

Double materiality assessment at Varma



VARMA

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Introduction

On account of its social mandate, Varma has a far-reaching responsibility for pension asset management, customers, Varma employees and our shared environment.

In order to focus our sustainability work and resources on material topics, we must know the impacts of our operations and value chain on the environment, people and society. Furthermore, we must understand the impact that the environment, people and society have on our operations or value chain.

These positive or negative impacts arising from Varma's operations and risks or opportunities concerning Varma's operations are identified and assessed by means of a double materiality assessment. The purpose of this document is to explain the concept of double materiality to Varma's stakeholders and to explain the stages of the double materiality assessment carried out in 2023, the methods used and the sustainability topics identified as material.

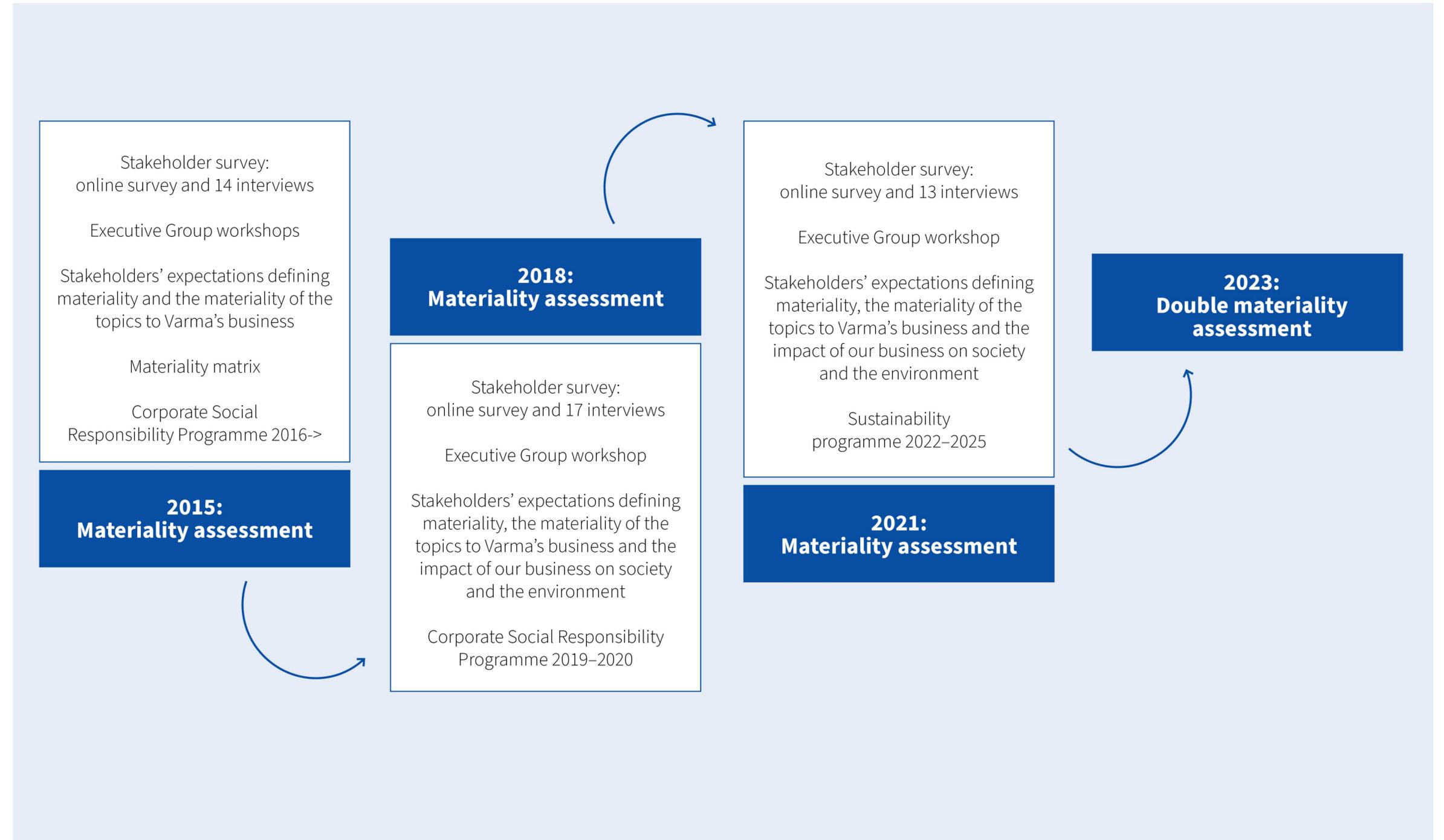
From materiality assessments to double materiality assessment

We have been assessing topics material to the sustainability of our operations since 2015. Previously, materiality assessments focused on listening to our stakeholders' expectations regarding sustainability, analysing the business impacts of sustainability topics and reviewing the impacts of our business on society and the environment, among other things. Based on the topics identified in the materiality assessments, we have built Varma's sustainability programmes, their priorities, goals, indicators and measures over different years.

The EU's Corporate Sustainability Reporting Directive (CSRD), which entered into force in 2024, introduces new types of sustainability reporting obligations for Varma. The directive requires Varma to annually report on the sustainability-related impacts, risks and opportunities identified through a double materiality assessment in its Report of the Board of Directors.

We are reporting in accordance with the requirements of the directive in the Report of the Board of Directors for the financial year 2024 for the first time. In order to prepare for the reporting, we carried out a double materiality assessment in accordance with the requirements of the Corporate Sustainability Reporting Directive in autumn 2023.

Materiality assessment timeline at Varma



Double materiality

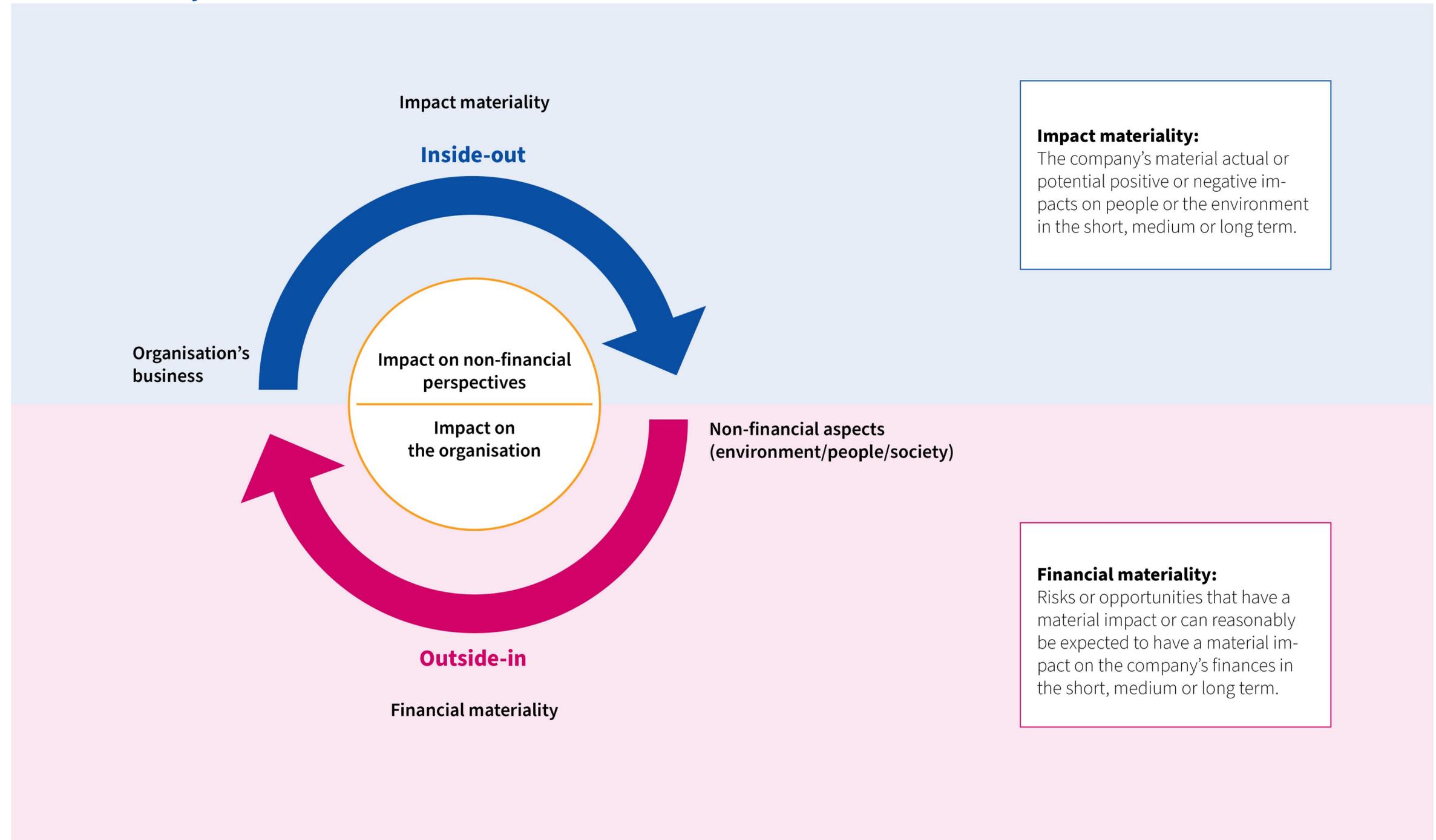
As the name suggests, double materiality has two dimensions:

- The impact materiality, i.e. the impacts of the company’s business and value chain on people, the environment and society (from the inside out)
- Financial materiality, i.e. financial risks and opportunities for the company (from the outside in)

The double materiality impact assessment, i.e. the double materiality assessment, therefore considers two complementary perspectives. In practice, Varma must assess different sustainability topics according to whether they are material to Varma from the perspective of the impact materiality, financial materiality or both dimensions.

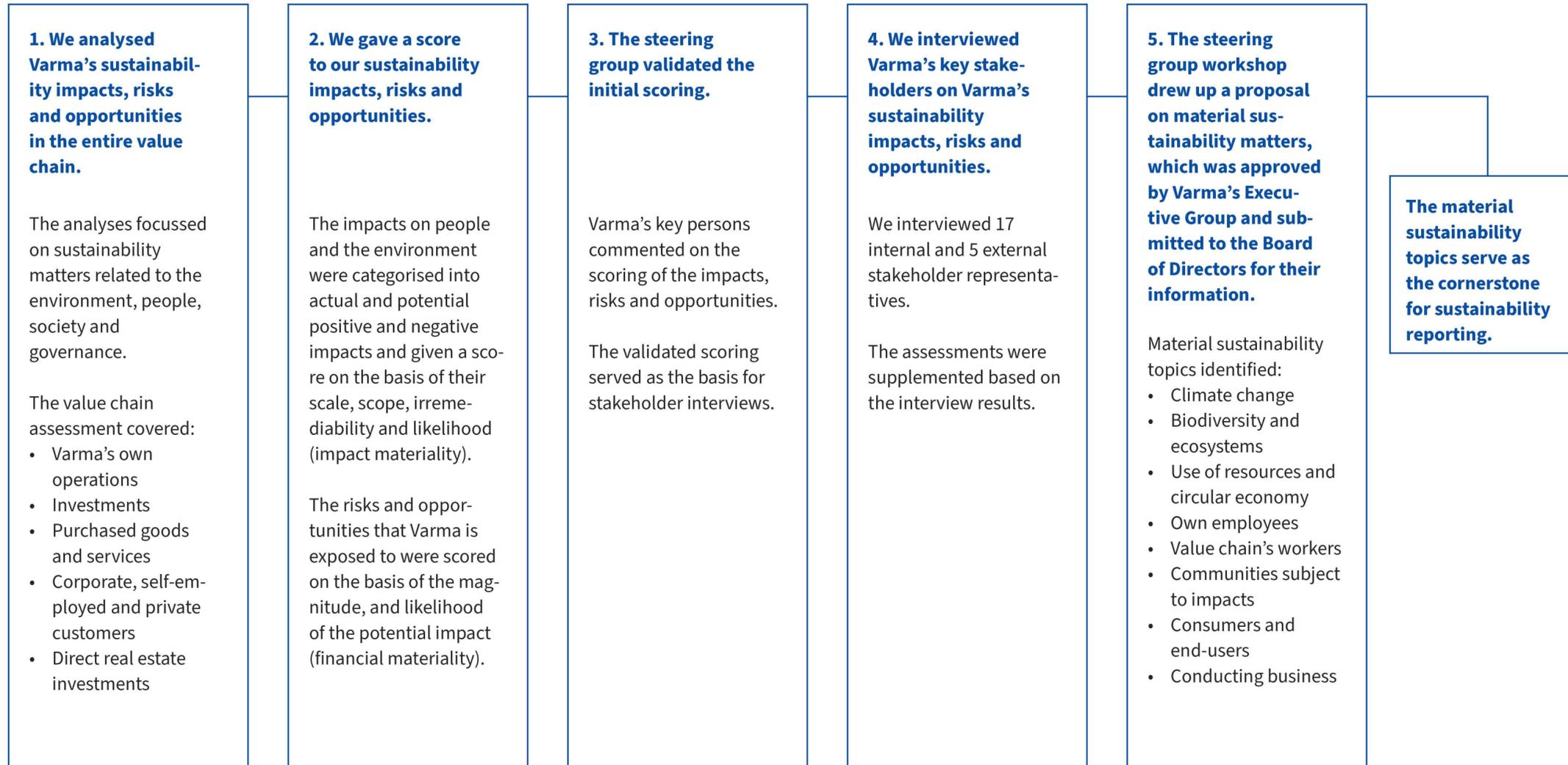
The impact materiality is assessed on the basis of scale, scope, irremediability and likelihood. The financial materiality of the impact, i.e. the financial risks and opportunities, is assessed on the basis of magnitude and likelihood.

Double materiality



Double materiality assessment at Varma 2023

The double materiality assessment process



Classification of Varma’s value chain in the double materiality assessment

A large number of Varma employees from different functions participated in Varma’s double materiality assessment. In the first phase, we identified the sustainability impacts, risks and opportunities related to Varma’s entire value chain, which are divided into sustainability topics associated with the environment, people and society as well as good governance.

We reviewed these sustainability impacts, risks and opportunities according to the following classification:

Upstream value chain	The upstream value chain category covers the early phases of Varma’s value chain, excluding the impacts, risks and opportunities of the investment portfolio and the value chains of direct real estate investments. This category takes into account the services and products purchased by Varma that are related to Varma’s own operations.
Varma’s own operations	Varma’s own operations cover all impacts, risks and opportunities related to Varma’s own direct operations. This category includes Varma’s external services, such as earnings-related pension insurance and work ability services, as well as properties in Varma’s own use. The category also includes Varma’s internal services that facilitate external services, such as HR.
Investment portfolio	The investment portfolio category includes the impacts, risks and opportunities of all of Varma’s investments, excluding direct real estate investments. The category also includes the impacts, risks and opportunities of the value chains of Varma’s portfolio companies.
Direct real estate investments	Direct real estate investments include the impacts, risks and opportunities of properties owned directly by Varma and their value chains. The category takes into account the construction, maintenance, demolition and leasing of properties.
Downstream value chain	The downstream value chain consists of Varma’s customers, namely entrepreneurs, companies, insured persons and pension recipients. This category takes into account the impacts, risks and opportunities affecting them or arising from them.

We worked on the identified impacts, risks and opportunities in two separate internal workshops. We categorised the impacts into actual and potential impacts, as well as positive and negative impacts, scored on the basis of scale, scope, irremediability and likelihood. We assessed the risks and opportunities facing Varma based on their magnitude and likelihood.

The resulting preliminary assessment served as the basis for 13 takeholder interviews, on the basis of which we further refined the assessment. The interviews were attended by Varma’s employees, members of the Board of Directors and representatives of pension recipients, employers and employees with earnings-related pension insurance. Of the interviewees, 17 represented internal stakeholders and 5 represented external stakeholders.

The final sustainability topics material to Varma were approved by Varma’s Executive Group in December 2023 and communicated to the Audit Committee and Board of Directors.

Next, we will explain the identification and assessment of impacts, risks and opportunities a little more.

Identification and assessment of sustainability impacts

In identifying sustainability impacts, we used information from Varma’s internal and external reporting, reports on various topics, Varma’s operating principles and goals, external studies and reference frameworks, as well as expert opinions collected in double

materiality assessment workshops and stakeholder interviews.

In identifying environmental impacts, we used previous reporting and reports on environmental impacts, such as

- results of greenhouse gas emissions calculations
- measured data on energy and water consumption and the generation of waste
- climate risk reviews of the investment portfolio and owned properties
- portfolio biodiversity survey
- biodiversity guidelines for owned properties and
- Varma’s objectives and operating principles.

In addition, in identifying the environmental impacts of the investment portfolio, we used the sector allocation of Varma’s investment portfolio and the SASB standards, i.e. the sector-specific sustainability reporting standards developed by the Sustainability Accounting Standards Board (SASB).

In identifying the impacts on people and society, we used available information from internal and external reporting based on HR systems and personnel surveys, among others, as well as human rights risk surveys conducted by Varma.

Criteria used to assess the materiality of the impact and numerical values applied

We then assessed the materiality of the identified impacts using the following criteria, to which we applied the numerical assessments presented:

Criterion	Description of the criterion	Applied numerical values
Scale	How serious is the negative impact or how beneficial is the positive impact for people or the environment.	Numerical evaluation on a scale of 1 (minimum) – 5 (extreme)
Scope	How widespread are the negative effects. With regard to environmental impacts, scope was understood as the extent or geographical area of environmental damage and, with regard to impacts on people, as the number of people affected.	Numerical evaluation on a scale of 1 (local) – 5 (global)
Irremediable character	Whether the negative impacts can be remedied and to what extent, i.e. whether the environment can be restored or people returned to their former health. The assessment of remediability only concerned potential or actual negative impacts arising from Varma’s business operations.	Numerical evaluation on a scale of 1 (easily remediable) – 5 (irremediable)
Likelihood	How likely is it that the impact will occur in the next five years? The likelihood was only taken into account in the assessment of impacts classified as possible, and factors were used in the numerical assessment.	Numerical assessment with factors: 0.65 (unlikely) – 1 (very likely)

We scored the materiality of the impact by adding together the numerical assessments of scale, scope and irremediability of negative impacts. With regard to possible impacts, we multiplied the figure by the likelihood factor of the impact. If the identified impact received a score of 8 or higher in the scoring, it was assessed to be material.

In addition, we assessed the impacts qualitatively based on, among other things, their time horizon, direct or indirect cause or where in the value chain they occur. We also assessed the investment-related impacts on the basis of the sector risk classification defined by the external standard, which we examined in relation to the sector allocation of Varma’s investment portfolio.

The preliminary assessment thus obtained served as the basis for stakeholder interviews. With the help of the expert opinions collected in the interviews, we further refined the impact assessment.

Identification and assessment of sustainability-related risks and opportunities

In this context, risks and opportunities related to Varma’s operations refer to the potential financial impacts related to sustainability topics that may affect development, financial position, financial performance, cash flows, availability of financing or cost of capital.

Varma can directly influence some of the identified risks and opportunities, but they can also depend on natural resources, human resources and social resources, among other

factors. We identified risks and opportunities simultaneously with the impacts, meaning that the dependencies between the impacts, risks and opportunities were taken into account in the assessment.

In identifying risks and opportunities, we used information from Varma’s internal and external reporting, risks identified in the risk management system, reports on various topics, Varma’s operating principles and goals, external reference frameworks and expert opinions collected in workshops and stakeholder interviews.

We identified sustainability risks identified in our risk management system, particularly those related to the climate. In addition, we used existing internal reports on climate risks, such as the climate risk assessment of properties, to identify climate risks.

We supplemented our views on the risks related to investments based on the sector risks of the SASB standards and the sector allocation of Varma’s investment portfolio. We used the same external classification to identify the risks associated with environmental sustainability issues, pollution, water, biodiversity and the circular economy. In identifying risks related to biodiversity, we also used Varma’s biodiversity roadmap and data from external reporting.

We identified the risks and opportunities arising from our own employees in accordance with the practices and guidelines in use at Varma, external reporting and the equality and non-discrimination plan.

We identified investment risks relating to people and society using the SASB standards and sector classification, while we used Varma’s Supplier Code of Conduct with regard to the procurement of products and services.

We interpreted sustainability topics relating to consumers and end users to be connected with Varma’s downstream value chain, and we identified risks and opportunities regarding these through external reporting, the sustainability programme, the UN Sustainable Development Goals and several operating principles in use.

Sustainability risks and opportunities relating to the conduct of business operations in Varma’s own operations have already been integrated in many respects into Varma’s risk management system and were thus identified in the assessment. We used the SASB standards in identifying the risks associated with investments. We identified tax-related risks that complement the sustainability topics identified in the standards used for sustainability reporting with the help of the tax policy.

Criteria used for assessing the materiality of risks and opportunities and applied numerical values

We assessed the materiality of the identified risks and opportunities using the following criteria, to which we applied the numerical assessments presented:

Criterion	Description of the criterion	Applied numerical values
Likelihood	What is the probability that the risk will occur after the existing preventive measures or the opportunity?	Numerical evaluation using factors: 0.65 (unlikely) – 1 (very likely)
Magnitude	The extent to which risks or opportunities affect or may affect the company’s financial operations.	Numerical evaluation on a scale of 5 (very high) – 1 (minimum)

We rated financial materiality by multiplying the magnitude of the risk or opportunity by its likelihood. If the identified risk or opportunity received a score of 3 or higher in the rating, it was assessed as material.

We also assess risks and opportunities qualitatively based on, among other things, the time horizon, direct or indirect cause or where in the value chain they arise. We also assessed the risks and opportunities associated with investments on the basis of the sector risk classification defined by the external standard, which we reviewed in relation to the sector allocation of Varma’s investment portfolio.

The preliminary assessment thus obtained served as the basis for stakeholder interviews. With the help of the expert opinions collected in the interviews, we further refined the assessment of risks and opportunities.



Sustainability topics assessed as material

The climate and human rights impacts of investments and, on the other hand, the systemic risks relating to climate change, biodiversity loss and risks of human rights violations or violations of good governance were emphasised among the identified material sustainability topics.

The realisation of our customers' rights, securing their livelihoods and topics related to responsible business practices emerged as essential topics in our own operations. Influencing the climate impacts of our own operations and seeing to our employees' working conditions and equality were identified as equally material.

In direct real estate investments, the environmental impacts relating to climate change and resource efficiency as well as the safety aspects of employees and tenants in the value chain are particularly significant sustainability topics.

In addition to the climate impacts of purchased products and services, corporate culture and supplier relationships are material sustainability topics for Varma.

The sustainability topics assessed as material in the double materiality assessment for 2023 and the associated impacts, risks and opportunities serve as the basis for Varma's sustainability reporting.



Sustainability topics assessed as material

Sustainability topics related to people and society

- 1 Equal treatment of own workforce and equal opportunities
- 3 Personal safety of consumers and end users
- 5 Other work-related rights of own workforce
- 6 Equal treatment and equal opportunities for employees in the value chain
- 7 Working conditions of own workforce
- 8 Social inclusion of consumers and end users
- 9 Information-related impacts for consumers and end-users
- 11 Other work-related rights of employees in the value chain
- 17 Working conditions of employees in the value chain
- 18 Communities' civil and political rights
- 19 Rights of indigenous communities
- 20 Communities' economic, social and cultural rights

Sustainability topics related to the environment

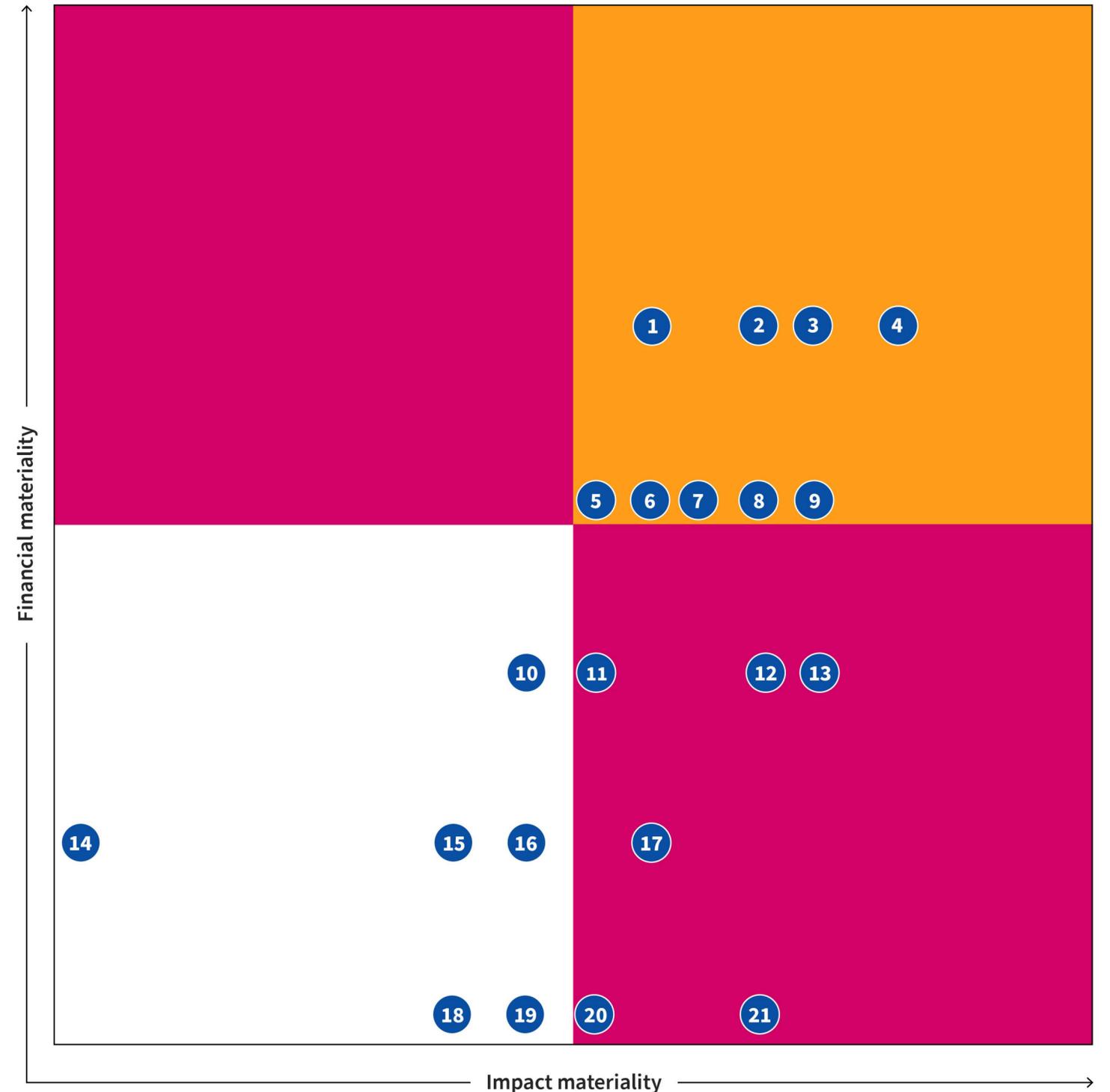
- 2 Climate change adaptation
- 4 Mitigating climate change
- 6 Energy, Resource inflows, including the use of resources
- 9 Direct drivers of biodiversity loss
- 10 Pollution of air
- 14 Pollution of living organisms and food resources, Microplastics, Substances of very high concern
- 15 Substances of concern
- 16 Pollution of water, Pollution of soil, Water
- 17 Waste
- 19 Marine resources, Resource outflows relating to products and services
- 21 Impacts on the state of species, Impacts on the extent and condition of ecosystems, Impacts and dependencies on ecosystem services

Sustainability topics related to corporate governance

- 8 Corporate culture, Corruption and bribery, Relationships with suppliers
- 12 Political engagement and lobbying, Protection of whistleblowers
- 13 Taxes
- 18 Animal wellbeing

Meanings of the colours:

- Pink background:** Financially material or material impact
- Orange background:** Financially material and material impact
- White background:** Not material



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