

Elo interim report 1 January–30 June 2020

The comparison figures in brackets are figures for 30 June 2019.

- The return on Elo's investments was **-4.1%**. The market value of the investments was **EUR 24.0 billion**.
- In the first quarter, return on investments was **-9.5%**.
- In the second quarter, return on investments was **5.9%**.
- The average 10-year nominal return was **5.1%**.
- Solvency: the solvency ratio was **119.4%** and solvency capital was **1.4 times the solvency limit**.
- The total result was **EUR -1,077.2 million**.
- The expense loading ratio was **77.6%**.

	1.1.–30.6.2020	1.1.–30.6.2019	1.1.–31.12.2019
Premiums written, EUR million	1,753.6	2,007.5	3,968.5
Net investment income at current value, EUR million	-1,037.8	1,613.9	2,915.7
Net return from investment on capital employed, %	-4.1%	7.2%	13.0%

	30.6.2020	30.6.2019	31.12.2019
Technical provisions, EUR million	21,346.4	21,109.7	21,876.6
Solvency capital, EUR million ¹⁾	4,002.9	4,630.6	5,081.8
ratio to solvency limit	1.4	1.5	1.6
Pension assets, EUR million ²⁾	24,623.6	24,617.2	25,886.0
% of technical provisions ²⁾	119.4%	123.2%	124.4%
TyEL payroll, EUR million ³⁾	13,759.3	14,294.3	14,326.7
YEL earned income sum, EUR million ³⁾	1,694.8	1,723.1	1,767.0

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.

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

Economic environment and development of the investment market

The coronavirus pandemic hit both the global and the Finnish economy hard. The pandemic has now lasted for slightly more than six months, and the future is still characterised by major uncertainty regarding the pace at which economic activity will pick up and the recovery of household and corporate confidence. According to forecasts, global GDP will decrease by 3–4 per cent this year, whereas last year, global growth amounted to approximately 3 per cent. Finland's GDP is estimated to decrease by 5–6 per cent. Economic growth is expected to start in the second half of 2020 as movement and meeting restrictions are likely to be eased. However, new COVID-19 cases abroad indicate that the normalisation of economic activity will not happen quickly and there is great uncertainty associated with next year's growth forecasts.

Household and corporate behaviour is cautious. As a result, consumption and investments will recover slowly and economies will not reach their pre-crisis GDP levels in the next few quarters. There is a great deal of workforce and capital available as the coronavirus crisis has reduced companies' investment and recruitment appetite. Public authorities have played a key role in supporting demand. The aim of stimulus measures is to support companies in overcoming the crisis in order to save as many jobs as possible.

The brisk recovery of the investment market after mid-March may seem surprising when considering the scale of economic decline and considerable uncertainty associated with the duration of the pandemic and the pace of recovery. In addition to monetary policy instruments, the massive and simultaneous economic policy stimulus measures, especially the unprecedentedly abundant financial policy support for demand, have played a key role in the recovery of investor confidence. The volatility in the listed security prices has been significant during the pandemic. As long as there is no vaccine or certain cure, the volatility of the investment market will likely remain strong.

Employment pension system

The coronavirus epidemic had many kinds of impacts on the employment pension sector during the first half of 2020. The measures taken quickly by the sector improved the customers' ability to overcome the crisis, and employment pension companies could extend the terms of payment of pension contributions. Diverse forms of flexibility were made available to people in vocational rehabilitation if the rehabilitee could not continue their studies or work trial due to the coronavirus situation, for example.

Elo's corporate and entrepreneur customers could get the due date of pension contributions (YEL and TyEL insurance) extended without interest on arrears for invoices with due date between 20 March and 30 June 2020. The number of due date extensions was at its highest in April.

Pension contributions were temporarily decreased in accordance with the agreement made by central labour market organisations in March. The temporary decrease of employers' pension contributions by 2.6 percentage points was introduced at the beginning of May and will be valid until the end of the year. Employment pension companies' customer bonuses will correspondingly be withdrawn for that time, which means that bonuses next year will be approximately one third of the expected level.

The solvency of employment pension companies impaired rapidly in March when share prices declined. On 13 March, the Financial Supervisory Authority informed the Ministry of Social Affairs and Health of exceptional conditions in the financial market. On the basis of this notification, the ministry considered legislative and other measures and the Financial Supervisory Authority was authorised by way of a decree of the Ministry of Social Affairs and Health to extend the prescribed time of pension institutions' recovery plan to three years. Due to the exceptional situation, the ministry decided to strengthen solvency by confirming the value of the supplementary coefficient, used in determining the supplementing of old-age pension liabilities, at zero for the second and third quarter.

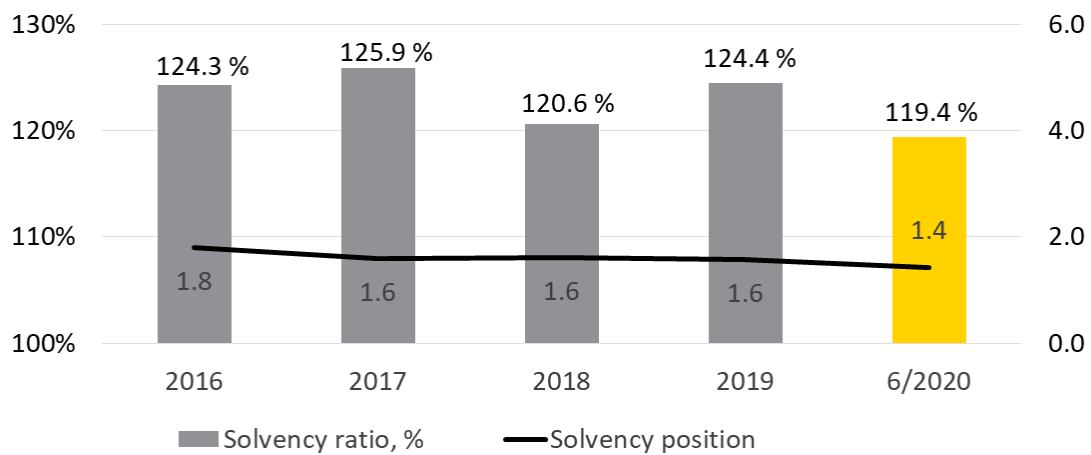
At the end of April, the Ministry of Social Affairs and Health also announced that, due to the exceptional circumstances, it had been preparing a government proposal on the temporary strengthening of pension institutions' solvency in case the situation on the financial market would become materially weaker than the situation at that time. According to the draft proposal, solvency would be temporarily strengthened so that assets in the system-level buffers of the pension system, or in the provision for pooled claims and in the provision for bonuses linked to equity income, would be considered as part of pension institutions' solvency capitals for a fixed period of time. In addition, a portion corresponding to the supplementary coefficient for the first quarter of 2020 would be left untransferred from solvency capital to old-age pension reserves.

The proposal schedule was left open in the proposal and the support measured described above have not been introduced thus far. Elo was in favour of the changes proposed as they support the long-term goals and sustainability of the employment pension system in conditions characterised by low birth rates, ageing population and challenging investment environment.

Result and solvency

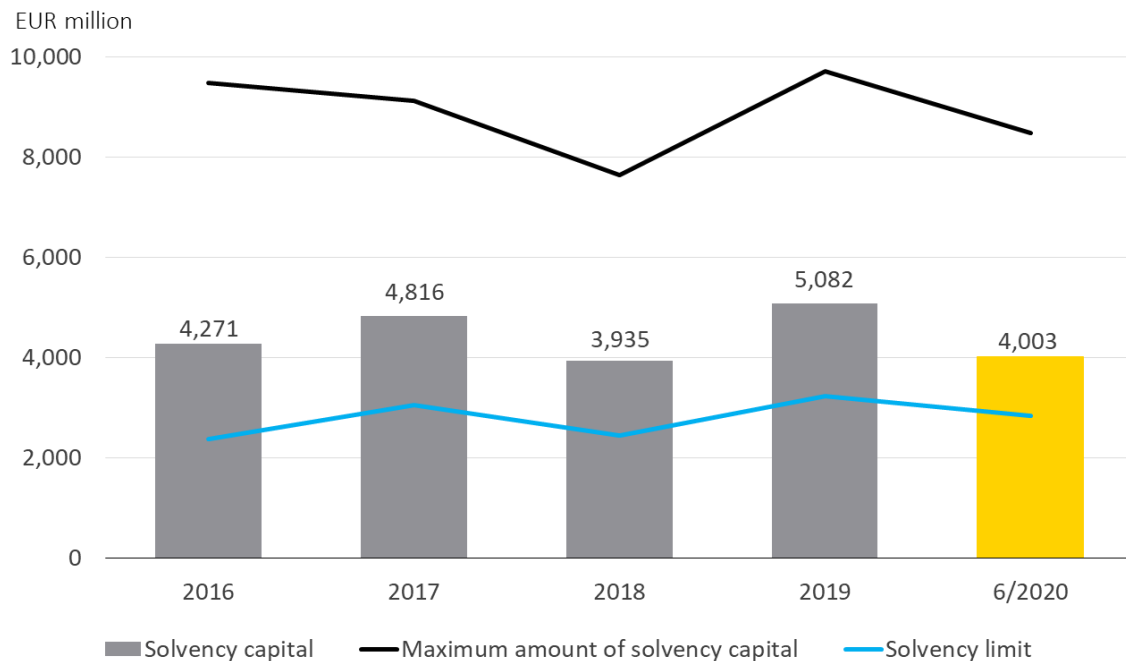
At the end of June, Elo's solvency was good. Elo's pension assets in relation to technical provisions, i.e. the solvency ratio, has been at a good level throughout the year, sufficient to cover the liabilities. The solvency position weakened temporarily in March as a consequence of the coronavirus crisis.

The amount of solvency capital decreased from the beginning of the year by EUR 1,078.9 million, amounting to EUR 4,002.9 million (EUR 4,630.6 million) by the end of June. The ratio of pension assets to technical provisions, i.e. the solvency ratio, was 119.4 per cent (123.2 per cent). The solvency capital was 1.4 (1.5) times the solvency limit. During the first quarter, Elo's solvency ratio decreased similarly as the solvency ratios in the sector on average. In the second quarter, Elo's solvency ratio increased by 2.8 percentage points when compared to 31 March 2020 when it was 116.6 per cent. The solvency position was 0.2 higher at the end of the second quarter than on 31 March. In the second quarter, Elo submitted a recovery plan to the Financial Supervisory Authority, drawn up after Elo's solvency position fell one point (0.01) below the supervisory threshold of 1.0 for one day on 19 March 2020. The Financial Supervisory Authority approved Elo's recovery plan on 16 June 2020. Further information on this topic can be found in press releases published on Elo's website.



The net return on investment operations at fair values was EUR –1,037.8 million (EUR 1,613.9 million). The return credited in technical provisions for the same period was EUR 32.2 million (EUR 931.0 million), of which technical provisions linked to equity income accounted for EUR –332.5 million (EUR 536.0 million). The result of investment operations at fair values was thus EUR –1,070.1 million (EUR 682.9 million).

The loading profit came to EUR 13.0 million (EUR 14.9 million). The insurance business surplus was EUR –19.2 million (EUR –5.4 million) and other income EUR –1.0 million (EUR 3.9 million). Elo’s combined total result at fair values was EUR –1,077.2 million (EUR 696.3 million). Total operating expenses amounted to EUR 62.8 million (EUR 69.9 million) for the period under review.



Solvency capital	30.6.2020	30.6.2019	31.12.2019
Solvency limit, EUR million	2,824.6	3,030.0	3,233.4
Maximum amount of solvency capital, EUR million	8,473.8	9,090.1	9,700.2
Solvency capital, EUR million	4,002.9	4,630.6	5,081.8
Solvency ratio, % ¹⁾	119.4	123.2	124.4
Solvency position ²⁾	1.4	1.5	1.6

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

Insurance business and customer accounts

The coronavirus pandemic could be seen in Elo's insurance services during the spring. Entrepreneurs made considerably more changes to YEL earned income than normal, and more than 10 per cent of entrepreneurs had their YEL insurance contribution due date extended. The number of TyEL insurance contribution due date extensions also multiplied from the ordinary number. When compared to 2019, the TyEL payroll amount was approximately 12 per cent lower in May and approximately 8 per cent lower in June. In July, the situation was already better and the payroll amount was only 1 per cent lower than last year.

Elo's customer service received more contacts than normal. Nevertheless, customer service functioned very well all the time, and there was no congestion. The NPS for telephone services was an excellent 91.1 in January–June. This shows that we succeeded in providing our customers with extremely high-quality service in spite of the exceptional situation. Indeed, our flexible and understanding attitude has received praise from our customers.

In late spring, we also continued to inform and contact our customers actively through diverse channels. Furthermore, we invested in the development of segment-specific service models in order to create an even higher-quality, more comprehensive customer experience.

We have developed Elo's insurance online service further and introduced changes according to our customers' wishes. The NPS for the online service was 52.2 in January–June. The NPS has improved continuously and this result was an all-time high. This indicates that we have been able to fulfil our customers' needs and expectations.

Due to the coronavirus pandemic, the total volume of the second transfer period of 2020 was slightly lower than last year. Nevertheless, the number of customer accounts continued to increase favourably. In the past transfer period, the net increase in the number of TyEL customer accounts was 110 employer customers and premiums written also developed positively. The number of entrepreneur customers grew by 263 customers during the transfer period. In customer acquisition, the market share increase has continued regarding both employer and entrepreneur customers. Good sales results during the first half of the year strengthened Elo's market leadership on the YEL market.

At the end of June, Elo administered 47,400 (46,300) TyEL and 82,600 (83,300) YEL insurance policies. The total number of self-employed persons and employees insured by Elo was 465,000 (509,100). In 2019, the calculation of TyEL policyholders changed as the Incomes Register was introduced: The calculation concerns the number of TyEL policyholders who have had earnings during the last month. However, each person is only calculated once. Elo is the market leader in YEL pension insurance, and one in three employer companies use Elo to insure their employees.

Pension services

A total of 241,800 (238,600) pensioners were paid their pensions by Elo at the end of June. EUR 1,767.2 million (EUR 1,697.0 million) was paid in pensions during the first half of the year. Elo issued a total of 13,974 (13,265) pension decisions on the basis of an application.

The quality of customer service was excellent during the period in spite of the increase in customer contacts brought about by the coronavirus situation. The average time for answering customers' calls was less than half a

minute, and the customer satisfaction score (NPS) for telephone services was 72.7 (70.6). On average, we issued pension decisions approximately 17 (26) per cent faster than the overall average of other employment pension companies.

During the first half of the year, we expanded our online service for private customers by introducing new services, such as a child's survivors' pension application and a function for submitting a rehabilitation plan. Now nearly all personal pension and rehabilitation matters can be handled in the online service. Along with these service updates, the customer satisfaction score (NPS) for the online service related to pension and rehabilitation matters has increased year-on-year and is now 64.1 (56.5).

In old-age pensions and survivors' pensions, strong investment in automation development and proactive customer service can be seen in the excellent results achieved. During the first half of the year, Elo made old-age pension decisions on average in four days, while the sector's average was 12 days. Decisions regarding partial early old-age pension were made by Elo in one day, with the sector's average being four days. Also in survivors' pensions, Elo's processing times were clearly better than in other companies in the sector. During the reporting period, a total of 3,391 (3,753) old-age pension decisions and 1,152 (1,198) partial early old-age pension decisions were issued.

In disability pensions, the focus during the first half of 2020 was on developing automation further and ensuring high-quality decision-making with new methods. The increase in the disability pension applications has levelled off but, as a result of our efficient operations, we have issued 9 per cent more pension decisions during the reporting period. At the end of June, psychological disorders were the reason for 37.0 per cent of new disability pension decisions, musculoskeletal disorders for 28.2 per cent.

The increase in the number of decisions, which was the prevailing trend for years, stopped during the first half of the year. The number of decisions on the right to rehabilitation that were issued on the basis of an application has levelled off, settling to the same level as last year. However, decisions on the right to rehabilitation issued in conjunction with disability pension increased by 14 per cent. Our goal is to support our customers' return to work with a wide range of means. This year, we have concentrated especially on using analytics in developing the effectiveness of customer service and rehabilitation.

Investment operations

Long-term risk-free interest rates decreased in developed countries during the first half of the year. In the second quarter, the interest rate of the United States' 10-year bond decreased to an all-time low level as the investment market discussed negative central bank interest rates as a potential stimulus measure the recession triggered by the coronavirus crisis. During the first half of the year, low-risk interest income became even more modest, which can already be seen as a significantly higher risk appetite among investors. Assets have flowed into both high-risk interest rate instruments and the equity market.

The record-steep decline in the listed securities market in the first quarter was followed by the fast rise in high-risk securities in the second quarter, driven by exceptionally intensive stimulus measures. A significant amount of return-seeking assets moved into this market.

During the period under review, fixed income investments, real estate investments and other investments (mainly hedge fund investments) generated positive returns.

At the end of June, the average 10-year nominal return of Elo's investments was 5.1 per cent and the average 10-year real return was 3.9 per cent. The average 5-year nominal return was 3.9 per cent and the average 5-year real return was 3.3 per cent. The result of investment operations at fair values was EUR -1,070.1 million (EUR 682.9 million).

The global equity market recovered quickly from its exceptionally steep decline early this year. The equity market has operated almost normally throughout the crisis and liquidity has remained good, thanks to stimulus measures. Trading costs showed a significant temporary increase but have now returned nearly to the normal level.

On the equity market, the second quarter of the year was characterised by divergence, both geographically and by sector. Geographical differences in returns have increased. Market growth has become polarised and concentrated on certain companies and sectors. In Elo's equity portfolio, Finland and the United States have generated the highest returns and Europe the lowest, which is also characteristic of general market development. In the United States, technology companies have generated good returns and supported the market. Europe lacks similar high-growth companies, which in part explains the weaker performance of the European market.

Visibility into the business situation has been poor during the period under review. Companies' capability to issue profit forecasts will improve once their visibility into their operating environment will improve. A key factor for the development of the equity market in the near future is how economic development can be seen in companies' results. The return on equity investments was -9.7 per cent (12.2 per cent) in January-June.

At the end of the first quarter, bond margins expanded significantly in both high and low credit rating companies. Market recovery started in late March and continued for the entire second quarter. A large amount of investment assets has flowed into the bond market and there have been plenty of new emissions. Stimulus measures have mainly been targeted at companies with a high credit rating. However, the United States has published a support package also for low credit rating companies. Elo's credit risk investments have performed relatively well throughout the pandemic. At the beginning of the crisis, the majority of the weight in Elo's credit portfolio was placed on low-risk securities and the portfolio did not include companies that suffered most from the restrictions caused by the pandemic.

Demand for financing has been high as companies have tried to improve their liquidity. Companies with a good credit rating have been able to receive financing throughout the period under review, whereas companies with a low credit rating have not received debt financing during the first half of the year. Globally, companies are still in a difficult position but support packages have reduced the risk of bankruptcy. It is likely that payment arrangements granted to companies will postpone bankruptcies. The return on fixed income investments was 1.2 per cent (4.0 per cent) in January-June.

During the period under review, there have been significant differences in sovereign bond development in different geographical areas. Globally, economic growth started to slow down even before the coronavirus pandemic and in all developed Western countries, interest rates have generally been declining throughout the period under review and reached a record-low level. A temporary rise was seen at the beginning of June as stimulus measures were launched. In the second quarter, interest curves became steeper as long-term interest rates rose. In addition to companies, various countries have been actively issuing bonds. A record-breaking number of bonds have been issued at low levels of return.

Along with the coronavirus crisis, the risks associated with sovereign bonds of emerging economies have increased as the economic situation in these countries has deteriorated. With regard to these bonds, the market is divided into two. Countries that have managed their economy well have been able to get funding under good terms but the market has been closed to countries that have performed more poorly in managing their economy and are relying on crisis support. Emerging market bonds denominated in their local currencies have performed less well than euro-denominated bonds. Already before the coronavirus crisis, Elo reduced the weight of emerging market bonds in its portfolio.

The US dollar strengthened clearly against the euro in the early second quarter, but towards the end of the quarter, the situation turned around and the euro started strengthening. The dollar and the currencies of emerging economies play a key role in Elo's currency exposure. In emerging economies, the currency risk has decreased while investments in these countries have been reduced.

Despite the coronavirus pandemic, a long-term strategy has been implemented in Elo's real estate investments. Ongoing construction projects and renovations have proceeded as planned. The occupancy rates of business premises and housing have remained at a good level. During the period under review, some smaller properties were sold.

The coronavirus pandemic and the recommendations and restrictions introduced to curb it have temporarily complicated the business of certain lessees of business premises. Elo has solved business-related challenges

together with its lessees. The goal is to manage customer relationships well and to secure cash flows and returns over a longer term. The measures taken decrease rental income temporarily for certain types of premises. The lifting of the coronavirus restrictions and the return to normal strengthen confidence in the recovery of the real estate market.

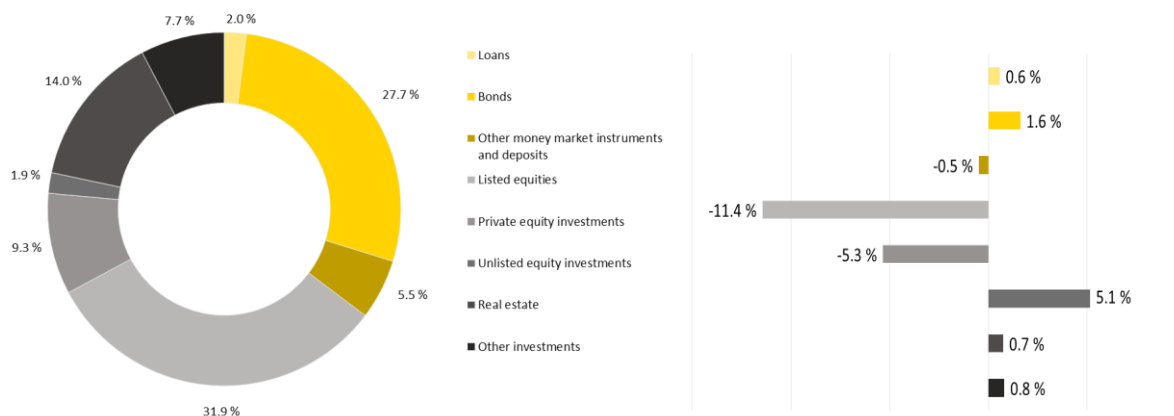
The coronavirus crisis impairs rental cash flow temporarily for certain premises types. Potential longer-term effects on the real estate market will be seen only later.

Elo's real estate investment portfolio is well diversified among different types of premises. Ownership concentrates on areas and properties that are estimated to have stable user demand over a long term. Towards the end of the period under review, rental activities also recovered, and the visitor counts of shopping centres are now returning to a nearly normal level. By the end of June, the return on real estate investments was 0.7 per cent (2.4 per cent).

The market of the companies invested by private equity investment funds recovered relatively fast in the second quarter. A significant share of the companies that Elo's private equity funds invest in operate in software and health care sectors, which have weathered the coronavirus crisis better than many other sectors. The coronavirus pandemic has prolonged the funding processes of private equity funds, but fund activity has increased towards the end of the second quarter.

As a whole, the loan portfolio of Elo's corporate finance grew during the period under review. With regard to corporate financing, we have cooperated with our customers to develop financing solutions to improve their opportunities of overcoming the crisis. During the crisis, there has been active cooperation among providers of financing, and customers have been offered flexibility regarding instalments, for instance. Demand for TyEL relending grew strongly, but the actual realisation remained low as a result of the government's actions and the ECB's measures to support banks' liquidity.

Elo's other investments consisted mainly of hedge fund investments. Elo's hedge fund investments generated good returns in the second quarter.



	Basic allocation by market value		Actual risk position		Return	Volatility
	EUR million		EUR million	%	%	%
Fixed-income investments	8,121.6	33.9	8,157.1	34.0	1.2	
Loans	487.5	2.0	487.5	2.0	0.6	
Bonds	6,062.5	25.3	6,652.0	27.7	1.6	6.4
Public bonds	2,172.2	9.1	2,177.8	9.1	3.6	
Other bonds	3,890.3	16.2	4,474.1	18.7	0.4	
Other money market instruments and deposits incl. any receivables and liabilities related to investments	1,571.6	6.6	1,017.7	4.2	-0.5	
Equities	10,641.4	44.4	10,317.3	43.0	-9.7	
Listed equities	7,967.6	33.2	7,643.5	31.9	-11.4	18.4
Private equity investments	2,221.9	9.3	2,221.9	9.3	-5.3	
Unlisted equity investments	451.9	1.9	451.9	1.9	5.1	
Real estate	3,356.9	14.0	3,356.9	14.0	0.7	
Direct real estate investments	2,393.0	10.0	2,393.0	10.0	2.0	
Real estate funds and joint investment companies	963.9	4.0	963.9	4.0	-2.7	
Other investments	1,858.2	7.7	1,841.8	7.7	0.8	
Hedge fund investments	1,858.1	7.7	1,858.1	7.7	1.5	4.9
Commodity investments	0.0	0.0	-18.9	0.1	-	
Other investments	0.0	0.0	2.5	0.0	-	
Total investments	23,978.0	100.0	23,673.1	98.7	-4.1	7.6
Effect of derivatives			304.9	1.3		
Total	23,978.0	100.0	23,978.0	100.0		

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 7.4 years.

The open currency exposure is 25.8% of market value.

Personnel

In the first half of the year, Elo had an average of 531 (531) employees and the average amount of work performed was 486 (485) FTE. Personnel expenses in January–June amounted to EUR 20.4 million (EUR 20.2 million).

Exceptional arrangements in the work of Elo employees carried out with a fast schedule due to the coronavirus pandemic were made smoothly and remote work was organised without problems. Based on the personnel survey conducted in early April, it can also be said that the employees' remote work experience has been positive.

These four months of remote work have revealed positive aspects, such as the adoption of new working methods and the decreasing number of general sickness absences. Carefully defined hygiene practices and ways of working make safe return to the office possible. Enabling working at the office, even to a limited extent, is important for maintaining team spirit and creativity in work communities.

Corporate governance

In its meeting on 20 January 2020, Elo's Board of Directors elected the Board's Chairman and Deputy Chairmen for 2020. **Antti Aho**, Managing Director of Aava Terveyspalvelut Oy, continues as the Chair of the Board of Directors.

Ann Selin, Executive Advisor to the Service Union United PAM, continued as the first Deputy Chairman of Elo's Board of Directors until 31 March, on which date her membership in the Board of Directors ended. Akava's President **Sture Fjäder** started as the Board's first Deputy Chairman on 1 April 2020. **Susa Nikula**, Executive Vice President, HR, SOK Corporation, continues as the second Deputy Chairman. On 13 May 2020, **Annika Rönni-Sällinen**, President of Service Union United PAM, was elected a member of the Board of Directors, to take the seat in place of Ann Selin for a term lasting until 31 December 2022. A cooling-off period was applied to Fjäder and Rönni-Sällinen before they joined Elo's Board of Directors as they became members of Elo's Board of Directors after being members in another employment pension insurance company's Board of Directors. The ordinary member of the Board of Directors **Niklas Sonkin**, COO and Deputy CEO of Accountor Holding Oy, resigned from the Board of Directors on 30 April 2020. The deputy member of the Board **Aki Käyhkö**, Managing Director of Scandic Hotels Oy, has acted as the ordinary member of the Board in place of Sonkin.

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, and it is chaired by the Chair of the Board of Directors. **Jari Karlson** (Chairman) and **Marjo Matikainen-Kallström** continue as members of the Audit Committee. Niklas Sonkin's Audit Committee membership ended on 30 April 2020. On 7 May 2020, **Penna Urrila** was elected to take his seat as a member of the Audit Committee.

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

Responsibility

Responsibility is integral to Elo's basic task, and our mission statement is "Taking care of customers' pension interests responsibly". In the exceptional situation caused by the coronavirus, smooth execution of the basic task and active customer work were emphasised. We invested particularly in informing customers of the changes caused by the exceptional situation by e.g. increasing customer communications through diverse channels and allocating resources to customer service.

We have also paid particular attention to the well-being of our employees by e.g. organising online training courses on mental well-being and providing more instructions for ergonomics in remote work. Measures taken during the period under review included establishing a section on remote work at Elo on the intranet and conducting a personnel survey on well-being and management.

In the current exceptional situation, Elo has also aimed to bear our social responsibility in a multitude of ways with regard to our investment operations as a pension insurer. With regard to the lessees of our properties, we have aimed to find solutions with which we could maintain the continuity of the business operations of our lessees and secure the safe use of our properties while reaching the long-term investment objectives. With regard to corporate financing, we have cooperated with our customers to find solutions with which the continuity of their business could be secured and allow us to support them over the crisis at hand.

Near-term outlook: uncertainty will characterise both the economic outlook and the investment market for a long time to come

All forecasts indicate that both consumption and investments will decrease in Finland this year and foreign trade will not boost growth either. It is possible that the lowest point in economy was experienced in Finland already in April when the coronavirus restrictions were at their strictest. Information about the second quarter indicate that Finland's total production decreased less than feared. At the beginning of the summer, there were signs that economic growth would be starting in Finland, too, as life was gradually becoming more normal.

A new concern is the second wave of the coronavirus pandemic, which would, at worst, stifle demand both in Finland and in the key export markets. Our most important export markets have shown signs of recovery and, if the coronavirus situation remains more subdued than in the spring, Finland has potential for a positive growth surprise. It is extremely challenging to predict Finland's economic growth during the remainder of the year and next year. Without a vaccine or certain cure, consumers and companies will likely remain cautious in their consumption and investment decisions. As a result, the consequences of the coronavirus crisis may still be visible in economy for a long time to come, keeping unemployment above the pre-crisis level in the next few years.

Due to the recession triggered by the coronavirus pandemic and the related stimulus measures, the balance of the public-sector economy will be impaired dramatically. In Finland, the Ministry of Finance predicts that the deficit of the public-sector economy will increase to more than 8 per cent this year and debt in relation to the GDP will rise to approximately 71 per cent. The debt ratio will continue to grow rapidly even after the pandemic has subsided. This will be a challenge for Finland, with its population ageing and the dependency ratio weakening drastically during the next decade.

Economic development and the development of the investment market have taken divergent paths for a long time already. What is crucial for the long-term development of the investment market is whether this divergence can continue for long. Lack of profitable alternatives supports the development of the equity market in

conditions where low interest rates prevail. Stimulus measures provide companies with support but market uncertainty would be considerably reduced by the development of a coronavirus vaccine.

Even after the pandemic, the investment market will probably be characterised by a return-oriented atmosphere as interest rates will remain very low as a result of the continuation of the stimulating monetary policy. Earnings estimates depend on how well the coronavirus situation is brought under control in the key economies. The US presidential election will probably be the most important event this autumn as well as a crucial driver for the investment market.

Asset allocation at fair value

	Basic allocation by market value						Actual risk position ⁸⁾					
	30.6.2020		30.6.2019		31.12.2019		30.6.2020		30.6.2019		31.12.2019	
	EUR million	%	EUR million	%	EUR million	%	EUR million	% ¹⁰⁾	EUR million	% ¹⁰⁾	EUR million	% ¹⁰⁾
Fixed-income investments	8,121.6	33.9	7,984.5	33.6	8,697.5	34.3	8,157.1	34.0	8,502.5	35.7	10,472.0	41.3
Loans ¹⁾	487.5	2.0	562.9	2.4	456.0	1.8	487.5	2.0	562.9	2.4	456.0	1.8
Bonds	6,062.5	25.3	6,681.0	28.1	6,948.2	27.4	6,652.0	27.7	6,541.4	27.5	7,050.4	27.8
Other money market instruments and deposits including any receivables and liabilities related to investments ¹⁾²⁾	1,571.6	6.6	740.6	3.1	1,293.3	5.1	1,017.7	4.2	1,398.2	5.9	2,965.7	11.7
Equities	10,641.4	44.4	10,672.1	44.9	11,745.5	46.4	10,317.3	43.0	10,917.2	45.9	11,770.0	46.5
Listed equities ³⁾	7,967.6	33.2	8,337.2	35.0	9,186.9	36.3	7,643.5	31.9	8,582.3	36.1	9,211.4	36.4
Private equity investments ⁴⁾	2,221.9	9.3	1,938.1	8.1	2,112.2	8.3	2,221.9	9.3	1,938.1	8.1	2,112.2	8.3
Unlisted equity investments ⁵⁾	451.9	1.9	396.7	1.7	446.4	1.8	451.9	1.9	396.7	1.7	446.4	1.8
Real estate	3,356.9	14.0	3,260.6	13.7	3,097.2	12.2	3,356.9	14.0	3,260.6	13.7	3,097.2	12.2
Direct real estate investments	2,393.0	10.0	2,519.5	10.6	2,405.9	9.5	2,393.0	10.0	2,519.5	10.6	2,405.9	9.5
Real estate funds and joint investment companies	963.9	4.0	741.1	3.1	691.3	2.7	963.9	4.0	741.1	3.1	691.3	2.7
Other investments	1,858.2	7.7	1,873.4	7.9	1,793.5	7.1	1,841.8	7.7	1,853.5	7.8	1,812.1	7.2
Hedge fund investments ⁶⁾	1,858.1	7.7	1,819.8	7.6	1,793.4	7.1	1,858.1	7.7	1,819.8	7.6	1,793.4	7.1
Commodity investments	0.0	0.0	0.0	0.0	0.0	0.0	-18.9	-0.1	-21.4	-0.1	18.6	0.1
Other investments ⁷⁾	0.0	0.0	53.6	0.2	0.1	0.0	2.5	0.0	55.1	0.2	0.1	0.0
Total	23,978.0	100.0	23,790.5	100.0	25,333.8	100.0	23,673.1	98.7	24,533.7	103.1	27,151.4	107.2
Effect of derivatives ⁹⁾							304.9	1.3	-743.3	-3.1	-1,817.6	-7.2
Total at fair values	23,978.0	100.0	23,790.5	100.0	25,333.8	100.0	23,978.0	100.0	23,790.5	100.0	25,333.8	100.0

Modified duration of bond portfolio	7.4
-------------------------------------	-----

- Includes accrued interest
- Includes cash at bank and in hand and purchase money claims and purchase money obligations
- Includes also mixed funds if these cannot be allocated elsewhere
- Includes private equity funds, mezzanine funds and also infrastructure investments
- Includes also unlisted real estate investment companies
- Includes all types of hedge fund investments regardless of the strategy of the fund
- Includes items that cannot be included in other investment classes

- 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.
- 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.
- The proportion is calculated by using the total amount of the line "Total investments at current value" as the divisor. Due to a change in classification, the comparison figures for bonds and private equity investments have changed

Net return on investment operations for capital employed

	Net return on investments at current value, EUR million		Invested capital ⁹⁾ , EUR million		Return on invested capital, %	
	1.1.–30.6.2020		1.1.–30.6.2020		1.1.–30.6.2020	
	1.1.–30.6.2019		1.1.–31.12.2019		1.1.–31.12.2019	
Fixed-income investments	98.1	8,085.9	1.2	4.0	6.2	
Loans ¹⁾	2.7	476.3	0.6	1.3	2.7	
Bonds	101.7	6,309.1	1.6	5.3	8.0	
Other money market instruments and deposits including any receivables and liabilities related to investments ¹⁾²⁾	-6.3	1,300.5	-0.5	-1.8	-1.9	
Equities	-1,163.3	12,020.6	-9.7	12.2	21.9	
Listed equities ³⁾	-1,064.7	9,317.8	-11.4	14.7	25.2	
Private equity investments ⁴⁾	-121.0	2,265.6	-5.3	4.2	9.8	
Unlisted equity investments ⁵⁾	22.5	437.1	5.1	4.7	19.3	
Real estate	24.3	3,267.5	0.7	2.4	9.1	
Direct real estate investments	48.4	2,369.9	2.0	2.1	10.2	
Real estate funds and joint investment companies	-24.1	897.6	-2.7	3.4	5.5	
Other investments	14.8	1,853.6	0.8	5.0	5.6	
Hedge fund investments ⁶⁾	28.4	1,845.4	1.5	5.0	5.5	
Commodity investments	-1.5	-0.3	-	-	-	
Other investments ⁷⁾	-12.1	8.5	-	-	-	
Total investments	-1,026.0	25,227.5	-4.1	7.2	13.1	
Unallocated income, costs and operating expenses from investment operations	-11.8		0.0	-0.1	-0.1	
Net investment income at current value	-1,037.8	25,227.5	-4.1	7.2	13.0	

- Includes accrued interest
- Includes cash at bank and in hand and purchase money claims and purchase money obligations
- Includes also mixed funds if these cannot be allocated elsewhere
- Includes private equity funds, mezzanine funds and also infrastructure investments
- Includes also unlisted real estate investment companies
- Includes all types of hedge fund investments regardless of the strategy of the fund

- Includes items that cannot be included in other investment classes
- Change in market value between the beginning and end of the reporting period less cash flows during the period. Cash flow means the difference between purchases/costs and sales/revenues.
- Capital employed = market value at the beginning of the reporting period + daily / monthly time-weighted cash flows. Due to a change in classification, the comparison figures for bonds and private equity investments have changed