

# ILMARINEN'S INTERIM REPORT 1 JANUARY TO 31 MARCH 2016

## Operating environment

The investment year 2016 started on a weak note as the devaluation of China's currency and the decline in the price of oil fuelled global growth and deflation fears. The sentiment grew even gloomier with the increasing probability of a US slowdown, the uncertainty surrounding the stability of the balance sheets of banks in the eurozone and fears of monetary policy makers running out of options. The global stock markets declined 12 per cent in local currency during the first six weeks of the year, but recovered once the fears held early in the year dissipated, and generated a return of -1.4 per cent by the end of the quarter. The price of oil bottomed out at under USD 28, but closed the quarter at USD 40. The measures announced by the European Central Bank in its March meeting were successful in stabilising the long-term financing outlook for banks. The interest rate of the 10-year German bond decreased from 0.63 at the turn of the year to 0.16 per cent at the end of the reporting quarter.

## Return on investments

At the end of the first quarter of 2016, Ilmarinen's total investments at current value were EUR 35,759.3 million (EUR 36,996.4 million on 31 Mar 2015). The return on investments at current value was -1.4 (7.1) per cent. Calculated at current value, the average annual income over the last five years has been 4.6 per cent, which corresponds to an average annual real income of 3.4 per cent. Calculated from 1997, the average annual return at current value for Ilmarinen's investments has been 5.7 per cent. This corresponded to an annual real yield of 4.1 per cent.

Fixed income investments accounted for a total of 45.2 (46.9) per cent of the investment portfolio and their return at current value was -0.5 (1.2) per cent. Their total market value, taking into account derivatives, was EUR 16,147.4 (17,347.5) million. Bonds accounted for a total of 40.1 (38.3) per cent of Ilmarinen's investment assets and their return was -0.7 (0.9) per cent. Other money market instruments and deposits totalled EUR 710.0 (1,669.2) million and accounted for 2.0 (4.5) per cent of the investment assets. Loan receivables made up 3.1 (4.0) per cent of the investment assets, with a return of 0.9 (1.3) per cent. The modified duration of bond investments was 0.6 (-1.8) years.

Listed and non-listed equities and shares as well as private equity investments made up 38.4 (37.6) per cent of all investments. Their value stood at EUR 13,721.7 (13,928.6) million at the end of the quarter. The amount of risk related to listed equities and shares was reduced by EUR 446 million through derivatives. Their proportion of the risk breakdown was 28.6 (30.9) per cent. Domestic equities made up 26.7 (29.9) per cent of investments in listed equities and shares. The return on equities, calculated at current value, was -3.7 (14.9) per cent. The return on listed equity investments was -5.5 (17.7) per cent.

Real estate investments at the end of the quarter stood at EUR 4,053.5 (3,639.6) million, accounting for 11.3 (9.8) per cent, of which indirect investments made up 1.4 (1.3) percentage units. The total return of the real estate investments was 0.7 (1.4) per cent. The return on direct real estate investments was 0.8 (1.2) per cent.

Of the market value of investment assets, 5.1 (5.6) per cent consisted of commodity investments, investments in absolute return funds and other investments. Absolute return funds accounted for EUR 651.5 (649.8) million and generated a return of -4.6 (12.7) per cent on capital employed.

## Solvency

Ilmarinen's solvency weakened compared to the end of 2015, but still remained strong. Solvency capital at the end of the quarter stood at EUR 7,475 (9,688) million.

Ilmarinen's technical provisions amounted to EUR 30,208 (29,048) million. The solvency technical provisions, in the amount of EUR 28,078 (27,071) million, do not include the provision for future bonuses of EUR 1,179 (929), the equalisation provision of EUR 931 (1,029) and the technical provision for YEL basic insurance of EUR 20 (19) million. Ilmarinen's solvency ratio on 31 March 2016 was 26.6 (35.8) per cent. The ratio of the solvency capital to the solvency limit was 2.1 (2.6).

## Insurance operations

In the first quarter of 2016, Ilmarinen's customer acquisition made good progress and customer retention improved. Premiums written are expected to be at the same level as in the previous year.

At the end of March, Ilmarinen had 323,952 pensioners, to whom a total of EUR 1,136 (1,121) million was paid in benefits. During the quarter, 6,253 new pension decisions were made, which is 8.2 per cent more than in the previous year. The total number of pension decisions made was 11,482 and that of new rehabilitation decisions 789.

The operating expense ratio which measures the operational efficiency of Ilmarinen's activities is expected to be at around 77 per cent in 2016.