



**Elo Mutual Pension Insurance Company**

**Interim report 1 January – 30 June 2015**



## **Strong start to the year for Elo 1.1.–30.6.2015**

- Total return on investment operations was 4.9% .
- Market value of investments increased to EUR 21 billion.
- Solvency improved from the start of the year and the solvency ratio was 27.5%.
- Efficiency of operations increased further and the expense loading ratio was about 77%.



## Key observations of the financial operating environment in the first half

- Global economic growth did not reach the projected level and remained at about 2% at the start of the year.
- Euro area growth picked up and was stronger than expected.
- The financial and political situation in Greece reached a crisis at the end of June.
- The economic circumstances in Finland were difficult and growth did not live up to the expectations at the start of the year.





## Investment markets declined after a strong start to the year

- Investment market performance was strong during Q1 boosted by the ECB's considerable monetary policy stimulus, for instance. Equity market returns, in particular, were good.
- During April equity markets started to decline and reference rates rose considerably in Europe.
- Credit risk margins declined at the start of the year, but the US Federal Reserve's potential interest rate increases and the Greece negotiations raised margins at the end of June.
- In spite of the equity and fixed income market movements in Q2, the return on Elo's investment operations remained at a good and stable level.

# Market value of investments EUR 21 billion

## Investment distribution and risk figures 30 June 2015

	Basic allocation by market value		Actual risk position		Return	Volatility
	EUR million	%	EUR million	%	%	
<b>Fixed-income investments</b>	<b>9,249.4</b>	<b>44.7</b>	<b>8,848.9</b>	<b>42.8</b>	<b>0.2</b>	
Loans	571.9	2.8	571.9	2.8	1.4	
Bonds	7,288.2	35.2	7,277.6	35.2	0.1	2.4
Bonds of public corporations	4,726.2	22.8	4,741.5	22.9	0.1	
Bonds of other corporations	2,562.0	12.4	2,536.1	12.3	0.2	
Other money market instruments and deposits including any receivables and liabilities related to investments	1,389.3	6.7	999.4	4.8	0.1	
<b>Equities</b>	<b>6,129.4</b>	<b>29.6</b>	<b>6,665.4</b>	<b>32.2</b>	<b>13.4</b>	
Listed equities	4,948.5	23.9	5,484.5	26.5	13.5	8.4
Private equity investments	892.2	4.3	892.2	4.3	14.6	
Unlisted equity investments	288.7	1.4	288.7	1.4	8.6	
<b>Real estate</b>	<b>2,871.2</b>	<b>13.9</b>	<b>2,871.2</b>	<b>13.9</b>	<b>4.4</b>	
Direct real estate investments	2,216.3	10.7	2,216.3	10.7	3.9	
Real estate funds and joint investment companies	654.9	3.2	654.9	3.2	6.5	
<b>Other investments</b>	<b>2,447.9</b>	<b>11.8</b>	<b>2,674.1</b>	<b>12.9</b>	<b>1.9</b>	
Hedge fund investments	2,446.5	11.8	2,446.5	11.8	1.7	2.3
Commodity investments	-1.2	0.0	-54.7	0.3	-	
Other investments	2.6	0.0	282.2	1.4	-	
<b>Total investments</b>	<b>20,697.9</b>	<b>100.0</b>	<b>21,059.6</b>	<b>101.7</b>	<b>4.9</b>	<b>2.9</b>
Effect of derivatives			-361.7	-1.7		
<b>Total</b>	<b>20,697.9</b>	<b>100.0</b>	<b>20,697.9</b>	<b>100.0</b>		

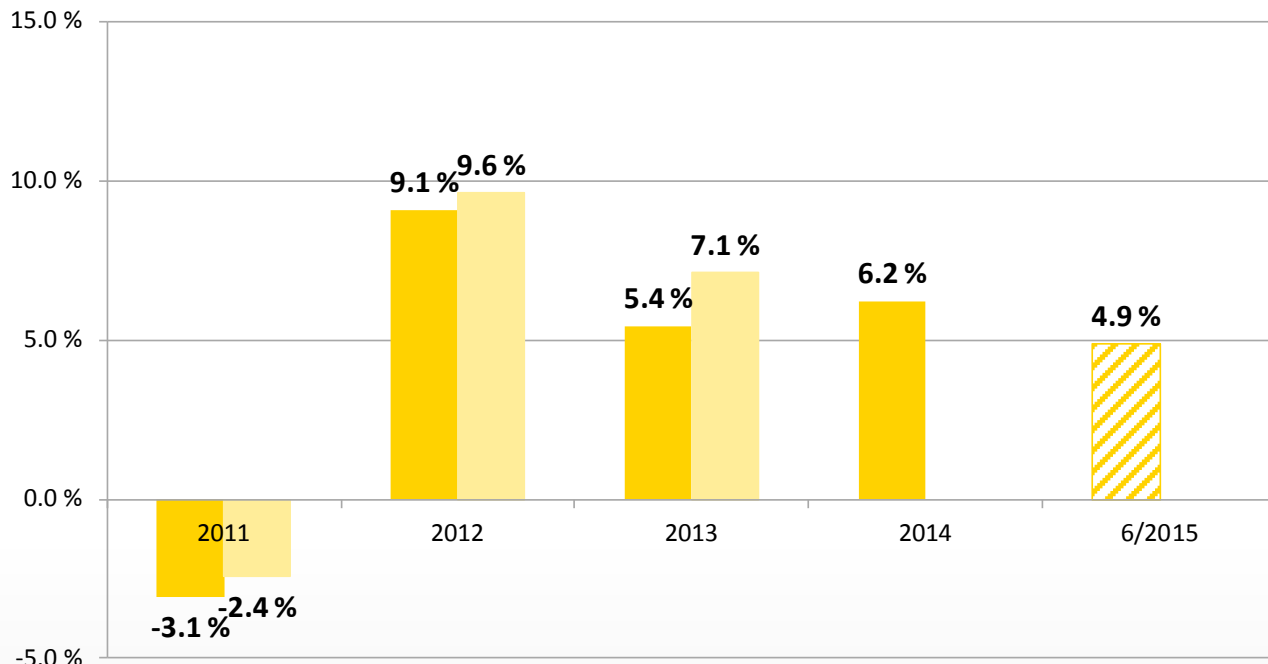
Modified duration of bonds 3.7

The total return percentage includes income, expenses and operating expenses not allocated to any investment types.



# Investments produced 4.9% in returns

Investment income 2011– 6/2015



■ Elo (= LocalTapiola Pension Company 2011-2013)

■ Elo pro forma \*)

Average return on investments

- **For 10 years:**

nominal return 5.1 % (pro forma 5.2 %)

**real return 3.3 % (pro forma 3.4 %)**

- **For 5 years:**

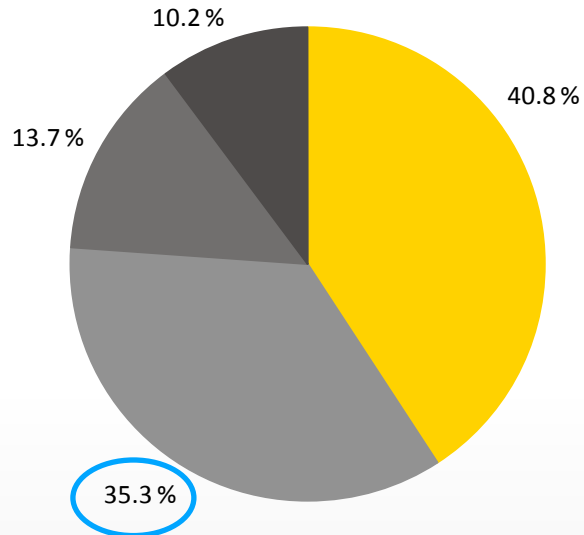
nominal return 5.8 % (pro forma 6.3 %)

**real return 4.0 % (pro forma 4.5 %)**

# Equity risk was reduced just before summer

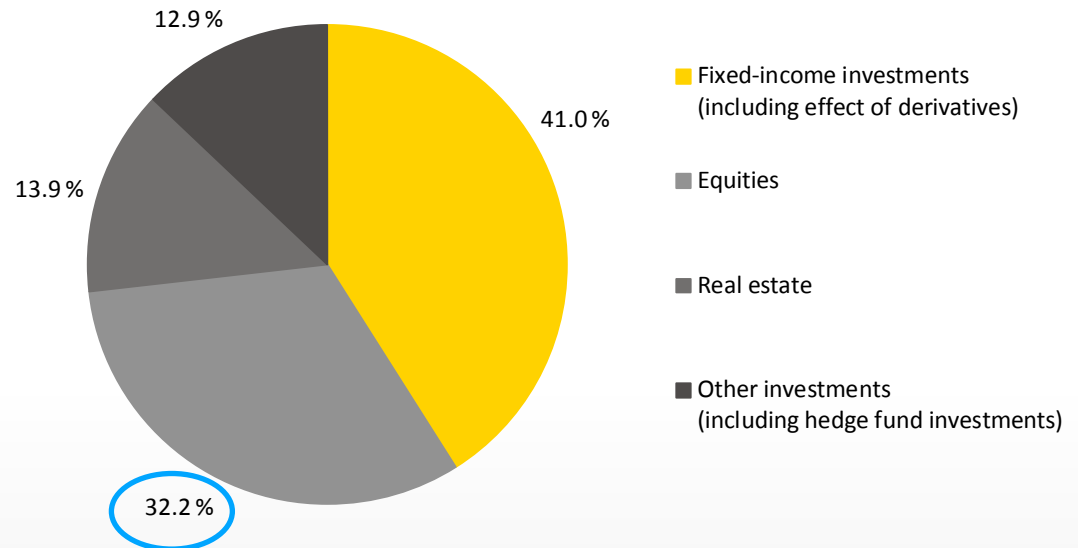
Risk-adjusted assets 31.12.2014 and 30.6.2015

**Finnish investments make up a quarter of investments and their share has remained stable.**



31 December 2014

Interim report 30 June 2015



30 June 2015



## Solvency improved on the start of the year

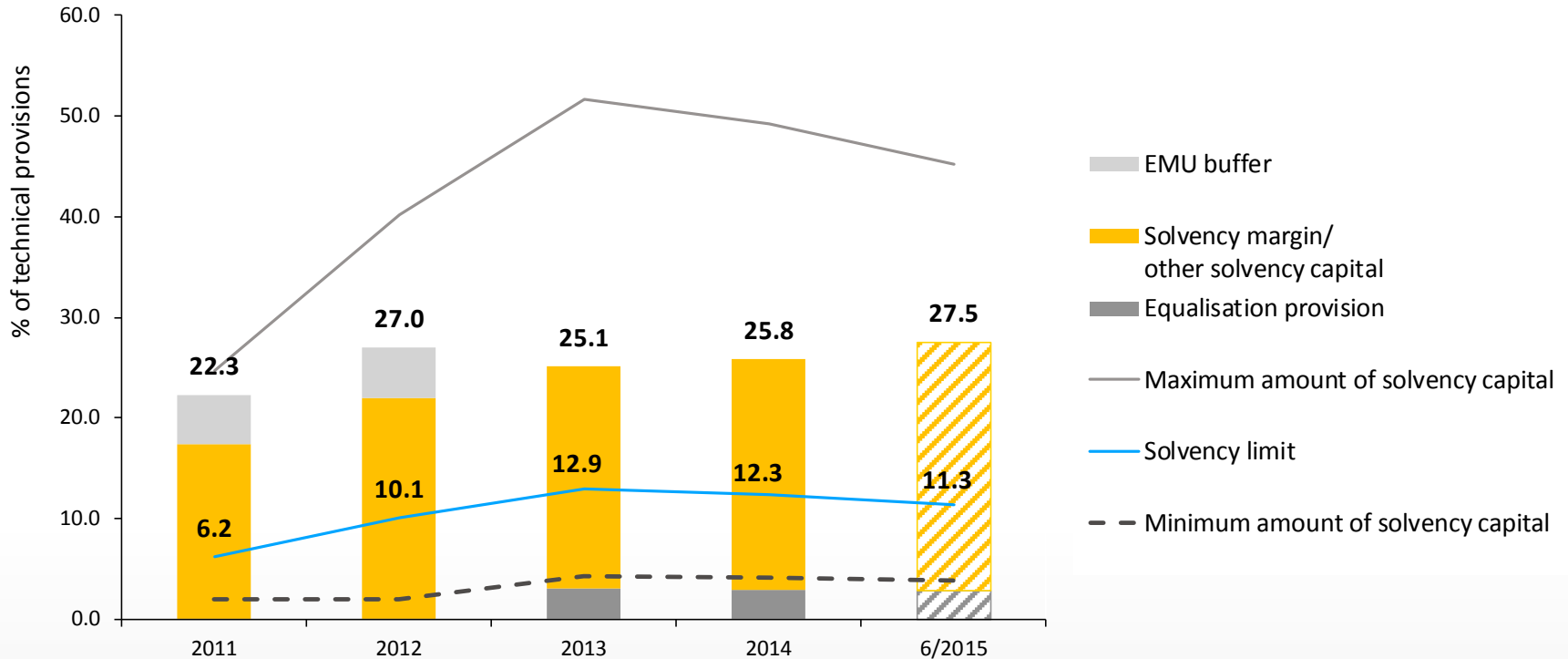
- At the end of June solvency capital was EUR 4,492.7 million.
- The solvency ratio was 27.5% of technical provisions while the solvency capital was 2.4 times the solvency limit.
- The solvency ratio without the equalisation provision was 24.7%.
- The total result for 6 months at current values was EUR 414.6 million.
- The most significant item in the total result, the result of investment operations at fair values, was EUR 407.8 million at current values.





# Solvency development

Solvency ratio and its limits 2011–6/2015



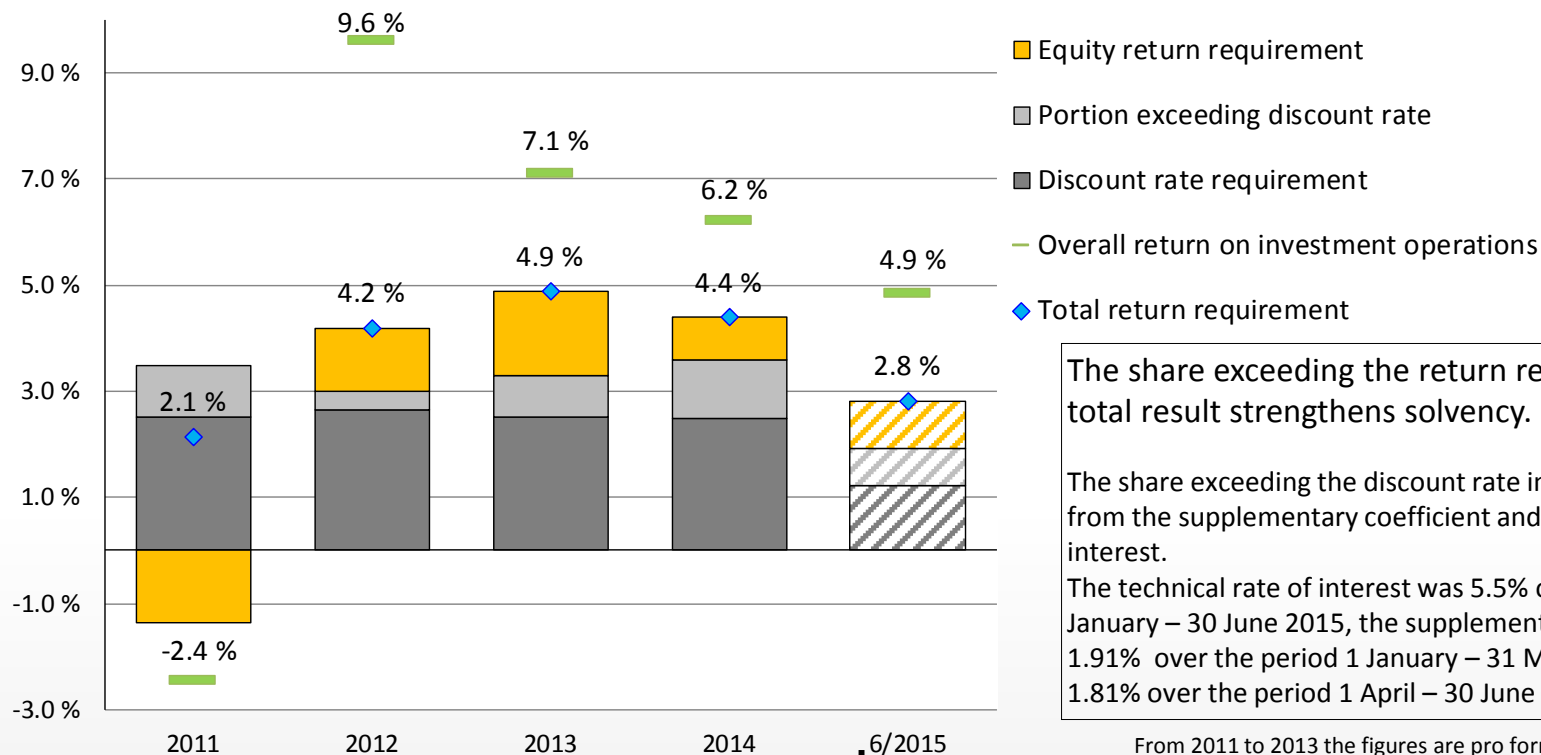
For the 2011–2013 period, the figures reported for Elo are those of LocalTapiola Pension Company.

# Formation of Elo's profit

EUR million	1.1.-30.6.2015	1.1.-30.6.2014	1.1.-31.12.2014
<b>Total surplus</b>	<b>414.6</b>	<b>257.0</b>	<b>362.5</b>
Insurance business surplus	-7.8	-15.5	-11.3
Investment surplus at fair values	<b>407.8</b>	<b>260.5</b>	<b>342.0</b>
Net investment income at fair values (+)	967.3	678.9	1,163.8
Yield requirement on technical provision (-)	-559.4	-418.4	-821.8
Loading profit	<b>14.6</b>	<b>12.0</b>	<b>31.8</b>
<b>Distribution of surplus</b>	<b>414.6</b>	<b>257.0</b>	<b>362.5</b>
Change in solvency	414.6	257.0	306.2
Change in equalisation provision	-7.8	-16.5	-12.3
Change in provision for future bonuses	147.2	141.0	163.5
Change in valuation differences	275.2	130.3	151.7
Change in accrual of closing entries	0.0	0.0	0.3
Profit for the financial year	0.0	2.2	2.9
Transfer to client bonuses	0.0	0.0	56.4

# Return on investment operations in relation to the return credited in technical provisions 2011-6/2015

in relation to capital employed



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The share exceeding the return requirement of the total result strengthens solvency.

The share exceeding the discount rate includes the shares from the supplementary coefficient and the technical rate of interest.

The technical rate of interest was 5.5% over the period 1 January – 30 June 2015, the supplementary coefficient was 1.91% over the period 1 January – 31 March 2015 and 1.81% over the period 1 April – 30 June 2015

From 2011 to 2013 the figures are pro forma, i.e. the combined figures of Pension Fennia and LocalTapiola Pension Company.



## Well over 90% of earnings notifications were submitted electronically

- Elo's premium income for the first half-year was EUR 1,565.6 million.
- From the start of the year, profit from the transfer business\* was positive. New business remained at a good level.
- During the first half of the year, ICT system developments meant that Elo's insurance customers were able to start using Elo's new online services.
- Well over 90% of customers' earnings notifications are already being submitted electronically.

\*Policyholders can transfer their employment pension policies from one company to another four times a year (1 January, 1 April, 1 July and 1 October).





## Pensions were paid to 220,000 pension recipients

- During the first half of the year, EUR 1,414.1 million in pensions were paid out, and EUR 1,148.0 of this figure was made up by old-age pensions.
- At the end of June there were about 220,000 pension recipients
- About 11,900 pension decisions were issued on applications in the first half of the year. About 880 of these were preliminary decisions on vocational rehabilitation. The number of these applications has increased by about 10% year on year.
- The processing times of pension and rehabilitation applications still clearly outperformed the industry average. For example, the average processing time for vocational rehabilitation preliminary decisions was 24 days, which is 10 days faster than the average processing times of other TyEL/YEL institutions.



## Workplace wellbeing services support working capacity

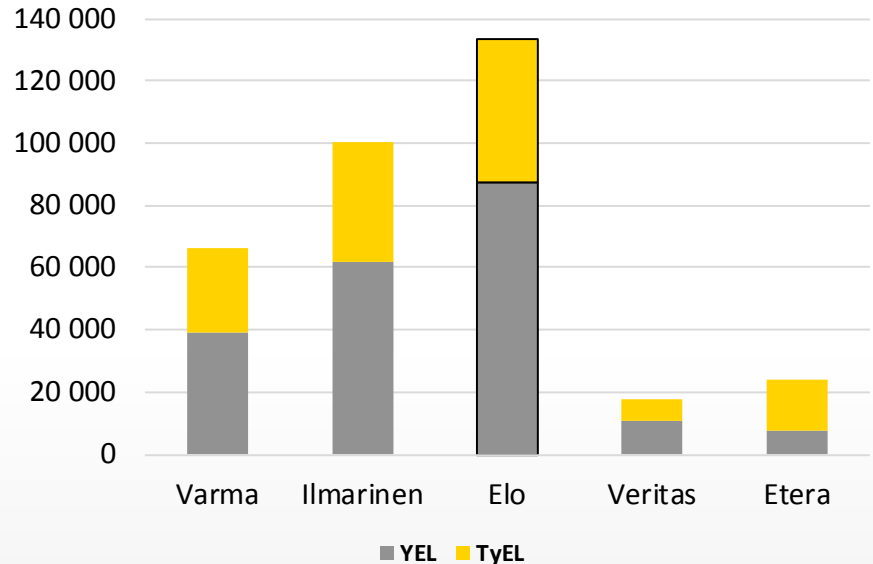
- About 500 of Elo's corporate customers used Elo's workplace wellbeing services during the first half-year.
- 20 workplace wellbeing training events, which are available for all customers, were arranged and 500 representatives of customer companies participated in these.
- During the first 6 months of the year, Elo continued to develop companies' workplace wellbeing service models and online services. Customers will gain access to these new services in stages during the coming autumn and next spring.
- Elo is organising a wellbeing event at the Korjaamo Culture Factory on 2 September 2015. The event's theme is the wellbeing of the brain. Speakers at the event are top names in brain research in the Finnish occupational realm.



# Market leader in number of employment pension policies

- Elo is the market leader both in TyEL and YEL pension insurance in terms of the number of policies.
- At the end of June Elo was responsible for about 45,800 TyEL insurance policies and 85,600 YEL insurance policies and about 470,000 employees and self-employed persons had insurance policies at Elo.

Number of insurance policies on 31.12.2014





## New Managing Director

- **Satu Huber** became the new Managing Director of Elo on 1 June 2015. Huber has previously served as Elo's Deputy Managing Director and the Managing Director of LocalTapiola Mutual Pension Insurance Company.
- **Lasse Heiniö**, who has been the Managing Director since the foundation of the company, will continue to serve as an advisor to the Board of Directors until the end of 2015.







## Elo is preparing for pension reform

- Changes will be made to employment pensions starting from the beginning of 2017. The main changes proposed concern the age limits and accruals for the old-age pension. Two new pensions will also be introduced: the career pension and the partial early old-age pension. The pension reform also applies to self-employed persons.
- During the first half of the year Elo focused its pension reform preparations on communications and preparation for the implementation of the legislation.
- Find out more about the pension reform and your retirement age at the address [www.elo.fi](http://www.elo.fi).





## Economic outlook uncertain

- The outlook for global economic growth for the rest of the year is uncertain. The most significant short-term risk in the global economy is the development of the Chinese economy.
- Economic performance has been picking up in Europe. However, the financial crisis in Greece and its implications pose a risk to euro area performance. The decline in the price of crude oil in recent weeks is not helping the financial crisis in Russia, which is an important trade partner for Finland.
- Finland's economic circumstances over the near term still look exceptionally challenging. GDP has contracted in Finland for three years running and it looks like GDP growth will remain around zero this year as well.
- Interest rates, which look like they will remain low, will support a positive inflation trend and the investment markets.
- As a consequence of differences in the US and European monetary policies and economic outlooks, the investment outlook for the end of the year looks uncertain.



# Attachments: Key indicators 30 June 2015

# Summary of key indicators

	1.1.-30.6.2015	1.1.-30.6.2014	1.1.-31.12.2014
Premiums written, EUR million	1,565.6	1,510.1	3,022.9
Net investment income at current value, EUR million	967.3	678.9	1,163.8
Net return from investment on capital employed, %	4.9 %	3.6 %	6.2 %
	30.6.2015	30.6.2014	31.12.2014
Technical provisions, EUR million	17,729.7	16,676.1	17,078.6
Solvency capital, EUR million	4,492.7	4,041.9	4,084.0
% of technical provisions <sup>1)</sup>	27.5 %	26.2 %	25.8 %
ratio to solvency limit	2.4	2.1	2.1
Equalisation provision, EUR million	455.3	458.9	463.0
Pension assets, EUR million <sup>2)</sup>	20,795.7	19,445.6	19,869.4
TyEL payroll, EUR million <sup>3)</sup>	11,149.6	10,989.8	11,025.9
YEL earned income sum, EUR million <sup>3)</sup>	1,983.7	1,979.0	1,937.1

<sup>1)</sup> Ratio calculated as percentage of the technical provisions used in the calculation of the solvency limit

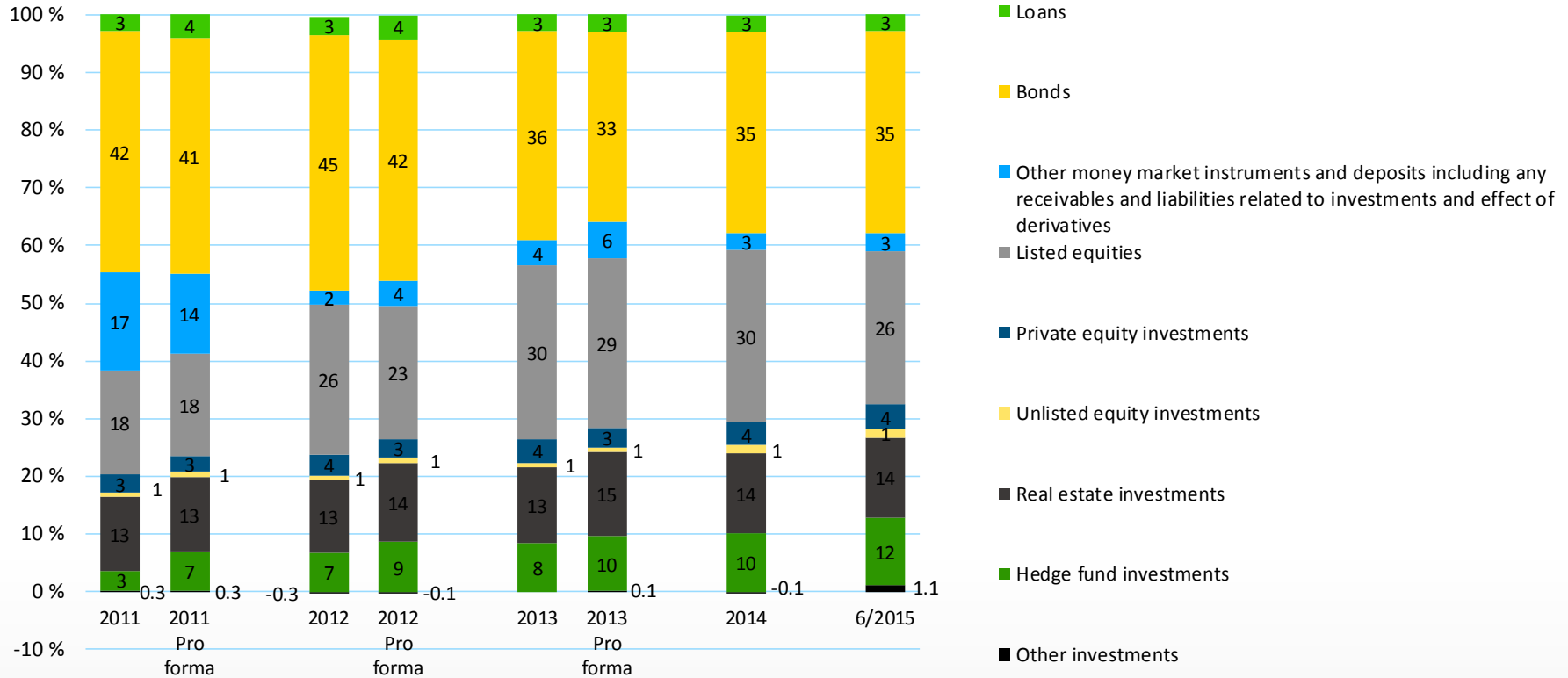
<sup>2)</sup> Technical provisions + valuation difference

<sup>3)</sup> Estimate of policyholders' salary and reported earnings for the full year

# Solvency capital

<b>Solvency capital</b> (as a % of technical provisions used in the calculation of the solvency limit)	<b>30.6.2015</b>	<b>30.6.2014</b>	<b>31.12.2014</b>
	%	%	%
Solvency limit	11.3	12.6	12.3
Maximum amount of solvency capital	45.2	50.3	49.3
Solvency capital before equalisation provision	24.7	23.2	22.9
Solvency capital (solvency ratio)	27.5	26.2	25.8

# Risk-adjusted assets 2011–6/2015



For the 2011–2013 period, the figures reported for Elo are the revised figures of LocalTapiola Pension Company. Pro forma figures are the combined figures of Pension Fennia and LocalTapiola Pension Company.

# Equity investments produced best returns

Net investment income at current value 30 June 2015

	Net return on investments at current value, EUR million	Invested capital, EUR million	Return on invested capital, %	Return on invested capital, %	
	1.1.-30.6.2015	1.1.-30.6.2015	1.1.-30.6.2015	1.1.-30.6.2014	1.1.-31.12.2014
<b>Fixed-income investments</b>	<b>16.3</b>	<b>8,946.7</b>	<b>0.2</b>	<b>2.9</b>	<b>3.8</b>
Loans	8.1	568.2	1.4	1.3	3.1
Bonds	7.4	6,959.9	0.1	3.6	4.5
Bonds of public corporations	3.1	4,140.7	0.1	3.0	3.2
Bonds of other corporations	4.3	2,819.2	0.2	4.1	5.9
Other money market instruments and deposits including any receivables and liabilities related to investments	0.9	1,418.7	0.1	0.1	0.2
<b>Equities</b>	<b>797.9</b>	<b>5,950.9</b>	<b>13.4</b>	<b>5.4</b>	<b>9.8</b>
Listed equities	661.4	4,903.6	13.5	5.0	8.0
Private equity investments	112.9	774.3	14.6	7.5	18.9
Unlisted equity investments	23.6	273.1	8.6	9.6	26.0
<b>Real estate</b>	<b>118.0</b>	<b>2,675.8</b>	<b>4.4</b>	<b>2.3</b>	<b>5.4</b>
Direct real estate investments	83.9	2,149.7	3.9	2.2	4.7
Real estate funds and joint investment companies	34.1	526.1	6.5	2.7	8.6
<b>Other investments</b>	<b>42.8</b>	<b>2,304.6</b>	<b>1.9</b>	<b>3.4</b>	<b>7.1</b>
Hedge fund investments	38.7	2,304.8	1.7	3.2	7.2
Commodity investments	-4.4	2.5	-	-	-
Other investments	8.4	-2.7	-	-	-
<b>Total investments</b>	<b>975.0</b>	<b>19,878.0</b>	<b>4.9</b>	<b>3.6</b>	<b>6.3</b>
Unallocated income, costs and operating expenses from investment operations <sup>1)</sup>	-7.7		0.0	0.0	-0.1
<b>Net investment income at current value</b>	<b>967.3</b>	<b>19,878.0</b>	<b>4.9</b>	<b>3.6</b>	<b>6.2</b>

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



# Risk distribution and basic distribution of investments

	Basic allocation by market value						Actual risk position					
	30.6.2015		30.6.2014		31.12.2014		30.6.2015		30.6.2014		31.12.2014	
	EUR million	%	EUR million	%	EUR million	%	EUR million	%	%	%	%	%
<b>Fixed-income investments</b>	<b>9,249.4</b>	<b>44.7</b>	<b>8,373.2</b>	<b>43.3</b>	<b>8,467.3</b>	<b>43.2</b>	<b>8,848.9</b>	<b>42.8</b>	<b>42.6</b>	<b>42.3</b>		
Loans	571.9	2.8	582.5	3.0	589.7	3.0	571.9	2.8	3.0	3.0		
Bonds	7,288.2	35.2	6,725.6	34.8	6,806.6	34.7	7,277.6	35.2	34.8	34.7		
Other money market instruments and deposits including any receivables and liabilities related to investments	1,389.3	6.7	1,065.1	5.5	1,071.0	5.5	999.4	4.8	4.8	4.6		
<b>Equities</b>	<b>6,129.4</b>	<b>29.6</b>	<b>6,298.5</b>	<b>32.6</b>	<b>6,447.1</b>	<b>32.9</b>	<b>6,665.4</b>	<b>32.2</b>	<b>36.0</b>	<b>35.3</b>		
Listed equities	4,948.5	23.9	5,351.1	27.7	5,399.0	27.5	5,484.5	26.5	31.1	30.0		
Private equity investments	892.2	4.3	695.5	3.6	766.7	3.9	892.2	4.3	3.6	3.9		
Unlisted equity investments	288.7	1.4	251.9	1.3	281.5	1.4	288.7	1.4	1.3	1.4		
<b>Real estate</b>	<b>2,871.2</b>	<b>13.9</b>	<b>2,777.5</b>	<b>14.4</b>	<b>2,686.4</b>	<b>13.7</b>	<b>2,871.2</b>	<b>13.9</b>	<b>14.4</b>	<b>13.7</b>		
Direct real estate investments	2,216.3	10.7	2,223.8	11.5	2,154.6	11.0	2,216.3	10.7	11.5	11.0		
Real estate funds and joint investment companies	654.9	3.2	553.7	2.9	531.8	2.7	654.9	3.2	2.9	2.7		
<b>Other investments</b>	<b>2,447.9</b>	<b>11.8</b>	<b>1,889.9</b>	<b>9.8</b>	<b>2,015.0</b>	<b>10.3</b>	<b>2,674.1</b>	<b>12.9</b>	<b>9.7</b>	<b>10.2</b>		
Hedge fund investments	2,446.5	11.8	1,888.0	9.8	2,015.9	10.3	2,446.5	11.8	9.8	10.3		
Commodity investments	-1.2	0.0	0.0	0.0	0.3	0.0	-54.7	-0.3	0.0	0.0		
Other investments	2.6	0.0	1.9	0.0	-1.2	0.0	282.2	1.4	-0.1	-0.1		
<b>Total</b>	<b>20,697.9</b>	<b>100.0</b>	<b>19,339.1</b>	<b>100.0</b>	<b>19,615.8</b>	<b>100.0</b>	<b>21,059.6</b>	<b>101.7</b>	<b>102.7</b>	<b>101.5</b>		
Effect of derivatives							-361.7	-1.7	-2.7	-1.5		
<b>Total at fair values</b>	<b>20,697.9</b>	<b>100.0</b>	<b>19,339.1</b>	<b>100.0</b>	<b>19,615.8</b>	<b>100.0</b>	<b>20,697.9</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>		

Modified duration of bond portfolio

3.7