



Varma's interim result 1 January–30 September 2020

Key figures



Market value of investments

€46.8 billion



Solvency capital

€9.7 billion



Return on investments

-2.6%



Development of investment returns and solvency

	1-9/2020	1-6/2020	1-3/2020	12 months	1-9/2019
Investment return (MWR)	-2.6%	-5.7%	-10.0%	0.2%	8.8%

	9/2020	6/2020	3/2020	12/2019	9/2019
Solvency capital (€ mill.)	9,719	8,818	7,870	11,646	11,274
Solvency capital / solvency limit	1.7	1.7	1.6	1.8	1.7
Solvency ratio (%)	125.7	123.5	121.6	130.8	130.6
Investments at fair value (€ mill.)	46,791	45,279	43,597	48,709	47,361

Impacts of the coronavirus pandemic on Varma and Varma's customers



The coronavirus crisis has not had an impact on the termination of companies' operations in particular

Based on the number of terminated TyEL and YEL policies at Varma, the pandemic has not had a significant impact on the termination of companies' operations. 50% fewer TyEL policies and 15% fewer YEL policies were terminated in January–September than in the corresponding period last year.



Most companies that took advantage of the flexible payment terms have paid their contributions

Our customers had the option of deferring their TyEL and YEL insurance contributions falling due in March–June by 1-3 months due to the coronavirus pandemic. Of the YEL and TyEL insurance contributions that were deferred, 93% and 79% respectively had been paid by the end of September.



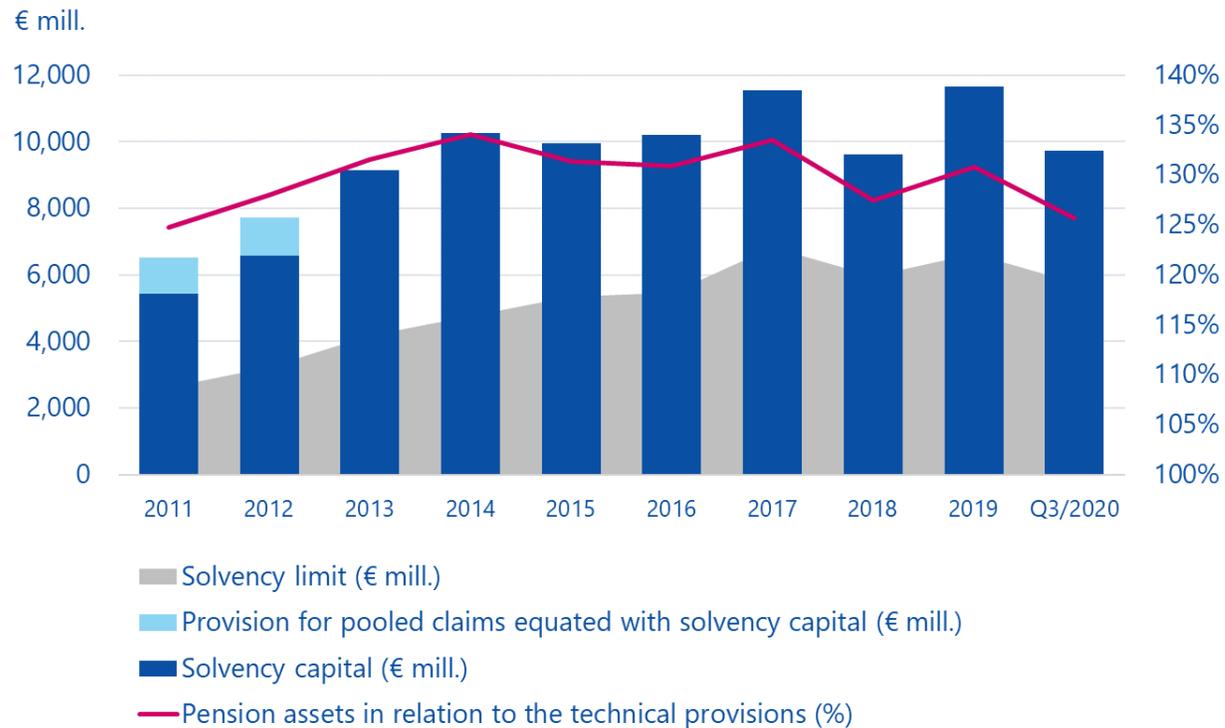
Coronavirus affects business rents and property valuations

The coronavirus epidemic has had a negative impact on rents for business premises and hotels and the valuations of business premises. Varma gave its cafe and restaurant tenants a two-month relief period in their rental payments for May and June due to the coronavirus. For other tenants, rent payment arrangements were negotiated on a case-by-case basis.



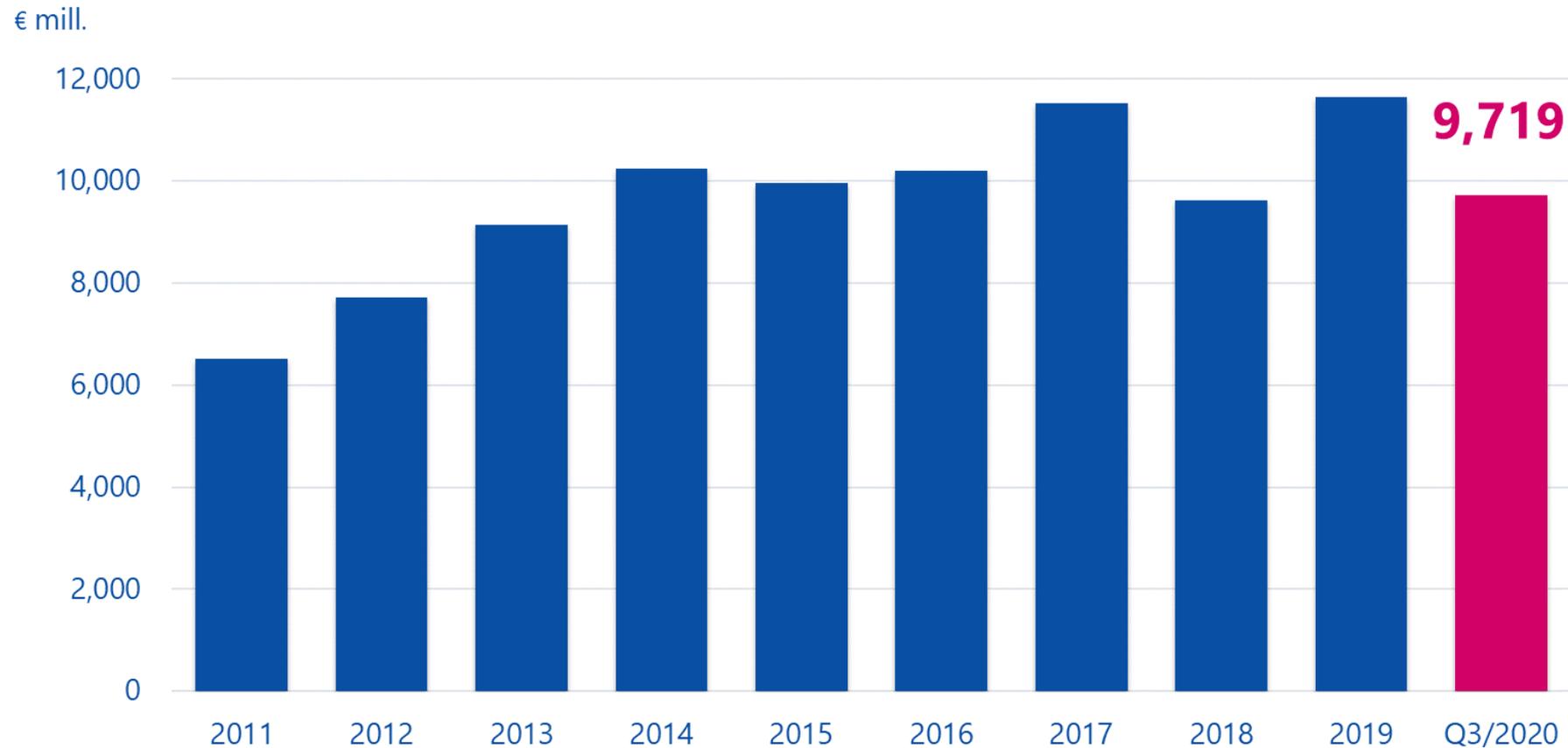
Solvency strengthened since the start of the year

Solvency strengthened further in the third quarter



- Varma’s solvency capital strengthened by EUR 0.9 billion to EUR 9.7 billion after the end of June.
- Solvency capital was 1.7 times the solvency limit.
- Varma’s solvency capital, which serves as a risk buffer for investment operations, is still at a strong level and provides protection against volatility in investment market returns.
- The solvency ratio was 125.7%.

Solvency capital €9.7 billion





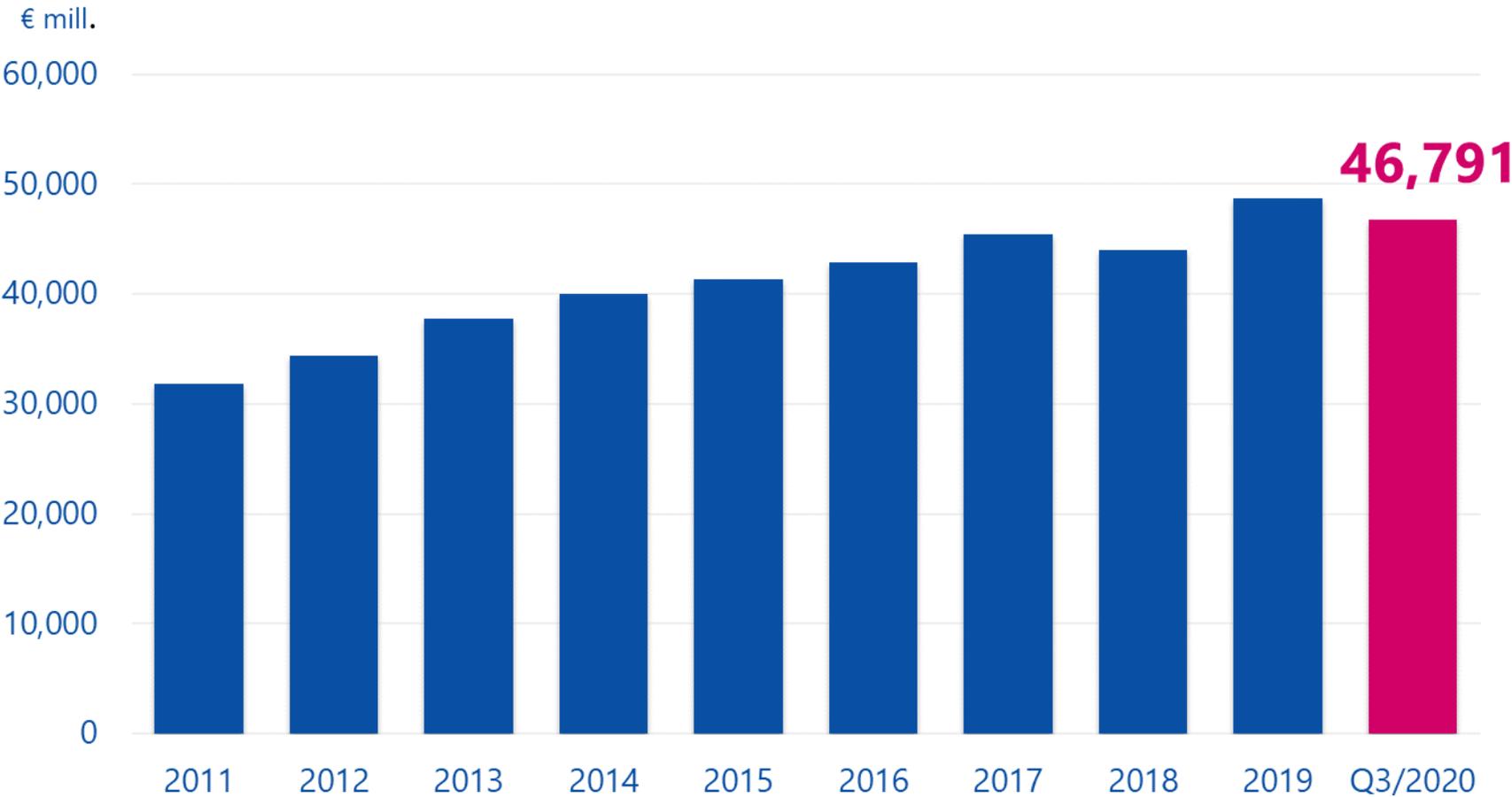
Investment returns continued to recover after the plummet early in the year

Outlook for the economy and the investment markets

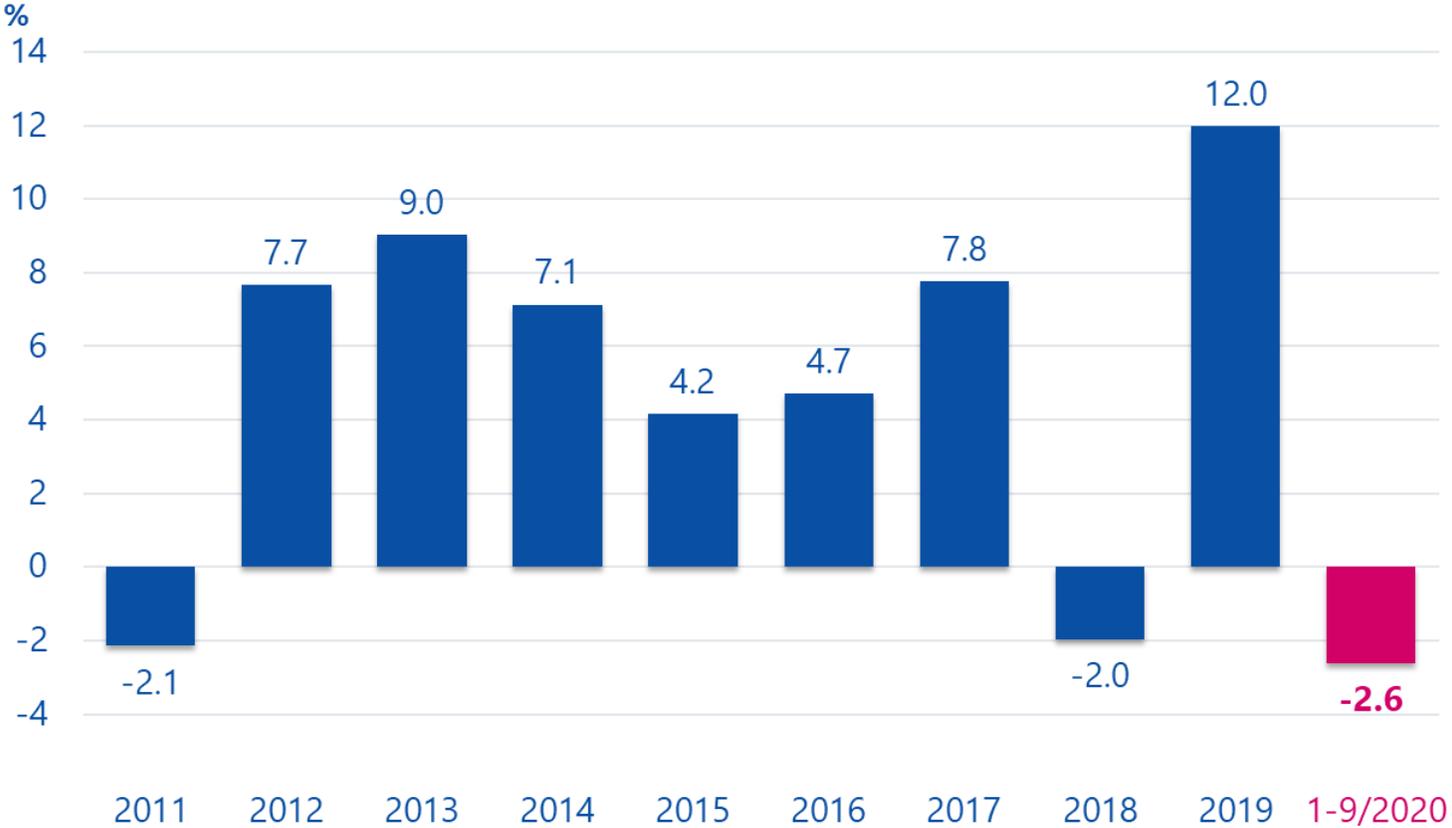
- In the third quarter, Varma's investment returns continued to recover from the drop in share prices earlier in the year, but returns were nevertheless negative.
- Right now, the most critical issues for the pension system are Finland's economic growth and the development of employment, not realised investment returns.
- The U.S. equity market and the Nasdaq Helsinki both did well, and the returns on the corporate bond market increased on the heels of the equity market.
- Companies' earnings power for the rest of the year will be affected by the extent to which measures to contain the spread of the coronavirus will affect economic activity and, above all, consumer demand.
- Even with the central banks' and governments' stimulus, the investment market is not completely immune to the spread of the coronavirus.



Market value of investments €46.8 billion



Investment returns 2011–Q3/2020

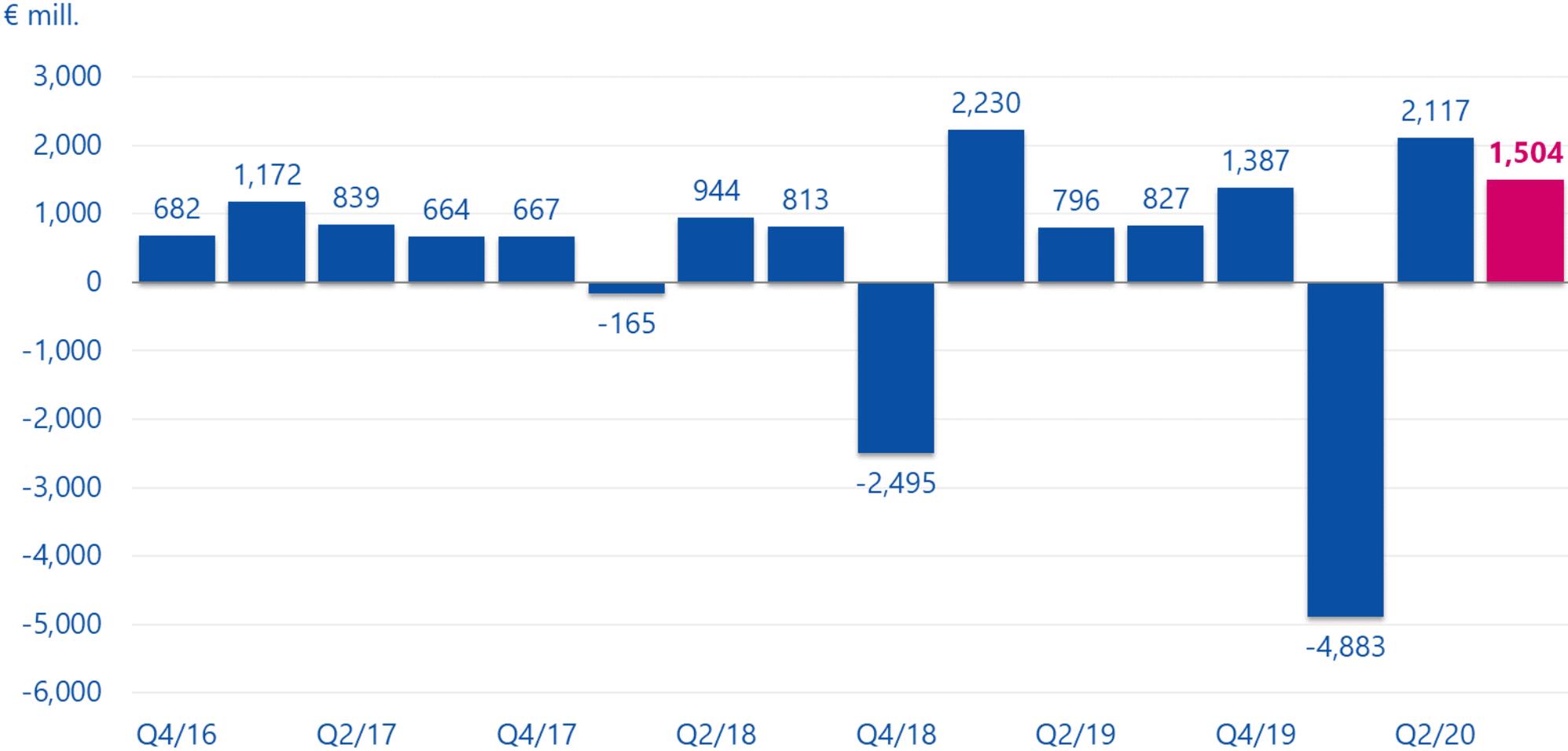


- Varma’s investment returns continued to recover in the third quarter, but were nevertheless negative.
- Since the collapse of share prices earlier in the year, Varma’s investment returns increased by EUR 1.5 billion, i.e. 3.3%, compared to the second quarter of the year
- The return on investments was -2.6% (8.8%) at the end of September, whereas at the end of June, the return on investments was -5.7%.

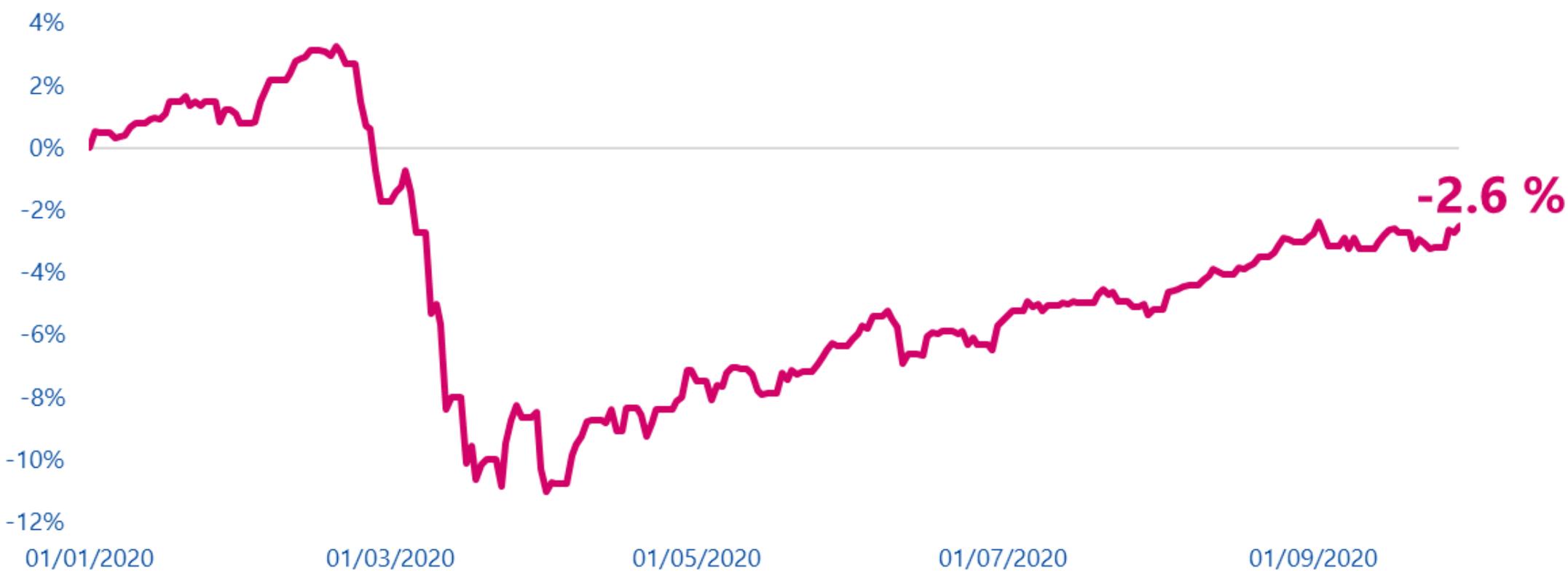
The average nominal return on investments over ten years is approx. 4.9%, calculated in accordance with the recommendations issued by TELA. In 1-9/2019 return on investment was 8.8 %.



Return on investments at fair values per quarter



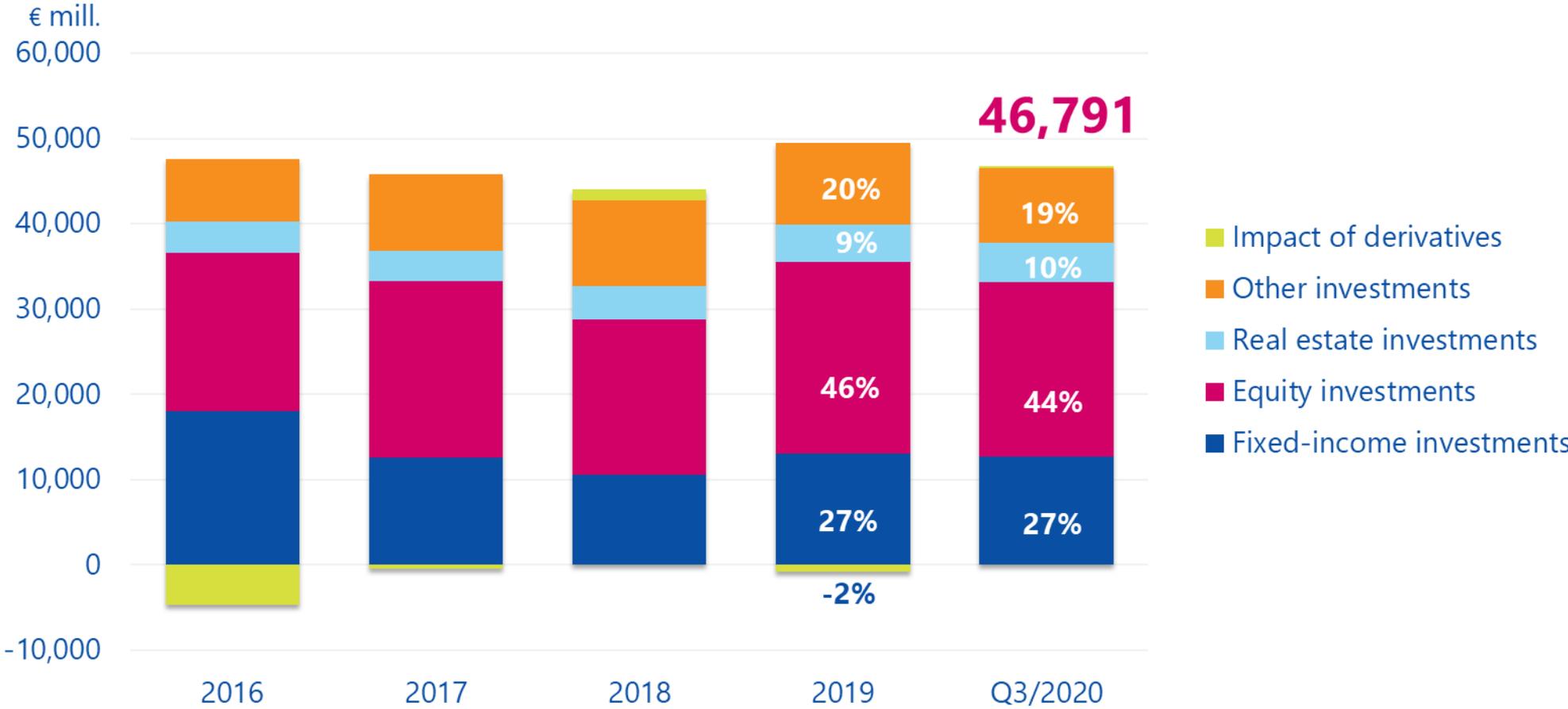
Varma's investment year 2020



Return development since 2010: cumulative return 72.3%, i.e. €21.0 billion



Investment allocation



Investments classified according to risk

	30 Sep 2020				31 Dec 2019				1-9/2020	1-9/2019	1-12/2019	24 m
	Market value				Market value				Return	Return	Return	Vola- tility
	Market Value		Risk position		Market Value		Risk position		MWR	MWR	MWR	
	€ mill.	%	%	%	%							
Fixed-income investments ¹	12,881	28	12,704	27	12,957	27	13,052	27	0.0	4.2	4.5	
Loan receivables	2,690	6	2,690	6	2,315	5	2,315	5	0.7	2.9	4.0	
Bonds	7,882	17	7,906	17	9,563	20	10,693	22	0.0	4.8	5.1	6.2
Public bonds	3,126	7	2,928	6	3,577	7	4,707	10	3.4	3.2	2.6	
Other bonds	4,757	10	4,977	11	5,986	12	5,986	12	-2.0	5.8	6.6	
Other money-market instruments and deposits	2,308	5	2,108	5	1,079	2	44	0	-0.6	0.8	0.4	
Equity investments	20,496	44	20,438	44	22,486	46	22,457	46	-3.2	16.3	22.8	
Listed equities	14,735	31	14,677	31	17,252	35	17,223	35	-4.3	18.0	25.4	19.7
Private equity	5,455	12	5,455	12	4,945	10	4,945	10	-0.7	11.9	15.1	
Unlisted equities	306	1	306	1	289	1	289	1	7.7	1.7	16.9	
Real estate investments	4,648	10	4,648	10	4,413	9	4,413	9	1.2	2.6	4.1	
Direct real estates	2,821	6	2,821	6	2,792	6	2,792	6	1.9	2.8	3.9	
Real estate funds	1,827	4	1,827	4	1,622	3	1,622	3	0.3	2.0	4.7	
Other investments	8,767	19	8,767	19	8,853	18	9,548	20	-6.4	3.3	4.5	
Hedge funds	8,769	19	8,769	19	8,857	18	8,857	18	-5.4	3.6	5.0	9.9
Commodities	0	0	0	0	0	0	0	0				
Other investments	-2	0	-2	0	-5	0	691	1				
Total investments	46,791	100	46,556	99	48,709	100	49,471	102	-2.6	8.8	12.0	8.8
Impact of derivatives			234	1			-762	-2				
Investment allocation at fair value	46,791	100	46,791	100	48,709	100	48,709	100				

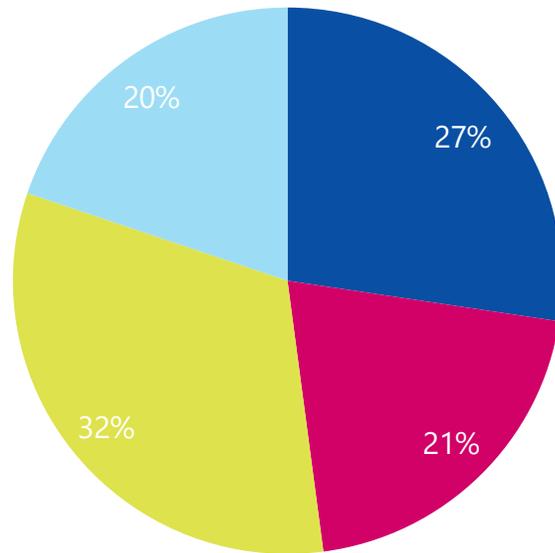
The modified duration for all the bonds is 3.7.

The open currency position is 24.7% of the market value of the investments.

¹ Includes accrued interest

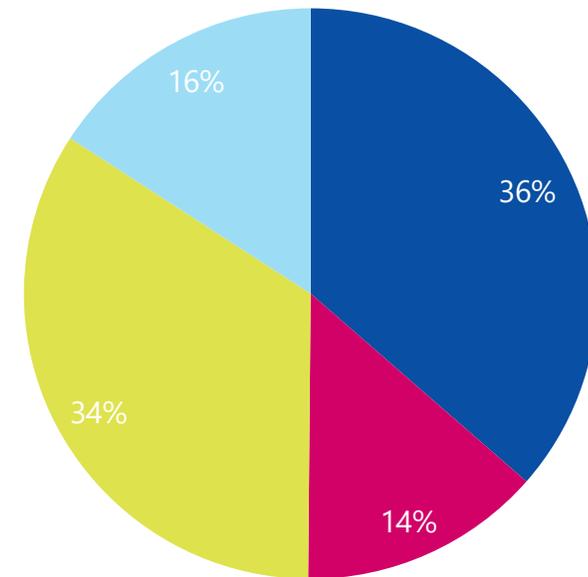
Geographical distribution of investments

Investments



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

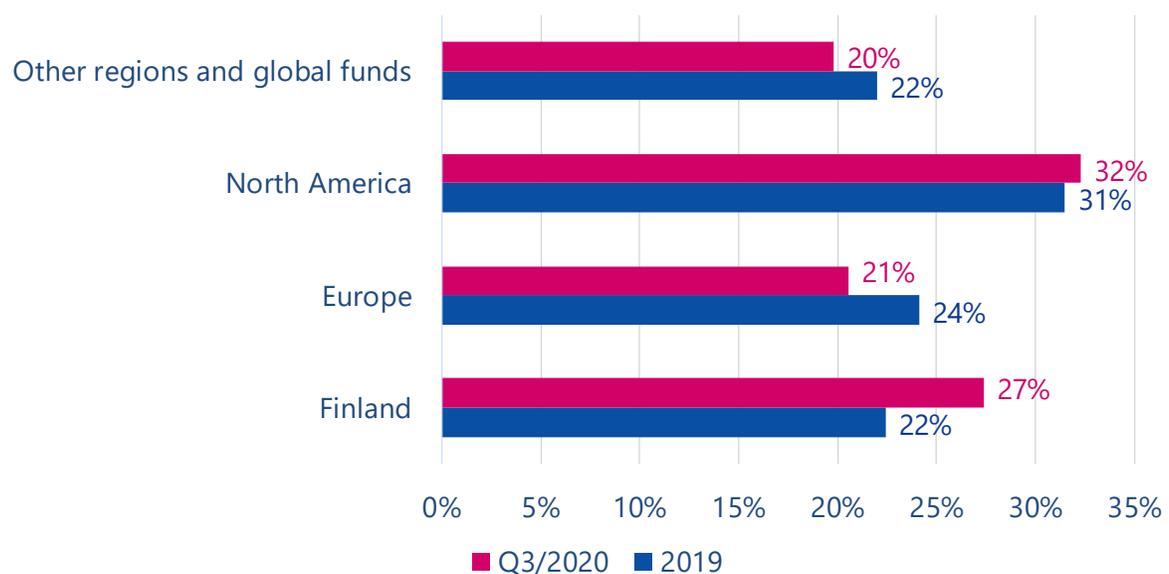
Listed equities



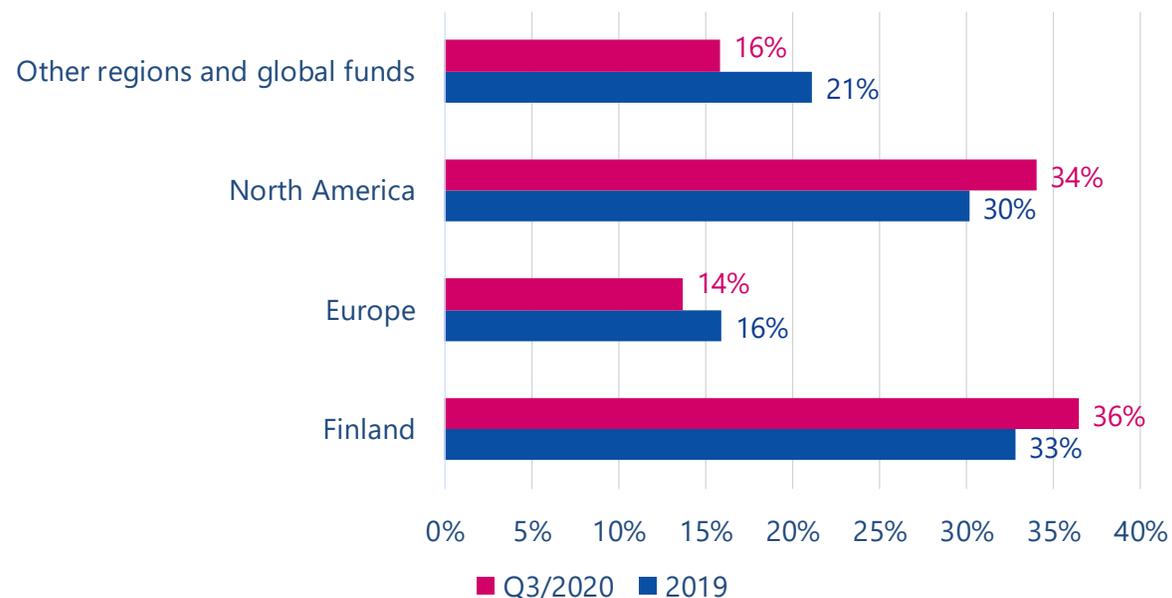
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Changes in the geographical distribution of investments

Investments

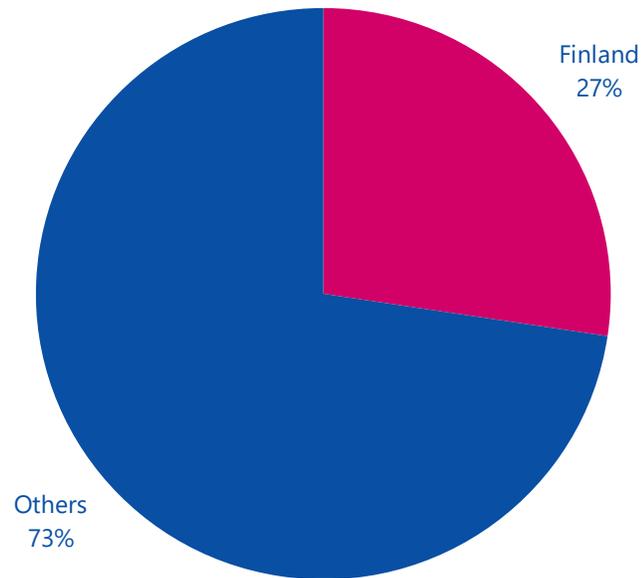


Listed equities

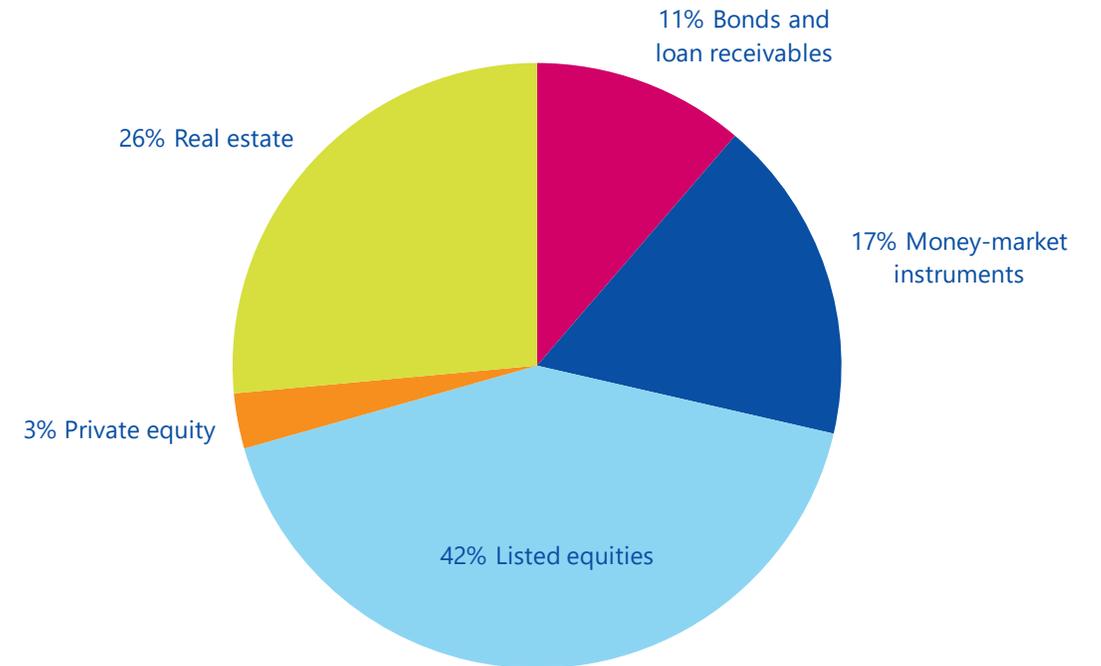


Investments in Finland 27%, €12.7 billion

Investments in Finland



Distribution of Finnish investments



Investment returns for Varma and the markets

%	Varma	Finnish equities	European equities	US equities	Euro government bonds	Euro corporate bonds
9/2020	-2.6	5.6	-11.6	5.6	3.8	0.7
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
Average nominal return						
5 years	4.4	11.7	3.5	14.1	3.0	2.8
10 years	4.9	9.3	6.3	13.7	4.2	3.5
Since 1999 *	5.2	8.5	3.9	6.8	4.5	4.1
Average real return						
5 years	3.7	10.9	2.8	13.4	2.3	2.1
10 years	3.6	8.1	5.0	12.4	2.9	2.3
Since 1999 *	3.7	7.0	2.4	5.2	3.0	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

Key figures

	1-9/2020	1-9/2019	1-12/2019
Premiums written, € million	3,733	4,019	5,286
Net investment income at fair value, € million	-1,262	3,853	5,241
Return on invested capital, %	-2.6	8.8	12.0
	9/2020	9/2019	12/2019
Technical provisions, € million	38,620	37,907	38,608
Solvency capital, € million	9,719	11,274	11,646
in relation to solvency limit	1.7	1.7	1.8
Pension assets, € million	47,530	47,491	49,445
% of technical provisions	125.7	130.6	130.8
TyEL payroll, € million	20,982	21,464	21,084
YEL payroll, € million	807	812	812



Insurance and pensions



Insured employees and
entrepreneurs

553,000

Pensioners

343,000

Pensions paid

€4.5 billion

The situation for companies improved after June, but winter will be challenging

- In July–September, entrepreneurs made fewer changes to their confirmed income under YEL insurance than they did in the spring.
- The TyEL insurance payroll increased to the level of the third quarter of last year following the drop in the spring.
- The crisis has dragged on particularly for the travel and restaurant sectors, and winter will be challenging. The coronavirus poses a serious risk to the domestic service sector.
- A temporary law has been enacted to prevent creditors from petitioning for bankruptcy against a debtor for receivables arising during the coronavirus period. Unfortunately, once the temporary regulations are lifted, a sweep of bankruptcies, particularly in TyEL-insured companies, are in sight starting next winter.
- Varma gained a total of EUR 136 (104) million in new premiums written by the end of September.



Latest developments in disability risk management services



Coronavirus results in digital leap in rehabilitation

A survey of Varma's rehabilitation partners indicates that the coronavirus spring affected vocational rehabilitation less than was feared. Although there were some sector-specific challenges in finding work trial places, the training has gone well. At the same time, rehabilitation took a digital leap, with remote rehabilitation becoming increasingly common.



Renewed disability risk management services for corporate customers

Varma's tools and measures for managing the disability risk were brought under a harmonised service range. In the service range, work-ability management and rehabilitation and disability pension services have been combined under a single umbrella made up of four parts: understanding, knowledge, awareness and support.



Individual placement and support pilot programme for mental health rehabilitation

Varma is the first earnings-related pension company in Finland to pilot the Individual Placement and Support (IPS) model stemming from the U.S. The IPS model is being piloted as part of the employment and rehabilitation activities for mental health rehabilitants who are Varma's vocational rehabilitation customers.

Current issues in pension matters

- Pension decisions were issued normally despite the coronavirus period, and the pension application processing period was considerably faster compared to last year. For example, the average processing time for old-age pension applications was four days during the entire review period, and in September it was two days.
- The popularity of partial early old-age pension increased during the review period, with 5% more applications than last year. The number of applications spiked in August, following public debate on discontinuing the pension benefit.
- The number of applications for full disability pension decreased by 2.9%. Partial disability pension applications increased 5% compared to the previous year.
- New pension decisions made at Varma by the end of September totalled 16,031, i.e. roughly 4% less than in the corresponding period last year.





Sustainability



Working for future generations

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

Mitigating climate change

Promoting work ability and a good working life

Ethical business and open communication

Responsibility for Varma employees

Current CSR topics

- In an international assessment, the UN-supported Principles for Responsible Investment (PRI) included Varma in the PRI Leaders' Group for the second time for its responsible investment work. The PRI compares investors on a global level; this year, the criteria was climate reporting performance.
- Varma has developed its themed equity portfolio that invests in sustainable companies to align it more closely with Varma's climate-related targets and to promote the selected UN sustainable development goals. Climate change mitigation and responsible consumption are among the themes. The targeted size of the portfolio in the long term is EUR 500–1,000 million.
- Varma was voted the best summer job employer of 2020 in the large companies category of the Most Responsible Summer Job competition. The employees assessed, for instance, the application experience, introduction and guidance, the meaningfulness of the work, as well as fairness and equality.



VARMA