



Interim report 1 January – 30 September 2020

Elo Mutual Pension Insurance Company

The period in brief

- In January–September, the return on Elo's investments was -1.6 per cent. In the third quarter, return on investments was $+2.6$ per cent.
- Solvency improved during the quarter.
- The quality of customer service was excellent during the period.
- The exceptional work arrangements related to the COVID-19 pandemic have continued. The remote work experience has been good according to personnel surveys.



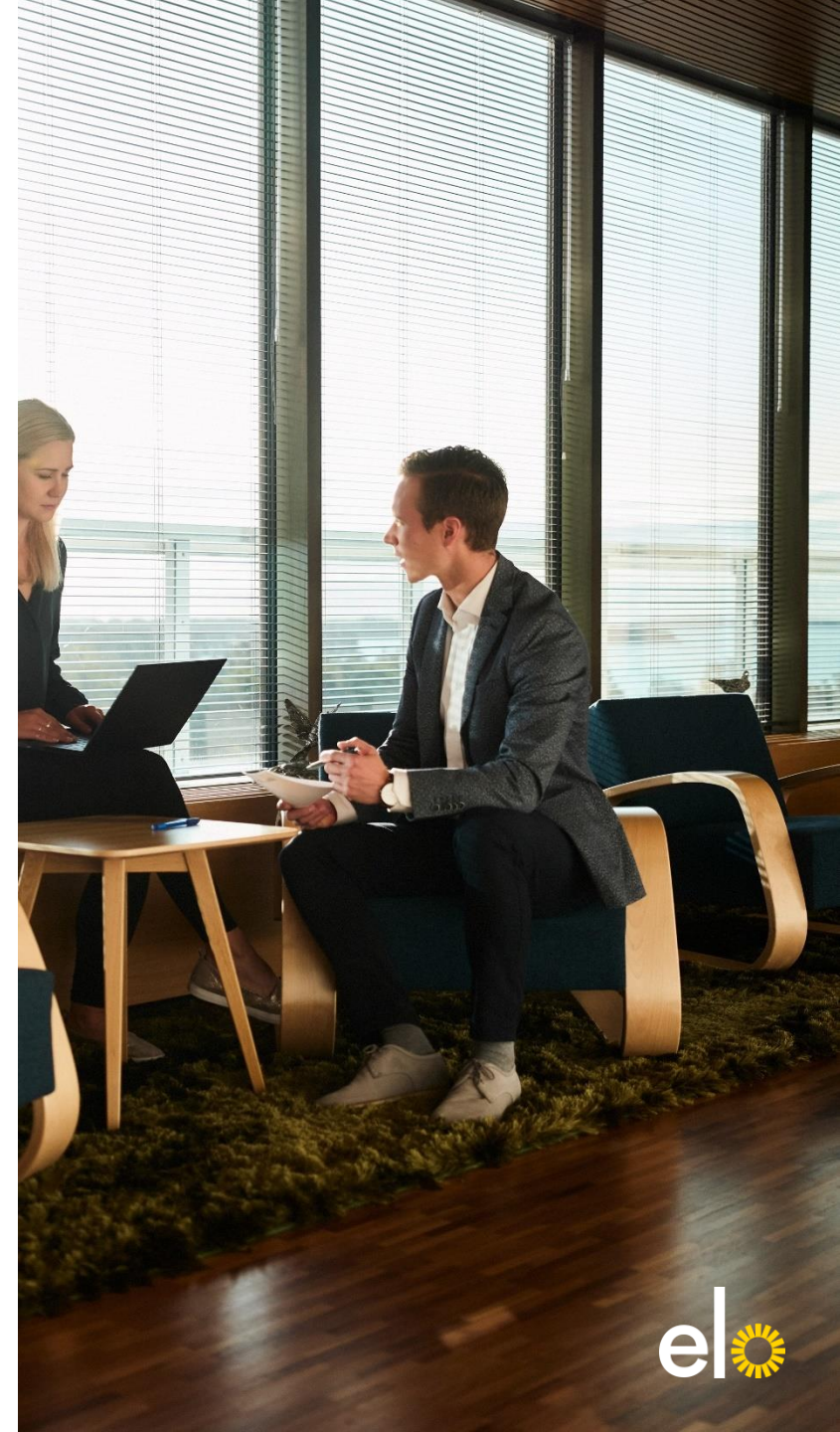
Smooth pension services in exceptional circumstances

- Elo's strong investment in automation development and proactive customer service is reflected in the excellent results of pension processing.
- Elo's customers received a decision on partial early old-age pension in one day on average, compared to the industry average of three days.
- The growth of new disability pension decisions has levelled off at Elo. At Elo, the share of decisions concerning psychological disorders continues to grow.



The impacts of the COVID-19 pandemic levelled off

- The impact of the COVID-19 pandemic on insurance services levelled off and the number of customer contacts decreased. For example, changes to YEL earned income by entrepreneurs returned to the previous year's level.
- The validity of the special provision confirmed by the Ministry of Social Affairs and Health last spring to allow employment pension companies to offer their customers extended due dates for pension contributions (YEL and TyEL insurance) without interest on arrears ended.
- Our employer customers have been able to pay the postponed TyEL insurance contributions to a good degree, but our entrepreneur customers have had more challenges with their postponed YEL contributions.



The number of customer accounts continued to increase favourably

- The impact of the COVID-19 pandemic was still evident in the total volume of the third transfer period of the year. The transfer period was quieter than the corresponding period last year.
- The number of customer accounts continued to increase favourably.
- Customer retention improved thanks to active customer account management.
- Elo is the market leader in YEL pension insurance, and one in three employer companies use Elo to insure their employees.



Responsibility

- Responsibility is emphasised during the exceptional situation, and we focused on performing our pension insurance operations smoothly.
- The UN-supported Principles for Responsible Investment (PRI) rates Elo's responsible investment strategy and governance as excellent with a grade of A+.
- Elo achieved good results in the Responsible Employer survey. The survey results indicated that further development potential exists in giving due consideration to sustainable development, for example.
- In the Responsible Summer Job survey, Elo ranked fourth in the large employers category. The recruitment process and induction training were highlighted as particular strengths.



The economic environment and the investment market

- According to forecasts, the global economy will contract by 3–4 per cent this year in spite of the recommencement of economic growth in the third quarter. In Finland, the decline in GDP is estimated to be 3–5 per cent.
- The COVID-19 recession has triggered unprecedented simultaneous global stimulus measures, with monetary policy and financial policy both being used.
- In terms of GDP, Finland has coped with the crisis relatively well compared to most other countries. The uncertainty caused by the COVID-19 situation has an extensive impact on businesses and households alike.
- Stimulus measures have kept interest rates at record-low levels and considerably increased the returns of high-risk investments since they bottomed out in March.
- After the summer, the outlook of the investment markets has again been more challenging as the COVID-19 situation has deteriorated and the rates of economic recovery have slowed down.

Future outlook

- The COVID-19 situation has deteriorated in Europe and Finland during the early autumn, and a new period of economic decline is a key risk. As an exports-driven economy, Finland will suffer if the situation in Europe does not improve.
- Household consumption and businesses' willingness to invest are characterised by caution. Demand is likely to remain weaker than normal due to the continued underutilisation of resources.
- The labour market is recovering slowly and inflation pressure remains low.
- The result of the US presidential elections and the economic stimulus policies of the next administration will influence market development during the latter part of the year.
- In China, economic growth resumed in the second quarter. This may provide much-needed support for global economic growth during the remainder of the year.
- Economic forecasts predict growth for the global economy and the Finnish economy in 2021.

Corporate governance

- On 30 September 2020, Elo received a letter of hearing from the Financial Supervisory Authority concerning the exceptional economic crisis of spring 2020 and the situation regarding Elo's solvency at the time. The Financial Supervisory Authority has requested an account of Elo's actions and decision-making criteria in the challenging economic environment of the COVID-19 spring. Elo's Board of Directors and management will familiarise themselves with the letter of hearing and respond to it by the deadline on 30 October 2020. In its response, Elo will also express an opinion on the Financial Supervisory Authority's suggestion in the letter of appointing an authorised representative for Elo.



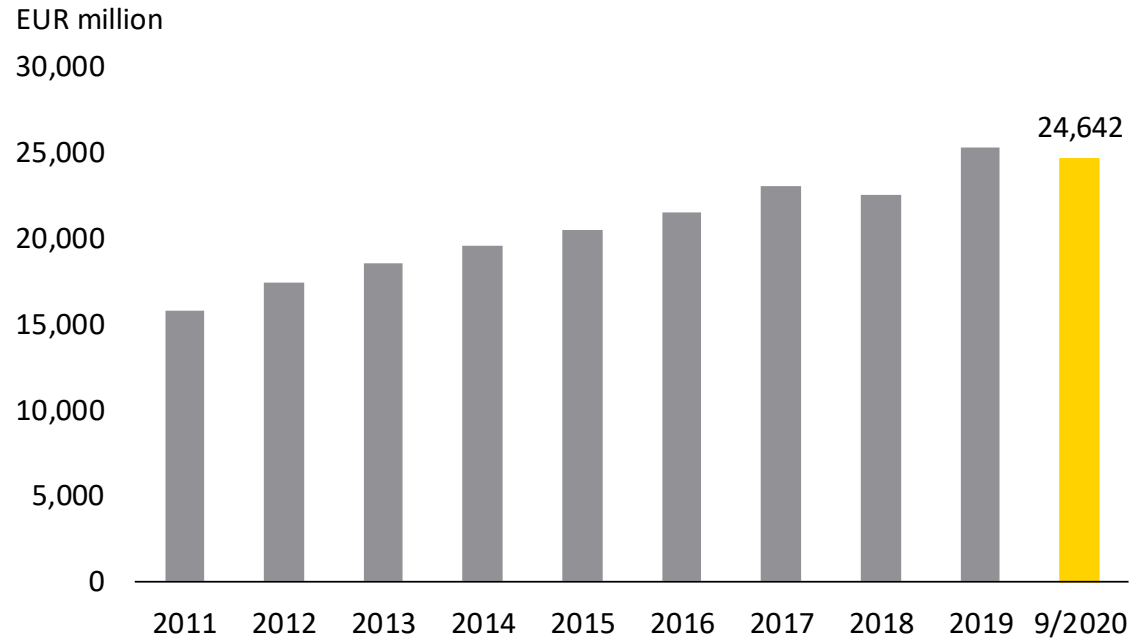
Elo's key figures

	9/2020	9/2019	2019
Investment assets at fair value, EUR million	24,641.6	24,564.6	25,333.8
Net return from investment on capital employed, %	-1.6 %	9.4 %	13.0 %
Average nominal return, over 10 years	5.0 %	5.9 %	5.9 %
Average nominal return, over 5 years	5.0 %	5.4 %	5.8 %
Premiums written, EUR million	2,686.0	3,010.0	3,968.5
Pensions and other benefits paid, EUR million	2,908.3	2,945.2	3,915.3
Technical provisions, EUR million	21,653.3	21,337.0	21,876.6
Number of TyEL insured	401,900	414,400	410,200
Number of YEL policyholders	83,000	83,400	83,300
Number of pensioners	242,900	239,900	240,900
Loading profit, EUR million	24.1	28.1	35.2
Solvency capital, EUR million	4,297.9	4,813.3	5,081.8
Solvency position	1.4	1.5	1.6
Solvency ratio, %	120.6 %	123.7 %	124.4 %

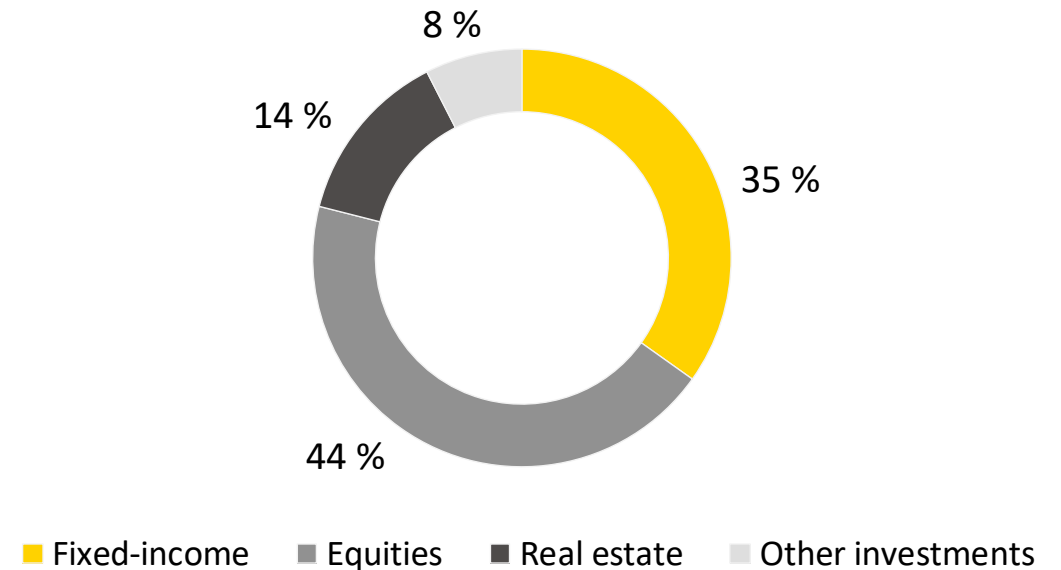
The calculation concerns the number of TyEL policyholders who have had earnings during the last month. However, each person is only calculated once.

Development of the investment assets and investment allocation

Development of investment assets 2011–9/2020

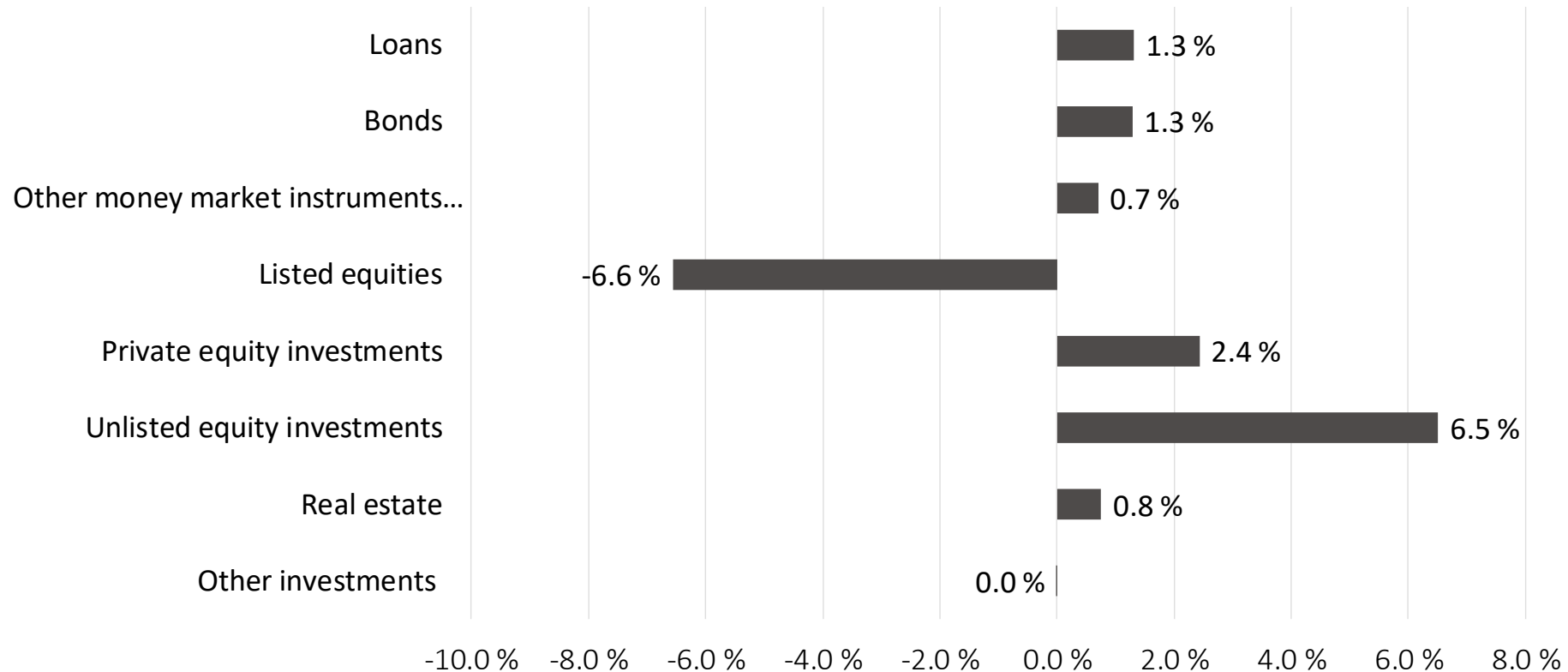


Investment asset allocation 30 September 2020



Most asset classes generated positive returns

Return on investments by asset class 1 January – 30 September 2020



- The modified duration of bonds is 7.3 years.
- The open currency exposure is 24.4 % of market value.

Investments generated a return of -1.6 %

	Basic allocation by market value EUR million		Actual risk position EUR million		Return	Volatility
				%	%	%
Fixed-income investments	8,331.5	33.8	8,365.0	33.9	1.2	
Loans	457.3	1.9	457.3	1.9	1.3	
Bonds	5,951.1	24.2	6,459.7	26.2	1.3	6.5
Public bonds	2,008.2	8.1	2,012.8	8.2	1.4	
Other bonds	3,943.0	16.0	4,446.9	18.0	1.2	
Other money market instruments and deposits incl. any receivables and liabilities related to investments	1,923.0	7.8	1,448.1	5.9	0.7	
Equities	11,173.6	45.3	10,872.8	44.1	-4.4	
Listed equities	8,382.8	34.0	8,082.0	32.8	-6.6	18.5
Private equity investments	2,335.5	9.5	2,335.5	9.5	2.4	
Unlisted equity investments	455.2	1.8	455.2	1.8	6.5	
Real estate	3,332.0	13.5	3,332.0	13.5	0.8	
Direct real estate investments	2,405.3	9.8	2,405.3	9.8	2.9	
Real estate funds and joint investment companies	926.7	3.8	926.7	3.8	-4.6	
Other investments	1,804.6	7.3	1,849.2	7.5	0.0	
Hedge fund investments	1,806.7	7.3	1,806.7	7.3	1.6	5.9
Commodity investments	0.1	0.0	44.7	-0.2	-	
Other investments	-2.3	0.0	-2.2	0.0	-	
Total investments	24,641.6	100.0	24,419.1	99.1	-1.6	7.6
Effect of derivatives			222.6	0.9		
Total	24,641.6	100.0	24,641.6	100.0		

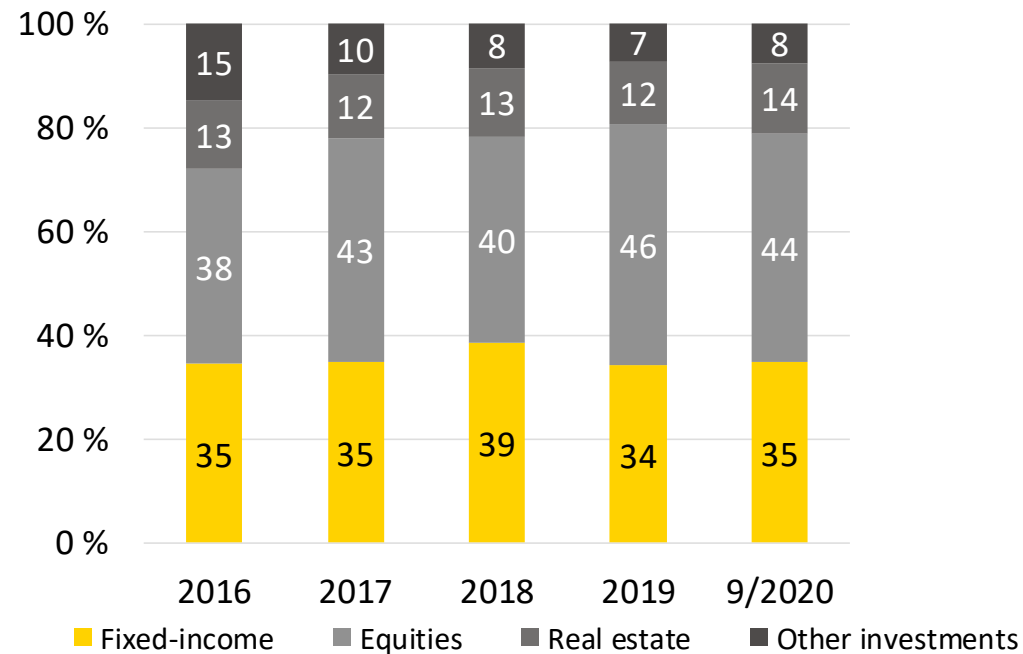
The return on foreign currency derivatives is estimated for asset classes in proportion to the average foreign currency-denominated assets during the reporting period.

The total return includes returns, expenses and operating expenses not allocated to investment classes. The modified duration of bonds is 7.3.

The open currency exposure is 24.4% of market value.

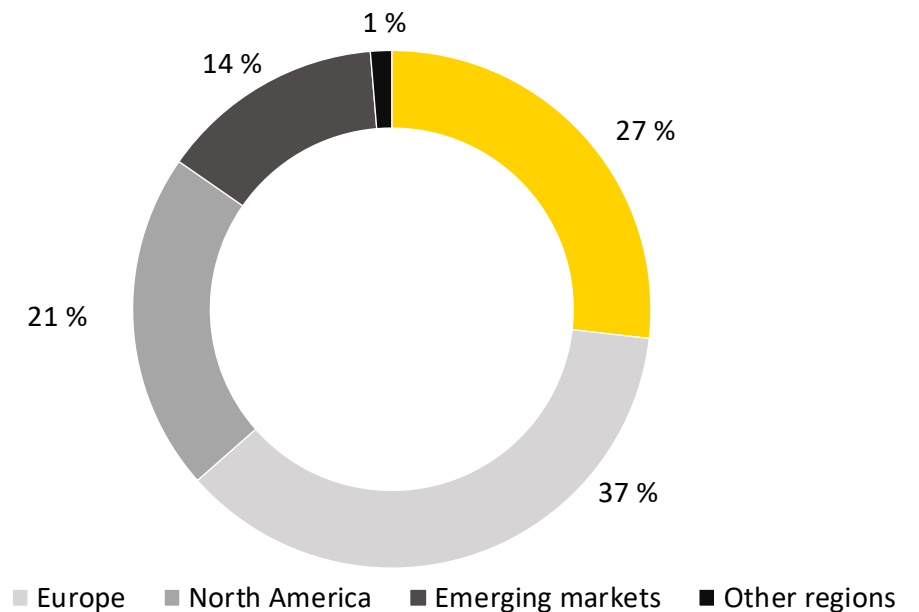
Development of asset allocation and geographical distribution of investments

Development of asset allocation 2016–9/2020



Geographical distribution of investments

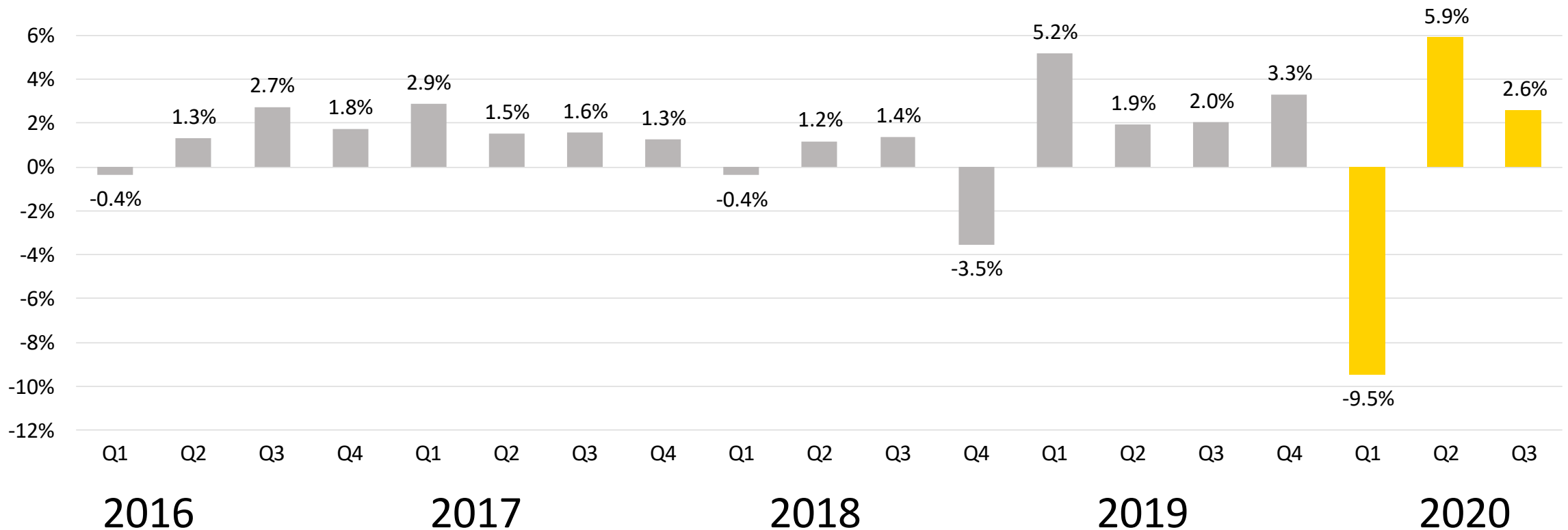
30 September 2020



- In Elo's equity portfolio, Finland and the United States have generated the highest returns and Europe the lowest, which is characteristic of the general market development.
- Elo's credit risk investments have performed well relative to the general development of the market.

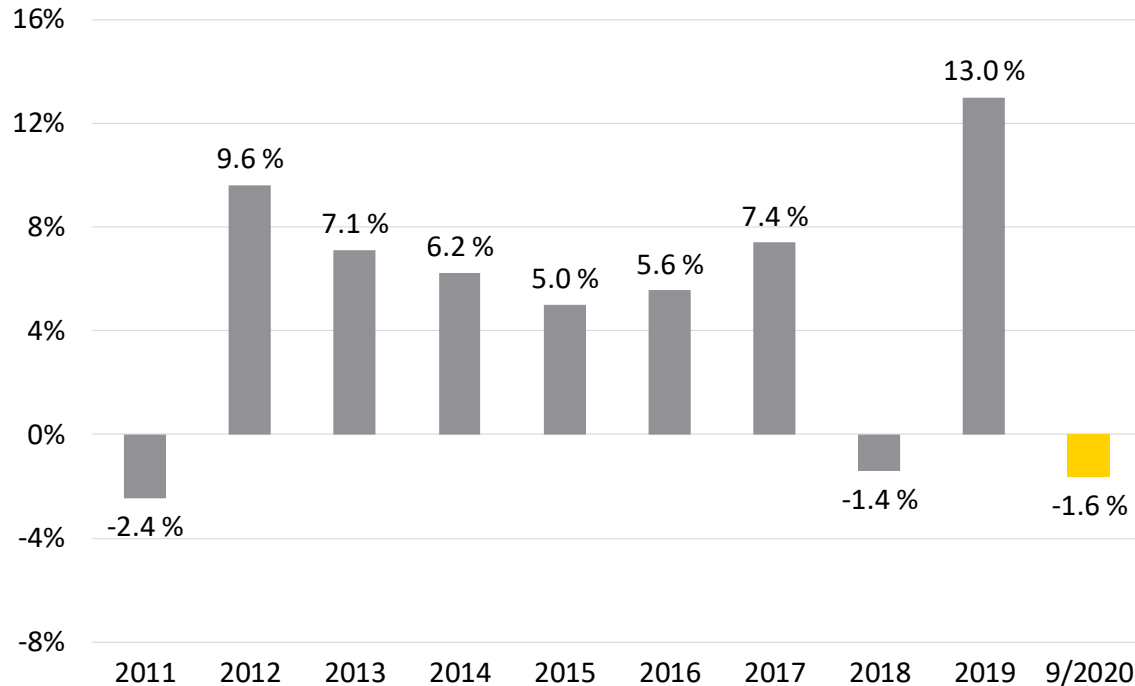
Return on investments was 2.6% in the third quarter

Return 1 January – 30 September 2020 was -1.6 %

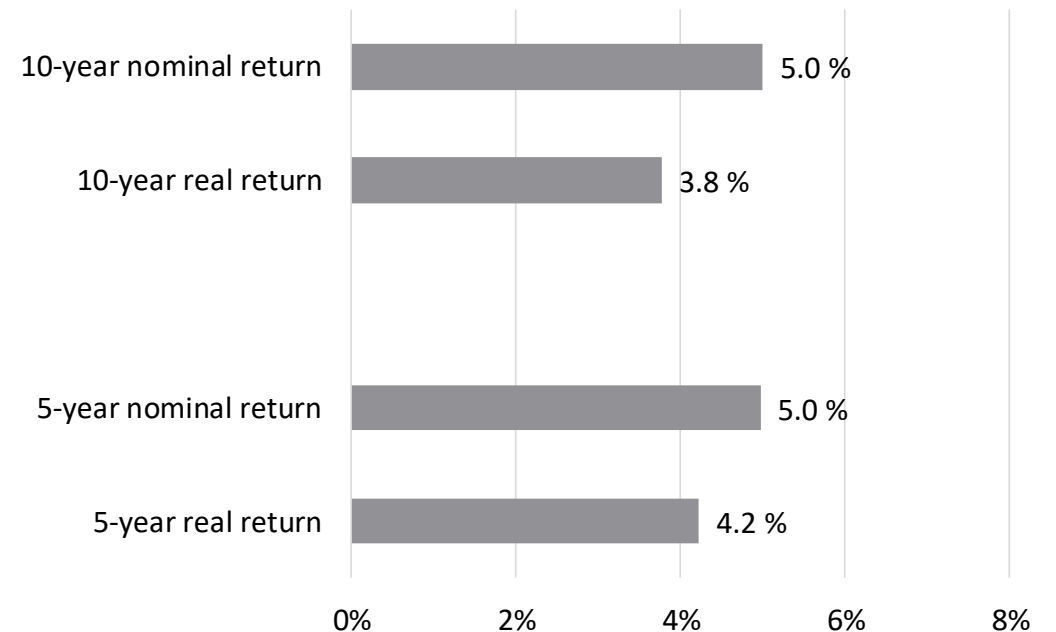


Development of investment returns over time

Investment returns 2011–9/2020



Average return on investments over time



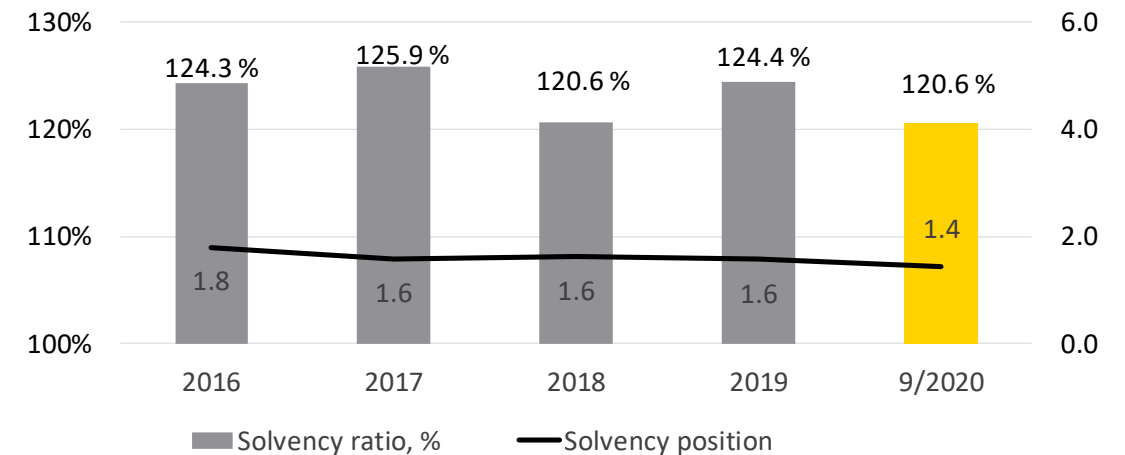
- The pension asset return expectation that the Finnish Centre for Pensions uses in its calculations is an annual real return of 2.5 per cent until 2028, after which the real return expectation will be 3.5 per cent per year.

Development of solvency figures

Key solvency figures

	31.12.2019	30.9.2020
Solvency limit, EUR million	3,233.4	2,980.8
Maximum amount of solvency capital, EUR millior	9,700.2	8,942.5
Solvency capital, EUR million	5,081.8	4,297.9
Solvency ratio, %	124.4	120.6
Solvency position	1.6	1.4

Solvency ratio and position 2016–9/2020



- Elo's solvency ratio, i.e. pension assets in relation to technical provisions, was 120.6%
- Elo's solvency position, i.e. solvency capital in relation to the solvency limit, was 1.4

Formation of Elo's profit

EUR million	1.1.–30.9.2020	1.1.–30.9.2019	1.1.–31.12.2019
Total surplus	-782.2	879.3	1,229.9
Insurance business surplus	-12.1	-15.2	-17.8
Investment surplus at fair values	-798.0	860.5	1,207.0
Net investment income at fair values (+)	-412.2	2,101.9	2,915.7
Yield requirement on technical provision (-)	-385.9	-1,241.5	-1,708.7
Loading profit	24.1	28.1	35.2
Other income	3.8	5.8	5.5
Distribution of surplus	-782.2	879.3	1,229.9
Change in solvency	-782.2	879.3	1,143.1
Change in provision for future bonuses	-303.7	-305.2	-273.8
Change in valuation differences	-478.5	1,184.5	1,416.9
Change in accrual of closing entries	0.0	0.0	0.0
Profit for the financial year	0.0	0.0	0.0
Transfer to client bonuses	0.0	0.0	86.9