



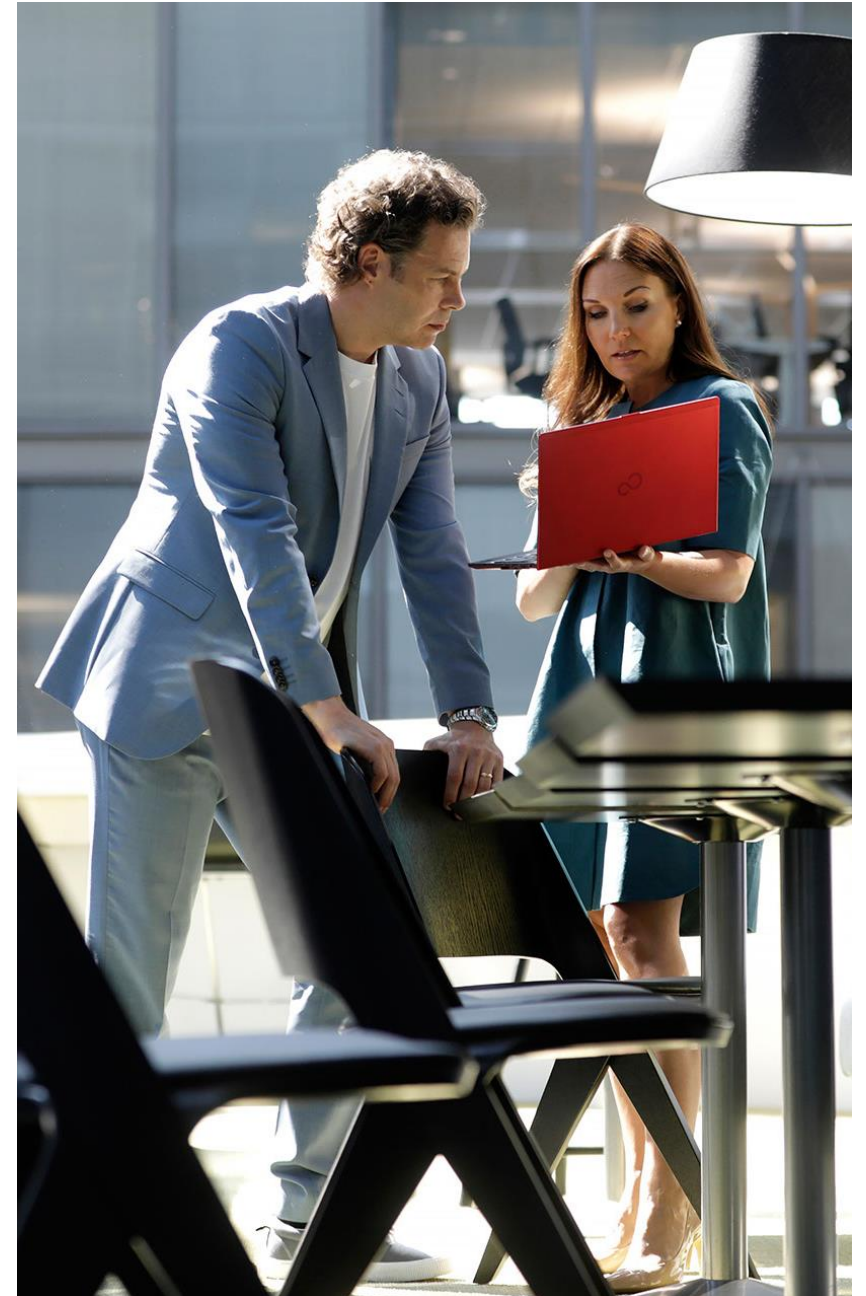
Security for your pension

Ilmarinen's Interim Report
January–June 2020

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Coronavirus caused return on investments to fluctuate, cost-effectiveness of operations improved as expected

- The total result for Ilmarinen's H1 was EUR –1,099 million due to the slump in return on investments caused by the coronavirus early in the year.
- Premiums written fell to EUR 2.7 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 3.1 billion.
- Strong development in cost-effectiveness continued. Operating expenses financed using loading income fell EUR 7 million and the loading profit was EUR 21 million.
- Ilmarinen quickly recovered from the dramatic early-year plummet and the Q2 return on the investment portfolio rose to 5.9%. The total return for H1 was –2.0% negative. At the end of June, the market value of investment assets totalled EUR 48.8 billion and the solvency ratio was 124.0%.
- Ilmarinen's operations were successful and the personnel's energy levels rose despite the exceptional situation.



Key figures January–June 2020

Premiums written

2.7 (2.9)

bn €



3.1 (3.0)

bn €

Pensions paid

Loading profit*)

21 (27)

mill. €



74 (71)

%

Ratio of operating expenses to expense loading components*)

Return on investments

-2.0 (6.0)

%



48.8 (50.5)

bn €

Investment assets

Solvency ratio

124.0 (126.6)

%



9-6 (1.8)

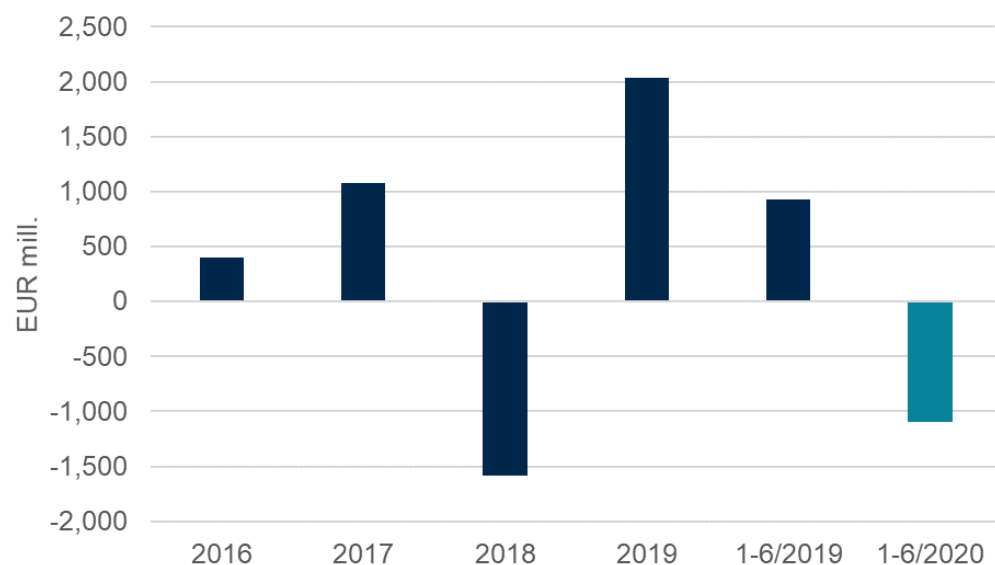
bn €

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 1 million higher than a year earlier and the ratio of operating expenses to expense loading components improved by 2 percentage points.

Total result EUR 1.1 bn negative due to weak investment market

Total financial result, € mill.



Source of profit, € mill.

Result analysis, EUR mill.	1.1.-30.6.2020	1.1.-30.6.2019	1.1.-31.12.2019
Source of profit			
Technical underwriting result	-21.5	-18.1	-50.3
Return on investments at fair value	-1,099.0	921.6	2,062.6
+ Net return on investments at fair value	-981.2	2,743.7	5,375.4
- Return requirement on technical provision	-117.8	-1,822.1	-3,312.8
Loading profit^{*)}	21.4	27.4	54.5
Other profit	0.0	0.4	-27.1
Total result	-1,099.1	931.2	2,039.7

^{*)} The expense loading rate was lowered by 6.9% at the beginning of 2020. The comparable loading profit was EUR 1 million higher than a year earlier.

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

- The global spread of the coronavirus weakened total production especially in the second quarter and the global economy fell into an unprecedented depression.
- In H1, the investment markets experienced a record-fast stock price plunge and a strong recovery supported by the central banks. Despite the strong volatility, Ilmarinen's solvency was clearly above the regulatory requirement throughout the first half of the year.
- Resulting from the contracting of the economy, the employment rate and payroll fell. The H1 payroll of employees insured with Ilmarinen was EUR 10.8 billion (EUR 11.0 billion), which is 1.5% lower than in the comparison period.
- Premiums written are impacted by the temporary 2.6 percentage point discount on employers' TyEL contributions given for the period from 1 May to 31 December 2020. Due to a lower payroll and the contribution discount, Ilmarinen's premiums written fell by EUR 160 million in H1 and the loading income and loading profit weakened.
- The opportunity to use an extended 3-month payment period, given due to the coronavirus, was applied to roughly 20 per cent of the insurance contributions from Ilmarinen's customers and demand for TyEL premium loans grew momentarily in H1.
- Most of Ilmarinen's employees started working from home. Operations have proceeded well despite the coronavirus pandemic and absences due to illness are at an exceptionally low level. Our customer service has operated as normal throughout the period and 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 face masks and hand sanitiser for personnel. Personnel can also schedule a coronavirus test through the occupational health care service.



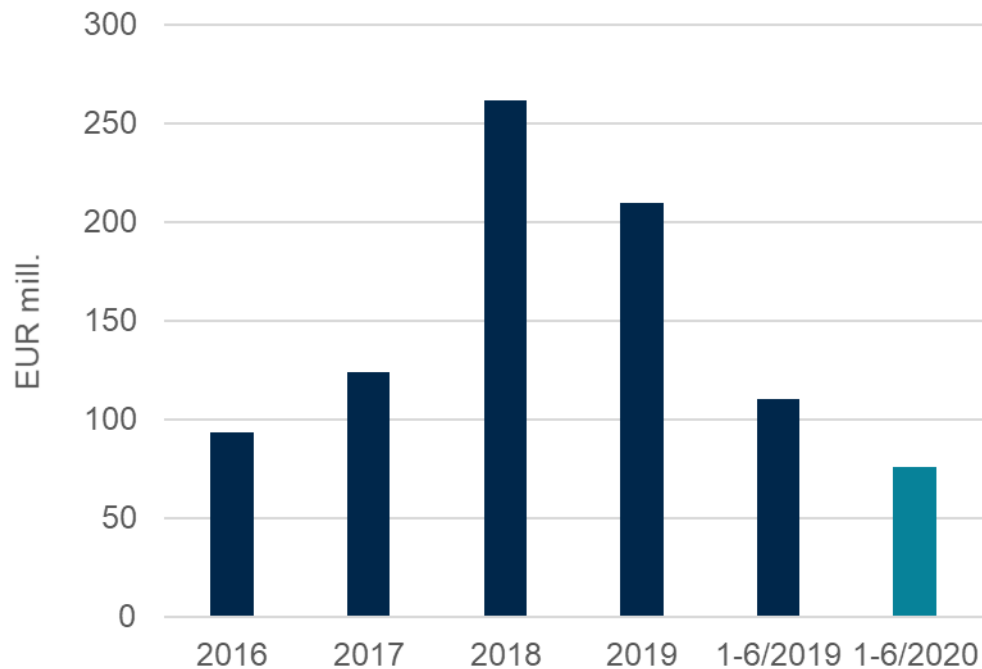
Pension cover for you

Insurance and pensions

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Net customer acquisition for H1 was **EUR 76 million**

Net customer acquisition 2016–2020, € mill.

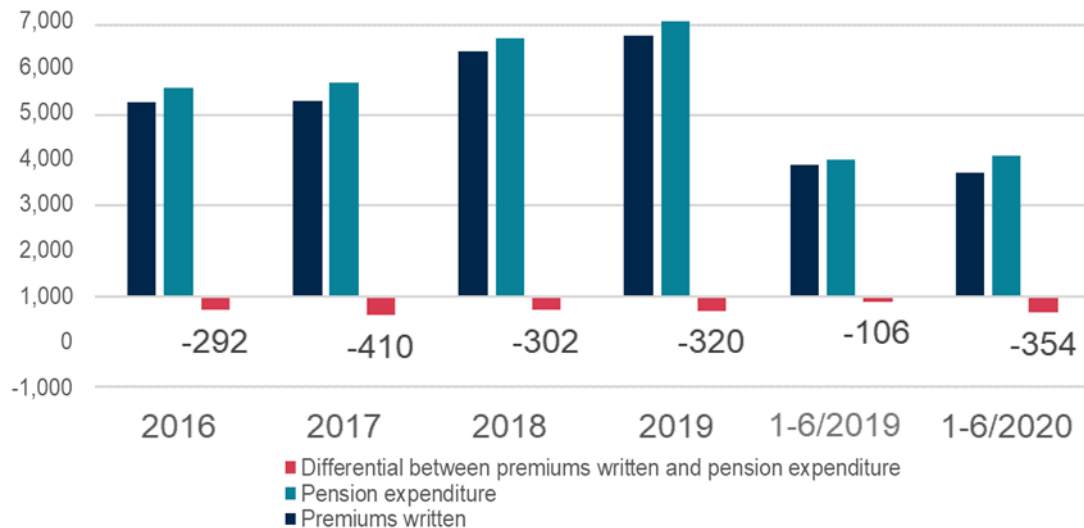


Change in net customer acquisition, € mill.

	1-6/2020	1-6/2019	2019
Net customer acquisition	76	110	210
Sales of new insurance	78	90	195
Net transfer of insurance	-2	20	16

H1 premiums written EUR 2.7 billion, pensions paid EUR 3.1 billion

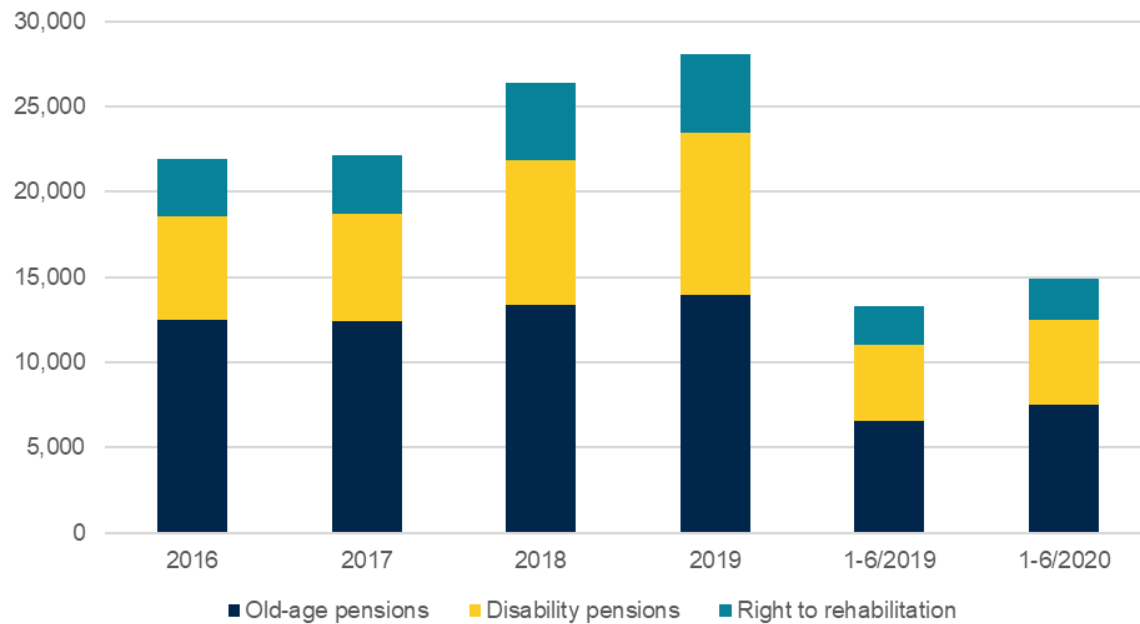
Premiums written and pension expenditure January–June 2020



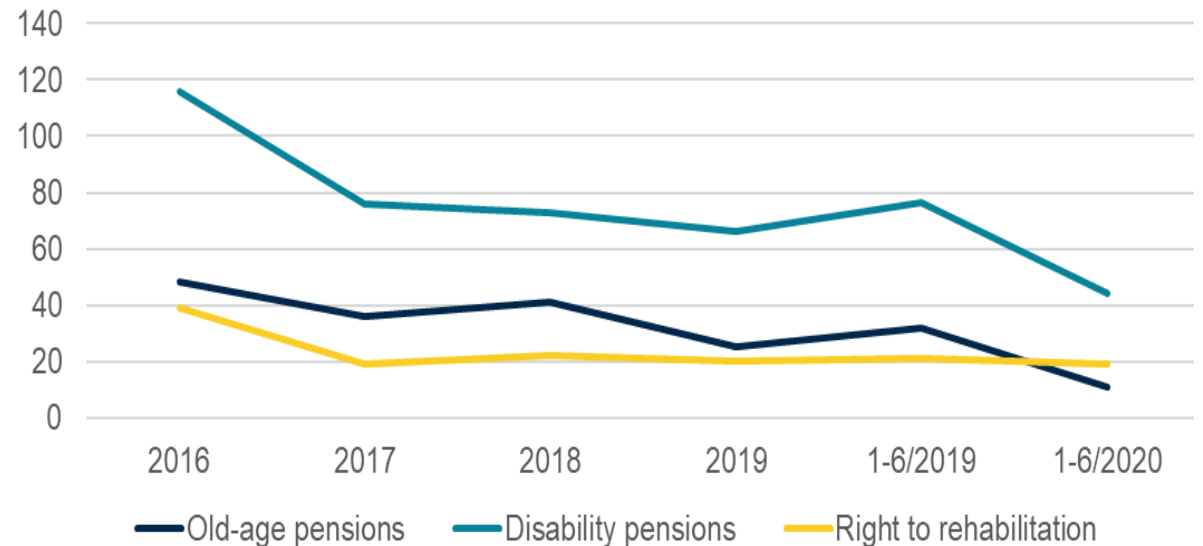
	2016	2017	2018	2019	1-6/2019	1-6/2020
Premiums written TyEL	3,967	3,969	5,026	5,364	2,703	2,540
Premiums written YEL	334	343	384	394	204	207
Premiums written, total	4,302	4,312	5,410	5,758	2,907	2,747
Pension expenditure TyEL	4,255	4,373	5,365	5,673	2,815	2,877
Pension expenditure YEL	339	349	347	405	198	223
Pension expenditure, total	4,594	4,722	5,712	6,078	3,013	3,100

Processing of pensions sped up significantly

Number of pension decisions

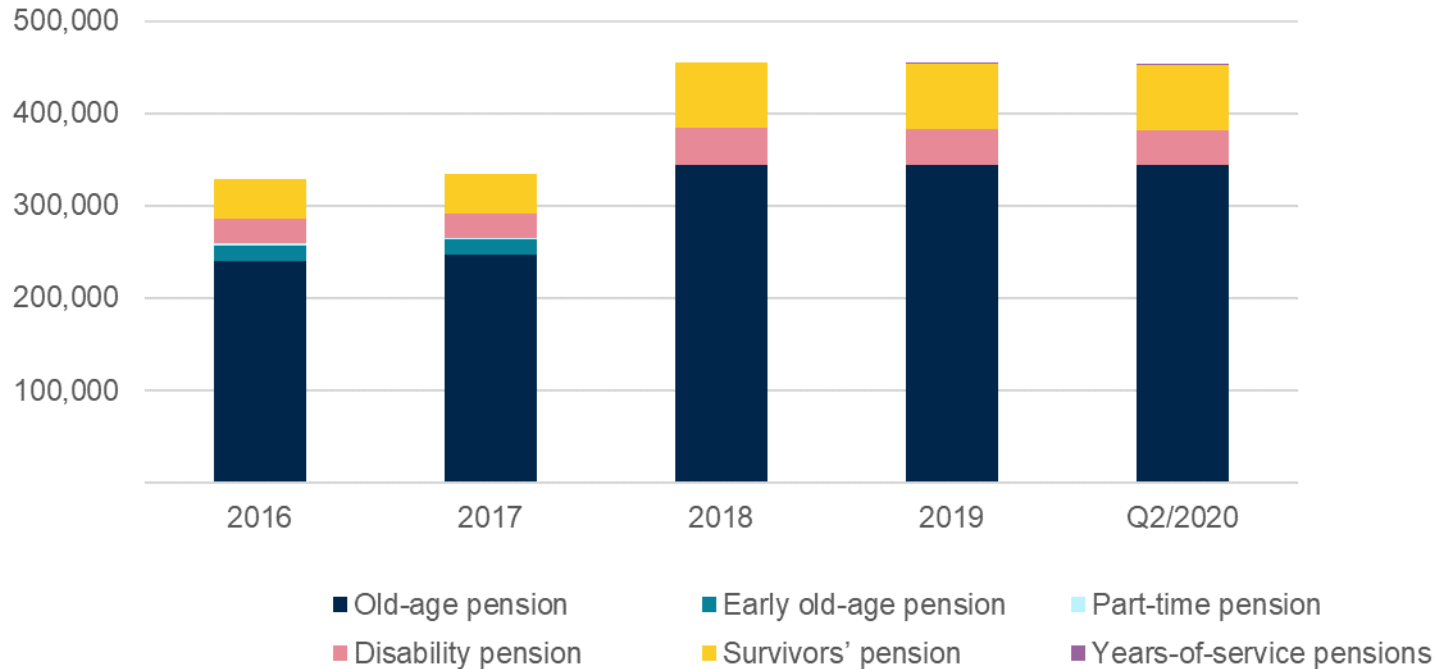


Average processing time of pension applications, days



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.



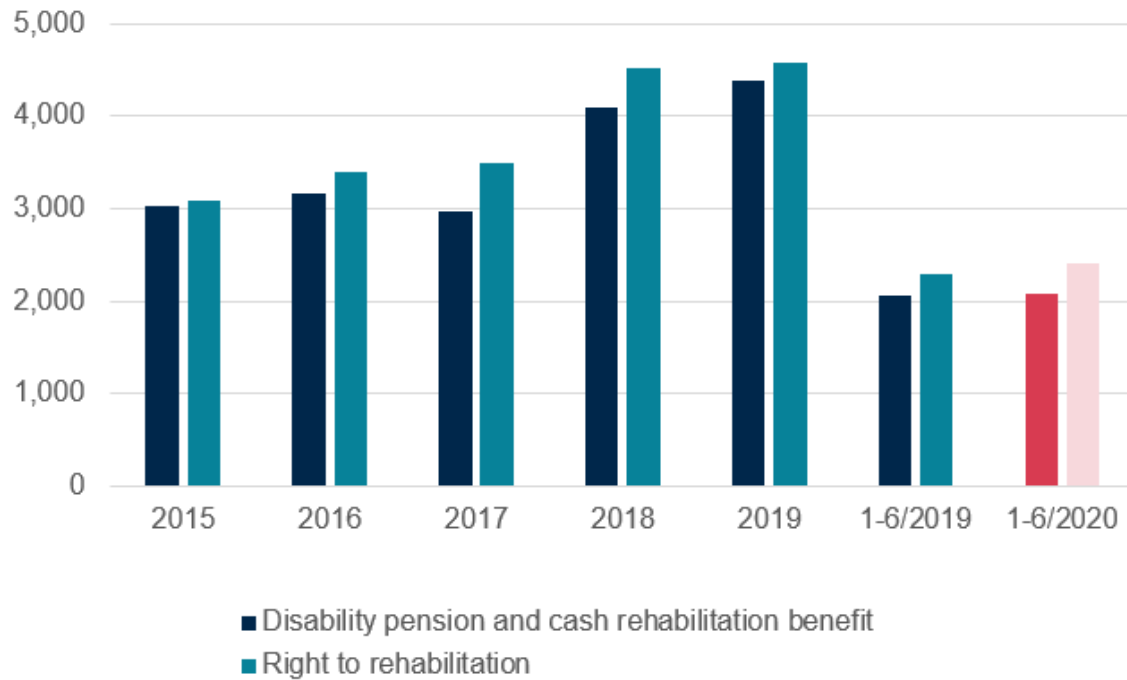
Better Working Life

Work ability risk
management and
rehabilitation

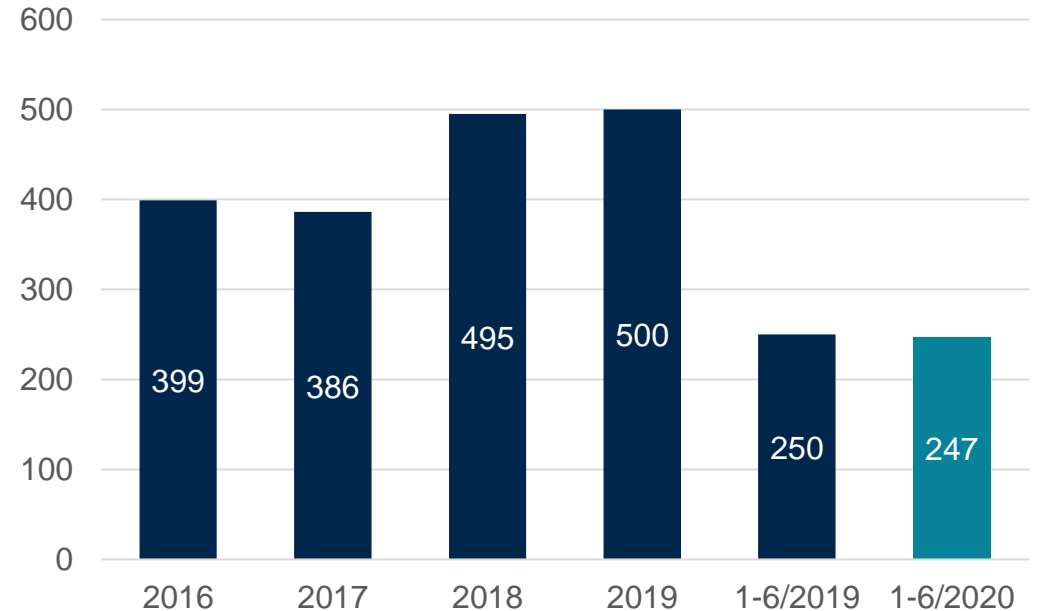
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Number of rehabilitation decisions increased by 4% – disability pension expenditure EUR 247 million

Rehabilitation and persons retired on disability pension

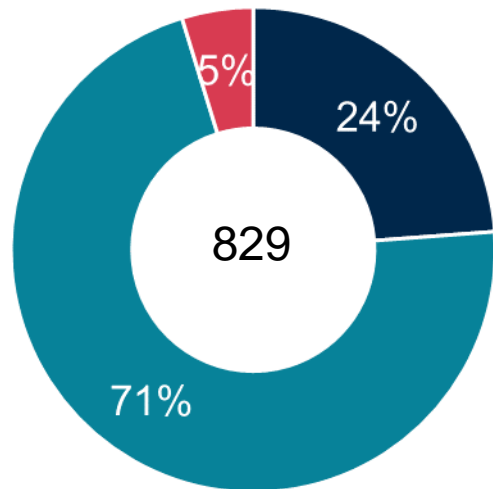


Disability pension expenditure, € mill.



Work ability projects amounted to 829 and covered 194,000 employees

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



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

**Work Ability
Services' NPS 77
(1-6/2020)**



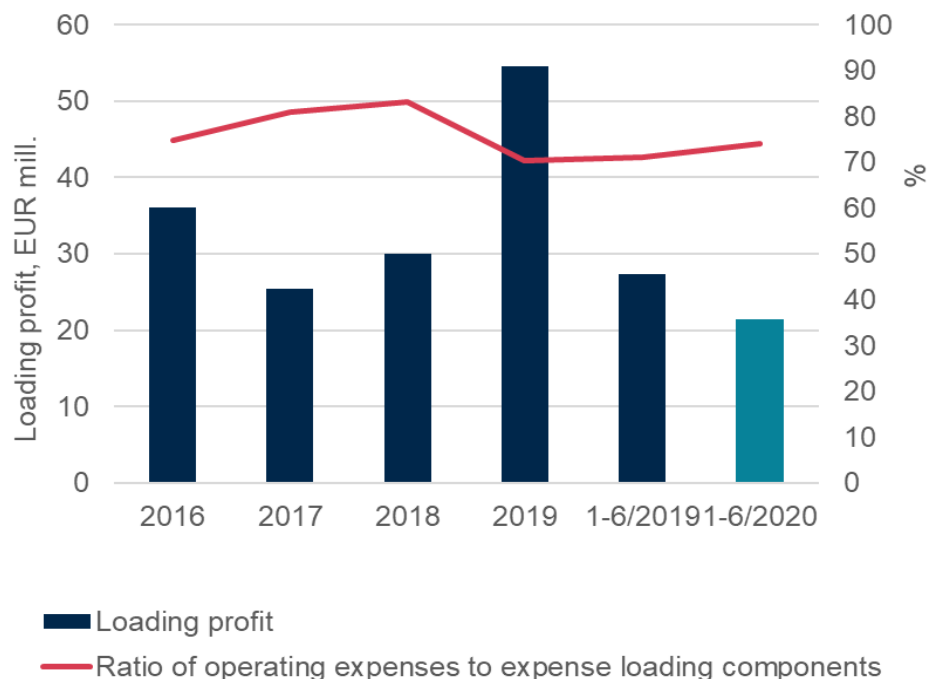
Cost-effective operations

Operating expenses

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Operating expenses financed using loading income fell EUR 7 million and the loading profit was EUR 21 million. The ratio of operating expenses to expense loading components weakened to 74 per cent due to the decline in the premium rate.

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



	2016	2017	2018	2019	1-6/2019	1-6/2020
Expense loading components and other income	144	134	179	185	95	82
Operating expenses covered by loading income	108	109	149	130	67	61
Loading profit	36	25	30	55	27	21
Ratio of operating expenses to expense loading components, %	75	81	83	70	71	74
Total operating expenses	147	150	195	175	91	79

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 1 million higher than a year earlier and the comparable ratio of operating expenses to expense loading components improved by 2 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 shrank by close to 10 per cent during the second quarter of this year due to the coronavirus crisis and economic lockdown measures.
- With the spread of the coronavirus, Finland's economic and employment outlook also weakened dramatically. The economy's downward trend steepened in the second quarter and temporary layoffs increased quickly, tipping the employment rate and payroll trend onto a downward trajectory.
- The central banks and governments have started up unprecedented monetary and fiscal policy stimulus measures in both the EU and the US. Thanks to the stimulus measures, public deficits and indebtedness and central banks' balance sheets will grow significantly.
- The fast reactions of the central banks and comprehensive support measures allowed the equity market to recover quickly from March's lows. In June, the US managed to get close to the start-of-the-year stock price level. In Europe, stock prices at the end of June were still more than 10 per cent lower than at the start of the year.
- Government bond interest rates fell as economic activity expectations weakened. Long-term interest rates in the US were clearly lower at the end of June than at the start of the year, while in Germany they were only slightly weaker.
- The uncertainty on the markets can quickly increase if the spread of the coronavirus escalates again.

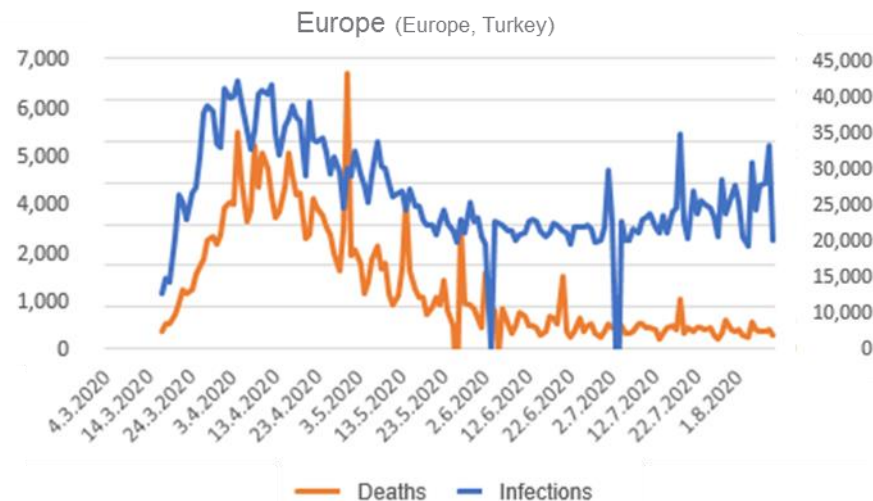
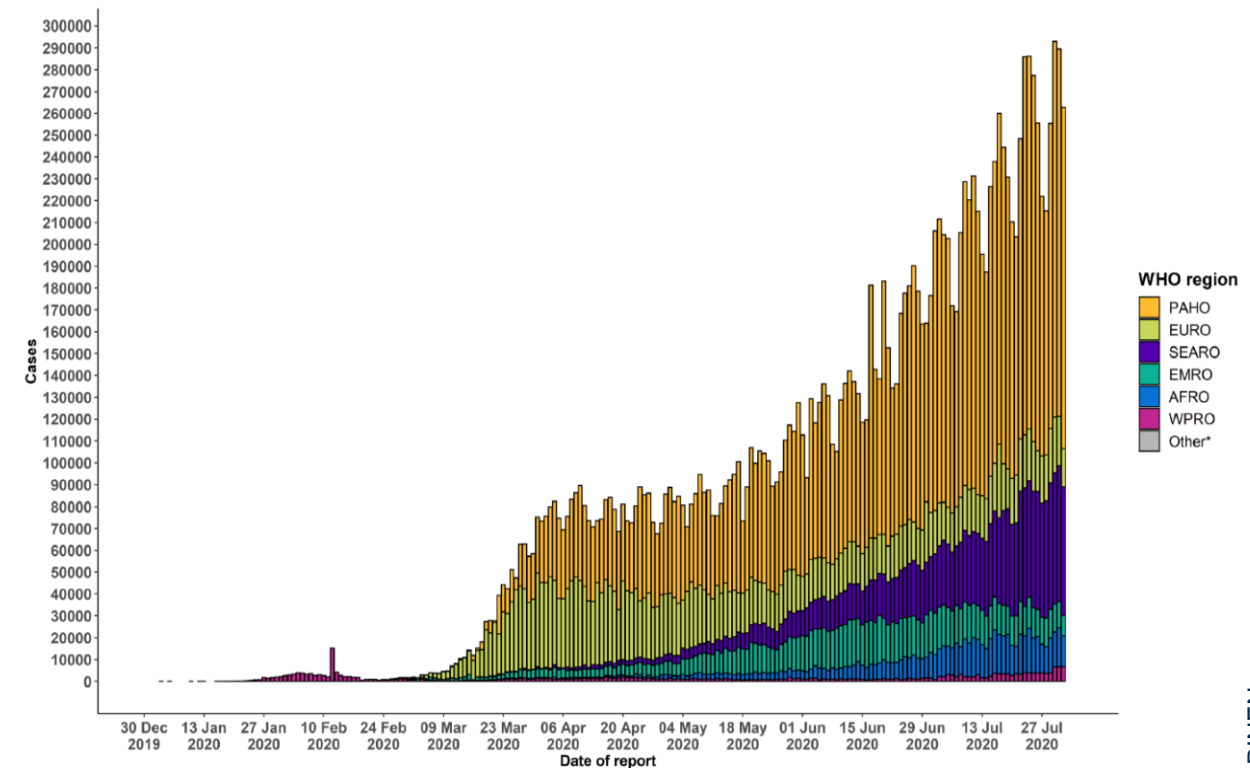


Coronavirus pandemic continues to spread globally

- Global infections are accelerating further. More than 20 million confirmed cases and 740,000 deaths.
- The epidemic is worsening especially in the US, Brazil, India and South Africa.
- In Europe, infections have begun to rise slightly again in Spain, France and Germany, for example.
- The number of Covid-19 cases has also risen in Finland in recent weeks, although the total number of cases is still low, at 7,683 (13 Aug).

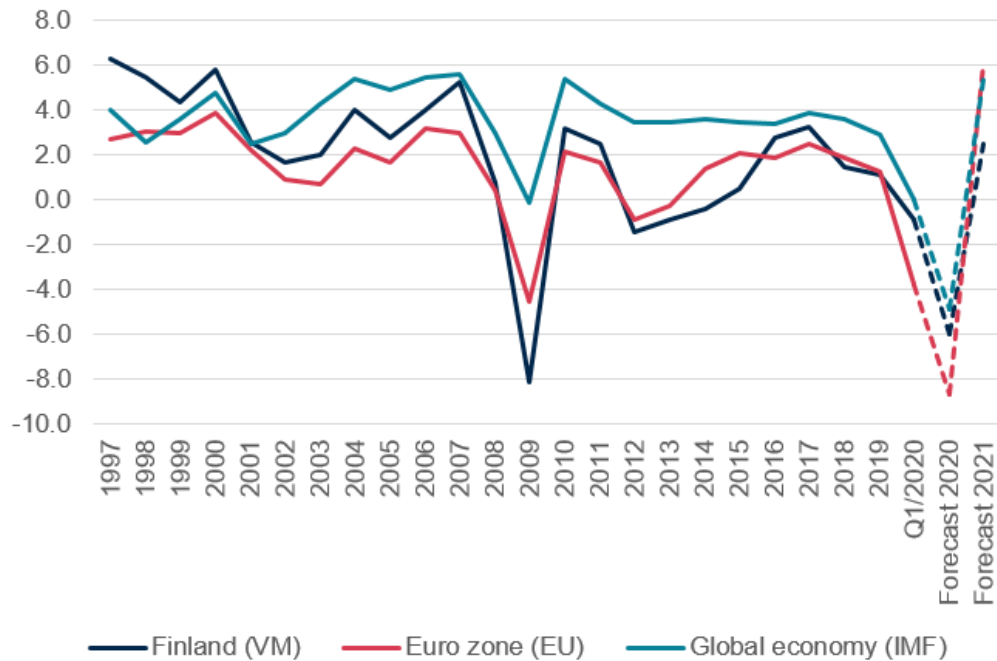
Global coronavirus disease situation report 2 Aug 2020 (WHO)

Figure 2. Number of confirmed COVID-19 cases, by date of report and WHO region, 30 December through 2 August**

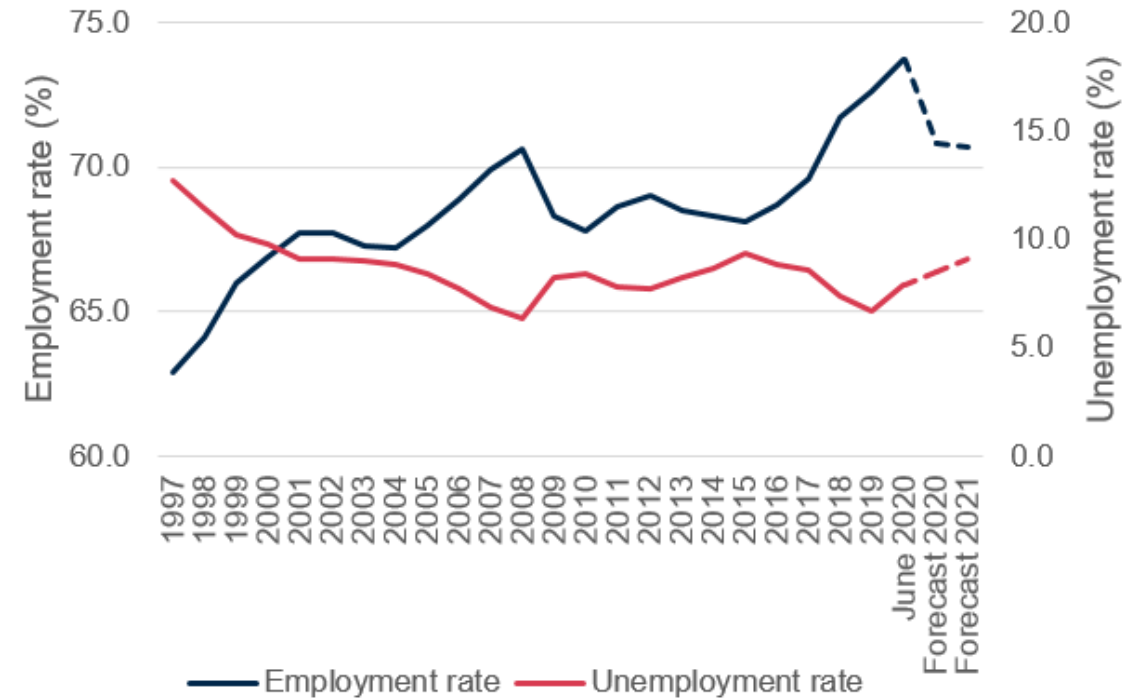


In the second quarter the global economy fell into a record-deep depression

GDP development, %



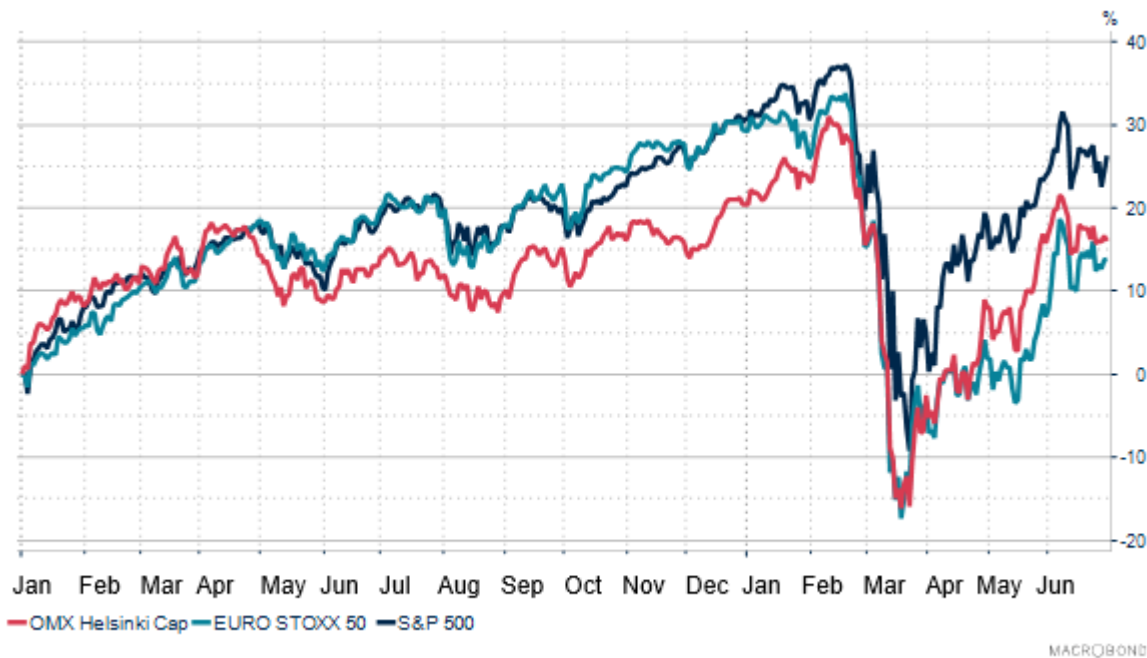
Development of Finland's employment and unemployment rates, %



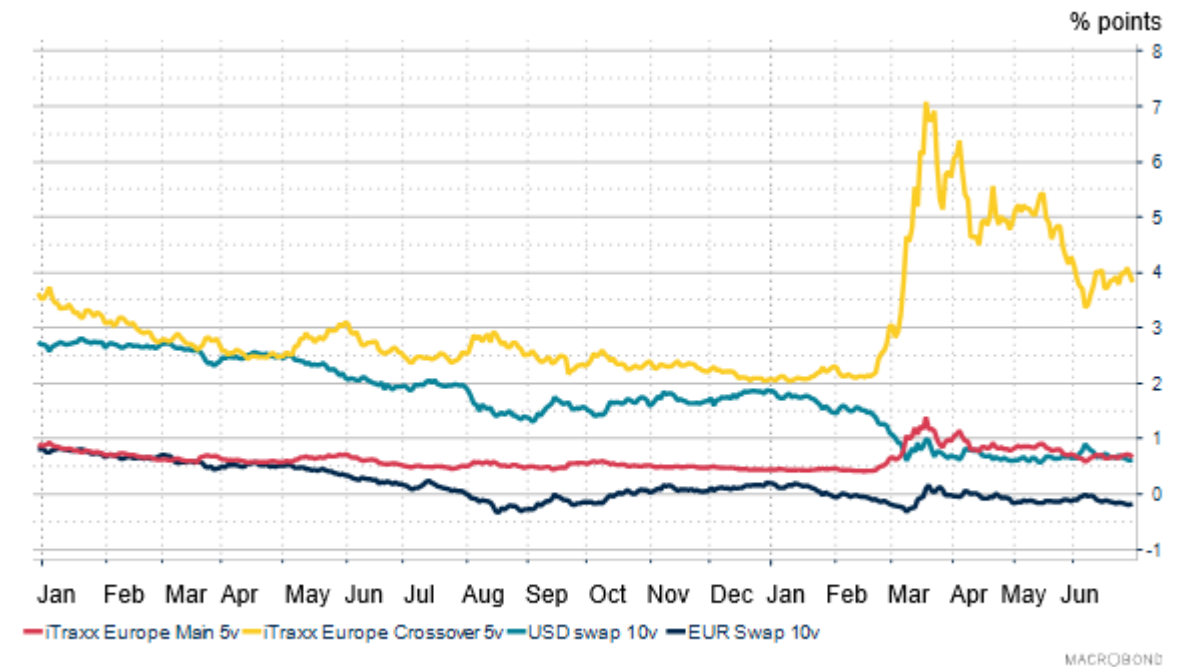
Sources: Statistics Finland, World Bank (EU) and IMF

Markets quickly recovered from March's stock price plummet due to central banks' and governments' support measures

Equity market performance

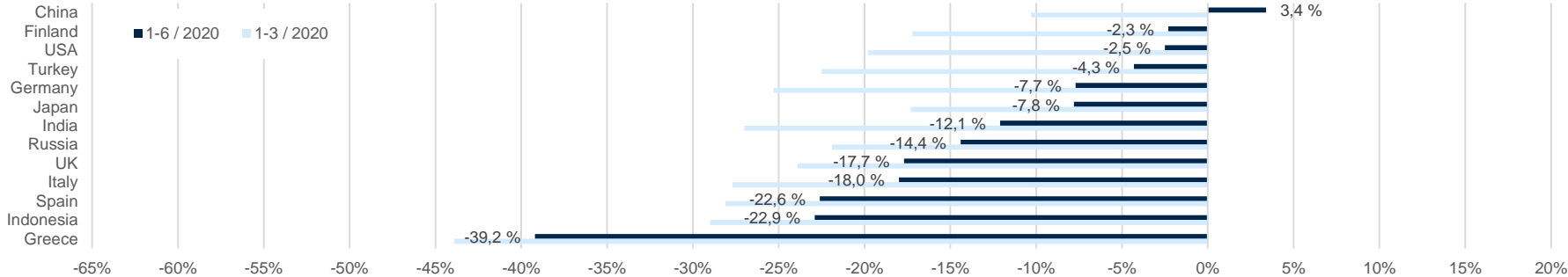


Development of interest rates and credit risk premiums

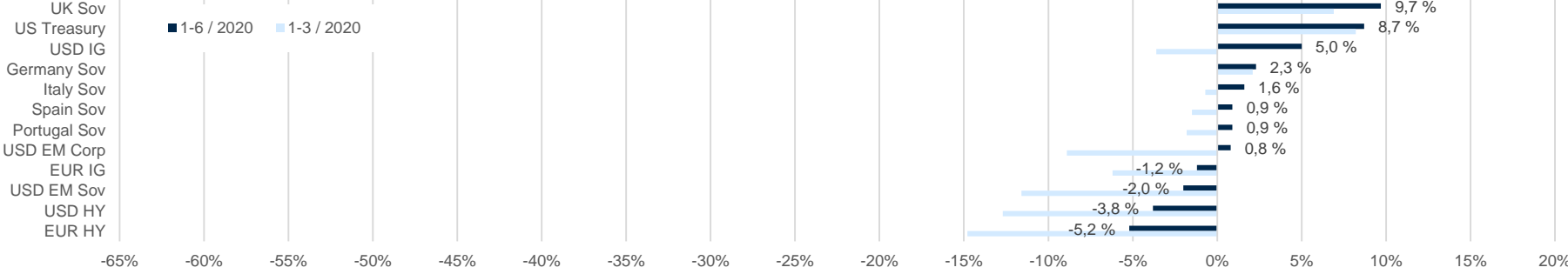


Market development 2020 (situation 30 Jun 2020 and 31 Mar 2020)

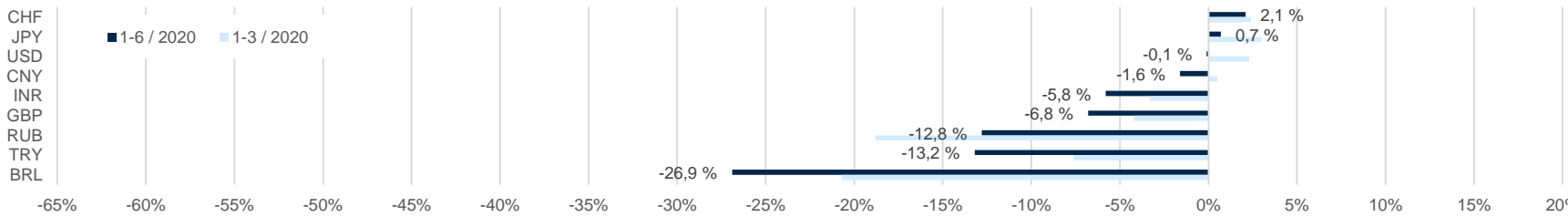
Equities and shares



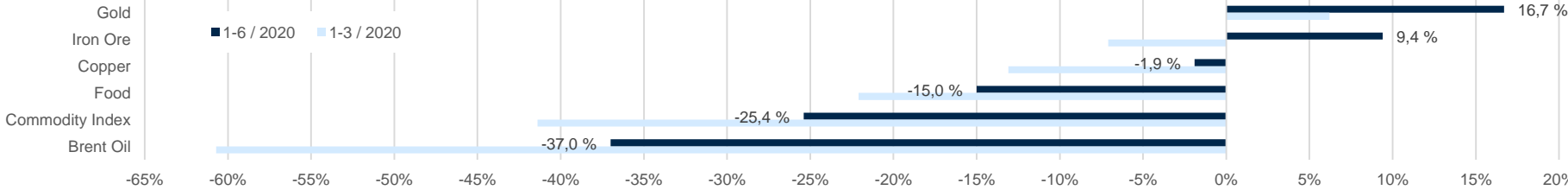
Fixed income markets



Currencies



Commodities



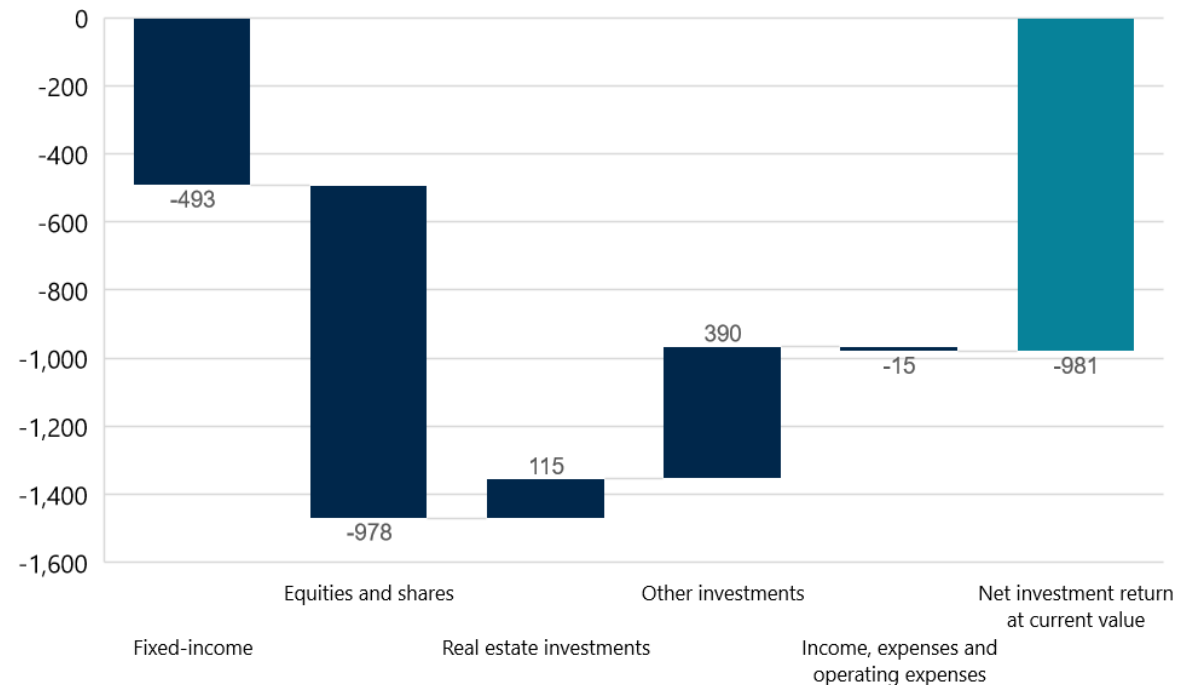
As a result of the coronavirus outbreak return on investments fell to 2 per cent, i.e. EUR –1 billion

Returns January–June, per cent

	1-6/2020	1-6/2019	2019
Return on investments	-2.0	6.0	11.8
Fixed-income	-2.9	2.8	4.7
Equities and shares	-4.2	10.9	20.8
Real estate investments	1.8	2.0	8.4
Other investments	10.6	-0.4	-2.1

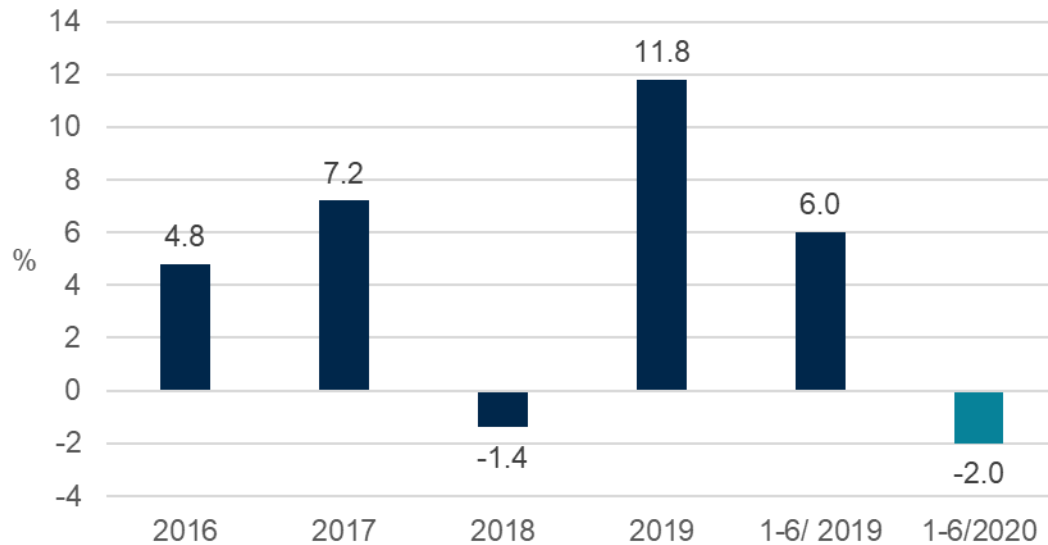
Long-term return (since 1997): nominal return 5.6% and real return 4.1%

Returns by asset class, € mill.



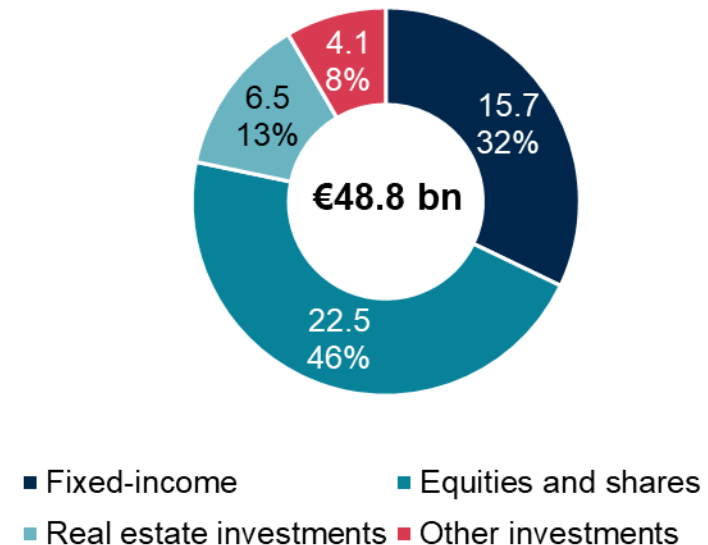
As a result of the coronavirus crisis return on investments fell to -2.0 per cent in H1

Return on investments, 5 years

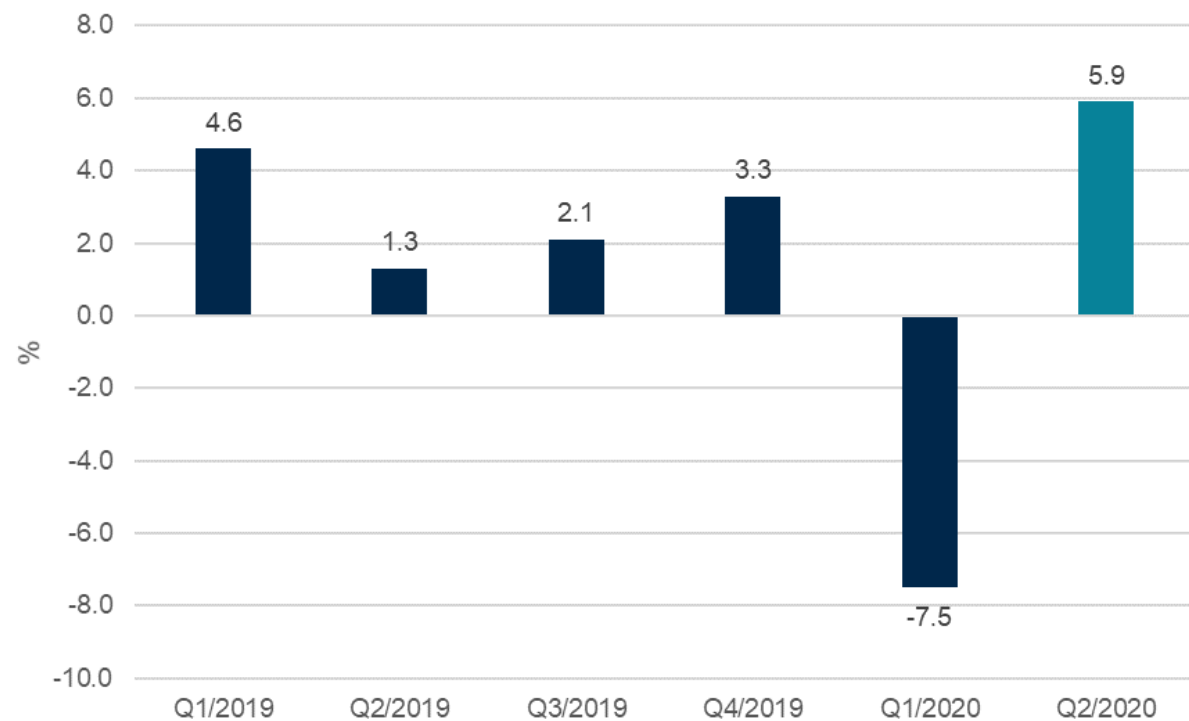


Average nominal return on investments over 5 years 3.9% and real return 3.2%.

Investment allocation, 30 June 2020



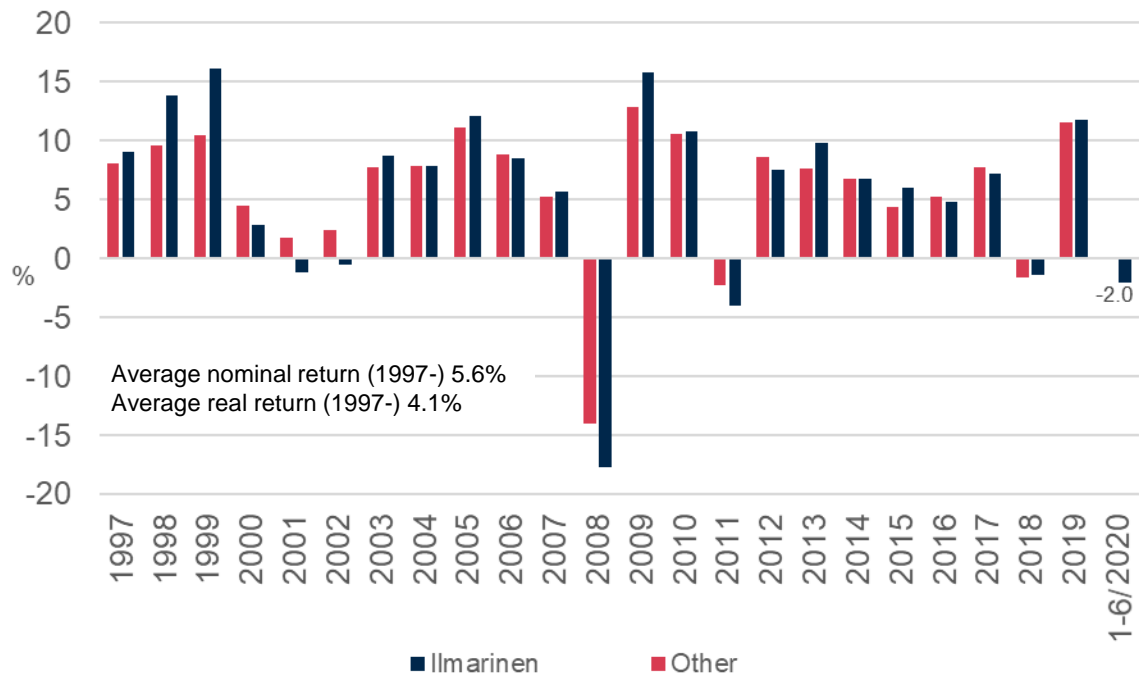
Q2 return on investments rose to 5.9 per cent



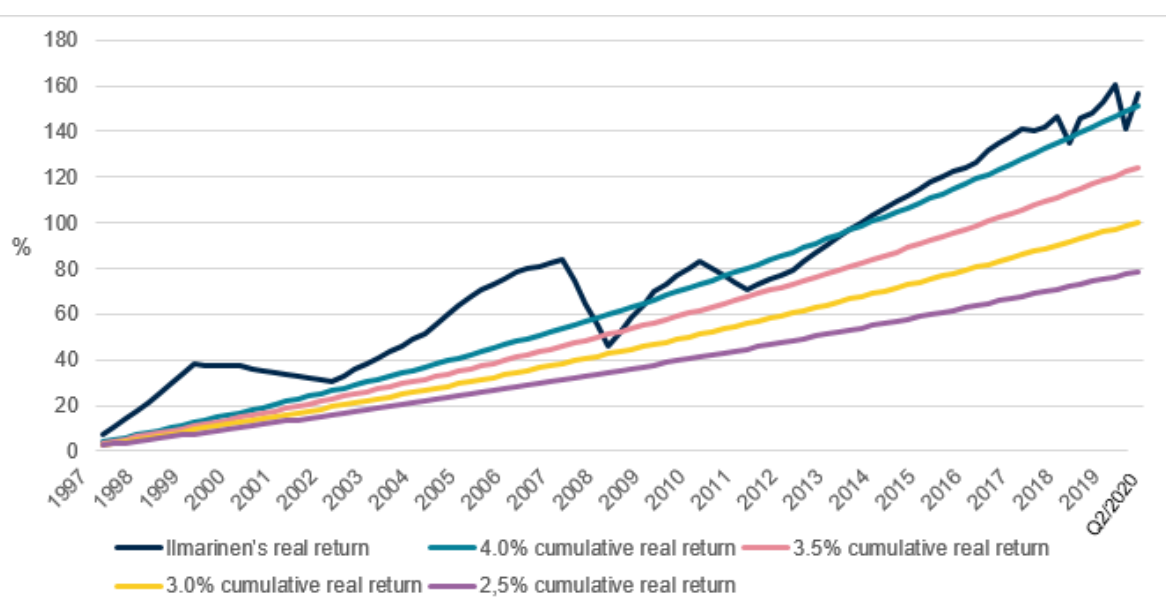
The fast reactions of the central banks and comprehensive support measures allowed the equity market to recover quickly from March's lows. As a result, Ilmarinen's return on investments was excellent in the second quarter.

Long-term average nominal return 5.6 per cent per annum

Net investment return at current value

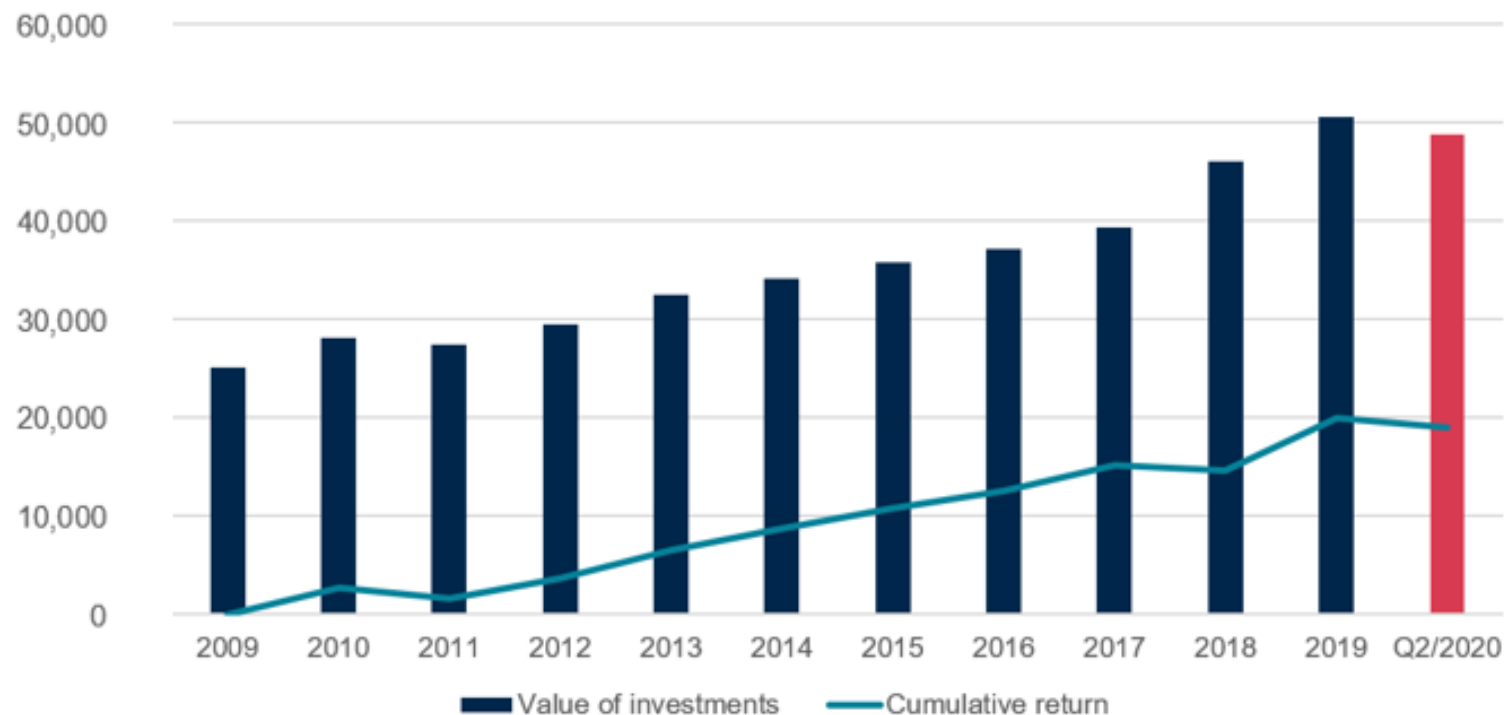


Cumulative net return on investments 1997–30 June 2020



Value of investments EUR 48.8 billion, cumulative return on investments from start of 2010, some EUR 20 billion

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

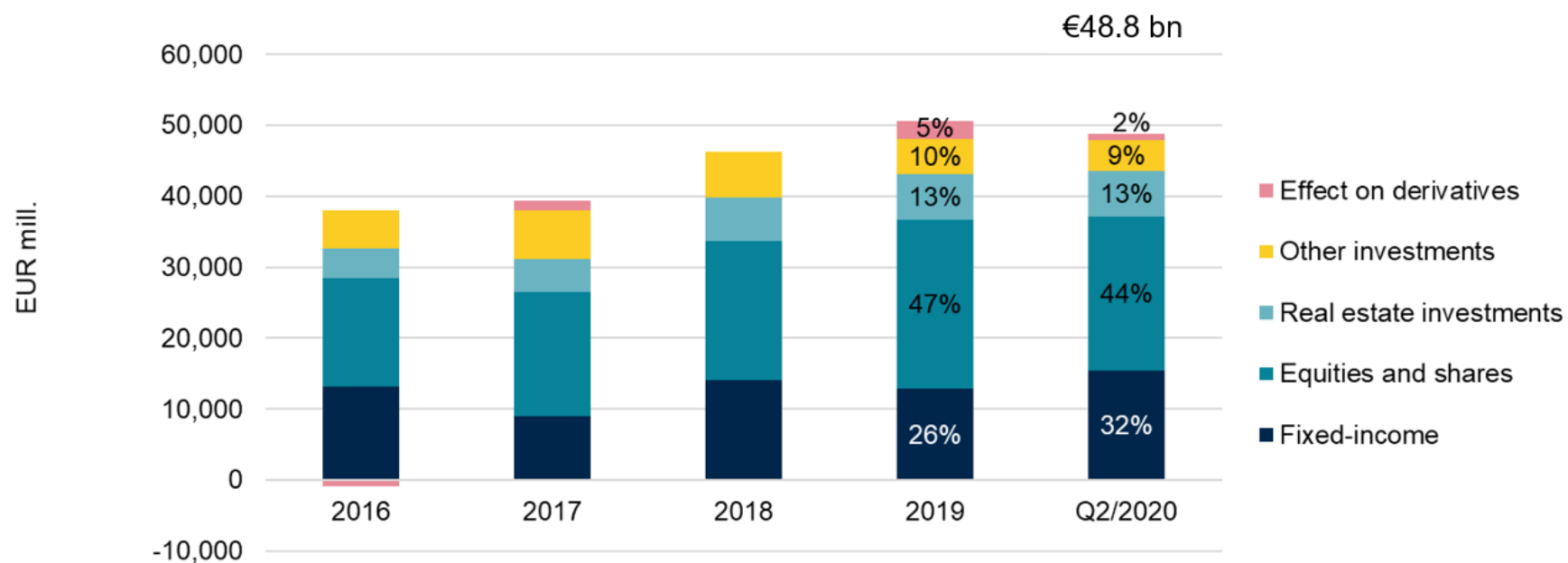


Average return of different markets

%	Ilmarinen	Finnish equities and shares	European equities and shares	Euro government bonds	Euro corporate bonds
Q2/2020	5.9	20.0	15.1	1.7	5.3
2020	-2.0	-3.7	-10.9	2.0	-1.2
2019	11.8	20.4	26.8	6.7	6.3
Average return over 5 years	3.9	7.8	1.9	3.2	2.3
Average return over 10 years	5.2	9.8	7.1	4.2	3.6
Average return since 1997	5.6	9.5	6.0	4.9	4.5
Real average return over 5 years	3.2	7.2	1.2	2.5	1.7
Real average return over 10 years	4.0	8.5	5.8	3.0	2.4
Real average return since 1997	4.1	7.9	4.5	3.4	3.0

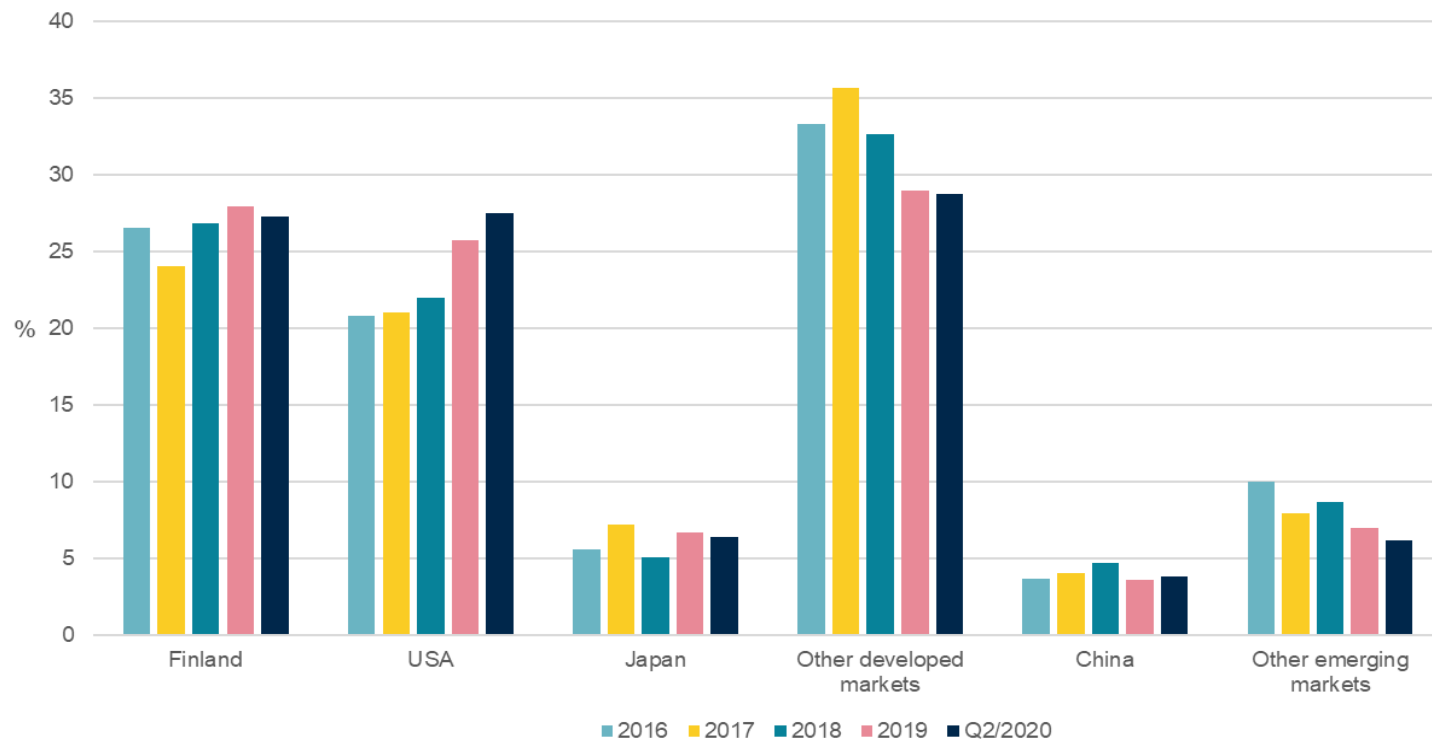
In the investment allocation, equity weight dropped from 47 per cent to 44 per cent

Breakdown of investment risks



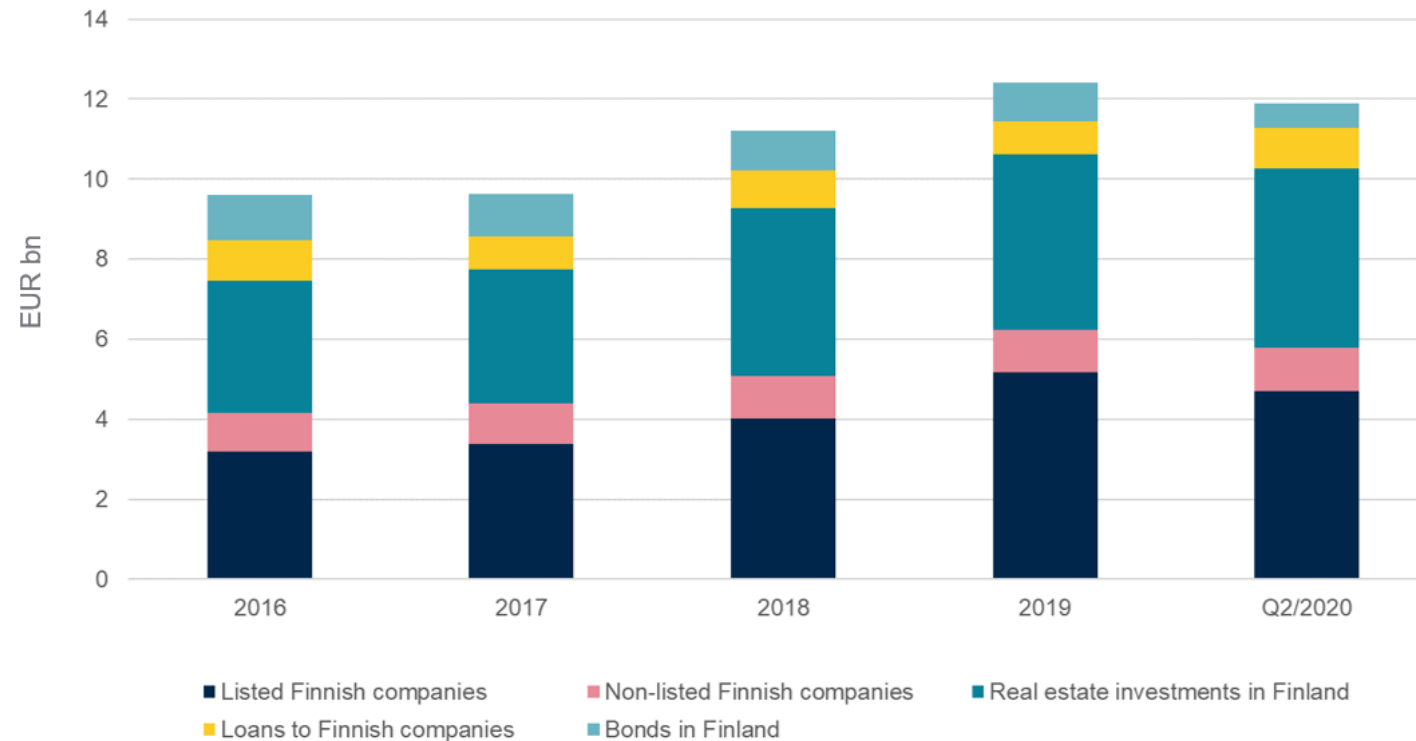
Share of Finnish listed equity investments **27 per cent**

Geographical breakdown of listed equities



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

Investments in Finland 2016–2020, EUR billion



Holdings in Finnish publicly quoted companies

€4.7 bn

Largest Finnish listed equity holdings

	EUR mill.	30 June 2020	31 Dec 2019
↑	Kojamo Plc	524	455
↑	Nokia Corporation	271	251
↓	Kesko Corporation	249	276
↓	Kone Corporation	248	257
↑	Elisa Corporation	245	209
↓	Sampo Plc	243	269
↓	UPM-Kymmene Corporation	238	269
↓	Nordea Bank Abp	238	282
↓	Neste Corporation	237	264
↓	Fortum Corporation	233	259

	Percentage	30 June 2020	31 Dec 2019
↓	Nurminen Logistics Plc	19.6	19.7
	Digia Plc	14.6	14.6
↑	SRV	12.7	1.6
	Kojamo Plc	11.3	11.3
	Panostaja Oyj	8.1	8.1
	Martela Corporation	8.1	8.1
↑	QT Group Plc	7.5	10.2
	Glaston Corporation	7.3	7.3
	Citycon Oyj	7.1	7.1
↓	Capman Plc	6.6	6.8

Summary of return on investments for January–June

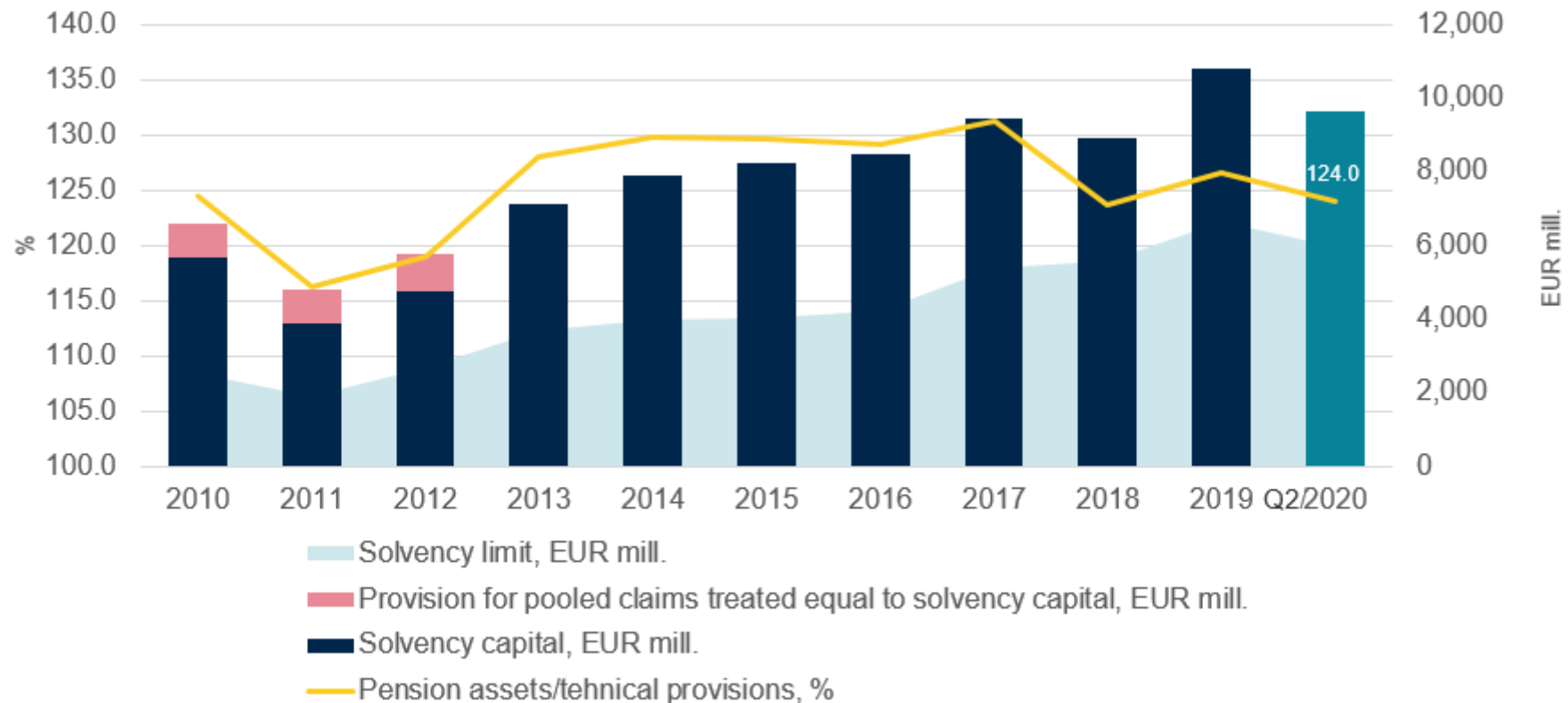
	Basic breakdown		Risk breakdown		Return	Volatility
	EUR mill.	%	EUR mill.	%	%	
Fixed-income investments	15,696.8	32.1	15,465.4	31.7	-2.9	
Loan receivables	1,352.7	2.8	1,352.7	2.8	-1.0	
Bonds	12,932.0	26.5	8,901.6	18.2	-3.2	6.9
Public corporation bonds	4,620.4	9.5	4,702.9	9.6	-2.1	
Other bonds	8,311.6	17.0	4,198.7	8.6	-3.9	
Other money market instruments and deposits (incl. investment receivables and payables)	1,412.2	2.9	5,211.2	10.7	-1.2	
Equities and shares	22,533.1	46.1	21,636.0	44.3	-4.2	
Listed equities and shares	17,254.0	35.3	16,356.9	33.5	-5.0	18.0
Private equity investments	4,298.1	8.8	4,298.1	8.8	-2.3	
Non-listed equities and shares	980.9	2.0	980.9	2.0	3.3	
Real estate investments	6,498.9	13.3	6,516.5	13.3	1.8	
Real estate investments	5,880.8	12.0	5,881.7	12.0	2.1	
Real estate funds and joint investments	618.1	1.3	634.8	1.3	-0.6	
Other	4,105.5	8.4	4,327.2	8.9	10.6	
Hedge fund investments	2,739.9	5.6	2,739.9	5.6	1.9	4.5
Commodity investments	108.3	0.2	129.0	0.3	-	
Other investments	1,257.4	2.6	1,458.3	3.0	31.1	
Investments total	48,834.4	100.0	47,945.1	98.2	-2.0	6.7
Effect of derivatives			889.3	1.8		
Investments at current value	48,834.4		48,834.4	100.0		

The modified duration of bond investments is 2.0 years

The open currency position is 17.6% 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 9.6 billion and solvency ratio 124%, i.e. significantly higher than the regulatory requirement





Future prospects

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Future prospects

- According to a forecast by the IMF, the global economy is expected to shrink by some five per cent year-on-year during 2020. 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 dwindle by some six per cent during this year. Owing to growing unemployment and the temporary discount on employers' TyEL contributions, pension insurance companies' premiums written will fall considerably year-on-year. The declining premiums written 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 in H2 as 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. Investment market uncertainty is aggravated by the possible escalation of geopolitical and trade policy crises and the presidential election to be held in the United States at the end of the year. 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 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://www.ilmarinen.fi)

