For a better life

Ilmarinen’s Interim Report

January–September 2023

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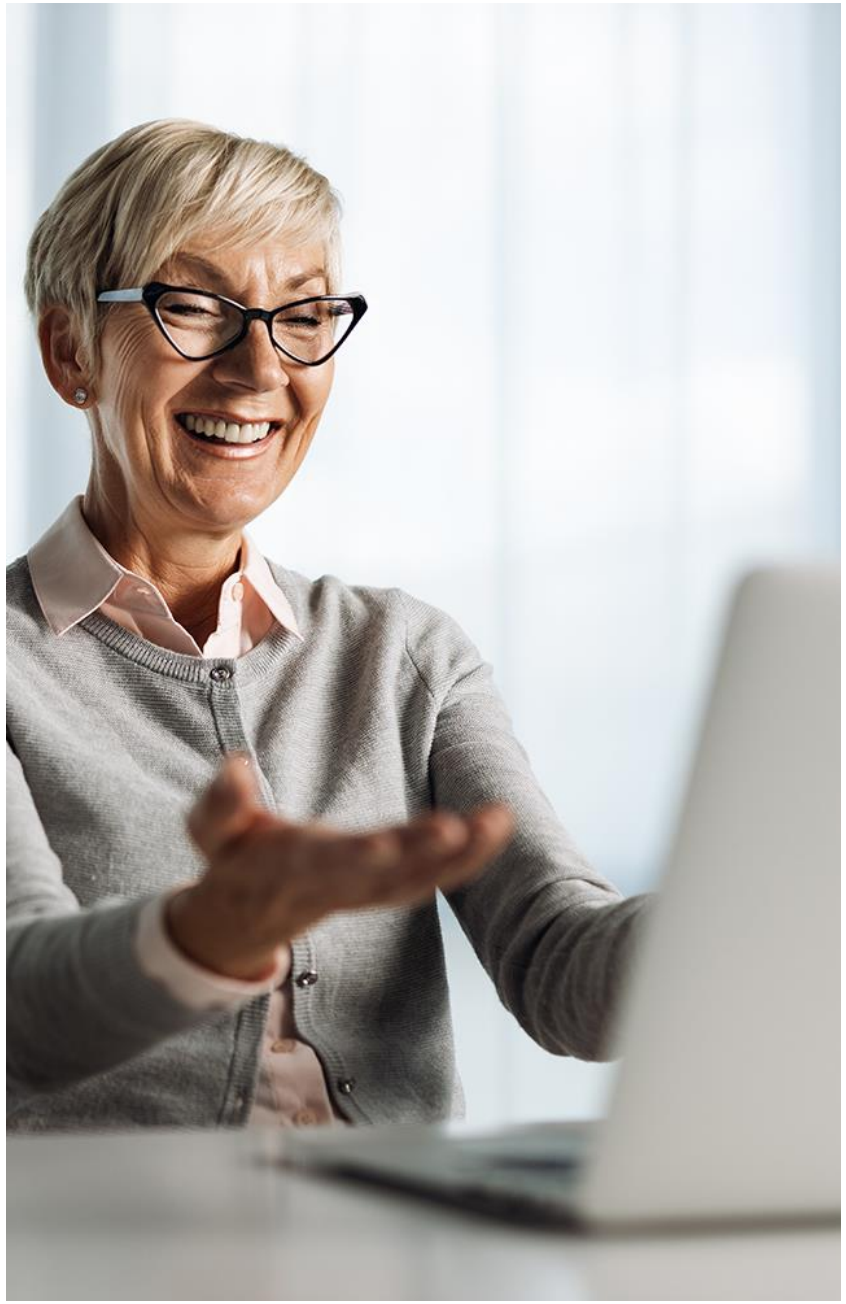
Return on investments 3.3 per cent, insurance premiums written grew and cost-effectiveness improved further

- The return on Ilmarinen's investment portfolio was 3.3 (-8.0) per cent, i.e. EUR 1.9 billion.The market value of investments reached EUR 57.7 (56.3) billion, and the long-term average return since 1997 was 5.7 per cent, representing a real return of 3.7 per cent.
- The total result grew to EUR 0.2 (-4.8) billion.
- Premiums written grew 5 per cent to EUR 5.2 (5.0) billion. EUR 5.4 (5.0) billion was paid in pensions.
- Net customer acquisition was EUR 135 (159) million and rolling customer retention for the previous 12 months was 96.6 (97.7) per cent.
- Operating expenses financed using loading income decreased 2 per cent to EUR 72 (73) million and were 0.34 (0.36) per cent of the TyEL payroll and YEL income of the insured. With the improvement in efficiency, Ilmarinen's administrative cost component will decrease 20 per cent at the start of 2024.
- Solvency capital increased to EUR 12.0 (11.8) billion and the solvency ratio fell to 125.5 (125.8) per cent.



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Key figures January–September 2023

Premiums written

5.21 (4.97)

€ billion

Operating expenses financed using loading income

72 (73)

€ million

Return on investments

3.3 (-8.0)

%

Solvency ratio

125.5 (125.8)

%

5.38 (4.95)

€ billion

Pensions paid

0.34 (0.36)

%

Operating expenses financed using loading income, % of payroll*)

57.7 (56.3)

€ billion

Investment assets

12.0 (11.8)

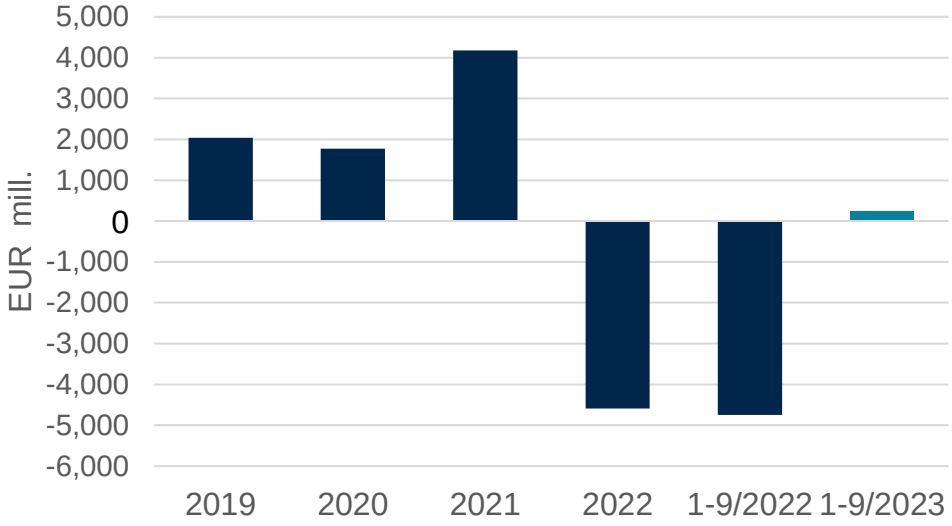
€ billion

Solvency capital

*) Payroll is the sum of TyEL payroll and YEL income.
The result comparison figures are the figures for the corresponding period of 2022. The comparison figures for the balance sheet and other cross-sectional items are the figures for the end of 2022.

The total result in January–September was EUR 233 million, thanks to the positive investment return

Total financial result, € mill.



Sources of profit, € mill.

Result analysis, EUR mill.	1 Jan-30 Sep 2023	1 Jan-30 Sep 2022	1 Jan-31 Dec 2022
Underwriting result	**31**	**70**	**132**
Return on investments at fair value	**194**	**-4 865**	**-4 801**
+ Net return on investments at fair value	1 882	-4 868	-4 009
- Return requirement on technical provisions	-1 688	3	-792
Loading profit*)	**7**	**45**	**58**
Other profit	**0**	**0**	**18**
Total result	**233**	**-4 751**	**-4 592**

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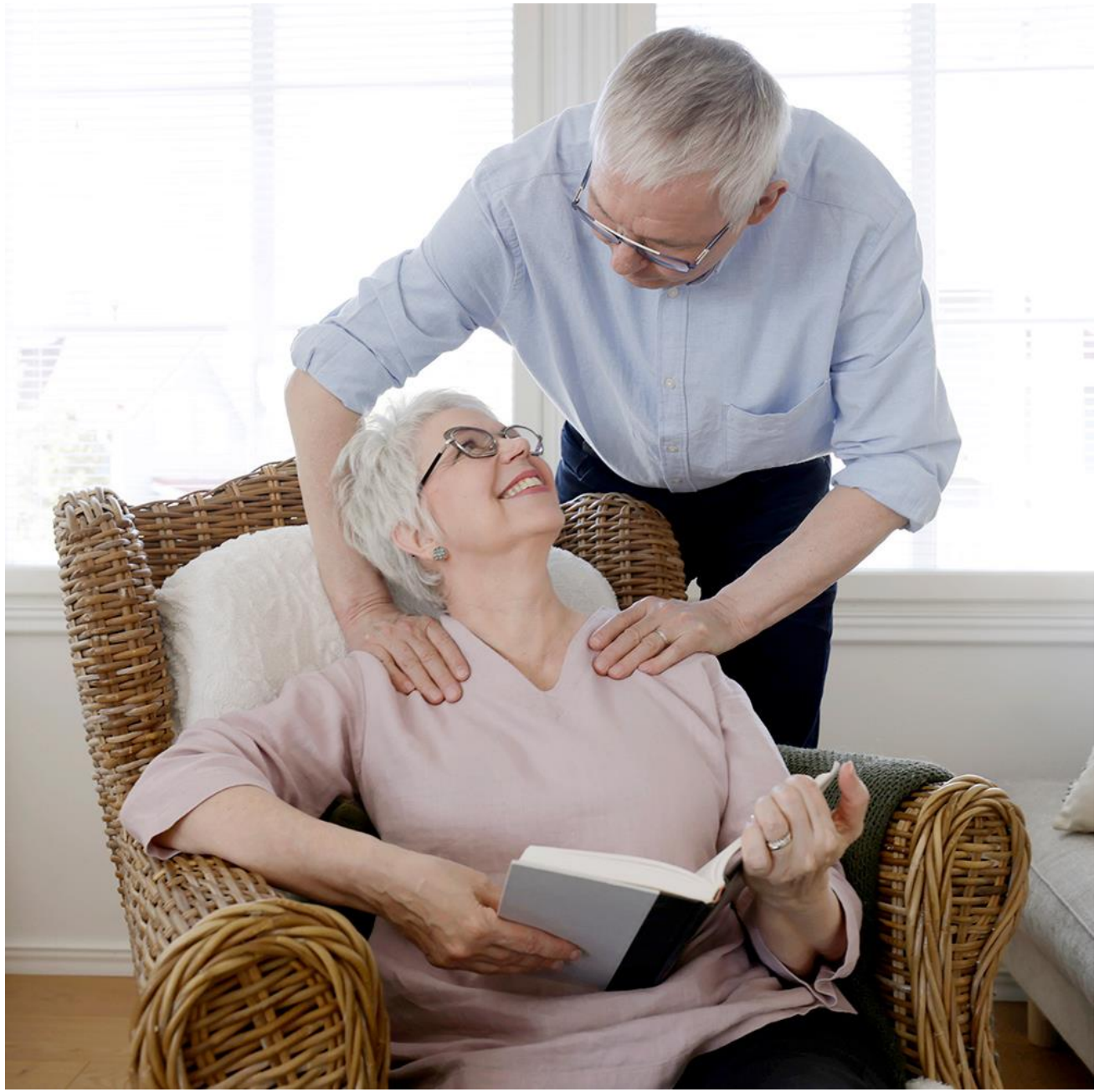
*) As of 2023, a company-specific expense loading rate is applied to TyEL insurance, due to which the loading profit will be close to zero going forward.



Pension security for you

Insurance and pensions

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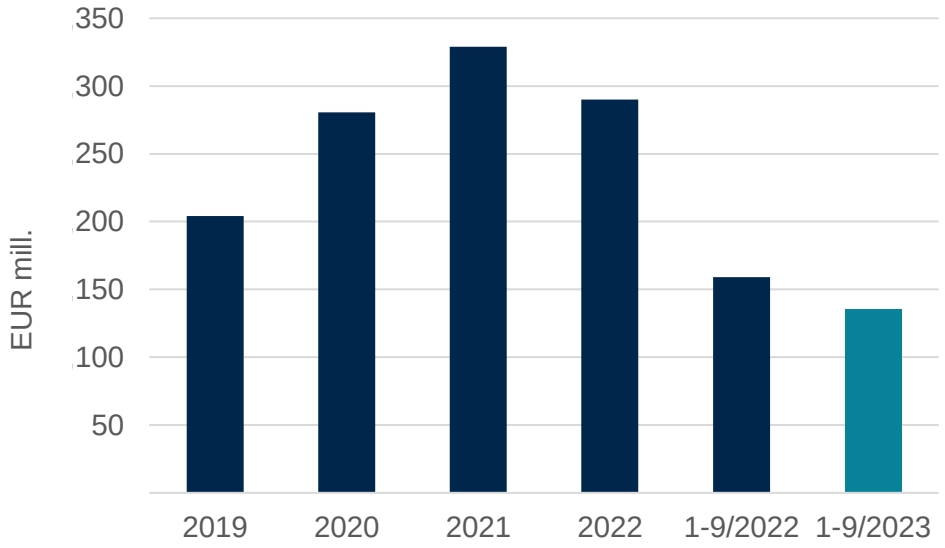
In January–September, net customer acquisition was EUR 135 million, customer retention was 96.6 per cent

Net customer acquisition 2019–2023, € mill.



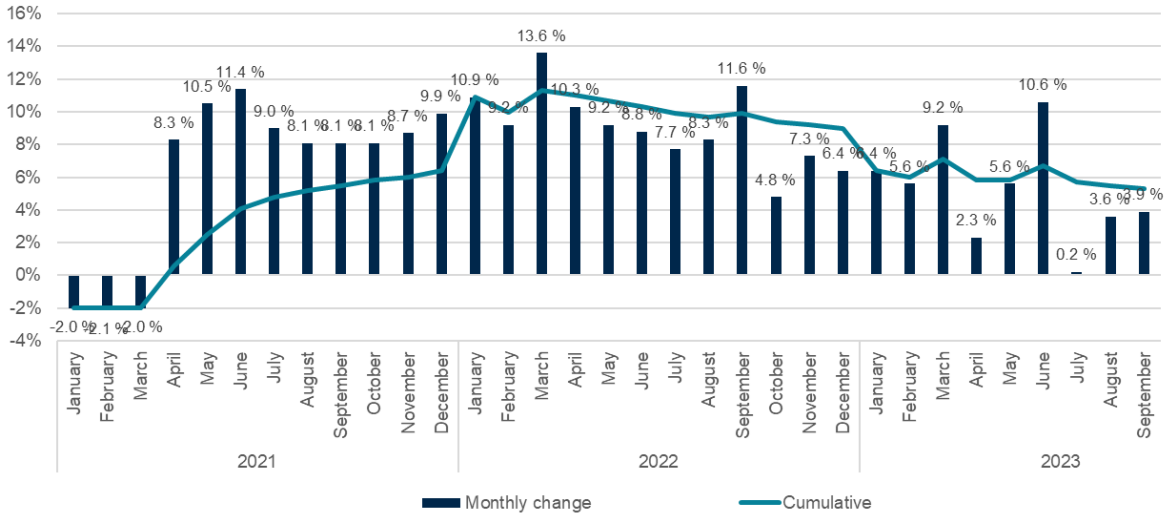
Net customer acquisition, € mill.

EUR mill.	1-9/2023	1-9/2022	2022
Net customer acquisition, € mill.	135	159	290
Sales of new insurance	121	123	251
Net transfer of insurance	14	36	40
Customer retention, % of premiums written	96.6	97.7	96.7

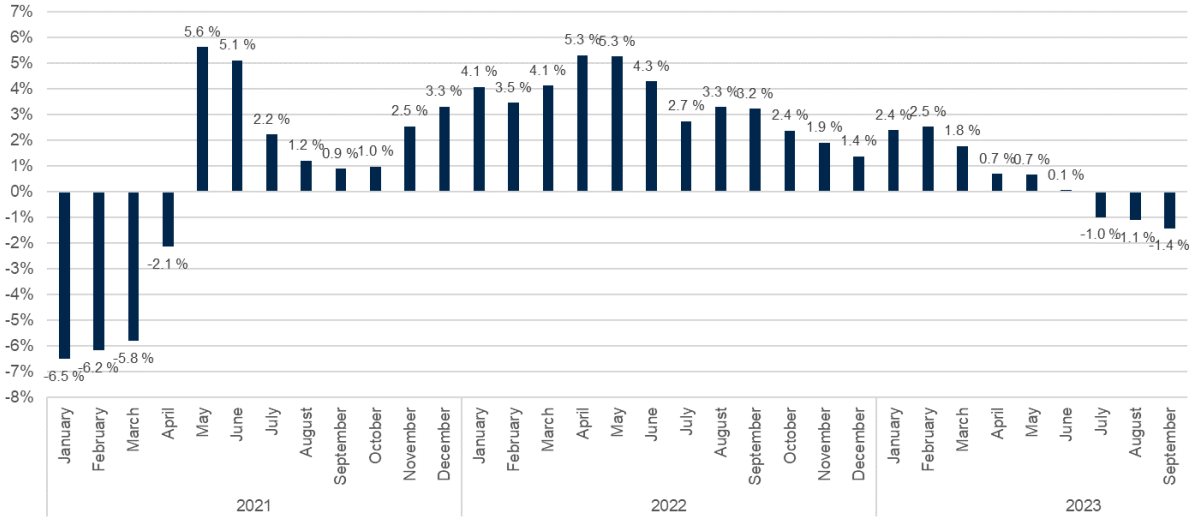
Customers' payroll increased 5.3% and the number of employees by 0.5% in January–September

The number of employees began to fall in the summer for the first time in two years, and was at -1.4% in September.

Change in payroll of Ilmarinen's customers from previous year

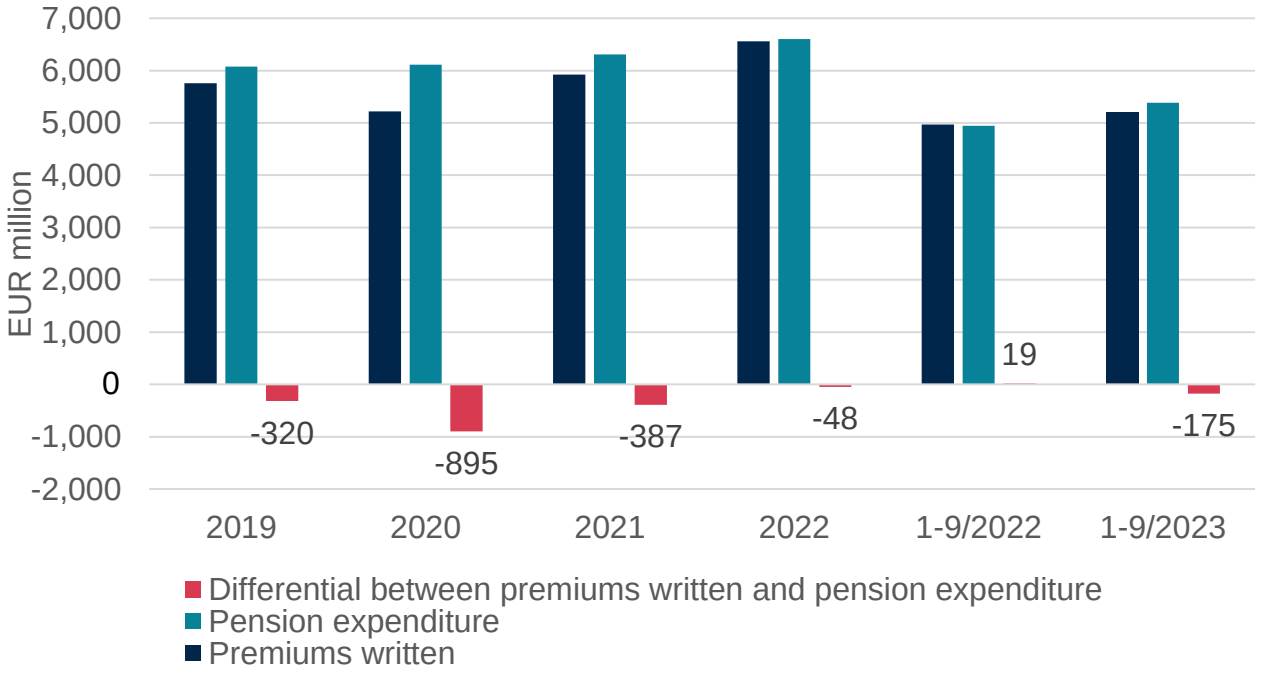


Change in number of employees in Ilmarinen's business cycle index



Premiums written grew 5 per cent to EUR 5.2 bn and were EUR 175 million lower than pension expenditure

Premiums written and pension expenditure, January–September 2023

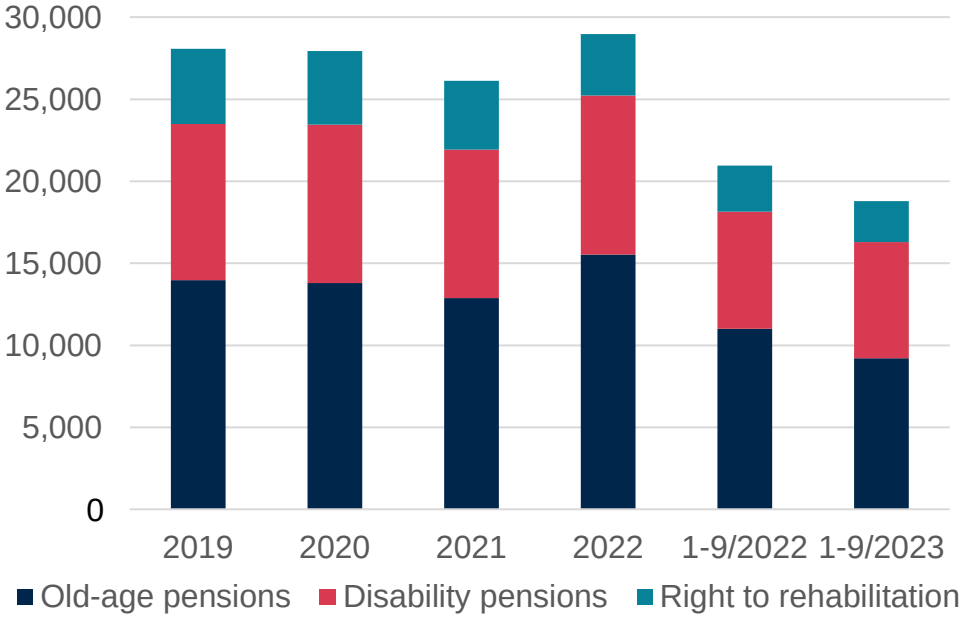


	1-9/2023	1-9/2022	2022	2021	2020	2019
TyEL	4,894	4,659	6,164	5,534	4,833	5,364
YEL	314	308	394	388	388	394
Premiums written	5,209	4,967	6,558	5,922	5,220	5,758
Tyel	5,054	4,625	6,189	5,902	5,701	5,673
YEL	330	322	417	407	415	405
Pension expenditure	5,384	4,948	6,606	6,309	6,116	6,078

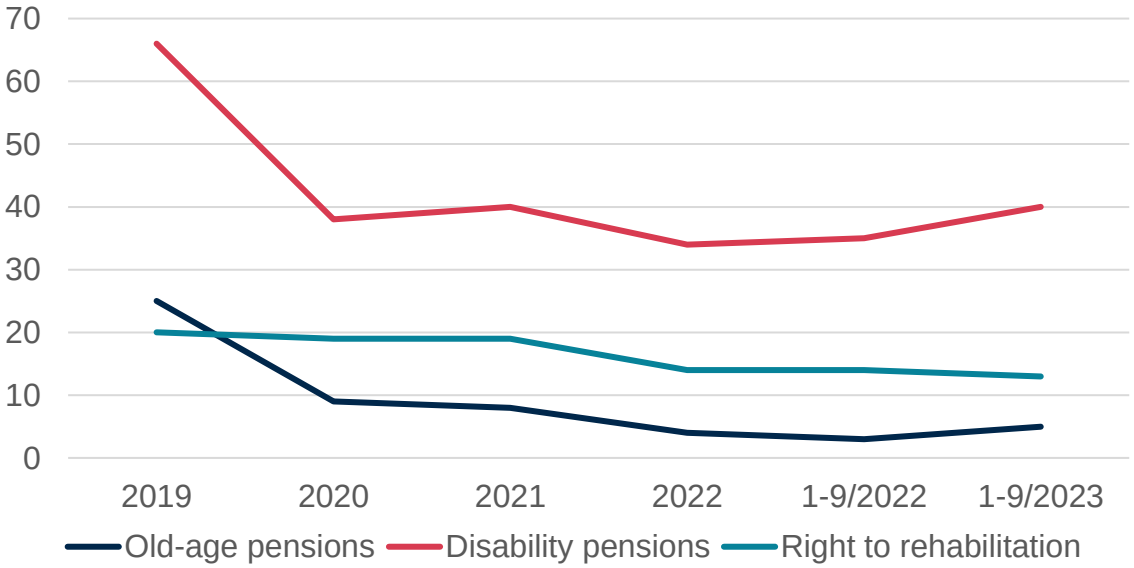
Ilmarinen made 2,147 fewer new pension decisions in January–September compared to the previous year

Old-age pension decisions were issued in 5 days on average

Number of pension decisions*



Average application processing time, days

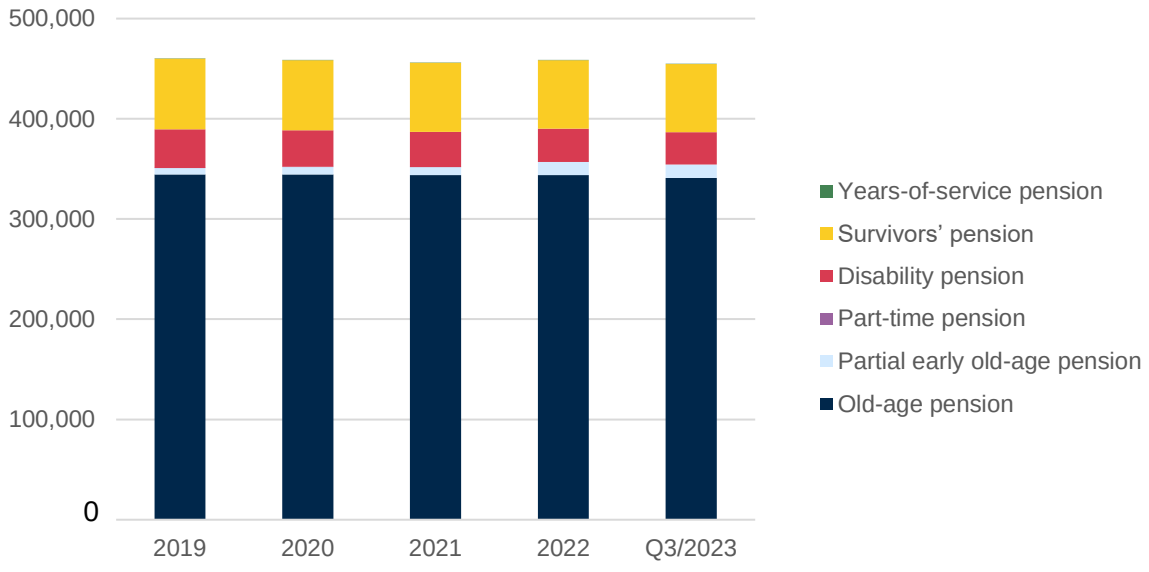


* The figure does not include new decisions on partial early old-age pensions, year-of-service pensions and survivors' pensions (4,671).

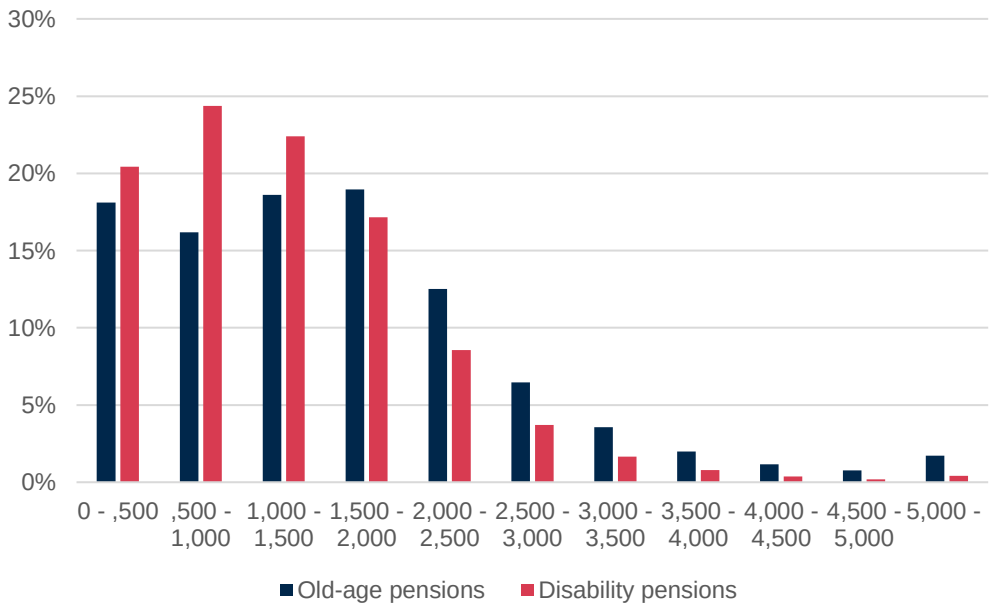
We paid EUR 5.4 billion in pensions to 455,000 pensioners

The average old-age pension was € 1,575/month

Ilmarinen's pension recipients



Distribution of paid old-age and disability pensions by size



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Work ability risk management and rehabilitation

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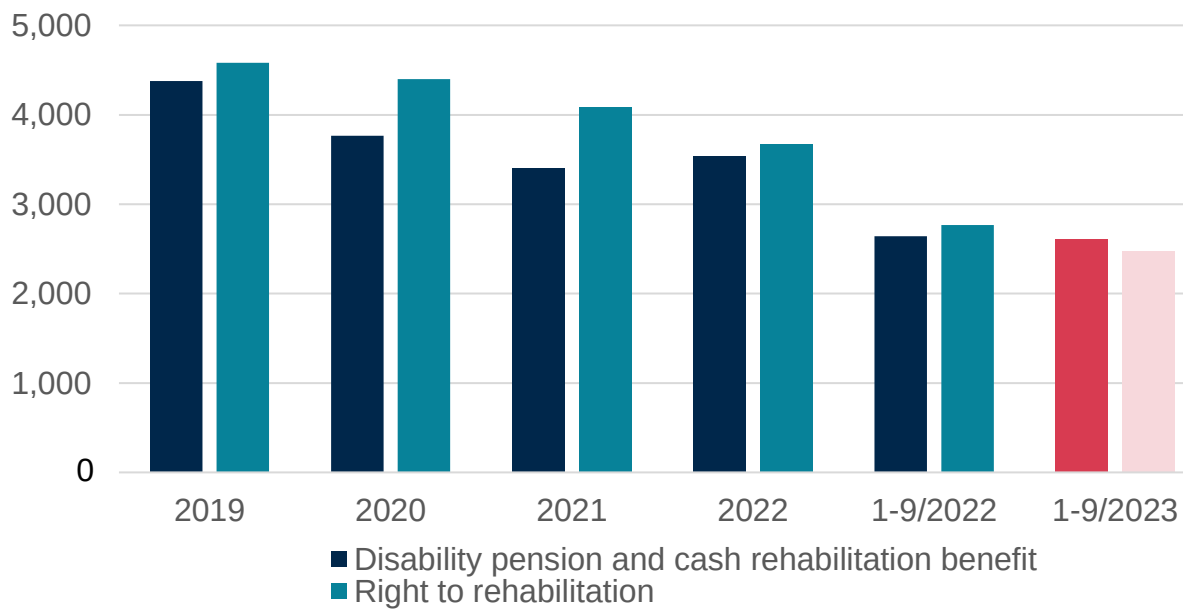
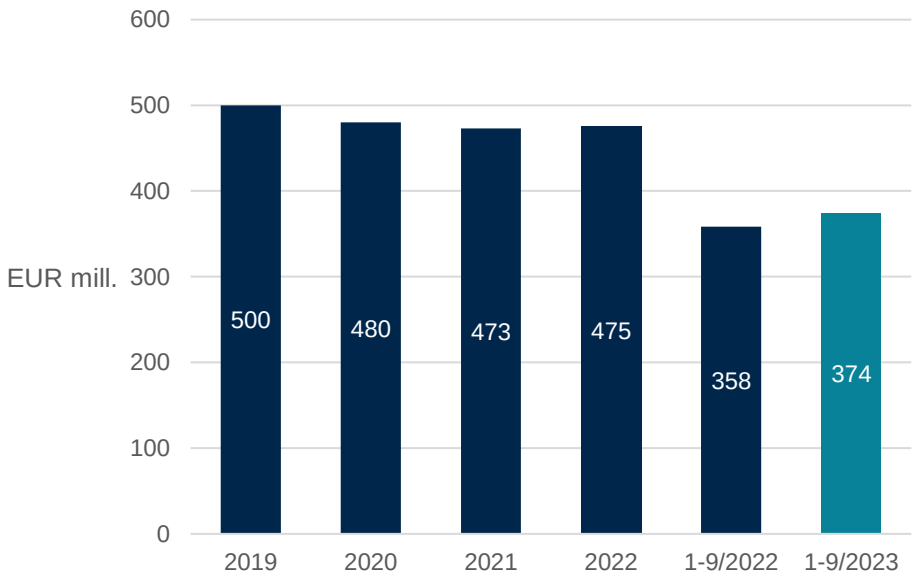
2,613 people transitioned to disability benefits, i.e. 1 per cent less than in the previous year

Disability pension expenditure rose by EUR 16 million due to the development of the expenditure for previously granted pensions.

Decisions on the right to rehabilitation and persons retired on disability pension



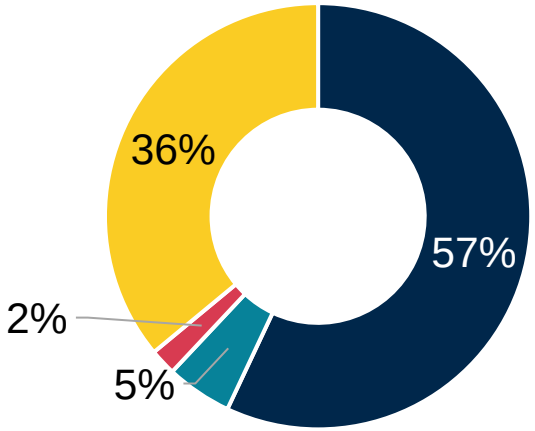
Disability pension expenditure, EUR mill.



The number of work ability projects carried out was 1,382, and they included 119,740 employees

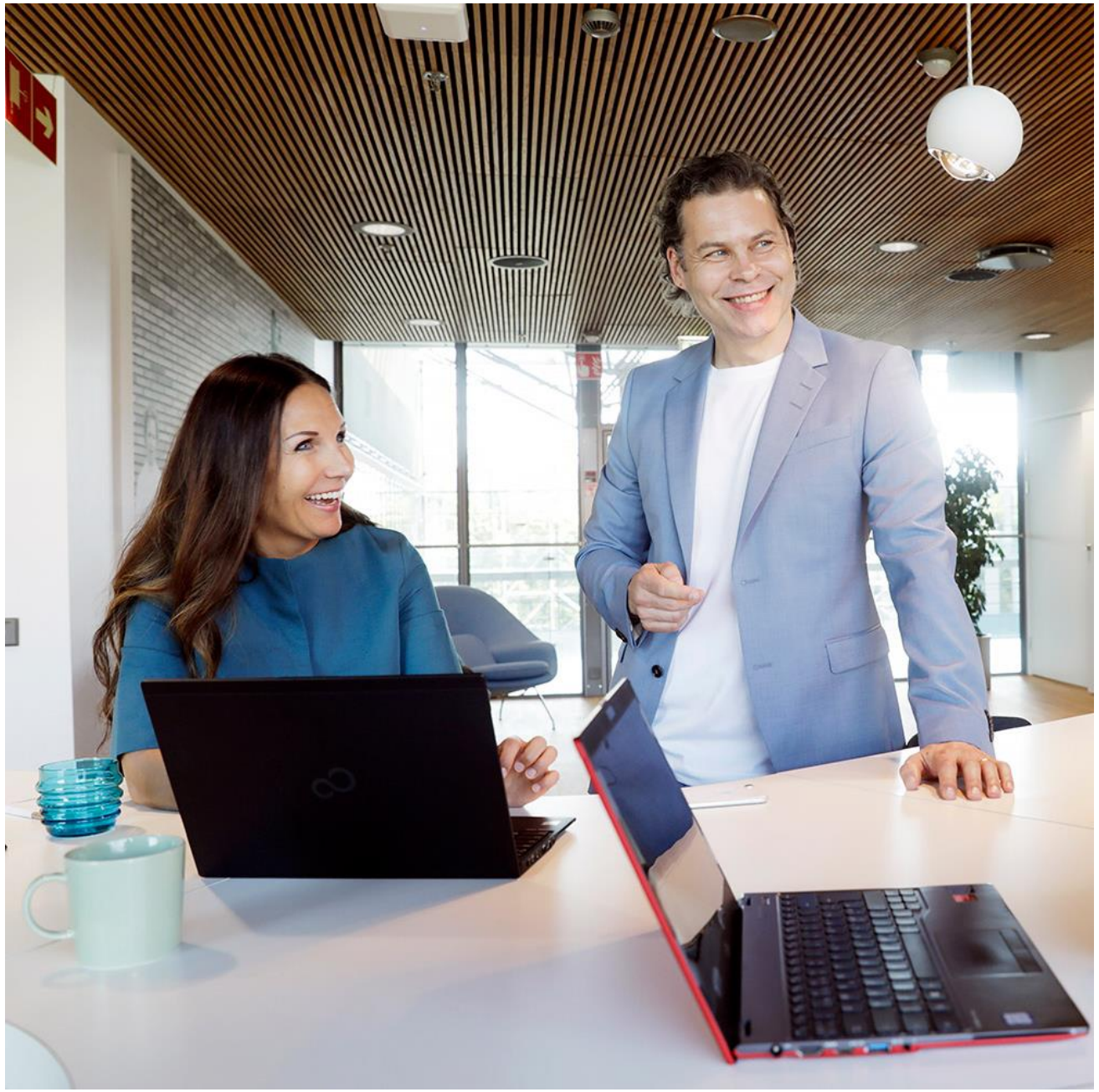
Work ability project themes and customer satisfaction, January–September 2023

Themes of development projects carried out with customer companies



- Developing work ability models with knowledge
- Supporting psychological and physical work ability
- Functioning of work communities
- Developing supervisors' leadership skills in work ability

Work capacity services' NPS 77



Cost-effective operations

Operating expenses and personnel

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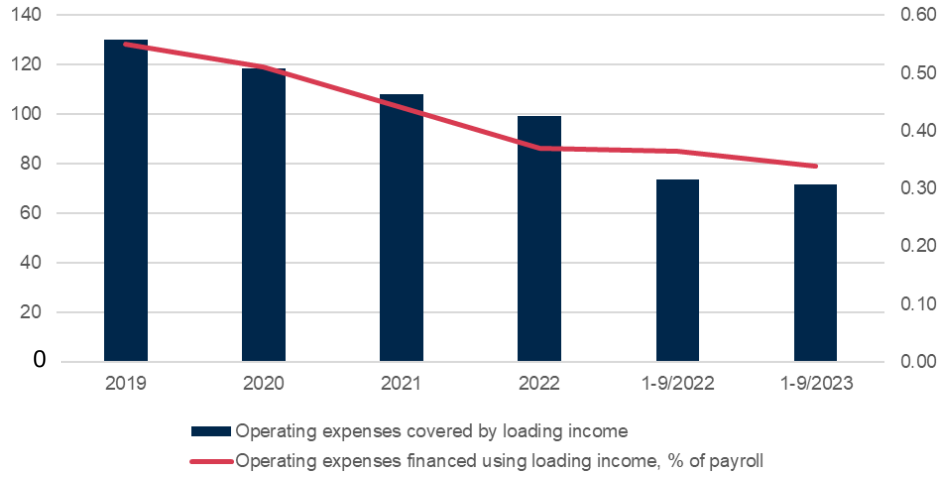
Operating expenses financed using loading income decreased 2% to EUR 72 million and were 0.34% of the payroll

Total operating expenses, operating expenses financed using loading income and operating expenses using loading income of payroll 2019–2023 *) **)

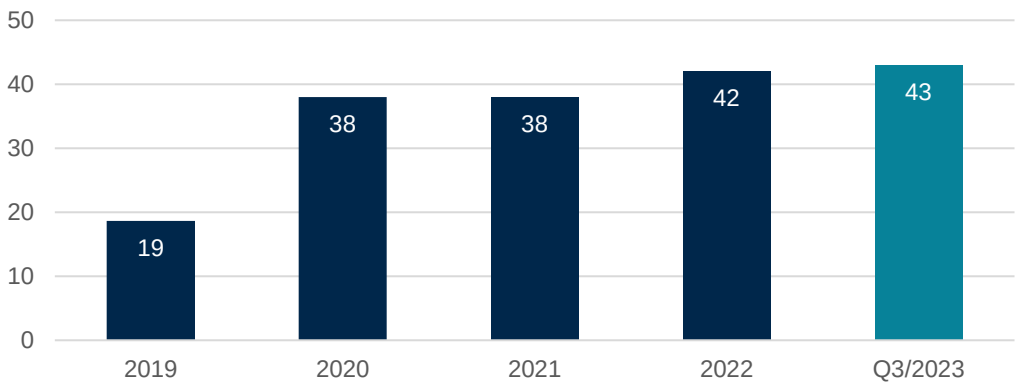


EUR million	1-9/ 2023	1-9/ 2022	2022	2021	2020	2019
Total operating expenses	110	107	151	157	158	175
Operating expenses covered by loading income	72	73	99	108	119	130
Operating expenses financed using loading income, % of payroll**)	0,34	0,36	0,37	0,44	0,51	0,55
Operating expenses financed using loading income per pensioners and insured, EUR	62	64	87	96	109	114

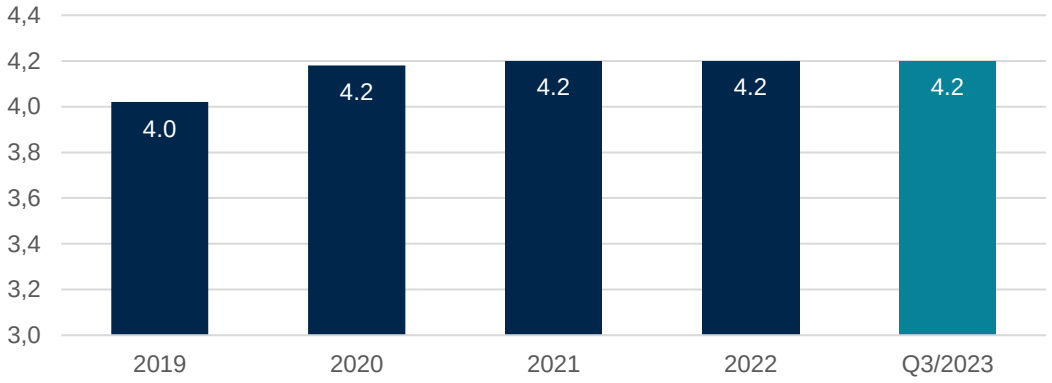
*) Operating expenses and operating expenses financed using loading income are presented above without the one-time write-down of EUR 18.2 million for intangible assets made in the financial statements for 2021
**) The payroll is the sum of TyEL payroll and YEL income

Personnel's work energy level remained excellent, at 4.2, number of absences due to illness declining

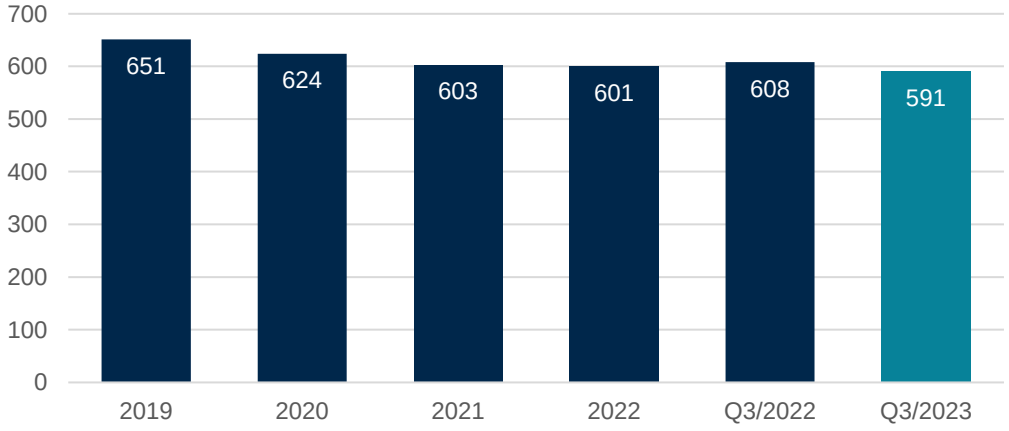
Employee Net Promoter Score (eNPS)



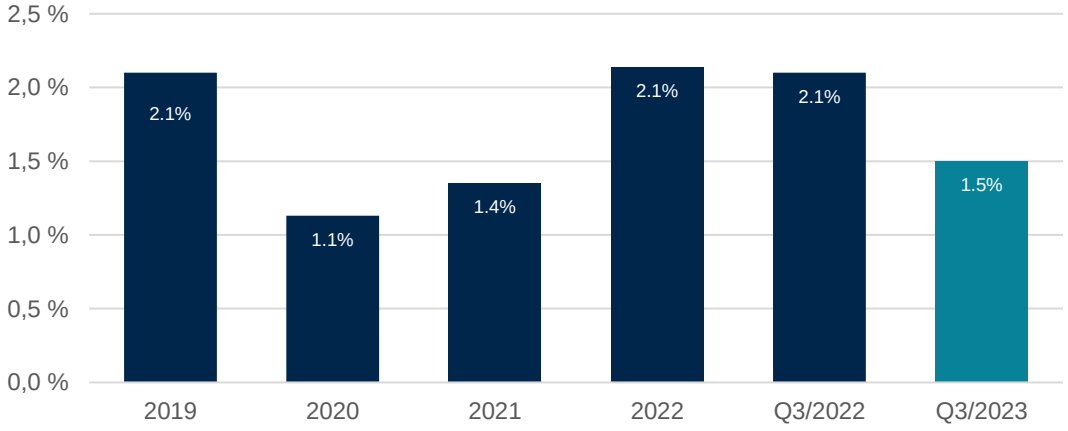
Personnel's average work energy (1–5)

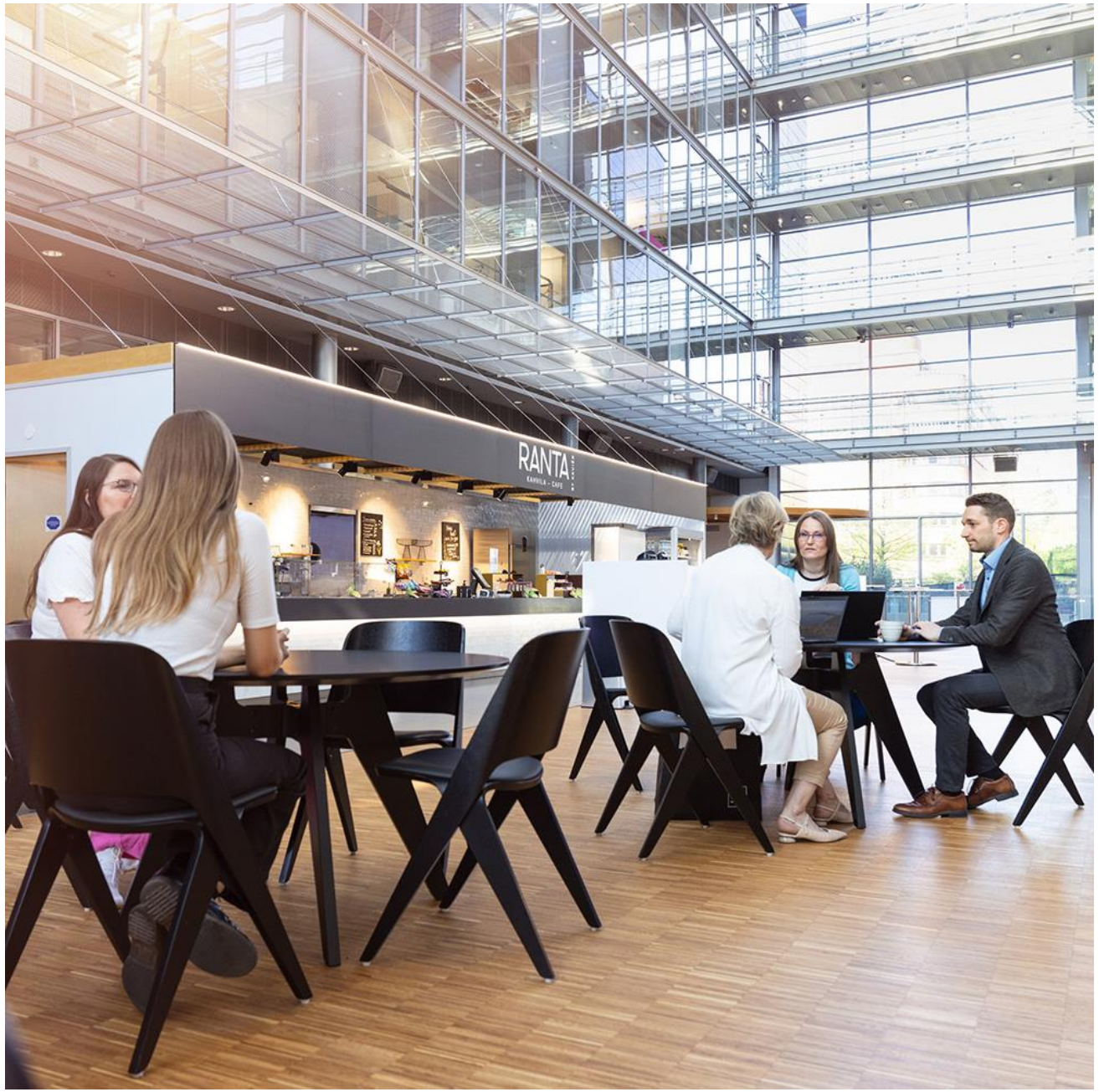


Average number of employees (person years)



Lost time due to sick leave





Profitably, securely and responsibly

Investment activities

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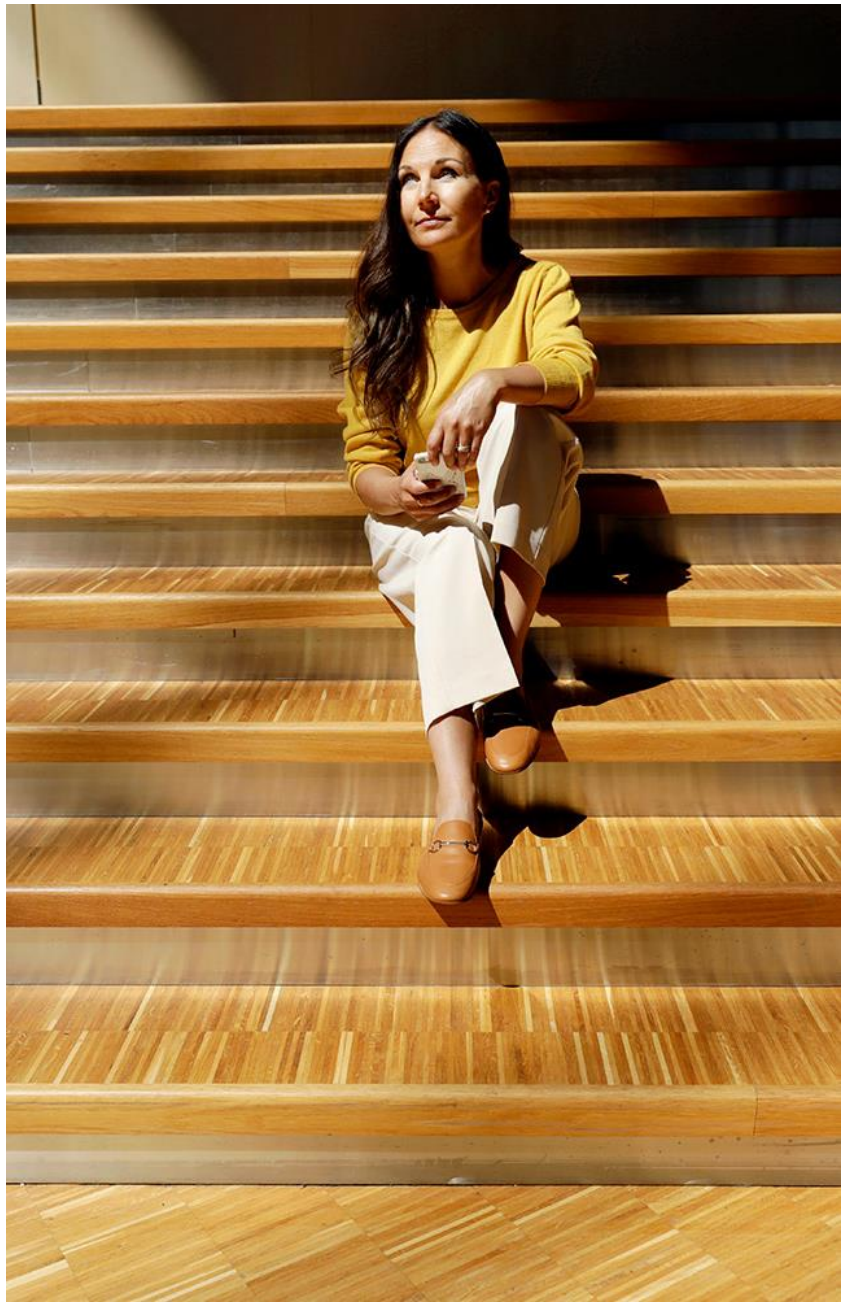
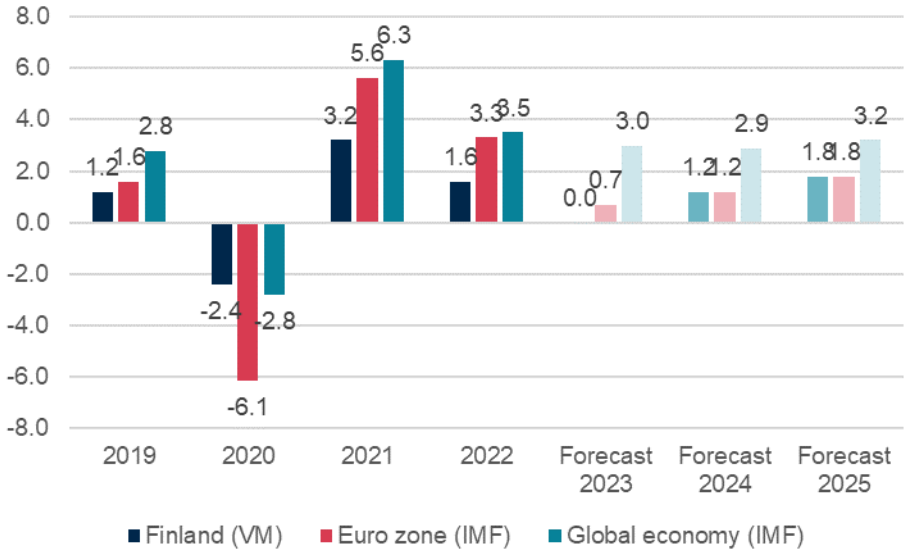
Key observations about the operating environment

- The rise in the interest rate level and general cost level combined with weakened consumer confidence has slowed economic growth this year. Major industry- and country-specific differences have been seen in the growth. In the USA, economic growth and the labour market have remained stronger than expected in the first three quarters of the year, and in Europe, growth has been more subdued. Finland's economy grew slightly in January–September, but the outlook for the rest of the year is weaker. The real estate sector in particular already faces challenges.
- Inflation slowed in the first three quarters of the year. The year-on-year change in consumer prices in September was 4.3 per cent in the euro zone and 3.7 per cent in the USA.
- In the USA, the equity market (S&P 500 index) return for January–September was some 13 per cent, bolstered especially by the positive performance of the largest tech companies. In Europe, the EURO STOXX 50 index also returned 13 per cent in January–September.
- The Helsinki stock exchange's return for all of this year was roughly seven per cent negative.

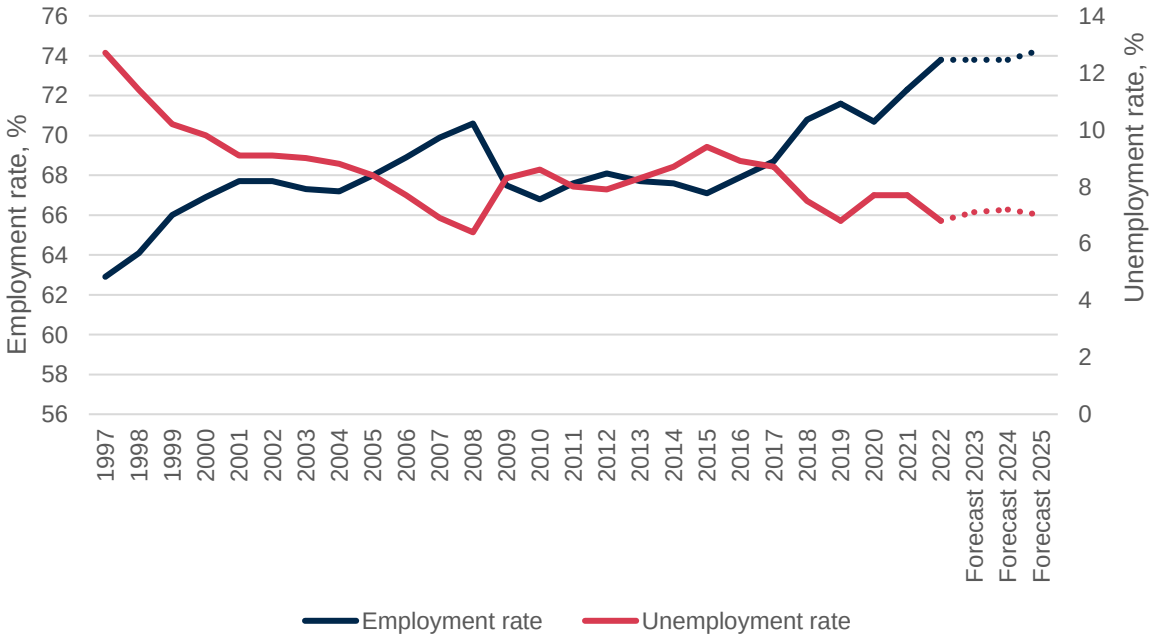


The global growth forecast is 3.0 per cent for 2023, Finland's growth forecast is 0.0 per cent

GDP development, %



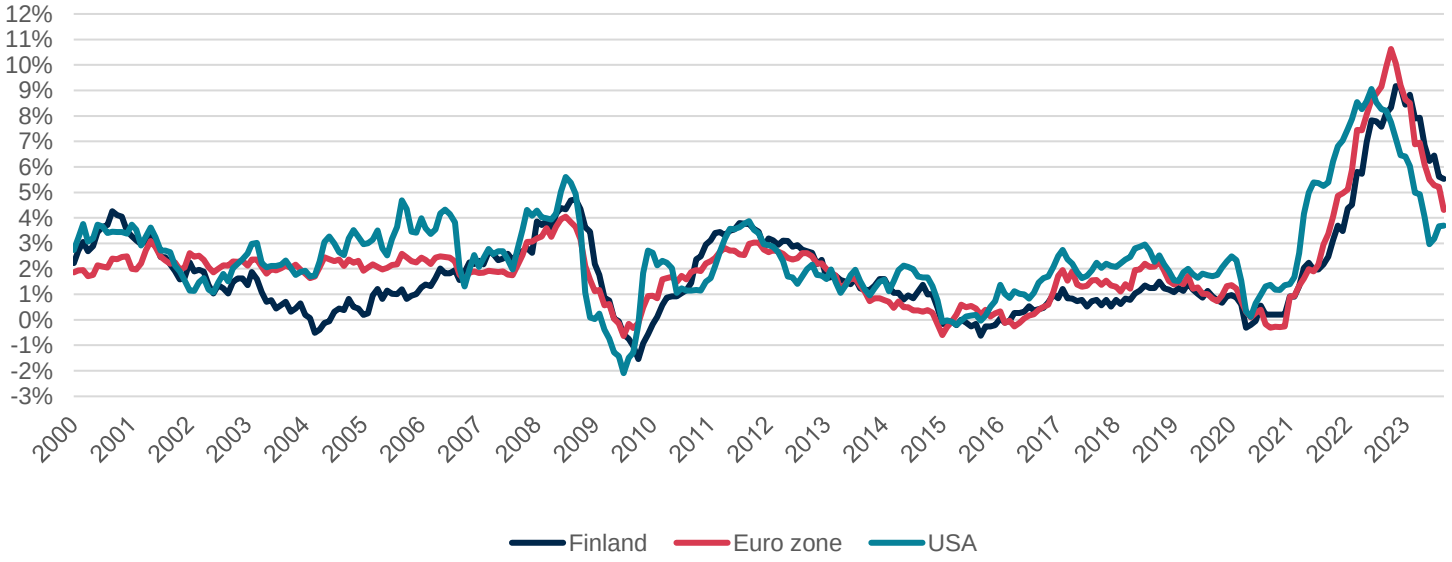
Development of Finland's employment and unemployment rates, %



Sources: Statistics Finland, Ministry of Finance (9.10.2023), IMF (estimate 10/2023)

Inflation has continued to decelerate, but core inflation has fallen slower than the target

Year-on-year change in consumer prices



- In September, inflation was 3.7% in the USA, 4.3% in the euro zone and 5.5% in Finland.
- Inflation continued to decelerate during Q3. However, core inflation, less energy and food prices, has fallen slower than the target, especially in services.
- In Finland, the rise in consumer prices year-on-year was mitigated most by falling prices of electricity, single-family homes and owner-apartments.

The capital markets' performance was weak in Finland

- Stock prices rose 13 per cent in the USA and the euro zone.
- In Finland, the return for the equity market was 7 per cent negative in January–September.

Equity market performance

Stock valuation level
(P/E based on 12-month forecasts)

The rise in key interest rates levelled out during Q3

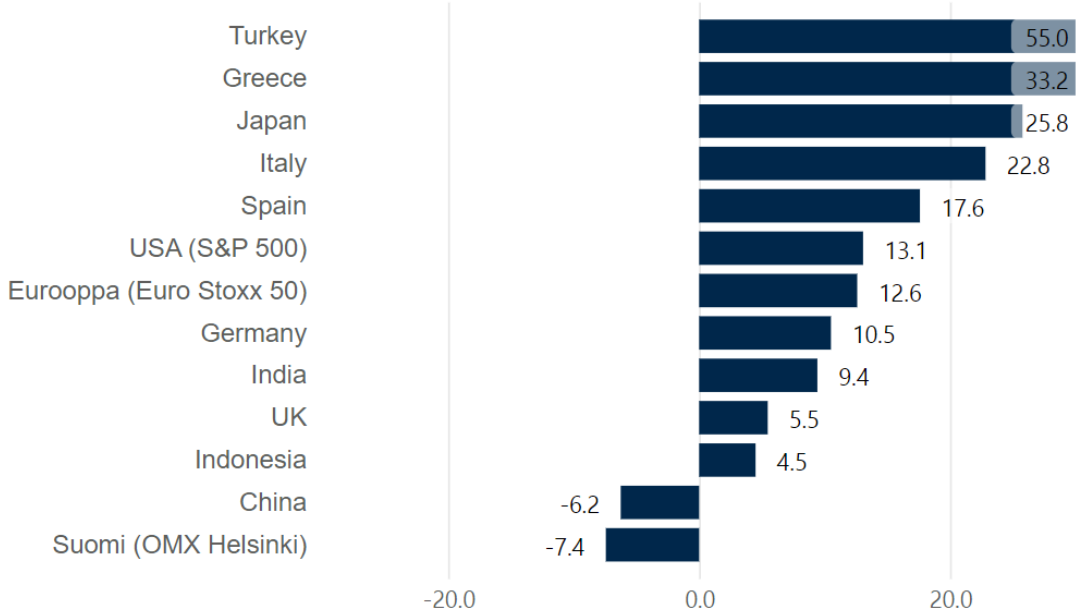
Credit spreads at the end of September were at the same level as they were at the start of the year

Development of interest rates

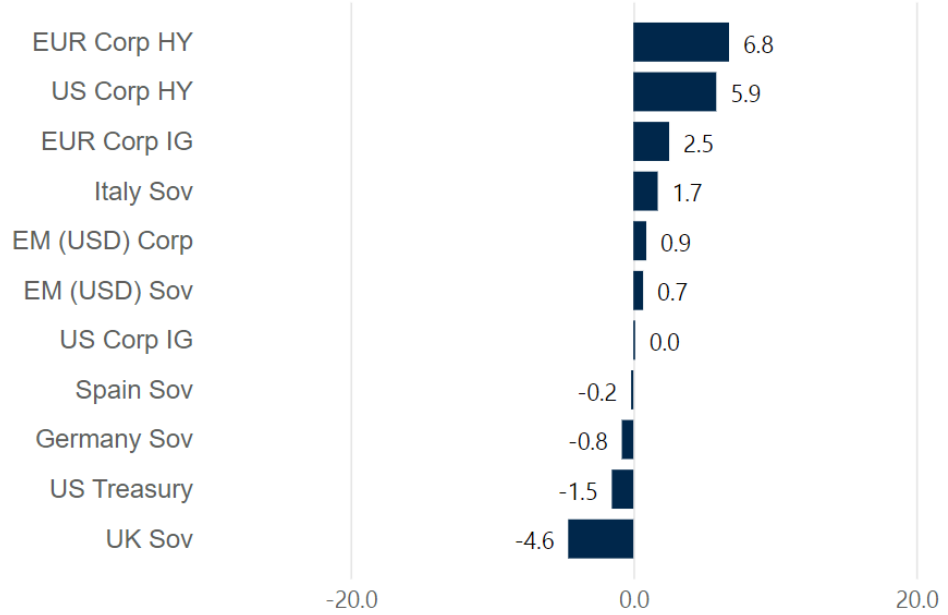
Development of credit risk premiums

Market development 30 September 2023

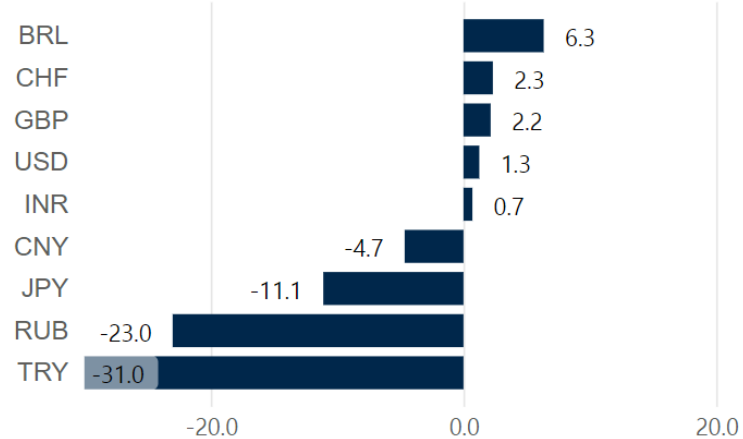
Equity market YTD %



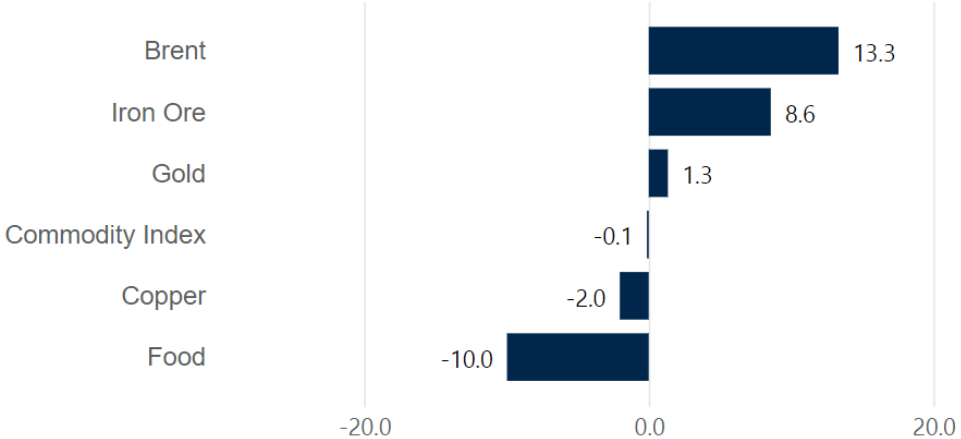
Fixed income YTD %



Currency against the euro YTD %



Commodities YTD %



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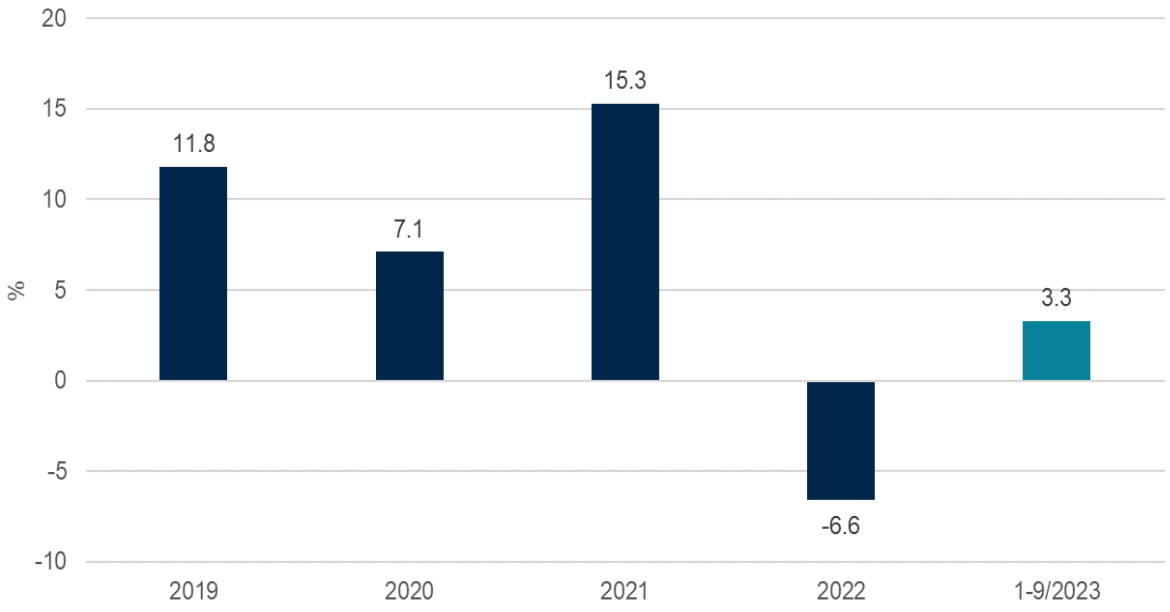
The return on Ilmarinen's investment portfolio grew to 3.3 per cent, i.e. EUR 1.9 billion

Return on investments

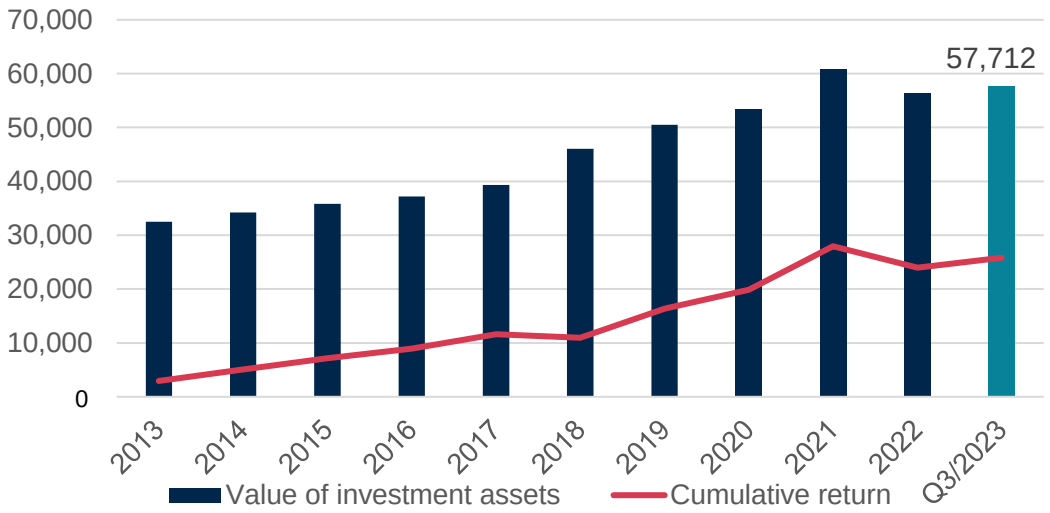


Average nominal return on investments over 5 years 5.0% and real return 1.5%

Value of investments EUR 57.7 billion, long-term nominal return 5.7 per cent per annum

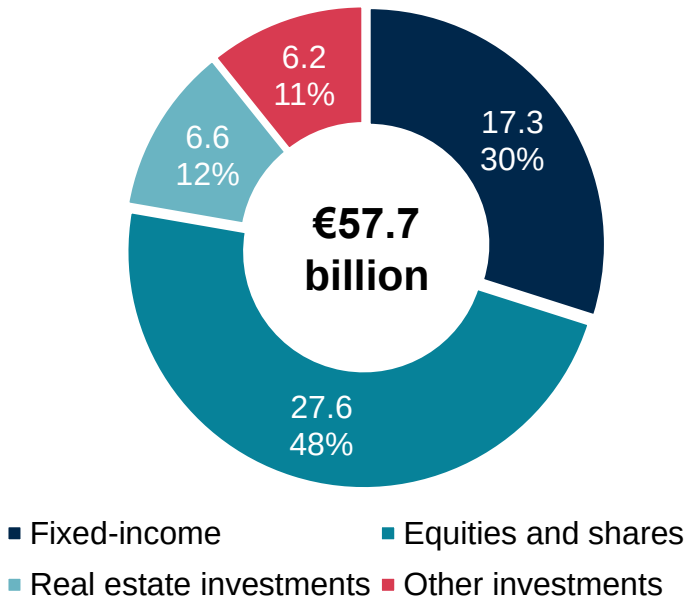
The cumulative return on investments from the start of 2013 was EUR 26 billion

Value of investments and cumulative return 2013–30 September 2023, € million



Average nominal return on investments over 10 years 5.6% and real return 3.5%.

Breakdown of investments, 30 September 2023



The return on Ilmarinen's investment portfolio was 3.3%,

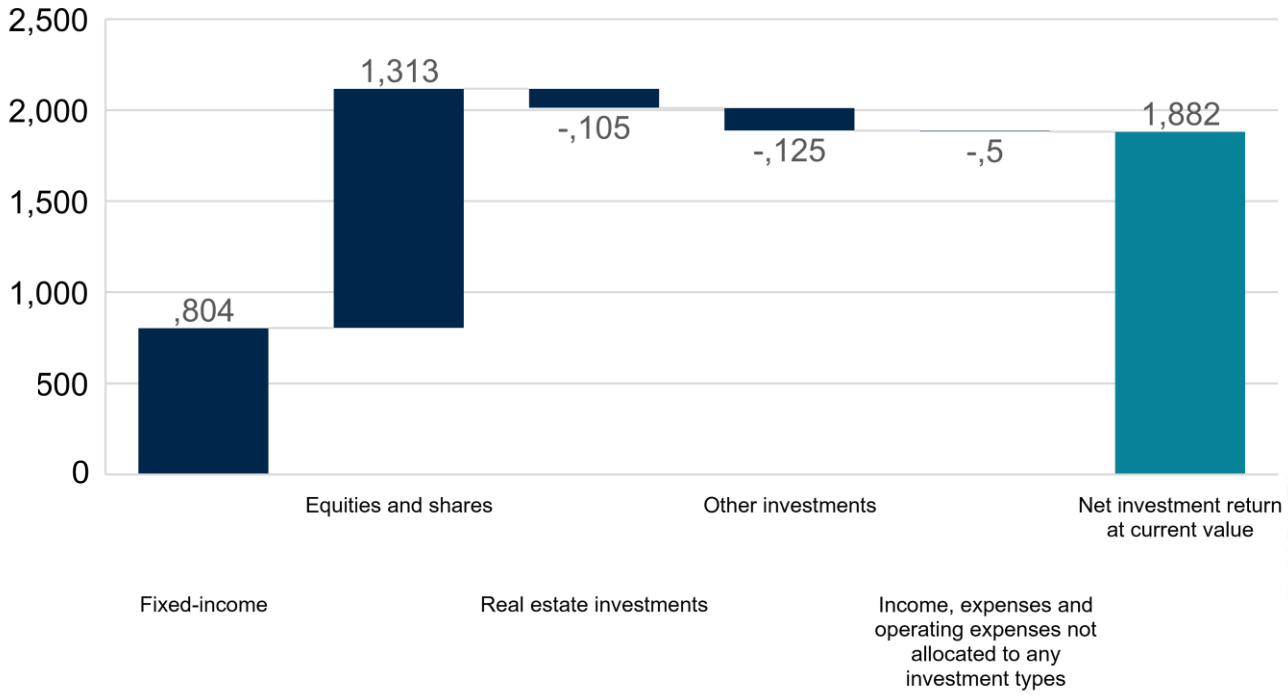
driven by the equity market's positive performance and fixed income and credit risk investments. Challenges in the real estate market lowered the returns on real estate investments.

Returns January–September, per cent

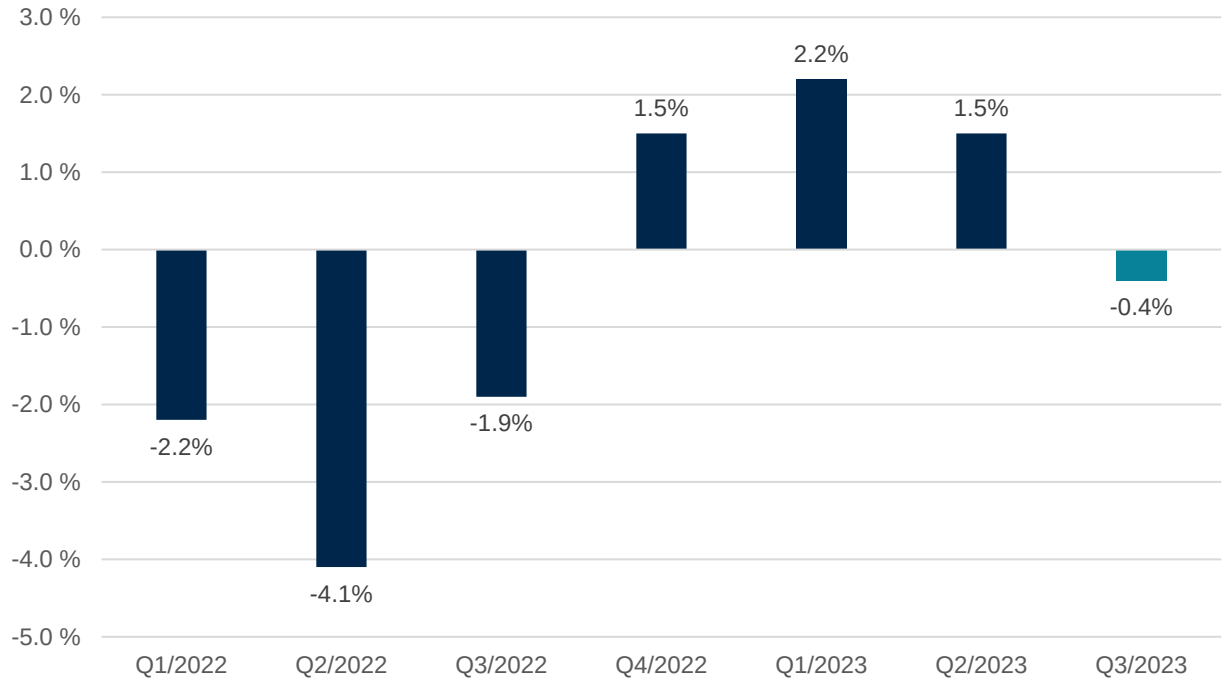
Return by type	1-9/2023	1-9/2022	2022
Return on investments	**3.3**	**-8.0**	**-6.6**
Fixed income	4.7	-5.7	-5.2
Equities and shares	5.0	-12.8	-10.2
Real estate investments	-1.6	4.0	1.3
Other investments	-2.0	-3.3	-1.1

Long-term return on investments (since 1997): nominal return 5.7% and real return 3.7%

Return by type of investment, € mill.



The return on investments in Q3 was -0.4 per cent, i.e. EUR 0.2 billion negative

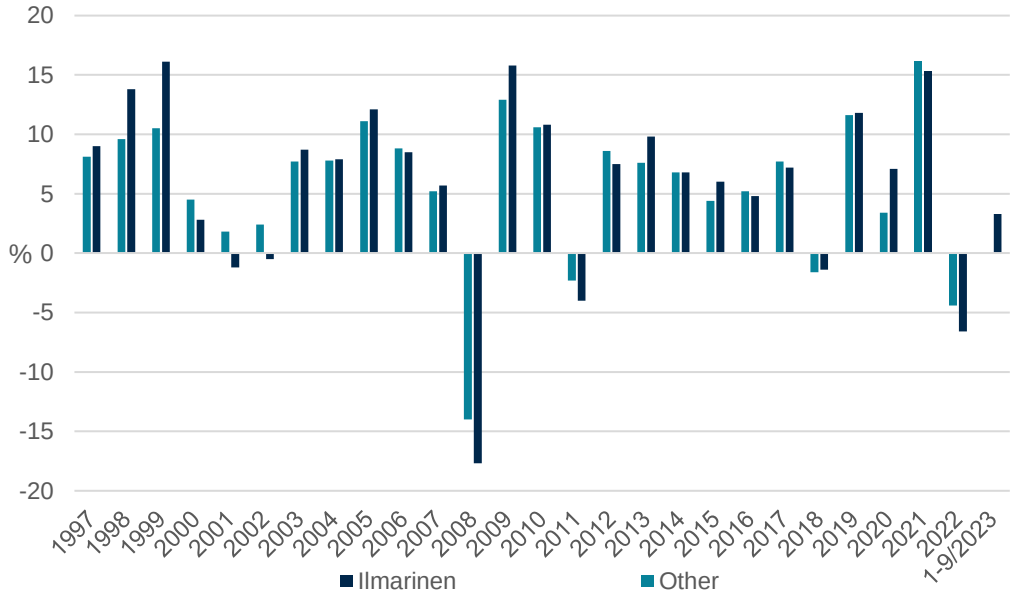


The rise in the interest rate level was reflected in the returns on real estate investments, which turned negative.

The rate of key interest hikes levelled out during Q3.

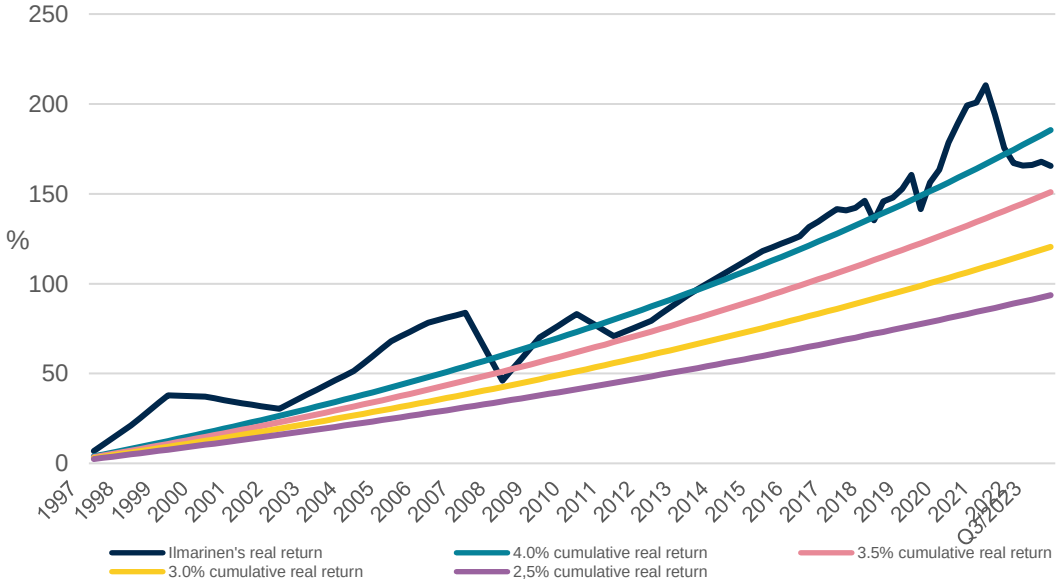
The long-term average nominal return is 5.7 per cent per annum, or 3.7 per cent in real terms

Net return on investments at current value



Average nominal return (1997-) 5.7%
Average real return (1997–) 3.7%

Cumulative net return on investments 1997–30 September 2023



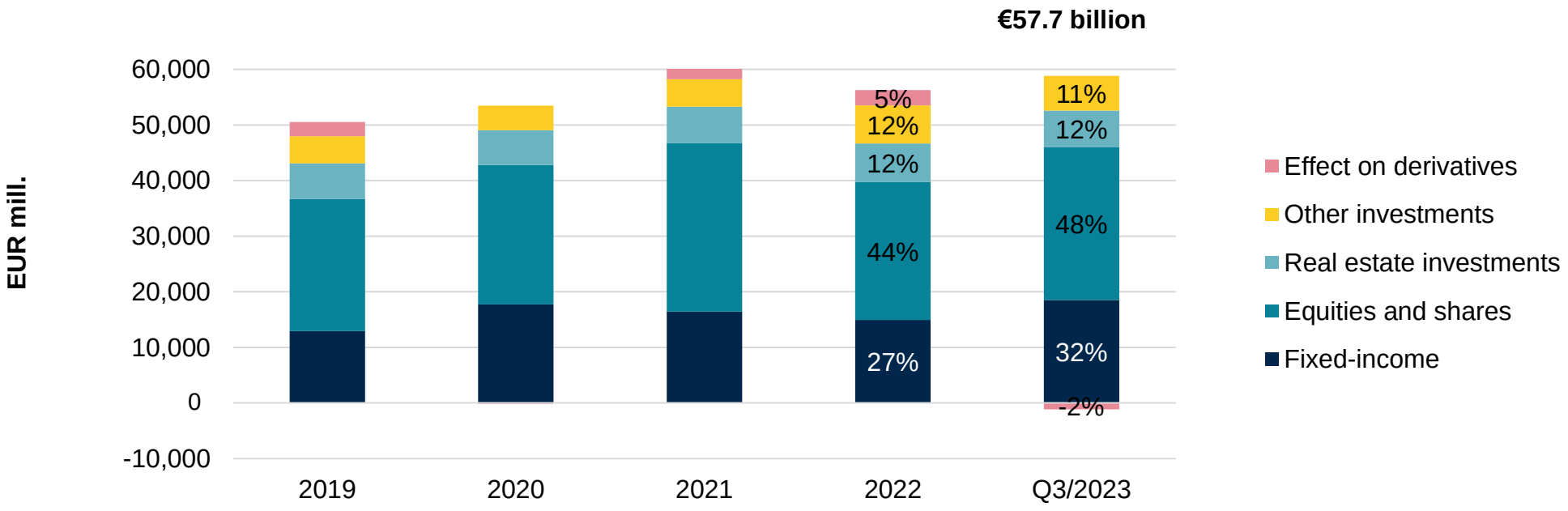
Long-term return at a good level

Average return of different markets

%	Ilmarinen	Finnish equities and shares	European equities and shares	Euro government bonds	Euro corporate bonds
Q3/2023	-0.4	-3.9	-2.1	-2.5	0.3
2023	3.3	-6.6	8.5	-0.1	2.4
2022	-6.6	-12.7	-10.6	-18.4	-14.2
Average return over 5 years	5.0	4.0	5.9	-2.2	-1.2
Average return over 10 years	5.6	9.0	6.5	0.7	0.9
Average return over 20 years	5.4	9.7	6.8	2.5	2.6
Average return since 1997	5.7	9.1	6.4	3.5	3.5
Real average return over 5 years	1.5	0.6	2.4	-5.4	-4.4
Real average return over 10 years	3.5	6.8	4.4	-1.3	-1.1
Real average return over 20 years	3.4	7.6	4.8	0.6	0.7
Real average return since 1997	3.7	7.1	4.4	1.5	1.6

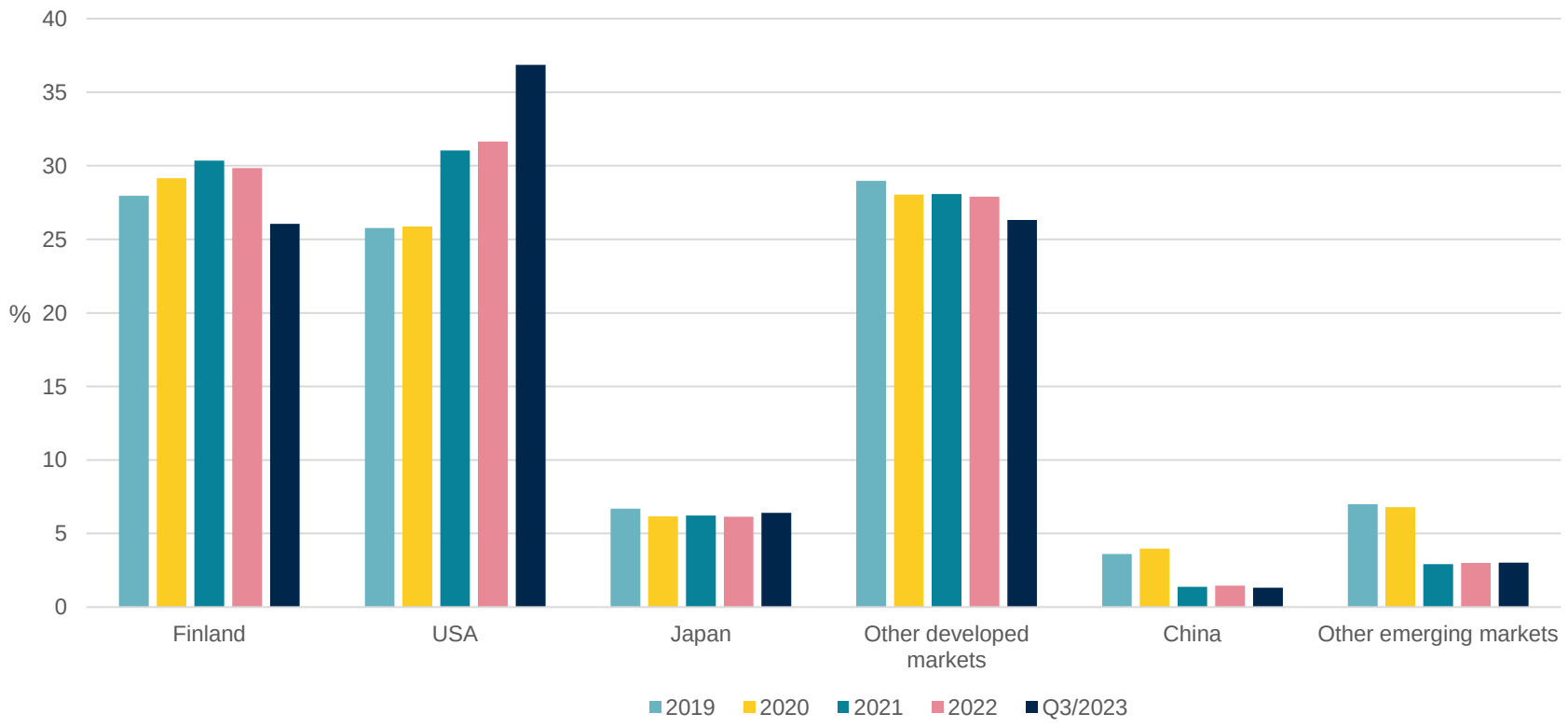
The share of equity investments increased to 48 per cent and that of fixed income investment to 32 per cent

Breakdown of investment risks



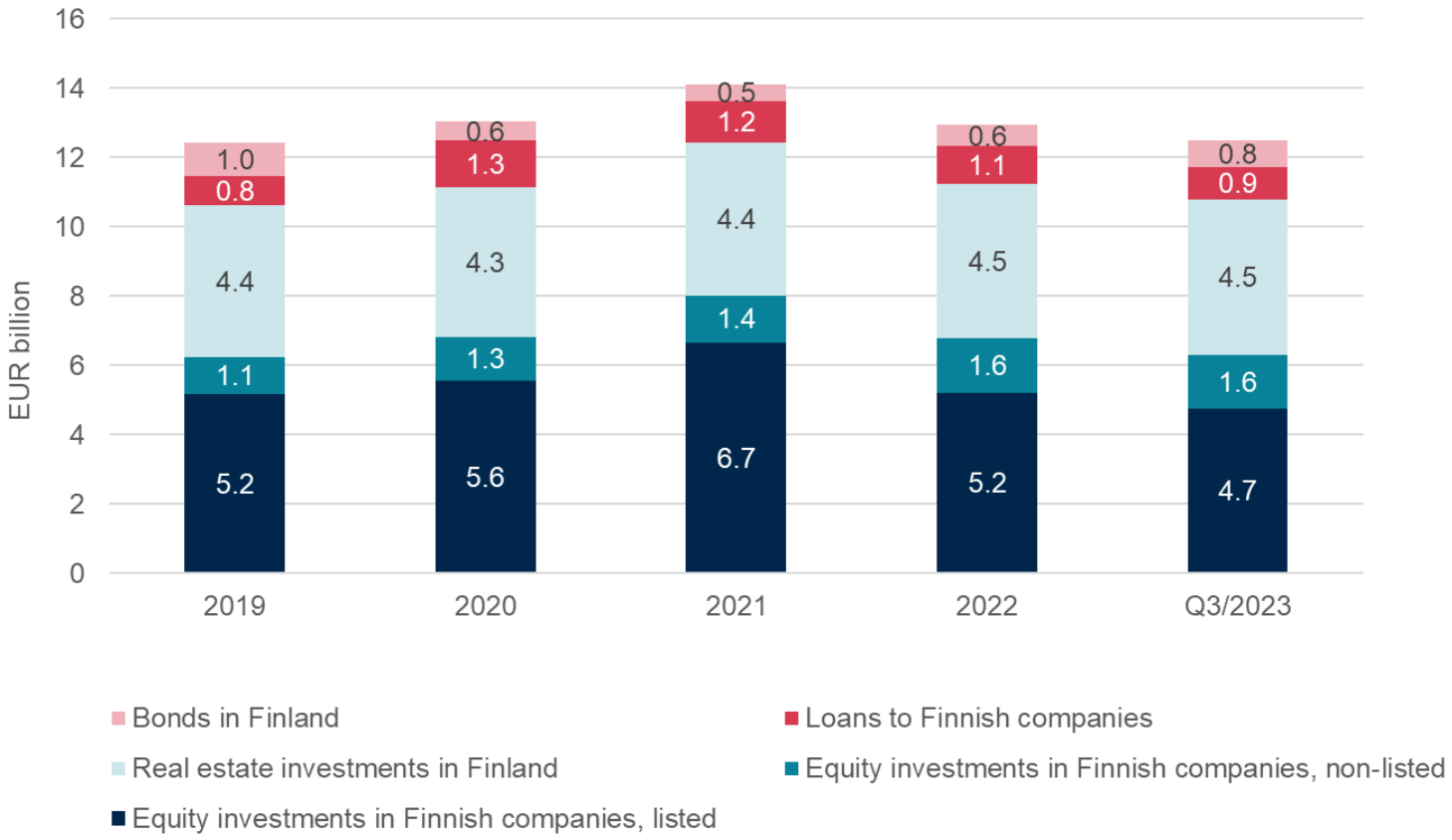
Share of Finnish listed equity investments 26 per cent

Geographical breakdown of listed equities



Ilmarinen's investments in Finland were EUR 12.5 billion, i.e. 22 per cent of the investment portfolio

Investments in Finland 2019–30 September 2023, € bn



Holdings in Finnish publicly listed companies EUR 4.7 bn

Largest Finnish listed equity holdings

EUR mill.	30 Sept 2023	31 Dec 2022
Nordea Bank Abp	321	306
UPM-Kymmene Corporation	300	289
Neste Corporation	293	285
Nokia Corporation	259	286
Sampo Plc	257	310
Kone Corporation	256	286
Kesko Corporation	254	297
Stora Enso Corporation	232	253
Metso Outotec Corporation	229	236
Fortum Corporation	225	275

Ownership percentage	30 Sept 2023	31 Dec 2022
Nurminen Logistics Oyj	14.9	14.9
SRV Yhtiöt Oyj	11.4	11.4
Digia Oyj	10.2	12.5
Administer Oyj	8.7	8.7
Solteq Oyj	8.5	8.5
Kojamo Oyj	8.3	8.3
Citycon Oyj	7.6	7.6
Siili Solutions Oyj	7.5	7.4
Glaston Oyj	7.3	7.3
Bioretec Ltd.	7.1	0.0

Summary of return on investments for January–September

	Basic breakdown EUR mill.	%	Risk breakdown EUR mill.	%	Return %	Volatility
Fixed-income investments	**17,261**	**30**	**18,513**	**32**	**4.7**	
Loan receivables	1,691	3	1,691	3	4.3	
Bonds	15,126	26	17,470	30	5.1	5.8
Public corporation bonds	5,590	10	5,793	10	1.5	
Other bonds	9,536	17	11,677	20	7.3	
Other money market instruments and deposits (incl. investment receivables and payables)	443	1	-648	-1	1.2	
Equities and shares	**27,602**	**48**	**27,460**	**48**	**5.0**	
Listed equities and shares	18,191	32	18,049	31	5.5	13.9
Private equity investments	7,881	14	7,881	14	4.3	
Non-listed equities and shares	1,530	3	1,530	3	3.4	
Real estate investments	**6,640**	**12**	**6,640**	**12**	**-1.6**	
Real estate investments	5,931	10	5,931	10	-1.8	
Real estate funds and joint investments	709	1	709	1	0.4	
Other	**6,209**	**11**	**6,248**	**11**	**-2.0**	
Hedge fund investments	5,060	9	5,060	9	2.9	7.3
Commodity investments	3	0	-37	0	-	
Other investments	1,146	2	1,225	2	-17.9	
Investments total	**57,712**	**100**	**58,861**	**102**	**3.3**	**5.4**
Effect of derivatives	0		-1,149	-2		
Investments at current value	**57,712**		**57,712**	**100**		

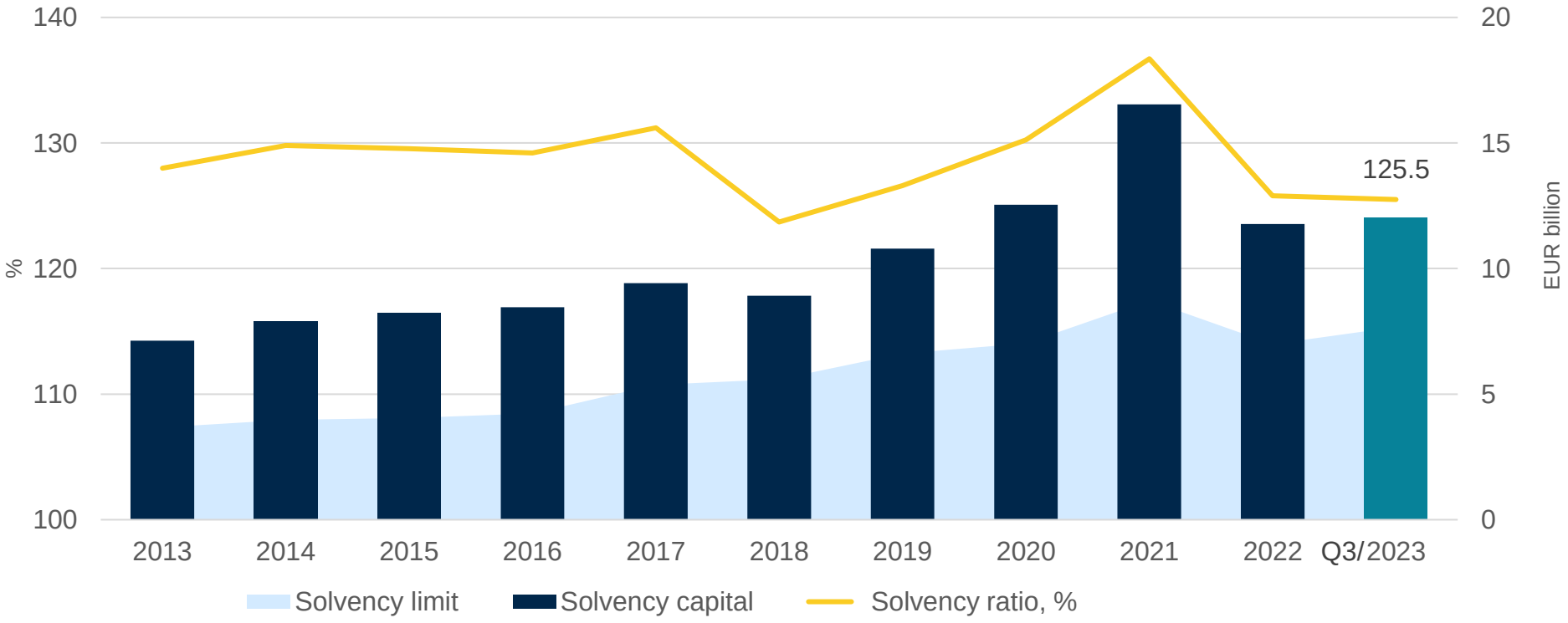
The modified duration of bond investments is 3.7 years

The open currency position is 24.1% ofthemarket value of the investments.

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

Solvency capital rose to EUR 12.0 billion and the solvency ratio fell 0.3 percentage points to 125.5 per cent, while the solvency position stood at 1.6

Solvency capital, solvency ratio and solvency limit 2013–30 September 2023



Future prospects and current information about the pension system

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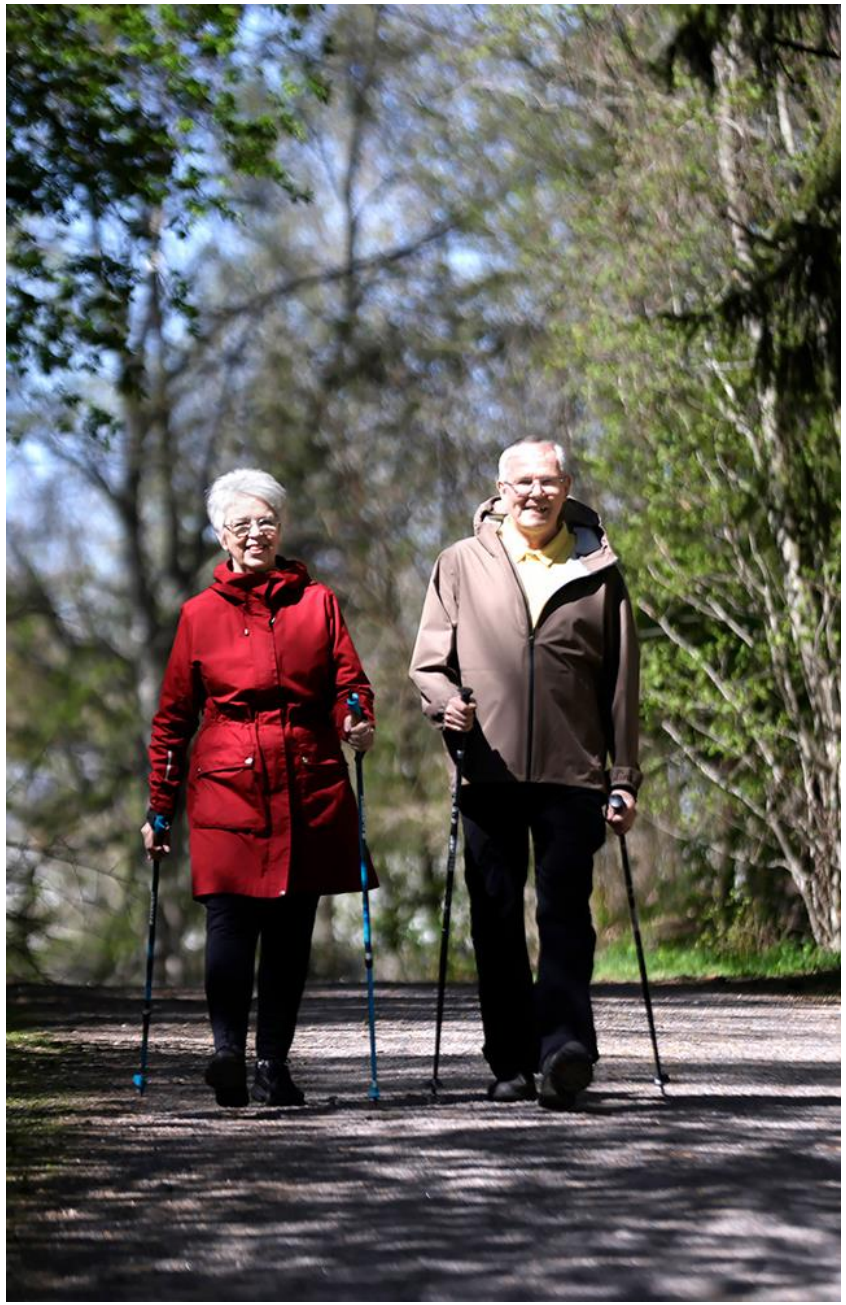
Future prospects

- Prolonged inflation, the weakening of consumers' purchasing power and geopolitical tensions cast a shadow over the global economic growth outlook. Global economic growth is anticipated to decelerate this year to approximately 3 per cent, and Finland's economy is expected to weaken to zero growth and head into recession.
- Ilmarinen's premiums written are expected to grow on the back of payroll growth, but the growth pace is expected to slow from the previous year.
- The longer-than-expected duration of inflationary pressure and the resulting prolonged tighter monetary policy are key risk factors, in addition to geopolitical tensions, for economic growth and the capital markets. Furthermore, the weakening of companies' earnings outlook is causing uncertainty on the markets.
- The key risks affecting Ilmarinen's operations and the earnings-related pension system are related to the development of employment and payroll, changes in disability pension incidence, uncertainty in the investment markets, the development of demographics, and the exceptionally low birth rate.

Current information about the pension system

- At the start of 2023, an exceptional index increase of 6.8% was made to earnings-related pensions, which led to a large influx of applications. From the start of 2024, pensions will be raised by 5.7%.
- The administrative cost component included in the earnings-related pension insurance contribution became company specific as of the start of 2023. Every pension company has its own contribution criteria for the administrative cost component.
- The act on more detailed specifications on determining entrepreneurs' YEL income and reviewing the YEL income for existing insurance policies came into force at the start of 2023. This year's reviews at Ilmarinen are wrapping up.
- The government is preparing issues related to earnings-related pension policy with key labour market organisations in tripartite negotiations until January 2025.
- Finns' confidence in the pension system has remained high, according to the 2023 Pension Barometer survey released by the Finnish Centre for Pensions.