



Annual Report 2016

**A safer, healthier
and more financially
successful life**

Business idea and vision

LocalTapiola's mission is to safeguard its customers' lives and success. Our vision is to offer Finnish people a safer and healthier life. The lifelong security concept means comprehensive and proactive services.

LocalTapiola in brief

LocalTapiola Group is a mutual group of companies owned by its customers. It serves private customers, farmers, entrepreneurs, corporate customers and organisations.

The Group consists of 20 regional mutual insurance companies, as well as the national companies, LocalTapiola General, LocalTapiola Life, LocalTapiola Asset Management and LocalTapiola Real Estate Asset Management.

LocalTapiola employs approximately 3,400 people, half of whom work in the regional companies.

There are nearly 1.6 million owner-customers.

LocalTapiola Asset Management Ltd

LocalTapiola Asset Management is an investment services company that belongs to the LocalTapiola Group. It manages investment assets of nearly EUR 10 billion. We offer saving and investment solutions to all investors, from private individuals to institutional investors.

LocalTapiola specialists bring the international investment markets near you by combining national portfolio management with local customer service and modern online services. We work with carefully selected international partners. Over 80 per cent of our investments are made abroad.

Table of Contents

Good return on investments on fluctuating markets	4
COMPANY REPORT OF THE BOARD OF DIRECTORS – 31.12.2016	6
LocalTapiola Asset Management Ltd 2016	6
Customers and customer benefits	7
Capital adequacy and risk management	9
Management, personnel, special compensation	11
Corporate social responsibility	14
Events after the financial period	14
Future outlook	15
Proposed actions for profit and unrestricted equity	16
FINANCIAL STATEMENTS 1.1.-31.12.2016	17
Balance Sheet	17
Income statement	18
Indirect cash flow statement	19
Notes to the financial statements	20
Principles of the financial statements	20
Notes on risk management	21
Notes on capital adequacy management	22
Appendices to the LocalTapiola Asset Management balance sheet and income statement	23
Formulas for ratios and indicators	30
Signatures of the 31 December 2016 annual report and financial statements	31
Auditor's note	32
Auditor's Report	33
Report on the Audit of the Financial Statements	33
Other Reporting Requirements	34
Other Information	34

Review by the Managing Director



Good return on investments on fluctuating markets

Tom Liljeström

LocalTapiola Asset Management offers its customers economic security – profitable and responsible solutions for increasing and managing wealth. The global economy was eventful in 2016, but was still a good investment year, despite uncertainty. The year was favourable also for LocalTapiola Asset Management. The number of customers and managed assets increased. At the end of the year, we managed customer assets totalling EUR 9.7 billion.

Eventful investment year

2016 can be described as being very eventful. The year included several surprising events and unexpected reactions by the markets. Despite the uncertainty, the

growth trend continued on the markets. The total returns in euros on the global equity markets were excellent, approximately 11 per cent. The total returns on the Finnish equity markets were approximately 13 per cent, but less than 2 per cent in Europe. The total returns of equities in euros in the US and developing markets was approximately 15 per cent. On interest markets, the return requirements began to increase later in the year, due to improved growth outlooks and expected increased inflation.

We focused on services

Low interest rates and the volatility of the equity markets have increased customer interest in mutual funds and asset management services. The number of customers increased in all customer segments during 2016. The number of Private Banking customers increased by over 10 per cent year over year.

The customer assets we manage increased over 3 per cent to EUR 9.7 billion, of which LocalTapiola mutual fund assets were EUR 3.8 billion. The net profit of the financial period was good, EUR 4.3 million. Customer satisfaction also improved.

We focused especially on services. During our popular investment tour, we met with thousands of customers in 20 locales and online. We introduced a new service in the form of open and interactive investment webinars for anyone interested in saving and investment. In addition, we began producing Markkinaminuutit videos, where our experts comment on current economic matters. Our new digital services have been appreciated by our customers. Customers especially appreciate the reporting and online services.

Responsible investment at the centre of operations

Responsible investment is an important part of our operations and we continued the active development of responsible operational methods in 2016. We are committed to adhering to the UN Principles of Responsible Investment. Portfolio managers conduct a responsibility analysis on assets, which assess the company's environmental, social and governance factors in the company's operations, its future outlook and long-term value. Operational transparency is also a part of being responsible, along with our customers being treated equally and bearing their best interest in mind.

We want to improve environmental friendliness of the investments we make. Therefore, we have divided potential investments based on the emissions in the respective industries into carbon-intensive or high-emission and non-carbon-intensive or low-emission industries. Based on this, we have reduced investments in airlines, for example, and increased investments in online and renewable energy companies and 'green bonds'.

We also encourage our customers to compare the environmental friendliness of their investments and offer them information to support decision-making. We publish the carbon footprints of the LocalTapiola mutual funds that invest directly in equities and bonds four times a year. The carbon footprint describes the greenhouse emissions, such as carbon dioxide, methane and nitrogen oxide emissions, resulting from the operations of the companies the mutual funds have invested in. At the end of 2016, LocalTapiola Kuluttaja mutual fund had the lowest carbon footprint among equity mutual funds and Yrityskorko mutual fund was the lowest among bond mutual funds.

We also take part in the impact investment development efforts by Sitra, which consider new methods for resolving Finland's societal needs through private investment assets and innovative solutions. A similar model has been utilised internationally to, for example, reduce youth unemployment and homelessness, increase the preparedness of children for school, and prevent prison sentences.

From a one-way online service to an interactive digital office

Our goal is to further strengthen our market position. The LocalTapiola Group has 1.6 million customers and we want to offer them profitable and responsible solutions for increasing and managing wealth.

Our strength is a comprehensive portfolio of different asset classes. We know our investments and operate effectively. In an ever-changing investment environment, it is increasingly important to identify the industries and companies that will become winners in the new market situation.

We will continue to focus on developing digital services and the customer experience. We are developing our services from a one-way webstore to an interactive digital office, where the customer is served personally using modern technology.

I would like to express my gratitude to our customers for their trust in our operations. I would also like to especially thank our personnel and regional companies for excellent cooperation – it is a privilege to work with such an energetic and active group of experts.

COMPANY REPORT OF THE BOARD OF DIRECTORS – 31.12.2016

LocalTapiola Asset Management Ltd is a part of the group headed by LocalTapiola General Mutual Insurance Company (Company ID 0211034-2). The Company Report of the Board of Directors of the parent company is published on www.lahitapiola.fi.

LocalTapiola Asset Management Ltd 2016

LocalTapiola Asset Management Ltd

- The operating profit was EUR 5.4 million in a challenging investment environment.
- The total assets under management were EUR 9,696.4 million.

Business areas

LocalTapiola Asset Management Ltd operates as an asset manager for the LocalTapiola Group and other investors. LocalTapiola Asset Management Ltd offers discretionary asset management services to its customers.

Summary of operating profit/loss

(EUR million)	2016	2015
Operating profit/loss	5.4	7.1
Profit/loss of financial period	4.3	5.7
Net commissions	13.5	14.9
Total profit from investment operations	20.1	22.5
Administrative expenses	13.8	14.6

The profit for 2016 was a good level, EUR 4,279 thousand (EUR 5,707 thousand). The profit from investment operations were EUR 20,093 thousand, despite the challenging investment environment. Administrative expenses were cut by EUR 777 thousand.

Summary of Balance Sheet

(EUR million)	2016	2015
Receivables from credit institutions	20.6	5.3
Notes and bonds	0	13.0
Liabilities	4.6	4.6
Shareholders' equity	22.4	20.4
Balance sheet total	27.0	25.0
Managed assets	9,696.4	9,406.9

Shareholders' equity was EUR 22.4 million (EUR 20.4 million). EUR 4.3 million of the change was caused by the good profit of the financial period and EUR -2.3 million was due to paid dividends in 2016. The change in fair value reserves was minimal. Assets under management increased by EUR 389.5 million to EUR 9,696.4 million. The capital in LocalTapiola mutual funds increased to EUR 3,793 million (EUR 3,602 million 12/2015).

Ratios and indicators

(% / EUR million)

	2016	2015	2014
FINANCIAL INDICATORS AND RATIOS			
Shareholders' equity (average)	21.4	17.8	13.2
Average balance sheet total	26.0	22.2	17.5
Net commissions	13.5	14.9	15.5
Turnover	20.1	22.5	25.3
Operating profit, loss	5.4	7.1	11.2
Net profit of turnover, %	26.6	31.7	44.1
Return on equity (ROE), %	20.0	32.0	67.6
Return on assets (ROA), %	16.5	25.7	51.2
Equity ratio, %	82.8	81.6	78.8
Cost/Income ratio	0.7	0.7	0.6
CAPITAL ADEQUACY (Tier I)			
Common equity Tier 1 (CET1) in relation to total risk exposure, %	35.1	36.2	17.2
Tier 1 capital in relation to total risk exposure, %	35.1	36.2	17.2
Total capital base (TC) in relation to total risk exposure, %	35.1	36.2	17.2
Total risk exposure calculated based on fixed general costs	35.5	31.6	33.2

The capital adequacy of LocalTapiola Asset Management was excellent. Common equity, Tier 1 and total capital in relation to total risk exposure was 35.1 per cent (36.2 %). The 2016 profit was not audited at the time of calculating capital adequacy, so it has not been included in common equity. If included, capital adequacy would have been 47.2 per cent.

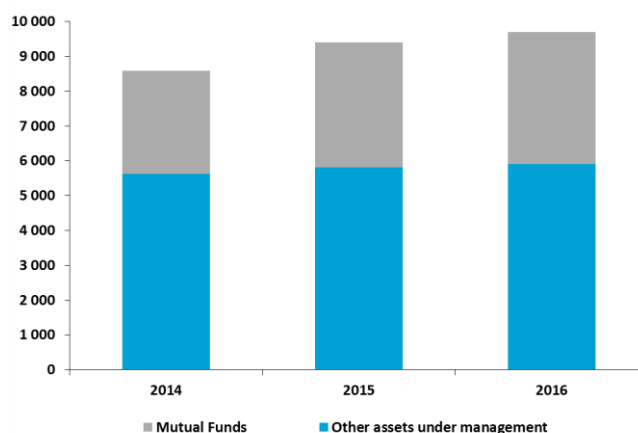
Significant events during the financial period

The political risks that were realised during 2016 and their impact on investments have created a new area to be monitored in investment operations. We launched a new Momentum asset management model, which generated a lot of interest among our customers. We began using a new investment model for investments in developing markets. We further developed our responsible investment models.

Asset management services

As an investment services company, LocalTapiola Asset Management Ltd offers asset management services to its customers.

The customer assets managed by LocalTapiola Asset Management increased 3.1 per cent to EUR 9,696.4 million (EUR 9,406.9 million).



The assets under management in discretionary services stayed on the same level as in 2015.

Our aim for 2016 is to further increase our market share in the asset management market. The growing number of LocalTapiola customers, our updated services and interest in mutual fund markets offers excellent opportunities to reach this goal.

Customers and customer benefits

LocalTapiola Asset Management operates as an independent asset manager for LocalTapiola mutual funds. Furthermore, our customers include institutional investors, other companies and organisations and private individuals. We offer asset management services as different types of service models, the most significant being LocalTapiola Private Banking services. The number of customers using our asset management services increased in 2016. Low interest rates and the volatility of the equity markets have increased customer interest in both mutual funds and asset management services.

Operating environment

Economic operating environment

There were a lot of surprising events in 2016 and the market reacted to them in an unpredictable fashion. The year was initially characterised by fears over a U.S. recession and the uncontrollable slowing of economic growth in China. The weakness in the macro-economy in January and February resulted in significant drops in value on the equity markets and in other higher risk asset classes. However, the economic cycle risks began to ease during the spring and the stock markets began to trend upward.

The summer was politically dramatic. Great Britain decided to leave European Union via a national vote during Midsummer. Although the 'Brexit' decision was initially a significant shock, the effects on economy and the investment markets were short-term. The only long-term impact was the significant depreciation of the British pound.

The second political shock of the year was experienced in November when Donald Trump, against expectations, won the United States presidential election. A Trump victory was generally perceived as a significant risk scenario. However, already the day following the election, the markets began to price the positive effect of the President-elect's potential economic revitalisation policies.

Central bank policies were revitalising and supported the markets in 2016. The U.S. Central Bank, 'FED', had started raising interest rates already in December 2015, but did not continue raising them until the end of 2016, due to economic uncertainties and political risks. The European Central Bank, ECB, continued its massive economic recovery programme and extended its purchasing programme of securities to include higher rated bonds.

The total returns in euros on the global equity markets were excellent, approximately 11 per cent. The total returns on the Finnish equity markets were approximately 13 per cent, but less than 2 per cent in Europe. The total returns of equities in euros in the U.S. and developing markets was approximately 15 per cent. On interest rate markets, the return requirements began to increase later in the year, due to improved growth outlooks and expected increased inflation. Despite the increase in nominal interest rates, the annual yield of government bonds was over 3 per cent in the eurozone. On the currency markets, the euro depreciated approximately 3 per cent against the U.S. Dollar and nearly 6 per cent against the Japanese Yen. In contrast, the euro appreciated against the British Pound by nearly 16 per cent.

Investment activities

Early in 2016, significant volatility was experienced in asset values on the investment markets. In January and February, equity prices dropped significantly as investors feared an uncontrolled slowing of growth in China and even a potential U.S. recession. However, a stabilisation of the economic outlook returned the asset classes more susceptible to risk to a growth trend until the fears associated with the Great Britain Brexit vote and the consequent results of an EU exit again triggered market volatility later in the year. The world's stock markets (MSCI All Countries index) declined 0.7 per cent on average early in the year. The significant risks associated with politics and the economy were evident as a significant drop in long-term loan interest rates of governments. A new low was reached among the core countries in the eurozone. Even Germany's 15-year interest rate for loans went negative. The average yield for government bonds in the eurozone was approximately 5.5 per cent early in the year. On the currency markets, the euro appreciated 2.3 per cent against the dollar between January and June and approximately 13 per cent against the pound sterling, but depreciated nearly 13 per cent against the yen.

The outlook for investment activities will remain challenging for the next few years. The fundamental problem is that monetary recovery policies cannot resolve problems caused by an ageing population and structural problems caused by excess capacity. A zero-interest environment may, at worst, slow the renewal of the production environment while the inefficient players also remain on the markets resulting in excess supply. The practical earnings expectations from investments have fallen in all asset classes. We must be prepared for lower expected growth trends in a higher investment risk environment.

Capital adequacy and risk management

Managing capital adequacy

The capital adequacy management process of LocalTapiola Asset Management consists of Base III Pillar I capital adequacy calculation and reporting and the company's own financial capital calculation model (ICAAP), which expands on the Pillar I calculation by including areas and risks not included in Pillar I. These include, for example, risks associated with the changing operating environment. The review also includes the results of the annual risk assessment. The Board of Directors define the company's will to assume risk during annual planning by setting capital requirements and total capital goals and defining the type of capital. Capital adequacy calculations are completed and reported quarterly, or when necessary, to the Board of Directors.

At the end of 2016, the company's capital adequacy ratio was 35.1 per cent (36.2 %), which is excellent.

Capital adequacy calculation

(% / EUR million)	2016	2015
TOTAL CAPITAL (TC)		
Common equity Tier 1 (CET1)		
Common equity before deductions	18,103	14,675
Deductions from common equity	-5,650	-3,219
CET1 total	12,453	11,456
Additional Tier 1 capital (AT1)		
AT1 total	0	0
Tier 1 capital (T1 = CET1+AT1)	12,453	11,456
Tier 1 capital (T2)		
T2 total	0	2
TOTAL CAPITAL BASE (TC = T1 + T2)	12,453	11,458
RISK-WEIGHTED ASSETS (Total risk exposure)		
(Credit risk does not increase total risk exposure)	9,202	10,618
Total risk exposure calculated based on fixed general costs	35,452	31,634
TOTAL RISK-WEIGHTED ASSETS	35,452	31,634

(% / EUR million)	2016	2015
Common equity Tier 1 (CET1) in relation to total risk exposure, %	35.1	36.2
Tier 1 capital in relation to total risk exposure, %	35.1	36.2
Total capital (TC) in relation to total risk exposure, %	35.1	36.2
Capital adequacy including profit for the period	47.2	54.3

Risk management

The risk management at LocalTapiola Asset Management is based on current regulations, rulings and instructions by authorities. The company adheres to the risk and capital adequacy management principles of the LocalTapiola Group. The company's risk management process is a part of the LocalTapiola Group risk management and solvency process (ORSA). The process consists of the annual risk assessment process, annual capital adequacy report, quarterly management and Board of Director's report on risk and capital adequacy management, and the ongoing risk assessment and management process.

The Board of Directors of LocalTapiola Asset Management have responsibility for risk management of the company. The Board of Directors defines the goals of risk management, risk limits, responsibilities, indicators and governing principles. A risk management plan is prepared annually by the company. The plan is approved by the Board of Directors. The Board of Directors regularly monitors the fulfilment of the plan.

Operative management is responsible for maintaining and updating the risk management process together with Group Risk Management Services. Internal auditing supports operative management and the Board of Directors in the development of supervision and risk management.

The company's risk management process includes risk assessments carried out during annual planning and the daily activities completed by the business and management to identify and evaluate risks. The risk assessment comprehensively evaluates the strategic, operative and operational environment risks. Risks deemed significant to operations are included in the risk management plan along with their necessary risk management procedures.

No significant changes were made to the risk management principles of the previous year.

Detailed description of risk management

The financial statements' notes on risk describe the risk management structure, monitoring different risk types and risk levels in more detail.

Management, personnel, special compensation

LocalTapiola Group governance

LocalTapiola Group and its companies adhere to good management principles, which are based on legislation on the insurance and financial industry, regulations and instructions issued by the Financial Authority, and the management code for general mutual insurance companies for public companies where applicable.

LocalTapiola Group is an insurance company group intended in the Insurance Companies Act. The parent company defined in the Act is LocalTapiola General Mutual Insurance Company. In this role, it has the responsibility for the entire LocalTapiola Group and its companies regarding reliable management, capital adequacy, organising risk management, internal monitoring and arranging the associated reporting for authorities on them.

The companies of the LocalTapiola Group have agreed on their respective responsibilities and division of duties using internal agreements. A Steering Committee for the Group is appointed by the Board of Directors of LocalTapiola General Mutual Insurance Company, which includes members from the different companies of the LocalTapiola Group and the responsible individuals for shared functions. The Steering Committee of the Group is responsible for the preparation of the collective strategic and other Group-level matters, decision-making and implementation and the overall direction and development of the LocalTapiola Group, within the scope of authority assigned to it by the Board of Directors and mutual Group Agreement signed by the LocalTapiola Group companies.

As a subsidiary of LocalTapiola General Mutual Insurance Company, LocalTapiola Asset Management adheres to the shared management and leadership procedures of the LocalTapiola Group.

Annual General Meeting

The Annual General Meeting of LocalTapiola Asset Management Ltd. was held on 15 April 2016. The meeting approved the financial statements for 2015, decided on the use of the company's profit, discharged the company's Board of Directors and Managing Director from liability and elected the company's auditor. The meeting also

confirmed the number of members of the Board of Directors and the remuneration for the members of the Board of Directors, and the new members were elected.

The profit distribution proposed by the Board of Directors for dividends paid in 2016 was approved at the Annual General Meeting.

Board of Directors

The LocalTapiola Asset Management Ltd Board of Directors include seven members with a one-year service term. Members of the Board of Directors are to have diverse and complementary professional expertise and experience and know-how of the operations of an investment services company to the extent as necessary for the scope and area of company operations.

The Board of Directors of LocalTapiola Asset Management met 10 times in 2016. The participation percentage was 90.7 per cent.

Board members included:

Jari Eklund (b. 1963), Chairman of the Board

- Master of Science (Economics)
- LocalTapiola Group Director

Pekka Antikainen (b. 1966) until 15 April 2016

- Master of Social Sciences, eMBA
- Managing Director, LocalTapiola Satakunta

Teija Kerminen (b. 1963)

- Trained on the bench, eMBA
- Chief Legal Officer, LocalTapiola Group

Harri Lauslahti (b. 1961), until 15 April 2016

- Master of Science (Economics)
- Managing Director, LocalTapiola Services Ltd

Tapio Oksanen (b. 1958)

- Master of Science (Economics)
- Deputy Managing Director, The Unemployment Insurance Fund

Janne Pesonen (b. 1965)

- Master of Science, Actuary
- Deputy Managing Director, LocalTapiola Mutual Life Insurance Company

Paula Pöntynen (b. 1952)

- Master of Economic Sciences
- Chairman of the Board, Ekosuunta

Ulla Sipilä (b. 1957), since 15 April 2016

- Vocational Qualification in Business and Administration
- Managing Director, LocalTapiola Kainuu-Koillismaa

Jari Sundström (b. 1960)

- Trained on the Bench
- Managing Director, LocalTapiola General Mutual Insurance Company

The wages and bonuses, pension commitments, monetary loans and their terms and notes on assets pledged as collateral and contingent liabilities are in the appendices to the financial statements.

Members of the Steering Committee of LocalTapiola Asset Management Ltd:

Tom Liljeström (b. 1959)

- Master of Science (Technology), Master of Science (Economics)

- Managing Director

Jyrki Mäkelä (b. 1961)

- Master of Science (Economics)
- Director, Deputy Managing Director

Tarja Asula (b. 1958)

- Master of Science (Economics)
- Service Director

Jari Järvinen (b. 1967)

- Doctor of Science (Economics)
- Chief Economist, Deputy Director

Outi Kalpio (b. 1965)

- Master of Science (Economics)
- Deputy Director, Equities and Fixed Income

Satu Marttila (b. 1953) until 31/01/2017

- Master of Economic Sciences
- Director, Corporate and Institutional Customers

Satu Norhomaa (b. 1974) until 01/10/2016

- BBA
- Director, Corporate and Institutional Customers

Tero Saarinen (b. 1974)

- Bachelor of Business Administration
- Manager, Business Development

Outi Vänni (b. 1962)

- Bachelor of Laws, trained on the bench
- Service Director, Deputy Director

Managing Director

Tom Liljeström serves as the Managing Director of LocalTapiola Asset Management. Jyrki Mäkelä serves as the Deputy Managing Director.

Corporate insiders

LocalTapiola Asset Management corporate insiders are described in more detailed in the appendices to the financial statements.

Auditor

The auditor of the company is KPMG Oy Ab, which has appointed Timo Nummi, APA, as the audit partner.

Supervising authority

LocalTapiola Asset Management is an investment services company subject to public supervision by the Financial Supervisory Authority operating in connection with the Bank of Finland. The FSA monitors and verifies that investment service companies adhere to laws and good accounting principles and utilise appropriate methods in their operations. It monitors and assesses the financial

position, governance, supervision and risk management systems, operational capabilities and changes in the operational environment.

Personnel

The average number of personnel at LocalTapiola Asset Management during the financial period was 49 (48) persons. At the end of the year, 50 persons were employed by the company.

Special compensation

The goal of the special compensation system is to boost performance and provide motivation and commitment to

employees. The special compensation at LocalTapiola Asset Management is based on setting targets using the strategy of the Group and its companies. Special compensation is based on good work performance of the employee in relation to set targets. The bonus system is a part of employees' overall compensation and it is based on annual bonuses, although some bonus targets may measure periods that are longer than one year. The special compensation system is for senior managers and all personnel.

When confirming the special compensation system, the company strives to ensure that the system corresponds to the business strategies, objectives and values of the company and LocalTapiola Group as a whole, it works in the Group's long-term interests, it is compatible with the Group's principles of good and effective risk management, and it does not encourage excessive risk-taking.

Corporate social responsibility

Responsible investment

We actively continued developing and promoting responsible investing activities in 2016. We launched a dedicated site for responsible investment on the LocalTapiola website in the spring. The website contains a comprehensive selection of information on our responsible investment efforts and our report on fulfilling the UN Principles of Responsible Investment. During the year, we also communicated on responsible investment through blogs, articles, and videos. We updated the responsible investment process, criteria used for ESG analysis, and ESG classifications (Environment, Social, Governance).

We also refined our policies on considering carbon risks in our investment decisions and we signed the PRI

initiative to include ESG factors systematically into the official credit rating analyses of companies.

Corporate governance

In accordance with the corporate governance of LocalTapiola funds, we exercise active ownership primarily through regular business meetings. During 2016, our portfolio managers met with the management of over 600 companies. Of these, 85 were domestic. There were over 200 meetings with companies being invested in and ESG issues were discussed in a third of these meetings. In addition, LocalTapiola Asset Management was represented in the general meetings of eight companies.

Events after the financial period

In conjunction with the planned transfer of traffic insurance policies by the insurance companies in the LocalTapiola Group, the Group Agreement is being updated, which will reinforce the uniformity of the LocalTapiola Group and support decision-making and clarify the division or responsibilities and roles between the companies in the Group. The Agreement is to become effective when the traffic insurance policies are transferred. In association with this, the ownership of LocalTapiola Asset Management will also be reorganised.

The current LocalTapiola Asset Management owners are LocalTapiola General Mutual Insurance Company (80.6 %) and LocalTapiola Mutual Life Insurance Company (19.4 %). In conjunction of the traffic insurance policy transfer, which is to be executed on 30 June 2017, a

change is planned to the share ownership of LocalTapiola Asset Management in a manner where LocalTapiola General Mutual Insurance Company would own approximately 33 per cent and the regional insurance companies of the LocalTapiola Group holdings would equate to approximately 33 per cent after the change. LocalTapiola Asset Management will be included in the LocalTapiola Group financial reports also after the change. LocalTapiola Asset Management will remain a subsidiary of LocalTapiola General Mutual Insurance company, due to the voting rights of shares of different classes. The associated change in articles of association and stock issue are to be presented at the General Annual Meeting on 18 April 2017.

Future outlook

Asset management operations

The challenges with the investment markets and economic outlook will continue in 2017. Market trends have a significant impact on performance of the company.

We actively participate in the life security strategy of the LocalTapiola Group by offering more asset services also to private investors. However, a positive trend in market share will require competitive pricing. In 2017, we will reduce the total pricing of investment and savings products to customers.

Regulatory changes are pending for investment service companies (e.g. MiFID II). Their impact on company operations are being actively monitored and the necessary changes planned.

Investment activities

At the start of 2017, the economic cycle indicators of the global economy are more favourable than a year ago. The consumer confidence on the economy in the United States is at its highest for the entire decade. Growth may slow somewhat in Europe, but should remain at approximately 1.5 per cent. A positive shift has also occurred in the Finnish economy. Russia and Brazil are starting to get back to a growth trend and the growth trend of the developing markets is showing a more wide-spread positive trend.

Despite the positive undertone, the economic outlook is associated with a lot of exceptional uncertainty factors primarily due to the unpredictable political environment. The terms of Great Britain's exit from the EU will begin in the 2017 spring and we are also facing a lot of elections where the forces opposing European integration may become reinforced. The Donald Trump presidency in the U.S. is also a major uncertainty factor.

The greatest structural challenge of the global economy is the significant decrease in productivity growth. Due to weak productivity trends, reaching growth goals requires an increasing reliance on debt. The increase in debt then affects the risks associated with increasing interest rates. The markets expect the U.S. Federal Reserve to raise interest rates twice in 2017. There may be more interest rate increases, if financial recovery policies raise inflation expectations.

The outlook for the year on the investment markets contains risk. Interest rates may have already assumed a long-term increasing trend, which reduces the earnings from bond investments. Volatility may also increase on equity markets, as valuations are already relatively high on certain markets. The decision made by the European Central Bank to reduce the monthly purchases of securities starting in April 2017 may contribute to the weakening of the liquidity of the interest markets in the euro-zone. In contrast, there is still a while before the ECB begins raising interest rates and short and mid-term interest rates are expected to stay very low for several years.

Proposed actions for profit and unrestricted equity

Board of Directors' proposal for Annual General Meeting

The distributable assets at year-end were EUR 19,845,469.78, of which profit for the period was EUR 4,279,075.80. No significant changes have occurred in the company's financial position since year-end and the solvency test in Section 2 of Paragraph 13 of the Limited Liabilities Act does not affect the amount of distributable assets.

The Board of Directors proposes to the Annual General Meeting on 18 April 2017 that EUR 2,370.00 per share be paid as dividend from the profit for the year of EUR 4,279,075.80 and the balance be transferred to retained earnings. If the proposal were implemented, a total of EUR 4,266,000.00 would be paid as dividends.

FINANCIAL STATEMENTS 1.1.-31.12.2016

Balance sheet

	31.12.2016 1 000 €	31.12.2015 1 000 €	(note number)
ASSETS			
Receivables from credit institutions			
Payable on demand	20 556	5 272	(1,11,12,13,14)
Receivables from credit institutions	20 556	5 272	
Notes and bonds			
Other	0	13 001	(2,11,12,13,14)
Notes and bonds	0	13 001	
Shares and bonds	0	354	(3,13,14)
Shares and bonds			
of companies in the same Group	714	360	(3,13,14)
Intangible assets	1 384	942	(4,5)
Tangible assets			
Other tangible assets	69	64	(5)
Tangible assets	69	64	
Other assets	3 599	3 532	(6)
Prepayments and accrued income	709	1 453	(7)
TOTAL ASSETS	27 031,56	24 979,36	
LIABILITIES			
LIABILITIES			
Other liabilities			
Other liabilities	865	862	(9,12)
Other liabilities	865	862	
Accruals and deferred income	3 784	3 735	(10,12)
TOTAL LIABILITIES	4 650	4 597	
SHAREHOLDERS' EQUITY			
Share capital	845	845	(15,16)
Additional paid-in capital	1 692	1 692	(15)
Other restricted reserves			
Fair value reserve			
Details on fair value	0	2	(8,15)
Fair value reserve	0	2	
Other restricted reserves	0	2	
Non-restricted reserves			
reserve for invested non-restricted equity	2 196	2 196	(15)
Non-restricted reserves	2 196	2 196	
Profit (loss) for previous periods	13 371	9 941	(15)
Profit (loss) for the periods	4 279	5 707	(15)
TOTAL SHAREHOLDERS' EQUITY	22 382	20 382	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	27 032	24 979	

Income statement

	1.1.-31.12.2016	1.1.-31.12.2015	(note number)
	1 000 €	1 000 €	
Net commissions	13 453	14 920	(19,36)
Income from equity investments			
From companies in the same Group	12	0	
From other companies	6	15	
Income from equity investments	17	15	(20)
Interest income	2	17	(21)
Net income from available-for-sale financial assets	0	0	(22)
Other operating income	6 621	7 576	(23)
NET INCOME FROM INVESTMENT SERVICE OPERATION	20 093	22 528	
Commission expenses	9	6	(19)
Administrative expenses			
Personnel costs			
Wages and salaries	4 407	4 777	(32)
Social expenses			
Pension costs	910	917	(27,34)
Other social expenses	200	212	
Total social expenses	1 110	1 129	
Total personnel costs	5 518	5 906	
Other administrative expenses	8 261	8 650	
Administrative expenses	13 779	14 556	
Depreciation/amortisation and write-downs on tangible and intangible assets	427	254	(25)
Other operating expenses	525	570	(24,37)
OPERATING PROFIT (LOSS)	5 353	7 141	
Income taxes	1 074	1 434	
PROFIT (LOSS) FROM OPERATIONS AFTER TAXES	4 279	5 707	
PROFIT (LOSS) FOR THE PERIOD	4 279	5 707	

Indirect cash flow statement

	1.1.-31.12.2016 1 000 €	1.1.-31.12.2015
CASH FLOW FROM OPERATING ACTIVITIES		
Operating profit (loss)	5 353	7 141
Taxes paid	1 005	1 800
Adjustments to operating profit	410	239
Increase (-) or decrease (+) in operating assets	13 676	-81
Increase (-) or decrease (+) in operating liabilities	-2 027	-2 747
Net cash used in operating activities (A)	18 417	6 352
NET CASH USED IN INVESTING ACTIVITIES		
Dividends received	17	15
Intangible and tangible assets	-874	-1 152
Cash flow from investing activities (B)	-857	-1 136
NET CASH PROVIDED BY (USE IN) FINANCING ACTIVITIES		
Dividends paid	-2 277	-612
Net cash provided by (used in) financing activities	-2 277	-612
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (A+B+C)		
Increase (+) / decrease (-)	15 284	4 604
Cash and cash equivalents at year-start	5 272	669
Cash and cash equivalents at year-end	20 556	5 272
Net increase/decrease in cash and cash equivalents	15 284	4 604

Notes to the financial statements

Principles of the financial statements

The financial statements and annual report for LocalTapiola Asset Management Ltd were prepared in compliance with the Finnish Accounting Act and Decree, Act on Investment Services, Act on Credit Institutions, Ministry of Finance Decree on financial statements of credit institutions and investment services companies, consolidated financial statements and annual reports, Financial Authority regulations and instructions, and the general instructions issued by the Finnish Accounting Standards Board.

General information

LocalTapiola Asset Management Ltd is owned by LocalTapiola General Mutual Insurance Company (80.6 per cent) and LocalTapiola Mutual Life Insurance Company (19.4 per cent). The domicile of LocalTapiola Asset Management Ltd (Business ID 1604393-7) is Espoo and the address is Revontulenkuja 1, 02100 Espoo.

The figures in these financial statements are presented in thousands of euros, unless specified otherwise. The Board of Directors approved the 1 January – 31 December 2016 financial statements at a meeting held on 7 March 2017.

Summary of most significant accounting principles of the financial statements

Receivables from credit institutions include deposits in credit institutions. Payable on demand receivables are receivables that must be paid no later than within 24 hours of termination. The asset class does not include marketable receivables from credit institutions.

Notes and bonds are all marketable debt instruments, such as treasury notes, local authority notes, bonds issued by governments and other public entities, certificate of deposits by banks, commercial papers and bonds and convertible bonds issued by banks and companies. Notes and bonds are classified as available-for-

sale financial assets. Available-for-sale financial assets are valued at fair value and recorded as fair value reserve in shareholders' equity on the balance sheet.

Shares and holdings are classified as marketable financial assets. Consequent valuation is based either on acquisition cost or amortised cost. At year-end, if the value of these financial assets is lower than the amortised cost or acquisition due to depreciation, the value is reduced by the depreciation to the reduced amortised acquisition cost. Shares and holdings considered fixed assets are valued at acquisition cost.

Intangible assets include the activated valuable consideration acquisition costs of long-term IT system planning and property renovation costs. The depreciation period is 10 years from adopting use or the economic useful life, if shorter.

Other tangible assets include equipment, which are calculated on the balance sheet as acquisition cost less planned depreciation. The annual depreciation of equipment is 25 per cent of the residual expenditure.

Net commissions include commissions when the service or separate action has been completed. The net commissions amount is the fair value of the received service or action.

Interest income includes the interest income from 'Receivables from credit institutions'.

Net income from available-for-sale financial assets include all assets recorded on the income statement as available-for-sale, not including interest and dividends received from the assets.

Notes on risk management

The risk management of LocalTapiola Asset Management is based on current legislation and associated regulations, instructions and interpretations and LocalTapiola Group risk management policies and practices. The company's risk management process is a part of the Group risk management and solvency process (ORSA).

Risk management principles

Risk management is active and proactive. It identifies, evaluates, limits, utilises and monitors business threats and new opportunities, which are a result of changing external and internal conditions or the strategy of LocalTapiola. The goal is to ensure the financial security of customers and to support fulfilling operational and financial business goals. The Group communicates its risks and the associated management activities reliably to its customers and other stakeholders, in accordance with corporate social responsibility principles.

The primary areas and risk classes of risk management include:

Financial risks	Capital adequacy management risks
	Market risks
	Credit risks
	Liquidity risks
	Concentration risks
	Insurance risks
Operative risks	Operative planning risks
	Process risks
	System risks
	Personnel risks
	Legal risks
	Incident and injury risks
Operating environment and strategy risks	General risks in operating environment
	Market and customer behaviour risks
	Nature of competition and competitor risks
	Risks from strategic choices
	Group-level special risks

Organising risk management

The Board of Directors of LocalTapiola Asset Management has responsibility for risk management of the company. The Board of Directors defines the goals of risk management, risk tolerance, risk limits, responsibilities, indicators and governing principles. The Board of Directors approves the plans pertaining to risk management annually, ensures they are considered in operational plans and oversees the implementation and compliance of the plans. The Board of Directors regularly monitors risk management and the development of the most significant risks to the company.

The Managing Director and management are responsible for the practical arrangements, implementation and supervising implementation. Business units are responsible for identifying the risks in their operations and the implementation of the risk management activities associated with them. Managers are to ensure that the supervision of the business processes is sufficient and that there is always reliable and current data available on the results of the supervision. Every employee is required to report observed risks or risk management development areas.

Group Risk Management Services supports the maintenance and development of the risk management process and is responsible for capital adequacy calculations of the company.

Group Legal Compliance function ensures that company operations comply with laws, official regulations and internal instructions. Managers are responsible for the supervision of their subordinates, which also includes monitoring for adhering to regulations. The Compliance Officer provides the Board of Directors an annual report of observations.

Internal auditing supports operative management and the Board of Directors in the development of supervision and risk management. Auditing also monitors the fulfilment of risk management.

Identifying, measuring and managing risks

Operative and operational environment risks and their probability and impacts are evaluated in the respective business units during annual planning and during a significant change in risk position. A separate risk management plan is prepared for every risk that requires active management. Risk assessment results are included in the capital adequacy management process.

Notes on capital adequacy management

The capital adequacy process of LocalTapiola Asset Management is based on current European Union and international legislation and the associated instructions, regulations and standards.

The legislative framework consists of EU Credit institution directive (CRD IV) and capital requirements regulation (CRR) and the technical standards associated with them issued by the European Banking Authority (EBA). Nationally, the operations are subject to the Act on Credit Institutions (640/2014), Act on Investment Firms (747/2012) and regulations, instructions and interpretations issued by the Financial Supervisory Authority.

The total risk exposure of LocalTapiola Asset Management required by officials (Pillar I) and the capital requirement is mandated by the capital adequacy regulation (CRR) using the fixed general cost method in accordance with Section 95. Total risk exposure is calculated based on credit risk or fixed general costs. In practice, the company's total risk exposure is determined based on fixed general costs ($12.5 \times 25 \% \times \text{fixed general costs}$), which results in a capital requirement of 8 % of total risks and 25 per cent of fixed general costs. Credit risk is calculated using the standard credit risk method described in Capital requirements regulation (CRR).

The capital adequacy of LocalTapiola Asset Management was excellent at 2016 year-end. Common equity, Tier 1 and total capital in relation to total risk exposure was 36.1 per cent (31.2 %). If 2016 were included, capital adequacy would have been 47.2 per cent.

The internal capital adequacy assessment of LocalTapiola Asset Management (ICAAP, Pillar II) is based on the aforementioned requirements by officials, which is expanded in scope to include risk areas that are not included in Pillar I calculations. In addition, the assessment is supplemented with risks carried by the company that Pillar I does not cover, such as risks associated with the operational environment and its development. The assessment also includes other risk assessment results carried out during annual planning.

The Board of Directors approves the Managing capital adequacy plan annually. The plan sets the goals and procedural limits for capital adequacy and asset types. Capital adequacy is reported to the Board of Directors quarterly or when necessary.

Publishing capital adequacy figures

The capital adequacy figures complying with the regulations and instructions of the Act on Credit Institutions and Financial Authority are included in the financial statements and annual report of the company. Auditors review the accuracy of the capital adequacy figures when auditing the financial statements.

Significant changes during the financial period

The company's capital adequacy figures are also published in the interim report, if significant changes occur that are relevant to stakeholders, such as customers, cooperation partners and owners. The information is published in the interim report during which the significant changes occurred. If a significant change occurred in only one capital adequacy item, reporting of other items is not necessary. Therefore, the interim report may include the single item with a note stating that no significant changes occurred with other information. The Board of Directors determines when the changes are significant and they are to be reported during the financial period.

Published information

Capital adequacy is published in the scope and subject to the regulations of the Financial Authority. Information that is not significant to capital adequacy, however, is not published. This includes information that is not relevant to stakeholders and otherwise are not significant to the nature and scope of the business or risks. A note regarding information considered irrelevant is included in the financial statements briefly explaining why it was not included. The Board of Directors determines what information is not considered relevant and, therefore, not published. The Board of Directors also determines what information is considered a trade secret or subject to confidentiality.

The financial statements and annual plan are published on the LocalTapiola Group website, so capital adequacy information is also available to stakeholders online.

Appendices to the LocalTapiola Asset Management balance sheet and income statement

Figures are presented as thousands of euros, unless otherwise stated.

Notes on assets

1. Receivables from credit institutions

Domestic credit institutions

Payable on demand

Total

2016	2015
20 556	5 272
20 556	5 272

2. Notes and bonds

Issued by others than public sector entities

Available for sale, other than publicly listed

Certificates of deposits by banks

Total

2016	2015
-	13 001
-	13 001

3. Share and holdings

Share and holdings in other companies

Available for sale, other than publicly listed

Share and holdings in other companies in the same group

Available for sale, other than publicly listed

Total

valued at cost

2016	2015
0	354
714	360
714	714
714	714

4. Intangible assets

IT expences

Total

2016	2015
1 384	942
1 384	942

5. Charges in intangible and tangible assets during the financial year

Intangible assets

Acquisition cost 1 January

+ increases during the year

- decreases during the year

Acquisition cost 31 December

Accumulated depreciation and amortisation 1 January

- planned depreciation

Accumulated depreciation and amortisation 31 December

Book value 31 December

Book value 1 January

2016	2015
1 175	56
846	1 119
0	0
2 022	1 175
-233	0
-404	-233
-637	-233
1 384	942
942	56

Tangible assets						2016	2015
Other tangible assets							
Acquisition cost 1 January						289	256
+ increases during the year						28	60
- decreases during the year						0	-27
Acquisition cost 31 December						316	289
Accumulated depreciation and amortisation 1 January						-225	-203
- planned depreciation						-23	-21
Accumulated depreciation and amortisation 31 December						-248	-225
Book value 31 December						69	64
Book value 1 January						64	53
6. Other assets						2016	2015
Other deferred income							
Other deferred income						3 599	3 532
Total						3 599	3 532
7. Deferred income and advances paid						2016	2015
Deferred income and advances paid							
Other deferred income						709	1 418
Advanced paid						-	35
Total						709	1 453
8. Deferred tax assets and liabilities						2016	2015
Deferred taxes not included in income statement							
on fund at fair value (note on balance sheet of asset not included)						-	0
9. Other liabilities						2016	2015
Other liabilities							
Other than payment transfer liabilities						865	862
Total						865	862
10. Accruals and deferred income						2016	2015
Deferred expenses							
Other deferred expenses than interest liabilities						3 781	3 735
Total						3 781	3 735
11. Final assets and liabilities by maturity						2016	2015
Maturity							
	less than 3 mo.	3-12 mo.	1-5 yr.	5-10 yr.	over 10 yr.		
Receivables from credit institutions	20 556	-	-	-	-	20 556	5 272
Notes and bonds	-	-	-	-	-	-	13 001

12. Assets denominated in euros and foreign currencies and member of the same group

	Domestic currency	Foreign currency	of which belong to the same group	2016 total	2015 total
Asset, in euros					
Receivables from credit institutions	20 556	-	-	20 556	5 272
Notes and bonds	-	-	-	-	13 001
Other assets	4 423	-	1 661	4 423	6 706
Total	24 979	-	1 661	24 979	24 979
	0				
Other liabilities	865		401	865	862
Accruals and deferred income	3 784		-	3 784	3 735
Total	4 650		401	4 650	4 597

13. Fair values of assets and liabilities

Assets and liabilities than after entry are valued at fair value once or repeatedly on the balance sheet

Fair values of Tier 1 instruments are based the listed prices of identical assets or liabilities in active markets, such as the stock exchange, broker or price service.

Tier 1 instruments are primarily domestically listed investment liabilities, which have been classified as available-for-sale. The market price of these assets is obtained from the current purchase price.

The fair values of Tier 2 instruments are obtained by valuation methods using market prices in active markets.

Repeated fair values that are defined using significant other data than observable input data

Input data for Tier 3 assets or liabilities are not based on observable market data. Tier 3 includes equity instruments that do not have a market price on the markets and their fair value cannot be reliably defined, so they are valued at acquisition cost.

14. Fair and book values of financial assets and liabilities and hierarchy of fair values

Fair values of assets and liabilities	2016	2015	2016	2015
Financial assets	Fair value	Fair value	Book value	Book value
Receivables from credit institutions	20 556	5 272	20 556	5 272
Notes and bonds	-	13 001	-	13 001
Shares and holdings	0	354	0	354
Shares and holdings in other companies in the same group	714	360	714	360
Financial instruments valued at fair value on balance sheet	Tier 1	Tier 2	Tier 3	2016
Financial assets				Total
Notes and bonds		-		0
Unrealised profits and losses of the financial period (Tier 3)			0	

15. Shareholders' equity

	Financial period	+ Increase - Decrease	Transfers between	Financial period end
Restricted equity	start			
Share capital	845	-	-	845
Additional paid-in capital	1 692	-	-	1 692
Other restricted reserves				
Reserved provided for by Articles of Association				
Fair value reserve	2	-2	-	0
Non-restricted reserves				
Reserve for invested non-restricted equity	2 196	-	-	2 196
Profit or loss for previous periods	9 941	-2 277	5 707	13 371
Profit or loss for financial period	5 707	4 279	-5 707	4 279
Total	20 382	2 000	-	22 382

16. Share capital

	2016	2015
Share capital at year-start	845	845
Share capital at year-end	845	845
Nominal value of shares	none	none
Number of shares at year-start	1 800	1 800
Number of shares at year-end	1 800	1 800
Company minimum capital	423	423
Company maximum capital	1 690	1 690
All company shares have equal voting rights, there is one series of shares.		

17. Stock issues, stock options and issued convertible bonds

In 2016, no stock issues or stock option were issued and no authorisations to issue convertible bonds were granted.

18. Largest shareholders and distribution of ownership of shares

	2016	2016	2015
Share distribution	Shares	%-of shares and votes	%-of shares and votes
LocalTapiola General Mutual Insurance Company	1 450	81 %	81 %
LocalTapiola Mutual Life Insurance Company	350	19 %	19 %
Total	1 800	100 %	100 %

Notes to the income statement

19. Net commissions and fees

	2016	2015
Net commissions and fees		
Asset management	13 453	14 920
Total	13 453	14 920
Commission expenses		
Other commission expenses than delivery expenses	-9	-6
Total	-9	-6

20. Income from equity investments

	2016	2015
Dividend income from shares and holdings		
From available-for-sale investments	6	15
From members of the same group	12	0
Total	17	15

21. Interest income and expenses	2016	2015
Interest income		
From notes and bonds	2	17
Total	2	17
22. Net income from available-for-sale financial assets	2016	2015
From notes and bonds		
From disposal (gains/losses)	-	0
Total	-	0
Total net income from available-for-sale financial assets	-	0
23. Other operating income	2016	2015
Other income	6 621	7 576
Total	6 621	7 576
24. Other operating expenses	2016	2015
Rent expenses	343	361
Other expenses	181	210
Total	525	570
25. Depreciation and amortisation on tangible and intangible assets	2016	2015
Intangible assets		
Planned depreciation	404	233
Tangible assets		
Planned depreciation	23	21
Total depreciation	427	254
26. Notes on business areas and geographical markets		
The company is an investment services company. Its primary business comprises of asset management.		
The geographical operating area is Finland nation-wide through the LocalTapiola Group's regional network.		
The company does not have a network of offices outside of Finland. Personnel data is listed in Note 31.		

Notes on assets pledged as collateral and contingent liabilities

27. Pension liabilities

Statutory pensions for personnel are organised using TyEL insurance through Elo Mutual Pension Insurance Company and additional pension insurance through LocalTapiola Mutual Life Company.

28. Leasing and other rental liabilities

Rental liabilities not included on the balance sheet are listed on Note 30 and other rental liabilities are short-term in nature.

29. Off-balance-sheet commitments

	of which are for members of the same group	2016 Total commit- ments	2015 Total commit- ments
Commitments given to a third party on behalf of customers	-	-	-
Irrevocable commitments given on behalf of customers	-	-	-
Total off-balance-sheet commitments	-	-	-

30. Other off-balance-sheet arrangements

Contractual liability associated with service fees to system suppliers		2016	2015
Service fees payable during the next financial period		-	343
Service fees payable during the next five years		-	461
Service fees payable after five years		-	0
Joint responsibility associated with VAT group registration (Section 188, Finnish VAT Act)		2016	2015
Within one year		3 801	3 115
of these, on behalf of parent company		916	688
Auditing responsibility of property investments, according to Section 120 of Finnish VAT Act		2016	2015
10-year auditing period			
Other group companies		55 897	53 322

Notes on personnel, management and related-parties

31. Number of employees

On average		2016	2015
Permanent full-time employees		45	44
Permanent part-time employees		1	2
Fixed-term employees		3	2
Total		49	48

32. Salaries and other short-term benefits of management members

Salaries and other short-term benefits of managing director, deputy managing director, members of the board and deputy board members.

	2016	2015
	449	429

33. Credit issued to management and off-balance-sheet commitments

	2016	2015
	-	-

34. Management pension commitments

Statutory pensions for management are organised using TyEL basic insurance through Elo Mutual Pension Insurance Company and additional pension insurance through LocalTapiola Mutual Life Insurance Company.

35. Related-party transactions

The company does not have related-party transaction that would have been executed using other means than ordinary commercial terms. Assets and liabilities of companies part of the same group are stated in the notes to the balance sheet.

Other notes

36. Information on trustee operations and total controlled customer assets

Local Tapiola Asset Management Ltd offers trustee asset management services and agreement-based investment advisory services to its customers

Asset management services

Customer assets in asset management

Trustee asset management

Managed assets under other agreement

Total customer assets

2016	2015
9 696 371	9 406 871
24 827	0
9 721 198	9 406 871

37. Fees paid to auditor

Audit

Assignments as referred to in sub-paragraph 2, paragraph 1, section 1 of Auditing Act

Tax advisory services

Other services

Total

2016	2015
8	9
0	0
0	0
0	7
8	16

38. Notes pertaining to a company that is a Group member

Parent company LocalTapiola General Mutual Insurance Company presents the financial statement of the group.

Parent company financial statements available at www.lahitapiola.fi

Formulas for ratios and indicators

Ratios and indicators on general financial performance

FORMULAS FOR RATIOS AND INDICATORS

1) Important net income calculations

Turnover = oncome statement "Net incomer from investment service operations"

2) Return on equity as percentage (ROE)

$\frac{\text{Operating profit - income taxes}}{\text{Shareholders' equity and minority interest + appropriations less deferred tax liabilities (average of start and end of year)}}$	x 100
--	-------

3) Return on assets as percentage (ROA)

$\frac{\text{Operating profit - Income taxes}}{\text{Average balance sheet total (average of start and end of year)}}$	x 100
--	-------

4) Equity ratio as percentage

$\frac{\text{Shareholders' equity and minority interest + appropriations less deferred tax liabilities}}{\text{Balance sheet total}}$	x 100
---	-------

5) Cost/income ratio

$\frac{\text{Commission excenses + Interst expenses + administarive expenses + Depreciation and amortisation for tangible and intangible assets + Other operating expenses}}{\text{Net income from investment service operations}}$	
---	--

Signatures of the 31 December 2016 annual report and financial statements

In Espoo on 7 March 2017

Jari Eklund
Chairman of the Board

Teija Kerminen

Tapio Oksanen

Janne Pesonen

Paula Pöntynen

Ulla Sipilä

Jari Sundström

Tom Liljeström
Managing Director

Auditor's note

A report on the audit performed has been issued today.

In Espoo on 7 April 2017

KPMG Oy Ab
Audit Firm

Timo Nummi
Authorised Public Accountant

This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.

Auditor's Report

To the Annual General Meeting of LocalTapiola Asset Management Ltd

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of LocalTapiola Asset Management Ltd (business identity code 1604393-7) for the year ended 31 December, 2016. The financial statements comprise the balance sheet, income statement, cash flow statement and notes.

In our opinion, the financial statements give a true and fair view of the company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in *the Auditor's Responsibilities for the Audit of Financial Statements* section of our report. We are independent of the company in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the company or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that

is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other Reporting Requirements

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises information included in the report of the Board of Directors. Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the information included in the report of the Board of Directors and, in doing so, consider whether the information included in the report of the Board of Directors is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. Our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed, we conclude that there is a material misstatement in the information included in the report of the Board of Directors, we are required to report this fact. We have nothing to report in this regard.

Espoo, 7 April 2017

KPMG OY AB

[Signed]

Timo Nummi

Authorised Public Accountant

Contact information

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