



ILMARINEN JANUARY— JUNE 2019

Interim Report 1 January— 30 June 2019

ILMARINEN

PAREMPAA
ELÄMÄÄ,
OLE HYVÄ.

ILMARINEN IN JANUARY–JUNE

- Ilmarinen's total result in January–June 2019 grew to EUR 931 million (EUR -502 million), thanks to strong investment returns. The solvency ratio improved 124.9 (123.7) per cent.
- The return on investments in the first half of the year was +6.0%, i.e. EUR 2.7 billion (+1.1%). The good return on investments can be attributed to the strong equity market and drop in interest rates.
- Customer acquisition and customer retention was good in the first half of the year, and net customer acquisition improved to EUR 109 million (EUR 44 million). Customer retention was above 95 per cent on an annual level.
- Synergies from the merger of Ilmarinen and Etera are beginning to show in the loading profit, which improved to EUR 27.4 (19.7) million. The ratio of operating expenses to expense loading components was 71% (78%).
- Ilmarinen's organisation was renewed and given a flatter hierarchy. The goal is to make Ilmarinen more customer-oriented and operating models more agile, while at the same time enhancing efficiency.





JANUARY— JUNE 2019 IN FIGURES

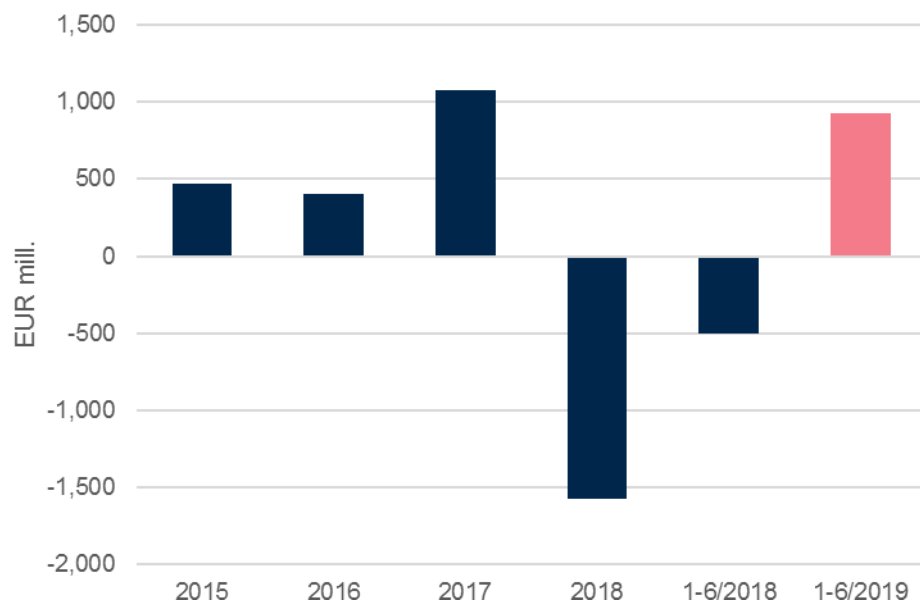
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KEY FIGURES JANUARY–JUNE 2019

Premiums written	€2.9 bn (€2.7 bn)	Pensions paid	€3.0 bn (€2.8 bn)
Loading profit	€27.4 bn (€19.7 bn)	Ratio of operating expenses to expense loading components	71% (78%)
Return on investments	6.0% (1.1%)	Investment assets	€47.8 bn (€46.0 bn)
Solvency ratio	124.9% (123.7%)	Solvency	€9.8 bn (€8.9 bn)

ILMARINEN'S Q2 TOTAL RESULT EUR 931 MILLION, YEAR-ON-YEAR IMPROVEMENT OF APPROX. EUR 1.4 BN

Total financial result, € mill.



Source of profit, € mill.

RESULT ANALYSIS	1.1.–30.6.2019	1.1.–30.6.2018	1.1.–31.12.2018
Technical underwriting result	-18.1	1.8	-40.5
Return on investments at fair value	921.6	-523.1	-1,592.1
+ Net return on investments at fair value	2,743.7	508.4	-641.6
- Return requirement on technical provision	-1,822.1	-1,031.5	-950.5
Loading profit	27.4	19.7	29.9
Other profit	0.4	-	21.6
Total result	931.2	-501.7	-1,581.0

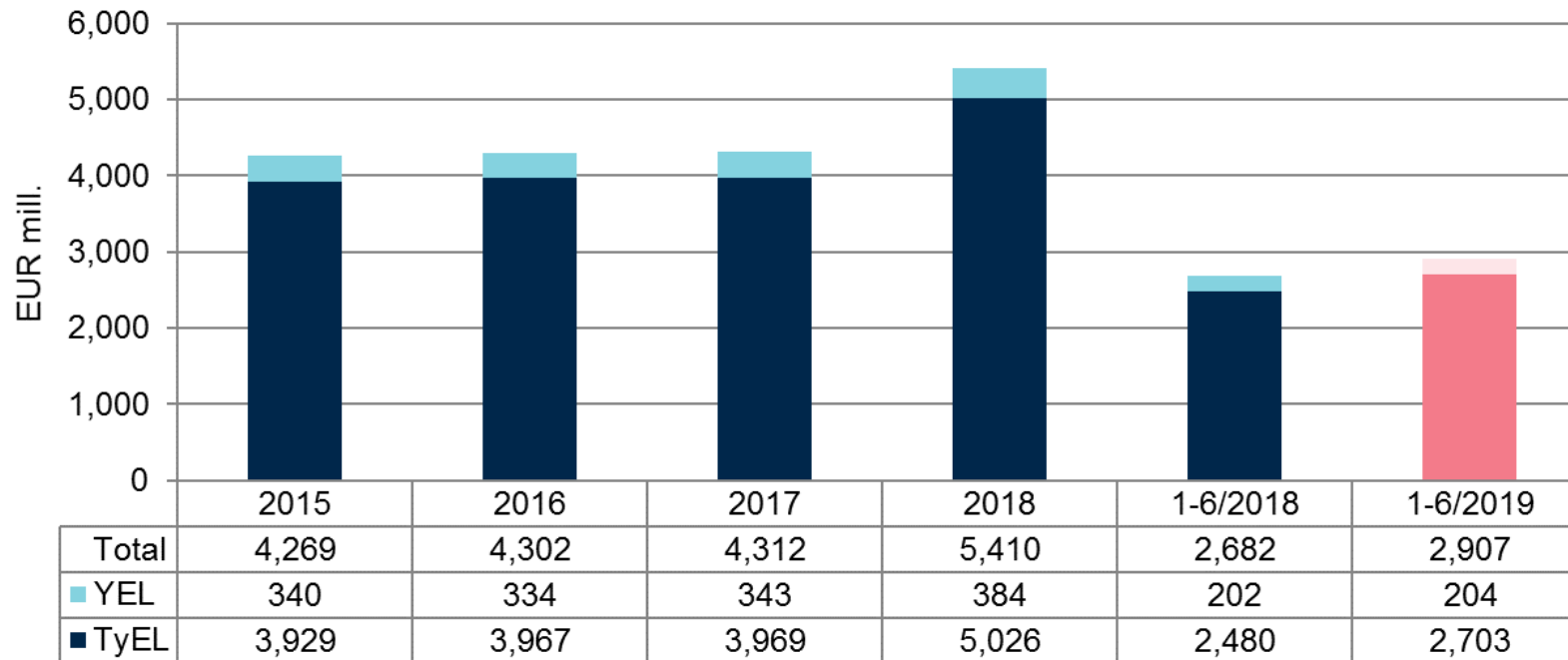


PREMIUMS WRITTEN AND CUSTOMER ACQUISITION

ILMARINEN

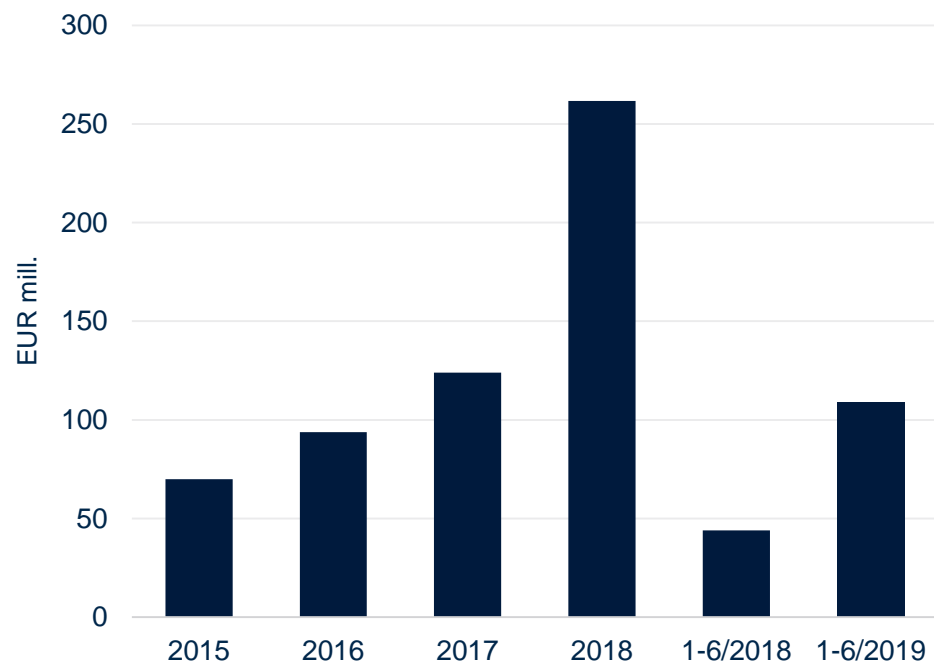
Q2 PREMIUMS WRITTEN EUR 225 MILL. MORE THAN IN PREVIOUS YEAR

Premiums written January–June 2019



NET CUSTOMER ACQUISITION IMPROVED TO €109 MILL., TRANSFER RESULT WAS €22 MILL. POSITIVE

Net customer acquisition 2015–2019, € mill.



Change in net customer acquisition 2018–2019, € mill.

EUR mill.	Q2/2019	Q2/2018	Change
Net customer acquisition	109	44	65
Sales of new insurance	86	77	10
Net transfer of insurance	22	-32	54

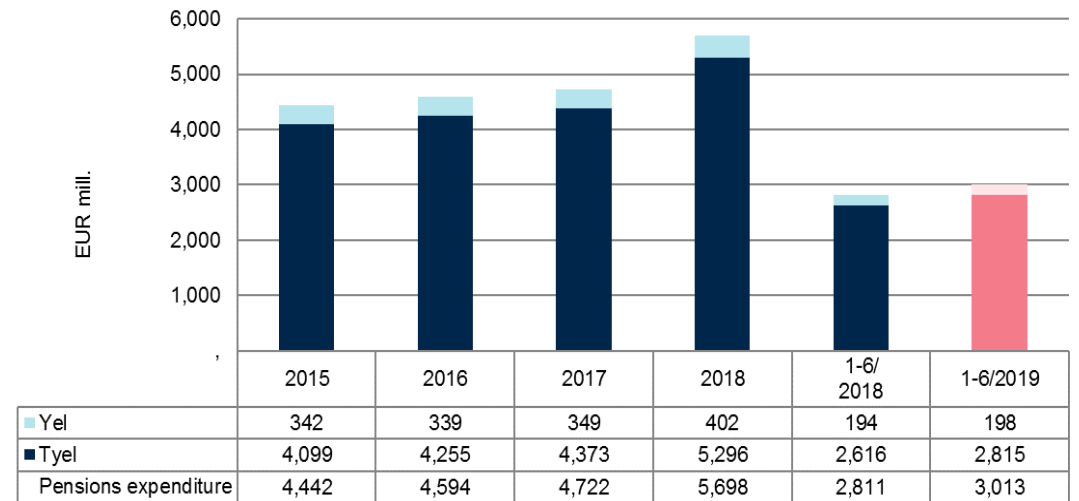
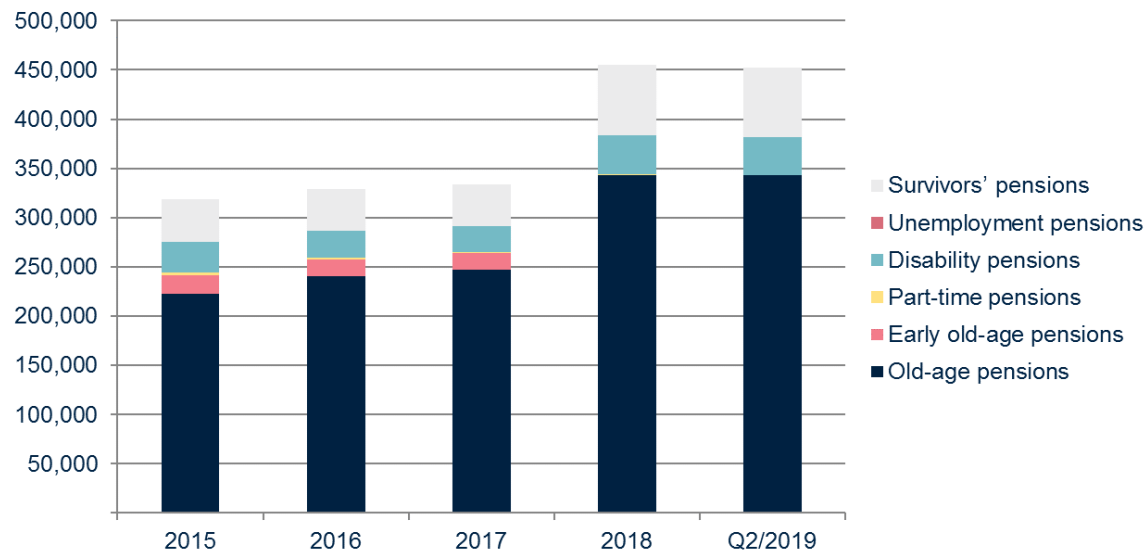


PENSIONS

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459,000 PENSIONERS AND PENSIONS PAID TOTALLING EUR 3 BN

Number of pensioners and pensions paid January–June 2019



NEW PENSION DECISIONS IN JAN–JUN TOTALLED 17,558

New pension decisions January–June 2019

	1-6/2019	1-6/2018	Change, %
New pension decisions			
Old-age pensions	6,592	5,699	16
Partial early old-age pensions	1,908	1,478	29
Disability pensions	4,419	3,926	13
Survivors' pensions	2,340	2,413	-3
Right to rehabilitation	2,291	2,264	1
Years-of-service pension	8	9	-11
New pension decisions, total	17,558	15,789	11

Strong focus on improving the customer experience and boosting the efficiency of processes significantly improved the processing times for old-age pension applications during the first half of the year, and this was reflected in the higher number of old-age pension decisions. The popularity of partial early old-age pension is on the rise again.



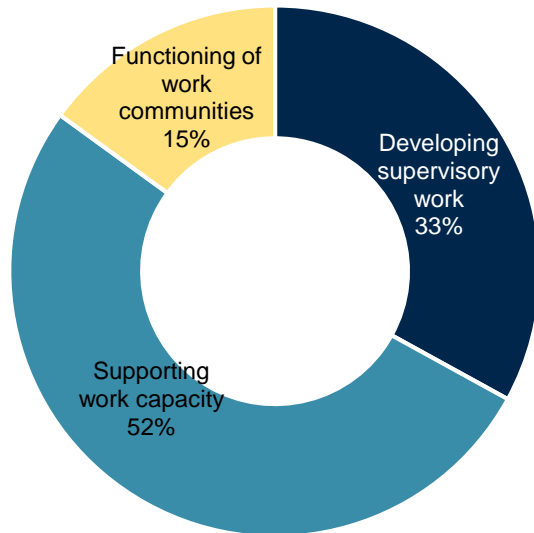
WORK ABILITY AND REHABILITATION

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1,445 WORK-ABILITY PROJECTS IMPLEMENTED, CUSTOMER EXPERIENCE AT A GOOD LEVEL

Work-ability project themes and customer satisfaction in January–June 2019

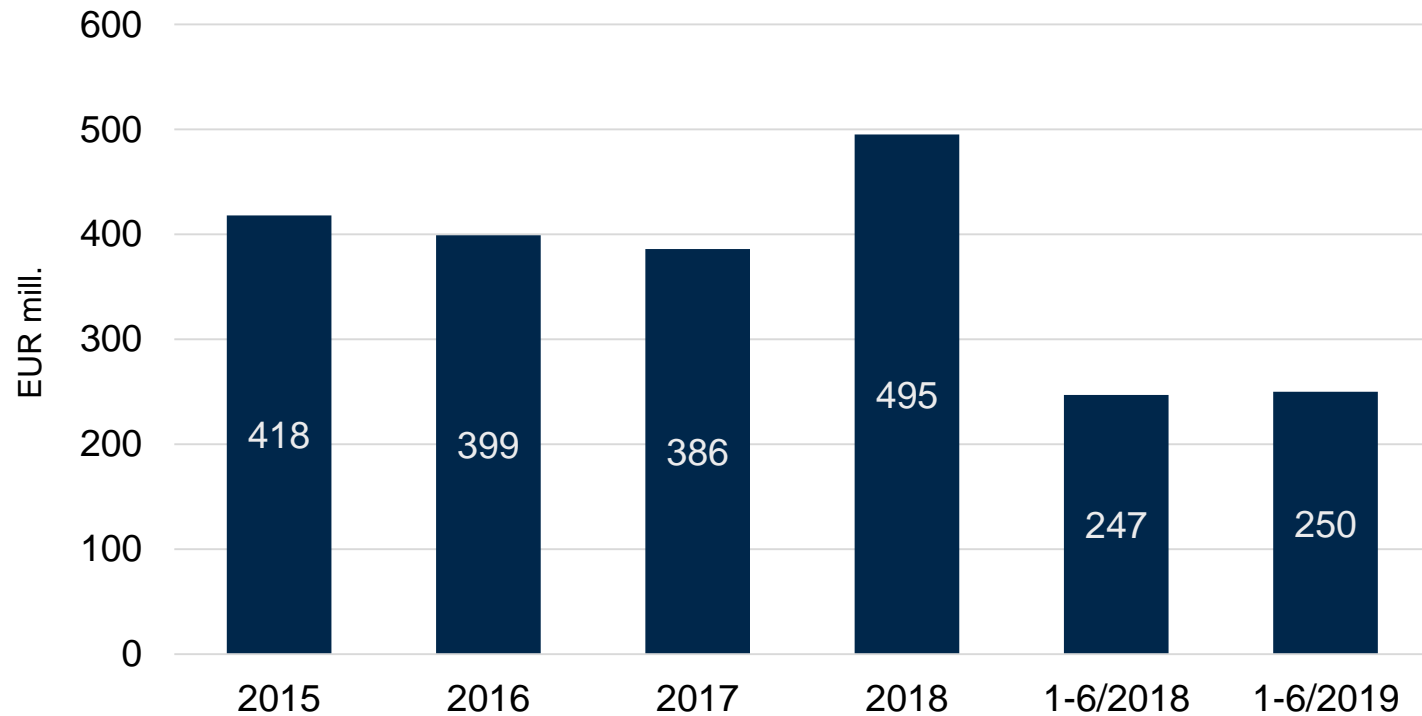
Themes of development projects carried out with customer companies



**Work capacity
services' NPS 83
(1-6/2019)**

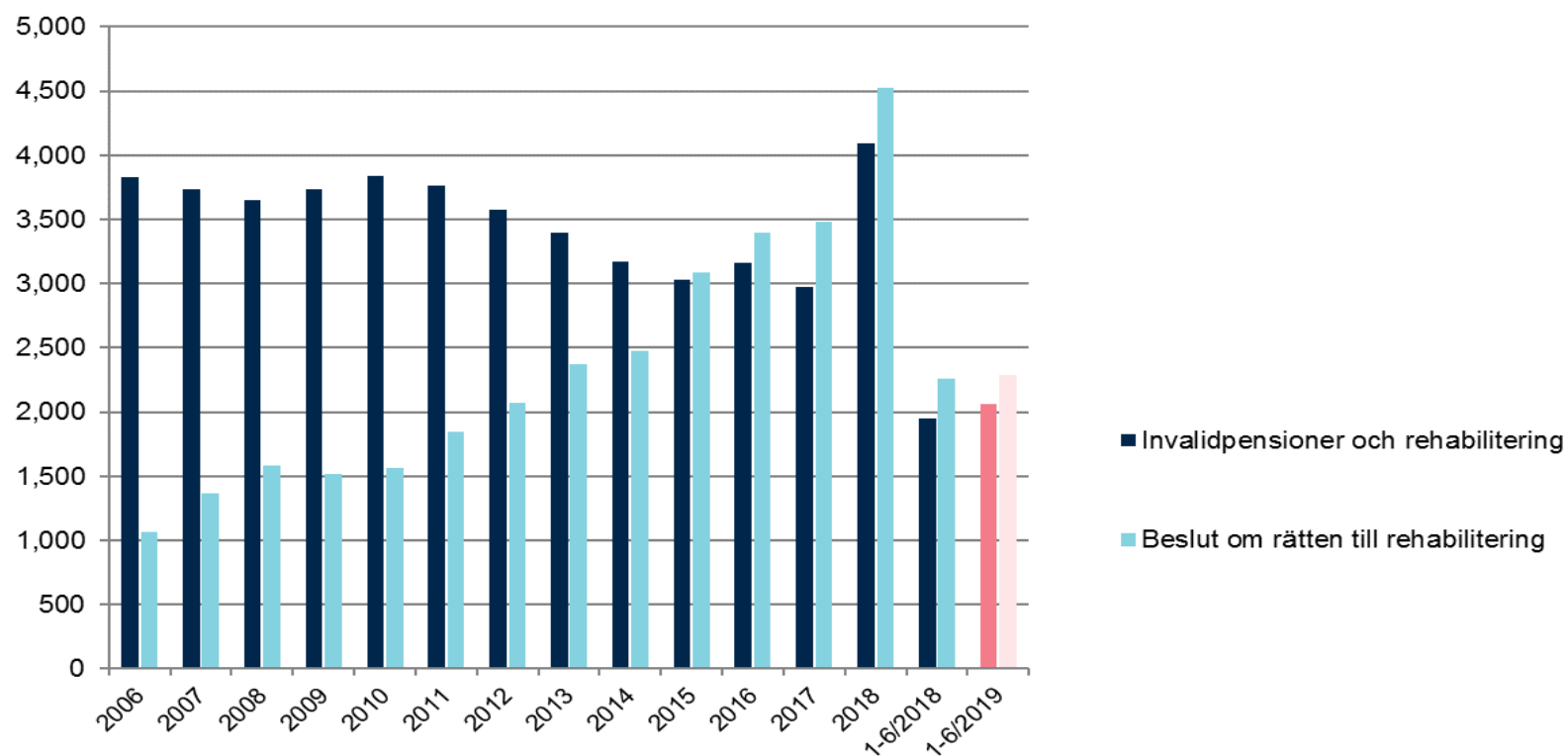
DISABILITY PENSION EXPENDITURE €250 MILL. WORK-ABILITY PROJECTS CLOSE TO €2 MILL.

Disability pension expenditure



REHABILITATION DECISIONS AMOUNTED TO **NEARLY 2,300**; **2,062 PEOPLE** RETIRED ON DISABILITY PENSION

Rehabilitation and disability January–June 2019



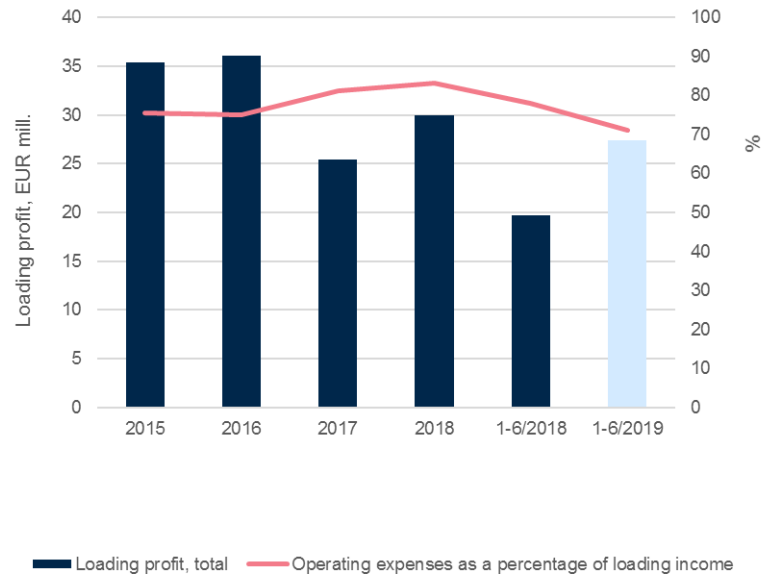


OPERATING EXPENSES

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OPERATIONAL EFFICIENCY UP BY 7% POINTS, SYNERGIES APPEARING

Loading profit, ratio of operating expenses to expense loading components and total operating expenses 2015–H1/2019



LOADING PROFIT AND RATIO OF OPERATING EXPENSES TO EXPENSE LOADING COMPONENTS*)	2015	2016	2017	2018	1-6/2018	1-6/2019
Expense loading components and other income, EUR mill.	145	144	134	179	90	95
Total operating expenses, EUR mill.	109	108	109	149	70	67
Loading profit, total, EUR mill.	35	36	25	30	20	27
Operating expenses as a percentage of loading income	76	75	81	83	78	71
Total operating expenses, EUR mill.	151	147	150	195	96	91

*) Due to changes in premium rates affecting the administrative cost component, the ratio of operating expenses to expense loading components for 2017–2019 is not comparable with the figures of previous years. The figures for 2015–2017 do not include Etera's figures.



INVESTMENTS

ILMARINEN

RETURN ON INVESTMENTS **6.0%**, THANKS TO STRONG EQUITY MARKET AND DROP IN INTEREST RATES

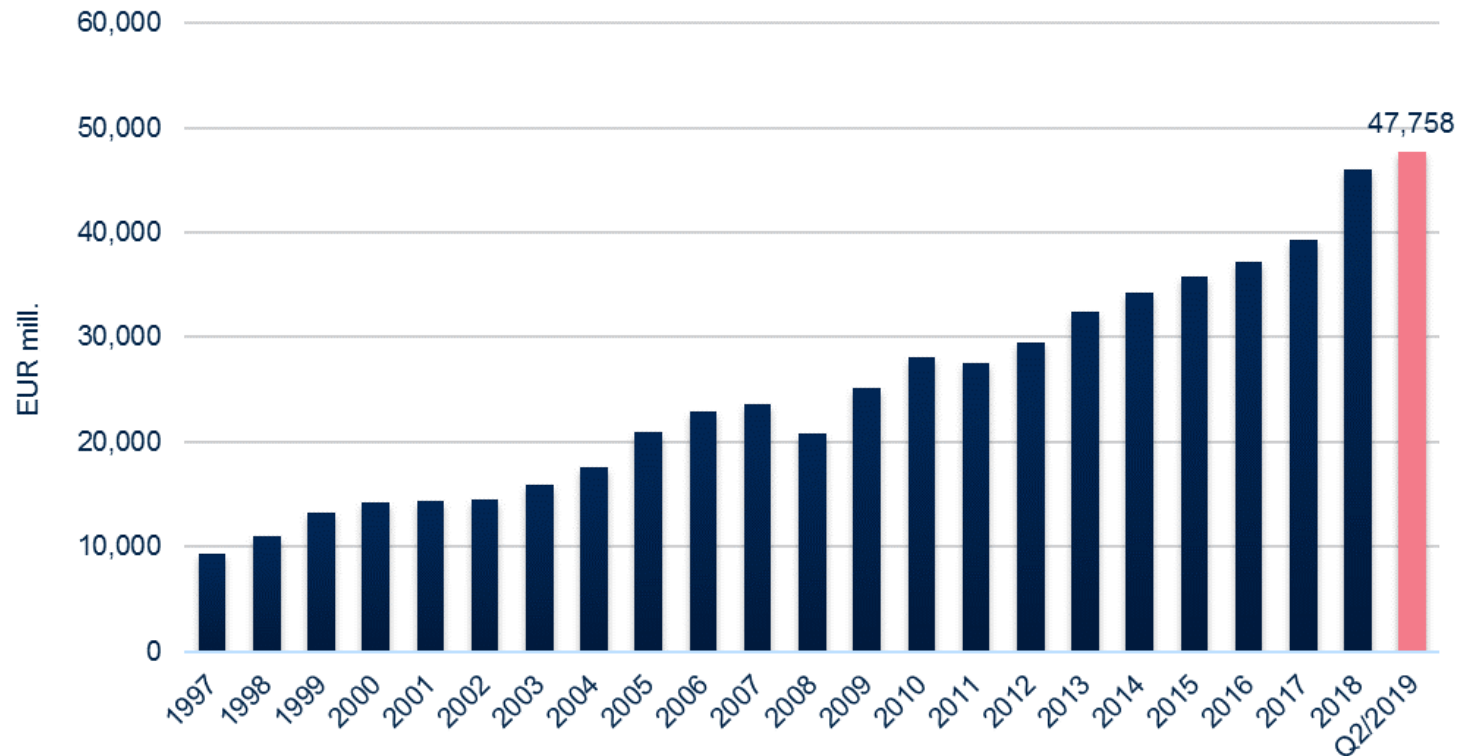
January–June 2019

- Return on investments **6.0%** (1.1%)
 - Return on equity investments **10.9%** (2.4%)
 - Return on fixed income investments **2.8%** (-0.1%)
 - Return on real estate investments **2.0%** (2.9%)
- Long-term return^{*)} at a good level
 - Nominal return **5.7%**
 - Real return **4.1%**



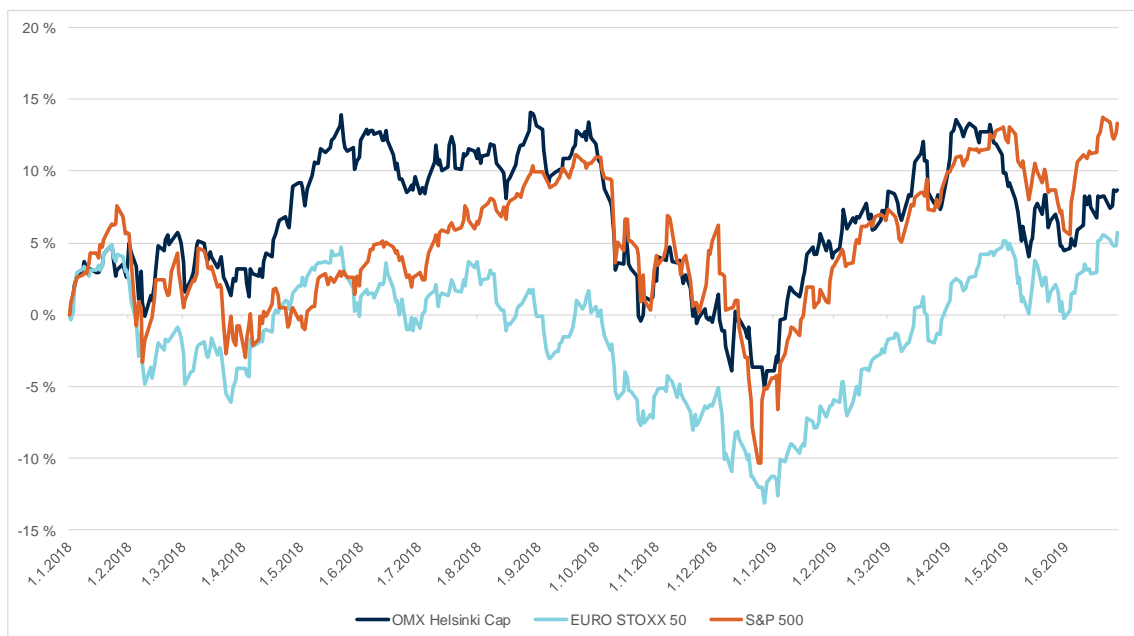
VALUE OF INVESTMENTS GREW BY €1.7 BILL. TO €48 BILL.

Value of investments, € mill.

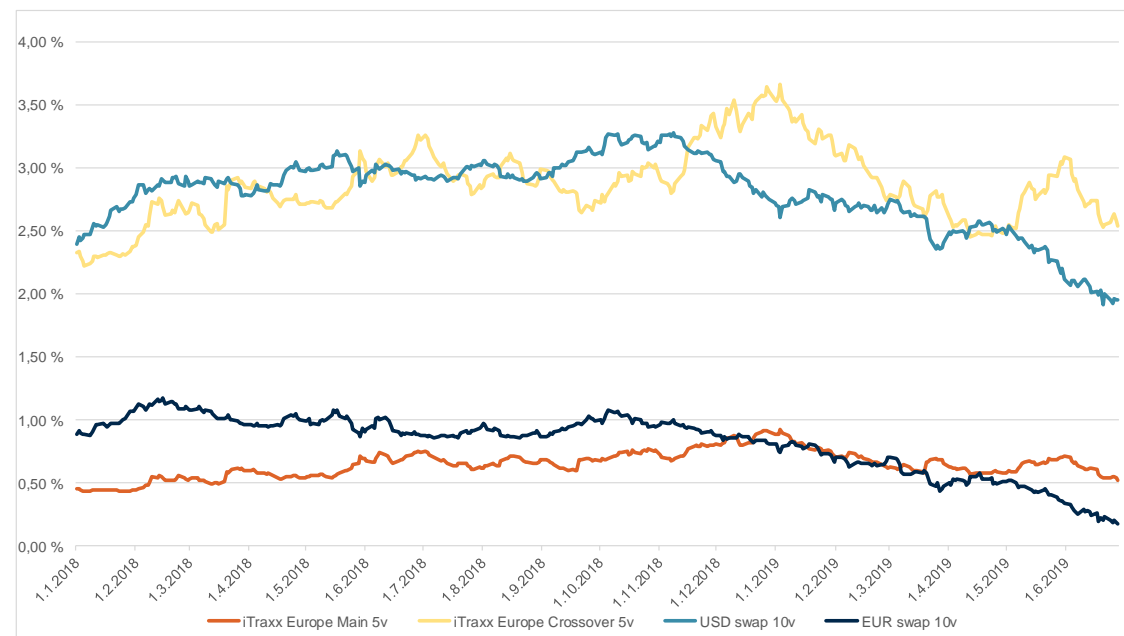


EQUITY MARKET ROSE STRONGLY – INTEREST RATES AND CREDIT RISK MARGINS DECLINED

Equity market performance



Development of interest rates and credit risk premiums



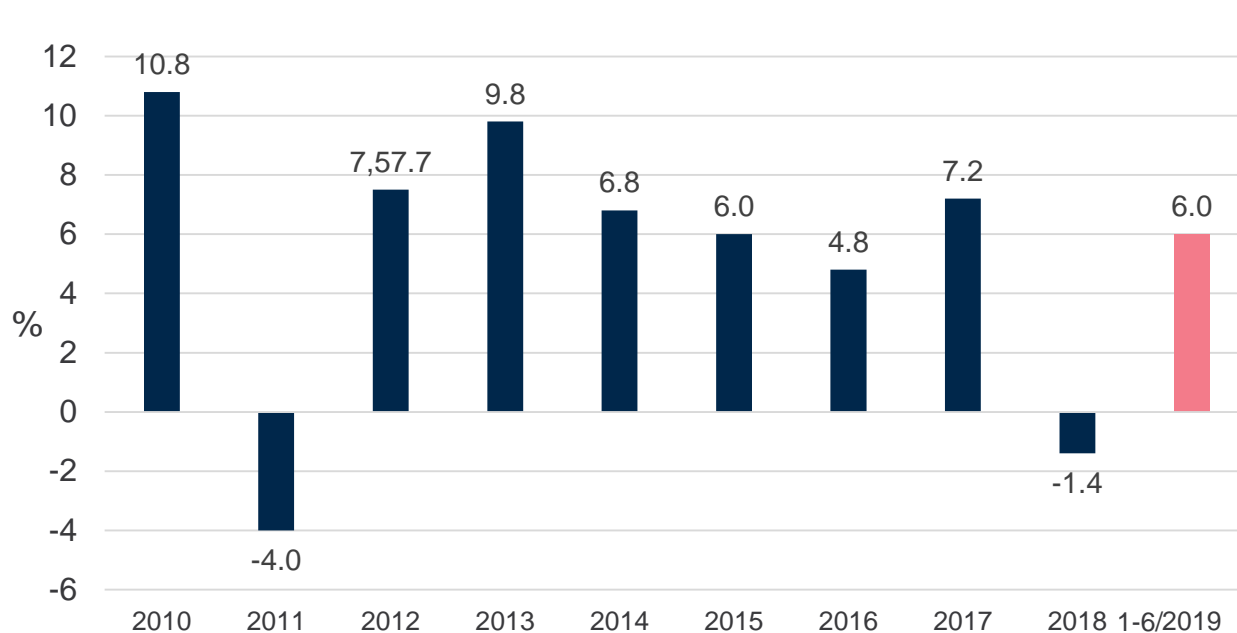
KEY OBSERVATIONS ABOUT THE OPERATING ENVIRONMENT

- Global economic growth remained relatively brisk in the first half of the year, despite the weakened growth expectations. Inflation and especially inflation expectations have dropped considerably. The International Monetary Fund (IMF) downgraded its global growth outlook to 3.2% for 2019 and 3.5% for 2020.
- Political uncertainty and central banks' measures were the main themes on the markets in the first half of the year.
- Interest rates have clearly fallen both in the US and in Europe, as the markets adjust the price of lending to lighter monetary policy. Credit risk premiums have fallen in both good and weaker credit rating categories. The equity markets have benefitted from the fall in interest rates. As risk-free interest rates fall, investments seek out the equity markets.

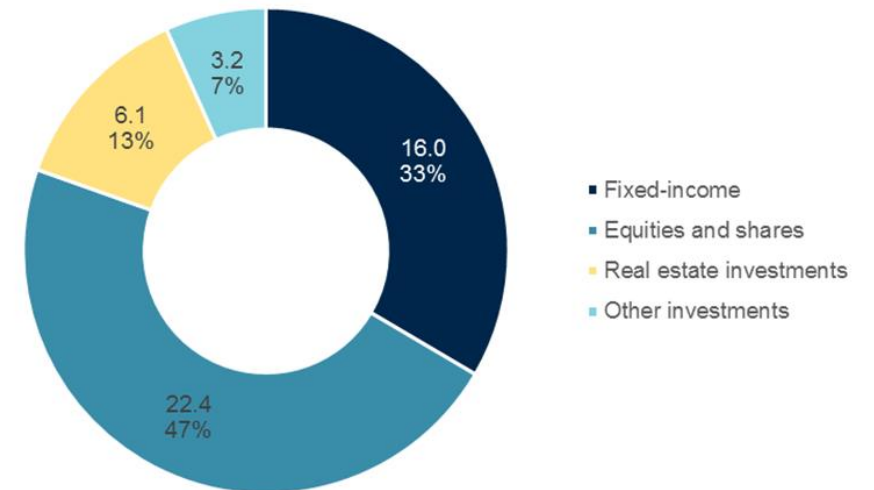


STRONG HALF-YEAR FOR INVESTMENT OPERATIONS

Return on investments in 2010–2019 and investment allocation on 30 Jun 2019



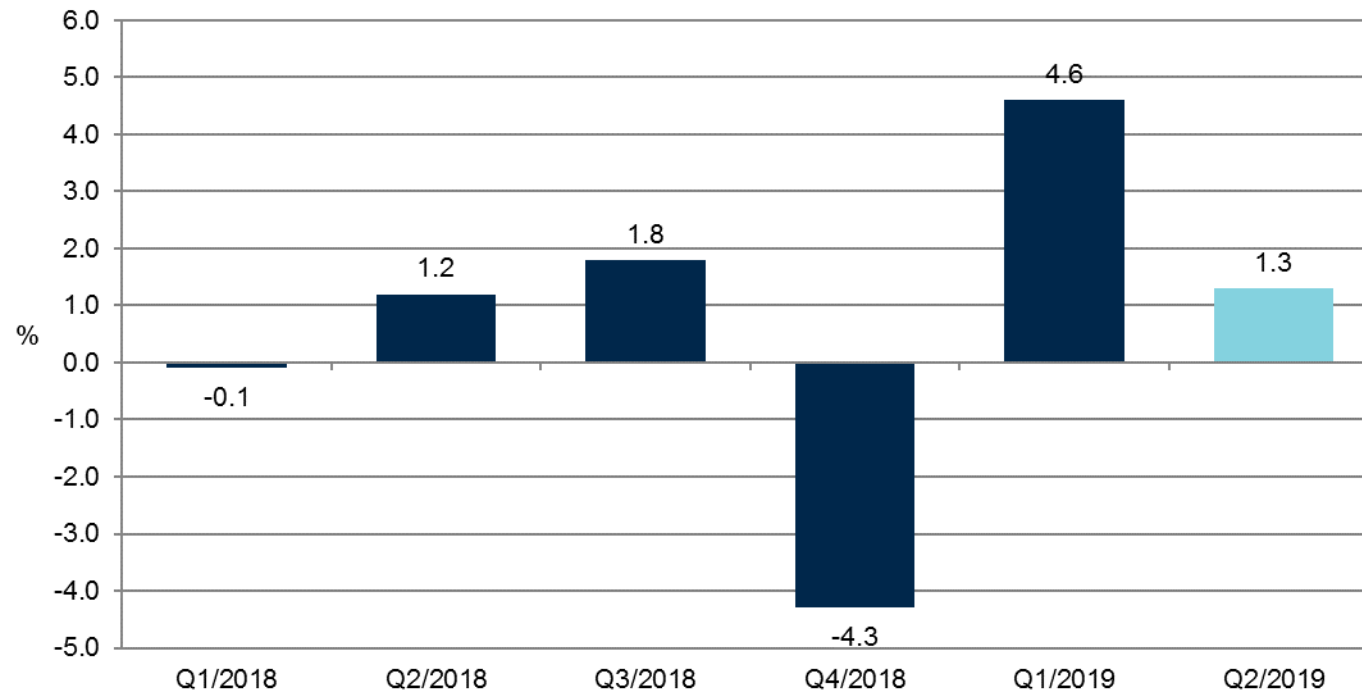
30 June 2019, €47.8 billion



Average nominal return on investments over 10 years 6.1% and real return 4.8%.

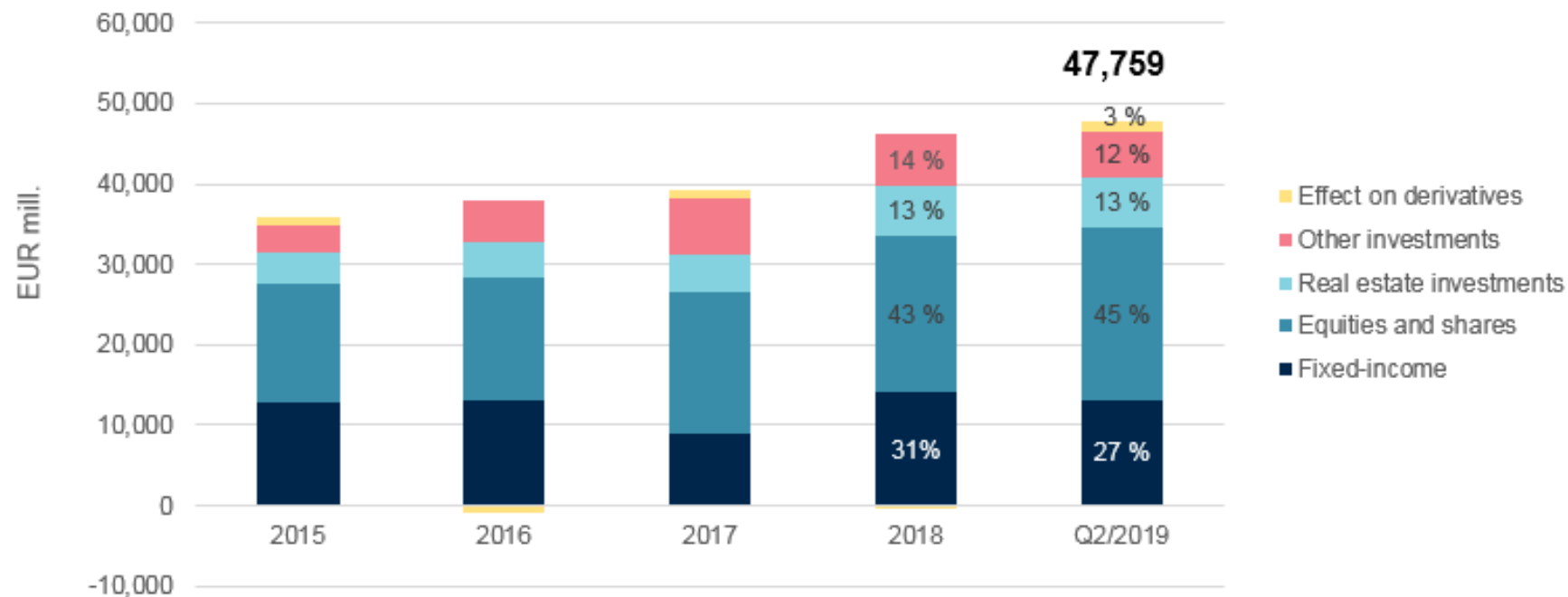
Q2 RETURN ON INVESTMENTS WAS 1.3% AND 12-MONTH RETURN ROSE TO 3.4%

Quarterly investment returns



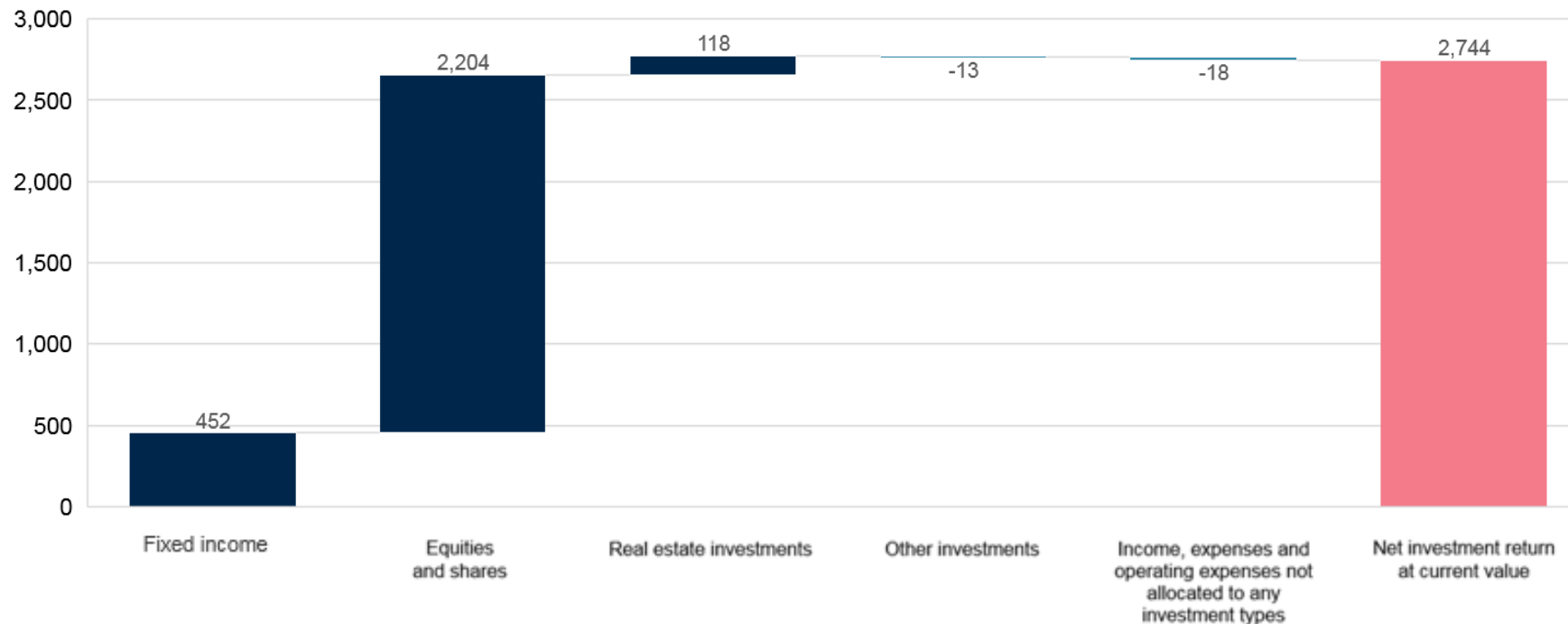
IN THE INVESTMENT ALLOCATION, THE WEIGHT OF EQUITIES HAS GROWN TO 45%

Breakdown of investment risks



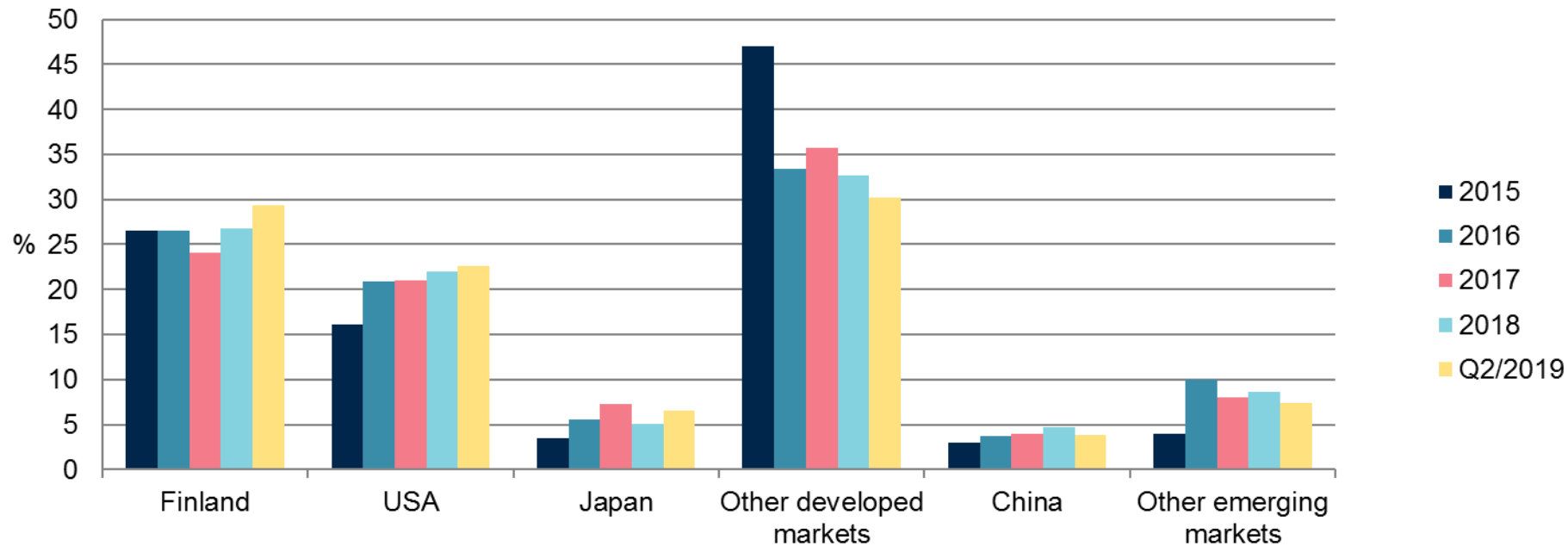
NET RETURN ON INVESTMENTS ROSE TO EUR 2.7 BILLION DUE TO RISE IN EQUITY MARKET

Returns by asset class, € mill.



SHARE OF FINNISH LISTED EQUITY INVESTMENTS 29.4 %

Geographical breakdown of listed equities



ILMARINEN'S INVESTMENTS IN FINLAND

MORE THAN EUR 12 BN

Equity investments in
Finnish companies

Listed €5.2 bn
Non-listed €1.0 bn



Real estate investments
in Finland €4.3 bn



Loans to Finnish
companies €0.8 bn



Bonds €1.0 bn



HOLDINGS IN FINNISH LISTED COMPANIES

EUR 5.2 BILLION

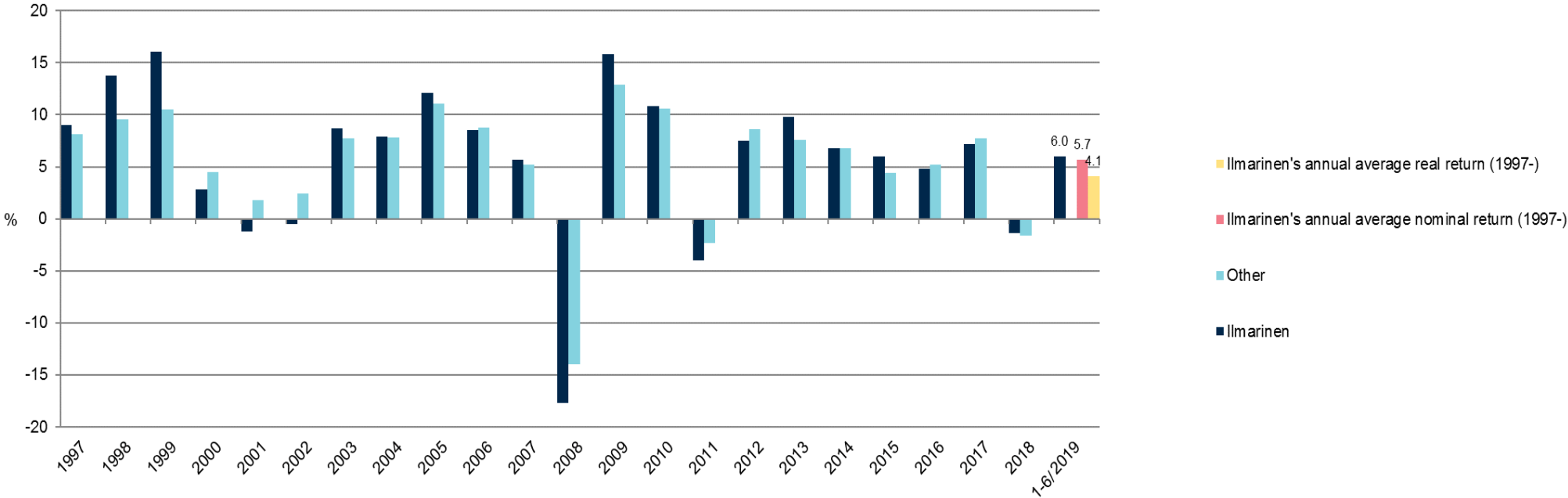
Largest Finnish listed equity holdings

	EUR mill.	30 Jun 2019	31 Dec 2018
↑	Kojamo Plc	420	264
↑	Sampo Plc	287	155
	Neste Corporation	284	274
↑	UMP-Kymmene Corporation	282	200
↑	Fortum Corporation	282	170
↑	Kone Corporation	271	188
↑	Nordea Bank Abp	268	190
↑	Kesko Corporation	256	96
↑	Nokia Corporation	248	184
↑	Stora Enso Corporation	238	216

	Percentage	30 Jun 2019	31 Dec 2018
	Nurminen Logistics Plc	19.8	19.8
	Digia Plc	14.6	14.6
	Kojamo Plc	13.1	13.1
	Talenom Oyj	12.8	17.2
↑	QT Group Plc	10.5	10.1
	Panostaja Oyj	8.1	8.1
	Martela Corporation	8.1	8.1
↑	Glaston Corporation	7.3	7.2
	Citycon Corporation	7.1	7.1
↓	Capman Plc	6.8	7.1

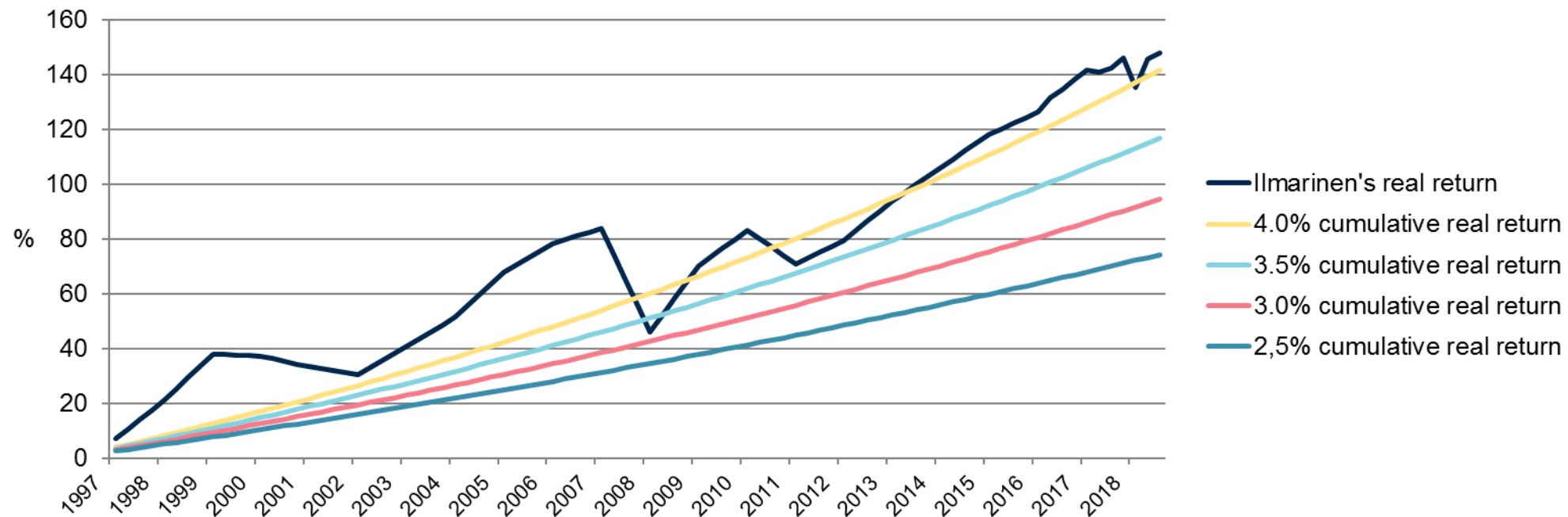
LONG-TERM AVERAGE NOMINAL RETURN 5.7% PER ANNUM

Net investment return at current value



LONG-TERM AVERAGE REAL RETURN 4.1% PER ANNUM

Cumulative net return on investments 1997–30 June 2019



AVERAGE RETURN OF DIFFERENT MARKETS

%	Ilmarinen	Finnish equities and shares	European equities and shares	Euro government bonds	Euro corporate bonds
Q2/2019	6.0	13.1	16.5	6.0	5.5
2018	-1.4	-3.9	-10.8	1.0	-1.3
Average return over 5 years	5.2	10.2	5.3	3.5	2.7
Average return over 10 years	6.1	1.6	9.5	4.5	4.8
Average return over 20 years	5.3	7.8	3.8	4.7	4.4
Average return since 1997	5.7	9.8	6.4	5.0	4.7
Real average return over 5 years	4.5	9.5	4.6	2.9	2.1
Real average return over 10 years	4.8	11.2	8.2	3.2	3.5
Real average return over 20 years	3.7	6.2	2.2	3.1	2.9
Real average return since 1997	4.1	8.2	4.8	3.4	3.1

JAN–JUN RETURN ON INVESTMENTS 6.0%

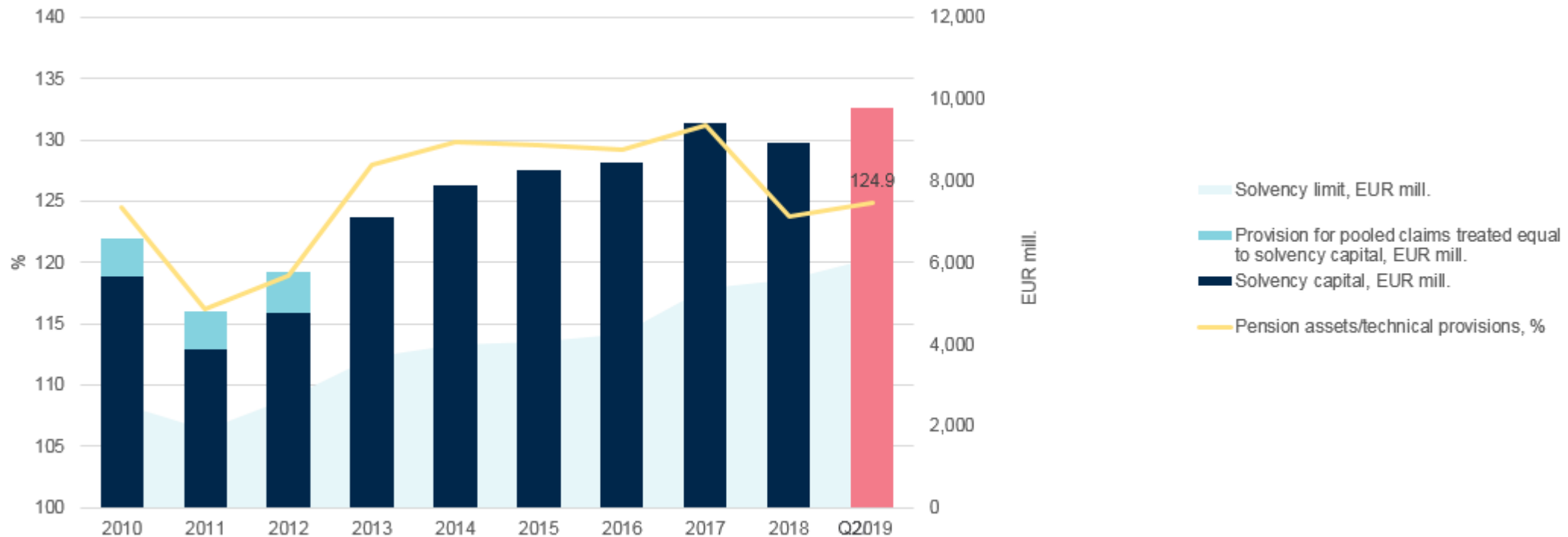
	Basic breakdown		Risk breakdown		Return	
	EUR mill.	%	EUR mill.	%	%	Volatility
Fixed-income investments	15,982.8	33.5	13,043.1	27.3	2.8	
Loan receivables	896.5	1.9	896.5	1.9	1.7	
Bonds	14,062.3	29.4	7,172.7	15.0	2.9	2.1
Public corporation bonds	4,663.5	9.8	4,398.3	9.2	5.1	
Other bonds	9,398.7	19.7	2,774.4	5.8	1.9	
Other money market instruments and deposits (incl. investment receivables and payables)	1,024.0	2.1	4,974.0	10.4	1.6	
Equities and shares	22,430.1	47.0	21,645.3	45.3	10.9	
Listed equities and shares	17,613.6	36.9	16,828.8	35.2	12.7	11.3
Private equity investments	3,953.6	8.3	3,953.6	8.3	5.4	
Non-listed equities and shares	862.9	1.8	862.9	1.8	3.3	
Real estate investments	6,134.2	12.8	6,151.4	12.9	2.0	
Real estate investments	5,573.1	11.7	5,573.1	11.7	1.9	
Real estate funds and joint investments	561.2	1.2	578.3	1.2	2.7	
Other	3,211.4	6.7	5,544.2	11.6	-0.4	
Hedge fund investments	2,307.4	4.8	2,307.4	4.8	4.4	3.5
Commodity investments	11.3	0.0	-86.8	-0.2	-	
Other investments	892.7	1.9	3,323.7	7.0	-11.8	
Investments total	47,758.6	100.0	46,384.1	97.1	6.0	3.9
Effect of derivatives			1,374.5	2.9		
Investments at current value	47,758.6		47,758.6	100.0		

The modified duration of bond investments is 1.8 years

The open currency position is 20.3% of the market value of the investments.

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

GOOD RETURN ON INVESTMENTS STRENGTHENED THE SOLVENCY RATIO BY 1.2 % POINTS TO 124.9 %





FUTURE PROSPECTS

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FUTURE PROSPECTS

- Economic growth is expected to continue but slow down in 2019 in both Finland and other industrialised countries compared to 2018. The growth in Finland's employment rate is expected to slow down towards the end of the year. The payroll is expected to develop favourably, which will have a positive impact on pension providers' premiums written in 2019.
- The escalation of the US–China trade war, Brexit, the state of Italy's public finances and the development of the political situation between the US and Iran create uncertainty, which affects companies' investment appetites and economic growth outlook.
- As a consequence of the negative interest rates, investors face a challenging investment environment. Returns offered by different asset classes and the compensation gained from additional risks are at an historically low level. A low-interest-rate environment pushes investments towards riskier and less liquid investment objects, favouring, e.g. the equity and real estate markets. The development of the equity markets is strongly conditional on the central banks' expansionary monetary policies and on companies' earnings growth remaining high.
- The key risks affecting Ilmarinen's operations and the earnings-related pension system are related to the development of employment and payroll, uncertainty in the investment market and the development of demographics and the birth rate, which has been exceptionally low in recent years.