

ILMARINEN'S INTERIM REPORT

1 JANUARY TO
31 MARCH 2019

RETURN ON INVESTMENTS 4.6%, UPDATED STRATEGY AIMS TO MAKE ILMARINEN MOST ATTRACTIVE WORKING LIFE PARTNER

JANUARY–MARCH PERFORMANCE IN BRIEF:

- Premiums written for January–March stood at EUR 1.5 billion. Measured in premiums written, the customer base grew by EUR 60 million. Pensions were paid in a total amount of EUR 1.5 billion to 460,000 pension recipients.
- In January–March, the return on Ilmarinen's investment portfolio was 4.6 per cent (–0.1 per cent in Q1 2018), i.e. EUR 2.1 billion. At the end of March, the market value of investments stood at EUR 47.4 billion (31 Dec 2018: EUR 46.0 billion).
- The long-term average nominal return was 5.7 per cent, corresponding to a 4.1 per cent annual real return.
- Solvency strengthened compared to the situation at the turn of the year. At the end of March, solvency capital was EUR 9,625 (8,918) million and the solvency ratio was 124.8 (123.7) per cent.
- Ilmarinen's updated strategy, which was adopted in April, outlines our objective to be the most attractive working life partner – responsibly, for you.
- The strategy emphasises responsibility, customer experience and personnel experience.

The interim report result comparison figures are the figures for the corresponding period of 2018. Unless otherwise indicated, the comparison figures for the balance sheet and other cross-sectional items are the figures for the end of 2018.

KEY FIGURES	1–3/2019	1–3/2018	2018
Premiums written, EUR mill.	1,461	1,340	5,410
Pensions paid, EUR mill.	1,517	1,448	5,712
Operating expenses covered by loading income, EUR mill.	33	35	149
Operational efficiency, %	71.5%	78.3%	83.2%
Return on investments, %	4.6%	-0.1%	-1.4%
Total profit at fair value, EUR mill.	744	-281	-1,581
Investment assets, EUR mill.	47,381	46,084	46,024
Solvency, EUR mill.	9,625	10,039	8,918
Solvency ratio	124.8%	127.8%	123.7%

ILMARINEN

PRESIDENT AND CEO JOUKO PÖLÖNEN'S REVIEW



Premiums written for January–March stood at EUR 1.5 billion. Measured in premiums written, customer acquisition was EUR 116 million in Q1 of 2019. The customer base grew by EUR 60 million during the first quarter. We paid a total of EUR 1.5 billion in pensions to 460,000 pension recipients. In January–March, we made a total of close to 10,000 new pension decisions.

In pension insurance, we transferred to the national Incomes Register at the turn of the year. Employers report their payroll information monthly to the Incomes Register, where it will be available in real time to employment pension insurance companies and other parties who require the information. Separate annual or monthly notifications to employment pension insurance companies are no longer required. The integration of Ilmarinen's systems with the Incomes Register was successful. The majority of our customers transferred successfully to the Incomes Register at the start of the year. Some customers had problems in reporting their income data early on, which resulted in a build-up of a temporary backlog in our customer service. In order to ensure a smooth transition, we contacted the customers who submitted a deficient notification and enhanced our customer communication and guidance.

The completion of the integration moved forward as planned during the beginning of the year. At the start of the year, all of our TyEL customers began to use the same online services. We adopted a new customer information system. The synergies are also beginning to show as an improvement in cost-effectiveness: loading profit rose to EUR 13.1 million and the ratio of operating expenses to expense loading components measuring operational efficiency improved year-on-year by 7 percentage points to 71.5 per cent.

A course correction occurred on the investment markets following the extensive stock price plummet at the end of last year and the equity market yielded excellent returns. In January–March, Ilmarinen's return on investments equalled 4.6 per cent, or EUR 2.1 billion. Investment assets grew to EUR 47.4 billion. Equity investments returned 8.8 per cent and fixed income investments 2.0 per cent. The long-term average annual return is 5.7 per cent, which corresponds with a real return of 4.1 per cent. The solvency ratio strengthened during the early part of the year by 1.1 percentage points to 124.8 per cent.

Ilmarinen's updated strategy was adopted in April. Our basic task is to ensure the earnings-related pension cover of our customers. Our vision is to be the most attractive working life partner – responsibly, for you. In the strategy, our long-term goals are to be one of Finland's best places to work, offer the best customer experience in the sector and grow profitably and faster than the market. In terms of the ratio of operating expenses to expense loading components and solvency, our goal is to be better than the sector average. To reach our goals, we will succeed together and reinvent ourselves courageously, we will operate with a focus on customers and promote work ability, grow profitably together with our customers, digitalise customer paths and processes and invest profitably, securely and responsibly. Our strategy emphasises responsibility, customer focus and personnel experience. Our values will remain unchanged and, based on them, we will work towards our goals openly and responsibly and achieve success through teamwork.

Another issue linked to the strategy implementation is an organisational change aimed at making Ilmarinen more customer-oriented, increasing the agility of our operating models and creating a flatter organisation while enhancing efficiency. We are also modernising our development operating model and transitioning from system development to customer-oriented business and process development. Due to the reorganisation of the company, we started up co-determination negotiations concerning the entire personnel and management, which are due for completion during the second quarter.

In March, the Finnish Centre for Pensions released a long-term calculation concerning the sustainability of the pension system, according to which the outlook for financing pensions will be stable in upcoming decades. The pension contribution can be kept below 25 per cent up until the 2050s. However, in the long term, a decline in the birth rate will cause significant pressure to raise the contribution, which we need to prepare for well in advance.

OPERATING ENVIRONMENT AND INVESTMENT MARKET

The global economy showed positive growth in Q1. Economic growth forecasts have been adjusted downwards globally, but, on the other hand, based on the indicators measuring the activity levels of economic players, the worst period of slowing growth is behind us. In particular, the stimulus measures in China and central bank reactions support the interpretation that global growth is slowing but is not developing into a downturn. Finland's economy also performed well in the first quarter, although growth is expected to remain lower than last year's. The growth in overall production and exports has continued and employment has improved further.

In the final quarter of 2018, financial market movements were governed by fears of economic growth sliding, even as far as a downturn, tightening monetary policy, political risks related to the trade war and Brexit and uncertainty concerning the earnings power of companies. Combined with weak market liquidity, the return on risky asset classes fell clearly into the red at the end of the year.

In 2019, risky asset classes have made a dramatic course correction. The central banks were expected to continue their normalisation of monetary policy, but both the US and European central banks have communicated their intention to postpone their tightening measures for the time being.

Government bond rates were on their way down in Q1,

both in the USA and Europe. The credit risk premiums on corporate bonds in relation to risk-free interest rates have shrunk significantly. Early-year equity market returns have been excellent; for instance, Finland's equity market returned some 12 per cent in the first quarter. Currency market movements have been exceptionally small.

INSURANCE OPERATIONS

At the end of March, Ilmarinen had altogether 459,777 (459,993) pensioners, to whom a total of EUR 1,517 (1,448) million was paid in benefits. Ilmarinen made a total of 9,759 (7,940) new pension decisions in January–March. New rehabilitation decisions came to 1,132 (1,172). The total number of pension decisions made was 17,410 (14,102).

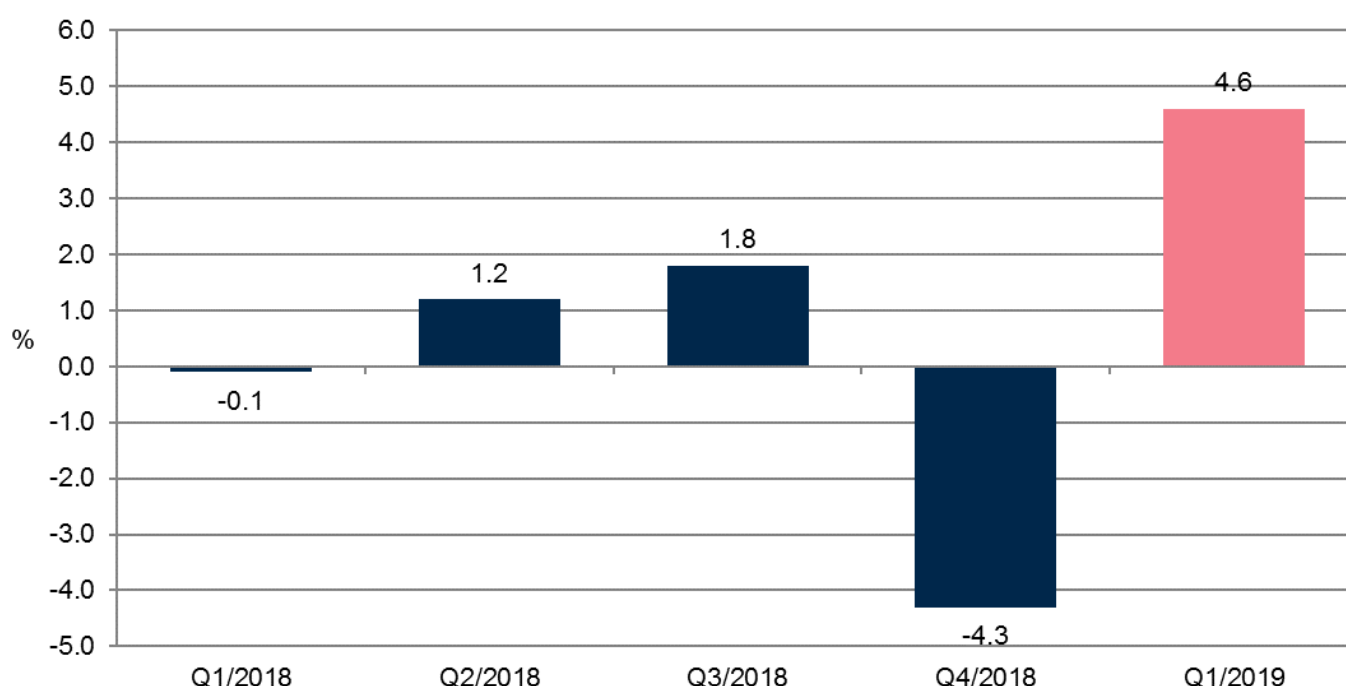
Ilmarinen's customer acquisition has developed well. Measured in premiums written, net customer acquisition amounted to approximately EUR 60 (20) million during the first quarter.

The ratio of operating expenses to expense loading components, which measures the operational efficiency of Ilmarinen's activities, improved in Q1 to 71.5 (78.3) per cent, and the loading profit rose to EUR 13 (10) million.

RETURN ON INVESTMENTS

At the end of the first quarter of 2019, Ilmarinen's total investments at current value were EUR 47,381 (46,024) million. The return on investments at current value was

QUARTERLY INVESTMENT RETURNS



4.6 (–0.1) per cent. Inflation at the end of the first quarter was 0.2 per cent and the real return on Ilmarinen's investments was 4.4 per cent in January–March. Calculated at current value, the average annual return over the last five years has been 5.3 per cent, which corresponds to an average annual real return of 4.7 per cent. Calculated from 1997, the average annual return at current value for Ilmarinen's investments has been 5.7 per cent. This corresponds to an annual real return of 4.1 per cent.

Fixed income investments accounted for a total of 34.8 (37.7) per cent of the investment portfolio and their return at current value was 2.0 (0.4) per cent. Their total market value was EUR 16,469 (17,361) million. Bonds accounted for a total of 30.0 (31.9) per cent of Ilmarinen's investment assets and their return was 2.1 (0.2) per cent. Other financial market instruments and deposits accounted for 2.7 (3.7) per cent of the investment assets and their return was 1.4 (1.4) per cent. Loan receivables made up 2.1 (2.1) per cent of the investment assets, with a return of 0.8 (0.8) per cent. The modified duration of bonds was 0.9 (0.9) years.

Listed and non-listed equity investments as well as private equity investments made up 46.2 (42.8) per cent of all investments. Their value at the end of the first quarter stood at EUR 21,903 (19,692) million. In the risk bre-

akdown, listed equities and shares accounted for 33.8 (32.5) per cent. Finnish equities made up 28.6 (26.9) per cent of investments in listed equity investments. The return on equity investments, calculated at current value, was 8.8 (–0.8) per cent. The return on listed equities and shares was 11.0 (–1.6) per cent.

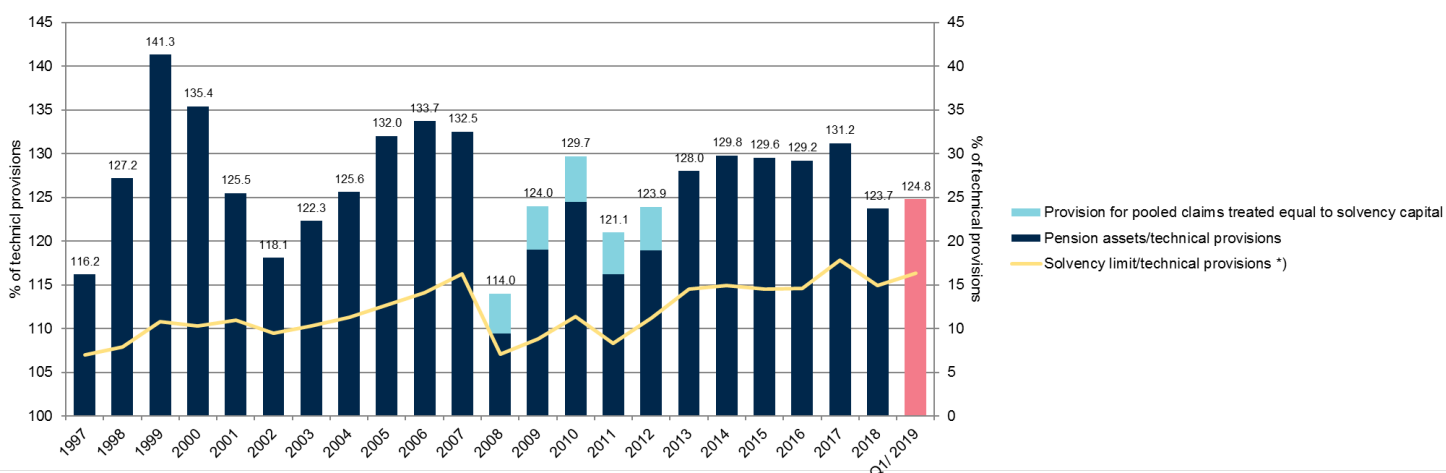
Real estate investments at the end of March stood at EUR 6,106 (6,096) million. They accounted for 12.9 (13.2) per cent of all investments, with indirect investments making up 1.2 (1.3) percentage units. The total return on real estate investments was 1.0 (1.3) per cent. The return on direct real estate investments was 1.0 (0.8) per cent.

Investments in hedge funds and commodities, and other investments made up 6.1 (6.2) per cent of the market value of the investments at the end of the first quarter. Their total return was –1.8 (–0.9) per cent and their value at the end of March was EUR 2,903 (2,875) million.

RESULT AND SOLVENCY

Ilmarinen's total financial result at current value in the first quarter was EUR 744 (–281) million. Investment income at current value was EUR 742 (–292) million, the underwriting result was EUR –11 (0) million, the loading profit EUR 13 (10) million and the other result EUR 0 (1) million.

SOLVENCY



Solvency position was 1.5 (1.6).

Pension assets according to the scale on the left and solvency limit according to the scale on the right.

For previous years, the method of presentation for 2017 is applied.

*) The solvency limit changed on 1 January 2017 with the introduction of new legislation. The amount of solvency capital remained almost unchanged, but the principles for calculating the solvency limit changed.

Consequently, the ratio of solvency capital to the solvency limit, which illustrates the solvency position, decreased.

Ilmarinen's solvency strengthened by 1.1 percentage points compared to the situation at the turn of the year. Ilmarinen's solvency capital at the end of March stood at EUR 9,625 (8,918) million. Ilmarinen's capital and reserves included in the solvency capital were EUR 176 (174) million, the valuation difference between current and book values was EUR 7,006 (5,751) million, and the provision for future bonuses was EUR 3,044 (3,041) million.

Ilmarinen's technical provisions amounted to EUR 41,846 (40,626) million. The EUR 38,777 (37,538) million in solvency technical provisions do not include the EUR 3,044 (3,041) million in provision for future bonuses or the EUR 26 (26) million in earnings-related pension contributions that remain open receivables in the basic insurance under the Self-employed Persons' Pension Act.

Ilmarinen's solvency ratio at the end of March was 124.8 (123,7) per cent. The ratio of solvency capital to the solvency limit was 1.5 (1.6).

PERSONNEL

The energy of Ilmarinen's personnel was monitored more closely in the first quarter through the Työvire pulse survey. According to the survey, the energy level was excellent in Q1 (4.1 on a scale of 1–5). The personnel's willingness to recommend their workplace (eNPS) was +25 in the survey carried out in February (on a scale of –100 to +100). However, the organisational change initiated in April has caused uncertainty among personnel. The aim of the change is to make Ilmarinen more customer-oriented, increase the agility of our operating models and create a flatter organisation while enhancing efficiency. Due to the reorganisation of the company, we started up co-determination negotiations concerning the entire personnel and management, which are due for completion during

FUTURE PROSPECTS

Economic growth is expected to continue, but slow down in 2019 in both Finland and other industrialised countries compared to 2018. Despite slower growth, employment and payroll are expected to continue to develop favourably in Finland. This will have a positive impact on pension providers' premiums written in 2019.

Companies' earnings expectations were downgraded extensively during the end of last year and the start of 2019. The ongoing earnings season shows the strong impact that uncertainty has already had on companies' earnings and how companies' outlook for the remainder of the year has changed. In terms of monetary policy, central banks seem to be expectant. More information

will be needed on the slowing of growth: will it be temporary or long term? Inflation development is still very moderate. There are several political risk factors, including Brexit, the European Parliament election and the uncertainties related to the trade war that will serve to increase market nervousness.

The key risks affecting Ilmarinen's operations and the earnings-related pension system are related to the development of employment and payroll, uncertainty in the investment market and the development of demographics and the birth rate, which has been exceptionally low in recent years.

For more information, please contact:

Jouko Pölönen, President and CEO, tel. +358 50 1282

Mikko Mursula, Chief Investment Officer, tel. +358 50 380 3016

Jaakko Kiander, Chief Communications Officer, tel. +358 50 583 8599

ATTACHMENTS

KEY FIGURES IN BRIEF	1.1.–31.3.2019	1.1.–31.3.2018	1.1.–31.12.2018
Premiums written, EUR mill.	1,461.2	1,340.1	5,409.9
Net return on investments at fair value, EUR mill.	2,098.9	-31.8	-641.6
ROCE, %	4.6	-0.1	-1.4
	31.3.2019	31.3.2018	31.12.2018
Technical provisions, EUR mill.	41,846.4	39,398.8	40,625.7
Solvency capital, EUR mill. ¹⁾	9,624.5	10,039.3	8,917.7
in relation to solvency limit	1.5	1.8	1.6
Pension assets, EUR mill. ²⁾	48,438.5	46,115.0	46,473.8
% of technical provision	124.8	127.8	123.7
TyEL payroll, EUR mill. ³⁾	21,820.0	20,400.0	20,568.0
YEL payroll, EUR mill. ³⁾	1,707.5	1,680.0	1,682.5

1) Calculated according to the regulations in force at the time (the same principle also concerns other solvency key figures)

2) Technical provisions + solvency capital in accordance with section 11, item 10, of the Ministry of Social Affairs and Health's decree 614/2008. Until 2016 technical provisions + valuation differences.

3) Estimated total annual earnings and payroll for the insured.

RESULT ANALYSIS, EUR MILL.	1.1.–31.3.2019	1.1.–31.3.2018	1.1.–31.12.2018
Source of profit			
Technical underwriting result	-11.1	0.4	-40.5
Return on investments at fair value	741.8	-291.8	-1,592.1
+ Net return on investments at fair value	2,098.9	-19.9	-641.6
- Return requirement on technical provision	-1,357.1	-271.9	-950.5
Loading profit	13.1	9.6	29.9
Other profit	0.0	0.8	21.6
Total result	743.8	-281.1	-1,581.0

SOLVENCY	1.1.–31.3.2019	1.1.–31.3.2018	1.1.–31.12.2018
Solvency limit, EUR mill.	6,313.8	5,733.1	5,592.0
Maximum solvency capital, EUR mill.	18,941.4	17,199.4	16,775.9
Solvency capital, EUR mill.	9,624.5	10,039.3	8,917.7
Solvency ratio, % ¹⁾	124.8	127.8	123.7
Solvency position ²⁾	1.5	1.8	1.6

1) Pension assets in relation to technical provisions as referred to in Section 11, item 10, of the Ministry of Social Affairs and Health's decree 614/2008.

All years are presented according to the new presentation method

2) Solvency capital in relation to solvency limit

BREAKDOWN OF INVESTMENTS AT CURRENT VALUE	BASIC BREAKDOWN						RISK BREAKDOWN					
	Q1/2019		Q1/2018		2018		Q1/2019		Q1/2018		2018	
	EUR mill.	%	EUR mill.	%	EUR mill.	%	EUR mill.	%	EUR mill.	%	EUR mill.	%
Fixed income investments	16,469.1	34.8	18,522.2	40.2	17,360.7	37.7	14,671.3	31.0	13,319.3	28.9	13,853.5	30.1
Loan receivables	976.6	2.1	948.6	2.1	954.0	2.1	976.6	2.1	948.6	2.1	954.0	2.1
Bonds	14,198.8	30.0	16,349.7	35.5	14,695.0	31.9	6,812.7	14.4	7,503.1	16.3	3,652.1	7.9
Other money market instruments and deposits	1,293.7	2.7	1,223.9	2.7	1,711.7	3.7	6,882.0	14.5	4,867.6	10.6	9,247.3	20.1
Equities and shares	21,902.7	46.2	19,533.5	42.4	19,692.1	42.8	20,824.9	44.0	19,960.1	43.3	19,632.3	42.7
Listed equities and shares	17,108.7	36.1	15,342.8	33.3	14,997.4	32.6	16,030.8	33.8	15,769.4	34.2	14,937.5	32.5
Private equity investments	3,858.1	8.1	3,150.8	6.8	3,752.3	8.2	3,858.1	8.1	3,150.8	6.8	3,752.3	8.2
Non-listed equities and shares	935.9	2.0	1,039.9	2.3	942.4	2.0	935.9	2.0	1,039.9	2.3	942.4	2.0
Real estate investments	6,105.5	12.9	5,818.9	12.6	6,096.4	13.2	6,122.7	12.9	5,818.9	12.6	6,113.5	13.3
Direct real estate investments	5,516.8	11.6	5,187.2	11.3	5,508.0	12.0	5,516.8	11.6	5,187.2	11.3	5,508.0	12.0
Real estate funds and joint investments	588.7	1.2	631.6	1.4	588.4	1.3	605.8	1.3	631.6	1.4	605.5	1.3
Other investments	2,903.4	6.1	2,209.0	4.8	2,874.8	6.2	5,761.9	12.2	6,985.3	15.2	6,424.8	14.0
Hedge fund investments	2,093.6	4.4	1,242.6	2.7	2,000.2	4.3	2,093.6	4.4	1,242.6	2.7	2,000.2	4.3
Commodity investments	1.8	0.0	2.7	0.0	20.1	0.0	30.2	0.1	71.4	0.2	99.8	0.2
Other investments	808.0	1.7	963.7	2.1	854.6	1.9	3,638.1	7.7	5,671.3	12.3	4,324.8	9.4
Investments at current value total	47,380.8	100.0	46,083.5	100.0	46,024.0	100.0	47,380.8	100.0	46,083.5	100.0	46,024.0	100.0
Includes the effect of derivatives							1,993.4		2,986.8		-181.7	

The modified duration of bond investments is 0.9 years

NET ROCE OF INVESTMENTS	NET ROCE OF INVESTMENTS, EUR MILL.		CAPITAL EMPLOYED, EUR MILL.		ROCE, %	
	1.1.–31.3.2019	1.1.–31.3.2018	1.1.–31.3.2019	1.1.–31.3.2018	1.1.–31.3.2019	1.1.–31.3.2018
Fixed income investments	331.6	16,689.8	2.0	0.4	0.0	
Loan receivables	8.0	948.4	0.8	0.8	3.4	
Bonds	304.7	14,351.2	2.1	0.2	-0.3	
Other money market instruments and deposits	18.9	1,390.2	1.4	1.4	1.3	
Equities and shares	1,769.1	20,159.5	8.8	-0.8	-3.6	
Listed equities and shares	1,692.7	15,438.9	11.0	-1.6	-9.7	
Private equity investments	48.2	3,800.2	1.3	3.1	18.0	
Non-listed equities and shares	28.2	920.3	3.1	0.3	28.8	
Real estate investments	60.7	6,074.4	1.0	1.3	6.0	
Direct real estate investments	52.5	5,488.2	1.0	0.8	5.3	
Real estate funds and joint investments	8.2	586.2	1.4	5.3	11.8	
Other investments	-51.5	2,867.2	-1.8	-0.9	-10.1	
Hedge fund investments	57.3	1,963.0	2.9	-0.4	2.9	
Commodity investments	4.8	0.3	1,785.5	-60.8	151.9	
Other investments	-113.6	903.9	-12.6	-2.9	-26.6	
Investments total	2,109.8	45,790.9	4.6	-0.1	-1.3	
Unallocated income, costs and operating expenses	-10.9	0.0	0.0	0.0	0.0	
Investment return at current value total	2,098.9	45,790.9	4.6	-0.1	-1.4	