

Elo Interim Report 1 January–30 September 2017

The comparison figures in brackets are figures for 30 September 2016.

- **Return on Elo's investments was 6.1%. The market value of Elo's investments was EUR 22.9 billion.**
- **Solvency strengthened; the solvency ratio was 126.3%, and solvency capital was 1.7 times the solvency limit.**
- **The overall result was EUR 538 million.**

	1.1.–30.9.2017	1.1.–30.9.2016	1.1.–31.12.2016
Premiums written, EUR million	2 530,2	2 447,3	3 321,5
Net investment income at current value, EUR million	1 320,4	772,9	1 147,4
Net return from investment on capital employed, %	6,1 %	3,7 %	5,6 %

	30.9.2017	30.9.2016	31.12.2016
Technical provisions, EUR million	19 919,8	18 468,9	18 527,4
Solvency capital, EUR million ¹⁾	4 809,2	4 226,5	4 270,9
ratio to solvency limit	1,7	2,0	1,8
Pension assets, EUR million ²⁾	23 088,6	21 469,2	21 825,3
% of technical provisions ²⁾	126,3 %	124,5 %	124,3 %

¹⁾ Calculated in accordance with the regulations in force at each time (the same principle also applies to other solvency indicators)

²⁾ Technical provisions pursuant to section 11, paragraph 10 of the Ministry of Social Affairs and Health's Decree (614/2008) + solvency capital.

Until 2016, technical provisions + valuation differences.

Economic environment and development of the investment market

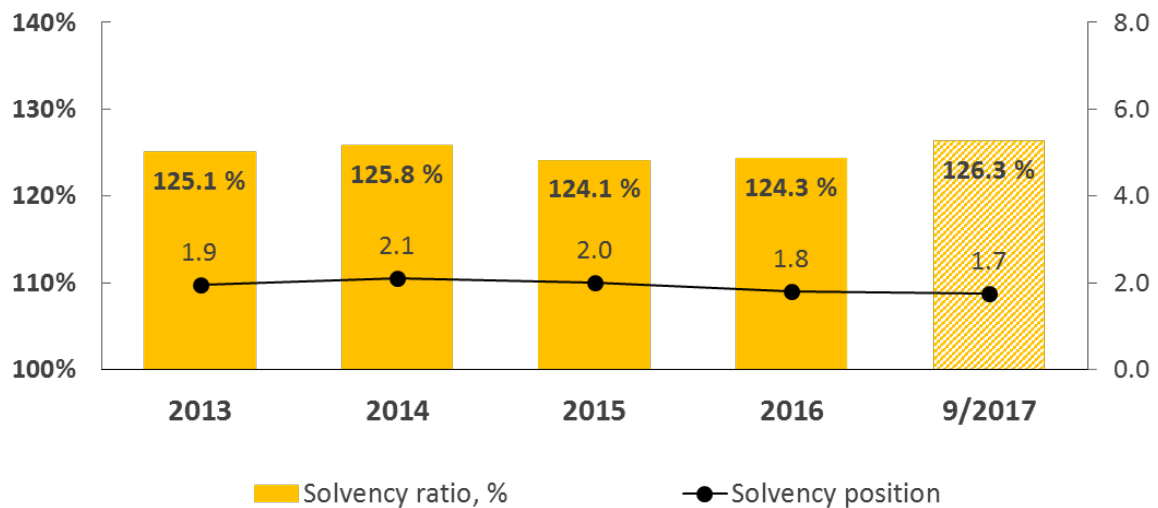
Global economic growth continued to be relatively favourable in all main economic areas during the third quarter. Economic growth has strengthened greatly in the euro zone in particular, and the full-year growth expectations for 2017 have reached the estimated US growth rate of slightly over two per cent. Global growth expectations have increased slightly and the full-year estimate is 3.4 per cent. With the favourable growth in the global economy and confidence-increasing economic policy, the growth of the Finnish economy has also accelerated, and the full-year estimates already exceed 3 per cent.

Even though economic growth was strong in the summer and early autumn and capacity usage rates are rather high in the United States and Japan in particular, there have been no signs of higher inflation rates so far. The estimated full-year increase in consumer prices in the United States is 2 per cent. In the euro zone, the estimated inflation rate is in the region of 1.5 per cent.

Due to the moderate inflation rate outlook, the June concerns of a tightening of fiscal policies in the market subsided as the autumn progressed. The exceptionally stimulating monetary policy has been kept unchanged in major economic areas.

Result and solvency

The amount of solvency capital grew by EUR 538 million from the beginning of the year to EUR 4,809 million (EUR 4,227 million). The ratio of pension assets to technical provisions, i.e. the solvency ratio, was 126.3 per cent (124.5 per cent). The solvency capital was 1.7 (2.0) times the solvency limit.



The net return on investment operations at fair values stood at EUR 1,320.4 million (EUR 963 million). The return credited in technical provisions for the same period was EUR 780 million (EUR 526 million), of which technical provisions linked to equity income accounted for EUR 211 million (EUR 18 million). The result of investment operations at current value was thus EUR 540 million (EUR 443 million).

The loading profit came to EUR 19 million (EUR 23 million). The insurance business surplus was EUR –22 million (EUR –32 million), and other income EUR 1.1 million. Elo's combined total result at current value was EUR 538 million (EUR 434 million).

Solvency capital	30.9.2017	30.9.2016	31.12.2016
Solvency limit, EUR million	2 755,3	2 152,8	2 367,6
Maximum amount of solvency capital, EUR million	8 265,8	8 611,2	9 470,6
Solvency capital, EUR million	4 809,2	4 226,5	4 270,9
Solvency ratio, % ¹⁾	126,3	124,5	124,3
Solvency capital/Solvency limit ²⁾	1,7	2,0	1,8

¹⁾ Pension assets in relation to technical provisions as referred to in Section 11, item 10, of the Ministry of Social Affairs and Health's decree 614/2008. All years are presented according to the new presentation method.

²⁾ Solvency capital in relation to solvency limit

According to the full-year forecast, the expense loading ratio is estimated to remain below 83 per cent. Premium loading profits are burdened by a 7 per cent decrease in calculation basis applicable to all employment pension companies, so the loading ratio is not comparable with previous years. In the future, the loading profit will be distributed to customers in full instead of the previous 50 per cent.

Insurance business

Elo is the market leader in both TyEL and YEL pension insurance in terms of the number of policies. At the end of September, Elo administered 45,200 TyEL (45,500) and 83,900 YEL (84,600) insurance policies.

The total number of self-employed persons and employees insured by Elo at the end of the reporting period was 484,400 (476,600), or almost half a million.

Customer accounts

Policyholders are free to transfer their pension cover to another pension insurance company on four dates every year, provided they have waited one year from the previous transfer. 2017 was the third consecutive year in Elo's operations with a positive result from transfer business. A net total of 261 (306) TyEL and 630 (1,329) YEL insurance policies was transferred to Elo during the reporting period. The net premiums written for TyEL insurance policies grew by EUR 2.7 million (EUR 9.3 million). During the reporting period, Elo gained 4,083 (3,959) TyEL and 6,391 (6,148) YEL insurance policies through new customer prospecting.

Elo's online services were reformed in early autumn 2017. The company's employment pension insurance services and employees' rehabilitation and pension information are now available in a single online service. The development work will continue, and working capacity management tools will be added to the online service by the end of 2017. The expanded online service makes it easier to track the effectiveness of working capacity management measures and rehabilitation, and it will help the largest companies to note how their employees remaining capable for work has a positive impact on employment pension premiums.

At the beginning of September, Elo introduced a separate telephone service for sign language customers. The service uses the Chabla application, which connects the deaf, the hearing and sign language interpreters.

Towards the end of September, S Group launched the three-year "Nuori Mieli Työssä" ("Young Minds at Work") programme, which brings together specialists from various fields and young employees. One of the most important sub-projects is a survey of young people's employment expectations realised in cooperation with Elo and the Finnish Institute of Occupational Health.

To celebrate Finland's centenary, Elo and the Finnish company Mightifier launched the "A positive atmosphere and healthy self-esteem for one hundred classes" campaign, which has proceeded well. The aims of the project are the pupils' positive interaction, good class spirit and less bullying.

Pension services

Elo issued a total of approximately 20,400 pension decisions on the basis of applications during the first nine months of the year. Approximately 224,800 pensioners were paid their pensions by Elo at the end of September. A total of EUR 2,338 million was paid in pensions during the first nine months of the year.

Of the customers, 86 per cent gave an excellent grade for the service they received in connection with the processing of their pension.

Elo's customers have received decisions on their pension applications faster than the industry average also this year. This has been the case ever since Elo was established in 2014. The partial early old-age pension, which was introduced at the beginning of the year, was a particularly popular form of pension. By the end of September, such pensions were issued to 2,023 customers.

New electronic services have been launched for policyholders, such as electronic applications for advance decisions on rehabilitation and expense allowances, electronic applications for the extension of rehabilitation and English and Swedish language versions of the electronic services.

Focal points of investment asset classes

In all, the returns from Elo's investments did well against the benchmark indices set for them. The equity market has continued its positive development. Prices have remained high, but companies' profit growth has also been strong. Of Elo's equity investments, emerging markets provided the best returns. The continued strong listing activity in Finland was pleasing.

Of Elo's investments, investments in emerging markets in both equities and bonds yielded particularly good returns. The global environment was very favourable to bonds in emerging markets; the weakening of the US dollar, low volatility and continued record-high capital flows to the asset class supported the returns. Of corporate bonds, investments with a lower credit rating yielded the best relative returns.

Real estate investments continued to yield a stable return during the period under review, and interest in them remained high in the investment market. No new significant investments were made during the reporting period.

With regard to currencies, the weakening of the US dollar against the euro continued. The share of Elo's open currency risk and the US dollar in particular of investments has been kept very moderate.

Asset allocation and returns

	Basic allocation by market value		Actual risk position		Return	Volatility
	EUR million	%	EUR million	%	%	%
Fixed-income investments	9 115,2	39,8	10 913,6	47,7	-1,4	
Loans	522,2	2,3	522,2	2,3	2,1	
Bonds	7 187,1	31,4	7 230,5	31,6	-1,8	2,5
Bonds of public corporations	3 556,2	15,5	3 641,8	15,9	-4,6	
Bonds of other corporations	3 630,9	15,9	3 588,7	15,7	0,8	
Other money market instruments and deposits inc. any receivables and liabilities related to investments	1 405,9	6,1	3 161,0	13,8	-0,3	
Equities	8 476,7	37,0	8 806,7	38,5	10,6	
Listed equities	6 683,7	29,2	7 013,7	30,6	11,8	10,8
Private equity investments	1 453,9	6,4	1 453,9	6,4	5,4	
Unlisted equity investments	339,1	1,5	339,1	1,5	9,4	
Real estate	2 820,3	12,3	2 820,3	12,3	3,9	
Direct real estate investments	2 038,6	8,9	2 038,6	8,9	4,8	
Real estate funds and joint investment companies	781,7	3,4	781,7	3,4	1,2	
Other investments	2 474,0	10,8	2 474,0	10,8	21,7	
Hedge fund investments	2 503,5	10,9	2 503,5	10,9	-2,5	2,5
Commodity investments	0,0	0,0	0,0	0,0	-	
Other investments	-29,5	-0,1	-29,5	-0,1	-	
Total investments	22 886,2	100,0	25 014,6	109,3	6,1	3,2
Effect of derivatives			-2 128,4	-9,3		
Total	22 886,2	100,0	22 886,2	100,0		

The total return percentage includes income, expenses and operating expenses not allocated to any investment types. Modified duration of bonds 3,7

The open currency position is 16,2 % of the market value of the investments.

At the end of September, the value of Elo's investments was EUR 22,886 million (EUR 21,301 million). Return on investments was 6.1 per cent (3.7 per cent). From the beginning of the year, the asset class with the highest return was listed equities, with a return of 11.8 per cent (3.4 per cent).

The share of fixed income investments totalled 39.8 per cent (42.6 per cent) and return at fair values -1.4 per cent (4.2 per cent). Their market value totalled EUR 9,115 million (EUR 9,068 million). The share of bonds, which are included in fixed income investments, of investment assets totalled 31.4 per cent (36.3 per cent) and return -1.8 per cent (4.8 per cent). Other financial market instruments and deposits are part of fixed income investments and they totalled EUR 1,406 million (EUR 845 million), accounting for 6.1 per cent (4.0 per cent), and return was -0.3 per cent (0.0 per cent). The modified duration of bonds was 3.7 (3.9) years.

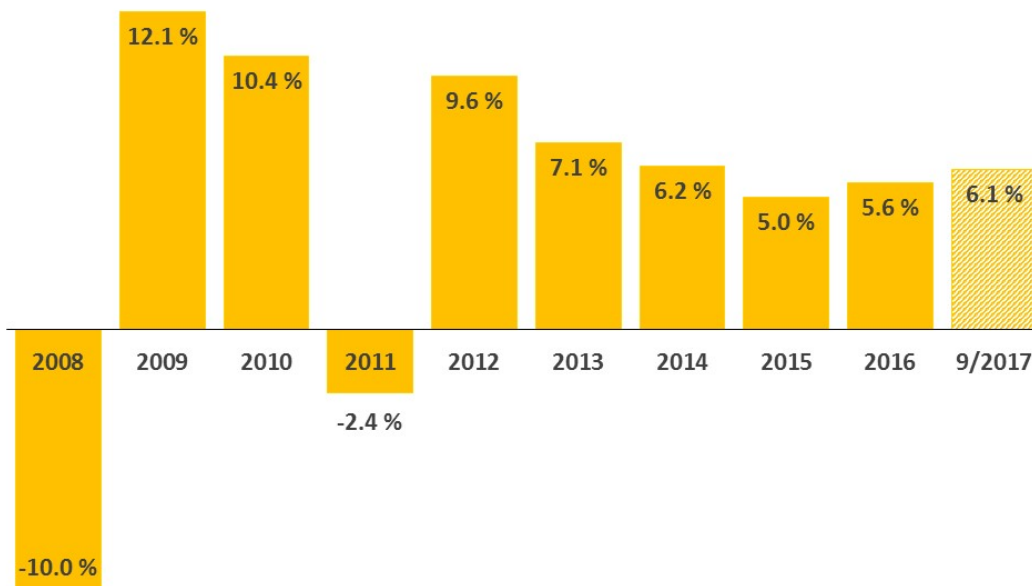
Equity investments accounted for 37.0 per cent (32.0 per cent) of investments, their value was EUR 8,477 million (EUR 6,825 million) and return 10.6 per cent (4.0 per cent). Of this, listed shares accounted for 29.2 per cent (25.2 per cent) and their market value was EUR 6,684 million (EUR 5,362 million). Return on listed equities was 11.8 per cent (3.4 per cent). The share of capital investments included in equities totalled 6.4 per cent (5.5 per cent) of investment assets and return at fair values 5.4 per cent (6.5 per cent). The market value of unlisted equities amounted to EUR 339 million (EUR 291 million), accounting for 1.5 per cent (1.4 per cent), and return was 9.4 per cent (4.6 per cent).

At the end of the nine-month period, the value of Elo's real estate investments was EUR 2,820 million (EUR 2,675 million). They accounted for 12.3 per cent (12.6 per cent) of all investments, of which indirect investments accounted for 3.4 per cent (3.2 per cent). In total, the return on real estate investments was 3.9 per cent (4.9 per cent) and the return on direct real estate investments was 4.8 per cent (5.4 per cent).

Hedge fund investments accounted for 10.9 per cent (12.8 per cent) of the market value of investment assets, or EUR 2,504 million (EUR 2,731 million). Their return on capital employed was -2.5 per cent (0.4 per cent).

The net return on investment operations at fair values stood at EUR 1,320.4 million (EUR 963 million). The result of investment operations at current value was EUR 540 million (EUR 443 million).

Long-term returns



The average 5-year nominal return of Elo's investments was 6.5 per cent and average 10-year nominal return was 4.7 per cent. The average 5-year real return was 5.8 per cent and average 10-year real return was 3.2 per cent. The figures used in the calculations for 2007–2013 are the return on investments for LocalTapiola Mutual Pension Insurance Company.

Corporate governance

Elo's new organisation took effect on 1 September 2017. In the future, Elo will have two business areas: Customers and Pensions. Hanna Hiidenpalo continues as the Chief Investment Officer. The Customer business is divided into private customers (pensions) and corporate customers (insurance policies). Keijo Kouvonen, Director, Insurance Policies and Pensions, retired on 31 August 2017. Jouni Seppänen joined the Executive Group as Director, Pensions, on 1 September 2017. Director Matti Carpén assumed responsibility for the Insurance Policies business. Elo's Executive Group is comprised of directors appointed by the Board of Directors.

Economic outlook

The outlook for the remainder of the year continues to be favourable. However, there are indications that global economic growth has reached its cyclic peak. In the United States, the expectations concern the economic policy and the Federal Reserve's intentions of a rate hike and selling securities from its balance sheet. In Europe, the Brexit negotiations are causing long-term uncertainty. The European Central Bank will also probably announce its measures to reduce balance sheet-based stimulus measures during the remainder of the year. The post-election development of the euro zone driven by Germany and France is gaining new forms which the markets are monitoring with interest. With the favourable international economic cycle, Finland's economic development also seems quite positive for the next few quarters, with both private consumption and exports being good at the moment.