A photograph of two women sitting at a table, engaged in conversation. The woman on the left is wearing a grey t-shirt with a floral pattern and a large, ornate necklace. The woman on the right is wearing a dark blue long-sleeved shirt. They are both looking at each other. In the foreground, there is a yellow mug and a glass of water. The background is slightly blurred, showing a wooden structure.

Renewing ourselves together with our customers

Annual Report 2015

VARMA

The year 2015 05

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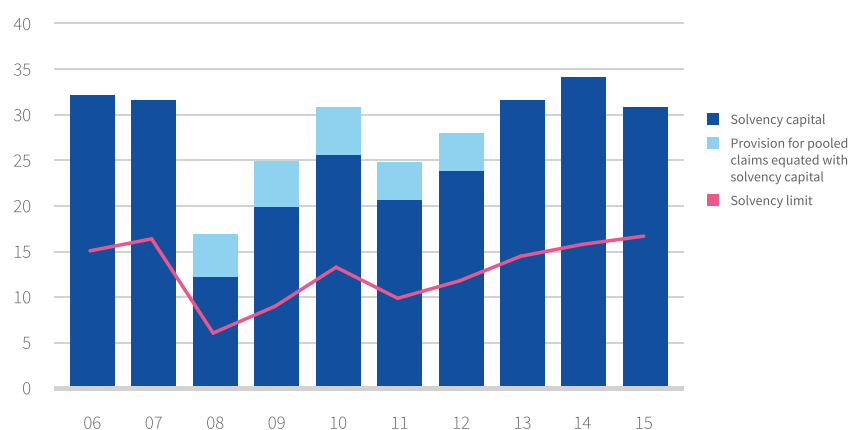
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The year in brief

In 2015, Varma's return on investments stood at 4.2%. The value of investments increased to EUR 41.3 billion. Premiums written increased clearly, and operating expense efficiency also showed positive development. Solvency capital was strong at EUR 10.0 billion.

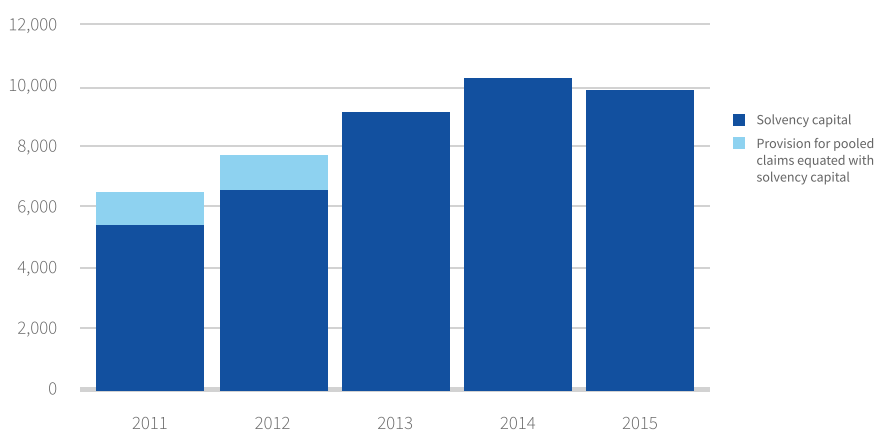
Solvency 2006–2015

% of technical provisions

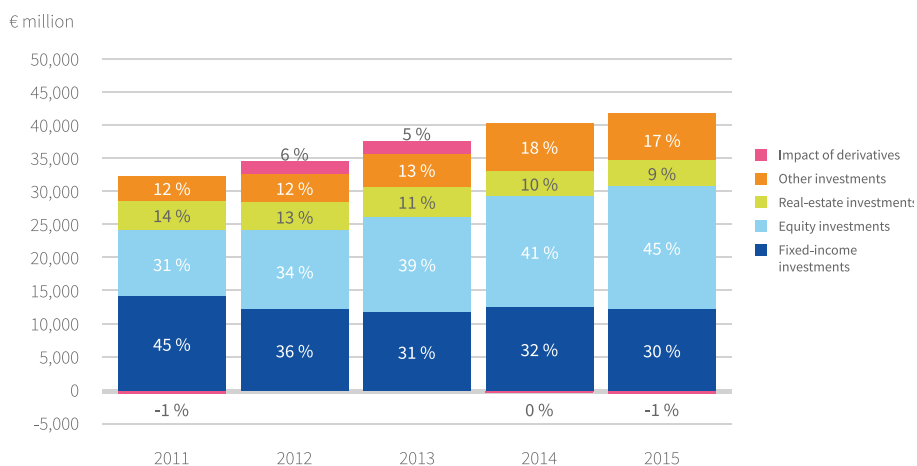


Solvency capital

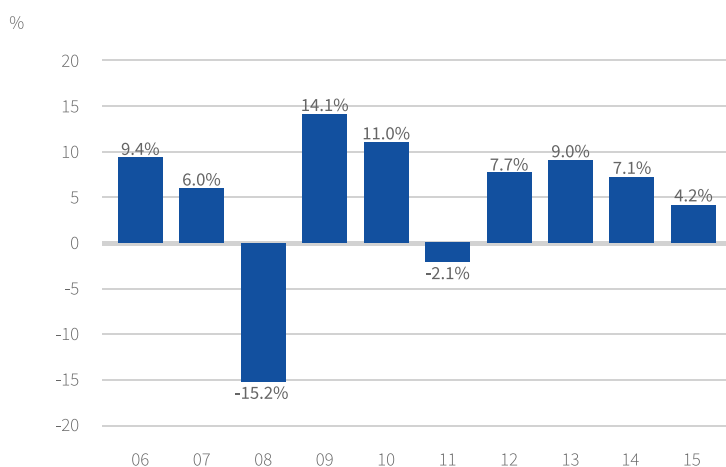
€ million



Investment portfolio



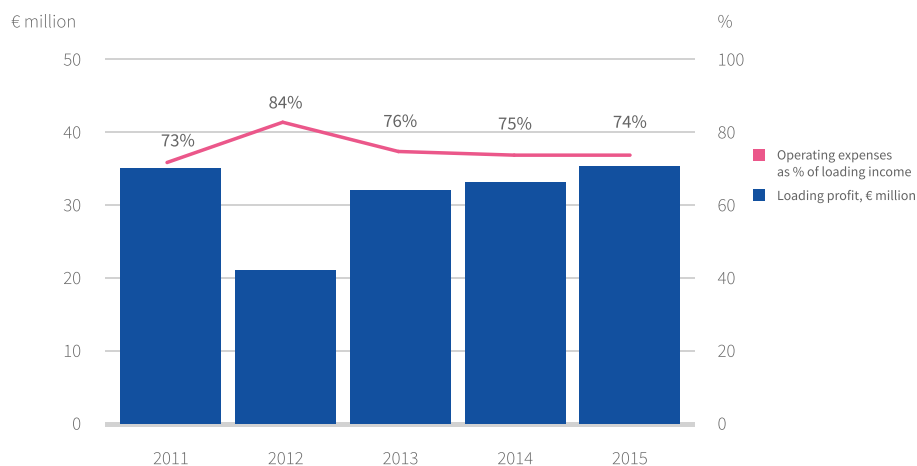
Investment returns



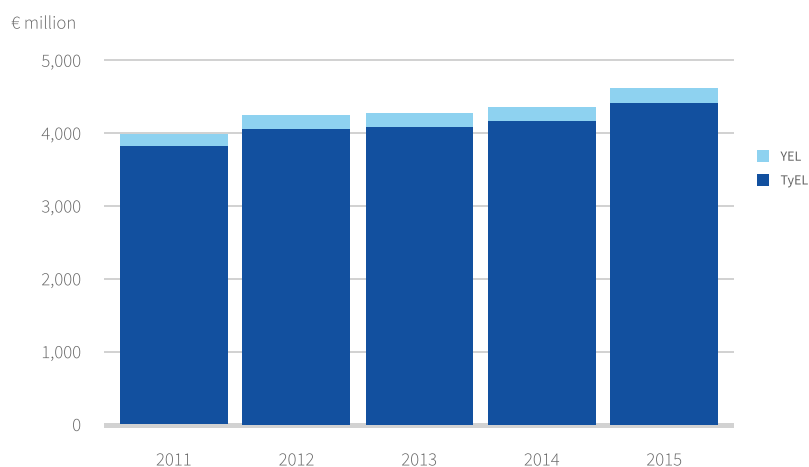
Development of investment returns in 2015



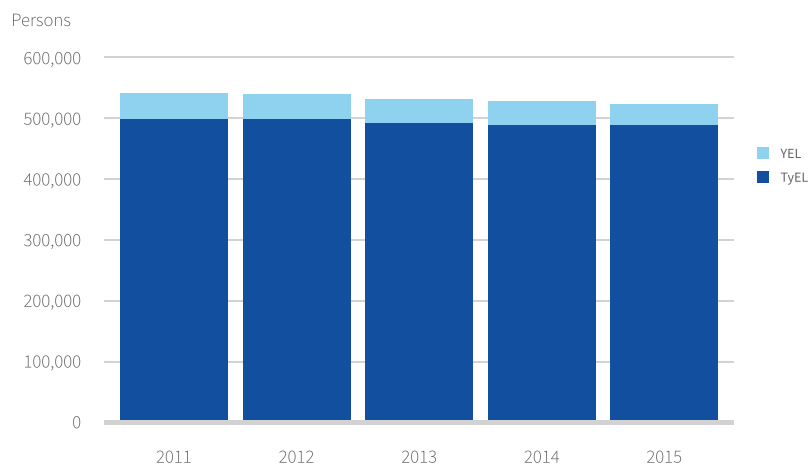
Loading profit



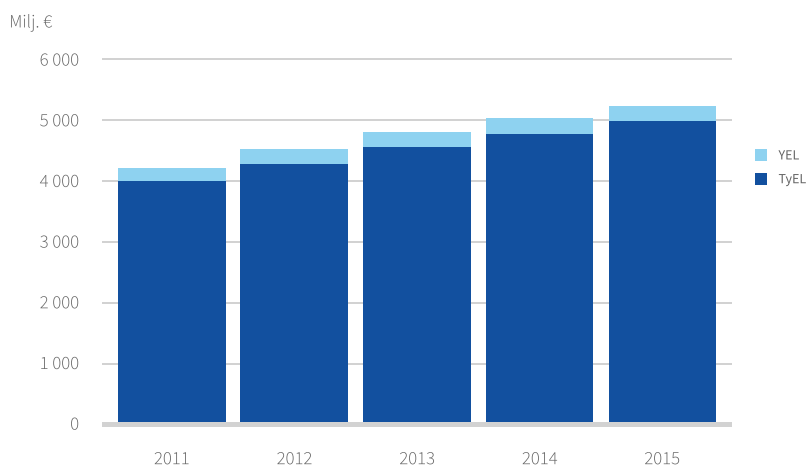
Premiums written



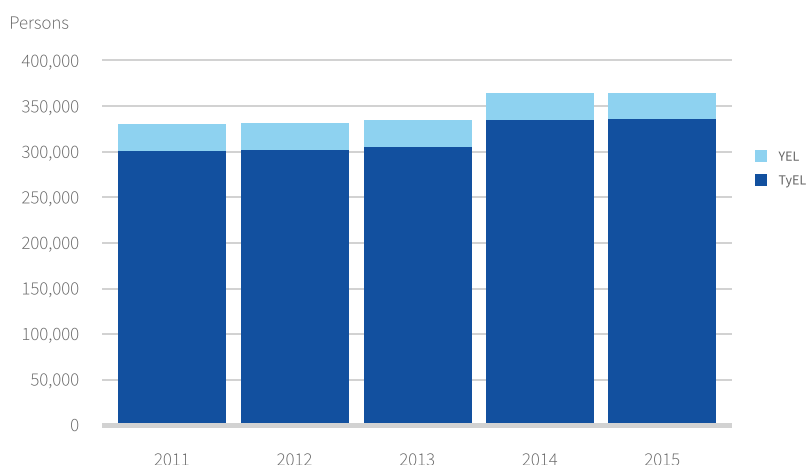
Insured persons



Pensions paid



Pensioners



Exceptionally large movements were experienced in the capital markets in both equities and fixed income investments in 2015. Despite volatility in the markets, Varma's equity investments produced good returns.

Of Varma's investments, equity investments generated the highest returns, at 8.8% (9.1%), and Finnish equities in particular performed strongly, yielding 19.4% (6.7%). Broad diversification of investments muted the risks caused by strong market movements, and returns were generated consistently by the different asset classes. Other investments yielded a return of 3.5% (8.4%), and real estate investments 3.3% (3.8%). The return on fixed-income investments remained slightly negative, at -0.4% (5.8%).

Read more about market developments and asset classes in the section Investments.

Solvency and operating expense efficiency benefit our customers

Varma's solvency capital stood at EUR 9,956 million (10,252) at year-end. Varma's solvency ratio, i.e. solvency capital in relation to technical provisions, was at 31.4% (34.0%). Solvency capital was at a strong level: 1.9 (2.2) times higher than the solvency limit.

Strong solvency and good operating expense efficiency benefit our customers. EUR 115 (117) million was set aside for client bonuses, equalling around 0.6% (0.7%) of the estimated TyEL payroll of the insured.

We secure pensions for more than 860,000 people

The number of Varma's pension recipients increased in 2015. Varma paid out EUR 5.2 billion in TyEL and YEL pensions to 337,100 (334,500) pension recipients.

At the end of the year, 524,340 (527,140) individuals were insured by Varma. At year-end, the number of valid insurance policies totalled 64,530 (66,140), covering 37,380 (38,937) self-employed persons and 486,960 (488,190) employees.

The TyEL payroll of those insured by Varma totalled about EUR 18.4 (17.8) billion in 2015. The payroll is estimated to have grown by around 3.0%.

Vocational rehabilitation helps prevent disability pensions. The volume of rehabilitation provided by Varma continued to increase. Rehabilitation produces excellent results. We spent EUR 34 million on rehabilitation – which translates to estimated savings in pension expenditure of EUR 372 million. In 2015, about 73% of those who received Varma's rehabilitation returned to the job market either in full or partly.

Key figures

	2015	2014
Premiums written, € million	4,576.4	4,343.6
Pension payments to pensioners, € million ¹⁾	5,183.0	5,010.1
TyEL insured 31 December	486,960	488,200
YEL policies	37,380	38,940
Pensioners	337,100	334,500
Investments, € million	41,293.3	40,038.8
Investment income, € million	1,679.3	2,698.9
Return on invested capital, %	4.2	7.1
Total result, € million	-164.0	1,223.0
Loading profit, € million	36.1	33.4
Operating expenses as % of loading profit	74.0	75.0
Transfer to client bonuses, € million	115.0	117.0
% of TyEL payroll	0.6	0.7
Technical provisions, € million	31,865.6	32,069.7
Solvency capital, € million	9,956.1	10,252.5
Solvency capital/technical provisions, % ²⁾	31.4	34.0
Solvency capital/solvency limit	1.9	2.2
Parent company staff 31 December	534	561

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

President and CEO's Review



2015 was a good year for Varma, and we succeeded well according to all key indicators: we maintained our strong solvency position, our premium income increased, we processed pension applications faster than before and our operational efficiency is at a competitive level. The return on our investments was 4.2%, or EUR 1.7 billion, and our solvency capital amounted to around EUR 10 billion. Varma is in a strong financial position, and we are very capable of bearing the investment market risk.

We were successful in client acquisitions, and our premium income rose to EUR 4.6 billion. We take care of our customers' earnings-related pension provision cost-effectively: we spent 74 per cent of the amount reserved for administrative costs. Strong solvency and cost-effective operations benefit our customers through high client bonuses. We will pay a total of EUR 115 million as client bonuses for 2015.

We introduced a new pension processing system that makes it easier and faster to serve our private customers. Since the decision has an impact on the applicant's income, it is vital that the pensioner receives the correct pension as quickly as possible. A pension decision is an important and usually an historic event in anyone's life.

We are preparing for the implementation of the pension reform, due to take effect at the beginning of 2017, together with our customers. The reform targets, among other things, longer careers. Varma has been actively involved in developing activities to maintain the workability of its client companies' employees so that they can cope better and longer at work. The number of new disability pensions at Varma has decreased 22 per cent over

the past five years. This decline is largely the result of early intervention practices, achieved through legislation, vocational rehabilitation and workability management practices at workplaces.

In 2015 we revised our strategy, which is now built around the following key themes: one Varma for the customer, promoting entrepreneurship, responsible Varma and courage to try new things. Our operations focus on bringing benefits to our customers, and we also pay special attention to corporate social responsibility. In future, we will regularly report on the results of our new CSR programme.

The financial situation continues to be challenging, and Finland needs growth. For an investor, the low interest rates pose a major challenge. For Finnish industry, a significant shift took place in 2015, as the boost from Asia's economy clearly weakened. At the same time, energy and raw material prices plummeted. These changes have an influence especially on the growth opportunities of Finland's heavy industry. We need plenty of hard work and luck to get back onto a growth path. In the coming years, growth in Finland will be generated in particular by entrepreneur-driven companies and private service companies. Crucial for growth is companies' ability to grow profitably and hire new employees.

Varma employees did good work in 2015, and I would like to express my gratitude to our entire personnel. I also would like to thank our customers for their trust in us – we will continue our efforts to earn it in 2016, too.

Risto Murto
President and CEO

Lower earnings-related pension contributions for customers

Varma is a solvent company. That means the best client bonuses in the sector and lower pension contributions for our customers. Our modern digital services provide our customers with a comprehensive set of tools that enable them to take care of their pension matters easily.

Customer feedback is essential for improving our services. We are firmly involved in digital development. In spring 2015 we launched the 'Varma mobiili' service for our self-employed customers. They can update their earned income and order an earnings certificate and certificates to be attached to an offer.

We also improved our increasingly popular Workability Management Information Service to better match the needs of our clients. A workability management action plan was introduced in the service. It guides the client in setting workability management goals and indicators with respect to the company's strategic objectives and business targets. Tools for creating an assessment at a small employer level and group level, and a view to client information were also added.

Clients can now take care of their earnings-related pension, banking and insurance matters more broadly as we set up, together with If P&C Insurance and Nordea Bank, an online service, Onnistu yrittäjänä ("Succeed as an entrepreneur"), for entrepreneurs. Experiences with the service have been good, and it will be further developed in 2016.

Co-operation with the Palkkaus.fi online service, which began in 2015, makes it easier for households to take care of all of their statutory payments at once. Through the Palkkaus.fi service we promote work carried out in Finland.

We support our client companies and promote their growth

Due to the economic situation, 2015 was a difficult year for many Finnish companies. Finland's stagnant economic growth and structural problems in working life affected several business sectors.

2015 was also characterised by the shift in working life, co-determination negotiations and redundancies. Varma supports its client companies so that they will be better positioned to get in on the growth once the economic situation begins to improve.

Although Finland's economic situation is still weak, the situation is not directly influencing all companies; there are companies that are growing and seeking growth.

In 2015, we created a new event concept, Varmasti, to support growth companies. The events were enthusiastically received, and a total of six were organised in different parts of Finland, with more than 900 representatives of our client companies attending the events. Additionally, more 200 people attended them

through webinars. We will continue to support the growth of companies of all sizes and to bring them together so that they can benefit from one another's competence and success.

Read more about the Varmasti events on our website.

Another successful year in client acquisition

Similar to the previous year, Varma had a good sales year in 2015 and was successful in client transfers between earnings-related pension insurance companies, with a net result of EUR 52 million in terms of TyEL insurance contributions for the entire year.

We handle earnings-related pension matters efficiently and with a long record of experience. Our long-term efforts to prevent disability risk bring added value to our customers.

Varma's premiums written stood at EUR 4,576 (4,344) million in 2015.

Number of insured and insurance policies

	31 Dec 2015	31 Dec 2014	Change
Number of insured			
TyEL ¹⁾	486,960	488,190	-1,230
YEL	37,380	38,937	-1,557
Total	524,340	527,127	-2,787
1)			
of which covered by TEL registered supplementary pension insurance	3,867	4,390	-523
Number of insurance policies			
TyEL	27,150	27,223	-73

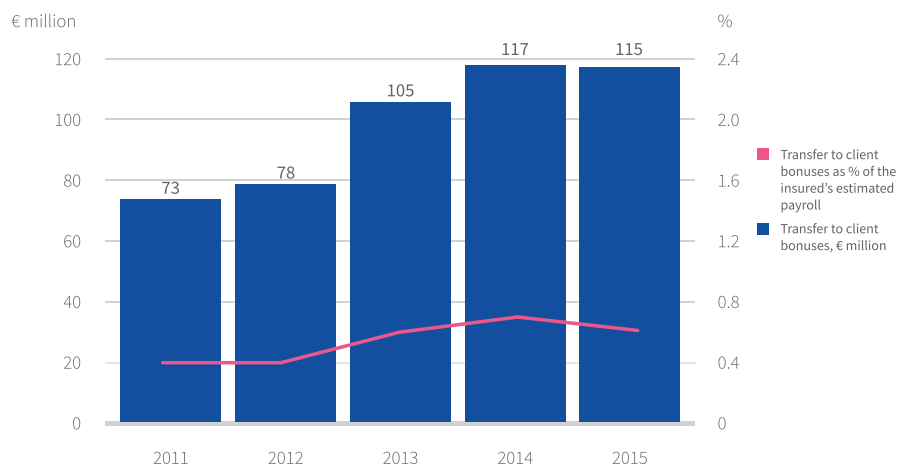
We pay the best client bonuses in the sector

Varma's solvency is strong. For our customers, that means they receive the best client bonuses in the sector which lower their final insurance 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.

Client bonuses lower the employers' final insurance contributions. We reserved EUR 115 (117) million, or 3.5% (3.8%) of the employers' TyEL contribution, for client bonuses to be paid for 2015.

Transfer to client bonuses 2011–2015



We provide services through many channels

We have made taking care of insurance matters through our online service as easy as possible for our customers. In addition to comprehensive digital services, we also offer phone and chat services; the latter was made more widely available in 2015.

Our 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.

Varma for entrepreneurs

Varma is a solvent company and thus a safe choice. Varma's extensive services, provided through various channels, make attending to insurance matters easy.

We have made taking care of insurance matters easy for our customers: everything can be handled conveniently online. Entrepreneurs can, for example, print out insurance-related certificates to be attached to an offer.

We also offer detailed advice by phone and via our chat service, in questions relating to, for example, the Entrepreneur's Calculator or filling in an insurance application. The chat function has been expanded since the end of 2015, upon request by our customers.

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.

We offer several service channels according to customer needs

In spring 2015, Varma mobiili, a mobile phone application for entrepreneurs and small businesses, was introduced. In the app you can change your earned income information and see how changes in earned income affect pension accrual and insurance contributions. You can also order an earnings certificate and certificates to be attached to an offer via the app.

In 2015, we also entered into co-operation with the Palkkaus.fi service in order to promote work carried out in Finland. Earnings-related pension contributions paid through Palkkaus.fi are steered to Varma, and households can use the service to take care of all of their statutory payments and obligations.

New online service helps entrepreneurs succeed

In 2015, we set up, together with If P&C Insurance and Nordea Bank, an online service called Onnistu yrittäjänä ("Succeed as an entrepreneur") for entrepreneurs. The service provides assistance in, for example, establishing a company, insurance matters, and running and developing a business. The service also helps new entrepreneurs build and implement a business plan.

Experiences with the online service have been encouraging, and the feedback has been positive. We will continue to develop the service further in 2016.

Pension cover

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.

For our customers, applying for pension is a major decision and one that has an impact on their future, which is why we keep close track of our decisions to ensure that they are accurate and that our service is smooth.

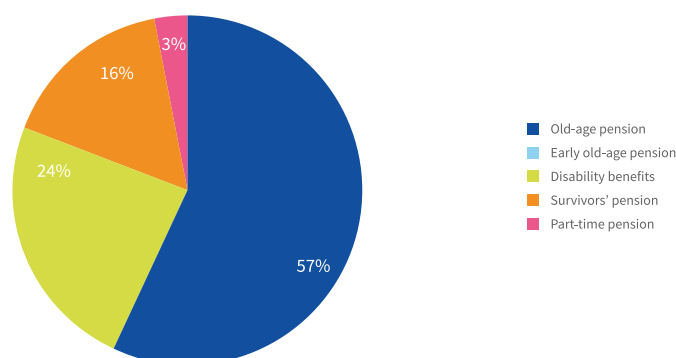
In 2015 we improved the pension application handling process. As a result, we processed old-age pension applications at the end of the year much faster than on average in the sector: in December the average processing time for an old-age pension application was 38 days, in contrast to the sector average of 44 days. Around 5% of pension decisions were issued on the same day as the application was received for processing.

In 2015, we took a new handling system for pension applications fully into use, enabling even smoother services for our private customers.

Number of pensioners increasing

In 2015 Varma paid EUR 5.2 billion in pensions to 337,100 recipients. The number of pensioners has been rising for years due to the change in Finland's age structure and longer life expectancy.

Pension decisions



A total of 23,100 new pension decisions were made in 2015, which is some 10% more than in the previous year. The increase is attributed mainly to the rise in old-age pension decisions.

The number of rehabilitation applications grew around 9% from the previous year. Positive rehabilitation decisions increased 41% compared to 2014, and the total number of rehabilitation decisions rose 34% over the previous year.

These increases are due to a legislative change that took effect at the start of 2015 allowing us to make a decision concerning entitlement to rehabilitation in connection with the processing of a disability pension application, even if the customer has not applied for rehabilitation. In 2015, we made some 700 such preliminary rehabilitation decisions, and according to a sample survey, around 25% of them led to rehabilitation. Since 2010, the number of new disability pension applications is down 22%.

Those insured by Varma retire on average at the age of 63.6.

Varma prepares for pension reform

We are preparing for the 2017 pension reform together with our customers. Preparing for the reform is one of our key tasks.

Pension reform in brief

1. The age limit will gradually rise

2. Pension accrual will be harmonised

3. Same pension contribution for all employees

4. New ways of retiring

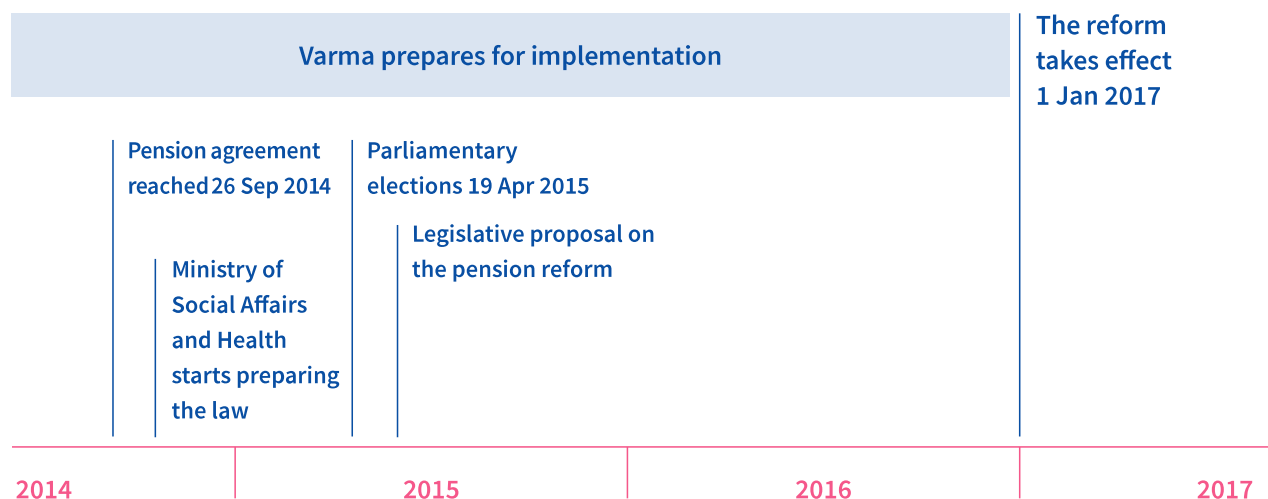
5. Pension accrues on full wages

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

Our client companies received information on the pension reform at our 'Varmasti 2015' events around the country. Approximately 1,100 client company representatives participated in the events.

Progress of the pension reform



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 32% of all users of Varma's eServices.

Applying for a pension through our website has also steadily become more popular: 46% of all old-age pension applications were submitted electronically in 2015. Late in the year we introduced an online chat service, where our pension experts assist customers in real-time in filling out their pension application. The service was used in November and December by nearly 200 customers. In total, 74% of all private customer contacts took place online in 2015.

Workability and good working life

Workability management promotes companies' competitiveness and productivity and the societal goal of longer careers. Our workability services improve employee well-being and working life at our client companies.

The shift in working life is apparent in many ways. Varma is an expert in workability management and rehabilitation. We help our clients to forecast workability challenges and to save in pension and sick leave costs.

Workability management promotes good leadership, focuses on company productivity, supports employees' recovery from work and prevents disability. It also reduces absences due to illness, lowers disability costs and improves well-being at work and productivity.

Workability projects produce results for client companies

We co-operate with our client companies in diverse workability management projects. The projects support our clients' competitiveness and have a positive financial outcome.

Together with our clients we analyse the disability risks of the company, and the means for lowering them. The goal is to take timely control of the client's disability risks. We also assess the company's future concerns and need for renewal, and their impact on supervisory work and workability.

Workability management is goal-oriented and systematic. The goals and indicators are tangible, and they can relate to absences due to illness, improving the disability contribution category, the fluency of work, and supervisory work.

We had more than 800 ongoing workability management co-operation projects in client companies; they covered a total of around 270,000 employees and supervisors in various work communities.

We provide up-to-date information to support activities

We offer an online Workability Management Information Service to our customers. It is a digital tool for controlling earnings-related pension costs. The tool allows employers to examine the up-to-date disability risk and the savings potential achievable through a lower disability contribution category. The employer can also compare the development of the company's contribution category to that of the sector or Varma's client base.

The Workability Management Information Service was enhanced with the possibility to draw up digital workability management action plans directly in the service. The information service now also better matches the needs of smaller companies, and it is already being used by more than 1,300 of our client 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 sparring partner for them.



Providing HR tools

Providing HR tools e.g. to support development discussions.

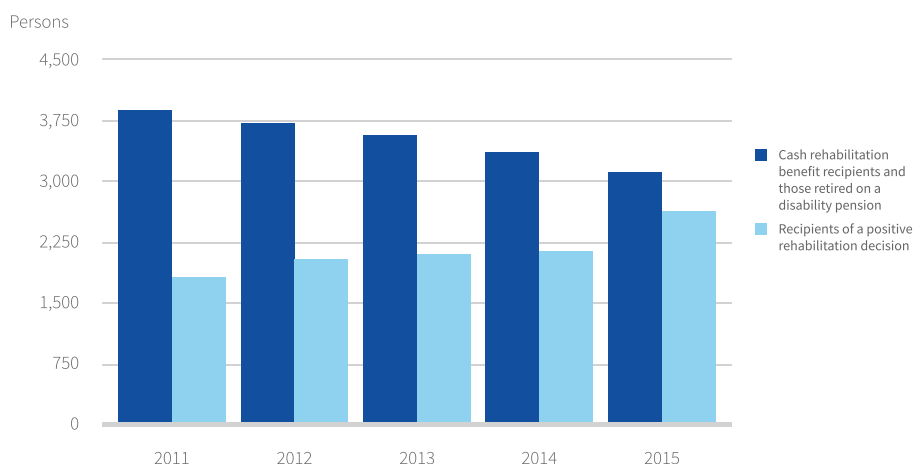
Rehabilitation helps people continue in working life

When an entrepreneur's or employee's workability is threatened, statutory vocational rehabilitation gives them the opportunity to continue in working life. Workability can be influenced in many ways.

Varma's rehabilitation work produces results. 73%, or around 1,200, of Varma's vocational rehabilitation customers returned to working life. We spent EUR 34 million on rehabilitation – which translates to estimated savings in pension expenditure of EUR 372 million.

Since 2010, the number of rehabilitation applications have increased 80%, while new disability pensions are down 22%. In 2015, Varma received around 2,200 rehabilitation applications, which represents an increase of 2.8% over 2014. The volume of rehabilitation applications reflected, similar to the previous year, Finland's poor economic situation: in 2015 many of the applicants were unemployed or in co-determination negotiations.

New disability pensions and rehabilitants



Vocational rehabilitation on the rise

In 2015, the number of those who received a positive vocational rehabilitation decision increased 41%, while disability pensions granted by Varma were down by approximately 8%.

The hike in the number of vocational rehabilitation decisions is explained by a change in legislation as of 1 January 2015, according to which Varma may issue a rehabilitation decision when processing a pension application even if rehabilitation was not applied for. According to a preliminary survey, around 25% of these rehabilitation decisions led to a rehabilitation programme. Rehabilitation decisions pursuant to the new law totalled more than 700 over the year.

Early intervention measures have an effect on the number of disability pensions. For example, more efficient measures by the occupational health care provider in the case of prolonged absences due to illness bring positive results.

Disability pension is not a matter of fate

The path from the early signs of disability to disability pension is normally long. Upon retirement, the employee has suffered from the illness for seven years on average. Thanks to good workability management practices there is more time to respond than in a situation where the processes for maintaining workability are not in order and workability management is not part of the company's strategic management. Investing in workability management pays off.

Varma helps companies to identify and prevent problems that threaten workability at an early stage. When it comes to individual employees, Varma joins the process only in the final stages.

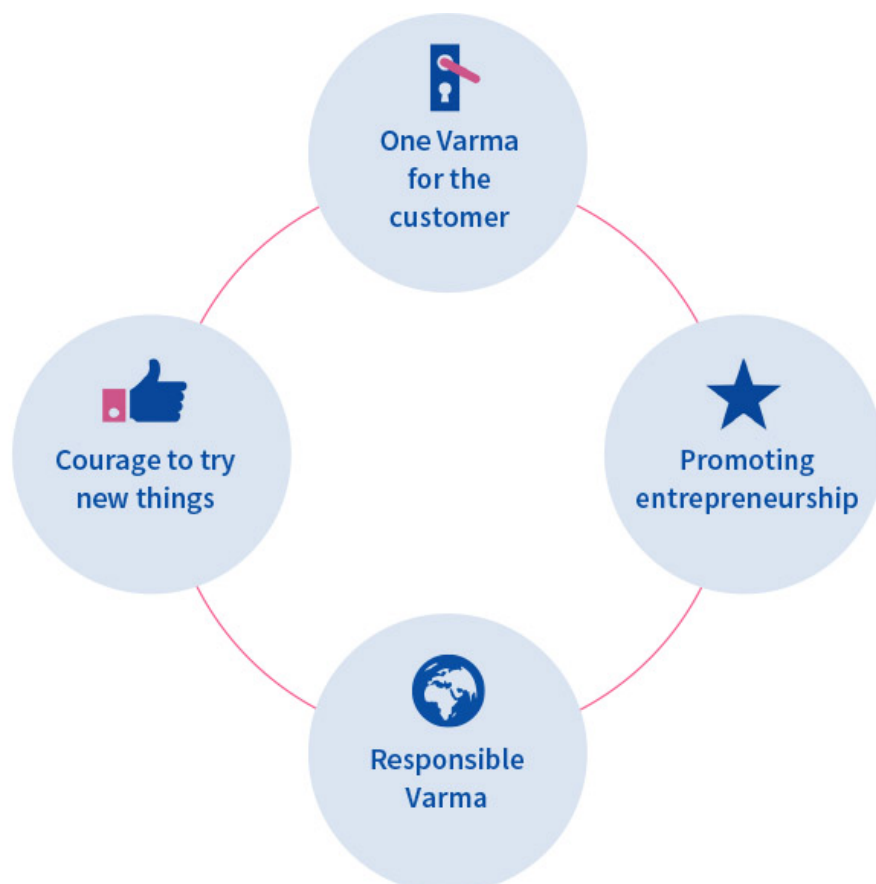
Varma secures pensions

Varma's core task is to secure pensions. Our main goals of strong solvency, good development in premiums written, high quality pension services and efficient operations, also stem from this.

Varma's strategic focal points

In 2015 we renewed our strategy for the 2016–2020 period. In the coming years, we will be focussing on four important themes: One Varma for the customer, Promoting entrepreneurship, Responsible Varma and Courage to try new things.

The development of all our operations focuses on bringing benefits to our customers. We promote our client companies' growth and support entrepreneurship. We develop services and look for ways to make companies' and entrepreneurs' daily operations easier. During the year under review, we built a corporate social responsibility programme, the implementation of which will continue in the coming years. We will communicate more systematically about our CSR activities and about what responsibility means to Varma. We will encourage Varma employees to develop our internal operating culture and propose daily innovations and experiments. Lean will be a key element of our daily work and the continuous improvement of our operations.



Varma's core function

We take care of the statutory pension cover of private entrepreneurs and employees. We invest the assets collected as pension contributions profitably and securely for current and future pensions. We take care of the implementation of earnings-related pension provision for approximately 64,500 companies and entrepreneurs and more than 860,000 people.

Our core function – securing pensions – is based on law, 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. Our strategy helps us to achieve our main goals of strong solvency, good development in premiums written, high quality pension services and efficient operations.

In 2015 we succeeded well in achieving our goals: we maintained our strong solvency position, our premium income increased, we processed pension applications faster than before and our operational efficiency is at a competitive level.

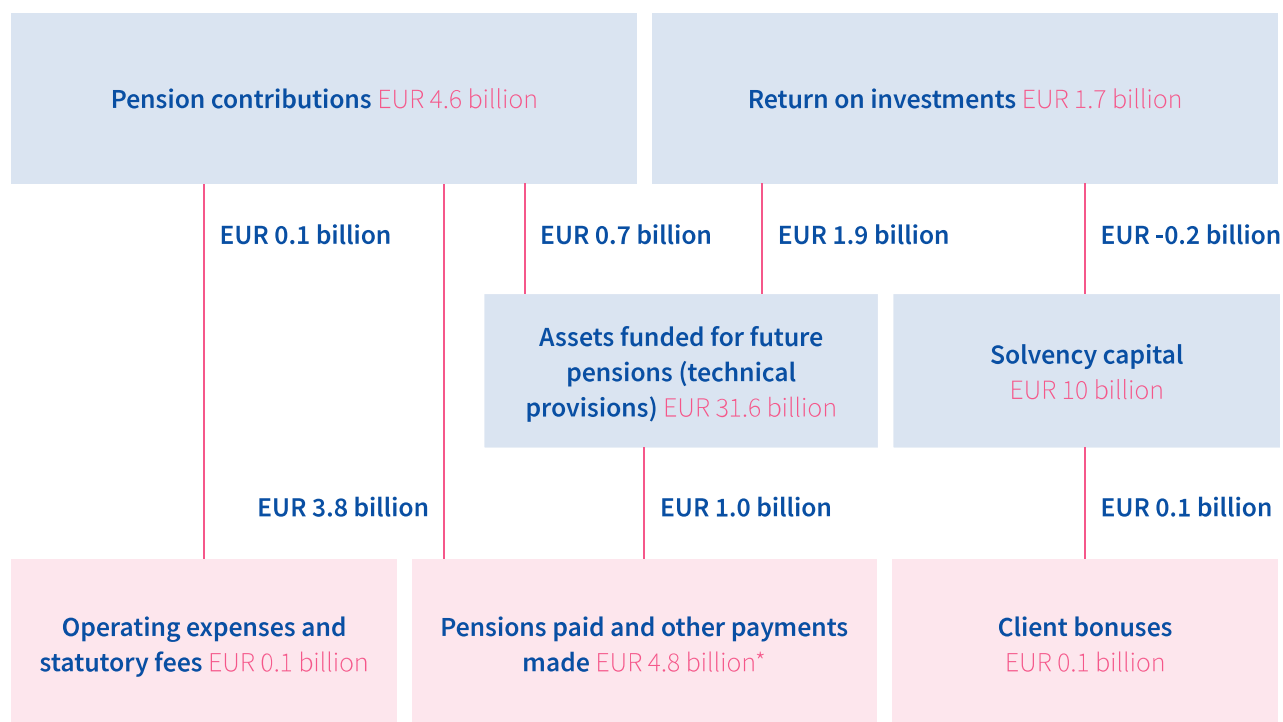
Cash flows

Pension contributions are used to pay pensions and some is set aside in funds for future pensions.

The Finnish statutory earnings-related pension scheme is partially fund-based. The majority of the pension contributions paid by employers and employees is used to pay the pensions for that year. A share of the contributions is set aside in funds for future pension payments.

By law, pension assets must be invested profitably and securely. Part of the investment returns 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.

Varma's operating expense efficiency and solvency have been extremely competitive for several years. Our high cost efficiency and strong solvency lower our customers' pension contributions.



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

Pensions secure despite troubled economy

The economic year 2015 ended in a climate of turbulence. Uncertainty in the global economy is again on the rise.

The growth pace in many of Finland's main export markets has been fairly good for a while now, but Finland's economy is in deep trouble. Earnings-related pensions are well secured also during economic turmoil.

Outlook remains stable in the U.S. and recovery in the eurozone continues

Uncertainty nevertheless overshadows the business climate. The global economic development has been divided: recovery in the developed economies is expected to continue while the emerging economies are still struggling. The emerging markets are suffering from the falling raw material prices. Concerns over China's development caused special uncertainty in the markets in 2015. The economy of Russia, which is a major export country for Finland, shows weak performance.

The outlook for U.S. economic growth remains stable, but the growth expectations have come down. The Fed, the central bank of the United States, finally raised its benchmark rate in December, and started the process of normalising its monetary policy. Employment rates have improved, but there is no pressure on pay levels yet. The U.S. economic cycle is running ahead of Europe's.

Recovery in the eurozone continues. The monetary policy framework continues to prop up growth in the eurozone. Member states that took the worst beating by the economic crisis have carried out major structural reforms, the impacts of which are reflected in stronger growth. Despite improving employment rates, youth unemployment continues to be a major problem in many countries. The increasing global economic uncertainty overshadows expectations concerning strengthened economic growth in Europe.

Migration into Europe increased to unforeseen levels during the year. Initially immigration costs cause a burden on public finances, but in the long-term, immigration has a favourable effect on Europe's "greying" age structure provided that immigrants are able to enter the labour markets.

Central bank measures at different phases of the cycle

Strong market volatility continued in 2015, and we can expect abrupt movements also during the economic year 2016. The central banks' measures are now at different phases of the cycle. In the U.S., the Fed started to tighten its monetary policy. However, its monetary policy solutions are characterised by sensitivity to employment and growth rates due to the global economic uncertainty. The ECB is expected to continue its monetary policy stimulus measures in the eurozone. Inflation has remained clearly below the central banks' target level.

Varma's strategic target is to foster its strong solvency. In a volatile market situation, strong solvency is a major benefit for a pension investor. In addition to solvency, the main focus is on the active diversification of investment assets and a careful approach to risk management. As sudden and strong movements can be

expected in the markets, competent risk management promotes the profitable and secure investment of pension assets.

The environment of low real interest rates is challenging in terms of financing pensions. In Finland, the level of pension coverage is predetermined and is not directly dependent on, for example, the return on pension assets invested in funds. It was agreed in conjunction with pension reform that the equity-linked share of the return requirement on technical provisions will be gradually raised to 20% as of the beginning of 2017. This is a buffer jointly maintained by earnings-related pension companies to bear some of the risks resulting from the fluctuations in equity income. This solution will improve opportunities to target higher returns and thus supports the financing of pensions and keeping pension contributions at a reasonable level.

Finland's economy awaits a turn for the better

Finland's economy is still in deep trouble, although the global economy and Europe have been recovering for a while now. In 2015, economic growth in Finland is estimated to have remained at around zero. The road to economic growth has been arduous. Finland has fallen behind its competitor countries. A clear turn in the economy is hoped for in 2016, but there are no sure signs of it.

As a small open economy, Finland is strongly dependent on global trade. The export structure has become one-sided as a result of the changes in trade and industry structures. The competitiveness of Finland's export prices is weak, as there has been little flexibility in cost levels. Society in general has a shared understanding of the nature and scale of the problems, but reaching decisions that improve cost competitiveness has proven difficult.

The decline in industrial output that has continued almost uninterrupted for several years is finally expected to end in 2016 and production volumes to marginally increase as a result of stronger export demand and the projected weakening in exchange rates. The slowing down of global economic growth would be fateful for Finland's economic recovery.

The situation in the domestic markets is somewhat more positive. Private consumption has shown fairly steady growth in light of the weak economic development. No major boost can be expected from the domestic market as household incomes will grow very moderately over the coming years.

Investments are expected to pick up slightly. The foundation of Finland's economic growth has been weakened by the long-standing investment slump. Although a slight turn in the economy is expected to take place, the growth rate will not be sufficient from the point of view of public finances. Improving price competitiveness requires immediate action as well as moderate pay increases in the longer term. Economic policy in the near future will be characterised by the adjustment of public finances and the ongoing change in the structures of trade and industry.

The situation in the labour market remains sombre. The rise in unemployment seemed to have halted in the second half of the year, but in December unemployment started to increase again. Structural unemployment has increased. From the perspective of financing pensions and future pension coverage, the unfavourable development of employment and increasing long-term unemployment are alarming trends.

Pension reform is implemented at Finnish workplaces

The bills on pension reform, due to take effect in 2017, were passed by parliament in autumn 2015. The purpose of the pension reform is to lengthen careers and strengthen statutory earnings-related pension cover in the coming decades. Pension reform is the most important structural change to be implemented in recent years, and it will bring about changes to both pension benefits and pension financing.

The significance of employment is highlighted in the partly fund-based pension system, as the majority of pensions that are currently being paid are financed directly through pension contributions. This makes it important to promote the achievement of the pension reform goals also in workplaces. Varma handles its task – securing pensions – as effectively as possible. We have had a careful and sustained approach to preparing for pension reform.

The goal of longer careers does not always necessarily coincide at workplaces and in people's lives as the economy is currently suffering and structural changes are shaking the business sector. Here at Varma, the pension reform will offer us a good opportunity to deepen our client relationships as the changing rules of pension provision will increase the need for information. Varma is a strong expert in workability management and vocational rehabilitation – we support our client companies and the insured in extending working careers.

Steady investment returns in volatile markets

In 2015, the return on Varma's investments was good, at 4.2%. Exceptionally large movements were experienced in the capital markets in both equities and fixed income investments in 2015. These movements were stimulated by the central banks' monetary policy measures and concerns over the state of Greece's economy and the sustainability of China's economic growth. Broad diversification of investments muted the risks caused by strong market movements, and returns were generated consistently by the different asset classes.

The value of Varma's investments grew to EUR 41.3 billion. Solvency capital remained at a strong level and totalled EUR 10.0 billion at year-end. The return on investments was lower than the interest credited on the technical provisions, which weakened Varma's solvency to 31.4% (34.0%). Varma's solvency remained at a high level.

Cumulative return 2009-2015



The central bank's measures were at the core of the investment markets. In January, the European Central Bank announced a government bond purchase programme and launched it in March. In the second quarter, the capital markets were negatively influenced by concerns over Greece's ability to pay off its loans maturing at the end of June. In late summer, the Chinese central bank let the value of the yuan fall against the U.S. dollar without prior notice, which was taken as a sign of major weakening in China's economic growth. As a result, the equity markets plunged. Later in the year, market sentiment again picked up as the economic indicators in the US improved and the ECB signalled its commitment to further stimulus measures. The U.S. central bank, the Fed, started to raise its benchmark rate in December.

Despite concerns over China's economic growth and fears of interest rate hikes by the Fed, the economic growth environment has remained positive both in the U.S. and in Europe. The U.S. economic growth rate has increased to over 2%, and economic growth in Europe is also showing signs of picking up. Expectations concerning economic growth in Asian countries, however, have been revised down somewhat.

Varma's result developed strongly early in the year, but fluctuated from the spring onwards. Market uncertainty was exacerbated by, in addition to the economic problems in Greece and China, expectations of interest hikes by the Fed and the steep decline in the prices of energy and other commodities.

Consistent returns through effective diversification

The return on Varma's investments was 4.2% (7.1%). Fixed-income investments accounted for 30, equity investments for 45, real estate investments for 9 and other investments for 17 percentage units of the investment allocation.

Equities generated the strongest return, and Finnish equities in particular performed strongly. Real estate and other investments also generated reasonable returns. The return on fixed-income investments remained slightly negative.

The average 10-year nominal return on investments was 4.8% and the 5-year return 5.1%. The real returns were 3.0% and 3.6% respectively.

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.

Investments classified according to risk

	Risk position 12/2015 mn €		Risk position 12/2014 mn €		Return MWR 1-12/2015 %	Return MWR 1-12/2014 %	Volatility 24 m
Fixed-income investments ¹⁾	12,268	29.7	12,845	32.1	-0.4	5.8	
Loan receivables	1,361	3.3	1,571	3.9	2.4	2.6	
Bonds	8,757	21.2	10,594	26.5	-0.9	7.1	1.9
Public bonds	2,653	6.4	4,312	10.8	-2.5	7.4	
Other bonds	6,105	14.8	6,282	15.7	0.4	6.9	
Other money-market instruments and deposits	2,151	5.2	680	1.7	0.5	0.5	
Equity investments	18,465	44.7	16,333	40.8	8.8	9.1	
Listed equities	14,938	36.2	12,879	32.2	8.0	7.4	12.0
Private equity	2,617	6.3	2,451	6.1	7.8	13.5	
Unlisted equities	909	2.2	1,004	2.5	21.2	19.7	
Real estate investments	3,906	9.4	3,841	9.6	3.3	3.8	
Direct real estates	3,313	8.0	3,375	8.4	2.3	3.2	
Real estate funds	593	1.4	466	1.2	9.9	8.0	
Other investments	6,991	16.9	7,100	17.7	3.5	8.4	
Hedge funds	6,663	16.1	6,717	16.8	3.9	7.8	2.2
Commodities	352	0.9	370	0.9			
Other investments	-24	-0.1	13	0.0			
Total investments	41,630	100.8	40,120	100	4.2	7.1	4.6
Impact of derivatives	-336	-0.8	-81				
Investment allocation at fair value	41,293	100.0	40,039	100			

The modified duration for all the bonds is 2.3.

¹⁾
Includes accrued interest

Strong solvency benefits our customers

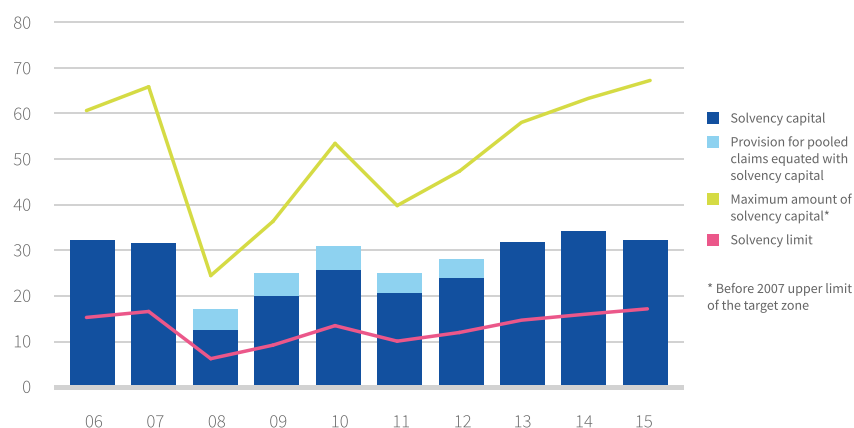
Varma's strong solvency secures pensions. Thanks to its high solvency, Varma has been paying very competitive client bonuses for several years now.

In 2015, Varma's solvency remained at a high level. At the end of 2015, solvency capital was EUR 9,956 million (10,252), or 31.4% (34.0%) of the technical provisions.

Solvency has an effect on the size of client bonuses: our strong solvency allows us to transfer higher amounts to client bonuses. In 2015, we transferred EUR 115 (117) million to client bonuses. We have been paying very competitive client bonuses for several years now.

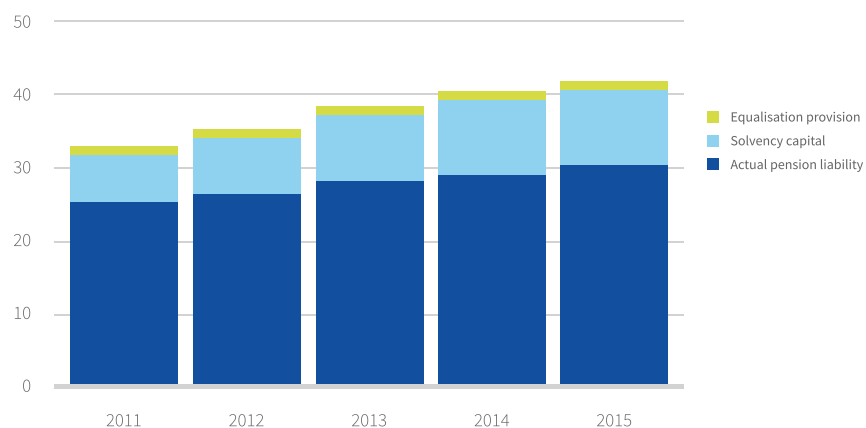
Solvency 2006–2015

% of technical provisions



Pension liability and risk buffers

€ billion



Pensions are protected also during economic turbulence

The economic year 2015 was weak for Finland. During trying times, strong solvency offers protection against unstable capital markets.

Owing to its strong solvency, Varma is able to target better returns on pension assets. High solvency capital allows us to make higher-risk investments with a higher return potential, thus enabling higher returns on pension assets.

The higher the risk of the investments, the greater the amount of solvency capital required. Good investment returns in the long term help secure the financing of pensions.

The statutory solvency capital requirements are set so that pensions will be secured also during lean economic periods, and the solvency limit is the most important of these requirements. The limit 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 2015 was 16.8% (15.8%) of the technical provisions, and the solvency capital's ratio to the solvency limit was 1.9 (2.2).

Solvency regulations will be amended

Regulations concerning the calculation of the solvency limit and investment diversification of pension institutions will be renewed at the start of 2017. In future all the relevant investment risks and insurance risks will be taken better into account in the calculation of solvency. At the same time, the separate regulations on technical provisions will be abolished.

The solvency and investment activities of earnings-related pension companies will also be affected by the pension reform, due to take effect at the beginning of 2017, which will change how the return requirement on pension liabilities is determined. The equity-linked provision for current and future bonuses will be raised in two steps: in 2017 it will rise from 10% to 15, and in 2018 to 20%.

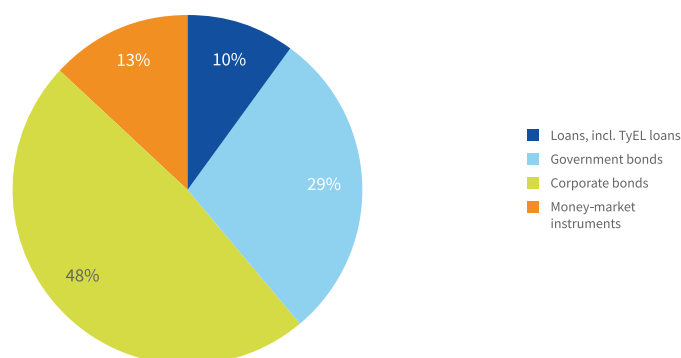
This change will increase earnings-related pension insurance institutions' possibilities to invest in equities. The share of equities of the entire investment portfolio will, however, be limited to 60%. Investing in equities allows better returns on the pension system in the long term, and thus mitigates the pressure to raise earnings-related pension contributions.

Market movements weighed down interest income

The return on fixed-income investments remained slightly negative, at -0.4%. They accounted for 30% (32%) of investments and had a market value of EUR 12.3 (12.8) billion.

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

Fixed-income investments, %



Low interest rates and large rate movements lowered interest income

The fixed income market experienced a significant correction in the area of eurozone government bonds. The ECB's expanded public sector bond purchase programme that was launched in March pushed long-term interest rates in the eurozone to a record low. The interest rate levels of bonds with a shorter maturity fell clearly into negative territory. The strong correction in interest rates starting in late April caused one of the fastest downward spirals in the price of eurozone interest-bearing securities in their history. Towards the end of the year, interest rates started to decline again, but the expected interest hike by the Fed caused fluctuation in the fixed-income market.

Corporate bond markets were weighed down by concerns over China's economic growth and the steep decline in energy prices, which influenced especially American corporate bonds with a lower credit rating. The fairly long-standing decline in emerging countries' currencies also in part depressed the returns on emerging market bonds.

The return on government bonds was -2.5% (7.4%) and on corporate bonds 0.4% (6.9%). The duration of the loan portfolio was kept fairly short, at around 2.3 years, which dampened the impact of the interest rate movements on the result.

The return on loan receivables, 2.4% (2.6%), was strong in the low interest-rate environment. The amount of pension loans to Varma's customer loans continued to decline during 2015. The return on money-market investments was good in relation to the prevailing short-term interest rate level, standing at 0.5% (0.5%).

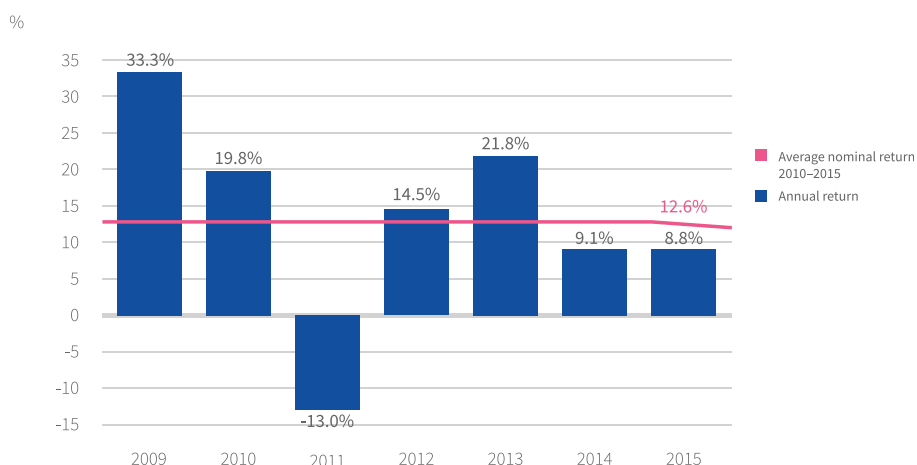
Interest rates in Europe have dropped to a very low level and were largely negative for government bonds. It will be challenging to achieve a positive real return on fixed-income investments in future. Interest income may also easily turn negative, should interest rates rise.

Good returns on volatile equity markets

Equity investments performed the best of all asset classes. They accounted for 45% (41%) of Varma's investments and yielded a return of 8.8% (9.1%).

Equity investments consisted of listed equities (36% of all investments), private equity investments (6%) and unlisted equities (2%). Equity investments have had a very strong seven-year period, with an average return of 12.6%.

Return on equity investments 2009–2015



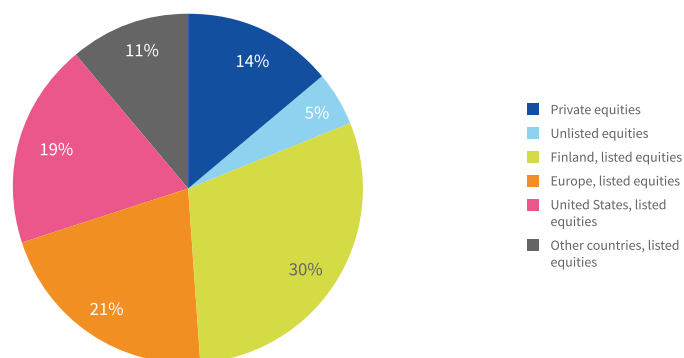
Share prices rose sharply in the first quarter, especially in Europe, when the European central bank launched its massive stimulus measures. Over the course of the spring, the equity markets were negatively influenced by concern over Greece's ability to pay off its maturing loans. Equity markets hit bottom in the autumn, as fears over the sustainability of China's economic growth spread to the global equity markets. At the end of the year, the equity markets again recovered as the economic indicators in the US improved and the ECB signalled its commitment to further stimulus measures.

Despite the strong market fluctuations, the return on listed equities was good, at 8.0%. Finnish equities yielded the best return, at 19.4%. The equities of Sampo Corporation, Varma's largest domestic holding, performed very strongly, at 27.2%.

Finnish equities accounted for 37.6% of Varma's listed equities. European equities accounted for 25.5%, U.S. equities for 23.6% and other areas and global markets for 13.2%. 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.

However, US equities yielded a low return and emerging market equities a clearly negative return. Concerns over China's economic growth and the strong decline in energy prices depressed share prices in many emerging countries.

Allocation of investments in equities



Good 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 7.8% (13.5%) and unlisted equities 21.2% (19.7%).

About half of Varma's private equity investments are invested in the U.S., and the rest mainly in Europe and the Nordic countries. European private equity funds performed very strongly in both the traditional buyout funds and infrastructure funds. Following a long period of good performance, the return generated by the portfolio's focal area, the U.S., remained modest, influenced in part by poor stock market development.

Throughout the year, private equity funds exploited the strong demand in the markets and liquidated large amounts of their investments. The number of new investments was clearly smaller.

The strong performance of co-investments made with private equity funds and the good result of equity-type real estate investments contributed to the very good return on unlisted equities. Real estate companies paid out good dividends, their value strengthened and shares were sold at a profit. During the year, Varma divested its entire holding in SATO Corporation and half of its holding in Certeum Oy.

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

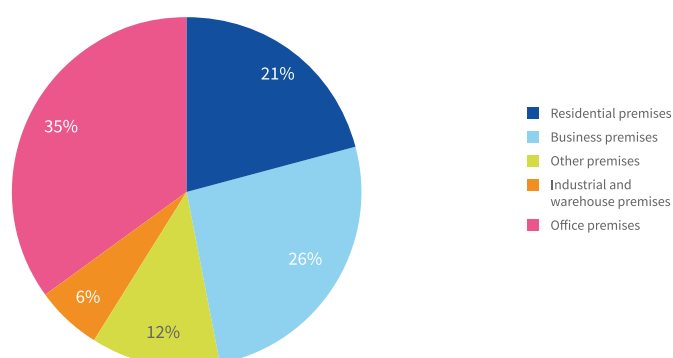
15 largest equity investments, holding

	€ mill.	Varma's holding of shares, %
Sampo plc	1,672	6.35
Nokia Corporation	534	2.02
Wärtsilä Corporation	434	5.20
Nordea Bank AB	296	0.72
VVO-group plc	262	16.98
KONE Corporation	237	1.25
Elisa Corporation	233	4.01
Nokian Tyres plc	174	3.91
Stora Enso Oyj	130	1.99
Fortum Corporation	127	1.02
Metso Corporation	125	4.02
UPM-Kymmene Corporation	122	1.33
Amer Sports Corporation	120	3.75
Metsä Board Corporation	118	4.85
Sponda Plc	114	10.27

International diversification of real estate investments was continued

Varma's real estate investment portfolio amounted to EUR 3.9 (3.8) billion at the end of 2015, and the total return stood at 3.3% (3.8%).

Direct real estate investments, %



Varma continued to increase the international diversification of its real estate investments in 2015. New investment commitments in international real-estate funds totalled EUR 363 million. The biggest single investment was the acquisition of a holding in the Skärholmen Centrum shopping centre in Stockholm, Sweden. At year-end, the value of Varma's international and Finnish real estate fund investments amounted to EUR 593 (466) million and the return was 9.9% (8.0%).

The weighting of domestic, directly-owned real estate investments was decreased. In 2015, Varma divested a total of EUR 28 million in direct real estate investments. The weighting of equity-type domestic real-estate investments was reduced over the year as Varma divested half of its holding in Certeum Oy and its entire holding in SATO Corporation for a grand total of EUR 328 million.

In 2015, the value of transactions in the Finnish real estate market increased by more than 30% from 2014, 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 stood at 7.2%.

New rental flats in the Helsinki Metropolitan Area and growth centres

Investments in 2015 totalled EUR 73 million, and they were focussed on development, maintenance construction and renovations of existing properties, and housing construction. At the end of 2015, Varma had a total of 130 new rental flats under construction in the Helsinki Metropolitan 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.

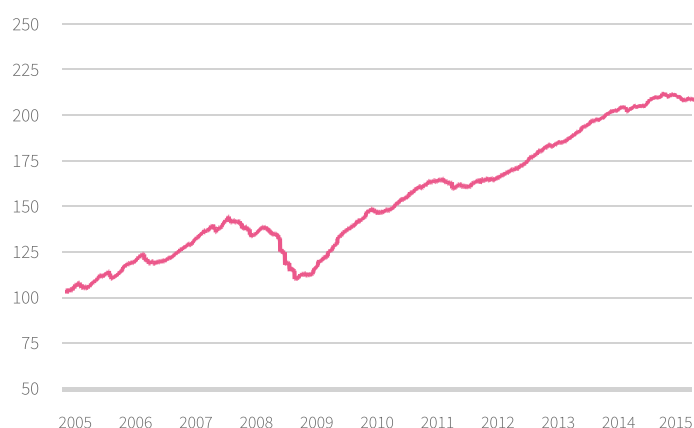
In 2015, the impact of fair valuation of real estate under Varma's direct ownership totalled EUR -88 million. The market value of the real estate owned directly by Varma stood at EUR 3.3 (3.4) billion at the end of the year. The return on capital employed in direct real estate investments was 2.3% (3.2%). The value of and total return on the portfolio were influenced by fair valuations, the divestment of properties and investments carried out.

Steady return on other investments

Other investments accounted for 17% (18%) of Varma's portfolio.

They consist of hedge funds (16%), and a relatively small commodities position. The return on other investments was reasonably good, at 3.5% (8.4%).

Return on hedge funds 2005-2015



The return on hedge fund investments was 3.9% (7.8%). Hedge fund investments yielded a consistent return and effectively diversified the risk caused by market fluctuations in equity and fixed income investments. The strengthening of the dollar contributed to the good return. Within the portfolio, market-neutral strategies yielded the strongest returns. The environment for opportunistic strategies was more challenging, influenced especially by increasing risk awareness in the US at the end of the year. The return on Varma's hedge investments has been very good over a long period, and volatility has been very low.

The return on commodities remained weak due to the long-standing decline in the commodities market. Energy and metal prices especially declined towards the end of the year to a remarkably low level.

Varma is a responsible and long-term investor

With EUR 41.3 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

Of Varma's total investments, approximately EUR 13 billion have 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. Varma bears long-term responsibility for its pension assets.

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 2015, investment charges amounted to 0.056% (0.058%) 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 investment 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 is 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 types of premises and geographical location. Approximately 60% 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. Around 11% of all real estate investments are international.

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.

Liquidity

The investment portfolio is kept as liquid as possible. This has been beneficial for instance when the demand for pension loans to Varma's customers 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.

Responsible Varma

Corporate responsibility is an integral part of our core task: securing pensions.

‘Responsible Varma’ is a key theme in our new strategy. In 2015 we drew up a new Corporate Social Responsibility (CSR) programme. In future, we will disclose information on our responsible operations for example in connection with our interim reviews.

Responsibility is part of Varma’s daily operations. We actively communicate what CSR means for us and how our responsible operations show in society. We will continuously develop our responsible ways of operating.

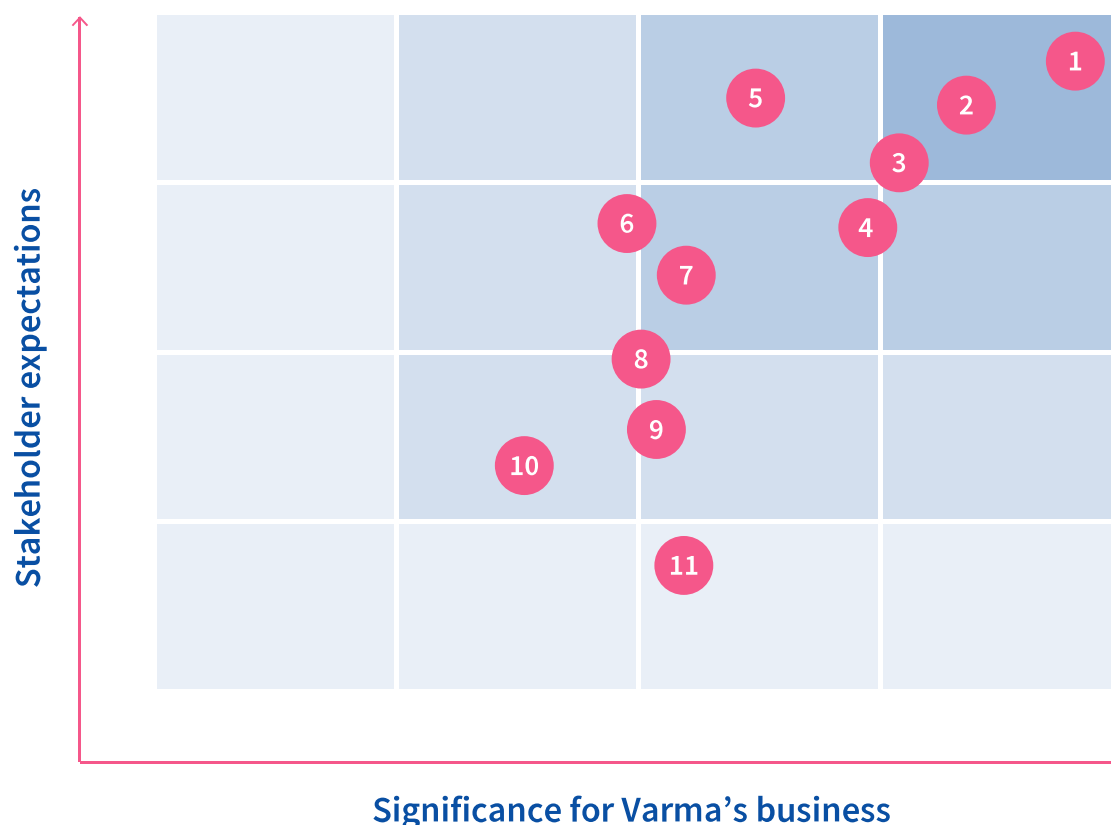
The CSR programme is based on a materiality assessment

In autumn 2015 we drew up a new Corporate Social Responsibility (CSR) programme. It is based on a materiality assessment, which was carried out to identify the most important responsibility factors for Varma. We wanted to hear what our stakeholders’ CSR expectations are and analyse the materiality of CSR issues.

We carried out an extensive stakeholder survey for the materiality assessment in autumn 2015. Invitations to the online questionnaire were sent by email to, among others, Varma’s customers, personnel, administrative bodies, and key public authorities, media representatives, and co-operation partners. A total of 1,168 people responded to the online questionnaire. Furthermore, 14 stakeholder representatives were interviewed in person – among them representatives of the Executive Group, Board of Directors, public authorities and personnel.

Stakeholder expectations were reviewed in management’s responsibility workshop, which worked on and prioritised the different aspects according to their impacts on Varma’s business. This work formed the basis for a materiality matrix, which presents the issues considered most important by the stakeholder groups and their impact on Varma’s operations.

Key CSR elements in a Materiality matrix



- | | |
|---|---|
| 1. Securing solvency | 7. Mitigating climate change |
| 2. Disruption-free implementation of pension provision | 8. Considering environmental aspects in the company's operations and supply chain |
| 3. Open and pro-active communication | 9. Varma employees' well-being at work and competence |
| 4. Promoting workability and longer careers at client companies | 10. Preventing the grey economy |
| 5. Transparent and open operations and administration | 11. Supporting entrepreneurship |
| 6. Responsible investment | |

CSR programme targets and measures

On the basis of the materiality assessment, we defined Varma's CSR targets, indicators and measures.

For Varma, responsible operations means first and foremost securing solvency, disruption-free implementation of pension provision and promoting workability.

Responsible investment means that investment decisions and ownership guidance take into account aspects relating to the environment, society and governance (ESG). Responsibility is an integral part of our investment operations and ownership practices. Our target is to embed ESG practices deeper into investment decisions and ownership. More detailed information on our 2015 responsible investments is available in the section on responsible investment.

Environmental aspects are already being broadly taken into account in real estate investments. In 2015 we chose mitigating climate change as a special focal area. We aim to reduce our carbon footprint in our operations, delivery chain and investments.

Varma implemented the WWF's Green Office environmental management system in its Salmisaari office building in the beginning of 2016. The goal is to improve the office's ecological footprint.

Varma is appreciated as an employer. We want our personnel to benefit also from our workability management competence. We take care of Varma employees' well-being at work and competence, and we regularly measure employee satisfaction.

CSR is visible in the organisation

As of the beginning of 2016, Varma's Executive Group includes a member with responsibility for CSR issues. Varma has also appointed a CSR Manager who co-ordinates CSR measures and communication, in addition to which a responsible investment expert works in Investment Operations.

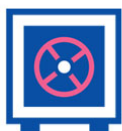
Varma is a member of the Finnish corporate responsibility network FIBS and Finland's Sustainable Investment Forum Finsif.

CSR reporting will be developed in 2016

The requirement of transparent business operations and open communications are highlighted when it comes to a company like Varma, which handles social security and common pension assets. The communication and reporting of our responsible operations will be our key development areas within CSR.

Varma will publish its first CSR report for 2016 in conjunction with its annual report, and it will be based on the GRI (Global Reporting Initiative) framework. In 2016, we will start reporting on CSR as part of our interim reports. As regards investments, Varma has published an UN-based responsible investment UN PRI report since 2014.

Security solvency



Pensions are well secured, and we pay the best client bonuses.

Disruption-free implementation of pension provision



We make fair pension decisions without delays.

Open and pro-active communication



We openly disclose information about our responsible actions, also in connection with our interim reports.

Promoting workability and longer careers



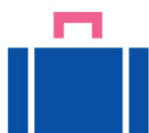
Activities that promote workability and rehabilitation prevent disability, improve well-being at work and reduce disability costs.

Transparent operations and administration



Open communication builds trust, and stakeholders consider our operations to be flawless and upstanding.

Responsible investment



Varma's responsible investment policies are integrated in investment processes and ownership policy.

Mitigating climate change



We will reduce the carbon footprint in our investments and operations. We will publish a climate policy for investments.

Varma employees' well-being at work and competence



We take care of our workability and develop our competence. We know how to serve our customers smoothly.

Preventing the grey economy



All work carried out in Finland is covered by earnings-related pension insurance.

Supporting entrepreneurship



We support entrepreneurship by, among other things, offering free digital tools especially to entrepreneurs that are starting up or expanding their operations.

Customers are at the heart 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. Service that is appreciated by our customers is the result of broad competence and co-operation.

In 2015, we broadly introduced the lean concept in the customer-oriented development of our operations. We are using lean in change management and agile renewal. During the year under review, we improved the efficiency of around 20 processes with the help of lean.

Varma's personnel carry out demanding expert work that is meaningful for society and requires continuous development and renewal. We have been preparing for the upcoming pension reform through training and by improving our customer service. In autumn 2015, we launched training to strengthen the strategic competence and networking of our experts.

At Varma, supervisory work consists of productive and inspiring management based on coaching and measurable results. Coaching sessions support everyday work and bring agility to development work.

We take care of Varma employees' workability

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. Varma has been successful in managing the workability of its personnel. As proof of this, we belong to the lowest disability contribution category.

We conduct regular employee satisfaction surveys. According to the 2015 survey, Varma employees are especially satisfied with the improvement in customer focus. The employees would like to see more ambition and innovativeness in the activities. Overall employee satisfaction rated 8.3 on a scale of 4–10.

Varma employees also participated in the Healthy Financial Industry project by the Federation of Finnish Financial Services, which focused on creating a vision of the changing work within the financial industry. According to the results, the future of customer service will be divided between digital & mobile services and personal services that focus on specific customer issues. The multichannel nature of customer service already shows in Varma employees' work.

Personnel

	2015	2014
Personnel 31 Dec	534	561
Women/men	73%/27%	73%/27%
Average age	47 y 11 m	47 y 10 m
Average age of retirement on old-age pension	63 y 8 m	63 y 10 m
Average service period	16 y 6 m	16 y 7 m
Personnel turnover rate	3%	4%
Exit turnover rate	8%	6%
Sickness leave	3.7%	3.6%
Training days/employee	2.0	2.8

	2015	2014	2013	2012	2011
Average number of personnel	549	552	565	572	588
Salaries and remunerations, EUR million	39.6	40.1	37.9	37.0	39.5

Varma invests in a responsible manner

Responsibility is an integral part of our investment operations and ownership practices. In 2015, we looked into the responsibility of our hedge funds and decided to determine the carbon footprint of our investments.

Responsibility has an influence on a company's value. The modes of influence are diverse, and their importance varies, but charting responsibility issues is part of good investment operations and expertise. Varma's investment process includes a CSR analysis. We focus on analysing the most important CSR aspects and their impact on investment returns and risks on a longer term.

Responsible investment at Varma

We have published Varma's Principles for Responsible Investment, which provide general guidelines for responsible investment operations. Varma's Board of Directors approved the principles in 2014. The practical application of the principles is described in specific policies for different asset classes, which cover five main asset classes:

- equity investments,
- listed corporate bonds,
- real estate and private equity investments and
- hedge funds.

In our investment activities we take into account internationally recognised principles and norms, such as the UN Global Compact initiative for corporate responsibility, OECD guidelines for multinational enterprises and ILO's labour practices.

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

Promoting responsible hedge funds

In 2015 Varma continued to survey and promote the responsibility of hedge funds. We carried out an extensive CSR survey on hedge funds. The main themes were, among others, the fund management company's and fund's governance practices and the application of responsible investment principles in the selection of the funds' investment objects. The survey also looked into hedge funds' special features with regard to our policies concerning, for example, high frequency trading and the short selling of borrowed shares.

The CSR survey was a natural step following the publication of our responsible investment policies for hedge fund investments in 2014. In future, the survey will be used to assist in the selection of new funds. Varma encourages fund management companies in particular to create their own principles for responsible investment, to apply them appropriately to the fund's investment strategy and to report on their activities.

Varma is a member of the Investor Chapter of the Hedge Fund Standards Board (HFSB). The HFSB is an initiative that is aimed at creating standards of good governance, transparency and ownership practices for the hedge fund industry. The role of the members of the Investor Chapter is to encourage hedge funds to adopt the standards and to use the criteria in their own investment processes.

Aiming to mitigate climate change

Mitigating climate change is one of the goals of Varma's CSR activities. This goal is also evident in our investment operations. In summer 2015 we removed from our direct equity investments European power companies that generated more than a third of their electricity production with coal. We also looked into best practices related to low carbon investment. The goal is to look into the carbon footprint of our investment portfolio and draw up a climate policy for investments in 2016. Read more about the targets for our CSR programme in the Responsibility section.

Energy efficiency reduces the carbon footprint of real estate

We have been focussing strongly on reducing the energy consumption of our business premises. Our goal was to reduce energy consumption by 6% from its 2011 level by 2016. We reached that goal ahead of time in summer 2015.

The measures focused on controlling lighting, ventilation and heating, among other things. We implemented more than 400 individual energy-saving measures in around 70 properties owned by us in 2011–2015, generating annual savings of nearly one million euros. This is equal to the annual energy consumption of 700 detached houses heated with electricity.

We reduced the annual carbon footprint of our real estate by 3,000 CO₂ tonnes in 2011–2015.

Buildings account for nearly

40%

of Finland's greenhouse
gas emissions



By reducing energy
consumption by

1%

each year,



we reduced greenhouse gas emissions by an
amount corresponding to the annual energy
consumption of

700

electrically heated detached houses
and saved

€1,000,000

This is how we did it:

We adjusted and optimised ventilation, lighting and heating.
We invested in ventilation equipment.
We introduced remote use and monitoring.

**Saving energy
pays off.**



We report on our responsible investment operations

Varma has signed the UN-supported Principles for Responsible Investment (PRI) in 2011. We report annually on our responsible investment operations in accordance with the PRI framework. The survey results will be published in the second quarter on both PRI's and Varma's website.

In future, responsible investment aspects will also be discussed in our GRI report, which will be published for 2016.

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

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.

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

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graph TD; AGM[Annual General Meeting] <--> Auditors[Auditors]; SB[Supervisory Board] <--> EC[Election Committee]; BD[Board of Directors] <--> NCC[Nomination and Compensation Committee]; PCEO[President and CEO] <--> AC[Audit Committee]; EG[Executive Group] <--> IA[Internal Audit]; SB <--> AGM; EC <--> SB; NCC <--> BD; AC <--> BD; IA <--> AC; EG <--> PCEO;
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The diagram illustrates the organizational structure of the Board of Directors and its various committees. The hierarchy is as follows:

- Annual General Meeting** and **Auditors** are at the top level, connected by a double-headed arrow.
- Supervisory Board** and **Election Committee** are connected by a double-headed arrow.
- Board of Directors** and **Nomination and Compensation Committee** are connected by a double-headed arrow.
- President and CEO** and **Audit Committee** are connected by a double-headed arrow.
- Executive Group** and **Internal Audit** are connected by a double-headed arrow.

Additionally, there are vertical reporting lines (single-headed arrows pointing upwards) from the following entities to their respective parent bodies:

- Supervisory Board** reports to the **Annual General Meeting**.
- Election Committee** reports to the **Supervisory Board**.
- Nomination and Compensation Committee** reports to the **Board of Directors**.
- Audit Committee** reports to the **Board of Directors**.
- Internal Audit** reports to the **Audit Committee**.
- Executive Group** reports to the **President and CEO**.

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 2015. The up-to-date report can be viewed at www.varma.fi/en.

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 19 March 2015, Authorised Public Accountants Petri Kettunen and Paula Pasanen served as Varma's Auditors during the financial year 2015. 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 2015 amounted to EUR 192,840. Remuneration paid to KPMG Oy Ab for expert services other than those related to auditing totalled EUR 128,675 in 2015.

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 three 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 oversees 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 so 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.

Members of the Supervisory Board

Chairman and Deputy Chairmen

Kari Jordan

- Chairman
- b. 1956
- President and CEO, Metsä Group
- Term expires in 2018

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 2018

Members

Juri Aaltonen

- b. 1969
- Chairman, Federation of Special Service and Clerical Employees ERTO
- Term expires in 2018

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

Jarmo Hyvärinen

- b. 1954
- Chairman of MMA, the Union of Sales and Marketing Professionals
- Term expires in 2017

Erkki Järvinen

- b. 1960
- President and CEO, Tikkurila Group
- Term expires in 2017

Tapio Korpeinen

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

Hannu Kottonen

- b. 1957
- President and CEO, HKScan Corporation
- Resigned on 20 January 2016

Päivi Leiwo

- b. 1964
- Chair of the Board of Directors, Oilon Oy
- Term expires in 2018

Ilkka Nokelainen

- b. 1957
- Chief Shop Steward, Stora Enso Oyj
- Term expires in 2018

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

Leena Vainiomäki

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

Päivi Kärkkäinen

- b. 1955
- General Director, Finnish National Opera Foundation
- Term expires in 2018

Olli Luukkainen

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

Lauri Peltola

- b. 1963
- Senior Vice President, Kesko Corporation
- Term expires in 2016

Matti Rihko

- b. 1962
- CEO, Raisio Plc
- Term expires in 2018

Saana Siekkinen

- b. 1972
- Director, Central Organisation of Finnish Trade Unions SAK
- Term expires in 2018

Jorma Vehviläinen

- b. 1967
- Executive Vice President, SOK Corporation
- Term expires in 2018

Christoph Vitzthum

- b. 1969
- President & CEO, Fazer Group
- Term expires in 2016

Anssi Vuorio

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

Göran Åberg

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

Kari Sairo resigned from the Supervisory Board on 1 February, Kari Virta on 6 May and Mika Seitovirta on 24 November 2015.

Memberships that expired at the Annual General Meeting on 19 March 2015:
Tapio Kuula, Jorma Takanen and Arja Talma

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.

Chairman of the Supervisory Board Kari Jordan 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 Kari Jordan, Berndt Brunow (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 2015 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 2015.

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

Members of the Board of Directors 31 December 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 and Tikkurila Oyj.*



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 2018

Member of the Economic Council; and member of the Boards 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 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 2018

Deputy Chairman of the boards of Kesko and the East Office of Finnish Industries; member of the boards of the Confederation of Finnish Industries EK, the Finnish National Theatre, and the Service Sector Employers PALTA; 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 - Federation of the European Play Industry, Vice Chairman of the Confederation of Finnish Industries EK, and Chairman of EK's Delegation of Entrepreneurs.*



Ari Kaperi

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

Head of Risk Management, Nordea Bank AB (publ); member of Varma's Board of Directors since 2010, term expires in 2018

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), the European Plastic Pipes and Fittings Association and Procurator Holding Oy.*



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 Kaleva Mutual Insurance Company; Deputy Chairman of the Board of Alma Media Corporation; member of the Boards of the Finland Chamber of Commerce and BenCo Insurance Holding B.V. (Netherlands); and Chairman of the Economy and Tax Committee of the Confederation of Finnish Industries EK and the Life Insurance Executive Committee of FFI, 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 2018.

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



Eija Hietanen

b. 1961, M. Soc. Sc.

Administrative Director, Central Organisation of Finnish Trade Unions (SAK); deputy member of Varma's Board of Directors since 12 March 2015, term expires in 2016

Member of the Boards of the Labour Institute for Economic Research, Kansan Sivistysrahasto and the Trade Union Solidarity Centre of Finland SASK; member of the Supervisory Board of Finnfund and of the Council of the Finnish Work Environment Fund.



Mikko Ketonen

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

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

Chairman of the Board, TS Group.*



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, Cadmatic 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.*

Arto Kuusiola served as deputy member of Varma's Board until 11 March 2015.

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 2015, Ari Kaperi (Chairman), Jyri Luomakoski, Antti Palola and Kai Telanne were members of the Audit Committee.

The Audit Committee convened three times in 2015 and the attendance rate of the members was 91.6%.

Of the Committee members, Ari Kaperi, Jyri Luomakoski 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 2015, Berndt Brunow (Chairman), Antti Palola and Jari Paasikivi were members of the Nomination and Compensation Committee.

The Committee held five meetings (attendance rate 93.3%) in 2015.

Of the Committee members, Jari Paasikivi is a member of the executive management of Varma's client company 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; 1st Deputy Chairman of the Board of the Finnish Pension Alliance TELIA; Chairman of the Board of the University of Oulu; and member of the Boards of Sampo Plc, Wärtsilä Corporation, and the Federation of Finnish Financial Services; member of the Financial Committee of the Finnish Cultural Foundation).

The CEO is assisted by Varma's Executive Group, which has, in addition to the CEO, seven 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 2015.

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

Chairman of the Board of 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, Wäertsilä Corporation and Sampo Plc

President and CEO since 2014, member of the Executive Group since 2006



Timo Kaisanlahti

Chief Legal Counsel

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, Pension Services and 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

Jyrki Rasi, Senior Vice President, Pension Services, was a member of the Executive Group until 17 August 2015.



Ville-Veikko Laukkanen

Executive Vice-President, Client Services

b. 1970, LL.M.

Key work experience:

Director, Member of Group Executive Management, 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; Director, AIG Europe S.A. Finland 1999–2001; Lawyer, Sampo Insurance Company 1996–1999; Nordea Investment Fund Company Finland Ltd, Board member 2010–2011

Vice Chairman 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

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 of the Boards of Arek Oy, Kaleva Mutual Insurance Company, Finnish National Opera and Ballet and Varman kiinteistöyhtiöt

Member of the Executive Group since 2012



Reima Rytsölä

Executive 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 Boards of Technopolis Plc and WVO Group

Member of the Executive Group since 2014



Katri Viippola

Senior Vice-President, Communications, HR and Corporate Social Responsibility, (member of the Executive Group as of 1 January 2016)

b. 1976

Master of Arts in Media Production and Management

Key work experience:

HR and Administrative Director, HR Director, Keva 2013–2015; Head of Personnel Development, HR Manager, HR Consultant, Yleisradio 2008–2013; Journalist and News Anchor, Yleisradio 2002–2008

Member of the Executive Group since 2016

Satu Perälampi, member of the Executive Group (Senior Vice President, Communications) served at Varma until 30 August 2015. Katri Viippola started with the company on 1 January 2016.



Eeva Hautala

Employee Representative

b. 1963, Bachelor of Social Services

Key work experience:

Pension Adjudication Specialist, Varma 2006–

Employee representative since 2016



Maritta Voutilainen

Employee Representative

b. 1984, BBA

Key work experience:

Service Advisor, Varma 2012–

Employee representative since 2016

In 2015, personnel representatives were Mari Laine, Reetta-Kaisa Lehtinen (until 28 February 2015) and Sari Kauppinen (1 March–31 December 2015).

Pasi Mustonen serves as 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

- Kirsi Karvala
- Tuula Kieseppä
- Jukka Kivekäs
- Liisamari Krüger
- Otto Lindberg
- Heikki Nikkilä
- Mikael Ojala
- Pekka Palin
- Ritva-Liisa Peltomäki
- Tanja Rokkanen

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 participate 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 (Vice Chairman)
- Pekka Luoma
- Tarja Nyman
- Hannu Roine
- Risto Siivola (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 Votka, 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 appointed 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
- Matti Bergendahl, President and CEO, Realia Group
- 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 Furuholm, 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, Chairman of the Board, Kovanen Yhtiöt Oy
- Pekka Kuusniemi, Managing Director, Oras Oy
- Eero Leskinen, Partner, Sentica Partners Oy
- Olli Manner, President & CEO, Elomatic Ltd (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 (Vice Chairman)
- Irmeli Rytönen, Managing Director, Gigantti Oy
- Seppo Saarelainen, Managing Director, Betonimestarit Oy
- Timo Salli, Managing Director, Katsa Oy
- Juha Salonen, Managing Director, Leipomo Salonen Oy
- Harri Savolainen, Managing Director, NCC Construction Ltd
- Jorma Siren
- Jukka Suovanen, Managing Director, Odum Oy
- Heikki Väänänen, Managing Director, Tokmanni Oy
- Petteri Wallden, Vice Chairman of the Board, Tikurila 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
- Sebastian Björkstén, Experiri Oy
- Michael Casagrande, Cleanside Oy
- Seija Estlander, Viestintätoimisto Estlander (Vice Chairman)
- Tuuli Haahtela, Haahtela Group
- Leena Harkimo, Leena Harkimo Oy
- Kirsti Hintikka, Siivouspalvelu Kirsti Hintikka Ky
- Jyrki Hollmén, Confederation of Finnish Industries EK
- Pasi Holm, Taloustutkimus Oy
- Riitta Hämäläinen-Bister, Deviation Finland Oy
- Henri Juva, Quattro Mikenti Group Oy
- Jaana Jääskeläinen, Jaanan Ompelimo ja Asuste Ky
- Arto Kallioinen, Kallioinen Yhtiöt
- Anssi Kujala, Federation of Finnish Enterprises
- Nina Lindström, RTA Yhtiöt
- Merja Lintervo, Linvestia Oy
- Harry Luokkamäki, Maanrakennus Luokkamäki Oy
- Merja Metsävaara-Mildh, Front Desk Oy
- Anton Molander, Cocoa Mediaproductions Oy
- Karri Nieminen, Fiskales Oy
- Pekka Niinistö, APX-metalli Oy
- Heikki Palin, Palin-Granit Oy
- Paula Palmroth, Turun Kansallinen Kirjakauppa Oy (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. This statement can also be viewed at www.varma.fi/en.

This report describes the situation on 31 December 2015.

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 2015, the Committee consisted of Chairman of the Board of Directors Berndt Brunow and the Vice Chairmen of the Board of Directors, 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 incentive scheme for personnel (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-over-one' 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.

Those included in the incentive scheme for key persons are not part of the incentive scheme for personnel 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 Incentive scheme for personnel

All Varma employees are covered by an incentive scheme for personnel, with the exception of 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 for the year 2015 in development discussions and the company's result; the higher the person's possibility to influence the company's result, the greater its weight.

The basis for the maximum annual remuneration under the incentive scheme for personnel is determined by the person's position and monthly salary. The maximum bonuses under the 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 2015. The average attendance rate was 69.1%.

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 2015 – attendance and remunerations

Name	Supervisory Board meetings, attendance	Election Committee	Annual remuneration, €	Meeting and Committee remunerations, €	Total, €
Chairman					
Tapio Kuula (1 Jan - 19 Mar 2015)	1/1	2/2	1,875	900	2,775
Kari Jordan (from 20 May 2015)	2/2	1/1	4,375	900	5,275
Deputy Chairmen					
Martti Alakoski	2/3	3/3	3,800	1,500	5,300
Satu Wrede	3/3		3,800	900	4,700
Members					
Juri Aaltonen	2/3		2,500	600	3,100
Petri Castrén	3/3		2,500	900	3,400
Erkki Etola	3/3		2,500	900	3,400
Stig Gustavson	2/3		2,500	600	3,100
Tauno Heinola	2/3		2,500	600	3,100
Jarmo Hyvärinen	2/2		2,187	600	2,787
Erkki Järvinen	2/2		2,187	600	2,787
Tapio Korpeinen	3/3		2,500	900	3,400
Hannu Kottonen	1/2		2,187	300	2,487
Päivi Kärkkäinen	2/3		2,500	600	3,100
Päivi Leiwo	2/2		2,187	600	2,787
Olli Luukkainen	1/3		2,500	300	2,800
Ilkka Nokelainen	2/3		2,500	600	3,100
Lauri Peltola	2/3		2,500	600	3,100
Juhani Pitkäkoski	1/3		2,500	300	2,800
Matti Rihko	2/3		2,500	600	3,100
Pertti Saarela	2/3		2,500	600	3,100
Mika Seitovirta	1/2		2,500	300	2,800
Saana Siekkinen	2/3		2,500	600	3,100
Jorma Takanen	0/1		937	0	937
Arja Talma	1/1		937	300	1,237
Leena Vainiomäki	2/3		2,500	600	3,100
Jorma Vehviläinen	3/3		2,500	900	3,400
Kari Virta	0/1		937	0	937
Christoph Vitzthum	2/2		2,187	600	2,787
Anssi Vuorio	3/3		2,500	900	3,400
Göran Åberg	0/3		2,500	0	2,500

Remuneration of the members of the Board of Directors

The Board of Directors convened 10 times in 2015. The average attendance rate (including deputy members) was 90%.

Remuneration of Varma's Board of Directors is decided by the Supervisory Board. In 2015, the annual remunerations were: EUR 45,000 for the Chairman of the Board, EUR 32,000 for the Deputy Chairmen, EUR 18,000 for the members, and EUR 13,000 for the deputy members. A meeting fee of EUR 600 per meeting was also paid. The same meeting fee is also paid for the separate 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 2015 that the remunerations for 2016 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 2015 – attendance and remunerations

Name	Board of Directors' meetings, attendance	Nomination and Compensation Committee	Audit Committee	Election Committee	Supervisory Board	Annual remuneration, €	Meeting and Committee remuneration, €	Total, €
Chairman								
Berndt Brunow	9/10	5/5		3/3	2/3	45,000	10,500	55,500
Deputy Chairmen								
Jari Paasikivi	9/10	4/5		3/3		32,000	8,700	40,700
Antti Palola	10/10	5/5	3/3	3/3	2/3	32,000	12,900	44,900
Members								
Riku Aalto	9/10				1/3	18,000	6,000	24,000
Mikael Aro	9/10					18,000	5,400	23,400
Johanna Ikäheimo	8/10				2/3	18,000	6,000	24,000
Ari Kaperi	9/10		3/3		1/3	18,000	7,800	25,800
Jyri Luomakoski	9/10		3/3		2/3	18,000	8,400	26,400
Petri Niemisvirta	10/10					18,000	6,000	24,000
Ilkka Oksala	8/10					18,000	4,800	22,800
Kai Telanne	10/10		2/3			18,000	7,200	25,200
Veli-Matti Töyrylä	9/10			3/3	3/3	18,000	8,100	26,100
Deputy members								
Eija Hietanen	5/7					11,375	3,000	14,375
Mikko Ketonen	10/10					13,000	6,000	19,000
Arto Kuusiola	3/3					4,875	1,800	6,675
Liisa Leino	8/10				1/3	13,000	5,400	18,400

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 (taxable earnings) in 2015 totalled EUR 719,726; in addition, in 2015 he received EUR 123,630 as a deferred bonus under the separate scheme for Investment Operations for 2011. 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 not covered by the separate scheme for Investment Operations (see section 1.3.2 above) or the incentive scheme for personnel (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 the car benefit is included in his fixed monthly salary.

CEO Risto Murto's retirement age is 63 years. His pension benefits under supplementary pension insurance will be 60% 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 (provisional contribution) of Murto's supplementary pension agreement amounted to EUR 73,575 in 2015.

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 2015, the salaries and fringe benefits (taxable earnings) of the members of the Executive Group, excluding the President and CEO, were EUR 1,512,506 and performance pay EUR 355,120 (for 2014), totalling EUR 1,867,626. The costs (provisional contributions) for the members of the Executive Group's supplementary pension agreements amounted to EUR 550,049 in 2015.

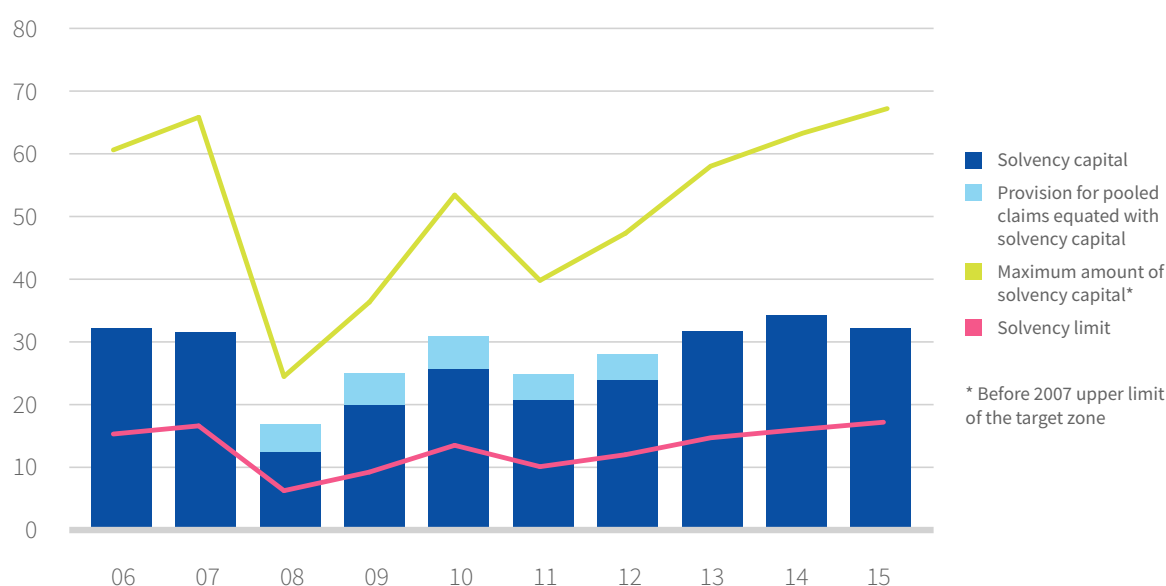
The members of the Executive Group do not have a company flat. The members of the Executive Group have the option of a company car benefit and they have a mobile phone benefit. The tax value of the car benefit is included in the fixed monthly salary.

Report of the Board of Directors 2015

- The total net result was EUR -164 (1,223) million, and the balance sheet total at fair value EUR 42.0 (40.6) billion.
- Solvency capital was EUR 9,956 (10,252) million, i.e. 31.4 (34.0)% of technical provisions.
- The return on investment was 4.2 (7.1)%, and the market value of investments stood at EUR 41.3 (40.0) billion.
- The loading profit was EUR 36.1 (33.4) million.

Solvency 2006–2015

% of technical provisions



The economic operating environment

The global economy is divided: recovery in the developed economies has started while the emerging economies are still struggling. In addition to geopolitical issues, uncertainty in China caused special concern in the markets in 2015.

Global economic growth continued in 2015, but the development was uneven. The economies of industrialised countries grew, yet at the same time emerging economies struggled with major problems. Inflation remained clearly below the central banks' target level in all the main economic areas.

The outlook for economic growth in the US remained stable, and growth became broader-based. Employment rates improved, but no major pressure on pay levels was seen yet. The Fed started to normalise its monetary policy by raising its benchmark rate.

Strong fluctuations in the capital markets continued in 2015. In summer, the troubles in the Chinese economy, where growth has been declining for some time now, raised special concern. In addition to the fundamentals of China's economy

and the broader effects of the country's economic problems, the lack of trust was also linked to the reliability of its economic information.

Raw material prices fell, and the price of oil declined sharply. The Russian economy remained in deep trouble and suffered from low raw material prices. Risks relating to global economic growth are still substantial, although the emerging markets have a reasonable growth outlook.

Recovery in eurozone continued

Europe's economic cycle is lagging behind compared to the US. The eurozone's economic picture continued to become clearer in the course of 2015, and the economic crisis was brought under control. The eurozone recovery was boosted by the European Central Bank's substantial monetary policy measures. Consumer prices did not show an upward trend. The ECB's measures were at the core of European economic policies, and the monetary policy framework continues to prop up growth in the eurozone.

Most of the EU member states that took the worst battering by the economic crisis have undergone major structural reforms, the impacts of which were reflected in stronger growth. The tightening of public finances has eased, which contributed to growth in overall demand. Employment rates in Europe picked up, although unemployment and youth unemployment in particular remain major problems.

No turn for the better for Finland's economy

Finland's economic problems have accumulated, and the economic climate is weak. In 2015, total output in Finland is estimated to have remained at around zero. According to preliminary data by Statistics Finland, gross domestic product developed even less favourably at the end of the year than earlier in the year. So there were no clear signs of the economy picking up.

The volumes of Finnish exports were smaller than expected, and also in terms of value, exports shrank. The competitiveness of export prices was weak as there has been little flexibility in cost levels. Industrial output continued to fall in 2015. According to Statistics Finland, industrial output decreased by 1.6% year-on-year between January and November. Business confidence indicators remained low, especially within industry. The business cycle indicator for the construction industry strengthened towards the end of the year.

Private consumption has shown fairly steady growth in light of the weak economic development. Households' income will grow very moderately over the coming years, which means that no major boost can be expected from the domestic markets. Consumer confidence in the Finnish economy weakened as of the autumn. The rise in unemployment seemed to have halted in the second half of the year, but in December unemployment increased year-on-year. There is no sign of a rapid improvement in the employment rate.

The rate at which public finances are weakening has been alarming. Tight fiscal policy required by the balancing act and austerity measures will hamper growth in the short-term. Getting public finances in balance is, however, necessary in order to secure longer-term conditions for growth.

Varma prepares for pension reform together with customers

The bills on pension reform were passed by parliament in autumn 2015. The purpose of the pension reform is to lengthen careers and to strengthen statutory earnings-related pension cover. Varma is preparing for the future changes together with its customers. Changing pension legislation increases the need for information among customers. Varma aims to handle its task – securing pensions and implementing the changes that the pension reform entails – as efficiently and effectively as possible.

The pension reform will bring about changes to both pension benefits and pension financing. The age limits for old-age pension will gradually rise by two years, and thereafter will be linked to life expectancy. There will be changes to how pension accrues, and pension contributions will no longer be deducted when determining the pensionable salary. Instead of the former accelerated accrual, employees will be encouraged to extend their work careers through an increase for deferred retirement and a reduction for early retirement. The current part-time pension system will be abolished. New pension types as of 2017 will be partial early old-age pension, and a years-of-service pension for those who have been performing strenuous and wearing work for a long time.

It is estimated that the pension reform has stabilised pension contributions at the current level. The equity-linked share of the return requirement on technical provisions will be gradually raised to 20% as of the beginning of 2017. This is a buffer jointly maintained by earnings-related pension companies to bear some of the risks resulting from the fluctuations in equity income. The decision will improve the opportunities for long-term risk-taking and thus support the financing of pensions and keeping pension contributions at a reasonable level.

The significance of employment is highlighted in the partly fund-based pension system. This makes it important to promote the achievement of the pension reform goals in the workplace. The goal of extending careers does not always necessarily coincide at workplaces and in people's lives when the economy is suffering and structural changes are shaking the business sector. We support our client companies and the insured in the midst of these changes: Varma is a strong expert in vocational rehabilitation and workability management.

Pension contributions and return requirement on technical provisions

In 2015, the average TyEL contribution was 24.0 (23.6)% of the salaries or wages. Employees below the age of 53 contributed 5.70 (5.55)% of their pay, while the rate for employees aged 53 and over was 7.20 (7.05)%. The YEL contribution was 23.7 (23.3)% of the confirmed earnings for those below the age of 53, and 25.2 (24.8)% for those aged 53 and over.

The return requirement on technical provisions consisted of a 3.0% fund rate, a pension liability supplementary factor and the return on equity component. The value of the supplementary factor was 2.0% on average in 2015. The return on equity component in 2015 was 12.3%. 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 5.50 until the end of June and 5.75 thereafter. As of the beginning of 2016, an insurance contribution interest rate, which is 2% at the moment, will be used instead of the technical rate of interest in the calculation of the insurance contributions.

Varma's financial trends

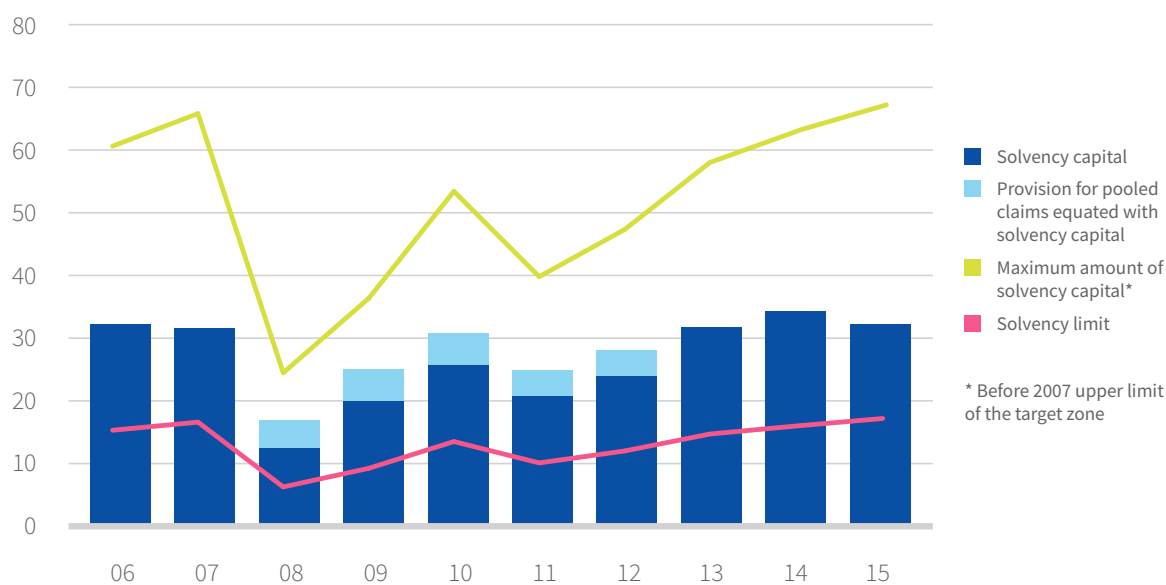
Varma's total result at fair value stood at EUR -164 (1,223) million. The total quarterly result varied during the financial year, such that the first-quarter result was the strongest and the third-quarter result the weakest.

Varma's solvency weakened during 2015 by EUR 296 million, and at the end of the year, solvency capital amounted to EUR 9,956 (10,252) million. Varma's solvency ratio, i.e. solvency capital in relation to technical provisions, was at 31.4 (34.0)%.

Solvency capital was at a strong level: 1.9 (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 2006–2015

% of technical provisions



The return on investments at fair value was EUR 1,679 (2,699) million, which represents 4.2 (7.1)% of the invested capital. The interest credited on the technical provisions was EUR 1,902 (1,573) million. Thus, the investment result for 2015 totalled EUR -223 (1,125) million. Operating expenses were 26 (25)% lower than the expense loading included in insurance contributions, and the loading profit stood at EUR 36 (33) million. The underwriting result was EUR 23 (64) million.

At the end of 2015, EUR 115 (117) million was transferred to the provision for current bonuses reserved for client bonuses. The transfer represents roughly 0.6 (0.7)% of the estimated payroll of the insured.

The TyEL payroll of those insured by Varma totalled about EUR 18.4 (17.8) billion in 2015. The payroll is estimated to have grown by 3.0%. Varma's premiums written totalled EUR 4,576 (4,344), of which TyEL insurance accounted for EUR 4,380 (4,150) million and YEL insurance for EUR 196 (193) million.

At the end of the year, 524,340 (527,140) individuals were insured by Varma. At year-end, the number of valid insurance policies totalled 64,530 (66,140), covering 37,380 (38,937) self-employed persons and 486,960 (488,190) employees.

During the year, a total of 2,732 (3,443) new TyEL insurance policies and 4,330 (4,875) YEL insurance policies came into force at Varma. Varma did well in the TyEL portfolio transfers for the second consecutive year. According to the TyEL client transfer statistics of the Finnish Pension Alliance TELA, Varma's net result was the best in the sector, at EUR 52 million (EUR 55 million in 2014). This success will promote a positive trend in premium income.

Earnings and employment notifications received during the year totalled 1,744,332 (1,631,284), of which 95 (93)% 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 2015, a total gross amount of EUR 5,183 (5,010) million in pensions was paid out. The number of pension recipients increased, and at year-end, Varma was paying TyEL and YEL pensions to 337,100 (334,500) people.

A total of 23,111 (21,056) new pension decisions were made during the year. The number of new pension decisions increased 9.7 percent and the total number of all pension decisions was 9.0% higher than in 2014. Old-age pension decisions numbered 13,175 (11,539), and disability pension decisions amounted to 5,649 (5,107). The number of part-time pension decisions stood at 694 (711). Continuation decisions on temporary pensions totalled 4,161 (4,631), and other decisions numbered 16,832 (14,771). These include decisions and preliminary decisions required as a consequence of the changes in pension rights. Pension applications made online accounted for 39 (33)% of all new pension applications.

During the year, the implementation of the new pension application processing system was completed, and the new system is in full use now. It will speed up the processing of pension applications and facilitate the automatisisation of the different stages of the process in the future.

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 73% 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 2015 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 2015	31 Dec 2014	Change
Number of insured			
TyEL ¹	486,960	488,190	-1,230
YEL	37,380	38,937	-1,557
Total	524,340	527,127	-2,787
¹ of which covered by TEL registered supplementary pension insurance	3,867	4,390	-523
Number of insurance policies			
TyEL	27,150	27,223	-73
Number of pensioners			
Part-time pension	1,765	2,567	-802
Survivors' pension	51,156	51,205	-49
Disability pension	28,545	30,671	-2,126
Old-age pension	241,084	235,002	6,082
Early old-age pension	14,556	15,052	-496
Total ²	337,106	334,497	2,609
² Those receiving YEL pension	28,674	28,889	-215
Those receiving TEL/YEL supplementary pension	43,643	43,493	150

Varma's eServices has become a major means of providing services. During the year under review, 74% of all private customer contacts took place online. There was a clear increase in the use of eServices, which require identification. Through Varma's online services, the insured can obtain the most recent estimate of their old-age and part-time pensions at various retirement ages; 94% of these estimates were carried out online. You can also apply for pension and follow the progress of the application online.

Varma sends a pension record to the insured once every three years. A total of 208,327 (226,093) pension records were sent out in 2015. 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 decreased 0.6 (increased 2.1)% to EUR 31,866 (32,070) million. They contain a provision of EUR 115 (117) million for current bonuses reserved for client bonuses, a provision of EUR -1,083 (753) million for future bonuses contained in the solvency capital, and EUR 1,402 (1,007) 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 1,203 (1,180) million.

At the end of the year, the assets covering the technical provisions were 131 (126)% of the technical provisions.

Changes in insurance portfolio

At the end of the financial year, the pension liabilities of the pension fund Yrittäjien Eläkekassa Oma, and the EUR 70 million in assets covering those liabilities were transferred to Varma. Of that amount, solvency capital totalled EUR 16 million. The pension fund was in liquidation, and pension institutions paid EUR 22 million to supplement its solvency capital, of which Varma's share was EUR 8 million.

At the end of the financial year Varma transferred a part of its insurance portfolio to a newly established pension fund. The transferred pension liabilities totalled EUR 33 million, of which solvency capital accounted for EUR 8 million.

The changes in the insurance portfolio had no significant impact on Varma's solvency, technical provisions or investable assets.

Investments

The return on Varma's investments was 4.2 (7.1)%. The value of Varma's investments grew to EUR 41.3 (40.0) billion.

Exceptionally large movements were experienced in the capital markets in both equities and fixed income investments in 2015. These movements were stimulated by the central banks' monetary policy measures and concerns over the state of Greece's economy and the sustainability of China's economic growth. Broad diversification of investments muted the risks caused by strong market movements, and returns were largely generated by equities.

The average ten-year nominal return on Varma's investments was 4.8% and the five-year return 5.1%. The real returns were 3.0 and 3.6% respectively.

Varma's result developed strongly early in the year, but fluctuated from the spring onwards. Market uncertainty was exacerbated by, in addition to the economic problems in Greece and China, expectations of interest hikes by the US central bank and the steep decline in the prices of energy and other commodities.

Equities generated the strongest return, and Finnish equities in particular performed strongly. Real estate and other investments also generated reasonable returns. The return on fixed-income investments remained slightly negative.

Varma's investment activities focused on maintaining the company's strong solvency and broad diversification of investments, with a strong emphasis on risk management. In its investment risk management, the company used derivatives for hedging purposes and to control the risk level of the portfolio.

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 2015, the value of Varma's investments totalled EUR 41,293 (40,039) million and the return at fair value was EUR 1,679 (2,699) million or 4.2 (7.1)%. 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.

Fixed-income investments

Varma's fixed income investments stood at EUR 12,268 (12,845) million at the balance sheet date and were distributed as follows:

- loan receivables EUR 1,361 (1,571) million
- public-sector bonds EUR 2,653 (4,312) million
- other corporate bonds EUR 6,105 (6,282) million
- other money-market instruments EUR 2,151 (680) million,
- the impact of derivatives, EUR -336 (-81) million, is presented separately.

The return on fixed-income investments was -0.4 (5.8)%. The return on the loan portfolio was 2.4 (2.6), on public-sector bonds -2.5 (7.4), on other corporate bonds 0.4 (6.9) and on other money-market instruments 0.5 (0.5)%.

Fixed income investments consisted mainly of government and corporate bonds, money-market instruments and loans which include pension loans to Varma's customers.

The fixed income market experienced a significant correction in the area of eurozone government bonds. The ECB's expanded public sector bond purchase programme that was launched in March pushed long-term interest rates in the eurozone to a record low. The interest rate levels of bonds with a shorter maturity fell clearly into negative territory. The strong correction in interest rates starting in late April caused one of the fastest downward spirals in the price of eurozone interest-bearing securities in their history. Towards the end of the year, interest rates started to decline again, but the expected interest hike by the US central bank caused fluctuation in the fixed-income market.

Corporate bond markets were weighed down by concerns over China's economic growth and the steep decline in energy prices, which influenced especially American corporate bonds with a lower credit rating. The fairly long-standing decline in emerging countries' currencies also in part depressed the returns on emerging market bonds.

The return on government bonds was -2.5 (7.4)% and on corporate bonds 0.4 (6.9)%. The duration of the loan portfolio was kept fairly short, at around 2.3 years, which dampened the impact of the interest rate movements on the result.

The return on loan receivables, 2.4 (2.6)%, was strong in the low interest-rate environment. The amount of TyEL loans continued to decline during 2015.

The return on money-market investments was good in relation to the prevailing short-term interest rate level, standing at 0.5 (0.5)%.

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

At the balance sheet date, the value of Varma's equity investments was EUR 18,465 (16,333) million and they were distributed as follows:

- investment in listed equities EUR 14,938 (12,879) million,
- private equities EUR 2,617 (2,451) million, and
- unlisted equities 909 (1,004) million.

The return on equities totalled 8.8 (9.1)%, of which listed equities yielded 8.0 (7.4)%, private equities 7.8 (13.5)%, and unlisted equities 21.2 (19.7)%.

Share prices rose sharply in the first quarter, especially in Europe, when the European central bank launched its massive stimulus measures. Over the course of the spring, the equity markets were negatively influenced by concern over Greece's ability to pay off its maturing loans. Equity markets hit bottom in the autumn, as fears over the sustainability of China's economic growth spread to the global equity markets. At the end of the year, the equity markets again recovered as the economic indicators in the US improved and the ECB signalled its commitment to further stimulus measures.

Despite the strong market fluctuations, the return on listed equities was good, at 8.0%. Finnish equities yielded the best return, at 19.4%.

Finnish equities accounted for 37.6% of Varma's listed equities. 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 bonds.

On the other hand, US equities yielded a low return and emerging market equities a clearly negative return. Concerns over China's economic growth and the strong decline in energy prices depressed share prices in many emerging countries.

Real estate investments

Real-estate investments stood at EUR 3,906 (3,841) million at the balance sheet date, with direct real estate investments accounting for EUR 3,313 (3,375) and real estate investment funds for EUR 593 (466) million of the total. The return on real estate investments was 3.3 (3.8)%. Direct real-estate investments yielded a return of 2.3 (3.2)% and real-estate investment funds 9.9 (8.0)%.

Varma continued to increase the international diversification of its real estate investments in 2015. New investment commitments in international real-estate funds totalled EUR 365 million. The biggest single investment was the acquisition of a share in the Skärholmen Centrum shopping centre in Stockholm, Sweden. At year-end, the value of Varma's international and Finnish real estate fund investments amounted to EUR 593 (466) million and the return was 9.9 (8.0)%.

The weighting of domestic, directly-owned real estate investments was slightly decreased. In 2015, Varma divested a total of EUR 28 million in direct real estate investments. The weighting of equity-type domestic real-estate investments was reduced over the year as Varma divested half of its holding in Certum Oy and its entire holding in SATO Corporation for a grand total of EUR 336 million.

In 2015, the value of transactions in the Finnish real estate market increased by more than 30% from 2014, 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 stood at 7.2%.

Investments in 2015 totalled EUR 73 million, and they were focussed on development, maintenance construction and renovations of existing properties, and housing construction. At the end of 2015, Varma had a total of 130 new rental flats under construction in the Helsinki Metropolitan area. Several other housing construction and development projects are also under planning. In Finland, investments are focussed on the Helsinki Metropolitan area and the largest growth centres.

In 2015, the impact of fair valuation of real estate under Varma's direct ownership totalled EUR -88 (-76) million. The fair value of the real estate owned directly by Varma stood at EUR 3,313 (3,375) million at year-end. The return on direct real estate investments was 2.3 (3.2)%. The value of and total return on the portfolio were influenced by fair valuations, the divestment of properties and investments carried out.

Other investments

Other investments amounted to EUR 6,991 (7,100) million. They consisted of hedge funds EUR 6,663 (6,717) million, commodities EUR 352 (370) million, and other investments EUR -24 (13) million. The return on other investments was 3.5 (8.4)%.

The return on hedge fund investments was 3.9 (7.8)%. Hedge fund investments yielded a consistent return and effectively diversified the risk caused by market fluctuations in equity and fixed income investments. The strengthening of the dollar contributed to the good return. Within the portfolio, market-neutral strategies yielded the strongest returns. The environment for opportunistic strategies was more challenging, influenced especially by increasing risk awareness in the US at the end of the year. The return on Varma's hedge investments has been very good over a long period, and volatility has been very low.

The return on commodities remained negative due to the long-standing decline in the commodities market. Energy and metal prices especially declined towards the end of the year to a remarkably low level.

Total portfolio risk

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 1,842 (1,492) 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%.

Varma's share ownership policy

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 2015, 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 74 (75)% 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.

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 145 (142) million.

Varma is actively involved in the development and 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.

	2015	2014	2013	2012	2011
Average number of personnel	549	552	565	572	588
Salaries and remunerations, EUR million	39.6	40.1	37.9	37.0	39.5

Tieto Esys, which is included in the Consolidated Financial Statements using the equity method, had an average of 81 employees in 2015.

At year-end, Varma's personnel were distributed as follows: pension insurance and customer service departments 56%, investment operations 13%, and other functions 31%.

Group companies and associates

At the end of 2015, the Varma Group comprised 186 (186) subsidiaries and 20 (24) associates. The most important subsidiaries and associates are Tieto Esys Ltd (50.1%), Technopolis Plc (23.9%) and NV Kiinteistösi joitus Oy (45.0%). The Varma Group also owns 50% of the guarantee capital of Kaleva Mutual Insurance Company. Most of the subsidiaries and associate companies are real estate companies.

Governance

At Varma's Annual General Meeting, policyholders have about 78%, the insured about 20%, and the Sampo Group (the owner of the guarantee capital) about 2% of the votes.

Varma's Annual General Meeting was held on 19 March 2015. 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 2014. In addition, Jarmo Hyvärinen, Kari Jordan (Chairman), Erkki Järvinen, Hannu Kottonen (resigned 20 January 2016), Päivi Leiwo and Christoph Vitzthum were elected as new members of the Supervisory Board.

Martti Alakoski (Deputy Chairman), Satu Wrede (Deputy Chairman), Juri Aaltonen, Petri Castrén, Erkki Etola, Stig Gustavson, Tauno Heinola, Tapio Korpeinen, Päivi Kärkkäinen, Olli Luukkainen, Ilkka Nokelainen, Lauri Peltola, Juhani Pitkäkoski, Matti Rihko, Pertti Saarela, Mika Seitovirta (resigned 24 November 2015), Saana Siekkinen, Leena Vainiomäki, Jorma Vehviläinen, Kari Virta (resigned 6 May 2015), Anssi Vuorio and Göran Åberg continued as Supervisory Board members.

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 2015, Varma's Board of Directors was composed of Berndt Brunow (Chairman), Jari Paasikivi (Deputy Chairman), Antti Palola (Deputy Chairman), Riku Aalto, Mikael Aro, Johanna Ikäheimo, Ari Kaperi, Jyri Luomakoski, Petri Niemisvirta, Ilkka Oksala, Kai Telanne and Veli-Matti Töyrylä, and deputy members Arto Kuusiola (until 11 March 2015), Eija Hietanen (as of 12 March 2015), Mikko Ketonen and Liisa Leino.

In its meeting on 2 December 2015, the Supervisory Board re-elected to the Board of Directors the following members, whose terms were expiring: Mikael Aro, Ari Kaperi, Ilkka Oksala and Antti Palola.

At its organising meeting on 21 January 2016, 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 are also public.

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% 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 reached by the major labour market organisations on the contents of the pension reform in 2017 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 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 appears to be 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.

Responsibility

In autumn 2015 we drew up a new corporate responsibility programme. It is based on an extensive survey that aimed to determine the areas of responsibility Varma's stakeholders consider important for an earnings-related pension company. A total of 1,168 respondents participated in the online survey. The feedback provided by the stakeholders was used to define a vision, targets and indicators for Varma's responsibility work. In future, responsibility issues will be reported using the GRI guidelines.

Outlook

We expect the uncertainty in the economic operating environment to continue. We can expect to see volatility in the capital markets also during the economic year 2016, as the first weeks of the year have shown. The central banks' measures are now at different phases of the cycle. The U.S. central bank, the Fed, continues to normalise its monetary policy as the economy recovers. The European Central Bank is committed to pursue an accommodative monetary policy, which promotes the eurozone's recovery.

Provided that economic growth in Europe continues as anticipated, investments can be expected to increase. This should finally boost the recovery of Finnish exports. As a small economy, Finland is strongly dependent on global trade volumes, and a pick-up in exports is presumed to boost economic growth. At the same time, the competitiveness of Finland's export prices is weak, as there has been little flexibility in cost levels. Society in general has a shared understanding of the nature and scale of the problems, but reaching decisions that improve cost competitiveness has proven difficult. From the perspective of securing earnings-related pensions, improving competitiveness and achieving higher employment rates is crucial.

Interest rates can be expected to remain at a low level for a long time. The environment of low real interest rates is challenging in terms of financing pensions. As sudden and strong movements can be expected in the markets, competent risk management promotes the profitable and secure investment of pension assets. In a volatile market situation, strong solvency is a major benefit for a pension investor.

Income statement

1 Jan–31 Dec, € million	Notes	Parent Company 2015	Parent Company 2014	Group 2015	Group 2014
Technical account					
Premiums written	1	4,576.4	4,343.6	4,576.4	4,343.6
Investment income	3	6,210.7	4,782.1	6,067.7	4,633.7
Claims incurred					
Claims paid	2	-4,874.9	-4,701.5	-4,874.9	-4,701.5
Total change in provision for claims outstanding		-976.1	-737.9	-976.1	-737.9
Portfolio transfers		8.0	0.0	8.0	0.0
		-5,842.9	-5,439.4	-5,842.9	-5,439.4
Change in provision for unearned premiums					
Total change		1,180.1	67.4	1,180.1	67.4
Portfolio transfers		27.9	0.0	27.9	0.0
		1,208.0	67.4	1,208.0	67.4
Operating expenses	4	-81.3	-77.9	-81.3	-77.9
Investment expenses	3	-6,055.9	-3,663.1	-6,046.2	-3,644.8
Balance on technical account		15.1	12.7	-118.2	-117.4
Non-technical account					
Balance on technical account		15.1	12.7	-118.2	-117.4
Share of associated companies' profit				-1.2	22.2
Income taxes on ordinary activities					
Taxes for the financial year		-8.0	-6.8	-8.0	-6.8
Profit/loss on ordinary activities after taxes		7.1	5.9	-127.4	-102.0
Minority interest in the result for the financial year				0.0	0.0
Profit/loss for the financial year		7.1	5.9	-127.4	-102.0

Balance sheet

31 Dec, € million	Notes	Parent Company 2015	Parent Company 2014	Group 2015	Group 2014
ASSETS					
Intangible assets					
Other expenses with long-term effects	17	7.8	14.6	7.8	14.6
Investments					
Real estate					
Real estate and real estate shares	14	1,806.0	1,853.6	2,508.3	2,579.8
Loans to Group companies	14	807.6	822.5		
		2,613.7	2,676.1	2,508.3	2,579.8
Investments in Group companies					
Shares and participations in Group companies	12	13	4.3	0.5	0.8
Shares and participations in associates	12	13	90.7	84.9	477.2
			94.9	85.4	478.0
Other investments					
Shares and participations	16	19,246.5	18,204.5	19,262.6	18,220.6
Money-market instruments		6,532.3	8,092.6	6,532.3	8,092.6
Loans guaranteed by mortgages		314.9	309.6	314.9	309.6
Other loan receivables	18	1,068.8	1,210.9	1,068.8	1,210.9
		27,162.4	27,817.5	27,178.5	27,833.7
		29,871.0	30,850.0	29,772.2	30,891.5
Receivables					
Direct insurance operations					
Policyholders		213.0	156.5	213.0	156.5
Other receivables					
Other receivables		622.8	806.3	624.9	1,083.2
		835.8	962.8	837.9	1,239.8
Other assets					
Tangible assets					
Equipment	17	2.2	2.3	2.2	2.3
Other tangible assets	17	0.9	0.9	0.9	0.9
		3.1	3.2	3.1	3.2
Cash at bank and in hand		1,827.3	677.3	1,827.6	402.0
		1,830.3	680.5	1,830.7	405.2
Prepayments and accrued income					
Accrued interest and rent		81.9	111.0	84.3	112.1
Other prepayments and accrued income		8.9	8.6	8.9	8.7
		90.8	119.6	93.2	120.7
TOTAL ASSETS		32,635.7	32,627.5	32,541.7	32,671.8

Balance sheet

31 Dec, € million	Notes	Parent Company 2015	Parent Company 2014	Group 2015	Group 2014
LIABILITIES					
Capital and reserves					
Guarantee capital		11.9	11.9	11.9	11.9
Other reserves		94.1	89.0	94.1	89.0
Profit/loss brought forward		0.4	0.4	42.9	149.3
Profit/loss for the financial year		7.1	5.9	-127.4	-102.0
	26	113.6	107.2	21.6	148.2
Minority interest					
				14.0	14.5
Technical provisions					
Provision for unearned premiums	23	15,780.5	16,960.6	15,780.5	16,960.6
Provision for claims outstanding	23	16,085.1	15,109.0	16,085.1	15,109.0
		31,865.6	32,069.7	31,865.6	32,069.7
Liabilities					
Direct insurance operations		14.2	7.7	14.2	7.7
Other liabilities		585.5	403.6	569.4	392.2
		599.8	411.3	583.6	399.9
Accruals and deferred income					
		56.8	39.3	56.9	39.6
TOTAL LIABILITIES		32,635.7	32,627.5	32,541.7	32,671.8

Statement of source and application of funds

1 Jan–31 Dec, € million	Parent Company 2015	Parent Company 2014	Group 2015	Group 2014
Cash flow from operations				
Profit/loss on ordinary activities	15.1	12.7	-118.2	-117.4
Adjustments				
Changes in technical provisions	-204.1	670.5	-204.1	670.5
Impairments and revaluations on investments	542.5	390.3	487.3	368.0
Depreciation according to plan	22.0	26.2	132.2	109.6
Capital gain and loss	-1,533.1	-1,764.2	-1,409.1	-1,740.6
Cash flow before change in working capital	-1,157.5	-664.5	-1,111.9	-709.9
Change in working capital:				
Increase (-) / decrease (+) in non-interest-bearing short-term receivables	155.8	-344.9	429.4	-605.9
Increase (-) / decrease (+) in non-interest-bearing short-term debts	206.0	100.3	201.1	93.2
Cash flow from operations before taxes	-795.7	-909.1	-481.4	-1,222.6
Direct taxes paid	-8.0	-6.8	-8.0	-6.8
Cash flow from operations	-803.7	-915.8	-489.4	-1,229.4
Cash flow from investments				
Net investments and proceeds from asset sales	1,955.6	974.1	1,916.9	1,026.1
Investments and gains on intangible, tangible and other assets	-1.2	-0.4	-1.2	-0.4
Cash flow from investments	1,954.4	973.7	1,915.7	1,025.6
Cash flow from financing				
Interest paid on guarantee capital and other profit distribution	-0.7	-0.7	-0.7	-0.7
Cash flow from financing	-0.7	-0.7	-0.7	-0.7
Change in financial resources	1,150.0	57.2	1,425.6	-204.5
Financial resources, 1 Jan	677.3	620.1	402.0	606.5
Financial resources, 31 Dec	1,827.3	677.3	1,827.6	402.0

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 186 (184) 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 per cent shareholding but holds over 50 per cent 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. Minority interest in the profit and loss and in capital and reserves are recognised as a separate item.

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 Statements 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 has been 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 insurance. 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 2015

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

Asunto Oy Espoon Niittysillankulma 2 E-F
 Kiinteistö Oy Espoon Riihitonttu
 Kiinteistö Oy Varkauden Kauppakatu 47

The following 183 companies are included as subsidiaries in Varma's consolidated financial statements:

As Oy Kuokkalan Tahkonkartano	Asunto Oy Lahden Massinpoiju
As Oy Lahden Vilhon Vaakuna	Asunto Oy Merihauki
As. Oy Espoon Amiraali	Asunto Oy Neilikkatie
As. Oy Espoon Kyyhkysmäki 14	Asunto Oy Oulun Lehmuskuja
As. Oy Näkinkuja 4	Asunto Oy Paratiisintie
Asunto Oy Espoon Keijumäki	Asunto Oy Siltavoudintie 1
Asunto Oy Espoon Kilonlemmikki	Asunto Oy Tampereen Jankansampo
Asunto Oy Espoon Lintuvaarantie 37-39	Asunto Oy Tampereen Kultaköynnös
Asunto Oy Espoon Pyölinpuisto	Asunto Oy Tampereen Nahkakuja 13
Asunto Oy Haukikoto	Asunto Oy Tampereen Nahkakuja 9
Asunto Oy Helsingin Arabiankatu 4	Asunto Oy Tampereen Näsijärvenkatu 3
Asunto Oy Helsingin Arabiankatu 8	Asunto Oy Tampereen Palatsinraitti 1
Asunto Oy Helsingin Haukilahdenkuja 13	Asunto Oy Tampereen Puuvillatehtaankatu 6
Asunto Oy Helsingin Hiihtäjätien Huippu	Asunto Oy Tampereen Satakunnankatu 22
Asunto Oy Helsingin Hiihtäjätien Kaarre	Asunto Oy Tampereen Vihilahdenkontu
Asunto Oy Helsingin Hiihtäjätien Laakso	Asunto Oy Tervahovinkatu 12
Asunto Oy Helsingin Kimmontie 3	Asunto Oy Turun Itäinen Rantakatu 64
Asunto Oy Helsingin Klaneettitie	Asunto Oy Turun Itäinen Rantakatu 70
Asunto Oy Helsingin Näyttelijäntie 22	Asunto Oy Turun Laivurinkatu 2
Asunto Oy Helsingin Päijänteentie 4-6	Asunto Oy Turun Vilhonkatu 15
Asunto Oy Helsingin Roihuvuorentie 20	Asunto Oy Vantaan Käräjäkuja 1
Asunto Oy Helsingin Roihuvuorentie 30	Asunto Oy Vantaan Vernissakatu 5
Asunto Oy Helsingin Tyynenmerenkatu 5	Helsingin Kiinteistösijoitus Oy
Asunto Oy Jyväskylän Kiramo 4	Kiint. Oy Helsingin Tapulikaupungintie 13
Asunto Oy Järvenpään Bjarnenkuja 6	Kiint. Oy Jyväskylän maalaiskunnan Kotikeskus
Asunto Oy Kokkovuori	Kiinteistö Oy Ahertajantie 3
Asunto Oy Korkeavuorenkatu 2 a	Kiinteistö Oy Arabian Parkki
Asunto Oy Lahden Kulmakatu 10	Kiinteistö Oy Aspius
Asunto Oy Lahden Kulmakatu 12	Kiinteistö Oy Atomitalo
Asunto Oy Lahden Lahdenkatu 39	Kiinteistö Oy Avia Prima
Asunto Oy Lahden Massinhovi	Kiinteistö Oy Eerikinkatu 24

The following 183 companies are included as subsidiaries in Varma's consolidated financial statements:

Kiinteistö Oy Elocinkulma 3	Kiinteistö Oy Kaakkurinkulman Kauppakeskus
Kiinteistö Oy Espoon Kamreerintie 2	Kiinteistö Oy Kaikukatu 7
Kiinteistö Oy Espoon Komentajan-Varma	Kiinteistö Oy Keskustahotelli
Kiinteistö Oy Espoon Niittyhaka	Kiinteistö Oy Koroppa
Kiinteistö Oy Fredrikinkatu 42	Kiinteistö Oy Koskikastanja
Kiinteistö Oy Gigahermia	Kiinteistö Oy Kotkan Jumalniementie 2
Kiinteistö Oy Haunistenniitty	Kiinteistö Oy Kotkan Jumalniementie 8
Kiinteistö Oy Heinolan Hevossaarentie 2	Kiinteistö Oy Kouvolan Lehtikaari 3
Kiinteistö Oy Helsingin Hiilipiha	Kiinteistö Oy Kuntotalo
Kiinteistö Oy Helsingin Hiiliranta	Kiinteistö Oy Kuopion Lukkosalmenportti
Kiinteistö Oy Helsingin Itämerenkatu 11–13	Kiinteistö Oy Kuusankosken Puhjonrinne
Kiinteistö Oy Helsingin Lemuntie 7	Kiinteistö Oy Lahden Tupalankatu 3
Kiinteistö Oy Helsingin Lönnrotinkatu 18	Kiinteistö Oy Lahden Virastotalo
Kiinteistö Oy Helsingin Malminkatu 28	Kiinteistö Oy Lappeenrannan Kodinkeskus
Kiinteistö Oy Helsingin Ratakarttinkatu 5	Kiinteistö Oy Lappeenrannan Korpikunnaankatu 1
Kiinteistö Oy Helsingin Suolakivenkatu 1	Kiinteistö Oy Lappeenrannan Patria
Kiinteistö Oy Helsingin Valimopolku 4	Kiinteistö Oy Lassilanlinna
Kiinteistö Oy Helsingin Valimotie 16	Kiinteistö Oy Lohjan Sampoalo
Kiinteistö Oy Helsingin Valimotie 9–11	Kiinteistö Oy Lohjanharjun kauppapuisto 1
Kiinteistö Oy Helsinki Niittylänpolku 10	Kiinteistö Oy Lohjanharjun kauppapuisto 2
Kiinteistö Oy Hotelli Levihoivi	Kiinteistö Oy Lohjanharjun Kauppapuisto 3a
Kiinteistö Oy Hotelli Torini	Kiinteistö Oy Lohjanharjun kauppapuisto 4
Kiinteistö Oy Hyvinkään Hämeenkatu 9	Kiinteistö Oy Lohjanharjun kauppapuisto 5
Kiinteistö Oy Hämeentie 135	Kiinteistö Oy Lönnrotinkatu 12
Kiinteistö Oy Ilmailunkatu 7	Kiinteistö Oy Lönnrotinkatu 12 A
Kiinteistö Oy Itäinen Rantakatu 60	Kiinteistö Oy Lönnrotinkatu 13
Kiinteistö Oy Itälahdenkatu 15–17	Kiinteistö Oy Mannerheimintien Pysäköintilaitos
Kiinteistö Oy Itälahdenkatu 22 A	Kiinteistö Oy Menotie 1
Kiinteistö Oy Joensuun Linjatie 2	Kiinteistö Oy Metsäpojanukuja 1
Kiinteistö Oy Joensuun Pilkontie 3	Kiinteistö Oy Nihtitorpanukuja 4
Kiinteistö Oy John Stenberginranta 2	Kiinteistö Oy Nokian Nuijamiestentie 5
Kiinteistö Oy Juhana Herttua 3	Kiinteistö Oy Oulun Aurora
Kiinteistö Oy Jyväskylän Kylmälahdentie 6	Kiinteistö Oy Oulun Tyrnäväntie 6
Kiinteistö Oy Jyväskylän Mattilanniemi	Kiinteistö Oy Oulun Uusikatu 72
Kiinteistö Oy Jyväskylän Saarijärventie 50–52	Kiinteistö Oy Palokanvarma
Kiinteistö Oy Jyväskylän Sorastajantie 1	Kiinteistö Oy Partolan Kauppajätti
Kiinteistö Oy Jyväskylän Tourulantie 13	Kiinteistö Oy Pharma City
Kiinteistö Oy Kaakkurinhovi	Kiinteistö Oy Pirkkalan Myllyhaantie

The following 183 companies are included as subsidiaries in Varma's consolidated financial statements:

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 Triko
 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 Teräsrautelanrinne
 Kiinteistö Oy Tietotalo
 Kiinteistö Oy Tilkan Paletti
 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 3 real estate companies exited the Group during the year under review:

Asunto Oy Paatsamatie 3
 Kiinteistö Oy Oulunkyläntori 1
 Kiinteistö Oy Turun Aninkaistenkatu 13

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

Asunto Oy Paatsamatie 3

In addition, the Group comprises the following 20 associates:

Aros Bostad III AB
 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
 Spektri Business Oy
 Spektri-Park Oy

**In addition, the Group comprises
the following 20 associates:**

Technopolis Plc

Vaasan Toripysäköinti Oy

WT Kiinteistösijoitus Oy

**The following 4 associates exited from
the Group during the year under review:**

Certeum Oy

Finnprotein Oy (in bankruptcy)

SATO Corporation

Garantia Insurance Company Ltd

Notes to the income statement

1. Premiums written

1 Jan–31 Dec, € million	Parent Company 2015	Parent Company 2014	Group 2015	Group 2014
Direct business				
Basic insurance under TyEL				
Employer's share	3,266.0	3,112.0	3,266.0	3,112.0
Employee's share	1,110.1	1,033.2	1,110.1	1,033.2
	4,376.2	4,145.3	4,376.2	4,145.3
Supplementary pension insurance under TEL	4.4	5.1	4.4	5.1
Insurance under minimum YEL cover	195.9	193.2	195.9	193.2
	4,576.5	4,343.6	4,576.5	4,343.6
Reinsurance	0.0	0.0	0.0	0.0
Premiums written before reinsurance	4,576.5	4,343.6	4,576.5	4,343.6
Reinsurance share	-0.1	-0.1	-0.1	-0.1
Premiums written ¹	4,576.4	4,343.6	4,576.4	4,343.6
Credit loss on premium receivables				
TyEL	15.2	15.3	15.2	15.3
YEL	2.0	2.1	2.0	2.1
	17.2	17.5	17.2	17.5

¹ Less credit loss

2. Claims paid

1 Jan–31 Dec, € million	Parent Company 2015	Parent Company 2014	Group 2015	Group 2014
Direct business				
Paid to pensioners				
Basic insurance under TyEL	4,826.1	4,657.2	4,826.1	4,657.2
Supplementary pension insurance under TEL	97.8	99.9	97.8	99.9
Insurance under minimum YEL cover	258.6	252.3	258.6	252.3
Supplementary pension insurance under YEL	0.7	0.7	0.7	0.7
	5,183.1	5,010.1	5,183.1	5,010.1
Clearing of PAYG pensions received ¹				
TyEL pensions	-33.2	-91.0	-33.2	-91.0
YEL pensions	-40.6	-42.6	-40.6	-42.6
Share of the Unemployment Insurance Fund contribution and cost distribution of pension components accrued on no-pay periods	-257.8	-202.1	-257.8	-202.1
YEL state share	-16.5	-13.3	-16.5	-13.3
VEKL state compensation	-0.4	-0.3	-0.4	-0.3
	-348.5	-349.3	-348.5	-349.3
Reinsurance	0.0	0.0	0.0	0.0
	4,834.6	4,660.8	4,834.6	4,660.8
Claims handling expenses	34.2	34.3	34.2	34.3
Workability maintenance expenses ²	6.1	6.5	6.1	6.5
Claims paid before reinsurance	4,874.9	4,701.6	4,874.9	4,701.6
Reinsurance share	-0.1	-0.1	-0.1	-0.1
Total claims paid	4,874.9	4,701.5	4,874.9	4,701.5

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 2015 the administrative cost components of Varma's premium income totalled EUR 78 million, 100 per cent of which were used for well-being-at-work projects as part of claims incurred. In 2015 the administrative cost components totalled EUR 5.6 million, and EUR 6.1 million were transferred to claims incurred.

3. Breakdown of net investment return

1 Jan–31 Dec, € million	Parent Company 2015	Parent Company 2014	Group 2015	Group 2014
Investment return				
Returns on investments in Group companies				
Dividend	0.5	0.5		
	0.5	0.5		
Returns on investments in associates				
Dividend	3.8	17.4		
	3.8	17.4		
Returns on investments in real estate				
Interest				
Group companies	38.3	41.2		
Other			0.6	0.6
Other returns	248.2	275.1	271.0	301.5
	286.5	316.4	271.5	302.1
Returns on other investments				
Dividend	473.2	409.0	473.3	409.1
Interest	308.3	329.6	308.3	329.6
Other returns	2,142.7	756.6	2,142.7	756.6
	2,924.2	1,495.2	2,924.3	1,495.4
	3,214.9	1,829.6	3,195.9	1,797.5
Reversed impairment	123.3	315.9	123.3	315.9
Sales proceeds	2,872.5	2,636.6	2,748.5	2,520.3
Total	6,210.7	4,782.1	6,067.7	4,633.7
Investment expenses				
On real estate	-152.4	-166.6	-84.8	-82.5
On other investments	-3,882.8	-1,898.7	-3,886.2	-1,903.5
Interest	-1.6	-1.2	-1.0	-1.2
	-4,036.8	-2,066.5	-3,972.0	-1,987.3
Impairment and depreciation				
Impairment	-665.8	-706.3	-610.6	-683.9
Planned depreciation on buildings	-13.9	-18.0	-124.1	-101.3
	-679.7	-724.2	-734.7	-785.2
Sales losses	-1,339.4	-872.4	-1,339.4	-872.4
Total	-6,055.9	-3,663.1	-6,046.2	-3,644.8
Net investment return in the income statement	154.8	1,119.0	21.6	988.9

4. Operating expenses in the income statement

1 Jan–31 Dec, € million	Parent Company 2015	Parent Company 2014	Group 2015	Group 2014
Insurance policy acquisition costs				
Direct business commissions	1.4	1.5	1.4	1.5
Other insurance policy acquisition costs	8.2	7.8	8.2	7.8
	9.6	9.2	9.6	9.2
Portfolio administration expenses	44.9	39.0	44.9	39.0
Administrative expenses				
Statutory charges				
Finnish Centre for Pensions' share	10.2	11.2	10.2	11.2
Judicial administration fee	1.0	1.1	1.0	1.1
Financial Supervisory Authority supervision fee	0.6	0.7	0.6	0.7
	11.8	13.0	11.8	13.0
Other administrative expenses	14.9	16.6	14.9	16.6
	81.3	77.9	81.3	77.9

5. Overall operating expenses by function

1 Jan–31 Dec, € million	Parent Company 2015	Parent Company 2014	Group 2015	Group 2014
Claims paid				
Claims handling expenses	34.2	34.3	34.2	34.3
Workability maintenance expenses	6.1	6.5	6.1	6.5
	40.3	40.8	40.3	40.8
Operating expenses	81.3	77.9	81.3	77.9
Investment management charges				
Expenses on real estate	3.5	5.1	3.5	5.1
Expenses on other investments	19.6	18.3	19.6	18.3
	23.1	23.4	23.1	23.4
Total operating expenses	144.6	142.0	144.6	142.0

6. Personnel expenses

1 Jan–31 Dec, € million	Parent Company 2015	Parent Company 2014	Group 2015	Group 2014
Salaries and remunerations	39.6	40.1	39.6	40.1
Pension expenses	6.8	7.0	6.8	7.0
Other personnel-related expenses	3.5	3.7	3.5	3.7
Total	50.0	50.8	50.0	50.8

7. Management salaries and remunerations

1 Jan–31 Dec, € million	Parent Company 2015	Parent Company 2014	Group 2015	Group 2014
President and CEO	0.8	0.7	0.8	0.7
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	1.4	1.2	1.4	1.2
Average number of personnel during the financial year	549	552	549	552

President and CEO Risto Murto was paid EUR 843,356 in salary and fringe benefits. Risto Murto's retirement age is 63 years and his pension will be 60 per cent of his calculated pensionable salary.

8. Auditors' fees

1 Jan–31 Dec, € million	Parent Company 2015	Parent Company 2014	Group 2015	Group 2014
KPMG Oy Ab				
Audit fees	0.2	0.2	0.2	0.2
Taxation advice	0.1	0.0	0.1	0.0
Other fees	0.0	0.0	0.0	0.0
Other audit firms				
Taxation advice	0.0	0.0	0.0	0.0

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

31 Dec, € million	Remaining acquisition cost 2015	Book value 2015	Fair value 2015	Remaining acquisition cost 2014	Book value 2014	Fair value 2014
Real estate investments						
Real estate	397.7	413.8	526.6	406.8	422.9	536.2
Shares in Group companies	1,377.0	1,377.0	1,978.8	1,404.8	1,404.8	2,000.3
Other real estate shares	15.2	15.2	16.5	25.9	25.9	30.3
Loans to Group companies	723.8	723.8	723.8	759.7	759.7	759.7
Loans to real estate companies	83.8	83.8	83.8	62.8	62.8	62.8
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	90.7	90.7	102.6	352.1	352.1	502.9
Other investments						
Shares and participations	19,246.5	19,246.5	27,763.3	18,204.5	18,204.5	25,126.5
Money-market instruments	6,532.3	6,532.3	7,020.7	8,092.6	8,092.6	8,884.3
Loans guaranteed by mortgages	314.9	314.9	314.9	309.6	309.6	309.6
Other loan receivables	1,068.8	1,068.8	1,070.3	1,210.9	1,210.9	1,213.2
	29,854.9	29,871.0	39,605.5	30,833.8	30,850.0	39,430.0
The remaining acquisition cost of money-market instruments includes:						
The difference between the nominal value and acquisition cost, released (+) or charged (-) to interest income	-40.6			-89.3		
Book value includes						
Revaluations entered as income		16.2			16.2	
Valuation difference (difference between fair value and book value)			9,734.5			8,227.8
Investments at fair value and valuation differences, derivatives, Parent Company						
Non-hedging derivatives		-146.0	-117.6		-90.1	-22.6
Valuation difference (difference between fair value and book value)			28.4			67.5

11. Investments at fair value and valuation differences, Group

31 Dec, € million	Remaining acquisition cost 2015	Book value 2015	Fair value 2015	Remaining acquisition cost 2014	Book value 2014	Fair value 2014
Real estate investments						
Real estate	2,476.9	2,493.1	3,295.0	2,537.8	2,554.0	3,341.2
Other real estate shares	15.2	15.2	16.5	25.9	25.9	30.3
Investments in Group companies						
Shares and participations	0.5	0.5	0.9	0.8	0.8	0.9
Investments in associates						
Shares and participations	84.9	84.9	102.6	477.2	477.2	502.9
Other investments						
Shares and participations	19,262.6	19,262.6	27,779.5	18,220.6	18,220.6	25,142.7
Money-market instruments	6,532.3	6,532.3	7,020.7	8,092.6	8,092.6	8,884.3
Loans guaranteed by mortgages	314.9	314.9	314.9	309.6	309.6	309.6
Other loan receivables	1,068.8	1,068.8	1,070.3	1,210.9	1,210.9	1,213.2
	29,756.0	29,772.2	39,600.4	30,875.4	30,891.5	39,425.0
The remaining acquisition cost of money-market instruments includes:						
The difference between the nominal value and acquisition cost, released (+) or charged (-) to interest income	-40.6			-89.3		
Book value includes						
Revaluations entered as income		16.2			16.2	
Valuation difference (difference between fair value and book value)			9,828.2			8,533.5
Investments at fair value and valuation differences, derivatives, Group						
Non-hedging derivatives		-146.0	-117.6		-90.1	-22.6
Valuation difference (difference between fair value and book value)			28.4			67.5

12. Investments in Group companies and associates, Parent Company

31 Dec 2015, € 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	352.1
Increase	0.0
Decrease	-261.4
Acquisition cost, 31 Dec	90.7

Shares and participations in Group companies

31 Dec 2015	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				1,377.0

Shares and participations in associates

31 Dec 2015	Domicile	Shares	Votes	Book value € million
Aros Bostad III AB	Stockholm	35.1 %	35.1 %	0.0
NV Kiinteistösi joitus Oy	Helsinki	45.0 %	45.0 %	0.0
Realia Holding Oy	Helsinki	20.6 %	20.6 %	7.7
Technopolis Plc	Oulu	23.9 %	23.9 %	83.0
VVT Kiinteistösi joitus Oy	Helsinki	40.0 %	40.0 %	0.0
				90.7
Housing associations and real estate companies				10.7

13. Investments in Group companies and associates, Group

31 Dec 2015, € million

Shares and participations in Group companies

Acquisition cost, 1 Jan	0.8
Increase	0.0
Decrease	-0.3

Acquisition cost, 31 Dec	0.5
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Shares and participations in associates

Acquisition cost, 1 Jan	477.2
Increase	0.0
Decrease	-392.3

Acquisition cost, 31 Dec	84.9
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Shares and participations in Group companies

31 Dec 2015	Domicile	Shares	Votes	Book value € million
Tieto Esy Ltd	Helsinki	14.4 %	50.1 %	0.5
				0.5

Shares and participations in associates

31 Dec 2015	Domicile	Shares	Votes	Book value € million
Aros Bostad III AB	Stockholm	35.1 %	35.1 %	0.0
NV Kiinteistösihtous Oy	Helsinki	45.0 %	45.0 %	0.0
Realia Holding Oy	Helsinki	20.6 %	20.6 %	4.2
Technopolis Plc	Oulu	23.9 %	23.9 %	80.6
VVT Kiinteistösihtous Oy	Helsinki	40.0 %	40.0 %	0.0
				84.9
Housing associations and real estate companies				21.8

14. Changes in investments in real estate

31 Dec 2015, € million	Parent Company Real estate and real estate shares	Parent Company Loans to Group companies	Group Real estate and real estate shares
Acquisition cost, 1 Jan	2,286.5	822.5	3,780.4
Increase	61.9	46.4	80.7
Decrease	-38.1	-61.2	-30.4
Acquisition cost, 31 Dec	2,310.4	807.6	3,830.7
Accumulated depreciation, 1 Jan	-187.3		-973.1
Accumulated depreciation from items sold	2.8		5.9
Depreciation for the financial year	-13.9		-81.8
Accumulated depreciation, 31 Dec	-198.4		-1,048.9
Impairments, 1 Jan	-261.8		-243.6
Impairments on items sold	0.7		-0.2
Impairments for the financial year	-61.1		-45.9
Reversed impairment	0.0		0.0
Impairments, 31 Dec	-322.1		-289.7
Revaluations, 1 Jan	16.2		16.2
Revaluations on items sold	0.0		0.0
Revaluations, 31 Dec	16.2		16.2
Book value, 31 Dec	1,806.0	807.6	2,508.3

15. Real estate investments in own use

31 Dec 2015, € million	Parent Company	Group
Remaining acquisition cost	74.5	74.5
Book value	74.5	74.5
Fair value	91.3	91.3

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

31 Dec 2015	Shares %	Book value € million	Market value € million
Listed equities			
<i>Finland</i>			
Affecto Plc	1.4	0.9	0.9
Ahlstrom Corporation	3.3	11.1	11.1
Aktia Bank Plc	1.8	6.7	12.2
Alma Media Corporation	6.5	15.9	15.9
Amer Sports Corporation	3.7	47.3	119.6
Aspo Plc	4.6	6.0	10.7
Atria Plc	1.9	4.7	4.7
CapMan Plc	4.2	3.7	3.7
Cargotec Corporation	2.3	36.9	52.3
Caverion Corporation	2.3	6.7	25.9
Componenta Corporation	8.9	5.8	5.8
Comptel Corporation	4.7	8.2	9.3
Consti Yhtiöt Oy	2.4	1.8	1.8
Cramo Plc	1.2	6.5	9.9
Detection Technology, Inc.	4.0	2.5	2.5
Digia Plc	4.6	4.2	6.8
Elisa Corporation	4.0	84.9	233.2
Etteplan Oyj	4.0	2.7	4.0
Finnair Plc	2.6	13.5	18.0
Finnlines Plc	0.1	0.7	0.9
Fiskars Corporation	3.0	24.9	46.3
Fortum Corporation	1.0	126.9	126.9
F-Secure Corporation	5.2	17.7	21.2
Glaston Corporation	6.6	6.3	6.3
HKScan Corporation	2.2	4.5	4.5
Huhtamaki Group	0.7	14.8	24.9
Kemira Oyj	5.3	89.1	89.1
Kesko Corporation	1.1	16.7	36.6
Konecranes Plc	1.9	21.5	27.4
KONE Corporation	1.2	142.3	237.3
Kotipizza Oyj	3.1	1.0	1.2
Lassila & Tikanoja Plc	0.9	3.9	6.3
Lemminkäinen Corporation	4.7	8.4	15.0

31 Dec 2015	Shares %	Book value € million	Market value € million
Marimekko Corporation	4.8	3.2	3.2
Metso Corporation	4.0	125.4	125.4
Metsä Board Corporation	4.9	41.1	118.0
Munksjö Oyj	1.6	3.2	7.4
Neste Corporation	1.2	42.3	85.4
Nixu Corporation	4.3	1.2	1.3
Nokian Tyres Plc	3.9	86.4	174.3
Nokia Corporation	2.0	372.8	533.6
Okmetic Oyj	2.8	1.6	3.4
Olvi Plc	4.0	17.6	18.2
Oriola-KD Corporation	4.2	12.9	32.2
Orion Corporation	0.7	20.3	22.8
Outokumpu Oyj	2.4	27.4	27.4
Outotec Oyj	7.0	43.6	43.6
Pihlajalinna Oyj	2.6	5.9	9.7
PKC Group Oyj	2.4	4.4	9.3
Ponsse Plc	1.4	1.6	7.1
Pöyry Plc	4.7	10.3	10.3
Raisio Plc	1.5	9.4	10.8
Ramirent Plc	3.3	23.4	23.4
Raute Plc	1.3	0.6	0.7
Restamax Plc	1.7	1.2	1.4
Robit Plc	4.5	4.0	4.0
Sampo Plc	6.3	283.7	1,672.2
Sanoma Corporation	0.1	0.7	0.8
Solteq Oyj	6.5	1.7	2.0
Sponda Plc	10.3	93.1	114.3
SRV Group Plc	0.9	2.2	2.2
Stockmann Plc	6.9	31.0	31.0
Stora Enso Oyj	2.0	130.4	130.4
Suominen Corporation	8.9	10.1	27.9
Talenom Oyj	2.1	0.8	0.8
Teleste Corporation	2.7	5.1	5.1
Tieto Corporation	1.1	14.5	19.6
Tikkurila Oyj	5.7	37.4	40.6
UPM-Kymmene Corporation	1.3	84.2	122.2
Uponor Corporation	5.3	37.4	52.6

31 Dec 2015	Shares %	Book value € million	Market value € million
Vaisala Corporation	0.9	2.9	3.7
Valmet Corporation	2.8	33.3	37.5
Verkkokauppa.com Oyj	4.6	8.6	14.7
Wulff Group Plc	6.8	0.6	0.6
Wärtsilä Corporation	5.2	144.7	433.7
YIT Corporation	9.4	62.9	62.9
Other		1.7	4.0
Finnish equities, total		2,595.5	5,244.2
Other countries			
Austria			
Erste Group Bank AG	0.0	1.2	1.7
OMV AG	0.0	0.7	0.7
Voestalpine AG	0.0	1.6	1.6
Belgium			
Ageas SA/NV	0.0	1.8	2.5
Anheuser-Busch InBev NV	0.0	18.5	22.0
Belgacom SA	0.0	1.4	1.6
Colruyt SA	0.0	0.8	1.0
Delhaize Group SA	0.0	1.3	1.4
Groupe Bruxelles Lambert SA	0.0	1.3	1.6
KBC Groep NV	0.0	2.4	2.9
UCB SA	0.0	2.2	3.2
Bermuda			
Atlantica Tender Drilling Ltd	1.4	0.6	0.6
Denmark			
AP Moeller - Maersk A/S	0.0	1.2	1.2
Carlsberg A/S	0.0	1.9	2.1
Christian Hansen Holding A/S	0.0	1.2	1.7
Coloplast A/S	0.0	0.5	0.8
Danske Bank A/S	0.0	1.9	2.5
FLSmidth & Co A/S	0.1	0.9	0.9
Genmab A/S	0.0	1.8	3.1
GN Store Nord A/S	0.1	1.7	1.7
Novo Nordisk A/S	0.0	18.0	23.7
Novozymes A/S	0.0	0.8	1.1
Pandora A/S	0.0	2.2	3.5

31 Dec 2015	Shares %	Book value € million	Market value € million
TDC A/S	0.0	1.3	1.3
Topdanmark A/S	0.0	0.8	1.0
Vestas Wind Systems A/S	0.0	1.9	3.1
France			
Air Liquide SA	0.0	3.3	3.5
Arkema SA	0.1	2.7	4.8
AXA SA	0.0	10.2	13.9
BNP Paribas	0.0	12.7	14.3
Bouygues SA	0.0	3.4	3.8
Bureau Veritas SA	0.0	1.8	1.8
Carrefour SA	0.0	0.6	3.5
Casino Guichard Perrachon SA	0.0	0.6	0.6
Cie de St-Gobain	0.0	0.9	5.6
Cie Generale des Etablissements Michelin	0.0	2.8	2.8
Cie Generale d'Optique Essilor International SA	0.0	2.5	3.5
Danone	0.0	1.4	7.4
Edenred	0.0	1.7	1.7
EDF SA	0.0	0.8	0.8
Eiffage SA	0.0	1.6	1.8
Europcar Group SA	0.2	3.0	3.0
Eutelsat Communications SA	0.0	0.8	0.9
Faurecia	0.1	2.4	2.4
GDF Suez	0.0	7.6	7.6
Kering	0.0	2.9	2.9
Legrand SA	0.0	2.2	2.6
L'Oreal SA	0.0	6.1	7.8
LVMH Moet Hennessy Vuitton SA	0.0	9.4	10.3
Orange	0.0	6.2	8.2
Orpea	0.1	4.6	6.6
Pernod-Ricard SA	0.0	4.3	4.8
Peugeot SA	0.0	1.9	2.0
Rémy Cointreau SA	0.0	1.1	1.2
Renault SA	0.0	2.9	3.9
Rexel SA	0.1	1.8	4.3
Sanofi	0.0	24.1	24.8
Schneider Electric SA	0.0	5.3	5.3
SEB SA	0.0	0.5	0.8

31 Dec 2015	Shares %	Book value € million	Market value € million
Societe Generale	0.0	5.8	7.4
Suez Environnement Co	0.0	0.8	1.4
Tarkett SA	0.2	3.4	3.4
Teleperformance SA	0.2	4.0	8.5
Total SA	0.0	8.5	23.6
Ubisoft Entertainment SA	0.2	2.2	5.3
Valeo SA	0.0	2.3	3.0
Vinci SA	0.0	7.9	10.4
Vivendi SA	0.0	4.7	5.0
Wendel SA	0.0	0.7	1.0
Germany			
Adidas AG	0.0	2.7	3.1
Aixtron SE	1.2	5.7	5.7
Allianz SE	0.0	15.3	20.0
Alstria Office REIT-AG	0.8	10.9	15.0
BASF SE	0.0	12.4	12.4
Bayer AG	0.0	19.7	22.6
Bayerische Motoren Werke AG	0.0	8.1	8.5
Beiersdorf AG	0.0	1.2	1.6
Brenntag AG	0.0	1.5	1.7
Commerzbank AG	0.0	4.3	4.3
Continental AG	0.0	5.5	6.8
Daimler AG	0.0	16.3	19.0
Deutsche Bank AG	0.0	9.1	9.1
Deutsche Boerse AG	0.0	1.5	2.5
Deutsche Euroshop AG	0.2	4.1	4.1
Deutsche Post AG	0.0	3.7	3.9
Deutsche Telekom AG	0.0	2.3	11.5
Fraport AG Frankfurt Airport Services Worldwide	0.0	1.2	1.5
Fresenius Medical Care AG & Co KGaA	0.0	2.3	3.1
Fresenius SE & Co KGaA	0.0	2.5	4.6
GEA Group AG	0.0	0.9	0.9
Gerresheimer AG	0.1	0.7	1.3
Gerry Weber International AG	0.2	1.3	1.3
Hannover Rueckversicherung AG	0.0	1.1	1.7
HeidelbergCement AG	0.0	2.8	3.5
Henkel AG & Co KGaA	0.0	6.3	7.6

31 Dec 2015	Shares %	Book value € million	Market value € million
Hugo Boss AG	0.0	2.0	2.0
Jenoptic AG	0.3	1.6	2.1
KION Group AG	0.1	2.2	3.2
Lanxess AG	0.1	4.3	4.3
Leoni AG	0.1	0.7	0.7
Linde AG	0.0	8.1	8.1
Merck KGaA	0.0	1.5	2.2
Metro AG	0.0	1.1	1.2
MTU Aero Engines Holding AG	0.2	5.7	7.7
Münchener Rückversicherungs AG	0.0	3.9	4.8
Norma Group SE	0.4	5.1	6.1
Osram Licht AG	0.0	1.4	1.4
Porsche Automobil Holding SE	0.0	3.0	3.0
ProSiebenSat.1 Media AG	0.0	1.0	1.5
RIB Software AG	0.6	3.2	3.2
Siemens AG	0.0	18.6	18.6
Stada Arzneimittel AG	0.1	1.9	2.2
Symrise AG	0.0	2.4	2.8
ThyssenKrupp AG	0.0	2.6	2.6
Volkswagen AG	0.0	5.3	5.5
Ireland			
CRH plc	0.0	5.9	7.4
Governor & Co of the Bank of Ireland	0.0	2.3	3.0
Kerry Group PLC	0.0	3.3	4.3
Kingspan Group plc	0.0	0.8	1.2
Smurfit Kappa Group plc	0.0	2.4	2.4
Isle of Man			
Playtech Plc	0.0	0.8	1.1
Italy			
Assicurazioni Generali SpA	0.0	5.5	6.0
Buzzi Unicem SpA	0.1	1.1	1.4
Enel Green Power SpA	0.0	0.9	0.9
Enel SpA	0.0	5.7	6.1
ENI SpA	0.0	8.5	8.5
Hera SpA	0.1	3.7	5.4
Intesa Sanpaolo SpA	0.0	5.6	8.3
Luxottica Group SpA	0.0	1.6	2.7

31 Dec 2015	Shares %	Book value € million	Market value € million
Moncler SpA	0.1	4.7	4.7
Piaggio C. SpA	0.3	2.9	2.9
Prysmian SpA	0.1	5.1	6.0
Recordati SpA	0.0	2.1	2.4
Snam Rete Gas SpA	0.0	1.7	2.1
Telecom Italia SpA	0.0	1.7	2.4
Terna Rete Elettrica Nazionale SpA	0.0	1.0	1.5
UniCredit SpA	0.0	9.9	14.4
Jersey C.I.			
Experian PLC	0.0	5.1	6.0
Glencore Xstrata PLC	0.0	6.0	6.0
Henderson Group PLC	0.0	0.7	1.6
Petrofac Ltd	0.0	1.1	1.1
Randgold Resources Ltd	0.0	2.2	2.3
Shire PLC	0.0	4.4	5.9
Wolseley PLC	0.0	2.4	2.9
WPP plc	0.0	3.9	6.0
Luxembourg			
ArcelorMittal	0.0	1.6	1.6
eDreams Odigeo SL	0.3	0.7	0.7
Eurofins Scientific	0.0	1.0	1.6
SES SA	0.0	1.7	1.8
Tenaris SA	0.0	1.8	1.8
Netherlands			
Aegon NV	0.0	0.6	1.4
Akzo Nobel NV	0.0	1.8	3.7
Fiat Chrysler Automobiles NV	0.0	1.4	1.4
Heineken Holding N.V.	0.0	0.6	0.8
Heineken NV	0.0	1.8	2.1
IMCD Group NV	0.1	2.3	2.4
ING Groep NV	0.0	13.1	13.7
Koninklijke Ahold NV	0.0	3.0	4.1
Koninklijke DSM NV	0.0	0.9	0.9
Koninklijke KPN NV	0.0	3.6	4.5
Koninklijke Philips NV	0.0	5.1	9.6
QIAGEN NV	0.0	1.1	1.8
Randstad Holding NV	0.0	2.6	2.9

31 Dec 2015	Shares %	Book value € million	Market value € million
Relx NV	0.0	1.8	3.1
Unilever NV	0.0	10.5	15.9
Wolters Kluwer NV	0.0	0.9	2.0
Norway			
Atea ASA	1.2	10.0	10.0
DNO INTERNATIONAL ASA	0.3	1.8	1.8
Gjensidige Forsikring ASA	0.0	1.4	1.6
Hofseth BioCare ASA	2.7	0.9	0.9
Marine Harvest ASA	0.0	1.8	1.9
Norwegian Air Shuttle AS	0.1	0.7	0.7
Protector Forsikring AS	0.9	1.6	5.7
Storebrand ASA	0.6	9.9	10.0
Portugal			
EDP - Energias de Portugal SA	0.0	2.3	2.7
Galp Energia SGPS SA	0.0	1.3	1.6
Jeronimo Martins SGPS SA	0.0	1.0	1.0
Spain			
ACS Actividades de Construccion y Servicios SA	0.0	2.1	2.7
Amadeus IT Holding SA	0.0	5.4	6.9
Banco Bilbao Vizcaya Argentaria SA	0.0	7.6	11.8
Banco Santander SA	0.0	2.2	5.5
Bolsas y Mercados Espanoles SA	0.0	0.8	0.9
CaixaBank	0.0	1.9	3.2
Enagas SA	0.0	0.9	1.1
Ferrovial SA	0.0	1.2	2.8
Gas Natural SDG SA	0.0	2.1	2.1
Grifols SA	0.0	0.7	1.0
Iberdrola SA	0.0	4.4	8.1
Inditex SA	0.0	6.1	8.2
Red Electrica Corp SA	0.0	1.2	2.0
Telefonica SA	0.0	5.1	9.0
Sweden			
AarhusKarlshamn AB	0.1	0.7	1.7
AF AB	0.4	2.1	4.3
Alfa Laval AB	0.0	1.4	1.5
Assa Abloy AB	0.1	11.2	21.4
Atlas Copco AB	0.1	24.2	26.7

31 Dec 2015	Shares %	Book value € million	Market value € million
Atrium Ljungberg AB	5.4	69.1	102.6
Bilia AB	0.2	1.9	2.3
Boliden AB	0.1	3.3	3.3
Com Hem Holding AB	0.1	1.9	2.4
Electrolux AB	0.1	6.6	6.8
Elekta AB	0.1	1.6	1.6
Fastighets AB Balder	0.5	14.8	18.2
Getinge AB	0.0	1.3	1.3
Gunnebo AB	0.2	0.5	0.6
Haldex AB	0.7	2.4	2.6
Hennes & Mauritz AB	0.1	50.9	57.9
Hexpol AB	0.1	1.9	4.5
Hufvudstaden AB	0.6	10.0	16.8
Intrum Justitia AB	0.1	2.3	3.3
Investment AB Kinnevik	0.1	5.1	5.7
Investor AB	0.1	10.2	15.3
Inwido AB	1.0	4.2	6.7
Lindab International AB	0.1	0.7	0.7
Loomis AB	0.0	2.0	2.1
Lundin Petroleum AB	0.0	0.7	0.7
Meda AB	0.0	1.0	1.2
Modern Times Group AB	0.2	2.4	2.4
NCC AB	0.1	2.6	2.8
Nobia AB	0.1	0.9	2.2
Nordea Bank AB	0.7	215.6	295.5
Peab AB	0.1	0.7	1.0
Sandvik AB	0.1	8.1	8.1
Securitas AB	0.1	3.3	4.3
Skandinaviska Enskilda Banken AB	0.1	17.5	22.7
Skanska AB	0.1	6.6	7.2
SKF AB	0.1	6.0	6.0
SSAB AB	0.5	6.4	6.4
Svenska Cellulosa AB	0.1	12.1	17.1
Svenska Handelsbanken Ab	0.1	18.8	20.9
Swedbank AB	0.1	21.3	26.5
Swedish Orphan Biovitrum AB	0.1	2.5	5.6
Tele2 AB	0.1	4.6	4.6

31 Dec 2015	Shares %	Book value € million	Market value € million
Telefonaktiebolaget LM Ericsson	0.1	31.7	32.6
TeliaSonera AB	0.1	18.4	18.4
Tobii AB	0.1	0.6	0.6
Trelleborg AB	0.1	1.8	2.5
Volvo AB	0.1	16.9	16.9
Switzerland			
ABB Ltd	0.1	21.3	22.0
Actelion Ltd	0.0	2.0	2.8
Adecco SA	0.0	3.5	3.5
Aryzta AG	0.0	1.9	1.9
Chocoladefabriken Lindt & Sprungli AG	0.0	0.6	0.9
Cie Financiere Richemont SA	0.0	7.0	7.0
Clariant AG	0.0	2.6	2.6
Credit Suisse Group AG	0.0	1.2	1.2
DKSH Holding AG	0.0	0.9	0.9
Galenica AG	0.0	0.6	1.5
GAM Holding AG	0.0	0.9	1.0
Geberit AG	0.0	2.1	2.4
Givaudan SA	0.0	2.3	2.5
Informa PLC	0.0	0.7	0.9
Julius Baer Group Ltd	0.0	2.2	2.7
Kuehne + Nagel International AG	0.0	4.0	4.4
LafargeHolcim Ltd	0.0	7.2	7.2
Logitech International SA	0.1	1.1	1.8
Lonza Group AG	0.0	1.4	3.2
Nestle SA	0.0	44.0	49.2
Novartis AG	0.0	45.1	55.1
Partners Group Holding AG	0.0	0.7	1.3
Roche Holding AG	0.0	37.7	45.8
SGS SA	0.0	2.6	2.6
Sika AG	0.0	1.7	2.3
Sonova Holding AG	0.0	2.5	2.5
Straumann Holding AG	0.1	3.7	5.1
Swisscom AG	0.0	4.8	5.3
Swiss Life Holding AG	0.0	1.2	1.9
Swiss Re AG	0.0	5.9	8.0
Syngenta AG	0.0	8.9	9.4

31 Dec 2015	Shares %	Book value € million	Market value € million
The Swatch Group AG	0.0	1.6	1.6
UBS Group AG	0.0	8.4	10.2
Zurich Financial Services AG	0.0	8.1	8.3
United Kingdom			
3i Group PLC	0.0	1.0	2.0
Aberdeen Asset Management PLC	0.0	0.6	0.6
Admiral Group PLC	0.0	0.9	1.2
AMEC PLC	0.1	2.9	2.9
Anglo American PLC	0.0	2.2	2.2
Antofagasta PLC	0.0	1.2	1.2
Ashtead Group PLC	0.0	2.9	3.0
Associated British Foods PLC	0.0	2.0	2.5
AstraZeneca PLC	0.0	19.4	25.1
Aviva PLC	0.0	4.3	5.4
Balfour Beatty PLC	0.0	0.7	0.9
Barclays PLC	0.0	7.5	7.5
Barratt Developments PLC	0.0	0.7	1.9
Berkeley Group Holdings PLC	0.0	1.1	2.2
BG Group PLC	0.0	15.0	15.0
BHP Billiton PLC	0.0	10.7	10.7
Booker Group PLC	0.0	0.9	1.1
BP PLC	0.0	20.9	20.9
British Land Co PLC	0.0	2.7	4.2
Britvic PLC	0.1	1.5	1.8
BTG PLC	0.1	2.1	2.4
BT Group PLC	0.0	8.6	12.9
Bunzl PLC	0.1	6.4	6.4
Burberry Group PLC	0.0	1.9	1.9
Capita PLC	0.0	4.1	4.1
Centrica PLC	0.0	4.5	4.5
Croda International PLC	0.1	4.0	4.6
Diageo PLC	0.0	16.5	17.2
Dixons Carphone PLC	0.0	1.0	1.2
Essentra PLC	0.1	1.7	1.7
Fresnillo PLC	0.0	0.6	0.6
G4S PLC	0.0	1.5	1.5
GKN PLC	0.0	1.7	1.7

31 Dec 2015	Shares %	Book value € million	Market value € million
GlaxoSmithKline PLC	0.0	24.6	25.3
Halma PLC	0.0	1.5	1.8
Hays PLC	0.1	2.4	2.4
Hikma Pharmaceuticals PLC	0.0	1.8	2.7
HSBC Holdings PLC	0.0	37.3	37.3
Icap PLC	0.0	0.8	1.4
IMI PLC	0.1	2.2	2.2
Inchcape PLC	0.1	4.1	5.7
Intertek Group PLC	0.0	1.6	1.9
Investec PLC	0.0	0.8	1.0
ITV PLC	0.0	1.7	3.3
Johnson Matthey Plc	0.0	2.4	2.4
J Sainsbury PLC	0.0	1.8	1.8
Kingfisher PLC	0.0	2.7	3.1
Ladbroke PLC	0.1	2.4	2.4
Legal & General Group PLC	0.0	4.3	5.6
Lloyds Banking Group PLC	0.0	13.5	14.5
London Stock Exchange Group PLC	0.0	0.7	1.8
Man Group PLC	0.0	0.9	1.9
Marks & Spencer Group PLC	0.0	2.8	2.9
Meggitt PLC	0.1	2.1	2.1
Melrose Industries PLC	0.1	2.2	2.4
Mondi PLC	0.0	3.3	3.3
National Grid PLC	0.0	7.6	9.9
Next PLC	0.0	3.4	4.6
Ocado Group PLC	0.0	0.5	0.5
Old Mutual PLC	0.0	3.1	3.1
Pearson PLC	0.0	2.0	2.0
Pennon Group PLC	0.0	0.7	0.9
Persimmon PLC	0.0	0.9	2.0
Premier Foods PLC	0.2	0.8	0.8
Prudential PLC	0.0	9.8	12.2
Reckitt Benckiser Group PLC	0.0	11.2	15.1
Relx PLC	0.0	2.5	3.9
Rentokil Initial PLC	0.1	2.0	2.2
Rolls-Royce Group PLC	0.0	5.5	5.5
Royal Dutch Shell PLC	0.0	6.8	21.4

31 Dec 2015	Shares %	Book value € million	Market value € million
RSA Insurance Group PLC	0.0	1.5	1.5
SABMiller PLC	0.0	5.9	6.8
Schroders PLC	0.0	1.3	2.3
Severn Trent PLC	0.0	0.9	1.1
Sky PLC	0.0	2.4	3.7
Smith & Nephew PLC	0.0	3.5	4.3
Smiths Group PLC	0.0	0.9	0.9
Spectris plc	0.1	2.4	2.4
SSE PLC	0.0	3.8	4.1
Standard Life PLC	0.0	2.8	2.8
Tate & Lyle PLC	0.0	1.7	1.7
Taylor Wimpey PLC	0.0	0.8	2.1
Tesco PLC	0.0	3.7	3.7
The Weir Group PLC	0.0	1.4	1.4
Tullow Oil PLC	0.1	1.4	1.4
Unilever PLC	0.0	9.6	12.1
United Utilities Group PLC	0.0	1.6	2.1
Vodafone Group PLC	0.0	19.4	19.4
WM Morrison Supermarkets PLC	0.0	0.7	0.7
United States			
Antero Resources Corp	0.0	0.7	0.7
Autoliv Inc	0.0	0.6	1.2
Other		12.8	47.9
Foreign equities, total		1,977.8	2,501.7
Listed equities, total		4,573.3	7,745.9

31 Dec 2015	Shares %	Book value € million	Market value € million
Unlisted equities			
<i>Finland</i>			
Ahlström Capital Oy	3.7	8.4	21.8
Certeum Oy	19.4	90.4	95.0
Havator Group Oy	9.2	5.4	5.4
Kaleva Mutual Insurance Company	30.0	2.6	2.6
Kiitosimeon Oy	15.3	2.1	2.1
Staffpoint Holding Oy	13.9	1.2	1.2
Terveystalo Oy	4.9	15.0	18.2
Tornator Oy	13.1	10.5	59.5
VVO Group Plc	17.0	42.4	262.4
Other		1.0	1.0
Finnish equities, total		179.0	469.1
Other countries			
<i>Cayman Islands</i>			
Fir Tree Special Opportunities SPC Ltd	1.4	12.6	22.1
<i>Luxembourg</i>			
Esperanto Infrastructure Holding II S. á.r.l.	12.6	13.0	21.6
Esperanto Infrastructure I S.A.	12.7	25.0	86.3
<i>Netherlands</i>			
BenCo Insurance Holding B.V.	3.5	0.7	2.3
<i>South Korea</i>			
Dasan III, Inc.	15.8	18.2	38.8
<i>Sweden</i>			
Ambea Finland Group AB	3.6	10.0	10.0
Zenterio AB	4.0	3.1	3.1
<i>United States</i>			
Kelso Hammer Co-Investment L.P.	3.4	15.2	15.6
Kelso Sirius Co-Investment L.P.	1.9	4.5	4.6
NM Z Topco, L.L.C.	2.7	9.1	9.2
OSYS Holdings, LLC	13.3	6.3	9.4
SunGard Capital Corporation	0.3	6.0	9.1
Venari Co-Investment LLC	0.9	10.9	12.6
Other		0.5	0.6
Foreign equities, total		135.1	245.4
Unlisted equities, total		314.0	714.5

31 Dec 2015	Book value	Fair value
Hedge funds		
Aleutian Fund Ltd	84.5	118.9
Bayview Companion IVa Offshore L.P.	118.2	152.2
Bayview Liquid Credit Strategies Domestic, L.P.	22.0	22.0
Bayview MSR Opportunity Offshore L.P.	89.1	96.9
Bayview Opportunity Offshore II a L.P.	3.4	10.4
Bayview Opportunity Offshore III a L.P.	48.7	89.4
Bayview Opportunity Offshore IV a L.P.	178.5	253.9
Bayview Opportunity Offshore L.P.	2.3	11.7
Black River Commodity Multi-Strategy Fund Ltd	0.9	0.9
Blackstone First Avenue Offshore Fund Ltd	94.2	175.1
Blackstone Market Opportunities Offshore Fund SPC	1.8	3.9
Blackstone Select Opportunities Offshore Fund	193.0	327.6
Blackstone Strategic Equity Offshore Fund Ltd	0.6	0.6
Blackstone Strategic Opportunity Offshore Fund Ltd	75.9	106.5
Blackstone Value Recovery Offshore Fund Ltd A1	2.6	8.2
BlueMountain Equity Alternatives Fund Ltd	76.5	130.2
Brevan Howard Asia Fund Limited	37.0	37.0
Capula Global Relative Value Fund Ltd	90.5	135.0
Capula Tail Risk Fund Limited	53.9	53.9
Carlson Black Diamond Thematic Ltd	69.1	86.6
CarVal Credit Value Fund B II L.P.	107.3	155.7
CarVal Global Value Fund L.P.	21.2	62.0
Corvex Offshore II Ltd	36.7	41.6
CS Iris V Fund Limited	23.8	41.0
Cumulus Fund	45.4	51.9
CVI Credit Value Fund B III L.P.	51.8	54.3
D.E. Shaw Composite International Fund	1.6	3.3
Dialectic Antithesis Offshore, Ltd	49.8	49.8
Dialectic Antithesis Opportunities Fund II L.P.	23.9	23.9
Double Black Diamond Ltd	154.9	280.3
Eisenstat Capital Partners Offshore Fund Ltd	46.5	76.2
EJF Debt Opportunities Offshore Fund Ltd	194.5	258.5
EJF Financial Services Fund L.P.	25.8	39.2
EJF Sidecar Fund, LLC - Series (D)	14.8	19.5

31 Dec 2015	Book value	Fair value
EJF Speciality Finance Opportunities Offshore Fund L.P.	45.1	52.9
Element Capital Feeder Fund Ltd	43.5	190.5
Elliot International Ltd	110.8	267.8
Fir Tree International Value Fund Ltd	39.5	75.9
Five Mile Capital Partners II L.P.	13.3	21.8
Five Mile Capital Partners LLC	2.2	2.2
Glenview Capital Partners Ltd	47.8	83.1
Golden Tree Credit Opportunities Ltd	14.0	57.7
Golden Tree Distressed Debt Fund (Cayman) Ltd	51.4	126.1
Golden Tree Distressed Fund 2014 (Cayman) L.P.	25.3	25.3
Golden Tree Offshore Fund II Ltd	84.1	130.4
Golden Tree Offshore Fund Ltd	3.5	7.2
GSA Quantitative Futures Master Fund Limited	30.0	44.3
H/2 Credit Partners Ltd	54.0	83.3
H/2 Special Opportunities III L.P.	51.1	51.8
H/2 Special Opportunities II L.P.	42.4	70.7
H/2 Special Opportunities L.P.	3.3	10.2
HBK Multi-Strategy Offshore Fund Ltd	157.0	253.3
Hitchwood Capital Fund Ltd	21.4	21.4
Jana Nirvana Offshore Fund, Ltd	68.5	87.2
King Street Capital, Ltd	35.7	65.5
Kuttura Fund L.P.	40.2	69.2
Mortality Fund I	16.1	30.7
Newport Global Opportunities Fund L.P.	22.5	40.6
NWI Emerging Market Currency Fund	36.7	46.2
Oak Hill Credit Alpha Fund Ltd	2.9	4.7
Ospraie Special Opportunities Ltd	0.6	1.5
OxAM Quant Fund (International) Limited	44.3	56.5
OZ Asia Overseas Fund Ltd	1.9	1.9
OZ Europe Overseas Fund II Ltd	1.3	1.3
OZ Overseas Fund Ltd	0.9	1.9
Pentwater Event Fund Ltd	52.7	69.9
Pharo Macro Fund Ltd	47.2	63.6
Pine River Fixed Income Fund Ltd	22.1	27.5
Pine River Liquid Rates Fund Ltd	73.5	104.4

31 Dec 2015	Book value	Fair value
Reservoir Capital Overseas Partners II L.P.	7.0	10.1
Roystone Capital Offshore Fund Ltd.	21.2	21.2
Sevetti Fund B, L.P.	224.9	307.8
Soroban Opportunities Cayman Fund Ltd	33.3	40.3
Spinnaker Global Emerging Markets Fund Ltd	54.2	79.4
Systematica BlueMatrix Limited	36.7	52.9
Systematica BlueTrend Fund Limited	34.5	50.3
The Canoy Value Realization Fund Ltd	5.6	16.6
Third Point Offshore Fund Ltd	58.2	78.9
Tricadia Credit Strategies Ltd	67.4	87.1
Two Sigma Absolute Return Cayman Fund Ltd	46.5	70.4
Whippoorwill Distressed Opportunity Fund, Ltd	5.0	9.4
Zais Financial Corp	3.5	3.5
Zais Opportunity Fund Ltd	29.4	76.6
Zebedee Focus Fund Limited A	26.2	26.2
Zebedee Focus Fund Limited B	26.2	26.2
Zebedee Growth Fund Limited	5.1	5.1
ZP Offshore Utility Fund Ltd	42.7	44.9
Other	233.9	372.6
Hedge funds, total	4,309.1	6,606.0
Real estate funds		
Alinda Infrastructure Parallel Fund II L.P.	61.9	104.8
Alinda Infrastructure Parallel Fund I L.P.	33.3	63.8
Arcus European Infrastructure Fund 1 L.P.	62.2	84.6
Ares European Real Estate Fund II Euro L.P.	5.3	5.3
Ares European Real Estate Fund III Euro L.P.	13.2	13.2
Aros Bostad III AB	2.4	2.4
Aros Bostadskapital 10 AB	2.3	2.3
Aros Bostadskapital 11 AB	1.7	1.8
Aros Bostadskapital 12 AB	5.5	5.5
Aros Bostadskapital 8 AB	1.0	1.0
Aros Bostadskapital 9 AB	2.4	2.4
AXA European Real Estate Opportunity Fund II L.P.	21.0	22.4
BlackRock Asia Property Fund III L.P.	14.5	28.3

31 Dec 2015	Book value	Fair value
Blackstone Real Estate Partners Europe III L.P.	36.9	53.6
Blackstone Real Estate Partners International II L.P.	13.1	13.1
CapMan Hotels RE Ky	6.3	9.8
CapMan Nordic Real Estate FCP-SIF	26.8	28.0
CapMan Real Estate I Ky	7.3	7.3
CapMan RE II Ky	1.9	2.9
Clearbell Property Partners II L.P.	33.0	37.0
Colony Investors VII, L.P.	6.2	6.2
Colony Parallel Investors VIII, L.P.	18.4	18.4
Curzon Capital Partners IV L.P.	12.1	12.1
ECE European Prime Shopping Centre II A, SCSp SIF	12.3	12.4
EPI Russia I Ky	14.8	14.8
EQT Infrastructure II No. 2 L.P.	27.8	31.9
EQT Infrastructure No. 1 L.P.	6.5	6.5
ICECAPITAL Housing Fund III Ky	13.1	13.9
ICECAPITAL Housing Fund II Ky	14.8	20.9
ICECAPITAL Saint Petersburg Residential Fund I Ky	1.6	1.6
Lumiere Holdings L.P.	58.5	58.5
Macquarie European Infrastructure Fund III L.P.	127.8	229.2
Macquarie European Infrastructure Fund II L.P.	88.4	127.2
Moorfield Audley Real Estate Fund B L.P.	32.0	32.0
Moorfield Real Estate Fund B L.P.	2.0	2.0
NV Property Fund I Ky	54.0	57.7
Retail Centres V (Sweden) Limited Partnership	61.3	66.5
The CIT Real Estate Limited Partnership	0.9	0.9
Trevian Care II Ky	12.4	12.4
VVT Property Fund I Ky	20.8	21.4
Other	0.2	4.2
Real estate funds, total	938.0	1,240.6
Fixed-income funds		
GS Growth & Emerging markets Debt Local I USD Fund	142.6	142.6
H/2 Targeted Return Strategies II Ltd	707.9	719.8
Inari Fund	234.9	331.2
iShares Euro HY Corp Bond ETF	84.2	84.2

31 Dec 2015	Book value	Fair value
iShares iBoxx Corporate ETF	310.7	311.2
iShares iBoxx USD HY Corp ETF	133.2	133.2
Ivalo Fund, L.P.	346.9	527.8
Koitere Fund L.P.	135.8	150.7
Mandatum Life Nordic High Yield ABS	43.8	43.8
Pareto Kreditt B	40.1	40.1
Sevetti Fund A, L.P.	481.1	673.0
Wellington Emerging Local Debt USD Class G Accumulating Unhe	125.5	125.5
Fixed-income funds, total	2,786.7	3,283.1
Equity funds		
Aberdeen Global China Equity Fund	41.2	47.3
Aberdeen Global Latin American Equity Fund	26.4	26.4
DB X-trackers DJ Stoxx 600 UCITS ETF	136.2	136.2
DB X-trackers MSCI GCC Select index UCITS ETF	16.2	16.2
East Capital Financials Investors AB	2.9	2.9
Fidelity Asian Special Situations Fund SS A ACC USD	33.4	43.6
Fidelity Emerging Asia Fund AS A ACC USD	21.6	27.8
FTIF Templeton Asian Growth Fund I USD Share Class	43.3	43.3
FTIF Templeton Asian Smaller Companies Fund USD Share Class	25.8	35.1
GAM Star plc - China Equity Fund	22.0	32.1
GS US Blend Equity Portfolio fund	82.4	182.5
Henderson Horizon Pan European Smaller Companies Fund	12.8	24.9
iShares MSCI India ETF	77.0	77.0
ISHARES MSCI SOUTH KOREA (EWY) ETF	38.3	38.3
iShares MSCI TAIWAN ETF	38.7	38.7
Ishares NIKKEI 225 ETF	149.8	151.8
iShares Russell 2000 ETF	289.5	298.2
Ishares S&P 500 Value ETF	93.5	93.5
Macquarie Asia New Stars Fund USD	56.1	73.2
Mandatum European Small & Mid Cap Equity Fund	5.0	5.1
Montanaro European Smaller Companies Fund	13.1	20.1
Nomura ETF Topix	260.7	272.1
Nordea 1 Emerging Stars Fund	102.2	102.2
Nordea North American All Cap Fund	91.2	109.6

31 Dec 2015	Book value	Fair value
Open Door Capital Group China Healthcare Partnership Master	0.8	0.8
Powershares QQQ Nasdaq 100 ETF	198.0	224.8
RAM Emerging Markets Equities classe R	88.8	96.9
Source STOXX Europe 600 UCITS ETF	274.5	274.5
SPDR S&P 500 ETF TRUST	759.3	1,036.2
SSgA Enhanced Emerging Markets Equity Fund	189.9	194.6
Taaleri Rhein Value Equity A	15.2	22.9
Taaleri Turkey equity A	4.4	6.1
Threadneedle Pan European Smaller Companies Fund	20.0	34.8
UBS Global Emerging Markets Opportunity Fund Class I-B USD	71.7	73.0
UBS (Lux) Equity SICAV USA Growth	50.5	118.4
Vanguard Emerging Markets Stock Index Fund	301.6	301.6
Vanguard Institutional Index Fund Plus shares	377.0	902.0
Vanguard Japan Stock Index Fund	89.0	118.2
Vanguard Pacific ex Japan Index Fund	107.0	115.1
Vanguard S&P 500 ETF	465.4	465.4
William Blair US Small Mid Cap Growth Fund	41.5	70.5
Equity funds, total	4,734.1	5,953.9
Private equity funds		
1901 (Offshore) Partners I L.P.	13.3	13.3
1903 Equity Fund L.P.	0.8	0.8
Abingworth Bioventures III B L.P.	0.7	0.7
AC Cleantech Growth Fund I KY	16.1	16.1
Access Capital Fund L.P. II B	0.8	0.8
Alpha Private Equity Fund 5 - JABBAH CI L.P.	8.0	9.6
Apollo Investment Fund VII Euro Holdings, L.P.	24.3	29.5
Apollo Overseas Partners (Delaware) VIII, L.P.	25.7	26.6
Armada Mezzanine Fund III Ky	2.0	4.6
Auda Asia II L.P.	15.8	23.8
Auda Secondary II Feeder Fund L.P.	8.2	8.2
BDCM Offshore Opportunity Fund IV Ltd	6.9	6.9
Behrman Capital IV L.P.	26.5	32.2
Blackstone Capital Partners IV L.P.	11.4	11.4
Blackstone Capital Partners V L.P.	35.8	46.4

31 Dec 2015	Book value	Fair value
Blackstone Capital Partners VI L.P.	90.3	120.6
Blackstone Mezzanine Partners II L.P.	0.9	0.9
Blackstone V Co-Investors L.P.	6.9	14.0
BlueRun Ventures, L.P.	5.8	10.7
CapMan Buyout IX Fund A L.P.	39.8	39.8
CapMan Buyout VIII Fund A L.P.	5.7	5.7
CapMan Buyout X Fund A L.P.	20.1	20.6
CapMan Life Science IV Fund L.P.	5.0	5.0
CapMan Russia Fund L.P.	7.1	7.1
CapMan Technology Fund 2007 L.P.	2.2	2.2
CapVest Equity Partners II L.P.	9.8	9.8
CapVest Equity Partners III L.P.	1.7	1.7
CDH Fund V L.P.	17.8	18.9
Crown Co-Investor L.P.	16.6	38.4
CVC European Equity Partners IV (C) L.P.	4.6	4.6
Elbrus Capital Fund I L.P.	29.8	29.8
Elbrus Capital Fund II LP.	19.2	19.2
EQT V No 1 Limited Partnership	23.8	23.8
EQT VI No 1 Limited Partnership	39.8	49.5
Green Equity Investors IV L.P.	1.2	4.8
Green Equity Investors V L.P.	18.4	31.8
Hamilton Lane Co-Investment Feeder Fund III L.P.	17.3	18.4
Hamilton Lane Co-Investment Fund L.P.	42.4	42.9
Hamilton Lane Co-Investment Fund II L.P.	31.2	68.5
Hamilton Lane Parallel Investors LP	31.4	33.6
IK VII L.P.	27.0	29.6
Industri Kapital 2004 Limited Partnership I	3.2	3.2
Industri Kapital 2007 Limited Partnership III	12.0	15.2
IT Co-Investment Holdings, Inc.	6.0	9.8
Kelso Investment Associates IX L.P.	6.8	6.8
Kelso Investment Associates VII, L.P.	1.5	1.5
Kelso Investment Associates VIII, L.P.	54.7	67.2
MB Equity Fund IV Ky	21.9	30.7
MBK Partners Fund II, L.P.	24.9	54.7
MBK Partners Fund III, L.P.	30.5	38.8

31 Dec 2015	Book value	Fair value
MBK Partners, L.P.	12.9	20.8
MCP Co Invest L.P.	8.5	12.7
Mezzanine Management Fund IV A L.P.	5.3	5.3
MHR Institutional Partners IV L.P.	11.2	11.8
MML Capital Partners Fund V L.P.	14.9	22.4
MML Capital Partners Fund VI L.P.	7.0	8.1
Moelis Capital Partners Opportunity Fund I L.P.	45.6	82.0
Moelis Capital Partners Opportunity Fund I-B LP	11.0	13.9
Navis Asia Fund VII, L.P.	17.5	17.5
New Mountain Partners IV L.P.	34.4	38.2
Nokia Venture Partners II L.P.	0.5	0.5
Nordic Mezzanine Fund III L.P.	7.6	10.7
Onex Partners II L.P.	7.4	7.9
Onex Partners III L.P.	50.6	83.0
Onex Partners IV L.P.	30.6	30.6
PAI Europe VI-1 L.P.	28.5	28.5
Permira Europe III L.P.2	3.4	3.4
Permira Europe IV L.P.2	17.2	21.3
Platinum Equity Capital Partners II, L.P.	23.7	24.1
Platinum Equity Capital Partners III L.P.	17.4	28.1
Power Fund II Ky	3.4	3.4
Power Fund III Ky	1.9	1.9
Primavera Capital Fund II L.P.	10.9	11.1
Profita Fund III Ky	2.3	2.3
Quadriga Capital Private Equity Fund III L.P.	13.6	13.6
Saw Mill Capital Partners, L.P.	9.5	18.1
Selected Mezzanine Funds I Ky	3.8	5.2
Selected Private Equity Funds I Ky	5.0	7.1
Sponsor Fund III Ky	11.6	11.6
Sponsor Fund IV Ky	5.6	5.6
Strategic Value Special Situations Feeder Fund III L.P.	44.4	44.4
TCW Crescent Mezzanine Partners IV B L.P.	3.4	3.4
TCW Crescent Mezzanine Partners V L.P.	16.9	24.6
The Fifth Cinven Fund (No. 1) Limited Partnership	30.8	35.5
The Fourth Cinven Fund (No. 4) Limited Partnership	21.6	21.6

31 Dec 2015	Book value	Fair value
TPG Asia VI L.P.	29.9	31.7
Warburg Pincus Energy L.P.	15.3	15.3
Warburg Pincus Private Equity IX, L.P.	2.8	14.9
Warburg Pincus Private Equity X, L.P.	37.1	74.4
Warburg Pincus Private Equity XI LP.	77.4	108.1
Warburg Pincus Private Equity XII-E, L.P.	1.5	1.6
VSS Communications Parallel Partners IV, L.P.	11.1	11.1
Other	2.6	29.5
Private equity funds, total	1,591.2	2,077.4
Funds, total	14,359.1	19,161.0
Parent Company, total	19,246.5	27,621.4
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	19,262.6	27,637.5

17. Changes in tangible and intangible assets, Parent Company

31 Dec 2015, € million	Intangible assets Other expenses with long-term effects	Tangible assets Equipment	Tangible assets Other tangible assets	Total
Acquisition cost, 1 Jan	49.4	5.9	0.9	56.2
Completely depreciated in the previous year	-23.3	-0.3		-23.6
Increase	0.6	0.6		1.2
Decrease	-0.1			-0.1
Acquisition cost, 31 Dec	26.7	6.3	0.9	33.8
Accumulated depreciation, 1 Jan	-34.8	-3.6		-38.4
Completely depreciated in the previous year	23.3	0.3		23.6
Depreciation for the financial year	-7.4	-0.7		-8.1
Accumulated depreciation, 31 Dec	-18.9	-4.1	0.0	-22.9
Book value 31 Dec 2015	7.8	2.2	0.9	10.9
Book value 31 Dec 2014	14.6	2.3	0.9	17.8

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

18. Loan receivables itemised by guarantee

31 Dec, € million	Parent Company 2015	Parent Company 2014	Group 2015	Group 2014
Bank guarantee	140.4	218.5	140.4	218.5
Guarantee insurance	157.2	248.3	157.2	248.3
Other guarantee	771.2	744.1	771.2	744.1
Remaining acquisition cost, total	1,068.8	1,210.9	1,068.8	1,210.9

19. Total pension loan receivables itemised by balance sheet item

31 Dec, € million	Parent Company 2015	Parent Company 2014	Group 2015	Group 2014
Loans guaranteed by mortgages	274.1	250.7	274.1	250.7
Other loan receivables	267.1	430.9	267.1	430.9
Remaining acquisition cost, total	541.2	681.6	541.2	681.6

20. Loans to related parties

31 Dec, € million	Parent Company 2015	Parent Company 2014
Loans to Group companies	723.8	759.7

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

21. Derivatives

31 Dec, € million	Parent Company 2015	Parent Company 2014	Group 2015	Group 2014
Other receivables				
Advance payments for option contracts	71.3	30.5	71.3	30.5
Other liabilities				
Advance payments for option contracts	25.7	24.5	25.7	24.5
Value adjustments of derivatives	146.0	90.1	146.0	90.1

22. Liabilities to Group companies

31 Dec, € million	Parent Company 2015	Parent Company 2014	Group 2015	Group 2014
Other liabilities	0.6	0.5	0.6	0.5

23. Technical provisions

31 Dec, € million	Parent Company 2015	Parent Company 2014	Group 2015	Group 2014
Provision for unearned premiums				
Future pensions	15,345.7	15,083.9	15,345.7	15,083.9
Provision for future bonuses	-1,082.5	752.7	-1,082.5	752.7
Provision for current bonuses	115.4	117.1	115.4	117.1
Equity-linked provision for current and future bonuses	1,401.9	1,006.9	1,401.9	1,006.9
Total provision for unearned premiums	15,780.5	16,960.6	15,780.5	16,960.6
Provision for claims outstanding				
Current pensions	14,882.2	13,929.0	14,882.2	13,929.0
Equalisation provision	1,202.9	1,180.0	1,202.9	1,180.0
Total provision for claims outstanding	16,085.1	15,109.0	16,085.1	15,109.0
Total technical provisions	31,865.6	32,069.7	31,865.6	32,069.7

24. Solvency capital, Parent Company

31 Dec, € million	2015	2014
Capital and reserves	113.6	107.2
Interest on guarantee capital proposed for distribution	-0.8	-0.7
Valuation difference between fair values on assets and book values of balance sheet items	9,762.9	8,227.8
Provision for future bonuses	-1,082.5	752.7
Equalisation provision ¹	1,170.7	1,180.0
Intangible assets	-7.8	-14.6
	9,956.1	10,252.5
¹ In 2015, the equalisation provision no longer includes the equalisation provision of EUR 32.3 million pursuant to TEL-L		
Minimum solvency capital as required under the Employment Pension Insurance Companies Act, Section 17	1,782.8	1,583.4

25. Liabilities, Parent Company

31 Dec, € million	2015	2014
Guarantees given on own behalf		
Assets pledged as security for derivatives ¹	36.3	275.4
Guarantees received		
Assets pledged as security for derivatives ²	277.8	0.0

¹ Given cash guarantees required for the clarification of derivative contracts to the value of EUR 36.3 million are included in the cash at bank and in hand balance sheet item.

² Received cash guarantees required for the clarification of derivative contracts to the value of EUR 277.8 million are included in the Other liabilities balance sheet item.

26. Capital and reserves

31 Dec, € million	Parent Company 2015	Group 2015
Guarantee capital	11.9	11.9
Other reserves, 1 Jan	89.0	89.0
Profit brought forward from 2014	5.1	5.1
Other reserves, 31 Dec	94.1	94.1
Profit/loss brought forward	6.3	48.7
Transfer to contingency fund	-5.1	-5.1
Distributed interest on guarantee capital	-0.7	-0.7
Transfer to the Board of Director's expence account	-0.1	-0.1
	0.4	42.9
Profit/loss for the financial year	7.1	-127.4
Total capital and reserves	113.6	21.6

27. Capital and reserves after proposed profit distribution

31 Dec, € million	Parent Company 2015
Holders of guarantee capital	
Guarantee capital	11.9
Proposed distribution to holders of guarantee capital	0.8
Policyholders	100.8
Total	113.6

28. Distributable profits

31 Dec, € million	Parent Company 2015	
Profit for the financial year		7.1
Other capital and reserves		
Other reserves	94.1	
Profit brought forward	0.4	94.5
Total distributable profits		101.6

29. Guarantee capital

31 Dec 2015, € 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	2015	2014
Contingent liabilities and liabilities not included in the balance sheet		
Derivatives		
Derivatives for hedging purposes		
Currency derivatives		
Forward contracts		
Underlying instrument, absolute value	1,705.1	331.6
Underlying instrument, risk-adjusted value	-1,637.8	143.5
Fair value	-4.5	0.3
Currency swap contracts		
Underlying instrument, absolute value	19,151.1	18,045.3
Underlying instrument, risk-adjusted value	-18,751.8	-17,406.2
Fair value	194.6	-417.5
Other derivatives		
Interest rate derivatives		
Forward and futures contracts		
Underlying instrument, absolute value	976.8	439.6
Underlying instrument, risk-adjusted value	-880.4	-202.4
Fair value	-0.6	-0.2
Option contracts		
Bought		
Underlying instrument, absolute value	0.0	20,000.0
Underlying instrument, risk-adjusted value	0.0	0.0
Fair value	0.0	-7.6
Sold		
Underlying instrument, absolute value	0.0	20,000.0
Underlying instrument, risk-adjusted value	0.0	0.0
Fair value	0.0	6.5
Credit risk derivatives		
Underlying instrument, absolute value	445.9	200.0
Underlying instrument, risk-adjusted value	445.9	200.0
Fair value	1.3	3.9
Interest rate swap contracts		
Underlying instrument, absolute value	1,813.8	0.0
Underlying instrument, risk-adjusted value	-1,813.8	0.0
Fair value	-41.5	0.0

31 Dec, € million	2015	2014
Currency derivatives		
Option contracts		
Bought		
Underlying instrument, absolute value	98.3	660.0
Underlying instrument, risk-adjusted value	32.6	56.4
Fair value	1.1	1.2
Sold		
Underlying instrument, absolute value	396.7	794.8
Underlying instrument, risk-adjusted value	-10.6	-57.9
Fair value	-0.7	-3.5
Forward and futures contracts		
Underlying instrument, absolute value	1,774.9	931.2
Underlying instrument, risk-adjusted value	1,075.5	410.5
Fair value	-24.9	16.6
Currency swap contracts		
Underlying instrument, absolute value	25.5	383.9
Underlying instrument, risk-adjusted value	25.5	7.9
Fair value	0.5	-1.2
Equity derivatives		
Forward and futures contracts		
Underlying instrument, absolute value	636.3	1,006.5
Underlying instrument, risk-adjusted value	557.4	62.0
Fair value	5.5	-16.0
Option contracts		
Bought		
Underlying instrument, absolute value	2,692.3	465.6
Underlying instrument, risk-adjusted value	509.8	116.8
Fair value	-34.8	2.7
Sold		
Underlying instrument, absolute value	260.7	420.6
Underlying instrument, risk-adjusted value	43.0	28.0
Fair value	6.1	3.2

31 Dec, € million	2015	2014
Other derivatives		
Forward and futures contracts		
Underlying instrument, absolute value	68.4	534.4
Underlying instrument, risk-adjusted value	30.3	68.0
Fair value	-31.3	-27.0
Option contracts		
Bought		
Underlying instrument, absolute value	66.9	63.3
Underlying instrument, risk-adjusted value	13.6	18.4
Fair value	-1.3	0.4
Sold		
Underlying instrument, absolute value	66.9	63.3
Underlying instrument, risk-adjusted value	-30.9	-45.5
Fair value	1.9	-2.5
Commodity swaps		
Underlying instrument, absolute value	321.5	288.3
Underlying instrument, risk-adjusted value	321.5	288.3
Fair value	1.0	0.9
Total		
Underlying instrument, absolute value	30,500.9	64,628.3
Underlying instrument, risk-adjusted value	-20,070.0	-16,312.3
Fair value	72.5	-439.8

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	2015	2014
Investment commitments		
Private equity funds	1,998.6	1,599.8
Other funds	1,160.7	800.8
Pension liabilities		
Pension commitments (recognised as debt)	1.7	1.1
Leasing and renting liabilities		
Expiring next year	0.5	0.6
Expiring later	0.6	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.		
Group members are collectively responsible for the value-added tax payable by the group.	6.0	6.8
Obligation to verify VAT allowances of real estate investments	78.7	118.5
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 were under obligation to verify the VAT allowances of real estate investments in 2014. The impact of these companies was EUR 25 million.		
Loaned securities		
Bonds		
Nominal value	1,436.3	1,250.3
Remaining acquisition cost	1,408.0	1,258.0
Fair value	1,463.7	1,351.8

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. The loans can be cancelled at any time.

Varma's 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.

The total result of the parent company Varma stood at EUR -164 (1,223) million and the balance sheet total was EUR 41,958 (40,601) million.

Balance sheet at fair value, Parent Company

31 Dec, € million	2015	2014	2013
ASSETS			
Investments	41,293	40,039	37,718
Receivables	654	545	566
Equipment	11	18	26
	41,958	40,601	38,310
LIABILITIES			
Capital and reserves	113	107	101
Valuation differences	9,755	8,213	6,619
Equalisation provision	1,171	1,180	1,118
Provision for future bonuses	-1,083	753	1,301
Total solvency capital	9,956	10,252	9,140
Provision for current bonuses (for client bonuses)	115	117	106
Equity-linked provision for current and future bonuses	1,402	1,007	720
Actual technical provision	30,260	29,013	28,154
Total	31,662	30,020	28,874
Other liabilities	225	212	190
	41,958	40,601	38,310

Income statement at fair value, Parent Company

1 Jan–31 Dec, € million	2015	2014	2013
Premiums written	4,576	4,344	4,258
Claims paid	-4,835	-4,661	-4,446
Change in technical provisions	-1,463	-1,040	-1,289
Net investment income	1,710	2,729	3,183
Total operating expenses	-145	-142	-143
Taxes	-8	-7	-6
Total result ¹	-164	1,223	1,558

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

Key figures and analyses

Summary

31 Dec, € million	2015	2014	2013	2012	2011
Premiums written, € million	4,576.4	4,343.6	4,258.0	4,230.7	3,976.6
Pensions paid and other payments made, € million	4,834.6	4,660.7	4,445.5	4,167.5	3,924.6
Net investment income at fair value, € million	1,679.3	2,698.9	3,160.1	2,492.4	-711.0
Return on invested capital, %	4.2	7.1	9.0	7.7	-2.1
Turnover, € million	4,748.5	5,480.0	6,228.3	5,120.7	3,942.9
Total operating expenses, € million	144.6	142.0	142.7	148.7	135.9
of turnover, %	3.0	2.6	2.3	2.9	3.4
Operating expenses covered by the expense loading included in insurance contributions	103.7	99.1	101.3	110.3	93.2
of TyEL and YEL payroll, %	0.5	0.5	0.5	0.6	0.5
Total result, € million	-163.6	1,223.0	1,558.5	1,201.4	-1,377.7
Technical provisions, € million	31,865.6	32,069.7	31,399.1	29,766.6	28,965.6
Solvency capital, € million	9,956.1	10,252.5	9,139.7	7,716.3	6,520.4
of technical provisions, %	31.4	34.0	31.6	28.0	24.8
in relation to solvency limit	1.9	2.2	2.2	2.4	2.5
Equalisation provision, € million	1,202.9	1,180.0	1,118.1	1,107.6	1,120.2
Pension assets, € million	41,628.5	40,297.5	38,040.2	35,198.4	32,782.3
Transfer to client bonuses of TyEL payroll, %	0.63	0.66	0.59	0.44	0.40
TyEL payroll, € million	18,367.4	17,826.9	17,813.4	17,706.1	17,324.6
YEL payroll, € million	870.8	894.4	901.7	909.9	880.0
TyEL policies	27,150	27,200	26,900	27,600	28,100
TyEL insured persons	486,960	488,200	491,400	498,500	498,400
YEL policies	37,380	38,940	39,810	41,280	41,940
Pensioners	337,100	334,500	333,700	331,400	330,000

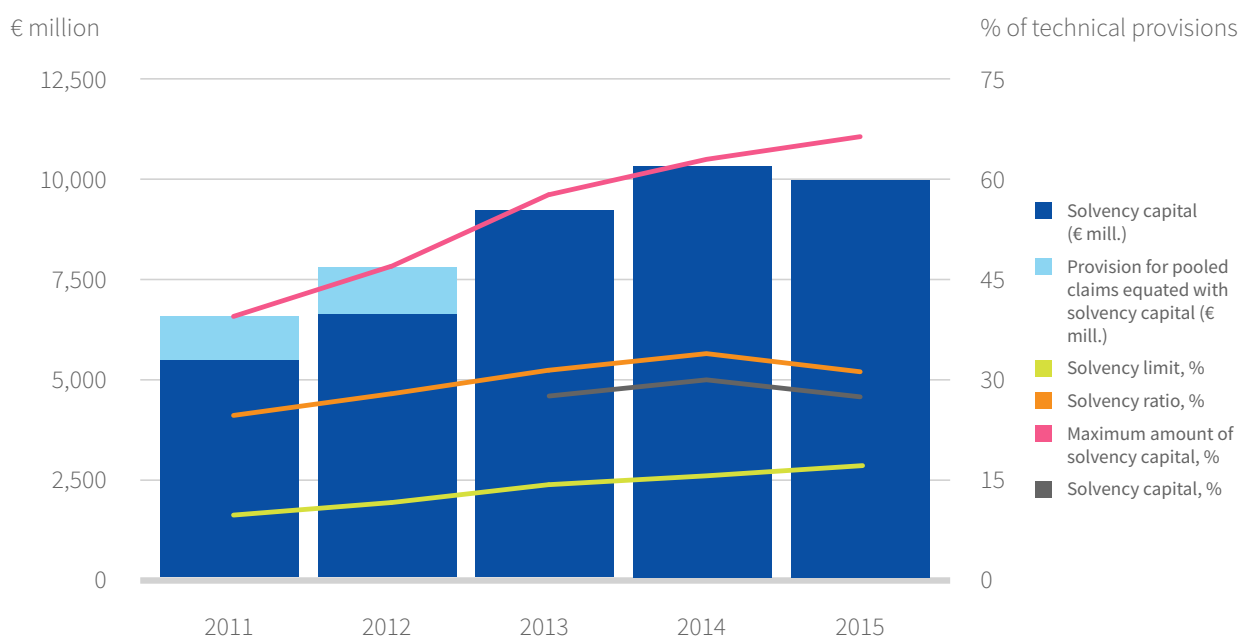
Performance analysis

31 Dec, € million	2015	2014	2013	2012	2011
Sources of profit					
Technical underwriting result	22.9	64.1	14.5	-9.2	-35.0
Investment surplus at fair value	-222.6	1,125.5	1,511.9	1,189.4	-1,378.0
+ Net investment income at fair value	1,679.3	2,698.9	3,160.1	2,492.4	-711.0
- Return requirement on technical provisions	-1,901.9	-1,573.4	-1,648.3	-1,303.0	-667.1
Loading profit	36.1	33.4	32.0	21.2	35.3
Total result	-163.6	1,223.0	1,558.5	1,201.4	-1,377.7
Appropriation of profit					
Change in solvency	-278.6	1,106.0	1,453.5	1,123.4	-1,450.7
Equalisation provision	22.9	61.9	10.5	-12.6	-38.1
Change in provision for future bonuses	-1,843.6	-548.6	228.4	-483.4	-753.1
Change in difference between fair value and book value	1,535.1	1,586.8	1,209.3	1,615.0	-664.6
Profit for the financial year	7.1	5.9	5.2	4.3	5.0
Transfer to client bonuses	115.0	117.0	105.0	78.0	73.0
Total	-163.6	1,223.0	1,558.5	1,201.4	-1,377.7

Solvency

Solvency capital and limits (as a percentage of the technical provisions used in calculating the solvency limit)	2015	2014	2013	2012	2011
Solvency limit	16.8	15.8	14.5	11.8	9.9
Maximum amount of solvency capital	67.4	63.1	57.8	47.1	39.6
Solvency capital	27.7	30.1	27.7		
Solvency capital (solvency ratio)	31.4	34.0	31.6	28.0	24.8

Solvency capital and limits



Investment allocation at fair value

	Market value 2015 € mill.		Market value 2014 € mill.		Risk position 2015 € mill.		Risk position 2014 %	Risk position 2013 %	Risk position 2012 %	Risk position 2011 %
Fixed-income investments	13,429.5	32.5	13,338.1	33.3	12,268.4	29.7	32.1	31.1	31.0	42.4
Loan receivables	1,360.7	3.3	1,571.0	3.9	1,360.7	3.3	3.9	5.4	7.1	9.3
Bonds	10,313.0	25.0	10,800.1	27.0	8,757.2	21.2	26.5	13.2	27.3	27.1
Other money-market instruments and deposits	1,755.8	4.3	967.0	2.4	2,150.5	5.2	1.7	14.2	-3.4	6.0
Equity investments	17,349.3	42.0	16,154.9	40.3	18,464.7	44.7	40.8	39.1	34.1	30.5
Listed equities	13,822.6	33.5	12,700.1	31.7	14,938.0	36.2	32.2	30.7	24.9	21.6
Private equities	2,617.5	6.3	2,451.0	6.1	2,617.5	6.3	6.1	5.8	7.0	6.6
Unlisted equities	909.3	2.2	1,003.7	2.5	909.3	2.2	2.5	2.7	2.2	2.3
Real estate investments	3,906.2	9.5	3,841.5	9.6	3,906.2	9.5	9.6	11.4	13.0	14.0
Direct real estates	3,313.2	8.0	3,375.2	8.4	3,313.2	8.0	8.4	9.9	11.5	12.5
Real estate funds	592.9	1.4	466.3	1.2	592.9	1.4	1.2	1.5	1.5	1.5
Other investments	6,608.4	16.0	6,704.4	16.7	6,990.5	16.9	17.7	16.3	16.4	14.2
Hedge funds	6,662.8	16.1	6,717.2	16.8	6,662.8	16.1	16.8	12.9	11.0	11.2
Commodities	-30.5	-0.1	-25.9	-0.1	351.7	0.9	0.9	0.5	0.8	0.4
Other investments	-23.9	-0.1	13.1	0.0	-23.9	-0.1	0.0	2.9	4.6	2.6
Investments	41,293.3	100.0	40,038.8	100.0	41,629.8	100.8	100.2	95.0	94.4	101.1
Impact of derivatives					-336.5	-0.8	-0.2	5.0	5.6	-1.1
Investment allocation at fair value	41,293.3	100.0	40,038.8	100.0	41,293.3	100.0	100.0	100.0	100.0	100.0

Modified duration of the bond portfolio

2.3

Net return on invested capital

	Net return on invested capital, market value 2015 € million	Invested capital 2015 € million	Return on invested capital 2015 %	Return on invested capital 2014 %	Return on invested capital 2013 %	Return on invested capital 2012 %	Return on invested capital 2011 %
Return on invested capital, €/%							
Fixed-income investments	-50.7	13,771.6	-0.4	5.8	0.8	4.4	4.2
Loan receivables	36.1	1,515.8	2.4	2.6	3.3	3.2	3.9
Bonds	-93.7	10,944.7	-0.9	7.1	-0.6	5.5	5.0
Other money-market instruments and deposits	6.9	1,311.0	0.5	0.0	-0.4	0.7	1.0
Equity investments	1,404.1	15,970.6	8.8	9.1	21.8	14.5	-13.0
Listed equities	1,002.7	12,493.0	8.0	7.4	23.7	14.9	-18.9
Private equities	195.1	2,505.0	7.8	13.5	12.1	13.0	9.6
Unlisted equities	206.4	972.6	21.2	19.7	26.7	15.5	20.7
Real estate investments	126.5	3,836.0	3.3	3.8	3.1	4.5	6.4
Direct real estates	76.8	3,335.1	2.3	3.2	2.0	4.6	5.9
Real estate funds	49.6	500.9	9.9	8.0	11.6	3.1	11.2
Other investments	232.5	6,666.6	3.5	8.7	9.3	6.0	4.5
Hedge funds	263.9	6,703.4	3.9	7.8	8.8	6.8	3.5
Commodities	-29.0	-17.5					
Other investments	-2.4	-19.3					
Investments	1,712.4	40,244.7	4.3	7.2	9.1	7.7	-2.1
Unallocated income, costs and operating expenses from investment activities	-33.1	16.2					
Net investment income at fair value	1,679.3	40,261.0	4.2	7.1	9.0	7.7	-2.1

Loading profit

€ million	2015	2014	2013	2012	2011
Expense loading components included in contributions	132.0	126.2	126.6	125.4	122.2
Components available to cover operating expenses arising from compensation decisions	6.8	5.5	5.8	5.8	5.5
Other income	0.9	0.9	0.9	0.4	0.8
Total loading income	139.8	132.6	133.3	131.5	128.5
Operating expenses covered by loading income ¹	-103.7	-99.1	-101.3	-110.3	-93.2
Total operating expenses	-103.7	-99.1	-101.3	-110.3	-93.2
Loading profit	36.1	33.4	32.0	21.2	35.3
Operating expenses in relation to loading income, %	74	75	76	84	73

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

Workability maintenance expenses

31 Dec, € million	2015	2014	2013	2012	2011
Premiums written; the administrative cost component of the disability risk	5.6	5.4	5.4	5.4	5.3
Claims incurred; workability maintenance expenses	6.1	6.5	6.5	6.5	7.7
Workability maintenance expenses / The administrative cost component of the disability risk, %	109.5	120.5	121.0	121.9	144.9

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.

According to the Act on Insurance Companies, the company's responsible actuary must prepare, for the purpose of arranging risk management and investment operations, a statement for the company's Board of Directors on the requirements posed by the nature of and return requirement on technical provisions and maintaining the company's solvency and liquidity, and on the appropriateness of the company's underwriting risk management, taking into account the nature and scope of the company's operations. Pursuant to the Finnish Employee Pension Insurance Companies Act the company's actuary must provide a written statement on whether the drafted investment plan meets the requirements posed by the nature of technical provisions on the company's investment operations.

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 backup 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% 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 calculation 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. An example of this is the adjustment of the mortality model which will increase old-age pension liabilities at the end of 2016.

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 1,171 million at the end of 2015, which is about 6.4% of the total payroll of the insured. The corresponding risk components included in TyEL contributions totalled approximately 3.7% of the total payroll in 2015. As of 2017, the equalisation provision will be incorporated in other solvency capital, and it will no longer be monitored as a separate item. Insurance risks will then be carried by the provision for future bonuses, which is a component of the solvency capital.

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 2015 was as follows:

	€ million	%
TyEL basic insurance		
Provision for unearned premiums		
Future pension liabilities	15,165	47.6
Provision for future bonuses	-1,083	-3.4
Provision for current bonuses	115	0.4
Equity-linked provision for current and future bonuses	1,402	4.4
Total provision for unearned premiums	15,600	49.0
Provision for claims outstanding		
Current pension liabilities	14,554	45.7
Equalisation provision	1,171	3.7
Total provision for claims outstanding	15,725	49.3
TyEL basic pension insurance, total	31,325	98.3
TEL compliant supplementary pension insurance, total	519	1.6
YEL basic pension insurance, total	20	0.1
YEL compliant supplementary pension insurance, total	2	0
Total technical provisions	31,866	100.0
		Of payroll,
	€ million	%
TyEL equalisation provision, 31 Dec 2015		
Old-age pension component	20	0.1
Disability pension component	977	5.3
Contribution loss component	173	0.9
Total	1,171	6.4
Lower limit for the equalisation provision	276	
Lower limit for the equalisation provision	1,397	

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 for this year still includes the above-mentioned equalisation provision as a separate item. 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. The calculation of the solvency limit will be renewed as of 1 January 2017. All investment and insurance risks will be taken into account in the calculation more comprehensively than before. At the same time, the separate regulation on technical provisions will be abolished.

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% and +5% of the technical provisions, helps 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%. In conjunction with the pension reform, the labour market organisations agreed to raise the equity-linked provision for current and future bonuses to 20% 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	2,339	5.6
Bonds and obligations	9,026	21.6
Real estate	6,879	16.5
Shares	19,567	46.9
Miscellaneous investments	3,944	9.4
	41,755	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 commitments must also be taken into account. Liquidity disturbances in the banking system are also mirrored in Varma's liquidity.

Concentration risk refers to the increase in market, credit and liquidity risks as a result of insufficient diversification of the portfolio.

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 Investment Operations.

Varma's investment portfolio's structure by asset class and returns by asset class for 2015 are presented in the Notes to the Financial Statements.

Geographical allocation of investments in listed equities:

	Risk distribution 31 Dec 2015 € million	%	Risk distribution 31 Dec 2014 € million	%
American equities	3,521	23.6	3,685	28.6
European equities	3,815	25.5	3,438	26.7
Other areas	1,978	13.5	1,408	10.9
Finnish equities	5,624	37.6	4,347	33.8
Listed equities	14,938	100.0	12,879	100.0

Direct investments in real estate according to purpose of use:

	Risk distribution 31 Dec 2015 € million	%	Risk distribution 31 Dec 2014 € million	%
Residential premises	690	20.8	662	19.6
Business premises	848	25.6	873	25.9
Other premises	406	12.2	414	12.3
Industrial and warehouse premises	207	6.3	210	6.2
Office premises	1,163	35.1	1,217	36.0
Direct real estate investments	3,313	100.0	3,375	100.0

The vacancy rate of business premises was 7.2 (7.3)%.

Bonds according to credit rating:

	Market value (excl. derivatives) 31 Dec 2015 € million	%	Market value (excl. derivatives) 31 Dec 2014 € million	%
AAA	2,245	21.7	1,707	17.2
AA	363	3.5	1,622	16.3
A	1,089	10.5	1,060	10.7
BBB or worse	4,405	42.5	3,821	38.5
Not rated	2,256	21.8	1,727	17.4
	10,357	100.0	9,936	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 1,842 million (EUR 1,492 million) at year-end 2015. 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 2,197 (1,779) 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% 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 2015	Effect Share prices -30%	Effect Interest rates +1% pp	Effect Real estate value -10%
Solvency capital, mill. €	9,956	4,916	9,751	9,565
% of technical provisions	31.4	15.8	30.7	30.1
in relation to solvency limit	1.9 times	1.1 times	1.8 times	1.8 times
Yield on investment, %	4.2	-9.9	3.7	3.2

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 in Sampo Plc, the market value of which was EUR 1,672 million on the closing date.

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 sluggish development in the coming years. The recovery of Finland's exports has been delayed, our business and trade structures are going through a shift and we face major challenges in the balancing of public finances.

The escalation of Finland's structural challenges and the moderate economic growth increase 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 operators.

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 101,614,073.26 euros

The Board of Directors proposes that the profit for the year be distributed as follows: 7,101,926.09 euros

to be transferred to the contingency fund (optional reserve) 6,200,000.00 euros

to be paid as interest on guarantee capital 791,105.13 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 50,820.96 euros

Helsinki, 11 February 2016

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 & 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, 2015. 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, 2 March 2016

Petri Kettunen
Authorized Public Accountant

Paula Pasanen
Authorized Public Accountant

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. Read more about Varma's year 2015:

varma.fi/annualreport/2015
