



ILMARINEN'S INTERIM REPORT

1 JANUARY TO
30 SEPTEMBER 2016

THIRD QUARTER PUSHED RETURN ON INVESTMENT INTO POSITIVE FIGURES

FINANCIAL DEVELOPMENT FOR JANUARY–SEPTEMBER IN BRIEF

In January–September, Ilmarinen's investment portfolio generated a return of 2.3 per cent. The Q3 return was 2.9 per cent and the successful quarter pushed the negative return in the first half of the year into clearly positive figures. At the end of September, the market value of investments came to EUR 36.5 billion.

The long-term average real return is at a good level, at 4.1 per cent.

Solvency strengthened during the quarter. At the end of September, solvency capital was EUR 8,002 million and the solvency ratio was 27.9 per cent.

Ilmarinen's customer acquisition improved as planned during the early part of the year. A record number of new pension decisions were made. The operating expense ratio remained in control and the ratio of operating expenses to expense loading components, which measures operational efficiency, is expected to be at around 78 per cent.

ILMARINEN

REVIEW BY PRESIDENT AND CEO TIMO RITAKALLIO



“The third quarter was a good one for Ilmarinen’s investment return, pushing the return from the start of the year clearly into positive figures. The market value of investment assets grew by EUR 0.7 billion from the beginning of the year and was EUR 36.5 billion at the end of September. A key factor behind the improvement in investment returns was the positive development in the equity markets; all of the main indices yielded well during the third quarter. The historically low interest rate level continues to steer investors towards alternatives such as real asset classes and stocks.

Investing pension assets is a long-term business and

investment returns should be observed over a long time span. The average real return on Ilmarinen’s investments from 1997 is at a good level, at 4.1 per cent, and solvency strengthened compared to the first part of the year. Strong solvency successfully buffered market and economic volatility, which was proven in the unusually challenging investment environment in the first part of the year.

We made more than 19,000 new pension decisions in January–September, which is 13 per cent more than last year. Ilmarinen has adopted a new pension processing system that initially became congested with pension applications, but the situation has improved during the early autumn and processing times are quickly falling due to automation. Ilmarinen’s operating expense ratio remained in control and the ratio of operating expenses to expense loading components, which measures operational efficiency, is expected to be at around 78 per cent.

Over the past year, Ilmarinen has invested in developing digital services in accordance with its strategy and, in the autumn, two new services targeted at customers have been taken into use: the ‘Parempi vire’ mobile app for improving work capacity and well-being and the ‘Sopiva työ’ service that is intended to reduce costs resulting from disability. We will continue to develop services and work together with our personnel and customers to come up with new ideas.”

OPERATING ENVIRONMENT

The third quarter of 2016 took off on the financial markets in a mood of political uncertainty following the Brexit referendum. Economic forecasts were adjusted downwards for the most part and concern over the state of Europe’s banks grew as a result of the ECB’s stress tests. The situation on the investment markets quickly turned more positive, however. The impact of the UK’s referendum proved to be more local and milder than expected, which enabled the quick recovery of the equity markets over the summer. The global equity markets rose by 5.2 per cent in local currencies during the quarter. The stimulating monetary policy of the central banks helped support risk appetite; the BoE decreased interest rates and started up a securities purchase programme and the Fed held off on raising interest rates. The decline in long-term interest rates continued. Germany’s 10-year government bond rate first declined to a record-low level of -0.18 per cent and ended up at -0.12 per cent at the end of the quarter. The price of oil fell during the quarter to 42 dollars, but recovered supported by OPEC’s preliminary production curtailment plan at the end of the quarter, rising to 50 dollars.

Some encouraging news was heard from Finland’s economy in late summer. The slow growth in the GDP contin-

ued while industrial production and construction volumes strengthened. Improving performance also manifested as growth in employment figures.

INSURANCE OPERATIONS

At the end of September, Ilmarinen had altogether 327,280 (321,970) pensioners, to whom a total of EUR 3,398 (3,312) million was paid in benefits. During January–September, 19,066 new pension decisions were made, which is 13 per cent more than in the previous year. The total number of pension decisions made was 32,592 (31,090) and that of new rehabilitation decisions 2,066 (2,355).

Ilmarinen’s customer acquisition has developed as planned. Measured in premiums written, net customer acquisition was EUR 54 million during the first part of the year.

The operating expense ratio, which measures the operational efficiency of Ilmarinen’s activities, is expected to be at around 78 per cent this year and the loading profit EUR 32 million.

RETURN ON INVESTMENTS

At the end of the third quarter of 2016, Ilmarinen’s total investments at current value were EUR 36,546 million (EUR 35,181 million on 30 Sep 2015). The return on investments at current

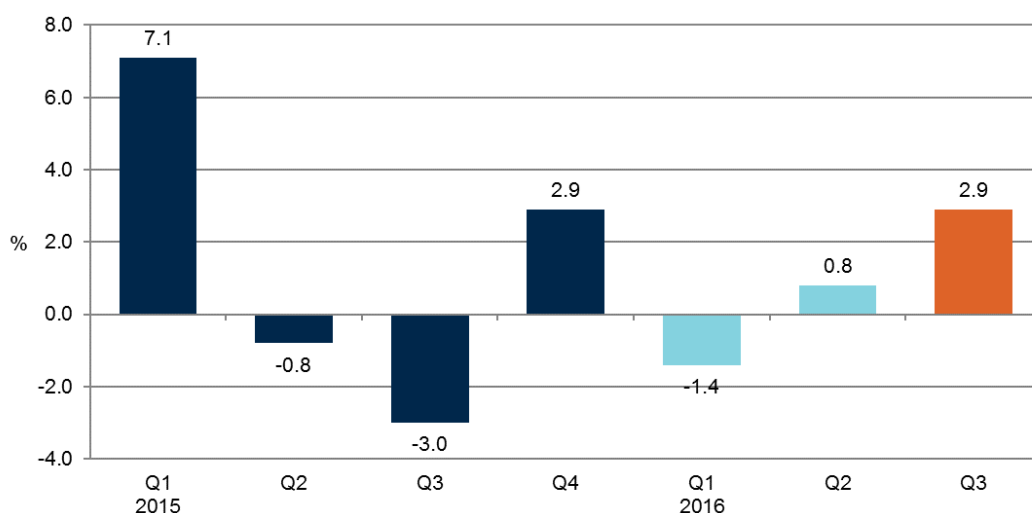
Ilmarinen's asset allocation and return

	Basic breakdown EUR mill.	%	Risk breakdown EUR mill.	%	Return %	Volatility
Fixed income investments	16,391.7	44.9	14,087.5	38.5	2.0	
Loan receivables	1,159.5	3.2	1,159.5	3.2	2.8	
Bonds	14,597.1	39.9	6,795.0	18.6	1.8	1.7
Public corporation bonds	4,626.3	12.7	3,210.6	8.8	3.7	
Other bonds	9,970.7	27.3	3,584.4	9.8	1.0	
Other money market instruments and deposits (incl. investment receivables and payables)	635.1	1.7	6,133.0	16.8	4.8	
Equities and shares	14,288.3	39.1	13,815.6	37.8	2.0	
Listed equities and shares	11,124.1	30.4	10,651.4	29.1	-0.2	15.4
Private equity investments	2,201.4	6.0	2,201.4	6.0	9.8	
Non-listed equities and shares	962.8	2.6	962.8	2.6	11.4	
Real estate investments	4,103.3	11.2	4,103.3	11.2	2.8	
Real estate investments	3,619.6	9.9	3,619.6	9.9	2.8	
Real estate funds and joint investments	483.7	1.3	483.7	1.3	3.0	
Other	1,762.9	4.8	4,664.3	12.8	5.8	
Hedge fund investments	815.7	2.2	815.7	2.2	-0.4	8.3
Commodity investments	-19.5	-0.1	-149.1	-0.4	-	
Other investments	966.7	2.6	3,997.7	10.9	11.2	
Investments total	36,546.2	100.0	36,670.6	100.3	2.3	5.3
Effect of derivatives			-124.4	-0.3		
Investments at current value	36,546.2		36,546.2	100.0		

The modified duration of bond investments is 0.1 years

The total return percentage includes income, expenses and operating expenses not allocated to any investment types

Quarterly investments Q1/2015–Q3/2016



value was (2.3) 3.1 per cent. Inflation at the end of the quarter was 0.4 per cent and the real return on Ilmarinen's investments came to 1.9 per cent in January–September. Calculated at current value, the average annual income over the last five years has been 6.7 per cent, which corresponds to an average annual real income of 5.7 per cent. Calculated from 1997, the average annual returns at current value for Ilmarinen's investments have been 5.8 per cent per annum. This corresponded to an annual real yield of 4.1 per cent.

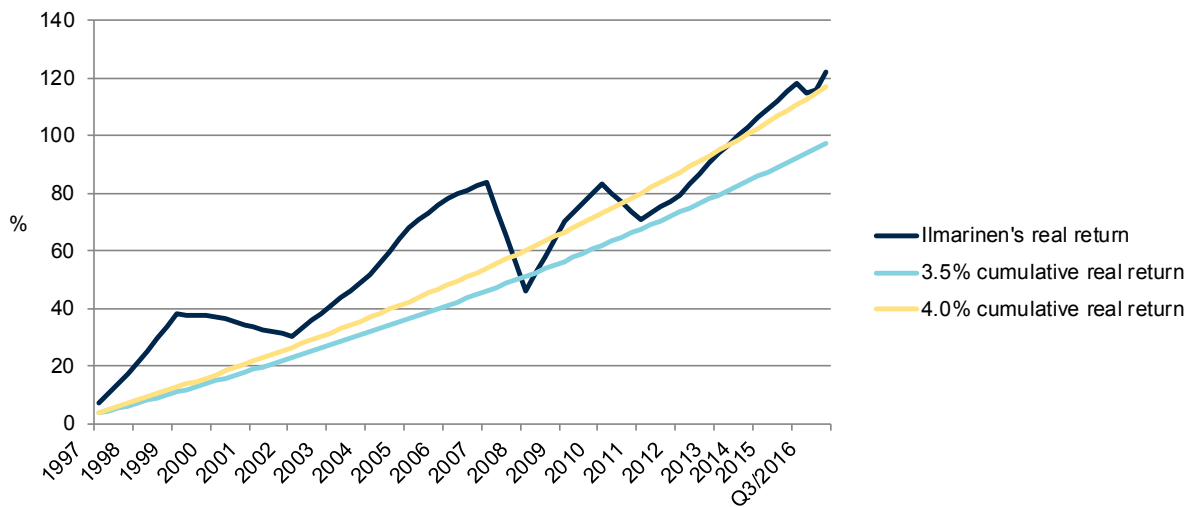
Fixed income investments accounted for a total of 44.9 (50.3) per cent of the investment portfolio and their return at current value was 2.0 (0.1) per cent. Their market value was EUR 16,392 (17,693) in all. Bonds accounted for a total of 39.9 (42.7) per cent of Ilmarinen's investment assets and their return was 1.8 (-0.4) per cent. Other money market instruments and deposits totalled EUR 635 (1,167) million and accounted for 1.7 (3.3) per cent of the investment assets. Loan receivables made up 3.2

(4.3) per cent of the investment assets, with a return of 2.8 (3.2) per cent. The modified duration of bonds was 0.1 (1.0) years.

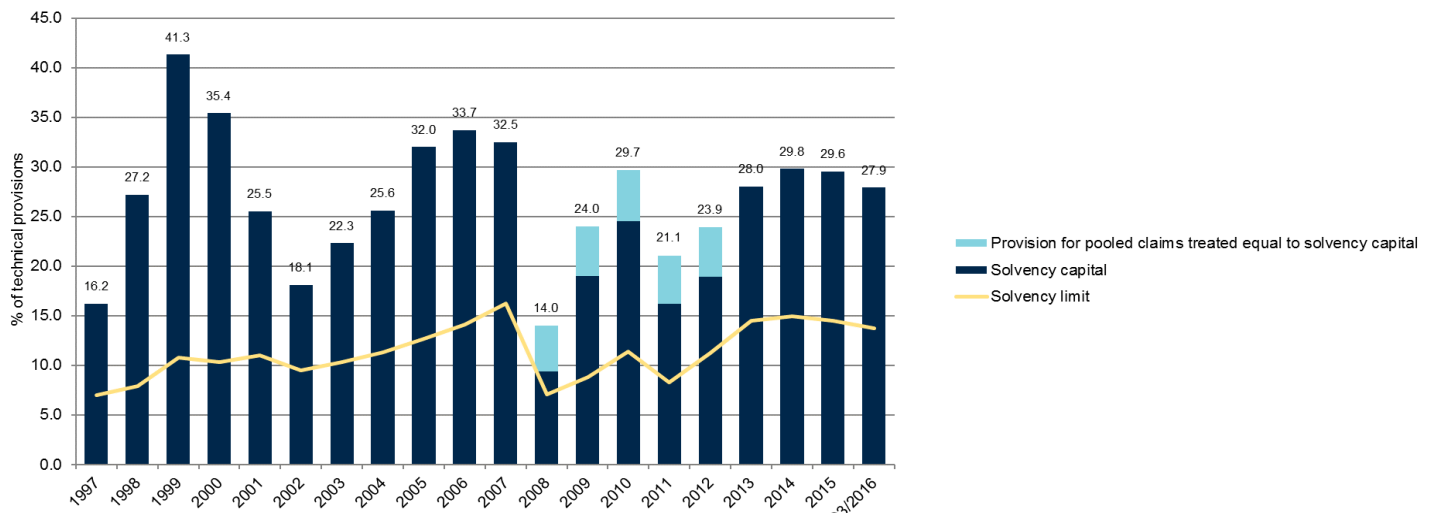
Listed and non-listed equities and shares as well as private equity investments made up 39.1 (35.7) per cent of all investments. Their value at the end of the quarter stood at EUR 14,288 (12,563) million. The amount of risk related to listed equities and shares was reduced by EUR 473 million through derivatives. The proportion of listed shares of the risk breakdown was 29.1 (25.5) per cent. Domestic equities made up 27.4 (30.3) per cent of investments in listed equities and shares. The return on equities, calculated at current value, was 2.0 (5.5) per cent. The return on listed equity investments was -0.2 (3.7) per cent.

Real estate investments at the end of the quarter stood at EUR 4,103 (3,103) million, accounting for 11.2 (8.8) per cent of all investments, of which indirect investments made up 1.3 (1.4) percentage units. The total return of the real estate invest-

Cumulative net return on investments 1997–30.9.2016



Solvency development



The solvency ratio was 2.0 times the solvency limit.

ments was 2.8 (4.3) per cent. The return on direct real estate investments was 2.8 (3.7) per cent.

Investments in absolute-return funds, commodities investments and other investments stood at 4.8 (5.2) per cent of the investment asset market value at the end of the quarter. Absolute-return funds were worth EUR 816 (633) million, and generated a return of -0.4 (10.1) per cent on capital employed.

SOLVENCY

Ilmarinen's solvency strengthened compared to the previous quarter. Solvency capital at the end of the quarter stood at EUR 8,002 (7,846) million. Ilmarinen's equity included in the solvency capital was EUR 103 (98) million, the valuation difference between current and book values EUR 5,869 (5,207), the equalisation provision EUR 906 (1,029) million and the provision for future bonuses EUR 1,160 (1,551) million.

Ilmarinen's technical provisions amounted to EUR 30,746 (30,053) million. The technical provisions include EUR 27,208 (26,389) million in actual technical provisions and a EUR 1,270

(992) million equity linked buffer, the provision for current and future bonuses and the equalisation provision.

Ilmarinen's solvency ratio on 30 September 2016 was 27.9 (28.6) per cent. The ratio of the solvency capital to the solvency limit was 2.0 (2.3).

OUTLOOK

Despite a recovery in economic development, multiple risk factors are still casting a shadow over the outlook. The greatest uncertainties are linked to the US presidential elections, a possible rise in interest rates and the problems experienced by certain European banks. These factors may cause sudden changes on the investment markets and may also impact the development of Finland's economy.

Additional information

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