

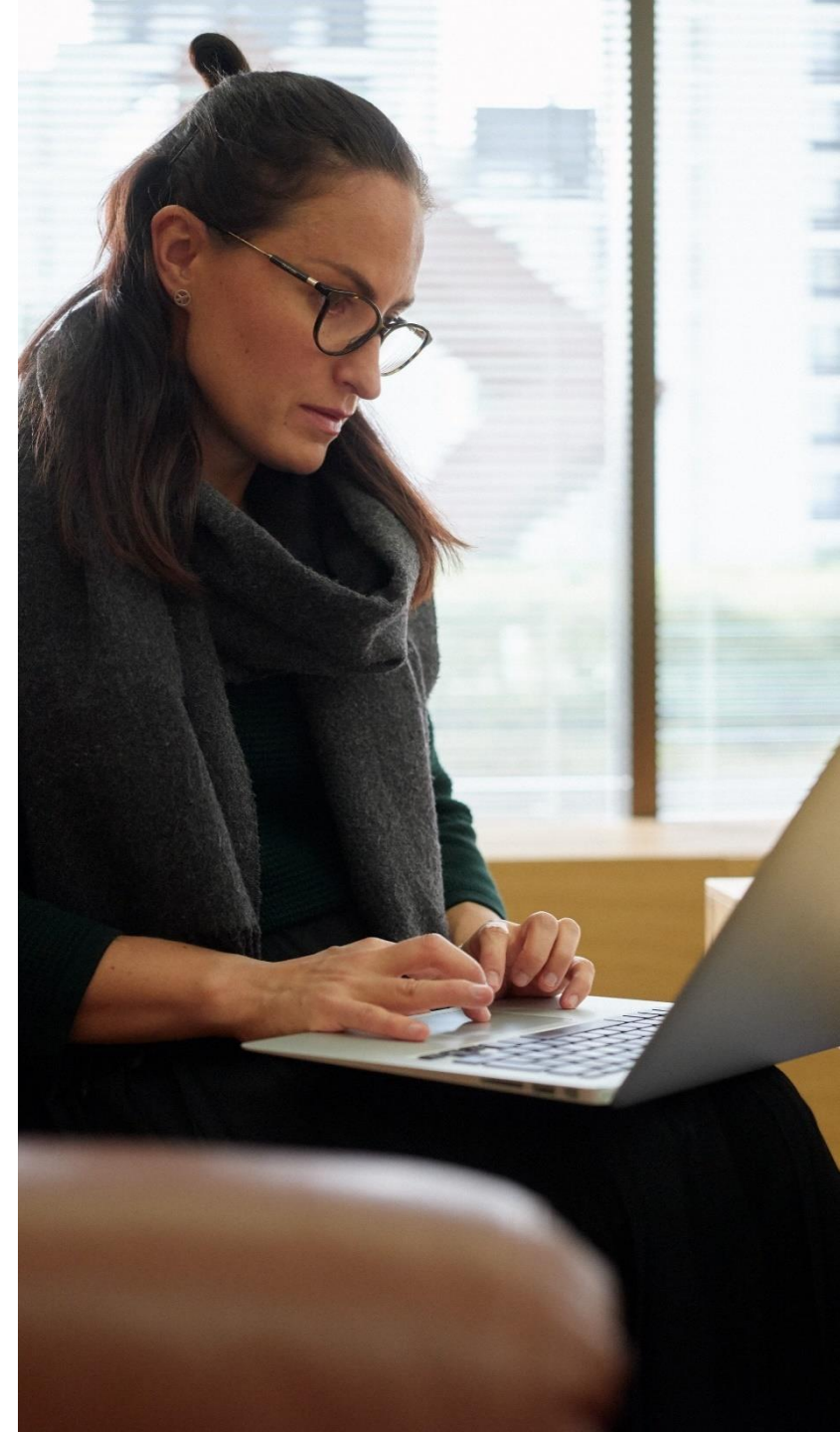


# Interim report 1 January – 30 June 2020

Elo Mutual Pension Insurance Company

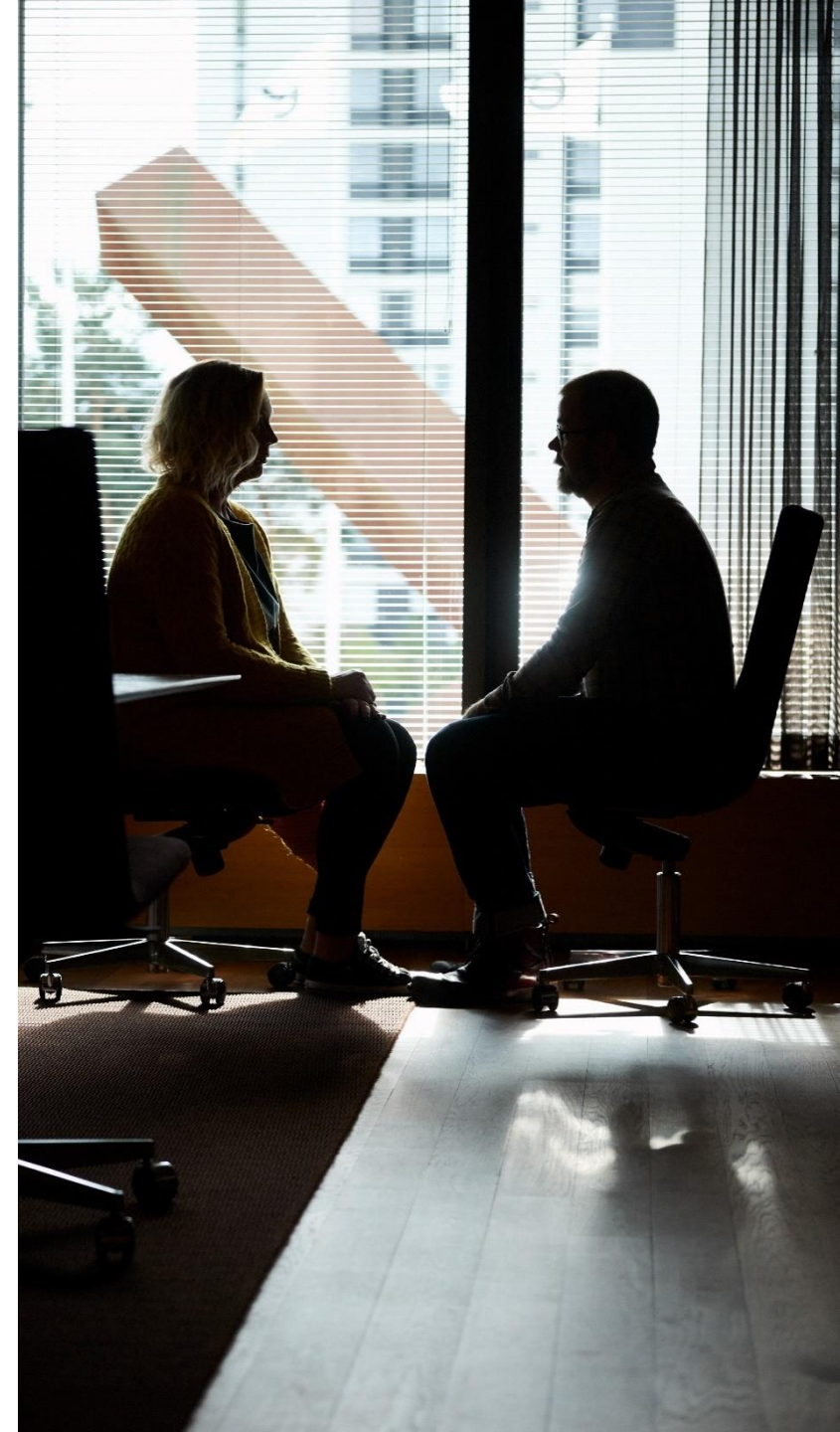
# Adapting to the exceptional situation has gone well

- The coronavirus epidemic had many kinds of impacts on the employment pension sector during the first half of the year. The measures taken quickly by the sector improved customers' ability to overcome the crisis, and employment pension companies could extend the terms of payment of pension contributions.
- Several customers made use of the offered payment flexibility, such as due date extensions.
- The quality of customer service was excellent during the period in spite of the increase in customer contacts brought about by the coronavirus situation.
- In January–June, the return on Elo's investments was -4.1 per cent. The investment market recovered briskly and solvency strengthened. In the second quarter, return on investments was 5.9 per cent.



# The coronavirus crisis did not have significant impacts on pensions

- Old-age pensions and survivors' pensions were processed smoothly. Elo made old-age pension decisions on average in four days, while the sector's average was 12 days.
- The increase in the disability pension applications has levelled off.
- Psychological disorders were the reason for 37 per cent of new disability pension decisions, musculoskeletal disorders for 28 per cent.
- The increase in the number of rehabilitation decisions, which was the prevailing trend for years, stopped. We invested especially in the effectiveness of rehabilitation.



# Elo is the market leader in YEL insurance

- The transfer periods of 2020 have been favourable for Elo.
- Due to the coronavirus crisis, the total volume of the transfer periods was slightly lower than last year.
- The number of entrepreneur customers grew by 263 customers during the transfer period.
- The number of TyEL insurance policyholders decreased by 10 per cent when compared to last year's June. This decrease was mainly due to temporary lay-offs caused by the coronavirus crisis and the decrease in the number of seasonal workers.
- Elo is the market leader in YEL pension insurance, and one in three employer companies use Elo to insure their employees.



# Responsibility is emphasised in the exceptional situation

- Responsibility was emphasised during the exceptional situation, and we focused on smoothly managing our basic mission.
- We offered our customers e.g. flexibility in paying pension contributions and commercial property rents and the possibility of postponing loan instalments.
- During the period under review, we continued to inform and contact our customers actively through diverse channels.
- Remote work has gone well at Elo, and these four months have revealed positive aspects, such as the adoption of new working methods and the decreasing number of general sickness absences.



# Economic environment

- The coronavirus pandemic hit both the global and the Finnish economy hard, 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 and Finland's GDP by 5–6 per cent this year.
- In addition to monetary policy instruments, the massive and simultaneous economic policy stimulus measures, especially the unprecedentedly abundant financial policy support for demand, have supported the brisk recovery of the investment market after mid-March.
- During summer 2020, it seemed that economic growth was starting in most economies, including Finland, as movement and meeting restrictions were eased. Still, the second wave of the coronavirus pandemic entails the risk of a new economic decline.
- As long as there is no vaccine or certain cure, the volatility of the investment market will likely remain strong.

# Solvency weakened temporarily – long-term returns still at a good level

- During the past ten years, annual average return at fair values has been 5.1 per cent, equivalent to an average annual real return of 3.9 per cent. 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.
- 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.
- 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. The Financial Supervisory Authority approved Elo's recovery plan on 16 June 2020.

# Future outlook

- The main concern is the new epidemic wave, which could 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.
- Due to the recession triggered by the coronavirus pandemic and the related stimulus measures, the balance of the public-sector economy will be impaired significantly – this will be a challenge for Finland, with its population ageing and the dependency ratio weakening during the next few decades.
- 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
- Even after the pandemic, the investment market will be characterised by lack of alternatives as interest rates will remain very low as a result of the continuation of the stimulating monetary policy.





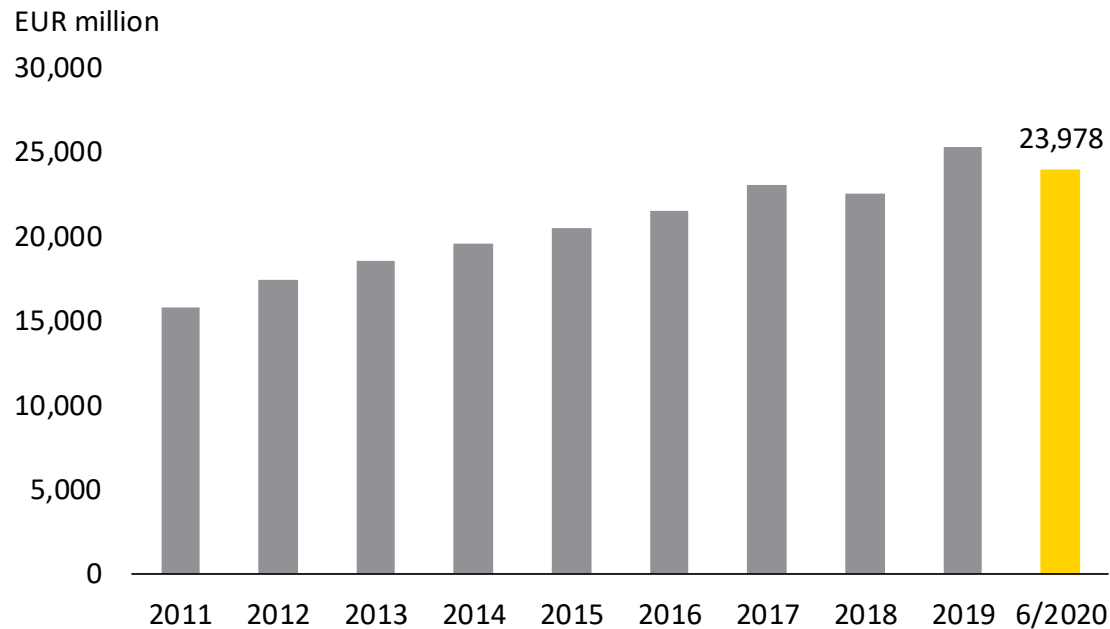
# Elo's key figures

|   | 6/2020   | 6/2019   | 2019     |
|---|----------|----------|----------|
| Investment assets at fair value, EUR million      | 23,978.0 | 23,790.5 | 25,333.8 |
| Net return from investment on capital employed, % | -4.1 %   | 7.2 %    | 13.0 %   |
| Average nominal return, over 10 years             | 5.1 %    | 6.1 %    | 5.9 %    |
| Average nominal return, over 5 years              | 3.9 %    | 5.2 %    | 5.8 %    |
| Premiums written, EUR million                     | 1,753.6  | 2,007.5  | 3,968.5  |
| Pensions and other benefits paid, EUR million     | 1,926.4  | 1,967.2  | 3,915.3  |
| Technical provisions, EUR million                 | 21,348.5 | 21,109.7 | 21,876.6 |
| Number of TyEL insured                            | 382,500  | 425,800  | 410,200  |
| Number of YEL policyholders                       | 82,600   | 83,300   | 83,300   |
| Number of pensioners                              | 241,800  | 238,600  | 240,900  |
| Loading profit, EUR million                       | 13.0     | 14.9     | 35.2     |
| Solvency capital, EUR million                     | 3,998.7  | 4,630.6  | 5,081.8  |
| Solvency position                                 | 1.4      | 1.5      | 1.6      |
| Solvency ratio, %                                 | 119.4 %  | 123.2 %  | 124.4 %  |

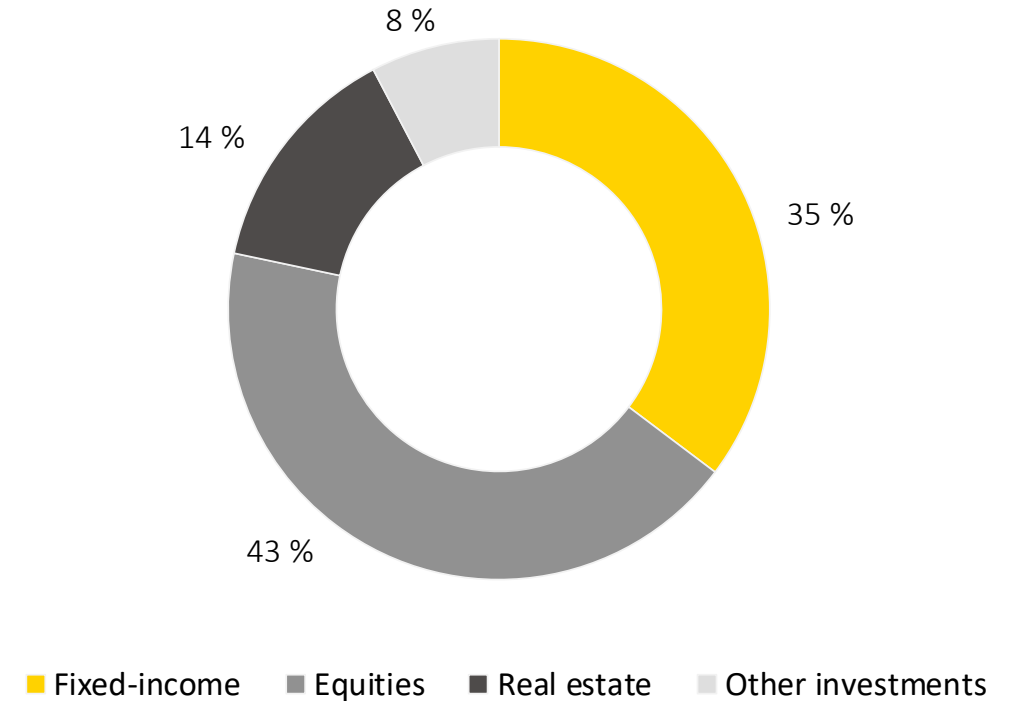
The calculation concerns the number of TyEL policyholders who have had earnings during the last month. However, each person is only calculated once.

# Development of the investment assets and investment allocation

Development of investment assets 2011–6/2020

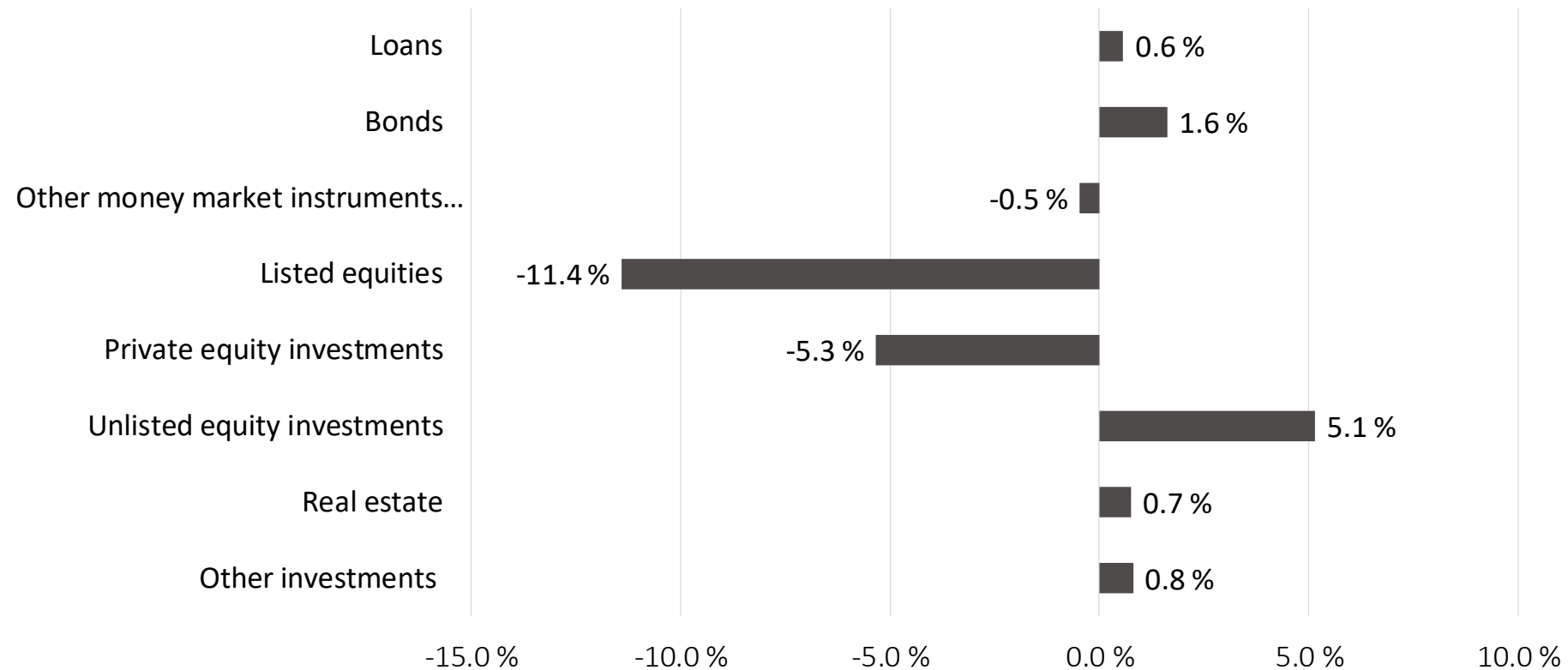


Investment asset allocation 30 2020



# Unlisted equity investments generated the highest return

## Return on investments by asset class 1 January – 30 June 2020



- The modified duration of bonds is 7.4 years.
- The open currency exposure is 25.8 % of market value.

# Investments generated a return of -4.1 %

|   | Basic allocation<br>by market value |              | Actual risk position |              | Return      | Volatility |
|---|-------------------------------------|--------------|----------------------|--------------|-------------|------------|
|   | EUR million                         | %            | EUR million          | %            | %           | %          |
| <b>Fixed-income investments</b>   | <b>8,121.6</b>                      | <b>33.9</b>  | <b>8,157.1</b>       | <b>34.0</b>  | <b>1.2</b>  |            |
| 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<br>incl. any receivables and liabilities related to investments | 1,571.6                             | 6.6          | 1,017.7              | 4.2          | -0.5        |            |
| <b>Equities</b>   | <b>10,641.4</b>                     | <b>44.4</b>  | <b>10,317.3</b>      | <b>43.0</b>  | <b>-9.7</b> |            |
| 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         |            |
| <b>Real estate</b>  | <b>3,356.9</b>                      | <b>14.0</b>  | <b>3,356.9</b>       | <b>14.0</b>  | <b>0.7</b>  |            |
| 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        |            |
| <b>Other investments</b>  | <b>1,858.2</b>                      | <b>7.7</b>   | <b>1,841.8</b>       | <b>7.7</b>   | <b>0.8</b>  |            |
| 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          | -           |            |
| <b>Total investments</b>  | <b>23,978.0</b>                     | <b>100.0</b> | <b>23,673.1</b>      | <b>98.7</b>  | <b>-4.1</b> | <b>7.6</b> |
| Effect of derivatives   |                                     |              | 304.9                | 1.3          |             |            |
| <b>Total</b>  | <b>23,978.0</b>                     | <b>100.0</b> | <b>23,978.0</b>      | <b>100.0</b> |             |            |

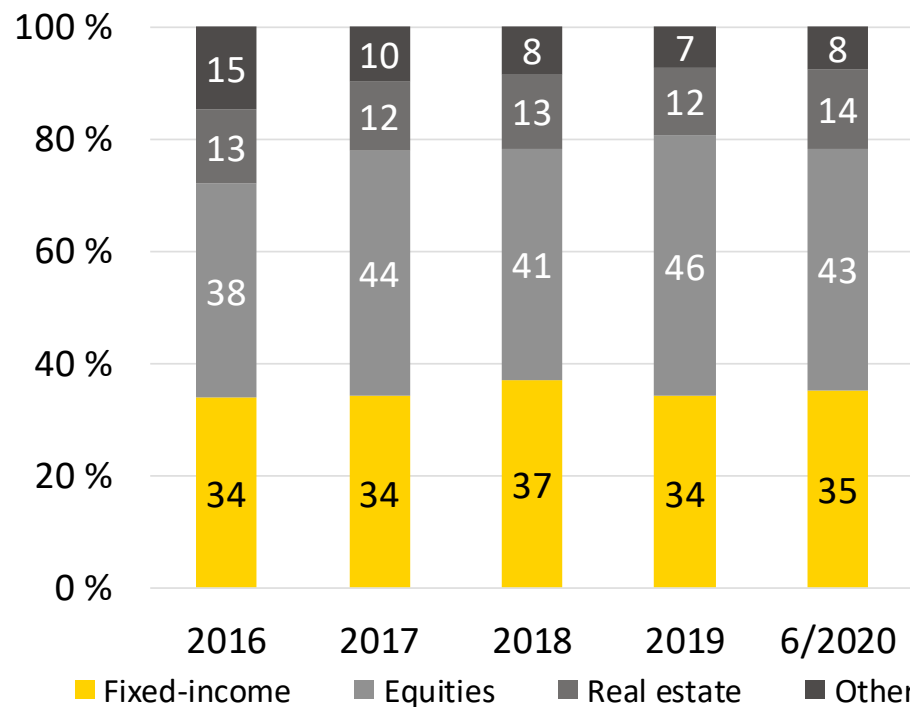
The return on foreign currency derivatives is estimated for asset classes in proportion to the average foreign currency-denominated assets during the reporting period.

The total return includes returns, expenses and operating expenses not allocated to investment classes. The modified duration of bonds is 0 years.

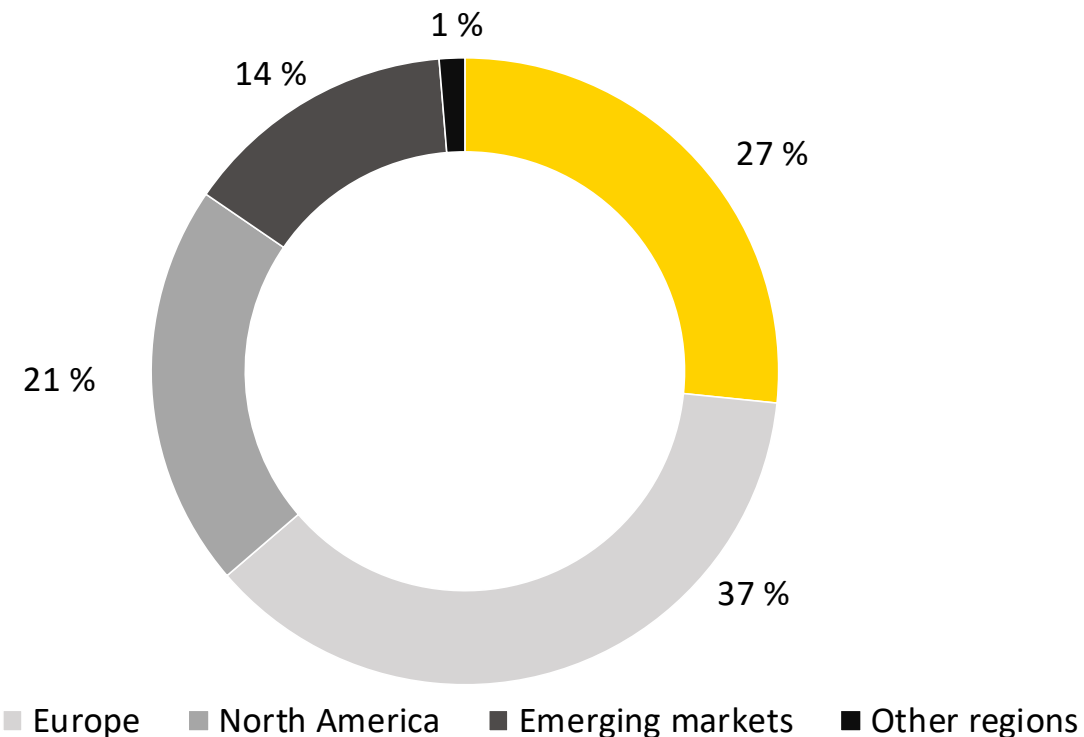
The open currency exposure is 0% of market value.

# Development of asset allocation and geographical distribution of investments

Development of asset allocation 2016–6/2020



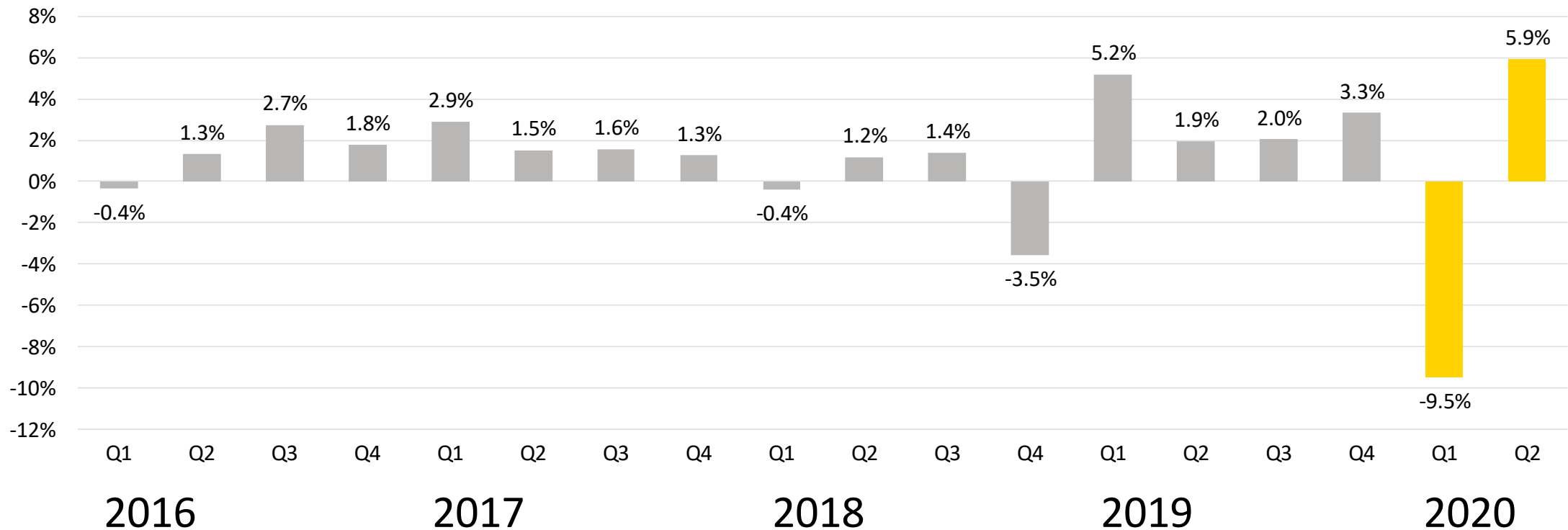
Geographical distribution of investments 30 June 2020



- The share of investments in Finland has increased during 2020.
- In Elo’s equity portfolio, Finland and the United States have generated the highest returns and Europe the lowest, which is characteristic of general market development.

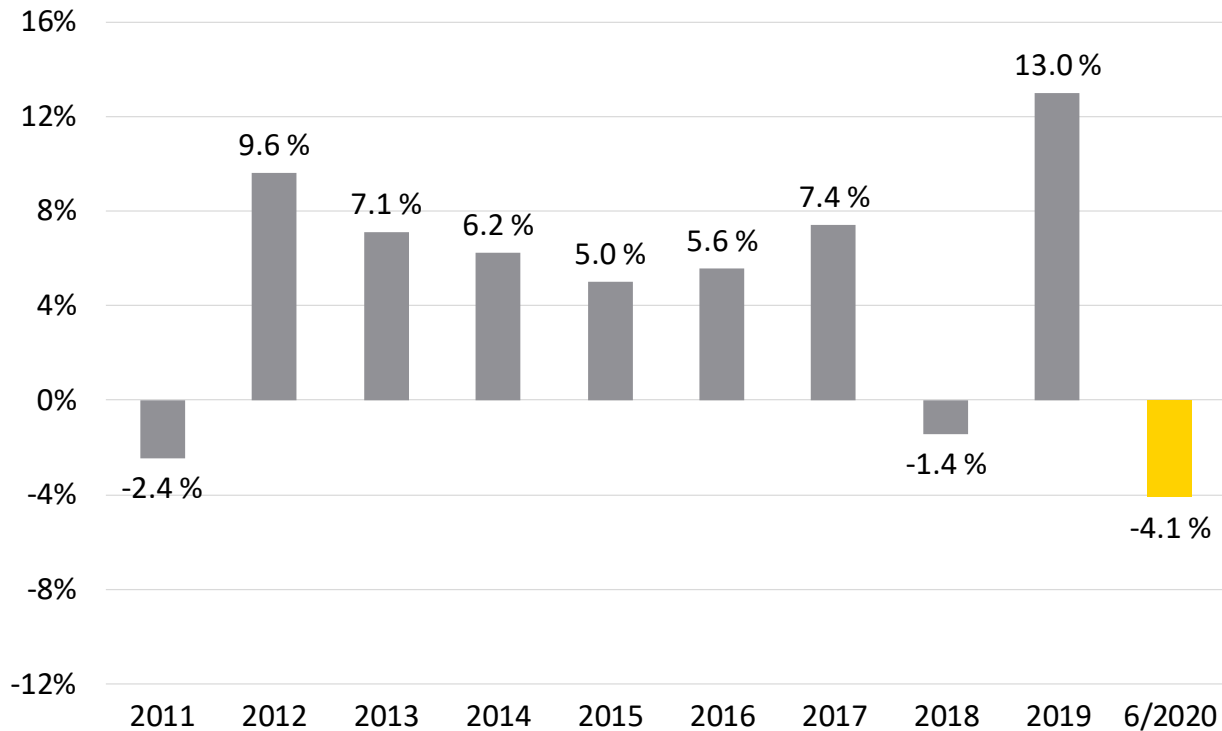
# The second quarter's return on investments rose to 5.9 per cent

Return 1 January – 30 June 2020 was -4.1 %

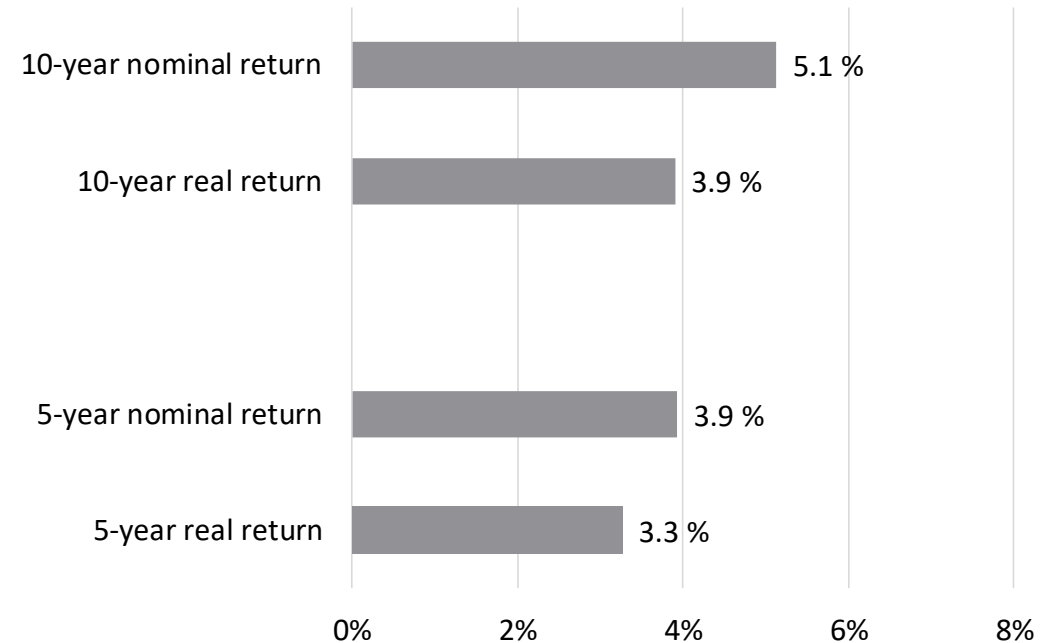


# Development of investment returns over time

## Investment returns 2011–6/2020



## Average return on investments over time



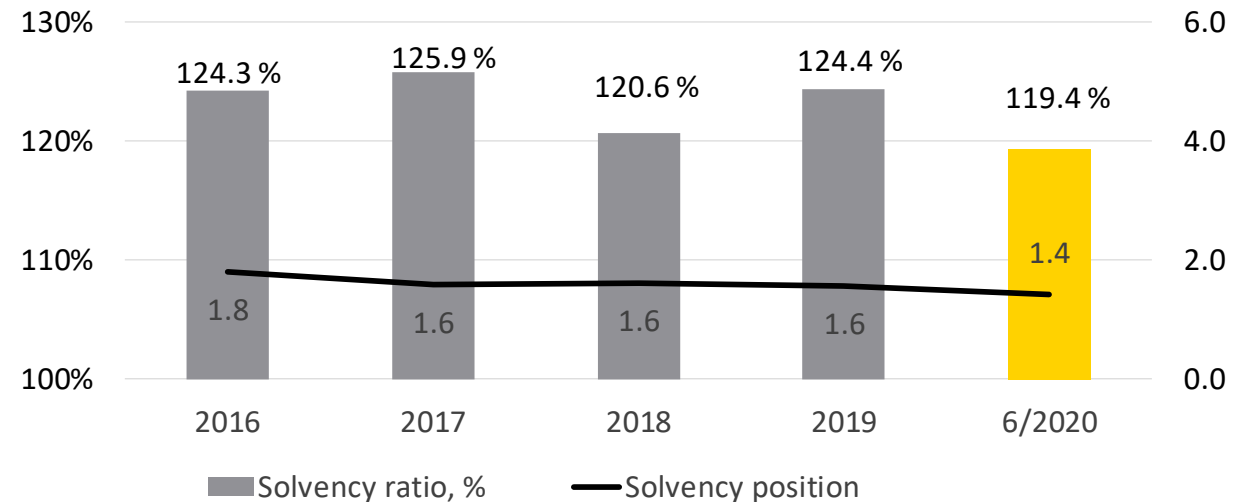
- The pension asset return expectation that the Finnish Centre for Pensions uses in its calculations is an annual real return of 2.5 per cent until 2028, after which the real return expectation will be 3.5 per cent per year.

# Development of solvency figures

## Key solvency figures

|   | 31.12.2019 | 30.6.2020 |
|---|------------|-----------|
| Solvency limit, EUR million                     | 3,233.4    | 2,824.5   |
| Maximum amount of solvency capital, EUR millior | 9,700.2    | 8,473.5   |
| Solvency capital, EUR million                   | 5,081.8    | 3,998.7   |
| Solvency ratio, %                               | 124.4      | 119.4     |
| Solvency position                               | 1.6        | 1.4       |

## Solvency ratio and position 2016–3/2020



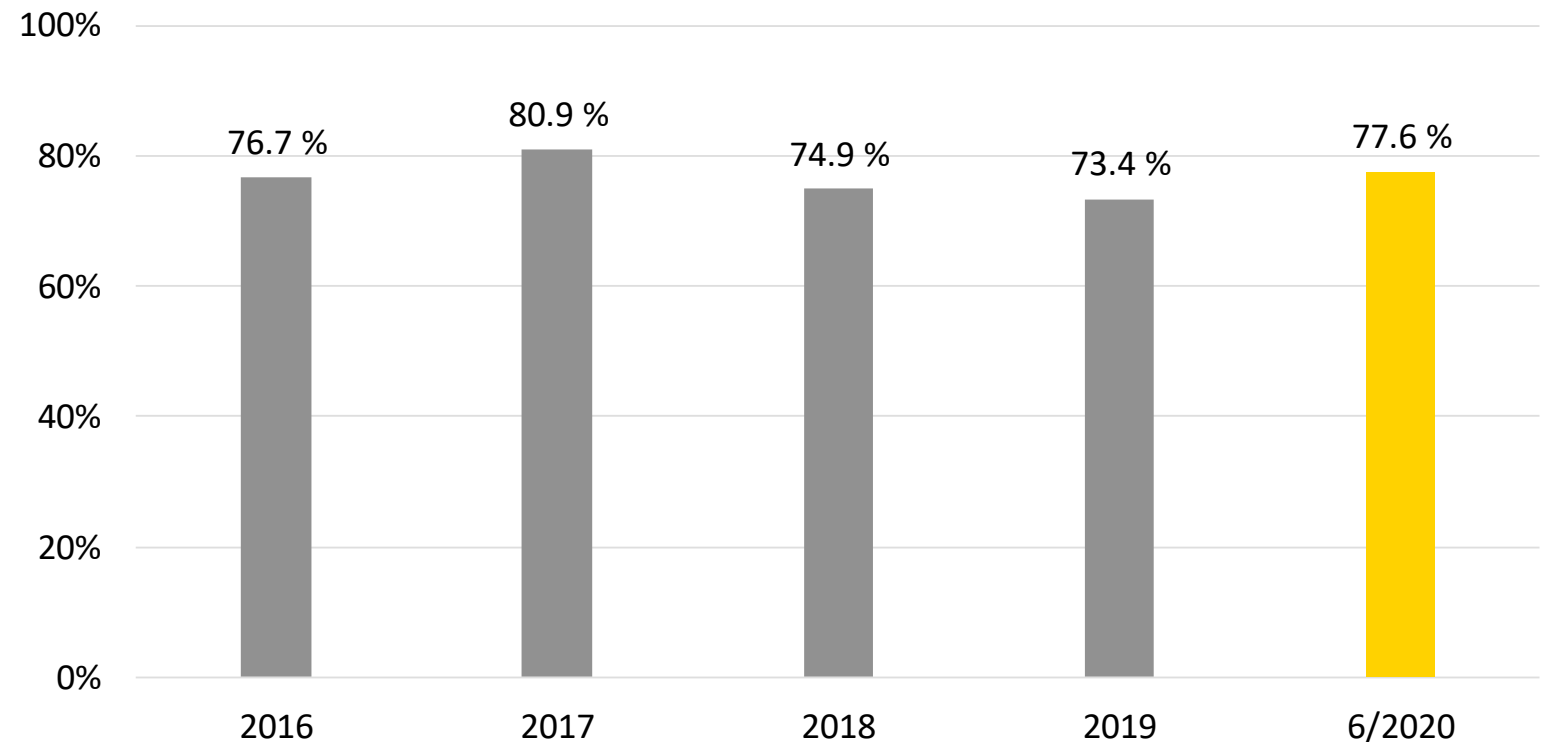
- Elo's solvency ratio, i.e. pension assets in relation to technical provisions, was 119.4%
- Elo's solvency position, i.e. solvency capital in relation to the solvency limit, was 1.4



# Operational efficiency

Operating expenses as a percentage of loading component

- Strong loading profit is reflected in better customer bonuses.
- Due to the temporary decrease of employment pension contributions, employment pension companies cannot pay out full customer bonuses. The bonus amount for 2021 will equal one third of the normal amount.
- The loading profit is burdened by a 7 % decrease in calculation basis applicable to all employment pension companies.



# Formation of Elo's profit

| EUR million                                  | 1.1.–30.6.2020  | 1.1.–30.6.2019 | 1.1.–31.12.2019 |
|--|-----------------|----------------|-----------------|
| <b>Total surplus</b>                         | <b>-1,081.4</b> | <b>696.3</b>   | <b>1,229.9</b>  |
| Insurance business surplus                   | -19.2           | -5.4           | -17.8           |
| Investment surplus at fair values            | -1,074.3        | 682.9          | 1,207.0         |
| Net investment income at fair values (+)     | -1,037.8        | 1,613.9        | 2,915.7         |
| Yield requirement on technical provision (-) | -36.4           | -931.0         | -1,708.7        |
| Loading profit                               | 13.0            | 14.9           | 35.2            |
| Other income                                 | -1.0            | 3.9            | 5.5             |
| <b>Distribution of surplus</b>               | <b>-1,081.4</b> | <b>696.3</b>   | <b>1,229.9</b>  |
| Change in solvency                           | -1,081.4        | 696.3          | 1,143.1         |
| Change in provision for future bonuses       | -351.4          | -225.6         | -273.8          |
| Change in valuation differences              | -730.0          | 921.9          | 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            |