

## Elo Interim Report 1 January–31 March 2019

	1.1.–31.3.2019	1.1.–31.3.2018	1.1.–31.12.2018
Premiums written, EUR million	956.3	893.6	3,639.8
Net investment income at current value, EUR million	1,160.4	-88.7	-331.9
Net return from investment on capital employed, %	5.2%	-0.4%	-1.4%

	31.3.2019	31.3.2018	31.12.2018
Technical provisions, EUR million	20,953.7	20,389.2	20,431.7
Solvency capital, EUR million <sup>1)</sup>	4,414.1	4,618.6	3,935.1
ratio to solvency limit	1.6	1.6	1.6
Pension assets, EUR million <sup>2)</sup>	24,151.1	23,318.8	23,017.9
% of technical provisions <sup>2)</sup>	122.4%	124.7%	120.6%
TyEL payroll, EUR million <sup>3)</sup>	13,978.3	13,009.5	13,312.7
YEL earned income sum, EUR million <sup>3)</sup>	1,842.3	1,820.6	1,783.7

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

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

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

### Economic environment and development of the investment market

The first quarter of the year was characterised by concerns about the global economy. However, in the equity market, this was one of the highest return periods since the autumn of 2009.

Global economic growth has declined. China and Europe faced growth-related difficulties last year already and economic growth in the United States started to slow down at the turn of the year. Background factors for slower growth include, among other things, tighter economic policy that China implemented a couple of years ago to prevent credit and real estate markets from overheating, several specific problems in Europe, international trade disputes and the US Federal Reserve's tighter monetary policy.

The estimate for global economic growth this year has declined slightly and is now 3.4 per cent, compared to 3.7 per cent last year. Growth in the euro zone is expected to slow down to 1.2 per cent this year. In Finland, economic growth outlook has declined to 1.7 per cent.

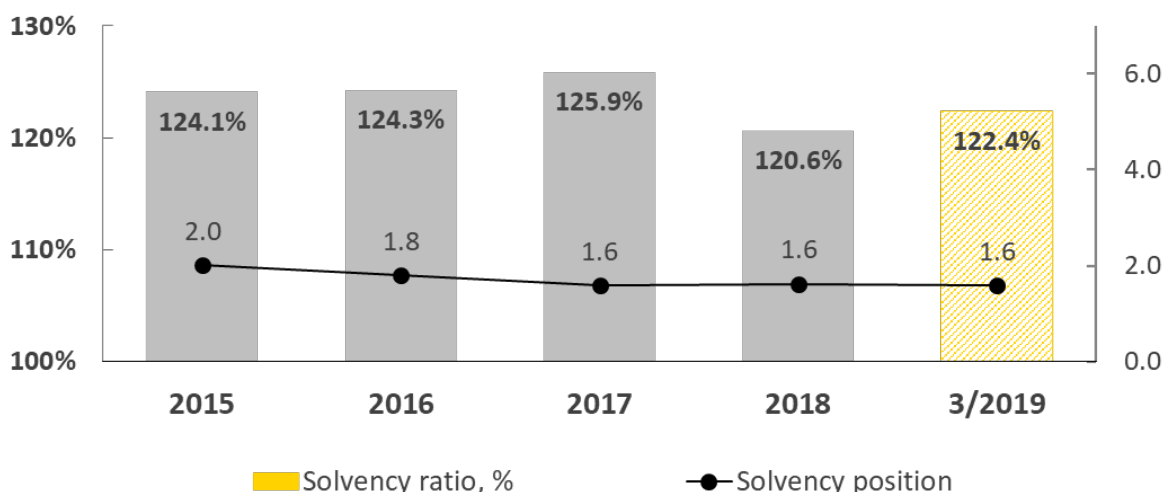
It is worth noting that the long growth cycle and the resulting good employment rates – the up to full employment in the United States – , have not resulted in significant wage inflation. Consequently, estimates concerning consumer price inflation have remained very moderate.

Main economic areas have again reacted to weaker growth prospects with their central banks' expansionary monetary policy. China has eased monetary and financial policies to avoid market overreactions. The European Central Bank (ECB) and the US Federal Reserve (Fed) have also changed their monetary policies into a more neutral, even stimulating direction when compared to last year's final quarter.

The equity market reacted positively immediately after the turn of the year and the measures taken by central banks have resulted in falling interest rates. Consequently, all other main asset classes have also generated good returns in the first quarter.

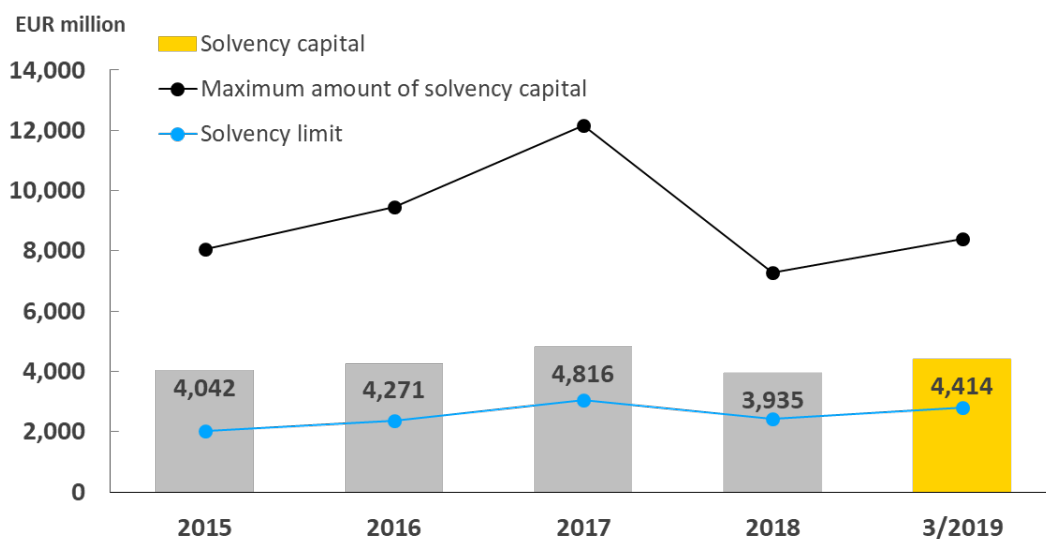
### Result and solvency

The amount of solvency capital increased from the beginning of the year by EUR 479.0 million, amounting to EUR 4,414.1 million (EUR 4,618.5 million) by the end of March. The ratio of pension assets to technical provisions, i.e. the solvency ratio, was 122.4 per cent (124.7 per cent). Solvency capital was 1.6 (1.6) times the solvency limit.



The net return on investment operations at current value was EUR 1,160.4 million (EUR -88.7 million). The return credited in technical provisions for the same period was EUR 687.6 million (EUR 115.4 million), of which technical provisions linked to equity income accounted for EUR 479.0 million (EUR -88.7 million). The result of investment operations at current value was thus EUR 472.8 million (EUR -204.1 million).

The loading profit came to EUR 8.4 million (EUR 8.9 million). The insurance business surplus was EUR -2.9 million (EUR -2.3 million) and other income EUR 1.4 million (EUR 0.8 million). Elo's combined total result at current value was EUR 479.6 million (EUR -196.7 million).



Solvency capital	31.3.2019	31.3.2018	31.12.2018
Solvency limit, EUR million	2,794.9	2,922.8	2,431.3
Maximum amount of solvency capital, EUR million	8,384.8	8,768.5	7,633.1
Solvency capital, EUR million	4,414.1	4,618.6	3,935.1
Solvency ratio, % <sup>1)</sup>	122.4	124.7	120.6
Solvency position <sup>2)</sup>	1.6	1.6	1.6

<sup>1)</sup> 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.

<sup>2)</sup> Solvency capital in relation to solvency limit

## **Insurance business and customer accounts**

At the end of March, Elo administered 46,200 TyEL and 83,000 YEL insurance policies. In the period under review, the total number of self-employed persons and employees insured by Elo was over half a million.

The positive customer acquisition trend continued in the first transfer period of the year. For both corporate customers and self-employed customers, the transfer result was positive. The net numbers of customers transferred to Elo were 144 new self-employed customers and 14 corporate customers. Elo is the market leader in YEL pension insurance in terms of the number of policies. One in three employer companies are insured by Elo.

Elo made the system changes required by the national income register on schedule and with high quality. We succeeded in our customer communications concerning the income register and, for instance, the number of error notifications and customer service calls has remained low. Elo's customer service has performed excellently throughout the first quarter. Examples of this include the facts that the response rate of the insurance telephone service was approximately 98 per cent in the first quarter and the insurance service's NPS (an indicator of customer satisfaction) has remained very good, approximately 85 during the first months of the year.

On average, TyEL and YEL applications are processed in less than a day and more than 90 per cent of them were submitted to Elo electronically.

Elo continued to invest in e-invoicing and, as a result, the number of e-invoicing customers is increasing. A total of 36 per cent of our TyEL customers and 27 per cent of our YEL customers have chosen e-invoicing.

At the beginning of 2019, Elo started a new kind of cooperation with Junior Achievement Finland. The goal of the cooperation is to increase young people's awareness of pension-related matters. Junior Achievement Finland is a non-profit organisation, aiming at strengthening working life skills, financial management skills and entrepreneurial attitude among 7–29-year-olds.

## **Pension services**

Approximately 238,000 pensioners were paid their pensions by Elo during the reporting period. A total of EUR 845.8 million (EUR 808.7 million) was paid in pensions in January–March. The number of pension decisions issued on the basis of an application was 7,240 (6,478). The number of old-age pension decisions issued in January–March was 2,274 (1,743), or approximately 30 per cent more than in the corresponding period last year. This was attributable to the gradual increase in the pensionable age, due to which during the corresponding period last year, there was no age group that would have reached the minimum pensionable age.

The number of partial early old-age pension decisions has stabilised, with 701 (593) decisions issued in early 2019. The number of disability pension applications increased by approximately 5 per cent year on year. The number of occupational rehabilitation applications was on a par with the previous year's level.

Customer experience remained at an excellent level despite the major pension processing changes introduced by the income register. The NPS for the telephone service was 72 and the NPS for the online service related to pension and rehabilitation matters was 58. During the first months of 2019, we made pension decisions on average approximately 26 per cent faster than the overall average for other employment pension companies. For instance, a partial early old-age pension decision was issued on average in five days.

## **Investment operations**

The strong upward trend in the equity market in the first quarter of 2019 turned the return on Elo's investment operations clearly positive. The quarter was one of the best in Elo's history. Elo's investments generated a return of 5.2 per cent (-0.4 per cent) in January–March and investment assets at current value amounted to EUR 23,418.1 million (EUR 23,266.9 million) at the end of March. The net return on investment operations at current value was EUR 1,160.4 million (EUR -88.7 million).

At the end of March, the average 5-year nominal return of Elo's investments was 5.3 per cent and the average 10-year nominal return was 6.4 per cent. The real returns were 4.8 per cent and 5.1 per cent, respectively. The result of investment operations at current value was EUR 472.8 million (EUR -204.1 million).

The factors with the biggest impact on the investment market during the reporting period were stimulating monetary policy, China's stimulus measures and small steps in trade dispute negotiations.

In the first quarter, returns on all of Elo's asset classes were positive. Listed equity investments, bonds and hedge fund investments generated the highest returns. Of unlisted investments, the highest return was generated by real estate investments.

The return on fixed income investments in January–March was 2.4 per cent. The share of fixed income investments in Elo's investment assets was 34.5 per cent (27.7 per cent). The return on public bonds classified under fixed income investments was 2.7 per cent (-0.6 per cent), the return on other bonds 3.8 per cent (-0.6 per cent), the return on other money market instruments and deposits 0.0 per cent (-0.1 per cent) and the return on loan receivables 0.7 per cent (0.7 per cent).

The demand for corporate bonds was strong in the first quarter. Both interest rates and loan margins decreased and compensated for the low returns of last year's final quarter.

The interest rates of sovereign bonds of the developed Western countries were decreasing during the first quarter and the decrease accelerated clearly in March. Outside the euro zone, Elo's investments in sovereign bonds generated good returns. Lower interest rates and the positive risk sentiment contributed to the excellent level of returns on fixed income investments in emerging markets.

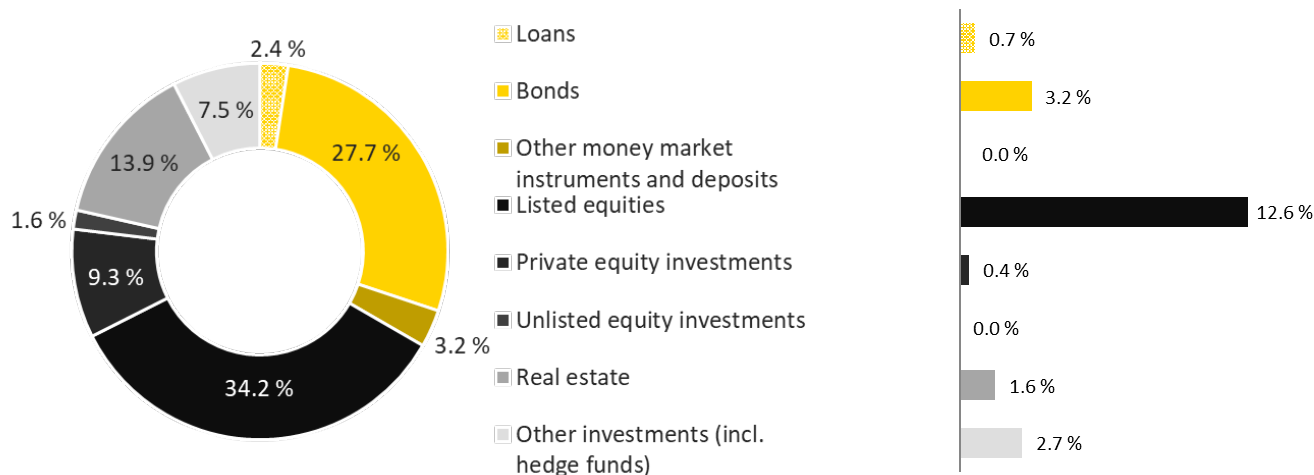
By the end of March, the return on equity investments was 9.3 per cent (-1.0 per cent). The share of equity investments in Elo's investment assets was 45.2 per cent (44.4 per cent). The return on listed equity investments was 12.6 per cent (-2.0 per cent) and on unlisted equity investments 0.0 per cent (2.2 per cent). The return on the private equity investments classified under equity investments was 0.4 per cent (3.1 per cent).

The equity market grew strongly during the first months of the year after the dramatic decline in the final quarter of 2018. In the United States, the first quarter of the year was the best since 2009. Differences between returns from different geographical regions were exceptionally small. In Elo's equity portfolio, Finnish equity generated the highest returns. The Finnish companies that are currently included in Elo's investment portfolio also did better than their benchmark index. The return on private equity investments in the first quarter is based on the valuations of funds at the turn of the year.

By the end of March, the return on real estate investments was 1.6 per cent (1.2 per cent). The share of real estate investments in Elo's investment assets was 13.9 per cent (12.9 per cent) at the end of March. The return on direct real estate investments was 1.2 per cent (1.0 per cent) and the return on real estate funds and joint investment companies was 2.9 per cent (1.9 per cent).

In real estate investments, the occupancy rates of business premises and housing have remained at a good level and the targeted net return was achieved in the first months of the year. The development of the portfolio structure was continued by divesting two office properties, one business property and one industrial property. Elo acquired its co-owner's share of Jumbo Shopping Centre with a transaction realised in February and now owns nearly the entire shopping centre. The transaction value is over EUR 200 million. Another real estate development in the first quarter was the start of the construction of a new residential property in Vantaa's Pähkinärinne district.

At the end of the first quarter, Elo's other investments consisted of hedge fund investments, with a return of 2.7 per cent (1.1 per cent). Hedge fund investments generated good returns in the first quarter and all of Elo's hedge fund strategies performed positively. During the first quarter, the market environment was very favourable to nearly all hedge fund strategies.



	Basic allocation by market value		Actual risk position		Return	Volatility
	EUR million		EUR million	%	%	%
<b>Fixed-income investments</b>	<b>8,005.3</b>	<b>34.2</b>	<b>8,076.4</b>	<b>34.5</b>	<b>2.4</b>	
Loans	565.3	2.4	565.3	2.4	0.7	
Bonds	6,505.9	27.8	6,485.6	27.7	3.2	3.1
Public bonds	3,469.6	14.8	3,619.8	15.5	2.7	
Other bonds	3,036.4	13.0	2,865.8	12.2	3.8	
Other money market instruments and deposits inc. any receivables and liabilities related to investments	934.0	4.0	1,025.5	4.4	0.0	
<b>Equities</b>	<b>10,385.5</b>	<b>44.3</b>	<b>10,586.9</b>	<b>45.2</b>	<b>9.3</b>	
Listed equities	7,814.4	33.4	8,015.9	34.2	12.6	10.2
Private equity investments	2,189.4	9.3	2,189.4	9.3	0.4	
Unlisted equity investments	381.6	1.6	381.6	1.6	0.0	
<b>Real estate</b>	<b>3,258.3</b>	<b>13.9</b>	<b>3,258.3</b>	<b>13.9</b>	<b>1.6</b>	
Direct real estate investments	2,508.8	10.7	2,508.8	10.7	1.2	
Real estate funds and joint investment companies	749.5	3.2	749.5	3.2	2.9	
<b>Other investments</b>	<b>1,769.0</b>	<b>7.6</b>	<b>1,767.5</b>	<b>7.5</b>	<b>2.7</b>	
Hedge fund investments	1,818.0	7.8	1,818.0	7.8	2.7	3.8
Commodity investments	0.0	0.0	-2.5	0.0	-	
Other investments	-48.9	-0.2	-48.0	-0.2	-	
<b>Total investments</b>	<b>23,418.1</b>	<b>100.0</b>	<b>23,689.0</b>	<b>101.2</b>	<b>5.2</b>	<b>3.6</b>
Effect of derivatives			-271.0	-1.2		
<b>Total</b>	<b>23,418.1</b>	<b>100.0</b>	<b>23,418.1</b>	<b>100.0</b>		

The return on foreign currency derivatives is estimated for asset classes in proportion to the average foreign currency-denominated assets during the reporting period. The total return includes returns, expenses and operating expenses not allocated to investment classes. The modified duration of bonds is 3.2 years. The open currency exposure is 25.7% of market value.

## Personnel

In the first quarter, Elo had an average of 525 (504) employees and the average amount of work performed was 478 (454) man-years. Personnel expenses in January–March amounted to EUR 9.8 million (EUR 9.1 million).

Elo's HR work is guided by the personnel strategy. In accordance with its personnel vision, Elo wants to be an appreciated and developing work community where everyone can experience success. There are four focal areas in the implementation of the vision: reforming competence, responsible and inspiring leadership, personnel committed to development and prepared to change, as well as flexible resourcing. In 2019, the focus areas in competence development are customer insight development, technology and data analytics expertise as well as leadership. By constantly anticipating competence needs and supporting our personnel in the business transformation, we ensure Elo's competitiveness now and in the future.

## Corporate governance

In its meeting on 28 January 2019, Elo's Board of Directors elected the Board's Chairman and Deputy Chairmen for 2019. **Antti Aho** was elected the Chairman of the Board. He has been a member of Elo's Board of Directors since 2014. Aho is the Managing Director of Aava Terveyspalvelut Oy.

**Ann Selin** continues as the first Deputy Chairman of Elo's Board of Directors and **Susa Nikula** was elected the second Deputy Chairman. The Chairman and Deputy Chairmen of the Board of Directors constitute the presiding officers of the Board.

The Board of Directors is assisted in its tasks by the Appointment and Remuneration Committee and the Audit Committee. The Appointment and Remuneration Committee is comprised of the presiding officers of Elo's Board of Directors. The Chairman of the Board serves as the Chairman of the Committee. The members of the Audit Committee are **Jari Karlson** (Chairman), **Marjo Matikainen-Kallström** and **Niklas Sonkin**.

**Minna Helle** and **Esa Neuvonen** started as new members of the Board on 1 January 2019.

Elo's Board of Directors is comprised of twelve ordinary members and four deputy members.

## Near-term outlook

The weakening of economic growth has been quite moderate thus far. At the moment, we are at the level of sustainable potential growth. The main concerns in the global economy have been related to trade disputes, emission regulations applicable to the European automotive industry, Brexit and the weaker global economic outlook. The situation in the labour market is good and employment rates have strengthened, which has contributed to consumption demand, a key element of economy.

In the Finnish economy, the boom that has continued for a couple of years is now facing challenges due to the decline in the global economy. Due to our export sensitivity, it is essential to look after our competitiveness in the next few years. The most crucial factor for balanced long-term development of economy is to raise the employment rate to or above 75 per cent as quickly as possible.

The business situation in emerging economies seems to have become more balanced as a result of China's economic policy. It seems that new agreements will probably be reached in the trade negotiations between the United States and China during the spring. Easing of monetary policy also supports expectations concerning the strengthening of global economic growth. The relevant question is whether there is sufficient time for economic policy to react to a sufficient degree and to enable the continuation of growth.

## Asset allocation at current value

	Basic allocation by market value						Actual risk position <sup>8)</sup>					
	31.3.2019		31.3.2018		31.12.2018		31.3.2019		31.3.2018		31.12.2018	
	EUR million	%	EUR million	%	EUR million	%	EUR million	%	EUR million	%	EUR million	%
<b>Fixed-income investments</b>	<b>8,005.3</b>	<b>34.2</b>	<b>8,494.6</b>	<b>36.5</b>	<b>8,441.9</b>	<b>37.4</b>	<b>8,076.4</b>	<b>34.5</b>	<b>6,448.8</b>	<b>27.7</b>	<b>6,302.0</b>	<b>27.9</b>
Loans <sup>1)</sup>	565.3	2.4	532.0	2.3	560.2	2.5	565.3	2.4	532.0	2.3	560.2	2.5
Bonds	6,505.9	27.8	6,952.6	29.9	6,435.1	28.5	6,485.6	27.7	6,247.2	26.9	6,327.4	28.0
Other money market instruments and deposits including any receivables and liabilities related to investments <sup>1)</sup>	934.0	4.0	1,010.1	4.3	1,446.6	6.4	1,025.5	4.4	-330.3	-1.4	-585.5	-2.6
<b>Equities</b>	<b>10,385.5</b>	<b>44.3</b>	<b>9,704.6</b>	<b>41.7</b>	<b>9,251.4</b>	<b>40.9</b>	<b>10,586.9</b>	<b>45.2</b>	<b>10,318.9</b>	<b>44.4</b>	<b>9,303.7</b>	<b>41.2</b>
Listed equities <sup>3)</sup>	7,814.4	33.4	7,684.6	33.0	6,802.4	30.1	8,015.9	34.2	8,298.9	35.7	6,854.7	30.3
Private equity investments <sup>4)</sup>	2,189.4	9.3	1,671.5	7.2	2,067.4	9.1	2,189.4	9.3	1,671.5	7.2	2,067.4	9.1
Unlisted equity investments <sup>5)</sup>	381.6	1.6	348.5	1.5	381.7	1.7	381.6	1.6	348.5	1.5	381.7	1.7
<b>Real estate</b>	<b>3,258.3</b>	<b>13.9</b>	<b>2,990.9</b>	<b>12.9</b>	<b>3,002.8</b>	<b>13.3</b>	<b>3,258.3</b>	<b>13.9</b>	<b>2,990.9</b>	<b>12.9</b>	<b>3,002.8</b>	<b>13.3</b>
Direct real estate investments	2,508.8	10.7	2,319.7	10.0	2,284.4	10.1	2,508.8	10.7	2,319.7	10.0	2,284.4	10.1
Real estate funds and joint investment companies	749.5	3.2	671.2	2.9	718.4	3.2	749.5	3.2	671.2	2.9	718.4	3.2
<b>Other investments</b>	<b>1,769.0</b>	<b>7.6</b>	<b>2,076.7</b>	<b>8.9</b>	<b>1,899.2</b>	<b>8.4</b>	<b>1,767.5</b>	<b>7.5</b>	<b>2,080.7</b>	<b>8.9</b>	<b>1,887.0</b>	<b>8.4</b>
Hedge fund investments <sup>6)</sup>	1,818.0	7.8	2,060.2	8.9	1,860.8	8.2	1,818.0	7.8	2,060.2	8.9	1,860.8	8.2
Commodity investments	0.0	0.0	0.0	0.0	0.0	0.0	-2.5	0.0	0.0	0.0	-12.2	-0.1
Other investments <sup>7)</sup>	-48.9	-0.2	16.5	0.1	38.4	0.2	-48.0	-0.2	20.5	0.1	38.4	0.2
<b>Total</b>	<b>23,418.1</b>	<b>100.0</b>	<b>23,266.9</b>	<b>100.0</b>	<b>22,595.3</b>	<b>100.0</b>	<b>23,689.0</b>	<b>101.2</b>	<b>21,839.4</b>	<b>93.9</b>	<b>20,495.6</b>	<b>90.7</b>
Effect of derivatives <sup>9)</sup>							-271.0	-1.2	1,427.5	6.1	2,099.8	9.3
<b>Total at fair values</b>	<b>23,418.1</b>	<b>100.0</b>	<b>23,266.9</b>	<b>100.0</b>	<b>22,595.3</b>	<b>100.0</b>	<b>23,418.1</b>	<b>100.0</b>	<b>23,266.9</b>	<b>99.9</b>	<b>22,595.3</b>	<b>100.0</b>

Modified duration of bond portfolio	3.2
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1) Includes accrued interest

2) Includes cash at bank and in hand and purchase money claims and purchase money obligations

3) Includes also mixed funds if these cannot be allocated elsewhere

4) Includes private equity funds, mezzanine funds and also infrastructure investments

5) Includes also unlisted real estate investment companies

6) Includes all types of hedge fund investments regardless of the strategy of the fund

7) Includes items that cannot be included in other investment classes

8) Risk breakdown can be shown from reference periods as the knowledge accumulates (not with retroactive effect).

If the numbers are shown from reference periods and the periods are not completely comparable, it must be informed.

9) Includes the effect of derivatives on the difference between the risk distribution and the basic distribution.

The effect of derivatives can be +/- . After the adjustment, the final sum of the risk distribution will equal that of the basic distribution.

10) The proportion is calculated by using the total amount of the line "Total investments at current value" as the divisor

## Net return on investment operations for capital employed

	Net return on investments at current value, EUR million	Invested capital <sup>9)</sup> , EUR million	Return on invested capital, %	Return on invested capital, %	Return on invested capital, %
	1.1.–31.3.2019	1.1.–31.3.2019	1.1.–31.3.2019	1.1.–31.3.2018	1.1.–31.12.2018
<b>Fixed-income investments</b>	<b>201.7</b>	<b>8,252.9</b>	<b>2.4</b>	<b>-0.5</b>	<b>-0.8</b>
Loans <sup>1)</sup>	3.9	555.5	0.7	0.7	2.8
Bonds	198.2	6,232.2	3.2	-0.6	-1.2
Bonds of public corporations	86.6	3,260.5	2.7	-0.6	-0.9
Bonds of other corporations	111.6	2,971.7	3.8	-0.6	-1.5
Other money market instruments and deposits including any receivables and liabilities related to investments <sup>1) 2)</sup>	-0.4	1,465.3	0.0	-0.1	-0.5
<b>Equities</b>	<b>865.2</b>	<b>9,307.8</b>	<b>9.3</b>	<b>-1.0</b>	<b>-4.7</b>
Listed equities <sup>3)</sup>	855.7	6,795.9	12.6	-2.0	-10.2
Private equity investments <sup>4)</sup>	9.5	2,130.3	0.4	3.1	16.0
Unlisted equity investments <sup>5)</sup>	0.0	381.6	0.0	2.2	10.6
<b>Real estate</b>	<b>48.8</b>	<b>3,078.9</b>	<b>1.6</b>	<b>1.2</b>	<b>5.8</b>
Direct real estate investments	28.1	2,356.2	1.2	1.0	5.7
Real estate funds and joint investment companies	20.6	722.7	2.9	1.9	6.3
<b>Other investments</b>	<b>50.3</b>	<b>1,829.3</b>	<b>2.7</b>	<b>1.0</b>	<b>1.6</b>
Hedge fund investments <sup>6)</sup>	49.3	1,829.7	2.7	1.1	1.7
Commodity investments	0.7	-0.3	-	-	-
Other investments <sup>7)</sup>	0.3	-0.1	-	-	-
<b>Total investments</b>	<b>1,166.0</b>	<b>22,468.8</b>	<b>5.2</b>	<b>-0.3</b>	<b>-1.3</b>
Unallocated income, costs and operating expenses from investment operations	-5.6		0.0	0.0	-0.1
<b>Net investment income at current value</b>	<b>1,160.4</b>	<b>22,468.8</b>	<b>5.2</b>	<b>-0.4</b>	<b>-1.4</b>

1) Includes accrued interest

2) Includes cash at bank and in hand and purchase money claims and purchase money obligations

3) Includes also mixed funds if these cannot be allocated elsewhere

4) Includes private equity funds, mezzanine funds and also infrastructure investments

5) Includes also unlisted real estate investment companies

6) Includes all types of hedge fund investments regardless of the strategy of the fund

7) Includes items that cannot be included in other investment classes

8) Change in market values at the end and beginning of the reporting period – cash

Cash refers to the difference between sales/returns and purchases/expenses

9) Capital employed = market value at beginning of reporting period +

daily / monthly time-weighted cash flows