



ILMARINEN'S INTERIM REPORT

**1 JANUARY TO
30 SEPTEMBER 2017**

GOOD INVESTMENT RESULT BOOSTS SOLVENCY

JANUARY–SEPTEMBER FINANCIAL PERFORMANCE IN BRIEF:

- In January–September, Ilmarinen's investment portfolio generated a return of 5.5 per cent (1 Jan–30 Sep 2016: 2.3 per cent). At the end of September, the market value of investments stood at EUR 38.9 billion (30 Sep 2016: EUR 36.5 billion).
- The long-term average real return was at a good level, at 4.3 per cent.
- Solvency strengthened during the quarter. At the end of September, solvency capital was EUR 9,158 (8,002) million and the solvency ratio was 130.6 (127.9) per cent.
- Ilmarinen's customer acquisition was excellent in the third quarter. Measured in premiums written, net customer acquisition amounted to approximately EUR 96 million by the end of September.
- Ilmarinen's and Etera's merger as of the start of 2018 was confirmed.

ILMARINEN

REVIEW BY PRESIDENT AND CEO TIMO RITAKALLIO



The strong development of Ilmarinen's investment returns continued during the third quarter. Investments generated a return of more than EUR 2 billion in January–September and the value of Ilmarinen's investment assets at the end of September was EUR 38.9 billion. The Q3 return was 1.7 per cent and the return for the entire period under review rose to 5.5 per cent. In the past 12-month period, Ilmarinen's investments have yielded 8.1 per cent. The good investment result is especially attributed to the favourable development of share prices. In January–September, listed equity investments generated the best returns, at 11.3 per cent.

The average annual real return on Ilmarinen's investments since 1997 is at a good level, at 4.3 per cent. This clearly exceeds the 3.0 per cent return assumption used by the Finnish Centre for Pensions in its calculations. Solvency also remained strong and the solvency ratio, i.e. pension assets in relation to technical provisions, rose to 130.6 per cent.

In real estate investments, we continued the international diversification of the portfolio in line with our strategy and expanded our investments in the US real estate market. The newly formed joint venture with American New York Life Insurance Company invests in US office properties in the long term. The first investments include six office

properties in growing metropolitan areas on both the West and East Coasts of the United States.

Ilmarinen's customer acquisition was excellent in the third quarter. Measured in premiums written, net customer acquisition was EUR 96 million since the beginning of the year. We restructured our Better Working Life services into three areas: Luotaamo offers the Parempi Vire application and insight into the working community's state of well-being through pulse surveys, Valmentamo supports work capacity management, and through Ohjaamo (Virtual Control Room), customer companies can forecast and manage disability risks. Through these areas, we wish to improve the quality of working life, increase companies' productivity and prevent disability together with customers.

We also continued our campaign celebrating the centenary of Finland's independence where we challenge companies to join us in doing good deeds for a better working life. As part of the campaign, we donated EUR 30,000 to the Faculty of Management of the University of Tampere for a research project directed at discovering ways to improve the well-being at work and quality of working life for self-employed people.

The first applications for the years-of-service pension introduced by the pension reform were received in the summer. The years-of-service pension can be granted at the age of 63 after a strenuous and wearing career lasting at least 38 years, resulting in reduced work capacity. The years-of-service pension can start at the earliest on 1 February 2018. Interest towards the new pension type has been minor so far; only a few applications had been received by the end of September. Ilmarinen's customers have shown clearly more interest towards the other new pension type, the partial early old-age pension, for which we made 2,491 pension decisions in January–September.

Ilmarinen's extraordinary general meeting in September approved Etera's merger into Ilmarinen. The transaction was confirmed in October when the Financial Supervisory Authority gave it its approval. As of 1 January 2018, we will together form a cost-effective and attractive earnings-related pension company, offering an even more diverse service package and the sector's most competitive client benefits.

INVESTMENT MARKETS AND OPERATING ENVIRONMENT

Global economic growth was brisk also during the third quarter and equity markets continued to rise. All main equity markets

were on their way up. Leading the upswing were the emerging markets, with the MSCI EM index rising by more than 4 per cent, measured in euros. The broad European, Japanese and US equity indices rose more moderately during the quarter,

Ilmarinen's asset allocation and return

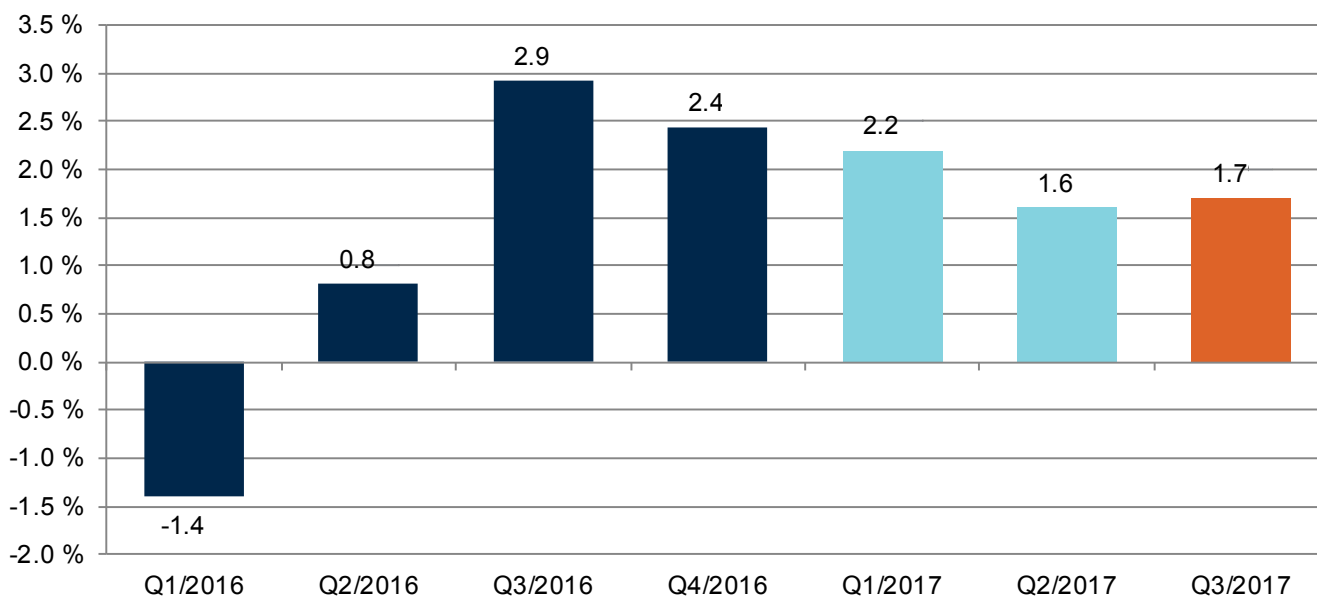
	9/2017 Basic breakdown		9/2017 Risk breakdown		1-9/2017 Return		Volatility
	EUR mill.	%	EUR mill.	%	%		
Fixed-income investments	15,540.6	39.9	8,424.1	21.6	1.7		
Loan receivables	852.3	2.2	852.3	2.2	2.5		
Bonds	14,088.5	36.2	2,839.0	7.3	1.6	1.5	
Public corporation bonds	4,851.0	12.5	2,643.6	6.8	0.2		
Other bonds	9,237.5	23.7	195.4	0.5	2.2		
Other money market instruments and deposits (incl. investment receivables and payables)	599.8	1.5	4,732.8	12.2	2.8		
Equities and shares	17,248.4	44.3	16,273.1	41.8	10.8		
Listed equities and shares	13,737.1	35.3	12,761.7	32.8	11.3	10.3	
Private equity investments	2,553.9	6.6	2,553.9	6.6	10.6		
Non-listed equities and shares	957.5	2.5	957.5	2.5	5.5		
Real estate investments	4,385.2	11.3	4,385.2	11.3	2.3		
Real estate investments	3,976.6	10.2	3,976.6	10.2	1.9		
Real estate funds and joint investments	408.7	1.1	408.7	1.1	5.1		
Other	1,745.6	4.5	6,964.1	17.9	0.3		
Hedge fund investments	748.1	1.9	748.1	1.9	-1.5	5.3	
Commodity investments	0.7	0.0	220.6	0.6	-		
Other investments	996.8	2.6	5,995.3	15.4	2.7		
Investments total	38,919.9	100.0	36,046.5	92.6	5.5		3.5
Effect of derivatives			2,873.4	7.4			
Investments at current value	38,919.9		38,919.9	100.0			

The modified duration of bond investments is 0.1 years.

The open currency position is 23.1% of the market value of the investments.

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

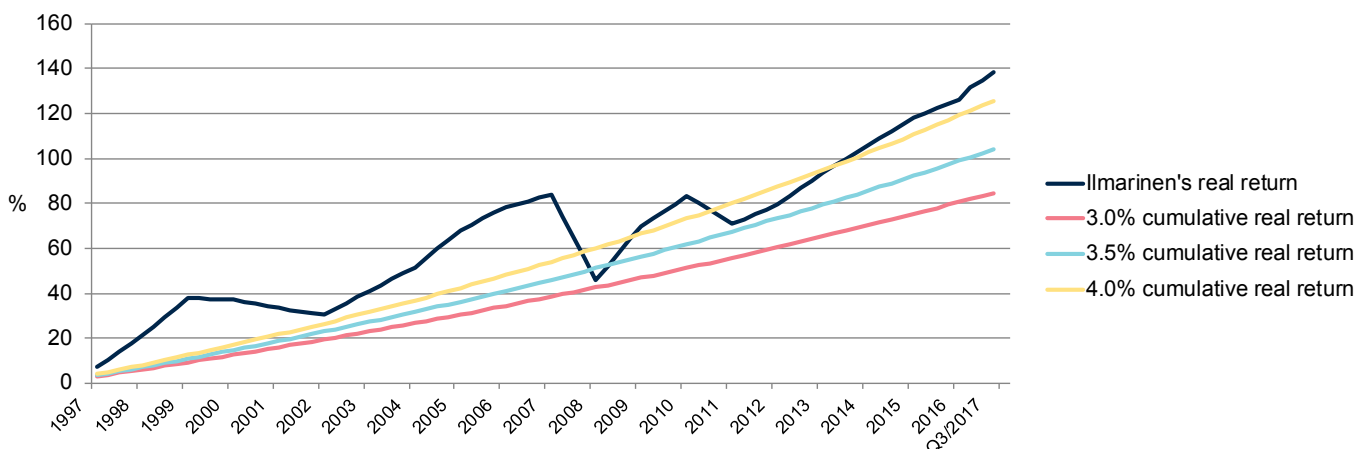
Quarterly investments returns Q1/2016–Q3/2017



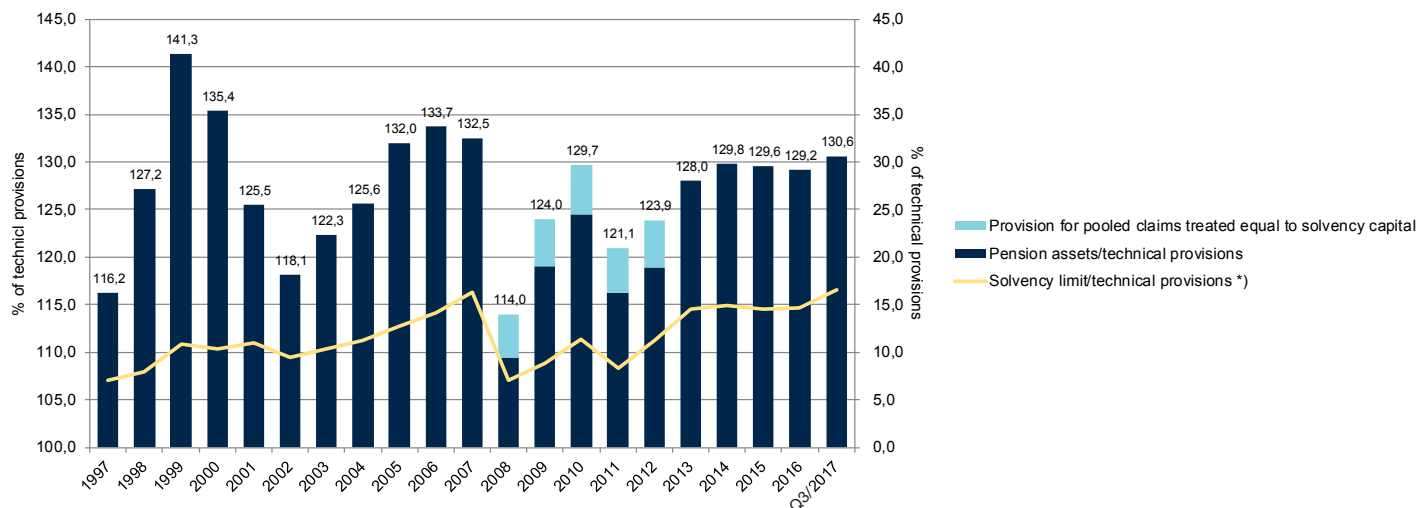
with share prices rising by 1–3 percent in euros. Measured in local currencies, the yields were higher, because the euro continued to strengthen during the third quarter. The OMX Helsinki capped index, which describes the performance of the

Finnish equity market, rose by more than one per cent during the quarter. Since the beginning of the year, the MSCI World index has risen by almost 18 per cent in dollars but only by just over 5 per cent in euros. The OMX Helsinki index has risen 13

Cumulative net return on investments 1997–30.9.2017



Solvency development



Solvency position was 1.9 (2.0).

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

For previous years, the method of presentation for 2017 is applied.

*) 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.

per cent in euros and including dividends, since the beginning of the year.

The dollar continued to weaken against the euro during the third quarter. During 2017, the total decline amounts to more than 12 per cent. The weakened dollar can be assumed to have negative medium-term and long-term impacts on the earnings power of European export companies.

Government bond interest rates (US 10 y and Germany 10 y) remained practically unchanged during the third quarter, but pressure for the interest rates to rise is slightly increasing. Markets are keeping a close eye on the messages of US and European central banks on which direction monetary policy

will take. In its September meeting, the Fed left the key interest rate intact, as expected, but announced that it would start gradually reducing its balance sheet as of October. The ECB, for its part, is expected to disclose the schedule for reducing its quantitative easing in its October meeting.

Finland's economy returned to the growth trajectory in 2016. However, the economy has not yet fully recovered from the deep fall of 2009 and the ensuing period of extremely slow growth. Total production is still lower than in 2008. Following the strengthened outlook for the global economy, Finland's exports, for example, have started to grow in almost all market areas during 2017. Finland's GNP growth forecasts have

been raised across the board during 2017. Ilmarinen expects Finland's GDP to grow 3 per cent this year, with exports and investments as the engines of economic growth. Economic growth has also led to an increase in employment rates and payroll in the private sector in 2017.

INSURANCE OPERATIONS

At the end of September, Ilmarinen had altogether 334,815 (327,280) pensioners, to whom a total of EUR 3,515 (3,398) million was paid in benefits. Ilmarinen made 22,090 (19,183) new pension decisions in January–September. The total number of pension decisions made was 35,333 (31,748). New rehabilitation decisions came to 2,574 (2,488).

Ilmarinen's customer acquisition has developed well. Measured in premiums written, net customer acquisition was EUR 96 (54) million during the first part of the year.

The operating expense ratio which measures the operational efficiency of Ilmarinen's activities is expected to be 82 per cent in 2017, and the loading profit at EUR 25 million.

RETURN ON INVESTMENTS

At the end of the third quarter of 2017, Ilmarinen's total investments at current value were EUR 38,920 million (EUR 36,546 million on 30 Sep 2016). The return on investments at current value was (5.5) 2.3 per cent, i.e. more than EUR 2 billion. Inflation at the end of the quarter was 0.3 per cent and the real return on Ilmarinen's investments came to 5.2 per cent in January–September. Calculated at current value, the average annual return over the last five years has been 7.0 per cent, which corresponds to an average annual real return of 6.4 per cent. Calculated from 1997, the average annual return at current value on Ilmarinen's investments has been 5.9 per cent per annum. This corresponds to an annual real return of 4.3 per cent.

Fixed income investments accounted for a total of 39.9 (44.9) per cent of the investment portfolio and their return at current value was 1.7 (2.0) per cent. Their total market value was EUR 15,541 (16,392) million. Bonds accounted for a total of 36.2 (39.9) per cent of Ilmarinen's investment assets and their return was 1.6 (1.8) per cent. Other money market instruments and deposits totalled EUR 600 (635) million and accounted for 1.5 (1.7) per cent of the investment assets. Loan receivables made up 2.2 (3.2) per cent of the investment assets, with a return of 2.5 (2.8) per cent. The modified duration of bonds was 0.1 (0.1) years.

Listed and unlisted equities and shares as well as private equity investments made up 44.3 (39.1) per cent of all investments. Their value at the end of the quarter stood at EUR 17,248 (14,288) million. In the risk breakdown, listed equities and shares accounted for 32.8 (29.1) per cent. Finnish equities made up 24.9 (27.4) per cent of investments in listed equities

and shares. The return on equity investments, calculated at current value, was 10.8 (2.0) per cent. The return on listed equities and shares was 11.3 (-0.2) per cent.

Real estate investments at the end of the quarter stood at EUR 4,385 (4,103) million. They accounted for 11.3 (11.2) per cent of all investments, of which indirect investments made up 1.1 (1.3) percentage units. The total return on real estate investments was 2.3 (2.8) per cent. The return on direct real estate investments was 1.9 (2.8) per cent.

Investments in absolute-return funds and commodities, and other investments made up 4.5 (4.8) per cent of the market value of the investments at the end of the quarter. Absolute-return funds amounted to EUR 748 (816) million and yielded a return of -1.5 (-0.4) per cent on capital employed.

SOLVENCY

Ilmarinen's solvency capital strengthened by almost EUR 700 million compared to the situation at the turn of the year. Solvency capital at the end of the quarter stood at EUR 9,158 (8,002) million. Ilmarinen's equity included in the solvency capital was EUR 108 (103) million, the valuation difference between current and book values was EUR 6,076 (5,869) million, and the provision for future bonuses was EUR 3,008 (1,160) million.

Ilmarinen's technical provisions amounted to EUR 32,994 (30,746) million. The solvency technical provisions of EUR 29,966 (29,366) million do not include the provision for future bonuses of EUR 3,008 (1,160) million, or the EUR 21 (21) million in earnings-related pension contributions that remain open receivables in the basic insurance under YEL.

Ilmarinen's solvency ratio on 30 September 2017 was 130.6 (127.9) per cent. As of the start of this year, solvency ratio means pension assets in relation to technical provisions. The previous definition of solvency ratio was solvency capital in relation to technical provisions.

The ratio of solvency capital to the solvency limit was 1.9 (2.0). 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. The figure illustrating the solvency position is thus not directly comparable with the figure of the comparison year.

OUTLOOK

Global economic growth is expected to continue to be favourable during the rest of the year and even gain some momentum next year. The major emerging economies, led by China and India, will continue to act as growth engines. The US is also expected to achieve growth of more than 2 per cent this year and next year, and Europe is expected to reach almost

the same level. The recovery of the Finnish economy will improve the growth prospects of private sector employment and earnings-related pension premium income.

Favourable economic growth will support companies' earnings power. However, the stock market rise that has continued practically uninterrupted after the financial crisis and the resulting higher valuation level mean that there is little room for earnings disappointments. A still-low interest-rate level continues to prompt investors to seek alternatives for fixed income investments from other asset classes, such as equities and shares, real estate and various infrastructure projects. The development of the interest rate level will have a major impact on the price development of the various asset classes. A controlled rise in the interest rate level will not necessarily disrupt the investment environment, whereas sudden and steep changes can be assumed to have even large impacts. The low interest rate level and higher valuation levels are keeping near-future return expectations lower than actual longer-term returns.

The Financial Supervisory Authority approved the merger of Ilmarinen and Etera, which will take place at the beginning of 2018 as planned. Next year, Ilmarinen will also have a new President and CEO, as Timo Ritakallio has been appointed OP Financial Group's President. Ilmarinen's Board of Directors has launched the recruitment process for a new President and CEO.

Further information

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