



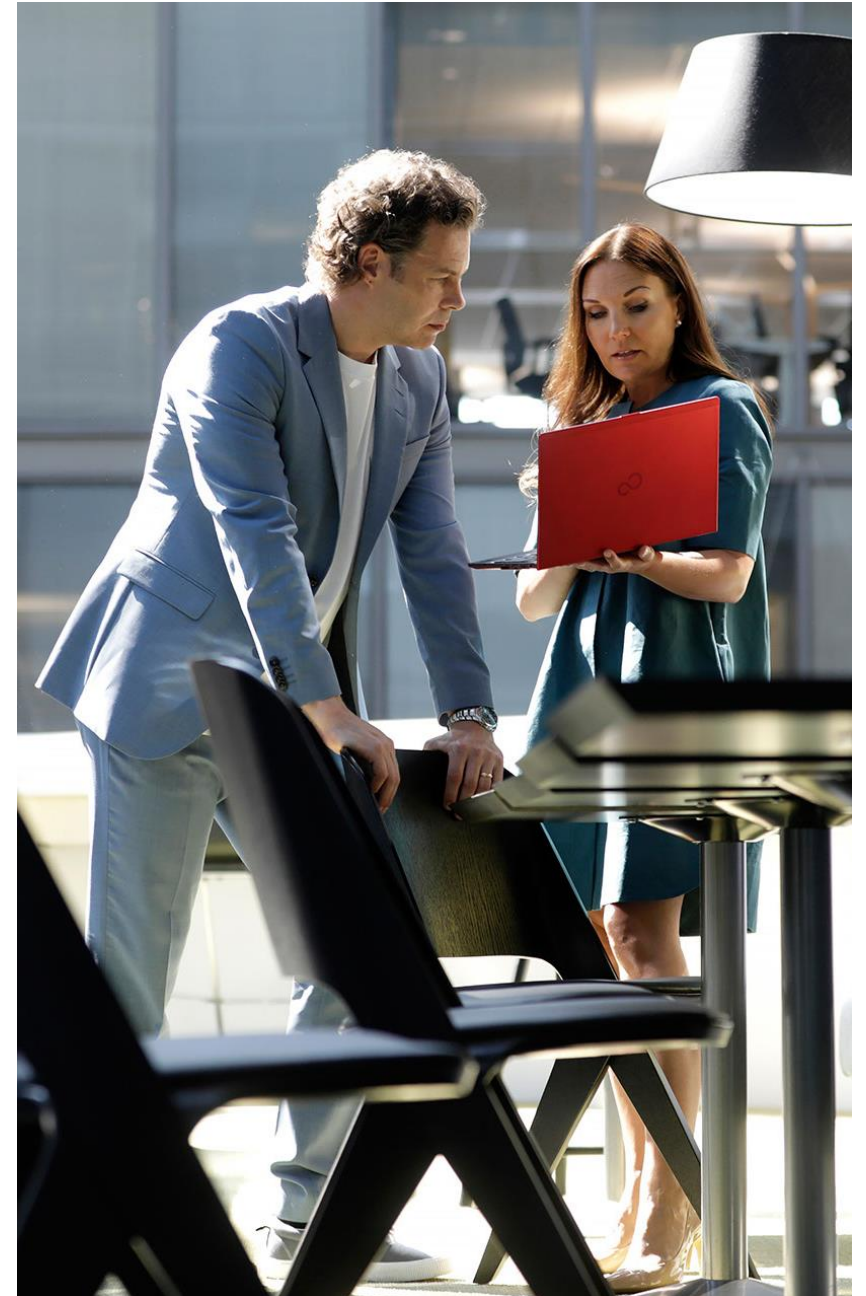
Security for your pension

Ilmarinen's Interim Report
January–September 2020

ILMARINEN

Return on investments turned positive, cost-effectiveness of operations continued to improve

- The equity markets continued to recover and the third-quarter investment portfolio return was 3.2%. After a difficult early year, the year-to-date return turned positive, at 1.1%. The market value of investment assets at the end of September totalled EUR 50.3 billion and the solvency ratio was 126.1%.
- Ilmarinen's total result in January–September was EUR -107 million. The third quarter result was EUR +992 million, driven by the continued positive development in the investment markets.
- Premiums written fell to EUR 4.0 billion as a result of an increase in temporary layoffs and a temporary discount in the employers' TyEL contribution. Pensions were paid in a total amount of EUR 4.6 billion.
- Strong development in cost-effectiveness continued. Operating expenses financed using loading income fell EUR 16 million and the loading profit was EUR 38 million.
- Ilmarinen's operations were successful and the customer experience and personnel's energy levels developed favourably despite the exceptional situation.



Key figures January–September 2020

Premiums written

4.0 (4.3)

bn €



4.6 (4.5)

bn €

Pensions paid

Loading profit*)

38 (42)

mill. €



69 (71)

%

Ratio of operating expenses to expense loading components*)

Return on investments

1.1 (8.2)

%



50.3 (50.5)

bn €

Investment assets

Solvency ratio

126.1 (126.6)

%



10.6 (10.8)

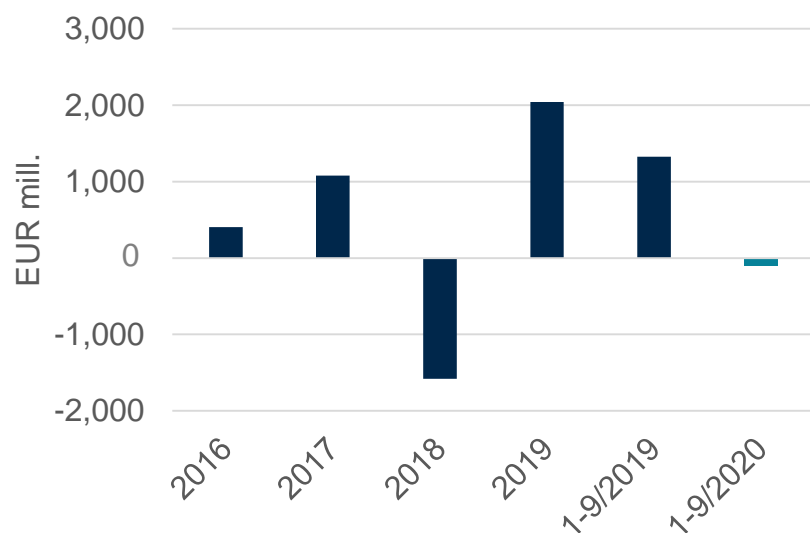
bn €

Solvency

The result comparison figures in this material are the figures for the corresponding period of 2019. Unless otherwise indicated, the comparison figures for the balance sheet and other cross-sectional items are the figures for the end of 2019. *) The expense loading rate was lowered by 6.9% at the start of 2020. The comparable loading profit was EUR 5 million higher than a year earlier and the ratio of operating expenses to expense loading components improved by 6 percentage points.

Total result came to EUR -107 million, even though return on investments turned positive

Total financial result, € mill.



Source of profit, € mill.

Result analysis, EUR mill.	1.1.-30.9.2020	1.1.-30.9.2019	1.1.-31.12.2019
Source of profit			
Technical underwriting result	-13.0	-40.8	-50.3
Return on investments at fair value	-131.7	1,322.0	2,062.6
+ Net return on investments at fair value	574.6	3,739.1	5,375.4
- Return requirement on technical provisions	-706.3	-2,417.0	-3,312.8
Loading profit^{*)}	37.6	42.2	54.5
Other profit	0.0	0.4	-27.1
Total result	-107.1	1,323.7	2,039.7

^{*)} The expense loading rate was lowered by 6.9% at the beginning of 2020. The comparable loading profit was EUR 5 million higher than a year earlier.

Coronavirus impacts pension system's financing, return on investments and operations

- The global spread of the coronavirus has weakened total production The global economy has plunged into the deepest depression ever seen.
- The investment markets experienced a record-fast stock price fall and a strong recovery supported by the central banks. Market recovery has continued at a slower pace in the third quarter. Despite the strong volatility, Ilmarinen's solvency has been clearly above the regulatory requirements throughout the year. At the end of Q3, it stood close to beginning-of-year figures.
- As a result of the shrinking economy, the employment rate and payroll took a downward trend. The payroll of employees insured with Ilmarinen in January–September was EUR 16.2 (16.6) billion, down 2.0% on the comparison period.
- Premiums written are also impacted by the temporary 2.6 percentage point discount on employers' TyEL contributions for the period from 1 May to 31 December 2020. The decline in the payroll and the contribution discounts reduced Ilmarinen's premiums written by EUR 364 million in January–September. The decline in the payroll had a negative impact on the development of loading income.
- The opportunity to use a three-month payment extension, given due to the coronavirus, was applied to roughly 20 per cent of the insurance contributions from Ilmarinen's customers. Demand for TyEL premium loans grew momentarily.
- Most of Ilmarinen's employees started working from home. Operations have proceeded well despite the coronavirus and the number of absences due to illness is exceptionally low. Customer service has operated as normal throughout the period. We have managed to further speed up pension processing.
- We supported personnel during the exceptional circumstances in a number of ways, including offering them the opportunity to have their workplace lunches delivered to their homes, arranging a remote childcare centre to help combine work and family and by acquiring hand sanitizer and face masks for personnel. Personnel can also schedule a coronavirus test through the occupational health care service.



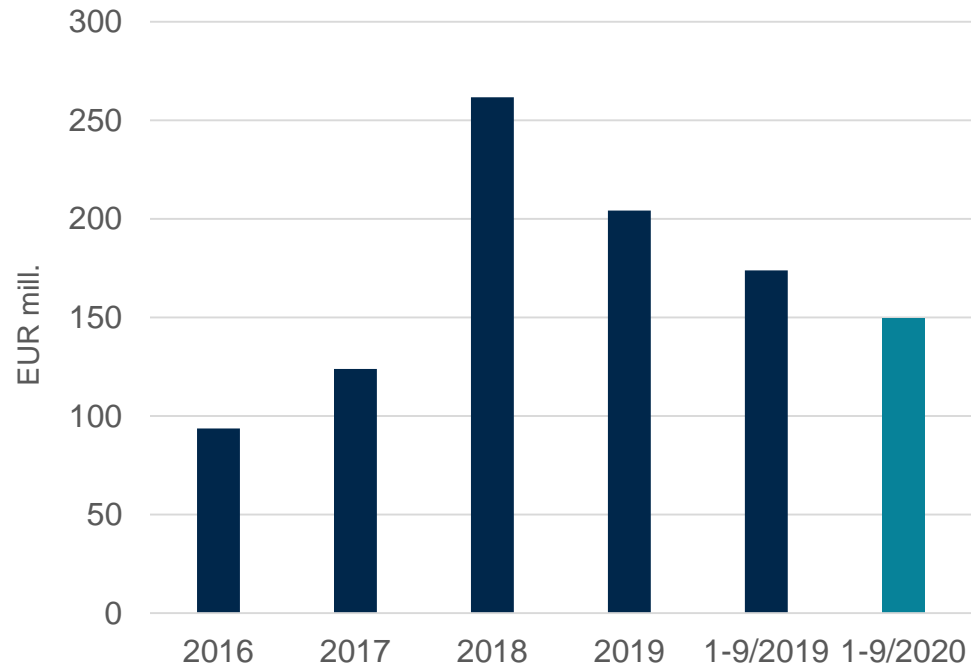
Pension cover for you

Insurance and pensions

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Net customer acquisition in January–September was **EUR 149 million**

Net customer acquisition 2016–2020, € mill.

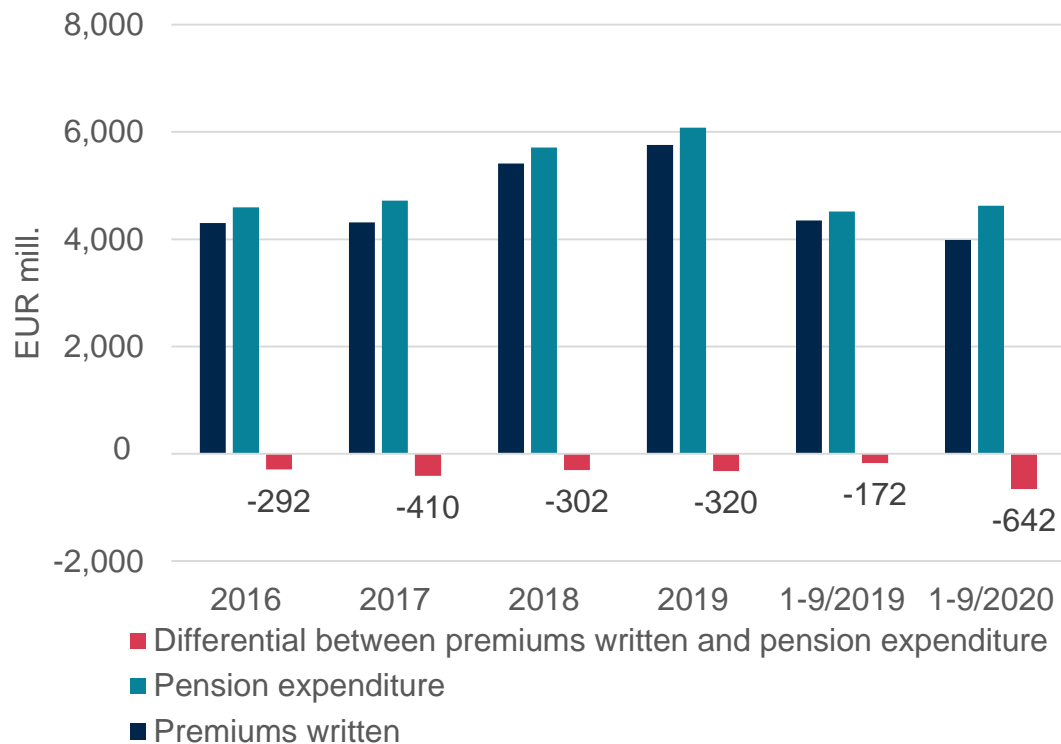


Change in net customer acquisition, € mill.

	1-9/2020	1-9/2019	2019
Net customer acquisition	149	174	210
Sales of new insurance	102	124	195
Net transfer of insurance	47	49	16

January–September premiums written €4.0 billion, pensions paid €4.6 billion

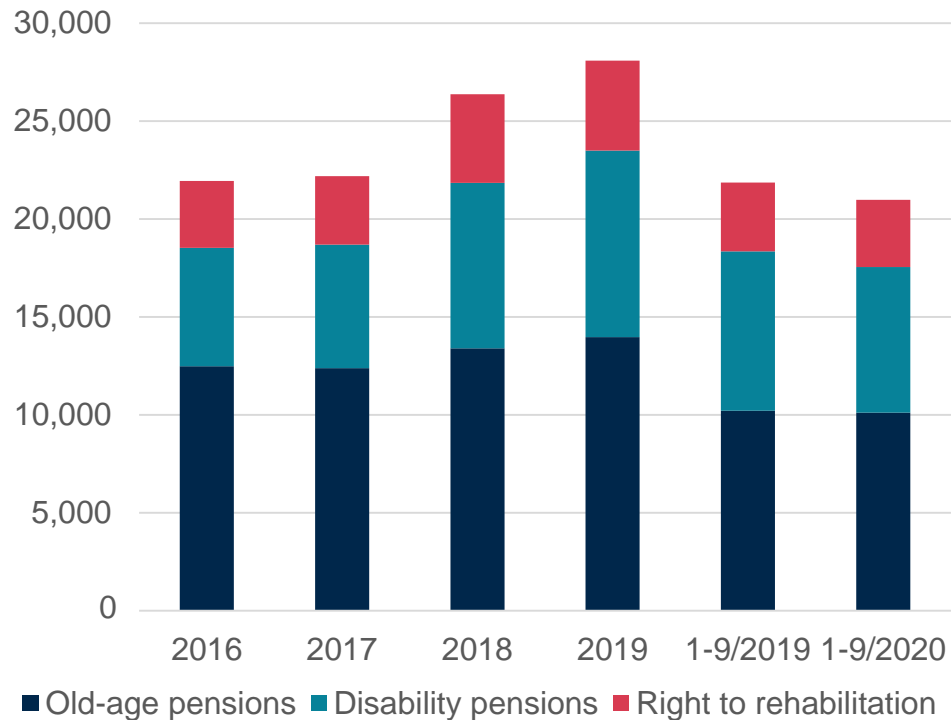
Premiums written and pension expenditure January–September 2020



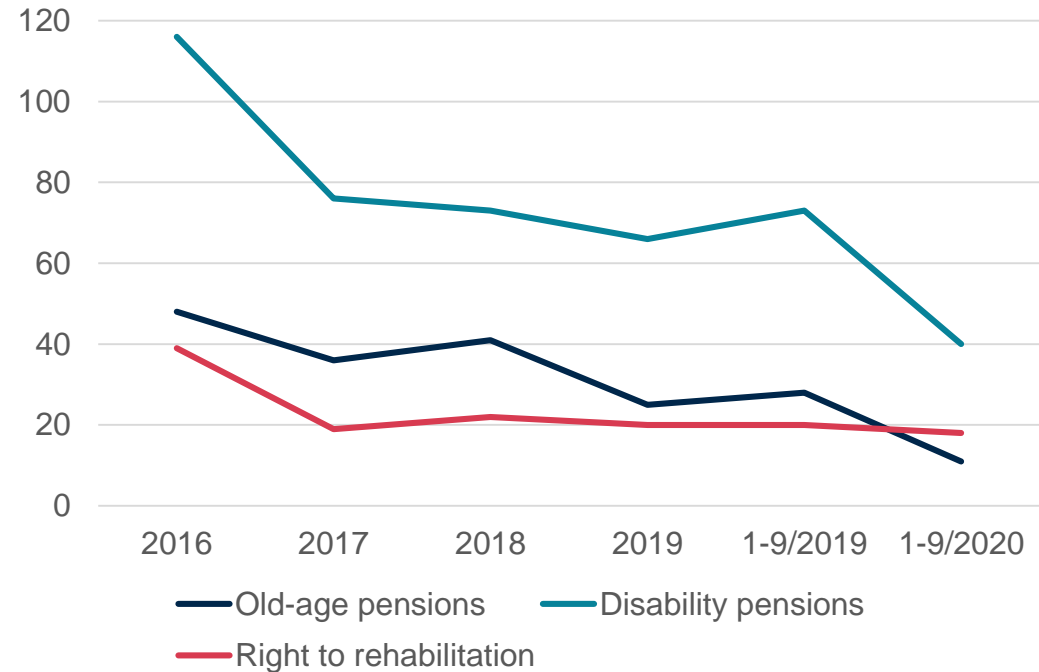
	2016	2017	2018	2019	1-9/2019	1-9/2020
Premiums written TyEL	3,967	3,969	5,026	5,364	4,042	3,681
Premiums written YEL	334	343	384	394	304	302
Premiums written, total	4,302	4,312	5,410	5,758	4,347	3,983
Pension expenditure TyEL	4,255	4,373	5,365	5,673	4,216	4,306
Pension expenditure YEL	339	349	347	405	303	319
Pension expenditure, total	4,594	4,722	5,712	6,078	4,519	4,625

Processing of pensions sped up significantly

Number of pension decisions

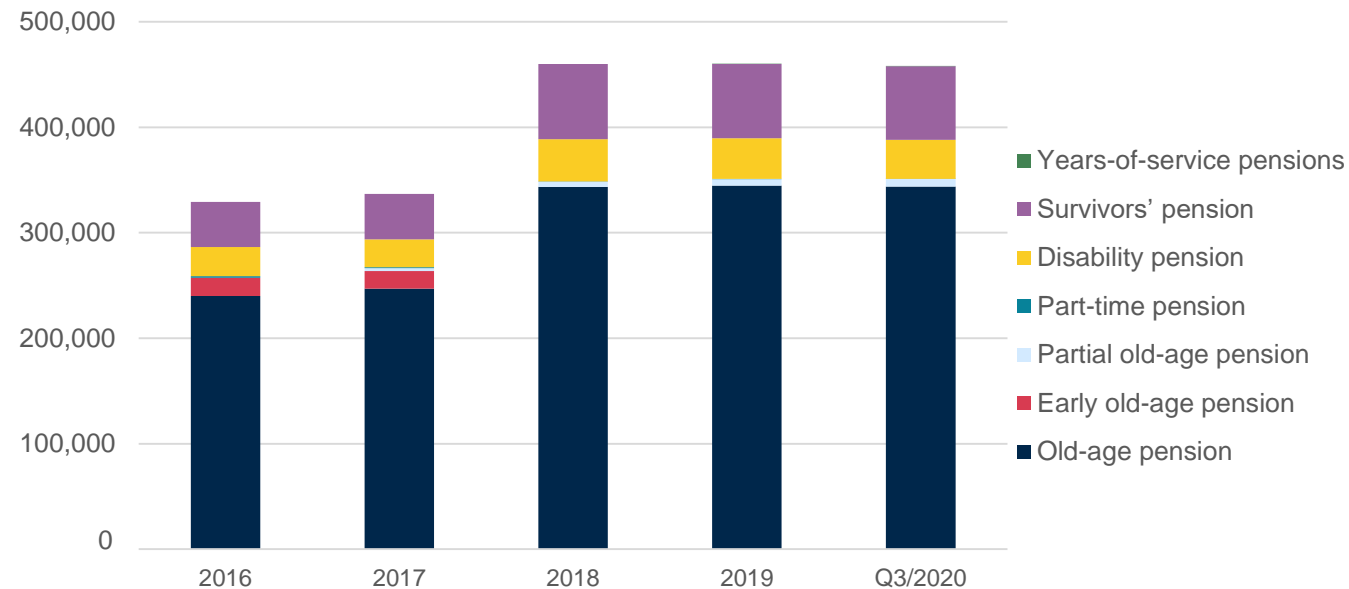


Average processing time of pension applications, days



The number of pension recipients, some 460,000, was on a par with the previous year

Ilmarinen's pension recipients



The economic downturn caused by the coronavirus has not yet led to a significant increase in the volume of old-age pension applications.



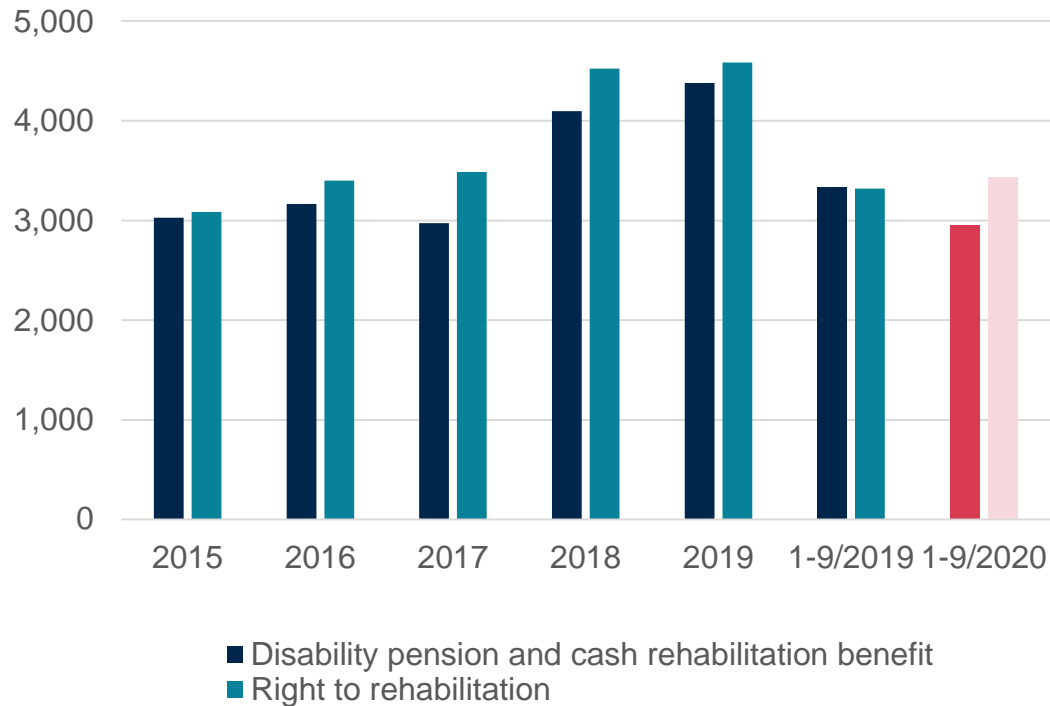
Better Working Life

Work ability risk
management and
rehabilitation

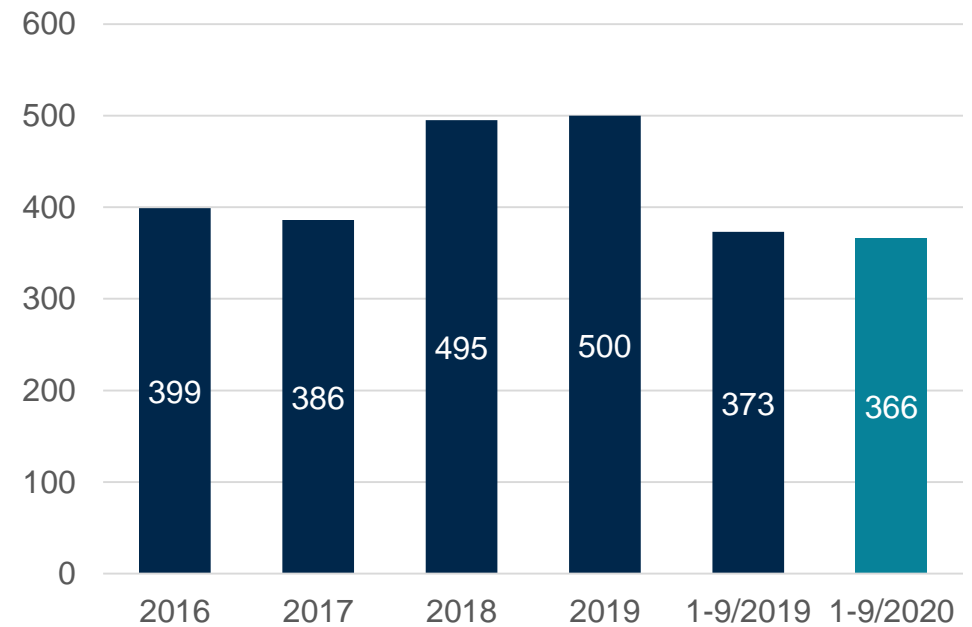
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Number of rehabilitation decisions increased by 4% – disability pension expenditure EUR 366 million

Rehabilitation and persons retired on disability pension

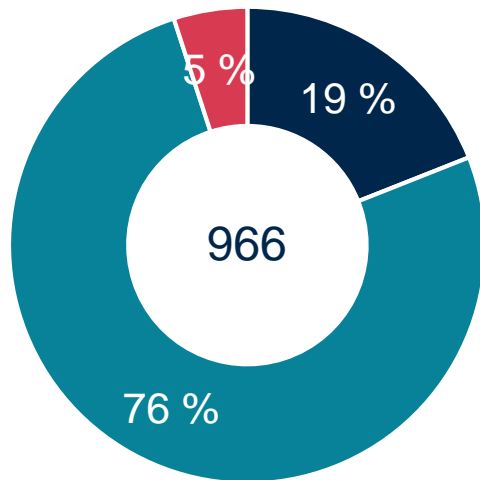


Disability pension expenditure, € mill.



Work ability projects amounted to 966 and covered 202,000 employees

Work ability project themes and customer satisfaction in January–September 2020



- Developing supervisory work
- Supporting work capacity
- Functioning of work communities

**Work Ability
Services' 75
(1-9/2020)**



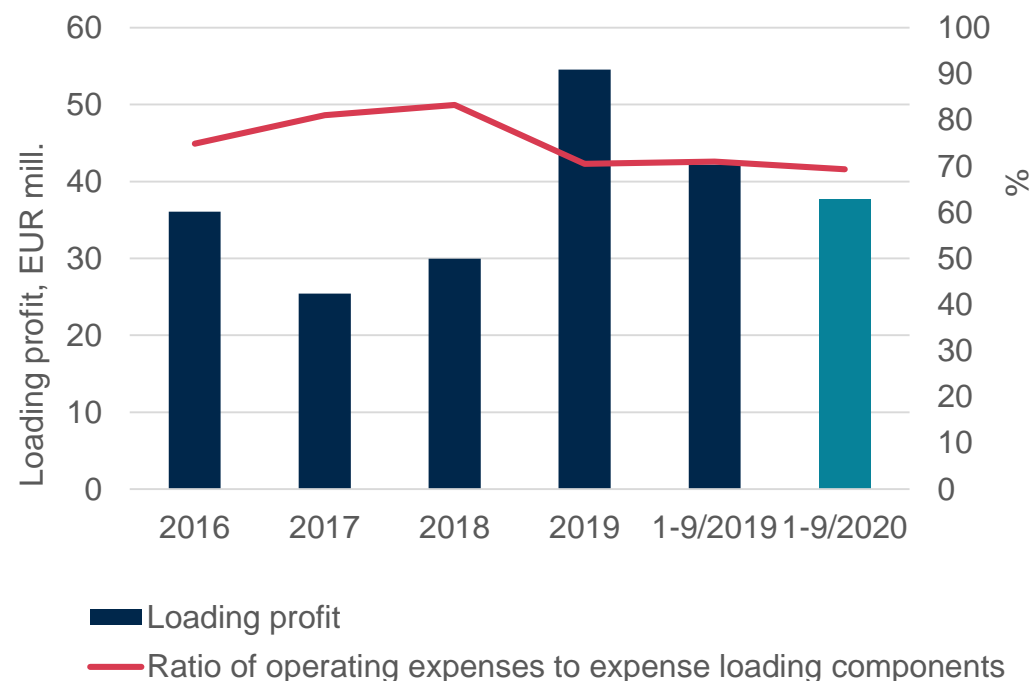
Cost-effective operations

Operating expenses

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Operating expenses financed using loading income fell EUR 16 million and the loading income was EUR 20 million. The loading profit amounted to EUR 38 million.

Loading profit, ratio of operating expenses to expense loading components and total operating expenses 2016–2020*)



EUR mill.	2016	2017	2018	2019	1-9/2019	1-9/2020
Expense loading components and other income	144	134	179	185	143	123
Operating expenses covered by loading income	108	109	149	130	101	85
Loading profit	36	25	30	55	42	38
Ratio of operating expenses to expense loading components, %	75	81	83	70	71	69
Total operating expenses	147	150	195	175	137	115

The impacts of the coronavirus on customers' payroll will weaken the loading income and the ratio of operating expenses to expense loading components during the remainder of the year.

*) The rates affecting the TyEL administrative cost component changed as of the beginning of 2017 and 2020. The expense loading rate was lowered by 6.9% at the beginning of 2020. The comparable loading profit was EUR 5 million higher than a year earlier and the comparable ratio of operating expenses to expense loading components improved by 6 percentage points. The figures for 2016–2017 do not include the figures of Etera, which merged with Ilmarinen.



**Profitably,
securely and
responsibly**

Investments

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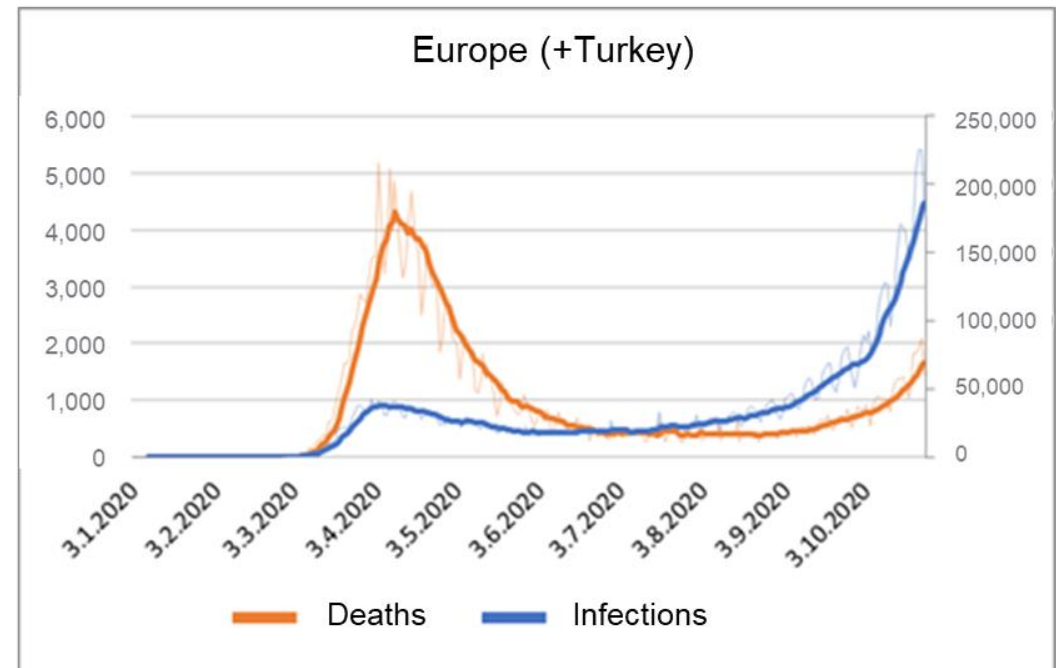
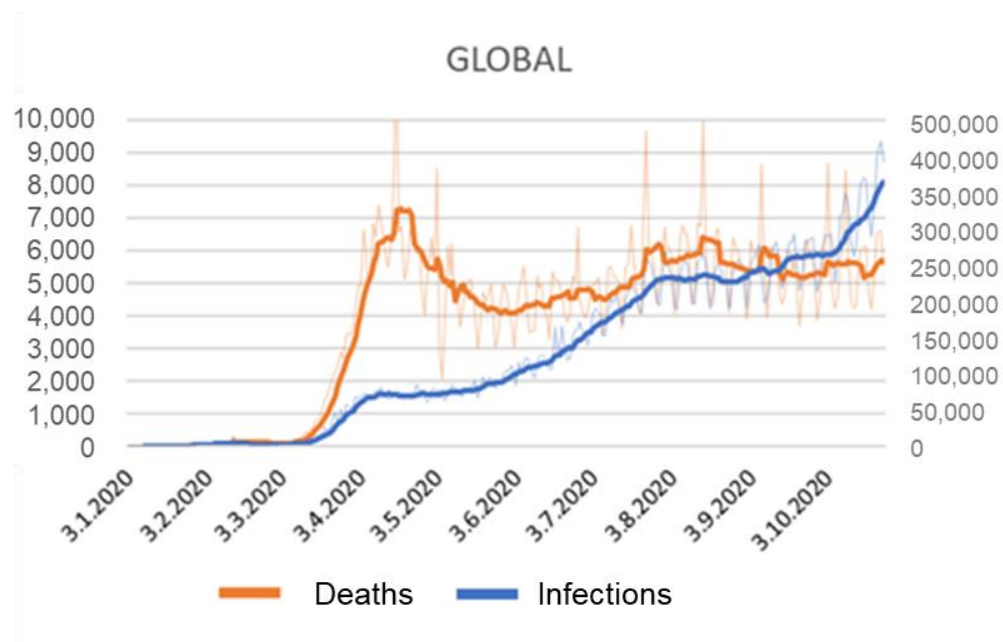
Key observations about the operating environment

- The global economy is expected to contract by more than 4 per cent in 2020 as a result of the coronavirus crisis and economic lockdown measures. The economic outlook has somewhat improved during summer and autumn, although the spread of the coronavirus has intensified again.
- The prospects for the economy and employment in Finland have also improved compared to the situation in the early part of the year, but economic growth in 2020 will still remain negative.
- Central banks and governments have continued their unprecedented monetary and fiscal policy stimulus measures in both the EU and the US. Thanks to the stimulus, public deficits and indebtedness and central banks' balance sheets have grown significantly.
- A monetary policy that supports economic activity and the capital markets has kept interest rates at a low level. Long-term interest rates in the US were clearly lower than at the start of the year, while in the eurozone they were only slightly lower. Credit risk margins are still clearly broader than in the early part of the year.
- The equity market has continued to recover and stock prices particularly in the US have risen sharply. Stock price development in Europe has been moderate. The euro has appreciated against the dollar.
- In addition to the stimulating impacts of central bank and fiscal policies, market attention has been focussed on the spread of the coronavirus and the development of treatments for it.



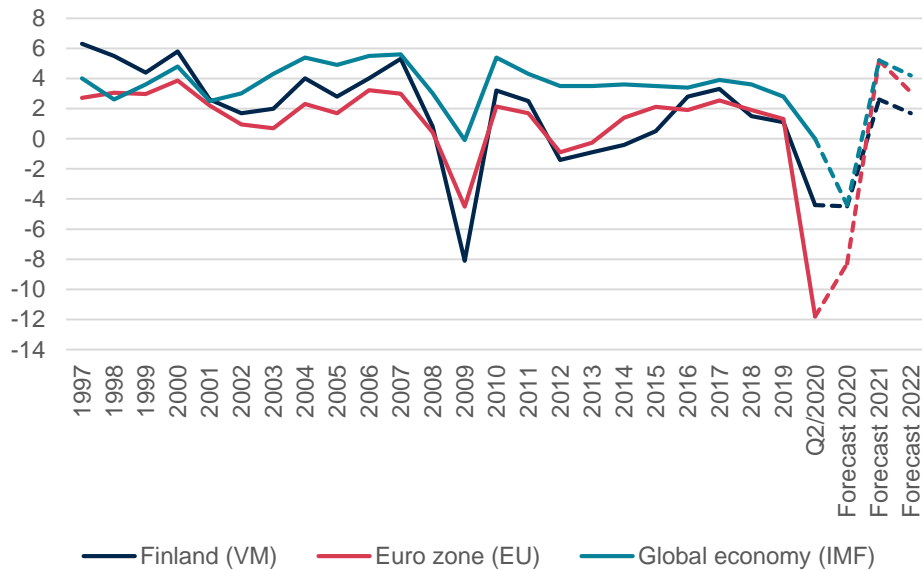
The coronavirus pandemic continues to spread globally, with the number of infections growing especially in Europe

- The daily number of cases is increasing worldwide. So far, there have been more than 43 million confirmed cases and more than 1.1 million deaths globally.
- In Europe, infections have risen sharply and the daily number of cases has reached an all-time high. The number of deaths has begun to grow, although much less sharply than the number of infections.
- During October, Finland has also seen a substantial rise in the number of coronavirus infections, with more than 15,000 cases.

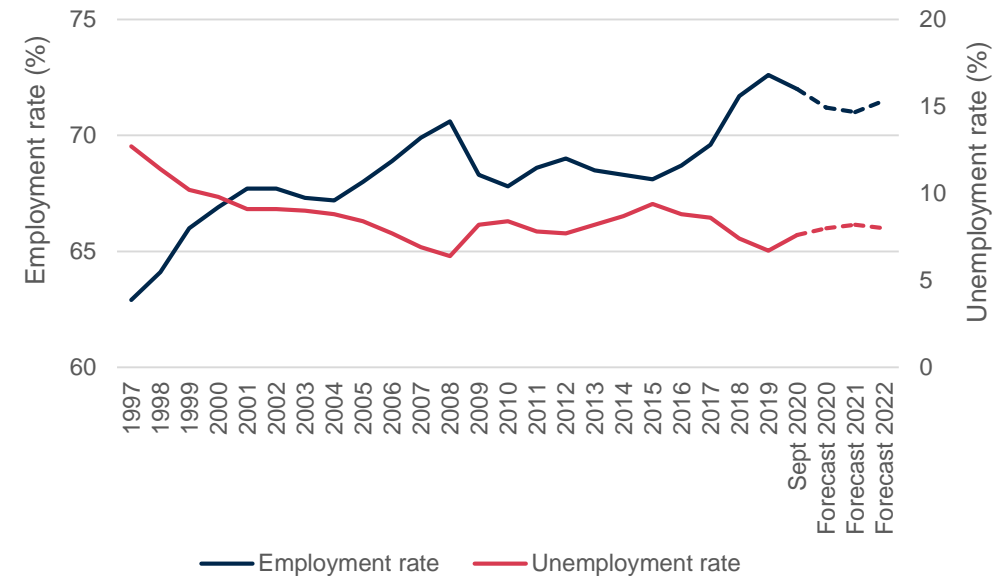


In the second quarter the global economy fell into a record-deep depression

GDP development, %



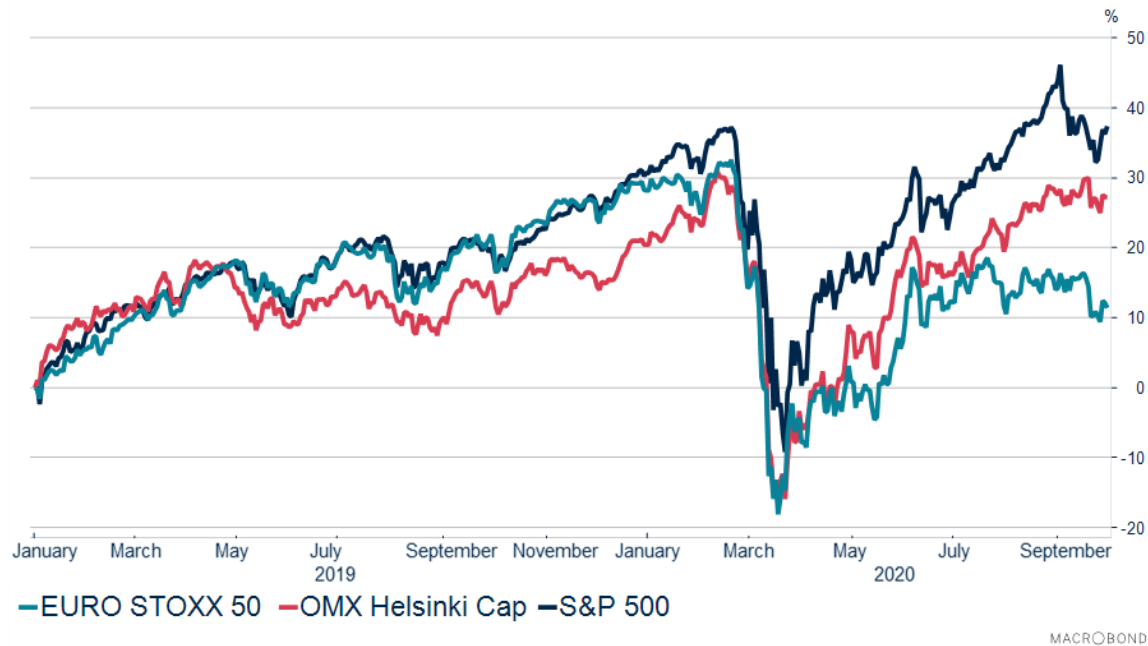
Development of Finland's employment and unemployment rates, %



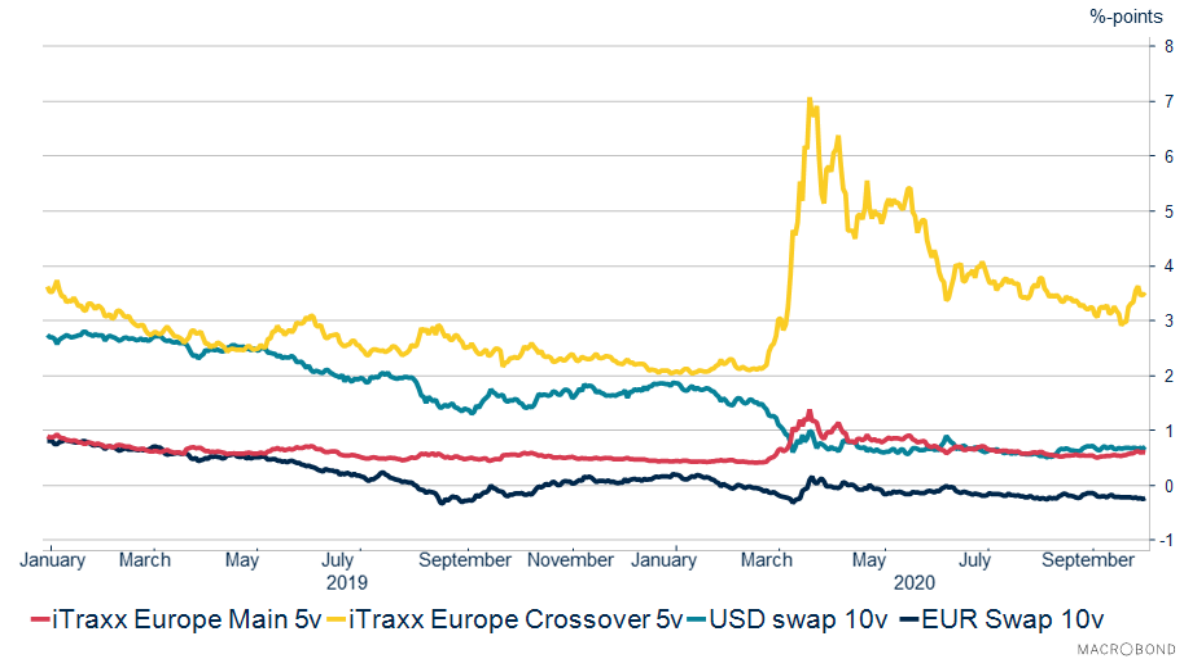
Sources: Statistics Finland, World Bank (EU) and IMF

Markets quickly recovered from March's stock price fall due to central banks' and governments' support measures; the recovery continued in Q3

Equity market performance

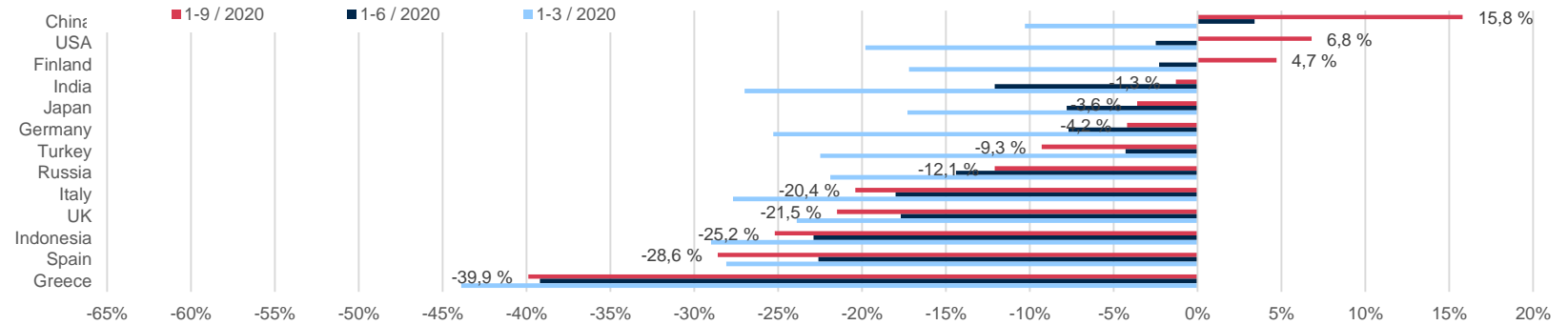


Development of interest rates and credit risk premiums

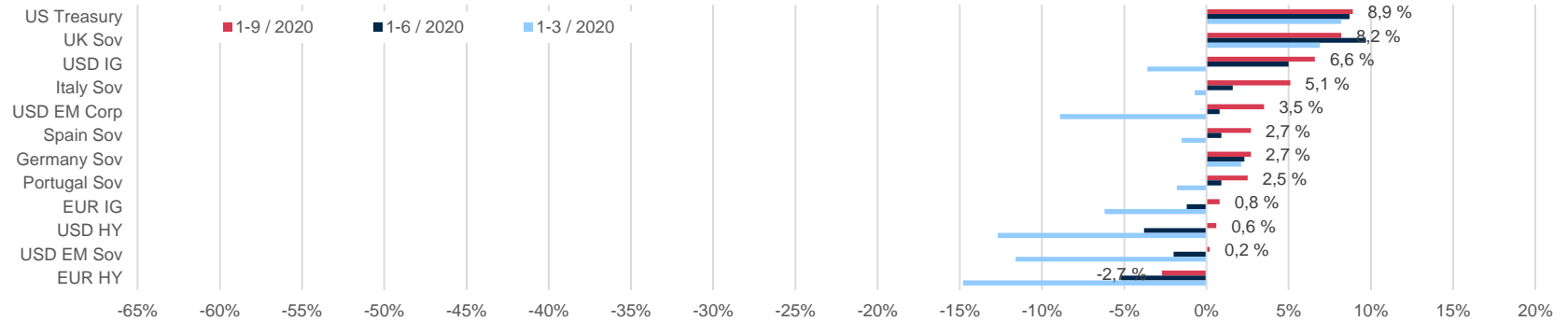


Market development 2020 (situation 30 Sep 2020, 30 Jun 2020 and 31 Mar 2020)

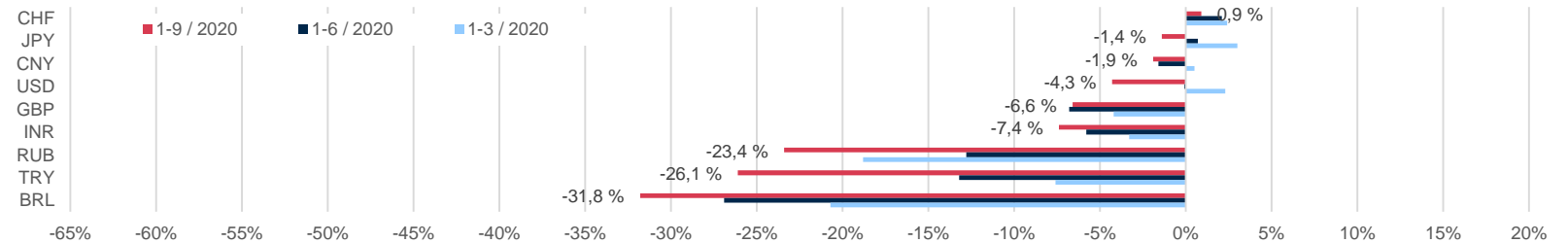
Equities and shares



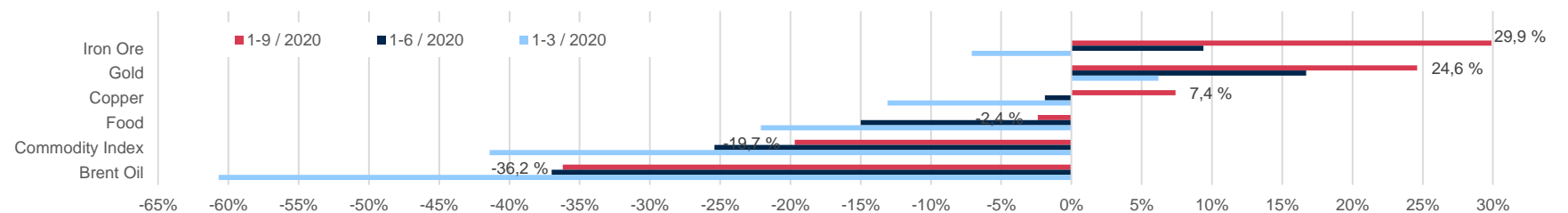
Fixed income markets



Currencies



Commodities



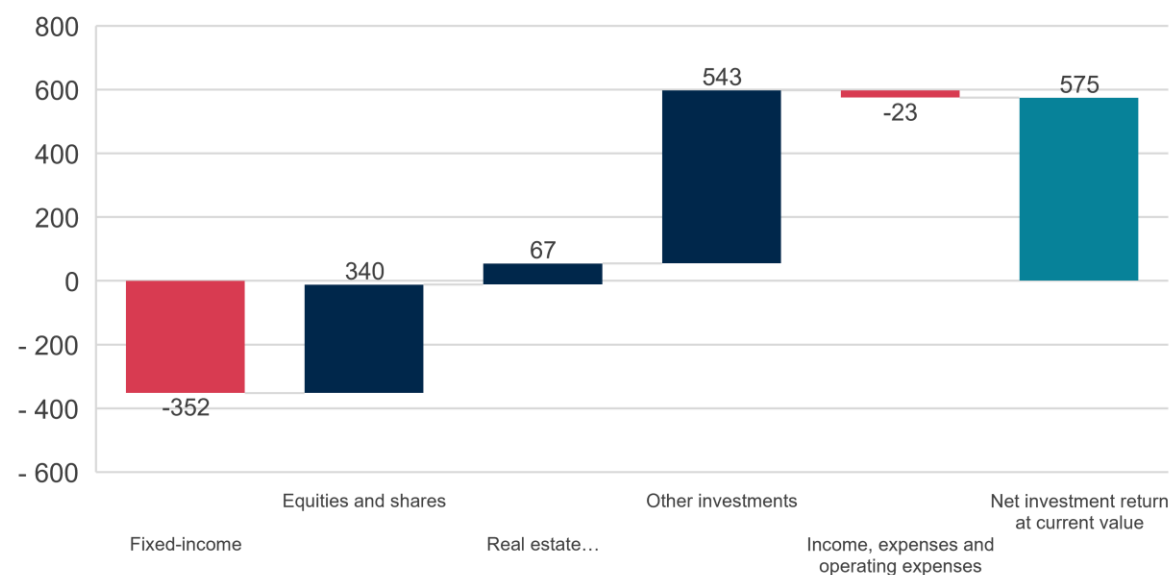
The investment market has continued to recover, return on investments rose to 1.1 per cent, or to EUR 0.6 billion

Returns January–September, per cent

Returns by asset class, € mill.

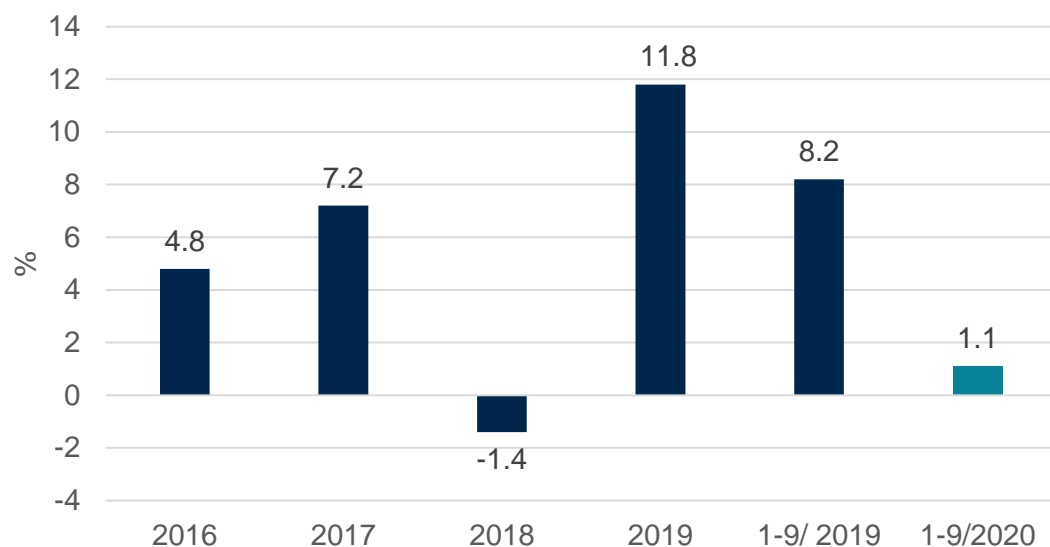
	1-9/2020	1-9/2019	2019
Return on investments	1.1	8.2	11.8
Fixed income	-2.1	4.2	4.7
Equities and shares	1.4	14.4	20.8
Real estate investments	1.1	3.4	8.4
Other investments	14.9	-1.1	-2.1

Long-term return (since 1997): nominal return 5.7% and real return 4.2%.



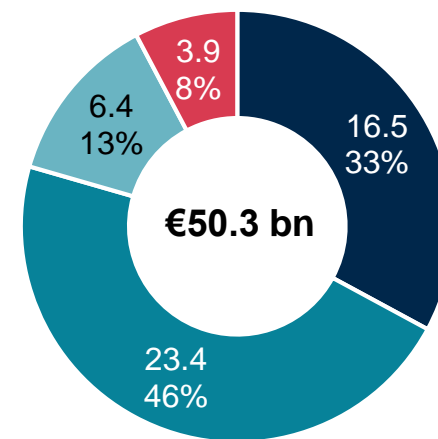
The investment market rebounded from the drop early in the year and return on investments rose to 1.1 per cent

Return on investments, 5 years



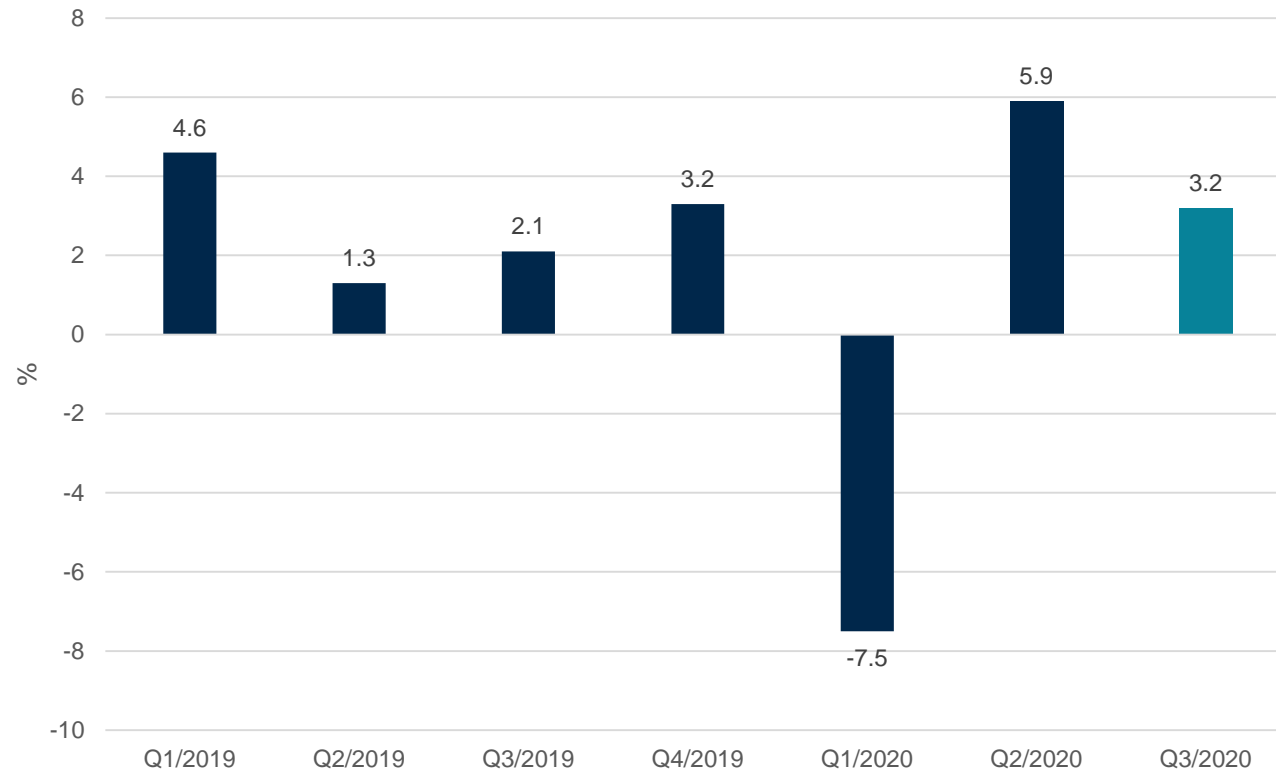
Average nominal return on investments over 5 years 5.2% and real return 4.4%.

Investment allocation, 30 September 2020



- Fixed-income
- Equities and shares
- Real estate investments
- Other investments

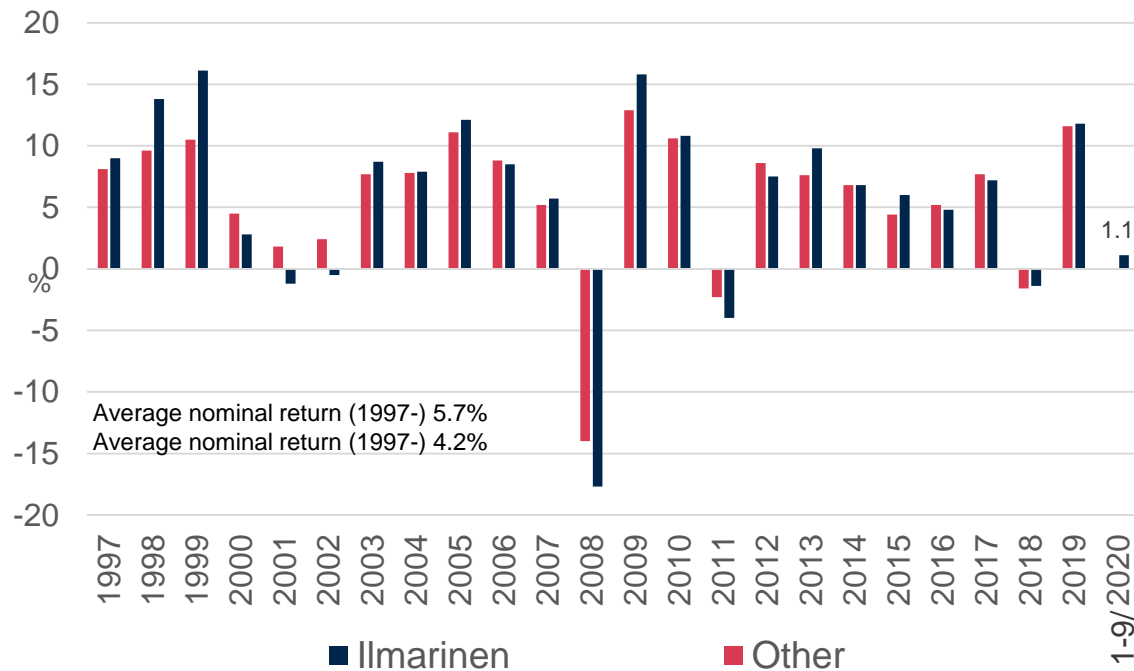
Q3 return on investments 3.2 per cent, i.e. EUR 1.6 billion



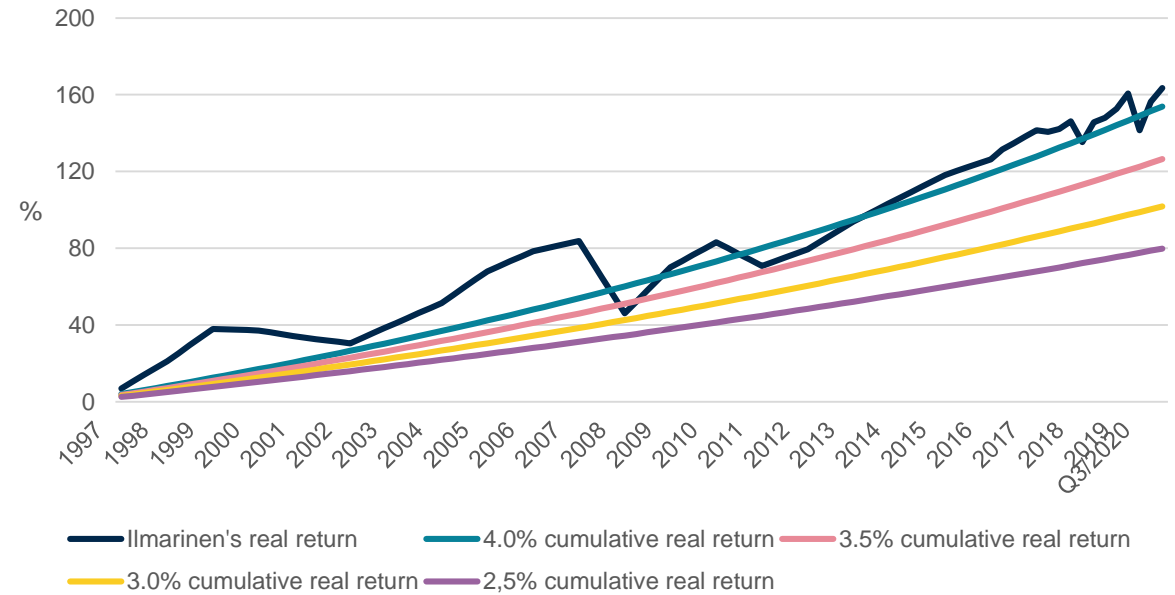
The underlying sentiment in the investment markets in Q3 was favourable, especially in the US.

Long-term average nominal return 5.7 per cent per annum

Net investment return at current value

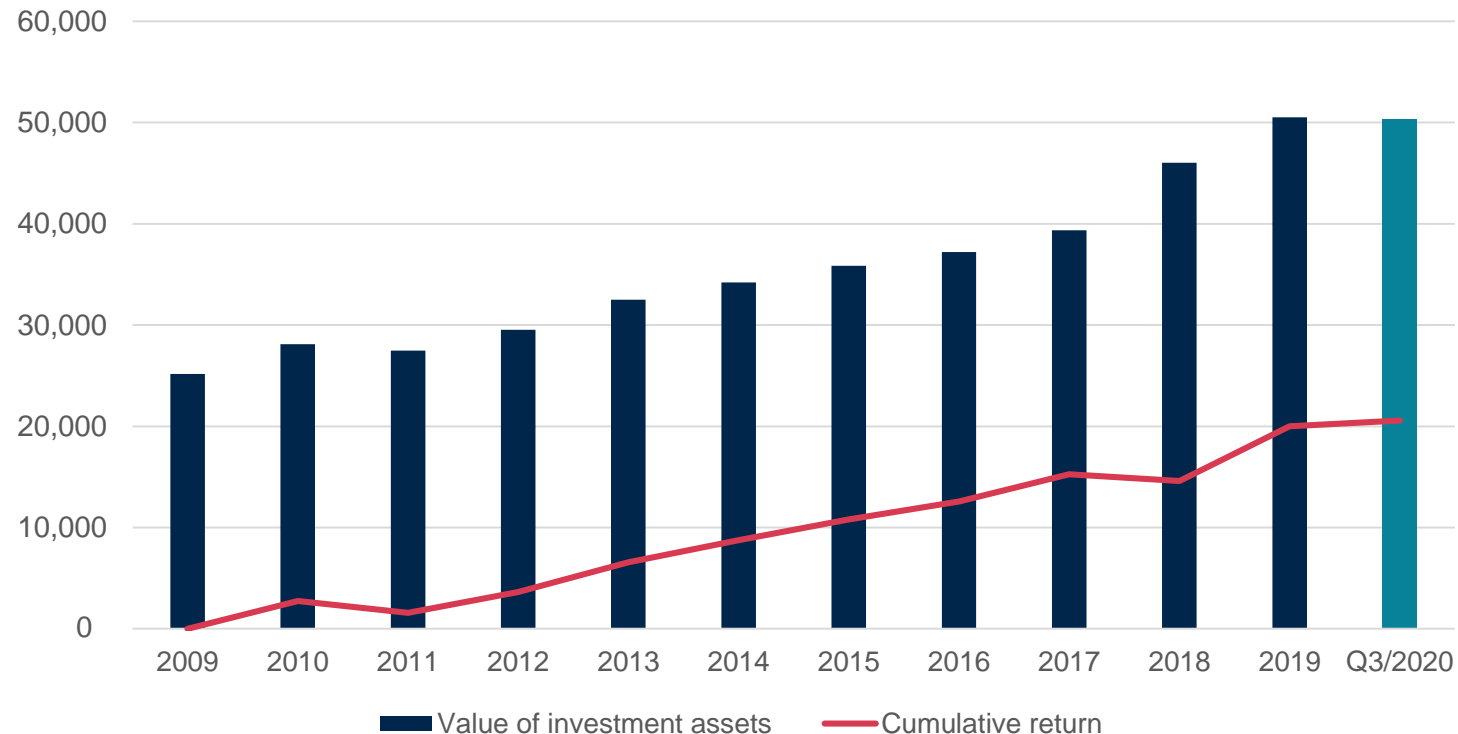


Cumulative net return on investments 1997–30 September 2020



Value of investments EUR 50.3 billion, cumulative return on investments from start of 2010, some EUR 21 billion

Value of investments and cumulative return 2010–2020, EUR mill.



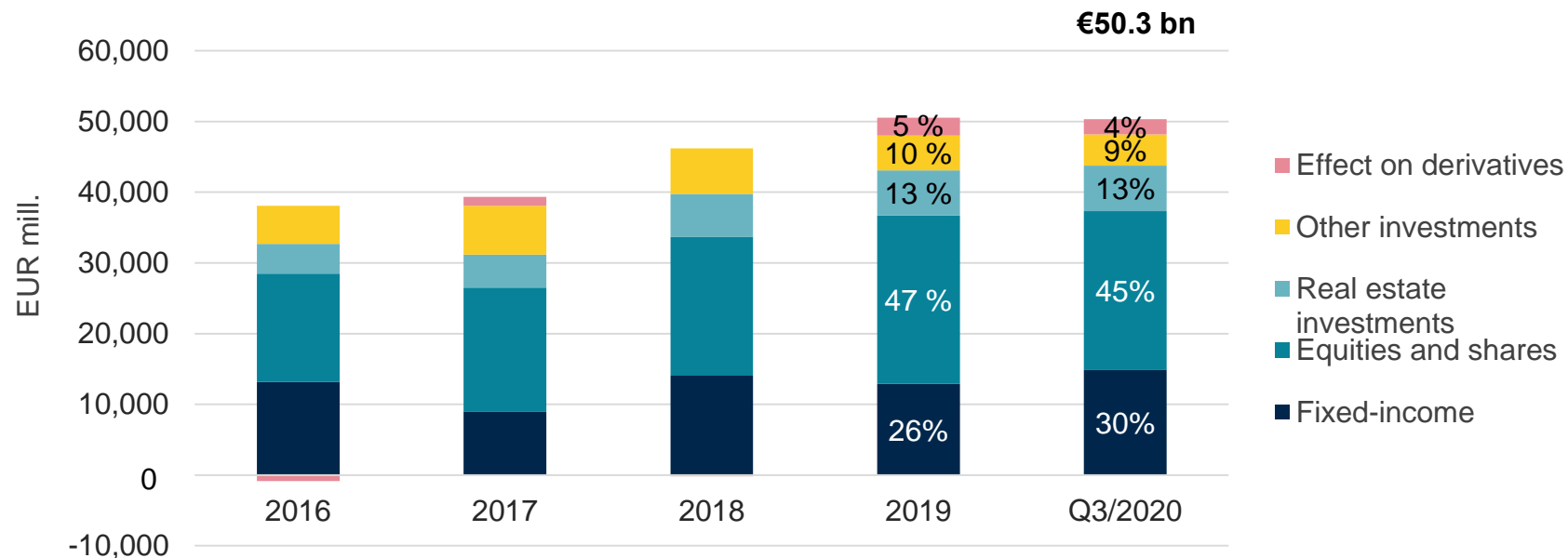
Long-term return remains at a good level

Average return of different markets

%	Ilmarinen	Finnish equities and shares	European equities and shares	Euro government bonds	Euro corporate bonds
Q3/2020	3.2	9.7	0.6	1.7	20
2020	1.1	5.6	-11.6	3.8	0.7
2019	11.8	20.4	26.8	6.7	6.3
Average return over 5 years	5.2	11.7	3.5	3.0	2.8
Average return over 10 years	5.2	9.3	6.3	4.2	3.5
Average return over 20 years	N/A	7.4	2.5	4.8	4.5
Average return since 1997	5.7	9.8	5.9	4.9	4.5
Real average return over 5 years	4.4	10.9	2.8	2.3	2.1
Real average return over 10 years	4.0	8.1	5.0	2.9	2.3
Real average return over 20 years	N/A	6.0	1.2	3.5	3.1
Real average return since 1997	4.2	8.2	4.4	3.4	3.0

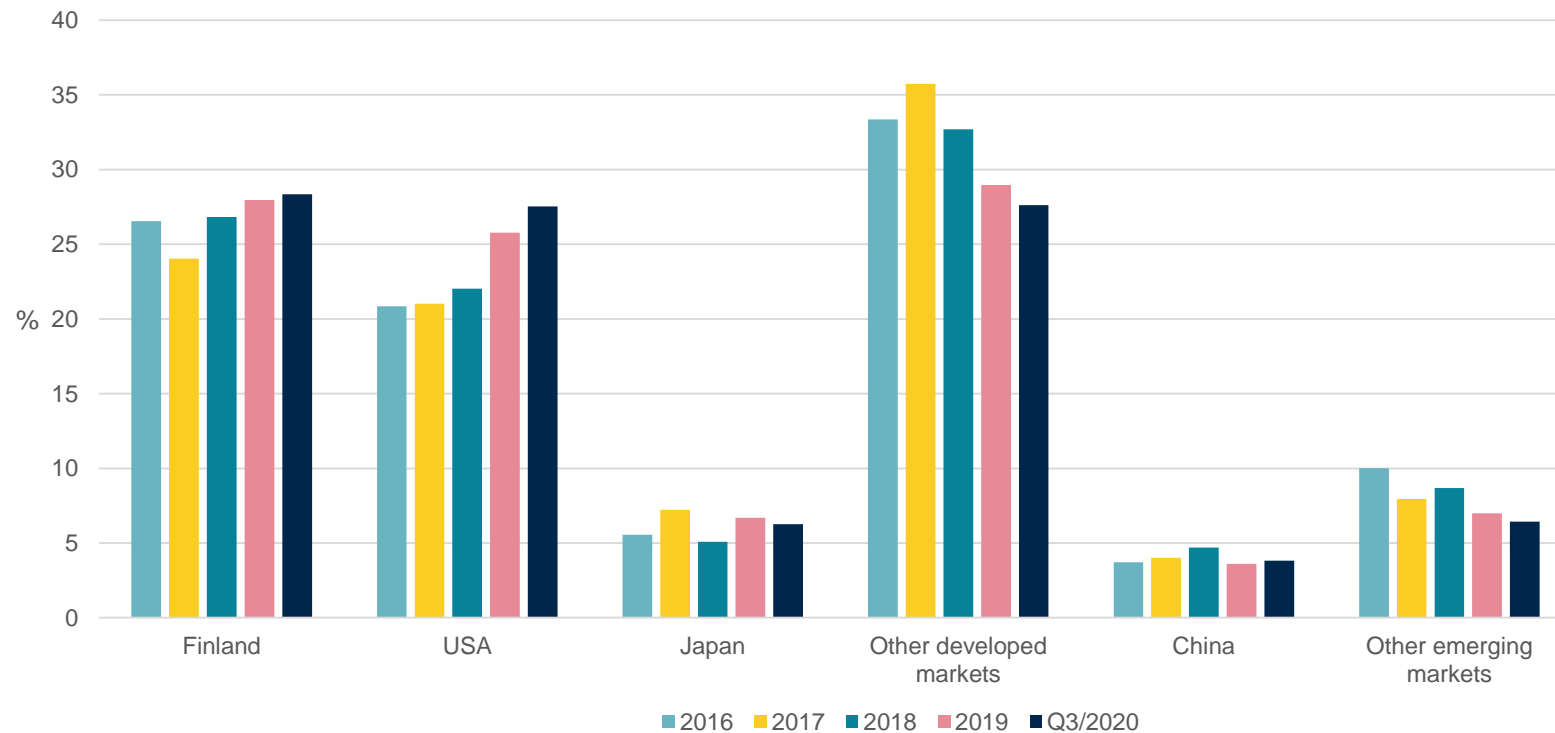
In the investment allocation, equity weight dropped from 47 per cent to 45 per cent

Breakdown of investment risks



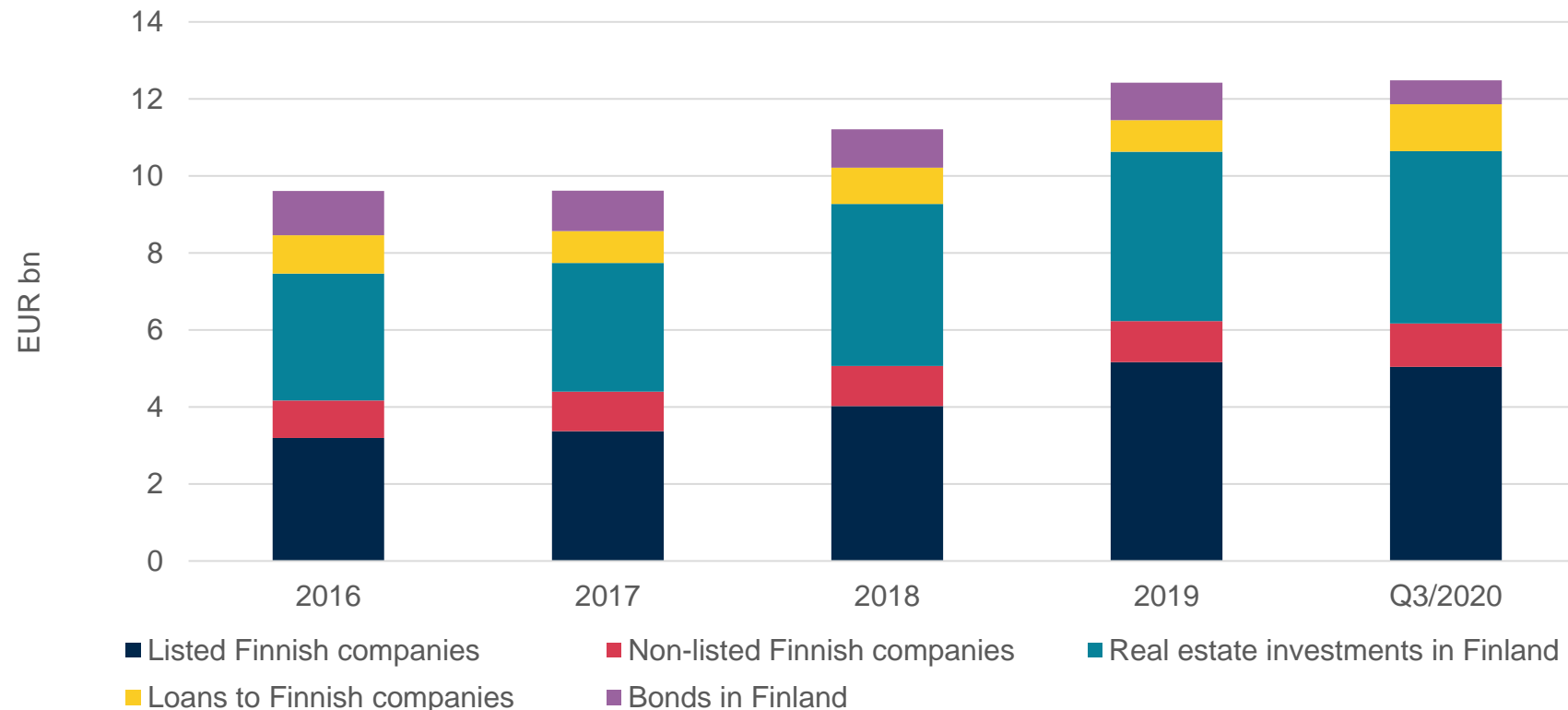
Share of Finnish listed equity investments 28 per cent

Geographical breakdown of listed equities



Ilmarinen's investments in Finland were **over EUR 12 billion** , i.e. one quarter of the investment portfolio

Investments in Finland 2016–2020, EUR billion



Holdings in Finnish publicly quoted companies

€5.0 bn

Largest Finnish listed equity holdings

	EUR mill.	30 Sept 2020	31 Dec 2019
↓	Kojamo Plc	375	455
↑	Kesko Corporation	354	276
↑	Neste Corporation	287	264
	UPM-Kymmene Corporation		
↑		281	269
↑	Kone Corporation	281	257
↑	Stora Enso Corporation	280	257
↓	Sampo Plc	266	269
↑	Fortum Corporation	263	259
↓	Nordea Bank Abp	257	282
↑	Elisa Corporation	227	209

	Percentage	30 Sept 2020	31 Dec 2019
↓	Nurminen Logistics Plc	19.6	19.7
	Digia Plc	14.6	14.6
↑	SRV	12.7	1.6
↓	Kojamo Plc	8.3	11.3
	Panostaja Oyj	8.1	8.1
	Martela Corporation	8.1	8.1
	Glaston Corporation	7.3	7.3
	Citycon Oyj	7.1	7.1
↓	Capman Plc	6.6	6.8
↓	QT Group Plc	6.2	10.2

Summary of return on investments for January–September

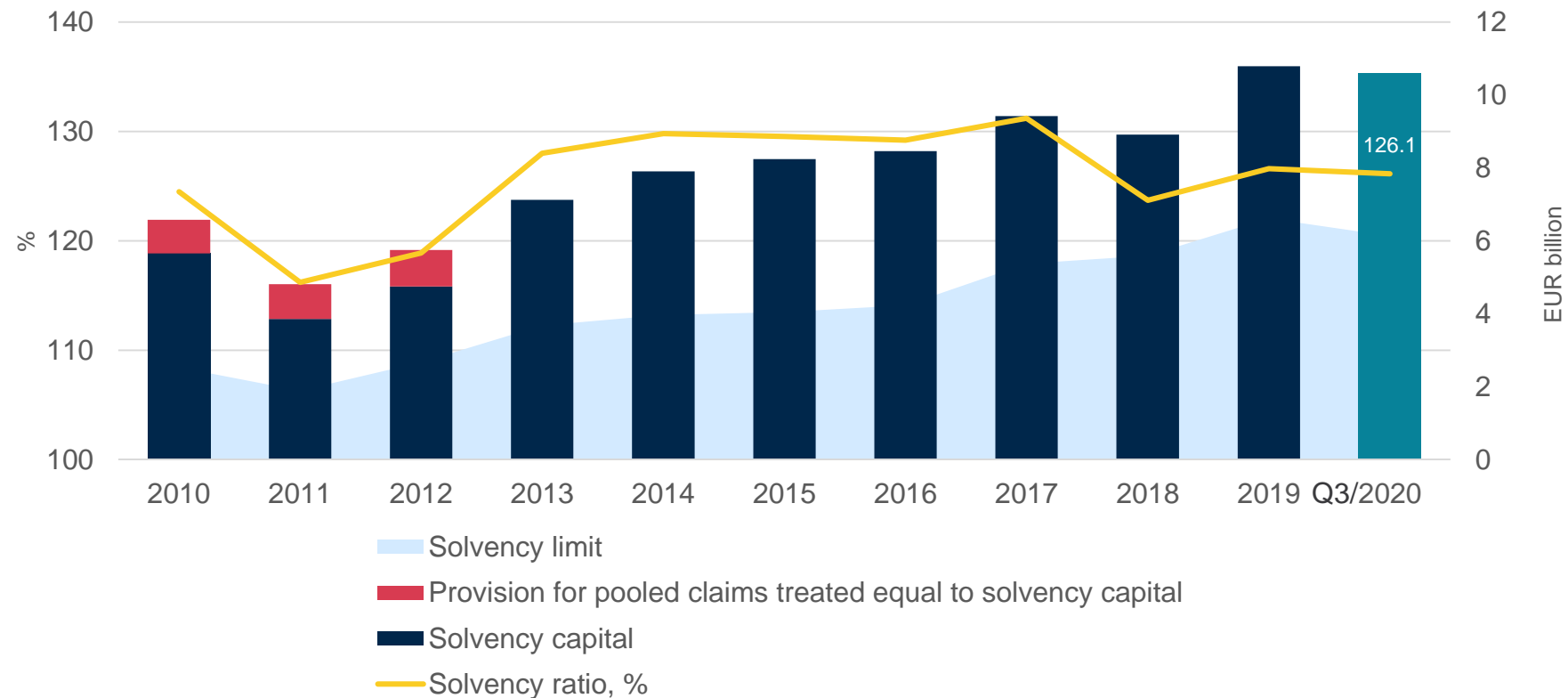
	Basic breakdown		Risk breakdown		Return	Volatility
	EUR mill.	%	EUR mill.	%	%	
Fixed-income investments	16,547.2	32.9	14,857.5	29.5	-2.1	
Loan receivables	1,540.0	3.1	1,540.0	3.1	0.0	
Bonds	13,073.8	26.0	10,486.4	20.8	-2.3	6.9
Public corporation bonds	4,851.6	9.6	4,257.2	8.5	-2.5	
Other bonds	8,222.3	16.3	6,229.1	12.4	-2.2	
Other money market instruments and deposits (incl. investment receivables and payables)	1,933.3	3.8	2,831.1	5.6	-1.6	
Equities and shares	23,427.8	46.6	22,460.5	44.6	1.4	
Listed equities and shares	17,809.1	35.4	16,841.8	33.5	0.7	18.2
Private equity investments	4,651.1	9.2	4,651.1	9.2	4.3	
Non-listed equities and shares	967.6	1.9	967.6	1.9	2.9	
Real estate investments	6,440.2	12.8	6,457.8	12.8	1.1	
Real estate investments	5,845.7	11.6	5,846.6	11.6	1.5	
Real estate funds and joint investments	594.5	1.2	611.1	1.2	-3.1	
Other	3,892.1	7.7	4,422.5	8.8	14.9	
Hedge fund investments	2,769.4	5.5	2,769.4	5.5	2.2	5.1
Commodity investments	42.3	0.1	58.0	0.1	-	
Other investments	1,080.4	2.1	1,595.1	3.2	49.9	
Investments total	50,307.3	100.0	48,198.3	95.8	1.1	6.9
Effect of derivatives			2,109.0	4.2		
Investments at current value	50,307.3		50,307.3	100.0		

The modified duration of bond investments is 2.1 years.

The open currency position is 16.9% of the market value of the investments.

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

Solvency capital EUR 10.6 billion and solvency ratio 126.1%, i.e. significantly higher than the regulatory requirements, with the solvency position being 1.7





Future prospects

ILMARINEN

Future prospects

- According to the forecast published by the IMF in October, the global economy is expected to shrink by 4.4 per cent year-on-year during 2020. The forecast is 0.6 percentage points more positive than the forecast published in June. On the other hand, the growth expectation for 2021 has declined by 0.2 percentage points to 5.2 per cent. What is key in terms of the economic outlook is how well the spread of the coronavirus can be inhibited without major lockdown measures. Uncertainty linked to forecasts remains significant.
- In Finland, the economy is expected to contract by 4.5 per cent during this year. Owing to growing unemployment and the temporary discount on employers' TyEL contributions, premiums written will fall considerably year-on-year. The declining premiums written and the reduction in the expense loading rate for 2020 will reduce Ilmarinen's loading income and thus the loading profit and the ratio of operating expenses to expense loading components compared to the year before. Thanks to the improvement in cost-effectiveness, loading profit is expected to be at the same level or better in H2 than it was in H1.
- The uncertainty in the investment markets is expected to continue until the spread of the coronavirus is under control and confidence in economic recovery has been restored. Uncertainty in the investment market is also fuelled by the US presidential election, the uncertainty surrounding the continuation of the US's expansionary fiscal policy and the possible escalation of geopolitical and trade policy crises. Central banks and governments are expected to continue their stimulus measures to support markets.
- The key risks affecting Ilmarinen's operations and the earnings-related pension system in the longer term are still related to the development of employment and payroll, the ascending trend in disability prevalence, performance of the investment markets and the development of demographics and the birth rate, which has been exceptionally low in recent years.



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Better Working Life

[Ilmarinen.fi](https://ilmarinen.fi)

