

## Pension Fennia Biannual Review of Operations 1 January – 30 June 2013

- Investment income stood at 1.9%.
- Solvency remained on a secure level; the solvency ratio was 20.9% of the technical provisions and the solvency capital was 2.2 times the solvency limit.
- Effective operations, administration cost surplus of 20.0%.

### Pension Fennia's key figures

	1.1.-30.6.2013	1.1.-30.6.2012	1.1.-31.12.2012
Premiums written, EUR million	664.4	670.5	1,355.0
Pensions and other compensations paid, EUR million	653.7	619.6	1,243.7
Net investment income and change in valuation differences, EUR million <sup>1)</sup>	144.6	245.9	705.1
Investment income, % <sup>1)</sup>	1.9	3.6	10.3
Technical provisions, EUR million	6,833.1	6,410.4	6,620.7
Solvency capital, EUR million <sup>2)</sup>	1,341.7	1,119.5	1,394.6
ratio to solvency limit	2.2	2.4	2.8
ratio to technical provisions <sup>3)</sup>	20.9	18.6	22.3
Pension assets, EUR million <sup>4)</sup>	7,750.7	7,135.1	7,621.5
TyEL payroll, EUR million <sup>5)</sup>	5,057.6	5,005.3	5,041.4
YEL earned income sum, EUR million <sup>5)</sup>	858.7	855.5	879.3
Number of TyEL policyholders	22,100	23,620	22,930
Number of TyEL insured	179,540	183,320	188,920
Number of YEL policyholders	38,370	40,210	39,600
Number of pensioners	87,560	85,630	86,370
Number of personnel (on average)	250	263	252

<sup>1)</sup> Includes those interest items in the income statement that are not entered under investment income

<sup>2)</sup> Comparative information for 30 June 2012 and 31 December 2012 contains solvency margin, including the EMU buffer

<sup>3)</sup> In relation to the technical provisions used in calculating solvency limit

<sup>4)</sup> Technical provisions and valuation differences

<sup>5)</sup> Estimated annual payroll and earned income sum for the TyEL insured and YEL policyholders

### Development of the operating environment

A positive attitude prevailed within the equities market during the first quarter. The rise in share prices was at its strongest in Japan as a result of the expansive support measures initiated by the country's central bank and the subsequent weakening of the Yen. The peak in the exchange rate occurred in May when, for example, the Japanese Nikkei index had risen from the start of the year by as much as 50 per cent. The rise in the other markets remained notably more modest, at around 10 per cent.

In his speech given on May 22, the Chairman of the US Federal Reserve, Ben Bernanke, hinted that the central bank might begin the process of dissolving the bond-buying programme in stages during

September. The markets interpreted this statement to mean that the Federal Reserve may begin to gradually dissolve its stimulus measures. At the same time, the markets began to take note of news concerning graver economic figures than expected in developing markets and local demonstrations in, for example, Turkey and Brazil. Investors reacted strongly to the aforementioned events. The most significant market movements occurred in the equities, interest and currency markets of the emerging economies. In addition, the long-term interest rates increased dramatically in Europe and the USA. Notable movement also occurred within the raw material market and, for example, the price of gold dropped nearly 30 per cent during the first quarter. Within this type of environment, the declining trend in the return of nearly every asset category was especially problematic for pension providers. Following the positive first quarter, Pension Fennia's income returned to nearly the level existing at the start of the year. Of the asset categories, real estate and hedge fund investments provided significant diversification benefits.

### **Pension insurance**

At the end of June, Pension Fennia was handling the pension insurance for 179,540 employees and 38,370 self-employed persons. The total number of the insured was 217,910. The premium income for the period of 1 January to 30 June 2013 stood at €664 million (€670 million for 1-6/2012) and it is estimated to total €1,340 million for 2013, which is 1.1% less than the previous year.

The three transfer rounds of employment pension policies in 2013 reduced Pension Fennia's premium income by a total of €23.9 million. The net reduction of TyEL policies in the three transfer rounds was 348 and the net decrease of YEL policies was 418. A total of 992 TyEL policies and 1,640 YEL policies were acquired through new customer prospecting (actual for January-June).

At the end of June, the number of pension recipients was 87,560. Pensions paid in the period from January to June totalled nearly €534 million. Altogether 10% more pension decisions (settled pension cases) were made in January-June than during the corresponding period of the previous year.

During 2013, Pension Fennia mailed out approximately 116,500 updated pension records to the TyEL and YEL insured. The statements were mailed out by the end of June. From 2013 on, the frequency of pension record provision will be reduced so that every insured person aged 18-67, who has been employed by a private employer or as an entrepreneur, will receive a copy of their pension record every third year. In 2013, the pension records were only sent to those born in months from January to April. Those over the age of 60 will, however, still receive a pension record each year. Furthermore, Pension Fennia sent a pension record to all self-employed customers as a means of reminding them about the importance of an appropriate YEL income level.

### **Investment operations**

At the end of June, the value of Pension Fennia's investments stood at €7,673 million and the investment income was 1.9% for the first half of the year. A more detailed specification of assets and yields is presented in the tables below.

**Pension Fennia's investment risk distribution and risk figures on investments on 30 June 2013. This table has been drawn up in accordance with the recommendations of the Finnish Pension Alliance TELA.**

	Market value		Risk distribution		Return	Vola
	EUR million	%	EUR million	%	%	%
<b>Fixed-income investments</b>	<b>3,511.3</b>	<b>45.8</b>	<b>3,450.2</b>	<b>45.0</b>	<b>-0.3 %</b>	
Loans	356.2	4.6	356.2	4.6	1.6 %	
Bonds of OECD/EEA public corporations	502.6	6.5	204.8	2.7	-0.2 %	3.9 %
Bonds of other corporations	1,767.1	23.0	1,767.1	23.0	-0.8 %	
Other money market instruments and deposits including any receivables and liabilities related to investments	885.5	11.5	1,122.1	14.6	0.2 %	
<b>Equities</b>	<b>2,128.9</b>	<b>27.7</b>	<b>2,190.1</b>	<b>28.5</b>	<b>4.2 %</b>	
Listed equities	1,901.4	24.8	1,962.6	25.6	4.7 %	14.7 %
Private equity investments	165.7	2.2	165.7	2.2	4.6 %	
Unlisted equity investments	61.8	0.8	61.8	0.8	-5.2 %	
<b>Real estate</b>	<b>1,200.9</b>	<b>15.7</b>	<b>1,200.9</b>	<b>15.7</b>	<b>3.7 %</b>	
Direct real estate investments	978.7	12.8	978.7	12.8	3.4 %	
Real estate funds and joint investment companies	222.2	2.9	222.2	2.9	4.7 %	
<b>Other investments</b>	<b>831.9</b>	<b>10.8</b>	<b>831.9</b>	<b>10.8</b>	<b>4.4 %</b>	
Hedge fund investments	816.5	10.6	816.5	10.6	4.4 %	4.1 %
Other investments	15.5	0.2	15.5	0.2	4.3 %	
<b>Total investments</b>	<b>7,673.1</b>	<b>100.0</b>	<b>7,673.1</b>	<b>100.0</b>	<b>1.9 %</b>	<b>4.4 %</b>

Market value includes accrued interest

Risk distribution = calculated according to the risk (adjusted with derivatives)

Return = return on invested capital calculated with a time and money-weighted formula (adapted Dietz)

Vola = annualised volatility calculated from two years' history

Modified duration of bonds 3.89

**Pension Fennia's basic distribution and risk distribution. The risk distribution table has been drawn up in accordance with the instructions of the Financial Supervisory Authority (FIVA).**

Investment allocation at fair value	Market value						Risk distribution			
	30.06.2013		30.06.2012		31.12.2012		30.06.2013		30.06.2012	31.12.2012
	EUR million	%	EUR million	%	EUR million	%	EUR million	%	%	%
<b>Fixed-income investments</b>	<b>3,511.3</b>	<b>45.8</b>	<b>3,732.5</b>	<b>52.6</b>	<b>3,888.3</b>	<b>51.9</b>	<b>3,213.6</b>	<b>43.2</b>	<b>51.2</b>	<b>50.0</b>
Loans	356.2	4.6	354.1	5.0	397.7	5.3	356.2	4.8	5.1	5.4
Bonds	2,269.7	29.6	2,837.0	40.0	3,078.6	41.1	1,971.9	26.5	38.4	39.0
Other money market instruments and deposits including any receivables and liabilities related to investments	885.5	11.5	541.5	7.6	412.0	5.5	885.5	11.9	7.8	5.6
<b>Equities</b>	<b>2,128.9</b>	<b>27.7</b>	<b>1,648.2</b>	<b>23.2</b>	<b>1,625.6</b>	<b>21.7</b>	<b>2,190.1</b>	<b>29.5</b>	<b>24.3</b>	<b>23.2</b>
Listed equities	1,901.4	24.8	1,418.4	20.0	1,360.9	18.2	1,962.6	26.4	21.0	19.6
Private equity investments	165.7	2.2	131.3	1.9	161.0	2.1	165.7	2.2	1.9	2.2
Unlisted equity investments	61.8	0.8	98.5	1.4	103.7	1.4	61.8	0.8	1.4	1.4
<b>Real estate</b>	<b>1,200.9</b>	<b>15.7</b>	<b>899.7</b>	<b>12.7</b>	<b>1,147.6</b>	<b>15.3</b>	<b>1,200.9</b>	<b>16.1</b>	<b>12.9</b>	<b>15.6</b>
Direct real estate investments	978.7	12.8	671.3	9.5	931.8	12.4	978.7	13.2	9.6	12.6
Real estate funds and joint investment companies	222.2	2.9	228.3	3.2	215.8	2.9	222.2	3.0	3.3	2.9
<b>Other investments</b>	<b>831.9</b>	<b>10.8</b>	<b>812.6</b>	<b>11.5</b>	<b>833.8</b>	<b>11.1</b>	<b>831.9</b>	<b>11.2</b>	<b>11.6</b>	<b>11.3</b>
Hedge fund investments	816.5	10.6	791.4	11.2	826.6	11.0	816.5	11.0	11.3	11.2
Other investments	15.5	0.2	21.3	0.3	7.2	0.1	15.5	0.2	0.3	0.1
<b>Total investments</b>	<b>7,673.1</b>	<b>100.0</b>	<b>7,093.0</b>	<b>100.0</b>	<b>7,495.2</b>	<b>100.0</b>	<b>7,436.5</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Modified duration of bond portfolio 3.89

## Pension Fennia's investment income

	Net return on investments at current value, EUR million	Invested capital, EUR million	Return on invested capital, %	Return on invested capital, %	
	1.1.-30.6.2013	1.1.-30.6.2013	1.1.-30.6.2013	1.1.-30.6.2012	1.1.-31.12.2012
	<b>Fixed-income investments</b>	<b>-11.8</b>	<b>3,655.5</b>	<b>-0.3 %</b>	<b>4.0 %</b>
Loans	5.8	368.5	1.6 %	1.4 %	2.9 %
Bonds	-18.8	2,784.6	-0.7 %	4.8 %	11.0 %
Bonds of OECD/EEA public corporations	-1.5	597.5	-0.2 %	2.4 %	5.3 %
Bonds of other corporations	-17.3	2,187.1	-0.8 %	5.9 %	13.3 %
Other money market instruments and deposits including any receivables and liabilities related to investments	1.2	502.4	0.2 %	0.8 %	1.2 %
<b>Equities</b>	<b>79.6</b>	<b>1,888.6</b>	<b>4.2 %</b>	<b>4.8 %</b>	<b>15.8 %</b>
Listed equities	77.2	1,631.5	4.7 %	4.8 %	16.7 %
Private equity investments	7.4	161.2	4.6 %	4.4 %	10.8 %
Unlisted equity investments	-5.0	95.9	-5.2 %	4.9 %	10.7 %
<b>Real estate</b>	<b>42.5</b>	<b>1,160.6</b>	<b>3.7 %</b>	<b>3.8 %</b>	<b>12.5 %</b>
Direct real estate investments	32.4	946.4	3.4 %	4.2 %	14.8 %
Real estate funds and joint investment companies	10.2	214.3	4.7 %	2.8 %	5.4 %
<b>Other investments</b>	<b>36.9</b>	<b>832.2</b>	<b>4.4 %</b>	<b>0.6 %</b>	<b>6.3 %</b>
Hedge fund investments	36.2	817.1	4.4 %	2.7 %	8.6 %
Other investments	0.7	15.1	4.3 %	-28.5 %	-41.9 %
<b>Total investments</b>	<b>147.2</b>	<b>7,536.9</b>	<b>2.0 %</b>	<b>3.7 %</b>	<b>10.5 %</b>
Unallocated income, costs and operating expenses from investment operations <sup>1)</sup>	-2.5		0.0 %	-0.1 %	-0.1 %
<b>Net investment income at current value</b>	<b>144.6</b>		<b>1.9 %</b>	<b>3.6 %</b>	<b>10.3 %</b>

<sup>1)</sup> Including e.g. such interest items in the income statement that are not entered under investment income.

## Result and solvency

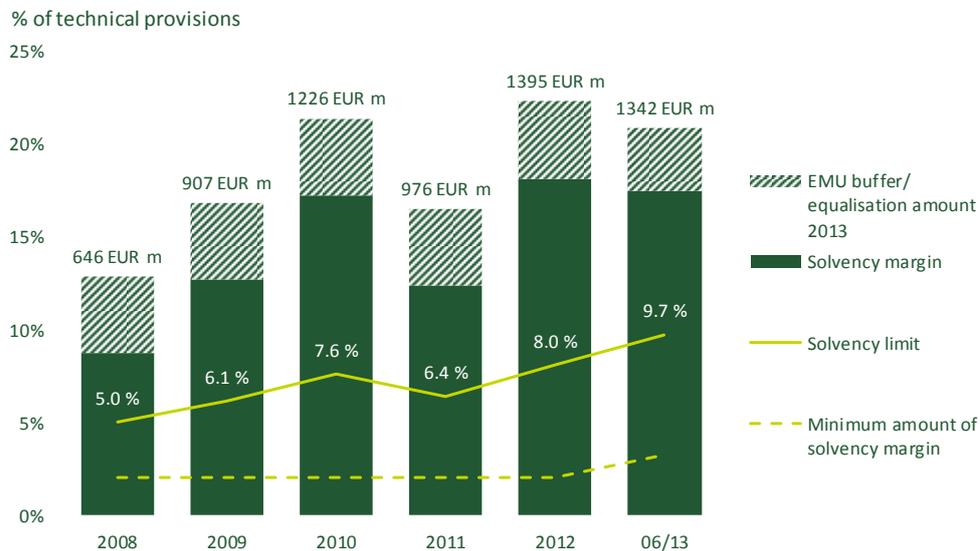
Pension Fennia's total result at fair values was -20 million euro (137 million euro for 1-6/2012) for the first half of the year. This total result is comprised of investment income at fair values totalling €-18 million, income from insurance business totalling €-7 million, and a loading profit of €6 million. Pension Fennia spent 80% of the expense loading of the insurance premium on operating costs. At the end of June, Pension Fennia's solvency capital stood at €1,342 million and was 20.9% in relation to the technical provisions. The solvency position i.e. the ratio of the solvency capital to the solvency limit was 2.2. The validity of the exceptive law concerning the solvency of the employment pension providers terminated at the end of 2012. The start of 2013 witnessed the enactment of new legislation regulating the solvency of employment pension companies in which the concepts of solvency margin and equalization amount were combined as a new concept, namely solvency capital.

## Pension Fennia's sources of result

EUR million	1.1.-30.6.2013	1.1.-30.6.2012	1.1.-31.12.2012
<b>Sources of surplus</b>			
<b>Insurance business result</b>	<b>-7.2</b>	<b>-2.3</b>	<b>-10.2</b>
<b>Investment result at current values</b>	<b>-18.2</b>	<b>132.3</b>	<b>410.0</b>
+ Net investment income at current value <sup>1)</sup>	144.6	245.9	705.1
- Yield requirement on the technical provisions	-162.8	-113.6	-295.1
<b>Loading profit</b>	<b>5.8</b>	<b>7.3</b>	<b>14.3</b>
<b>Total surplus</b>	<b>-19.7</b>	<b>137.2</b>	<b>414.1</b>

<sup>1)</sup> Includes those interest items of the profit and loss account that are not entered under investment income

## Pension Fennia's solvency capital and its limits



## Future outlook

Contrary to expectations prevailing at the start of the year, the rate of growth in the world economy will, during the current year, remain 0.25 percentage points lower than the previous year, for a rate of only 2%. The consensus forecast for global growth in 2014 is around 3%. Inflation expectations have remained very modest and are, for the current year, at 2.3%, which is half a percentage point lower than during the previous year. Over the next couple of years, consumer prices are expected to increase slightly, but inflation is expected to remain at a level of less than 3%. Improvements in the employment rate will be slow in response to sluggish growth expansion and, for example, the 6.5% unemployment rate set as the critical level by the US Federal Reserve won't, at this rate, be achieved until 2015. Of the large developing countries, growth in China, Brazil and Russia has weakened, and their growth is not expected to return to the level achieved prior to the financial crisis any time in the near future. The European economic outlook remains grim, but seems to have evened out to a weak level over the summer.

Despite lower growth figures, company-risk markets have achieved a fair yield during the current year. This is likely the result of the exceptional measures of the central banks for the purpose of supporting the markets. The slight warning at the start of the summer concerning the reduction in support purchasing from the US Federal Reserve created a state of unease. Later on, the statements of the central banks have calmed the markets, but an undeniable restlessness hangs in the air. For the rest of the year, a more permanent economic growth is desirable. The market interest rate continues to be at a historically low level, although there has been a rising trend since early May. A moderate increase is to be expected even if there is not yet pressure to raise the central banks' reference rates.

At the close of the summer, economic indicators suggest a brighter end of the year, which gives reason to anticipate that company-risk bearing investments, particularly equity investments, will achieve the best

yield at the year's end. In terms of the interest investments, the coming months will likely be quite tame. Toward the end of the year, the markets will be forced to balance between the growth outlooks and the attempts of the central banks, at least the US Federal Reserve, to reduce the market support measures.

In December 2012, the Boards of Pension Fennia and LocalTapiola Mutual Pension Insurance Company approved a letter of intent concerning a merger of the two companies. Plans for the merger continued during the spring and, at the end of March, the Boards of both companies approved the framework agreement and plan for the merger. The Extraordinary General Meetings of the companies approved the plan for the merger on 19 June 2013. The Financial Supervisory Authority granted permission for the merger at the end of the June. As a result of the merger, Elo Mutual Pension Insurance Company will launch its operations on 1 January 2014. In terms of the pension system, this significant merger will serve to benefit the customers and to improve the efficiency and performance of the overall employment pension system.

The new employment pension company will be a dynamic insurer within the employment pension field. By virtue of a premium income totalling approximately €3 billion, Elo will hold approximately a 24% share of the market at the launch of its operations. The company's investment assets will be more than €17 billion. In accordance with assessments done during the spring, the synergetic benefits of the merger will be noteworthy following the transitional phase of the merger and will be reflected in the premium discounts for the customers. The new company will focus particularly on the convenience of its services as well as on corporate finance and occupational well-being services. Elo will serve as the employment pension partner to both Fennia and LähiTapiola, thereby creating a comprehensive partnership that will provide customers with convenient access to the new company's services anywhere in Finland.

The figures presented in this biannual report are those of the parent company and have not been audited.

For further information, please contact:

Lasse Heiniö, Managing Director, tel. +358 10 503 7204

Eeva Grannenfelt, Director, Chief Investment Officer, tel.+358 (0)10 503 7211 or +358 (0)50 544 6355

Irmeli Heino, Director, Finance and HR, tel. +358 (0)10 503 7208