



# Varma's Financial Statement 2016

15 February 2017

## 2016 – a stable and strong year



Solvency capital, €

10.2 bn



Market value  
of investments, €

42.9 bn



Return on  
investments

4.7%



People insured and  
pensioners

870,000



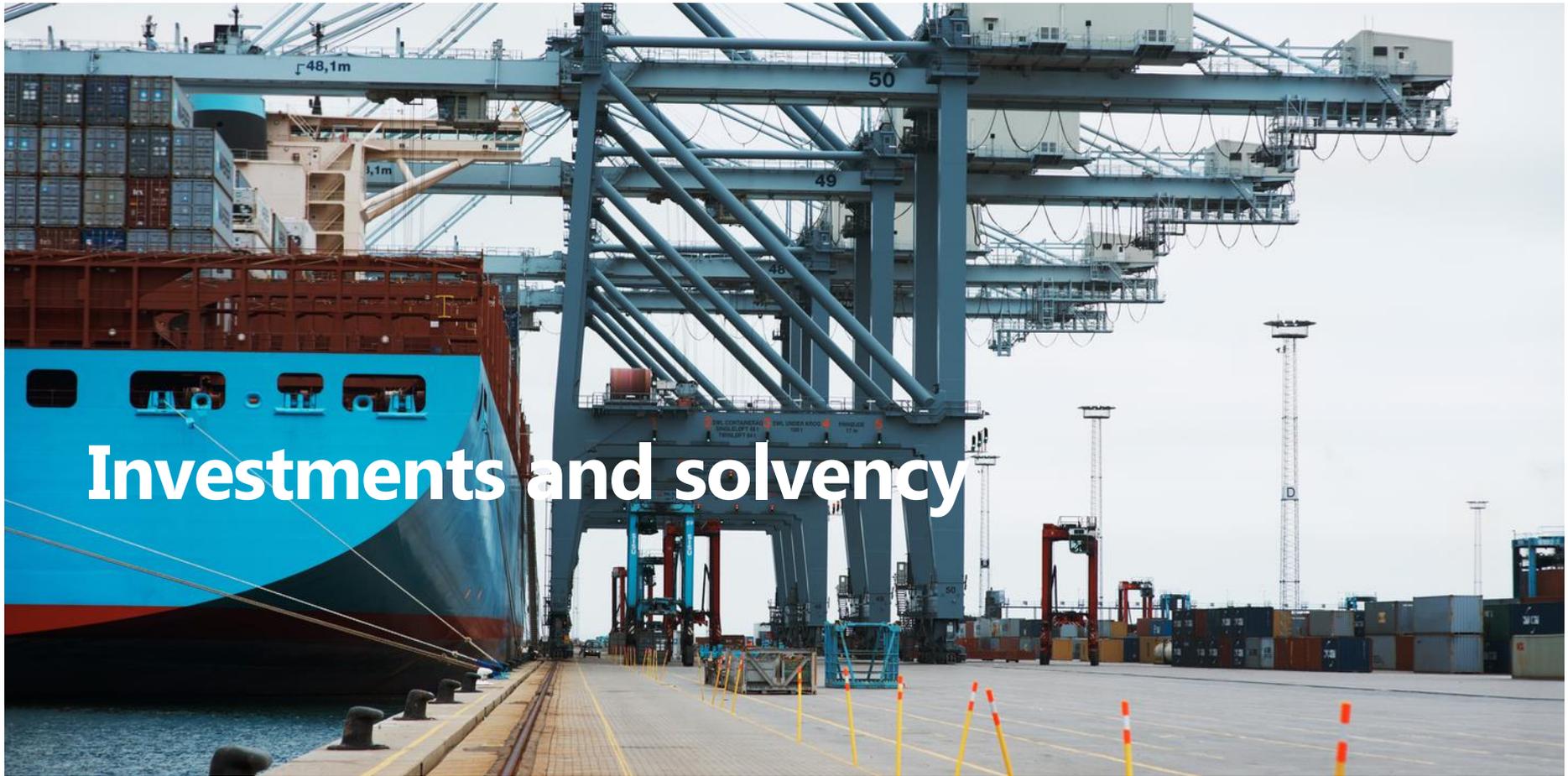
Premiums written, €

4.7 bn



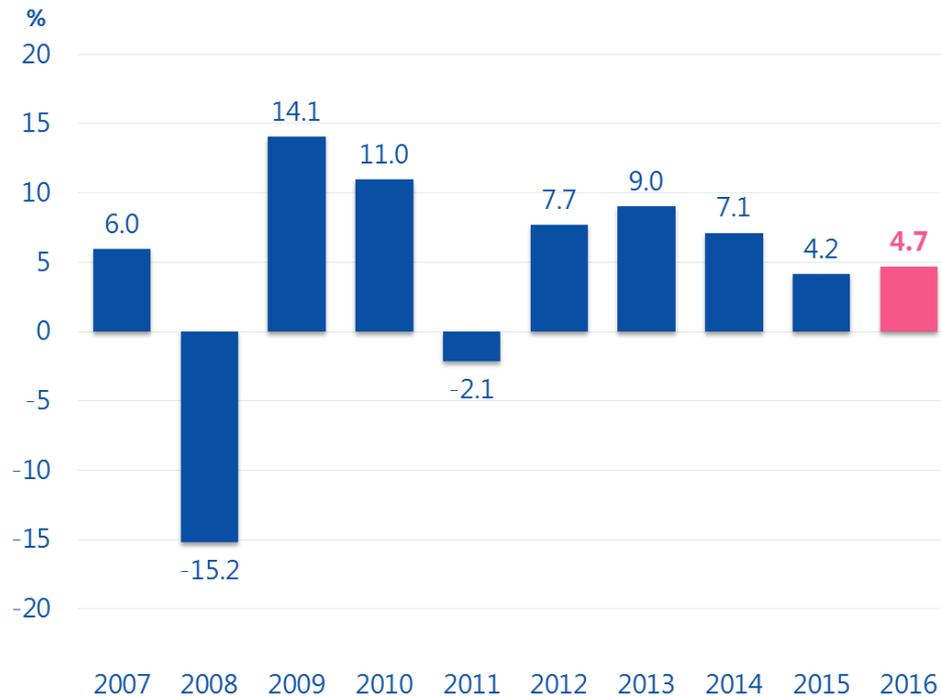
Operating expenses in  
relation to loading income

72%



# Investments and solvency

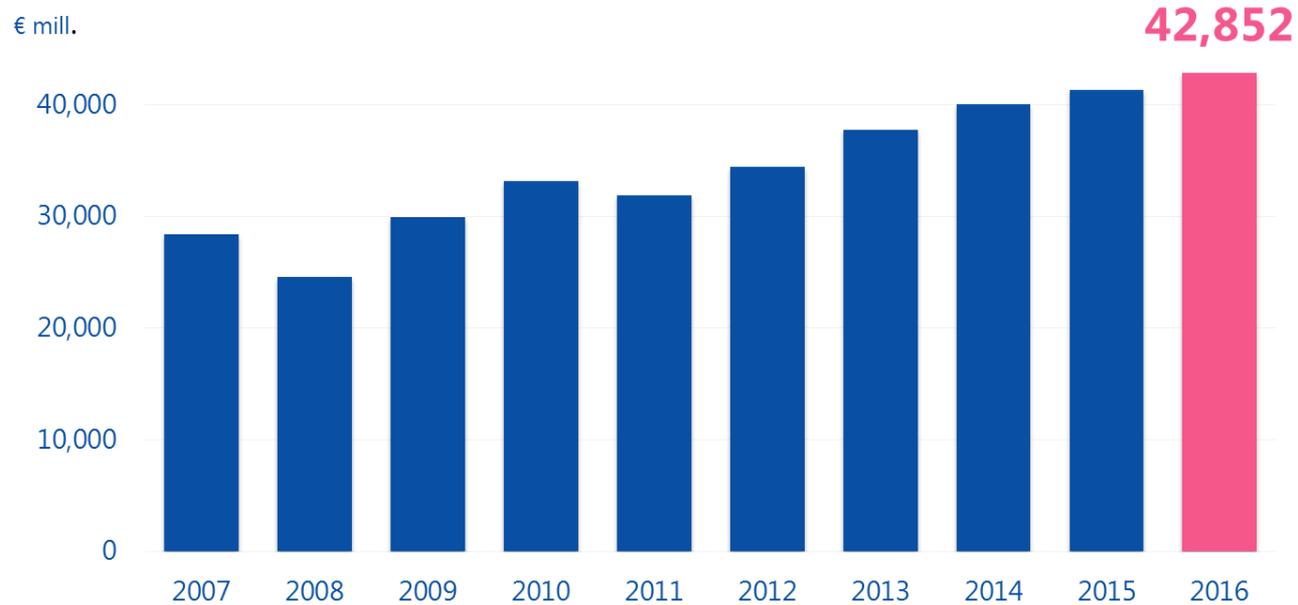
## Return on investments 2007–2016



The average nominal return on investments over ten years is approx. 4.3%, calculated in accordance with the recommendations issued by TELA.



## Market value of investments highest ever in Varma's history



## Post-financial-crisis upturn leveled out

Since 2009, the return on Varma's investments is EUR 18.1 billion, i.e. cumulative return amounts to 70.4%.

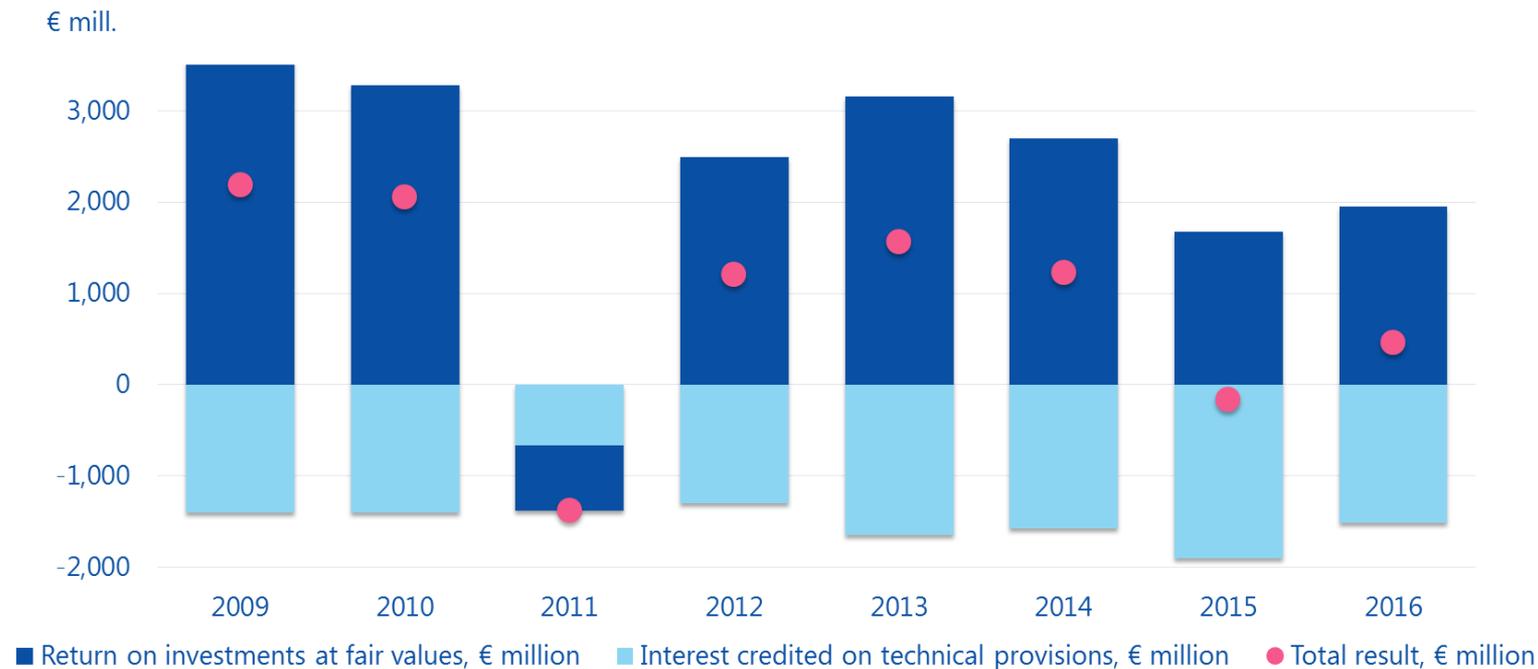


## Varma's investment year 2016



## Composition of the investment result

Investment return was 2,0 bn € and it exceeded the interest credited on technical provisions



# Investments classified according to risk

|                                              | 31-December-2016 |            | 31-December-2015 |            | 1-12/2016   | 1-12/2015   | 24 m<br>Volatility |
|----------------------------------------------|------------------|------------|------------------|------------|-------------|-------------|--------------------|
|                                              | Market value     |            | Market value     |            | Return      | Return      |                    |
|                                              | Risk position    |            | Risk position    |            | MWR         | MWR         |                    |
|                                              | € mill.          | %          | € mill.          | %          | %           | %           |                    |
| <b>Fixed-income investments <sup>1</sup></b> | <b>18,066</b>    | <b>42</b>  | <b>12,268</b>    | <b>30</b>  | <b>4.2</b>  | <b>-0.4</b> |                    |
| Loan receivables                             | 1,432            | 3          | 1,361            | 3          | 4.2         | 2.4         |                    |
| Bonds                                        | 12,780           | 30         | 8,757            | 21         | 5.3         | -0.9        | 3.4                |
| Public bonds                                 | 5,374            | 13         | 2,653            | 6          | 1.8         | -2.5        |                    |
| Other bonds                                  | 7,406            | 17         | 6,105            | 15         | 7.8         | 0.4         |                    |
| Other money-market instruments and deposits  | 3,854            | 9          | 2,151            | 5          | -0.4        | 0.5         |                    |
| <b>Equity investments</b>                    | <b>18,527</b>    | <b>43</b>  | <b>18,465</b>    | <b>45</b>  | <b>6.4</b>  | <b>8.8</b>  |                    |
| Listed equities                              | 14,793           | 35         | 14,938           | 36         | 4.5         | 8.0         | 13.0               |
| Private equity                               | 2,794            | 7          | 2,617            | 6          | 11.2        | 7.8         |                    |
| Unlisted equities                            | 940              | 2          | 909              | 2          | 23.7        | 21.2        |                    |
| <b>Real estate investments</b>               | <b>3,643</b>     | <b>9</b>   | <b>3,906</b>     | <b>9</b>   | <b>-0.9</b> | <b>3.3</b>  |                    |
| Direct real estates                          | 2,897            | 7          | 3,313            | 8          | -2.6        | 2.3         |                    |
| Real estate funds                            | 746              | 2          | 593              | 1          | 6.8         | 9.9         |                    |
| <b>Other investments</b>                     | <b>7,320</b>     | <b>17</b>  | <b>6,991</b>     | <b>17</b>  | <b>5.3</b>  | <b>3.5</b>  |                    |
| Hedge funds                                  | 7,184            | 17         | 6,663            | 16         | 5.6         | 3.9         | 3.1                |
| Commodities                                  | 137              | 0          | 352              | 1          |             |             |                    |
| Other investments                            | -2               | 0          | -24              | 0          |             |             |                    |
| <b>Total investments</b>                     | <b>47,555</b>    | <b>111</b> | <b>41,630</b>    | <b>101</b> | <b>4.7</b>  | <b>4.2</b>  | <b>5.3</b>         |
| Impact of derivatives                        | -4,703           | -11        | -336             | -1         |             |             |                    |
| <b>Investment allocation at fair value</b>   | <b>42,852</b>    | <b>100</b> | <b>41,293</b>    | <b>100</b> |             |             |                    |

The modified duration for all the bonds is 3.4.

<sup>1</sup> Includes accrued interest

## Investment returns for Varma and the markets

| %                             | Varma | Finnish equities | European equities | US equities | Euro government bonds | Euro corporate bonds |
|-------------------------------|-------|------------------|-------------------|-------------|-----------------------|----------------------|
| 2016                          | 4.7   | 13.3             | 1.7               | 12.0        | 3.3                   | 4.7                  |
| 2015                          | 4.2   | 15.9             | 9.6               | 1.4         | 1.6                   | -0.7                 |
| <b>Average nominal return</b> |       |                  |                   |             |                       |                      |
| 5 years                       | 6.5   | 17.2             | 11.3              | 14.7        | 6.1                   | 5.5                  |
| 10 years                      | 4.3   | 5.9              | 2.9               | 6.9         | 5.0                   | 4.5                  |
| Since 1999 *                  | 5.5   | 8.5              | 4.1               | 5.4         | 4.8                   | 4.5                  |
| <b>Average real return</b>    |       |                  |                   |             |                       |                      |
| 5 years                       | 5.4   | 15.9             | 10.1              | 13.5        | 5.0                   | 4.4                  |
| 10 years                      | 2.6   | 4.2              | 1.2               | 5.2         | 3.3                   | 2.8                  |
| Since 1999 *                  | 3.8   | 6.8              | 2.4               | 3.7         | 3.1                   | 2.8                  |

\* Varma, as it is today, was founded in mid-1998, so comparison data earlier than 1999 is not available.

Finnish equities = OMX Helsinki Cap Index

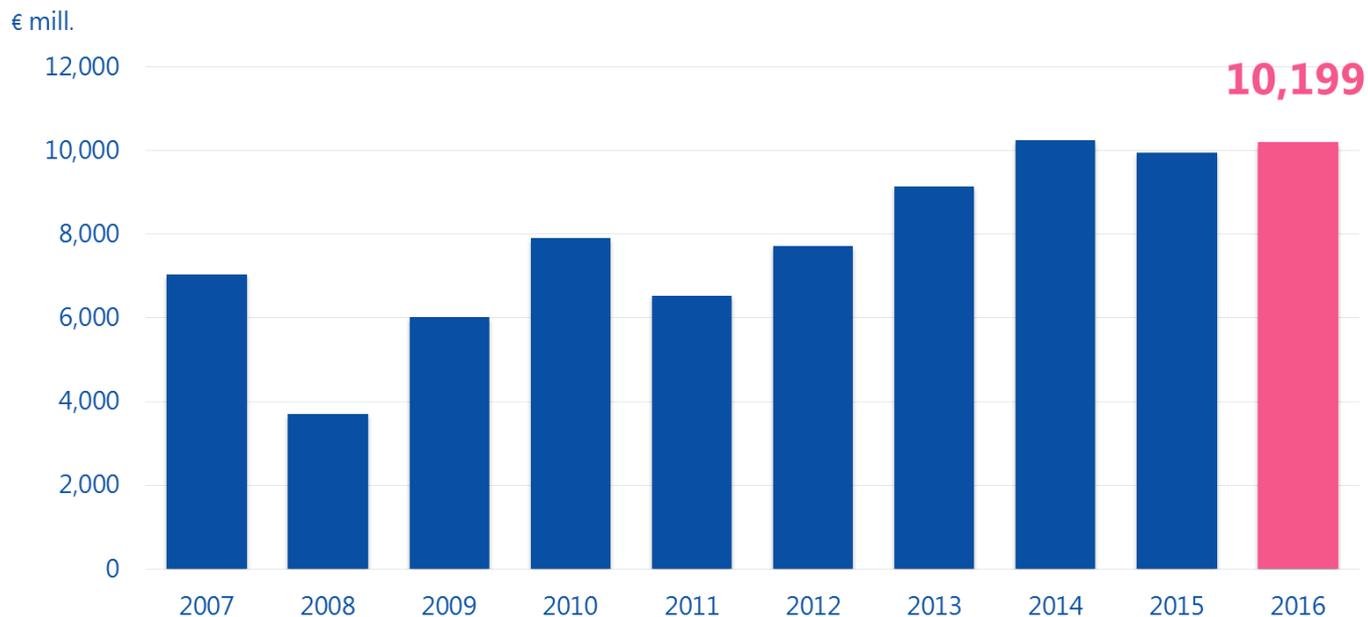
Euro government bonds = IBOXX Eurozone EUR (Total Return)

European equities = Stoxx 600 Total Return Index EUR

Euro corporate bonds = IBOXX Corporate Overall Performance Index EUR (Total Return)

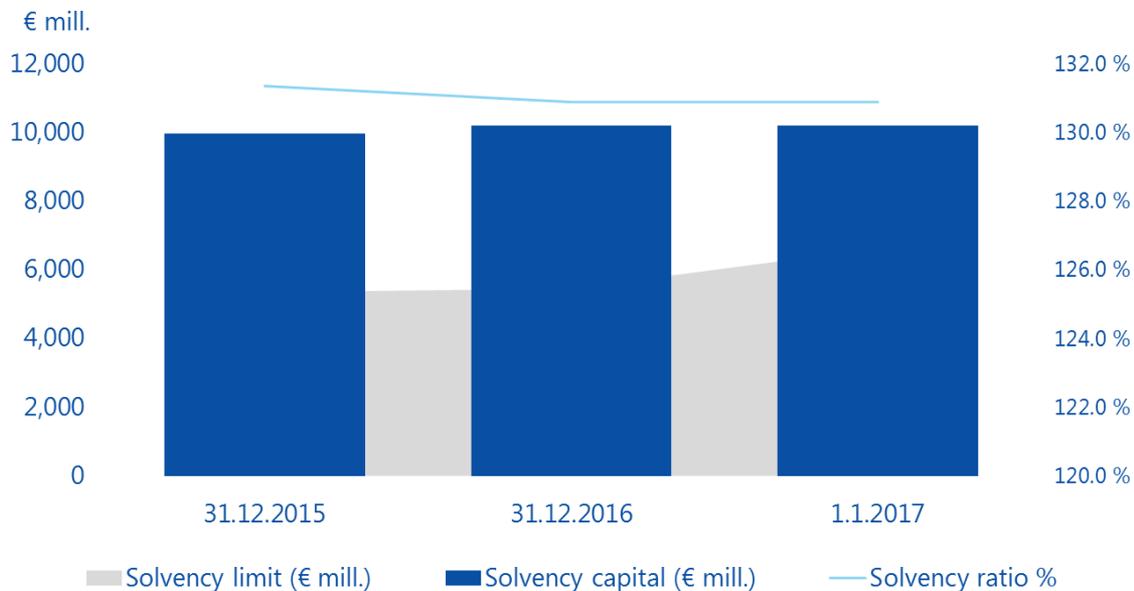
US equities = S&P500 Total Return Index

## Strong solvency capital

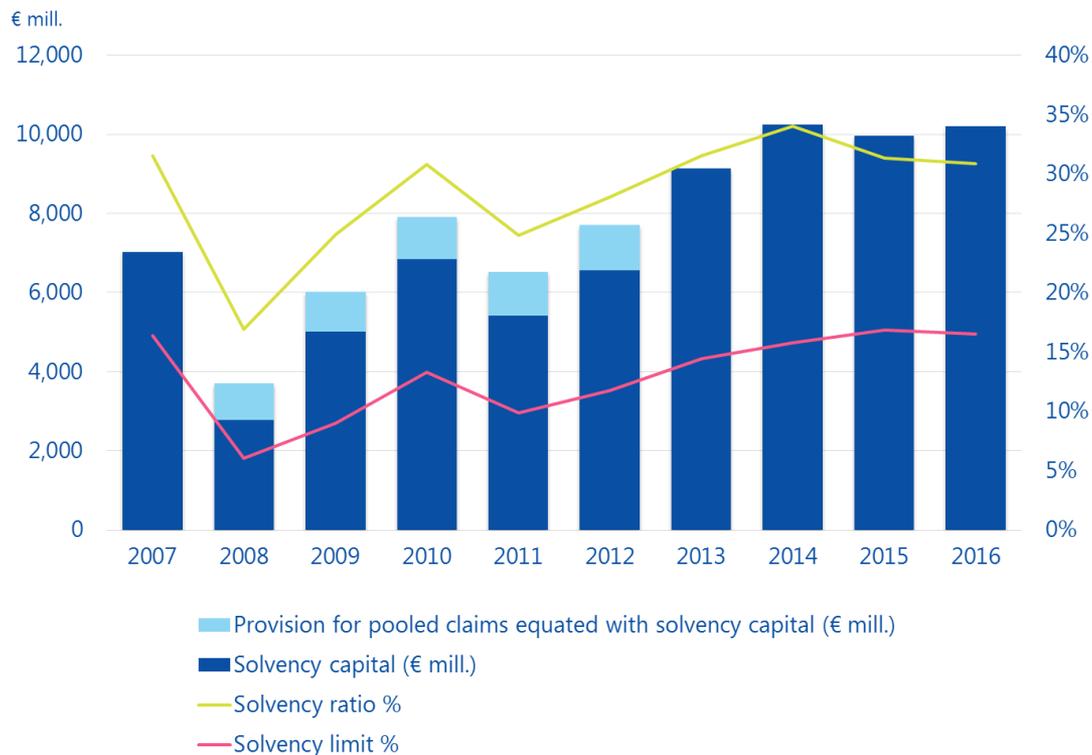


## Solvency legislation was reformed at the beginning of 2017

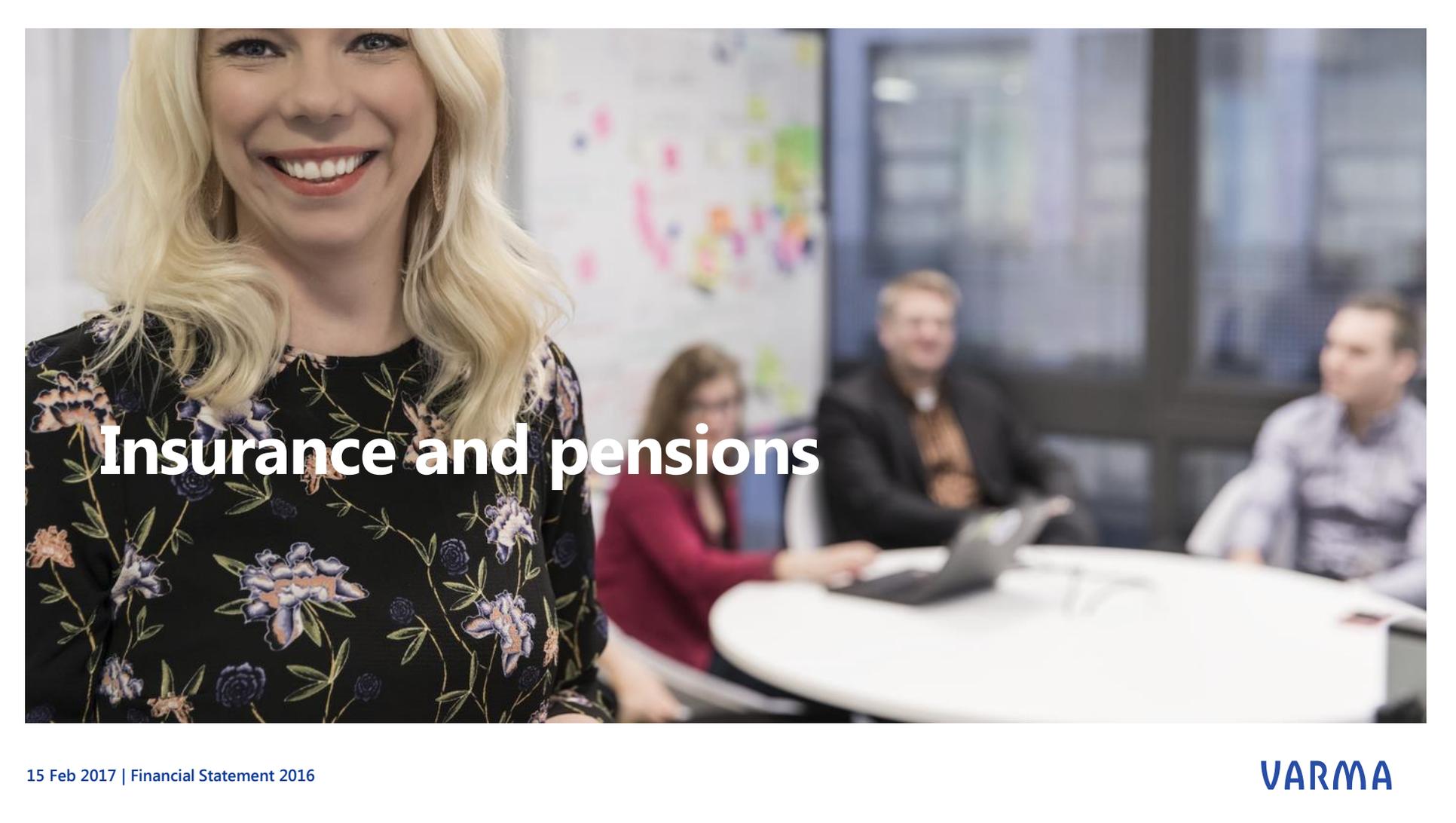
- Regulations concerning the calculation of the solvency limit and investment diversification were renewed at the start of 2017
- All the relevant investment risks and insurance risks will be taken into account in the calculation of the solvency limit. Separate regulations on technical provisions were abolished
- The changes have little effect on Varma's risk-bearing capacity



## Solvency



- In 2016, Varma's solvency capital strengthened by EUR 243 million to EUR 10.2 (10.0) billion
- Solvency ratio was 30.9% (31.4%)
- Varma's strategic goal is to maintain strong solvency through returns and operational efficiency

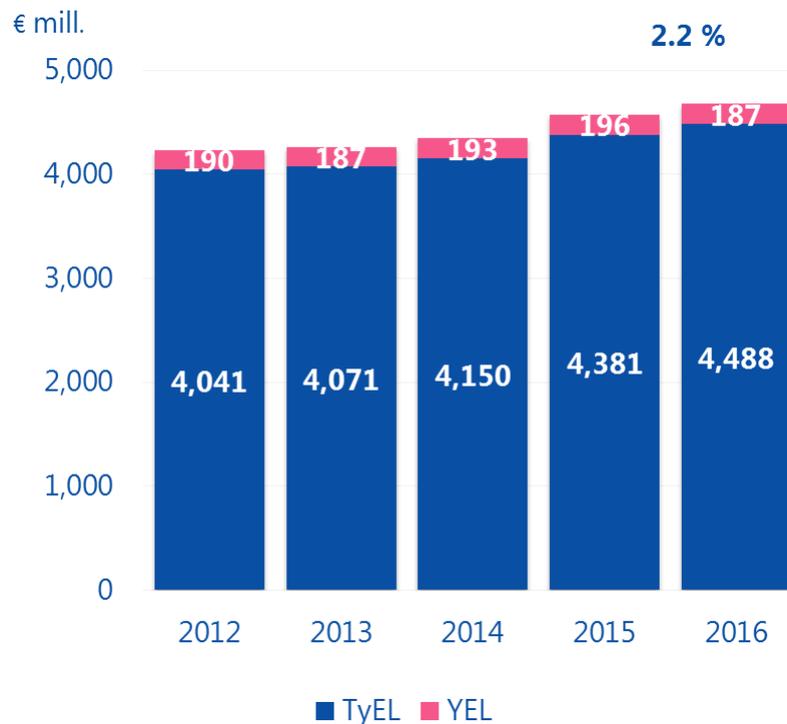


# Insurance and pensions

## Consistent development in premiums written

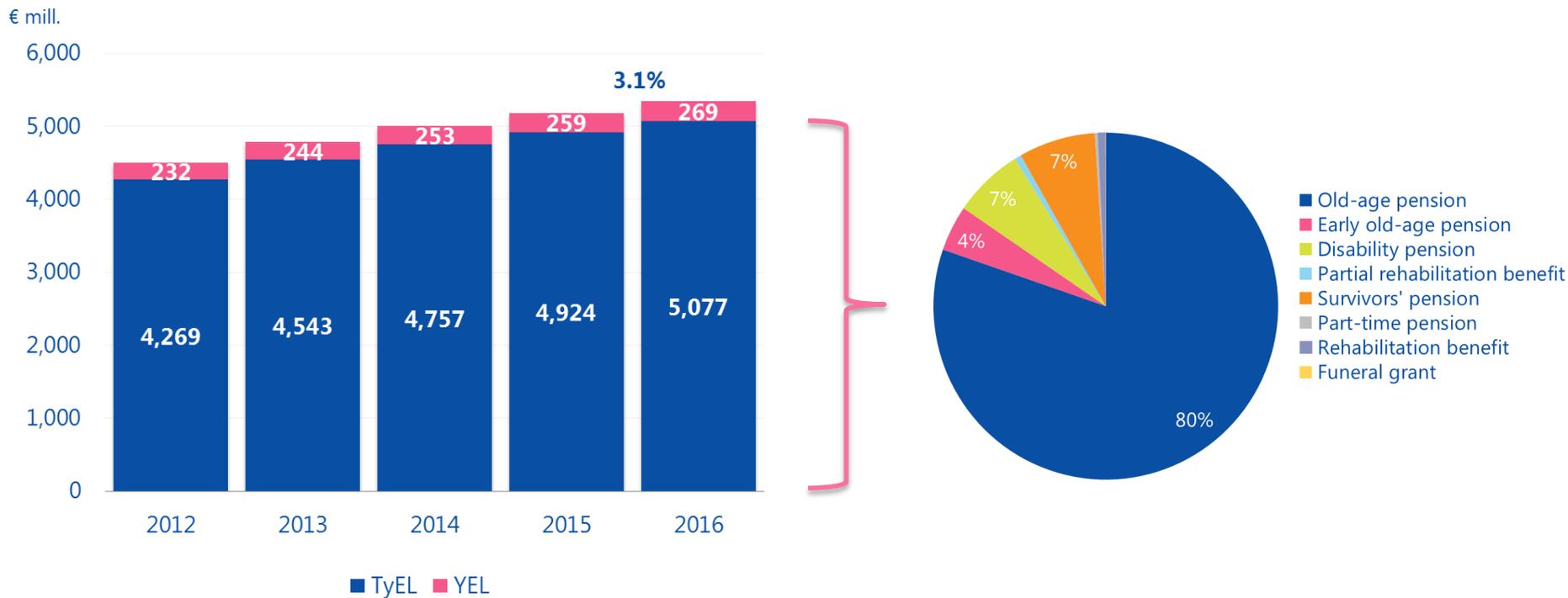
### Premiums written stood at EUR 4.7 billion

- Successful customer service supports increase in premium income.
- In terms of TyEL insurance contributions, the net result of insurance transfers between earnings-related pension insurance companies was EUR 43 million for the entire year

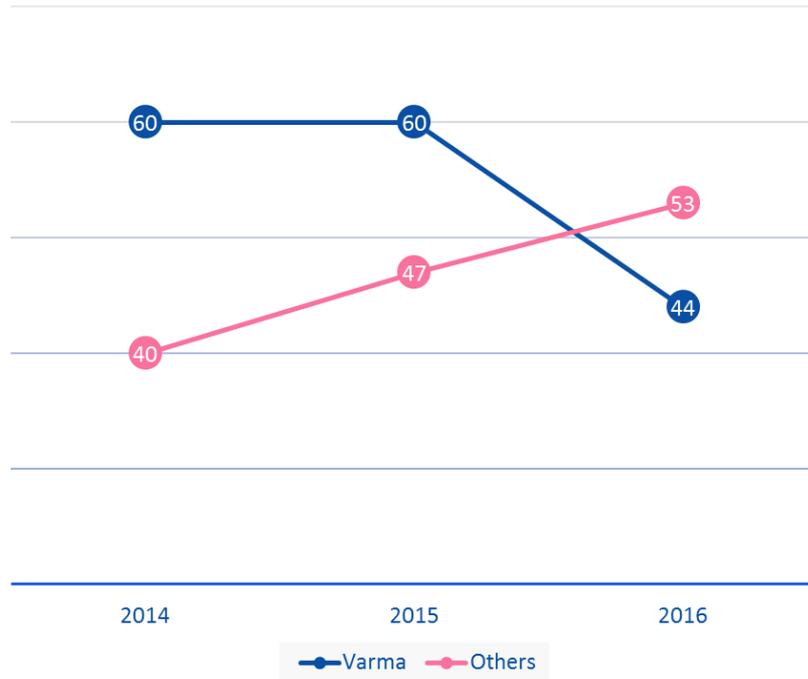


## Pensions paid

We paid out pensions in the amount of EUR 5.3 billion to 340,100 people

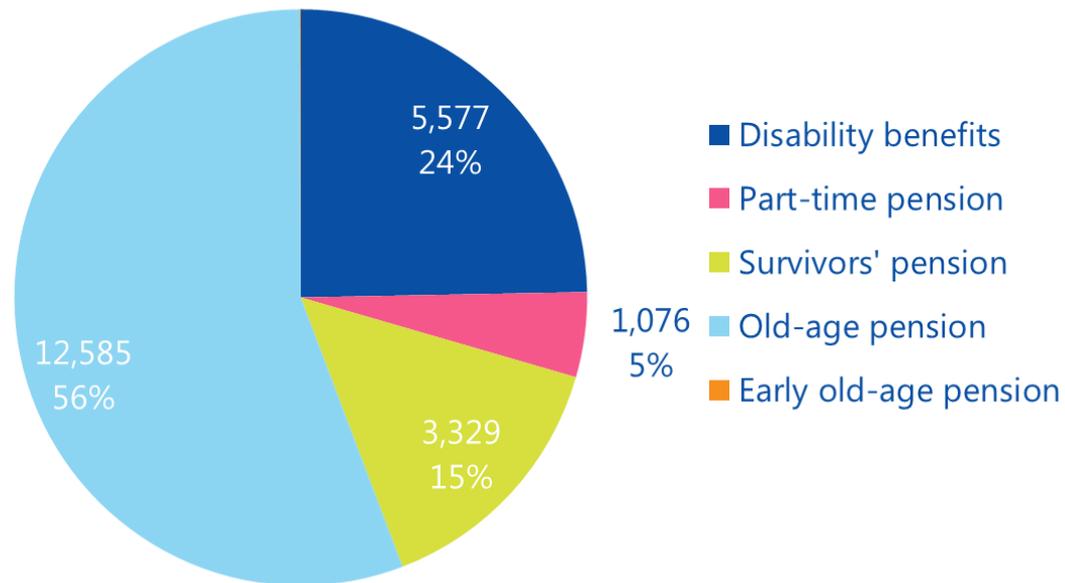


## Pension application processing time, days



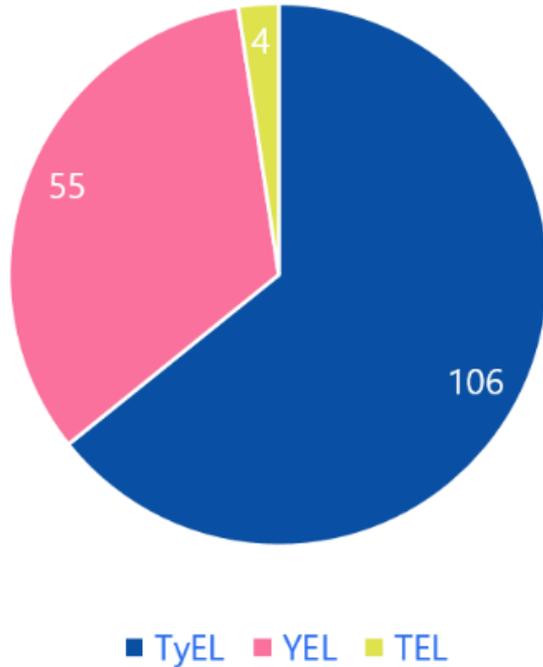
- Processing times fell from 60 days to 44 days, thanks to the introduction of a new applications processing system. This is 9 days quicker than in the sector on average
- Our goal is to pay pensions within 4 days of the pension decision
- In addition to the faster processing times, the decisions made are of high quality. Varma's pension decisions are changed in the appeals procedure less often than generally in the sector.

## New pension decisions totalled some 22,600



Pension applications made online accounted for 47% of all new pension applications.

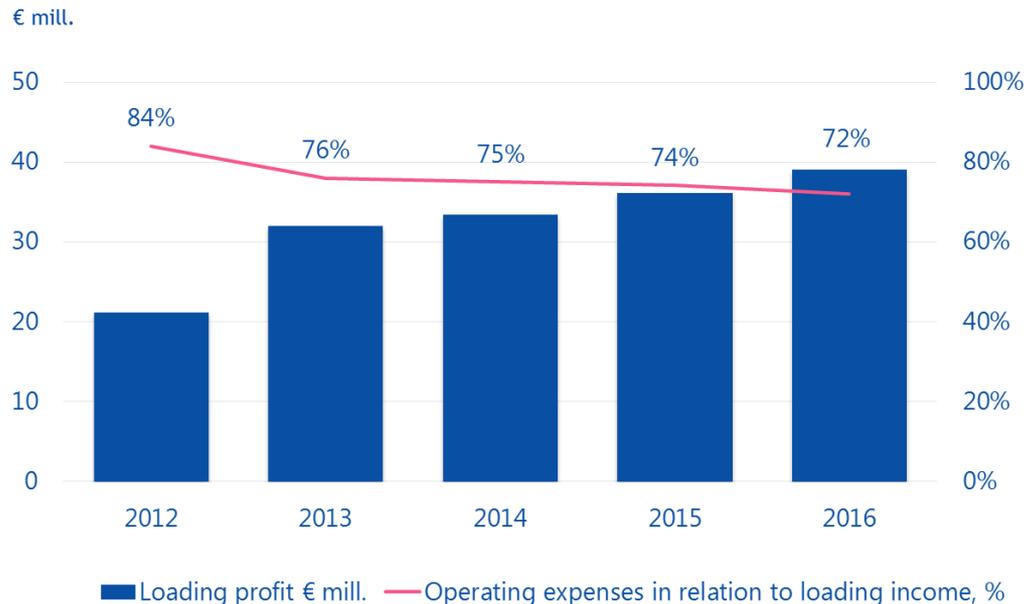
## Pension reform took effect as of 2017 – interest shown in the new pension type



- 352 applications in January
- Entrepreneurs' share large (ca 33%)
- Most applicants were men 62 and 63 years of age.
- The first partial old-age pensions began in February, more than 120 recipients currently
- The change caused a rush in part-time pension applications. We made 1,026 part-time pension decisions in 2016, an increase of nearly 55% from 2015.

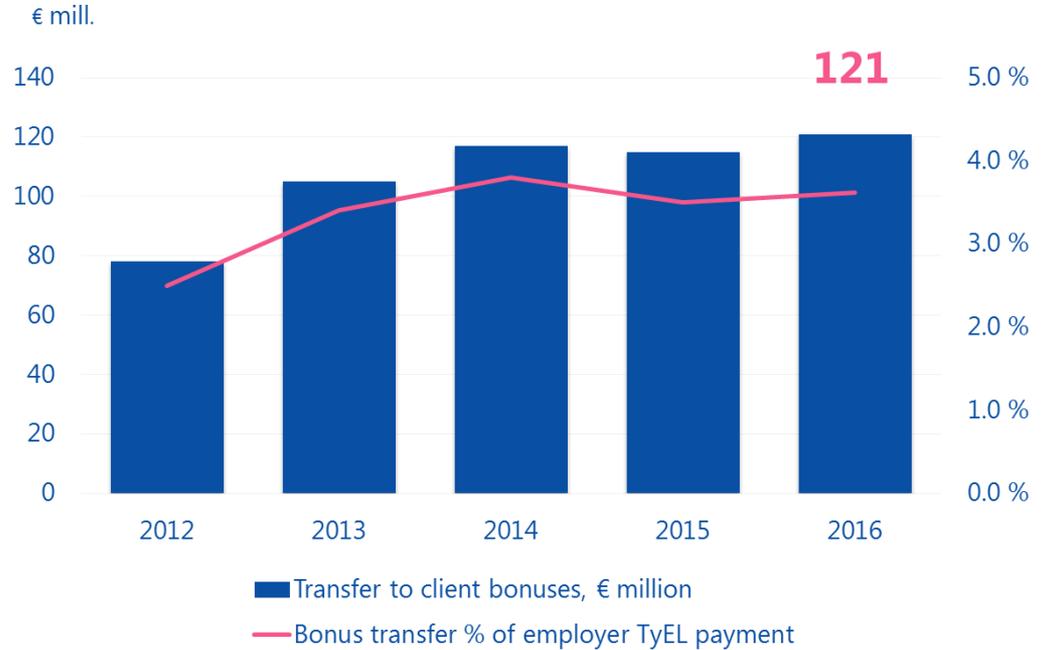
## We secure pensions cost-effectively

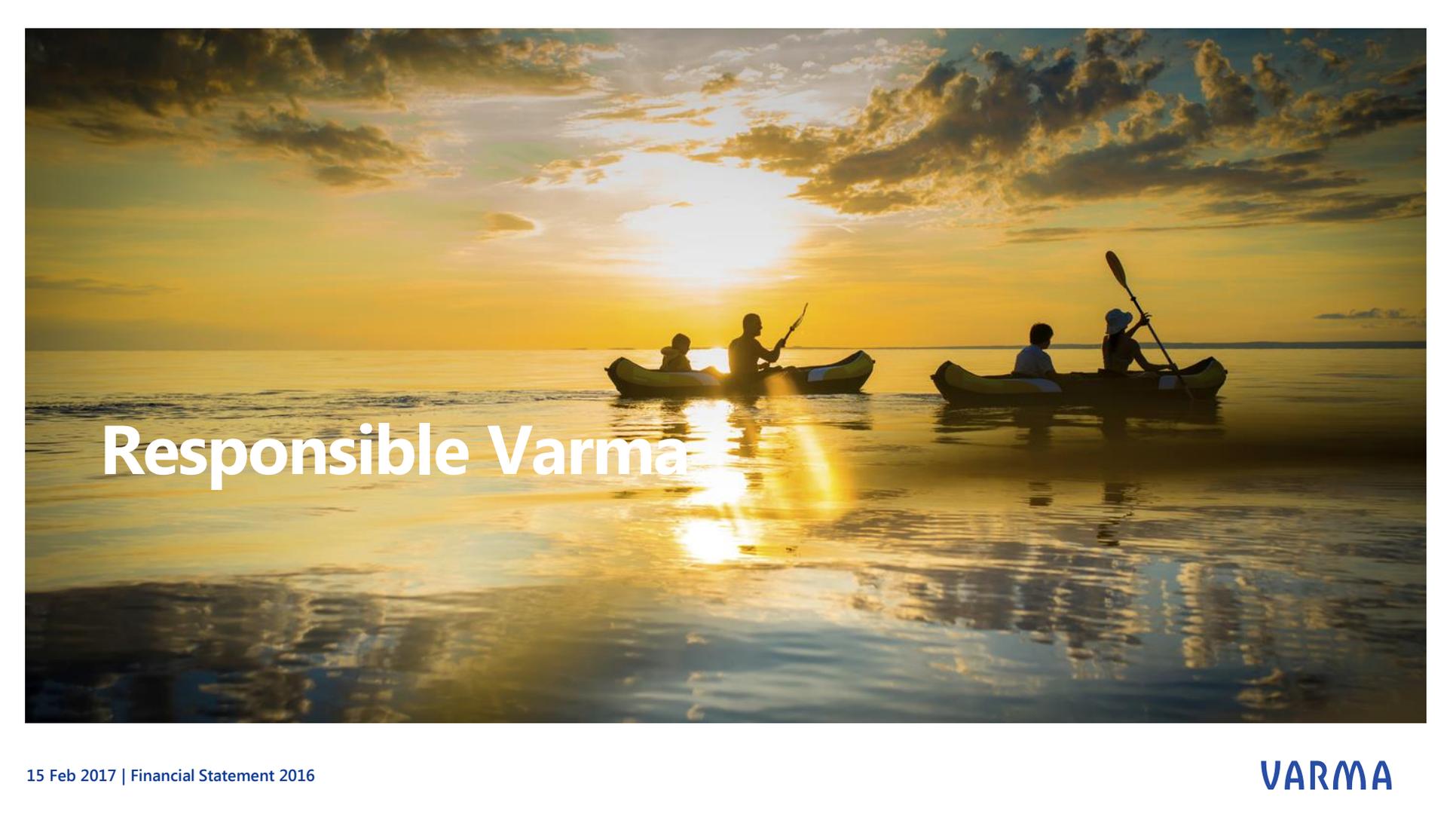
Of the amount reserved for operating expenses, we used 72%, i.e. EUR 101 million



## Client bonuses

Strong solvency and efficient operations lower clients' earnings-related pension insurance contributions





# Responsible Varma

## Varma's CSR focus areas

Securing solvency



Disruption-free implementation of pension provision



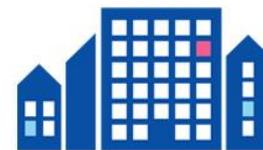
Open and pro-active communication



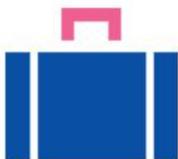
Promoting workability and longer careers



Transparent operations and administration



Responsible investment



Mitigating climate change



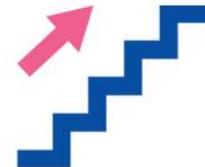
Varma employees' well-being at work and competence



Preventing the grey economy



Supporting entrepreneurship



## CSR results in 2016



### Investments' CO<sub>2</sub> footprint reduced

- The carbon footprint of the equity portfolio declined 22% in a year, that of corporate bonds 25%, and of real estate 8%
- Measures include weighing of low-emissions sectors, **sustainable development equity portfolio** (ca 400 million €) and the use of **solar power** in buildings.



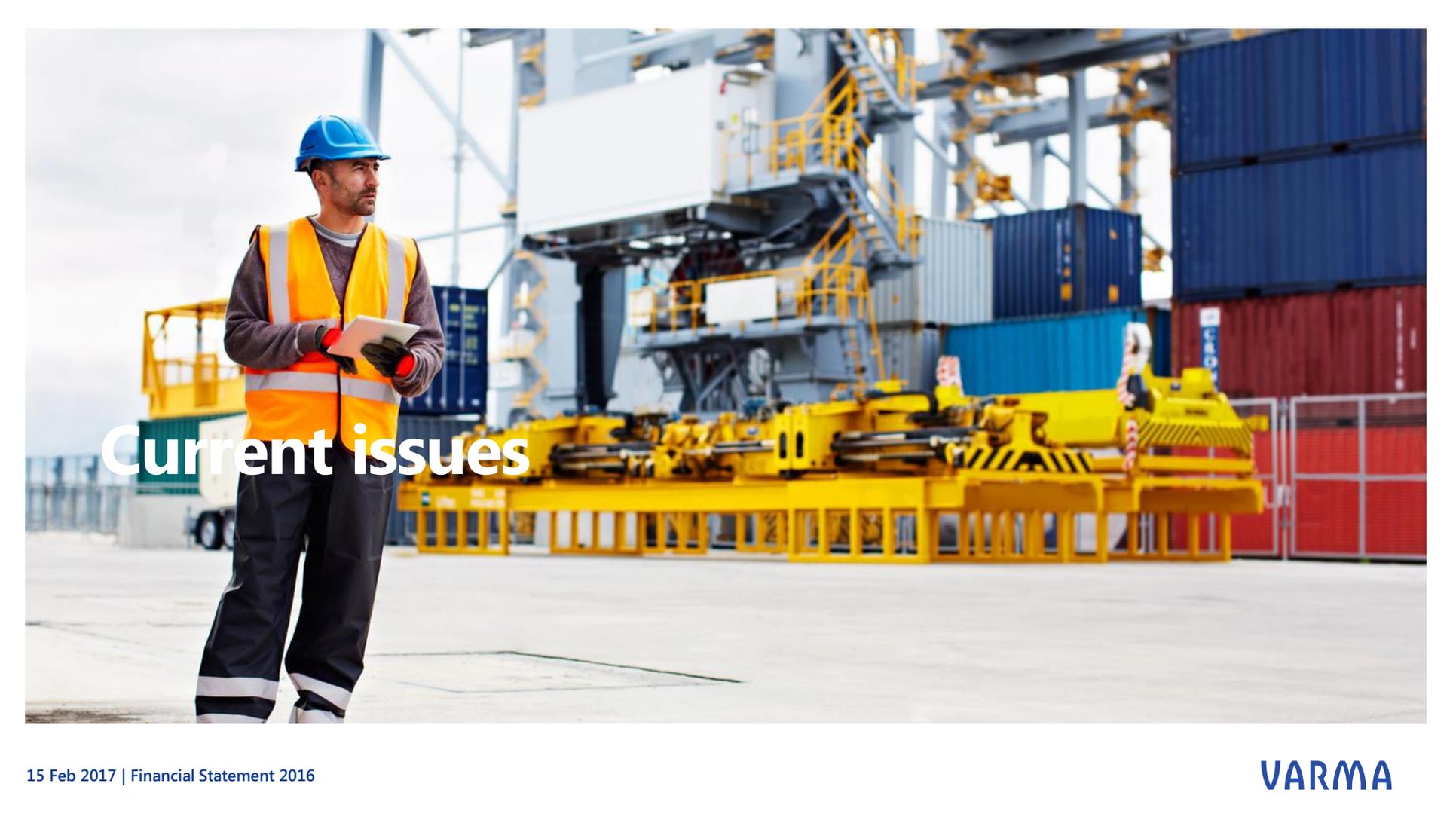
### Ethical and transparent business

- We published **the Code of Conduct**, updated insider guidelines and a sponsorship and donation policy
- As of April 2017, we will publish **information on our new well-being at work contracts**
- **GRI CSR report for 2016**



### Varma employees' responsibility

- We improve environmental friendliness through WWF's Green Office system; we calculated, e.g. **company cars' emissions limits** and we switched to **green electricity**.
- We have been improving our responsibility-related competence and promoted **equality and modern work culture**.

A photograph of a male worker in a blue hard hat and a high-visibility yellow and orange vest. He is holding a tablet and looking towards the right. The background shows an industrial facility with blue and red shipping containers, yellow machinery, and a concrete floor. The text "Current issues" is overlaid in white on the left side of the image.

# Current issues

## Current issues in the economy and at Varma

- Economic growth continues – political risks dominate
- Employment and exports are expected to strengthen gradually in Finland
- This year we will be focussing on improving services for entrepreneurs
- As of April 2017, Varma will publish information on our new well-being at work contracts



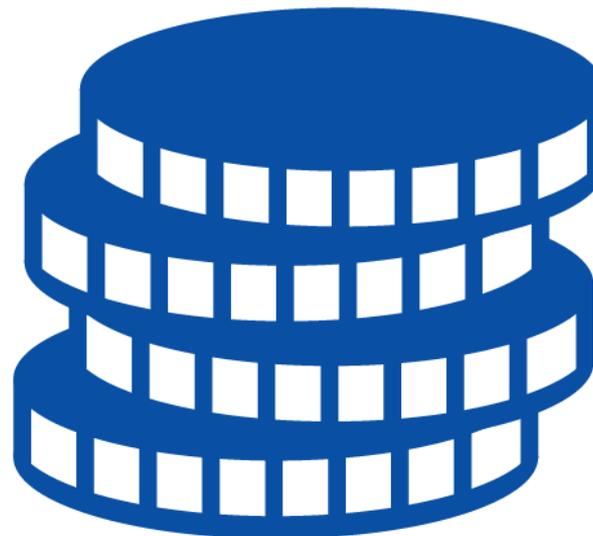
# Attachments

## Key figures

|                                                     | 2016    | 2015    |
|-----------------------------------------------------|---------|---------|
| Premiums written, € million                         | 4,675   | 4,576   |
| Pensions paid, € million <sup>1)</sup>              | 5,345   | 5,183   |
| TyEL-insured                                        | 493,890 | 486,960 |
| YEL insurance policies                              | 36,000  | 37,380  |
| Pensioners                                          | 340,100 | 337,100 |
| Investments, € million                              | 42,852  | 41,293  |
| Return on investment, € million                     | 1,953   | 1,679   |
| Return on investment, %                             | 4.7     | 4.2     |
| Total result, € million                             | 457     | -164    |
| Loading profit, € million                           | 39      | 36      |
| Operating expenses as % of loading component        | 72      | 74      |
| Technical provisions, € million                     | 33,501  | 31,866  |
| Solvency capital, € million                         | 10,199  | 9,956   |
| Solvency capital/technical provisions <sup>2)</sup> | 30.9    | 31.4    |
| Solvency capital/solvency limit                     | 1.9     | 1.9     |
| Parent company staff                                | 540     | 549     |

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

<sup>2)</sup> Ratio calculated as a percentage of the technical provisions used in calculating the solvency limit



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