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Keva's financial statement bulletin 2012: Keva highly successful in investment activities

Keva, which handles funding for local government pensions and pension fund investments, recorded a 12.9 per cent return on investments in 2012. The value of the pension fund increased to EUR 34.7 billion (2011: EUR 29.9 billion). EUR 3.9 billion of the growth was accounted for by investment activities and EUR 0.9 billion by funded contribution income. Contribution income under the local government pensions system amounted to EUR 4.7 billion.

According to Keva's CEO Merja Ailus, 2012 was successful in terms of investment operations, despite the challenging situation in Europe.

"Our diversification of the investment portfolio was extremely successful, and risk management was efficient. 2012 was both challenging and interesting. Public debate in Europe was characterised by the difficult economic situation. Finnish pension issues were discussed in several working groups, which looked into the reform needs and functionality of the pension system," says Ailus.

"Keva introduced a new pension processing system, targeted at further improving the efficiency of pension processing and the level of services. The introduction of the new system caused a temporary decline in the service level for employee customers, and for example, the pension processing times were longer than normal last year. We also revamped our online services, and now all public sector pension recipients can view their pension information on Keva's website. For the first time, we were statutorily in charge of all of the public sector's pension matters and prepared to begin providing services for state employers from the beginning of 2013," Ailus adds.

Excellent return on Keva's investments despite a challenging year

The total return on Keva's investments at market value was 12.9% in 2012 (-1.7% in 2011). The capital-weighted cumulative real return on investments since inception (1988) until the end of 2012 was 3.7%. The non-capital-weighted average real return for the same period was 5.3%. The Finnish pension sector normally uses the non-capital-weighted return for long-term returns.

Of the different asset classes, the best result was generated by equities (listed equities 17.2%) Fixed-income investments returned 11.5%, private equities 10% and real estate investments 4.7%. Among the smaller asset classes, the return on hedge funds was 10.4% and on

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commodities 5.2%. Fixed-income investments accounted for 48%, listed equities for 36.2%, real estate for 7.9%, private equity funds for 5%, hedge funds for 2.3% and commodity investments for 0.6% of the risk-appropriate market value of Keva's investment assets at the end of the year.

CIO Ari Huotari is pleased with the 2012 result, and for a good reason.

“Our investment operations were successful despite the fact that the year was challenging in many ways. Following the financial crisis, the predictability of the capital markets continues to be poor,” Huotari explains.

Huotari foresees that 2013 will not reach the 2012 level, and the return potential of fixed-income investments in particular is weaker.

Contribution income continued to grow

At the end of 2012, there were about 520,000 employees insured under the Local Government Pensions Act (KuEL) (1% more than at the end of the previous year). The local government payroll totalled EUR 16.1 billion, i.e. 4.9% more than in 2011.

The local government contribution income amounted to approximately EUR 4.7 billion (EUR 4.4 billion), representing an increase of 6.6% from the previous year. The local government contribution income is made up of the employer's and employee's pay-based contributions as well as employer's contributions based on pension expenditure and early retirement pension expenditure.

The value of unpaid benefits accrued in the local government pension system exceeds the value of the pension liability fund. The present value of these accrued pension benefits was estimated to be EUR 98 billion at the end of 2012. As the value of the pension liability fund in 2012 increased more than the present value of benefits, the present value of unfunded benefits decreased by nearly EUR 2 billion during the year.

For further information, please contact:

Merja Ailus, CEO and Managing Director, tel. +358 20 614 2201

Ari Huotari, CIO, tel. +358 20 614 2205 or +358 400 451 099

Tom Kåla, CFO, tel. +358 20 614 2211 or +358 40 772 7832

Pertti Männistö, Executive Director, tel. +358 20 614 2323 or +358 40 528 8482

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Key figures for 2012

	2012	2011	2010	2009	2008
Number of local government pension recipients (31 Dec.)	354,000	349,000	339,900	331,010	321,876
Local government pensions paid (EUR million)	3,826	3,541	3,321	3,141	2,853
Number of state pension recipients (31 Dec.)	272,000	275,000			
State pensions paid (EUR million)	3,834	3,656			
Number of Ev.-Luth. Church pension recipients (31 Dec.)	17,300				
Ev.-Luth. Church pensions paid (EUR million)	170				
Number of Social Ins. Institution pension recipients (31 Dec.)	5,800				
Social Insurance Institution pensions paid (EUR million)	82				
Local government payroll (EUR million)	16,121	15,376	14,733	14,110	13,469
Local government contribution income (EUR million)	4,696	4,406	4,187	3,982	3,788
Number of insured local government employees (31 Dec.)	520,000	515,000	507,000	497,000	497,000
Operating costs (EUR million)	89.8	82.4	73	63	57.2
Personnel (permanent) on 31 Dec.	519	524	394	396	391
Investments at market value (EUR million)	33,528	29,044	28,643	24,703	19,806
Return on investments at market value	12.9%	-1.7%	12.3%	18.9%	-20.6%
Annual capital-weighted real return on investments since inception (from 1988)	3.7%	3.2%	3.9%	3.3%	2.0%
Annual non-capital-weighted real return on investments since inception (from 1988)	5.3%	5.1%	5.5%	5.4%	4.7%

Keava took over the management of state employee pension matters as of the beginning of 2011, and the pension matters of the Evangelical-Lutheran Church and the Social Insurance Institution as of the beginning of 2012; therefore there are no comparison figures for earlier years.

Keava does not publish a printed annual report. Our financial statements and annual reports are published on our website at www.keva.fi. The

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Report of the Board of Directors and Financial Statements will be available on our website in Finnish as of 4 April 2013, after being reviewed and approved by Keva's Council.

The interim report for the first quarter of 2013 will be published at the beginning of week 18.