



# Varma's Financial Statements 2017

# Varma's strategy and goals

## Strategic themes

One Varma for the customer

Courage to try new things

Promoting entrepreneurship

Responsible Varma

## Values

With joy and passion

Reliability

Sustainability

Courage

## Operational targets

Quality of pension services

Premiums written

Solvency

Efficiency

## Trends

Digitalisation

Aging population

Changing work

Structural change in the economy and companies



# Record year for Varma

Quality of pension services



Pension application processing time

**37 days**

Solvency



Solvency capital, €

**11.5 bn**

Efficiency



Share of expense loading used

**67%**

Premiums written



Premiums written, €

**4.9 bn**

## Good investment return



Return on  
investments  
**7.8%**



Return on  
investments, €  
**3.3 bn**



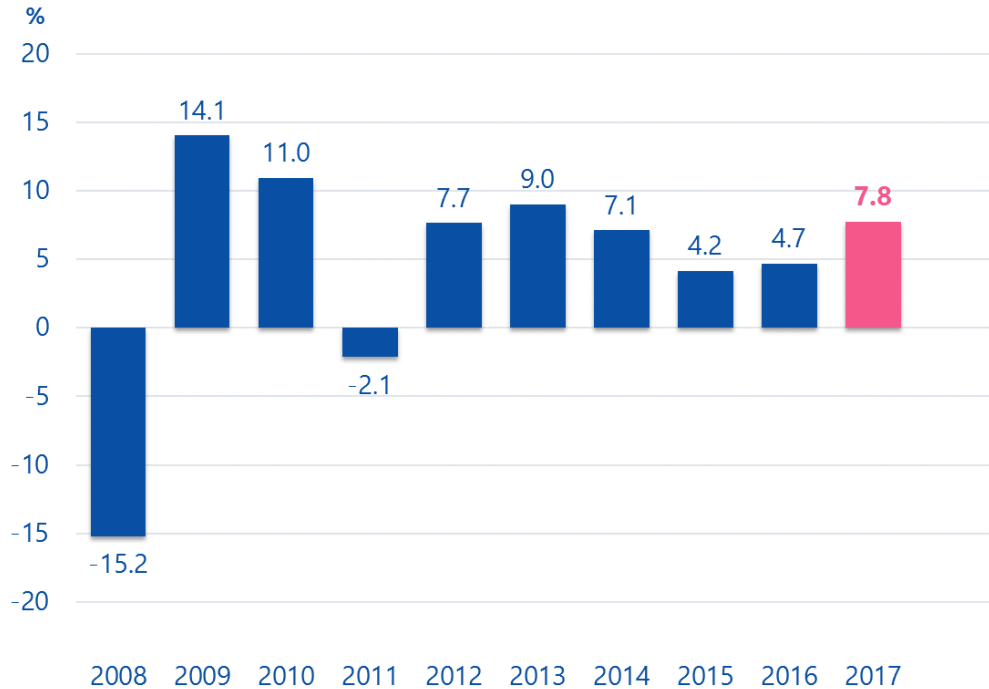
Market value of investments, €  
**45.4 bn**



A woman is shown from a high-angle, over-the-shoulder perspective, working at a wooden desk. She is holding a white sheet of paper with faint lines and a pen. The desk is cluttered with various items: a blue calculator, a pink notepad, a white mug, a glass of water, a ruler, and several other papers. The scene is brightly lit, suggesting an office or study environment.

# Investments and solvency

## Strong returns as the economy gains momentum

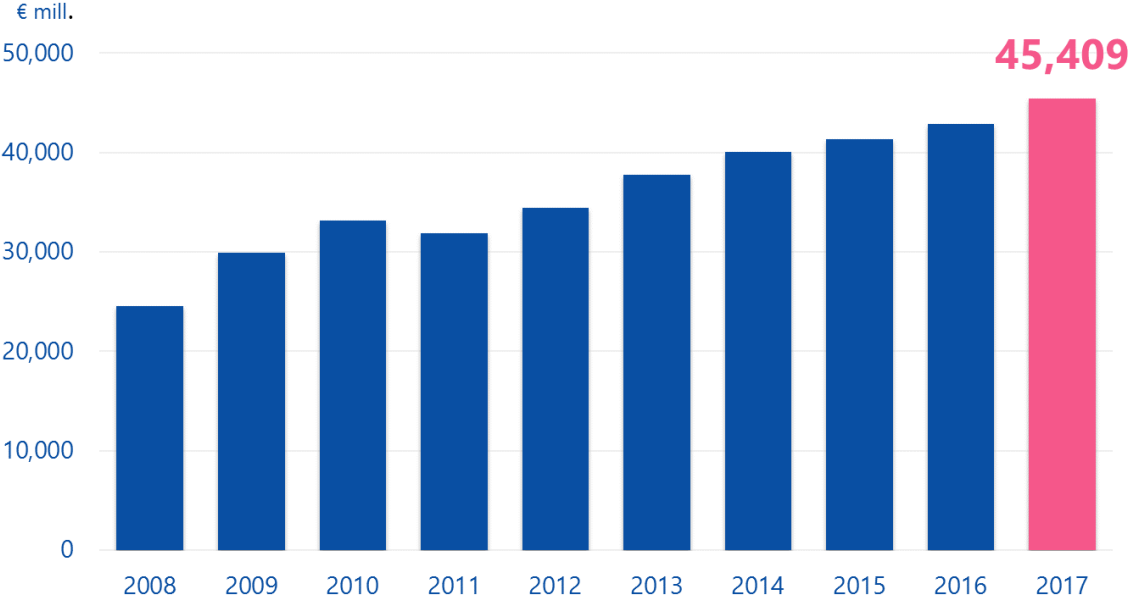


The investment portfolio generated a return of **7.8** per cent or EUR **3.3** billion

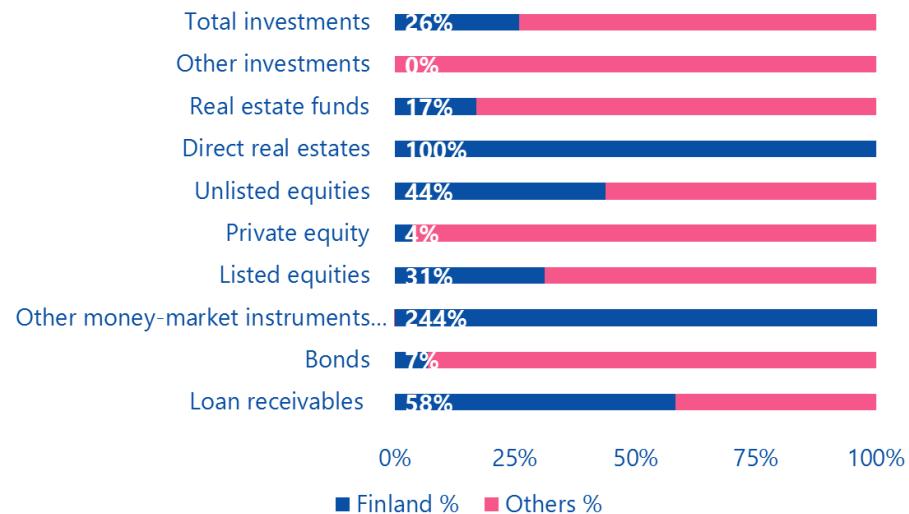
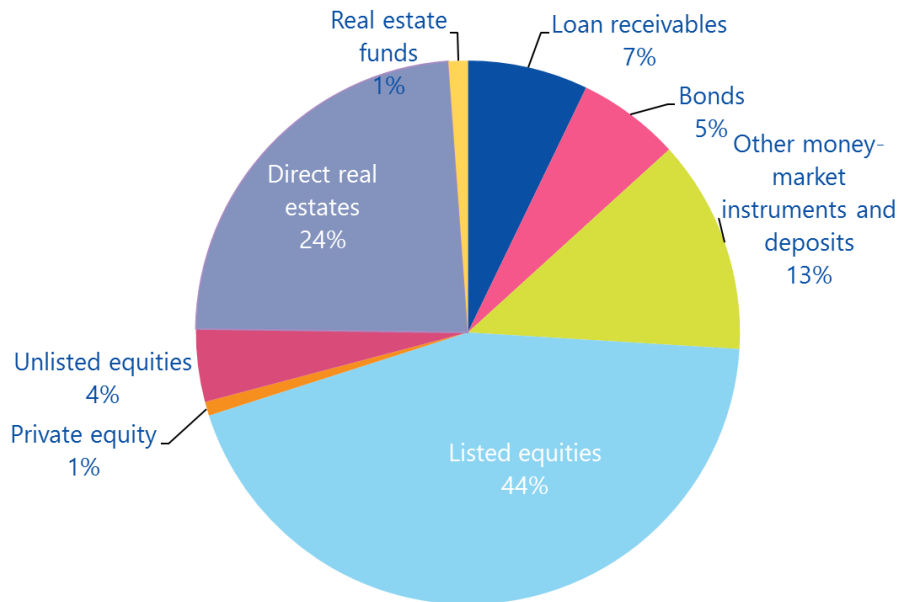
The average nominal return on investments over ten years is approx. 4.5 %, calculated in accordance with the recommendations issued by TELA.



# Investment assets at record high

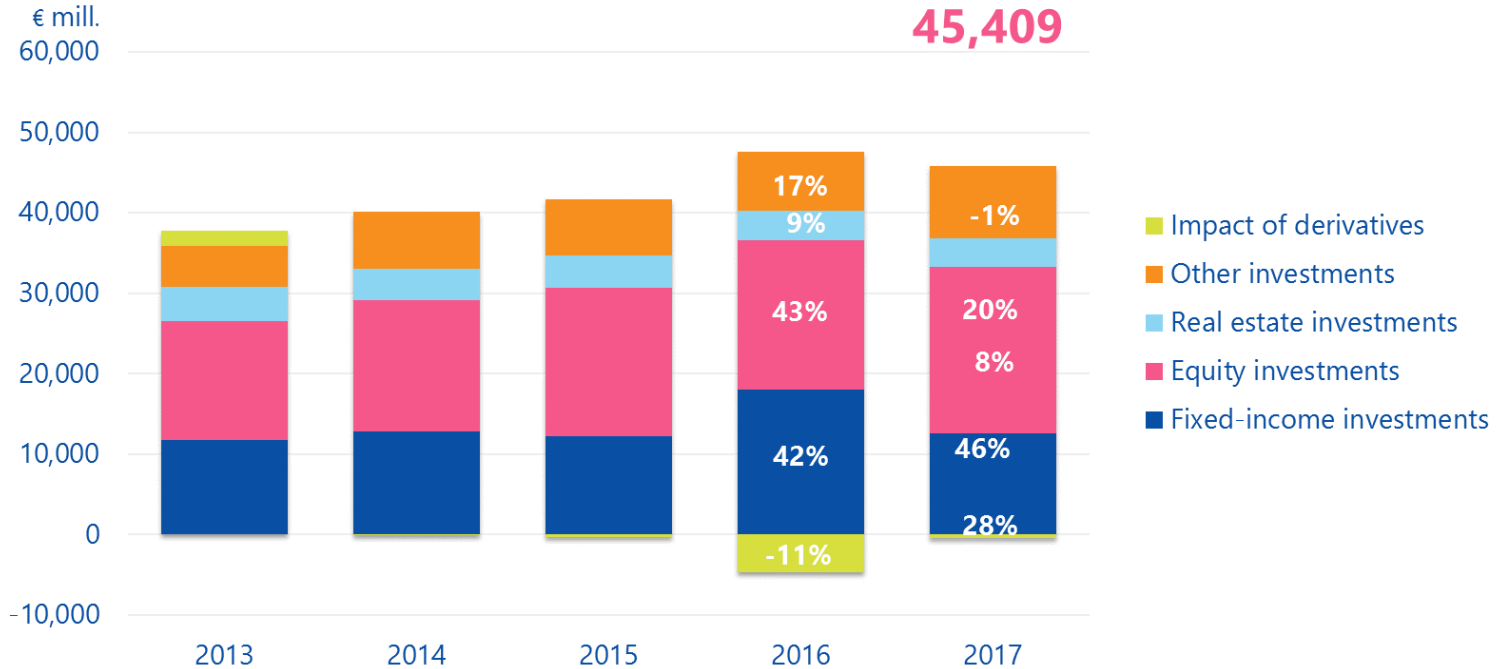


## Investments in Finland 26%, €11.8 bn





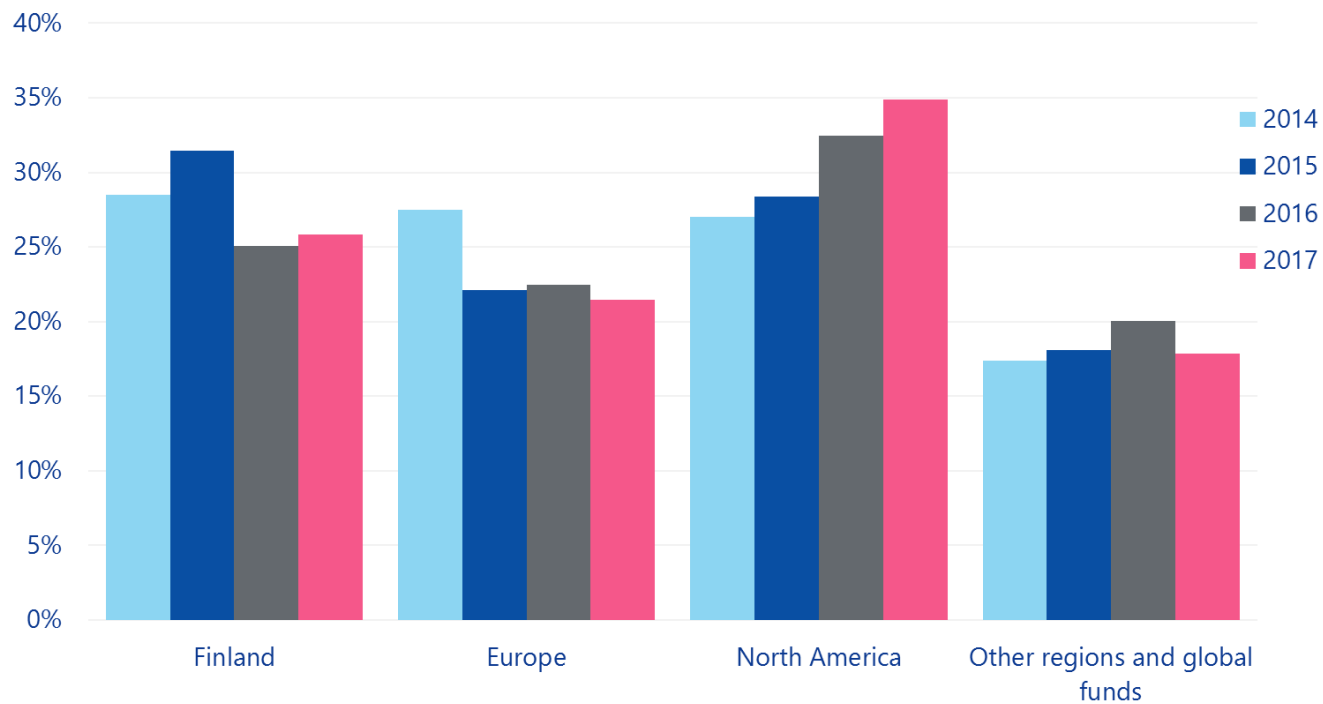
## Positive returns on all of Varma's asset classes



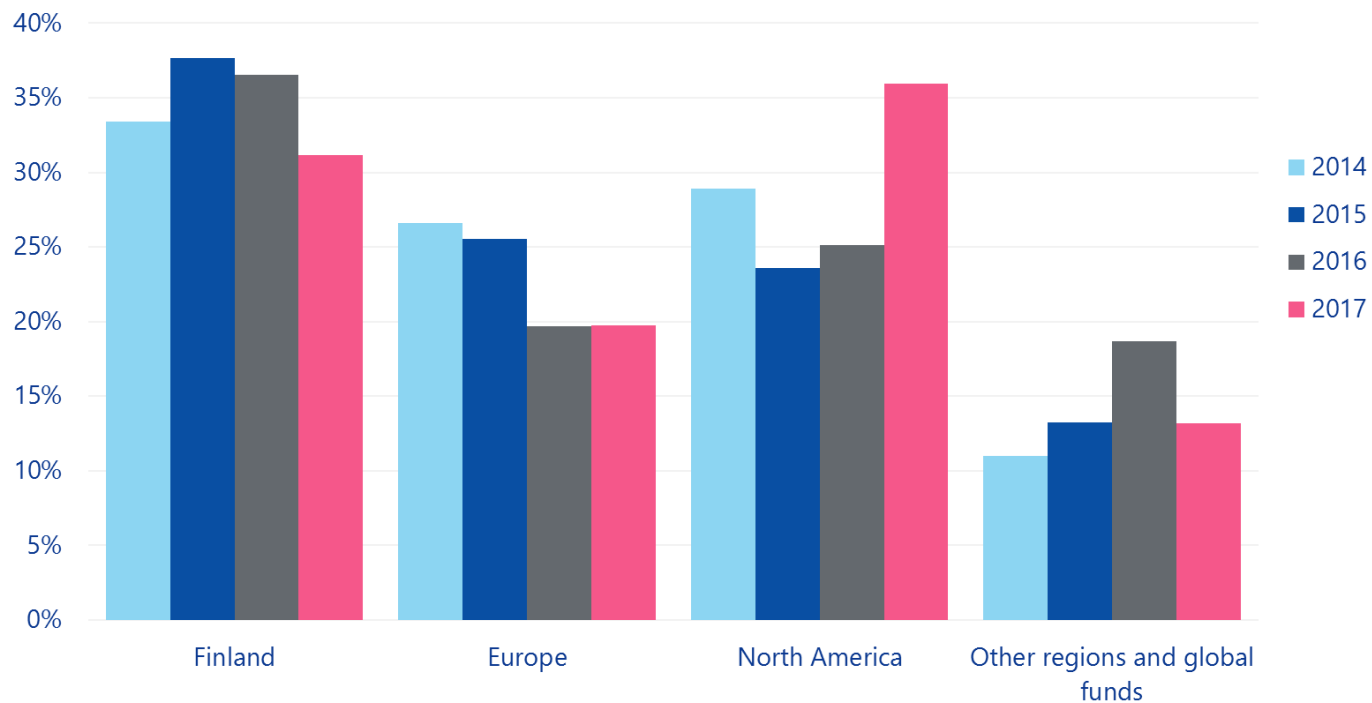
## Varma's investment year 2017



## Geographical distribution of investments



## Geographical distribution of listed equities





# The decade in brief

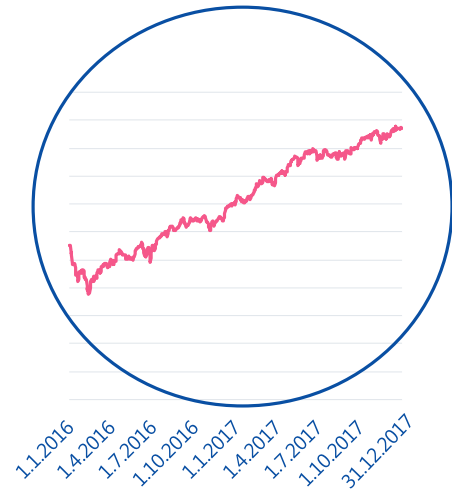
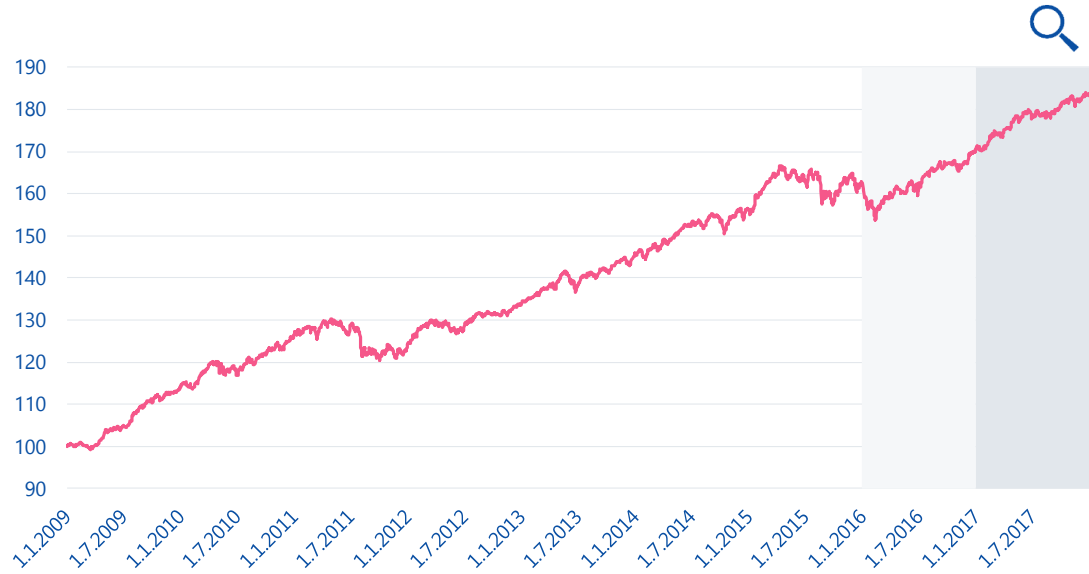


Varma's return on investments 2008–2017

**VARMA**

## Since the financial crisis, Varma's investments have yielded 84%, i.e. EUR 21.4 billion

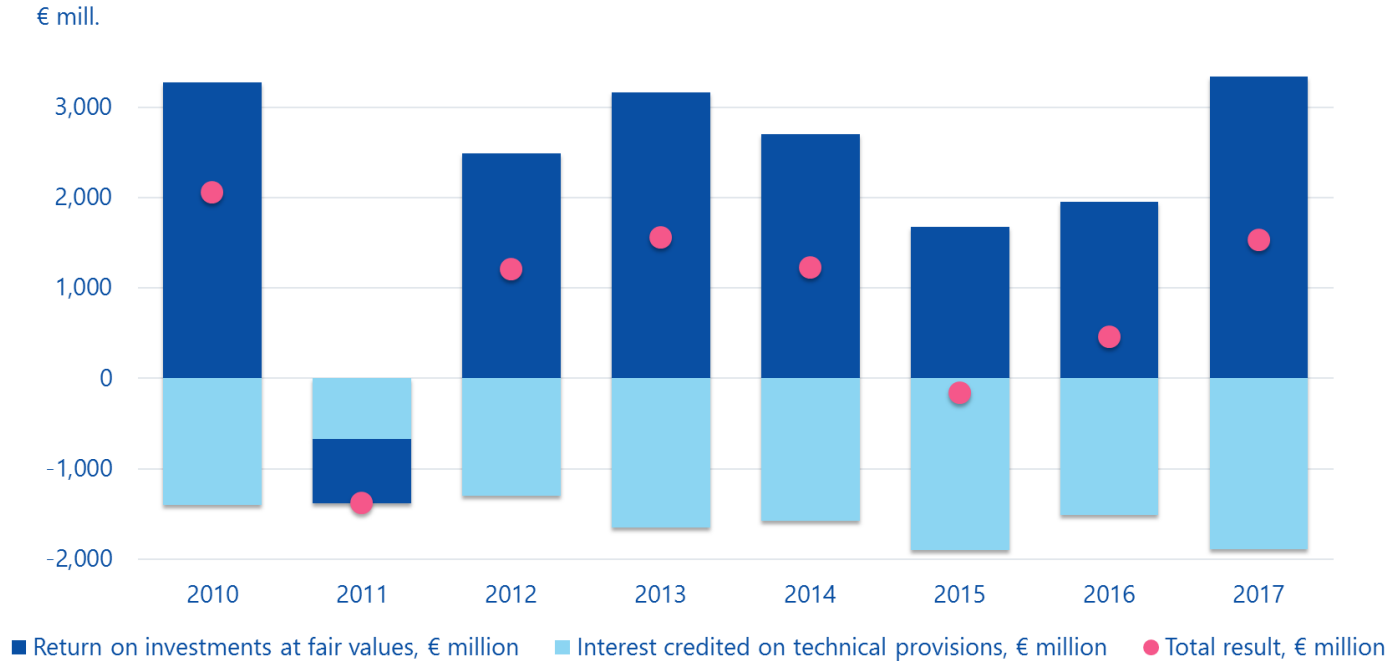
Value of investment assets has nearly doubled since the lowest point of the financial crisis



Cumulative return 1 Jan 2009–31 Dec 2017

## Composition of the investment result

Investment return exceeded the interest credited on technical provisions



## Investments classified according to risk

	31-December-2017				31-December-2016				1-12/2017	1-12/2016	24 m
	Market value				Market value				Return	Return	
	Market Value		Risk position		Market Value		Risk position		MWR	MWR	Vola-
	€ mill.	%	€ mill.	%	€ mill.	%	€ mill.	%	%	%	tility
<b>Fixed-income investments</b> <sup>1</sup>	<b>13,481</b>	<b>30</b>	<b>12,579</b>	<b>28</b>	<b>13,695</b>	<b>32</b>	<b>18,066</b>	<b>42</b>	<b>3.7</b>	<b>4.2</b>	
Loan receivables	1,453	3	1,453	3	1,432	3	1,432	3	2.2	4.2	
Bonds	10,028	22	10,510	23	11,435	27	12,780	30	5.4	5.3	2.5
Public bonds	4,153	9	4,285	9	4,092	10	5,374	13	4.0	1.8	
Other bonds	5,874	13	6,224	14	7,343	17	7,406	17	6.2	7.8	
Other money-market instruments and deposits	2,001	4	617	1	828	2	3,854	9	-1.9	-0.4	
<b>Equity investments</b>	<b>20,427</b>	<b>45</b>	<b>20,687</b>	<b>46</b>	<b>18,333</b>	<b>43</b>	<b>18,527</b>	<b>43</b>	<b>11.4</b>	<b>6.4</b>	
Listed equities	16,492	36	16,753	37	14,599	34	14,793	35	11.6	4.5	8.4
Private equity	2,767	6	2,767	6	2,794	7	2,794	7	7.9	11.2	
Unlisted equities	1,167	3	1,167	3	940	2	940	2	18.5	23.7	
<b>Real estate investments</b>	<b>3,602</b>	<b>8</b>	<b>3,602</b>	<b>8</b>	<b>3,643</b>	<b>9</b>	<b>3,643</b>	<b>9</b>	<b>4.9</b>	<b>-0.9</b>	
Direct real estates	2,797	6	2,797	6	2,897	7	2,897	7	2.9	-2.6	
Real estate funds	805	2	805	2	746	2	746	2	12.0	6.8	
<b>Other investments</b>	<b>7,900</b>	<b>17</b>	<b>8,907</b>	<b>20</b>	<b>7,182</b>	<b>17</b>	<b>7,320</b>	<b>17</b>	<b>9.3</b>	<b>5.3</b>	
Hedge funds	7,886	17	7,886	17	7,184	17	7,184	17	8.5	5.6	2.7
Commodities	11	0	179	0	-1	0	137	0			
Other investments	3	0	842	2	-2	0	-2	0			
<b>Total investments</b>	<b>45,409</b>	<b>100</b>	<b>45,775</b>	<b>101</b>	<b>42,852</b>	<b>100</b>	<b>47,555</b>	<b>111</b>	<b>7.8</b>	<b>4.7</b>	<b>3.5</b>
Impact of derivatives			-365	-1			-4,703	-11			
<b>Investment allocation at fair value</b>	<b>45,409</b>	<b>100</b>	<b>45,409</b>	<b>100</b>	<b>42,852</b>	<b>100</b>	<b>42,852</b>	<b>100</b>			

The modified duration for all the bonds is 3.9.

The open currency position is 28.5% of the market value of the investments.

<sup>1</sup> Includes accrued interest



## Investment returns for Varma and the markets

%	Varma	Finnish equities	European equities	US equities	Euro government bonds	Euro corporate bonds
2017	7.8	11.5	10.6	21.8	0.1	2.4
2016	4.7	13.3	1.7	12.0	3.3	4.7
2015	4.2	15.9	9.6	1.4	1.6	-0.7
<b>Average nominal return</b>						
5 years	6.5	16.3	9.8	15.8	3.9	3.3
10 years	4.5	6.2	3.7	8.5	4.8	4.7
Since 1999 *	5.6	8.7	4.4	6.2	4.5	4.4
<b>Average real return</b>						
5 years	5.8	15.6	9.1	15.0	3.3	2.6
10 years	3.0	4.7	2.2	7.0	3.4	3.3
Since 1999 *	4.0	7.0	2.8	4.5	2.9	2.8

\* Varma, as it is today, was founded in mid-1998, so comparison data earlier than 1999 is not available.

Finnish equities = OMX Helsinki Cap Index

Euro government bonds = IBOXX Eurozone EUR (Total Return)

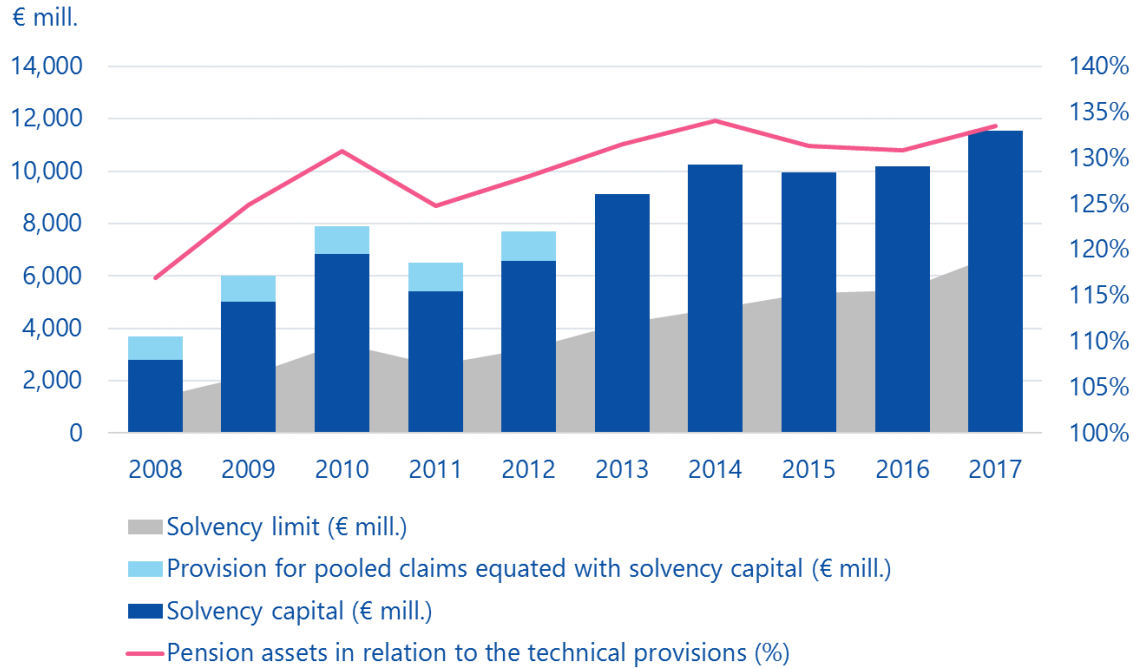
European equities = Stoxx 600 Total Return Index EUR

Euro corporate bonds = IBOXX Corporate Overall Performance Index EUR (Total Return)

US equities = S&P500 Total Return Index

## Solvency was record high

Strong solvency and efficient operations contribute to the sustainability of the earnings-related pension system



- Solvency increased by EUR 1.3 billion
- Solvency capital EUR 11.5 billion, i.e. 1.7 times the solvency limit
- Solvency ratio was 133.5%



# Insurance and pensions

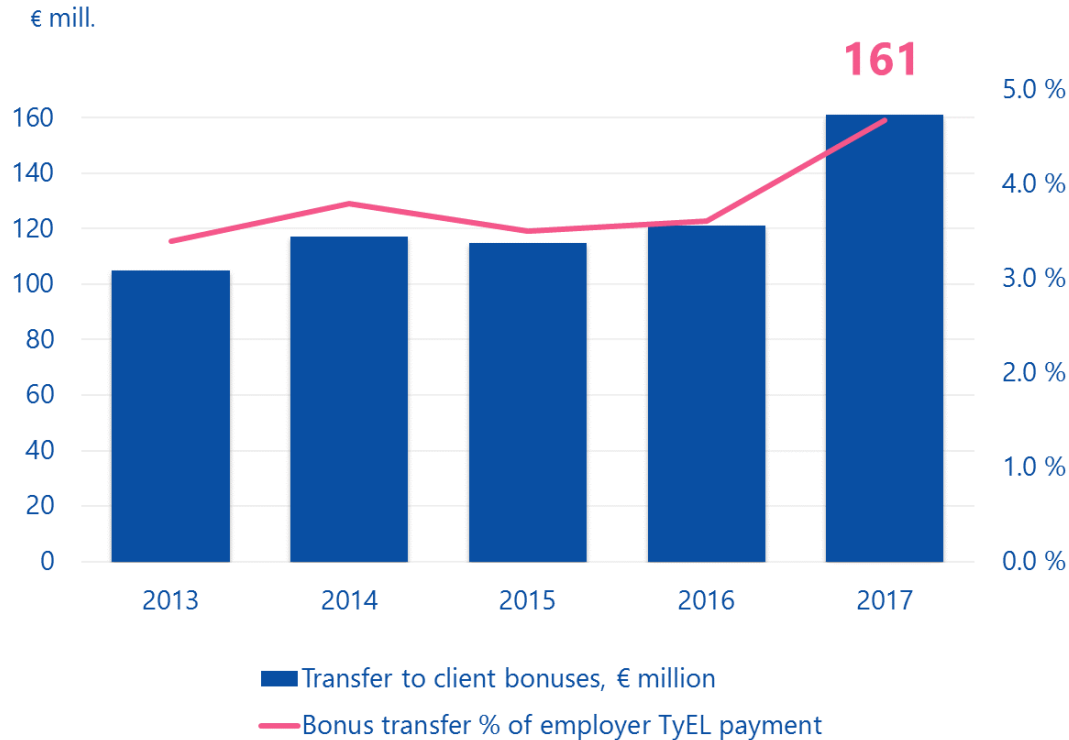
## Varma is the **most efficient** pension insurance company – best loading profit ever



- Varma handles pension cover cost-effectively. We used 67% of the amount reserved for administrative costs.
- Varma is the most efficient earnings-related pension insurance company. This efficiency, together with strong solvency, guarantees the most competitive client bonuses in the sector.



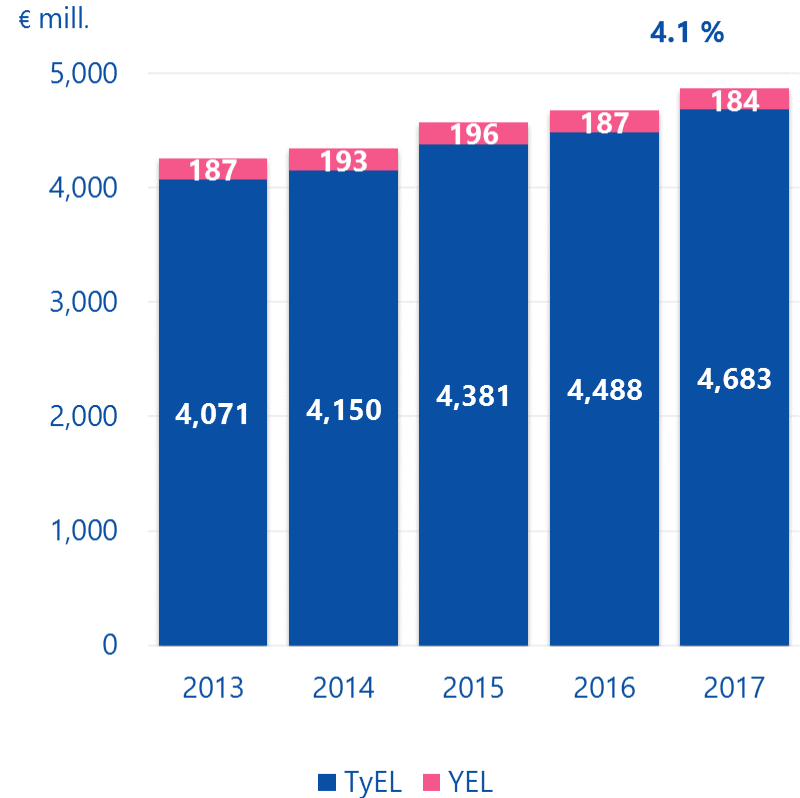
## Varma will pay EUR 161 million back to its clients as client bonuses



- Varma will distribute the full amount of loading profit for 2017 to its customers as client bonuses, i.e. contribution discounts.
- The total amount of distributable client bonuses is affected by Varma's solvency and operational efficiency.
- As of 2018, earnings-related pension companies will apply **company-specific distribution principles for client bonuses**. In future, Varma will allocate the loading profit to the client groups that generate the surplus.

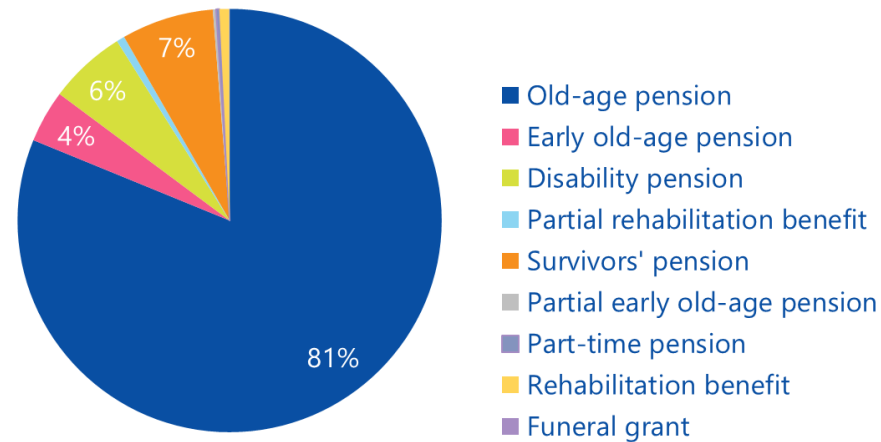
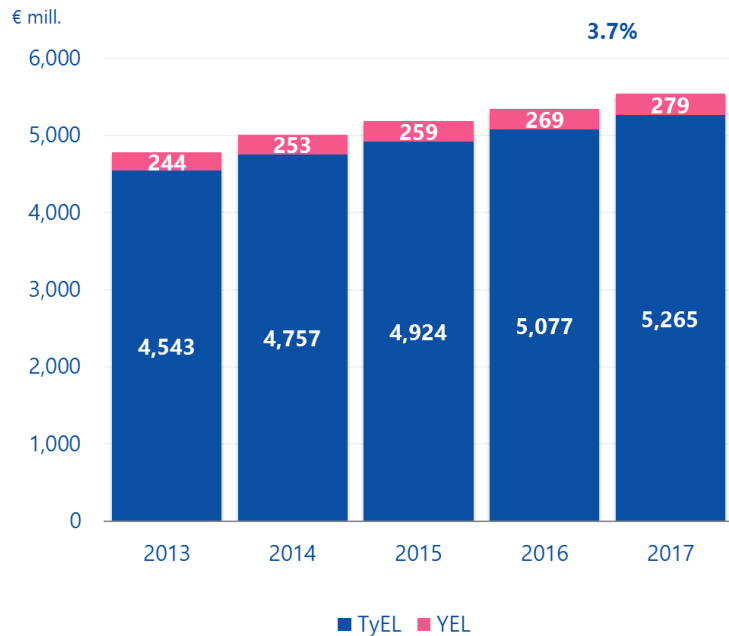
## Steady increase in premiums written

- Premiums written increased to EUR 4.9 billion
- At year-end, 537,240 people were insured with Varma.
- Varma had the best TyEL insurance sales result in the sector, at EUR 48 million.



# Pensions paid

We paid out pensions in the amount of EUR 5.5 billion to 342,600 people



# First year of reformed pension legislation



## Retirement age rises

- The lower age limit for old-age pension will gradually rise to 65 years. Thereafter, the lower age limit will be tied to life expectancy.
- The lower age limit rises for the first time in 2018. Those born in 1955 can retire on old-age pension at the earliest at the age of 63 years, 3 months.

## Partial old-age pension popular

- Our customers calculated 15,000 partial old-age pension estimates online in 2017
- Varma made 2,700 decisions concerning partial old-age pension
- The majority of the pension recipients are men aged 62 and 63 years.

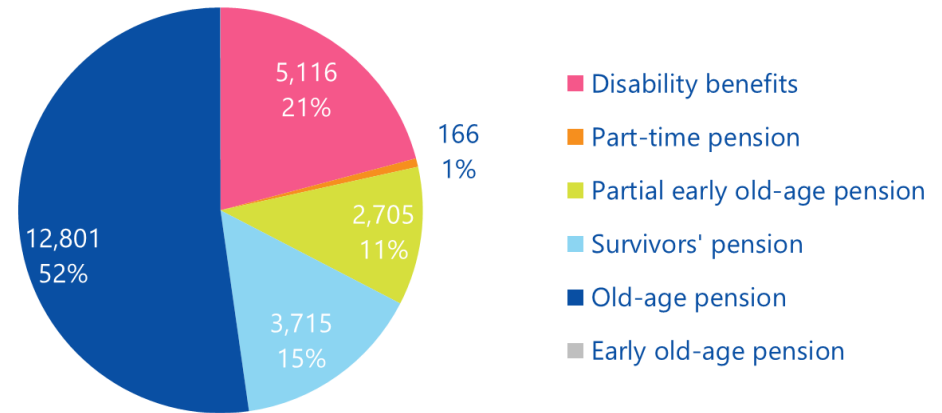
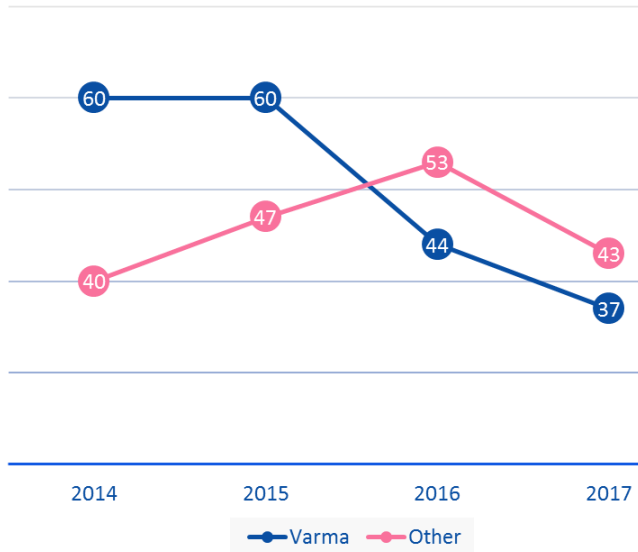
## First years-of-service pension in the sector

- Varma granted the first years-of-service pension in the sector in November.
- The applicant, who is still working, received a preliminary decision and will retire in spring 2018.



## Varma processes pension applications six days faster than average in the sector

New pension decisions totalled around 24,500



## We are preparing for the Incomes Register

- The Incomes Register enables faster and better service. This is a step closer to real-time pension decisions and pension estimates.
- Employers will no longer report the information to the earnings-related pension company, but instead directly to the Incomes Register. The employer is responsible for the accuracy of the data, and for making necessary corrections in the Incomes Register.
- YEL/MYEL income will not be reported to the Incomes Register.
- Varma is preparing for the Incomes Register in 2018 by adapting its existing systems and creating new systems.



The Incomes Register is maintained by the Finnish Tax Administration and will be launched on 1 January 2019. Thereafter, employees' **pay information will be reported to the Incomes Register only**. As of 2020, pensions and other benefits will also be reported to the Incomes Register.

A photograph showing two construction workers in high-visibility yellow jackets and hard hats (one blue, one white) working on a rooftop solar panel installation. They are surrounded by rows of solar panels. In the background, a large brick building with the word 'VARMA' in blue letters is visible under an overcast sky.

# Current CSR topics

# Responsible Varma

Responsibility is a part of Varma's strategy and operations. We continuously develop our responsible ways of operating. Our goal is to be the most responsible company in the pension sector.



## ETHICAL AND TRANSPARENT BUSINESS

We develop the responsibility of our business operations, e.g. in customer work and the supply chain.



## COST-EFFECTIVE USE OF ASSETS

We take care of our customers' earnings-related pension provision efficiently.



## OPEN AND PRO-ACTIVE COMMUNICATION

We openly and pro-actively disclose information about our operations. Our use of pension assets is transparent.



## ACTIONS IN 2017

CO<sub>2</sub> footprint of Varma's equity portfolio down 27% since 2015.



## RESPONSIBILITY FOR VARMA EMPLOYEES

We take care of Varma employees' well-being at work and develop an inspiring work culture based on equality.



## RESPONSIBILITY IN INVESTMENT OPERATIONS

Responsibility is an integral part of our investment decisions and ownership policy.



## MITIGATING CLIMATE CHANGE

We are reducing the CO<sub>2</sub> footprint of our investments and operations.



75% of our rehabilitation customers returned to working life.



Our customers receive their pension decisions quickly.



We published a Supplier Code of Conduct and updated our ownership policy.



We used 67 per cent of the amount reserved for administrative costs.

## Varma secures pensions

### Securing solvency



We make profitable and secure investments. Strong solvency helps to secure pensions.

### High-quality implementation of pension provision



Dealing with Varma is smooth, and customers receive decisions without delays.

### Promoting workability and longer careers



Our workability management and rehabilitation services prevent disability and lower disability costs.



## CSR achievements in 2017



### Climate-friendly investment portfolio

- Compared to 2015, the carbon footprint was down 27% in equities, 22% in corporate bonds and 18% in real estate.
- Varma placed in the top six European investors in the WWF's comparison of investment portfolios' climate friendliness.



### Responsible purchases

- We drew up a Supplier Code of Conduct, which covers, for example, business ethics and environmental responsibility.
- Varma is a major procurer in the construction, real estate and IT sectors, for example.



### Sustainability of Varma's operations

- The eco-friendliness of Varma's head office was improved by means of a solar power plant and a parking area for electric cars (for 250 cars).
- The staff restaurant started selling its leftovers in order to reduce its food waste.
- Work culture and equality brought to the forefront.



# Current issues

## Current topics at Varma and in the economy

- Balanced global economic growth in 2017
- Finland back on growth track
- Employment improved late in the year, bolstering the entire pension system
- Growth expectations remain bright also for 2018
- Strong economic stimulus measures by the US caused market volatility
- Is the zero-interest-rate period coming to an end?
- Varma is preparing for the introduction of the Incomes Register at the start of 2019





# Attachments

## Key figures

	2017	2016
Premiums written, € million	4,867	4,675
Pensions paid, € million <sup>1)</sup>	5,544	5,345
TyEL-insured	501,320	493,890
YEL insurance policies	35,900	36,000
Pensioners	342,600	340,100
Investments, € million	45,409	42,852
Return on investment, € million	3,343	1,953
Return on investment, %	7.8	4.7
Total result, € million	1,524	457
Loading profit, € million	45	39
Operating expenses as % of loading component	67	72
Technical provisions, € million	36,696	33,501
Solvency capital, € million	11,534	10,199
Solvency ratio % <sup>2)</sup>	133.5	130.9
Solvency capital/solvency limit	1.7	1.9
Average number of personnel, Parent Company	524	540

<sup>1)</sup> Before the reduction of received clearing of pay-as-you-go (PAYG) pensions

<sup>2)</sup> Pension assets in relation to the technical provisions under §11 of the Ministry of Social Affairs and Health's decree governing pension institutions (614/2008). All years are presented in the new format.



**VARMA**