



ILMARINEN'S INTERIM REPORT

1 JANUARY TO
31 MARCH 2018

THE MERGED ILMARINEN TAKES CARE OF THE PENSION COVER OF MORE THAN 1.1 MILLION FINNS

JANUARY–MARCH PERFORMANCE IN BRIEF:

- In January–March, the return on Ilmarinen's investment portfolio was -0.1 per cent (1 Jan–31 March 2017: 2.2 per cent). At the end of March, the market value of investments stood at EUR 46.1 billion (31 March 2017: EUR 38.3 billion).
- The long-term average real return is 4.2 per cent per annum.
- Ilmarinen's solvency ratio remained at a good level, at 127.8 (129.7) per cent.
- Measured in premiums written, the customer base grew by approximately EUR 20 million during the first quarter.
- The merger of Ilmarinen and Etera was completed on 1 January 2018 as planned. The first phase of the integration process was a success. The new organisation started operations on 1 March 2018. The merged Ilmarinen takes care of the pension cover of more than 1.1 million Finns.

ILMARINEN

REVIEW BY PRESIDENT AND CEO STEFAN BJÖRKMAN



“The negative return on key equity markets depressed the Q1 investment result, which failed to rise above -0.1 per cent. The return on fixed income investments and real estate investments was positive, whereas equity investments and other investments remained in negative territory. In the past 12-month period, Ilmarinen’s investments have yielded 4.8 per cent, with the long-term average real annual return at 4.2 per cent, which clearly exceeds the 3.0 per cent return assumption used by the Finnish Centre for Pensions in its calculations. Following the merger, solvency declined somewhat, but was still at a strong level, at 127.8 per cent.

Since the beginning of the year, Ilmarinen has been managing the pension cover of more than 1.1 million Finns and we are the largest earnings-related pension insurer in Finland’s private sector. At the end of March, the number of pensioners was 468,000. During the early part of the year, we made more than 14,000 pension decisions, of which close to 8,000 were new pension decisions. In

February, we garnered interest by publishing a survey at the iAreena event. According to the survey, people currently retire on old-age pension in good health and up to four out of five would have had the physical and mental resources to continue in gainful employment. In March, we awarded, from among 100 nominees, Finland’s Best Boss in a national competition where anyone could nominate an excellent manager that they knew.

Measured in premiums written, the customer base grew by approximately EUR 20 million during the first quarter.

Etera’s merger into Ilmarinen was completed at the turn of the year. The first phase of the integration process was a success: the investment portfolios, HR and financial administration were merged as planned and the employees moved to shared premises in Ruoholahti. However, the integration process still continues by, for example, gradually merging the IT systems related to insurance and pensions over the next two years. Our objective is to fully achieve the integration benefits by 2020.

Ilmarinen’s organisation was restructured during the early part of the year. In January, we completed the co-operation negotiations concerning the entire personnel. Combining the strengths of both companies, the new organisation is better suited to meet the changes in the operating environment. We strengthened our expertise for instance in work capacity management, robotics and real estate investment. At the same time, we eliminated overlaps resulting from the merger.

Changes have also taken place in Ilmarinen’s senior management. Our previous President and CEO Timo Ritakallio took on the position of OP Financial Group’s President on 1 March 2018, and I, the undersigned, am temporarily in charge of the tasks of Ilmarinen’s President and CEO. Ilmarinen’s Board of Directors has elected Jouko Pölonen as the company’s new President and CEO. He will join Ilmarinen in the beginning of May and take on the position of President and CEO as of 1 August.”

OPERATING ENVIRONMENT AND INVESTMENT MARKET

Global economic growth continued to be strong during the first quarter. Despite economic growth, increased capacity utilisation rates and reduced unemployment, price pressure has remained moderate, enabling a slow normalisation of monetary policy. However, the growth environment is facing a number of threats: the falling of indicators measuring economic play-

ers’ outlook from their peaks, increased volatility in the equity markets and the risks related to trade and world politics. The main equity markets rose strongly in the beginning of the year to take a downward turn in February–March and closing the quarter in clearly negative territory. The total return on the OMX Helsinki capped index, which describes the performance of the Finnish equity market, was more than 3 per cent.

Ilmarinen's asset allocation and return

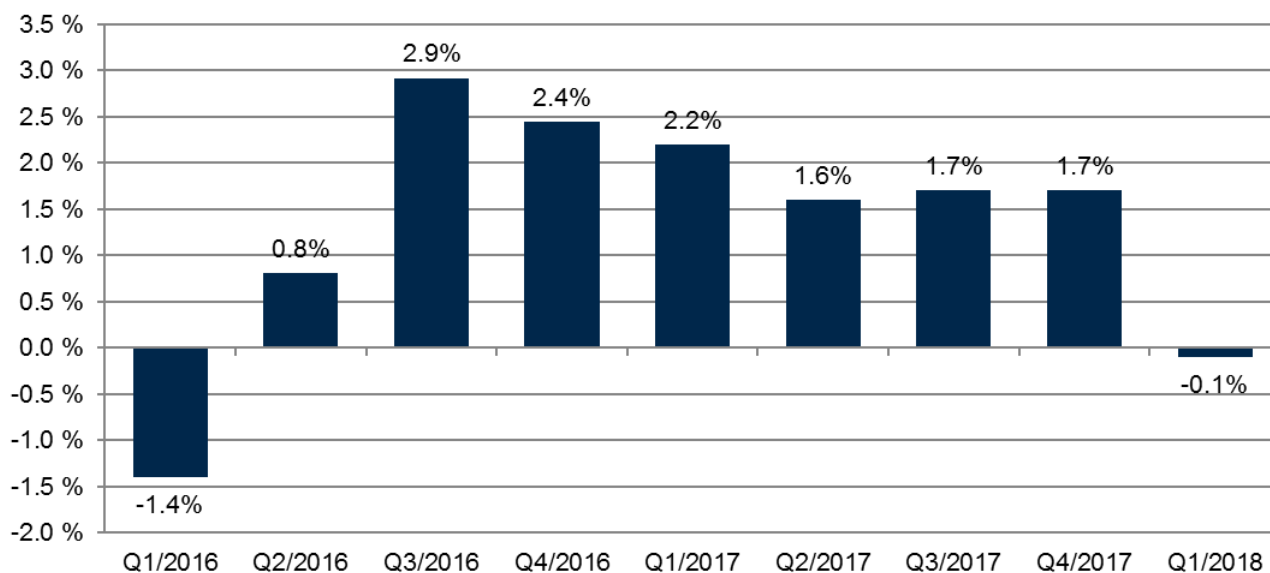
	Basic breakdown		Risk breakdown		Return		Volatility
	EUR mill.	%	EUR mill.	%	%		
Fixed-income investments	18,522.2	40.2	10,332.5	22.4	0.4		
Loan receivables	948.6	2.1	948.6	2.1	0.8		
Bonds	16,349.7	35.5	7,503.1	16.3	0.2	1.2	
Public corporation bonds	6,244.3	13.6	2,615.8	5.7	0.7		
Other bonds	10,105.4	21.9	4,887.3	10.6	0.0		
Other money market instruments and deposits (incl. investment receivables and payables)	1,223.9	2.7	1,880.8	4.1	1.4		
Equities and shares	19,533.5	42.4	19,960.1	43.3	-0.8		
Listed equities and shares	15,342.8	33.3	15,769.4	34.2	-1.6	6.3	
Private equity investments	3,150.8	6.8	3,150.8	6.8	3.1		
Non-listed equities and shares	1,039.9	2.3	1,039.9	2.3	0.3		
Real estate investments	5,818.9	12.6	5,818.9	12.6	1.3		
Real estate investments	5,187.2	11.3	5,187.2	11.3	0.8		
Real estate funds and joint investments	631.6	1.4	631.6	1.4	5.3		
Other	2,209.0	4.8	6,985.3	15.2	-0.9		
Hedge fund investments	1,242.6	2.7	1,242.6	2.7	-0.4	4.3	
Commodity investments	2.7	0.0	71.4	0.2	-		
Other investments	963.7	2.1	5,671.3	12.3	-2.9		
Investments total	46,083.5	100.0	43,096.7	93.5	-0.1	2.2	
Effect of derivatives			2,986.8	6.5			
Investments at current value	46,083.5		46,083.5	100.0			

The modified duration of bond investments is 0.9 years.

The open currency position is 23.3% of the market value of the investments.

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

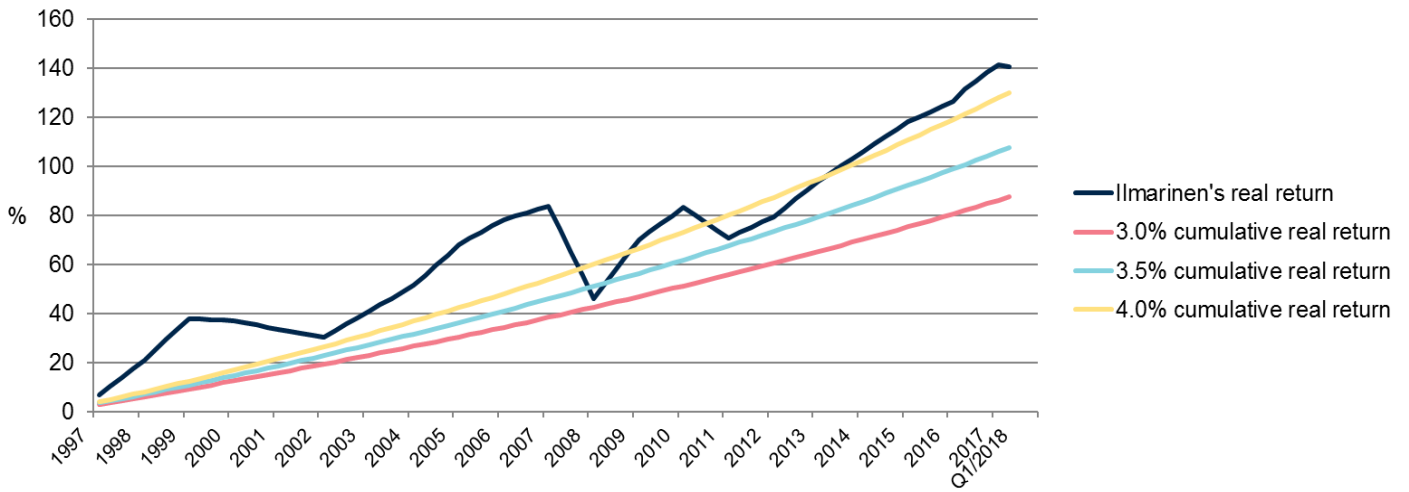
Quarterly investments returns Q1/2016–Q1/2018



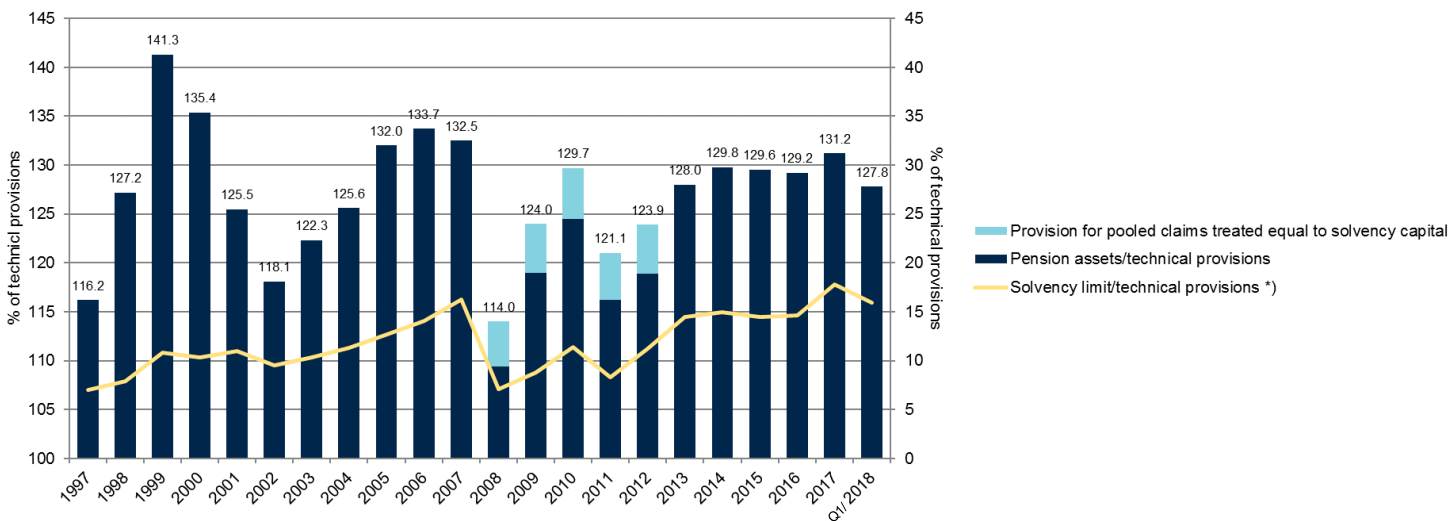
Government bond interest rates were clearly on the rise in January: the US 10-year interest rate approached three per cent and Germany's 10-year interest rate 0.8 per cent. In the US, the Fed raised the key interest rate in March, and in Europe, the conversation is focused on when the securities purchase programme will end and the subsequent first interest rate hike will take place. Inflation and inflation expectations remained

stable, supporting the very slow normalisation of central bank monetary policy. During the first quarter, the dollar continued to depreciate against the euro, by around 2.5 per cent. The Japanese yen benefited from the nervousness caused by equity market volatility among investors and appreciated against the euro by more than 3 per cent. Credit risk premiums grew during the first quarter.

Cumulative net return on investments 1997–31 March 2018



Solvency development



Solvency position was 1.8 (1.8).

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

*) 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.

INSURANCE OPERATIONS

At the end of March, Ilmarinen had altogether 467,790 (330,783) pensioners, to whom a total of EUR 1,448 (1,183) million was paid in benefits since the beginning of the year. Ilmarinen made a total of 7,940 (8,352) new pension decisions in January–March. The total number of pension decisions made was 14,138 (12,571). New rehabilitation decisions numbered 1,172 (911).

Measured in premiums written, Ilmarinen's customer acquisition grew by approximately EUR 20 million during the first quarter.

The operating expense ratio which measures the operational

efficiency of Ilmarinen's activities is expected to be at around 78 per cent in 2018, and the loading profit at roughly EUR 38 million.

RETURN ON INVESTMENTS

At the end of the first quarter of 2018, Ilmarinen's total investments at current value were EUR 46,084 million (31 March 2017: EUR 38,269 million). The return on investments at current value was -0.1 (2.2) per cent. Inflation at the end of the quarter was 0.2 per cent and the real return on Ilmarinen's investments was -0.3 per cent in January–March. Calculated at current value, the average annual return over the last five

years has been 6.5 per cent, which corresponds to an average annual real return of 5.9 per cent. Calculated from 1997, the average annual returns at current value for Ilmarinen's investments have been 5.8 per cent per annum. This corresponds to an annual real return of 4.2 per cent.

Fixed income investments accounted for a total of 40.2 (40.6) per cent of the investment portfolio and their return at current value was 0.4 (0.8) per cent. Their total market value was EUR 18,522 (15,540) million. Bonds accounted for a total of 35.5 (35.8) per cent of Ilmarinen's investment assets and their return was 0.2 (0.9) per cent. Other money market instruments and deposits totalled EUR 1,224 (862) million and accounted for 2.7 (2.3) per cent of the investment assets. Loan receivables made up 2.1 (2.5) per cent of the investment assets, with a return of 0.8 (0.9) per cent. The modified duration of bond investments was 0.9 (-0.1) years.

Listed and non-listed equities and shares as well as private equity investments made up 42.4 (43.5) per cent of all investments. Their value at the end of the quarter stood at EUR 19,534 (16,641) million. In the risk breakdown, listed equities and shares accounted for 34.2 (34.9) per cent. Finnish equities made up 25.0 (24.5) per cent of investments in listed equities and shares. The return on equities, calculated at current value, was -0.8 (4.9) per cent. The return on listed equity investments was -1.6 (5.2) per cent.

Real estate investments at the end of the quarter stood at EUR 5,819 (4,276) million. They accounted for 12.6 (11.2) per cent of all investments, of which indirect investments made up 1.4 (1.2) percentage units. The total return on real estate investments was 1.3 (1.2) per cent. The return on direct real estate investments was 0.8 (0.9) per cent.

Investments in absolute-return funds and commodities, and other investments made up 4.8 (4.7) per cent of the market value of the investments at the end of the quarter. Absolute-return funds amounted to EUR 1,243 (798) million and generated a return of -0.4 (1.0) per cent on capital employed.

SOLVENCY

Ilmarinen's solvency ratio on 31 March 2018 was 127.8 (129.7) per cent. The ratio of solvency capital to the solvency limit was 1.8 (1.8).

Solvency capital at the end of the quarter stood at EUR 10,039 (8,752) million. Ilmarinen's equity included in the solvency capital was EUR 170 (106) million, the valuation difference between current and book values was EUR 6,261 (6,143) million, and the provision for future bonuses was EUR 3,663 (2,540) million.

Ilmarinen's technical provisions amounted to EUR 39,730 (31,957) million. The EUR 36,076 (29,427) million in solvency technical provisions do not include the provision for future bonuses or the EUR 26 (19) million in earnings-related pension contributions that remain open receivables in the basic insurance under YEL.

OUTLOOK

Strong earnings growth is expected to continue during the rest of the year, which supports companies' earnings power. In the short term, the discussion around the duties and other trade restrictions threatening global trade as well as the tightening of the global political situation are taking centre stage in the markets. In the longer term, favourable economic and earnings development will also depend on the slow rise of inflation towards the central banks' target level. A slow and controlled rise in interest rates is not likely to rattle the financial markets; on the other hand, if interest rates rise too quickly, the repercussions may be significant. Valuation levels are historically high across practically all asset classes. Due to the valuation levels, the market's capacity to handle bad news is poor and the return expectations for the foreseeable future are still lower than the long-term realised returns.

According to forecasts, the Finnish economy will continue to grow and employment rates will rise, which will also improve the prospects of growth in premiums written. However, growth is expected to slow down next year when the strongest growth period in exports, investments and housing construction is over.

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The comparison figures presented in the report are Ilmarinen's figures from before the merger with Etera.