LOCALTAPIOLA
GENERAL

CLOSE
TO YOU THROUGHOUT
YOUR LIFE

Investment operations and market risk management 2015

LocalTapiola General

LocalTapiola General Mutual Insurance Company's services cover statutory non-life insurance, insurance services for companies with more than 50 employees, reinsurance for LocalTapiola Group and overseas services.

Table of Contents

Closer to customers' everyday lives

Our operations are centred around safeguarding our customers' everyday lives. Lifelong security describes LocalTapiola's way of serving customers throughout their lives and in changing situations.

This will enable us to be more actively involved in customers' everyday lives – not just when we sell insurance, send bills and handle claims – with various solutions for forecasting, security and well-being. When we reinforce our role in customers' lives, we will be able to have a more significant influence on the customer experience.

LocalTapiola in brief

LocalTapiola Group is a mutual group of companies, which is owned by its customers. It serves private customers, farmers, entrepreneurs, corporate customers and organisations. LocalTapiola's products and services cover non-life, life and pension insurance, as well as investment and saving services. We are also an expert on company risk management and employees' wellness at work.

Investment activities

Financial operating environment 2015

In 2015, there were some dramatic fluctuations on investment markets and returns on liquid assets were more modest than in previous years. This is primarily due to market prices being corrected for slower growth outlooks for world economies. The structural deceleration of growth in China began to radiate out into economies all around the world via international trade. Producers of commodities and energy, such as Brazil, Venezuela, South Africa, Australia and the oil-producing states in the Middle East, suffered the most, but the effects were also felt in South-East Asian countries that are dependent on Chinese industry. In Russia, economic sanctions imposed by Western countries combined with lower energy prices to cause the economy to contract.

Major sources of uncertainty as 2015 went on also included the escalation of the debt crisis in Greece, a sharp drop in oil prices, announcements by the US Federal Reserve of stricter monetary policy and China transitioning to a more market-based exchange-rate policy for its currency. Despite the external risks, the underlying factors of eurozone economies strengthened and overall confidence in economies increased. In contrast with other eurozone countries, Finland's economy did not show signs of positive development – economic growth remained close to zero and unemployment increased.

The USA continued to show reasonable growth for the sixth consecutive year and the economy began to approach full employment. In December, the Federal Reserve decided to begin raising interest rates in spite of international economic problems and the risk of the dollar appreciating. However, in the second half of the year, several economic indicators in the USA turned downwards. December 2015 may have been the last opportunity to begin raising interest rates during the current upswing.

In the first half of 2015, world equity markets showed encouraging growth but prices peaked in mid-April to be followed by occasionally dramatic value reductions. Taking dividends into account, the average overall annual return on equity markets in economically developed countries was only about two per cent in local currencies. However, for investors in the eurozone, the equity markets had a good year: euro-denominated overall returns on Finnish equity markets were approximately 14 per cent, while investors elsewhere in Europe realised returns of almost 10 per cent and investors in the USA received about 12 per cent. The overall return index in emerging markets decreased by more than 5 per cent in euro terms.

The annual yield on government bonds in the eurozone was clearly lower than in the previous year at approximately 1.6 per cent. On the foreign exchange market, the euro weakened against all major currencies. The US dollar appreciated by more than 10 per cent, the Japanese yen appreciated by almost 10 per cent and the UK pound strengthened by approximately 5 per cent against the euro.

Outlook for 2016

The policy among central banks of maintaining ultra-low interest rates has had a marked effect on market pricing for seven years now. As the nominal risk-free interest rate is below zero and several eurozone countries have negative real yield curves for up to 30 years when adjusted for long-term inflation expectations, the relative valuations of equities and high-risk bonds are inevitably attractive. However, a more restrictive monetary policy in a weakening growth environment creates risk with regard to equity markets.

In contrast with the USA, measures to stimulate monetary economies in the eurozone, Japan and China are ongoing and may even increase in scope. At the same time, current account surpluses indicate that there is no shortage of financing in areas with looser monetary policy and, therefore, there is no natural pressure to raise interest rates. In the near future, it is possible that inflation risks will be repriced, which represents a serious risk to all asset classes with low nominal yields. Deflation remains an acute threat and inflation expectations are historically low. However, the inflation potential created by central banks, coupled with the elimination of the levelling effect caused by the collapse in energy and commodity prices, has also increased the possibility of surprise inflation.

Risk margins and yield expectations on debt markets increased substantially in 2015. Emerging fixed-income markets and global high yield markets are particularly undervalued in light of historical average pricing. However, these asset classes are strongly correlated with equity markets so they are subject to the same economic risk factors. Additionally, the permanent dilution of liquidity increases the possibility of sudden price movements.

Overall, economic outlooks for forthcoming years remain challenging. Sustainable, strong and balanced growth is not foreseeable until structural problems in economies are solved. The outlook for investment markets is a constant repricing of risks, which will be reflected in higher volatility. The most significant risks in the near future are related to China's economic development, the success of the US Federal Reserve's monetary policy, a currency war, price stability in developed economies (risks of deflation and inflation) and geopolitical tensions.

TABLE 1. Allocation and income

	Market value EUR m	Share (%)	Return from the beginning of the year (EUR million)	Return from the beginning of the year (%)
Net investment income at current value	**3,634.8**	**100.0**	**171.2**	**4.8**
Unallocated income and expenses	0.0	0.0	–4.5	0.0
Total investments	**3,634.8**	**100.0**	**175.7**	**4.8**
Equity investments	**489.5**	**13.5**	**58.8**	**12.8**
Europe	319.6	8.8	39.0	13.7
United States	102.5	2.8	12.3	12.1
Asia including Japan	7.8	0.2	1.4	15.1
Emerging markets	10.9	0.3	–0.4	–6.0
Global and other share investments	48.7	1.3	6.5	14.5
Fixed-income investments	**1,521.6**	**41.9**	**6.5**	**0.3**
Long-term fixed-income investments	**1,388.2**	**38.2**	**7.0**	**0.4**
Public entities and collateralised	549.1	15.1	8.6	0.9
Corporate bonds IG	585.5	16.1	1.0	0.6
Corporate bonds HY	154.8	4.3	–1.5	–0.4
Emerging markets	62.8	1.7	–2.9	–2.7
Other fixed-income investments	35.9	1.0	1.8	3.7
Short-term fixed-income investments	**133.5**	**3.7**	**–0.6**	**–0.5**
Cash and money market	89.9	2.5	–0.9	–1.0
Business accounts	43.6	1.2	0,3	0.5
Real estate investments	**646.7**	**17.8**	**35.7**	**5.8**
Direct real estate investments	478.7	13.2	30.7	6.7
Real estate investment funds	168.0	4.6	5.0	3,1
Venture capital investments	**218.7**	**6.0**	**51.3**	**24.6**
Alternative investments	**10.0**	**0.3**	**–0.1**	**–0.9**
Other alternatives	10.0	0.3	–0.1	–0.9
Strategic investments	**269.1**	**7.4**	**8.2**	**3.4**
Investment loans	**479.1**	**13.2**	**15.3**	**5.6**
Without strategic investments	**3,365.7**	**92.6**	**162.9**	**4.8**

1. Allocation development, %

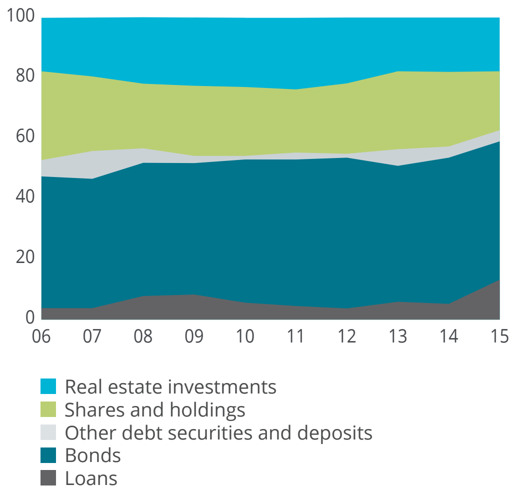


Table 2. The investment distribution and returns of the Group's regional companies

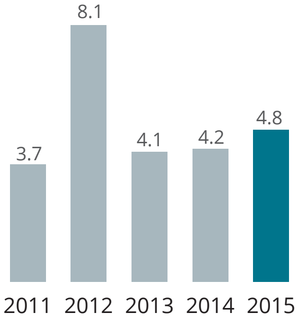
	Distribution, EUR m	Distri-bution, %	Return, %
Fixed-income investments	806.3	57.0	0.3
Equity investments	352.1	24.9	10.2
Real estate investments	230.7	16.3	2.4
Private equity investments	26.2	1.9	4.0
Total investments	1,415.3	100.0	3.0

Allocation

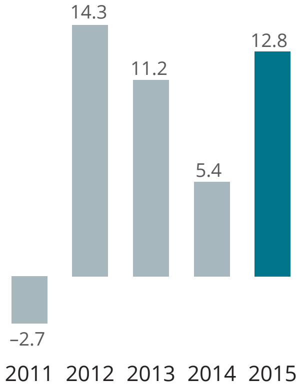
In 2015, LocalTapiola General's net investment income at fair value amounted to EUR 171.2 million (EUR 140.8 million in 2014), or 4.8 per cent (4.2%). Investment capital at current value stood at EUR 3,635 million (EUR 3,564.2 million). The average five-year annual return on investment was 4.9 per cent and the average ten-year annual return was 4.5 per cent. In 2015, bonds were allocated a slightly larger weighting, while other fixed-income investments had a smaller weighting. With regard to equity investments, the weighting shifted slightly away from listed stocks in favour of capital investments. The combined net investment income of LocalTapiola Group's regional companies amounted to EUR 32.2 million in 2015, or 3.0 per cent. The fair value of their investment assets was EUR 1,415.3 million and the average stock weighting was 24.9 per cent.

In its investment operations, LocalTapiola General uses asset managers that have signed the United Nations' (UN) Principles for Responsible Investment.

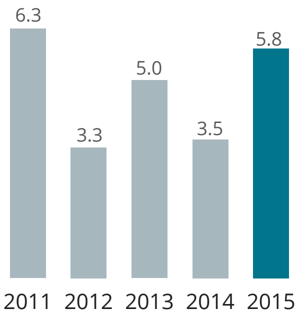
2. Development of return on investment, %



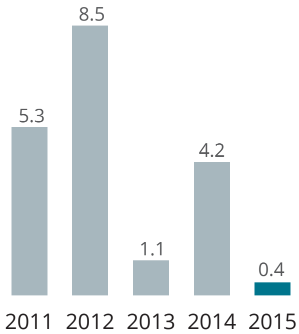
3. Development of return on equity investments, %



4. Development of return on real estate investments, %



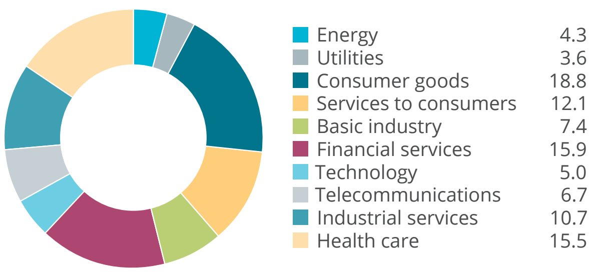
5. Development of return on bonds, %



Equity investments

Share prices continued to rise in Europe despite the multitude of economic problems. Share prices in Europe rose by more than 8 per cent. In the US, share prices ended the year at a slight increase but the strengthening of the dollar lifted euro-denominated returns to more than 12 per cent. Investors continued to favour companies with stable cash flows. The worst performers were cyclical industries dependent on commodities, such as basic industry and energy. During the year, the economic outlooks of emerging markets – particularly China – were the greatest cause for concern. In Europe, the ECB's stimulus measures have worked with low interest rates to support shares. In the USA, trends in the domestic market and in employment have remained strong, but the appreciation of the dollar has reduced the profitability of exporters. Overall, the profitability and margins of companies has remained good,

6. Direct equity investments by industry, %



7. Direct listed equity investments by region, %

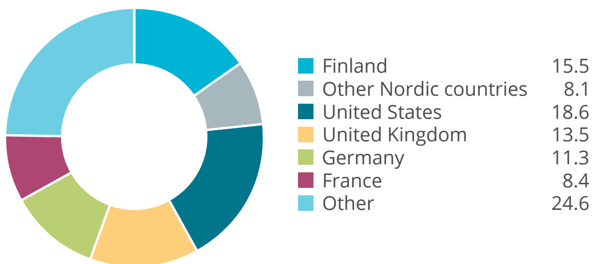
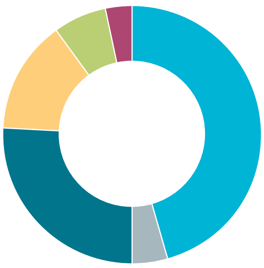


Table 3. 10 largest equity investments

	Market value, EUR m	% of equity investments
Pihlajalinna Plc	25.0	6.1
US Bancorp	11.4	2.8
SYNGENTA AG-REG	10.7	2.6
Medtronic Inc	10.3	2.5
PepsiCo Inc/NC	9.6	2.3
REED ELSEVIER NV	9.5	2.3
Heineken Nv	9.5	2.3
Nestle Sa	9.4	2.3
Unilever Nv	9.2	2.2
Astrazeneca Plc	9.1	2.2

8. Private equity investments by type, %



although there has been only moderate growth in turnover. In 2016, company profits are expected to grow by 10 per cent, which may once again reveal itself to be an overly optimistic forecast given the uncertain economic situation. Shares appear to be overvalued but prices are favourable in comparison with bonds. Additionally, shares are supported by the stabilisation of European economies and the continued strength of the US domestic market. The greatest concerns are related to outlooks in emerging markets and a transition in the investment cycle.

Fixed-income investments

Measures taken by central banks were the most important factor on fixed-income markets in 2015. At the end of the previous year, the European Central Bank hinted that it would support the markets with a programme of government bond purchases. This began in the first half of 2015 and resulted in long-term interest rates decreasing sharply. The ECB is purchasing bonds issued by eurozone states on secondary markets to avoid directly supporting these states. The majority of the German government yield curve was below 0 per cent and there was widespread speculation that the majority of the curve would approach the ECB's deposit rate, which had fallen to –0.20 per cent in the previous year. This affected government bonds and also had a major effect on the yields of other fixed-income asset classes, such as secured loans and corporate bonds.

However, at the end of the spring, fixed-income markets rebounded dramatically – yields on ten-year German bonds increased by almost one percentage point in a short space of time. This movement was triggered by somewhat higher inflation figures in Germany along with heightened speculation of an increase in the US Federal Reserve's reference rate. Decreased liquidity on fixed-income markets amplified the movement – stricter bank regulations had resulted in a general reduction of liquidity on fixed-income markets in the previous year.

The theme for the second half of the year was monitoring communications issued by the US Federal Reserve, as it was clear that the ground was being laid for an increase in the reference rate. These expectations were also reinforced by the clear improvement in the US economy. There was widespread expectation of an interest rate rise in September but the devaluation of China's currency and the subsequent market volatility resulted in the interest rate rise being postponed. Conversely, the European Central Bank communicated its intention to expand its market support measures, which reinforced fixed-income markets. Fixed-income investment markets stabilised in the autumn in anticipation of the measures taken by central banks in December: the European Central Bank reduced its deposit rate to –0.30 per cent and the Federal Reserve increased its reference rate by 25 base points. Long-term German bonds ended the year at about the same level as at the beginning of the year, while short-term bonds were significantly down.

Interest rates in states on the periphery of Europe were relatively volatile throughout the year. States on the periphery of Europe also benefitted from the European Central Bank's purchase programme but a significant increase in interest rates half-way through the year resulted in a major increase in risk premiums in peripheral states. At the same time, the crisis in Greece deepened, putting other peripheral states under pressure. Towards the end of the year, risk premiums shrank and they ended the year somewhat lower than at the beginning of the year. Overall, the European Central Bank was successful in calming markets in states on the periphery of the continent.

Corporate bond markets functioned well throughout the year but concerns over emerging and high yield markets in the autumn led to increased risk premiums on corporate bonds. This trend continued towards the end of the year and spreads were wider at the end of the year than at the start. Concerns over the liquidity of corporate bond markets also increased throughout the year.

Real estate investments

European real estate investment markets continued to be very active in 2015. Capital flowed onto the markets from the US and China, among other sources. Strong investor demand reduced yield requirements on the main European markets to a record low. Investors' appetite for risk was on the increase and the difference between the yield requirements on the strongest and the weakest sub-markets decreased during the year. 2015 was a positive year for the market for leased office premises in Europe. Demand for premises increased over the previous year, lease levels rose and occupancy rates increased.

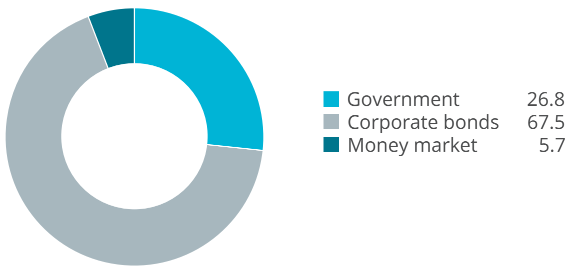
Transaction volumes on Finnish real estate investment markets increased in comparison with the previous year. Strong investor demand and low interest rates increased the values of prime properties to record levels. There are numerous active operators on the markets and several new foreign investors entered Finnish markets as the year went on. In 2015, transactions were completed on various types of property, with transactions of residential real estate portfolios showing a particular increase. Financing markets continued to be good, which supported positive trends on the transaction market. Return requirements for prime real estate decreased during the year, but this trend has not yet taken hold on weaker properties. Weakness in the real economy manifested itself on markets for office premises and the vacancy rates of office premises in Greater Helsinki hit record levels. Companies using these properties are cautious about making decisions on office premises and several companies need to make their use of space more efficient. Office rents in prime areas have remained close to previous levels but rents have decreased in other areas. There was no significant change in the rent levels for the best commercial and storage properties but the rent levels for higher-risk sites decreased.

Private equity investments

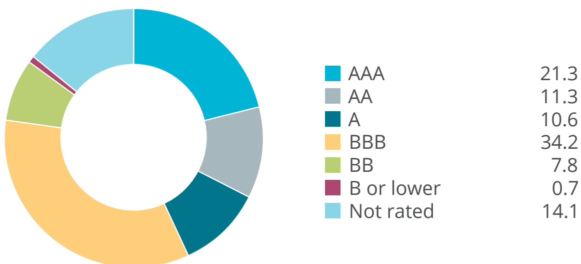
Investments in private equity funds

At the end of 2015, there were a total of 65 funds in LocalTapiola General's private equity fund portfolio, with a total fair value of approximately EUR 207.2 million (EUR 197.4 million in 2014). In

9. Fixed-income investments by type, %



10. Fixed-income investments by credit rating, %



2015, an internal LocalTapiola Group private equity fund structure was established to enable all of the Group's companies to invest in international private equity funds. Additionally, several new commitments were made to new funds run by targeted fund managers and existing fund managers that were already in the portfolio.

The sum invested in funds that were already in LocalTapiola General's portfolio remained close to the level in 2014 and the number of exits was even higher than the previous year. The valuations of target companies in the funds continued the strong growth that was seen in the previous year. Private equity funds achieved an excellent return of 18.8 per cent (16.6%) in 2015. The best returns were delivered by equity investment funds (24.5%), while mezzanine funds returned 11.7 per cent and corporate bond funds returned 6.2 per cent.

Fund-raising for private equity funds remained high for all fund types in 2015. This was the fifth consecutive year in which the fund-raising increased in comparison with the previous year. At the same time, the amount of available funds increased to an all-time high, so 2016 is expected to be a busy year in terms of new investments if the market remains stable.

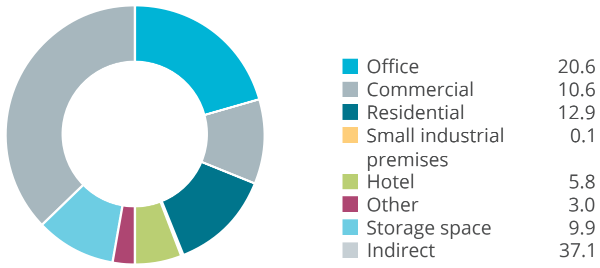
Direct investments in non-listed companies

At the end of 2015, there were a total of 16 portfolio companies in the direct investment portfolio, with a total fair value of about EUR 11.6 million (EUR 52.8 million in 2014). The target companies were almost all Finnish, with only one exception. During the year, one new initial investment was made: a minority stake in Project IT Oy. Final exits were completed from three portfolio companies and two target companies were floated on the stock exchange.

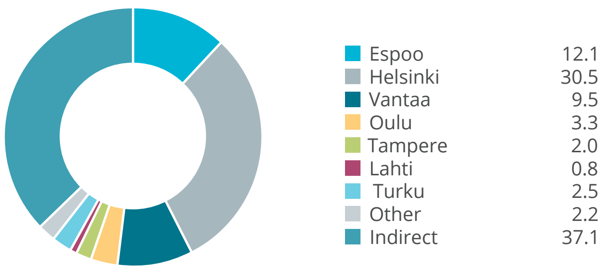
Returns on unlisted investments (excluding holdings and fixed-asset shares within LocalTapiola Group) were very good, amounting to 55.7 per cent (43.6%) in 2015. The good return can be explained by successful exits from three of the largest investments.

At the end of 2015, the combined fair value of LocalTapiola General's holdings and fixed-asset shares within LocalTapiola Group was EUR 262.9 million (EUR 230.5 million).

11. Real estate investments by type, %



12. Real estate investments by region, %

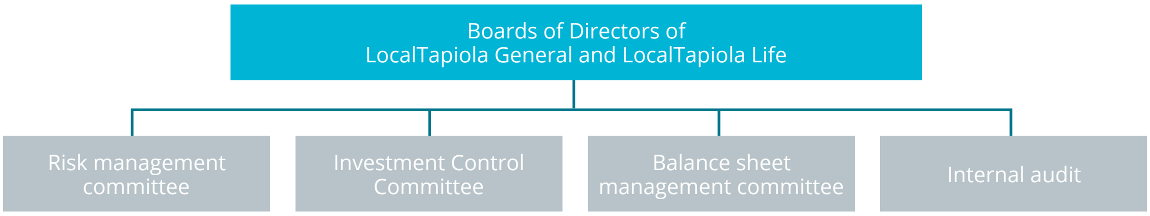


Illiquid loans

Illiquid loans consist of direct loans to companies, real estate management companies and limited liability housing companies. On 31 December 2015, the market value of loans receivable was EUR 479.1 million (EUR 178 million in 2014), or 13.2 per cent (5.0%) of the portfolio. Loans receivable yielded 5.5 per cent in 2015. In 2015, corporate customer financing was organised to enable closer collaboration with LocalTapiola's Large Customers function. Corporate customer financing operates as a complementary financier for companies. The majority of the financing is secured debt instruments for LocalTapiola Group's insurance company customers. The margins in corporate loans are at a satisfactory level bearing in mind the balance between equity and debt in the loan receivables, as well as the spread of credit maturities. In Finland, corporate margins generally decreased in 2015 in comparison with 2014. The Bank of Finland's statistics on the total amount of new euro-denominated agreements made by Finnish financial institutions with eurozone companies showed the average interest rate for 2015 to be 1.90 per cent in Q1, 1.80 per cent in Q2 and 1.84 per cent in Q3. Overall credit yields were low due to low reference interest rates, some of which were even negative.

Market risk management

13. Market risk management organisation



Operating principles

The aim of LocalTapiola General's investment operations is to secure its solvency and maximise returns with a managed risk position. The allocation of investments is guided by the limits set for solvency, the structure of technical provisions and equity return requirements. In the long term, investment returns must exceed the total return targets required by the customer bonus policy. Investment operations aim to reach a high and stable return in the long term in all conditions while avoiding the risk of losing capital.

Investments are diversified sufficiently across and within the various classes of instruments. Individual risks and responsibilities are controlled by establishing investment limits and criteria. Investment operations must ensure adequate liquidity under all circumstances. In addition, the investment portfolio must be sufficiently simple.

Organisation of market risk management

LocalTapiola General has a balance sheet management committee that was established by the Board of Directors and that reports directly to the Board of Directors. It is responsible for monitoring and developing the company's balance sheet risk management, particularly with regard to market risks, to ensure that it is organised appropriately and that the company's capital is efficiently used. At regular intervals, the Committee prepares proposals on strategic market risk-taking, along with associated investment targets and restrictions (limits), and submits them to the Board of Directors for approval. The limits cover investment price and interest rate risks, as well as the characteristics and requirements of the technical provisions. The balance sheet management committee monitors the defined risk limits and the results of risk-taking. It is also responsible for making decisions related to the Group's capital management and capitalisation.

The Board of Directors appoints an investment control committee, which is responsible for the practical organisation of investment operations and the operational supervision of market risks. The committee strives to ensure that the investment return target is achieved in accordance with the strategy approved by the Board of Directors. Furthermore, it monitors, develops, controls and decides upon liquidity and concentration risk management. The risk management committee is accountable to the Board of Directors for organising risk management and monitoring solvency.

The internal audit function supports and verifies the monitoring of investment guidelines.

Risk management processes

The risk management process is based on instructions (investment plan, derivatives policy and the ALCO investment plan frameworks), monitoring the implementation of the instructions in operations, regular risk reporting and self-assessment. In addition, the company's investment operations are guided by documentation approved by the Board of Directors concerning solvency management, capital management and liquidity management principles and market risk strategy.

The company's Board of Directors annually confirms an investment plan that determines the targeted allocation of investments and expected returns, instrument-specific ranges, diversification and liquidity targets, and powers of decision. The purpose of diversification is to secure a sufficient level of return regardless of market conditions, both within and between instrument categories.

This principle applies to different industries, countries and investment targets. Individual risks and responsibilities are controlled by establishing limits and investment criteria. Adequate liquidity is ensured by the structure of the investment portfolio.

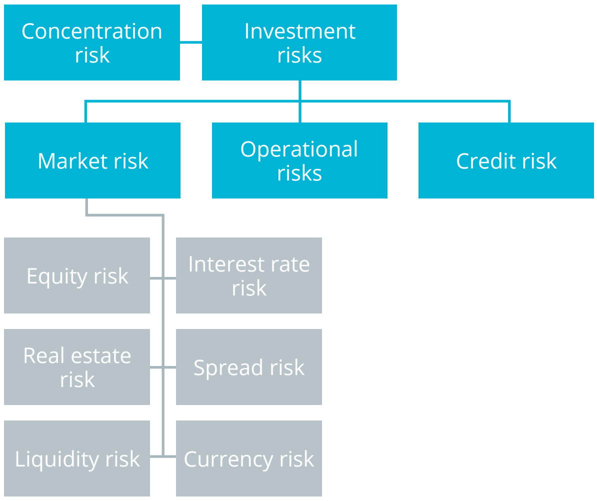
LocalTapiola Group strives for efficient and functional liquidity management to ensure the operational continuity of Group companies and adequate protection of the Group against liquidity risk and to determine a sufficient liquidity reserve, taking the companies' risk-carrying capacity and resilience into account.

As regards derivatives, a more detailed policy approved by the Board of Directors is used. The policy sets out the principles governing the use of derivatives. Derivatives can be used to reduce risks relating to equity, foreign exchange and fixed-income investments, among others.

Adequate analysis, diversification, derivatives and counterparty risk limits are used with the aim of ensuring that the company can operate in all market conditions. Real estate investment risks are analysed separately.

Investment risks and returns are monitored using standard market risk and reporting methods. The reports are used to regularly monitor the development of fixed-income, real estate and equity investments, as well as any risks related to them. The reports also ensure compliance with the operational principles defined in the investment plan. The company uses a risk management system based on investment-specific risk monitoring.

14. LocalTapiola General's market risks



Market risk and solvency management

The effect of market risks on the company's solvency was monitored and managed in 2015 in accordance with the current solvency practice (Solvency I) and in accordance with Solvency II, which will enter into force in 2016. Furthermore, solvency is monitored in compliance with the solvency regulations applied to conglomerates.

The most significant change in solvency calculation is that, under Solvency II, in addition to assets, technical provisions will also be valued at market terms at fair value. Hence, the value of technical provisions will be particularly dependent on interest rates, and the significance of interest rate risk management will increase. Another significant change is the minimum solvency capital requirement based on the company's risk level.

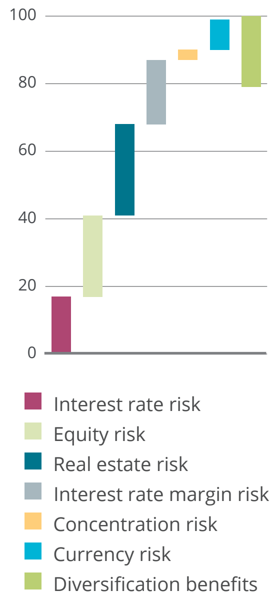
The purpose of market risk management is to secure the company's solvency for the next twelve months with sufficient probability. The risk of investment value changes is continuously monitored with a probabilistic model that is based on investment value fluctuations (volatility) and the dependencies of value changes between different investment classes (correlation). The company's own risk and solvency assessment (ORSA) is also based on long-term market risk scenarios.

When necessary, investment operations are controlled more strictly, in accordance with the traffic light principle, and are based on continuous market risk monitoring. A green light indicates a situation where asset managers are able to operate within the normal limits of the investment plan. A yellow light indicates a situation in which increases

Table 4. The sensitivity of LocalTapiola General's investments and solvency to market scenarios as of 31 December 2015

		Impact of change		
	31 December 2015	Share quotations –20%	Value of real estate –10%	Interest rate +1 % points
Solvency capital, EUR m	1,743.6	–200.7	–67.0	–74.5
Solvency ratio, %	86.3	–9.9	–3.3	–3.7
Return on investment, %	4.8	–5.5	–2.5	–1.4

15. Investment risks, %



An estimate of LocalTapiola General's market risk distribution under Solvency II at the end of 2015.

in investment market risks or a neutral investment allocation within the investment plan are no longer acceptable in view of the risk content of the balance sheet. A red light refers to a situation when the balance sheet risks are too high and risk reduction measures are required. In the yellow and red light risk positions, stricter limits are defined for investment risks, as well as possible risk reduction measures. The total risk is determined in such a manner that the solvency margin can remain secure, even if a risk is realised. If, however, the need for capital is apparent, the capital management principle approved by the company shall be followed.

LocalTapiola General's market risks

LocalTapiola General's most significant market risks are the equity risks, interest rate risks and credit risks associated with fixed-income investments, as well as real estate investment risks as shown in figure 14. Market risks may be realised in the form of lower-than-expected income cash flow or decreased asset values. Within the Solvency II framework, market risks are related to technical provisions in market terms and in terms of the capital adequacy requirement in addition to investment assets. An estimate of the distribution of LocalTapiola General's market risk is shown in figure 15. The benefit of diversification is realised as asset values move in different directions, creating a situation in which the total risk of the investment assets is lower than the sum of individual risks. The sensitivity of investments and solvency to market changes is described in table 3.

Market risk is managed by adequate diversification of investments by asset class, geographical location and industry sector. A key tool for controlling investment operations is basic asset class allocation. Allocation development is presented in figures 1 and 16. In addition, Solvency II risk can be reduced by changing investment assets' sensitivity to interest rates to match technical provisions, as well as by using derivatives hedging.

Equity risks

The objective of equity investments is to achieve a higher return than the benchmark index in the long term, at a lower risk level. Additionally, investments aim to secure the value of capital. For this reason, a value investment philosophy has been selected as the guiding investment principle. It requires, among other things, thorough knowledge of investment targets. Equity investments are primarily made in profitable and solvent growth companies. The equity portfolio must also be sufficiently diversified to avoid individual risk concentrations. Diversification concerns individual companies, geographical areas and industries. Further information on equity investments and allocations can be found under "Equity investments" in the section "Investment operations".

Equity investments are controlled with allocation and diversification limits. These include the following:

- The total amount of listed equity may add up to a maximum of 17 per cent of the company's investments.
- The proportion of any one industry sector must be under 20 per cent.

Investments in listed equity are handled by LocalTapiola Asset Management Ltd. Investments in unlisted limited companies (private equity investments) are made when particularly high return potential is seen in them. The operative targets of these investments are confirmed annually by the investment committee, and the investment operations are controlled by investment plan limits. The total amount of private equity investments may add up to a maximum of 9 per cent of the company's investment assets.

Fixed-income risks

The primary objective of LocalTapiola General's fixed-income investments is to ensure a level of return corresponding to customers' minimum requirements by safeguarding the value of invested funds at a securely low level of risk. A secondary objective is to seek a return exceeding the benchmark index with moderate risk allocation within the fixed-income portfolio. Fixed income risks consist of interest rate fluctuations and the investment target's credit risks. In addition to the interest rate of government bonds and the intra-bank interest rate, interest rate risk is also affected by fluctuations in individual corporate bond interest premiums (spread).

Corporate bonds are used to achieve a higher return on the fixed-income portfolio. Investments are made in stable companies with good credit ratings. Primarily, investments are weighted towards bonds with short maturities, which are generally held to maturity. Credit risk is minimised by diversifying investments across many issuers and by setting a maximum for the proportion of a single issuer in the portfolio.

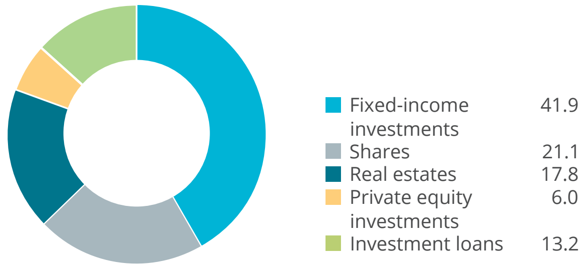
Securitised debt investments are controlled with the following allocation and diversification limits among others: Investment limits are based on companies' official credit ratings. As regards countries, the credit ratings used are primarily those estimated by LocalTapiola.

- The proportion of corporate bonds may not exceed 38 per cent of all investments.
- At least 65 per cent must be invested in bonds with the highest credit ratings (AAA–BBB).
- Country risk must be diversified across the entire eurozone, and excessive concentration in any single country is to be avoided.

Unlisted debt may not exceed 15 per cent of the company's investments.

Securitised debt investments are handled by LocalTapiola Asset Management Ltd. Further information on fixed-income and loan investments can be found under the headings, "Fixed-income investments" and "Illiquid loans" in the section "Investment operations".

16. Investment allocation on 31 December 2015, %



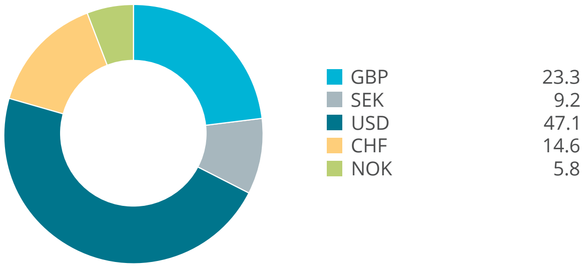
Real estate risks

In the Finnish market, real estate investments are mainly direct investments in real estate. The objectives of indirect real estate investments, such as real estate funds, can include diversification of the real estate investment portfolio, thus reducing the portfolio's risk, as well as making investments in international real estate markets or in special targets in Finland. Real estate investments are handled by LocalTapiola Real Estate Asset Management Ltd.

The return on direct real estate investments consists of the cumulative net operating income (rents) and capital appreciation. Real estate risks may be realised as both loss in value or decreased income cash flow.

Real estate is a long-term investment covering very long liabilities, as lease agreements are often linked to inflation. The risk-to-return ratio of the real estate portfolio is kept low by ensuring well-founded purchases and a consistent sale programme. The real level of the cash flow and related location-specific risks are managed by an active and result-oriented lease and agreement policy. An economical life cycle for the assets is ensured by professional

17. Distribution of investments by currency on 31 December 2015, %



real estate management. New investments are made in positively developing submarkets, mainly the largest cities. The multi-purpose usability and sales potential of the targets is taken into account when making investments. Besides a healthy economic structure of the municipality in which the property is located, additional criteria include the inhabitant base and user demand.

The total amount of real estate investments may add up to a maximum of 25 per cent of the company’s investment assets. Further information on real estate investments and allocations can be found under "Real estate investments" in the section "Investment operations".

Currency risks

A direct currency risk is related to investments quoted in foreign currencies while the business operations are euro-denominated. In addition, exchange rate fluctuations may affect the business operations of individual companies and industries and thus have an indirect impact on changes in equity investment values.

A maximum value has been set for unhedged currency risk (currency position). The minimum hedging ratio of a currency position is also determined by more detailed, company-specific investment limits and legislation. At the end of 2015, the company’s unhedged currency position totalled EUR 249.4 million.

The open currency position allocation is presented in figure 17.

Liquidity risks

Liquidity risk is realised if companies cannot liquidate their assets to cover their due payment obligations and may be caused by large claims being paid, unexpected changes in premium income behaviour or new sales.

Liquidity risk can be divided into two areas. Market liquidity risk is realised if the investment markets are not able to sell investment instruments sufficiently rapidly and with little loss. Financial liquidity risk is realised when the sources of funding are not enough to cover expected and unexpected needs over a specific time horizon.

The purpose of short-term money market investments, deposits and investments in bonds issued by states with good credit ratings is to secure the required liquidity for the company under all circumstances. The liquidity requirement has been taken into consideration in the structure of the investment portfolio, as well as the minimum amounts that have been defined for these investments. Investments required by liquidity limits are made in instruments that can be converted into cash quickly, usually without incurring capital loss.

The main instruments for money market investments and cash management are bank deposits and certificates of deposit issued by banks operating in Finland. An investment analysis is conducted annually concerning money market counterparties, and the bank counterparty risk is diversified.

LocalTapiola is close to you throughout your life

LocalTapiola is close to you everywhere in Finland. Our 20 regional companies offer comprehensive insurance, banking, savings and investment services. We are your partner in matters related to security, well-being and the economy.

Welcome to the new LocalTapiola.

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