

ILMARINEN'S INTERIM REPORT

**1 JANUARY TO
30 SEPTEMBER 2019**

STRONG PERFORMANCE IN INVESTMENT OPERATIONS, COST-EFFECTIVENESS AND GROWTH CONTINUED

JANUARY–SEPTEMBER PERFORMANCE IN BRIEF:

- Ilmarinen's third-quarter total result grew to EUR 1,324 million (EUR -211 million in 1 Jan–30 Sep 2018), thanks to strong investment returns. Operating expenses decreased, loading profit improved to 42 (25) million and the ratio of operating expenses to expense loading components to 71 (82) per cent.
- Premiums written in January–September stood at EUR 4.3 billion (EUR 4.0 billion). Measured in premiums written, the customer base grew by EUR 180 million (EUR 78 million). A total of EUR 4.5 billion (EUR 4.2 billion) in pensions was paid to 460,000 pension recipients.
- In January–September, the return on Ilmarinen's investment portfolio was 8.2 per cent (3.0 per cent in 1 Jan–30 Sep 2018), i.e. EUR 3.7 billion (EUR 1.4 billion). At the end of September, the market value of investments stood at EUR 49.1 billion (31 Dec 2018: EUR 46.0 billion).
- The long-term average nominal return on investments was 5.7 per cent, corresponding to a 4.2 per cent annual real return.
- Solvency strengthened. At the end of September, solvency capital was EUR 10,105 (8,918) million and the solvency ratio was 125.4 (123.7) per cent.

KEY FIGURES	1–9/2019	1–9/2018	2018
Premiums written, EUR mill.	4,347	4,031	5,410
Pension expenditure, EUR mill.	4,519	4,243	5,712
Activity-based operating expenses, EUR mill.	101	110	149
Operational efficiency, EUR mill.	42	25	30
Operational efficiency, %	71	82	83
Return on investment, %	8.2	3.0	-1,4
Total result at current value, EUR mill.	1,324	-211	-1,581
Value of investment assets, EUR mill.	49,105	46,975	46,024
Solvency capital, EUR mill.	10,105	10,044	8,918
Solvency ratio	125.4	127.0	123.7

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.

ILMARINEN

PRESIDENT AND CEO JOUKO PÖLÖNEN'S REVIEW



“The strong performance earlier in the year continued in the third quarter, and the total return increased to 1.3 billion, thanks to the good investment return. In January–September, Ilmarinen’s return on investments was 8.2 per cent, or EUR 3.7 billion, and investment assets rose to a record EUR 49.1 billion. The customer base grew, costs decreased and cost-effectiveness improved further.

Premiums written in January–September amounted to EUR 4.3 billion. The amount of premiums written transferred to Ilmarinen from other employment pension insurance companies amounted to EUR 55 million, and sales of new insurance were also successful. Measured in premiums written, net customer acquisition was EUR 180 million. We paid a total of EUR 4.5 billion in pensions to 460,000 pension recipients. We focussed on improving the customer experience and boosting the efficiency of our processes, which was reflected in the faster processing times for pension applications.

In January–September, we made close to 27,000 new pension decisions. The number of disability pensions continued to grow, with disability pension applications increasing 3.5 per cent on the previous year. We paid more than EUR 370 million in disability pensions. We aim to prevent disability and lengthen careers by supporting our client companies in work ability management and through vocational rehabilitation. In January–September, we carried out more than 1,800 projects aimed at preventing the disability risk together with our client companies. Our financial support for these projects amounted to more than EUR 2 million. We made 3,300 decisions on rehabilitation. In September, we organised the ‘Happiest Entrepreneur

of Finland’ campaign for the seventh time. The campaign aims to shine a spotlight on entrepreneurs’ work ability and well-being. A total of 132,000 votes were registered in the campaign, and among 1,300 candidates, the winner of the title ‘Happiest Entrepreneur of Finland’ was fishing business entrepreneur Olli Ojamo of Merikarvia.

Investment returns developed well in all main asset classes. Share prices rose in Europe and in the US. Despite the slowdown in economic growth, expectations of a persistent very low interest rate level have supported the markets. Ilmarinen’s investments yielded a return of 2.2 per cent in the third quarter, and calculated from the start of the year, 8.2 per cent. Investment assets grew to EUR 49.1 billion. At 14.4 per cent, equity investments generated the best return. The return on fixed income investments was 4.2 per cent, and on real estate investments 3.4 per cent. The long-term average annual return is 5.7 per cent, which corresponds with a real return of 4.2 per cent. Solvency capital increased to EUR 10.1 billion, and the solvency ratio strengthened to 125.4 per cent.

Our long-term sustainability efforts in real estate investments continued. The Mall of Tripla, which opened its doors in Helsinki’s Pasila district in October, received the highest rating level of LEED environmental certification, platinum. Sello Shopping Centre in Espoo became the first Finnish shopping centre to reach carbon neutrality, and it was named the shopping centre of the year. Helsinki’s REDI Shopping Centre won first place in its category in the European Parking Awards, receiving praise for, among other things, the high number of electric car charging stations. Ilmarinen is part owner of the shopping centres. Among our older properties, the Postitalo and Grönqvist buildings in Helsinki’s city centre received LEED environmental certification.

Synergies from last year’s merger are evident as an improvement in cost-effectiveness: operating expenses decreased, loading profit rose to EUR 42 million and the ratio of operating expenses to expense loading components, a measure of cost-effectiveness, improved year-on-year by 11 percentage points, to 71 per cent. Cost-effectiveness directly benefits our customers: we give the loading profit back to our client companies in full in the form of client bonuses.

In September, Statistics Finland published its latest population projection, according to which the reduction in the number of working-age people would accelerate already in the 2040s due to a drop in the birth rate. This is

a challenge for the pension system's financing in the long term. At the same time, the Finnish Government is struggling to meet its 75 per cent employment rate target. In this situation, attention should be focussed not only on creating new jobs, but also on work ability and on keeping the current working-age population at work and capable of working. Last year, approximately 20,000 people retired on disability pension, and the figure continues to grow. If this development continues, more than 80,000 people of working age will exit the labour market during the government's term of office. Joint efforts to maintain work ability and prevent the disability risk are required from employees, employers, pension institutions and society as a whole."

OPERATING ENVIRONMENT AND INVESTMENT MARKET

Expectations of slower economic growth heightened in early autumn. After a long period of expansion, the economic cycle is now showing signs of decline. Germany's economic outlook, in particular, has deteriorated rapidly, especially as a consequence of the automotive industry's decline in demand. Also in the US, expectations of continued economic growth have diminished, and the easing of monetary policy is expected to continue. The United Kingdom's withdrawal from the European Union also increases economic uncertainty in Europe. Inflation expectations have remained low, and expectations of continued very light monetary policy have increased further. The US–China trade war has contributed to the uncertainty in the financial markets. Although recent events have created faith that an easing of tensions is in store, the uncertainty has at times overshadowed the performance of the financial markets. China's economic growth has slumped.

Although Finland's economy has grown in the first nine months of the year, growth is expected to be slower than it has been in recent years. According to the Finnish Centre for Pensions' latest economic forecast, the employee payroll is projected to grow by 3.7 per cent in 2019, while the year-on-year change in the GDP will remain at 1.2 per cent. Employment and payroll development is a key factor in terms of the financing of the pension system. Recent concerns over the sustainability of the pension system's financing have been exacerbated by the weak development of the birth rate.

The interest rate level has continued to decline in Europe. Germany's 10-year government bond rate, for instance, fell to -0.6 per cent during the third quarter. The European equity markets rose slightly during the third quarter. Despite the slowdown in economic growth, expectations of a persistent very low interest rate level have supported the markets. From the start of the year until the end of September, share prices clearly rose both in Europe and in the US. The increase was more than 15 per cent.

INSURANCE OPERATIONS

Premiums written in January–September stood at EUR 4.3 billion (EUR 4.0 billion). The customer base has developed well, and the number of insurance policies at the end of September totalled 152,873 (147,813). The number of TyEL insurance policies was 76,780 (73,370). Customer acquisition also developed favourably. Measured in premiums written, net customer acquisition in the third quarter was EUR 180 (78) million. Customer retention was close to 96 per cent on an annual level.

At the end of September, Ilmarinen had altogether 459,551 (459,993) pensioners, to whom a total of EUR

NEW PENSION DECISIONS 1 JANUARY–30 SEPTEMBER 2019

	1–9/2019	1–9/2018	Change, %
Old-age pensions	10,158	9,767	4
Early old-age pensions	2,593	2,149	21
Disability pensions	7,064	6,183	14
Survivors' pensions	3,639	3,725	-2
Right to rehabilitation	3,321	3,287	1
Years-of-service pensions	12	12	0
New pension decisions, total	26,787	25,123	7

4,519 (4,243) million was paid in benefits. Ilmarinen made a total of 26,787 (25,123) new pension decisions in January–September. The number of disability pension applications increased by approximately 14 per cent from the comparison period. Although some of the growth can be attributed to the improvement in application processing, the number of applications has also increased. New rehabilitation decisions came to 3,321 (3,287). The total number of pension decisions made was 49,662 (41,858).

RETURN ON INVESTMENTS

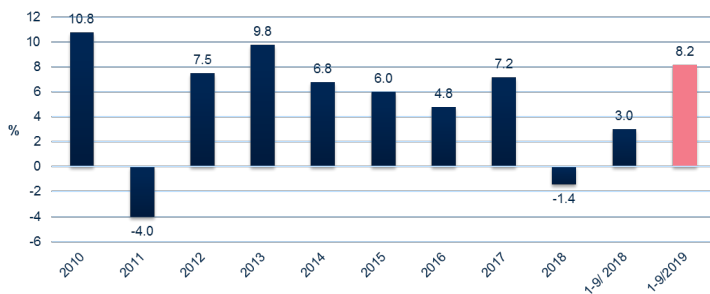
At the end of the third quarter of 2019, Ilmarinen's total investments at current value amounted to EUR 49,105 million (EUR 46,024 million). The return on investments at current value was (8.2) 3.0 per cent. Inflation at the end of September was 0.8 per cent, and the real return on Ilmarinen's investments came to 7.4 per cent in January–September. Calculated at current value, the average annual return over the last five years has been 5.1 per cent, which corresponds to an average annual real return of 4.6 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 4.2 per cent.

Fixed income investments accounted for a total of 33.6 (37.7) per cent of the investment portfolio and their return at current value was 4.2 (0.6) per cent. Their market value totalled EUR 16,509 (17,361) million. Bonds accounted for a total of 29.0 (31.9) per cent of Ilmarinen's investment assets and their return was 4.5 (0.5) per cent. Other financial market instruments and deposits accounted for 2.6 (3.7) per cent of the investment assets, and their return was 3.0 (0.2) per cent. Loan receivables made up 2.1 (2.1) per cent of the investment assets, with a return of 2.8 (2.6) per cent. The modified duration of bonds was 2.0 (0.8) years.

Listed and unlisted equities and shares as well as private equity investments made up 47.2 (42.8) per cent of all investments. Their value at the end of September stood at EUR 23,178 (19,692) million. In the risk breakdown, listed equities and shares accounted for 36.6 (32.5) per cent. Finnish equities made up 29.3 (26.8) per cent of investments in listed equity investments. The return on equity investments, calculated at current value, was 14.4 (6.0) per cent. The return on listed equity investments was 15.3 (4.1) per cent.

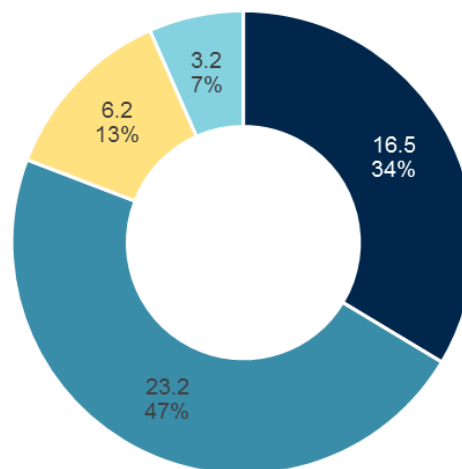
Real estate investments at the end of September stood at EUR 6,174 (6,096) million. They accounted

RETURN ON INVESTMENTS 2011–Q3/2019



BREAKDOWN OF INVESTMENTS

30 September 2019, €49.1 bn



- Fixed-income
- Equities and shares
- Real estate investments
- Other investments

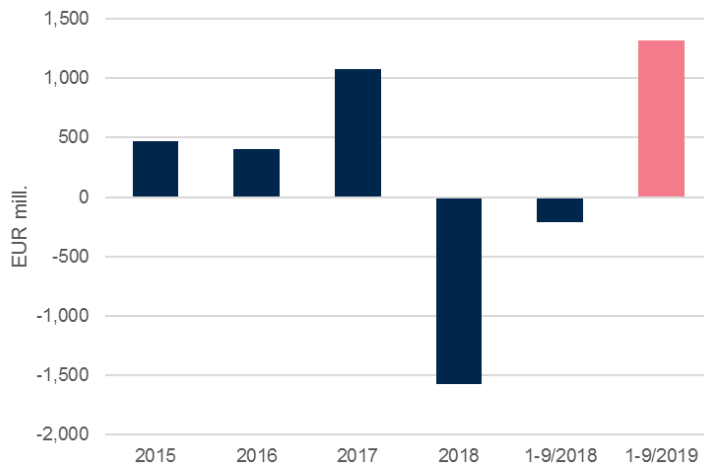
for 12.6 (13.2) per cent of all investments, with indirect investments making up 1.1 (1.3) percentage points. The total return on real estate investments was 3.4 (3.9) per cent. The return on direct real estate investments was 3.5 (3.3) per cent.

Investments in hedge funds and commodities and other investments made up 6.6 (6.2) per cent of the market value of the investments at the end of September. Their total return was -1.1 (-5.4) per cent, and their value at the end of September was EUR 3,245 (2,875) million.

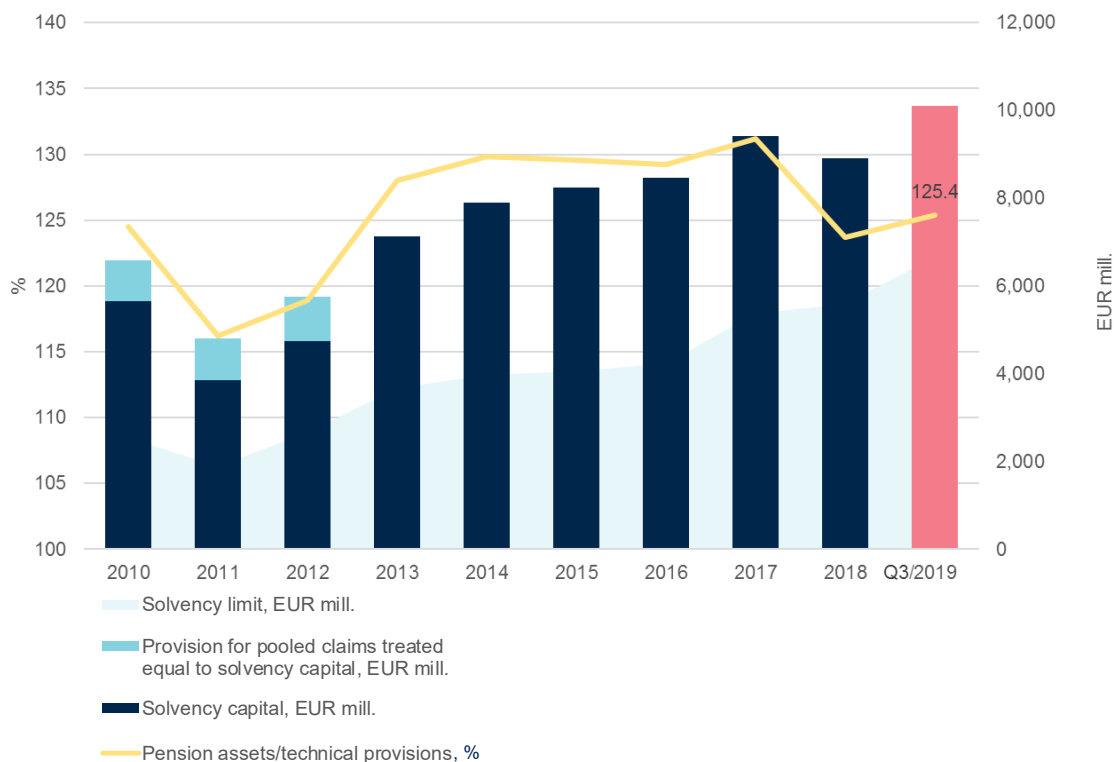
RESULT AND SOLVENCY

Ilmarinen's total financial result at current value in the first nine months of the year was EUR 1,324 (-211) million. Investment income at current value was EUR 3,739 (1,373) million, the underwriting result was EUR -41 (-21) million, and the loading profit was EUR 42 (25) million. The ratio of operating expenses to expense loading components, a measure of cost-effectiveness, improved to 71 (82) per cent in the first three quarters of the year.

TOTAL RESULT, EUR mill.



SOLVENCY 2010–Q3/2019



Solvency strengthened by 1.7 percentage points compared to the situation at the turn of the year. Solvency capital at the end of September stood at EUR 10,105 (8,918) million. Capital and reserves included in the solvency capital were EUR 181 (174) million, the valuation difference between current and book values was EUR 8,391 (5,751) million, and the provision for future bonuses was EUR 1,581 (3,041) million.

The technical provisions amounted to EUR 42,722 (40,626) million. The EUR 39,767 (37,556) million in solvency technical provisions do not include the provision for future bonuses or the earnings-related pension contributions that remain open receivables in the basic insurance under YEL.

The solvency ratio at the end of September was 125.4 (123.7) per cent. The ratio of solvency capital to the solvency limit was 1.5 (1.6).

PERSONNEL

The energy level of Ilmarinen's personnel was monitored more closely this year through the Työvire pulse survey. According to the surveys, our energy level is excellent (4.0 on a scale of 1–5). Personnel's willingness to recommend their workplace (eNPS) improved to +16 in the survey that was carried out in August (on a scale of –100 to +100).

Our renewed organisation started on 1 July, and in the third quarter we have focussed on establishing new roles and operating methods. In line with our strategy, our goal is to create an agile and inspiring work community and to promote a culture of continuous improvement and renewal. To support this, we arranged an 'afternoon of action' for all personnel in August, and at our 'supervisor days' in September, we came up with ideas for putting our strategy into action and developing our operating culture. We launched a monthly employee award to highlight successes. We reinforced our team spirit by participating in the Finnish Red Cross's Chain Reaction fundraising campaign and the Kilometrikisa cycling competition, in which our employees cycled a total of 78,000 kilometres during the summer. By supporting physically active means of getting to work, we encourage our employees to look after their well-being and at the same time reduce emissions.

FUTURE PROSPECTS

Economic growth is expected to continue but slow down both in Finland and in other industrialised countries. The International Monetary Fund (IMF) downgraded its global growth outlook to 3.0 per cent for

this year, which would be the lowest growth rate since the financial crisis. In Finland, the Ministry of Finance projected growth of 1.5 per cent for this year, and 1.0 per cent for next year.

The slowdown in economic growth and, in particular, companies' earnings development hold a key position in terms of assessing the future outlook. It is likely that companies' earnings development will weaken in the near future as global economic growth wanes. The low interest rate level will support the financial markets also in the near future. Monetary policy will remain light in the euro zone, but the chances of extremely light monetary policy contributing to a rise in share prices are beginning to be limited. The slowdown in China's economic growth will weaken global demand.

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.

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TABLES

KEY FIGURES IN BRIEF	1.1.–30.9.2019	1.1.–30.9.2018	1.1.–31.12.2018
Premiums written, EUR mill.	4,347	4,031	5,410
Net return on investments at fair value, EUR mill.	3,739	1,373	-642
ROCE, %	8.2	3.0	-1.4
	30.9.2019	30.9.2018	31.12.2018
Technical provisions, EUR mill.	42,722	37,184	40,626
Solvency capital, EUR mill.	10,105	10,044	8,918
in relation to solvency limit	1.5	1.6	1.6
Pension assets, EUR mill. ²⁾	49,871	47,228	46,474
solvency capital (solvency ratio)	125.4	127.0	123.7
TyEL payroll, EUR mill. ³⁾	22,031	15,426	20,568
YEL payroll, EUR mill. ³⁾	1,674	1,262	1,682

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 TyEL and YEL payroll for the whole year.

SOLVENCY	30.9.2019	30.9.2018	31.12.2018
Solvency limit, EUR mill.	6,655	6,101	5,592
Maximum solvency capital, EUR mill.	19,964	18,304	16,776
Solvency capital before equalisation provision, EUR mill.	10,105	10,044	8,918
Solvency capital (solvency ratio) % ¹⁾	125.4	127.0	123.7
Solvency position ²⁾	1.5	1.6	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.

RESULT ANALYSIS, EUR mill.	1.1.–30.9.2019	1.1.–30.9.2018	1.1.–31.12.2018
Source of profit			
Technical underwriting result	-40.8	-21.3	-40.5
Return on investments at fair value	1,322.0	-214.6	-1,592.1
+ Net return on investments at fair value	3,739.1	1,372.6	-641.6
- Return requirement on technical provision	-2,417.0	-1,587.2	-950.5
Loading profit	42.2	24.9	29.9
Other profit	0.4	0.0	21.6
Total result	1,323.7	-211.0	-1,581.0

BREAKDOWN OF INVESTMENTS (CURRENT VALUE)	BASIC BREAKDOWN						RISK BREAKDOWN					
	30.9.2019		30.9.2018		31.12.2018		30.9.2019		30.9.2018		31.12.2018	
	EUR mill.	%	EUR mill.	%	EUR mill.	%	EUR mill.	%	EUR mill.	%	EUR mill.	%
Fixed-income investments total	16,508.5	33.6	17,522.4	37.3	17,360.7	12 772,0	26.0	40.0	30.5	30.5		
Loan receivables ¹⁾	1,008.8	2.1	975.1	2.1	954.0	1 008,8	2.1	2.1	2.1	2.1		
Bonds	14,230.4	29.0	15,339.8	32.7	14,695.0	9 634,7	19.6	12.8	7.9	7.9		
Other money market instruments and deposits ¹⁾²⁾	1,269.4	2.6	1,207.5	2.6	1,711.7	2 128,6	4.3	25.2	20.5	20.5		
Equities and shares total	23,178.2	47.2	20,910.6	44.5	19,692.1	23 025,4	46.9	45.1	42.7	42.7		
Listed equities and shares ³⁾	18,115.7	36.9	16,567.0	35.3	14,997.4	17 962,9	36.6	35.9	32.5	32.5		
Private equity investments ⁴⁾	4,191.0	8.5	3,580.5	7.6	3,752.3	4 191,0	8.5	7.6	8.2	8.2		
Non-listed equities and shares ⁵⁾	871.5	1.8	763.1	1.6	942.4	871,5	1.8	1.6	2.0	2.0		
Real estate investments total	6,173.9	12.6	6,009.3	12.8	6,096.4	6 192,1	12.6	12.8	13.3	13.3		
Direct real estate investments	5,621.3	11.4	5,415.9	11.5	5,508.0	5 622,2	11.4	11.5	12.0	12.0		
Real estate funds and joint investments	552.7	1.1	593.4	1.3	588.4	569,8	1.2	1.3	1.3	1.3		
Other investments total	3,244.6	6.6	2,532.6	5.4	2,874.8	5 458,9	11.1	14.4	14.0	14.0		
Hedge fund investments ⁶⁾	2,420.9	4.9	1,732.2	3.7	2,000.2	2 420,9	4.9	3.7	4.3	4.3		
Commodity investments	30.7	0.1	-2.1	0.0	20.1	91,9	0.2	0.0	0.2	0.2		
Other investments ⁷⁾	793.0	1.6	802.5	1.7	854.6	2 946,2	6.0	10.7	9.4	9.4		
Investments total	49,105.3	100.0	46,974.8	100.0	46,024.0	47 448,4	96.6	112.4	100.4	100.4		
Effect of derivatives						1 656,9	3.4	-12.4	-0.4	-0.4		
Investment return at current value total	49,105.3	100.0	46,974.8	100.0	46,024.0	49 105,3	100.0	100.0	100.0	100.0		

The modified duration of bond investments was 2 year.

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| <p>1) Includes accrued interest.</p> <p>2) Includes cash at bank and in hand and consideration receivables and debt.</p> <p>3) Also includes mixed funds unless they can be allocated elsewhere.</p> <p>4) Includes private equity funds, mezzanine funds and infrastructure investments.</p> | <p>5) Also includes unlisted real estate investment companies.</p> <p>6) Includes all types of hedge fund units regardless of the fund's strategy.</p> <p>7) Includes items that cannot be allocated to other investment classes.</p> |
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NET ROCE OF INVESTMENTS	NET INVESTMENT RETURN MARKET VALUE ⁸⁾		CAPITAL EMPLOYED ⁹⁾		ROCE, %		ROCE, %		ROCE, %	
	30.9.2019		30.9.2019		30.9.2019		30.9.2018		31.12.2018	
	EUR mill.	%	EUR mill.	%	%	%	%	%	%	%
Fixed-income investments total	687.9	1.5	16,236.2	34.6	4.2	0.6	0.0			
Loan receivables ¹⁾	26.5	0.1	940.9	2.0	2.8	2.6	3.4			
Bonds	620.0	1.3	13,927.9	29.9	4.5	0.5	-0.3			
Other money market instruments and deposits ¹⁾²⁾	41.3	0.1	1,367.5	2.9	3.0	0.2	1.3			
Equities and shares total	2,906.9	5.9	20,196.0	43.1	14.4	6.0	-3.6			
Listed equities and shares ³⁾	2,381.8	4.8	15,547.3	33.3	15.3	4.1	-9.7			
Private equity investments ⁴⁾	475.7	0.9	3,771.0	8.2	12.6	14.1	18.0			
Non-listed equities and shares ⁵⁾	49.4	0.1	877.7	1.9	5.6	12.6	28.8			
Real estate investments total	205.9	0.4	6,027.0	13.0	3.4	3.9	6.0			
Direct real estate investments	190.9	0.4	5,462.9	11.8	3.5	3.3	5.3			
Real estate funds and joint investments	15.0	0.0	564.2	1.2	2.7	9.4	11.8			
Other investments total	-33.3	-0.1	3,077.1	6.6	-1.1	-5.4	-10.1			
Hedge fund investments ⁶⁾	162.7	0.3	2,120.2	4.5	7.7	3.7	2.9			
Commodity investments	8.9	0.0	4.8	0.0	185.8	-73.1	151.9			
Other investments ⁷⁾	-204.9	-0.4	952.1	2.0	-21.5	-18.8	-26.6			
Investments total	3,767.4	7.6	45,536.4	97.6	8.3	3.0	-1.3			
Unallocated income, costs and operating expenses	-28.3	-0.1	0.0	0.0	0.0	0.0	0.0			
Investment return at current value total	3,739.1	7.6	45,536.4	97.6	8.2	3.0	-1.4			

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| <p>1) Includes accrued interest.</p> <p>2) Includes cash at bank and in hand and consideration receivables and debt.</p> <p>3) Also includes mixed funds unless they can be allocated elsewhere.</p> <p>4) Includes private equity funds, mezzanine funds and infrastructure investments.</p> <p>5) Also includes unlisted real estate investment companies.</p> | <p>6) Includes all types of hedge fund units regardless of the fund's strategy.</p> <p>7) Includes items that cannot be allocated to other investment classes.</p> <p>8) Change in market value between the beginning and end of the reporting period less cash flows during the period. Cash flow means the difference between purchases/costs and sales/revenues.</p> <p>9) Capital employed = market value at the beginning of the reporting period + daily/monthly time-weighted cash flows.</p> |
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