



ILMARINEN'S INTERIM REPORT

**1 JANUARY TO
30 SEPTEMBER 2018**

WE ARE WORKING TO BECOME AN EARNINGS-RELATED PENSION PARTNER WITH INCREASED CUSTOMER FOCUS AND HIGHER EFFICIENCY

JANUARY–SEPTEMBER PERFORMANCE IN BRIEF:

- Premiums written for January–September stood at EUR 4.0 billion. Measured in premiums written, net customer acquisition was EUR 78 million by the end of September. Pensions were paid in a total amount of EUR 4.2 billion to 450,000 pension recipients.
- In January–September, Ilmarinen's investment portfolio generated a return of 3.0 per cent (1 Jan–30 Sep 2017: 5.5 per cent). At the end of September, the market value of investments stood at EUR 47.0 billion (30 Sep 2017: EUR 38.9 billion). In the long term, investments have yielded an average annual real return of 4.2 per cent.
- At the end of September, solvency capital was EUR 10,044 (9,158) million and the solvency ratio was 127.0 (130.6) per cent.
- The implementation of integration is moving forward as planned. Ilmarinen's organisation is being renewed to enhance customer focus and increase efficiency. Management of work capacity risks and rehabilitation will be strengthened.

KEY FIGURES	1-9/2018	1-9/2017	2017
Premiums written, EUR million	4,031	3,214	4,312
Pensions paid, EUR million	4,243	3,515	4,722
Operating expenses covered by loading income, EUR million	109.8	82.2	108.9
Ratio of operating expenses to expense loading components, %	81.5	81.7	81.1
Investment return, %	3.0	5.5	7.2
Value of investment assets, EUR million	46,975	38,920	39,355
Solvency capital, EUR million	10,044	9,158	9,421
Solvency ratio	127.0	130.6	131.2

The figures presented in the Interim Report are unaudited. The 2017 comparison figures presented in the report are Ilmarinen's figures from before the merger with Etera.

ILMARINEN

PRESIDENT AND CEO'S REVIEW



“Ilmarinen’s premiums written rose to EUR 4.0 billion during January–September. Measured in premiums written, net customer acquisition was EUR 78 million during the first nine months of the year. Our insurance portfolio will strengthen further at the turn of the year when OP Financial Group transfers its personnel’s statutory pension insurance to Ilmarinen. OP-Eläkekassa’s body of delegates decided on the transfer of the pension liabilities in July. The transfer is still subject to approval by authorities. At the end of September, the number of pension recipients was around 450,000 and we paid a total of EUR 4.2 billion in pensions in January–September. We made altogether more than 25,000 new pension decisions.

In pension insurance, we continued preparing for the launch of the national Incomes Register. As of the beginning of next year, employers will report their payroll information monthly to the Incomes Register, where it will be available in real time to employment pension companies and other parties who require the information. Separate annual or monthly notifications to employment pension companies will no longer be required. This is a major change for companies, and they are running out of time to implement it: according to a survey that we carried out in September, only half of companies’ payroll and administrative management employees were aware of the impacts of the Incomes Register on their company’s operations. On our own part, we have endeavoured to increase awareness through active communication on the changes caused by the Incomes Register and by organising training events and webinars on preparing for the Incomes Register for our customer companies.

We are working to make Ilmarinen an even more customer-focussed, efficient and attractive earnings-related pension partner. Customers expect from their pension company straightforward online insurance and pension services and support for the management of work capacity risks and rehabilitation. Based on feedback from our customers, we are strengthening our work capacity services and we have structured the management of work capacity risks and rehabilitation into a business division in its own right. We wish to offer our customers the best servi-

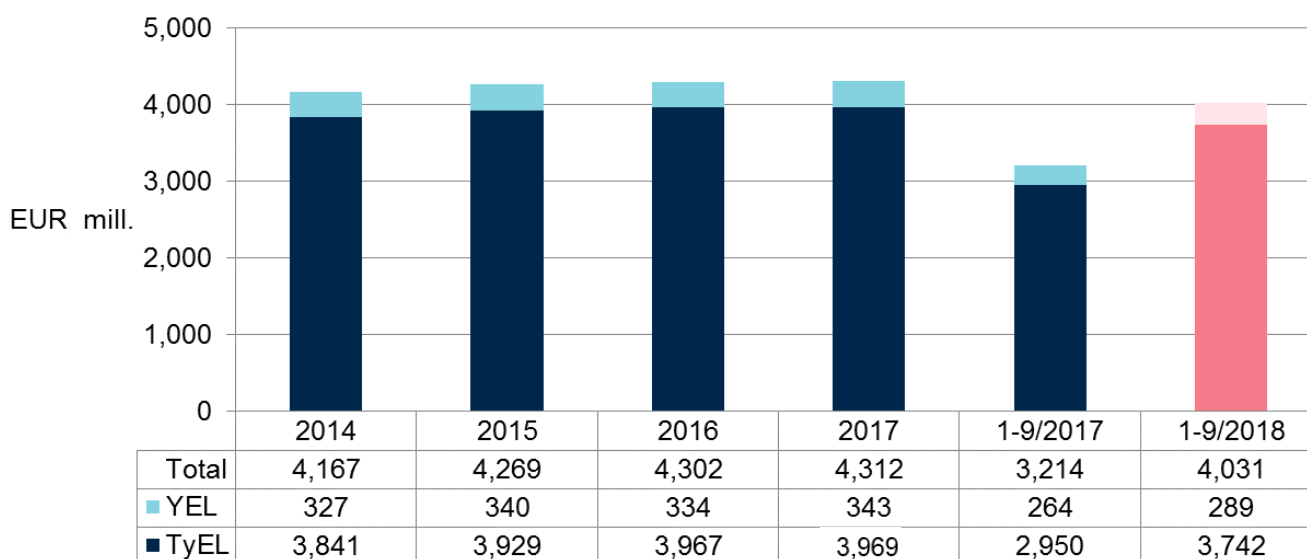
ces, expertise and data to support work capacity management. During January–September, we carried out more than 2,000 projects to support work capacity together with our customer companies. Our customers are satisfied with our services: close to nine out of ten would recommend the coaching and consultation services provided by our work capacity experts. In September, we awarded the Happiest Entrepreneur of Finland in a competition that shines a spotlight on entrepreneurs’ work capacity and well-being. Among more than 400 nominees, the award went to Lauri Salmi, an entrepreneur in the beauty sector. A total of more than 80,000 votes were cast in the competition which was organised for the fifth time.

The escalating trade war and other political risks have increased unrest in the investment markets throughout the year. Ilmarinen’s return on investments in January–September was 3.0 per cent and investment assets grew to EUR 47.0 billion. The third quarter of the year was better than the two preceding quarters, particularly for the equity markets. The Q3 total return rose to 1.8 per cent. At 6.0 per cent, equity investments generated the best return, calculated from the start of the year. The return on real estate investments was 3.9 per cent while fixed-income investments yielded just 0.6 per cent. The long-term average real annual return was 4.2 per cent, which clearly exceeds the 3.0 per cent return assumption used by the Finnish Centre for Pensions in its calculations. The solvency ratio strengthened slightly from Q2 and stood at a good level, at 127 per cent, at the end of September.

In real estate investments, Ilmarinen expanded its international real estate investment portfolio by investing in office properties in Rotterdam in the Netherlands and in Frankfurt in Germany. The shopping centre Redi, which is partly owned by Ilmarinen, in the Kalasatama district in Helsinki, opened its doors in September. Ilmarinen’s office building was granted LEED environmental certification which takes into account energy efficiency, environmental load and commuting, among other things.

The implementation of the merger between Ilmarinen and Etera, completed at the turn of the year, has proceeded according to plan. The integration of information systems will continue in phases during the rest of this year and next year. The costs arising from the integration and the write-downs of information systems burden the loading profit, which stood at EUR 24.9 million at the end of September. The expense loading component, which measures cost-effectiveness, was 81.5 per cent. The synergy benefits created by the merger are expected to substantially improve cost-effectiveness in the coming years. Our objective is to annually save at least EUR 20 million in total expense loading, beginning in 2020. The measures resulting in synergy benefits of EUR 20 million in the overall expenses of investment operations have already been carried out.

PREMIUMS WRITTEN JANUARY–SEPTEMBER 2018



OPERATING ENVIRONMENT AND INVESTMENT MARKET

The Finnish economy has continued its brisk growth this year. Growth in employment has been especially strong. The number of employees in the companies belonging to Ilmarinen's business cycle index has increased by 5.9 per cent during the first nine months of the year compared to a year earlier. The monthly index tracks the development of employee numbers in our 15,000 customer companies in real time. The rapid growth in payroll has enhanced the balance of public finances and the income base of the earnings-related pension system. In 2018, pension institutions' premiums written are increasing at a faster rate than pension expenditure.

The global economy has also developed favourably during the first nine months of the year. During the third quarter of the year, news and threats related to political risks were the focus in terms of market movements. The trade war and the widening tariffs, especially between the US and China, the expansionary financial policy of Italy's new government, which challenges the interpretations of the Stability and Growth Pact, the Brexit negotiations and faltering market confidence in Turkey's monetary and financial policy resulted in gloomy headlines and caution among investors. Despite the negative news, companies' earnings growth and expectations have remained high and inflation has been moderate. Unemployment rates are declining worldwide. However, the escalation of the trade war and increasing uncertainty are curtailing growth expectations. The action of Italy's new government strongly challenges the EU and market confidence. The economic environment in itself seems stable, but the

political environment is creating threat scenarios.

Risk-free interest rates were on their way up during the third quarter, especially in the US. The developments in growth and inflation are still enabling slow normalisation of the monetary policy. Equities were on the rise in the US, but a plunge in stock prices was also seen in the countries affected by the negative news. Rising US interest rates weighed down emerging market returns in fixed income, currency and equity investments alike. Finland's equity market continued to yield well. The interest rate differential between Italy and Germany widened further during the third quarter, while credit risk premiums more generally fell from their end-of-June levels.

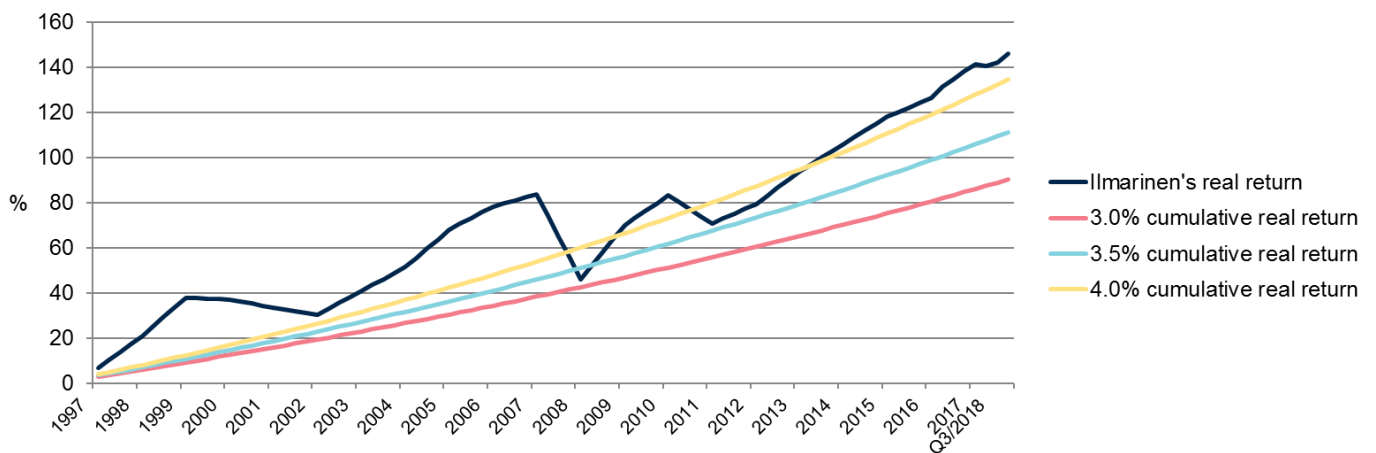
INSURANCE OPERATIONS

At the end of September, Ilmarinen had altogether 452,622 (334,815) pensioners, to whom a total of EUR 4,243 (3,515) million was paid in pensions from the start of the year. Ilmarinen made 25,123 (22,090) new pension decisions in January–September. The total number of pension decisions made was 41,858 (35,333). New rehabilitation decisions came to 3,287 (2,574).

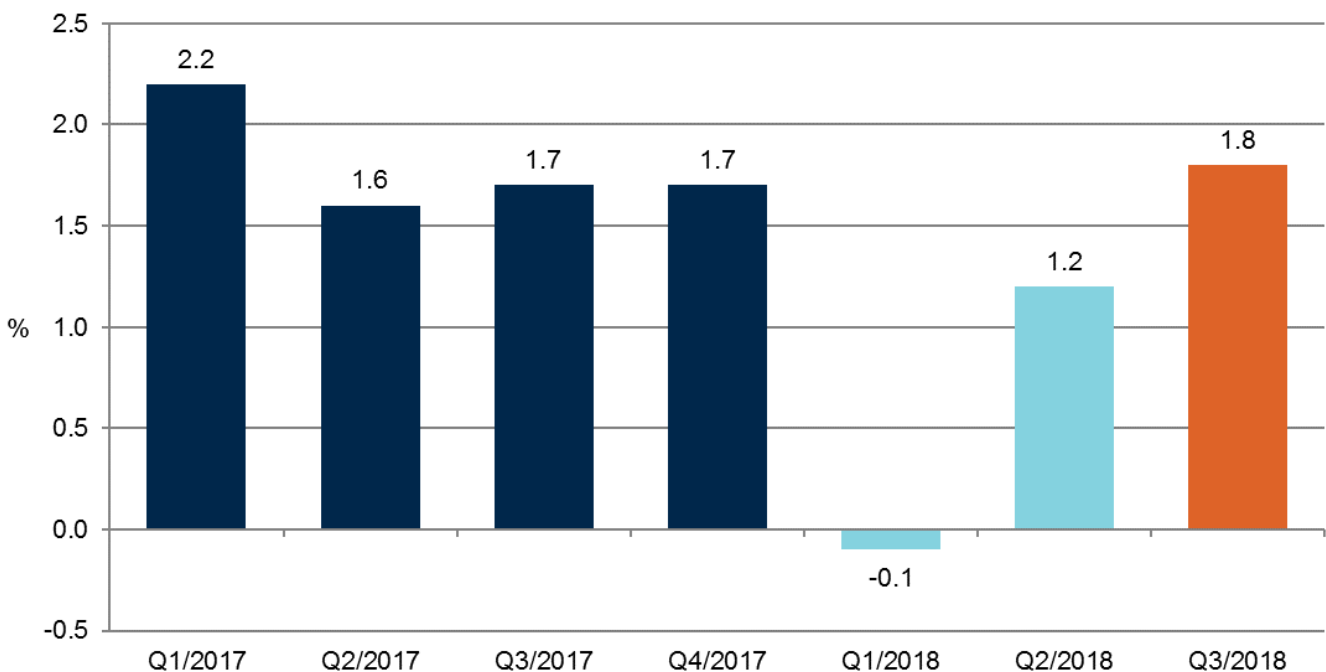
Ilmarinen's net customer acquisition developed favourably, although it did not quite reach the level reported during the corresponding period last year. Measured in premiums written, net customer acquisition was EUR 78 (96) million from the beginning of the year.

At the end of September, Ilmarinen's ratio of operating expenses to the expense loading components available for them, measuring cost-efficiency, was 81.5 per cent, and its loading profit was EUR 24.9 million. The loading

CUMULATIVE NET RETURN ON INVESTMENTS 1997–30 SEPTEMBER 2018



QUARTERLY INVESTMENT RETURNS



profit is burdened by the costs arising from the integration and the write-downs of information systems. The synergy benefits created by the merger are expected to substantially improve cost-effectiveness in the coming years.

RETURN ON INVESTMENTS

At the end of the third quarter of 2018, Ilmarinen's total investments at current value were EUR 46,975 million (EUR 38,920 million on 30 Sep 2017). The return on investments at current value was 3.0 (5.5) per cent. Inflation at the end of the third quarter was 1.0 per cent and

the real return on Ilmarinen's investments came to 1.9 per cent in January–September. Calculated at current value, the average annual return over the last five years has been 6.2 per cent, which corresponds to an average annual real return of 5.5 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 37.3 (39.9) per cent of the investment portfolio and their return at current value was 0.6 (1.7) per cent. Their total market value was EUR 17,522 (15,541) million, they accounted

for 32.7 (36.2) per cent of Ilmarinen's investment assets and their return was 0.5 (1.6) per cent. Other financial market instruments and deposits accounted for 2.6 (1.5) per cent of the investment assets and their return was 0.2 (2.8) per cent. Loan receivables made up 2.1 (2.2) per cent of the investment assets, with a return of 2.6 (2.5) per cent. The modified duration of bonds was 0.8 (0.1) years.

Listed and non-listed equities and shares as well as private equity investments made up 44.5 (44.3) per cent of all investments. Their value at the end of the third quarter stood at EUR 20,911 (17,248) million. In the risk breakdown, listed equities and shares accounted for 35.9 (32.8) per cent. Finnish equities made up 27.7 (24.9) per cent of investments in listed equities and shares. The return on equity investments, calculated at current value, was 6.0 (10.8) per cent. Return on listed equity investments was 4.1 (11.3) per cent.

Real estate investments at the end of September stood at EUR 6,009 (4,385) million. They accounted for 12.8 (11.3) per cent of all investments, with indirect investments making up 1.3 (1.1) percentage units. The total return on real estate investments was 3.9 (2.3) per cent. The return on direct real estate investments was 3.3 (1.9) per cent.

Investments in hedge funds and commodities, and other investments made up 5.4 (4.5) per cent of the market value of the investments at the end of the third quarter. Their total return was -5.4 (0.3) per cent and their value at the end of September was EUR 2,532.6 (1,745.6) million.

SOLVENCY

Ilmarinen's solvency capital at the end of September stood at EUR 10,044 (9,158) million. Ilmarinen's capital and reserves included in the solvency capital was EUR 175 (108) million, the valuation difference between current and book values was EUR 7,128 (6,076) million, and the provision for future bonuses was EUR 2,796 (3,008) million.

Ilmarinen's technical provisions amounted to EUR 40,010 (32,994) million. The EUR 37,184 (29,966) million in solvency technical provisions do not include the EUR 2,796 (3,008) million in provision for future bonuses or the EUR 29 (21) million in earnings-related pension contributions that remain open receivables in the basic insurance under YEL.

Ilmarinen's solvency ratio on 30 September 2018 was 127.0 (130.6) per cent. The ratio of solvency capital to the solvency limit was 1.6 (1.9).

CHANGES IN THE ORGANISATION'S MANAGEMENT

On 1 August 2018, Jouko Pölönen, MA (Econ.), eMBA,

started as Ilmarinen's President and CEO. Stefan Björkman, who was acting President and CEO from 1 March to 31 July 2018, left Ilmarinen at the end of September.

In September, Ilmarinen's Board of Directors decided on changes in the composition and roles of the Executive Group. Going forward, the management of work capacity risk and rehabilitation will form a business division in its own right and Kristiina Halonen, Head of Work Capacity, was appointed to head it and became a member of the Executive Group. Sami Ärilä, Head of HR, and Matias Klemelä, Chief Financial Director, also joined the Executive Group as new members. Sini Kivihuhta, who is responsible for Ilmarinen's insurance and pension services, was appointed deputy CEO. Chief Investment Officer Mikko Mursula was appointed second deputy CEO. The changes entered into force on 1 October 2018.

OUTLOOK

The global economy continues to grow, but forecasts have been revised slightly down. Tightening monetary policy and the reduction of central bank stimulus measures are slowing down economic growth, while political risks are increasing uncertainty in the equity markets. News related to trade policy and tariffs, the Brexit negotiations, the US Congress mid-term elections and Italy's populist government will be the focus of market attention in the short term. In this business cycle situation, the ongoing Q3 earnings season provides important information as to how companies' earnings have developed and how companies see the impact of increasing political uncertainty on their own outlook. At this point, the ability of the markets to tolerate negative surprises is weak. Therefore, investors should prepare for lower returns than those seen in recent years.

The Finnish economy will grow at a relatively brisk rate this year, but we expect the growth rate to slow down to less than 1.5 per cent next year. The backdrop for this is the global economic development, but growth in investments and especially in construction is flattening out in Finland too. Employment will continue to grow next year, but the fastest growth is behind us. The development of employment and payroll has a direct impact on earnings-related pension companies' premiums written. In the longer term, the sustainability of the pension system is impacted, along with investment returns and employment, also by demographic developments and the birth rate, which has been exceptionally low in recent years.

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