



Varma's Financial Statement 2019

14 Feb 2020

Solid insurance year for Varma

Quality of pension services



Pension application processing time

25 days

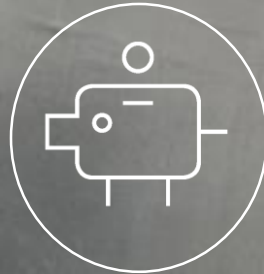
Efficiency



Share of expense loading used

62%

Premiums written



Premiums written, €

5.3 bn



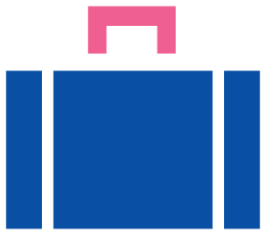
VARMA

Key figures



Return on investments

12.0%



Market value
of investments, €

48.7 bn



Solvency capital, €

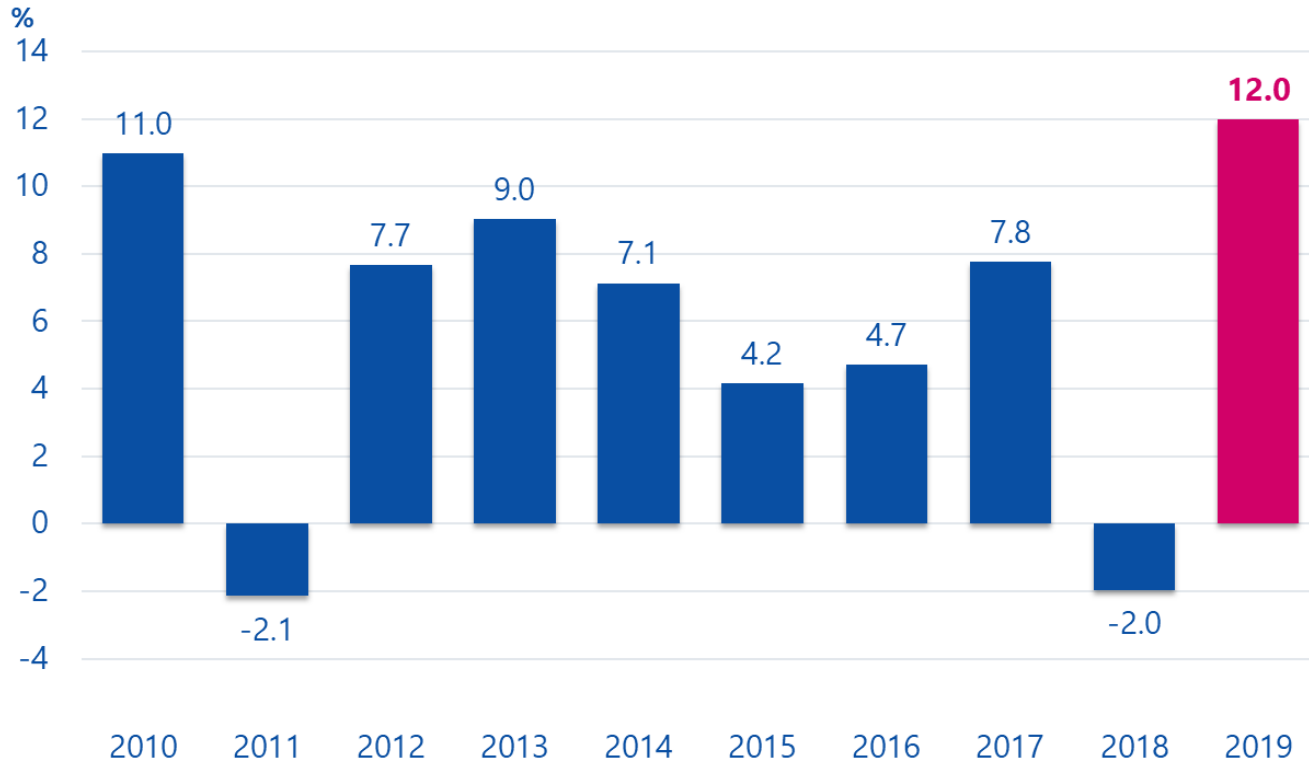
11.6 bn





Investments and solvency

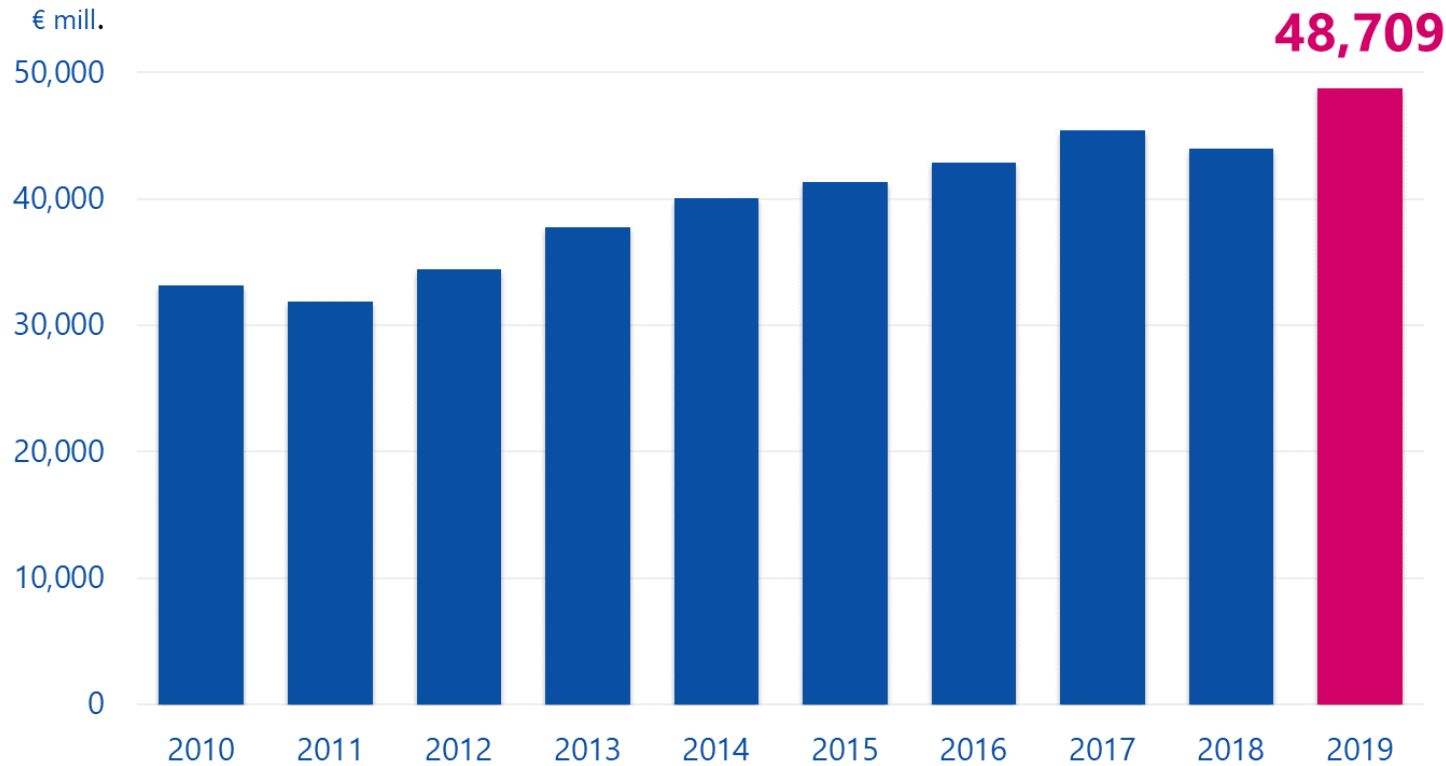
Investment returns 2010–2019



In the last 20 years, Varma's investments have yielded better returns only in 2009, when the equity markets recovered from the financial crisis. A major reason for the good performance of 2019 was the central banks' accommodative measures.

The average nominal return on investments over ten years is approx. 5.8%, calculated in accordance with the recommendations issued by TELA.

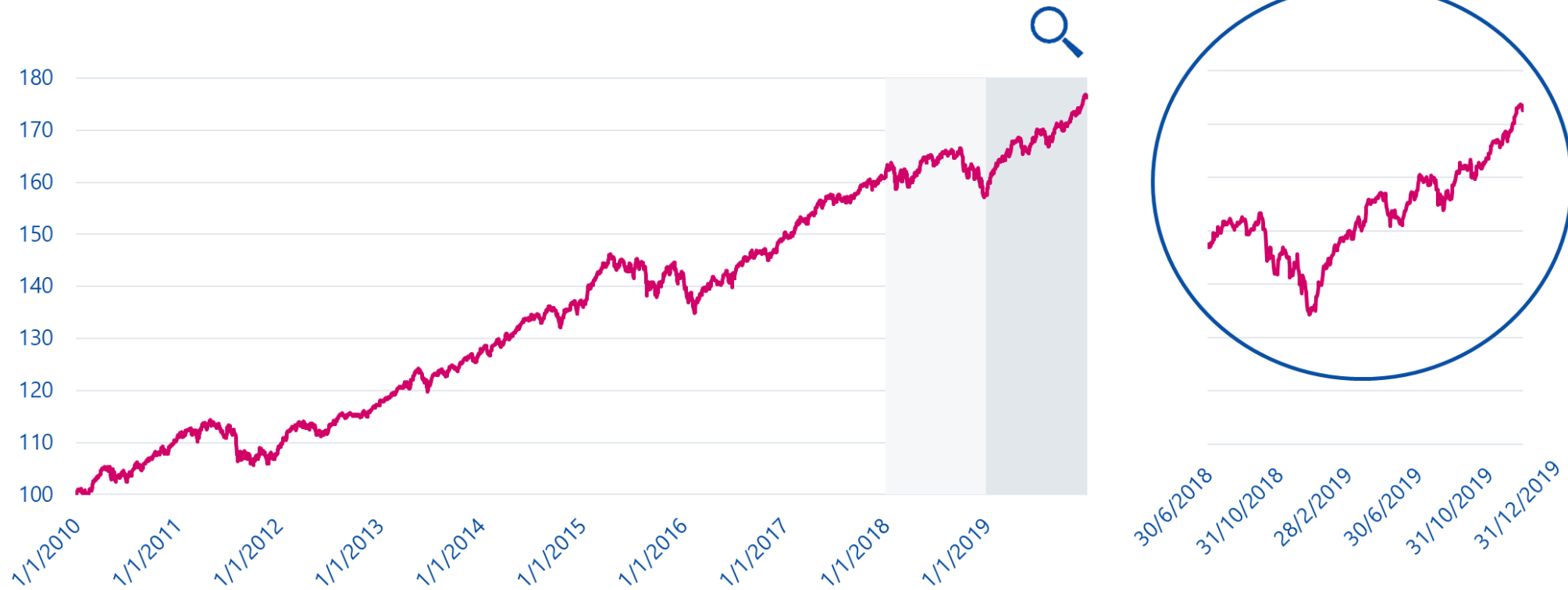
The market value of investments rose to EUR 48.7 bn



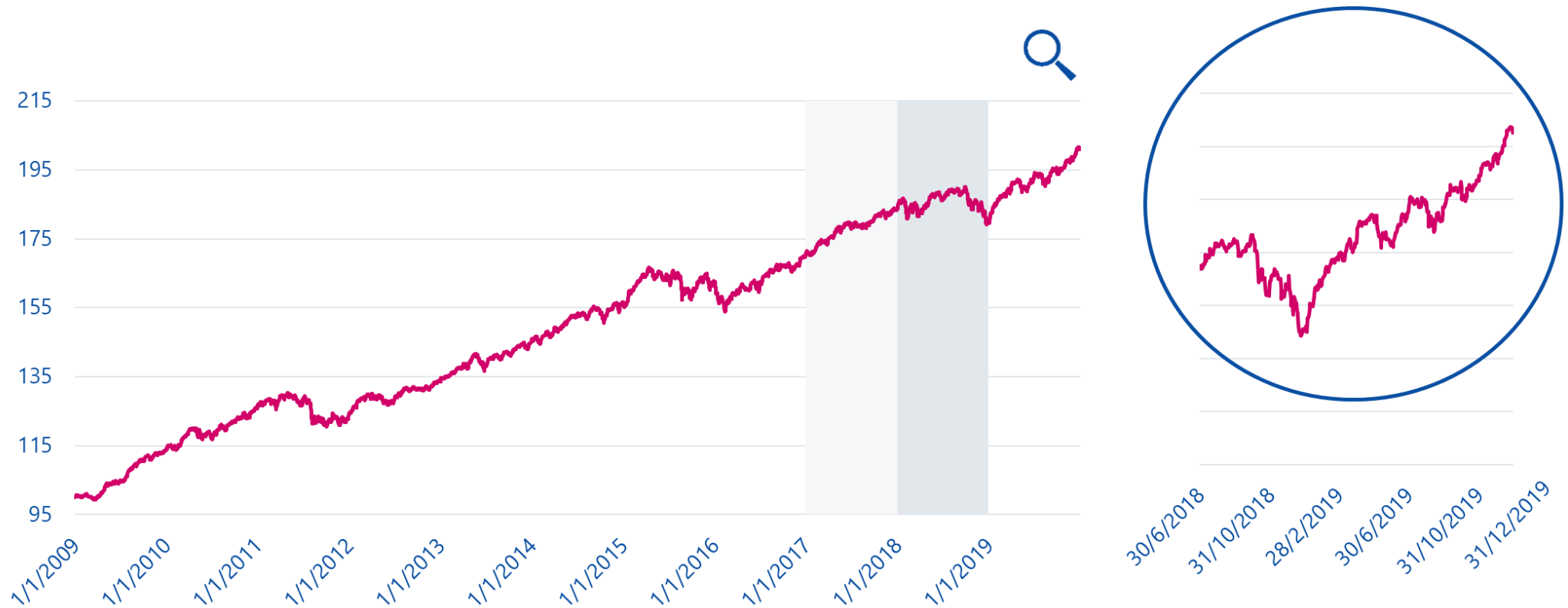
Return on Varma's investments at 12%



Since 2010, the return on Varma's pension assets is 76.7%, i.e. € 22.2 bn

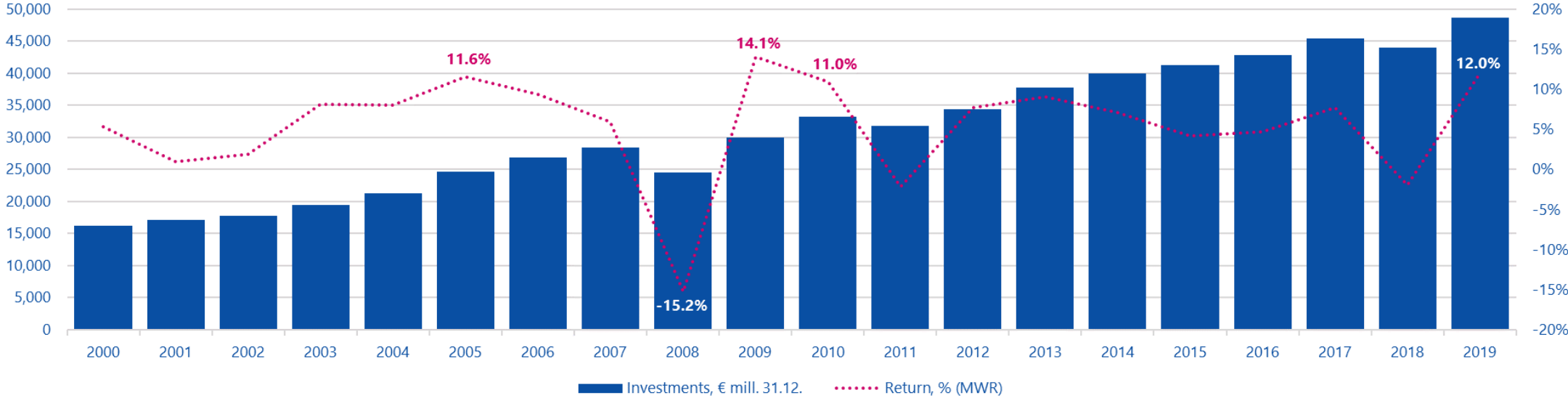


Following 2009, Varma's cumulative return on investment 101.4%, i.e. € 25.8 bn

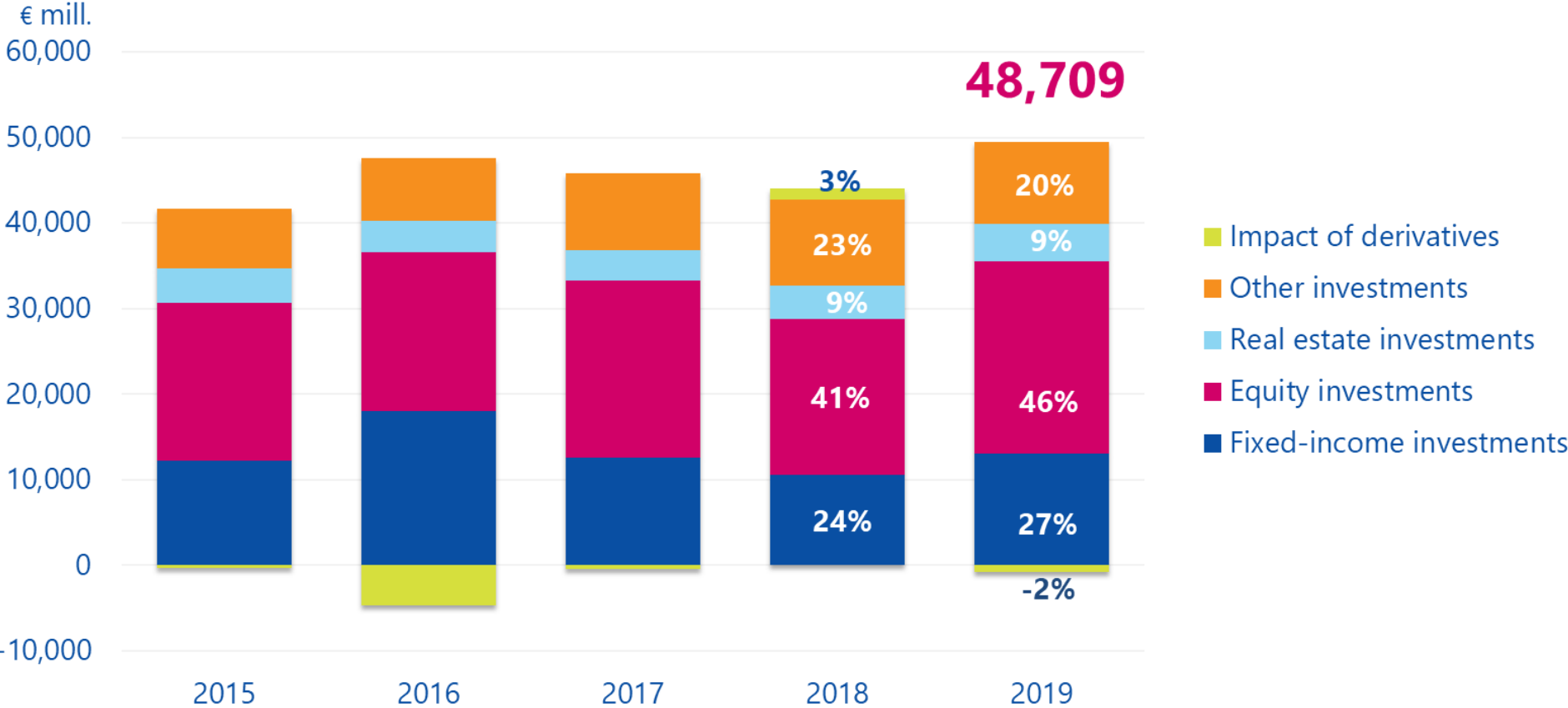


Investments since 2000

Development of the market value of and return on Varma's investments 2000–2019

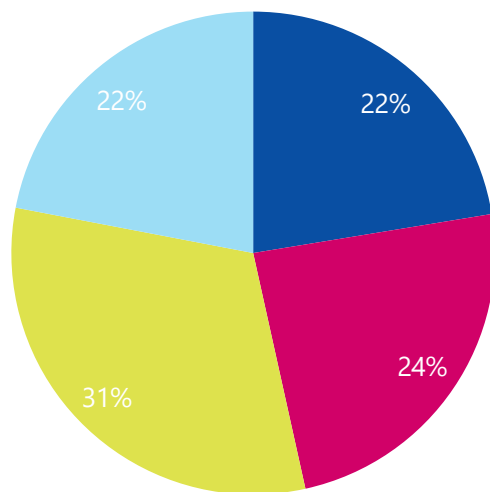


Distribution of Varma's investments



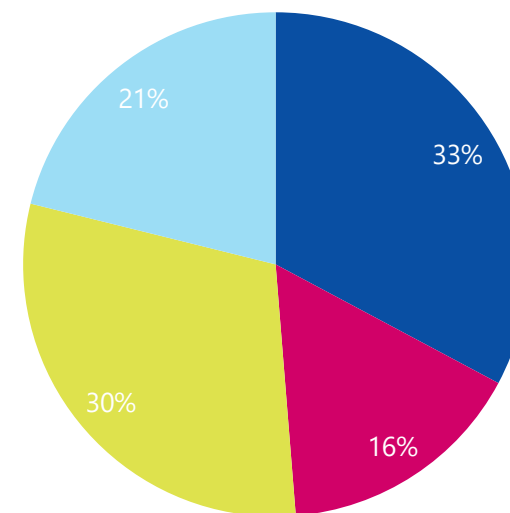
Geographical distribution of investments

Investments



■ Finland ■ Europe ■ North America ■ Other regions and global funds

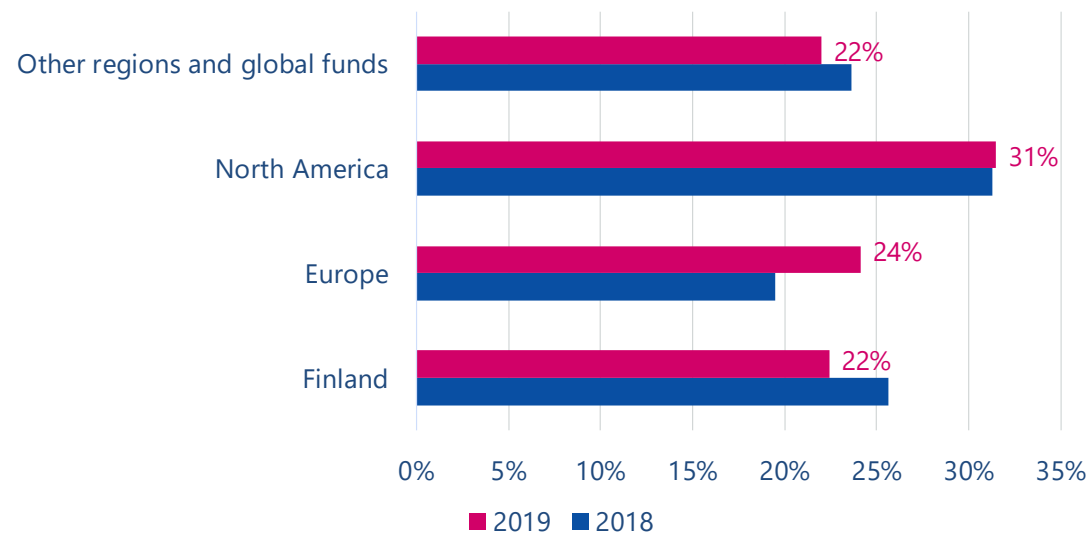
Listed equities



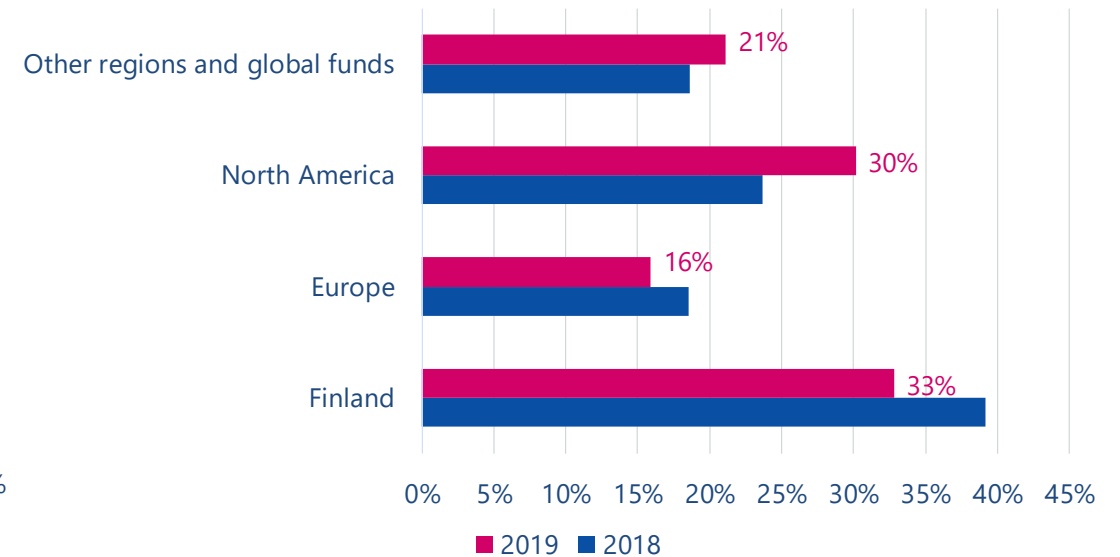
■ Finland ■ Europe ■ North America ■ Other regions and global funds

Changes in investments during the year

Investments

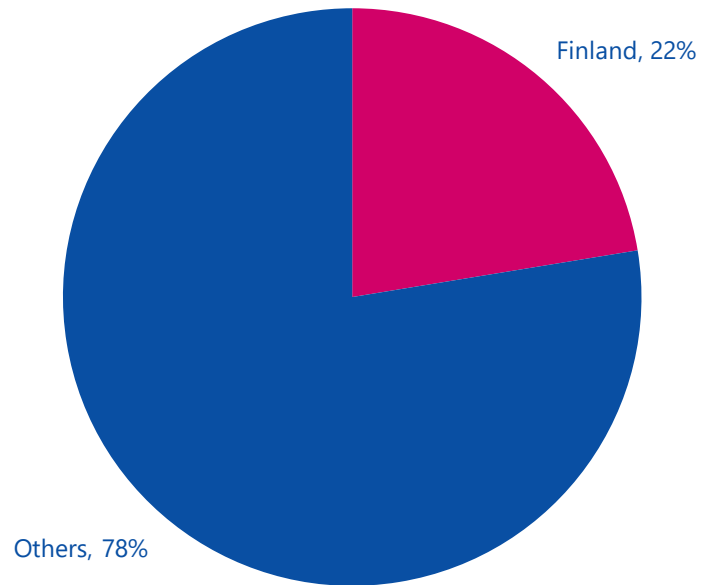


Listed equities

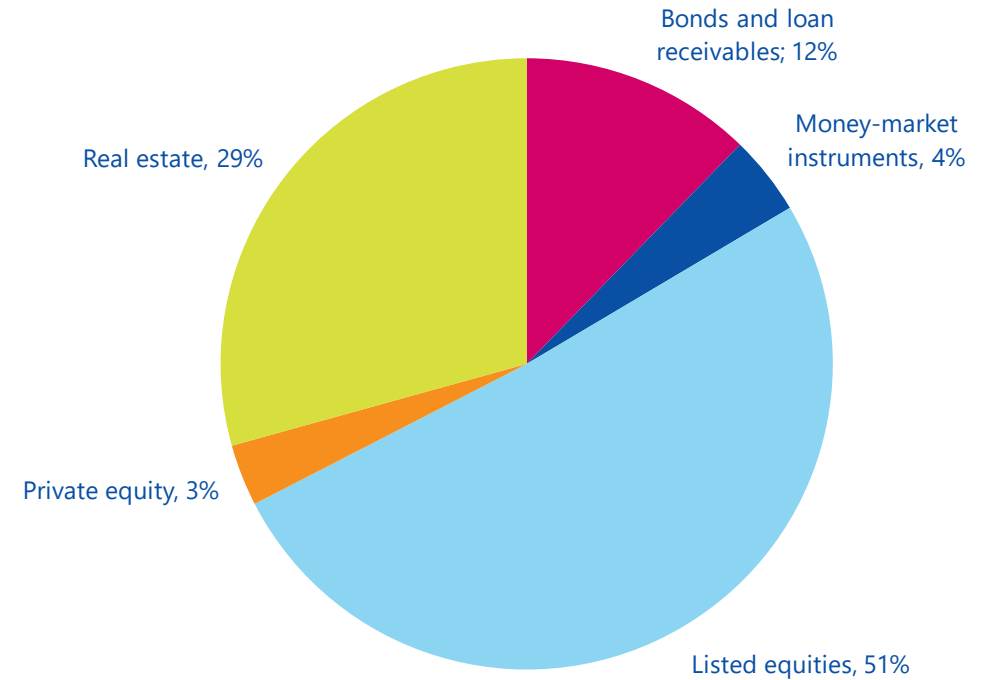


Investments in Finland 22%, €11.1 billion

Investments in Finland



Distribution of Finnish investments



Investments classified according to risk

	31 Dec 2019				31 Dec 2018				1-12/2019	1-12/2018	24 m
	Market value				Market value				Return	Return	
	Market Value		Risk position		Market Value		Risk position		MWR	MWR	Vola- tility
	€ mill.	%	€ mill.	%	€ mill.	%	€ mill.	%	%	%	
Fixed-income investments ¹	12,957	27	13,052	27	13,522	31	10,568	24	4.5	-1.8	
Loan receivables	2,315	5	2,315	5	1,817	4	1,817	4	4.0	3.7	
Bonds	9,563	20	10,693	22	10,625	24	9,031	21	5.1	-2.9	2.1
Public bonds	3,577	7	4,707	10	4,104	9	2,142	5	2.6	-4.2	
Other bonds	5,986	12	5,986	12	6,520	15	6,889	16	6.6	-2.0	
Other money-market instruments and deposits	1,079	2	44	0	1,080	2	-280	-1	0.4	-0.1	
Equity investments	22,486	46	22,457	46	17,916	41	18,222	41	22.8	-3.6	
Listed equities	17,252	35	17,223	35	13,407	30	13,713	31	25.4	-8.3	12.5
Private equity	4,945	10	4,945	10	4,255	10	4,255	10	15.1	17.5	
Unlisted equities	289	1	289	1	254	1	254	1	16.9	3.8	
Real estate investments	4,413	9	4,413	9	3,879	9	3,879	9	4.1	5.5	
Direct real estates	2,792	6	2,792	6	2,895	7	2,895	7	3.9	3.9	
Real estate funds	1,622	3	1,622	3	984	2	984	2	4.7	10.6	
Other investments	8,853	18	9,548	20	8,699	20	10,037	23	4.5	-1.4	
Hedge funds	8,857	18	8,857	18	8,703	20	8,703	20	5.0	1.6	2.2
Commodities					-8	0	25	0			
Other investments	-5	0	691	1	3	0	1,308	3			
Total investments	48,709	100	49,471	102	44,015	100	42,705	97	12.0	-2.0	4.6
Impact of derivatives			-762	-2			1,310	3			
Investment allocation at fair value	48,709	100	48,709	100	44,015	100	44,015	100			

The modified duration for all the bonds is 4.6.

The open currency position is 26.6% of the market value of the investments.

¹ Includes accrued interest

Investment returns for Varma and the markets

%	Varma	Finnish equities	European equities	US equities	Euro government bonds	Euro corporate bonds
2019	12.0	20.4	26.8	31.5	6.7	6.3
2018	-2.0	-3.9	-10.8	-4.4	1.0	-1.3
2017	7.8	11.5	10.6	21.8	0.1	2.4
Average nominal return						
5 years	5.2	11.1	6.9	11.7	2.5	2.2
10 years	5.8	10.7	8.1	13.6	4.3	4.1
Since 1999 *	5.6	8.6	4.6	6.7	4.5	4.2
Average real return						
5 years	4.5	10.4	6.2	10.9	1.8	1.6
10 years	4.4	9.3	6.6	12.0	2.9	2.7
Since 1999 *	4.0	6.9	3.0	5.1	2.9	2.6

* 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

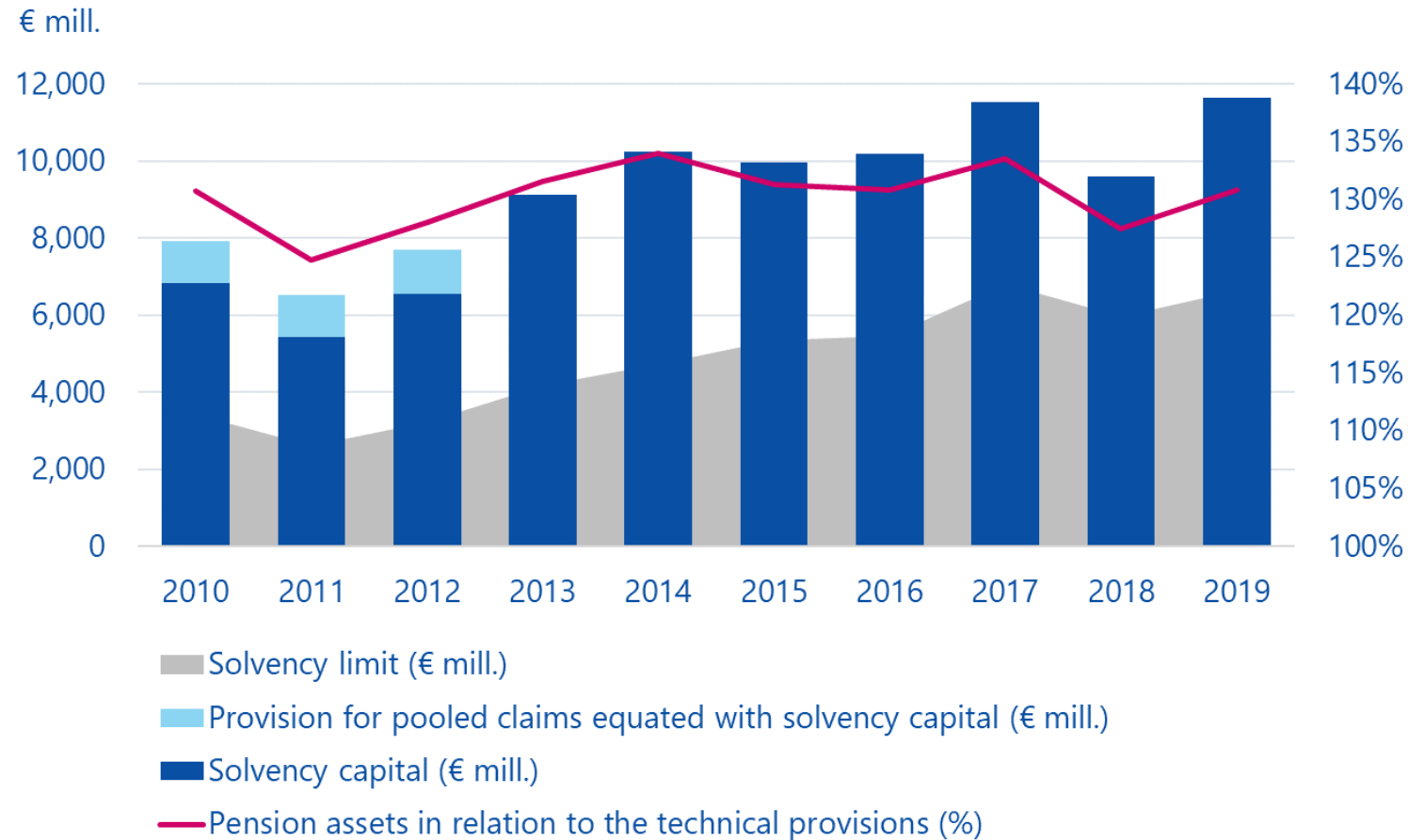
Euro government bonds = IBOXX Eurozone EUR (Total Return)

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 strengthened



- Solvency capital amounted to EUR **11.6** billion.
- Solvency capital was at a secure level, i.e. at **1.8** times the solvency limit.
- Solvency ratio was **130.8%**



Insurance and pensions



Insured employees and
entrepreneurs

541,900

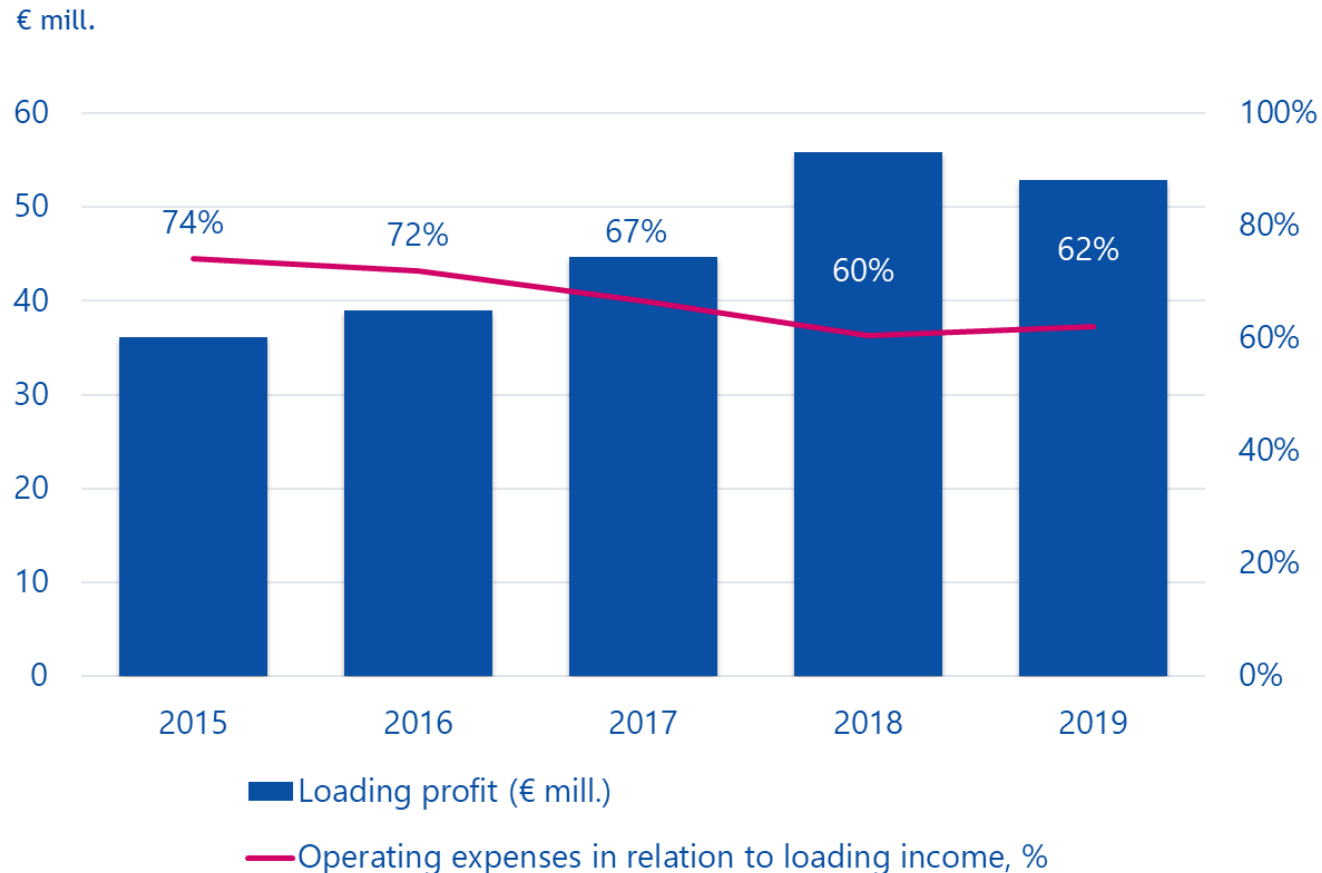
Pensioners

343,700

Pensions paid

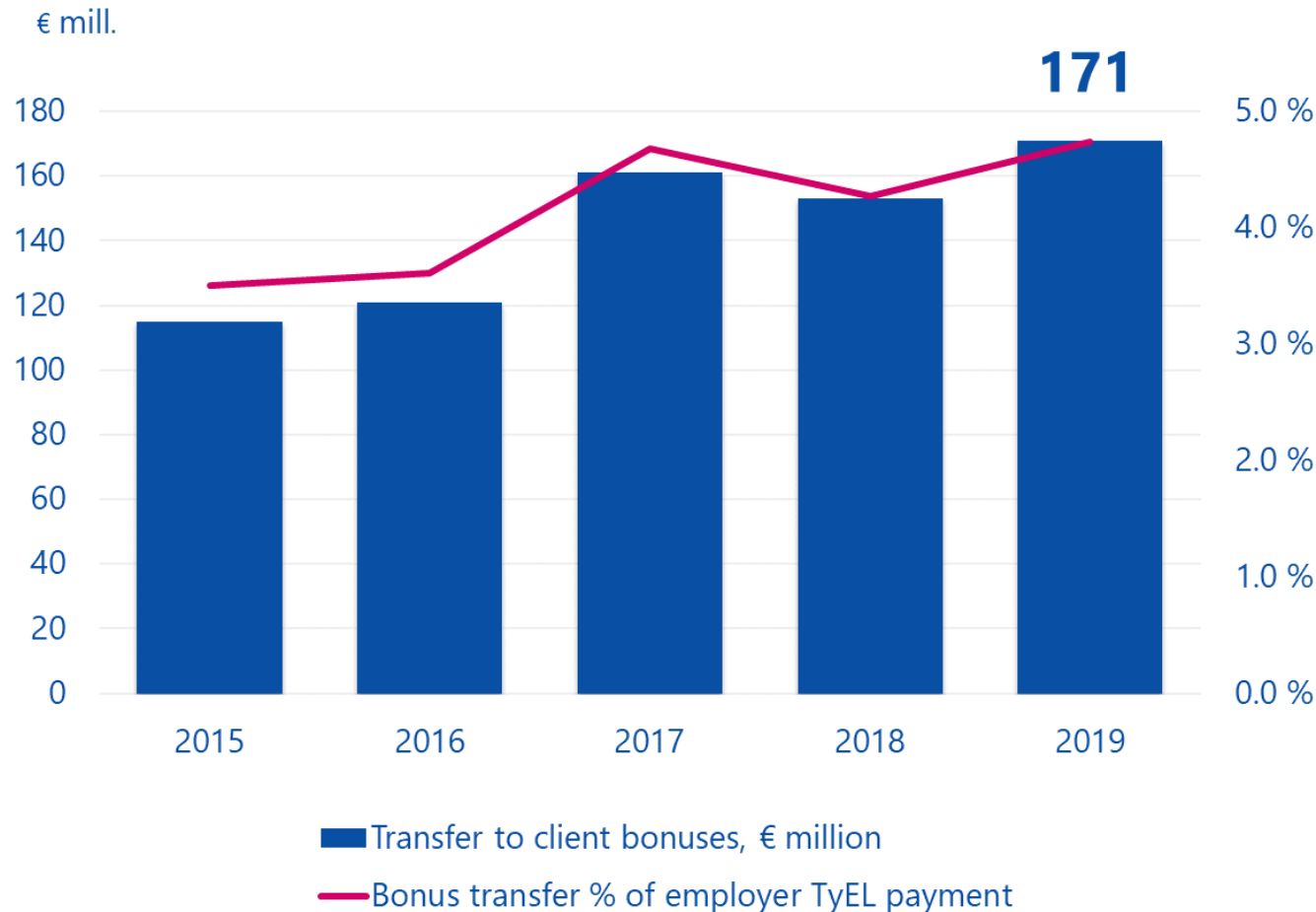
€5.9 bn

Loading profit at a strong level



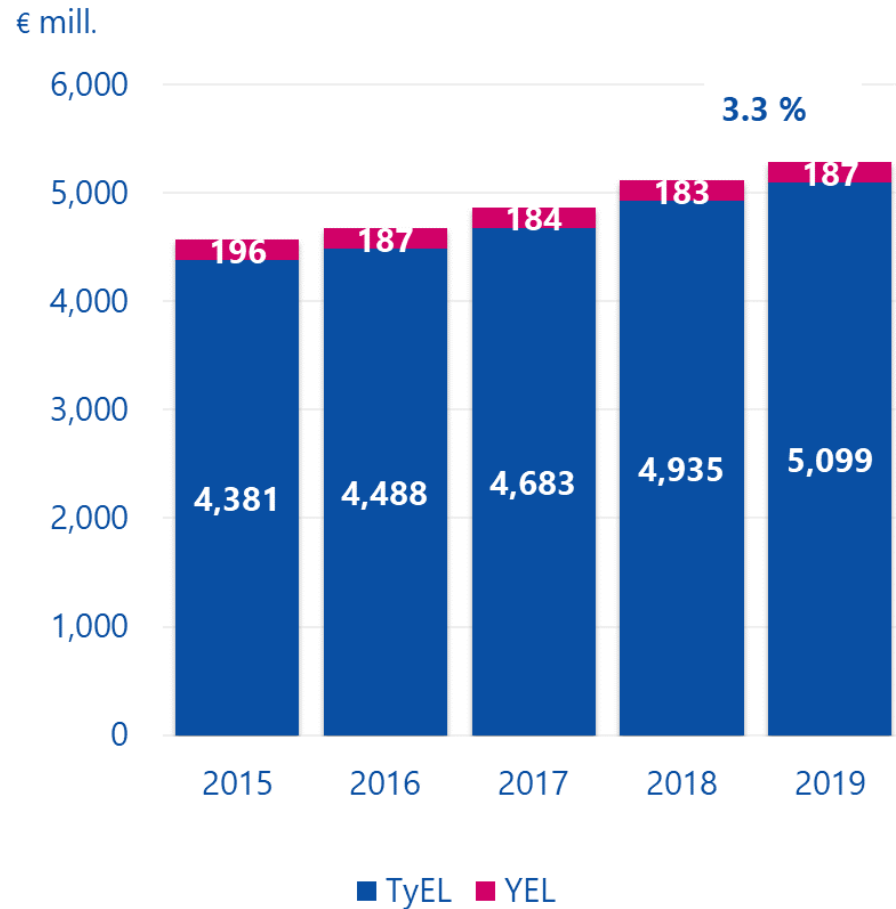
- Varma handles pension cover cost-effectively. We used **62%** of the amount reserved for administrative costs.
- Varma's efficiency together with strong solvency guarantees the most competitive client bonuses in the sector.

The best client bonuses ever



- Varma will distribute the loading profit for 2019 to its customers as client bonuses, i.e. contribution discounts.
- Varma will refund **EUR 171** million to its customers, i.e. the best client bonuses in Varma's history.
- Varma's strong solvency and operational efficiency benefit its clients in full.

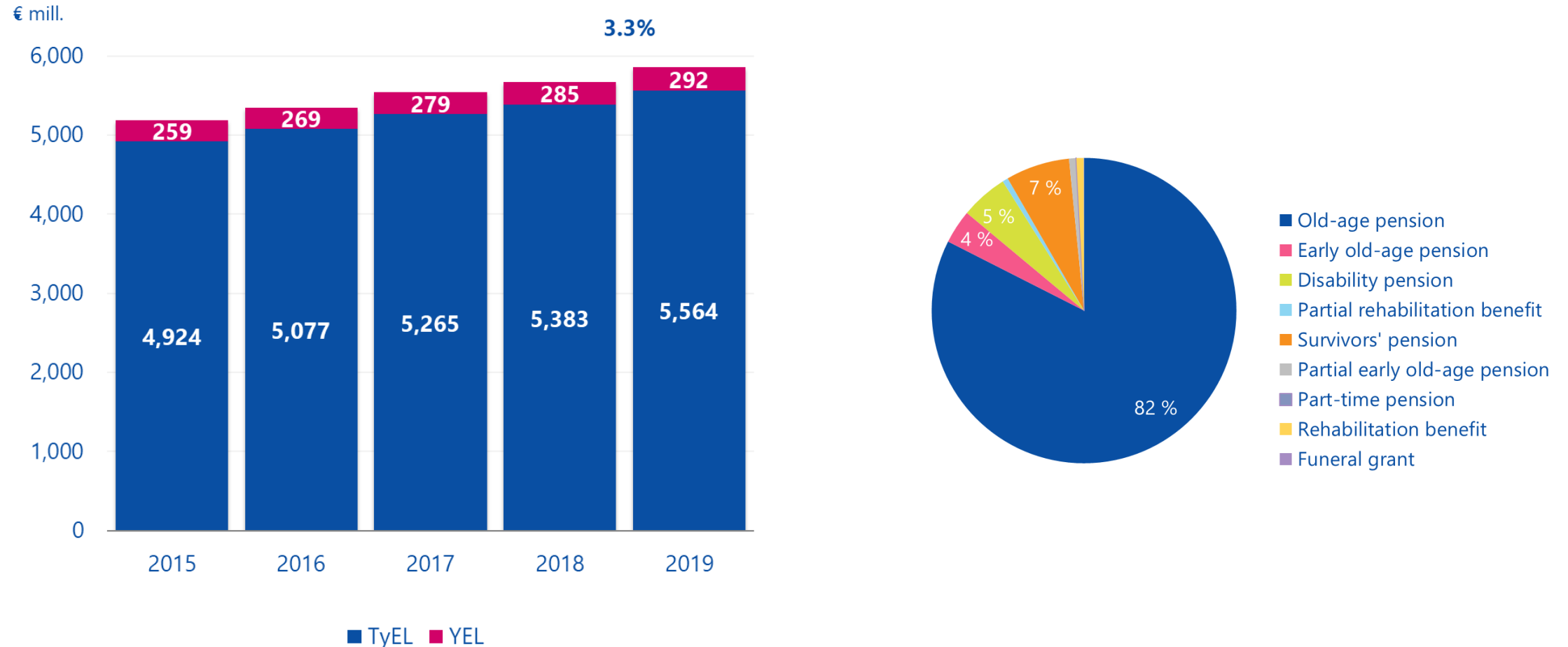
Premiums written increased



- Premiums written increased to EUR **5.3** billion, i.e. **3.3%**
- At year-end, **541,900** people were insured with Varma.

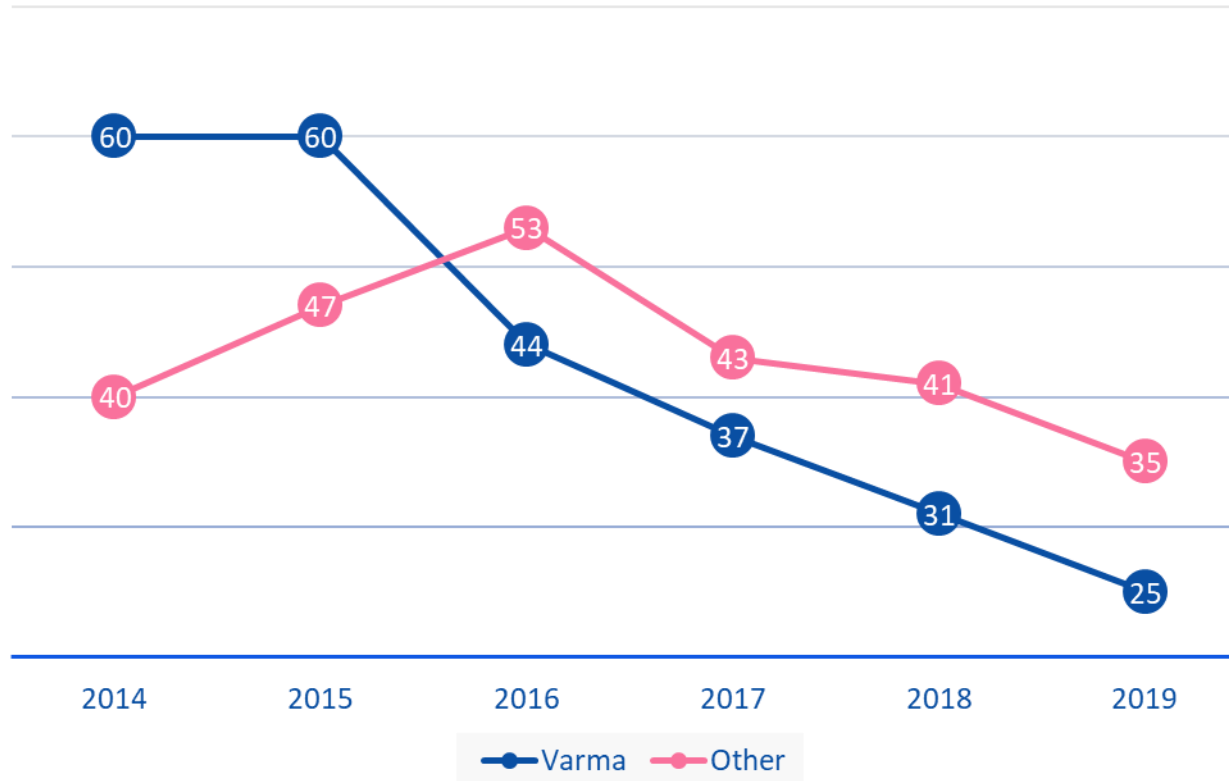
Pensions paid by pension benefit

We paid out pensions in the amount of EUR 5.9 billion to 343,700 people.

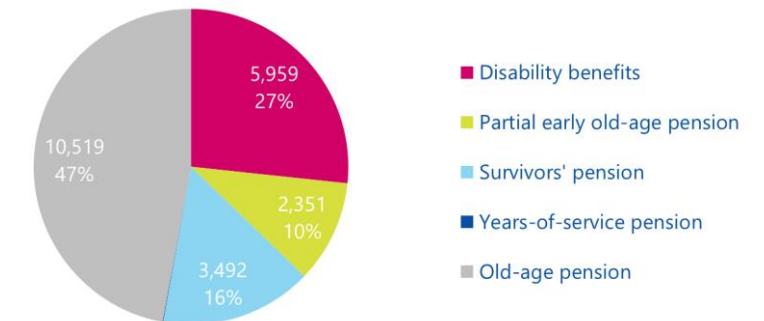


Pension applications handling accelerated

Varma processes pension applications 10 days faster than the sector average.



A total of 22,340 new pension decisions were made



Disability and rehabilitation applications

+7.1%

Disability pension applications

The total number of disability pension applications was 12,983. The number was on the rise, but not as strongly as in 2018.

-0.4%

Rehabilitation applications

The number of rehabilitation applications, at 2,450, was nearly the same as in the previous year.

77%

People returning to work

More than three quarters of those who received a positive rehabilitation decision returned to working life. The most common form of rehabilitation is a work trial carried out at one's own workplace.

A woman with long brown hair, wearing a white jacket with a bright green lining, is looking upwards in a forest. She is holding a clipboard in her left hand. The background is filled with green trees and foliage, creating a soft, natural setting. The text 'Current topics at Varma' is overlaid in white on the left side of the image.

Current topics at Varma



Strong sales of TyEL insurance

- Varma was successful in both new TyEL insurance sales and account transfers.
- EUR 74 million in TyEL premiums written were transferred to Varma from other pension companies.
- We had record-strong TyEL insurance sales, at EUR 144 (65) million.

Research programme on disability risks

- Varma reformed its disability risk management services.
- Varma opened a new digital learning environment, Varma Academy, for its customers.
- A research programme on disability risk management was initiated.

Disability Risk Management unit established

- Varma's work ability management services, service development, research, and rehabilitation and disability pension services make up the new Disability Risk Management function as of the beginning of 2020. The function is headed by **Pauli Forma**.

A man in a blue jacket and dark pants is sitting on a grey stone ledge, looking off to the side. The background shows a modern building with large windows and a grey stone wall. The overall tone is professional and modern.

Sustainability



Working for future generations

Our sustainable operations and strong solvency secure present and future pensions.

Mitigating climate change

Promoting workability and a good working life

Ethical business and open communication

Responsibility for Varma employees

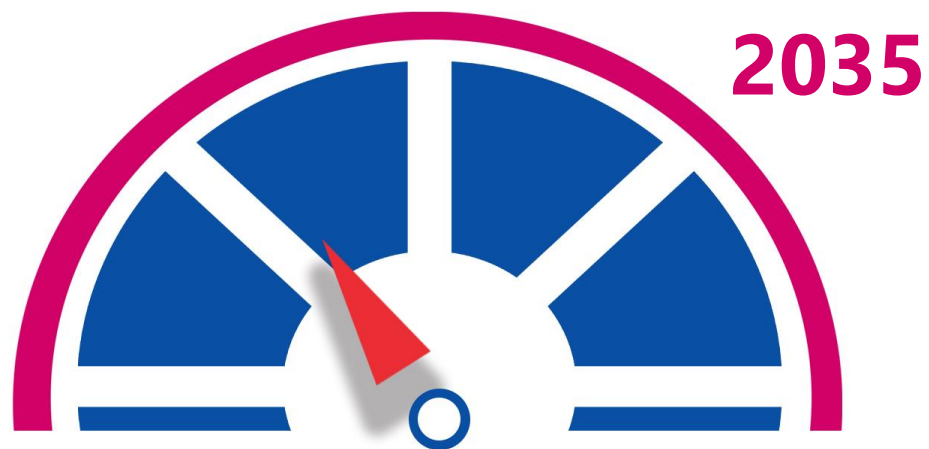
VARMA

Compared to 2015, the carbon footprint is down 16% in equities, 20% in corporate bonds and 27% in real estate.

We developed, in collaboration with other parties, two sustainable exchange-traded funds (ETF), and invested a total of EUR 700 million in those.

We published our new climate targets, in which we commit to a carbon-neutral portfolio by 2035.

Varma's climate targets



**Carbon-neutral
investment portfolio
2035**

**Climate allocation 20% of
the portfolio by 2025**

Listed equities and corporate bonds

50% emissions reduction by 2027 (listed equities, corporate bonds)

~~Thermal coal investments~~



~~Oil exploration~~

Index funds

Low-carbon funds to account for 35% by 2025

Private equity funds

Renewables to account for 50% of electricity generation investments by 2030

Real estate investments

Fossil-free electricity by 2025

Fossil-free heating by 2030



With the exception of small-scale (5%) balancing power.



Current economic issues

Current issues

- Economic uncertainty continued, the US-China trade war has eased
- In the US, consumers are still confident in the economy, unemployment is low
- Industry's difficulties are mirrored in Europe
- Final decision on Brexit reached, but the UK's future in Europe remains open
- In Finland, economic indicators have weakened, which is reflected in investments



Attachments

Key figures

	2019	2018
Premiums written, € million	5,286	5,118
Pensions paid, € million ¹	5,856	5,668
TyEL-insured ²	504,131	523,270
YEL insurance policies	37,800	36,700
Pensioners	343,700	343,400
Investments, € million	48,709	44,015
Return on investment, € million	5,241	-902
Return on investment, %	12.0	-2.0
Total result, € million	2,197	-1,741
Loading profit, € million	53	56
Operating expenses as % of loading component	62	60
Technical provisions, € million	38,608	36,521
Solvency capital, € million	11,646	9,619
Solvency ratio % ³	130.8	127.5
Solvency capital/solvency limit	1.8	1.6
Average number of personnel, Parent Company	537	532

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

² The method for calculating the number of insured changed in 2019, and the figures are not comparable. This is due to a change in the reporting method of income information.

³ Pension assets in relation to the technical provisions under §11 section 10 of the Ministry of Social Affairs and Health's decree governing pension institutions (614/2008).