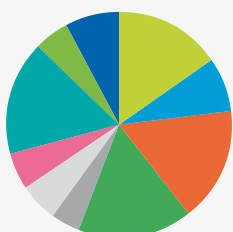
The significant decline of share prices that took place in the equity markets in early 2009 was still reflected on the valuations of unlisted companies in the venture capital fund portfolio. The weak economic situation was also evident in target companies' results for the latter part of the year. Hence, funds made value adjustments in their target companies, and significantly fewer value readjustments were received from the funds compared with the previous years.

For these reasons, the return of the funds remained clearly negative, being -13.6 per cent in 2009.

2.2. Direct investments in unlisted Finnish companies

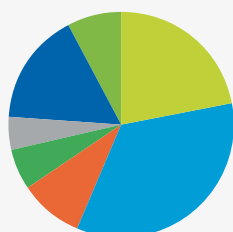
At the end of 2009, there were a total of 33 (36) target companies in the direct investment portfolio, current value totalling approximately EUR 32 million. With the exception of three companies, all of the target companies were Finnish. One new initial investment was made during the year, as well as two additional investments in existing target companies. Final exits were completed on two companies. Investments in unlisted companies yielded 3.5 per cent during 2009.

2. Equity investments by industry



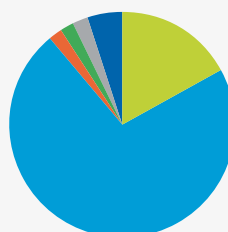
Health care	16%
Industrial services	8%
Services to consumers	16%
Consumer goods	16%
Utilities	4%
Energy	6%
Telecommunications	5%
Basic industry	16%
Technology	5%
Financial services	8%

3. Real estate investments by region



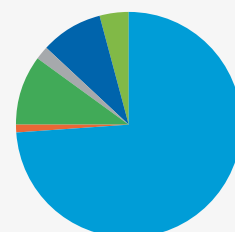
Finland	22%
Rest of the euro zone	34%
Rest of Europe	9%
Sweden	6%
Norway	5%
United States	16%
Other	8%

5. Venture capital investments by type*



Buyout	17%
Unlisted shares	72%
Generalist	2%
Mezzanine	2%
Secondary	2%
Venture	5%

6. Venture capital investments by region*



Denmark	0%
Finland	74%
France	1%
United Kingdom	10%
Guernsey	2%
Jersey	9%
United States	4%

*) Including holdings in Tapiola Group companies

3. Fixed-income investments

The financial crisis that started in the previous year also dominated events in the fixed-income investment markets in 2009. The European Central Bank lowered key interest rates several times during the spring, ending up at a record-low level of one per cent. As a result, short-term market interest rates declined. In practice, authorities of the EU countries guaranteed the short-term liquidity of banks. Short-term interest rates remained at a very low level throughout the year.

The development of long-term government obligations was considerably more variable. Germany's long-term interest rates ended up to a level of about 3.3 per cent at the start of the year. At the highest, the level of 3.7 per cent was reached in mid-summer, when the recovery of the equity markets seemed certain. The interest rate margins of European border state government bonds in relation to Germany, i.e., the risk premiums, were at very wide levels in early 2009 but narrowed considerably during the second half of the year as the economic outlook improved. However, there was a significant increase in the risk premiums of the state of Greece at the very end of the year, which was due to accounting irregularities.

Also in collateralised bonds, the year was variable. In the early part of the year, risk premiums remained high, but demand for bonds increased as the economy began to recover. In late spring, the European Central Bank announced that it would start buying collateralised bonds, which increased trading further and caused a strong decline of risk premiums.

In the corporate loan market, 2009 was a year of historic profitability. Because of the financial crisis, risk premiums had risen to very high levels at the start of the year. As a result, market participants were afraid that companies would not be able to obtain the financing they needed. The situation calmed down during the year, and price development of corporate

loans was very favourable. At the end of the year, risk premiums had almost returned to the levels preceding the crisis.

During the year, the rate of return for corporate loans was 16.7 per cent and for bonds, 7.9 per cent.

Companies' interest rate risk, i.e., duration, varied often during the year according to market situation, but was, in the main, somewhat shorter than its benchmark index. At the same time, corporate loan allocation was strongly increased during the year, from underweight to overweight. Collateralised loans were overweighted throughout the year, allocation on public sector loans was increased to overweight, and allocation on government bonds was decreased to underweight.

The entire fixed-income portfolio, including money market investments, yielded 7.4 per cent.

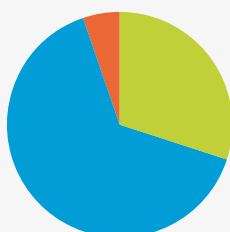
At the end of 2009, the market value of Tapiola General's fixed-income portfolio totalled EUR 1,200.4 million. Government bonds accounted for 30 per cent of fixed-income investments, real estate and public sector collateralised loans as well as corporate loans for 65 per cent, and money market investments for approximately 5 per cent. The modified duration of the portfolio was about 4.3 years. During the year, interest derivatives were actively used to manage the portfolio's interest risk profile.

The average capital-weighted credit rating of the entire fixed-income investment portfolio was good: AA. The average capital-weighted credit rating of corporate loans was A-, or AA- with real estate and public sector collateralised loans also included.

3.1. Customer loans

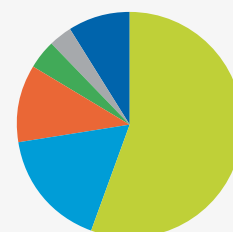
The proportion of loan receivables in Tapiola General's total investments increased. The majority of the loan portfolio consisted of investment loans tailored for companies. Loan receivables yielded a return of 4.2 per cent in 2009.

7. Fixed-income investments by type



■ Government 30%
 ■ Corporate and covered bonds 65%
 ■ Money market 5%

8. Fixed-income investments by credit rating



■ AAA 56%
 ■ AA 17%
 ■ A 11%
 ■ BBB 4%
 ■ Under BBB 3%
 ■ Not rated 9%

4. Real estate investments

In the international real estate market, 2009 was a challenging year. In most of the important European submarkets, the number of real estate transactions concluded was low compared with the previous years, and real estate values decreased in all types of commercial real estate. By the middle of the year, the period of rising return requirements that had lasted for over a year had evened out in most submarkets. In Great Britain, return requirements even turned into a slight decline when, tempted by high initial returns, foreign real estate investors started making new real estate investments. However, real estate values continued to be weighed down by an estimation of decreasing lease levels due to the economic recession.

Share prices of listed real estate investment companies were on the rise after trading picked up in Europe during the early part of the year.

The first half of the year was quiet in the Finnish real estate investment market. The effects of the global financial crisis were seen in the quietened trading. The rise of return requirements that started in the spring of 2008 continued until autumn 2009. Investors became careful because of the uncertain outlook of the economy. Because of the very quiet first half of the year, the real estate investment volume for the whole year was clearly down compared with the previous year. Trading picked up in the second half of the year. The difficulty in

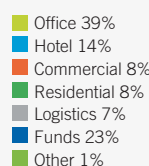
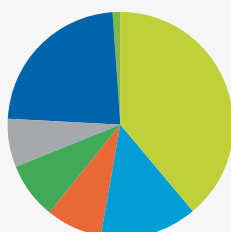
obtaining credit and the uncertainty of the Finnish economy's outlook are still reflected on the market. This was evident, among others, in the passiveness of foreign investors. The market values of investment properties declined in several submarkets during the year, which decreased total returns.

At the end of 2009, the market value of Tapiola General's real estate portfolio totalled EUR 591.7 million (EUR 537.2 million). The allocation on real estate investments rose to 22.6 per cent (22.0%). In 2009, real estate investments yielded -1.8 per cent (-0.7%). The total return on real estate investments was weighed down, in particular, by the low returns on real estate investments in the form of venture capital funds, as well as by buildings in own use and under construction.

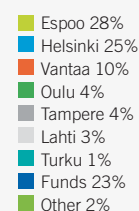
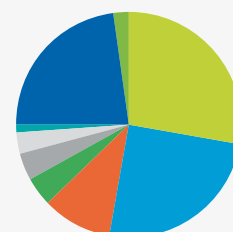
The most significant additions to the real estate portfolio were Asunto oy Helsingin Vanhalinna, real estate fund investments, as well as other additional investments in projects under construction. The most important projects under construction were Kiinteistö Oy Espoon Revontulenkujä 1, Kiinteistö Oy Sinimäentie 8 and Kiinteistö Oy Tampereen Hämeenkatu 7.

The most significant sales were the shares in Kiinteistö Oy FMO Tapiola in Espoo and a share of Kiinteistö Oy Espoon Revontulenkujä 1's shares. The average vacancy rate of the real estate dropped to 4.3 per cent (5.5%).

9. Real estate investments by type



10. Real estate investments by region



Risk management

5. Bases and operating principles

The aim of Tapiola General's investment operations is to secure its solvency and maximise returns with a managed risk position. The allocation of investments 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 bonus policy. Investment operations aim at reaching a high and stable return in the long term in all conditions while avoiding the capital risk.

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

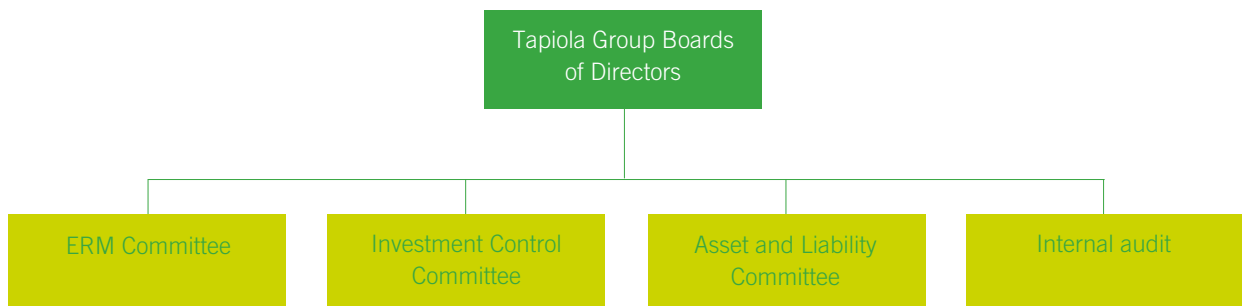
6. Organisation of market risk management

Tapiola General established an Asset and Liability Committee (ALCO) in 2007. The Committee is an expert organ of managing and monitoring balance sheet risks, and it reports directly to the Board of Directors. It is responsible for ensuring that the company's balance sheet risk management is organised in an appropriate manner. At regular intervals, ALCO prepares a proposal to the Board of Directors on strategic market risk-taking and the associated limits. The limits cover both investment price and interest rate risks, including the characteristics and requirements of the technical provisions. ALCO monitors the risk limits as well as the results of risk-taking.

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 Management Group includes the investment manager, CEOs of the insurance companies, actuarial managers and members appointed from among Tapiola Group by the Board of Directors.

The ERM Committee is responsible to the Board of Directors for the organisation of risk management and the monitoring of solvency.

Compliance with investment guidelines is monitored by internal audit.



7. Risk management processes

The risk management process is based on instructions (investment plan, derivatives policy and the ALCO guidelines for the investment plan), monitoring their operative implementation, regular risk reporting and self-assessment.

The company's Board of Directors annually confirms an investment plan determining targeted asset allocation and expected returns, instrument-specific ranges, diversification and liquidity targets and powers of decision, as well as describing the operating environment.

The purpose of diversification is to secure a sufficient level of return in all market conditions, both within and between instrument categories. The diversification principles apply to different business sectors, countries and investment targets. Individual risks and responsibilities are controlled by establishing limits and investment criteria. Sufficient liquidity is ensured by the structure of the investment portfolio. The investment plan also includes performance and risk analyses.

As regards derivatives, a more detailed policy approved by the Board of Directors is used. The policy defines the principles governing the use of derivatives. Derivatives can be used to reduce risks relating to equity, foreign exchange and fixed-income investments, among others.

Adequate analyses, diversification, derivatives and counterparty risk limits are used with the aim of securing 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 and related risks, as well as to ensure compliance with the operational principles defined in the investment plan.

7.1. Market risk and solvency management

The effect of market risk 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 current solvency regulations applied to conglomerates. Preparations for the 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 will be that under Solvency II, in addition to assets, also technical provision will be valued at market terms to current value. Hence, the value of technical provision will depend, in particular, on interest rate levels, and the significance of interest rate risk management will be emphasised. In 2010, the company will monitor its solvency comparable to Solvency II with quantitative impact studies (QIS5) in compliance with the requirements laid down by authorities. Extensive projects are also underway within the company to develop internal Solvency II models to meet the needs of both risk management and business operations. It is estimated that Solvency II will come into force in 2012.

The basis for market risk management is that the company's solvency is secured for the next twelve months with sufficient probability. The risk of investment value changes is continuously monitored with a probabilistic model that is based on historic investment value fluctuation and the correlation of value changes between different investment classes. The risk is monitored by using as volatility both long term average values and estimated risk key figures from a shorter period of time. The volatility of fixed-income and equity investments and the expected short term risk level decreased considerably during 2009 from the remarkably high level of late 2008.

When necessary, investment operations are controlled more tightly in accordance with the so-called traffic light principle, based on continuous market risk monitoring. A green light refers to a situation when asset managers are allowed and able to operate in accordance with the normal investment plan limits. A yellow light relates to a situation when any increases in investment market risks or a neutral investment allocation within the investment plan are no longer acceptable in view of the balance sheet risks. A red light refers to a situation when the balance sheet risks are too high and risk reduction measures are required. In the yellow and red light risk positions, tightened limits for investment risks, as well as possible risk reduction measures, are defined. The total risk is defined in such a manner that the solvency margin remains on a secure level also in the event of any of the risks occurring.

8. Tapiola General's investment risks

Tapiola General's most significant market risks are equity risks, interest and credit risks associated with fixed-income investments, as well as real estate investment risks in accordance with figure 11. Market risks may be realized as lower than expected income cash flow or as decreased asset values. Within the Solvency II framework, market risks are related to technical provisions at market terms and capital adequacy requirement in addition to investment assets.

Tapiola General's market risk distribution in accordance with Solvency I is presented in figure 12. Risk values are based on an internal risk model and parameters. Diversification benefit is created as asset values move in different directions, in which situation the risk of the total investment assets is lower than the sum of individual risks. The sensitivity of investments and solvency to market changes is described in table 1.

11. Tapiola General's market risks

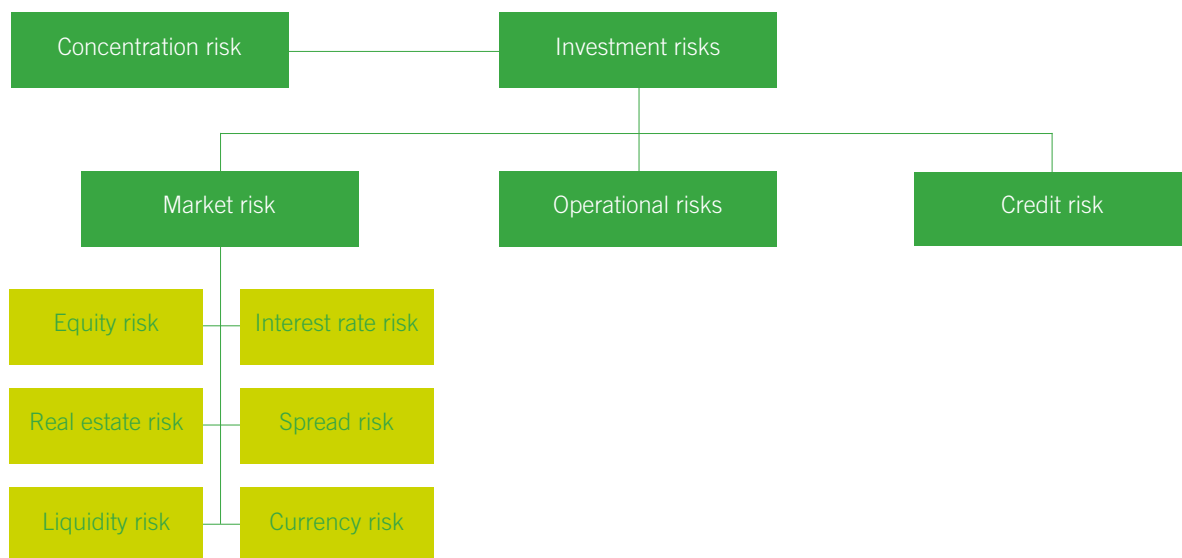
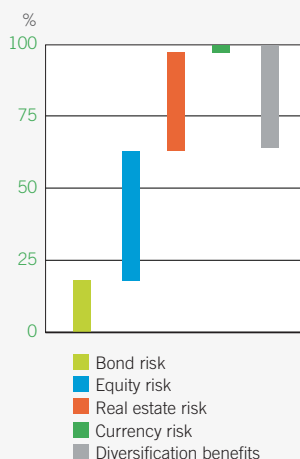


Table 1. The sensitivity of Tapiola General's investments and solvency to market scenarios as of 31 December 2009

	31.12.2009	Share quotations -20%	IMPACT OF CHANGE Value of real estate -10%	Interest level +1 percentage point
Solvency capital, EUR m	1,315.7	-121.4	-59.2	-54.7
Solvency ratio, %	89.4	-8.2	-4.0	-3.7
Return on investment, %	7.1	-4.8	-2.3	-2.1

12. Investment risks



An estimate of Tapiola General's market risk distribution under Solvency I at the end of 2009

Market risk is managed by adequate diversification of investments by investment class, geographical location and industry sector. A key tool for controlling investment activities is basic asset class allocation. Allocation is presented in figures 1 and 13. In addition, Solvency II risk can be reduced by changing investment assets' sensitivity to interest rates to match technical provisions, as well as by derivatives hedging.

8.1. 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 while securing the value of capital. For this reason, value investment philosophy has been selected as the investment principle.

It requires, among others, 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 their allocation is given in section 2. Equity allocation increased considerably in the investment distribution in 2009 as a result of significant increases in value and decreased money market allocation.

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

- The total amount of listed shares may add up to a maximum of 15 per cent of the company's equity investments.
- One share in the equity portfolio may not account for more than 5 per cent of the portfolio's value when purchased actively.
- The equity portfolio must contain 30 companies' shares at a minimum and 100 companies' shares at a maximum.
- 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.

Investments in listed shares are handled by Tapiola Asset Management Ltd.

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

8.2. Fixed-income risks

The primary objective of Tapiola General's fixed-income investments is to secure the values 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 investment risks consist of interest rate fluctuations and the investment target counterparty's credit risks. In addition to the general interest rate level of government bonds and intra-bank interest rate development, the interest rate risk is also affected by fluctuations in the individual corporate bond interest premiums (spread). The volatility of fixed-income investments decreased during 2009 from the considerably high level at the end of 2008.

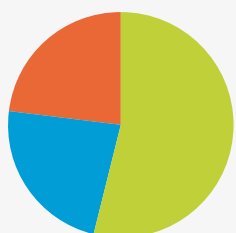
Corporate bonds are used to achieve a higher return on the fixed-income portfolio. Investments are made in stable companies with good credit ratings. Primarily, investments are weighted toward bonds with short maturities, which are generally held to maturity. Credit risk is minimised by diversifying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

Fixed-income investments are controlled, among others, with the following allocation and diversification limits: Investment limits are based on companies' official credit ratings.

- The proportion of government bonds must make up at least 25 per cent of the fixed-income investment portfolio.
- The proportion of corporate bonds and commercial papers may not exceed 40 per cent.
- Other bonds issued by public corporations and collateralised bonds may not account for more than 50 per cent.
- At least 60 per cent must be invested in companies with the highest credit ratings (AAA-AA).
- Country risk must be diversified across the entire euro zone, and excessive concentration on any single country is to be avoided.

Fixed-income investments are handled by Tapiola Asset Management Ltd. Further information on fixed-income investments and their allocation is given in section 3.

13. Asset allocation on 31 December 2009



■ Fixed-income investments 54%
 ■ Equities 23%*
 ■ Real estate 23%

*Including 8%-units intra-group investments.

8.3. Real estate risks

In the domestic market, the main type of investment is direct real estate investments. The objectives of indirect real estate investments, such as real estate funds, can include diversification of the real estate investment portfolio and thus reducing the portfolio's risk, as well as making investments in international real estate markets or in domestic special targets, among others.

Real estate investments are handled by Tapiola Real Estate Ltd.

The return on direct real estate investments consists of change in net operating income and capital appreciations. Real estate risks may be realised as loss in value or decreased income cash flow.

Real estate is a long-term investment covering well very long liabilities on the basis of lease agreements' inflation-linkedness. The return-risk structure of the real estate portfolio is ensured with 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 the largest cities. The multi-purpose usability and sales potential of the targets is taken into account when making investments. Besides a healthy economic structure of the municipalities, additional criteria include the inhabitant base and user demand. At least 70 per cent of the real estate investments must be in Finland.

Further information on real estate investments and their allocation is given in section 4.

8.4. Currency risks

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

As a rule, the currency position is hedged using derivatives when investments are made in foreign currency. The minimum hedging ratio of a currency position is determined by company-specific investment limits and legislation. At the end of 2009, Tapiola General's unhedged currency position totalled EUR 83.8 million. The open currency position allocation is presented in figure 14.

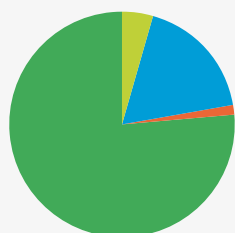
9. Liquidity risks

The liquidity risk is realised if companies are not able to liquidate their assets to cover their payment obligations when they fall due. A liquidity risk may, for instance, be caused by large claims paid or unexpected changes in premium income behaviour.

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 are made in instruments that can be converted into cash in a short time, usually without incurring capital loss.

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.

14. Currency allocation
31.12.2009



■ DKK 6%
■ GBP 23%
■ SEK 2%
■ USD 69%
■ Other 0%