



Interim report 1 January – 30 June 2016

Elo Mutual Pension Insurance Company



Strong first half year for Elo 1 Jan–30 Jun 2016

- The overall return on investments rose to 1.0 per cent in January-June. Income for the second quarter was 1.3 per cent.
- The value of investments totalled EUR 21 billion.
- Solvency remained strong and the solvency ratio was 22.7 per cent. The solvency capital exceeded the solvency limit by a factor of 1.9.
- Operations continued to be efficient. The expense loading ratio was 78 per cent.



Very challenging economic operating environment in early part of the year

- The growth of the global economy improved by close to 3 per cent after performing poorly at the beginning of the year. Growth in the euro area remained at the 1.5-per-cent level and Finland's growth finally attained the same level.
- Inflation was very low globally.
- The EU referendum in the UK had a negative impact on Europe's overall growth expectations and its ultimate impact is very uncertain.





Increased uncertainty in investment markets due to UK's EU referendum, terrorism and Turkey's crisis

- The first half of the year was eventful in the investment markets.
- Following the turmoil of the beginning of the year the investment markets improved during the spring, mainly thanks to the easing measures of the European Central Bank and the Bank of China. But in late June, the EU referendum in the UK pushed the markets into a very unusual and uncertain state. The terror attacks in France and the crisis in Turkey further added to the political uncertainty.
- Thanks to a successful and comparatively low-risk strategy and good diversification, Elo's solvency remained stable in the first half of the year despite the challenges early on, and its investments generated a return of 1.0 per cent.



Positive overall return on Elo's investments, thanks to excellent return from fixed income investments

- Government bond interest rates fell globally to a historically low level, increasing returns from fixed income investments on a wide scale. The overall return from the bond portfolio was 3.5 per cent. The return from bonds issued by governments and similar issuers was 2.9 per cent.
- We continued to efficiently diversify government bond investments outside of the euro zone, in particular in the USA, and in emerging markets.
- The beginning of the year was difficult in the corporate bond market but increasing commodity prices and the ECB's announcement of a European corporate bond purchase programme resulted in solidly positive returns for the first half of the year. The return from corporate bonds was 4.3 per cent.
- US and emerging market corporate bonds performed best in Elo's corporate bond portfolio.



Uncertainty in global economy influenced equity markets early in the year

- Uncertainty in the global economy influenced the equity markets early in the year. Equity prices fluctuated greatly as the equity markets searched for direction throughout the first half of the year.
- Equity prices have remained rather high in the main markets while corporate earnings growth has been low.
- At the end of June, equity markets were close to the level at the beginning of the year in Finland and the United States, while in Europe they fell by about 10 per cent and in Japan by about 20 per cent. In contrast, emerging market equities were up by approximately 5 per cent.
- Elo's equity investments successfully weighted the US and emerging equity markets at Europe's expense.
- The share of listed equity investments of investment assets was kept moderate in the first half of the year. Their share was 27 per cent at the end of June, including derivatives, and their return was -4.0 per cent.



Other investments diversified risk and brought moderate return

- Real estate and real investments diversify risk when the equity market is turbulent and the return for January–June was as we had expected. The sale of rather large properties early in the year momentarily reduced real estate investments. Returns on real estate investments totalled 3.7 per cent. Returns on direct real estate investments totalled 4.0 per cent.
- Private equity investments also continued to bring in a healthy return. Private equity investments returned 5.2 per cent.
- Demand for corporate financing remained at an expected level, especially in corporate refinancing.
- The goal of hedge fund investments is to diversify investment risk. They generated a return of –0.7 per cent.



Economic outlook exceptionally uncertain

- With regard to global growth, we see risks especially in China and also in Europe as a result of the EU referendum in the UK and the crisis in Turkey.
- China is troubled by its conflicting structural and growth policies. Europe faces a long and arduous political process, the uncertainty of which is likely to hold back companies' investments and activity. The UK's decision to exit the EU is likely to significantly slow down growth in the euro area but recession can probably be avoided with the ECB's strong easing measures.
- The outlook for the United States is reasonable but it, too, has a somewhat uncertain manufacturing outlook resulting from excess global manufacturing capacity.
- Finland's economic situation seems brighter than it has been for a long time but we are still susceptible to Europe's economic performance.
- Interest rates, which look like they will remain low, will support a positive inflation trend and the investment markets.

Market value of investments EUR 21 billion

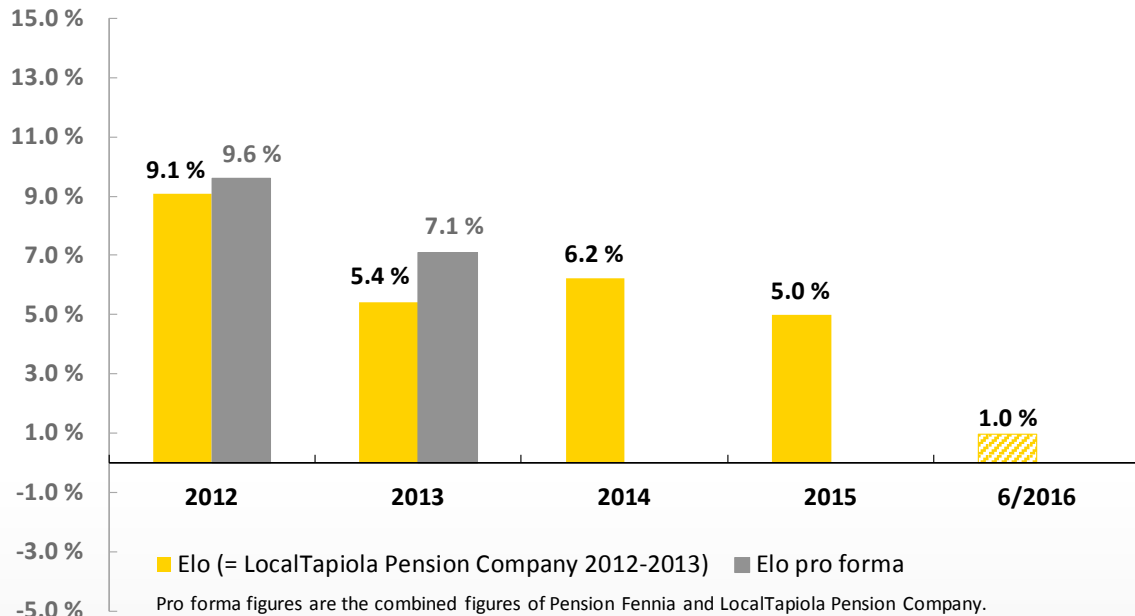
Asset allocation and risk figures 30 June 2016

	Basic allocation by market value		Actual risk position		Return	Volatility
	EUR million	%	EUR million	%	%	%
Fixed-income investments	9,102.4	43.7	8,439.9	40.5	3.0	
Loans	527.2	2.5	527.2	2.5	1.5	
Bonds	7,697.3	37.0	8,156.2	39.2	3.5	2.7
Bonds of public corporations	4,163.5	20.0	4,009.5	19.3	2.9	
Bonds of other corporations	3,533.8	17.0	4,146.6	19.9	4.3	
Other money market instruments and deposits inc. any receivables and liabilities related to investments	877.9	4.2	-243.5	-1.2	0.0	
Equities	6,411.8	30.8	7,061.8	33.9	-2.2	
Listed equities	4,980.3	23.9	5,630.3	27.0	-4.0	17.2
Private equity investments	1,142.2	5.5	1,142.2	5.5	5.2	
Unlisted equity investments	289.4	1.4	289.4	1.4	4.6	
Real estate	2,689.3	12.9	2,689.3	12.9	3.7	
Direct real estate investments	1,995.3	9.6	1,995.3	9.6	4.0	
Real estate funds and joint investment companies	694.0	3.3	694.0	3.3	2.8	
Other investments	2,622.9	12.6	2,914.6	14.0	-0.1	
Hedge fund investments	2,619.2	12.6	2,619.2	12.6	-0.7	3.0
Commodity investments	0.2	0.0	1.7	0.0	-	
Other investments	3.5	0.0	293.7	1.4	-	
Total investments	20,826.5	100.0	21,105.6	101.3	1.0	6.3
Effect of derivatives			-279.1	-1.3		
Total	20,826.5	100.0	20,826.5	100.0		

The total return percentage includes income, expenses and operating expenses not allocated to any investment types. Modified duration of bonds 3.7.

Investments produced 1.0% in returns

Investment return 2012–6/2016



Average return on investments

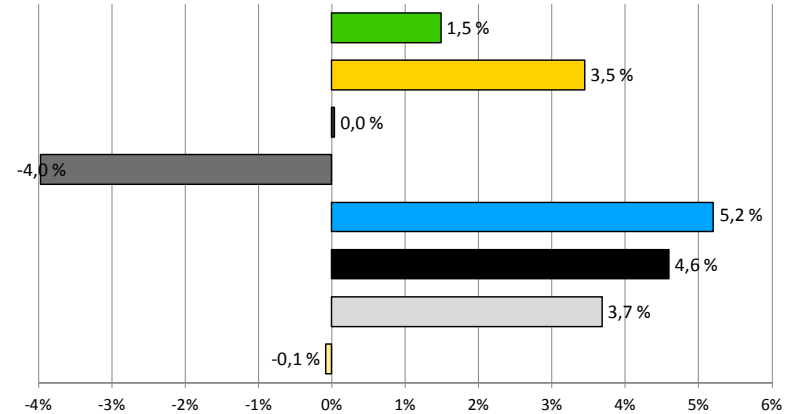
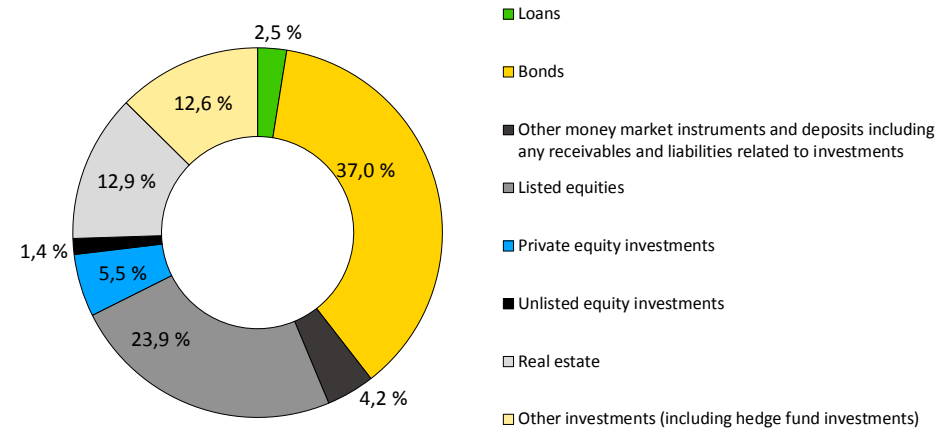
Over 10 years

- nominal return **4.8 %** (pro forma 4.8 %)
- real return **3.1 %** (pro forma 3.1 %)

Over 5 years

- nominal return **4.6 %** (pro forma 5.2 %)
- real return **3.5 %** (pro forma 4.0 %)

Asset allocation and returns 30.6.2016



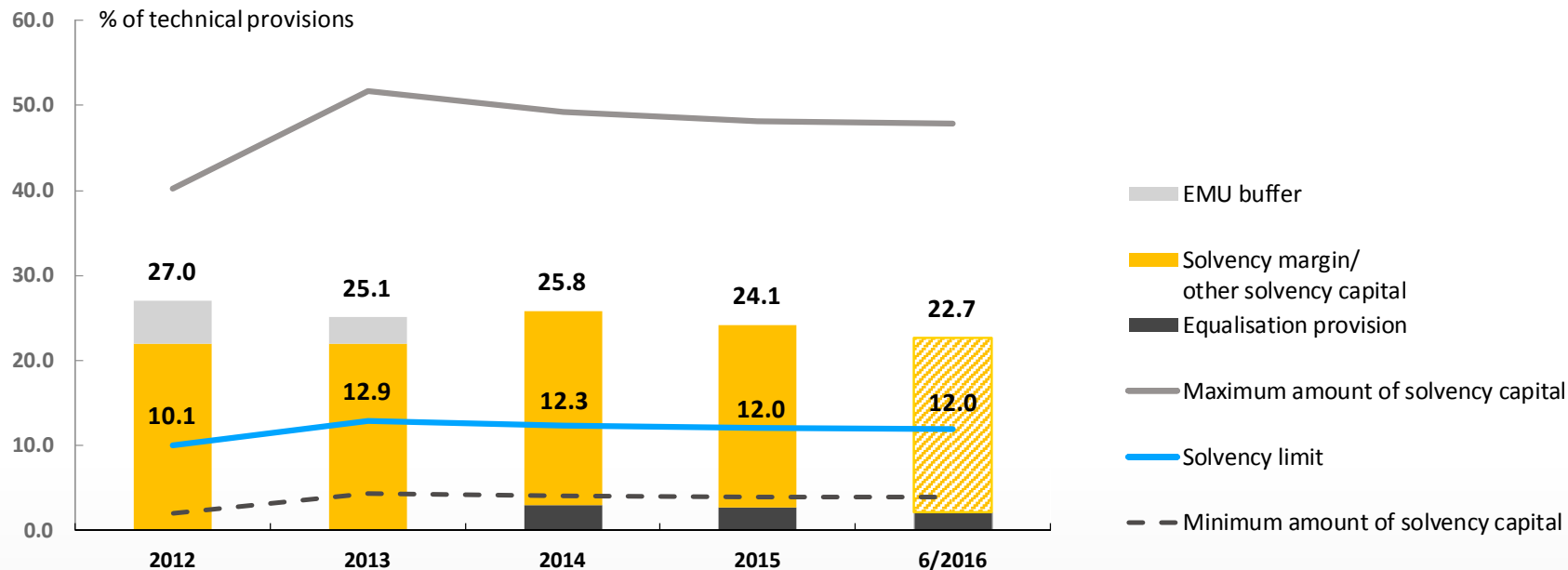


Solvency remains on stable level

- At the end of June, the solvency capital was EUR 3,870 million.
- The solvency ratio was 22.7 per cent of technical provisions, while the solvency capital exceeded the solvency limit by a factor of 1.9.
- The solvency ratio without the equalisation provision was 20.5 per cent.
- The net return on investment operations at fair values stood at EUR 199 million. Subtracting the EUR 297 million return requirement on technical provisions from the net investment income at fair value results in a fair-value result of investment operations of EUR –98 million. The insurance business surplus was EUR –36 million and the loading profit was EUR 14 million.

Solvency

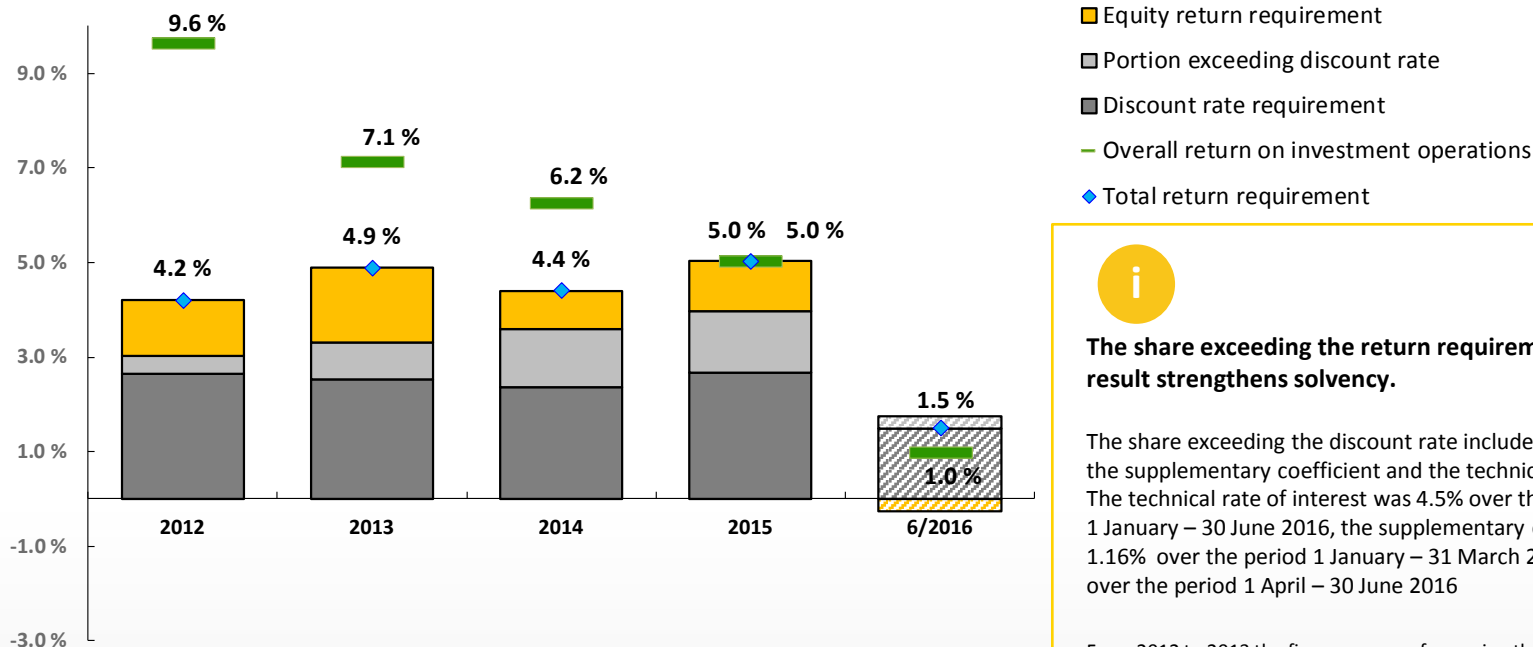
Solvency ratio and its limits 2012–6/2016



For the 2012–2013 period, the figures reported for Elo are those of LocalTapiola Pension Company.

Return on investment operations in relation to the return credited in technical provisions 2012–6/2016

in relation to capital employed



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 4.5% over the period 1 January – 30 June 2016, the supplementary coefficient was 1.16% over the period 1 January – 31 March 2016 and 1.30% over the period 1 April – 30 June 2016

From 2012 to 2013 the figures are pro forma, i.e. the combined figures of Pension Fennia and LocalTapiola Pension Company.

Elo a market leader in self-employed persons and SMEs



- Elo is the market leader both in TyEL and YEL pension insurances, in terms of the number of policies.
 - Its strengths are especially the self-employed person and SME segments and its partnership with LocalTapiola and Fennia.
- Elo performed strongly in transfer business* and new business early in the year.
 - In terms of premium income and policies, the TyEL and YEL transfer results were positive (TyEL net transfers +316, YEL net transfers +1,274).
 - Elo's market share in new companies' policies remained at a good level.
- At the end of June, Elo administered some 46,000 TyEL and 85,000 YEL insurance policies.
- Elo's premium income for the 1 Jan–30 Jun 2016 period was EUR 1,633 million (EUR 1,566 million at 30 Jun 2015).

*Policyholders can transfer their employment pension policies from one company to another four times a year (1 Jan., 1 Apr, 1 Jul and 1 Oct).



Pensions paid to 218,000 pension recipients

- During the first half of the year, EUR 1,477 million in pensions was paid out, of which old-age pensions amounted to EUR 1,196.
- At the end of June there were about 218,000 pension recipients.
- About 12,000 pension decisions were issued on applications in the first half of the year.
- Elo is currently renewing its system for processing pension decisions. Although the new system is still in the implementation stage, the processing times of pension and rehabilitation applications still clearly outperformed the industry average. For instance, the average processing times for old-age and disability pensions were 8 days and 15 days faster than those of the other employment pension companies.



Workplace wellbeing services support working capacity

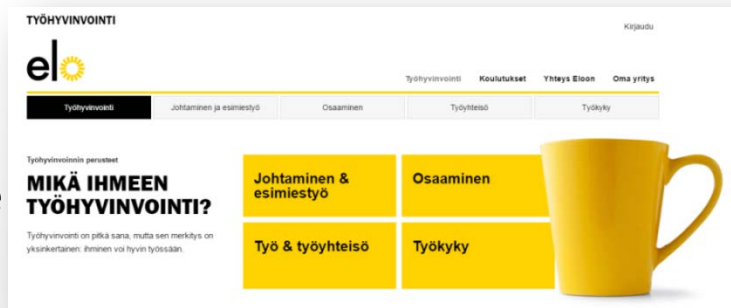
- Seventeen workplace wellbeing training events, which are available for all customers, were arranged and 580 representatives of customer companies participated in these.
- The Financial Supervisory Authority issued revised guidelines for the pension insurance companies' disability risk management operations, to be applied as of 1 March 2016. Elo has developed its risk-based operations and impact assessment in accordance with the new guidelines. This work will continue in the second half of the year.





Digitalisation and quick customer service guarantee good customer experience

- Elo has focused on developing its on-line services during the first half of the year, which has increased their use.
- We have reached a very high response rate in our telephone service for both pension recipients and policyholders.
- We have also developed new digital services to support the workplace wellbeing of Elo's customers. At the beginning of the year we launched a new on-line workplace wellbeing service and the Elo mood meter mobile application for measuring workplace wellbeing.
- We have also introduced new digital services to support the workplace wellbeing of self-employed persons in collaboration with Tieto, within the Experience Hub programme.



Responsible co-operation to develop entrepreneurship and working life



- Being more competitive in workplace wellbeing
 - A survey commissioned by Elo and LocalTapiola on the importance of workplace wellbeing to companies' success. Over 1,000 employees and nearly 900 persons in an employer role replied to the survey.
- Developing entrepreneurship and working life through partnerships
 - Co-operation with entrepreneur organisations including The Federation of Finnish Enterprises and The Finnish Family Firms Association, and with JA Finland and educational establishments.
- Elo joins Yle's Suomi-tekoja project:
Visit a workplace (Työelämä tutuksi) theme day
 - We want to reinforce young people's confidence in the future and their own abilities. Our goal is to help more comprehensive school students to gain confidence in their potential, a more positive picture of working life and motivation for further studies.





Elo prepared 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 we have made changes to our IT systems as required by the reform and actively communicated on the pension reform and its impact. We have organised information events and webinars for our customers on the reform and they have been very popular.
- Elo was the first pension insurance company to offer a calculation of partial early old-age pension in its on-line service.





Attachments: Key indicators 30 June 2016

Summary of Elo's Key Indicators

	1.1.–30.6.2016	1.1.–30.6.2015	1.1.–31.12.2015
Premiums written, EUR million	1,633.2	1,565.6	3,157.1
Net investment income at current value, EUR million	198.7	967.3	990.1
Net return from investment on capital employed, %	1.0 %	4.9 %	5.0 %

	30.6.2016	30.6.2015	31.12.2015
Technical provisions, EUR million	18,154.4	17,729.7	17,849.7
Solvency capital, EUR million	3,870.4	4,492.7	4,042.1
% of technical provisions ¹⁾	22.7 %	27.5 %	24.1 %
ratio to solvency limit	1.9	2.4	2.0
Equalisation provision, EUR million	426.0	455.3	461.6
Pension assets, EUR million ²⁾	20,924.3	20,795.7	20,772.1
TyEL payroll, EUR million ³⁾	11,658.0	11,149.6	11,258.1
YEL earned income sum, EUR million ³⁾	1,873.3	1,983.7	1,888.0

¹⁾ Ratio calculated as percentage of the technical provisions used in the calculation of the solvency limit

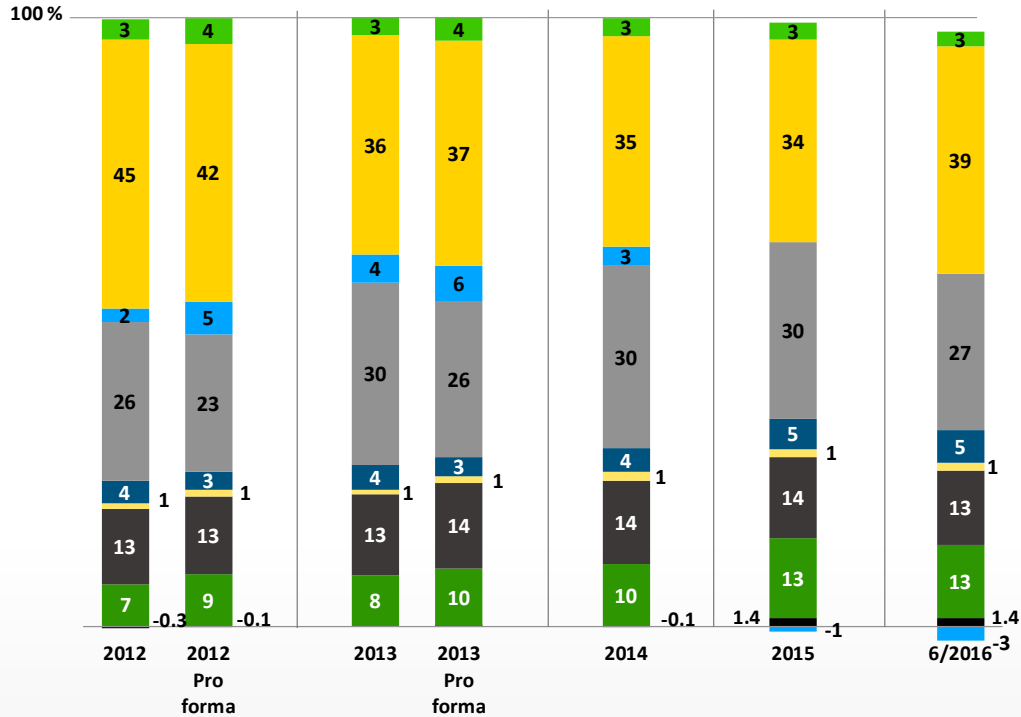
²⁾ Technical provisions + valuation difference

³⁾ Estimate of policyholders' salary and reported earnings for the full year

Solvency capital

Solvency capital (as a % of technical provisions used in the calculation of the solvency limit)	30.6.2016 %	30.6.2015 %	31.12.2015 %
Solvency limit	12.0	11.3	12.0
Maximum amount of solvency capital	47.9	45.2	48.1
Solvency capital before equalisation provision	20.5	24.7	21.4
Solvency capital (solvency ratio)	22.7	27.5	24.1

5 year risk based asset allocation



- Loans
- Bonds
- Other money market instruments and deposits *)
- Listed equities
- Private equity investments
- Unlisted equity investments
- Real estate investments
- Hedge fund investments
- Other investments

*) including any receivables and liabilities related to investments and effect of derivatives.

For the 2012–2013 period, the figures reported for Elo are those of LocalTapiola Pension Company. Pro forma figures are the combined figures of Pension Fennia and LocalTapiola Pension Company.

Private equity investments produced the highest returns

Net investment income at current value 30 June 2016

	Net return on investments at current value, EUR million	Invested capital, EUR million	Return on invested capital, %	Return on invested capital, %	
	1.1.–30.6.2016	1.1.–30.6.2016	1.1.–30.6.2016	1.1.–30.6.2015	1.1.–31.12.2015
Fixed-income investments	258.2	8,751.3	3.0	0.2	0.0
Loans	8.7	583.0	1.5	1.4	3.5
Bonds	249.1	7,219.9	3.5	0.1	-0.3
Bonds of public corporations	119.3	4,168.7	2.9	0.1	-0.4
Bonds of other corporations	129.8	3,051.2	4.3	0.2	-0.2
Other money market instruments and deposits including any receivables and liabilities related to investments	0.4	948.4	0.0	0.1	0.1
Equities	-145.6	6,652.2	-2.2	13.4	13.0
Listed equities	-212.1	5,341.2	-4.0	13.5	11.1
Private equity investments	54.0	1,040.0	5.2	14.6	20.4
Unlisted equity investments	12.5	271.0	4.6	8.6	26.2
Real estate	98.5	2,675.2	3.7	4.4	6.9
Direct real estate investments	79.7	2,001.1	4.0	3.9	5.3
Real estate funds and joint investment companies	18.8	674.0	2.8	6.5	13.1
Other investments	-2.1	2,678.6	-0.1	1.9	2.5
Hedge fund investments	-18.0	2,682.7	-0.7	1.7	1.6
Commodity investments	0.2	0.0	-	-	-
Other investments	15.6	-4.0	-	-	-
Total investments	209.0	20,757.3	1.0	4.9	5.1
Unallocated income, costs and operating expenses from investment operations ¹⁾	-10.3		0.0	0.0	-0.1
Net investment income at current value	198.7	20,757.3	1.0	4.9	5.0

¹⁾ 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					
	30.6.2016		30.6.2015		31.12.2015		30.6.2016		30.6.2015		31.12.2015	
	EUR million	%	EUR million	%	EUR million	%	EUR million	%	%	%	%	%
Fixed-income investments	9,102.4	43.7	9,249.4	44.7	8,326.4	40.6	8,439.9	40.5	42.8	39.1		
Loans	527.2	2.5	571.9	2.8	585.1	2.9	527.2	2.5	2.8	2.9		
Bonds	7,697.3	37.0	7,288.2	35.2	6,947.2	33.9	8,156.2	39.2	35.2	33.9		
Other money market instruments and deposits including any receivables and liabilities related to investments	877.9	4.2	1,389.3	6.7	794.1	3.9	-243.5	-1.2	4.8	2.4		
Equities	6,411.8	30.8	6,129.4	29.6	6,659.3	32.5	7,061.8	33.9	32.2	35.9		
Listed equities	4,980.3	23.9	4,948.5	23.9	5,360.2	26.1	5,630.3	27.0	26.5	29.5		
Private equity investments	1,142.2	5.5	892.2	4.3	1,019.0	5.0	1,142.2	5.5	4.3	5.0		
Unlisted equity investments	289.4	1.4	288.7	1.4	280.0	1.4	289.4	1.4	1.4	1.4		
Real estate	2,689.3	12.9	2,871.2	13.9	2,806.8	13.7	2,689.3	12.9	13.9	13.7		
Direct real estate investments	1,995.3	9.6	2,216.3	10.7	2,149.6	10.5	1,995.3	9.6	10.7	10.5		
Real estate funds and joint investment companies	694.0	3.3	654.9	3.2	657.2	3.2	694.0	3.3	3.2	3.2		
Other investments	2,622.9	12.6	2,447.9	11.8	2,721.1	13.3	2,914.6	14.0	12.9	14.7		
Hedge fund investments	2,619.2	12.6	2,446.5	11.8	2,721.1	13.3	2,619.2	12.6	11.8	13.3		
Commodity investments	0.2	0.0	-1.2	0.0	0.0	0.0	1.7	0.0	-0.3	0.0		
Other investments	3.5	0.0	2.6	0.0	0.0	0.0	293.7	1.4	1.4	1.4		
Total	20,826.5	100.0	20,697.9	100.0	20,513.6	100.0	21,105.6	101.3	101.7	103.3		
Effect of derivatives							-279.1	-1.3	-1.7	-3.3		
Total at fair values	20,826.5	100.0	20,697.9	100.0	20,513.6	100.0	20,826.5	100.0	100.0	100.0		
Modified duration of bond portfolio	3.7											