

Strong year, good results.

Annual Report 2014

VARMA

Contents

Outlook

President & CEO review	05
Operating environment	07
Pension reform 2017	10

Core function

Core task and strategy	13
The year in brief	16
Solvency	21
Personnel	23

Operational results

Lower earnings-related pension contributions for customers	25
Workability and better working life	28
Secured income during retirement	30

Investments

Investment year	32
Investments classified according to risk	34
Fixed income investments	35
Equity investments	36
Real estate investments	39
Other investments	41
Varma's investment principles	42
Diversification	43
Responsible investment	45

Corporate governance

Corporate Governance Report	47
Annual General Meeting	50
Supervisory Board	51
Members	52
Election Committee	54
Board of Directors	55

Members	56
Board of Directors' Committees	62
President and CEO	63
Executive Group	64
Medical Affairs and Consultant Physicians	68
Consultative Committees	69
Consultative Committee for Pension Affairs	70
Consultative Committee of Pensioners	71
Consultative Committee of the Insured	72
Consultative Committee of Employers	73
Consultative Committee of Self-Employed Persons	74
Salary and remuneration statement	75
Decision-making procedure and remuneration principles	76
Remuneration of Supervisory Board	79
Remuneration of the Board of Directors' members	80
Remuneration scheme for the President and CEO and members of the Executive Group	81

Financial statements

Report of the Board of Directors 2014	82
Economic operating environment	83
Earnings-related pension system	85
Varma's financial trends	87
Technical provisions	90
Investments	91
Operating expenses	94
Personnel	95
Group companies and associates	96
Corporate governance	97
Capital and reserves	98
Risk management	99
Outlook	100
Income statement	101
Balance sheet	102
Statement of source and application of funds	104
Notes to the financial statements	105
Accounting principles	105
Group companies 31 Dec. 2014	110
Notes to the income statement	115
1. Premiums written	115
2. Claims paid	116
3. Breakdown of net investment return	117
4. Operating expenses in the income statement	118

5. Overall operating expenses by function	119
6. Personnel expenses	120
7. Management salaries and remunerations	121
8. Auditors' fees	122
9. Income taxes	123
Notes to the balance sheet	124
10. Investments at fair value and valuation differences, Parent Company	124
11. Investments at fair value and valuation differences, Group	125
12. Investments in Group companies and associates, Parent Company	126
13. Investments in Group companies and associates, Group	127
14. Changes in investments in real estate	128
15. Real estate investments in own use	129
16. Parent Company's other investments, shares and participations	130
17. Changes in tangible and intangible assets, Parent Company	146
18. Loan receivables itemised by guarantee	147
19. Total pension loan receivables itemised by balance sheet item	148
20. Loans to related parties	149
21. Derivatives	150
22. Liabilities to Group companies	151
23. Technical provisions	152
24. Solvency capital, Parent Company	153
25. Liabilities, Parent Company	154
26. Capital and reserves	155
27. Capital and reserves after proposed profit distribution	156
28. Distributable profits	157
29. Guarantee capital	158
30. Guarantees and liabilities, Parent Company	159
31. Guarantees and liabilities, Parent Company	161
Varma balance sheet and income statement at fair value	162
Key figures and analyses	164
Summary	164
Performance analysis	165
Solvency	166
Investment allocation at fair value	167
Net investment income at fair value	168
Loading profit and maintenance of working capacity expenses	169
Risk management	170
Proposal of the Board of Directors	182
Auditor's report	183

Fit for the future



2014 was a successful year for Varma. Investment returns increased to 7.1 per cent, and the value of our investments grew for the first time to over EUR 40 billion and solvency capital to over EUR 10 billion.

We acquired many new customers and improved our operating expense efficiency.

We also did well in comparison with other earnings-related pension companies, as we had the strongest return on investments of all earnings-related pension companies in 2014. We also have clearly the strongest solvency in the sector.

Varma's strong position benefits its customers in two ways. Firstly, we have buffers against volatility in the investment markets. Secondly, strong solvency means higher client bonuses: we will pay record-high client bonuses for 2014, at EUR 117 million.

From Varma's perspective, the economic situation is divided. Investment returns have been at a good level following the financial crisis, yet the real economy is proving to be more and more challenging. For Varma it is important that employment and earnings in the private sector develop positively. We need stronger growth and job creation in Finland.

The situation is also twofold in terms of investments. Profitability and the outlook in the business sector is at the very least satisfactory, but at the same time, returns on fixed income investments have dropped to a dramatically low level. The return on government bonds is historically low, at near zero – and in some cases even negative. Fortunately Varma has a broadly diversified portfolio, and Finnish legislation does not require us to invest solely in government bonds.

The zero-rate environment is highly exceptional. In this respect, the future outlook raises some concern if the interest rate level is any indication of the level of future growth. The combination of record-low interest rates and sluggish growth is bound to have a negative impact on investment returns sooner or later.

The substantial tension and uncertainty relating to the economic situation and investment environment is undeniable. They are the result of the geopolitical situation, monetary policy and economic outlook. Fortunately Varma's capacity to carry investment risks is exceptionally strong, thanks to the company's strong solvency.

In future, we will focus on securing our strong solvency and we will continue to actively collaborate with our clients and customers. Our aim is also to continuously improve the quality of our pension services. Submitting a pension application is a unique situation for most people, and we want to be a good partner during this process.

All in all, Varma had a very successful year, and all Varma employees are to thank for this. Our clients also deserve our gratitude for the trust and loyalty they have shown in Varma.

A handwritten signature in black ink, appearing to read 'Risto Murto', with a stylized, cursive script.

Risto Murto
President and CEO

Uncertainty plagues the economic operating environment

Record-strong solvency will be Varma's trump card in the volatile capital markets also in 2015. The 2017 pension reform, which will lengthen careers and strengthen statutory pension provision in the coming decades, will also help to close the sustainability gap in the Finnish economy.

Finland is in an economic slump, and the economic growth in 2014 is expected to have remained at the previous year's level. In 2015, the economy is expected to pick up slightly. The fall in the price of oil promotes growth in Finland's important export markets. If successful, the ECB's bold monetary policy measures will promote economic recovery and price stability in the eurozone, but their final impact on the economy remains partly uncertain. The downward spiral of Russia's economy casts a shadow on Finland's outlook.

Industrial output has been decreasing nearly nonstop for the past three years. Declining industrial investments combined with the weakening supply of workforce and modest productivity development undermine the economy's growth potential also in the longer term. Nearly all sectors of business and industry are affected by the problems. The unemployment rate increased, and the employment situation is expected to worsen at least during the early months of 2015.

Improving the price competitiveness of Finland's exports requires that wages increases remain modest. The possibilities to promote domestic demand and increase purchasing power by relaxing taxation are limited. Finland is struggling with growing debt, a sizable sustainability gap, and dwindling growth. The balancing act between these will continue for years to come.

Monetary policy in focus

We can expect to see volatility in the capital markets also during the economic year 2015. The rise in share prices has continued for a long time, bolstered by monetary policy. The equity markets and the real economy seem to have partly diverged in Finland and elsewhere in Europe. During the year, interest rates continued to fall from the already low level of the early year, which boosted interest income.

Varma's priority has been on fostering strong solvency, active diversification of investment assets and a careful approach to risk management. Competent risk management ensures the profitable and secure investment of pension assets, especially at times when uncertainty causes volatility in the markets.

Towards the end of 2014 the markets grew increasingly restless. The central banks' measures are at different phases of the cycle. In the beginning of 2015, the European Central Bank launched new monetary policy measures aimed at supporting the eurozone economy and speeding up inflation, while the U.S. central bank, the Fed, is normalising its monetary policy as the economy recovers. The central banks' success in monetary policy will be critical in order to ensure economic growth and the stable development of the capital markets.

Challenging operating environment



The economic situation remains uncertain, and the investment markets are prone to sudden changes.

The growth outlook for the total payroll is bleak.

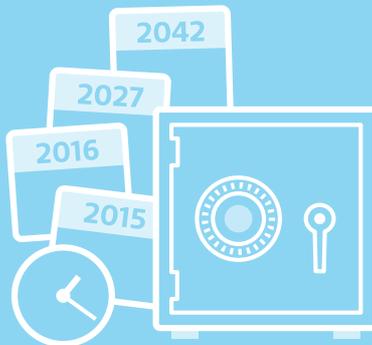
The structures of the Finnish economy are undergoing a transformation. The competitiveness of Finnish labour has weakened.

Working life is rapidly changing, and economic changes are apparent in the day-to-day operations of Varma's client companies.

The 2017 pension reform targets longer careers than at present.

The pension reform will bring about changes to pension benefits and pension financing.

Varma does good work to secure pensions



We safeguard our solvency and ensure that pension liabilities are covered at all times.

Our goal is to have the strongest solvency in the sector and to secure the highest possible return on pension assets in the long term.

Varma takes care of its core tasks of securing pensions efficiently and competitively. We handle pensions correctly and on time.

Our goal is to be the most efficient pension insurance company.

Vocational rehabilitation gives people the opportunity to continue in working life when their workability is threatened.

Our vocational rehabilitation and workability management services promote good workability.

The pension reform will affect all insured employees and policyholder clients.

The expertise of Varma's employees plays a key role in implementing the pension reform.

Earnings-related pension concerns all of us



The Finnish defined benefit pension scheme remains strong and its financing sustainable.

The return on funded assets becomes increasingly important when growth in the payroll is slow.

Pension matters are handled at Varma conveniently.

Varma's strong solvency and good operating expense efficiency lower our clients' insurance contributions.

Employees enjoy their work and are able to cope longer in working life.

Longer careers accrue better pensions.

Income is secured also during retirement.

Future generations will also have strong trust in their earnings-related pension cover.

The U.S. remains the centre of the global economy

In 2014, the global economy was driven by the U.S., where growth forecasts are stable and the labour markets are strengthening. The fall in the price of oil is promoting growth in the U.S, and the problems in the Russian economy are not reflected in the country's economy in the same way as in Europe.

The eurozone has still not recovered. Growth is not taking off, inflationary pressure is low and unemployment rates remain high in several member states. Eurozone exports remained stagnant and overall demand was weak, as the structural reforms and austerity measures called for by public finances continue to depress the domestic markets. Many crisis-stricken countries have nevertheless managed to improve their economies.

Global investment demand remains feeble, and growth in global trade volumes is slow. China and other emerging economies are developing moderately compared to the rate we have been accustomed to in recent years. The investment cycle is picking up, which is expected to increase economic activity. However, the escalating geopolitical risks are increasing economic uncertainty.

Russian economy plummeting

The price of oil fell rapidly in the last quarter of the year. This supports economic development, but at the moment it is having detrimental effects on the Russian economy and exports to Russia, which also has a negative impact on Finland and the rest of Europe.

The Russian economy, which relies on raw material exports, is also being strangled by Western sanctions.

Varma prepares for pension reform

The 2017 pension reform will better adjust Finland's pension system to the longer life expectancy. Tripartite preparation of legislation is ongoing in the Ministry of Social Affairs and Health on the basis of the pension reform agreement. The new pension acts will be passed by the parliament to be elected in April 2015.

Read more about the pension reform in the section Pension reform 2017.

The pension reform will have an impact on all of Varma's client companies and insured customers. Implementing the pension reform will be an important task for Varma in the coming years. As a strong expert in workability management and vocational rehabilitation, Varma will support its client companies and the insured in extending careers. The goal of extending careers does not always necessarily coincide at workplaces and in people's lives when the economy is suffering. However, the pension reform aims to achieve changes in the long term.

Pension reform targets longer careers

The pension reform, due to take effect in 2017, will bring about changes in both the contents and financing of pension cover. The purpose of the pension reform is to lengthen careers and to help close the sustainability gap in public finances.

More and more people will be retired for a longer period of time, while a smaller share of the population will be responsible for financing the benefits and services of a growing number of elderly people. Together with the social welfare and health care reform and the reform of local government finances, the goal of extending people's careers serves to close the sustainability gap in public finances.

The pension reform builds on the agreement reached by the central labour market organisations in September 2014. The legislation is being prepared by the Ministry of Social Affairs and Health.

Pension reform in brief

1. The age limit will gradually rise

2. Pension accrual will be harmonised

3. Pension accrues on full wages

4. New ways for retiring

5. Same pension contribution for all employees

Changes to age limits, pension accruals and pension benefits

According to the pension reform agreement, the lower age limit for old-age pension will be gradually increased to 65 as of 2017. The new pension age limits will apply to those born in 1955 or later. The upper limit for old-age pension is five years higher than the lower limit. As of 2025, the age limits for old-age pension will be linked to the increase in life expectancy, and the impact of the life expectancy coefficient will be more lenient.

The age limit for old-age pension will gradually rise

Year of birth	Retirement age
1955	63 yrs + 3 months
1956	63 yrs + 6 months
1957	63 yrs + 9 months
1958	64 yrs
1959	64 yrs + 3 months
1960	64 yrs + 6 months
1961	64 yrs + 9 months
1962	65 yrs

Alongside disability pension, a years-of-service pension at the age of 63 will be introduced. This pension can be applied for after 38 years of employment, provided that the work has been physically or mentally demanding and workability has diminished. The pension amount is lower than that of disability pension, as it does not include pension for projected pensionable service.

Part-time pension will be replaced by partial early old-age pension, the age limit for which is 61 years until the year 2025 and 62 years thereafter. The amount of pension will be either 25 or 50 per cent of the pension that has accrued by the start of retirement. The amount will also be reduced with a monthly reduction of 0.4% for every month of early retirement. Early old-age pension does not require working part-time.

The accrual of earnings-related pension will be changed so that pension accrues at a rate of 1.5 per cent of annual income, irrespective of age. Pension will start to accrue from the age of 17.

Pension contribution level set for the coming years

The pension agreement sets the level for the earnings-related pension contribution. In 2017–2019 the TyEL contribution will be 24.4 per cent of the total payroll. According to the Finnish Centre for Pensions' forecasts, the contribution level is sufficient for the long term. The labour market organisations will reassess the matter no later than during the negotiations on the pension contribution for the year 2020.

Another amendment concerning the financing of pensions applies to the equity linkage of yield requirements for technical provisions. In the future, the buffer common to all earnings-related pension institutions will carry a larger proportion of the

risk caused by fluctuations in equity returns. As of 2017 the equity linked yield requirement for technical provisions will be raised from the current 10 per cent to 20 per cent. This change will increase earnings-related pension insurance institutions' possibilities to invest in equities.

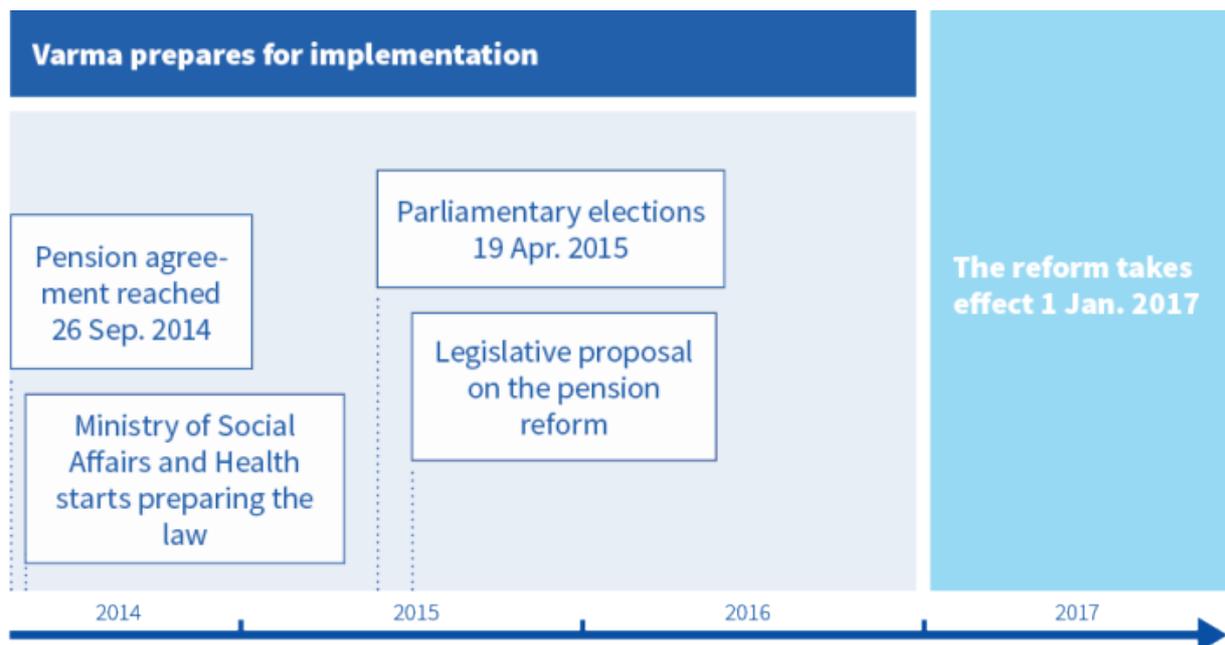
Varma is thoroughly preparing for the implementation of the pension reform

Securing pensions is Varma's core task. Implementing the pension reform will be a key task for us in the coming years, and we will prepare for this by improving our competence, customer service and IT systems.

As a strong expert in workability management and vocational rehabilitation, Varma will support its client companies and the insured in extending working careers. The goal of extending careers does not always necessarily coincide at workplaces and in people's lives when the economy is suffering. The pension reform, however, aims to achieve changes in the long term.

Varma will inform its customers about the pension reform, for example, through the website and client events to be held all over Finland. In 2014 these events were attended by 1,220 HR and pay administration representatives from our client companies. Our experts also write about the effects of the pension reforms in a blog. The pension calculator on Varma's website provides an estimate of pension cover according to the pension reform.

Progress of the pension reform



Varma secures pensions

Varma's core task is to secure pensions. This also provides the basis for our key strategic objective of maintaining good solvency under all circumstances.

Varma secures pensions



Varma's core task is to secure pensions. We take care of the statutory pension cover of entrepreneurs and private sector employees. We invest the assets collected as pension contributions profitably and securely for current and future pensions.

Approximately 66,000 companies and entrepreneurs have entrusted Varma with handling their pension coverage.

The core task is based on legislation, and it forms the foundation for our operations. Varma's strategy provides a framework for how we respond to changes in the operating environment and to our customers' expectations, and how we want to stand out from our competitors.

Strong solvency as a strategic goal

Our core task in itself requires us to invest pension assets profitably and securely. Varma's strategic goal is to maintain strong solvency under all circumstances. We succeeded well in achieving this key goal also in 2014: at the end of the year, our solvency was at a record-high level, at EUR 10,252 million. Thanks to successful investment years, Varma has been the most solvent earnings-related pension insurance company for several years.

In addition to securing pensions, solvency plays a role in client bonuses, i.e. the contribution discounts given to customers. Varma's aim is to be able to provide the best client bonuses in the sector, and this goal was achieved in 2014. Thanks to our strong solvency, our client bonuses also reached a record-high level: Varma reserved EUR 117 (105) million from 2014 for client bonuses.

Read more about solvency and client bonuses in other sections of this report.

Support for managing pension costs

Employees' good workability and well-being support the target of extending their careers. Our goal is that the employees of our client companies are able to cope better and remain in working life longer. We also aim for the lowest pension costs in the sector for our customers.

In addition to client bonuses, Varma is able to influence earnings-related pension costs through its workability management and rehabilitation services, which help companies to control their pension and sick leave costs.

Read more about the results of our operations

- Lower earnings-related pension contributions for customers
- Workability and better working life

Product: earnings-related pension

Earnings-related pension accrues from all work and self-employment. Pension is based on income earned as an employee or entrepreneur, and its purpose is to secure a reasonable standard of living after retirement.

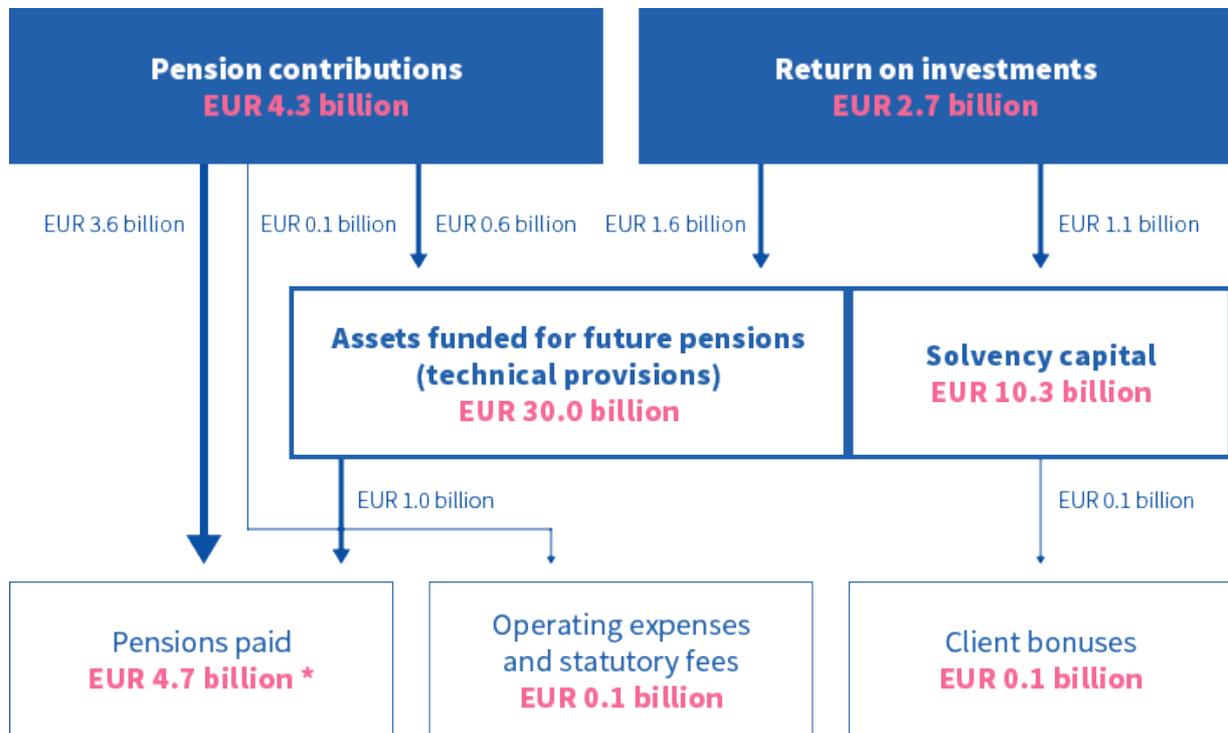
Earnings-related pensions are financed through pension contributions paid by employers and employees and through returns on investment activities. Successful investment activities can help reduce the pressure to increase pension contributions due to, for instance, the aging of the population.

The majority of the pension contributions paid by employers and employees are used to pay pensions in the year in which they are collected. A portion of the contributions is set aside in funds for future pension payments. Approximately a quarter of the pensions under payment are financed through previously collected pension assets and the returns on them. A small portion of the contributions goes towards the operating expenses of the earnings-related pension company.

Part of the investment returns on pension assets is used to strengthen pension liabilities and part is used to maintain the solvency of the earnings-related pension company. Based on the solvency and operational efficiency of the pension company, it may grant client bonuses.

The YEL contribution paid by those who are self-employed is dedicated entirely to paying pensions for the current year, i.e. the assets are not set aside in funds.

Cash flow



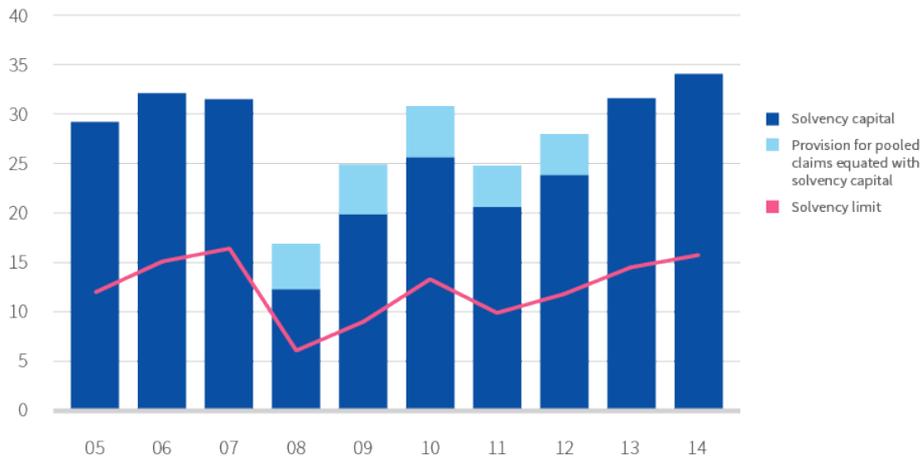
* after the reduction of received clearing of pay-as-you-go (PAYG) pensions

The year in brief

In 2014, Varma's return on investments stood at 7.1 per cent. The value of investments increased to EUR 40.0 billion and solvency capital to EUR 10.3 billion. Premiums written and operating expense efficiency also showed positive development.

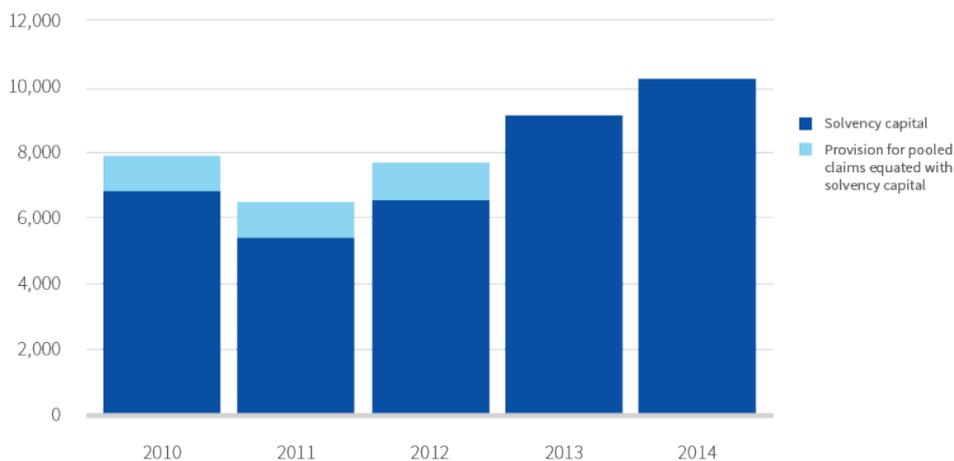
Solvency 2005–2014

% of technical provisions

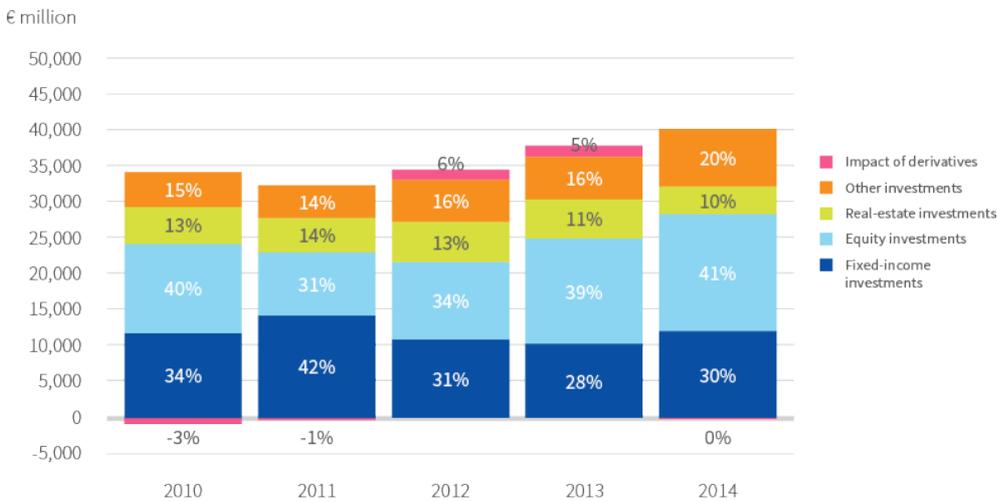


Solvency capital

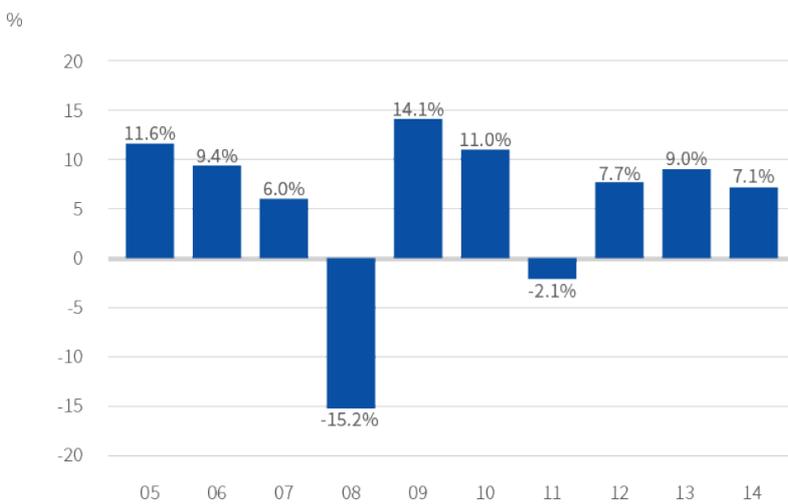
€ million



Investment portfolio



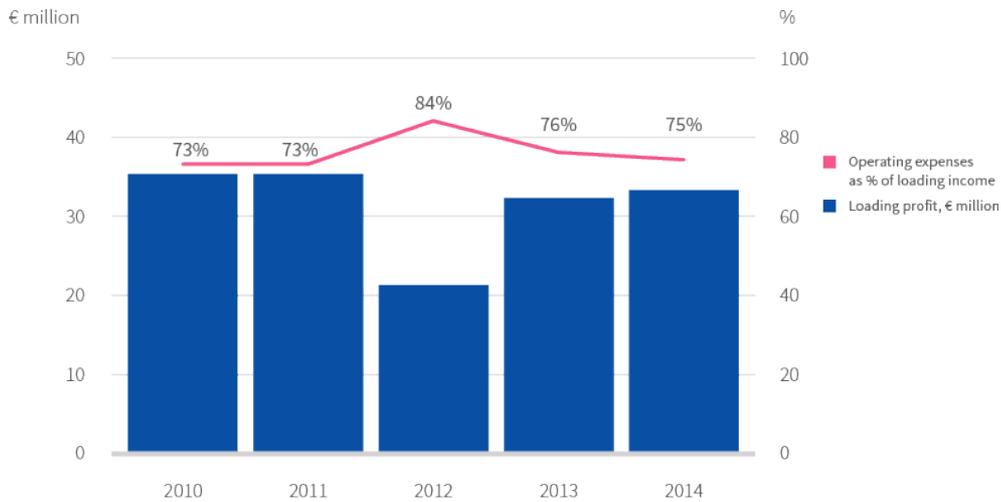
Investment returns



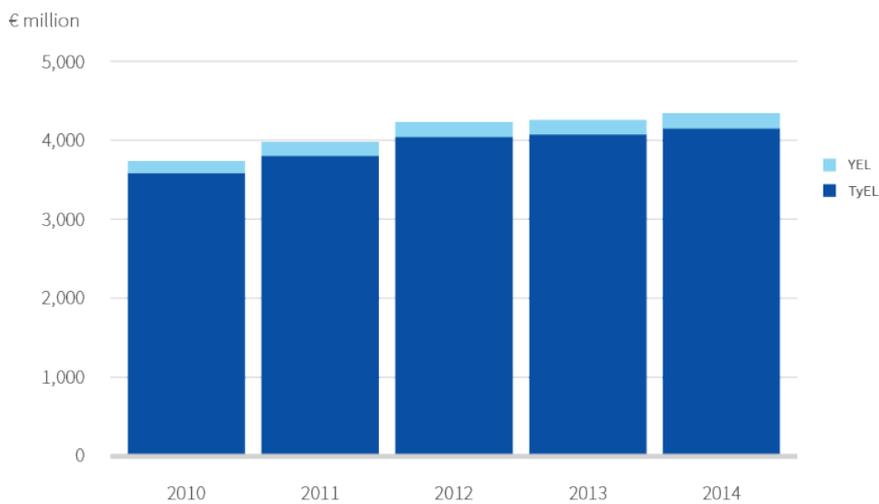
Development of Varma's investment returns in 2014



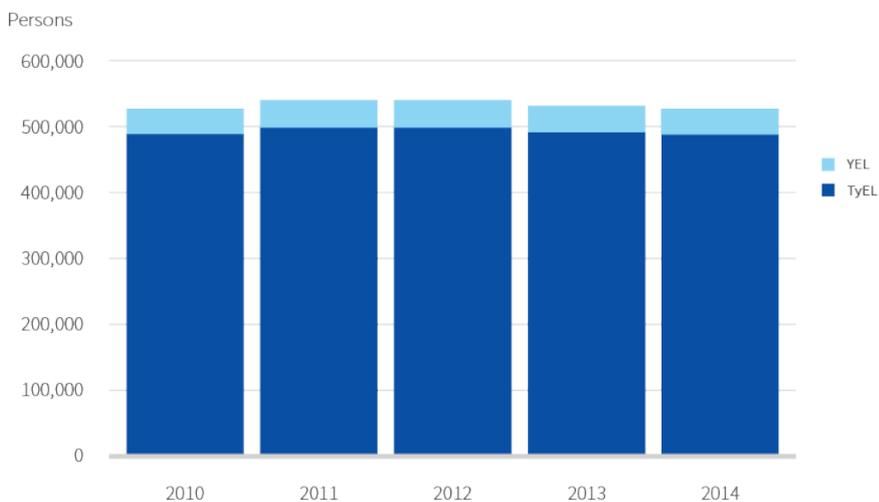
Loading profit



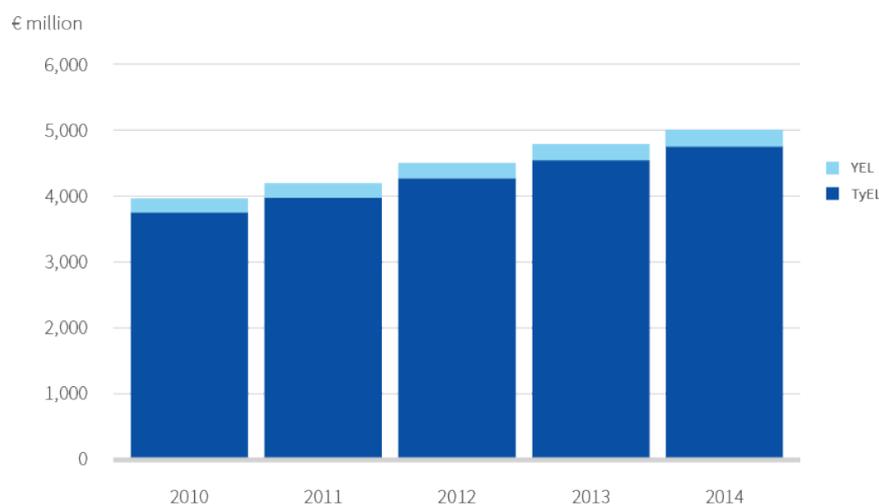
Premiums written



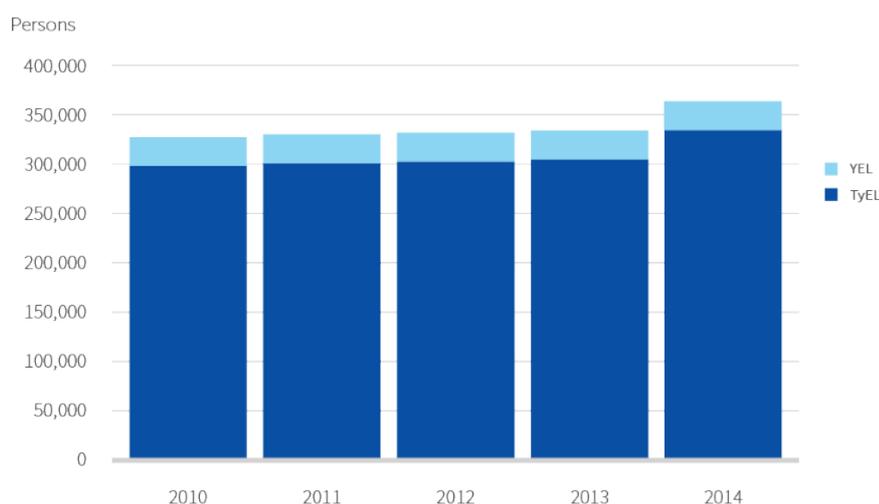
Insured persons



Pensions paid



Pensioners



Share prices strengthened, and interest rates continued to fall from the already low level of the start of the year. Varma's investment result developed strongly during the first half of the year, but uncertainty in the investment markets caused the result to fluctuate considerably during the second half. The last quarter in particular was very turbulent.

The return on Varma's investments was 7.1 (9.0) per cent, and the value of investments stood at EUR 40.0 (37.7) billion at year-end. In the broadly diversified portfolio, returns were generated consistently by the different asset classes.

Equity investments generated the highest returns, at 9.1 (21.8) per cent. Due to the decline in interest rates, the return on fixed-income investments was also good at 5.5 (1.2) per cent. Read more about market developments and asset classes in the section Investment year 2014.

Solvency and operating expense efficiency improved client bonuses

As a result of the good return development, solvency capital was EUR 10.3 (9.1) billion at the end of the year, i.e. 34.0 (31.6) per cent of the technical provisions. Our record-strong solvency and operating expense efficiency benefit our customers: EUR 117 (105) million was set aside for client bonuses, equalling 0.7 (0.6) per cent of the TyEL payroll.

We secure pensions for more than 860,000 people

At the end of the year, 527,000 (531,000) people were insured by Varma, and the company had 334,500 (333,700) pension recipients.

Premiums written increased 2 per cent to EUR 4.3 billion. EUR 5.0 (4.8) billion in pensions were paid out, i.e. nearly 5 per cent more than in the previous year.

Varma's rehabilitation activities have proven to be successful. Around 72 per cent of the rehabilitants return to working life.

Key figures 2014

	2014	2013
Premiums written, € million	4,343.6	4,258.0
Pension payments to pensioners, € million ¹	5,010.1	4,786.7
TyEL insured 31 December	488,200	491,400
YEL policies	38,940	39,810
Pensioners	334,500	333,700
Investments, € million	40,038.8	37,718.1
Investment income, € million	2,698.9	3,160.1
Return on invested capital, %	7.1	9.0
Total result, € million	1,223.0	1,558.5
Loading profit, € million	33.4	32.0
Operating expenses as % of loading profit	75.0	76.0
Transfer to client bonuses, € million	117.0	105.0
% of TyEL payroll	0.7	0.6
Technical provisions, € million	32,069.7	31,399.1
Solvency capital, € million	10,252.5	9,139.7
Solvency capital/technical provisions, % ²	34.0	31.6
Solvency capital/solvency limit	2.2	2.2
Parent company staff 31 December	561	558

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

² Ratio calculated as a percentage of the technical provisions used in calculating the solvency limit

Solvency at a record-high level

Varma's solvency reached a new record in 2014. Strong solvency helps to secure pensions and improves client bonuses.

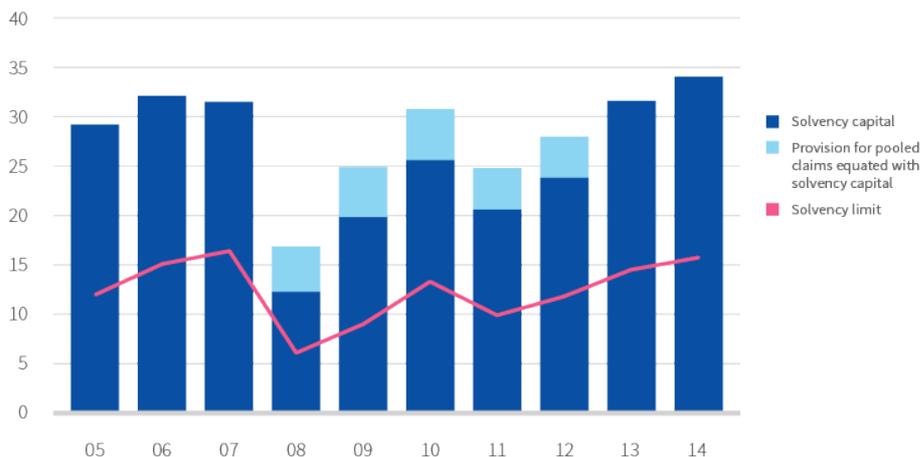
In 2014 Varma's solvency increased to a record-high level measured in both euros and relative terms. At the end of 2014, solvency capital was EUR 10,252 million (9,140), or 34.0 (31.6) per cent of the technical provisions.

Our high solvency is the result of several good investment years.

Solvency also has a major effect on the size of client bonuses. Owing to our strong solvency, we are able to transfer the highest amount ever – EUR 117 (105) million – to client bonuses for our customers from 2014. For several years now Varma has been paying very competitive client bonuses.

Solvency 2005–2014

% of technical provisions

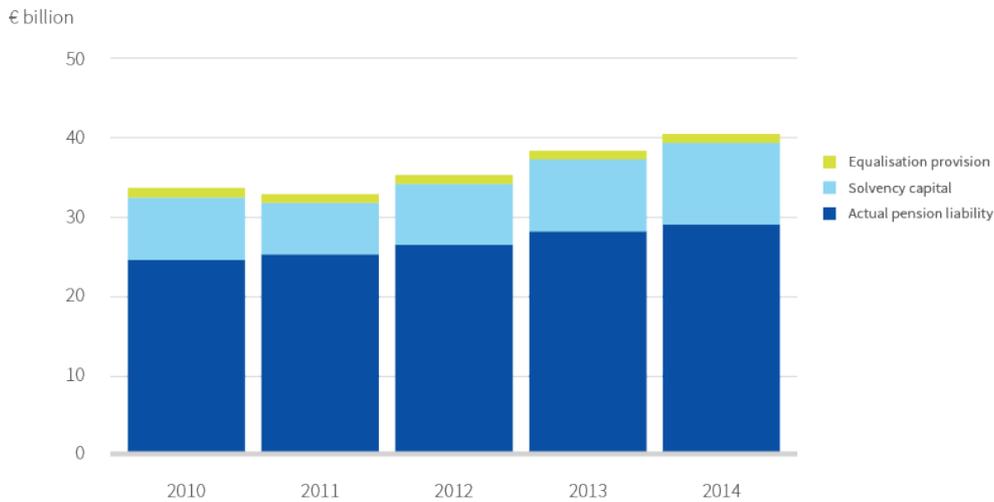


Risk taking requires strong solvency

Strong solvency is a strategic choice for Varma. Thanks to our high solvency capital, we can aim for higher returns on pension assets by making higher-risk investments with a higher return potential. The higher the risk of investments, the greater the amount of solvency capital required. In the long term, good investment returns help secure the financing of pensions.

During economically lean periods, strong solvency provides a good buffer against volatility in the capital markets. The solvency capital requirements are laid down in the law and dimensioned so that solvency capital will be sufficient also during lean economic periods. The key requirement is the solvency limit, which is based on the risk level of investments. The insurance risk is also taken into account in the calculation of the solvency limit. Varma's solvency limit at the end of 2014 was 15.8 (14.5) per cent of the technical provisions, and the solvency capital's ratio to the solvency limit was 2.2 (2.2).

Pension liability and risk buffers



Solvency regulations will be amended

Regulations concerning the calculation and diversification of pension institutions are in a process of change. In future all the relevant investment risks and insurance risks will be taken better into account in the calculation of solvency. The law is expected to enter into force at the start of 2017.

The solvency of earnings-related pension companies will also be affected by the pension reform, which will change the way in which the return requirement on pension liabilities is determined. As of 2017 the equity-linked provision for current and future bonuses will be raised from 10 to 20 per cent. These changes will increase earnings-related pension insurance institutions' possibilities to invest in equities. The share of equities of the entire investment portfolio will, however, be limited to a maximum of 60 per cent.

Customer focus is at the core of Varma employees' work

Varma's success is based on competent personnel efficiently handling our customers' pension cover.

Customer focus is at the core of Varma's expert work and operational development. We at Varma emphasise the development of professional competence, and co-operation and customer service skills.

Surveys show that our customers value especially deep expertise, high-quality coaching and training events and diverse digital services.

In the coming years one of key tasks will be the implementation of the pension reform, and we will prepare for this by improving our knowhow and customer service.

Disability pension contribution category declining

As a strong expert in workability management we also take care of the workability of our own personnel. We want to ensure that our experts are equipped to provide high-quality customer service. The success of our workability management is reflected in the development of the disability pension contribution category, among other things. Varma's contribution category has shown a positive trend for several years now: in 2014 we belonged to category 2, and in 2015 it is expected to go down to category 1.

Factors behind our successful workability management efforts are supervisors' commitment to the model for supporting workability, promoting an early return to work life, utilising partial sickness allowance and having close co-operation with the occupational health care provider.

Varma's values



Personnel

	2014	2013
Personnel 31 Dec.	561	558
Women/men	73%/27%	73%/27%
Average age	47 y 10 m	48 y 2 m
Average age of retirement on old-age pension	63 y 10 m	63 y 10 m
Average service period	16 y 7 m	15 y 5 m
Personnel turnover rate	4%	3%
Exit turnover rate	6%	7%
Sickness leave	3.6%	3.5%
Training days/employee	2.8	3.8

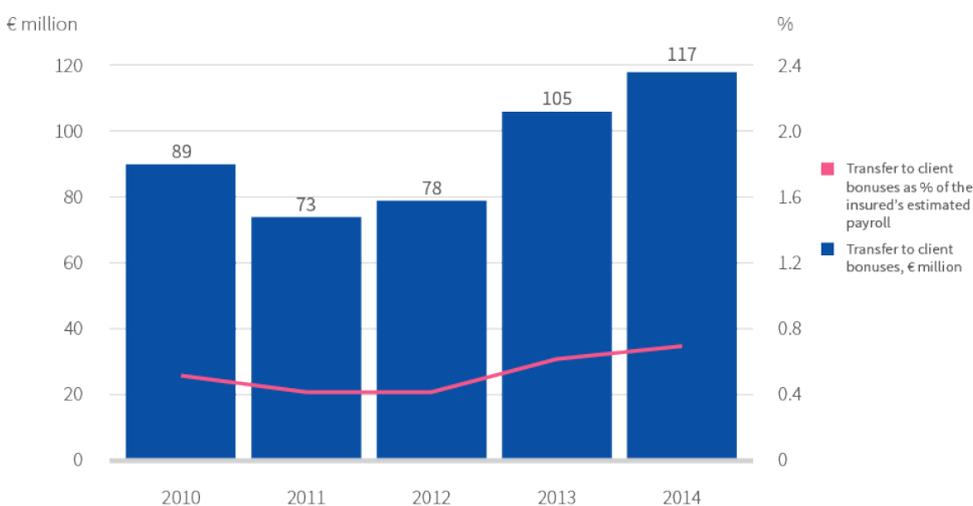
	2014	2013	2012	2011	2010
Average number of personnel	552	565	572	588	601
Salaries and remunerations, EUR million	40.1	37.9	37.0	39.5	36.9

Solvency and expertise in workability management benefit our customers

Varma's strong solvency and good operating expense efficiency in 2014 lower our clients' insurance contributions. We also help our client companies save in their pension costs.

Varma's solvency reached a new record in 2014, at EUR 10.3 billion. This benefits our customers, as Varma reserved an all-time high EUR 117 (105) million, or 3.8 (3.4) per cent of the employers' TyEL contribution, for client bonuses to be paid for 2014.

Transfer to client bonuses 2010–2014



Varma pays its customers the best client bonuses in the sector. They lower the employer's final contributions. The amount of the bonuses is influenced by the pension company's solvency capital and by the loading profit, an indicator of the cost-effectiveness of the operations.

Support for managing pension costs

We help our client companies to manage their pension and sick leave costs. We also continuously develop the co-operation practices between occupational health care providers and employers. The goal is to take timely control of the client's disability risks.

The workability projects carried out together with our client companies support their business development and have a positive financial outcome.

The online Workability Management Information Service tool meant for managing disability costs is available for employers liable to pay excess. They can use the tool to analyse their current disability risk and assess the savings potential of the lower disability contribution category. At the same time, the employer can compare the development of its contribution category to the sector or to Varma's client base. The information service is used by over 600 of Varma's client companies. The service will be extended to cover also the needs of smaller companies.

How does Varma typically assist its client companies?

- **Co-operation with the occupational health care provider.** Building early support models together and coaching supervisors to take action accordingly.
- **Smoother processes in the work community.** Assessing together whether work is being performed smoothly and smartly.
- **Coaching for supervisors.** Supervisors face tough challenges during changes. We provide support and serve as a sounding board for them.
- Providing **HR tools** e.g. to support development discussions.

We develop our services by listening to our customers

We continuously develop our services on the basis of customer feedback. In our web service they can, for example, manage their insurances and print out contribution information and payment certificates to be attached to an offer.

Our customers can take care of all their insurance matters online, if they so choose. More in-depth guidance is available through our phone service and chat service, which offers assistance in filling in an insurance application or using the Entrepreneur's Calculator. In spring 2015, we will launch a mobile service for entrepreneurs, through which they can order payment or earnings certificates and adjust their earnings information.

Varma's headquarters are located in Salmisaari, Helsinki, and our network of account managers covers nearly the entire nation. For our self-employed clients and small client companies we offer a comprehensive service network with our co-operation partners, If P&C Insurance and Nordea Bank. Major employers are served by Varma's company-specific service teams.

An excellent year in terms of client acquisition

Varma's premiums written stood at EUR 4,344 (4,258) million in 2014.

Varma had a good year in terms of sales, and was highly successful in client transfers between earnings-related pension insurance companies, with a net result of EUR 55 million in TyEL insurances for the entire year. Varma's long-standing expert work as an efficient handler of earnings-related pension matters and especially in abating disability risk shows in the increasing trust placed in us by our customers.

Number of insured and insurance policies

	31 Dec. 2014	31 Dec. 2013	Change
Number of insured			
TyEL ¹	488,190	491,400	-3,210
YEL	38,937	39,810	-873
Total	527,127	531,210	-4,083
¹ of which covered by TEL registered supplementary pension insurance			
	4,390	4,928	-538
Number of insurance policies			
TyEL	27,223	26,930	293

Challenging operating environment

The Finnish business sector continues to suffer from the difficult economic situation. Growth has stalled, and nearly all sectors of business and industry face structural challenges. The decline in purchasing power is hitting the retail industry especially hard.

2014 continued to be characterised by numerous co-determination negotiations and layoffs. Companies' HR functions are struggling to maintain the remaining employees' capacity to work while going through co-determination negotiations. Varma supports its clients in order to secure their ability to start expanding their operations once growth resumes.

Good workability means lower pensions costs

Our workability management and rehabilitation services help client companies to save in pension and sick-leave costs. Workability management that is linked to the company's strategy promotes competitiveness and productivity.

Workability management forms a whole that involves systematic promotion of good leadership, smooth co-operation and productivity and support for employees' recovery from work and prevention of disability. It reduces absences due to sickness, lowers disability costs and improves well-being at work and productivity. Varma co-operates annually with hundreds of client companies to foster longer careers.

Varma is an expert in workability management. Together with our clients we analyse the disability risks of the company, and the means for lowering them. We also assess the company's future concerns and need for renewal, and their impact on, e.g. supervisory work and workability.

There is strong demand for Varma's workability management services; in 2014 we had a total of around 1,400 related customer meetings.

The online Workability Management Information Service tool meant for managing disability costs is available for those employers liable to pay excess. They can use the tool to analyse their current disability risk and assess the savings potential relating to the disability contribution category.

Workability management should be result-oriented. Goals and indicators can relate to absences due to illness, the improvement in the disability contribution category, the quality and smoothness of work and supervisory work.

Workability management brought VR savings of EUR 11.1 million

The goals set for the rail and road passenger services company VR's well-being activities in 2010 consisted of improving well-being at work, managing absences due to illness, prolonging careers, reducing accidents at work and managing occupational health care costs.

In 2014, the results speak for themselves. Satisfaction with supervisory work has increased, and the sick leave rate, the number of disability pensions and costs caused by accidents at work are down. At the same time, follow-up reporting on disability cases has been brought to a new level.

Savings created through lower disability contributions and reduced health care and sick leave costs amounted to EUR 11.1 million by 2014.

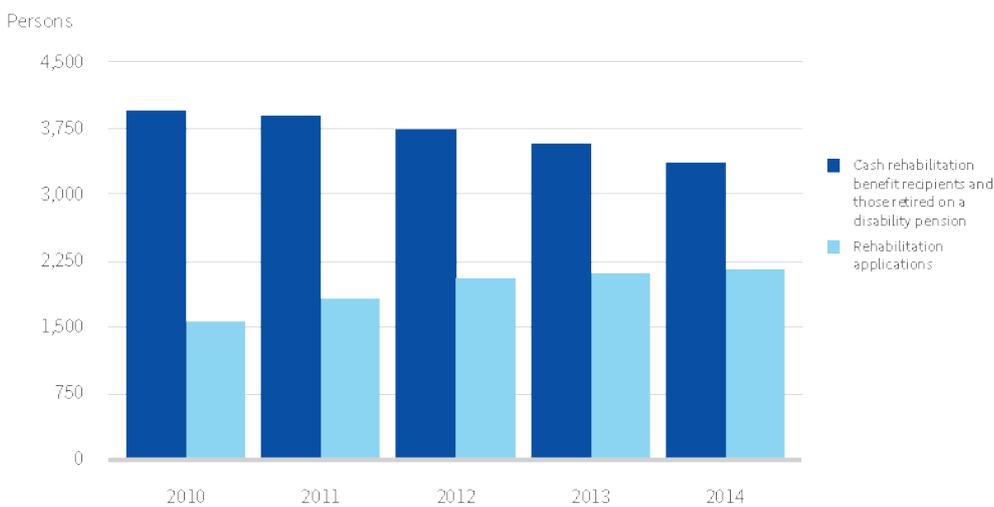
Rehabilitation can break the cycle leading to disability pension

Statutory vocational rehabilitation gives employees and entrepreneurs the opportunity to continue in working life when their capacity to work is threatened. In 2014, Varma's rehabilitation services helped nearly 1,640 people – 72 per cent of all rehabilitants – return to work.

In 2014, the number of rehabilitation applications received by Varma continued to grow. The total number of applications exceeded 2,100. The weakened economic situation is evident in the rehabilitation applications, as many of the applicants are now unemployed or engaged in co-determination negotiations.

Varma's and Ilmarinen Mutual Pension Insurance Company's trial initiative, "Stepping stone back to working life", is targeted at highly educated people, who have been working in demanding supervisory and expert tasks but have lost their work capacity as a result of severe and longstanding mental health disorders. The goal is to assist them back to working life through, for example, work trials and job coaching. In their new tasks these people could use their existing expertise, but with scaled-down demands and result expectations.

New disability pensions and rehabilitants



While vocational rehabilitation has been on the rise, disability pensions granted by Varma show a downward trend. In 2014 they declined around 6 per cent. Since 2007 the number of new disability pensions is down 22 per cent, while rehabilitation applications have increased 87 per cent during the same period.

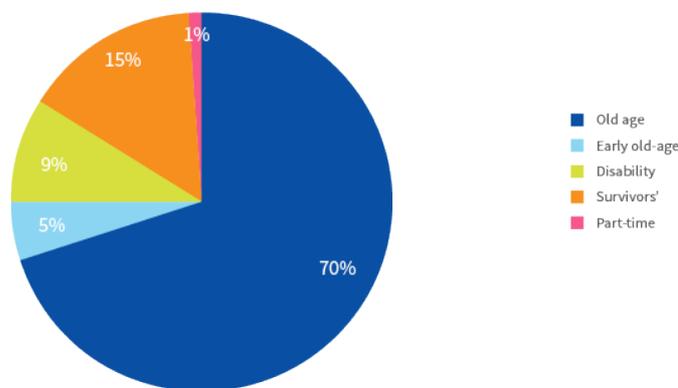
One factor behind this is that occupational health-care providers more readily intervene in prolonged absences due to illness.

Secured income during retirement

The number of pensioners and the euro amount of pensions paid is constantly rising at Varma. Our task is to pay pensions correctly and on time to an increasing number of pensioners.

A pension decision is of great significance to the future of the insured, which is why we closely monitor the accuracy of our decisions and the smoothness of our services. In 2014 we introduced a new handling system for pension applications that will improve our services for private customers well into the future.

Pension decisions, %



The use of online services on the rise

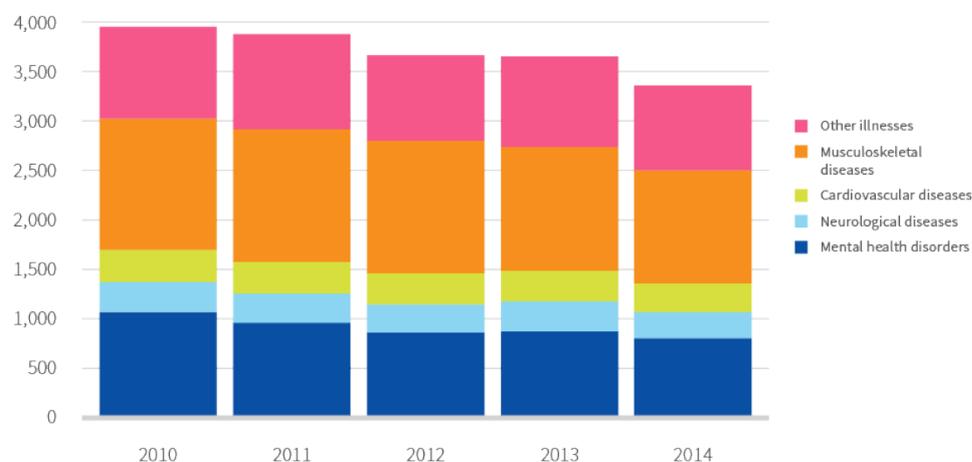
Varma's private customers are active users of our online services. The most active user group is those aged between 60 and 64. Those aged 60 and over account for 44 per cent of all users.

Applying for a pension through our website has also steadily become more popular: more than 40 per cent of all old-age pension applications were submitted electronically. In total, 76 per cent of all private customer contacts took place online in 2014.

An employer can make their employee's transition to retirement smoother through our online services. In 2014, we introduced an electronic information request service, through which an employer may provide Varma with information required for the handling of pension applications. This service has been well received by our employer customers.

Varma's advisory phone services also received good feedback from our customers: the services were given a rating of 9.5 out of 10.

Disability pensions granted by Varma by type of illness 2010–2014



The number of pensioners on the rise

In 2014 Varma paid EUR 5.0 billion in pensions to 334,700 recipients. The number of pensioners has been rising for years due to the change in age structure and longer life expectancy.

A total of 21,051 new pension decisions were made in 2014, which is 5.8 per cent less than in the previous year. The biggest decline, 6 per cent, took place in disability pension decisions, while the number of rehabilitants continued to rise.

Strong return on investments in 2014

In 2014 the return on Varma's investments was good, at 7.1 per cent. In the broadly diversified portfolio, returns were generated consistently by the different asset classes. Share prices strengthened, and interest rates continued to fall from the already low level, which boosted interest income. Other investments also yielded a good return.

The value of Varma's investments grew to over EUR 40 billion and solvency capital to over EUR 10 billion. Solvency strengthened to 34.0 (31.6) per cent.

Economic growth gained momentum in the U.S. but remained weak in the eurozone and was even negative in Finland. The European Central Bank held on to its stimulus policy and lowered its interest rates, while the U.S Federal Reserve withdrew its support for the markets and ended quantitative easing. It also gave indications of a moderate interest rate increase in 2015. The U.S. dollar gained clear momentum during the end of year.

Varma's result developed strongly in the first half of the year, but fluctuated strongly in the second half. Market uncertainty was amplified by the crisis in Russia, geopolitical tension, the sharp decline in the price of oil and the markets' momentary lack of faith in the sustainability of equity prices.

Development of Varma's investment returns in 2014



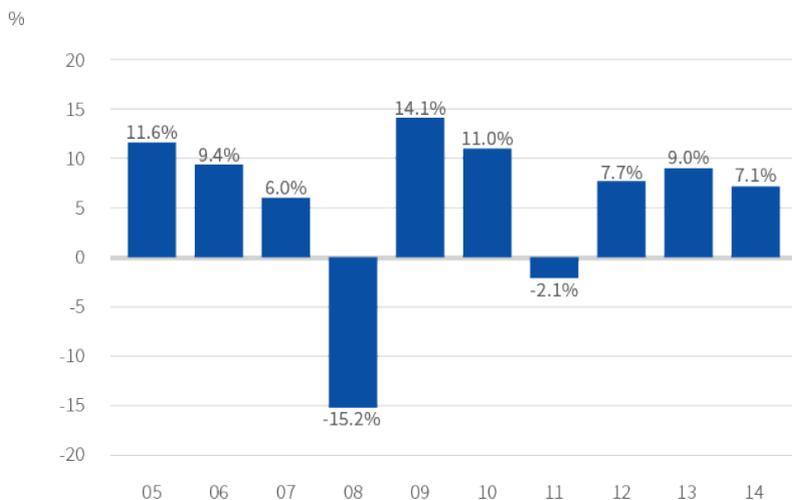
Positive returns in all asset classes

The return on Varma's investments was 7.1 (9.0) per cent. Fixed-income investments accounted for 26, equity investments for 47, real estate investments for 6 and other investments for 21 percentage units of the investment result.

Equities generated the strongest return, and fixed-income investments, real estate and other investments also generated a strongly positive return.

The average 10-year nominal return on investments was 5.5 per cent and the five-year return 6.4 per cent. The real returns were 3.5 and 4.3 per cent respectively.

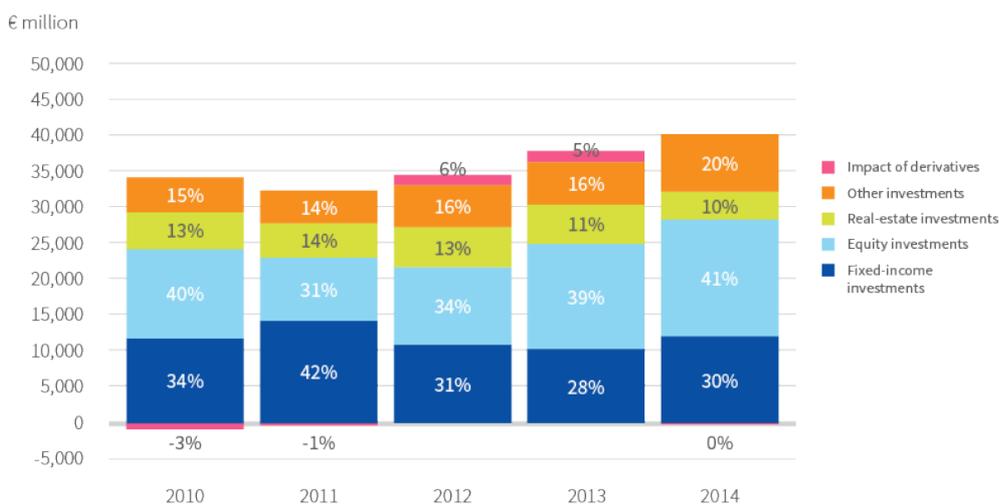
Investment returns



Varma's investment activities focussed on maintaining the company's strong solvency and broad diversification of investments, with a strong emphasis on risk management.

Varma has US-dollar-denominated investments in hedge funds, equities, corporate bonds and private equity funds. In accordance with Varma's policy, most of the exchange rate risks have been hedged. During the year, a proportion of the currency position was unhedged, which improved the overall result as the value of the U.S. dollar increased. In terms of operations, foreign currency risks are managed as a single entity, while in the performance indicators the exchange rate impact is included in the investment returns of various asset classes.

Investment portfolio



Investments classified according to risk

	Risk position 12/2014 mn €		Risk position 12/2013 mn €		Return MWR 1-12/2014		Return MWR 1-12/2013	Volatility 24 m
	mn €	%	mn €	%	%	%	%	
Fixed-income investments	11,983	30	10,624	28	5.5	1.2		
Loan receivables	1,571	4	2,026	5	2.6	3.3		
Bonds	9,732	24	9,232	24	6.8	0.8	2.1 ²	
Public bonds	3,450	9	3,869	10	6.7	-1.8		
Other bonds	6,282	16	5,363	14	6.9	3.0		
Other money-market instruments and deposits	680	2	-635	-2	0.5	-0.4		
Equity investments	16,333	41	14,756	39	9.1	21.8		
Listed equities	12,879	32	11,579	31	7.4	23.7	9.3	
Private equity	2,451	6	2,175	6	13.5	12.1		
Unlisted equities	1,004	3	1,002	3	19.7	26.7		
Real estate investments	3,841	10	4,304	11	3.8	3.1		
Direct real estates	3,375	8	3,739	10	3.2	2.0		
Real estate funds	466	1	565	1	8.0	11.6		
Other investments	7,962	20	6,157	16	8.7	4.5		
Hedge funds	6,717	17	4,850	13	7.8	8.8	2.0	
Commodities	370	1	201	1				
Other investments	875	2	1,106	3	15.9	-6.3		
Total investments	40,120	100	35,840	95	7.1	9.0	2.9	
Impact of derivatives ¹	-81		1,878	5				
Investment allocation at fair value	40,039	100	37,718	100				

The modified duration for all the bonds is 4.3.

¹ Includes the impact of derivatives on the difference between risk position and market value of investments.

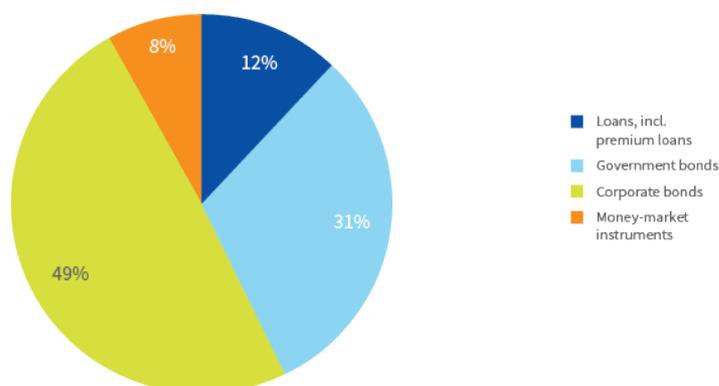
² Volatility was calculated for all bonds (not just public sector bonds).

Declining interest rates boosted interest income

The return on fixed income investments was at a good level, at 5.5 (1.2) per cent. They accounted for 30 (28) per cent of investments and had a market value of EUR 12.0 (10.6) billion.

Fixed income investments consisted of loan receivables, mainly premium loans to Varma's customers, and government and corporate bonds, and money-market instruments.

Fixed-income investments, %



During the year, interest rates continued to fall from the already low level, which clearly improved the return on listed bonds. The return on government bonds was 6.7 (-1.8) per cent and on corporate bonds 6.9 (3.0) per cent. The duration of the loan portfolio was kept fairly long, at around five years, which improved the result. The good return on fixed-income investments was a key contributor to Varma's strong overall result.

The return on loan receivables, 2.6 (3.3) per cent, was in line with expectations, but valuation changes in junior loans lowered their overall return. The demand for premium loans was subdued, and their amount decreased in the course of the year.

The return on money-market investments was in accordance with the prevailing short-term interest rate level, at 0.5 (-0.4) per cent.

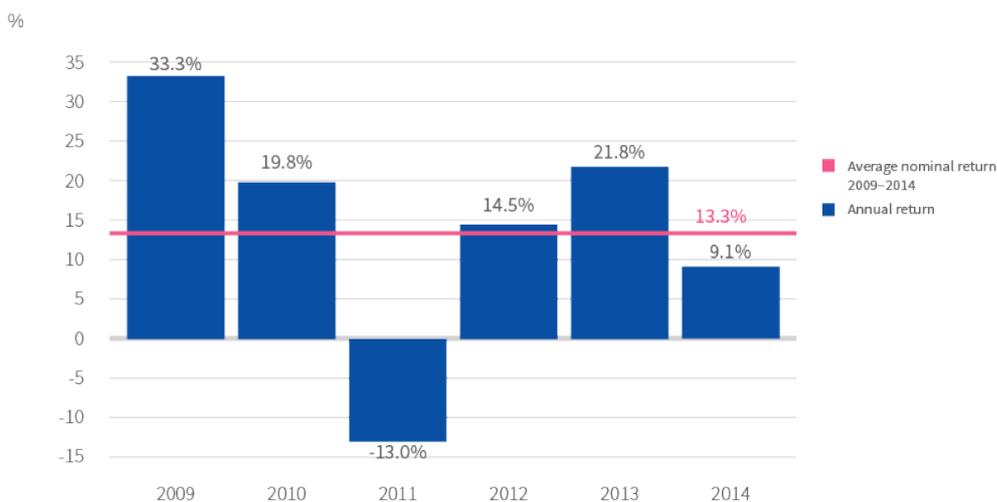
Interest rates in Europe have dropped to a very low level and were largely negative for government bonds. It will be challenging to achieve a positive real return on fixed-income investments in future. Interest income may also easily turn negative, should interest rates rise.

Equity investments yielded good returns

Equity investments performed the best of all asset classes. They accounted for 41 (39) per cent of Varma's investments and yielded a return of 9.1 (21.8) per cent.

Equity investments consisted of listed equities (32%), private equity investments (6%) and unlisted equities (3%). Equity investments have had a very strong six-year period, with an average return of 13.3 per cent.

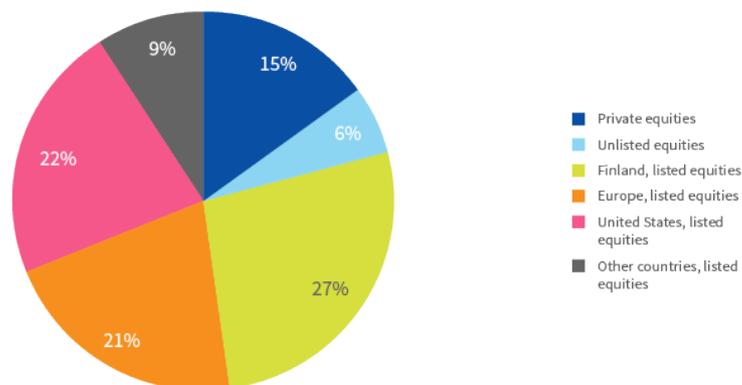
Return on equity investments 2009–2014



Share prices climbed until June, but towards the end of the year there was a considerable increase in volatility in the equity markets. The overall return on listed equities was good, at 7.4 per cent. The highest return was generated by U.S. equities, at 16.3 per cent. The equities of Sampo Corporation, Varma's largest domestic holding, performed very strongly, at 14.0 per cent. The crisis in Russia pushed down the share prices of certain key holdings, and the total return on Finnish equities was 6.7 per cent.

Finnish equities accounted for 34 per cent of Varma's listed equities. European equities accounted for 26 per cent, U.S. equities for 29 per cent and emerging markets for 11 per cent. To counterbalance the high share of domestic equities, Varma has broadly diversified its portfolio outside of Finland, not only in international equities, but also in private equity investments, hedge funds and corporate bonds.

Allocation of investments in equities, %



Superb year for private equity investments and unlisted equities

Private equity investments and unlisted equities also generated good returns. Private equity investments yielded a return of 13.5 (12.1) and unlisted equities 19.7 (26.7) per cent.

About half of Varma's private equity investments are invested in the U.S., and the rest mainly in Europe and the Nordic countries. The value of these investments developed strongly in all these areas. Private equity funds exploited the strong demand and liquidated large amounts of their investments. Infrastructure funds included in the portfolio also yielded a strong return.

The return on unlisted equities was improved by the selling of Fingrid Oyj's shares, the good development in the value of private equity co-investments, and the considerable dividend income received from the housing real-estate companies SATO Corporation and VVO Group and the increase in the value of their shares.

Private equity and unlisted equities represent a long-term asset class, and their long-term return has been very good.

15 largest equity investments, holding

	€ mill.	Varma's holding of shares, %
Sampo plc	1,380	6.35
Nokia Corporation	474	1.93
Wärtsilä Corporation	381	5.20
Nordea Bank AB	279	0.71
VVO-group plc	224	16.98
SATO Corporation	204	22.80
Nokian Tyres plc	183	6.74
Certeum Ltd	178	38.90
KONE Corporation B	169	0.92
Elisa Corporation	152	4.01
Metso Corporation	150	4.02
Stora Enso Oyj A	115	1.99
UPM-Kymmene Corporation	110	1.51
Sponda Plc	105	10.27
Technopolis Plc	94	23.89

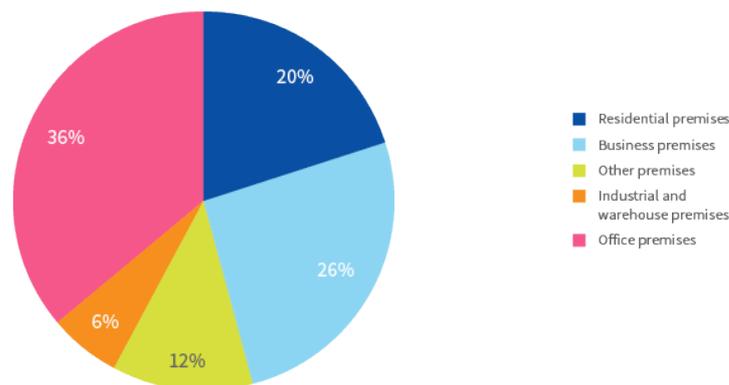
International diversification of real estate investments was continued

Varma's real estate investment portfolio amounted to EUR 3.8 (4.4) billion at the end of 2014, and the total return stood at 3.8 (3.1) per cent.

Varma continued to increase the international diversification of its real estate investments in 2014. New investment commitments in international real-estate funds totalled EUR 129 million. At year-end, the value of international and Finnish real estate fund investments amounted to EUR 466 (565) million and the return was 8.0 (11.6) per cent.

The weighting of domestic, directly-owned real estate investments was decreased. In 2014 Varma divested direct real estate investments in total value of EUR 337 million. Together with Sponda Plc and the State Pension Fund (VER), Varma established a new real estate investment company, Certeum Oy, which invests in logistics properties. The single largest portfolio divested by Varma in 2014 consisted of 22 industrial and warehouse properties, sold to Certeum Oy at a price of EUR 263 million.

Direct real estate investments, %



In 2014 the Finnish transaction markets were active, which helped the divestment of direct real estate investments, but the challenges in the rental market were reflected in the vacancy rates, returns and values of the direct real estate portfolio. At year-end, the vacancy rate for the business premises owned directly by Varma was at 7.3 per cent.

New rental flats in the Helsinki Metropolitan Area and growth centres

Varma did not acquire any new business premises in 2014. Investments totalled EUR 74 million, but they were focussed on development, maintenance construction and renovations of existing properties. At the end of 2014, Varma had a total of 220 new rental flats under construction in the Helsinki area. Several other housing construction and development projects were also under planning. In Finland, investments are focussed on the Helsinki Metropolitan area and the largest growth centres.

In 2014, the impact of fair valuation of real estate under Varma's direct ownership totalled EUR -76 million. The market value of the real estate owned directly by Varma stood at EUR 3.4 (3.7) billion at the end of the year. The return on capital employed in

direct real estate investments was 3.2 (2.0) per cent. The value of and total return on the portfolio were influenced by fair valuations, the divestment of properties and investments carried out.

Energy efficiency reduces the carbon footprint of real estate

Varma has been focussing strongly on reducing the energy consumption of its business premises. The goal is to reduce energy consumption by 6 per cent by 2016.

The measures used focus on controlling lighting, ventilation and heating, among other things. In 2011–2014, more than 400 individual energy saving measures were implemented in around 70 properties owned by Varma, generating annual savings of approximately EUR 680,000. This is equal to the annual energy consumption of 590 detached houses heated with electricity.

Simultaneously the carbon footprint of Varma-owned properties has been reduced by 2,400 tonnes of carbon dioxide.

Strong return on other investments

Other investments accounted for 20 (16) per cent of Varma's portfolio. They consist of hedge funds (17 per cent), inflation-linked investments (2 per cent) and a relatively small commodities position. The return on other investments was good, at 8.7 (4.5) per cent.

The return on hedge fund investments was 7.8 (8.8) per cent. They performed consistently, with only minor volatility. Their share of the portfolio was increased during the year, and the strengthening of the U.S. dollar further increased their share. The return on Varma's hedge investments has been very good over a long period, and volatility has been very low.

Inflation-linked investments include inflation-linked bonds issued by states with good creditworthiness. The return on inflation-linked investments was high, at 15.9 (-6.3) per cent. Returns were also impacted by the decline in interest rates, which improved the value of bonds with a long maturity. Changes in exchange rates also contributed to the strong return on inflation-linked investments.

Varma is a responsible and long-term investor

With EUR 40.0 billion in investment assets, Varma is Finland's largest private investor. We invest the assets to secure present and future pensions.

Varma invests in Finnish and international equities, bonds and other interest-bearing instruments, hedge funds, private equity funds and unlisted shares, real estate as well as commodities.

Careful risk management ensures that if individual risks are realised they will not cause significant financial losses.

We promote work carried out in Finland

29.2 per cent, or EUR 11.7 billion, of Varma's total investments has been invested in different ways in Finnish society. Varma is an important investor in Finnish companies and in this way participates in the long-term development of Finnish industry and commerce. Varma invests in the shares of Finnish companies, provides funding through different loan instruments and owns real estate.

We are familiar with domestic companies. Varma is an active shareholder in the Finnish companies it invests in. We participate in the Annual General Meetings of Finnish companies, and have representatives in the nomination boards and, in certain cases, in the Boards of listed companies. We engage in regular dialogue with company management in investor meetings organised between Annual General Meetings.

Major real estate investor in Finland

Our real estate investments include, in addition to direct real estate investments, domestic and international real estate funds. We also consider it important to offer quality rental flats at a reasonable price, especially in growth regions.

As a real estate investor using its own equity, Varma has made major real estate investments and supported the progress of several real estate projects and will actively continue to develop properties under its ownership and convert them, for example, for residential use. Through these actions, we play a key role in supporting Finnish industry and trade and Finnish employment.

Efficient portfolio management

Varma manages its investments internally for the most part. Funds are used, for example, in private equity and hedge investments, and in emerging markets. We make diverse use of our role as a major investor, which makes it possible to achieve low trading costs and the best service.

Our investment operations are efficiently organised: in 2014, investment charges amounted to 0.058 (0.061) per cent of invested assets. In the long term, cost efficiency is a major competitive factor in our investment operations.

We make profitable and secure investments

Varma's guiding principle is to invest pension assets profitably and securely. Diversification plays a key role when we strive for the best possible return on investments in order to secure the payment of pensions.

Varma's investment plan, which is annually confirmed by the Board of Directors, steers the company's investment activities. The investment plan outlines the general principles for investments, the basic allocation for investments, targets for return, diversification and liquidity, decision-making powers, control systems and reporting, among other things. A benchmark index is defined for each asset class, against which the result is compared. The Board regularly monitors the implementation of the investment plan. The investment plan also covers the share ownership policy, social responsibility and ownership principles.

We diversify investments in different asset classes

Our goal is to maintain the return of the investment portfolio as high as possible while keeping the overall risk at the desired level by identifying versatile sources of return. Diversification into different asset classes is essential, as they perform differently under different market conditions. Broad diversification also ensures that the risk of a single asset class or investment does not rise to a significant level. Diversification into different asset classes also allows the allocations to be flexibly changed according to the market environment.

Diversification within asset classes

Diversification is a guiding principle also within the different asset classes. Single investments are chosen based on the portfolio manager's analysis.

Fixed-income investments are the most secure asset class, where creditworthiness and liquidity are the most important factors. Fixed-income investments are broadly diversified between different bond issuers and maturities.

Equity investments are diversified by geographic location, industry and company size. In Varma's portfolio, listed equity investments seek the highest returns and are also the most volatile asset class. Varma has strived to identify investments with similar returns as equities but with less volatility. These include private equity investments and hedge funds.

Diversification of outsourced investments, which include private equity investments and hedge funds, is implemented through fund types and different managers. The funds selected must meet the most stringent institutional requirements. We know our partners well and have long-term partnerships with them.

Varma uses derivatives to make diversified index-type investments in commodities.

Varma's direct real-estate investments are located in Finland. The assets are diversified according to the types of premises and geographical location. Approximately 60 per cent of Varma's real estate investments are in the Helsinki area. In addition to rental flats, the portfolio includes all types of business premises, with the greatest weight on office and retail premises. International real estate investments are used to improve diversification within the real estate portfolio.

Risk-return ratio

Investments aim for the best possible risk-return ratio. Desirable investments for a pension investor are those with a steady long-term return and little annual volatility.

We actively seek different types of return sources. The initial investment is based on extensive groundwork and is often fairly small, but the investment's share in the portfolio may be increased. Fairly new asset classes in Varma's portfolio include commodity and inflation-linked investments.

Liquidity

The investment portfolio is kept as liquid as possible. This has been beneficial for instance when the demand for premium loans has increased. The importance of liquidity is highlighted in a difficult market environment, for example, when the company must be able to adjust the share weighting quickly in accordance with the market situation.

Varma invests in a responsible manner

Varma's Principles for Responsible Investment cover the company's investment assets in their entirety. Each investment decision involves the identification and assessment of various responsibility factors.

Responsible investment provides a framework for incorporating environmental, social and corporate governance criteria into investment operations and ownership policies. Factors relating to responsibility have an impact on companies' value and place requirements on both businesses and investors. In addition to the financial aspect, investors nowadays must assess potential investments from a broader perspective.

Varma published its Principles for Responsible Investment and asset-specific policies in March 2014. The Principles for Responsible Investment cover Varma's investment assets in their entirety. They provide general guidelines, which are applied differently for different asset classes, depending on their characteristics.

Varma invests in a responsible manner. The ultimate goal of our investment activities is the sustained accumulation of pension assets. However, each investment decision involves the identification and assessment of various responsibility factors. Varma strives to incorporate responsibility systematically in all its investment operations. When making assessments, we take into consideration:

- the UN Global Compact initiative on corporate responsibility
- the OECD guidelines for multinational enterprises
- the ILO labour conventions

The UN Principles for Responsible Investment

Varma has also signed the UN Principles for Responsible Investment (PRI) and published a report for 2013 in accordance with the UN-supported Principles of Responsible Investment.

The UN-supported Principles for Responsible Investment (PRI) Initiative is an international network of investors whose objective is to incorporate environmental, social and governance issues into investment decision-making processes and ownership practices.

Varma's approach is to avoid double taxation on investment returns

For ethical reasons Varma excludes companies that concentrate on the manufacture of tobacco and nuclear weapons from its direct investments.

Varma acts lawfully and with integrity and in compliance with legal and regulatory requirements. Varma will not enter into transactions with the main purpose of securing a tax advantage contrary to the intention of the legislator in enacting the relevant tax legislation. Varma's principle is to avoid double taxation on its investment returns; double taxation would contradict the ultimate objective of the investment operations, which is to generate returns.

Corporate governance

Varma's central executive bodies are the Annual General Meeting, the Supervisory Board, the Board of Directors and the President and CEO.

Varma's governance is based on the Finnish Act on Employment Pension Insurance Companies. Varma also complies with the applicable provisions of the Finnish Corporate Governance Code. The Finnish Corporate Governance Code is available on the Securities Market Association's website.

The starting point for Varma's corporate governance is the company's core task, that of securing pensions. The statutory earnings-related pension scheme was created by an agreement concluded between the government and labour market organisations, and the tripartite model still plays a key role in the development of the system. Labour market organisations also participate in the administration of earnings-related pension companies.

A key objective is to ensure the transparency of the company's operations and administration, which in turn will contribute to strengthening public confidence in the earnings-related pension scheme.

Read more about Varma's governance and management and about the company itself on our website.

Corporate governance structure



Corporate Governance Report

This report is based on the Finnish Corporate Governance Code. Varma complies with the Code provisions that apply to the statutory activities of earnings-related pension insurance companies. The deviations from the Code are detailed below in the section “Deviations from the Finnish Corporate Governance Code”. This report describes the situation on 31 December 2014. The up-to-date report can be viewed at www.varma.fi.

Main features of the internal control and risk management systems connected with the financial reporting process

Varma’s financial reporting is in accordance with the Accounting Act, the Limited Liability Companies Act, the Insurance Companies Act, the Employee Pension Insurance Companies Act and the Act on the Calculation of the Pension Provider’s Solvency Border and the Covering of the Technical Provisions, the decree of the Ministry of Social Affairs and Health on financial statements and consolidated financial statements of insurance companies, the Accounting Decree, the technical bases approved by the Ministry of Social Affairs and Health and the regulations issued by the Financial Supervisory Authority.

Varma’s Board of Directors decides on the content and organisation of internal company control and on the implementation of the internal control sectors and principles, and approves both the joint guidelines for the internal control of the Varma Group and the risk-management plan. The Board of Directors makes an annual assessment of whether the internal control is appropriately organised. The contents of the financial reporting presented to the Board of Directors are laid down in the Board of Directors’ charter and in the investment plan.

All financial reporting to the Board of Directors, company management and the authorities is carried out by Varma’s Financial Administration independently of the function to be reported on. The company’s result and solvency position are calculated daily.

The Board of Directors receives regular reports on, among other things, the total result, the balance sheet and the income statement at fair value, solvency position, details of investments classified according to risk, investment returns, derivative and foreign currency positions, risk concentrations and assets covering the technical provisions. Financial Administration also provides reports on the monitoring of risk limits laid down in the investment plan and on the use of authorisations, and carries out controls on the valuation of investments. In addition to the above, Investment Operations also submits reports on its activities to the Board of Directors. Adherence to authorisations and allocation, and investment assignments are monitored on a daily basis. Actuaries see to it that the insurance contributions and the technical provisions are calculated in accordance with the technical bases and the regulations issued by the Ministry of Social Affairs and Health and the Financial Supervisory Authority.

In addition to the information required under the provisions, Varma also publishes quarterly interim reports. In order to increase transparency, Varma publishes its balance sheet and income statement at fair value and its investments and their returns, grouped in accordance with risks.

From the point of view of Varma’s financial reporting, the most important elements are the valuation of the investments, the investment return at fair value, the interest credited on technical provisions, and the company’s solvency capital in relation to the solvency limit, which in turn is determined on the basis of the risks involved in each investment (solvency classification).

The risk-bearing capacity of the investment operations is determined on the basis of the solvency indicators. The adequacy of the assets covering the technical provisions must be known at all times.

The technical provisions are calculated on the closing date and in accordance with the best technical estimates during the financial year. Exact annual calculations are finalised in late spring. The division of responsibility between earnings-related pension companies is handled via the Finnish Centre for Pensions each year.

The tasks of the investment risk management within the Actuaries, which is independent of the risk-taking operations, include the identification of the risks contained in the investments, measurement of risk levels and reporting.

The Board of Directors decides on the principles concerning the use of derivative contracts and the principles for the solvency classification of investments. Investment Operations submits proposals and the CEO decides on the risk classification of investments in accordance with the classification criteria laid down by the Board of Directors, and the independent risk-management function will give an opinion on the proposals. The solvency classification of investments is reviewed on a regular basis. The Board of Directors receives an independent monitoring report on the use of derivative contracts and their impact on the solvency limit.

The company has drawn up detailed work descriptions and instructions for financial reporting. The reliability of financial reporting is supported by the principle that the company's business accounting is always periodised and kept up to date at fair value and that the figures contained in it match the investment category ledger systems used as ledgers and the data warehouse used in reporting.

Exact calculations of the technical provisions are made each year. The calculations of the technical provisions during the year are made using pension-insurance register information and insurance technique analyses. Insurance risks are analysed using, for example, a risk assumption analysis (mortality, disability intensity), financial statements and business result analyses (insurance technique, distribution of responsibility) and, for example, when compiling statistics on contribution losses and disability pension expenditure.

In drawing up the financial statements, the payroll of the insured is an estimated amount. This is reflected in the company's premium income and in the amount of technical provisions, but has little effect on the company's result.

Operational risks connected with Varma's financial reporting are charted on a regular basis. The potential impacts and likelihood of identified risks are assessed on a risk-specific basis.

Auditing

In accordance with Varma's Articles of Association, the General Meeting elects two Auditors and two Deputy Auditors for the Company. The Auditors and Deputy Auditors shall be auditors approved by the Finland Chamber of Commerce. An auditing company may also be elected to act as Auditor and Deputy Auditor.

The Auditors' term ends at the next Annual General Meeting following their election.

Under the legislation in force concerning auditing, the Auditors' duty is to audit Varma's accounting records, Report of the Board of Directors, Financial Statements, Consolidated Financial Statements and governance. Auditing shall be carried out in accordance with good auditing practice.

The Auditors report on their work, observations and conclusions in the Auditors' Report addressed to the Annual General Meeting. In addition to this, the Auditors report on their observations concerning internal control, financial reporting and other auditing measures to the Board of Directors' Audit Committee, to the Board of Directors, to the Supervisory Board, to executive management and to the supervisory authority.

The Auditors provide the Board of Directors annually with written confirmation of their independence, required under the legislation in force. The Company's Board of Directors assesses the independence of the Auditors each year.

According to the decision made by the Annual General Meeting on 20 March 2014, Authorised Public Accountants Petri Kettunen and Paula Pasanen served as Varma's Auditors during the financial year 2014. Authorised Public Accountant Marcus Tötterman and Authorised Public Accountants KPMG Oy Ab served as Deputy Auditors.

Remuneration paid to the Auditors for statutory auditing in 2014 amounted to EUR 218,686. Remuneration paid to KPMG Oy Ab for expert services other than those related to auditing totalled EUR 55,043 in 2014.

Internal audit

Varma's internal audit operates in accordance with the principles laid down in the professional internal auditing standards. It comprises independent and objective assessment, assurance and consulting activities whose purpose is to support the organisation in achieving its goals by producing assessments and development proposals concerning the status of risk management and other internal controls.

The organisational status, tasks, responsibilities and powers of the internal audit are laid down in the instructions approved by the Board of Directors. The areas to be audited are set out in an annual audit plan, which is approved by the Board of Directors after it has been heard by the Executive Group and the Audit Committee.

The audit observations are reported to the company management, the Audit Committee and the Board of Directors.

The internal audit is organised under the supervision of the CEO.

Deviations from the Finnish Corporate Governance Code

The following is a summary of the deviations from the recommendations of the Finnish Corporate Governance Code at Varma.

- Recommendation 12 – Special order of appointment of the directors: Varma deviates from the recommendation because under the Finnish Act on Employment Pension Insurance Companies, all members of an earnings-related pension insurance company's Board of Directors must be appointed by the Supervisory Board. The order set out in the recommendation under which more than half of the members should be appointed by the Annual General Meeting would thus be against the law.
- Recommendation 14 – Number of independent directors: Seven of the members and two of the deputy members of Varma's Board of Directors are also members of the executive management of Varma's client companies. This means that the requirement concerning a majority of independent directors cannot be met; the details are given in the section Board of Directors. The exception is connected with the mutual character of Varma. In a mutual company, a client relationship also means shareholding, and the deviation from the recommendation thus compensates for the fact that under the Finnish Act on Employment Pension Insurance Companies, the Annual General Meeting does not appoint the majority of the Board of Directors in the manner referred to in Recommendation 12. Furthermore, client representation on the Board of Directors helps to ensure that Varma can provide statutory earnings-related pension security in an efficient manner.
- Recommendations 25, 26, 29 and 32 – Number of independent committee members: Two of the three members of the Compensation and Nomination Committee presented in the section Nomination and Compensation Committee and two of the four members of the Audit Committee (in the section Audit Committee) are members of the executive management of Varma's client companies. The grounds for the exception are the same as those concerning the safeguarding of efficient operations given in connection with Recommendation 14.

Annual General Meeting

At Varma, the supreme power of decision is exercised in the General Meeting by the shareholders, who are:

- policyholders with a valid insurance contract with Varma pursuant to the legislation concerning employees' pensions.
- self-employed persons with a valid insurance contract with Varma pursuant to the legislation concerning self-employed persons' pensions.
- those persons jointly insured under one insurance policy who are covered by basic insurance valid with Varma pursuant to the legislation concerning employees' pensions.
- the owners of guarantee capital.

The determination of the number of votes that a shareholder can exercise in the General Meeting is described in more detail in the Articles of Association.

The Annual General Meeting shall be held annually before the end of May. An Extraordinary General Meeting shall be held when the Board of Directors or the Supervisory Board considers it necessary, or when it has to be held pursuant to the Insurance Companies Act.

According to the Articles of Association, the Annual General Meeting shall confirm the Report of the Board of Directors and the Consolidated Financial Statements and decide on the disposal of profit, on discharging the responsible persons from liability and on the remuneration payable to the members of the Supervisory Board and the Auditors. The Annual General Meeting shall elect the members of the Supervisory Board and the Auditors and Deputy Auditors.

Supervisory Board

As laid down in the Finnish Employee Pension Insurance Companies Act, Varma has a Supervisory Board that supervises the administration of the company by the Board of Directors and the CEO. In addition to this supervisory task, the Supervisory Board also:

- elects, on the basis of the proposal of the Election Committee, the members and deputy members of the Board of Directors,
- approves, on the basis of the proposal of the Election Committee, the remunerations of the Board of Directors' members,
- appoints the Election Committee from among its own members or from the members of the Board of Directors,
- submits to the Annual General Meeting its opinion on the Financial Statements, the Consolidated Financial Statements, the Report of the Board of Directors and the Auditors' Report.

The 28 members of the Supervisory Board are elected by the Annual General Meeting. Under the Articles of Association, the election procedure is as follows:

- seven members are elected from among the persons put forward by the Election Committee members representing the main employers' central organisations,
- seven members are elected from among the persons put forward by the Election Committee members representing the main employees' central organisations,
- fourteen members are elected on the basis of a joint proposal by the Election Committee.

Each member is elected for a term of three years such that each year the terms of a maximum of ten members expire. The Supervisory Board elects the Chairman and the Deputy Chairmen from among its members each year. Under the Finnish Employee Pension Insurance Companies Act, one of them must be elected on the proposal of the Election Committee members representing the insured. The composition of the Supervisory Board is presented in the Members of the Supervisory Board section and information about their remuneration in the Salary and Remuneration Statement section.

Supervisory Board

Chairman and Deputy Chairmen

Tapio Kuula

- Chairman
- b. 1957
- President and CEO, Fortum Corporation
- Term expires in 2015

Martti Alakoski

- Deputy Chairman
- b. 1953
- Chairman, Finnish Electrical Workers Union
- Term expires in 2016

Satu Wrede

- Deputy Chairman
- b. 1954
- Chairman of the Board of Directors, Metroauto Group Oy
- Term expires in 2015

Members

Juri Aaltonen

- b. 1969
- Chairman, Federation of Special Service and Clerical Employees ERTO
- Term expires in 2015

Berndt Brunow

- b. 1950
- President of the Board, Oy Karl Fazer Ab
- Term expires in 2016*

*Term expired 31 December 2014. Berndt Brunow has been elected as a member of Varma's Board as of 1 January 2015.

Petri Castrén

- b. 1962
- CFO, Kemira Oyj
- Term expires in 2016

Erkki Etola

- b. 1945
- Managing Director, Etola Oy, Etra Oy and Tiiviste-Group Oy
- Term expires in 2017

Stig Gustavson

- b. 1945
- Chairman of the Board, Konecranes Plc
- Term expires in 2016

Tauno Heinola

- b. 1953
- General Manager, ABB Oy
- Term expires in 2017

Tapio Korpeinen

- b. 1963
- CFO and Executive Vice President, UPM Energy
- Term expires in 2017

Päivi Kärkkäinen

- b. 1955
- General Director, Finnish National Opera Foundation
- Term expires in 2015

Olli Luukkainen

- b. 1957
- President, Trade Union of Education in Finland, OAJ
- Term expires in 2016

Lauri Peltola

- b. 1963
- EVP, Global Identity, Country Senior Executive, Finland, Stora Enso Oyj
- Term expires in 2016

Matti Rihko

- b. 1962
- CEO, Raisio Plc
- Term expires in 2015

Kari Sairo

- b. 1955
- Financial Manager, Finnish Metalworkers' Union
- Term expires in 2017

Saana Siekkinen

- b. 1972
- Development Director, Service Union United PAM
- Term expires in 2015

Arja Talma

- b. 1962
- Senior Vice President, Store Sites and Capital Expenditure, Kesko Corporation
- Term expires in 2015

Jorma Vehviläinen

- b. 1967
- Executive Vice President, SOK Corporation
- Term expires in 2015

Anssi Vuorio

- b. 1965
- Head of ICT and Communication Sector, Trade Union Pro
- Term expires in 2017

Ilkka Nokelainen

- b. 1957
- Chief Shop Steward, Stora Enso Oyj
- Term expires in 2015

Juhani Pitkäkoski

- b. 1958
- Senior Vice President, Mergers & Acquisitions, Caverion Corporation
- Term expires in 2016

Pertti Saarela

- b. 1957
- President and CEO, Finrail Oy
- Term expires in 2016

Mika Seitovirta

- b. 1962
- CEO, Outokumpu Oyj
- Term expires in 2017

Jorma J. Takanen

- b. 1946
- Member of the Board, Scanfil Plc, and Deputy Member of the Board, Sievi Capital plc
- Term expires in 2015

Leena Vainiomäki

- b. 1961
- Head of Business Banking, Danske Bank Plc
- Term expires in 2016

Kari Virta

- b. 1970
- Country Manager, ISS Palvelut Oy
- Term expires in 2017

Göran Åberg

- b. 1956
- Chairman of the Board, Oy Schenker East Ab
- Term expires in 2016

Hannu Penttilä resigned from the Supervisory Board on 26 August 2014.

Election Committee

The Supervisory Board appoints the Election Committee from among its members or from the members of the Board of Directors. Under the Finnish Employee Pension Insurance Companies Act, the Chairman or the Deputy Chairman of the Committee must be elected on the proposal of the Supervisory Board members representing the insured.

In addition to the Chairman and the Deputy Chairman, Varma's Election Committee also has four other members, of whom

- two are elected on the proposal of the Supervisory Board members representing the policyholders,
- two are elected on the proposal of the Supervisory Board members representing the insured.

Tapio Kuula, the Chairman of the Supervisory Board, acts as the Chairman of the Election Committee. Deputy Chairman of the Committee Martti Alakoski (Deputy Chairman of the Supervisory Board), Antti Palola (Deputy Chairman of the Board of Directors) and Veli-Matti Töyrylä (member of the Board of Directors) represent the insured, while Chairman Tapio Kuula, Kari Jordan (Chairman of the Board of Directors) and Jari Paasikivi (Deputy Chairman of the Board of Directors) represent the policyholders.

The Election Committee submits a proposal to the Annual General Meeting on the election of new Supervisory Board members as successors for those with expiring terms and on the members' remunerations, and a similar proposal to the Supervisory Board concerning members of the Board of Directors. The Committee does not have other tasks.

Board of Directors

The task of the Board of Directors is to see to Varma's administration and the appropriate organisation of its operations. Under the Finnish Employee Pension Insurance Companies Act, the Board of Directors must also draw up an investment plan on the investment of the company's assets.

The Board of Directors appoints and dismisses the President and CEO. In addition, the Company may have a Deputy to the President and CEO, appointed by the Board of Directors. The Board of Directors may also appoint other executives. The Board of Directors appoints the Actuary and Senior Physician for the Company.

Under the Finnish Employee Pension Insurance Companies Act, electing members to the Board of Directors is the responsibility of the Supervisory Board. The Board of Directors has 12 members and three deputy members. Under the Articles of Association the election procedure is as follows:

- three members and one deputy member are elected from among the persons put forward by Election Committee members representing the main employers' central organisations,
- three members and one deputy member are elected from among the persons put forward by Election Committee members representing the main employees' central organisations,
- six members and one deputy member are elected on the basis of a joint proposal made by the Election Committee.

The terms of four members of the Board of Directors expire each year.

The Board of Directors elects its Chairman and Deputy Chairmen from among its members. Under the Finnish Employee Pension Insurance Companies Act, one of them must be elected on the proposal of the Election Committee members representing the insured.

There are no members of Varma's Executive Group on the Board of Directors. None of the Board members had an employment relationship with or held a position at Varma in 2014 or in the two years prior to that, nor do any of them receive compensation from Varma for services rendered or other advice not connected with the duties of the Board.

The members of the Board of Directors and the persons under their guardianship and the companies under their control have been included in Varma's internal related-party register. Selling or otherwise transferring the Company's assets to those included in the register as well as acquiring assets from them are subject to a separate decision by the Board of Directors. No such transfers took place in 2014.

Information on the remuneration paid to the Board of Directors is presented in a separate Salary and Remuneration Statement.

Board of Directors January 1, 2015

Berndt Brunow

Chairman

b. 1950, B.Sc. (Econ.)

Chairman of the Board of Oy Karl Fazer Ab; member of Varma's Board of Directors since 2015, term expires in 2016

Chairman of the Boards of Lemminkäinen Corporation and Oy C.E. Lindgren Ab; Vice Chairman of the Board of UPM-Kymmene Corporation; member of the Board of Hartwall Capital Ltd.



Jari Paasikivi

Deputy Chairman

b. 1954, M.Sc. (Econ.)

President & CEO, Oras Invest Oy; member of Varma's Board of Directors since 2014, term expires in 2016

Chairman of the Boards of Directors of Kemira Oyj, Oras Ltd, Tikkurila Oyj and the Federation of Finnish Technology Industries; member of the Board of Directors of EK, the Confederation of Finnish Industries.*



Antti Palola

Deputy Chairman

b. 1959, Sea Captain

President, Finnish Confederation of Professionals STTK; member of Varma's Board of Directors since 2014, term expires in 2015

Member of the Economic Council; and member of the Boards of Directors of the Council of Nordic Trade Unions PAY and the European Trade Union Confederation ETUC; member of the Representatives of the Finnish Centre for Pensions; member of the Supervisory Boards of Kaleva Mutual Insurance Company, the Unemployment Insurance Fund and the Education Fund.



Riku Aalto

b. 1965, M.Sc. (Admin.)

President, Finnish Metalworkers' Union; member of Varma's Board of Directors since 2012, term expires in 2017

Chairman of the Board of VVO Group; member of the Boards of Directors of The Central Organisation of Finnish Trade Unions SAK and VR Group; and member of the Supervisory Board of the Unemployment Insurance Fund.



Mikael Aro

b. 1965, eMBA

President & CEO, VR Group Ltd., member of Varma's Board of Directors since 2010, term expires in 2015

Chairman of the Board of Nordic Cinema Group; member of the Boards of Directors of the Confederation of Finnish Industries EK, the Finnish National Theatre, the Service Sector Employers PALTA, Altia Finland, The Finnish-Russian Chamber of Commerce and East Office of Finnish Industries; and member of the Board of Trustees of the Savonlinna Opera Festival Patrons' Association.*



Johanna Ikäheimo

b. 1968, M.Sc. (Admin.)

Chairman of the Board of Lappset Group Ltd; member of Varma's Board of Directors since 2009, term expires in 2016

Chairman of the Board of FEPI – the Federation of European Play Industry; Deputy Chairman of the Board of Directors of Finpro; and member of the Board of Directors of Kunnan Taitoa Oy.*



Ari Kaperi

b. 1960, M.Sc. (Econ.)

Executive Vice President, Nordea Bank AB (publ); member of Varma's Board of Directors since 2010, term expires in 2015

Deputy Chairman of the Board of the Federation of Finnish Financial Services; member of the Supervisory Boards of the Finnish Business and Policy Forum EVA and the ETLA Research Institute of the Finnish Economy; and member of the Board of the Foundation for Economic Education.*



Jyri Luomakoski

b. 1967, MBA

President & CEO, Uponor Corporation; member of Varma's Board of Directors since 2015, term expires in 2017

Member of the Boards of the Association of the European Heating Industry (EHI) and the European Plastic Pipes and Fittings Association.*



Petri Niemisvirta

b. 1970, LL.M.

CEO of Mandatum Life Insurance Company Limited, member of Varma's Board of Directors since 2014, term expires in 2017

Chairman of the Board of Directors of Kaleva Mutual Insurance Company; member of the Boards of Alma Media Corporation and Benco Insurance Holding B.V. (Netherlands); and member of the Life Insurance Executive Committee of the Federation of Finnish Financial Services.*



Ilkka Oksala

b. 1965, LL.M.

Director of the Confederation of Finnish Industries EK, member of Varma's Board of Directors since 2015, term expires in 2015

Member of the boards of the Finnish Centre for Pensions, the Federation of Accident Insurance Institutions (TVL) and the Social Insurance Institution (Kela).



Kai Telanne

b. 1964, M.Sc. (Econ.)

President & CEO, Alma Media Corporation; member of Varma's Board of Directors since 2009, term expires in 2017

Chairman of the Board of Talentum Oyj and member of the Board of Teleste Oyj.*



Veli-Matti Töyrylä

b. 1953, B.Sc. (Econ.)

Member of Varma's Board of Directors since 2011, term expires in 2016

Chairman of the Board of the KAUTE Foundation; member of the pension working group of the Confederation of Unions for Academic Professionals Akava; and Chairman of the Executive Committee of Investments of the Finnish Business School Graduates.



Deputy members

Mikko Ketonen

b. 1945, B.Sc. (Econ.)

Deputy member of Varma's Board of Directors since 1998, term expires in 2016

Chairman of the Boards of TS Group and Salon Seudun Sanomat Oy.*



Arto Kuusiola

b. 1952, M.Sc. (Econ.)

Finance Director and member of the Management Group of the Central Organisation of Finnish Trade Unions SAK; deputy member of Varma's Board of Directors since 2012, term expires in 2016

Chairman of the Board of Asuntosäätiö; Internal Auditor for the International Trade Union Confederation (ITUC); and member of the International Solidarity Fund Management Board.



Liisa Leino

b. 1960, M.A. (Educ.)

Chairman of the Board and Managing Director, Leinovalu Oy; deputy member of Varma's Board of Directors since 2011, term expires in 2016

Member of the Boards of Metsä Board Corporation, Elomatic Oy, and the Federation of Finnish Technology Industries; and member of the Supervisory Boards of the Finnish Business and Policy Forum EVA and ETLA, the Research Institute of the Finnish Economy.*



Also the following persons served in Varma's Board during the financial year 1 Jan–31 Dec 2014:

Kari Jordan

b. 1956, M.Sc. (Econ.)

President & CEO, Metsä Group; member of Varma's Board of Directors since 2013 and Chairman since 2014

Chairman of the Boards of Directors of Metsä Board Corporation, Metsä Tissue Corporation, Metsä Fibre Corporation and the Central Chamber of Commerce; Vice Chairman of the Board of the Finnish Forest Industries Federation and the Confederation of Finnish Industries EK; in addition, holds several board memberships in various foundations and associations.*

Term ended 31 December 2014.



Lasse Laatunen

b. 1950, LL.M.

Labour Market Director, the Confederation of Finnish Industries EK; member of Varma's Board of Directors since 1998

Member of the boards of the Finnish Centre for Pensions, the Federation of Accident Insurance Institutions (TVL) and the Social Insurance Institution (Kela).

Term ended 31 December 2014.



Karsten Slotte

b. 1953, B.Sc. (Econ.)

Member of Varma's Board of Directors since 2009

Member of the Boards of Onninen Oy, Fiskars Corporation, Oriola-KD Oyj, Onvest Oy, Royal Unibrew A/S, the Finnish-Swedish Chamber of Commerce, the TT Foundation and Scandi Standard AB (publ).

Term ended 31 December 2014.



Those marked with * in the list of Board members are members of the executive management of important client companies of Varma; the other members are independent for the purposes of the Finnish Corporate Governance Code (Recommendation 15).

Board of Directors' Committees

As laid down in the Articles of Association, Varma's Board of Directors has elected a Nomination and Compensation Committee and an Audit Committee from among its members. The Chairman and the Deputy Chairmen of the Board of Directors also meet with the CEO, as necessary, to prepare matters to be considered by the Board of Directors.

Audit Committee

The main tasks of the Audit Committee include the supervision of internal company control, risk management and financial and other reporting, as well as the monitoring of the work and observations made by the auditors and the internal audit. The Committee does not have the power to make decisions independently. The Committee reports on its work and observations to the Board of Directors.

In 2014, Kari Jordan (Chairman), Antti Palola, Karsten Slotte, and Kai Telanne were members of the Audit Committee.

The Audit Committee convened three times in 2014 and the attendance rate of the members was 100%.

Of the Committee members, Kari Jordan and Kai Telanne are members of the executive management of Varma's client companies for the purposes of the Finnish Corporate Governance Code (Recommendation 15).

Nomination and Compensation Committee

The Nomination and Compensation Committee prepares Varma's compensation and incentive schemes and the employment terms and conditions of the company management. The proposals of the Committee are submitted to the Board of Directors for decision.

In 2014, Kari Jordan (Chairman), Antti Palola and Jari Paasikivi were members of the Nomination and Compensation Committee.

The Committee held seven meetings in 2014 (attendance rate 100 per cent).

Of the Committee members, Kari Jordan and Jari Paasikivi are members of the executive management of Varma's client companies for the purposes of the Finnish Corporate Governance Code (Recommendation 15).

President and CEO

The CEO takes care of the administration of Varma according to the regulations and instructions of the Board of Directors. The CEO sees to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

It is the duty of the CEO to promote the interests of the company. The CEO manages the company according to sound business principles and principles of good governance and risk management. The CEO represents Varma in matters that fall within the sphere of tasks laid down in legislation.

Varma's President & CEO is Risto Murto, b. 1963 (CEO of Varma since 2014; Deputy Chairman of the Boards of Kaleva Mutual Insurance Company and the University of Oulu; 1st Deputy Chairman of the Board of the Finnish Pension Alliance TELA; and member of the Boards of Wärtsilä Corporation, Nokian Tyres Plc and the Federation of Finnish Financial Services).

The CEO is assisted by Varma's Executive Group, which has, in addition to the CEO, nine management representatives and two staff representatives as members. The task of the Executive Group is to steer and develop Varma's operations so that the strategic objectives approved by the company's Board of Directors are met.

Decisions on the remuneration and benefits of the CEO and the other members of the Executive Group are made by the Board of Directors. Information on these is presented in a separate Salary and Remuneration Statement.

The CEO and the members of the Executive Group and the persons under their guardianship and the companies under their control have been included in Varma's internal related-party register. Selling or otherwise transferring the Company's assets to those included in the register as well as acquiring assets from them are subject to a separate decision by the Board of Directors. No such transfers took place in 2014.

When deciding on new representation in Boards of Directors or Supervisory Boards, the decision concerning the President and CEO is made by the Board of Directors following a discussion by the Nomination and Compensation Committee, on a proposal by the Chairman of the Board of Directors.

The Chairman of the Board of Directors decides on the new representation in the Board of Directors or Supervisory Board of a member of the Executive Group in a corporation that is not Varma's subsidiary on the President and CEO's proposal using the "one-over-one" principle, whereas representation in Varma's subsidiary's Board of Directors or Supervisory Board and Varma's representation in the earnings-related pension sector's co-operative bodies is decided by the President and CEO.

When deciding on representation, the decision-maker evaluates:

- whether the representation is, due to possible conflicts of interest, likely to undermine trust in the realisation of the independence requirements of an earnings-related pension company, which are highlighted in legislation.
- whether the representation will have adverse effects on the decision-making of Varma's investment operations.

The Investment Committee deals with major investment issues that are submitted to the CEO for decision. The Committee has the CEO and the executives responsible for investment operations as its members. The Committee prepares the investment proposals for the Board of Directors and makes decisions on matters in which it is authorised under the investment plan approved each year by the Board of Directors, and which have not been delegated to a lower level. The Committee also monitors investment risks.

Executive Group

Risto Murto

President and CEO

b. 1963, Ph.D. (Econ.)

Key work experience:

Deputy CEO and Chief Investment Officer, Varma 2010–2013; Chief Investment Officer, Varma 2006–2010; Managing Director, Opstock Ltd 2000–2005; Director, Opstock Ltd 1997–2000

Deputy Chairman of the Boards of Kaleva Mutual Insurance Company and the University of Oulu; 1st Deputy Chairman of the Board of the Finnish Pension Alliance Tela; and member of the Boards of the Federation of Finnish Financial Services, Wärtsilä Corporation and Nokian Tyres Plc

President and CEO since 2014



Timo Kaisanlahti

Senior Vice-President, Administration

b. 1962, LL.D., M.Sc. (Econ.)

Key work experience:

Ministerial Adviser, Ministry of Finance 2004–2005; Ministerial Adviser, Ministry of Transport and Communications 2003–2004; Legal Counsel, KLegal Oy 2003; Legal Counsel, Varma-Sampo 2001–2002; Ministerial Adviser, Ministry of Trade and Industry 1996–2000

Chairman of the Accounting Board; Chairman of the Board of Osakevarma Oy; member of the Representatives of the Finnish Centre for Pensions

Member of the Executive Group since 2007



Tiina Kurki

Senior Vice-President, IT

b. 1961, Master of Business Administration

Key work experience:

BCIO, Nordea Bank Finland Plc 2011–2012; Group IT management positions, Nordea Bank Finland Plc, 2008–2011; Vice President, TietoEnator Oyj 2002–2008; Department Manager and Specialist, TietoEnator Oyj 1986–2002

Chairman of the Board of Tieto Esy Ltd; deputy member of the Board of Arek Oy

Member of the Executive Group since 2012



Ville-Veikko Laukkanen

Senior Vice-President, Client Services

b. 1970, LL.M.

Key work experience:

Head of Household Customers and Group Marketing, Nordea Bank Finland Plc 2010–2012; Head of Business, TrygVesta/Nordea General Insurance 2003–2010; Vice President, Tryg Forsikring A/S/Nordea General Insurance 2001–2003; Legal Counsel and Claims Manager, AIG Europe S.A. Finland 1999–2001; Lawyer, Sampo Insurance Company 1996–1999; Federation of Finnish Financial Services, member of the non-life insurance committee 2006–2010; Nordea Investment Fund Company Finland Ltd, Board member 2010–2011

Member of the Board of Kaleva Mutual Insurance Company

Member of the Executive Group since 2012



Pasi Mustonen

Senior Vice-President, Actuaries

b. 1964, M.A., FASF

Key work experience:

Actuary, Varma 1998–2001; Actuary, Sampo Pension 1996–1998; Mathematician, Sampo Pension 1989–1996

Deputy member of the Board of the Finnish Centre for Pensions

Member of the Executive Group since 2004



Pekka Pajamo

Senior Vice-President, Finance

b. 1962, M.Sc. (Econ.)

Key work experience:

Employment with KPMG Oy Ab 1988–2012: Authorised Public Accountant 1993–2012, partner 1998–2012

Chairman of the Board of The Finnish National Theatre Ltd.; Member the Boards of Arek Oy, Finnish National Opera Foundation and Varman kiinteistöyhtiöt

Member of the Executive Group since 2012



Satu Perälampi

Senior Vice-President, Communications

b. 1970, M.Sc. (Econ.)

Key work experience:

Vice President, Corporate Communications and Investor Relations, Pöyry Plc 2007–2009; Investor Relations Manager, Pöyry Plc 2000–2007

Member of the Executive Group since 2009



Jyrki Rasi

Senior Vice-President, Pension Services

b. 1966, LL.M.

Key work experience:

Department Manager, Varma 1999–2006; Legal Counsel, Pension Sampo 1996–1998

Member of the Board of Tieto Esy Ltd

Member of the Executive Group since 2007



Reima Rytsölä

Senior Vice President, Investments

b. 1969, M.Soc.Sc., CEFA, AMP

Key work experience:

Senior Executive Vice President, Head of Banking, Group-level responsibility for major corporate and institutional customers, Pohjola Bank Plc 2008–2013; Management and investment positions at Pohjola Bank Plc and its subsidiaries 1998–2007

Member of the Board of VVO Group plc

Member of the Executive Group since 2014



Mari Laine

Employee Representative

b. 1974, BBA

Key work experience:

TyEL contribution expert, Varma 2005–

Member of the Executive Group since 2010



Reetta-Kaisa Lehtinen

Employee Representative

b. 1976, B.Soc.Sc. (Polytechnic), B.A.

Key work experience:

Planner, Varma 2013–; Head Planner, Maintenance, Varma 2007–2012; Planner, Varma 2005–2007; Pension Handler, Varma 2002–2005

Member of the Executive Group since 2014

Pasi Mustonen is Varma's Chief Actuary. Jukka Kivekäs is Varma's Senior Physician.



Medical Affairs and Consultant Physicians

Medical Affairs:

Jukka Kivekäs

Senior Physician

b. 1954, docent, insurance medicine, M.D.

Consultant Physicians:

- Tuula Kieseppä
- Otto Lindberg
- Heikki Nikkilä
- Mikael Ojala
- Pekka Palin
- Ritva-Liisa Peltomäki
- Liisamari Krüger
- Tanja Rokkanen
- Sakari Tola (retired on 1 May 2014)

Consultative Committees

Varma aims to promote open societal interaction, to develop more customer-oriented operations and to listen to its customers. To support these goals, Varma has five consultative committees which primarily serve an advisory role. The consultative committees' term of office is three years, and the members are appointed by Varma's Board of Directors.

Consultative Committee for Pension Affairs

The Committee is made up of representatives from Varma and labour market organisations, and its members are appointed by Varma's Board of Directors. It makes recommendations on disability pensions.

- Chairman: Jyrki Rasi, Pensions Director, Varma
- Vice Chairman: Jukka Kivekäs, Senior Physician, Varma
- Ilkka Kaukoranta, economist, Central Organisation of Finnish Trade Unions, SAK
- Mikko Räsänen, Senior Advisor, Confederation of Finnish Industries EK
- Juhani Siira, Union Secretary, Finnish Paperworkers' Union
- Riitta Työläjärvi, Senior Adviser, Social and Health Policy, Finnish Confederation of Salaried Employees STTK
- Anja Uljas, Head of R&D, Finnish Association of Graduates in Economics and Business Administration
- Riitta Wärn, Senior Advisor, Confederation of Finnish Industries EK

From Varma, Arto Hartikainen, Pension Services Director, and Kari Ahtiainen, Adjudication Manager, also participated in the meetings of the Consultative Committee.

Consultative Committee of Pensioners

The Consultative Committee of Pensioners develops co-operation between Varma and pensioners. It consists of pensioners from all over Finland as well as expert members. Varma's Board of Directors appoints the members for a three-year term.

- Hemmo Auvinen
- Kari Halme
- Kaija Hietala
- Teuvo Kalso
- Aulikki Kananoja (expert member)
- Pirkko Lahti
- Marja Leppänen
- Pekka Luoma
- Tarja Nyman (Chairman)
- Hannu Roine
- Risto Siivola (Vice Chairman)
- Sakari Tola
- Veikko T. Valkonen
- Hilppa Vienonen
- Antti Viinikka
- Hannu Uusitalo (expert member)

Consultative Committee of the Insured

The Consultative Committee of the Insured is a co-operative body that acts as an intermediary between Varma and the insured (TyEL). Its objective is to further co-operation and communication between the company and employees insured by the company. The members represent central employee organisations.

Representatives of the Confederation of Unions for Academic Professionals in Finland, Akava:

- Terttu Heinonen, Stora Enso Oyj
- Keijo Hyvärinen, Elisa Corporation
- Jouni Jaakkonen, Nordea Bank Finland Plc
- Sirpa Jukarainen, Suomen Lähikauppa Oy
- Marko Klapuri, Etteplan Design Center Oy
- Timo Veijola, Nokia Solutions and Networks Oy

Representatives of the Central Organisation of Finnish Trade Unions, SAK:

- Ari Airas, Ovako Imatra Oy Ab
- Eero Holsti, Abloy Oy
- Jukka Hämäläinen, Jyväskylän Liikenne Oy
- Kai Kolho, DS Smith Packaging Finland Oy
- Marjaana Korhonen, Savon Sanomat Oy
- Juha Manni, Honkarakenne Oyj
- Sakari Ojala, VR Group Ltd
- Kari Peltovirta, Suomen Lähikauppa Oy
- Jouni Suomalainen, Sokotel Oy
- Ville Vatka, HK Ruokatalo Oy
- Timo Virtanen, Metsä Tissue Oyj
- Kari Ylikauppila, Fortum Power and Heat Oy

Representatives of the Finnish Confederation of Salaried Employees, STTK:

- Liisa Halme, If P&C Insurance Company Ltd
- Paula Hopponen, Nordea Bank Finland Plc
- Timo Jaakkola, NCC Rakennus Oy
- Juha Kivistö, Elisa Corporation
- Irma Kronlöf, Mehiläinen Oy
- Satu Kurri, Ovako Imatra Oy Ab
- Hannu Kuusikko, Instru Optiikka Oy
- Jari Mansikkamäki, Wärtsilä Finland Oy
- Ulla Rannikko, VVO Group Plc
- Osmo Salo, Meyer Turku Oy

Consultative Committee of Employers

Interaction and communication between Varma and employers is strengthened by the Consultative Committee of Employers which is named by Varma's Board of Directors. The committee, which consists of employer representatives, keeps track of issues related to the Employees Pensions Act (TyEL) and gives statements and recommendations concerning companies' pension insurance and its development.

- Tuomo Aine, Managing Director, Harjavalta Oy
- Eila Annala, Managing Director, PlusTerveys Oy (Chairman)
- Matti Bergendahl
- Kim Biskop, Managing Director, Osuuskauppa KPO
- Harri Broman, Managing Director, Broman Group Oy
- Marko Edfelt, Managing Director, Mainostoimisto Satumaa Oy
- Pasi Flinkman, Managing Director, Orkla C&S Oy
- Charlotta Furuhjelm, Managing Director, Brandt Group Oy Ltd
- Jyrki Heinimaa, Managing Director, Hollming Ltd
- Matti Hyytiäinen, Managing Director, PKC Group Oyj
- Erkki Kaunisto, Group CEO, Sähkö-Kaunisto Oy
- Mika Kiljunen, Managing Director, Staffpoint Holding Oy
- Ville Kopra, Managing Director, Versowood Oy
- Heikki Kovanen, Managing Director, Kovanen Yhtiöt Oy
- Pekka Kuusniemi, Managing Director, Oras Oy
- Päivi Leiwo, Chairman of the Board, Oilon Oy
- Eero Leskinen, Partner, Sentic Partners Oy
- Olli Manner, President & CEO, Elomatic Ltd (Deputy Chairman)
- Heikki Marva, Managing Director, Länsi-Suomi-yhtymä Oy
- Ilkka Mäkelä, Managing Director, Saarioinen Oy
- Jyrki Mäki, Managing Director, Atoy Oy
- Jussi Niemelä, Managing Director, Delete Group Oy
- Jari Ollila, Chairman of the Board, Purso Oy
- Virpi Paasonen, Managing Director, CWT Kaleva Travel Oy
- Markku E. Rentto, Managing Director, Neo Industrial Plc
- Irmeli Rytkönen, Managing Director, Gigantti Oy
- Seppo Saarelainen, Managing Director, Betonimestarit Oy
- Timo Salli, Managing Director, Katsa Oy
- Juha Salonen, Chairman of the Board, Perheleipurit Oy
- Harri Savolainen, Managing Director, NCC Construction Ltd
- Jorma Siren, Managing Director, Abloy Oy
- Jukka Suovanen, Managing Director, Odum Oy
- Heikki Väänänen, Managing Director, Tokmanni Oy
- Petteri Wallden, Vice Chairman of the Board, Tikkurila Oy
- Pertti Yliniemi, Chairman of the Board, Lapland Hotels Group

Consultative Committee of Self-Employed Persons

The Consultative Committee of Self-Employed Persons strengthens the co-operation between Varma and self-employed persons. The committee also participates in developing services for entrepreneurs. Varma was the first earnings-related pension company to establish a consultative committee exclusively for entrepreneurs in 2008. Before this, the consultative committees for self-employed persons and employers functioned jointly. The members are appointed by Varma's Board of Directors.

- Aulis Asikainen, Insinööritoimisto Comatec Oy
- Michael Casagrande, Cleanside Oy (Chairman)
- Seija Estlander, Viestintätoimisto Estlander
- Leena Harkimo, Member of Parliament
- Kirsti Hintikka, Siivouspalvelu Kirsti Hintikka Ky
- Jyrki Hollmén, Confederation of Finnish Industries EK
- Pasi Holm, Pellervo Economic Research Institute PTT
- Riitta Hämäläinen-Bister, Deviation Finland Oy
- Henri Juva, Mikenti-yhtiöt Oy
- Jaana Jääskeläinen, Jaanan Ompelimo ja Asuste Ky
- Juho Kettunen, Idän Revontulet Oy
- Anssi Kujala, Federation of Finnish Enterprises
- Merja Lintervo, Linvestia Oy (Vice Chairman)
- Harry Luokkamäki, machine contractor
- Merja Metsävaara-Mildh, Front Desk Oy
- Isto Molarius, Ruoka-Norppa Oy
- Karri Nieminen, Fiscales Oy
- Pekka Niinistö, APX-metalli Oy
- Heikki Palin, Palin-Granit Oy
- Paula Palmroth, Turun Kansallinen Kirjakauppa Oy (Vice Chairman)
- Jari Porthén, Realco Oy
- Marcus von Schantz, Accounting Services Tilimatic Oy
- Kari Sorjonen, Tasowheel Oy
- Niina Stolt, Studio Onni
- Timo Tolppa, Metsäkonepalvelu Oy

Salary and remuneration statement

The statement is based on the Finnish Corporate Governance Code. Varma complies with the Code provisions that apply to the statutory activities of earnings-related pension insurance companies. The statement can be viewed at www.varma.fi.

The statement describes the situation on 31 December 2014.

Decision-making procedure and remuneration principles

1.1 Decision-making procedure

Varma's Board of Directors annually decides on the principles and maximum amounts of the company's performance-based remuneration, as well as the personnel groups that are included. The Board of Directors also decides on the remuneration of the President and CEO and the members of the Executive Group, according to the 'one-over-one' principle, in which the decision is made by at least one organisational level above the superior of the person in question.

1.2 Composition and authority of the Nomination and Compensation Committee

The preparation of remuneration matters to be discussed by the Board of Directors is the responsibility of the Nomination and Compensation Committee, appointed by the Board of Directors. In 2014, the Committee consisted of the Chairman of the Board of Directors Kari Jordan and Deputy Chairmen Jari Paasikivi and Antti Palola. Remuneration decisions are made by the Board of Directors.

1.3 Contents of the performance-based remuneration schemes

Varma has three performance-based remuneration schemes in use:

- the incentive scheme for key persons
- the separate scheme for Investment Operations (see 1.3.2.) and
- the annual bonus scheme (see 1.3.3.).

The key principles of performance-based remuneration are as follows:

- The schemes support Varma's long-term objectives, which include solvency, the return on investments and cost efficiency.
- Remuneration should be planned so as to prevent unhealthy risk-taking. Therefore, the schemes include pre-defined maximum amounts of remuneration and a force majeure clause, which gives the Board of Directors the right to discontinue the schemes before the end of the period if the company's economic position is jeopardised (see 1.5. for more details).
- The Board of Directors decides on the payment of performance-based remuneration annually after the end of the incentive period.
- The share of performance-based remuneration of total remuneration shall increase along with an increase in the person's responsibility and capacity to influence the performance of other Varma employees and the success of the company.
- Compliance with the norms regulating the activities is also considered when making remuneration decisions. Performance-based remuneration is not paid or it will be recovered as an unjustified gain if it is discovered that the person in question has behaved contrary to Varma's internal guidelines or ethical principles, legislation or official regulations or guidelines.
- Remuneration decisions must always be made according to the 'one-above' principle, i.e. by the supervisor of the supervisor of the person in question.

1.3.1. Incentive scheme for key persons

The purpose of the incentive scheme is to commit key persons to Varma and its objectives, which is why performance-based remuneration is determined on the basis of common, company-level criteria. The extent to which the objectives set for the criteria are achieved linearly determines how big a share of the maximum sum of the incentive is distributed.

The incentive scheme is based on incentive periods of three calendar years. At the beginning of each incentive period, the Board of Directors identifies the persons covered by the scheme, their maximum remuneration, and the remuneration criteria and their indicators.

The persons covered by the new scheme are not part of the annual bonus scheme described in section 1.3.3; their remuneration is determined solely on the basis of the incentive scheme for key persons.

In the incentive scheme for key persons, the maximum bonus paid to the CEO corresponds to his 12 months' salary, the maximum bonus paid to members of the Executive Group corresponds to their 6.5 months' salary, and the maximum bonus paid to other designated key persons corresponds to their 3.5 or 4.5 months' salary. The scheme covers a maximum of 40 Varma employees.

A share of the CEO's bonus, and that of other members of the Executive Group, that corresponds to no more than 6 months' salary is paid within one month following the granting of the bonus, and the remainder within three years in three equal instalments (1st year: 1/3; 2nd year: 1/3; and 3rd year: 1/3).

The Senior Vice-President of Investments and other Investment Operations personnel do not participate in the incentive scheme for key persons or in the former long-term incentive scheme.

1.3.2. Separate scheme for Investment Operations

The aim of the Board-approved separate scheme for Investment Operations is to benefit from added value that is created if Varma's solvency and return on investments develop, in the long term, better than those of a peer group of competitors. The separate scheme covers, in addition to the Senior Vice-President of Investments, a maximum of 50 key persons in Investment Operations.

Personal maximum remuneration is based on the last salaried month of the previous calendar year and corresponds to a maximum of 12–14 months' salary.

A share of remuneration that corresponds to no more than 6 months' salary is paid within one month following the granting of the remuneration, and the remainder within three years in three equal instalments (1st year: 1/3; 2nd year: 1/3; and 3rd year: 1/3).

1.3.3. Annual bonus scheme

All Varma employees are covered by an annual bonus scheme, with the exception of Varma personnel who are covered by the incentive scheme for key persons (see section 1.3.1. above) and the separate scheme for Investment Operations (see 1.3.2. above). Remuneration is paid from one scheme only.

The amount paid as an annual bonus is determined on the basis of the achievement of personal objectives agreed on in development discussions and on the company's result; the higher the person's possibility to influence the company's result, the greater its weight.

The base for the maximum annual bonus is determined by the person's position and monthly salary. The maximum bonuses under the annual bonus scheme correspond to 1–4 months' salary.

1.4. Remuneration in relation to performance

In all schemes, performance-based remuneration is dependent on the achievement of the criteria based on performance indicators. The extent to which the objectives set for the criteria are achieved linearly determines how large a part of the maximum sum is distributed.

1.5. Basis for performance measurement and risk weighting

In all of Varma's incentive schemes, performance measurement is based on objective criteria, the realisation of which can be independently verified.

Apart from maximum remuneration determined in advance, the risk inherent in the incentive schemes is managed such that the Board of Directors has reserved the right to discontinue the schemes before the end of the incentive period. The discontinuation can be based on the Board of Directors' assessment that Varma's economic position is seriously jeopardised due to a reason inside or outside the company.

Excessive risk-taking is also prevented by a maximum risk level confirmed by the Board of Directors.

Remuneration of Supervisory Board members

The Supervisory Board convened three times in 2014. The average attendance rate was 71 per cent.

Remuneration of the Supervisory Board is decided by the Annual General Meeting. The annual remuneration of the Chairman of the Supervisory Board is EUR 5,000, of the Deputy Chairmen EUR 3,800 and of other members, EUR 2,500. In addition, the members of the Supervisory Board receive a meeting fee of EUR 300.

Members of the Supervisory Board are insured under Section 8 of the Employees Pensions Act TyEL, and a TyEL contribution is paid on the meeting fee.

Varma's Supervisory Board 2014 – attendance and remunerations

Name	Supervisory Board meetings, attendance	Election Committee	Annual remuneration, €	Meeting and Committee remunerations, €	Total, €
Chairman					
Tapio Kuula	2/3	2/2	5,000	1,200	6,200
Deputy Chairmen					
Martti Alakoski	3/3	2/2	3,800	1,500	5,300
Satu Wrede	2/3		3,800	600	4,400
Members					
Juri Aaltonen	2/3		2,500	600	3,100
Berndt Brunow	1/3		2,500	300	2,800
Petri Castrén	2/3		2,500	300	2,800
Erkki Etola	3/3		2,500	900	3,400
Stig Gustavson	3/3		2,500	900	3,400
Tauno Heinola	3/3		2,500	900	3,400
Tapio Korpeinen	3/3		2,500	900	3,400
Päivi Kärkkäinen	3/3		2,500	900	3,400
Olli Luukkainen	2/3		2,500	600	3,100
Ilkka Nokelainen	2/3		2,500	600	3,100
Lauri Peltola	3/3		2,500	900	3,400
Hannu Penttilä	2/2		1,250	600	1,850
Juhani Pitkäkoski	0/3		2,500	0	2,500
Matti Rihko	1/2		1,875	300	2,175
Pertti Saarela	3/3		2,500	900	3,400
Kari Sairo	2/3		2,500	600	3,100
Mika Seitovirta	1/3		2,500	300	2,800
Saana Siekkinen	3/3		2,500	900	3,400
Jorma J. Takanen	2/3		2,500	600	3,100
Arja Talma	3/3		2,500	900	3,400
Leena Vainiomäki	2/3		2,500	600	3,100
Jorma Vehviläinen	2/2		1,875	600	2,475
Kari Virta	3/3		2,500	900	3,400
Anssi Vuorio	2/3		2,500	600	3,100
Göran Åberg	0/3		2,500	0	2,500

Remuneration of the Board of Directors' members

The Board of Directors convened nine times in 2014. The average attendance rate (including deputy members) was 89.6 per cent.

Remuneration of Varma's Board of Directors is decided by the Supervisory Board. In 2014, the annual remunerations were: EUR 45,000 for the Chairman, EUR 32,000 for the Deputy Chairman, EUR 18,000 for members and EUR 13,000 for deputy members. A meeting fee of EUR 600 per meeting was also paid. The same meeting fee is also paid for the meetings of the Board of Directors' committees, as well as for the meetings of the presiding officers and the Supervisory Board.

The Supervisory Board decided on 2 December 2014 that the remunerations for 2015 will remain unchanged.

Members of the Board of Directors are insured under Section 8 of the Employees Pensions Act TyEL, and a TyEL contribution is paid on the meeting fee.

Varma's Board of Directors 2014 – attendance and remunerations

Name	Board of Directors' meetings, attendance	Nomina-tion and Compensation Committee	Audit Commit-tee	Election Commit-tee	Super- visory Board	Annual remunera-tion, €	Meeting and Com-mittee remunera-tions, €	Total, €
Chairman								
Kari Jordan	9/9	7/7	3/3	2/2	3/3	45,000	13,800	58,800
Deputy Chairmen								
Jari Paasikivi	7/9	7/7		2/2	1/3	32,000	9,600	41,600
Antti Palola	9/9	7/7	3/3	2/2	1/3	32,000	12,600	44,600
Members								
Riku Aalto	8/9				3/3	18,000	6,600	24,600
Mikael Aro	7/9					18,000	4,200	22,200
Johanna Ikäheimo	9/9				1/3	18,000	6,000	24,000
Ari Kaperi	8/9					18,000	4,800	22,800
Lasse Laatumen	9/9				2/3	18,000	6,600	24,600
Petri Niemisvirta	9/9					18,000	5,400	23,400
Karsten Slotte	8/9		3/3			18,000	6,600	24,600
Kai Telanne	7/9		3/3		1/3	18,000	6,600	24,600
Veli-Matti Töyrylä	9/9			2/2	3/3	18,000	7,800	25,800
Deputy members								
Mikko Ketonen	6/9					13,000	3,600	16,600
Arto Kuusiola	9/9					13,000	5,400	18,400
Liisa Leino	7/9				1/3	13,000	4,800	17,800

Remuneration scheme for the President and CEO and members of the Executive Group

Remuneration and other benefits of the President and CEO

The Board of Directors appoints the President and CEO and decides on the terms of his/her employment relationship.

Varma's President and CEO is Risto Murto. His remuneration and fringe benefits in 2014 totalled EUR 650,661.56; in addition, in 2015 he will be due to receive EUR 123,630 as a deferred bonus under the separate scheme for Investment Operations for 2012. Under the incentive scheme for key persons, Murto's maximum bonus is no more than 12 months' worth of salary. The incentive scheme for key persons is described above in section 1.3.1. Murto is no longer part of the separate scheme for Investment Operations (see section 1.3.2. above) or the annual bonus scheme (section 1.3.3.).

President and CEO Risto Murto's fixed monthly salary is EUR 43,000. The President and CEO does not have a company flat. The value of his company car benefit is EUR 855/month, and the value of his mobile phone benefit is EUR 20/month. The tax value of these fringe benefits is included in his salary.

CEO Risto Murto's retirement age is 63 years. His pension benefits under supplementary pension insurance will be 60 per cent of the pensionable salary of the supplementary pension. The pensionable salary is calculated on the basis of the salary, including performance pay, over the preceding 10 full calendar years. The costs for Murto's supplementary pension agreement amounted to EUR 60,708 in 2014.

The president and CEO has a period of notice of six months, in addition to which he is entitled to severance pay equal to six months' salary.

Remuneration and other benefits of the members of the Executive Group

The Board of Directors decides on the remuneration and other terms of employment of the members of the Executive Group.

Members of the Executive Group are covered by the incentive scheme for key persons as described above (see 1.3.1.).

In 2014, the salaries and fringe benefits of the members of the Executive Group, excluding the President and CEO, were EUR 1,270,103.70 and performance pay EUR 159,132.20 (for 2013) and EUR 109,133.63 (for the long-term incentive scheme for 2011–2013), totalling EUR 1,538,369.53.

The costs for the members of the Executive Group's supplementary pension agreements amounted to EUR 194,554 in 2014.

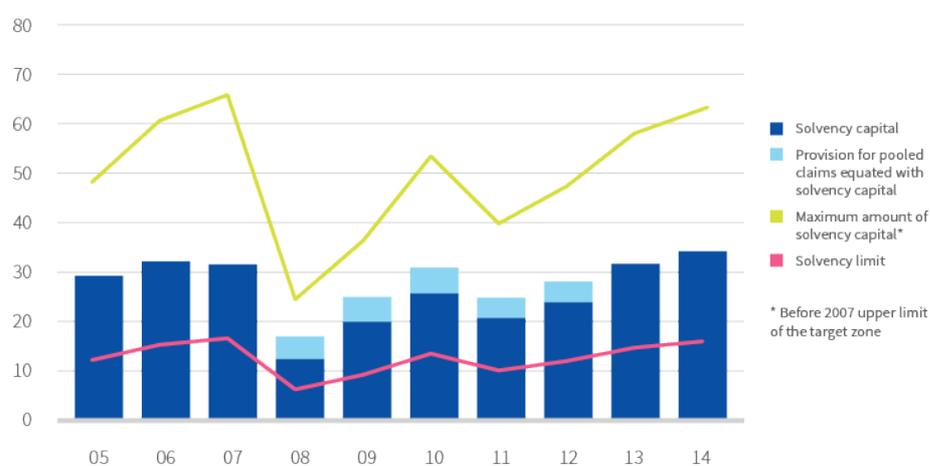
The members of the Executive Group do not have a company flat. The members of the Executive Group have the option of a company car benefit and they have a mobile phone benefit. The tax value of these fringe benefits is included in the members' salary.

Report of the Board of Directors 2014

- The total result was EUR 1,223 (1,558) million, and the balance sheet total at fair value was EUR 40.6 (38.3) billion.
- Solvency capital was the highest among the main earnings-related pension companies, at EUR 10,252 (9,140) million, i.e. 34.0 (31.6) per cent of technical provisions.
- The return on investment was 7.1 (9.0) per cent, and the market value of investments stood at EUR 40.0 (37.7) billion.
- The loading profit was EUR 33.4 (32.0) million.

Solvency 2005–2014

% of technical provisions



Economic operating environment

The economic year 2014 ended in a climate of increasing uncertainty

Uncertainty in the economic operating environment grew in the second half of 2014, and the year ended in an atmosphere of increasing uncertainty. Political and economical tension in Middle East continued, and the conflict between Russia and the West cast a shadow on the economic outlook for Finland and Europe especially. The increased risks caused greater fluctuations in the markets. This uncertainty is counterbalanced by the fact that the financial crisis and globally the strictest fiscal discipline measures are over.

Growth remained strong in both the U.S. and the U.K. Early in 2014 the favourable development of the U.S. economy stalled, which caused concern about whether it would recover and about the risks related to the change in direction of the country's monetary policy. However, the U.S. economy resumed its upward trend, supported by the favourable development in asset values and improving labour market situation. The growth of the U.S. economy is expected to remain strong, although recovery has been moderate, especially considering how monetary policy has been used to support the economy.

Global investment demand remains feeble, and growth in global trade volumes is slow. China and other emerging economies continue to develop, although moderately compared to recent years. The investment cycle is picking up, which is expected to increase economic activity. However, the escalating geopolitical uncertainty is also increasing economic uncertainty. So far, this has not resulted in any market disturbances that would indicate a marked weakening in confidence in the global economy. The strong downward trend in oil prices since late 2014 also contributes to the economic growth of industrial countries.

The eurozone still has not recovered. Growth did not take off, concern over deflation increased and unemployment rates remain high in several member states. Greece is struggling to meet its obligations, but many other countries in crisis have been able to make progress in balancing their economies. Considering the eurozone as a whole, growth in overall demand has been moderate, and the structural reforms and austerity measures called for by public finances are depressing the domestic markets. Adjustment measures, however, are no longer tightening, which creates conditions for stronger growth.

Russian economy plummeting

Russia's economy shrank sharply. In the last quarter of the year the price of oil was falling rapidly for reasons relating to both demand and supply. In addition to the crashing oil price, the Russian economy is being strangled by Western sanctions. The country's economy suffered from ruble rout, and the Bank of Russia had not succeeded in stabilising the situation through its actions by year-end. On one hand, the collapsing Russian economy weakens the outlook in the eurozone and especially in Finland, but on the other hand, the fall in the price of oil promotes economic growth in Finland and the rest of Europe.

Monetary policy is key

Towards the end of the year the investment markets grew increasingly restless. The rise in share prices has continued for a long time, bolstered by monetary policy. The equity markets and the real economy seem to have diverged in Finland and elsewhere in Europe. In the U.S., market valuations also climbed to historically high levels.

The European Central Bank resorted to exceptional monetary policy measures. By stretching the boundaries of its mandate, the ECB has been able to stop the financial crisis from escalating in the eurozone. Growth remains sluggish, though, and deflationary pressures also exist. The eurozone markets expected new, stronger measures by the ECB aimed at promoting economic growth. The U.S. central bank, the Fed, has been normalising its monetary policy as the economy recovers. The Fed repeatedly confirmed its commitment to maintaining economic growth. The central banks' success in adapting monetary

policy to changing conditions will be critical in order to ensure economic growth and the stable development of the capital markets.

Finland's economy in deep trouble

In 2014, total output in Finland is estimated to have remained at the previous year's level. Industrial output has been decreasing nearly nonstop for the past three years, and Finland has been losing market shares globally. Nearly all sectors of business and industry have been affected by the problems.

The decrease in the output of the electronics industry has a major impact on Finland's total output and its value-added rate. The renewal of business and trade structures is slow, and the price competitiveness of Finland has weakened. This has called for a moderate pay policy, which in turn has weakened the development of purchasing power and the recovery potential of the domestic markets. Declining industrial investments combined with the decreasing supply of workforce and modest development of output undermine the economy's growth potential also in the longer term. There is little leeway in Finland's public finances.

Strong solvency is Varma's strategic choice

Varma's task is to invest pension assets profitably and securely. The financial crisis has hit pension systems and institutional investors worldwide. Strong solvency is a strategic choice for Varma. Varma strives for the best possible return on investments based on its chosen risk profile in order to secure the payment of pensions. Strong solvency and pro-active and prudent diversification of investments play a key role in a demanding market situation. In a difficult market situation, strong solvency is a major benefit for a pension investor. Competent risk management ensures the profitable and secure investment of pension assets, as sudden movements are anticipated in the markets.

In the short-term, the goal of extending careers and companies' financial requirements do not necessarily coincide. A number of Varma's client companies are also experiencing difficult transformations. Varma's strategic goal is to offer effective pension insurance services. The ability to understand customers' needs is highlighted during major economic shifts. Varma is a strong expert in handling earnings-related pensions and a preferred specialist partner in workability management. Varma's goal is to be the most efficient pension insurance company and to offer its customers the best client bonuses in the sector.

Varma prepares for pension reform

The 2017 pension reform will better adjust our pension system to the longer life expectancy. The Confederation of Finnish Industries EK, the Central Organisation of Finnish Trade Unions SAK and the Finnish Confederation of Salaried Employees STTK reached an agreement on the contents of the reform on 26 September 2014. According to the impact assessments, the labour organisations' amendments meet the objectives set by the Finnish Government for pension reform. Tripartite preparation of legislation is ongoing on the basis of the pension reform agreement. Pension acts will be passed by the next parliament.

The pension reform will bring about changes to pension benefits and pension financing. According to the pension reform agreement, the lower and higher age limits for old-age pension will gradually rise as of 2017. As of 2025, the age limits for old-age pension will be linked to the increase in life expectancy, and the impact of the life expectancy coefficient will be more lenient. The accrual of earnings-related pension will be changed such that pension accrues at a rate of 1.5 per cent of annual income, irrespective of age.

The pension reform will introduce, alongside disability pension, a years-of-service pension at the age of 63. This pension can be applied for after 38 years of employment, provided that the work has been physically or mentally demanding and workability has diminished. Part-time pension will be replaced by partial early old-age pension, the age limit for which is 61 years until the year 2025 and 62 years thereafter.

The pension agreement also set the level of the contribution under the Employees Pensions Act TyEL at 24.4 per cent for 2017–2019. According to the Finnish Centre for Pensions' forecasts, the contribution level is sufficient for the long term. The labour market organisations will reassess the matter no later than during the negotiations on the pension contribution for the year 2020.

Another change concerning the financing of pensions involves raising the equity-linked provision for current and future bonuses from 10 to 20 per cent. Furthermore, the equity investments of a single pension insurance provider will be limited to a maximum of 60 per cent of the entire portfolio. These changes will increase earnings-related pension insurance institutions' possibilities to invest in equities and will support the sufficiency of the agreed contribution level in the long term.

The pension reform will have an impact on all of Varma's client companies and insured customers. Implementing the pension reform will, on one hand, increase the workload, but it will also give Varma a chance to deepen its client relationships. The goal of extending careers will not necessarily be met while the economy is suffering. However, the pension reform aims to achieve changes in the long term. Varma aims to handle its task – securing pensions and implementing the changes that the pension reform entails – as effectively as possible.

A legislative amendment that took effect at the beginning of 2014 will terminate the supplementary pension insurance (TEL-L) pursuant to the Employees Pensions Act on 31 December 2016. During 2014, policyholders and the insured were informed about the termination of the insurance and the impact this will have on the benefits of the insured. The number of these policies at Varma amount to about 330, covering around 4,400 people. Employers have until the end of 2016 to arrange a benefit corresponding to the supplementary pension cover.

In 2014, the average TyEL contribution was 23.6 (22.8) per cent of the total payroll. Employees below the age of 53 contributed 5.55 (5.15) per cent of their pay, while the rate for employees aged 53 and over was 7.05 (6.50) per cent. The YEL contribution was 23.3 (22.50) per cent of the confirmed earnings for those below the age of 53, and 24.8 (23.85) per cent for those aged 53 and over.

The return requirement on technical provisions consisted of a 3.0 (3.0) per cent fund rate, a pension liability supplementary factor and the return on equity component. The value of the supplementary factor was 1.44 per cent on average in 2014. The return on equity component in 2014 was 9.62 per cent. The technical rate of interest, which is used to determine the interest rate of the oldest premium loans, insurance contributions and a number of other items, was 4.50 until the end of June and 5.00 thereafter.

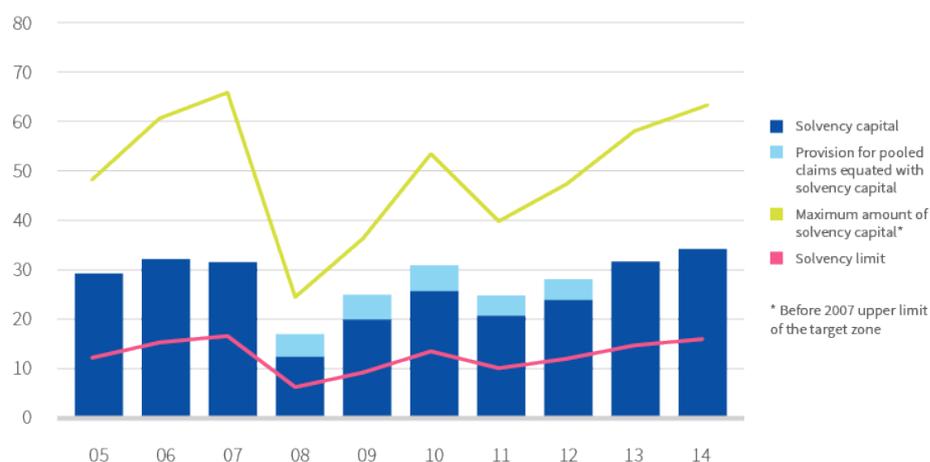
Varma's financial trends

Varma's total result at fair value stood at EUR 1,223 (1,558) million. The total quarterly result varied during the financial year, such that the second-quarter result was the strongest and the fourth-quarter result the weakest.

Varma's solvency strengthened during 2014 by EUR 1,112 million, and at the end of the year, solvency capital amounted to EUR 10,252 (9,140) million. Varma's solvency ratio, i.e. solvency capital in relation to technical provisions, is the highest among the main earnings-related pension companies, at 34.0 (31.6) per cent. Solvency capital was at a strong level: 2.2 (2.2) times higher than the solvency limit. The solvency limit is changed in accordance with the risk level of the investments. Varma's strategic goal is to maintain the company's strong solvency through stable returns and operational efficiency.

Solvency 2005–2014

% of technical provisions



The return on investments at fair value was EUR 2,699 (3,160) million, which represents 7.1 (9.0) per cent of the invested capital. The interest credited on the technical provisions was EUR 1,573 (1,648) million. Thus, the investment result for 2014 totalled EUR 1,125 (1,512) million. The average annual nominal return on Varma's investments over five years was 6.4 per cent, and over ten years 5.5 per cent, both of which figures are the highest in the sector. Operating expenses were 25 (24) per cent lower than the expense loading included in insurance contributions, and the loading profit stood at EUR 33 (32) million. The underwriting result was EUR 64 (15) million.

At the end of 2014, EUR 117 (105) million was transferred to the provision for current bonuses reserved for client bonuses. The transfer represents roughly 0.7 (0.6) per cent of the estimated payroll of the insured.

The TyEL payroll of those insured by Varma totalled about EUR 17.8 (17.8) billion in 2014. The payroll is estimated to have grown by 0.3 per cent. Varma's premiums written totalled EUR 4,344 (4,258) million, of which TyEL insurance accounted for EUR 4,150 (4,071) million and YEL insurance for EUR 193 (187) million.

At the end of the year, 527,140 (531,210) individuals were insured by Varma. At the end of the year, the number of valid insurance policies totalled 66,140 (66,740), covering 38,937 (39,810) self-employed persons and 488,190 (491,400) employees.

During the year, a total of 3,443 (3,796) new TyEL insurance policies and 4,875 (5,340) YEL insurance policies came into force at Varma.

Earnings and employment notifications received during the year totalled 1,631,284 (1,483,634), of which 93 (92) per cent were received electronically.

Varma provides policyholders with services through its own service channels and through the service networks of If P&C Insurance Ltd and the Nordea Group.

In 2014, a total gross amount of EUR 5,010 (4,787) million in pensions was paid out. The number of pension recipients increased, and at year-end, Varma was paying TyEL and YEL pensions to 334,500 (333,700) people.

A total of 21,051 (23,937) new pension decisions were made during the year. The number of new pension decisions decreased 5.8 percent and the total number of all pension decisions was 5.1 per cent lower than in 2013. Old-age pension decisions numbered 11,548 (11,514), and disability pension decisions amounted to 5,107 (5,461). The number of part-time pension decisions stood at 711 (1,052). Continuation decisions on temporary pensions totalled 4,631 (4,782), and other decisions numbered 14,846 (13,131). These include decisions and preliminary decisions required as a consequence of the changes in pension rights.

Vocational rehabilitation is an alternative to disability pension, and the number of rehabilitation cases at Varma increased again. Rehabilitation has proven to be successful, as currently about 72 per cent of those who receive Varma's rehabilitation return to the job market either in full or partly. Varma has for years been a forerunner in vocational rehabilitation. Throughout 2014 Varma assisted its client companies in managing personnel risks through client-oriented co-ordination of well-being-at-work services, rehabilitation services and pension-decision services in order to support the management of pension costs and longer careers. Varma also contributed to the costs of customers' workability management projects in accordance with jointly agreed and often multi-year plans and contracts.

	31 Dec. 2014	31 Dec. 2013	Change
Number of insured			
TyEL ¹	488,190	491,400	-3,210
YEL	38,937	39,810	-873
Total	527,127	531,210	-4,083
¹ of which covered by TEL registered supplementary pension insurance	4,390	4,928	-538
Number of insurance policies			
TyEL	27,223	26,930	293
Number of pensioners			
Part-time pension	2,567	3,320	-753
Survivors' pension	51,205	51,427	-222
Disability pension	30,671	33,324	-2,653
Unemployment pension	0	38	-38
Old-age pension	235,002	230,249	4,753
Early old-age pension	15,052	15,404	-352
Total ²	334,497	333,762	735
² Those receiving YEL pension	28,889	29,153	-264
Those receiving TEL/YEL supplementary pension	43,493	43,286	207

Varma's eServices for customers has become a major means of providing services. During the year under review, 75.6 per cent of all private customer contacts took place online. Through Varma's eServices, the insured can obtain the most recent estimate of their old-age and part-time pensions at various retirement ages, apply for a pension, and follow the progress of the application.

Varma sends a pension record to the insured once every three years. A total of 226,093 (235,287) such pension records were sent out in 2014. The record shows information on earnings that apply to pension as well as the pension that has accrued until the end of the preceding year. The pension record is also available via Varma's eServices.

Technical provisions

Varma's technical provisions grew 2.1 (5.5) per cent to EUR 32,070 (31,399) million. They contain a provision of EUR 117 (106) million for current bonuses reserved for client bonuses, a provision of EUR 753 (1,301) million for future bonuses contained in the solvency capital, and EUR 1,007 (720) million in an equity-linked provision for current and future bonuses, which transfers part of the equity returns of the earnings-related pension system to create a buffer. The equalisation provision amounted to EUR 1,180 (1,118) million.

At the end of the year, the assets covering the technical provisions were 126 (121) per cent of the technical provisions.

Investments

The return on Varma's investments was 7.1 (9.0) per cent. The value of Varma's investments grew to slightly over EUR 40 billion. Fixed-income investments accounted for 26 per cent, equity investments for 47 per cent, real estate investments for 6 per cent and other investments for 21 per cent of the investment result.

Share prices strengthened, and interest rates continued to fall from the already low level of the early year, which boosted interest income. Other investments also developed favourably. The average ten-year (nominal) return on investments was 5.5 per cent and the five-year return 6.4 per cent. The real returns were 3.5 and 4.3 per cent respectively.

Economic growth gained momentum in the U.S. but remained weak in the eurozone and was negative in Finland. The European Central Bank held on to its stimulus policy and lowered its interest rates, while the U.S Federal Reserve withdrew its support for the markets and ended quantitative easing. It also gave indications of a moderate interest rate increase in 2015. The U.S. dollar gained clear momentum during the year.

During 2014, Varma's result developed strongly in the first half, but there was strong fluctuation in the second half. Uncertainty was sparked by the crisis in Russia, geopolitical tension, the sharp decline in the price of oil and the markets' momentary lack of faith in the steadiness of equity prices.

Varma has US-dollar-denominated investments in hedge funds, equities, corporate bonds and private equity funds. In accordance with Varma's policy, most of the exchange rate risks have been hedged. During the year, a proportion of the currency position was unhedged, which improved the overall result as the value of the U.S. dollar increased. In terms of operations, foreign currency risks are managed as a single entity, while in the performance indicators the exchange rate impact is included in the investment returns of various asset classes.

At the end of 2014, the value of Varma's investments totalled EUR 40,039 (37,718) million and the return at fair value was EUR 2,699 (3,160) million or 7.1 (9.0) per cent. All asset classes yielded a positive return. The value and returns of the investments are grouped according to risk in this report. The Notes show the breakdown of investments and their returns by investment category, grouped according to regulations and according to risk.

The focus of Varma's investment activities was on active risk management, and the security of investments was emphasised. The key target was to secure a strong solvency position. In its investment risk management, the company used derivatives for hedging purposes and to control the risk level of the portfolio.

Fixed-income investments

Varma's fixed income investments stood at EUR 11,983 (10,624) million at the balance sheet date and were distributed as follows:

- loan receivables EUR 1,571 (2,026) million
- public-sector bonds EUR 3,450 (3,869) million
- other corporate bonds EUR 6,282 (5,363) million
- other money-market instruments 680 (-635) million; the impact of derivatives, EUR -81 (1,878) million, is presented separately.

The return on fixed-income investments was 5.5 (1.2) per cent. The return on the loan portfolio was 2.6 (3.3), on public-sector bonds 6.7 (-1.8), on other corporate bonds 6.9 (3.0) and on other money-market instruments 0.5 (-0.4) per cent.

During the year, interest rates continued to fall from the already low level, which clearly improved the return on listed bonds. The duration of the loan portfolio was kept fairly long at around five years, which improved the result.

The return on loan receivables was in line with expectations, but valuation changes in junior loans lowered the overall return on loan receivables. The demand for TyEL loans was subdued, and their amount decreased in the course of the year. The return on money-market investments was in accordance with the prevailing short-term interest rate level.

Interest rates in Europe have dropped to a very low, even negative, level, and it will be challenging to achieve a positive real return on fixed-income investments. Interest income may also easily turn negative, should interest rates rise.

Equity investments

At the balance sheet date, the value of Varma's equity investments was EUR 16,333 (14,756) million and were distributed as follows:

- investments in listed equities EUR 12,879 (11,579) million,
- private equities EUR 2,451 (2,175) million, and
- unlisted equities EUR 1,004 (1,002) million.

The return on equity investments was 9.1 (21.8) per cent. Listed equities yielded a return of 7.4 (23.7) per cent, private equities 13.5 (12.1) per cent, and unlisted equities 19.7 (26.7) per cent.

Equity investments yielded good returns and had the strongest performance of all asset classes. Equity investments have had a very strong six-year period, with an average return of 13.3 per cent. Share prices followed an upward trend until June, but there was strong fluctuation in the second half. The overall return on listed equities was good, with the highest return generated by U.S. equities, at 16.3 per cent. The equities of Sampo Corporation, Varma's largest domestic holding, performed very strongly, at 14.0 per cent. The crisis in Russia weighed on the share prices of certain key holdings, and the total return on Finnish equities was 6.7 per cent.

Private equity investments and unlisted equities also generated good returns. About half of Varma's private equity investments are invested in the U.S., and the rest mainly in Europe and the Nordic countries. The value of these investments developed strongly in all areas. Private equity funds exploited the strong demand and liquidated large amounts of their investments. Infrastructure funds included in the portfolio also yielded a strong return.

The return on unlisted equities was improved by the selling of Fingrid Oyj's shares, the strong development in the value of private equity co-investments, and the considerable dividend income received from the housing real-estate companies SATO Corporation and VVO Group and the increase in the value of their shares.

Private equity and unlisted equities represent a long-term asset class, and their long-term return has been very good.

Real estate investments

Real-estate investments stood at EUR 3,841 (4,304) million at the balance sheet date, with direct real estate investments accounting for EUR 3,375 (3,739) and real estate investment funds for EUR 466 (565) million of the total. The return on real estate investments was 3.8 (3.1) per cent. Direct real-estate investments yielded a return of 3.2 (2.0) per cent and real-estate investment funds 8.0 (11.6) per cent.

The volume of real estate trade in Finland grew to EUR 3.8 billion in 2014. Foreign investors were also active in the market, and especially the share of Swedish investors grew considerably. The increase in transaction volume is partly due to the transactions relating to the establishment of the new logistics and industrial real-estate company Certeum Oy, in which Varma was also involved. Varma made EUR 74 million worth of new real estate investments, and had around 220 new rental flats under construction in the Helsinki area at the end of 2014. As regards business premises, Varma has been focussing on, in addition to maintenance construction and renovations, developing premises under its direct ownership and on improving energy efficiency. The change in fair value of Varma's directly owned real-estate holdings totalled EUR -76 million. New international investments were made during the year in Sweden and Great Britain.

Other investments

Other investments amounted to EUR 7,962 (6,157) million. These consisted of hedge funds EUR 6,717 (4,850) million, commodities EUR 370 (201) million, and other investments EUR 875 (1,106) million. The return on other investments was 8.7 (4.5) per cent.

Hedge-fund investments performed consistently with only minor fluctuations. Their share of the portfolio was increased during the year, and the strengthening of the U.S. dollar further increased their share.

Inflation-linked investments include inflation-linked bonds issued by states with good creditworthiness. Returns were also impacted by the decline in interest rates, which improved the value of bonds with a long maturity. Changes in exchange rates also contributed to the strong returns.

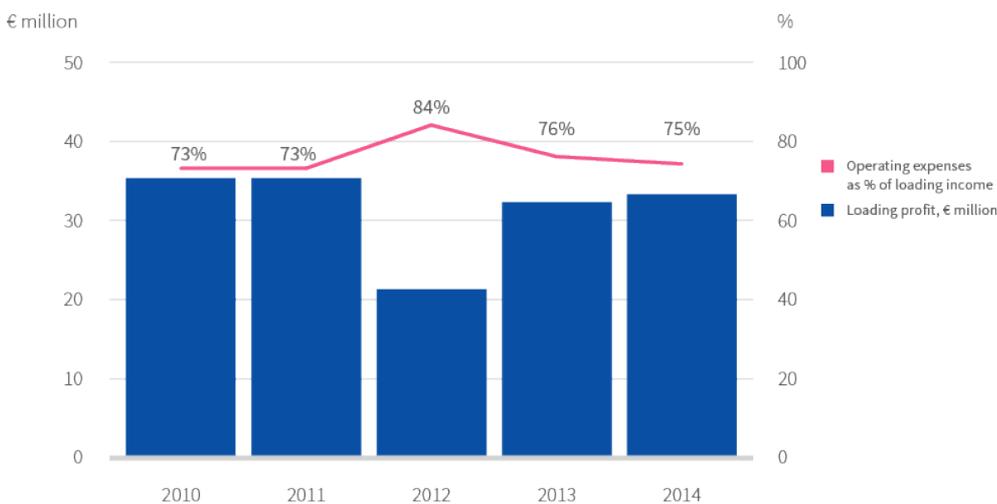
The market risk of investments constitutes the greatest risk affecting the company's result and solvency. Equities constituted by far the greatest market risk. The VaR (Value-at-Risk) figure describing the total risk of Varma's investments stood at EUR 1,492 (1,118) million. The figure represents the maximum fall in the market value of the company's investment portfolio in normal conditions over a period of one month with a probability of 97.5 per cent.

The central principles in Varma's ownership policy are high-quality governance in the companies in which it has a holding, transparency of operations, active engagement, and the monitoring of incentive schemes for key personnel. In 2014, Varma actively participated in the Annual General Meetings of the domestic companies in which it owned shares and in the work of the companies' Shareholders' Nomination Boards. Varma's website contains a list of the company's memberships on the Nomination Boards of listed companies.

Operating expenses

Varma used 75 (76) per cent of the expense loading, included in the pension insurance contributions, to cover operating expenses. Controlling operating expenses is a key objective while simultaneously improving operational efficiency. Good operational efficiency benefits Varma's customers by means of client bonuses. Varma's goal is to manage the assets of both present and future pensioners as efficiently as possible.

Loading profit



In addition to economies of scale, increasing efficiency also requires continuous control of human resources and, in particular, IT system expenses, as these account for most of Varma's operating expenses. Overall operating expenses remained at the previous year's level, totalling EUR 142 (143) million.

Varma is actively involved in the administration of the pension sector's joint information systems and expects transparency and efficiency in terms of costs.

Personnel

The average number of the parent company's personnel and the salaries paid during the financial year are shown in the table below.

	2014	2013	2012	2011	2010
Average number of personnel	552	565	572	588	601
Salaries and remunerations, EUR million	40.1	37.9	37.0	39.5	36.9

Tieto Esy, which is included in the Consolidated Financial Statements using the equity method, had an average of 82 employees in 2014.

At year-end, Varma's personnel were distributed as follows: pension insurance and customer service departments 57 per cent, investment operations 13 per cent, and other functions 30 per cent.

Group companies and associates

At the end of 2014, the Varma Group comprised 186 (205) subsidiaries and 24 (22) associates. The most important subsidiaries and associates are Tieto Esy Ltd (50.1 per cent), Garantia Insurance Company Ltd (30.5 per cent), SATO Corporation (22.8 per cent), Technopolis Plc (23.9 per cent), Certeum Oy (38.9 per cent) and NV Kiinteistösjointus Oy (45.0 per cent). The Varma Group also owns 50 per cent of the guarantee capital of Kaleva Mutual Insurance Company. Most of the subsidiaries and associate companies are real estate companies. An agreement concerning the divestment of Garantia Insurance Company's shares has been drawn up, and the transaction is expected to take effect at the end of March 2015.

Corporate Governance

At Varma's Annual General Meeting, policyholders have about 78 per cent, the insured about 20 per cent, and the Sampo Group (the owner of the guarantee capital) about two per cent of the votes.

Varma's Annual General Meeting was held on 20 March 2014. The Annual General Meeting approved the financial statements and discharged the Board of Directors, the Supervisory Board and the President and CEO from liability for the financial year 2013. In addition, Matti Rihko and Jorma Vehviläinen were elected as new members of the Supervisory Board.

Continuing as Supervisory Board members are: Tapio Kuula (Chairman), Martti Alakoski (Deputy Chairman), Juri Aaltonen, Berndt Brunow, Petri Castrén, Erkki Etola, Stig Gustavson, Tauno Heinola, Tapio Korpeinen, Päivi Kärkkäinen, Olli Luukkainen, Ilkka Nokelainen, Lauri Peltola, Hannu Penttilä, Juhani Pitkälä, Pertti Saarela, Kari Sairo, Mika Seitovirta, Saana Siekkinen, Jorma J. Takanen, Arja Talma, Leena Vainiomäki, Kari Virta, Anssi Vuorio, Satu Wrede and Göran Åberg.

Authorised Public Accountants Petri Kettunen and Paula Pasanen were elected as Varma's auditors. Authorised Public Accountant Marcus Tötterman and Authorised Public Accountants KPMG Oy Ab were elected as deputy auditors.

In 2014, Varma's Board of Directors was composed of Kari Jordan (Chairman), Jari Paasikivi (Deputy Chairman), Antti Palola (Deputy Chairman), Riku Aalto, Mikael Aro, Johanna Ikäheimo, Ari Kaperi, Lasse Laatonen, Petri Niemisvirta, Karsten Slotte, Kai Telanne and Veli-Matti Töyrylä, and deputy members Mikko Ketonen, Arto Kuusiola and Liisa Leino.

In its meeting on 2 December 2014, the Supervisory Board re-elected to the Board of Directors the following members, whose terms were expiring: Riku Aalto, Petri Niemisvirta and Kai Telanne. New members elected to the Board effective 1 January 2015 are Berndt Brunow, Jyri Luomakoski and Ilkka Oksala. Kari Jordan, Karsten Slotte and Lasse Laatonen resigned from the Board on 31 December 2014.

At its organising meeting on 21 January 2015, Varma's Board of Directors elected Berndt Brunow as Chairman, and Jari Paasikivi and Antti Palola as Deputy Chairmen of the Board.

By decision of Varma's Board of Directors in 2012, the company maintains an internal related party register, which includes the members of the Board of Directors, the President & CEO, and other members of the Executive Group. As of 1 January 2015, the register also covers members of the Supervisory Board. Significant trades and other transactions between Varma as a company and a registered related party must be approved by the Board of Directors before they are realised. Varma will also disclose these. No such transactions took place during the financial year.

Pursuant to the new regulations under the act on earnings-related pension companies, the memberships in the executive bodies of other entities of Varma's staff making investment decisions were disclosed at the beginning of 2015. Corresponding information concerning the members of the Board of Directors, the President and CEO and members of the Executive Group has been included in Varma's Corporate Governance Report, published since 2009. The holdings of listed shares of the President and CEO and members of the Executive Group have been disclosed on a quarterly basis on Varma's website. Pursuant to the act on earnings-related pension companies, insider register information on the Board members will also be made public by the beginning of June 2015.

An up-to-date Corporate Governance Statement based on the recommendations of the Finnish Corporate Governance Code is presented on Varma's website. Varma publishes quarterly interim reports. Varma aims at transparent financial reporting that conforms to best practices.

Capital and reserves

Varma has 71 guarantee capital shares, which are held by Sampo Plc and Mandatum Life Insurance Company Limited. Under the Articles of Association, an interest approved by the Annual General Meeting is paid to the guarantee capital of EUR 11,941,342.78 each year. The maximum rate is the technical interest rate applied to the insurance provided in accordance with the legislation on employee pensions plus one percentage point. A guarantee capital share gives the holder 420 votes in the Annual General Meeting.

Risk management

The risks related to Varma's result and solvency are primarily affected by the result of investment activities. The most important operative risk concerns IT systems, which have a key role particularly in the processing of pensions and insurances within a mainframe environment and in the networked operating environment of the pension system.

In the earnings-related pension system, the liquidity risk is manageable, as pension expenditure can be accurately forecast and investments are strongly focussed on liquid instruments. Varma's insurance business risks, which are minor, are linked to the sufficiency of the insurance contributions collected and the technical provisions accumulated from them in relation to the pensions that are the company's responsibility.

Varma's investment plan determines, among other things, the general security goals set for investments, the diversification and liquidity goals of investments, and the principles for organising foreign currency business. The Board of Directors assesses the risks in Varma's investments with respect to changes in value, expected returns, security, and the foreign currency business, and the company's risk-bearing capacity in the area of investments, including the development of the company's solvency position. The basic allocation laid down in the investment plan also lays down the basic level for the total portfolio risk. Deviations from the basic allocation are allowed within defined limits. The maximum risk level is measured so that even after a 25 per cent drop in the value of listed equity investments and certain hedge fund investments, the solvency capital still exceeds the minimum solvency capital by at least the amount of the VaR and is, in any case, always at least at the solvency limit. The diversification of the investment portfolio is based on allocation that takes into account the return correlations of asset classes. Risks are managed by, for example, diversifying investments by asset class and item, by analysing the investment portfolio and items, by avoiding risk concentrations, by securing guarantee policy, through careful valuation practice, by using derivatives, and by applying a supervision and follow-up system.

The agreement on the contents of the pension reform in 2017, reached by the major labour market organisation in the autumn of 2014, will contribute to the structural adjustment of the Finnish economy. The main risk of the pension reform, from the point of view of implementing pension provision, is if there is not enough time for making technical preparations before the year 2017, due to the slowness of the law-making procedure. Another central risk is the complexity of the future legislation and the problems it could cause in applying the legislation. These risks apply especially to the new pension types: the years-of-service pension and the partial early old-age pension.

The defined-benefit nature of earnings-related pension provides security and financial predictability. Securing the pension benefits of the young and future generations strengthens the future of the earnings-related pension system. The fact that the contribution level has been agreed until the end of this decade is an important stabilising factor for companies in the current challenging economic situation. Owing to the agreed benefit adjustments, balancing the financing of pensions with a reasonable cost burden seems possible. The increase in the retirement age will facilitate financing in the longer term.

More information about insurance, investment, operative and other risks, the means for managing them, as well as related quantitative data, is provided in the notes to Varma's financial statements.

Outlook

Uncertainty in the economic operating environment will continue. We can expect to see volatility in the capital markets also during the economic year 2015. The major monetary policy decisions by the ECB will, when correctly allocated, promote the recovery of the European economy and market development. At the same time, the long-standing rise in share prices and the low interest rate level will make the investment environment very challenging. The profitable and secure investment of pension assets requires careful diversification across different asset classes and skilful risk management. Varma's strong solvency gives the company excellent opportunities to succeed, also in an uncertain environment, in targeting a return that secures pension benefits and a reasonable contribution level.

Growth is expected to remain strong in the U.S. and reasonable in emerging countries. The declining price of oil is contributing to global economic growth.

Finland's economic situation remains difficult. In 2015, the economy is expected to pick up very slightly. For Finland, it is crucial that the export markets pick up. The falling price of oil and the weakening euro promote both Finland's exports and the growth of its main markets.

Improving the price competitiveness of Finland's exports requires reasonable pay increases, which, however, means low growth in purchasing power and feeble demand in the domestic markets. The possibilities to increase purchasing power by relaxing taxation are limited. Economic development in the near future will be characterised by the adjustment of public finances and the ongoing change in the structures of trade and industry. Finland is struggling with growing debt, sizable sustainability gap, and dwindling growth. The balancing act between these will continue for years to come.

The private sector earnings-related pension system is on a strong financial footing, and it offers the insured stable defined-benefit pensions. Varma aims to be a forerunner in earnings-related pensions as well as a reliable partner to its clients in earnings-related pension insurance. Varma highlights pension companies' responsibility for professionally handling investment risk management and supports the sector's efficiency and transparency and the prerequisites for competition. Earnings-related pension insurance companies must handle the task set out for them as efficiently as possible for current and future pension recipients.

Income statement

1 Jan.–31 Dec., € million	Notes	Parent Company 2014	Parent Company 2013	Group 2014	Group 2013
Technical account					
Premiums written	1	4,343.6	4,258.0	4,343.6	4,258.0
Investment income	3	4,782.1	3,815.6	4,633.7	3,780.0
Claims incurred					
Claims paid	2	-4,701.5	-4,489.6	-4,701.5	-4,489.6
Total change in provision for claims outstanding		-737.9	-855.0	-737.9	-855.0
		-5,439.4	-5,344.6	-5,439.4	-5,344.6
Change in provision for unearned premiums					
Total change		67.4	-777.5	67.4	-777.5
		67.4	-777.5	67.4	-777.5
Operating expenses	4	-77.9	-75.6	-77.9	-75.6
Investment expenses	3	-3,663.1	-1,864.8	-3,644.8	-1,849.2
Balance on technical account		12.7	11.0	-117.4	-9.0
				0.0	
Non-technical account					
Balance on technical account		12.7	11.0	-117.4	-9.0
Share of associated companies' profit				22.2	38.4
Income taxes on ordinary activities					
Taxes for the financial year		-6.8	-5.8	-6.8	-5.8
Profit/loss on ordinary activities after taxes		5.9	5.2	-102.0	23.6
Minority interest in the result for the financial year				0.0	0.0
Profit/loss for the financial year		5.9	5.2	-102.0	23.6

Balance sheet

31 Dec., € million	Notes	Parent Company 2014	Parent Company 2013	Group 2014	Group 2013
ASSETS					
Intangible assets					
Other expenses with long-term effects	17	14.6	22.1	14.6	22.1
Investments					
Real-estate					
Real estate and real estate shares	14	1,853.6	2,017.8	2,579.8	2,872.8
Loans to Group companies	14	822.5	949.3	0.0	
		2,676.1	2,967.1	2,579.8	2,872.8
Investments in Group companies					
Shares and participations in Group companies	12 13	4.3	4.3	0.8	0.8
Shares and participations in associates	12 13	352.1	248.5	477.2	301.1
		356.3	252.7	478.0	301.9
Other investments					
Shares and participations	16	18,204.5	15,374.6	18,220.6	15,390.7
Money-market instruments		8,092.6	9,911.5	8,092.6	9,911.5
Loans guaranteed by mortgages		309.6	362.6	309.6	362.6
Other loan receivables	18	1,210.9	1,599.7	1,210.9	1,599.7
		27,817.5	27,248.3	27,833.7	27,264.5
		30,850.0	30,468.2	30,891.5	30,439.1
Receivables					
Direct insurance operations					
Policyholders		156.5	179.6	156.5	179.6
Other receivables					
Other receivables		806.3	396.7	1,083.2	412.7
		962.8	576.3	1,239.8	592.3
Other assets					
Tangible assets					
Equipment	17	2.3	2.7	2.3	2.7
Other tangible assets	17	0.9	0.9	0.9	0.9
		3.2	3.6	3.2	3.6
Cash at bank and in hand		677.3	620.1	402.0	606.5
		680.5	623.7	405.2	610.1
Prepayments and accrued income					
Accrued interest and rent		111.0	140.4	112.1	141.4
Other prepayments and accrued income		8.6	20.7	8.7	20.9
		119.6	161.2	120.7	162.3
TOTAL ASSETS		32,627.5	31,851.4	32,671.8	31,825.9

31 Dec, € million	Parent Company 2014	Parent Company 2013	Group 2014	Group 2013
LIABILITIES				
Capital and reserves				
Guarantee capital	11.9	11.9	11.9	11.9
Other reserves	89.0	84.5	89.0	84.5
Profit/loss brought forward	0.4	0.4	149.3	-53.7
Profit/loss for the financial year	5.9	5.2	-102.0	23.6
	26	102.0	148.2	66.4
Minority interest				
			14.5	14.1
Technical provisions				
Provision for unearned premiums	23	17,028.0	16,960.6	17,028.0
Provision for claims outstanding	23	14,371.2	15,109.0	14,371.2
		31,399.1	32,069.7	31,399.1
Liabilities				
Direct insurance operations	7.7	9.9	7.7	9.9
Other liabilities	403.6	321.1	392.2	316.8
	411.3	331.0	399.9	326.7
Accruals and deferred income				
	39.3	19.3	39.6	19.5
TOTAL LIABILITIES	32,627.5	31,851.4	32,671.8	31,825.9

Statement of source and application of funds

1 Jan.–31 Dec., € million	Parent Company 2014	Parent Company 2013	Group 2014	Group 2013
Cash flow from operations				
Profit/loss on ordinary activities	12.7	11.0	-117.4	-9.0
Adjustments				
Changes in technical provisions	670.5	1,632.5	670.5	1,632.5
Impairments and revaluations on investments	390.3	309.1	368.0	254.1
Depreciation according to plan	26.2	27.3	109.6	158.9
Capital gain and loss	-1,764.2	-930.3	-1,740.6	-932.2
Cash flow before change in working capital	-664.5	1,049.6	-709.9	1,104.3
Change in working capital:				
Increase (-)/decrease (+) in non-interest-bearing short-term receivables	-344.9	224.7	-605.9	211.3
Increase (-)/decrease (+) in non-interest-bearing short-term debts	100.3	-47.5	93.2	-48.0
Cash flow from operations before taxes	-909.1	1,226.8	-1,222.6	1,267.6
Direct taxes paid	-6.8	-5.8	-6.8	-5.8
Cash flow from operations	-915.8	1,221.0	-1,229.4	1,261.8
Cash flow from investments				
Net investments and proceeds from asset sales	974.1	-1,319.8	1,026.1	-1,374.2
Investments and gains on intangible, tangible and other assets	-0.4	1.6	-0.4	1.6
Cash flow from investments	973.7	-1,318.2	1,025.6	-1,372.7
Cash flow from financing				
Interest paid on guarantee capital and other profit distribution	-0.7	-0.6	-0.7	-0.6
Cash flow from financing	-0.7	-0.6	-0.7	-0.6
Change in financial resources	57.2	-97.8	-204.5	-111.5
Financial resources, 1 Jan.	620.1	717.9	606.5	717.9
Financial resources, 31 Dec.	677.3	620.1	402.0	606.5

Notes to the financial statements

Accounting principles

These financial statements are prepared in accordance with sound accounting principles, and in compliance with the Finnish Accounting Act, Companies Act, Insurance Companies Act, Employee Pension Insurance Companies Act and the Act on calculating the solvency limit and covering technical provisions in pension institutions. In addition, the decree of the Ministry of Social Affairs and Health concerning the financial statements and consolidated financial statements of insurance companies, as well as the calculation bases confirmed by the Ministry of Social Affairs and Health and the regulations and guidelines of the Financial Supervisory Authority are complied with.

Consolidated Financial Statements

In addition to the parent company, those companies in which the Group holds more than 50 per cent of the votes (controlling interest) either directly or indirectly have been consolidated in the consolidated financial statements as subsidiaries.

On the closing date, the parent company had 184 (203) real estate companies and 2 (2) other companies as subsidiaries. The companies belonging to the Group are listed in the Notes to the Annual Accounts.

The consolidated financial statements are compiled as combinations of the income statement, balance sheets and notes. When the Consolidated Financial Statements are compiled, intra-group income and charges, profit distribution, amounts due to or from Group companies and cross-shareholdings are eliminated. However, Tieto Esy Ltd, in which Varma has a 14.4% shareholding but holds over 50% of the votes from all the shares, is consolidated using the equity method. Subsidiaries acquired during the year are consolidated from the moment of acquisition. Subsidiaries divested during the year are consolidated until the moment of divestment. The minority interest in the result and in capital and reserves are shown under their own separate heading.

Intra-group cross-shareholdings are eliminated using the acquisition method. The resulting consolidation difference is allocated to subsidiaries' asset items proportional to their fair values, and depreciated in accordance with the depreciation plans of these asset items. Revaluations on Group companies' shares are shown in the consolidated balance sheet as a revaluation of real estate owned by a subsidiary.

Relevant associated companies in which the Group holds 20–50 per cent of all the votes are included in the consolidated financial statements using the equity method. When an associated company draws up its financial statements using fair values, these values are used in the consolidation. Housing and real estate companies are not treated as associated companies. Their non-inclusion has a minimal effect on Group profit and capital and reserves, since the expenses arising from these companies are covered by the maintenance charges collected from their owners.

The Group owns 50 per cent of the guarantee capital and 25 per cent of the votes of Kaleva Mutual Insurance Company, which is not, however, included in the consolidated financial statement due to limitations concerning controlling interest and distribution of profits.

Share of associated companies' profit or loss is included in the consolidated income statement. The Group's share of the associated companies' profit or loss produced after the day of acquisition is added in the consolidated balance sheet to the acquisition cost of the associated company in question.

Associated companies are listed in the notes (12 and 13) to the financial statements.

Book value of investments

Investments in land and buildings are entered in the balance sheet at the lower of acquisition cost less depreciation or fair value. The values of real estate have been revaluated in the previous years. Revaluation of buildings entered as income is also depreciated according to plan.

Shares and participations are entered in the balance sheet at the lower of acquisition cost or fair value.

Money-market instruments are entered in the balance sheet at the lower of acquisition cost or fair value. Changes in value due to interest rate fluctuations are not entered. The difference between the nominal value and acquisition cost of the money-market instruments is allocated to interest income and its reduction over the maturity of the instrument. The counterpart entry for the allocations entered as an increase or decrease in the acquisition cost is shown in the notes to the balance sheet. The acquisition cost is the average price calculated for each instrument.

Loan receivables are entered in the balance sheet at the lower of nominal value or probable value.

Value adjustments made to investments in the previous financial years are entered in the income statement as value readjustments corresponding to the value appreciation.

Premium receivables and other receivables

Premium receivables and other receivables are valued at the lower of nominal value or probable value.

Derivative contracts

Derivative contracts for hedging purposes are valued together with the hedged item. If no change in value is entered in the income statement for the hedged balance sheet item, no entry is recorded in the income statement for the hedging contract, unless the negative value change exceeds the positive value change in the hedging contract. If a value readjustment is entered for the hedged item, the value change of the derivative used is entered in its entirety as an expense. Resulting income and expenses are entered as adjustments in value adjustments and readjustments.

Negative value adjustments of derivative financial instruments other than those created for the purposes of hedging are entered in the income statement as an expense. The profits and losses resulting from the termination or expiration of contracts are entered as income or expenses for the financial year.

Income and expenses from interest rate derivatives are entered under interest income.

Depreciation according to plan

The acquisition cost of buildings, including components in buildings, movable property and other expenses with long-term effects, are depreciated according to plan over their useful lives. Revaluation of buildings entered as income is also depreciated according to plan. The straight-line depreciation method is applied to planned depreciation using the following economic useful lives:

Residential, office and business premises, hotels	40–60 yrs
Industrial premises and warehouses	25–50 yrs
Components in buildings	10 yrs
Equipment	7–10 yrs
Computer hardware	3 yrs
Transport equipment	5 yrs
Other expenses with long-term effects	5–10 yrs

Fair values of investments

The fair values of real estate and real estate shares are measured item by item as prescribed in the regulations of the Financial Supervisory Authority and based on the opinions of the company's own and external experts.

The last available buying rates or, if these are not available, closing prices at the balance sheet date are used as fair values for listed securities.

Investments in private equity funds are entered in the balance sheet at fair value estimated by the management company or, if this is not available, at acquisition cost. Investments in mutual funds are entered at the last available value of the share calculated by the management company.

The fair value of other shares and participations is the purchase price or the net realisable value or the net asset value.

The fair value of money-market instruments is primarily based on market value. If the market value is not available and the value of the investment cannot be reliably determined, the fair value is determined by using estimates by external parties or commonly approved calculation models, or the fair value is the purchase price.

Receivables are entered at the lower of nominal value or probable value.

Fair values of derivative contracts, and related liabilities and guarantees

The method for determining the fair values of derivative contracts, the liabilities and the collateral received and given to cover the clearing of derivative transactions are presented in the notes to the financial statement under Contingent liabilities and liabilities not included in the balance sheet.

Loaned securities

Loaned securities are included in the balance sheet. They are presented in the notes to the balance sheet under Guarantees and liabilities, Loaned securities (Note 31).

Profit for the year, and capital and reserves

In an earnings-related pension insurance company, the parent company's profit after taxes in the income statement is determined by calculation bases confirmed in advance by the Finnish Ministry of Social Affairs and Health. The division of the parent company's capital and reserves between the insurance portfolio and the owners of the guarantee capital is presented in the notes to the financial statements.

Solvency capital

Solvency capital is calculated as the difference between the assets and debts valued at fair value. It comprises capital and reserves, accumulated appropriations, valuation differences, the provision for future bonuses, and the equalisation provision.

The minimum limit of the solvency capital is one third of the solvency limit. The solvency limit is determined using a risk-theory-based method taking into account the allocation of investments into different asset classes and their mutual correlations as required in legislation. When the limit is calculated, investments are classified according to their actual risk.

The solvency position is the ratio of the solvency capital to the solvency limit. The solvency ratio is the ratio of the solvency capital to the technical provisions, which does not include the provision for future bonuses.

Solvency capital and the solvency limit are presented in the notes to the financial statements.

Taxes

Taxes for the financial year and previous financial years are recognised in the income statement on an accrual basis.

Deferred tax liabilities or assets are not calculated for temporary differences between income statement items and income and expenses approved in taxation, such as confirmed losses or tax credits, because the company's net result is determined by calculation bases confirmed in advance by the Finnish Ministry of Social Affairs and Health. Nor is the deferred tax liability or asset calculated in the mutual real estate companies owned by the Group, because they are not significant for the companies in question or the Group.

Foreign-currency-denominated investments

Foreign-currency-denominated investments are entered at the lower of rate on the date of transaction or rate at the balance sheet date, in such a way, however, that also the effect of the change on the investment's market price is taken into account in the valuation. Currency conversion differences are entered as adjustments to income and expenses. Currency conversion differences for cash at bank and in hand and deposits and items that cannot be entered as adjustments to income and expenses are entered under investment income and charges. When calculating fair values, the European Central Bank average rates quoted on 31 December are used.

Operating expenses and depreciation by function

Operating expenses and the depreciation of furniture and fixtures and expenses with long-term effects are included in the items of the income statement by function. In the income statement, the operating expenses from operations related to compensations and operations for the maintenance of workability are included in claims paid, and expenses related to investment management are included in investment charges. The expenses of insurance policy acquisition and management and administration are presented as net operating expenses. Statutory fees and payments are included in the administrative expenses. Planned depreciation on buildings is presented as investment expenses.

Pension plans and remuneration statement

Statutory pension coverage for personnel is arranged through TyEL insurance and supplemented by voluntary pension insurances. The pension plans of the President and CEO are explained in the notes to the financial statements (Note 7). A salary and remuneration statement in accordance with the Financial Supervisory Authority's recommendation has been published on Varma's website and in the Annual Report.

Balance sheet and income statement at fair values

In addition to the information required by the regulations, the parent company's income statement and balance sheet at fair values are presented in the notes to the financial statement. The purpose of this is to improve the transparency of the annual account information of an earnings-related pension insurance company.

The main components of the solvency capital shown separately and measuring solvency in the balance sheet are the capital and reserves, provision for future bonuses and valuation differences of investments. The equalisation provision is also included in solvency capital. The provision for current bonuses reserved for the payment of client bonuses and equity-linked provision for current/future bonuses are shown on their own lines. Investments and their net return are shown at fair value. The interest credited on technical provisions is included under change in technical provision. The company's operating expenses have been combined into one line in the income statement.

Investments classified according to risk

The notes to the financial statements report investments and their returns classified according to risk. The stipulations of the Financial Supervisory Authority concerning the calculation of the financial key figures are also used in the calculation of the return percentages. The method is described in the section Key figures and analyses.

Key figures and analyses

The key figures and analyses describing financial development are calculated and presented in accordance with the stipulations of the Financial Supervisory Authority concerning notes to the financial statements.

The key figures and analyses for investment operations and solvency are presented at fair values.

Net investment income at fair values over invested capital has been calculated by type of investment and for the total amount of investments with reference to daily or monthly time-weighted cash or output flow.

The return for the period has been calculated using a modified Dietz formula (time and money weighted formula) so that invested capital has been calculated by adding to the opening market value the cash flow for the period (cash flow/output flow = purchases - sales - income + expenses) weighted by the relative share of the length of the period that is left from the date of the event to the end of the period.

Group companies 31 Dec. 2014

The following company is included as a new subsidiary in Varma's consolidated financial statements:

Asunto Oy Helsingin Arabiankatu 8

The following companies are included as subsidiaries in Varma's consolidated financial statements:

As Oy Kuokkalan Tahkonkartano

As Oy Lahden Vilhon Vaakuna

As. Oy Espoon Amiraali

As. Oy Espoon Kyyhkysmäki 14

As. Oy Näkinkuja 4

Asunto Oy Espoon Keijumäki

Asunto Oy Espoon Kilonlemmikki

Asunto Oy Espoon Lintuvaarantie 37-39

Asunto Oy Espoon Pyölinpuisto

Asunto Oy Haukikoto

Asunto Oy Helsingin Arabiankatu 4

Asunto Oy Helsingin Haukilahdenkuja 13

Asunto Oy Helsingin Hiihtäjätien Huippu

Asunto Oy Helsingin Hiihtäjätien Kaarre

Asunto Oy Helsingin Hiihtäjätien Laakso

Asunto Oy Helsingin Kimmontie 3

Asunto Oy Helsingin Klaneettitie

Asunto Oy Helsingin Näyttelijäntie 22

Asunto Oy Helsingin Päijänteentie 4-6

Asunto Oy Helsingin Roihuvuorentie 20

Asunto Oy Helsingin Roihuvuorentie 30

Asunto Oy Helsingin Tyynenmerenkatu 5

Asunto Oy Jyväskylän Kiramo 4

Asunto Oy Järvenpään Bjarnenkuja 6

Asunto Oy Kokkovouri

Asunto Oy Korkeavuorenkatu 2 a

Asunto Oy Lahden Kulmakatu 10

Asunto Oy Lahden Kulmakatu 12

Asunto Oy Lahden Lahdenkatu 39

Asunto Oy Lahden Massinhovi

Asunto Oy Lahden Massinpoiju

Asunto Oy Merihauki

Asunto Oy Neilikkatie

Asunto Oy Oulun Lehmuskuja

Asunto Oy Paatsamatie 3

Asunto Oy Paratiisintie

Asunto Oy Siltavoudintie 1

Asunto Oy Tampereen Jankansampo

Asunto Oy Tampereen Kultaköynnös

Asunto Oy Tampereen Nahkakuja 13

Asunto Oy Tampereen Nahkakuja 9

Asunto Oy Tampereen Näsijärvenkatu 3

Asunto Oy Tampereen Palatsinraitti 1

Asunto Oy Tampereen Puuvillatehtaankatu 6

Asunto Oy Tampereen Satakunnankatu 22

Asunto Oy Tampereen Vihilahdenkontu

Asunto Oy Tervahovinkatu 12

Asunto Oy Turun Itäinen Rantakatu 64

Asunto Oy Turun Itäinen Rantakatu 70
Asunto Oy Turun Laivurinkatu 2
Asunto Oy Turun Vilhonkatu 15
Asunto Oy Vantaan Kärjäkuja 1
Asunto Oy Vantaan Vernissakatu 5
Helsingin Kiinteistösijoitus Oy
Kiint. Oy Helsingin Tapulikaupungintie 13
Kiint. Oy Jyväskylän maalaiskunnan Kotikeskus
Kiinteistö Oy Ahertajantie 3
Kiinteistö Oy Arabian Parkki
Kiinteistö Oy Aspius
Kiinteistö Oy Atomitalo
Kiinteistö Oy Avia Prima
Kiinteistö Oy Eerikinkatu 24
Kiinteistö Oy Elocinkulma 3
Kiinteistö Oy Espoon Kamreerintie 2
Kiinteistö Oy Espoon Komentajan-Varma
Kiinteistö Oy Espoon Niittyhaka
Kiinteistö Oy Fredrikinkatu 42
Kiinteistö Oy Gigahermia
Kiinteistö Oy Haunistenniitty
Kiinteistö Oy Heinolan Hevossaarentie 2
Kiinteistö Oy Helsingin Hiilipiha
Kiinteistö Oy Helsingin Hiiliranta
Kiinteistö Oy Helsingin Itämerenkatu 11-13
Kiinteistö Oy Helsingin Lemuntie 7
Kiinteistö Oy Helsingin Lönnrotinkatu 18
Kiinteistö Oy Helsingin Malminkatu 28
Kiinteistö Oy Helsingin Ratakarttinkatu 5
Kiinteistö Oy Helsingin Suolakivenkatu 1
Kiinteistö Oy Helsingin Valimopolku 4
Kiinteistö Oy Helsingin Valimotie 16
Kiinteistö Oy Helsingin Valimotie 9-11
Kiinteistö Oy Helsinki Niittylänpolku 10
Kiinteistö Oy Hotelli Levihovi
Kiinteistö Oy Hotelli Torni
Kiinteistö Oy Hyvinkään Hämeenkatu 9
Kiinteistö Oy Hämeentie 135
Kiinteistö Oy Ilmailunkatu 7
Kiinteistö Oy Itäinen Rantakatu 60
Kiinteistö Oy Itälahdenkatu 15-17
Kiinteistö Oy Itälahdenkatu 22 A
Kiinteistö Oy Joensuun Linjatie 2
Kiinteistö Oy Joensuun Pilkontie 3
Kiinteistö Oy John Stenberginranta 2
Kiinteistö Oy Juhana Herttua 3
Kiinteistö Oy Jyväskylän Kylmälahdentie 6
Kiinteistö Oy Jyväskylän Mattilanniemi
Kiinteistö Oy Jyväskylän Saarijärventie 50-52
Kiinteistö Oy Jyväskylän Sorastajantie 1
Kiinteistö Oy Jyväskylän Tourulantie 13
Kiinteistö Oy Kaakkurinhovi
Kiinteistö Oy Kaakkurinkulman Kauppakeskus
Kiinteistö Oy Kaikukatu 7

Kiinteistö Oy Keskustahotelli
Kiinteistö Oy Koroppa
Kiinteistö Oy Koskikastanja
Kiinteistö Oy Kotkan Jumal尼ementie 2
Kiinteistö Oy Kotkan Jumal尼ementie 8
Kiinteistö Oy Kouvolan Lehtikaari 3
Kiinteistö Oy Kuntotalo
Kiinteistö Oy Kuopion Lukkosalmenportti
Kiinteistö Oy Kuusankosken Puhjonrinne
Kiinteistö Oy Lahden Tupalankatu 3
Kiinteistö Oy Lahden Virastotalo
Kiinteistö Oy Lappeenrannan Kodinkeskus
Kiinteistö Oy Lappeenrannan Korpikunnaankatu 1
Kiinteistö Oy Lappeenrannan Patria
Kiinteistö Oy Lassilanlinna
Kiinteistö Oy Lohjan Sampotalo
Kiinteistö Oy Lohjanharjun kauppapuisto 1
Kiinteistö Oy Lohjanharjun kauppapuisto 2
Kiinteistö Oy Lohjanharjun Kauppapuisto 3a
Kiinteistö Oy Lohjanharjun kauppapuisto 4
Kiinteistö Oy Lohjanharjun kauppapuisto 5
Kiinteistö Oy Lönnrotinkatu 12
Kiinteistö Oy Lönnrotinkatu 12 A
Kiinteistö Oy Lönnrotinkatu 13
Kiinteistö Oy Mannerheimintien Pysäköintilaitos
Kiinteistö Oy Menotie 1
Kiinteistö Oy Metsäpojankuja 1
Kiinteistö Oy Nihtitorpankuja 4
Kiinteistö Oy Nokian Nuijamiestentie 5
Kiinteistö Oy Oulun Aurora
Kiinteistö Oy Oulun Tyrnäväntie 6
Kiinteistö Oy Oulun Uusikatu 72
Kiinteistö Oy Oulunkyläntori 1
Kiinteistö Oy Palokanvarma
Kiinteistö Oy Partolan Kauppajätki
Kiinteistö Oy Pharma City
Kiinteistö Oy Pirkkalan Myllyhaantie
Kiinteistö Oy Pirkkalan Vesalanportti
Kiinteistö Oy Porin Eteläväylä 2
Kiinteistö Oy Porin Itsenäisyydenkatu 5
Kiinteistö Oy Porin Satakunnankatu 39
Kiinteistö Oy Porvoon Ratsumestarinkatu 3
Kiinteistö Oy Pyynikin Trikoo
Kiinteistö Oy Quartetto Gongi
Kiinteistö Oy Rajalla
Kiinteistö Oy Rajasampaanranta 2
Kiinteistö Oy Salmisaaren Liikuntakeskus
Kiinteistö Oy Savonkatu 21
Kiinteistö Oy Seinäjoen Puskantie 13
Kiinteistö Oy Seinäjoen Rengastie 4
Kiinteistö Oy Sinihelmi
Kiinteistö Oy Sipoon Kaskikylänkuja 2
Kiinteistö Oy Sompasaaren Tukoeka
Kiinteistö Oy Spektrin Trio

Kiinteistö Oy Suometsänkaari 2
Kiinteistö Oy Tampereen Kalevanpaasi
Kiinteistö Oy Tampereen Harjuntausta 7
Kiinteistö Oy Tampereen Sarankulmankatu 20 A
Kiinteistö Oy Tavastkulla
Kiinteistö Oy Tekniikantie 4
Kiinteistö Oy Teräslautelanrinne
Kiinteistö Oy Tietotalo
Kiinteistö Oy Tilkan Paletti
Kiinteistö Oy Turun Aninkaistenkatu 13
Kiinteistö Oy Vaasan Monopol Fastighets Ab
Kiinteistö Oy Vaasan Sampotalo
Kiinteistö Oy Vallilan toimisto
Kiinteistö Oy Vantaan Martintalo
Kiinteistö Oy Vantaan Tasetie 8
Kiinteistö Oy Varmantalo
Kiinteistö Oy Vierumäen Portti
Kiinteistöosakeyhtiö Iisalmen Lammenkaari 4
Kiinteistöosakeyhtiö Mikkelin Karikontie 101
Kiinteistöosakeyhtiö Varma
Old Mill Oy
Osakevarma Oy
Oy Ässäkeskus Ab
Pitäjänmäen Kiinteistöt Oy
P-Turkuparkki Oy
Saimaan Kylpyläkiinteistöt Oy
Tampereen Kiinteistö Invest Oy
Tieto Esy Oy
Ässäparkki Oy

The following 20 real estate companies exited the Group during the year under review:

Kiinteistö Oy Espoon Ruukinmestarintie 2
Kiinteistö Oy Helsingin Putkitie 3
Kiinteistö Oy Helsingin Ristipellontie 16
Kiinteistö Oy Koirasaarentie 1
Kiinteistö Oy Kouvolan Tommolankatu 18
Kiinteistö Oy Lahden Jussilankatu 6
Kiinteistö Oy Lahden Makasiininkatu 3
Kiinteistö Oy Nummenvaara
Kiinteistö Oy Oulun Kallisensuora 5
Kiinteistö Oy Pirkkalan Sorkkalantie 394
Kiinteistö Oy Primulan Herkkupaja
Kiinteistö Oy Tampereen Hyllilänkatu 17
Kiinteistö Oy Tarhaajantie 2
Kiinteistö Oy Teerivuorenkatu 28
Kiinteistö Oy Teerivuorenpuisto
Kiinteistö Oy Vaasan Producta I
Kiinteistö Oy Vantaa Jokiniementie 31
Upper Limit Oy
Vaasa Hitec Park Oy
Valtamaat Osakeyhtiö

In addition, the Group comprises the following 22 associates:

Finnprotein Oy (in bankruptcy)
Kamreerintien Pysäköintitalo Oy
Kiinteistö Oy Elocinkulma 1
Kiinteistö Oy Karkkilan Sähkökiinteistö
Kiinteistö Oy Liikejalava
Kiinteistö Oy Pyynikin Parkki
Kiinteistö Oy Selloparkki
Kiinteistö Oy Suursuon Ostoskeskus
Martinparkki Oy
NV Kiinteistösijoitus Oy
Näkin Pihapuistikko II Oy
Oulun Lehmusparkki Oy
Poha-Pysäköinti Oy
Realia Holding Oy
Ruohoparkki Oy
SATO Corporation
Spektri Business Oy
Spektri-Park Oy
Technopolis Plc
Garantia Insurance Company Ltd
Vaasan Toripysäköinti Oy
WT Kiinteistösijoitus Oy

The following companies are included as new associates in Varma's consolidated financial statements:

Aros Bostad III AB
Certeum Oy

Notes to the income statement

1. Premiums written

1 Jan.–31 Dec., € million	Parent Company 2014	Parent Company 2013	Group 2014	Group 2013
Direct business				
Basic insurance under TyEL				
Employer	3,112.0	3,095.0	3,112.0	3,095.0
Employee	1,033.2	970.6	1,033.2	970.6
	4,145.3	4,065.6	4,145.3	4,065.6
Supplementary pension insurance under TEL	5.1	5.4	5.1	5.4
Insurance under minimum YEL cover	193.2	187.2	193.2	187.2
	4,343.6	4,258.1	4,343.6	4,258.1
Reinsurance	0.0	0.0	0.0	0.0
Premiums written before reinsurance	4,343.6	4,258.1	4,343.6	4,258.1
Reinsurance share	-0.1	-0.2	-0.1	-0.2
Premiums written ¹	4,343.6	4,258.0	4,343.6	4,258.0
Credit loss on premium receivables				
TyEL	15.3	17.6	15.3	17.6
YEL	2.1	1.8	2.1	1.8
	17.5	19.4	17.5	19.4

¹ Less credit loss

2. Claims paid

1 Jan.–31 Dec., € million	Parent Company 2014	Parent Company 2013	Group 2014	Group 2013
Direct business				
Paid to pensioners				
Basic insurance under TyEL	4,657.2	4,441.6	4,657.2	4,441.6
Supplementary pension insurance under TEL	99.9	101.0	99.9	101.0
Insurance under minimum YEL cover	252.3	243.4	252.3	243.4
Supplementary pension insurance under YEL	0.7	0.7	0.7	0.7
	5,010.1	4,786.7	5,010.1	4,786.7
Clearing of PAYG pensions received ¹				
TyEL pensions	-91.0	-115.4	-91.0	-115.4
YEL pensions	-42.6	-39.8	-42.6	-39.8
Share of the Unemployment Insurance Fund contribution and cost distribution of pension components accrued on no-pay periods	-202.1	-172.4	-202.1	-172.4
YEL state share	-13.3	-13.2	-13.3	-13.2
VEKL state compensation	-0.3	-0.2	-0.3	-0.2
	-349.3	-341.1	-349.3	-341.1
Reinsurance	0.0	0.0	0.0	0.0
	4,660.8	4,445.6	4,660.8	4,445.6
Claims handling expenses	34.3	37.5	34.3	37.5
Maintenance of work capacity expenses ²	6.5	6.5	6.5	6.5
Claims paid before reinsurance	4,701.6	4,489.7	4,701.6	4,489.7
Reinsurance share	-0.1	-0.1	-0.1	-0.1
Total claims paid	4,701.5	4,489.6	4,701.5	4,489.6

¹ The PAYG pensions paid/received do not include the share of the Unemployment Insurance Fund contribution, cost distribution of pension components accrued on no-pay periods, YEL state share, or VEKL compensation.

² Between 2000 and 2014 the administrative cost components of Varma's premium income totalled EUR 72 million, 100 per cent of which were used for well-being-at-work projects as part of claims incurred. In 2014 the administrative cost components totalled EUR 5.4 million, and EUR 6.5 million were transferred to claims incurred.

3. Breakdown of net investment return

1 Jan.–31 Dec., € million	Parent Company 2014	Parent Company 2013	Group 2014	Group 2013
Investment return				
Returns on investments in Group companies				
Dividend	0.5	0.4		
	0.5	0.4		
Returns on investments in associates				
Dividend	17.4	17.2		
	17.4	17.2		
Returns on investments in real estate				
Interest				
Group companies	41.2	47.1		
Other			0.6	0.9
Other returns	275.1	293.3	301.5	319.4
	316.4	340.4	302.1	320.3
Returns on other investments				
Dividend	409.0	384.9	409.1	385.1
Interest	329.6	391.4	329.6	391.4
Other returns	756.6	1,060.7	756.6	1,060.7
	1,495.2	1,837.1	1,495.4	1,837.2
	1,829.6	2,195.1	1,797.5	2,157.5
Reversed impairment	315.9	227.4	315.9	227.4
Sales proceeds	2,636.6	1,393.1	2,520.3	1,395.1
Total	4,782.1	3,815.6	4,633.7	3,780.0
Investment expenses				
On real estate	-166.6	-182.1	-82.5	-89.9
On other investments	-1,898.7	-663.9	-1,903.5	-663.9
Interest	-1.2	-1.3	-1.2	-1.3
	-2,066.5	-847.4	-1,987.3	-755.1
Impairment and depreciation				
Impairment	-706.3	-536.4	-683.9	-481.4
Planned depreciation on buildings	-18.0	-18.2	-101.3	-149.8
	-724.2	-554.6	-785.2	-631.2
Sales losses	-872.4	-462.9	-872.4	-462.9
Total	-3,663.1	-1,864.8	-3,644.8	-1,849.2
Net investment return in the income statement	1,119.0	1,950.7	988.9	1,930.8

4. Operating expenses in the income statement

1 Jan.–31 Dec., € million	Parent Company 2014	Parent Company 2013	Group 2014	Group 2013
Insurance policy acquisition costs				
Direct business commissions	1.5	1.5	1.5	1.5
Other insurance policy acquisition costs	7.8	9.8	7.8	9.8
	9.2	11.3	9.2	11.3
Portfolio administration expenses	39.0	37.3	39.0	37.3
Administrative expenses				
Statutory charges				
Finnish Centre for Pensions' share	11.2	10.1	11.2	10.1
Judicial administration fee	1.1	1.1	1.1	1.1
Financial Supervisory Authority supervision fee	0.7	0.6	0.7	0.6
	13.0	11.8	13.0	11.8
Other administrative expenses	16.6	15.3	16.6	15.3
	77.9	75.6	77.9	75.6

5. Overall operating expenses by function

1 Jan.–31 Dec., € million	Parent Company 2014	Parent Company 2013	Group 2014	Group 2013
Claims paid				
Claims handling expenses	34.3	37.5	34.3	37.5
Maintenance of work capacity expenses	6.5	6.5	6.5	6.5
	40.8	44.1	40.8	44.1
Operating expenses	77.9	75.6	77.9	75.6
Investment management charges				
Expenses on real estate	5.1	4.3	5.1	4.3
Expenses on other investments	18.3	18.7	18.3	18.7
	23.4	23.0	23.4	23.0
Total operating expenses	142.0	142.7	142.0	142.7

6. Personnel expenses

	Parent Company 2014	Parent Company 2013	Group 2014	Group 2013
1 Jan.–31 Dec., € million				
Salaries and remunerations	40.1	37.9	40.1	37.9
Pension expenses	7.0	6.7	7.0	6.7
Other personnel-related expenses	3.7	2.8	3.7	2.8
Total	50.8	47.4	50.8	47.4

7. Management salaries and remunerations

1 Jan.–31 Dec., € million	Parent Company 2014	Parent Company 2013	Group 2014	Group 2013
President and CEO and his deputy ¹	0.7	1.0	0.7	1.0
Members and deputy members of the Board of Directors	0.4	0.4	0.4	0.4
Members and deputy members of the Supervisory Board	0.1	0.1	0.1	0.1
Total	1.2	1.6	1.2	1.6
Average number of personnel during the financial year	552	565	552	565

President and CEO Risto Murto was paid EUR 650,661 in salary and fringe benefits. Risto Murto's retirement age is 63 years and his pension will be 60 per cent of the calculated pensionable salary.

¹ President and CEO had no deputy in 2014

8. Auditors' fees

1 Jan.–31 Dec., € million	Parent Company 2014	Parent Company 2013	Group 2014	Group 2013
KPMG Oy Ab				
Audit fees	0.2	0.2	0.2	0.2
Taxation advice	0.0	0.0	0.0	0.0
Other fees	0.0	0.1	0.0	0.1
Other audit firms				
Taxation advice	0.0	0.1	0.0	0.1

9. Income taxes

Deferred tax liabilities or assets based on accumulated appropriations or other temporary differences between book value and taxable values have not been entered in the balance sheet, because such deferred tax liabilities or assets are unlikely to be realised in the financial statements of a company engaged in the statutory pension insurance business or of its Group.

Notes to the balance sheet

10. Investments at fair value and valuation differences, Parent Company

	Remaining acquisition cost 2014	Book value 2014	Fair value 2014	Remaining acquisition cost 2013	Book value 2013	Fair value 2013
31 Dec., € million						
Real-estate investments						
Real estate	406.8	422.9	536.2	469.2	485.4	638.2
Shares in Group companies	1,404.8	1,404.8	2,000.3	1,505.6	1,505.6	2,125.8
Other real estate shares	25.9	25.9	30.3	26.8	26.8	30.6
Loans to Group companies	759.7	759.7	759.7	856.3	856.3	856.3
Loans to real estate companies	62.8	62.8	62.8	93.0	93.0	93.0
Investments in Group companies						
Shares and participations	4.3	4.3	4.3	4.3	4.3	4.3
Investments in associates						
Shares and participations	352.1	352.1	502.9	248.5	248.5	468.8
Other investments						
Shares and participations	18,204.5	18,204.5	25,126.5	15,374.6	15,374.6	20,581.3
Money-market instruments	8,092.6	8,092.6	8,884.3	9,911.5	9,911.5	10,258.2
Loans guaranteed by mortgages	309.6	309.6	309.6	362.6	362.6	362.6
Other loan receivables	1,210.9	1,210.9	1,213.2	1,599.7	1,599.7	1,600.2
	30,833.8	30,850.0	39,430.0	30,452.0	30,468.2	37,019.3
The remaining acquisition cost of money-market instruments includes:						
The difference between the nominal value and acquisition cost, released (+) or charged (-) to interest income	-89.3			-132.7		
Book value includes						
Revaluations entered as income		16.2			16.2	
Valuation difference (difference between fair value and book value)			8,227.8			6,641.0

11. Investments at fair value and valuation differences, Group

	Remaining acquisition cost 2014	Book value 2014	Fair value 2014	Remaining acquisition cost 2013	Book value 2013	Fair value 2013
31 Dec., € million						
Real-estate investments						
Real estate	2,537.8	2,554.0	3,341.2	2,829.8	2,845.9	3,765.2
Other real estate shares	25.9	25.9	30.3	26.8	26.8	30.6
Investments in Group companies						
Shares and participations	0.8	0.8	0.9	0.8	0.8	0.9
Investments in associates						
Shares and participations	477.2	477.2	502.9	301.1	301.1	468.8
Other investments						
Shares and participations	18,220.6	18,220.6	25,142.7	15,390.7	15,390.7	20,597.4
Money-market instruments	8,092.6	8,092.6	8,884.3	9,911.5	9,911.5	10,258.2
Loans guaranteed by mortgages	309.6	309.6	309.6	362.6	362.6	362.6
Other loan receivables	1,210.9	1,210.9	1,213.2	1,599.7	1,599.7	1,600.2
	30,875.4	30,891.5	39,425.0	30,423.0	30,439.1	37,084.0
The remaining acquisition cost of money-market instruments includes:						
The difference between the nominal value and acquisition cost, released (+) or charged (-) to interest income	-89.3			-132.7		
Book value includes						
Revaluations entered as income		16.2			16.2	
Valuation difference (difference between fair value and book value)			8,533.5			6,644.9

12. Investments in Group companies and associates, Parent Company

31 Dec. 2014, € million

Shares and participations in Group companies

Acquisition cost, 1 Jan.	4.3
Acquisition cost, 31 Dec.	4.3

Shares and participations in associates

Acquisition cost, 1 Jan.	248.5
Increase	103.6
Acquisition cost, 31 Dec.	352.1

Shares and participations in Group companies

31 Dec. 2014, € million	Domicile	Shares, %	Votes, %	Book value € million
Tieto Esy Ltd	Helsinki	14.4%	50.1%	0.9
Osakevarma Oy	Helsinki	100.0%	100.0%	3.3
				4.3
Housing associations and real estate companies				1,404.8

Shares and participations in associates

31 Dec. 2014	Domicile	Shares, %	Votes, %	Book value € million
Aros Bostad III Oy	Stockholm	35.1%	35.1%	0.0
Certeum Oy	Helsinki	38.9%	38.9%	178.4
Finnprotein Oy (in bankruptcy)	Uusikaupunki	33.0%	33.0%	0.0
NV Kiinteistösi joitus Oy	Helsinki	45.0%	45.0%	0.0
Realia Holding Oy	Helsinki	20.6%	20.6%	7.7
SATO Corporation	Helsinki	22.8%	22.8%	74.7
Technopolis Plc	Oulu	23.9%	23.9%	83.0
VVT Kiinteistösi joitus Oy	Helsinki	40.0%	40.0%	0.0
Garantia Insurance Company Ltd	Helsinki	30.5%	30.5%	8.4
				352.1
Housing associations and real estate companies				11.4

13. Investments in Group companies and associates, Group

31 Dec. 2014, € million

Shares and participations in Group companies

Acquisition cost, 1 Jan.	0.8
Decrease	-0.1

Acquisition cost, 31 Dec.	0.8
---------------------------	-----

Shares and participations in associates

Acquisition cost, 1 Jan.	301.1
Increase	376.5
Decrease	-200.4

Acquisition cost, 31 Dec.	477.2
---------------------------	-------

Shares and participations in Group companies

31 Dec. 2014	Domicile	Shares, %	Votes, %	Book value € million
Tieto Esy Ltd	Helsinki	14.4%	50.1%	0.8
				0.8

Shares and participations in associates

31 Dec. 2014	Domicile	Shares, %	Votes, %	Book value € million
Aros Bostad III AB	Stockholm	35.1%	35.1%	0.0
Certeum Oy	Helsinki	38.9%	38.9%	174.7
Finnprotein Oy (in bankruptcy)	Uusikaupunki	33.0%	33.0%	0.0
NV Kiinteistösjointus Oy	Helsinki	45.0%	45.0%	0.0
Realia Holding Oy	Helsinki	20.6%	20.6%	5.1
SATO Corporation	Helsinki	22.8%	22.8%	202.9
Technopolis Plc	Oulu	23.9%	23.9%	84.8
VVT Kiinteistösjointus Oy	Helsinki	40.0%	40.0%	0.0
Garantia Insurance Company Ltd	Helsinki	30.5%	30.5%	9.7
				477.2
Housing associations and real estate companies				22.6

14. Changes in investments in real estate

	Parent Company Real estate and real estate shares	Parent Company Loans to Group companies	Group Real estate and real estate shares
31 Dec. 2014, € million			
Acquisition cost, 1 Jan.	2,483.2	949.3	4,141.9
Increase	103.3	53.9	137.6
Decrease	-300.0	-180.7	-499.1
Acquisition cost, 31 Dec.	2,286.5	822.5	3,780.4
Accumulated depreciation, 1 Jan.	-208.5		-1,034.8
Accumulated depreciation from items sold	39.2		149.2
Depreciation for the financial year	-18.0		-87.6
Accumulated depreciation, 31 Dec.	-187.3		-973.1
Impairments, 1 Jan.	-273.1		-252.9
Impairments on items sold	36.7		28.6
Impairments for the financial year	-25.8		-19.3
Reversed impairment	0.4		
Impairments, 31 Dec.	-261.8		-243.6
Revaluations, 1 Jan.	16.2		16.2
Revaluations of items sold	0.0		0.0
Revaluations, 31 Dec.	16.2		16.2
Book value, 31 Dec.	1,853.6	822.5	2,579.8

15. Real estate investments in own use

31 Dec. 2014, € million	Parent Company	Group
Remaining acquisition cost	82.2	82.2
Book value	82.2	82.2
Fair value	98.8	98.8

16. Parent Company's other investments, shares and participations

31 Dec. 2014	Shares %	Book value € million	Market value € million
Listed equities			
Finnish equities			
Affecto Plc	1.4	0.9	0.9
Ahlstrom Corporation	3.3	10.7	10.7
Aktia Bank p.l.c.	1.8	6.7	11.5
Alma Media Corporation	7.1	14.5	14.5
Amer Sports Corporation	3.0	26.5	57.5
Aspo Plc	4.6	6.0	8.2
Atria Plc	1.9	3.5	3.5
CapMan Plc	4.3	3.0	3.0
Cargotec Corporation	2.4	36.9	38.7
Componenta Corporation	8.9	6.2	6.2
Comptel Corporation	4.8	5.1	5.1
Cramo Plc	1.2	6.3	6.3
Digja Plc	4.7	2.6	2.6
Elektrobit Corporation	3.9	13.4	17.2
Elisa Corporation	4.0	84.9	151.6
Etteplan Oyj	4.1	2.5	2.5
Finnair Plc	1.9	6.0	6.0
Finnlines Plc	0.1	0.7	0.8
Fiskars Corporation	3.0	24.9	44.3
Fortum Corporation	0.6	86.4	93.9
F-Secure Corporation	5.2	17.7	18.4
Glaston Corporation	7.1	5.3	5.3
HKScan Corporation	2.2	3.9	3.9
Huhtamäki Oyj	0.7	14.8	16.2
Kemira Oyj	5.3	80.7	80.7
Kesko Corporation	1.1	16.7	34.1
Kesla Oyj	4.4	0.5	0.5
KONE Corporation	0.9	67.3	169.0
Konecranes Plc	1.9	21.5	28.3
Lassila & Tikanoja Plc	1.6	6.7	9.1
Lemminkäinen Corporation	4.7	8.4	10.4
Marimekko Corporation	4.8	3.4	3.4
Metso Corporation	4.0	150.2	150.2
Metsä Board Corporation	4.9	60.3	71.1
Munksjö Oyj	1.6	3.2	7.3
Neste Oil Corporation	1.2	42.3	62.0
Nixu Corporation	4.3	1.1	1.1
Nokia Corporation	1.9	286.5	473.8
Nokian Tyres Plc	6.7	147.4	182.6
Okmetic Oyj	2.8	1.6	2.3
Olvi Plc	3.8	16.3	16.3
Oriola-KD Corporation	4.2	15.7	21.8
Orion Corporation	0.4	10.3	10.3
Outokumpu Oyj	4.0	60.2	79.7
Outotec Oyj	7.0	56.0	56.0
PKC Group Plc	2.4	4.4	10.0
Ponsse Plc	1.4	1.6	4.6
Pöyry Plc	4.7	7.3	7.3

Raisio Plc	1.6	9.4	10.7
Ramirent Plc	3.4	23.4	23.4
Restamax Plc	1.7	1.0	1.0
Sampo Plc	6.4	283.7	1,380.0
Sanoma Corporation	0.5	3.6	3.6
Solteq Oyj	4.3	0.7	0.9
Sponda Plc	10.3	93.1	105.3
SRV Group Plc	1.2	1.2	1.2
Stockmann Plc	4.4	20.1	20.1
Stora Enso Oyj	2.0	116.4	116.4
Suominen Corporation	9.1	10.1	18.1
Teleste Corporation	2.7	2.7	2.7
Tieto Corporation	1.1	14.5	17.1
Tikkurila Oyj	5.7	36.1	36.1
Tulikivi Corporation	4.7	0.5	0.5
UPM-Kymmene Corporation	1.5	96.1	109.9
Uponor Corporation	5.3	37.4	44.3
Vaisala Corporation	0.9	2.9	3.4
Verkkokauppa.com Oyj	3.9	7.1	8.9
Wärtsilä Corporation	5.2	144.7	380.5
YIT Corporation	9.0	49.0	49.0
Other		1.3	51.5
Finnish equities, total		2,414.4	4,405.4

31 Dec. 2014	Shares %	Book value € million	Fair value € million
Other countries			
Austria			
Erste Group Bank AG	0.0	1.7	1.8
OMV AG	0.0	1.5	1.5
Scholler-Bleckmann Oilfield Equipment AG	0.1	1.2	1.2
Voestalpine AG	0.0	1.4	1.5
Belgium			
Ageas SA/NV	0.0	1.5	1.6
Anheuser-Busch InBev NV	0.0	16.9	19.9
Belgacom SA	0.0	1.1	1.3
Colruyt SA	0.0	1.3	1.3
Groupe Bruxelles Lambert SA	0.0	1.3	1.5
KBC Groep NV	0.0	1.0	1.2
UCB SA	0.0	1.7	2.1
Bermuda			
Atlantica Tender Drilling Ltd	2.9	2.7	2.7
Seadrill Ltd	0.0	1.4	1.4
Canada			
Lundin Gold Inc	3.6	1.5	1.6
Lundin Mining Corporation	0.0	0.6	0.7
NGEx Resources Inc	0.4	0.6	0.6
Questerre Energy Corp	2.3	1.7	1.7
Cayman Islands			
58.com Inc	0.1	0.8	0.8
Siem Offshore Inc	1.2	2.1	2.1
ZAIS Financial Corp REIT	3.1	3.5	3.5

Denmark

AP Moeller - Maersk A/S	0.0	8.1	8.3
Carlsberg A/S	0.0	1.8	1.8
Christian Hansen Holding A/S	0.0	1.7	1.8
Coloplast A/S	0.0	1.6	2.1
Danske Bank A/S	0.0	3.8	4.9
DSV A/S	0.1	5.8	6.3
FLSmidth & Co A/S	0.0	0.7	0.7
GN Store Nord A/S	0.0	1.0	1.3
ISS A/S	0.1	4.4	4.8
Novo Nordisk A/S	0.0	16.6	19.3
Novozymes A/S	0.1	4.7	5.4
Pandora A/S	0.0	1.9	2.0
TDC A/S	0.0	1.5	1.5
Topdanmark A/S	0.0	0.5	0.7
Vestas Wind Systems A/S	0.0	0.8	0.8

France

Air Liquide SA	0.0	8.2	8.7
Arkema SA	0.2	5.3	7.5
AXA SA	0.0	8.4	9.8
BNP Paribas	0.0	11.6	13.1
Bouygues SA	0.0	2.4	2.8
Carrefour SA	0.0	3.1	3.3
Casino Guichard Perrachon SA	0.0	1.0	1.1
Christian Dior SA	0.0	0.6	2.5
Cie de St-Gobain	0.0	5.7	6.1
Cie Generale des Etablissements Michelin	0.0	5.7	5.7
Cie Generale d'Optique Essilor International SA	0.0	2.5	2.8
Credit Agricole SA	0.0	1.6	1.9
Danone	0.0	8.6	8.9
EDF SA	0.0	2.3	2.6
Eiffage SA	0.1	3.5	3.6
Eutelsat Communications SA	0.0	0.8	0.9
Faurecia	0.2	6.9	7.4
GDF Suez	0.0	11.6	12.6
Hermès International	0.0	0.8	2.4
Kering	0.0	3.2	3.3
Lafarge SA	0.0	3.4	3.9
Lagardere SCA	0.1	1.9	1.9
Legrand SA	0.0	4.1	4.8
L'Oréal SA	0.0	9.3	11.1
LVMH Moët Hennessy Louis Vuitton SA	0.0	5.5	10.7
Orange	0.0	5.1	6.8
Orpea	0.2	4.6	4.7
Pernod-Ricard SA	0.0	5.4	5.6
Peugeot SA	0.1	4.9	5.0
Publicis Groupe SA	0.0	2.3	2.7
Rémy Cointreau SA	0.1	1.5	1.5
Renault SA	0.0	5.5	5.6
Rexel SA	0.0	1.5	1.5
Sanofi	0.0	29.0	29.5
Schneider Electric SA	0.0	11.9	11.9
SEB SA	0.0	0.5	0.5

Société BIC SA	0.0	0.9	1.0
Societe Generale	0.0	5.5	6.2
Suez Environnement Co	0.0	0.8	1.1
Tarkett SA	0.2	2.1	2.1
Technip SA	0.0	0.6	0.6
Teleperformance SA	0.4	7.6	12.7
Total SA	0.0	30.7	30.7
Ubisoft Entertainment SA	0.6	7.1	9.9
Valeo SA	0.0	0.7	0.8
Vallourec SA	0.0	1.1	1.1
Wendel SA	0.0	0.7	0.8
Vinci SA	0.0	7.5	8.7
Vivendi SA	0.0	8.1	9.2
Germany			
Adidas AG	0.0	4.0	4.0
Aixtron SE	0.6	6.2	6.2
Allianz SE	0.0	13.2	15.5
Alstria Office REIT-AG	1.5	10.9	12.5
BASF SE	0.0	13.9	13.9
Bayer AG	0.0	22.9	27.3
Bayerische Motoren Werke AG	0.0	11.9	12.5
Beiersdorf AG	0.0	2.8	2.9
Brenntag AG	0.1	2.8	3.5
Commerzbank AG	0.1	9.0	9.0
Continental AG	0.0	8.2	9.5
Daimler AG	0.0	27.1	30.3
Deutsche Annington Immobilien SE	0.2	9.5	16.1
Deutsche Bank AG	0.0	8.9	8.9
Deutsche Boerse AG	0.0	1.5	1.8
Deutsche Euroshop AG	0.2	3.2	3.6
Deutsche Post AG	0.0	5.2	6.8
Deutsche Telekom AG	0.0	7.1	9.5
E.ON AG	0.0	8.1	8.5
ElringKlinger AG	0.2	2.5	2.9
Fraport AG Frankfurt Airport Services Worldwide	0.1	2.4	2.4
Fresenius Medical Care AG & Co KGaA	0.0	3.4	3.7
Fresenius SE & Co KGaA	0.0	4.3	5.1
Fuchs Petrolub SE	0.3	7.1	7.4
GEA Group AG	0.0	1.4	1.6
Gerresheimer AG	0.1	0.7	0.8
Hannover Rueckversicherung AG	0.0	0.9	1.1
HeidelbergCement AG	0.0	2.5	2.9
Henkel AG & Co KGaA	0.0	4.2	5.4
Hugo Boss AG	0.0	0.8	0.9
KION Group AG	0.2	6.0	6.0
Lanxess AG	0.1	1.9	1.9
Leoni AG	0.1	1.0	1.0
Linde AG	0.0	7.6	8.0
Merck KGaA	0.0	2.4	3.1
Metro AG	0.0	1.0	1.1
MTU Aero Engines Holding AG	0.4	15.6	16.5
Münchener Rückversicherungs AG	0.0	5.5	6.3
Norma Group SE	0.1	1.1	1.2
Porsche Automobil Holding SE	0.0	2.9	3.0

ProSiebenSat.1 Media AG	0.0	1.5	1.7
Rheinmetall AG	0.1	1.8	1.9
RIB Software AG	0.6	3.1	3.1
RWE AG	0.0	6.0	6.0
SAP SE	0.0	1.7	1.7
Siemens AG	0.0	23.9	25.1
Stada Arzneimittel AG	0.1	1.5	1.5
Symrise AG	0.0	1.0	1.0
ThyssenKrupp AG	0.0	3.0	3.0
Volkswagen AG	0.0	10.8	11.1
Greece			
Alpha Bank AE	0.1	3.2	3.2
Ireland			
CRH plc	0.0	4.3	5.2
DCC plc	0.1	3.0	5.5
Experian PLC	0.0	3.5	3.8
Governor & Co of the Bank of Ireland	0.0	1.6	2.4
Kerry Group PLC	0.0	2.6	2.6
Kingspan Group plc	0.0	0.7	0.7
Smurfit Kappa Group plc	0.2	5.5	7.5
Italy			
Assicurazioni Generali SpA	0.0	5.0	5.6
Buzzi Unicem SpA	0.2	4.2	4.2
Enel SpA	0.0	8.5	8.9
ENI SpA	0.0	11.5	11.5
Hera SpA	0.2	4.4	5.0
Intesa Sanpaolo SpA	0.0	6.7	9.4
Italcementi SpA	0.1	1.7	1.7
Luxottica Group SpA	0.0	1.9	2.5
Piaggio C. SpA	0.3	2.9	3.0
Pirelli & C SpA	0.0	1.8	1.8
Prysmian SpA	0.3	8.3	8.3
Snam Rete Gas SpA	0.0	1.7	1.9
Telecom Italia SpA	0.0	2.2	2.7
Terna Rete Elettrica Nazionale SpA	0.0	1.3	1.5
UniCredit SpA	0.0	6.2	7.4
Jersey C.I.			
Genel Energy PLC	0.0	0.9	0.9
Glencore Xstrata PLC	0.0	12.5	12.5
Henderson Group PLC	0.0	0.7	1.0
Randgold Resources Ltd	0.0	1.6	1.8
Shire PLC	0.0	7.4	11.2
Wolseley PLC	0.0	4.5	5.1
WPP plc	0.0	4.0	5.5
Liberia			
Royal Caribbean Cruises Ltd	0.1	6.2	8.8
Luxembourg			
ArcelorMittal	0.0	2.9	2.9
Eurofins Scientific	0.0	1.0	1.1
SES SA	0.0	1.7	2.1
Subsea 7 SA	0.0	1.3	1.3
Tenaris SA	0.0	2.5	2.5

Netherlands

Aegon NV	0.0	2.8	3.1
Akzo Nobel NV	0.0	4.3	4.6
ASML Holding NV	0.0	1.8	2.7
Fiat Chrysler Automobiles NV	0.1	6.4	6.4
Gemalto NV	0.0	0.5	0.5
Heineken Holding NV	0.0	0.6	0.6
Heineken NV	0.0	3.9	4.2
ING Groep NV	0.0	5.8	7.8
Koninklijke Ahold NV	0.0	4.3	4.8
Koninklijke Boskalis Westminster NV	0.0	1.0	1.2
Koninklijke KPN NV	0.0	3.1	3.1
Koninklijke Philips NV	0.0	7.1	7.4
Nutreco NV	0.2	3.8	5.2
OCI NV	0.0	0.9	0.9
QIAGEN NV	0.0	1.1	1.4
Reed Elsevier NV	0.0	2.0	3.0
Royal Dutch Shell PLC	0.0	31.0	32.9
Unilever NV	0.0	13.6	14.6
Wolters Kluwer NV	0.1	3.2	3.6

Norway

Aker Solutions ASA	0.2	2.0	2.0
Atea ASA	1.8	15.6	15.8
BW LPG Ltd	0.2	1.9	1.9
Det Norske Oljeselskap ASA	0.3	2.5	2.5
DNB ASA	0.3	55.0	57.5
DNO INTERNATIONAL ASA	0.4	7.2	7.2
Dolphin Group AS	7.3	8.0	8.0
Entra ASA	1.2	16.8	18.3
Farstad Shipping ASA	1.1	2.2	2.2
Gjensidige Forsikring ASA	0.1	5.8	5.9
Hexagon Composites ASA	1.4	3.9	4.6
Kvaerner ASA	0.4	0.9	0.9
Magseis AS	1.3	1.9	1.9
Marine Harvest ASA	0.2	7.6	10.7
Next Biometrics Group AS	3.1	1.8	1.8
Norsk Hydro ASA	0.2	15.8	20.9
Norwegian Air Shuttle AS	0.3	2.8	3.3
OPERA SOFTWARE ASA	0.3	3.7	4.3
Orkla ASA	0.2	12.2	12.2
Petroleum Geo-Services ASA	0.4	3.9	3.9
Protector Forsikring AS	0.9	1.6	3.1
Schibsted ASA	0.1	6.5	6.5
Statoil ASA	0.1	47.9	47.9
Storebrand ASA	1.2	17.3	17.3
Telenor ASA	0.2	38.4	38.5
TGS Nopec Geophysical Co ASA	0.1	2.5	2.5
Yara International ASA	0.2	18.4	18.4

Spain

Abertis Infraestructuras SA	0.0	1.6	1.6
ACS Actividades de Construccion y Servicios SA	0.0	1.6	2.0
Amadeus IT Holding SA	0.0	5.0	6.6
Banco Bilbao Vizcaya Argentaria SA	0.0	16.4	16.7

Banco Popular Espanol SA	0.0	1.4	2.7
Banco Santander SA	0.0	13.4	32.4
Bolsas y Mercados Espanoles SA	0.0	0.8	1.0
CaixaBank	0.0	3.4	4.9
eDreams Odigeo SL	0.3	0.6	0.6
Enagas SA	0.0	1.7	2.1
Endesa SA	0.0	1.4	1.6
Ferrovial SA	0.0	1.5	2.5
Gas Natural SDG SA	0.0	2.7	2.9
Grifols SA	0.0	1.5	1.8
Iberdrola SA	0.0	3.7	7.9
Inditex SA	0.0	7.7	8.4
Red Electrica Corp SA	0.0	1.4	2.2
Repsol YPF SA	0.0	3.1	3.9
Telefonica SA	0.0	6.8	11.1
Sweden			
AarhusKarlshamn AB	0.2	2.1	3.4
AF AB	0.5	2.9	5.0
Alfa Laval AB	0.0	3.0	3.0
Assa Abloy AB	0.1	12.2	17.7
Atlas Copco AB	0.1	21.7	24.4
Atrium Ljungberg AB	5.4	69.1	87.2
Autoliv Inc	0.1	2.9	4.5
Axis Communications AB	0.1	0.7	0.8
Boliden AB	0.0	1.3	1.5
Com Hem Holding AB	0.3	3.7	3.9
Electrolux AB	0.1	4.1	5.5
Elekta AB	0.1	1.7	1.7
Getinge AB	0.0	1.1	1.1
Gränges AB	0.9	3.1	3.5
Gunnebo AB	0.2	0.5	0.5
Haldex AB	0.7	2.4	3.2
Hennes & Mauritz AB	0.1	40.2	50.0
Hexpol AB	0.2	2.6	4.7
Hufvudstaden AB	0.6	10.0	13.8
Intrum Justitia AB	0.1	2.3	2.6
Investor AB	0.1	9.3	13.6
Inwido AB	1.2	4.8	4.8
Lindab International AB	0.3	1.5	1.5
Lundin Petroleum AB	0.0	0.6	0.6
Meda AB	0.1	0.8	2.4
Modern Times Group AB	0.1	1.6	1.6
NCC AB	0.1	2.6	2.6
Nobia AB	0.1	0.9	1.4
Nordea Bank AB	0.7	213.5	278.6
Peab AB	0.2	2.2	2.9
Sandvik AB	0.1	9.8	9.8
Skandinaviska Enskilda Banken AB	0.1	18.0	26.2
Skanska AB	0.1	6.6	7.1
SKF AB	0.2	16.3	16.7
SSAB AB	0.3	12.7	12.7
Swedbank AB	0.1	21.3	27.0
Swedish Orphan Biovitrum AB	0.2	3.5	4.5
Svenska Cellulosa AB	0.1	7.3	7.9

Svenska Handelsbanken AB	0.1	14.4	17.6
Tele2 AB	0.1	4.8	5.1
Telefonaktiebolaget LM Ericsson	0.1	30.9	36.4
TeliaSonera AB	0.1	21.5	21.5
Trelleborg AB	0.1	3.1	3.3
Volvo AB	0.1	10.5	10.5
Zenterio AB	4.5	3.6	3.6
Switzerland			
ABB Ltd	0.0	19.1	20.7
Actelion Ltd	0.0	3.6	4.5
Adecco SA	0.0	2.3	2.6
Aryzta AG	0.0	0.7	0.7
Chocoladefabriken Lindt & Sprungli AG	0.0	0.6	0.6
Cie Financiere Richemont SA	0.0	11.0	11.4
Clariant AG	0.0	1.3	1.4
Credit Suisse Group AG	0.0	7.9	7.9
Dufry AG	0.1	2.6	2.8
Galenica AG	0.0	0.9	1.1
GAM Holding AG	0.0	0.9	1.0
Geberit AG	0.0	2.9	3.8
Givaudan SA	0.0	2.2	2.2
Holcim Ltd	0.0	4.4	4.7
Informa PLC	0.0	0.8	0.8
Julius Baer Group Ltd	0.0	1.7	2.0
Kuehne + Nagel International AG	0.0	3.6	3.9
Logitech International SA	0.5	7.2	9.0
Lonza Group AG	0.0	1.4	2.0
Nestle SA	0.0	53.0	58.8
Novartis AG	0.0	38.5	51.2
Partners Group Holding AG	0.0	0.7	0.9
Roche Holding AG	0.0	36.8	42.5
SGS SA	0.0	1.7	1.7
Sika AG	0.0	1.6	1.9
Sonova Holding AG	0.0	1.7	2.0
Swiss Life Holding AG	0.0	1.0	1.5
Swiss Re AG	0.0	4.9	5.7
Swisscom AG	0.0	3.0	3.4
Syngenta AG	0.0	6.2	6.2
The Swatch Group AG	0.0	3.1	3.1
UBS AG	0.3	5.1	5.7
UBS Group AG	0.0	6.0	6.1
Zurich Financial Services AG	0.0	7.7	9.4
United Kingdom			
3i Group PLC	0.0	1.0	1.8
Aberdeen Asset Management PLC	0.0	1.6	1.8
Admiral Group PLC	0.0	0.7	0.9
Aggreko PLC	0.0	1.3	1.3
Anglo American PLC	0.0	8.1	8.1
Antofagasta PLC	0.0	1.2	1.3
ARM Holdings PLC	0.0	1.0	1.2
Associated British Foods PLC	0.0	3.5	3.8
AstraZeneca PLC	0.0	23.4	30.0
Aviva PLC	0.0	3.5	4.4
Balfour Beatty PLC	0.0	0.6	0.6

Barclays PLC	0.0	11.9	13.0
Barratt Developments PLC	0.0	1.1	2.0
Bellway PLC	0.0	0.6	1.0
Berkeley Group Holdings PLC	0.0	1.1	1.4
BG Group PLC	0.0	12.1	12.1
BHP Billiton PLC	0.0	12.7	12.7
Booker Group PLC	0.0	0.9	1.1
BP PLC	0.0	29.4	29.7
British Land Co PLC	0.0	2.7	3.9
Britvic PLC	0.1	1.5	1.6
BT Group PLC	0.0	7.6	10.2
BTG PLC	0.0	1.1	1.6
Burberry Group PLC	0.0	2.7	3.4
Capita PLC	0.0	2.7	2.8
Centrica PLC	0.0	6.8	6.8
Croda International PLC	0.2	9.3	10.8
Daily Mail & General Trust PLC	0.0	0.5	0.5
Diageo PLC	0.0	16.3	17.7
Drax Group PLC	0.1	1.4	1.4
Fresnillo PLC	0.0	0.8	0.8
GKN PLC	0.1	3.2	3.5
GlaxoSmithKline PLC	0.0	18.8	19.5
Hikma Pharmaceuticals PLC	0.0	1.3	1.7
HSBC Holdings PLC	0.0	42.1	42.9
Icap PLC	0.0	0.8	1.2
IMI PLC	0.1	4.7	4.7
Inchcape PLC	0.3	8.2	10.2
Intertek Group PLC	0.1	4.2	4.2
Investec PLC	0.0	0.8	1.0
ITV PLC	0.0	1.5	2.4
J Sainsbury PLC	0.0	1.6	1.6
Johnson Matthey PLC	0.0	1.4	1.5
Kingfisher PLC	0.0	2.3	2.8
Ladbroke PLC	0.4	5.1	5.1
Legal & General Group PLC	0.0	3.4	4.5
Lloyds Banking Group PLC	0.0	7.9	9.9
London Stock Exchange Group PLC	0.0	0.7	1.4
Man Group PLC	0.1	0.9	1.7
Marks & Spencer Group PLC	0.0	2.3	2.6
Meggitt PLC	0.1	2.5	2.8
Mondi PLC	0.0	1.2	1.6
National Grid PLC	0.0	11.5	13.8
Next PLC	0.0	3.3	4.5
Old Mutual PLC	0.0	2.6	2.9
Pearson PLC	0.0	2.7	2.8
Pennon Group PLC	0.0	0.9	1.3
Persimmon PLC	0.0	1.2	2.1
Playtech PLC	0.1	3.0	3.1
Premier Foods PLC	0.2	0.6	0.6
Prudential PLC	0.0	8.7	11.9
Reckitt Benckiser Group PLC	0.0	14.9	17.8
Reed Elsevier PLC	0.0	2.6	3.8
Rolls-Royce Group PLC	0.0	6.2	6.2
Rotork PLC	0.1	1.1	1.2

RSA Insurance Group PLC	0.1	2.6	2.6
SABMiller PLC	0.0	11.7	12.6
Schroders PLC	0.0	1.3	1.9
Severn Trent PLC	0.1	4.0	4.5
Sky PLC	0.0	2.4	2.8
Smith & Nephew PLC	0.0	1.9	2.4
Smiths Group PLC	0.0	1.7	1.7
Spectris PLC	0.1	2.7	2.7
SSE PLC	0.0	6.5	7.3
Standard Chartered PLC	0.0	6.2	6.2
Standard Life PLC	0.0	2.4	3.0
Tate & Lyle PLC	0.1	2.2	2.2
Taylor Wimpey PLC	0.0	1.1	1.9
Tesco PLC	0.0	8.7	8.7
The Weir Group PLC	0.1	3.6	3.6
Tullow Oil PLC	0.0	1.5	1.5
Unilever PLC	0.0	11.2	12.2
United Utilities Group PLC	0.1	3.5	4.0
WM Morrison Supermarkets PLC	0.0	1.1	1.1
Vodafone Group PLC	0.0	20.2	20.2
United States			
Laredo Petroleum Inc	0.2	2.0	2.0
Tallgrass Energy Partners LP	0.1	0.6	0.7
Other		14.3	18.1
Foreign equities, total		2,603.5	3,014.9
Listed equities, total		5,017.9	7,420.3

	Shares %	Book value € million	Fair value € million
31 Dec. 2014			
Unlisted equities			
Finland			
Ahlström Capital Oy	3.7	8.4	22.8
Arek Oy	19.9	2.8	2.8
Havator Group Oy	9.2	5.4	5.4
Holiday Club Resorts Oy	10.6	4.1	5.1
Kaleva Mutual Insurance Company	30.0	2.6	2.6
Kiitosimeon Oy	15.3	2.1	2.1
Terveystalo Oy	0.4	1.4	1.4
Terveystalo Oy	4.4	13.6	13.6
Mediverkko Yhtymä Oy	9.4	1.9	9.1
Tornator Oy	13.1	10.5	56.6
Vaasa Engineering Oy	9.4	2.4	2.4
Staffpoint Holding Oy	13.9	2.1	2.1
WVO Group Plc	17.0	42.4	224.2
Other		1.0	1.0
Finnish equities, total		100.5	351.0

Other countries**Cayman Islands**

Fir Tree Special Opportunities SPC Ltd	0.0	15.4	16.0
--	-----	------	------

Luxembourg

Esperanto Infrastructure I S.A.	0.0	25.0	32.4
---------------------------------	-----	------	------

Netherlands

BenCo Insurance Holding B.V.	3.6	0.7	3.3
------------------------------	-----	-----	-----

Norway

Acona Invest AS	16.1	2.8	2.8
-----------------	------	-----	-----

South Korea

Dasan III, Inc.	15.8	18.2	30.0
-----------------	------	------	------

Sweden

Attendo Holding AB	3.0	9.2	9.3
--------------------	-----	-----	-----

United States

OSYS Holdings, LLC	13.3	6.3	7.7
--------------------	------	-----	-----

Scitor Corporation	9.1	0.8	0.8
--------------------	-----	-----	-----

SunGard Capital Corporation	0.0	5.7	7.9
-----------------------------	-----	-----	-----

Venari Co-Investment LLC	0.3	3.0	3.2
--------------------------	-----	-----	-----

Other		2.5	3.0
-------	--	-----	-----

Foreign equities, total		89.6	116.5
--------------------------------	--	-------------	--------------

Unlisted equities, total		190.2	467.5
---------------------------------	--	--------------	--------------

	Book value € million	Fair value € million
31 Dec. 2014		
Hedge funds		
1903 Offshore Debt Fund Ltd	14.1	18.3
Abaco Financials Fund Limited	55.7	55.7
Aleutian Fund Ltd	101.0	123.1
Bayview Companion IVa Offshore L.P.	225.9	258.0
Bayview MSR Opportunity Offshore L.P.	4.0	4.8
Bayview Opportunity Offshore II a L.P.	4.5	11.0
Bayview Opportunity Offshore III a L.P.	80.5	122.5
Bayview Opportunity Offshore IV a L.P.	178.5	214.7
Bayview Opportunity Offshore L.P.	2.9	11.1
Benefit Street Credit Alpha Fund Ltd	75.2	81.2
Black River Commodity Multi-Strategy Fund Ltd	2.2	2.2
Blackstone First Avenue Offshore Fund Ltd	92.4	140.7
Blackstone Market Opportunities Offshore Fund SPC	4.1	8.8
Blackstone Select Opportunities Offshore Fund	193.0	294.6
Blackstone Strategic Equity Offshore Fund Ltd	0.6	0.6
Blackstone Strategic Opportunity Offshore Fund Ltd	75.9	93.7
Blackstone Value Recovery Offshore Fund Ltd A1	6.3	15.7
BlueMatrix Limited	36.7	44.0
BlueMountain Equity Alternatives Fund Ltd	104.2	149.6
BlueTrend Fund Limited	51.8	74.4
Boussard & Gavaudan Plc BGF	73.1	79.2
BTG Pactual GEMM	53.9	61.6
Capula Global Relative Value Fund Ltd	90.5	125.5
Capula Tail Risk Fund Limited	61.1	61.1
Carlson Black Diamond Thematic Ltd	82.7	99.4
CarVal Credit Value Fund B II L.P.	107.3	137.3

CarVal Global Value Fund L.P.	34.5	89.0
Corvex Offshore II Ltd	36.7	41.5
CS Iris V Fund Limited	42.5	61.9
Dabroes Offshore Investment Fund Ltd	69.1	90.3
D.E.Shaw Composite International Fund	2.2	3.6
Dialectic Antithesis Offshore, Ltd	44.8	44.8
Dialectic Antithesis Opportunities Fund II L.P.	23.1	23.1
Double Black Diamond Ltd	169.9	272.4
EJF Debt Opportunities Offshore Fund Ltd (Cayman Islands)	194.5	268.0
EJF Financial Services Offshore Fund Ltd	25.8	31.5
EJF Sidecar Fund, LLC - Series (D)	17.0	22.2
EJF Speciality Finance Opportunities Offshore Fund L.P.	49.3	53.9
Element Capital Feeder Fund Ltd	47.0	149.9
Elliot International Ltd	122.3	260.8
Farallon Capital Offshore Investors II Holdings L.P.	2.1	2.7
Fir Tree International Value Fund Ltd	53.2	100.6
Five Mile Capital Partners II L.P.	24.1	29.8
Five Mile Capital Partners LLC	2.1	2.1
Glenview Capital Partners Ltd	47.8	91.0
Golden Tree Credit Opportunities Ltd	14.0	53.5
Golden Tree Distressed Debt Fund (Cayman) Ltd	54.8	108.8
Golden Tree Distressed Fund 2014 (Cayman) L.P.	13.6	14.3
Golden Tree MultiStrategy, Ltd A Liquid	1.5	1.8
Golden Tree Offshore Fund II Ltd	65.6	99.7
Golden Tree Offshore Fund Ltd	12.9	23.0
GSA Quantitative Futures Fund Ltd	36.2	43.9
GSO Special Situations Overseas Fund Ltd	0.5	1.3
H/2 Credit Partners Ltd	71.4	98.4
H/2 Special Opportunities III L.P.	7.1	7.2
H/2 Special Opportunities II L.P.	55.6	74.2
H/2 Special Opportunities L.P.	4.8	13.4
H/2 Targeted Return Strategies I Ltd	29.2	30.2
HBK Offshore Fund II L.P.	173.2	257.4
Jana Nirvana Offshore Fund, Ltd	68.5	85.4
King Street Capital, Ltd	65.1	110.1
Kuttura Fund L.P.	52.8	94.6
Mortality Fund I	23.4	36.3
Newport Global Opportunities Fund L.P.	22.5	37.7
NWI Emerging Market Currency Fund	36.7	41.7
Oak	43.0	64.0
Ospraie Special Opportunities Ltd	1.7	2.8
OxAM Quant Fund (International) Limited	50.0	60.7
OZ Asia Overseas Fund Ltd	1.8	1.8
OZ Europe Overseas Fund II Ltd	1.7	1.7
OZ Overseas Fund Ltd	1.1	2.1
Pentwater Event Fund Ltd	52.7	66.3
Pharo Macro Fund Ltd	54.4	63.3
Pine River Fixed Income Fund Ltd	88.2	101.1
Pine River Liquid Rates Fund Ltd	73.5	81.9
Reservoir Capital Overseas Partners II L.P.	8.8	11.7
Sevetti Fund B, L.P.	224.9	267.5
Soroban Opportunities Cayman Fund Ltd	19.6	21.4
Spinnaker Global Emerging Markets Fund Ltd	54.4	66.7
Spinnaker Global Opportunity Fund Ltd	37.9	52.9

The Canyon Value Realization Fund Ltd	11.7	30.3
Third Point Offshore Fund Ltd	64.6	79.4
Tricadia Credit Strategies Ltd	74.2	87.7
Two Sigma Absolute Return Cayman Fund Ltd	46.5	54.9
Whippoorwill Distressed Opportunity Fund, Ltd	11.6	16.8
ZAIS Empiricus Fund	54.2	65.4
Zais Opportunity Fund Ltd	29.4	75.3
Zebedee Focus Fund Limited A	36.3	36.3
Zebedee Focus Fund Limited B	36.3	36.3
Zebedee Growth Fund Limited	14.5	14.5
ZP Offshore Utility Fund Ltd	20.4	20.6
Other	241.1	329.9
Hedge funds, total	4,950.2	6,873.9
Real estate funds		
Alinda Infrastructure Parallel Fund II L.P.	62.3	81.4
Alinda Infrastructure Parallel Fund I L.P.	32.7	52.5
Apollo European Real Estate Fund II Euro L.P.	6.9	6.9
Apollo European Real Estate Fund III L.P.	27.7	28.7
Arcus European Infrastructure Fund 1 L.P.	76.2	76.2
Aros Bostadskapital 8 AB Co-Investment	0.8	0.8
Aros Bostadskapital 9 AB Co-Investment	2.3	2.3
AXA European Real Estate Opportunity Fund II L.P.	13.8	13.8
Blackstone Real Estate Partners Europe III L.P.	43.8	57.5
Blackstone Real Estate Partners International II L.P.	24.1	29.2
CapMan Hotels RE Ky	6.3	9.8
CapMan Nordic Real Estate FCP-SIF	14.7	14.8
CapMan Real Estate I Ky	5.9	5.9
CapMan RE II Ky	1.8	2.9
Clearbell Property Partners II L.P.	15.8	16.2
Colony Investors VII, L.P.	5.4	5.4
Colony Parallel Investors VIII, L.P.	19.8	19.8
EPI Russia I Ky	16.7	16.7
EQT Infrastructure II No. 2 L.P.	15.6	15.6
EQT Infrastructure No. 1 L.P.	36.9	54.8
ICECAPITAL Housing Fund III Ky	6.4	7.1
ICECAPITAL Housing Fund II Ky	14.8	20.3
ICECAPITAL Housing Fund I Ky	5.0	16.2
ICECAPITAL Saint Petersburg Residential Fund I Ky	2.1	2.1
Macquarie European Infrastructure Fund III L.P.	134.2	216.4
Macquarie European Infrastructure Fund II L.P.	91.3	112.8
MGPA Asia Fund III L.P.	15.5	24.1
Moorfield Real Estate Fund II B L.P.	23.7	32.7
NV Property Fund I Ky	101.8	106.8
The CIT Real Estate Limited Partnership	0.7	0.7
Trevian Care II Ky	6.7	6.7
VVT Property Fund I Ky	18.6	19.1
Other	0.8	2.1
Real estate funds, total	851.1	1,078.2
Fixed-income funds		
GS Growth & Emerging markets Debt Local I USD Fund	127.2	127.2
H/2 TRS II CDO Holdings LTD Class A - Initial Series	25.8	92.0
Inari Fund	234.9	296.8

iShares iBoxx Corporate ETF	71.5	74.4
iShares Markit Corporate ETF	20.0	21.1
Ivalo Fund, L.P.	362.1	480.1
Koitere Fund L.P.	104.0	105.7
Mandatum Life Nordic High Yield ABS	48.2	48.2
Pareto Kreditt B	45.4	45.4
Sevetti Fund A, L.P.	481.1	569.4
Wellington Emerging Local Debt USD Class S Accumulating Unhe	93.9	93.9
Fixed-income funds, total	1,614.0	1,954.1
Equity funds		
Aberdeen Global China Equity Fund	51.6	57.6
Aberdeen Global Latin American Equity Fund	33.7	33.7
Amundi Latin America Equity I7C Fund	26.5	26.5
East Capital Financials Investors AB	5.4	5.4
Estonia Timberland Fund	5.1	5.1
Fidelity Asian Special Situations Fund SS A ACC USD	32.8	40.6
Fidelity Emerging Asia Fund AS A ACC USD	21.2	26.3
FTIF Templeton Asian Growth Fund I USD Share Class	47.7	52.5
FTIF Templeton Asian Smaller Companies Fund USD Share Class	25.8	33.0
GAM Star plc - China Equity Fund	21.8	27.6
GS US Blend Equity Portfolio fund	81.8	166.6
Henderson Horizon Pan European Smaller Companies Fund	35.0	54.1
ISHARES MSCI SOUTH KOREA (EWY) ETF	92.7	92.7
iShares Russell 2000 ETF	861.8	940.5
Macquarie Asia New Stars Fund USD	56.0	63.4
Montanaro European Smaller Companies Fund	20.0	24.1
Nomura ETF Topix	36.2	38.2
Nordea North American All Cap Fund	90.7	106.3
Powershares QQQ Nasdaq 100 ETF	272.9	328.5
RAM Emerging Markets Equities classe R	58.0	68.8
SPDR S&P 500 ETF TRUST	924.2	1,257.4
SSgA Enhanced Emerging Markets Equity Fund	231.3	248.8
Taalritehdas Arvo Rein Osake A	21.7	27.0
Taalritehdas Turkey Equity fund	4.3	7.2
Threadneedle Pan European Smaller Companies Fund	20.0	26.9
Turquoise Partners Limited Class D	6.4	6.4
UBS Global Emerging Markets Opportunity Fund Class I-B USD	49.8	49.9
UBS (Lux) Equity SICAV USA Growth	50.5	98.2
Vanguard Emerging Markets Stock Index Fund	273.9	286.0
Vanguard Institutional Index Fund Plus shares	355.5	797.7
Vanguard Japan Stock Index Fund	161.4	176.6
Vanguard Pacific ex Japan Index Fund	80.6	93.0
William Blair US Small Mid Cap Growth Fund	41.0	60.3
Other	0.5	0.5
Equity funds, total	4,097.8	5,327.5
Private equity funds		
1903 Equity Fund L.P.	0.9	0.9
Abingworth Bioventures III B L.P.	0.8	0.8
AC Cleantech Growth Fund I KY	17.0	17.0
Access Capital Fund L.P. II B	1.5	1.5
Alpha Private Equity Fund 5 - JABBAH CI L.P.	8.0	8.2
Apollo Investment Fund VII Euro Holdings, L.P.	27.5	34.9

Apollo Overseas Partners (Delaware) VIII, L.P.	6.6	6.6
Armada Mezzanine Fund III Ky	2.3	4.5
Auda Asia II L.P.	15.3	19.4
Auda Secondary II Feeder Fund L.P.	9.7	10.1
Behrman Capital IV L.P.	25.0	32.6
Blackstone Capital Partners IV L.P.	14.4	15.9
Blackstone Capital Partners V L.P.	45.6	55.2
Blackstone Capital Partners V LP	10.2	27.2
Blackstone Capital Partners VI L.P.	63.5	84.3
Blackstone Mezzanine Partners II L.P.	2.1	2.1
BlueRun Ventures, L.P.	5.8	9.0
CapMan Buyout IX Fund A L.P.	39.8	42.4
CapMan Buyout VIII Fund A L.P.	11.8	11.8
CapMan Buyout X Fund A L.P.	18.2	18.2
CapMan Life Science IV Fund L.P.	7.3	7.3
CapMan Russia Fund L.P.	7.4	7.7
CapMan Technology Fund 2007 L.P.	3.0	3.3
CapVest Equity Partners II L.P.	9.7	11.2
CapVest Equity Partners III L.P.	1.7	1.7
CDH Fund V L.P.	11.0	11.5
Crown Co-Investor LP	19.5	45.7
CV Partners Kansas II L.P.	0.1	8.4
CVC European Equity Partners IV (C) L.P.	5.4	5.4
Elbrus Capital Fund I L.P.	45.5	54.3
Elbrus Capital Fund II LP.	19.6	19.6
EQT III ISS LP	0.1	8.2
EQT III UK No. 1 Limited Partnership	1.6	1.6
EQT IV No. 1 Limited Partnership	16.4	16.9
EQT V No 1 Limited Partnership	25.0	29.1
EQT VI No 1 Limited Partnership	34.7	39.7
Green Equity Investors IV L.P.	4.3	9.5
Green Equity Investors V L.P.	25.6	35.9
Hamilton Lane Co-Investment Feeder Fund III L.P.	7.0	7.0
Hamilton Lane Co-Investment Fund L.P.	42.1	47.2
Hamilton Lane Co-Investment Fund II L.P.	40.9	82.4
Hamilton Lane Parallel Investors LP	18.9	20.5
IK VII L.P.	22.0	22.0
Industri Kapital 2000 Limited Partnership I, II, IV	1.9	1.9
Industri Kapital 2004 Limited Partnership I	5.5	5.5
Industri Kapital 2007 Limited Partnership III	33.0	38.3
Inveni Secondaries Fund II Follow-On Ky	0.7	0.7
IT Co-Investment Holdings, Inc.	6.0	6.2
Kelso Investment Associates VII, L.P.	3.1	3.1
Kelso Investment Associates VIII, L.P.	59.3	65.0
MB Equity Fund IV Ky	9.0	13.2
MBK Partners Fund II, L.P.	27.9	61.3
MBK Partners Fund III, L.P.	13.8	19.0
MBK Partners, L.P.	15.1	31.9
MCP (Moelis) Co Invest LP	8.5	11.4
Mezzanine Management Fund IV A L.P.	8.9	9.3
MHR Institutional Partners IV L.P.	7.1	8.3
MML Capital Partners Fund V L.P.	16.1	19.6
Moelis Capital Partners Opportunity Fund I L.P.	54.6	75.1
Moelis Capital Partners Opportunity Fund I-B LP	7.6	8.3

Navis Asia Fund VII, L.P.	9.6	9.8
New Mountain Partners IV L.P.	12.7	12.9
Nokia Venture Partners II L.P.	0.7	0.7
Nordic Mezzanine Fund III L.P.	9.9	11.2
Onex Partners II L.P.	6.8	6.8
Onex Partners III L.P.	54.1	73.9
Onex Partners IV L.P.	4.1	4.1
PAI Europe VI-1 L.P.	21.5	21.5
Permira Europe II L.P. 2	0.8	0.8
Permira Europe III L.P.2	9.6	9.6
Permira Europe IV L.P.2	24.6	29.7
Platinum Equity Capital Partners II, L.P.	25.0	46.6
Platinum Equity Capital Partners III L.P.	7.9	17.1
Power Fund II Ky	3.7	3.7
Power Fund III Ky	1.7	1.7
Profita Fund III Ky	2.9	2.9
Quadrige Capital Private Equity Fund III L.P.	20.2	20.2
Saw Mill Capital Partners, L.P.	9.4	12.1
Selected Mezzanine Funds I Ky	4.7	6.2
Selected Private Equity Funds I Ky	6.9	8.3
Sofia L.P.	1.0	1.0
Sponsor Fund III Ky	22.4	28.0
Strategic Value Special Situations Feeder Fund III L.P.	27.5	28.4
TCW Crescent Mezzanine Partners IV B L.P.	6.6	6.6
TCW Crescent Mezzanine Partners V L.P.	23.3	29.0
The Fifth Cinven Fund (No. 1) Limited Partnership	19.6	22.0
The Fourth Cinven Fund (No. 4) Limited Partnership	24.8	24.8
TPG Asia VI L.P.	17.7	17.7
Warburg Pincus Energy L.P.	2.6	2.6
Warburg Pincus Private Equity IX, L.P.	9.5	29.2
Warburg Pincus Private Equity X, L.P.	49.9	99.9
Warburg Pincus Private Equity XI LP.	51.3	65.1
VSS Communications Parallel Partners IV, L.P.	13.9	13.9
Other	3.2	59.9
Private equity funds, total	1,483.3	2,005.0
Funds, total	12,996.4	17,238.7
Parent Company, total	18,204.5	25,126.5

The Group's shareholding deviates from the Parent Company's as follows:

Kaleva Mutual Insurance Company guarantee capital	3.3	3.3
Martinparkki Oy	3.3	3.3
Poha-Pysäköinti Oy	1.4	1.4
Ruohoparkki Oy	3.3	3.3
Vaasan Toripysäköinti Oy	2.3	2.3
Other	2.5	2.5
Group, total	18,220.6	25,142.7

17. Changes in tangible and intangible assets, Parent Company

	Intangible assets Other expenses with long- term effects	Tangible assets Equipment	Tangible assets Other tangible assets	Total
31 Dec. 2014, € million				
Acquisition cost, 1 Jan.	51.5	7.2	0.9	59.6
Completely depreciated in the previous year	-2.2	-1.6		-3.8
Increase	0.5	0.3		0.8
Decrease	-0.4	0.0		-0.4
Acquisition cost, 31 Dec.	49.4	5.9	0.9	56.2
Accumulated depreciation, 1 Jan.	-29.4	-4.5		-33.9
Completely depreciated in the previous year	2.2	1.6		3.8
Depreciation for the financial year	-7.6	-0.7		-8.3
Accumulated depreciation, 31 Dec.	-34.8	-3.6		-38.4
Book value, 31 Dec. 2014	14.6	2.3	0.9	17.8
Book value, 31 Dec. 2013	22.1	2.7	0.9	25.7

Group figures are the same as those of the Parent Company.

18. Loan receivables itemised by guarantee

	Parent Company 2014	Parent Company 2013	Group 2014	Group 2013
31 Dec., € million				
Bank guarantee	218.5	538.5	218.5	538.5
Guarantee insurance	248.3	312.4	248.3	312.4
Other guarantee	744.1	748.8	744.1	748.8
Remaining acquisition cost, total	1,210.9	1,599.7	1,210.9	1,599.7

19. Total pension loan receivables itemised by balance sheet item

	Parent Company 2014	Parent Company 2013	Group 2014	Group 2013
31 Dec., € million				
Loans guaranteed by mortgages	250.7	295.5	250.7	295.5
Other loan receivables	430.9	813.5	430.9	813.5
Remaining acquisition cost, total	681.6	1,109.0	681.6	1,109.0

20. Loans to related parties

	Parent Company 2014	Parent Company 2013
31 Dec., € million		
Loans to Group companies	759.7	856.3

The loan period is usually at most 15 years, and the interest rate is mainly tied to the fixed interest rate or technical interest rate.

21. Derivatives

31 Dec., € million	Parent Company 2014	Parent Company 2013	Group 2014	Group 2013
Other receivables				
Advance payments for option contracts	30.5	19.9	30.5	19.9
Other liabilities				
Advance payments for option contracts	24.5	18.7	24.5	18.7
Value adjustments of derivatives	90.1	23.7	90.1	23.7

22. Liabilities to Group companies

	Parent Company 2014	Parent Company 2013	Group 2014	Group 2013
31 Dec., € million				
Other liabilities	0.5	0.6	0.5	0.6

23. Technical provisions

31 Dec., € million	Parent Company 2014	Parent Company 2013	Group 2014	Group 2013
Provision for unearned premiums				
Future pensions	15,083.9	14,901.1	15,083.9	14,901.1
Provision for future bonuses	752.7	1,301.2	752.7	1,301.2
Provision for current bonuses	117.1	105.9	117.1	105.9
Equity-linked provision for current and future bonuses	1,006.9	719.7	1,006.9	719.7
Total provision for unearned premiums	16,960.6	17,028.0	16,960.6	17,028.0
Provision for claims outstanding				
Current pensions	13,929.0	13,253.0	13,929.0	13,253.0
Equalisation provision	1,180.0	1,118.1	1,180.0	1,118.1
Total provision for claims outstanding	15,109.0	14,371.2	15,109.0	14,371.2
Total technical provisions	32,069.7	31,399.1	32,069.7	31,399.1

24. Solvency capital, Parent Company

31 Dec., € million	2014	2013
Capital and reserves	107.2	102.0
Interest on guarantee capital proposed for distribution	-0.7	-0.6
Valuation difference between fair values on assets and book values of balance sheet items	8,227.8	6,641.0
Provision for future bonuses	752.7	1,301.2
Equalisation provision	1,180.0	1,118.1
Intangible assets	-14.6	-22.1
	10,252.5	9,139.7
Minimum solvency capital as required under the Employment Pension Insurance Companies Act, Section 17	1,583.4	1,395.3

25. Liabilities, Parent Company

31 Dec., € million	2014	2013
Guarantees given on own behalf		
Assets pledged as security for derivatives	275.4	13.7

Cash guarantees required for clarification of derivative contracts to the value of EUR 275.4 million are included in cash at bank and in hand balance sheet item.

26. Capital and reserves

31 Dec., € million	Parent Company 2014	Group 2014
Guarantee capital	11.9	11.9
Other reserves, 1 Jan.	84.5	84.5
Profit brought forward from 2013	4.5	4.5
Other reserves, 31 Dec.	89.0	89.0
Profit/loss brought forward	5.6	-30.2
Transfer to contingency fund	-4.5	-4.5
Distributed interest on guarantee capital	-0.6	-0.6
Transfer to the Board of Directors' expense account	-0.1	-0.1
Change in the valuation principles for associated companies		184.7
	0.4	149.3
Profit/loss for the financial year	5.9	-102.0
Total capital and reserves	107.2	148.2

27. Capital and reserves after proposed profit distribution

	Parent Company 2014
31 Dec., € million	
Holders of guarantee capital	
Guarantee capital	11.9
Proposed distribution to holders of guarantee capital	0.7
Policyholders	94.6
Total	107.2

28. Distributable profits

		Parent Company 2014
31 Dec., € million		
Profit for the financial year		5.9
Other capital and reserves		
Other reserves	89.0	
Profit brought forward	0.4	89.4
Total distributable profits		95.3

29. Guarantee capital

31 Dec. 2014, € million	Number	Guarantee capital
Mandatum Life Insurance Company Ltd.	14	2.4
Sampo plc	57	9.6
	71	11.9

30. Guarantees and liabilities, Parent Company

31 Dec., € million	2014	2013
Contingent liabilities and liabilities not included in the balance sheet		
Derivatives		
Derivatives for hedging purposes		
Currency derivatives		
Forward contracts		
Underlying instrument, absolute value	331.6	3,137.5
Underlying instrument, risk-adjusted value	143.5	-2,953.6
Fair value	0.3	-7.3
Currency swap contracts		
Underlying instrument, absolute value	18,045.3	10,245.5
Underlying instrument, risk-adjusted value	-17,406.2	-10,245.5
Fair value	-417.5	56.8
Other derivatives		
Interest rate derivatives		
Forward and futures contracts		
Underlying instrument, absolute value	439.6	818.2
Underlying instrument, risk-adjusted value	-202.4	-896.7
Fair value	-0.2	1.5
Option contracts		
Bought		
Underlying instrument, absolute value	20,000.0	25,000.0
Underlying instrument, risk-adjusted value	0.0	-6,849.9
Fair value	-7.6	-4.4
Sold		
Underlying instrument, absolute value	20,000.0	35,000.0
Underlying instrument, risk-adjusted value	0.0	5,695.8
Fair value	6.5	3.9
Credit risk derivatives		
Underlying instrument, absolute value	200.0	
Underlying instrument, risk-adjusted value	200.0	
Fair value	3.9	
Interest rate swap contracts		
Underlying instrument, absolute value	0.0	64.8
Underlying instrument, risk-adjusted value	0.0	64.8
Fair value	0.0	0.2
Currency derivatives		
Option contracts		
Bought		
Underlying instrument, absolute value	660.0	438.1
Underlying instrument, risk-adjusted value	56.4	260.2
Fair value	1.2	-2.3
Sold		
Underlying instrument, absolute value	794.8	577.8
Underlying instrument, risk-adjusted value	-57.9	-244.3
Fair value	-3.5	4.8

Forward and futures contracts		
Underlying instrument, absolute value	931.2	89.9
Underlying instrument, risk-adjusted value	410.5	-22.4
Fair value	16.6	0.6
Currency swap contracts		
Underlying instrument, absolute value	383.9	87.1
Underlying instrument, risk-adjusted value	7.9	-87.1
Fair value	-1.2	3.0
Equity derivatives		
Forward and futures contracts		
Underlying instrument, absolute value	1,006.5	202.9
Underlying instrument, risk-adjusted value	62.0	202.9
Fair value	-16.0	6.7
Option contracts		
Bought		
Underlying instrument, absolute value	465.6	259.4
Underlying instrument, risk-adjusted value	116.8	24.0
Fair value	2.7	-4.8
Sold		
Underlying instrument, absolute value	420.6	639.0
Underlying instrument, risk-adjusted value	28.0	-24.9
Fair value	3.2	6.6
Other derivatives		
Forward and futures contracts		
Underlying instrument, absolute value	534.4	506.6
Underlying instrument, risk-adjusted value	68.0	-16.0
Fair value	-27.0	-0.3
Option contracts		
Bought		
Underlying instrument, absolute value	63.3	15.4
Underlying instrument, risk-adjusted value	18.4	1.7
Fair value	0.4	-0.3
Sold		
Underlying instrument, absolute value	63.3	15.4
Underlying instrument, risk-adjusted value	-45.5	-4.5
Fair value	-2.5	1.0
Commodity swaps		
Underlying instrument, absolute value	288.3	217.5
Underlying instrument, risk-adjusted value	288.3	217.5
Fair value	0.9	0.6
Total		
Underlying instrument, absolute value	64,628.3	77,315.3
Underlying instrument, risk-adjusted value	-16,312.3	-14,878.1
Fair value	-439.8	66.2

The fair values of quoted derivatives have been calculated using the price quoted on the stock exchange. The fair values of other derivatives are based on calculations of market quotes or on estimates of the fair values presented by outside parties.

31. Guarantees and liabilities, Parent Company

31 Dec., € million	2014	2013
Investment commitments		
Private equity funds	1,599.8	1,148.8
Other funds	800.8	522.6
Pension liabilities		
Pension commitments (recognized as debt in 2014)	1.1	1.1
Leasing and renting liabilities		
Expiring next year	0.6	0.8
Expiring later	0.7	0.7
Other liabilities		
Varma Mutual Pension Insurance Company belongs to a value-added tax liability group together with Veritas Pension Insurance, Tieto Esy Oy and real estate companies owned by the aforementioned companies. In addition to the above-mentioned companies, eFennia Oy, Mutual Insurance Company Fennia, Elo Mutual Pension Insurance Company, Fennia Asset Management Ltd., Suomen Vahinkotarkastus SVT Oy and Fennia Life Insurance Company fall under the obligation to verify VAT allowances of real estate investments.		
Group members are collectively responsible for the value-added tax payable by the Group.	6.8	7.2
Obligation to verify VAT allowances of real estate investments	118.5	149.7
Loaned securities		
Bonds		
Nominal value	1,250.3	1,387.0
Remaining acquisition cost	1,258.0	1,423.1
Fair value	1,351.8	1,427.1

Loaned securities are included in the balance sheet. The counterparty to the lending operations is the custodian bank Northern Trust Co. London with which borrowers post collateral. The collateral of the loans are securities. Loans can be cancelled at any time.

Varma balance sheet and income statement at fair value

The financial statements of an earnings-related pension company are prepared in accordance with the Finnish Accounting Act, Companies Act, Insurance Companies Act, Employee Pension Insurance Companies Act and the Act on calculating the solvency limit and covering technical provisions in pension institutions. In addition, the decree of the Ministry of Social Affairs and Health concerning the financial statements and consolidated financial statements of insurance companies, as well as the calculation bases confirmed by the Ministry of Social Affairs and Health and the regulations and guidelines of the Financial Supervisory Authority are complied with. IFRS standards do not concern earnings-related pension insurance companies.

The statutory earnings-related pension scheme is partially fund-based. The technical provisions appearing in the balance sheet of an earnings-related pension insurance company amount to about a quarter of the capital value of the pensions accumulated by the closing date. Furthermore, statutory pension insurance has a guarantee scheme, according to which the earnings-related pension insurance scheme is jointly responsible for securing the benefits of the insured, should a pension institution become insolvent.

Technical provisions also include a substantial provision for future bonuses, which provides a buffer against fluctuations in results and strengthens company solvency, a provision for current bonuses which is reserved for the payment of client bonuses, and an equity-linked provision for current and future bonuses, which provides protection against fluctuations in the value of pension companies' shares. The main components of the solvency capital, measuring the company's solvency, are the capital and reserves, provision for future bonuses, equalisation provision and valuation differences of investments.

The operating expenses of the company are listed under a number of entries in the income statement and key figures. The effect of fair values on the company's investments and their results are presented in the notes to the financial statements. Earnings-related pension companies need not present deferred tax liabilities as long as the calculation bases set by the Finnish Ministry of Social Affairs and Health that confirm the financial year's profit in the income statement are in force. As a result of this, an earnings-related pension insurance company cannot make full use of the tax-free component of the dividend income or earlier tax credits connected with dividends. In an earnings-related pension insurance company, the significance of the consolidated financial statements is mainly technical.

In the notes to the financial statements the investment returns at fair values are compared to the interest credited on technical provisions, and the operating expenses by function (excluding operating expenses related to investments, to maintenance of workability and statutory charges) are compared to the loading income included in insurance contributions. The combined result from investment operations, loading profit and insurance business, corresponds to the profit in the income statement at fair values.

The financial statements, drawn up in compliance with valid regulations, include a note to the balance sheet, which presents asset items at fair values, and a note to the income statement, which presents the items of the income statement summarised and re-grouped. The total result presented in the income statement drawn up at fair values substantially deviates from the result for the financial year in the income statement, drawn up in accordance with calculation bases confirmed in advance by the Finnish Ministry of Social Affairs and Health.

In 2014, the total result of the parent company Varma stood at EUR 1,223 (1,558) million and the balance sheet total was EUR 40,601 (38,310) million.

Balance sheet at fair value, Parent Company

31 Dec., € million	2014	2013	2012
ASSETS			
Investments	40,039	37,718	34,406
Receivables	545	566	1,208
Equipment	18	26	36
	40,601	38,310	35,651
LIABILITIES			
Capital and reserves	107	101	97
Valuation differences	8,213	6,619	5,400
Equalisation provision	1,180	1,118	
Provision for pooled claims equated with solvency capital			1,147
Provision for future bonuses	753	1,301	1,073
Total solvency capital	10,252	9,140	7,716
Provision for current bonuses (for client bonuses)	117	106	79
Equity-linked provision for current and future bonuses	1,007	720	190
Equalisation provision			1,108
Provision for pooled claims equated with solvency capital			-1,147
Actual technical provision	29,013	28,154	27,317
Total	30,020	28,874	27,468
Other liabilities	212	190	388
	40,601	38,310	35,651

Income statement at fair value, Parent Company

1 Jan.–31 Dec., € million	2014	2013	2012
Premiums written	4,344	4,258	4,231
Claims paid	-4,661	-4,446	-4,168
Change in technical provisions	-1,040	-1,289	-1,219
Net investment income	2,729	3,183	2,510
Total operating expenses	-142	-143	-149
Taxes	-7	-6	-4
Total result ¹	1,223	1,558	1,201

¹Result at fair value before change in provision for current and future bonuses and equalisation provision.

Key figures and analyses

Summary

31 Dec., € million	2014	2013	2012	2011	2010
Premiums written, € million	4,343.6	4,258.0	4,230.7	3,976.6	3,735.2
Pensions paid and other payments made, € million	4,660.7	4,445.5	4,167.5	3,924.6	3,652.9
Net investment income at fair value, € million	2,698.9	3,160.1	2,492.4	-711.0	3,277.8
Return on invested capital, %	7.1	9.0	7.7	-2.1	11.0
Turnover, € million	5,480.0	6,228.3	5,120.7	3,942.9	4,888.1
Total operating expenses, € million	142.0	142.7	148.7	135.9	132.0
of turnover, %	2.6	2.3	2.9	3.4	2.7
Operating expenses covered by the expense loading included in insurance contributions of TyEL and YEL payroll, %	99.1	101.3	110.3	93.2	93.7
of TyEL and YEL payroll, %	0.5	0.5	0.6	0.5	0.5
Total result, € million	1,223.0	1,558.5	1,201.4	-1,377.7	2,054.4
Technical provisions, € million	32,069.7	31,399.1	29,766.6	28,965.6	29,088.8
Solvency capital, € million	10,252.5	9,139.7	7,716.3	6,520.4	7,912.9
of technical provision, %	34.0	31.6	28.0	24.8	30.8
in relation to solvency limit	2.2	2.2	2.4	2.5	2.3
Equalisation provision, € million	1,180.0	1,118.1	1,107.6	1,120.2	1,158.3
Pension assets, € million	40,297.5	38,040.2	35,198.4	32,782.3	33,570.1
Transfer to client bonuses of TyEL payroll, %	0.66	0.59	0.44	0.40	0.54
TyEL payroll, € million	17,826.9	17,813.4	17,706.1	17,324.6	16,495.3
YEL payroll, € million	894.4	901.7	909.9	880.0	749.4
TyEL policies	27,200	26,900	27,600	28,100	28,300
TyEL insured persons	488,200	491,400	498,500	498,400	488,300
YEL policies	38,940	39,810	41,280	41,940	38,400
Pensioners	334,500	333,700	331,400	330,000	326,900

Performance analysis

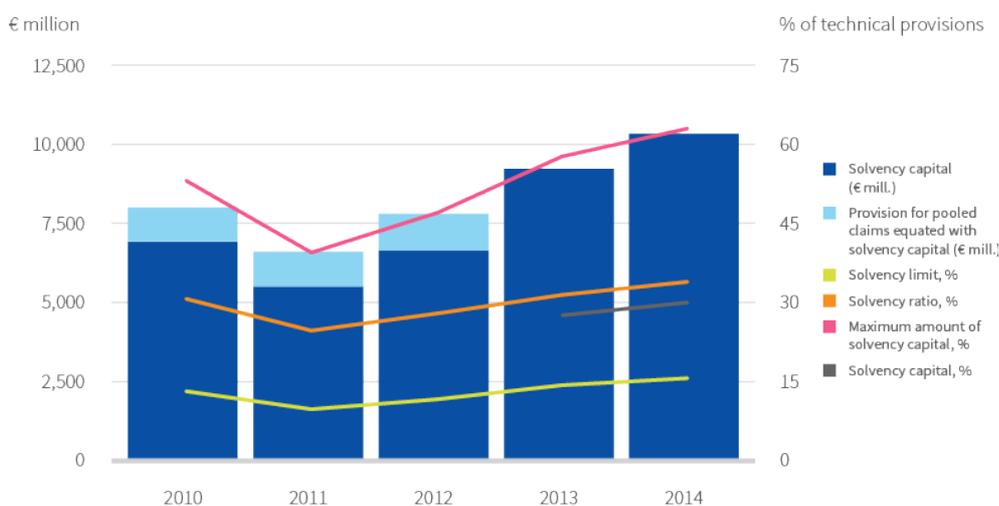
31 Dec., € million	2014	2013	2012	2011	2010
Sources of profit					
Technical underwriting result	64.1	14.5	-9.2	-35.0	145.1
Investment surplus at fair value	1,125.5	1,511.9	1,189.4	-1,378.0	1,874.0
+ Net investment income at fair value	2,698.9	3,160.1	2,492.4	-711.0	3,277.8
- Return requirement on technical provisions	-1,573.4	-1,648.3	-1,303.0	-667.1	-1,403.9
Loading profit	33.4	32.0	21.2	35.3	35.4
Total result	1,223.0	1,558.5	1,201.4	-1,377.7	2,054.5
Appropriation of profit					
To increase solvency	1,106.0	1,453.5	1,123.4	-1,450.7	1,965.4
Equalisation provision	61.9	10.5	-12.6	-38.1	142.1
Change in provision for future bonuses	-548.6	228.4	-483.4	-753.1	-324.9
Change in difference between fair value and book value	1,586.8	1,209.3	1,615.0	-664.6	2,143.9
Profit for the financial year	5.9	5.2	4.3	5.0	4.3
Transfer to client bonuses	117.0	105.0	78.0	73.0	89.0
Total	1,223.0	1,558.5	1,201.4	-1,377.7	2,054.4

Solvency

Solvency capital and limits (as a percentage of the technical provisions used in calculating the solvency limit)

	2014	2013	2012	2011	2010
Solvency limit	15.8	14.5	11.8	9.9	13.3
Maximum amount of solvency capital	63.1	57.8	47.1	39.6	53.2
Solvency capital	30.1	27.7			
Solvency capital (solvency ratio)	34.0	31.6	28.0	24.8	30.8

Solvency capital and limits



Investment allocation at fair value

	Market value 2014 € mill.		Market value 2013 € mill.		Risk position 2014 € mill.		Risk position 2013 %	Risk position 2012 %	Risk position 2011 %	Risk position 2010 %
	€ mill.	%	€ mill.	%	€ mill.	%	%	%	%	%
Fixed-income investments	12,476.4	31.2	12,893.1	34.2	11,983.1	29.9	28.2	31.0	42.4	34.2
Loan receivables	1,571.0	3.9	2,026.4	5.4	1,571.0	3.9	5.4	7.1	9.3	11.3
Public sector bonds	9,938.4	24.8	9,523.8	25.3	9,732.3	24.3	24.5	27.3	27.1	20.0
Other money-market instruments and deposits	967.0	2.4	1,342.9	3.6	679.9	1.7	-1.7	-3.4	6.0	2.8
Equity investments	16,154.9	40.3	14,565.1	38.6	16,333.4	40.8	39.1	34.1	30.5	40.1
Listed equities	12,700.1	31.7	11,393.3	30.2	12,878.7	32.2	30.7	24.9	21.6	32.8
Private equities	2,451.0	6.1	2,174.7	5.8	2,451.0	6.1	5.8	7.0	6.6	5.4
Unlisted equities	1,003.7	2.5	997.1	2.6	1,003.7	2.5	2.7	2.2	2.3	1.8
Real estate investments	3,841.5	9.6	4,304.2	11.4	3,841.5	9.6	11.4	13.0	14.0	13.0
Direct real estates	3,375.2	8.4	3,738.9	9.9	3,375.2	8.4	9.9	11.5	12.5	11.9
Real estate funds	466.3	1.2	565.2	1.5	466.3	1.2	1.5	1.5	1.5	1.1
Other investments	7,566.1	18.9	5,955.7	15.8	7,961.9	19.9	16.3	16.4	14.2	15.3
Hedge funds	6,717.2	16.8	4,849.7	12.9	6,717.2	16.8	12.9	11.0	11.2	11.2
Commodities	-25.9	-0.1	0.3	0.0	369.9	0.9	0.5	0.8	0.4	3.1
Other investments	874.8	2.2	1,105.8	2.9	874.8	2.2	2.9	4.6	2.6	1.1
Investments	40,038.8	100.0	37,718.1	100.0	40,119.9	100.2	95.0	94.4	101.1	102.6
Impact of derivatives					-81.1	-0.2	5.0	5.6	-1.1	-2.6
Investment allocation at fair value	40,038.8	100.0	37,718.1	100.0	40,038.8	100.0	100.0	100.0	100.0	100.0
Modified duration of the bond portfolio	4.3									

Net investment income at fair value

	Net investment income, market value	Invested capital	Return on invested capital	Return on invested capital			
	2014	2014	2014	2013	2012	2011	2010
Return €/ % on invested capital	€ million	€ million	%	%	%	%	%
Fixed-income investments	713.9	13,010.5	5.5	1.2	4.4	4.2	4.6
Loan receivables	45.0	1,727.8	2.6	3.3	3.2	3.9	1.5
Public sector bonds	661.6	9,722.0	6.8	0.8	5.5	5.0	6.3
Other money-market instruments and deposits	7.2	1,560.7	0.5	-0.4	0.7	1.0	2.1
Equity investments	1,284.1	14,071.0	9.1	21.8	14.5	-13.0	19.8
Listed equities	816.1	11,020.4	7.4	23.7	14.9	-18.9	18.9
Private equity	291.1	2,152.4	13.5	12.1	13.0	9.6	23.9
Unlisted equities	177.0	898.2	19.7	26.7	15.5	20.7	24.5
Real estate investments	157.0	4,110.2	3.8	3.1	4.5	6.4	3.5
Direct real investments	117.0	3,611.2	3.2	2.0	4.6	5.9	3.3
Real estate funds	40.0	499.1	8.0	11.6	3.1	11.2	4.8
Other investments	575.6	6,647.5	8.7	4.5	6.0	4.5	18.0
Hedge funds	450.3	5,809.1	7.8	8.8	6.8	3.5	17.1
Commodities	-8.6	-4.1					
Other investments	133.9	842.5	15.9	-6.3	6.0	10.9	17.1
Investments	2,730.6	37,839.2	7.2	9.1	7.7	-2.1	11.0
Unallocated income, costs and operating expenses from investment activities	-31.7	16.3					
Net investment income at fair value	2,698.9	37,855.4	7.1	9.0	7.7	-2.1	11.0

Loading profit

€ million	2014	2013	2012	2011	2010
Expense loading components included in contributions	126.2	126.6	125.4	122.2	123.0
Components available to cover operating expenses arising from compensation decisions	5.5	5.8	5.8	5.5	4.9
Other income	0.9	0.9	0.4	0.8	1.2
Total loading income	132.6	133.3	131.5	128.5	129.0
Operating expenses covered by loading income ¹	-99.1	-101.3	-110.3	-93.2	-93.7
Total operating expenses	-99.1	-101.3	-110.3	-93.2	-93.7
Loading profit	33.4	32.0	21.2	35.3	35.4
Operating expenses in relation to loading income, %	75	76	84	73	73

¹Excluding operating expenses related to investments and maintenance of working capacity and statutory charges.

Maintenance of working capacity expenses

31 Dec., € million	2014	2013	2012	2011	2010
Premiums written; the administrative cost component of the disability risk	5.4	5.4	5.4	5.3	5.0
Claims incurred; maintenance of working capacity expenses	6.5	6.5	6.5	7.7	6.0
Maintenance of working capacity expenses/ The administrative cost component of the disability risk, %	120.5	121.0	121.9	144.9	120.1

Risk management

Risk management as an element of internal control

Internal control is a process that aims to ensure:

- the achievement of the goals and objectives set,
- economical and efficient use of resources,
- sufficient management of operations-related risks,
- reliability and correctness of financial and other management information,
- compliance with laws and regulations,
- compliance with the decisions of the Board and other bodies and with internal rules, regulations and practices,
- the safeguarding of operations, information and assets, and
- the existence of sufficient and appropriately organised manual and IT systems in support of operations.

Risk management is an element of internal control and involves the identification, assessment, limitation and control of risks arising from and closely connected with the company's business operations. Internal control is a management tool that helps the company to function efficiently, economically and reliably.

Varma is managed in a professional manner and in accordance with sound and cautious business principles. The company has established written procedures and quantitative and qualitative targets for its core functions. Varma's risk management plan takes into account what the Board of Directors decides on the content and organisation of internal control, on implementation of the internal control sectors and principles and on the joint guidelines for the internal control of the Group.

The Board of Directors follows a charter, which defines its core tasks and operating principles. As part of the company's internal control function, the Board deals with such matters as the company's strategy, basic strategies connected with organisational development and management, risks, financial reporting, budgets, investments, pension insurance business, operational plans, and key development projects.

Risk management – organisation, responsibilities, supervision and reporting

The Supervisory Board's task is to supervise the administration of Varma, which is entrusted to the Board of Directors and the President and CEO.

The Board of Directors annually outlines a risk management plan and a contingency plan that cover all operations and assesses whether the company's internal control is appropriately arranged. The Board of Directors' Audit Committee supervises financial and other reporting and the status of internal control, e.g. by tracking the work in progress of internal and external auditing and by reviewing a variety of audit reports. The President and CEO monitors the company's risks in accordance with the principles laid down in the risk management, investment and contingency plans approved by the Board of Directors.

The Executive Group monitors the company's internal control and risk management processes and maintains and develops guidelines for risk management and contingency planning.

Risks are reported to the Board of Directors quarterly.

The company's supervisory auditor and the person in charge of the internal audit take part in the meetings of the Audit Committee.

Managers are responsible for organising internal control, risk management, the legal compliance function and good governance in their areas. This ensures that internal control is fully integrated into company operations. The detailed plans and guidelines of each business function supplement the plans and principles approved by the Board of Directors. Risk-taking limits and the indicators used are laid down and monitored separately by each function. Each function is responsible for implementing operational plans and budgets, and for operating efficiency, the supervision of outsourced operations and preparing for unsettled conditions. Information Management provides the expertise for the development, maintenance, project management, infrastructure and risk management of systems that are the responsibility of the business functions. The targets, responsibilities and means of data security management are defined in the data security policy approved by the IT Executive Group. Information Management maintains a separate recovery plan relating to IT disruption.

The function responsible for preparing and implementing investment decisions (Investment Operations) and the supervisory and reporting function (Financial Administration and Actuaries) have been separated. The decision-making powers and the maximum limits for investments are presented as separate risk limits in the investment plan. The risk control function, which is independent of the Investment Operations, is responsible for monitoring investment risks in accordance with the limits set by the Board of Directors, including a financial-theory- and risk-theory-based assessment of investment risks and the reporting of results. Financial Administration is involved in reviewing the changes in the investment plan and in the implementation process of new investment products, and controls mainly through random inspections the solvency classification of investments and instrument pricing.

The Chief Financial Officer is responsible for the independent monitoring of investment positions and risks. Financial Administration reports monthly to the Board of Directors on observations relating to investment risk management. Major observations are reported to the management without delay.

Investment risks and the impacts their realisation would have on Varma's risk-bearing capacity are monitored in a monthly report by the officer responsible for investment risk management in the Actuaries function. The Actuaries function also reports to the Board of Directors on Varma's risk level in relation to the risk level of the earnings-related pension system.

Investment management is responsible for arranging the handling of the investment portfolio and operative investment risk management. The risk management function of Investment Operations monitors the trends in the portfolio position vis-à-vis the risk limits defined in the investment plan and the basic allocation, and reports on them on a daily basis. Adherence to authorisations and allocation and investment assignments are monitored by the Investment Operations on a daily basis.

The Financial Administration coordinates the identification and management of operational risks in different functions. It also prepares a summary of the risk assessments drawn up by the functions. The Chief Financial Officer is in charge of monitoring operational risks.

The compliance officer reports to the Board of Directors on compliance with the insider guidelines. In order to manage the risks relating to malpractice, Varma emphasises the continuous observing of ethical operating principles and applies different control methods for protection against malpractice risks. Each function bears responsibility for managing risks relating to malpractice. Varma has specific guidelines in place to prevent money laundering and the financing of terrorism.

Varma complies with the Finnish Corporate Governance Code for listed companies where applicable.

Goals and general risk management principles

Risk management aims to secure the rights of pensioners and policyholders. Risks relating to the company's operations are identified, assessed, limited and supervised, taking a long-term perspective. Risk management ensures that if risks are realised, they will not cause significant financial losses, or endanger Varma's customer service and other services, the continuity of

operations, the attainment of the company's business targets, or affect trust in the company. Varma applies efficient and reliable processes both internally and when co-operating with its partners.

In order to ensure efficient risk management, the company relies on, among other things, the careful preparation of decisions, use of experts, risk insurance, detailed job descriptions, approval routines, decentralisation of functions and tasks, physical control, data protection and security, personnel training, planning process, maintenance of different back-up arrangements, distribution of necessary information and limiting access to confidential information to those who need it. As tasks, power of decision and responsibility are divided, no one person is allowed to deal with a single matter throughout the handling chain, whereupon potentially dangerous combinations have been separated. Actions are subject to independent supervision and approval mechanisms. Personnel are not allowed to participate in the preparation of or decision-making on a matter concerning themselves, their family or friends. IT systems are assigned owners from the line organisation, and the functioning of the IT systems is monitored by the business functions and the IT Executive Group.

When agreeing on the terms of outsourcing, Varma's responsibility for the outsourced functions, e.g. for conforming to regulations, continuous and disturbance-free business operations and contingency planning, are taken into account. The function in charge of outsourcing must take into consideration clear contracts and processes, supervision of the outsourced activities and risks relating to the outsourcing.

Varma also observes good insurance principles and treats all policyholders in a fair manner. All business transactions with policyholders are on market terms. Particular attention is paid to transactions covering the financing of a policyholder's operations, real estate and other transactions, and leases.

The Corporate Governance Report drawn up by the Board and the Salary and Remuneration Statement are published on Varma's website.

Business risks

The company's main business functions are pension services, insurance services, client relationship management, and investment operations, including their support functions. Essential risks are related to investments, information management, the networked operation of the pension system, and to adjusting the control system and operating models to changes in the operating environment and legislation.

Other major risks include costs related to the structure of the earnings-related pension system, risks related to the choice of technology, and the project and implementation stage of new projects, risks related to the management and development of outsourced IT processes, contractual and counterparty risks, as well as risks related to the functioning and financial success of the partner network.

Varma's most important operational requirement is to manage all pension benefits and insurance transactions correctly and on time.

Financially the most important risks are those concerning investment operations.

Other risks are those connected with management information, corporate image, functional shortcomings and/or incorrect use of information systems, incorrect handling of information, incorrect interpretation of provisions and regulations, incorrect handling of investments, the company's physical operating environment, efficient use of resources, disturbance-free operation of the European payment and securities settlement system, and the underwriting business, which is the company's own responsibility.

The pension system may also be affected by risks connected with its structure and functioning, and the country's economy. These are discussed in more detail in the section Other risks.

Varma has one head office, a simple group structure, statutory products, a small number of staff relative to its turnover, and a low number of transactions relative to its investment volume. Varma analyses its risks from bottom to top and from top to bottom so that it can ensure that all company risks are comprehensively covered from different perspectives.

Insurance risks

The Finnish earnings-related pension system functions on a partially funded basis with respect to the Employees Pensions Act (TyEL). Around one fifth of the pensions paid each year is previously funded, while the remaining part is a pooled component, which is covered by annually collected insurance contributions. The funded parts of the pension are the responsibility of individual pension institutions, while the pooled components are the joint responsibility of all the pension institutions.

The provision for pooled claims contained in the technical provision acts as a buffer for jointly managed insurance business. The amount of the provision for pooled claims in the entire earnings-related pension system is estimated to correspond to nearly 80 per cent of the following year's PAYG pension expenditure. The clearing system eliminates the effects caused by the varying development of the number and age structure of employees insured by different pension insurance institutions. Thus the cost of the pooled components presents no risk for the individual pension institution.

Basic pensions under the Self-employed Persons Pensions Act YEL are financed in full by the insurance contributions collected annually in accordance with the pay-as-you-go system and by the State's contribution and do not present a risk for the individual pension institution.

The level of earnings-related pension cover is based on a defined benefit pension scheme, and is therefore not based directly on the return on funded pension assets. Earnings-related pension benefits are secured for the insured and pensioners by a statutory joint and several liability for bankruptcy that applies to all earnings-related pension insurance institutions. The costs of pension provision are borne by employers and employees together. The Ministry of Social Affairs and Health annually confirms the common calculation bases concerning the technical provisions for earnings-related pension insurance companies. The calculation bases include issues such as actuarial assumptions used in the calculation of technical provisions, for example, mortality and disability incidence rate. Under the TyEL act, the technical bases must be secure and, should the base for technical provisions prove insufficient for all earnings-related pension insurance institutions, the technical provisions can be supplemented with a clearing system.

The risks of Varma's insurance business are linked to the sufficiency of the insurance contributions collected and the technical provisions accumulated from them in relation to the pensions that are the company's responsibility. Because common calculation bases can be changed annually, and the clearing system acts as a buffer for all insurance risks concerning earnings-related pension insurance institutions, the risk for the individual pension institution lies in its deviation from the average of the pension system.

The equalisation provision, which contains a risk-theory-based lower and upper limit, helps the companies to prepare for fluctuations in their annual insurance business results. Varma's equalisation provision under TyEL was approximately EUR 1,148 million at the end of 2014, which is about 6.5 per cent of the total payroll of the insured. The corresponding risk components included in TyEL contributions totalled approximately 3.7 per cent of the total payroll in 2014.

The greatest fluctuation in the insurance business relates to disability pensions. In terms of the disability pension component, the amount of Varma's equalisation provision corresponds to nearly four years of funded pension expenditure under Varma's responsibility.

All supplementary pension insurances under YEL ended years ago, and pension liabilities related to these were transferred to the joint liability system on 1 January 2014. Supplementary pension insurances under TEL will also end on 31 December 2016, and the pension liabilities will be transferred to the joint liability system on 1 January 2017.

Technical provisions are calculated per person and insurance during the spring following the financial year in an annual calculation, after employers have provided the required earnings data. The Finnish Centre for Pensions carries out the clearing in the autumn following the financial year, at which time the remaining components of the technical provisions can be calculated. The calculation of the technical provisions in the Financial Statements is based on estimates.

According to the calculation, the structure of Varma's technical provisions on 31 December 2014 was as follows:

	€ million	%
TyEL basic insurance		
Provision for unearned premiums		
Future pension liabilities	14,890	46.4
Provision for future bonuses	753	2.3
Provision for current bonuses	117	0.4
Equity-linked provision for current and future bonuses	1,007	3.1
Total provision for unearned premiums	16,767	52.3
Provision for claims outstanding		
Current pension liabilities	13,599	42.4
Equalisation provision	1,148	3.6
Total provision for claims outstanding	14,746	46.0
TyEL basic pension insurance, total	31,513	98.3
TEL compliant supplementary pension insurance, total	534	1.7
YEL basic pension insurance, total	20	0.1
YEL compliant supplementary pension insurance, total	2	0.0
Total technical provisions	32,070	100.0
	€ million	Of payroll, %
TyEL equalisation provision, 31 Dec. 2014		
Old-age pension component	35	0.2
Disability pension component	939	5.3
Contribution loss component	174	1.0
Total	1,148	6.4
Lower limit for the equalisation provision	267	
Lower limit for the equalisation provision	1,344	

Neither the age structure of the employees insured by Varma nor the employers' size or lines of business deviate significantly from the average for all earnings-related pension institutions, and the company's equalisation provision is somewhat higher than the average. Thus Varma carries little risk relating to an atypical insurance portfolio.

Risk management in insurance business applies insurance technique analyses. Insurance risks are analysed using, for example, a risk assumption analysis (mortality, disability intensity), financial statements and business result analyses (insurance technique, distribution of responsibility) and, e.g., by compiling statistics on contribution losses and disability pension

expenditure. In drawing up the financial statements, in particular the estimate of the insured's payroll may deviate from the final sum. This is reflected in the company's premium income and in the amount of technical provisions, but has little effect on the company's result.

The risks involved in technical provisions and the assets covering technical provisions, i.e. insurance and investment risks, are provided for by the solvency capital, which includes the above-mentioned equalisation provision. The amount of solvency capital is monitored in relation to the technical provisions and to the solvency limit calculated on the basis of investment allocation. The calculation of the solvency limit also takes into account the insurance risk. Thus, solvency capital provides the company with a buffer especially for years in which the return on the assets covering the technical provisions is below the interest credited on technical provisions.

A part of the interest credited on technical provisions (10%) is determined retroactively and is based on the pension insurance companies' actual equity returns. An equity-linked provision for current and future bonuses, which is between -10 per cent and +5 per cent of the technical provisions, helps the insurance companies to carry the risks involved. If a pension institution's equity returns differ from the average, it must employ its solvency capital to carry the risks that this involves. When the average equity return is calculated, the weight of the largest pension institutions is limited to 15 per cent. In conjunction with the pension reform, the labour market organisations agreed to raise the equity-linked provision for current and future bonuses to 20 per cent as of the beginning of 2017. At the same time, the limits for the equity-linked provision for current and future bonuses will be raised.

The following table presents the allocation of investments and certain other items according to solvency group at year-end.

	€ million	%
Money-market instrument	420	1.0
Bonds and obligations	12,153	30.1
Real estate	7,092	17.5
Shares	17,421	43.1
Miscellaneous investments	3,333	8.2
	40,420	100.0

Investment risks

Market risk is the fluctuation of the value of investments. The greatest market risk is that involved in equities. Other market risks are the interest rate risk, foreign currency risk, and the value change risk of real estate objects. Interest rate risk can be realised as a price risk, or as a reinvestment risk.

Inflation risk is the decrease of the real value or return of assets.

Credit risk is a danger of loss caused by the inability of the counterparty to honour its commitment.

Liquidity risk is the realisation of cash flow at a different amount than expected. A risk is also constituted by investments that cannot be converted into cash at all or can only be converted at a major loss. In the management of liquidity, any guarantee engagements must also be taken into account. Liquidity disturbances in the banking system are also mirrored in Varma's liquidity.

The model risk is constituted by the risks involved in risk measurement. In measurement it is necessary to make assumptions and simplifications concerning calculation methods and calculation materials, which may deviate from reality. There may also be risks related to the valuation of investments, and some of the investments' values are available with a delay.

Investment risk management makes use of calculation assumptions and the regulations governing technical provisions and solvency, among other things. Solvency regulations will undergo renewal as of 1 January 2017, and at the same time the separate regulations on technical provisions will be removed. This change is not expected to have any major influence on Varma's risk-bearing capacity.

Management of investment risks involves the determination of acceptable risk levels for different investment categories within the framework approved by the Board of Directors, continuous risk measurement using selected methods (different indicators used in risk management, market information and analyses, computer applications), comparison with acceptable levels, and reporting. Risk management also involves adaptation of the investment portfolio so that a correct risk/return ratio can be maintained. The nature of technical provisions and their return requirement are also taken into account when the time span and liquidity of investments are considered.

The investment plan approved by the Board of Directors defines, among other things, the following:

- the general security goals set for investments,
- the general principles for investment allocation,
- the return, diversification and liquidity goals of investments,
- the criteria for using derivative contracts, and
- the principles for arranging foreign currency business.

At least once a year, the Board of Directors assesses the status and outlook of Varma's operating environment, the investment risks in terms of changes in value, expected returns, security, and the foreign currency business, and the company's short-term and long-term risk-bearing capacity and the development of the company's solvency position.

The basic allocation of the investment portfolio laid down in the investment plan approved by the Board of Directors also lays down the basic level for the total portfolio risk. The investment portfolio may differ from the basic allocation within the allocation limits specifically defined in the investment plan.

Varma aims to maximise the yield expectation at the selected total risk level, which means that investments will have optimum profitability to the extent allowed by the company's risk-bearing capacity. Active risk targets have been laid down for different asset classes and items within which Varma is making active investment efforts to produce returns above the market index. The portfolio's realised market risks, active risks and returns generated by active investments are regularly monitored and reported in the Investment Operations.

Varma's investment portfolio's structure by asset class and returns by asset class for 2014 are presented in the Notes to the Financial Statements.

Geographical allocation of investments in listed equities:

	Risk distribution 31 Dec. 2014 € million		Risk distribution 31 Dec. 2013 € million	
	€ million	%	€ million	%
American equities	3,685	28.6	2,202	19.0
European equities	3,438	26.7	2,799	24.2
Other areas	1,408	10.9	1,243	10.7
Finnish equities	4,347	33.8	5,334	46.1
Listed equities	12,879	100.0	11,579	100.0

Direct investments in real estate according to purpose of use:

	Risk distribution 31 Dec. 2014 € million		Risk distribution 31 Dec. 2013 € million	
	€ million	%	€ million	%
Residential premises	662	19.6	639	17.1
Business premises	873	25.9	907	24.3
Other premises	414	12.3	425	11.4
Industrial and warehouse premises	210	6.2	495	13.2
Office premises	1,217	36.0	1,272	34.0
Direct real estate investments	3,375	100.0	3,739	100.0

The vacancy rate of business premises was 7.3 (5.3) per cent.

Bonds according to credit rating:

	Risk distribution 31 Dec. 2014 € million		Risk distribution 31 Dec. 2013 € million	
	€ million	%	€ million	%
AAA	1,688	17.3	3,420	37.0
AA	1,360	14.0	529	5.7
A	1,260	12.9	1,590	17.2
BBB or worse	3,899	40.1	1,715	18.6
Not rated	1,726	17.7	1,978	21.4
Other items	-200	-2.1	0	0.0
	9,732	100	9,232	100.0

Loans by type of security are presented in the Notes to the Financial Statements under Loan receivables.

Furthermore, Varma takes into account the corporate responsibility principles of investment allocation, and the share ownership principles in which, among other factors, high-quality governance and the operational transparency of domestic and foreign companies are important selection criteria in making investment decisions.

The market risk of investments, mainly equities, constitutes the biggest risk relating to the result and solvency. The VaR (Value-at-Risk) figure, which measures the total risk of Varma's investments, stood at EUR 1,492 million (EUR 1,118 million) at year-end 2014. The figure indicates the greatest possible fall in the market value of the company's investment portfolio in ordinary market conditions over a period of one month at a probability of 97.5%. The CVaR (Conditional Value at Risk) figure refers to expected losses exceeding VaR, and this figure amounted to EUR 1,779 (1,334) million.

The total risk relating to investments is adjusted to the company's risk-bearing capacity in such a way that the company's solvency position is not endangered. The maximum risk level is measured such that even after a 25 per cent drop in the value of listed equity investments and certain hedge fund investments, the solvency capital still exceeds the minimum solvency capital (1/3 of the solvency limit) by at least the amount of the VaR and is, in any case, always at least at the solvency limit. The restrictions that apply to different investment categories are also taken into account when calculating the assets covering the technical provisions.

The different maximum limits of investments are presented as separate risk limits in the investment plan. The diversification of the investment portfolio is based on allocation that takes into account the return correlations of asset classes.

Investment risks can be abated and eliminated, for example,

- by diversifying investments by asset class and item,
- by analysing the investment portfolio and items,
- by avoiding risk concentrations,
- by limiting the amount of unlisted securities,
- through a securing guarantee policy,
- through careful valuation practices,
- by integrating assets and liabilities,
- by using derivatives,
- by applying adequate and on-time supervision and monitoring arrangements, and
- by minimising counterparty risks.

The risk limits and authorisations laid down in the investment plan are monitored by the Investment Operations both before and after assignments. In addition to analyses of investment markets, Varma monitors matters such as investment duration, classification and liquidity. In real estate investments, Varma pays special attention to technical and location risks, among others.

New investment instruments with return and risk profiles that are significantly different from the instruments contained in Varma's present portfolio are examined by the Investment Committee and are also presented to the Board of Directors before being applied. The realised risks of the investment instruments with return and risk profiles that differ from those normally used are examined regularly. Following the examination, the investment instruments are given a solvency classification that is in accordance with their actual risk.

The table below shows how falls in equity prices and real estate values and increases in interest rates would affect return and solvency figures in the financial statements.

	Value 31 Dec. 2014	Effect Share prices -30%	Effect Interest rates +1% pp	Effect Real estate value -10%
Solvency capital	10,252 mill. €	5,683 mill. €	9,749 mill. €	9,868 mill. €
% of technical provisions	34.0%	19.3%	32.4%	32.8%
in relation to solvency limit	2.2 times	1.4 times	2.0 times	2.1 times
Yield on investment, %	7.1%	-6.5%	5.8%	6.1%

The investment diversification requirement is a central part of the company's technical provisions and solvency regulations. When the solvency limit is calculated and the assets covering the technical provisions are listed, investments are categorised into solvency groups. Under the regulations, euro-denominated derivative authorisations and the permitted maximum loss must be determined, and derivative contracts must be classified in risk-lowering and other than risk-lowering contracts. Varma's largest individual corporate risk position is its equity ownership, which has a market value of EUR 1,380 million, in Sampo Plc.

The Board of Directors decides on the principles concerning the use of derivative contracts and the principles for the solvency classification of investments. Based on a proposal by the Chief Investment Officer, the CEO decides on the risk classification of investments and the actuary function's independent investment risk manager will give an opinion on the proposals. Solvency classification is reviewed on a regular basis. The Board of Directors receives an independent monitoring report on the adherence to the classification criteria, and on the use of derivative contracts and the impact this has on the solvency limit.

Operational risks

Operational risks entail

- a danger of loss,
- a threat to the continuity of operations, or
- a diminishing of trust in the company,

caused either by the company's internal processes or by unanticipated external events.

Operational risks are related to processes and methods, information systems, possible malpractice, property damage and staff competence.

The company makes every effort to eliminate any defects in its supervision systems that would permit unintentional or intentional errors or misuse concerning such matters as insurance or claims handling, investments, reporting, payment transactions, register details, data processing, division of work, partners' operations, or documentation.

Operational risks are charted on a regular basis. The potential impacts and likelihood of identified risks are assessed on a risk-specific basis, and the risks are linked to strategic aims and processes. Identified risks are compiled in a risk chart in which risks are classified on the basis of an overall evaluation and in accordance with their potential to threaten Varma's success and the goals approved by the Board of Directors. Overall consideration of the impacts of the risks and deciding on measures take place in accordance with Varma's standard planning and decision-making system. A continuity plan is drawn up for functions that may involve substantial risks. The preparation of the plan is at the discretion of the line management.

Other risks

The real economy is expected to show feeble development in the coming years. The recovery of Finland's exports has been delayed, and we face considerable challenges in our business and trade structures and in our public finances.

The escalation of the Finnish structural challenges in the current economic situation increases the risk that the financing balance of the earnings-related pension system will weaken in the long term and medium term, especially if the pension reform of 2017 does not achieve the goals set for it.

In order to control the risks, Varma co-operates closely with its stakeholders and other players in the field and is developing its processes so that it can react to any changes in the earnings-related pension system on time.

Varma's preparation for unsettled and exceptional circumstances

Earnings-related pension institutions are under statutory obligation to ensure their tasks can be handled with minimum disruption, even under exceptional circumstances. According to the National Security Strategy, the pension and book entry systems, among others, are functions that must be secured.

Principal threat types and their concomitant special circumstances related to pension payments and funding include serious perturbations in the infrastructure required by the networked operating model, citizens' health and income security, and society's economic capacity. Due to the distributed management of pension cover, there is a lot of co-operation within the earnings-related pension system. This increases mutual dependency and vulnerability. The internationalisation of information technology services and bank services creates challenges for contingency operations.

Contingency operations secure critical activities in exceptional circumstances and in serious disturbances within normal circumstances. Also in exceptional circumstances or when threatened by them, Varma will fulfil its statutory and contractual obligations as comprehensively and for as long as possible. In co-operation with other operators, banks, authorities, and the emergency supply organisation, priority will be given to securing services connected with citizens' income security.

Varma has a recovery plan for situations where IT is disrupted and a contingency plan approved by the Board of Directors, which is supplemented by detailed plans prepared by different functions. A contingency unit, which the managers of core functions belong to, coordinates the activities in possible contingencies.

The contingency unit is responsible for preparing the contingency plan, for preparing for unsettled situations, for preparing and maintaining other plans (such as the recovery plan and the security and rescue plan) and instructions based on it, for managing unsettled situations, for contingency actions, for building, maintaining and testing contingency systems, and for taking into account the experiences gained from drills organised within the sector in the company's operations. The members of the contingency unit, in their own area of responsibility, take care of emergency planning, construction and testing of contingency systems, providing timely information and securing data storage.

Significant risks in exceptional circumstances include

1. the payment of pensions is jeopardised,
2. the financing of pensions and liquidity management become more difficult,
3. the implementation of processes during exceptional circumstances does not happen quickly enough,
4. bank systems, investment trading systems or other societal infrastructures fail to work,
5. the earnings-related pension systems, telecommunication lines or co-ordination within the sector fail to work,

6. our own IT applications or networks fail to work, stoppage of services provision,
7. counterparty risks and the invalidity of contracts under exceptional circumstances, and
8. risks related to the availability of data at the onset of a crisis.

Varma participates in operational drills together with other pension insurance institutions, insurance companies, banks and financial players.

Internal audit

Internal audit operates in accordance with the principles defined in the professional standards of internal audit. It comprises independent and objective assessment, assurance and consulting activities whose purpose is to support the organisation in achieving its goals by producing assessments and development proposals concerning the status of risk management and other internal controls. The organisational status, tasks, responsibilities and powers of the internal audit are laid down in the instructions approved by the Board of Directors. The areas to be audited are set out in an annual audit plan, which is approved by the Board of Directors after it has been discussed by the Executive Group and the Audit Committee. The audit observations are reported to the company management, the Audit Committee and the Board of Directors. The internal audit is organised under the supervision of the CEO.

Control by authorities

In addition to laws and decrees, Varma's operations are governed by the instructions and regulations of the Financial Supervisory Authority. Varma provides the Financial Supervisory Authority with information and reports on a regular basis or as required. The supervising authority carries out appropriate inspections related to administration, solvency, investment operations and operational risks, among other things.

Distribution of profit

Distributable profits as presented in the notes to the financial statements 95,258,738.55 euros

The Board of Directors proposes that the profit for the year be distributed as follows: 5,866,715.92 euros

to be transferred to the contingency fund (optional reserve)	5,100,000.00 euros
to be paid as interest on guarantee capital	686,591.59 euros
to be transferred to the Board of Directors' expense account	60,000.00 euros
to be carried over on the Profit and Loss Account	20,124.33 euros

Helsinki, 12 February 2015

Berndt Brunow, Chairman of the Board

Jari Paasikivi

Antti Palola

Riku Aalto

Mikael Aro

Johanna Ikäheimo

Ari Kaperi

Jyri Luomakoski

Petri Niemisvirta

Ilkka Oksala

Kai Telanne

Veli-Matti Töyrylä

Risto Murto, President and CEO

This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.

Auditor's report

To the Annual General Meeting of Varma Mutual Pension Insurance Company

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Varma Mutual Pension Insurance Company for the year ended 31 December, 2014. The financial statements comprise both the consolidated and the parent company's balance sheet, income statement and cash flow statement and notes to the financial statements.

Responsibility of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of financial statements and report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Supervisory Board and the Board of Directors of the parent company or the Managing Director are guilty of an act or negligence which may result in liability in damages towards the company or have violated the Finnish Insurance Companies Act or the Employee Pension Insurance Companies Act.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the company's financial statements and the report of the Board of Directors

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Other opinions

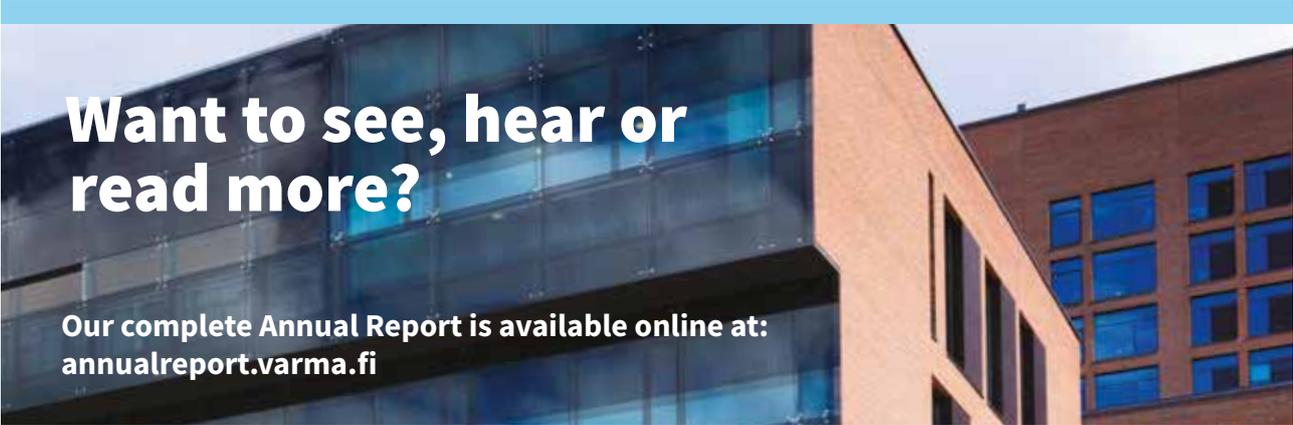
We support the adoption of the financial statements. The proposal by the Board of Directors regarding the treatment of distributable funds is in compliance with the Finnish Insurance Companies Act. We support that the members of the Supervisory Board and the Board of Directors and the Managing Director be discharged from liability for the financial period audited by us.

Helsinki, 24 February 2015

Petri Kettunen
Authorized Public Accountant

Paula Pasanen
Authorized Public Accountant

Varma is in good financial condition. Strong solvency, profitable investments and operational efficiency create the basis for successfully taking care of our core task – securing pensions. The results of our operations are apparent in Finnish working life and the day-to-day operations of our clients, and during well-deserved retirement.



Want to see, hear or read more?

**Our complete Annual Report is available online at:
annualreport.varma.fi**

Varma Mutual Pension Insurance Company

Telephone: +358 10 2440

Postal address: PO Box 1, FI-00098 VARMA

Visiting address and domicile: Salmisaarenranta 11, Helsinki

www.varma.fi/en

VARMA