

ILMARINEN JANUARY— MARCH 2020

Interim Report 1 January–31 March 2020

ILMARINEN

PAREMPAA
ELÄMÄÄ,
OLE HYVÄ.

ILMARINEN IN JANUARY–MARCH: RETURN ON INVESTMENTS -7.5%, COST- EFFECTIVENESS IMPROVED FURTHER

- Ilmarinen's total result was EUR 2.6 billion negative on account of the weak return on investments due to the coronavirus.
- Cost-effectiveness improved further. Operating expenses decreased by EUR 4 million, loading profit was EUR 13 million and the ratio of operating expenses to expense loading components improved to 69 per cent.
- Q1 premiums written were on a par with the previous year at EUR 1.5 billion. They are expected to decline especially in Q2.
- Return on investments was -7.5 per cent. Investment assets declined to EUR 46.4 billion.
- Due to the negative return on investments, solvency capital decreased to EUR 8.1 billion and the solvency ratio to 121 per cent.
- The Finnish economy is expected to slide into a deep recession, as a result of which unemployment is expected to rise and the payroll and premiums written are expected to decline substantially. The declining payroll will also reduce Ilmarinen's loading income and thus the loading profit and the ratio of operating expenses to expense loading components during the remainder of the year.





JANUARY— MARCH 2020 IN FIGURES

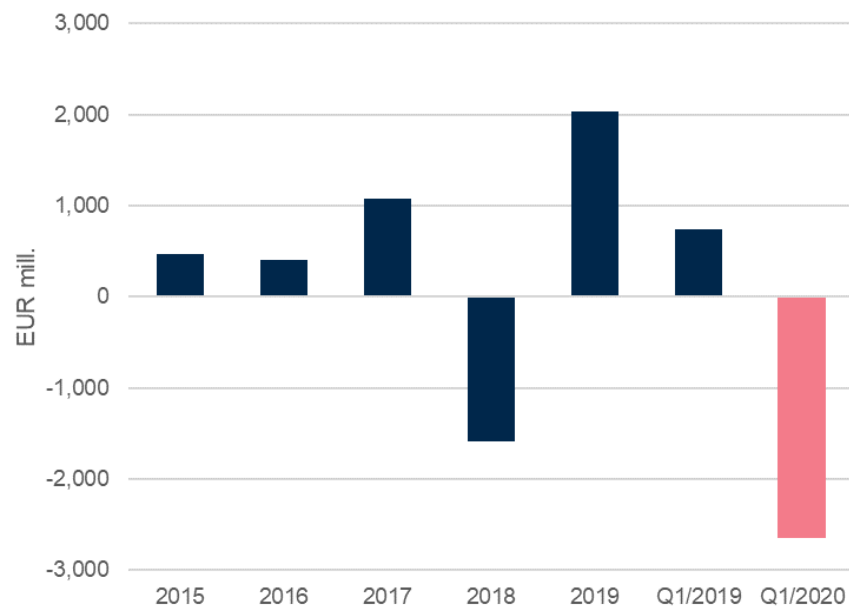
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KEY FIGURES JANUARY–MARCH 2020

Premiums written	€1.5 bn (€1.5 bn)	Pensions paid	€1.6 bn (€1.5 bn)
Loading profit	€13 mill. (€13 mill.)	Ratio of operating expenses to expense loading components	69.0% (71.5%)
Return on investments	-7.5% (4.6%)	Investment assets	€46.4 bn (€50.5 bn)
Solvency ratio	120.7% (126.6%)	Solvency	€8.1 bn (€10.8 bn)

ILMARINEN'S TOTAL RESULT SLID EUR 2.6 BN INTO NEGATIVE TERRITORY DUE TO A WEAK INVESTMENT MARKET

Total financial result, € mill.



Source of profit, € mill.

Result analysis, EUR mill.	1.1.-31.3.2020	1.1.-31.3.2019	1.1.-31.12.2019
Technical underwriting result	-8	-11	-50
Return on investments at fair value	-2,654	742	2,063
+ Net return on investments at fair value	-3,786	2,099	5,375
- Return requirement on technical provision	1,131	-1,357	-3,313
Loading profit	13	13	55
Other profit	0	0	-27
Total result	-2,649	744	2,039

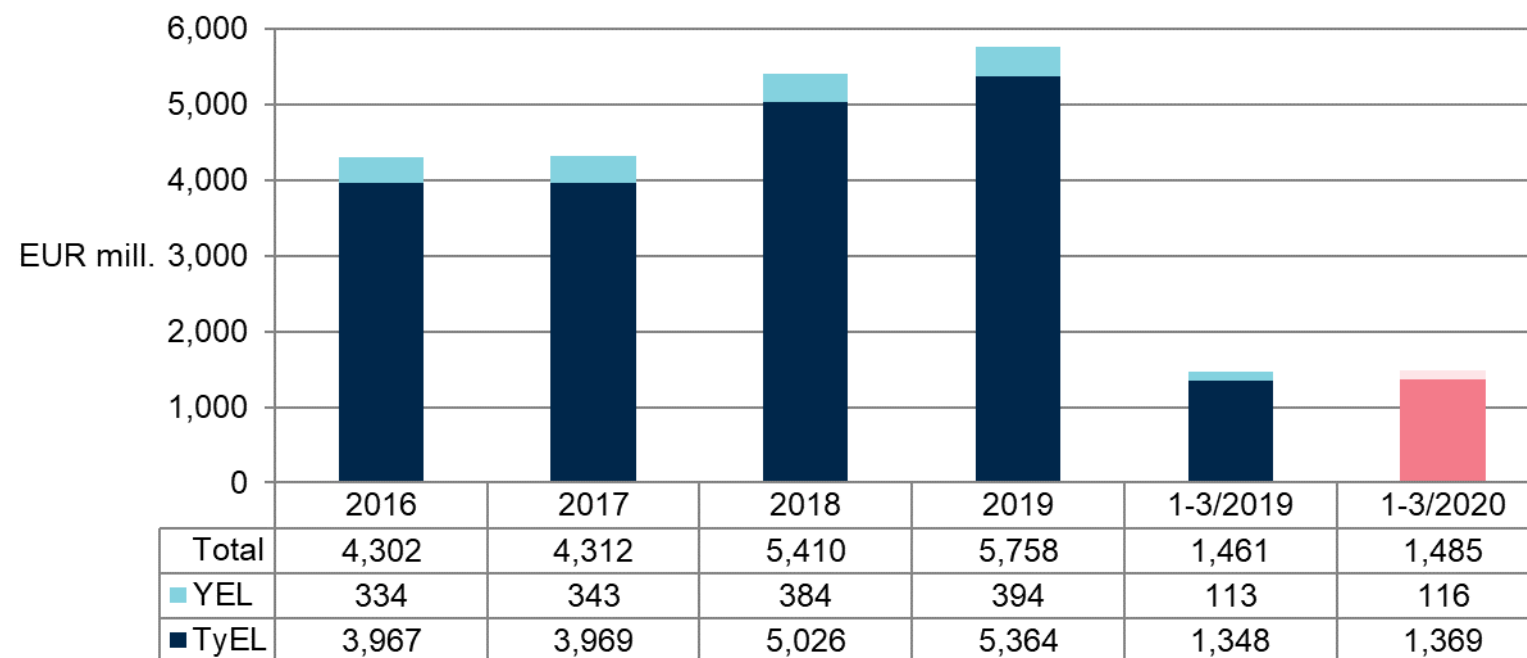


PREMIUMS WRITTEN AND CUSTOMER ACQUISITION

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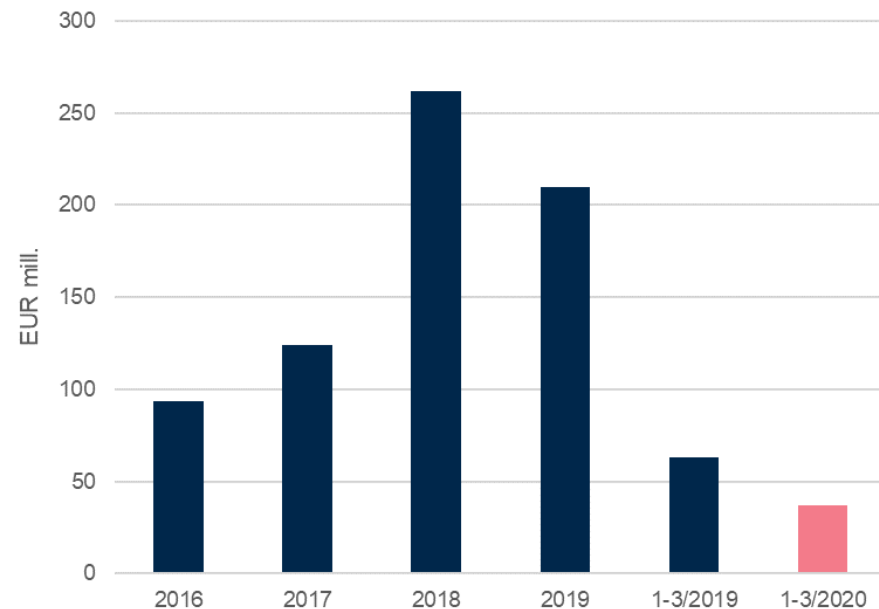
Q1 PREMIUMS WRITTEN €1.5 BN, PREMIUMS WRITTEN ARE EXPECTED TO DECLINE DURING THE REMAINDER OF THE YEAR

Premiums written January–March 2020



Q1 NET CUSTOMER ACQUISITION DECREASED TO EUR 37 MILL.

Net customer acquisition 2016-2020, € mill.



Change in net customer acquisition, € mill.

EUR mill.	1-3/2020	1-3/2019	Change
Net customer acquisition	37	63	-26
Sales of new insurance	50	57	-7
Net transfer of insurance	-13	6	-19

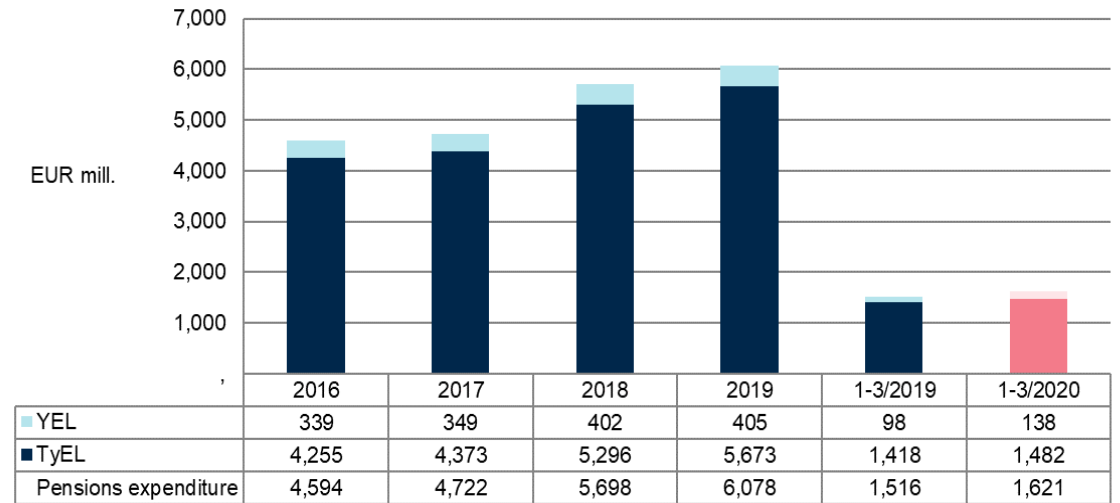
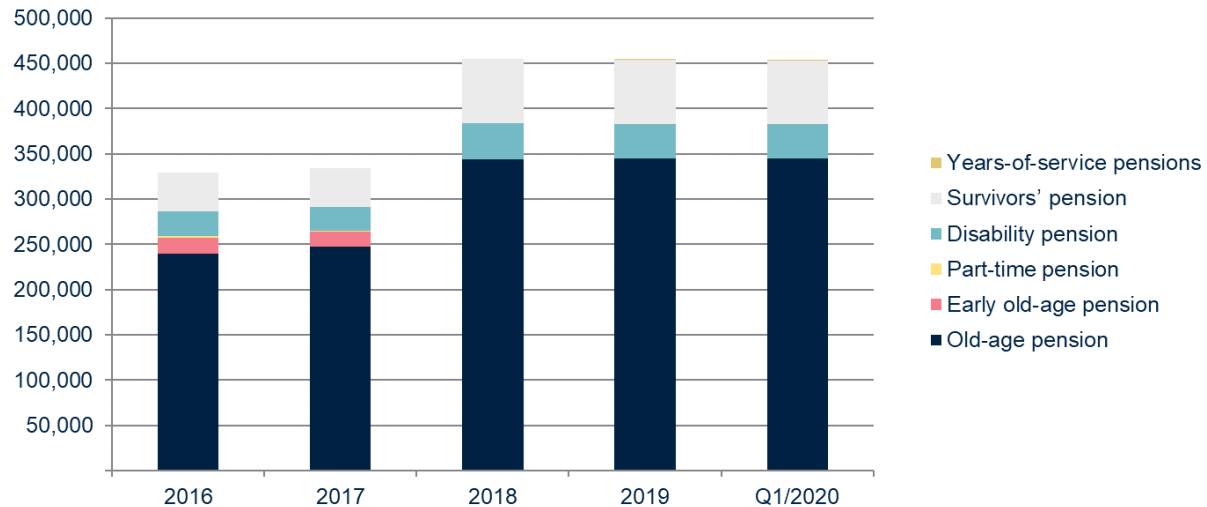


PENSIONS

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NUMBER OF PENSIONERS AT LAST YEAR'S LEVEL, PAID PENSIONS EUR 1.6 BN

Number of pensioners and pensions paid January–March 2020



MORE THAN 10,000 NEW PENSION DECISIONS, FASTER PROCESSING TIMES

- In January–March, 10,079 new pension decisions were issued, i.e. 3 per cent more than in the previous year.
- Old-age pension decisions amounted to 4,072
 - The number of old-age pension applications grew 9.5% year-on-year
 - The processing time of old-age pension applications shortened to 12 days (from 37)
- New disability pension decisions amounted to 2,540, up 21% year-on-year
 - The number of new disability pension applications declined 4.2% and the application processing time decreased substantially, to an average of 47 days (from 76 days).
- The number of new rehabilitation applications increased 17%



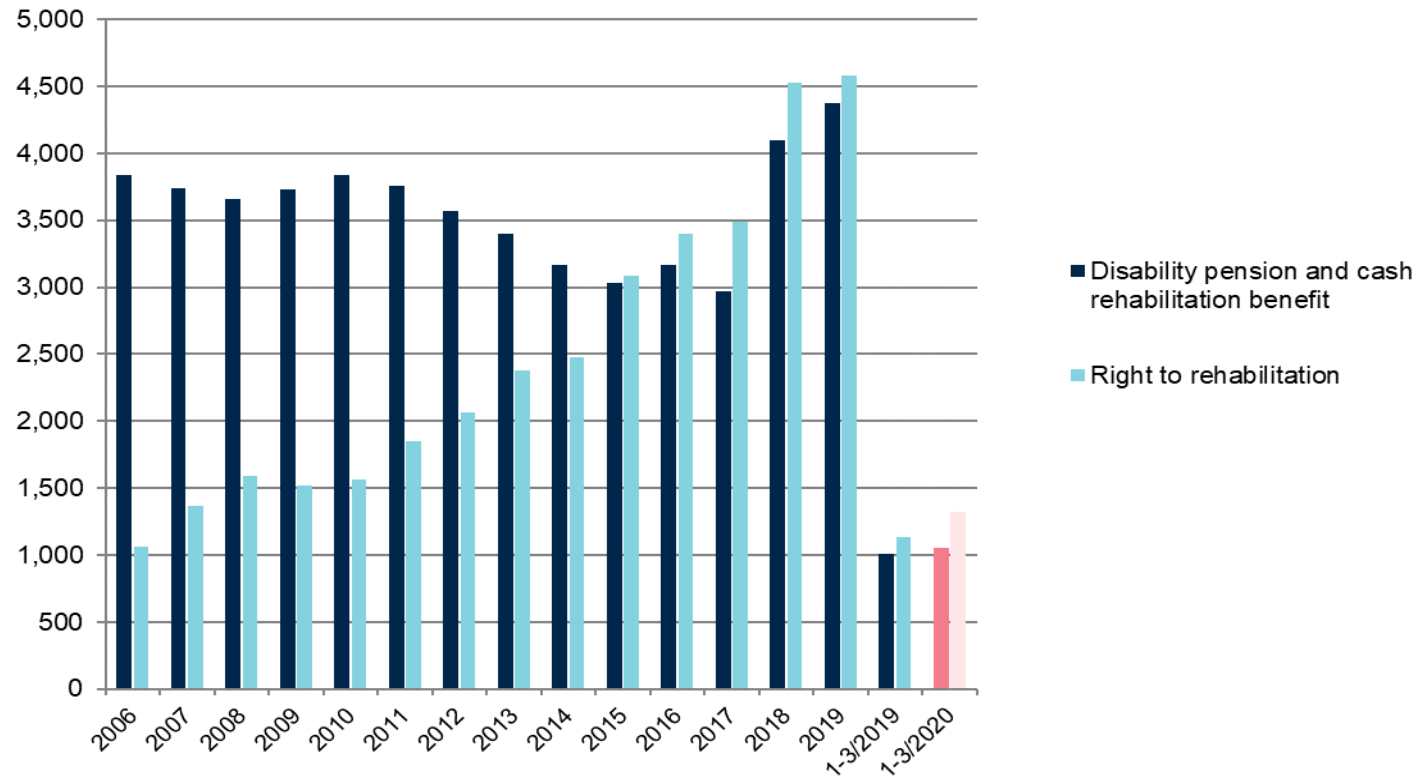


WORK ABILITY AND REHABILITATION

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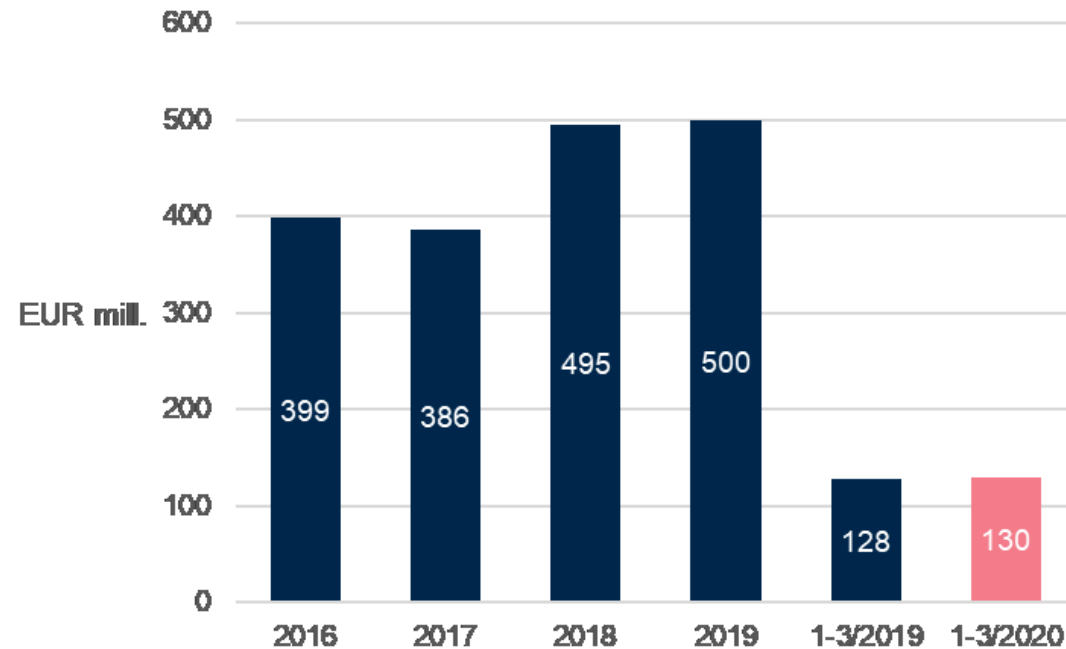
THE NUMBER OF REHABILITATION DECISIONS INCREASED BY 17 PER CENT

Rehabilitation and disability January–March 2020



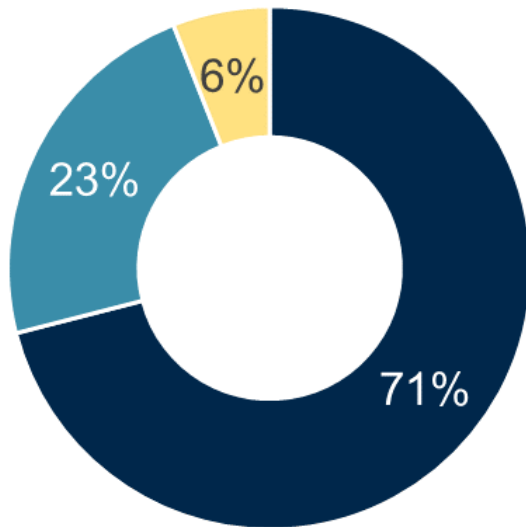
DISABILITY PENSION EXPENDITURE ROSE YEAR-ON-YEAR TO EUR 130 EUR MILL.

Disability pension expenditure



WORK ABILITY PROJECTS AMOUNTED TO 613 AND COVERED 188,000 EMPLOYEES

Work ability project themes and customer satisfaction in January–March 2020



Work capacity services' NPS 75 (1-3/2020)

- Developing supervisory work
- Supporting work capacity
- Functioning of work communities

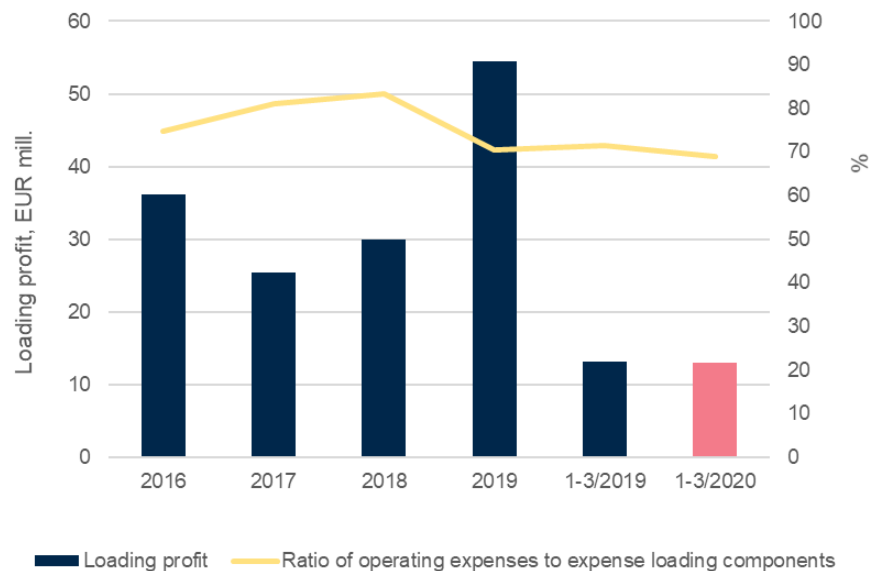


OPERATING EXPENSES

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COST-EFFECTIVENESS IMPROVED FURTHER, OPERATING EXPENSES DECREASED BY EUR 4 MILL. AND THE RATIO OF OPERATING EXPENSES TO EXPENSE LOADING COMPONENTS IMPROVED TO 69 PER CENT

Loading profit, ratio of operating expenses to expense loading components and total operating expenses 2016–Q1/2020^{*)}



LOADING PROFIT AND RATIO OF OPERATING EXPENSES TO EXPENSE LOADING COMPONENTS	2016	2017	2018	2019	1-3/2019	1-3/2020
Expense loading components and other income	143.7	134.3	178.7	184.7	46,1	42.4
Operating expenses covered by loading income	107.6	108.9	148.8	130.2	33.0	29.3
Loading profit	36.1	25.4	29.9	54.5	13.1	13.1
Ratio of operating expenses to expense loading components	74.9	81.1	83.2	70.5	71.5	69.0
Total operating expenses	147.2	150.3	194.6	175.2	43.7	43.0

The impacts of the coronavirus on customers' payroll will weaken the loading income and the ratio of operating expenses to expense loading components during the remainder of the year.

^{*)} The rates affecting the TyEL administrative cost component changed as of the beginning of 2017 and 2020 and the years 2016–2017 do not include the figures for Etera which merged with Ilmarinen. The years presented are thus not comparable with each other. The years 2018–2019 are comparable with each other but it must be noted that the expenses for 2018 included a total of €15 mill. in write-downs due to the merger.



INVESTMENTS

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RETURN ON INVESTMENTS WAS 7.5% NEGATIVE

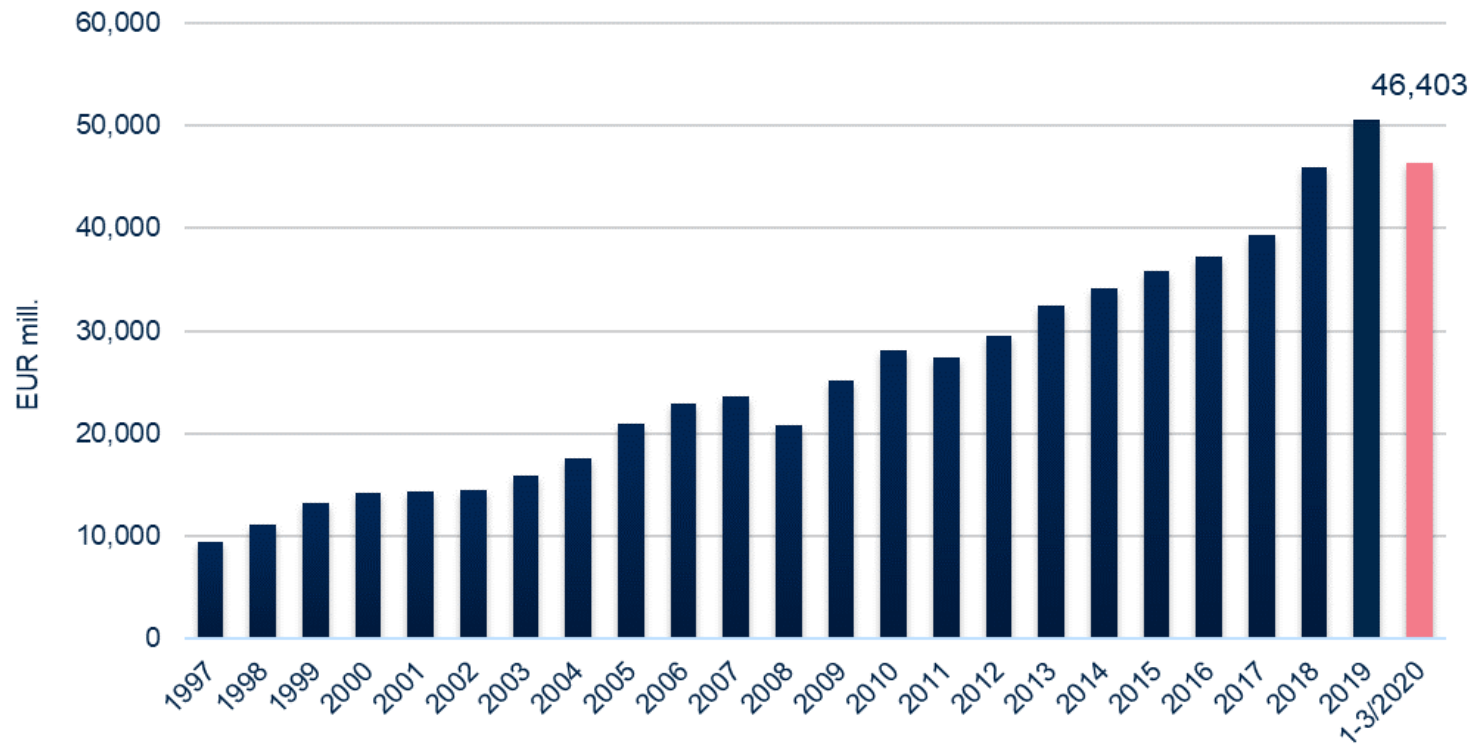
January–March 2020

- Return on investments **-7.5%** (4.6%)
 - Return on equity investments **-12.8%** (8.8%)
 - Listed equity investments **-18.2%** (11.0%)
 - Return on fixed income investments **-6.9%** (2.0%)
 - Return on real estate investments **1.7%** (1.0%)
- Long-term return* at a good level
 - Nominal return **5.4%**
 - Real return **3.9%**



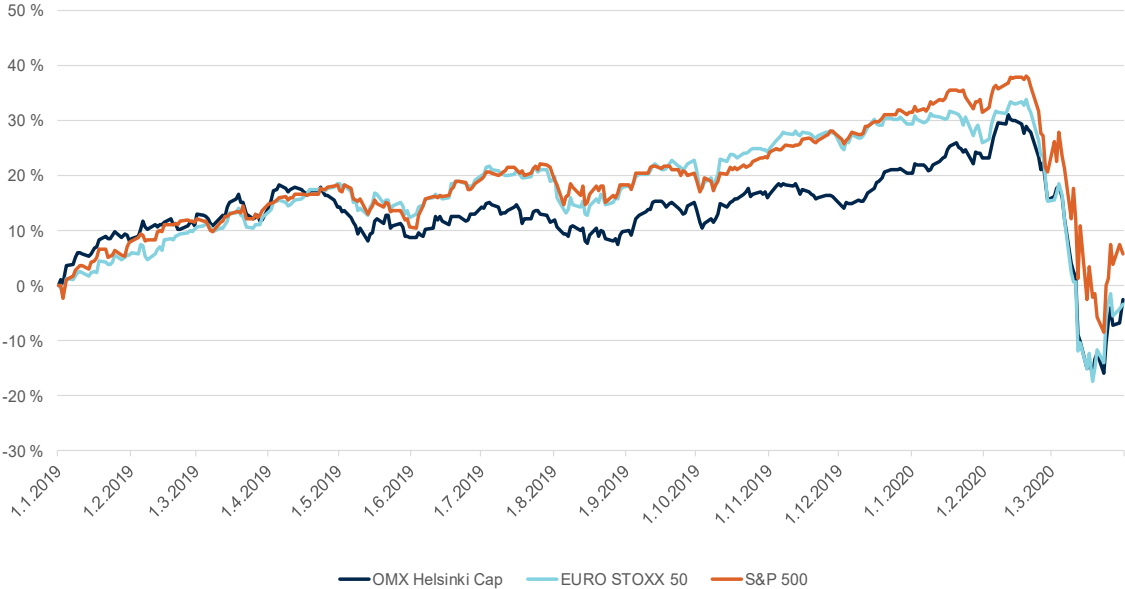
VALUE OF INVESTMENTS DECLINED BY EUR 4.1 BN TO EUR 46.4 BN

Value of investments, € mill.

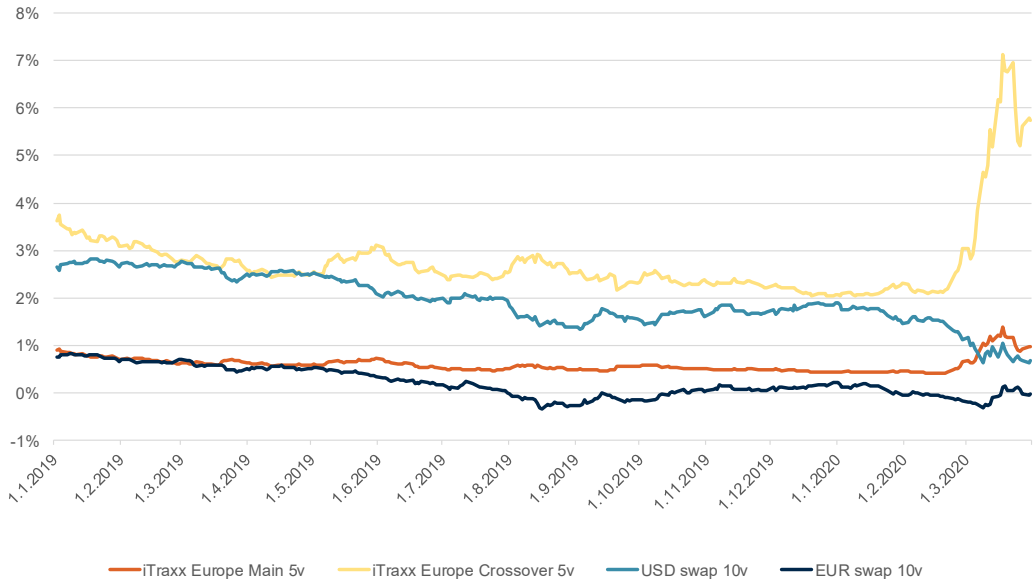


EQUITY MARKET FELL SHARPLY – CREDIT RISK MARGINS WIDENED

Equity market performance



Development of interest rates and credit risk premiums



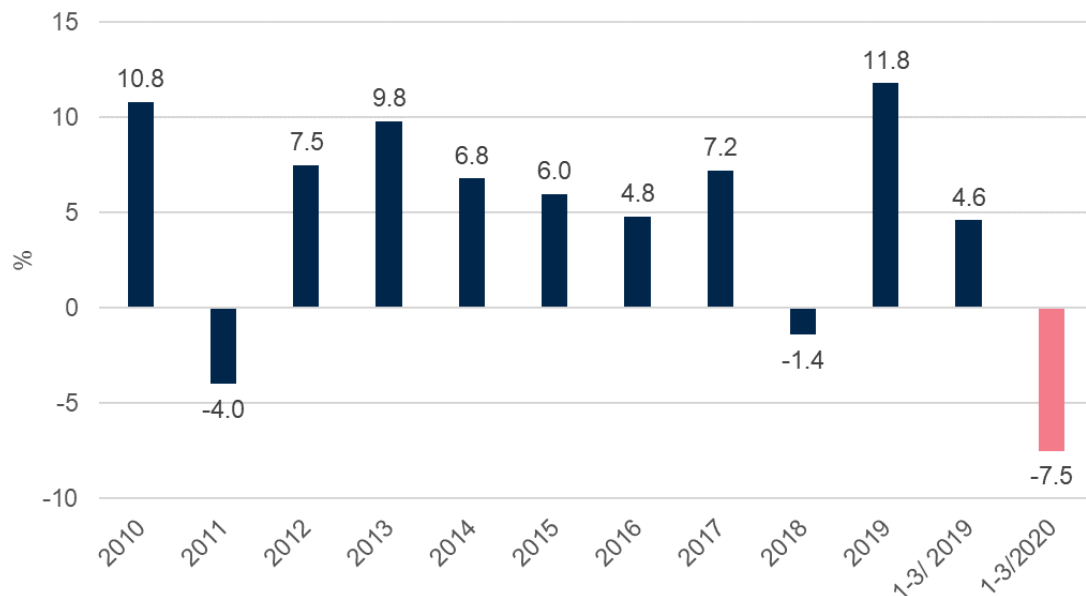
KEY OBSERVATIONS ABOUT THE OPERATING ENVIRONMENT

- At the beginning of the year, economic growth expectations were quite positive but weakened very quickly and dramatically as the coronavirus started spreading rapidly outside of China.
- With the spread of the coronavirus, Finland's economic and employment outlook also weakened dramatically.
- In an effort to curb the shrinking of economies and avoid bankruptcies and mass unemployment, central banks and governments have initiated unprecedented monetary and fiscal policy measures.
- The uncertainty caused by the coronavirus and the sudden decline of growth expectations led to an all-time fast and steep stock market decline and rise in credit risk margins at the beginning of March.
- The massive stimulus measures initiated by governments and central banks started to work in the investment markets within a few weeks and stock prices have clearly rebounded from their lows.
- The uncertainty around the duration of the crisis and the efficacy of the economic support measures are key to the short-term development of the investment markets.



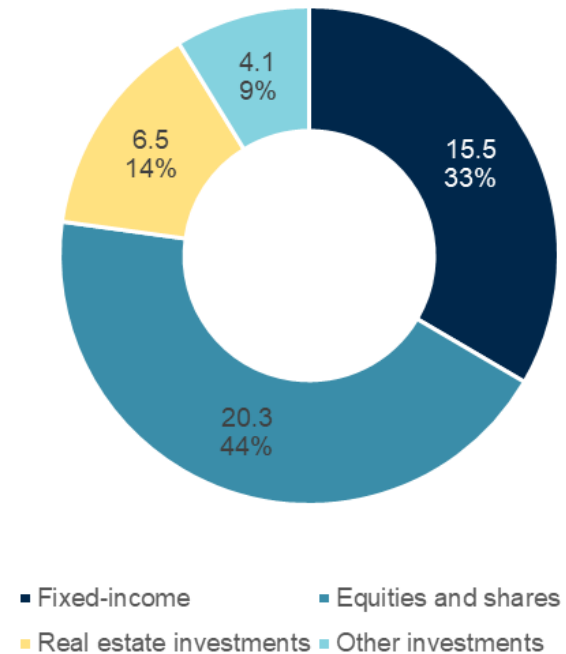
AS A RESULT OF THE CORONAVIRUS OUTBREAK RETURN ON INVESTMENTS FELL TO -7,5 PER CENT

Return on investments in 2010–2020 and investment allocation on 31 March 2020



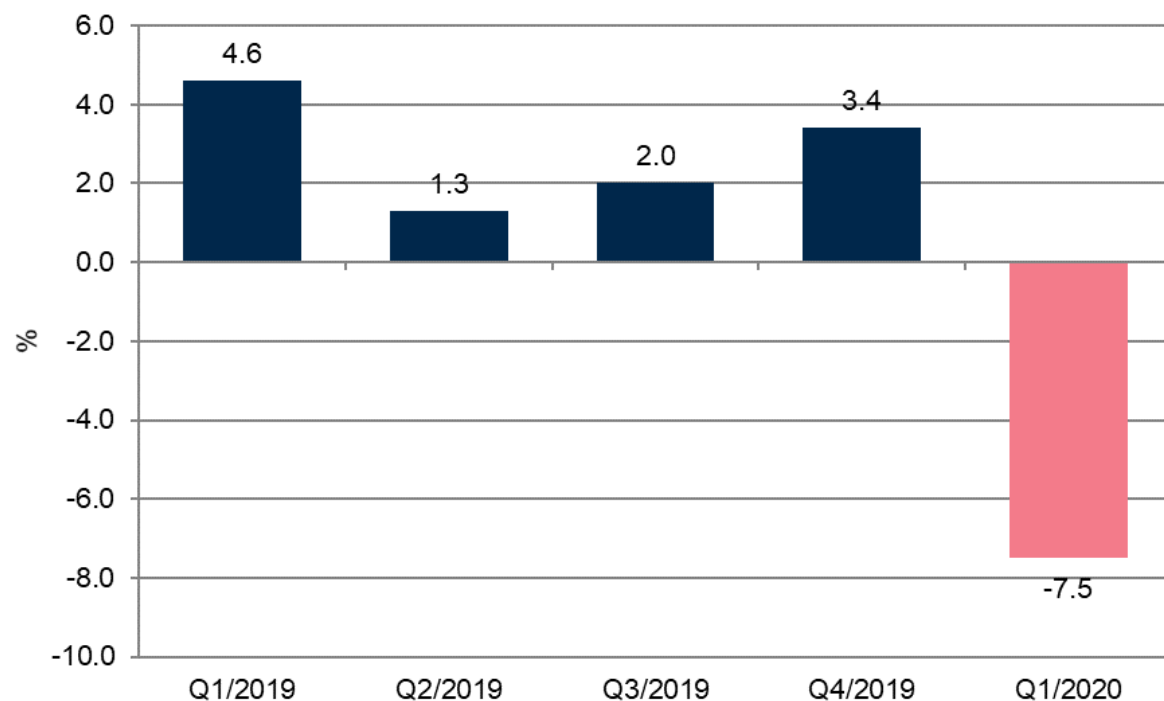
Average nominal return on investments over 10 years 4.5% and real return 3.2%.

31 March 2020, €46.4 bn



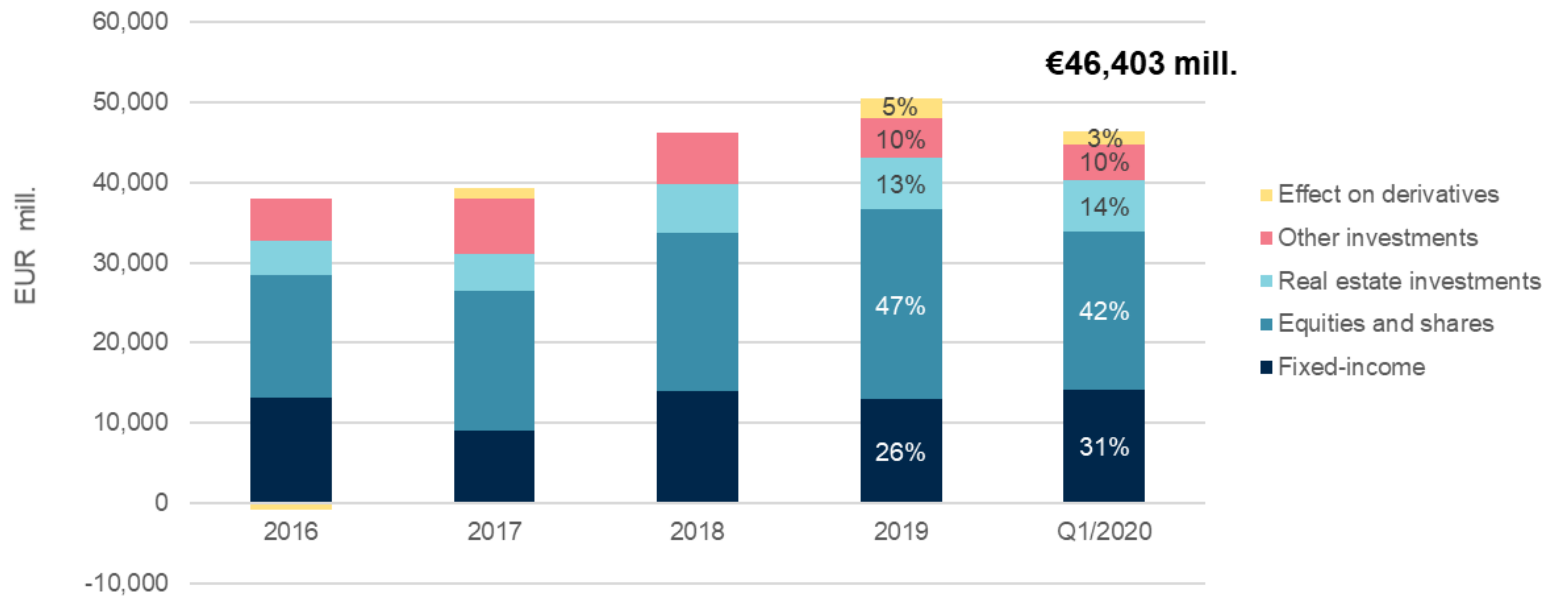
Q1 RETURN ON INVESTMENTS FELL TO -7.5 PER CENT AND 12-MONTH RETURN WAS -1.1 PER CENT

Quarterly investment returns



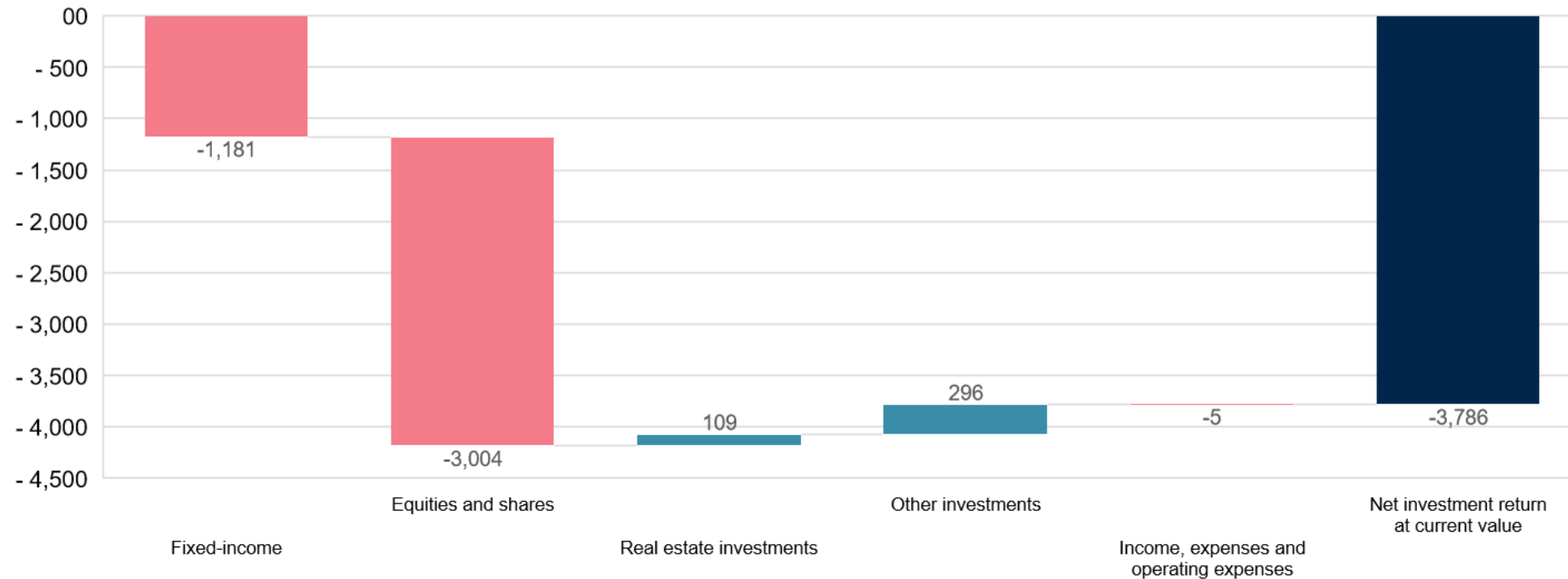
IN THE INVESTMENT ALLOCATION, EQUITY WEIGHT DROPPED FROM 47 PER CENT TO 42 PER CENT

Breakdown of investment risks



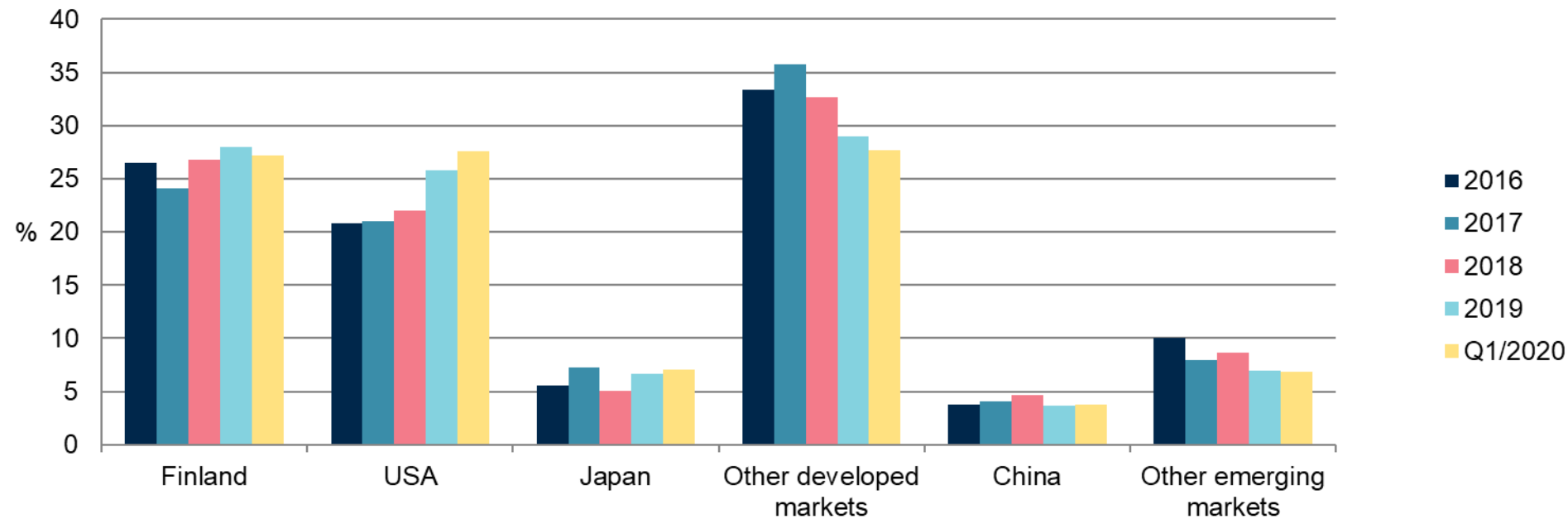
NET RETURN ON INVESTMENTS EUR -3,8 BN AS A RESULT OF STOCK MARKET DECLINE AND WIDENING OF CREDIT RISK MARGINS

Returns by asset class, € mill.



SHARE OF FINNISH LISTED EQUITY INVESTMENTS FELL TO 27 PER CENT

Geographical breakdown of listed equities



ILMARINEN'S INVESTMENTS IN FINLAND WERE €11 BN

Equity investments in
Finnish companies

Listed €4.0 bn
Unlisted €1.1 bn



Real estate investments
in Finland €4.5 bn



Loans to Finnish
companies €0.8 bn



Bonds €0.7bn



HOLDINGS IN FINNISH PUBLICLY QUOTED COMPANIES €4 BN

Largest Finnish listed equity holdings

	EUR mill.	31 March 2020	31 Dec 2019
↑	Kojamo plc	484	455
↑	Elisa Corporation	249	209
↓	Kesko Corporation	235	276
↓	Kone Oyj	234	257
↓	UPM-Kymmene Oyj	231	269
↓	Neste Corporation	216	264
↓	Nokia Corporation	197	251
↓	Stora Enso Oyj	180	257
↓	Sampo plc	174	269
↓	Nordea Bank Abp	173	282

	Percentage	31 March 2020	31 Dec 2019
	Nurminen Logistics Plc	19.68	19.68
	Digia Plc	14.59	14.59
	Kojamo plc	11.34	11.34
↓	QT Group Plc	10.16	10.18
	Panostaja Oyj	8.11	8.11
	Martela Corporation	8.07	8.07
	Glaston Oyj Abp	7.31	7.31
	Citycon Oyj	7.13	7.13
↓	Capman Plc	6.62	6.81
	Gofore Plc	6.22	6.22

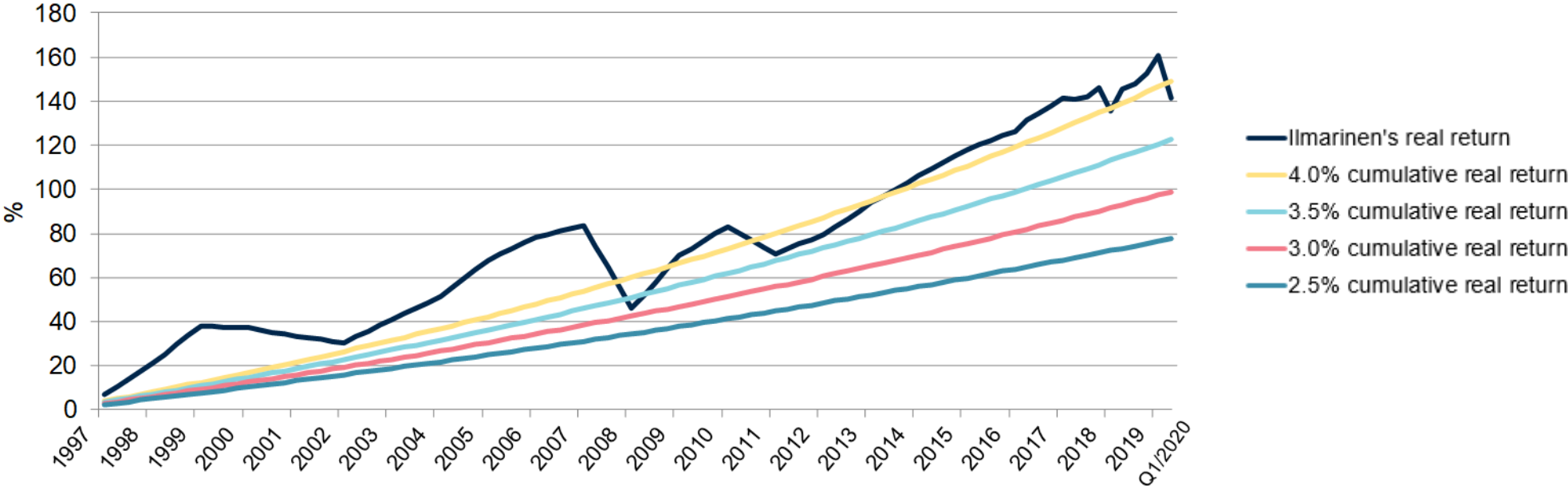
LONG-TERM AVERAGE NOMINAL RETURN 5.4 PER CENT PER ANNUM

Net investment return at current value



LONG-TERM AVERAGE REAL RETURN 3.9 PER CENT

Cumulative net return on investments 1997–31 March 2020



AVERAGE RETURN OF DIFFERENT MARKETS

%	Ilmarinen	Finnish equities and shares	European equities and shares	Euro government bonds	Euro corporate bonds
Q1/2020	-7.5	-19.1	-22.6	0.4	-6.2
2019	11.8	20.4	26.8	6.7	6.3
Average return over 5 years	2.5	3.0	-1.5	1.7	0.7
Average return over 10 years	4.5	7.1	4.9	4.1	3.1
Average return over 20 years	4.4	4.9	1.7	4.8	4.2
Average return since 1997	5.4	8.8	5.4	4.9	4.3
Real average return over 5 years	1.9	2.3	-2.2	1.0	0.0
Real average return over 10 years	3.2	5.8	3.6	2.8	1.9
Real average return over 20 years	2.9	3.4	0.2	3.3	2.7
Real average return since 1997	3.9	7.2	3.9	3.3	2.7

JANUARY–MARCH RETURN ON INVESTMENTS -7.5%

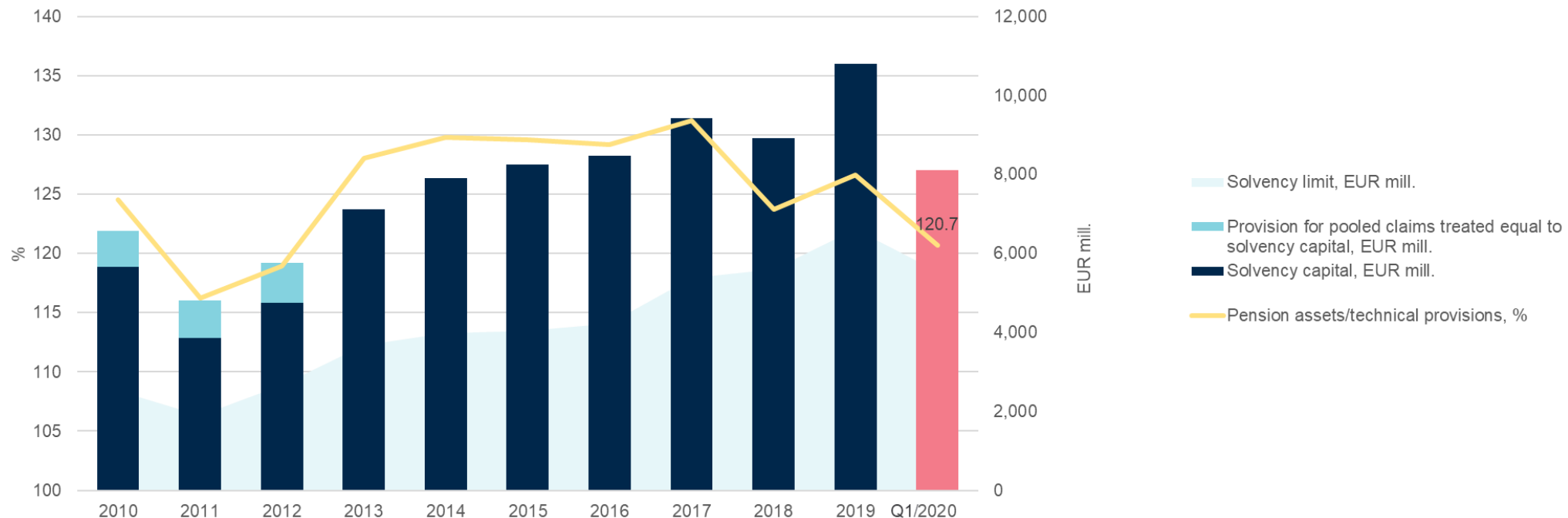
	Basic breakdown		Risk breakdown		Return	Volatility
	EUR mill.	%	EUR mill.	%	%	
Fixed-income investments	15,524.5	33.5	14,187.6	30.6	-6.9	
Loan receivables	1,099.1	2.4	1,099.1	2.4	0.5	
Bonds	13,325.5	28.7	7,987.1	17.2	-7.9	6.4
Public corporation bonds	5,161.3	11.1	5,738.4	12.4	-5.9	
Other bonds	8,164.2	17.6	2,248.7	4.8	-9.4	
Other money market instruments and deposits (incl. investment receivables and payables)	1,099.9	2.4	5,101.4	11.0	0.1	
Equities and shares	20,291.4	43.7	19,646.8	42.3	-12.8	
Listed equities and shares	14,671.4	31.6	14,026.8	30.2	-18.2	16.6
Private equity investments	4,643.6	10.0	4,643.6	10.0	6.8	
Non-listed equities and shares	976.4	2.1	976.4	2.1	2.9	
Real estate investments	6,525.0	14.1	6,542.6	14.1	1.7	
Real estate investments	5,892.8	12.7	5,893.8	12.7	1.8	
Real estate funds and joint investments	632.1	1.4	648.8	1.4	1.0	
Other	4,062.2	8.8	4,444.4	9.6	8.1	
Hedge fund investments	2,636.6	5.7	2,636.6	5.7	1.6	3.9
Commodity investments	67.5	0.1	297.1	0.6	-	
Other investments	1,358.1	2.9	1,510.8	3.3	23.8	
Investments total	46,403.1	100.0	44,821.4	96.6	-7.5	6.2
Effect of derivatives			1,581.7	3.4		
Investments at current value	46,403.1		46,403.1	100.0		

The modified duration of bond investments is 1.7 years

The open currency position is 19.6% of the market value of the investments.

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

SOLVENCY RATIO DECLINED TO 121 PER CENT, BUT IS SIGNIFICANTLY HIGHER THAN THE REGULATORY REQUIREMENT – SOLVENCY CAPITAL IS EUR 8.1 BN





FUTURE PROSPECTS

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FUTURE PROSPECTS

- According to the IMF's latest projection, the global economy will shrink in 2020 by around three per cent from the previous year. The flattening of the curve of coronavirus infections and the monetary and fiscal measures are expected to put economies back on a growth track towards year-end.
- The economic outlook depends on how quickly economies can be reopened and whether a second wave of infections will be avoided.
- **The Finnish economy is expected to slide into a deep recession, as a result of which unemployment is expected to rise and the payroll and premiums written are expected to decline substantially. The declining payroll will also reduce Ilmarinen's loading income and thus the loading profit and the ratio of operating expenses to expense loading components during the remainder of the year.**
- The uncertainty in the investment markets is expected to continue until the spread of the coronavirus is under control and confidence in economic recovery has been restored. Central banks and governments are expected to continue their stimulus measures to support markets.
- The key risks affecting Ilmarinen's operations and the earnings-related pension system in the longer term are related to the development of employment and payroll, the ascending trend in disability prevalence, performance of the investment markets and the development of demographics and the birth rate, which has been exceptionally low in recent years.

