

ANNUAL AND SUSTAINABILITY REPORT 2020

VARMA



01

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We created a forecasting model for identifying disability risks and reformed our service offering.

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We progressed towards our climate targets and reported on them in accordance with the TCFD recommendations.

VARMA IN BRIEF

Our core task is to secure pensions. We invest the assets collected as pension contributions profitably and securely for current and future pensions. Sustainability is an essential part of all our operations.

Varma provides pension insurance for work carried out in Finland. Our core task is to secure pensions. We take care of the statutory earnings-related pension cover of private entrepreneurs and employees. Companies take out TyEL insurance for their employees, while entrepreneurs insure themselves with YEL insurance.

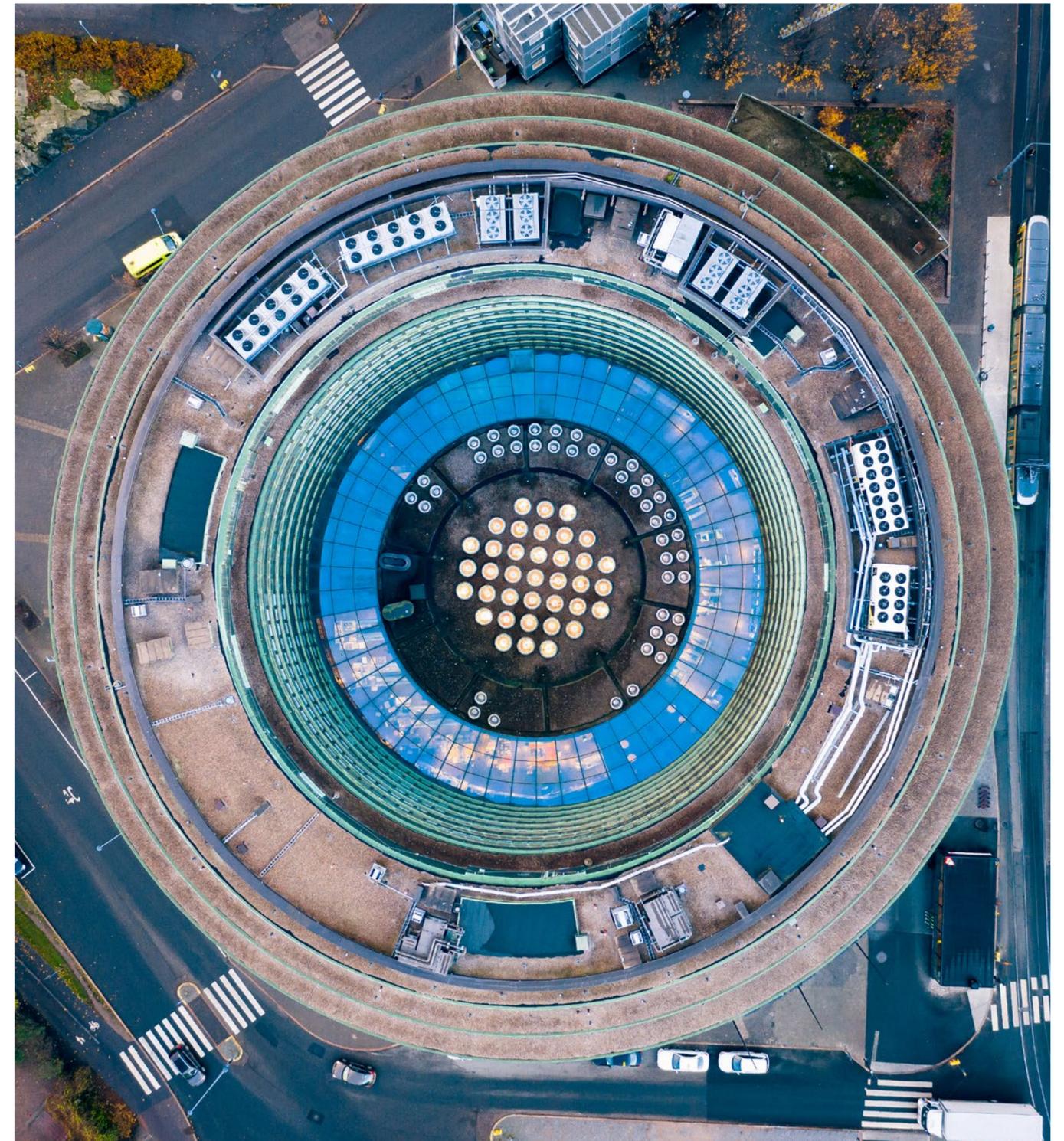
Varma is a responsible and solvent investor. We invest the assets collected as pension contributions profitably and securely for current and future pensions. We mainly invest in fixed income, equities, and real estate, and in hedge funds. As a real-estate investor, we focus on offering high-quality business premises and rental flats in growth centres. We also offer corporate financing to our customers.

Varma provides pension cover for more than 900,000 employees, entrepreneurs and pensioners. Our services in work ability management help client companies save in pension costs and private customers to continue in working life.

Varma is a mutual company, owned by its client companies, self-employed customers and insured employees.

Our success is based on our competent employees, who are passionate about their work. The slogan for our modern work culture is Varma employees – agile responsibility bearers. Varma has 558 employees. Varma’s head office is located in Salmisaari, Helsinki, and our network of account managers covers nearly the entire country.

Sustainability is an integral part of Varma’s core task and work culture.



President and CEO's Review:

VARMA AND THE PENSION SYSTEM WERE SHAKEN BUT NOT HURT BY THE YEAR OF COVID-19



The unprecedented year of the coronavirus pandemic put societies around the world to the test, but for Varma, the year was financially surprisingly good. Varma's investments yielded positive returns, pension assets reached a new record, solvency remained strong and efficiency improved. The positive investment result gives us a respite to consider the next reforms of the pension system.

2020 was a historical and even strange year, as the coronavirus pandemic put societies and economies to the test. Fortunately, it's safe to say, after the fact, that the worst fears have not come true in Finland. This is true for both Finland's economy and Varma's customers: the blow was less severe than feared.

The coronavirus pandemic affected Varma's employer and entrepreneur customers less than was anticipated at the start of the year. The number of pension insurance contribution enquiries increased during the year, but so far, the number of bankruptcies among Varma's clients is fairly low. It is clear, however, that many entrepreneurs and employers will continue to face difficulties in the coming spring, too.

Financially, the year was surprisingly good for Varma, considering the extent of the Covid-19 crisis in society. The return on our investments was positive, at 2.8 per cent, our solvency position remained strong throughout the year, and we also managed to improve our efficiency. Despite the profound crisis, Varma's pension assets rose to a new record, exceeding EUR 50 billion. Our pension assets have never been higher than they are now.

The year was characterised by investment market volatility and contrasting atmospheres. Early in the year, share prices plummeted, which resulted in strongly negative investment returns in the first quarter of the year. This was followed by a recovery, which was a positive surprise.

The pension system as a whole made it through the first year of Covid-19 well. This gives us a respite for planning the next reform of the pension system.

Eyes are now on Finland's growth and, first and foremost, on how to create jobs in Finland. The pension system is also dependent on work carried out in Finland, which is why it is a critical theme for us.

Uninterrupted pension provision while working remotely

Due to Covid-19, Varma employees switched to working remotely in spring 2020. Varma's remote working practices proved to be effective during the crisis, and the provision of earnings-related pension has continued without interruption. Despite the exceptional circumstances, we managed to improve our pension application processing times to ensure continuous income for our private customers, and the feedback from our client companies also improved. Private customers' satisfaction with our phone service rose to an all-time high: on a scale of 0–10, the grade was 9.3. The annual PeoplePower Index, measuring Varma employees' satisfaction and engagement, also rose to a record high of 78.1.

All this would not have been possible ten years ago. Thus, the development of Finnish working life, including remote working, positioned us exceptionally well, even in global terms, to take good care of our daily work.

Striving to be a pioneer in sustainability

We have been purposefully developing our sustainability over the past years. Sustainability is an integral part of Varma's strategy, and our goal is to be a leader in sustainability. We have already partly claimed that title, particularly in sustainable and climate-friendly investment.

In 2020, we continued our efforts to achieve our ambitious climate targets. Our long-term goal is to have a carbon-neutral investment portfolio by 2035. To achieve it, we will reduce emissions gradually in different asset classes. We have achieved the biggest decline proportionally in our real estate investments, in which emissions were nearly halved in five years. Pioneering climate actions, such as introducing geothermal heating in our rental flats, have played a part in this.

Our sustainability work has also received external, international recognition. We were included for the second year in a row in the PRI Leaders' Group in an international assessment by the UN-supported Principles for Responsible Investment (PRI). The theme for 2020 was climate-related reporting. Varma's company-level sustainability practices also received good feedback in an assessment by EcoVadis.

We at Varma have been focussing strongly on promoting an equal and a good working life. We have also been working on these themes with our cus-

tomers. Skilled Varma employees who are satisfied with and committed to their work are the bedrock of our success. The Covid-19 pandemic has most recently shown the importance of developing a modern and flexible work culture that promotes self-management and working irrespective of place.

Post-corona daily life in 2021

In the current year 2021, all Finns are eagerly waiting to get back to our workplaces and see society's services opened up. This requires vaccines, and I am confident that there will be success in terms of vaccinations and the lifting of restrictions in the next few months.

Here at Varma, we will keep working for efficiency and strong solvency. We will continue to develop, in particular, our digital services and even more effective disability risk management services, while reforming Varma and developing our merited work culture toward post-corona life.

I want to express my huge gratitude to our customers for their trust in us in this exceptional year and to Varma employees for their great work and going the extra mile!

Risto Murto

President and CEO

Eyes are now on Finland's growth and, first and foremost, on how to create jobs in Finland. The pension system is also dependent on work carried out in Finland, which is why it is a critical theme for us.

2020 THE YEAR IN BRIEF

In 2020, the return on Varma’s investments was EUR 1.4 billion or 2.8 per cent. The value of investments grew to EUR 50.2 billion at the end of 2020, the year of the coronavirus, exceeding EUR 50 billion in value for the first time in Varma’s history. Our solvency remained at a good level throughout the year, and operational efficiency was at an excellent level.

Value of investments

€**50.2** bn

Solvency

€**11.5** bn

Premiums written

€**4.9** bn

Investment portfolio’s
emissions down from 2015

equities **29%**

Return on investments

2.8%

Efficiency

61%

Pensions paid

€**6.0** bn

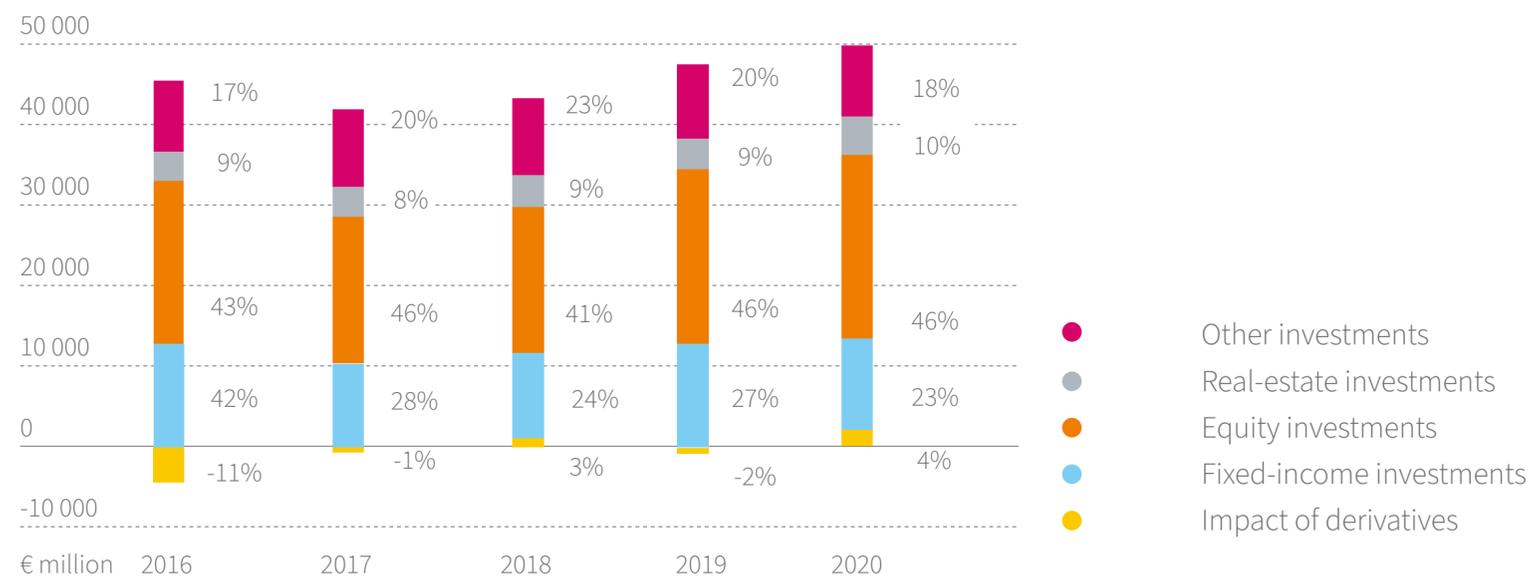
corporate
bonds **23%**

real estate **47%**

Investment returns, (%)



Investment portfolio (€ million)



The recovery of investment returns strengthened our solvency, which remained at a solid level throughout the year.

Return on Varma’s investments was 2.8 per cent, and solvency and efficiency remained strong

Varma’s return on investments stood at 2.8 (12.0) per cent in 2020. The best returns were generated by unlisted equities, 8.6 (16.9) per cent, private equity investments, 7.8 (15.1) per cent and public-sector bonds, 6.1 (2.6) per cent. The return on fixed-income investments was 1.9 (4.5) per cent and on real estate 2.0 (4.1) per cent. The return on other investments was -2.0 (4.5) per cent, of which hedge funds accounted for -1.0 (5.0) per cent.

The Covid-19 pandemic had a negative impact on Varma’s investment returns in early 2020, but in the final quarter, the returns were back in positive territory. Solvency remained strong throughout the year, and stood at 129.3 (130.8) per cent at the end of December. Varma’s operational efficiency was also at an excellent level. In 2020, administrative costs totalled EUR 78 (86) million, which is 61 (62) of the expense loading included in the insurance contributions. The smaller the percentage is, the more efficient the company is.

Varma to pay EUR 54 million in client bonuses

We gained a total of EUR 105 (144) million in new premiums written during the year. This includes the net impact of new sales and premiums written transferred from other pension institutions. Our premium income stood at EUR 4.9 (5.3) billion. At the end of 2020, 543,000 (541,900) individuals were insured by Varma.

We will pay back to our customers EUR 54.2 (171) million in the form of client bonuses. The bonuses are granted as deductions in insurance contribu-

Read more about our investments and solvency in the section Responsibility for pension assets.

Key figures 2020

	2020	2019
Premiums written, € million	4,930.9	5,285.6
Pension payments to pensioners, € million ¹⁾	6,028.0	5,856.1
TyEL insured 31 December	505,170	504,131
YEL policies	37,800	37,800
Pensioners	347,100	343,700
Investments, € million	50,157.0	48,708.9
Investment income, € million	1,371.6	5,240.6
Return on investment capital, %	2.8	12.0
Total result, € million	-230.6	2,197.5
Loading profit, € million	49.3	52.9
Operating expenses as % of loading profit	61.2	62.0
Transfer to client bonuses, € million	54.2	171.0
% of TyEL payroll	0.26	0.81
Technical provisions, € million	40,725.7	38,608.0
Solvency capital, € million ²⁾	11,516.8	11,646.3
in relation to solvency limit	1.7	1.8
Parent company staff 31 December	537	537
Personnel expenses	45.1	45.5
Donations, € million	0.02	0.01
Membership fees in sectoral organisations, € million	1.0	1.0
Purchases from service providers and suppliers, € million ³⁾	48.9	52.5

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

²⁾ Calculated according to the regulations valid at the time (same indicator applies to other solvency indicators)

³⁾ Excluding costs for investment operations (such as real estate development purchases)

Private customers' satisfaction with our phone service rose to an all-time high: on a scale of 0–10, the grade was 9.3.

We tell more about our work for our customers in the section **Responsibility for customers.**

tions. The amount of client bonuses fell to one third of the normal, because accumulating client bonuses was not allowed during the temporary reduction of pension contributions between May and December, as a result of a legislative amendment.

Popularity of partial old-age pension on the rise

We paid out pensions in the amount of EUR 6.0 (5.9) billion to 347,100 (343,700) people. A total of 51,900 new pension decisions were made during the year. Varma's total processing time for pension applications was 19 days, which is 6 days faster than in 2019. This means that we process pension applications 2 days faster than the sector average.

Of the different types of pension, the popularity of partial old-age pension grew in the early autumn, when public debate about the future of this pension benefit started. The number of applications increased by 2.9 per cent from the previous year. The number of disability applications Varma received varied substantially month to month in 2020, but the total number remained at the previous year's level. In terms of new disability pension applications, the proportion of mental health disorders as a reason for applying for disability pension increased 1.8 percentage points from the previous year. Rehabilitation applications were down 12 per cent compared to 2019. Private customers' satisfaction with our phone service rose to an all-time high: on a scale of 0–10, the grade was 9.3 (9.1 in 2019). We received feedback from around 17,000 customers.

VARMA'S SUPPORT FOR CUSTOMERS DURING THE CORONAVIRUS PANDEMIC

Varma supported its customers by extending insurance contribution payment terms and providing rental reliefs for business properties. Pension payments continued as normal. We focussed our resources on customer service and improved communication through multiple channels.



Ilkka Tomperi
Investment Director, Real Estate

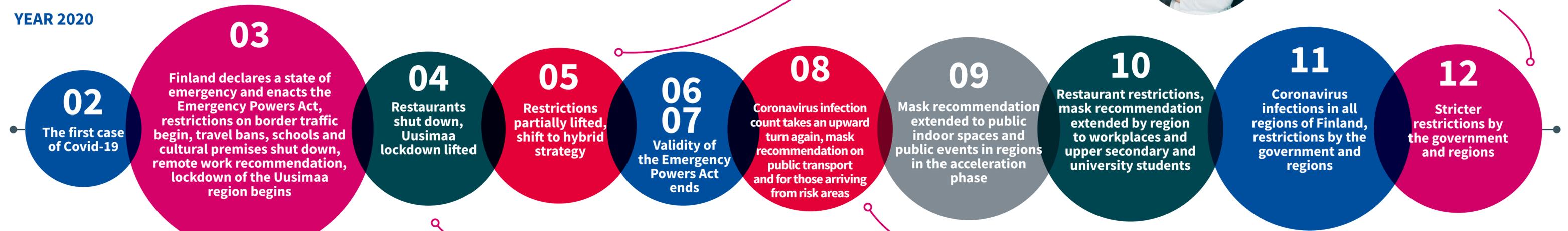
Business premises "We gave our cafe and restaurant tenants a two-month relief period in their rental payments for May and June. Entrepreneurs facing an especially difficult situation could also take advantage of rental payment flexibility for their business premises."



Tiina Kurki
Senior Vice President, Pension Services and IT

Pensions "We paid pensions as usual, and pension applicants received pension decisions faster than in the previous year."

YEAR 2020



Katri Viippola
Senior Vice President, HR, Communications and CSR

Communication "We increased and improved communication in all customer service channels. We launched a coronavirus-themed page on varma.fi. In our Varma Studio online discussions we explored the impacts of the pandemic on the economy, companies and work ability. Customer events went fully online."



Tiina Grönqvist
Director, Insurance Services

TyEL and YEL insurance "We extended the penalty-interest-free period of payment of TyEL and YEL insurance contributions falling due between the end of March and the end of June by a maximum of 3 months. The employer's share of the TyEL contribution was reduced by 2.6 percentage points between 1 May and 31 December 2020. We focussed our resources on customer service and increased our online services related to the extended payment period due to the coronavirus."

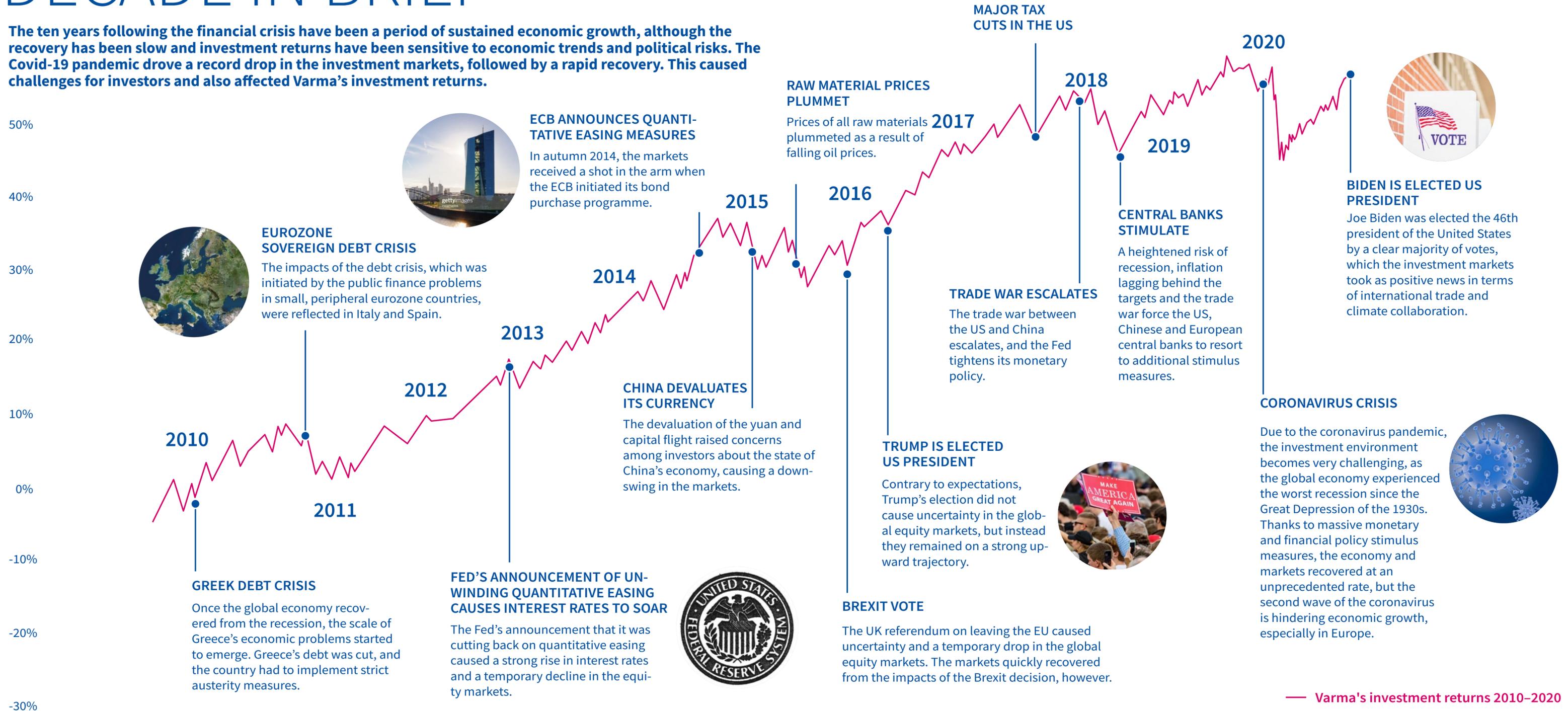


Reima Rytsölä
Deputy CEO, Investments

Investment activities "As the year progressed, investment returns picked up after the major downturn early in the year, and solvency strengthened compared to the situation at the beginning of the year. As a consequence of strong stimulus measures, the investment market and the plunging real economy took divergent paths."

DECADE IN BRIEF

The ten years following the financial crisis have been a period of sustained economic growth, although the recovery has been slow and investment returns have been sensitive to economic trends and political risks. The Covid-19 pandemic drove a record drop in the investment markets, followed by a rapid recovery. This caused challenges for investors and also affected Varma's investment returns.



— Varma's investment returns 2010-2020

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STRATEGY AND GOALS

We invest companies' and employees' funded pension contributions so that their returns guarantee our shared future. Our objective is to secure high-quality pension provision for our customers, foster strong solvency, operate efficiently and guarantee the positive development of premium income.

STRATEGY BUILDS ON OUR CORE TASK

Varma’s core task is to secure pensions. We are responsible for making sure that the pension funds our customers entrust us with are secure. Our work in 2020 was guided by the new strategy.

Our new strategy will guide our operations until 2025. The strategy is based on our enduring values and, in keeping with our core task, we are responsible for making sure that the pension funds our customers entrust us with are secure. Our vision is: We support you in a world that’s going through incredible change.

Our goal is to prove that we are worth our customers’ trust by being the most solvent, efficient and influential earnings-related pension insurance company. We provide the best client bonuses, smooth digital services and high-quality pension insurance services. We are a sustainability pioneer in what we do.

In 2020, we executed our strategy through change programmes related to customers, improving efficiency and Varma’s internal renewal.

Our objectives

In 2020, Varma’s targets related to the quality of pension services, the development of premium income, efficiency and solvency.

In terms of our pension-service quality targets, we measure the smoothness of pension applications

processing and the uninterruptedness of our private customers’ income.

Our target was for 85–89 per cent of new pension recipients to have their pension paid during their first month of their pension entitlement. The figure for 2020 was 87.9 per cent.

Premiums written totalled EUR 4.9 (5.3) billion. The temporary reduction of employers’ pension contribution lowered the premiums written compared to previous year.

Despite the coronavirus situation, our solvency remained good throughout the year, and towards the end of the year, our solvency capital strengthened to EUR 11.5 (11.6) billion. i.e. almost to the previous year’s level.

Varma manages pension cover very cost-effectively. In 2020, our efficiency continued to improve, and we used 61 (62) per cent of the amount of contributions reserved for operating expenses.

The smaller the percentage is, the more efficient the company is. Our efficiency, coupled with our strong solvency, guarantees the competitive client bonuses.

We are responsible for making sure that the pension funds our customers entrust us with are secure.

61%

Our efficiency continued to improve, and we used 61 (62) per cent of the amount of contributions reserved for operating expenses.

Our values

We are guided in our work by our values: courage, reliability and sustainability – with joy and passion.

Courage: We boldly find new ways of working, together with our customers. Our courage stems from trust, co-operation and strong competence.

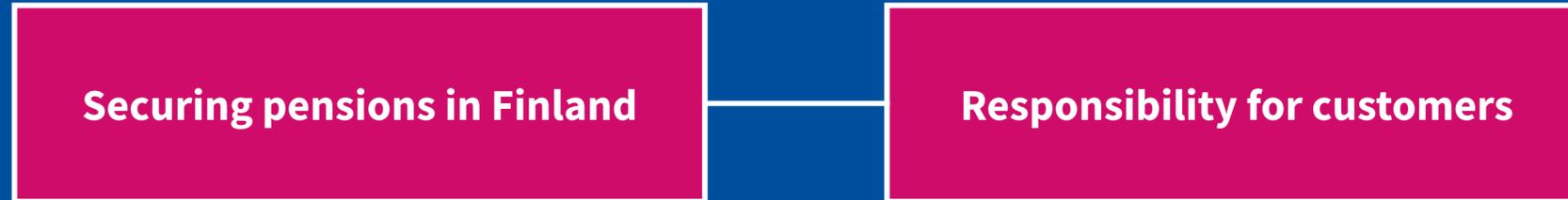
Reliability: We work openly and with integrity. We keep our promises to clients, partners and each other.

Sustainability: We continuously develop our responsible ways of operating. For us, sustainability means making long-term choices to secure pensions and improve operational efficiency.

We work and live our values every day with **joy and passion.**

Incredible change!

CORE FUNCTION



VISION

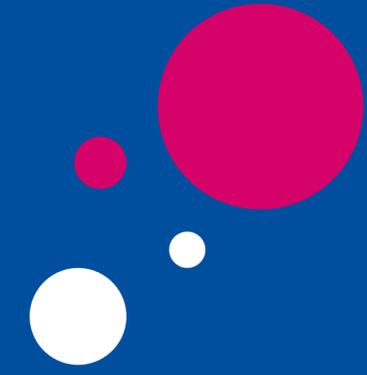
We support you in a world that's going through incredible change.

STRENGTHS

Best client bonuses	Pioneer in sustainability	Solvency as enabler	The most effective partner for developing work ability	Smooth digital solutions and high-quality pension insurance services
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VALUES

With joy and passion
Reliability
Sustainability
Courage



Changes and opportunities in the operating environment

Varma's targets

Quality of pension services

Solvency

Premiums written

Efficiency

CHANGES



- Private customers' expectations for broader digital services that are closer to real time.
- Need for high-quality personal customer service. Some elderly private customers or those in a challenging life situation have no access to digital services.
- Impacts of the exceptional circumstances due to Covid-19, the transformation of working life and the rising retirement age on work ability.

- The equity market's rapid recovery from the crash due to the Covid-19 crisis.
- Persistent low interest rates.
- The materialisation of financial risks related to the progression of climate change (e.g. wildfires, floods and drought) in the investment environment.
- Increasing regulation of institutional investors.

- Impacts of the Covid-19 pandemic on companies' operations: interruption of or stronger business, development of new business.
- Structural transformation of working life and companies: entrepreneurial work is increasing, and most new jobs are being created in SMEs.
- The development of Finland's age structure: the number of people in working life will decline.

- Competition in the earnings-related pension sector and the criteria for client bonuses highlight efficient implementation of pension provision.

OPPORTUNITIES



- Speeding up and improving customer service through automation and software robotics.
- Using digitalisation to develop services that match customer needs.
- Developing service models to be able to offer high-quality personal services in cases where digital services do not meet customer's needs.

- Identifying new, alternative types of investments.
- Exploring different hedging strategies in case of major market corrections.
- Broad diversification across asset classes and more efficient utilisation of allocation strategies.
- Wide-scale use of data in responsible investment.

- The Incomes Register makes it possible to develop real-time insurance services.
- Use of digitalisation and data to develop disability risk management services.

- Changes brought about by Covid-19 in how work is performed: increased remote work, self-management skills, new digital tools
- Automation and software robotics
- Collective self-direction
- Efficient and agile IT system development

Successes

Varma's targets

Quality of pension services

Solvency

Premiums written

Efficiency

SUCSESSES



- Pension applications processed 2 days faster than the sector average and 6 days faster than a year earlier.
- Extending the use of software robotics to different stages of the pension application process.
- Our phone service for private customers received a grade of 9.3, the highest ever.
- Private customers' use of digital services up 17%.
- Of those who received rehabilitation, 72% returned to work.

- Following the challenging Covid-19 spring, Varma's investment returns performed strongly in the latter half of the year.
- Strong solvency secured full operating ability and sufficient liquidity in the challenging market environment, providing good conditions for successful allocation towards the year-end.
- Varma included in the PRI Leaders' Group in an international assessment by the UN-supported Principles for Responsible Investment (PRI). Varma received, for the second year in a row, the highest score for its responsible investment strategy and governance.
- Varma received the first-ever Pelargonía award by the social movement Aktivistimumot (Activist Grannies) for its efforts to develop the company's investment activities towards carbon neutrality.

- Total payroll, which forms the foundation for contribution income, slightly increased despite the Covid-19 pandemic's impact on employment.
- Varma received major insurance portfolios from company pension funds.
- Customer retention remained good.
- New pension insurance services: TyEL contribution forecast service.
- Disability risk management: data-based disability risk forecasting model, new range of services, digital service making use of pension and rehabilitation application data.

- Varma is the most efficient company in the earnings-related pension sector: we used 61% of the assets reserved for operating expenses.
- Development of our work culture: the second-highest AA+ rating for Varma in the PeoplePower index (Eezy Spirit's employee survey).

CONTINUING IN 2021



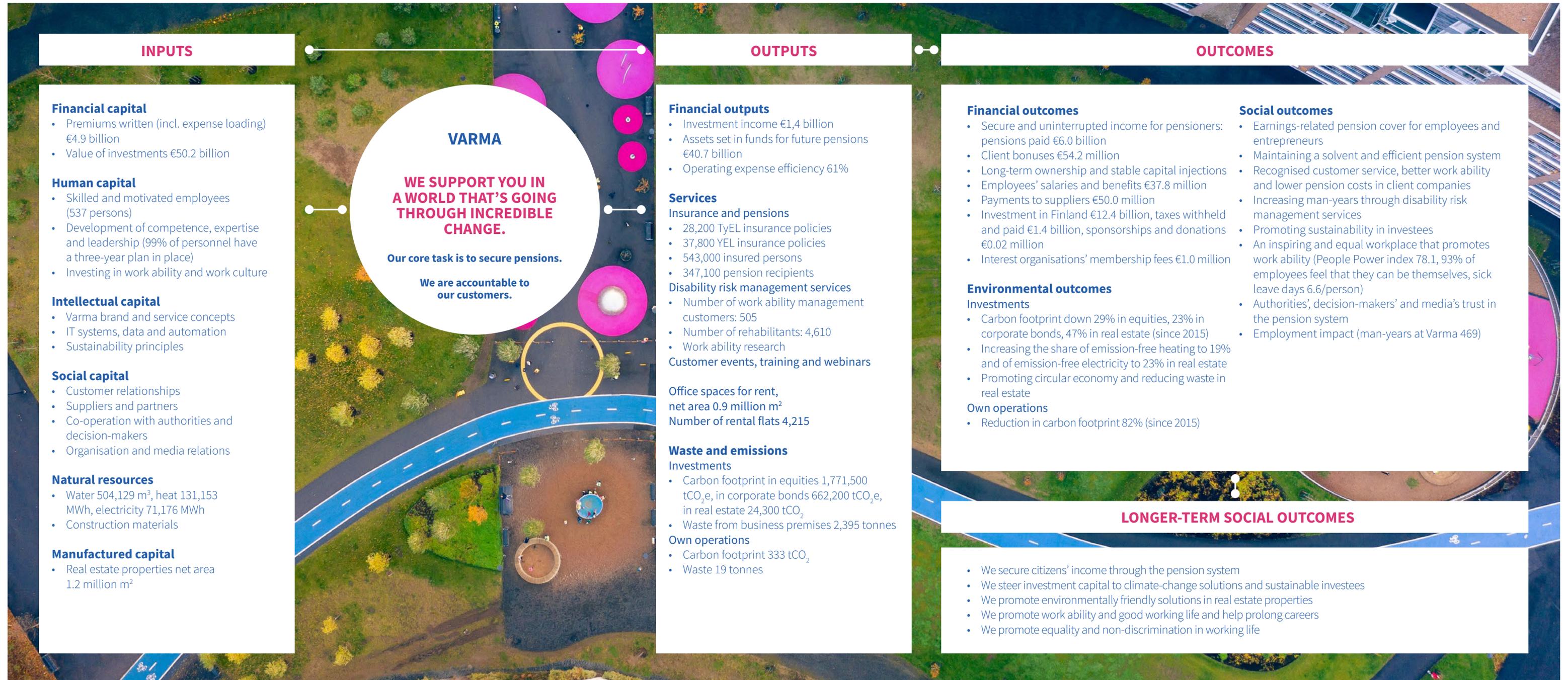
- Ensuring uninterrupted income for private customers: swift processing of pension applications and smooth payment of pension after the pension decision is made.
- Development of digital services for private customers.
- Developing operational models for rehabilitation and rehabilitation partnerships.
- Development of service processes within rehabilitation and disability pension services for private customers.

- Investment risk diversification, market forecasting, and active risk level management.
- Strengthening of the allocation strategy.
- Developing responsibility in index investing.
- Active implementation of the ownership policy and the active ownership and engagement principles.
- Participation in co-operation initiatives related to responsible investment.

- Development of insurance service processes and digital services.
- Development of a multi-channel insurance service model.
- Leading with data and knowledge in the management of disability risk.

- Continuous development of the ways of operating, processes and the work culture.

HOW VARMA CREATES VALUE



EARNINGS-RELATED PENSION SYSTEM

Pension accrues from all work and self-employment

In Finland, pension cover consists of statutory pension for employees and entrepreneurs, and national pension and guarantee pension, which supplement the statutory pensions. The amount of national pension is adapted according to the amount of earnings-related pension. Earnings-related pension accrues from all work and self-employment.

Earnings-related pension is based on a defined benefit scheme, which means that pensioners receive their earned pension amount from the moment of their retirement for the rest of their lives. The level of pensions being paid is not affected by, for example, changes in the pension assets' investment returns. Pensions are paid in the promised amount regardless of economic cycles.

A strong pension system works smoothly also in exceptional circumstances

A reliable earnings-related pension system creates stability for the economy and for society under exceptional circumstances as well. Defined-benefit earnings-related pensions provide security for the insured and economic stability by upholding pensioners' purchasing power also in times of otherwise muted demand in the economy.

In 2020, pensions were paid on time and in the promised amount without disturbances as the coronavirus pandemic put the economy and society to the test. Trust in earnings-related pensions has remained strong.

Earnings-related pensions are partly funded in advance

The majority of earnings-related pensions that are currently being paid are financed directly through pension contributions paid annually by employees and employers. However, pensions are in part paid out using assets, and the return on those assets, that are set aside in funds. In other words, a proportion of the annual pension contributions is placed in funds for pensions to be paid out later on.

Pensions are well secured under the Finnish statutory earnings-related pension system. The financing of earnings-related pensions is influenced by economic growth and the employment rate, but also by the returns on the invested pension assets.

Pension assets are invested profitably and securely. Successful investment activities mitigate the need to raise pension contributions in the future. The strong solvency of earnings-related pension insurance providers is important, since it affects risk-taking and return opportunities. Strong solvency also facilitates the timing of investment decisions in fluctuating market con-

ditions. Varma faced the unrest in the financial markets at the start of the coronavirus crisis from a strong solvency position. Solvency was on a sustainable level throughout the year, securing insured pensions.

Demographic development, immigration issues, and fairness between generations are reflected in the pension debate both in Finland and elsewhere in Europe. Public finances will weaken due to the Covid-19 crisis, affecting the discussion concerning earnings-related pensions and the funding thereof in the coming years.

The last major reform of Finland's earnings-related pension legislation took effect at the beginning of 2017. The objective of the reform is an economically and socially sustainable pension system. This requires longer careers. Varma contributes to achieving this target by offering its insured vocational rehabilitation when their work ability is threatened. Varma aims to manage the disability risk it insures by offering guidance and support to its customers.

Earnings-related pension insurance companies compete with one another

The earnings-related pension insurance system is decentralised. This means that earnings-related pensions and pension assets set aside in funds for

their payment are managed by several pension companies, industry-wide pension funds and company pension funds. Private sector earnings-related pension insurance companies are jointly liable in a situation where, for example, an insurance provider goes bankrupt. This is why the companies' solvency levels and risk-taking in investments are regulated.

Earnings-related pension insurance companies compete with one another in terms of investment results, operational efficiency and the quality and effectiveness of their customer services.

Finland's Government Programme targets the integration of the private and municipal pension insurance systems, and this work is ongoing. Survivors' pensions are being reformed to better meet the needs of society and families.

Finland's earnings-related pension system is strong

In 2020, the Finnish pension system ranked fifth in an annual international pension system comparison. The Melbourne Mercer Global Pension Index compares pension systems based on the adequacy of pensions, integrity of governance and sustainability of the pension system. Finland was ranked number one in terms of the reliability and transparency of its pension system governance for the seventh time in a row.

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SUSTAINABLE VARMA

Owing to our societal role, our responsibility for managing pension assets, and for our customers, Varma employees and our shared environment spans far into the future. Sustainability is part of our strategy. Our goal is to be a pioneer in sustainability.

SUSTAINABLE VARMA

Sustainability is an integral part of Varma’s core task – securing pensions. ‘Sustainable Varma’ is also a key theme of our strategy.

For Varma, sustainable operations mean first and foremost securing solvency, smooth implementation of pension provision and promoting work ability.

Sustainability is an integral part of our investment operations and ownership practices. We bear responsibility especially for mitigating climate change, ensuring the well-being at work of Varma employees, and cost-effective operations and business ethics.

According to our vision, sustainability is part of Varma’s daily operations. We actively and transparently communicate what sustainability means to us and how our sustainable operations show in society.

Sustainability has been chosen as a key competitive factor in Varma’s strategy for 2020–2025. Our goal is to be a sustainability pioneer in the earnings-related pension insurance sector.

Our sustainability programme is based on a materiality assessment

At the end of 2018, we drew up Varma’s sustainability programme, which is based on a materiality assessment. We wanted to hear what our stakeholders’ sustainability expectations are and analyse the business impacts of sustainability issues – and the impact our business has on society and the environment.

In autumn 2018, we carried out an extensive survey to find out what kind of expectations our stake-

holders’ have concerning sustainability themes and the communication thereof at Varma.

The email survey was sent out to more than 47,000 people, representing different stakeholder groups: entrepreneurs, representatives of client companies, private customers, office space customers, Varma employees, partners and service providers, representatives of Varma’s administration, representatives of organisations and associations in the pension sector, labour market representatives, legislators, non-governmental organisations and representatives of the media. Nearly 2,000 people responded to the survey. We also performed 17 interviews with members of Varma’s Board of Directors, management and experts, among other people.

Stakeholder expectations were reviewed in management’s sustainability workshop, which delved into the views brought up by the stakeholders and prioritised them based on, on one hand, their impacts on our business, and on the other hand, on society and the environment. Based on this work, Varma’s sustainability programme, including measures and indicators, for 2019–2020 was drawn up. The sustainability programme was approved by Varma’s Board of Directors.

Above all, our stakeholders expect us to secure solvency and provide smooth pension services – in other words, to take first-class care of our responsi-

In 2020, Varma established a new role of a sustainability expert.



ble core task of securing pensions. Solvency serves as the foundation for our sustainable operations.

In our stakeholders' view, climate change mitigation and responsible investment are other issues that rate high in importance for a company like Varma. We are also expected to provide insight into and means for developing good working life and especially work ability management. Responsibility for Varma employees has always been at the very core of the sustainability programme, and this will not change going forward.

In our stakeholders' view, ethical business and open communication are not areas in need of improvement at Varma, but rather themes that must be fostered in future. Our major societal role and the economic and social responsibility included in our core task call for a highly ethical corporate culture and the ability to transparently communicate on our operations and the principles that guide them.

Next year, we will revamp our sustainability programme and update our targets and measures relating to sustainability topics that are important to us. The new programme will also apply to 2021.

Sustainability is visible in the organisation

Sustainability issues are represented in Varma's Executive Group by the Senior Vice President of HR, Communications and CSR. The Executive Group discusses all major projects and decisions relating to the development of sustainability. Varma's Board of Directors discusses, in addition to the sustainability programme, the company's main sustainability policies. In 2020, the Board of Directors approved the updated anti-bribery policy and new active ownership and engagement principles linked to our investment activities. Furthermore, the Board of Directors

approved the updated Principles for Responsible Investment.

Varma's Sustainability Manager co-ordinates sustainability measures and communication. Since autumn 2020, the Sustainability Manager has been supported by a sustainability expert. Furthermore, a director of responsible investment and an analyst work in Investment Operations. The director of responsible investment co-ordinates and develops responsible investment in different asset classes. The management of responsible investment is discussed in more detail in the section '[Responsible investment](#)'.

Furthermore, a number of experts in all parts of the organisation develop sustainable operations in their functions and make up an informal co-operation network that flexibly convenes around different issues, if necessary. For example in 2020, we launched a human rights assessment, and a large number of Varma employees from different parts of the organisation have participated in it.

Varma has two working groups that focus on developing sustainable ways of operating: the Green Office team and the equality and non-discrimination working group. The Green Office team co-ordinates Varma's environmental programme, while the equality and non-discrimination working group focuses on promoting equality and equity among Varma employees.

Within Varma, there is also a so-called Pride network, which is open to all Varma employees who want to be part of developing diversity at Varma, especially from the point of view of sexual and gender minorities. Some 40 Varma employees from various parts of the organisation participate in the network. The network plans and organises events and communication activities related to, for example, Varma's Helsinki Pride partnership.

We are revamping our sustainability programme in 2021.

Read more about our sustainability efforts on our website.

EcoVadis assesses Varma's sustainability practices as among the best

In 2020, EcoVadis, an international corporate sustainability assessment specialist, awarded Varma the Platinum medal, the highest recognition. Varma's sustainability practices were rated as excellent, and it ranked in the top 1 per cent of the around 75,000 companies analysed.

According to the assessment, we have comprehensive policies and practices in place in various sustainability areas, and we attain good results with them. Our environmental sustainability work in particular received high scores, and our sustainability reporting was considered comprehensive.

The lack of an independent whistleblowing channel and the management of the supply chain's sustainability were mentioned as areas in need of development. We opened a whistleblowing channel in December, and in the area of managing the supply chain's sustainability, we are currently working on a human rights survey and reforming our contract management practices ([Read more in the section Ethical business](#)).

Our key sustainability targets and their follow-up

Sustainability area	Areas we monitor	Indicator / guiding principle	2020
Mitigating climate change* Main target: carbon-neutrality by 2035	Climate allocation 20% of the portfolio by 2025	% share of the portfolio	12.4%
	Emissions from listed corporate bonds and equities down 50% by 2027 (compared to 2016)	% share of emissions reduction	Equities -16% Corporate bonds -25%
	Exclusion of thermal coal from direct equity investments and exchange-traded funds (ETF) by 2025 and exclusion of oil exploration by 2030.	% share of investments in companies that rely on coal for more than 5% of their operations, % share of investments in equities in the oil exploration sector	Coal 1.6% Oil exploration 0.51%
	Emission-free electricity in real estate investments by 2025	% share of emission-free electricity	23%
	Emission-free heating in real estate investments by 2030	% share of emission-free heating	19%
	Targets under the earlier climate policy: reduce by 2020 the carbon footprint of equities by 25%, corporate bonds by 15% and real estate investments by 15% from the 2015 level	Reduction in carbon footprint, %	Equities -29%, Corporate bonds -23% Real estate -47%
	Carbon footprint reduction of Varma’s own operations by 15% between 2015 and 2020	Reduction, %	-82%
Promoting work ability and a good working life	We support our customers in managing the disability risk, and we develop work ability management tools and practices	Customer experience of the impacts of work ability management co-operation (on a scale of 1–10, average)	7.5
	We ensure that people who are retiring receive uninterrupted income	% share of pensioners that receive uninterrupted income during the first month of their retirement	88%
	We exert our influence to ensure that the self-employed have a sufficient level of social security	We actively communicate to entrepreneurs the importance of YEL income	
	Largest possible share of rehabilitants returning to working life	% share of rehabilitants returning to work	72%

* Read about Varma’s other climate targets in the section [Responsibility for the environment](#)

Our key sustainability targets and their follow-up

Sustainability area	Areas we monitor	Indicator / guiding principle	2020
Ethical business and open communication	Every Varma employee complies with the Code of Conduct and other common guidelines	Completion rate of the Code of Conduct online course	100%
	High level of data protection and data security	Number of minor data security violations under the GDPR, number of violations reported to the data protection ombudsman	39 1
	We take responsibility for the sustainability of our supply chain	Supplier Code of Conduct attached to contracts	
	Our business is transparent and we boldly engage in dialogue	PR Barometer survey's openness dimension (satisfaction of reporters on a scale of 1–10)	8.3
Responsibility for Varma employees	We take care of Varma employees' work ability	Work ability index (estimate of own work ability on a scale of 0–10)	8.6
	We support Varma employees' growth as experts	% share of Varma employees who have a completed three-year personal development plan	99%
	At Varma, everyone is free to be themselves	% share in the equality and non-discrimination survey: Are you free to be yourself?	93%
	Varma is an equal-opportunity employer	Equality target: either gender accounts for at least 40% of the Executive Group and middle management by 2022	Executive Group: women 37.5%, men 62.5% middle management: women 46.5%, men 53.5%

VARMA'S SUSTAINABILITY PROGRAMME

WORKING FOR FUTURE GENERATIONS

**Our responsible operations and strong solvency
secure present and future pensions.**

Mitigating climate change

**Promoting work ability
and a good working life**

**Ethical business and
open communication**

**Responsibility for
Varma employees**

24

RESPONSIBILITY FOR PENSION ASSETS

Securing our strong solvency is a cornerstone of our sustainability work. We safeguard our solvency in order to ensure that pension liabilities are covered as required by legislation.

STRONG SOLVENCY SECURES PENSIONS

Responsibility for pensions extends well into the future. Our task is to strive for the best possible return on our investments through controlled risk-taking in order to secure the payment of pensions. Strong solvency upholds confidence in pension cover and mitigates the most severe pressure to increase pension contributions.

It acts as a risk buffer for investment activities and enables Varma to aim for higher returns by making higher-risk investments with a higher return potential, for instance through equities.

Economic growth and employment as pillars of the pension system

Economic growth and the development of employment in Finland are critical issues for the pension system. In order to secure pension payments well into the future, the employment rate must remain high. Only companies that employ and people who are in working life pay pension contributions that are used to pay current and future pensions.

The majority of pension contributions is used to pay the pensions for that year, but part of them is set aside in funds for future pensions. This is why the development of premium income plays an important role in securing pensions.

In 2020, Varma's premium income stood at 4.9 (5.3) billion. The reduction in premium income was

due to the temporary reduction in employers' TyEL contribution between May and December.

During the 2020 account transfers, EUR 21 million in net TyEL income was transferred from Varma to other earnings-related pension companies, and EUR 49 million in new TyEL policies were sold. Varma received insurance portfolios from company pension funds during 2020. Annual TyEL income from these is estimated to be approximately EUR 77 million.

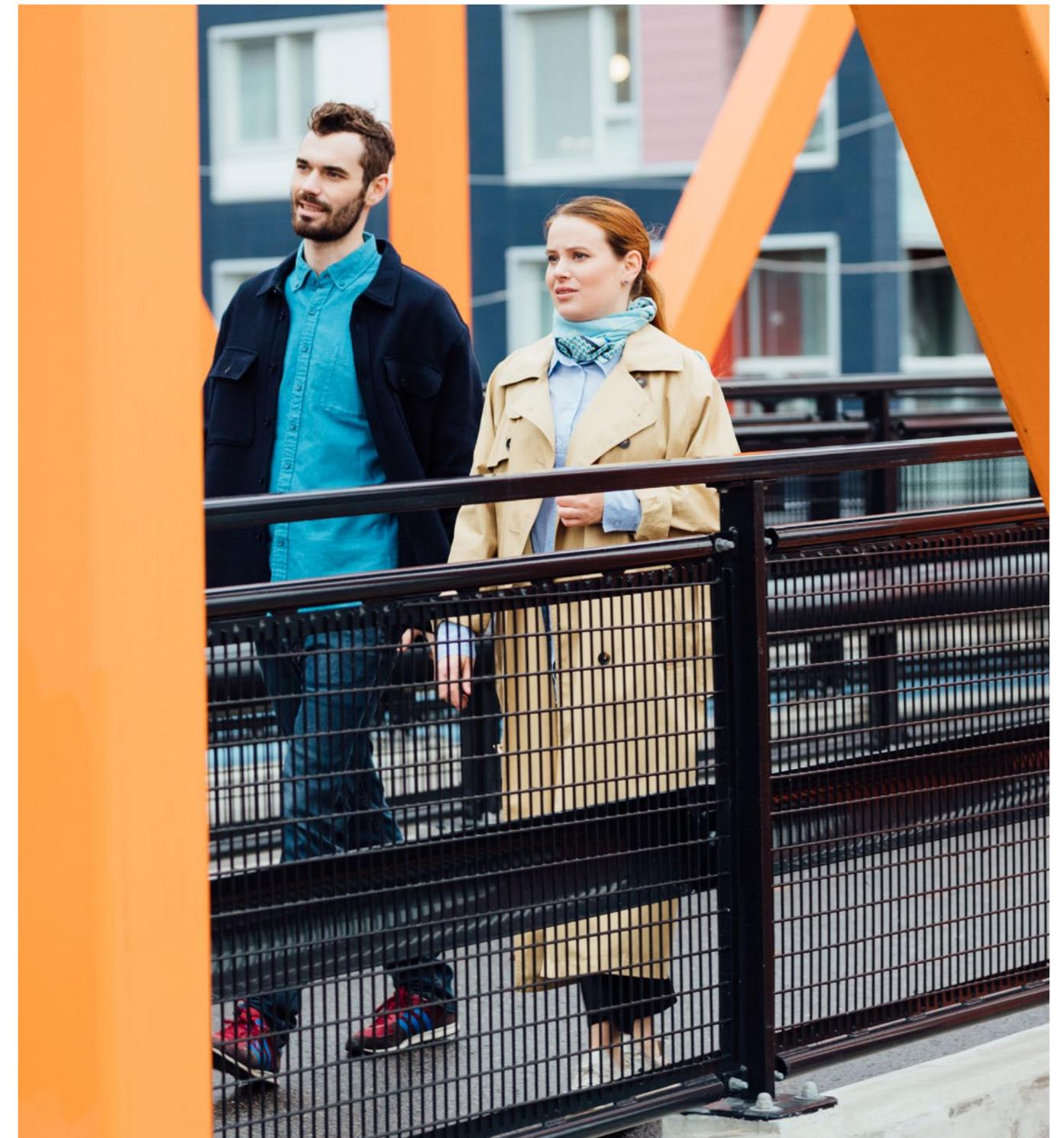
Earnings-related pension is an essential part of Finnish social security. In 2020, Varma paid EUR 6.0 (5.9) billion in pensions to approximately 347,100 (343,700) recipients.

We invested EUR 12 billion in Finland

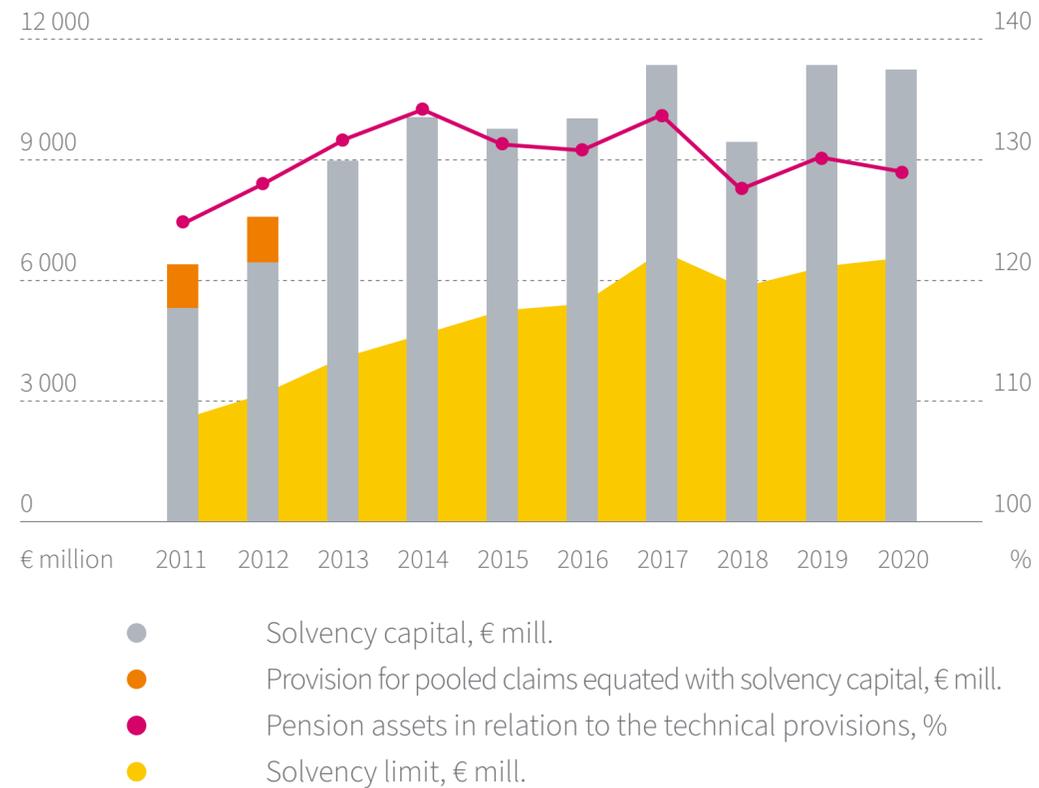
At the end of 2020, 26 per cent, or EUR 12.4 billion, of Varma's investments were invested in Finnish society in one form or another. Varma is an important investor in Finnish companies and in this way promotes and enables the long-term development of Finnish companies. Varma invests in companies' shares and provides financing through different loan instruments. Varma also owns real property.

We report on our financial performance quarterly, and the most recent [financial information](#) is available on our website.

Strong solvency upholds confidence in pension cover and mitigates the most severe pressure to increase pension contributions.



Solvency 2011–2020



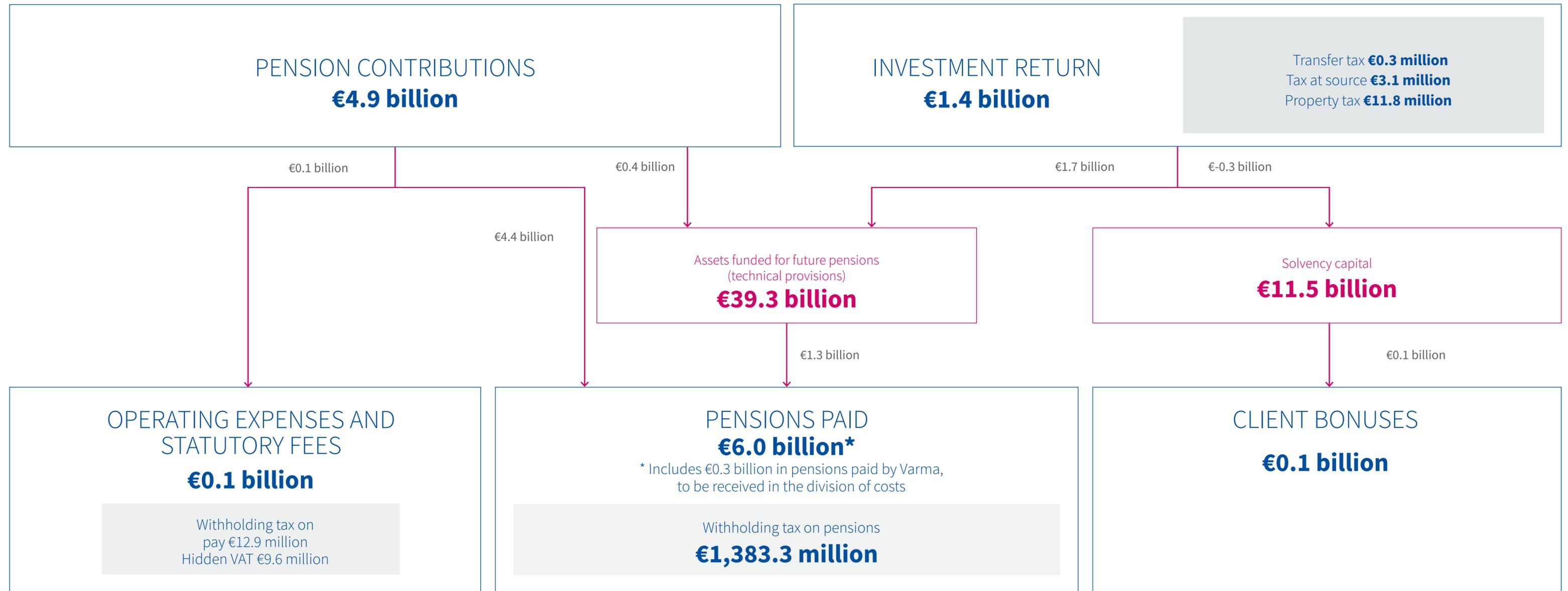
Our task is to strive for the best possible return on our investments through controlled risk-taking in order to secure the payment of pensions.

Read the latest financial information on our website.

15 largest direct equity investments

	€ million	Varma's holding of shares, %
Sampo Plc	771.8	4.01
Neste Corporation	620.1	1.36
Nordea Bank Abp	401.9	1.49
KONE Plc	389.3	1.11
Kojamo Plc	350.1	7.83
Apple Inc	274.5	0.01
Wärtsilä Corporation	259.5	5.37
UPM-Kymmene Corporation	249.7	1.53
Nokia Corporation	249.3	1.40
Microsoft Corp	239.5	0.02
Terveystalo Plc	222.0	17.30
Outotec Oyj	214.9	3.17
Fortum Corporation	170.4	0.97
Elisa Corporation	165.4	2.19
Metsä Board Corporation	148.7	4.85

VARMA'S CASH FLOWS FROM PENSION CONTRIBUTIONS AND INVESTMENT RETURNS



TAX RESPONSIBILITY

For Varma, tax responsibility means abiding by tax laws and regulations, determining taxation-related principles related to the company's taxation and promoting tax transparency.

In 2020, we drew up a tax policy in which we defined Varma's tax strategy and principles according to which tax matters are managed within the company. The tax policy increases the transparency of Varma's operations and supports Varma's governance by compiling tax-related operating principles into a single document. Varma's [tax policy](#) is available on the company's website.

Varma is committed to acting in compliance with tax laws and regulations and rejects actions that, instead of business targets, aim to secure tax advantages contrary to the intention of the legislature. Varma does not engage in aggressive tax planning, nor does it partake in investment structures whose purpose is to avoid reporting obligations or make the beneficial owner of the income unidentifiable.

In our investments, we comply with the tax laws and international tax rules of the investment country in question. In the absence of clear guidance by tax laws or rules, our leading principles are prudence and tax transparency.

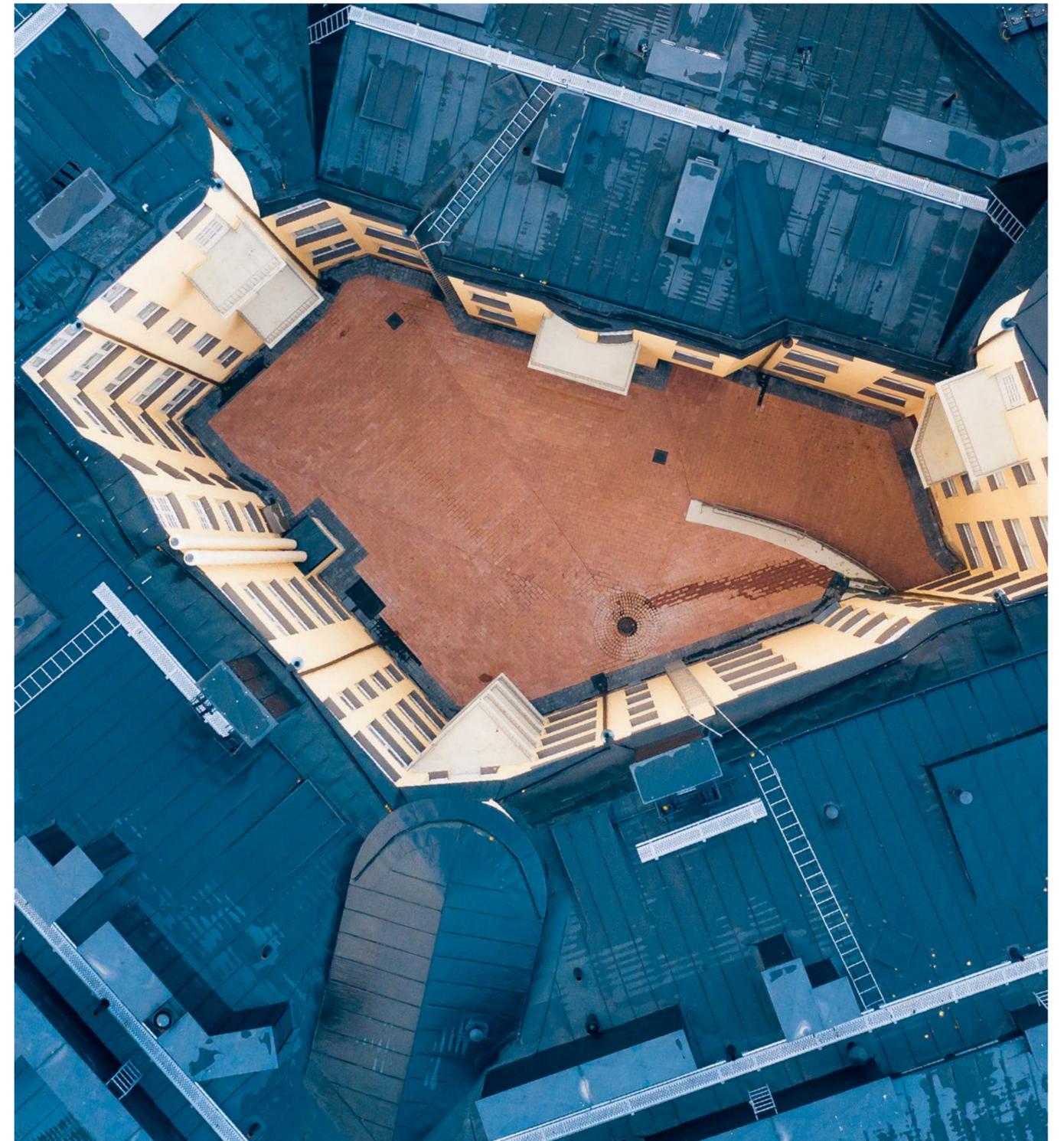
Our principle is to avoid double taxation on investment returns as it would lead to lower invest-

ment returns and create pressure to raise pension contributions. Avoiding double taxation is also a basic principle of international tax regulation. In terms of our earnings-related pension system, it is important that capital gains and dividend and interest income obtained from abroad can be used to the fullest extent possible to cover statutory earnings-related pension security in Finland.

Varma closely monitors, e.g. the EU list of non-cooperative jurisdictions (i.e. the EU's blacklist), and Varma does not invest in countries that are on the list or in investees situated in low tax rate countries. Investments are made through larger and known funds which may also be situated in low tax rate countries. We do not make this choice for tax reasons, but instead for the options that are offered internationally to institutional investors.

Varma's approach is also that the tax domicile of the funds commits to an exchange of tax information between authorities. We also require that the fund management companies used by Varma take care of reporting and the payment of taxes in the countries in which business activities are pur-

We avoid the double taxation of investment returns, because it would create pressure to raise pension contributions.





Varma supports projects that aim to promote both international tax regulation and global reporting standards and also encourages its investee companies to comply with such regulations in their own operations.

sued. International tax regulation and automatic exchange of information provide governments with better conditions for collecting taxes.

Varma supports projects that aim to promote both international tax regulation and global reporting standards and also encourages its investee companies to comply with such regulations in their own operations. International tax development projects, such as the OECD's Base Erosion and Profit Shifting (BEPS) project, combats tax avoidance and increases transparency and the automatic exchange of information in taxation. Various standards and recommendations related to tax sustainability reporting, such as the Global Reporting Initiative (GRI) and Principles for Responsible Investment (PRI), support the development of sustainable tax reporting practices.

Varma is liable to pay income tax only to Finland, as we provide earnings-related pension insurance only in Finland.

Varma's tax footprint

Our tax footprint is made up of, in addition to our operations, the taxes paid by the real estate subsidiaries we invest in.

In 2020, Varma paid out pensions in the amount of EUR 6.0 (5.9) billion, and pensioners paid EUR 1.4 (1.3) billion in income taxes on those pensions as withholding tax. We paid EUR 13 (11) million in withholding tax on our employees' salaries.

Varma's taxes relating to investments totalled EUR 15 (20) million in 2020, including EUR 0.3 (1) million in transfer tax, EUR 12 (13) million in property tax for lots and buildings, and EUR 3 (6) million in tax at source for foreign dividend income.

Hidden VAT included in operating expenses totalled EUR 10 (12) million. These are taxes that Varma has paid on its purchases without being able to fully deduct VAT on them, because an earnings-related pension company's business is mainly exempt from VAT.

EU directive increases tax transparency

The Act on Reportable Cross-border Arrangements in the Field of Taxation took effect at the beginning of 2020. It is based on the 6th Amendment of the Directive on Administrative Cooperation (DAC6), and its purpose is to increase tax transparency and prevent aggressive tax planning. The act is retroactive and applies to arrangements that have been made or were ready to be made as of 25 June 2018.

In 2020, Varma introduced a process to monitor whether our investment structures comply with the DAC6 reporting obligation. Varma has also carried out an impact assessment of possible arrangements that may need to be retroactively reported under the DAC6 regulation. The assessment revealed no arrangements related to investment structures that Varma would have needed to report on retroactively.



RESPONSIBLE INVESTMENT

Sustainability is a part of Varma’s strategy and an integral part of our investment operations. During the review year, the importance of human rights in responsible investment increased due to, for example, the Covid-19 pandemic. We revamped our equity portfolio investing in sustainable investees and published engagement and active ownership principles. In 2020, the UN-supported PRI included Varma for the second time in the PRI Leaders’ Group in an international comparison.

For us, sustainability is a means of securing long-term investment returns while ensuring that risks and opportunities are taken into account as broadly as possible in investment decisions.

Responsible investment means taking into account, in addition to return expectations, environmental, social and governance (ESG) criteria in investment operations. As a long-term investor and earnings-related pension company, sustainability is an important target for us, as the investment decisions we make influence the operating conditions of companies and other investees. Our goal is to identify investees that benefit from sustainable operations as well as the return potential of such investments.

From an investor’s perspective, making allowances for sustainability does not conflict with return expectations. For us, sustainability is a means of securing long-term investment returns while ensur-

ing that risks and opportunities are taken into account as broadly as possible in investment decisions.

Principles guiding our responsible investment

In addition to [Varma’s principles for responsible investment](#) and [climate policy for investments](#), the company’s responsible investment is guided by the [UN-supported Principles for Responsible Investment](#) (PRI), which Varma signed in 2011. We have been reporting on responsible investment annually in accordance with the Principles for Responsible Investment. Furthermore, our oper-

ations are steered by [the active ownership and engagement principles](#), which were updated in autumn 2020. They describe Varma's engagement goals, focus areas and methods, as well as how engagement reporting takes place. The principles cover direct equity and bond investments, and they complement the ownership policy. In early 2021, Varma published a [tax policy](#), which outlines Varma's tax strategy and principles, also in relation to investment activities. Varma supports projects that aim to promote both international tax regulation and global reporting standards and also encourages its investee companies to comply with such regulations in their own operations. Read more about our tax policy in the section [Responsibility for pension assets](#).

Climate targets steer our investments

Mitigating climate change is one of the main goals of Varma's responsible investment. During the reporting year, we attained all the emission reduction targets established for different asset classes in our climate policy in 2016. We also started implementing the revamped climate targets laid down in 2019. The climate targets together with the Principles for Responsible Investment guide our operations and cover Varma's investment assets in their entirety. The principles are applied differently depending on the asset class and type of investment. The principles have been approved by Varma's Board of Directors. Further information on climate change mitigation in investments is in the section [Responsibility for the environment](#).

Negative screening on ethical grounds and in the name of climate change

We have defined the areas that Varma will not invest in as well as the kind of companies that are subject to enhanced ESG monitoring on environmental and other sustainability issues. For ethical reasons, we have excluded from our direct investments companies that concentrate on the manufacture of tobacco and companies that manufacture controversial weapons, such as nuclear weapons, anti-personnel mines, cluster bombs, and chemical and biological weapons. Due to our efforts to mitigate the effects of climate change, we have excluded investments in companies with coal- or lignite-based operations accounting for more than 30 per cent of their net sales, production or production capacity.

We are committed to exiting from thermal coal investments by 2025 and from oil exploration by 2030. We have identified industries with a need for enhanced sustainability screening. Investments in these industries are subject to special scrutiny by our portfolio managers. Enhanced sustainability monitoring and analysis concerns, for example, industries that have high exposure to climate risks, such as the oil and gas industry. Portfolio managers must also apply enhanced ESG monitoring when the investment concerns alcohol, gambling, adult entertainment, cannabis and the arms industries.

In government bonds, Varma does not invest in countries that are ranked in the bottom 25 per cent of the UN's Sustainable Development Goals (SDG) index. In exceptional cases, an investment can be made if the country's SDG ranking is expected to clearly improve.

At year-end, listed investments included 6 companies with a confirmed violation and an ongoing engagement process.

Investees are expected to comply with international standards and agreements

In addition to local legislation, we expect our investees to comply with international standards and agreements. This means compliance with the principles of the UN Global Compact initiative on sustainability and social responsibility. The principles of the Global Compact initiative cover the UN Declaration of Human Rights and Convention against Corruption, ILO labour conventions and the Rio Declaration on Environment and Development.

We review compliance with the standards with the help of an external service provider, which upholds a database of companies and their confirmed and suspected violations. The service provider engages in discussions with the companies and updates the database accordingly. In this way, the portfolio managers always have access to up-to-date company data. Norm violation screening covers listed equities and corporate bonds.

If a company breaches any of the sustainability standards, our first priority is to engage with the company to rectify the detected breaches and change their operating methods. We are able to directly engage with the companies, together with other investors and the service provider.

In fund investments, Varma also requires the companies in the funds to comply with laws and international agreements. In the event of a possible violation, the fund's management company contacts Varma and begins an investigation process into the violation. In fund investments, the fund management company is responsible for monitoring the sustainability of the portfolio's investments.

In index investments, Varma primarily aims to select investments where companies that have committed serious violations are already excluded. In index investments, the engagement process is carried out by the investment company. Since Varma does not have direct holdings in index companies, direct engagement is not possible, but Varma does engage with the companies through collaborative initiatives. Varma classifies violations in direct equity and bond investments into one of three categories: blacklisted investments, i.e. companies that are not invested in; investees that are involved in an engagement process; and investees that are on an observation list.

In the most severe category, violations in investee companies are automatically blacklisted. In these cases, the violation has been confirmed by more than one sustainability data producer that monitors compliance with international norms. Varma did not have direct investments in blacklisted companies in 2020. Violations in the second most severe category are included in Varma's engagement process. Further investments cannot be made in an investee company that is in an engagement process without a decision by the investment committee. At year-end, direct investments included 6 companies where Varma's own engagement process was ongoing.

Violations in the third category are placed on an observation list. We mainly engage with these investees through the service provider. The progress made to rectify violations and the situation is monitored regularly. The number of violations in the third category, i.e. investees placed on the observation list, in Varma's direct investments was 4 in 2020.

Investees that were involved in Varma’s engagement process in 2020

	Violation assessment*	Violation category	Company’s sector	Number of companies	Violations by continent	Engagement process stage at the end of 2020	Targets 2020
Environmental engagement initiatives	No investees subject to engagement process	-	-	-	-	-	-
Social engagement initiatives	Human rights, labour rights	Varma’s own engagement process	Companies in the automotive and logistics industries, and energy and utility companies	4	North-America, South-America	Contact with company, request for further information	Engagement process started in accordance with the new principles
Governance engagement initiatives	Corruption, ethical business operations	Varma’s own engagement process	Pharmaceutical company	2	Asia, Africa	Contact with company, request for further information	Engagement process started in accordance with the new principles

* Violation definition: ISS Norm-Based Research Company Report (UN Global Compact Pillars)

Varma's own norms-based screening covered 62 per cent of Varma's listed investments. The norms-based screening of funds is outsourced to a fund management company.

Towards the end of 2020, we took into use a new norms-based screening process pursuant to the engagement principles and started engagement processes in six companies. Two of these were pharmaceutical companies, two were energy and utility companies, and two were companies in the automobile and logistics industries. More than half of the violation assessments included in the engagement process related to social issues, such as limitation of the freedom of association and human rights violations. These companies are located in North and South America. Violations related to business ethics and corruption in emerging markets appeared in the violation assessments concerning the pharmaceutical companies.

Collaborative initiatives give investors power in numbers

Active ownership and engagement are cornerstones of responsible investment. The purpose of engagement is to promote sustainability themes or address companies' unsustainable operations.

The objectives of the engagement process, the size of holding and whether the issue involves taking action on a violation or promoting sustainability themes determine the most sensible means of engagement for the investor. We engage in regular dialogue with the management and the boards of directors. A typical channel for engagement is meetings between decision-making portfolio managers and investee companies. In our company meetings we discuss, among other things, how they integrate sustainability in their strategy and business.

Investor co-operation through different committees and joint initiatives is a major means of engagement. Varma promotes sustainability in its hedge fund investments as a member of PRI Hedge Fund Advisory Committee. Furthermore, Varma is actively involved in the work of the co-operation organisation SBAI Standards Board for Alternative Investments, which aims to develop good governance and best practices, increase transparency and reduce conflicts of interest in alternative investments. As a member of Institutional Limited Partners Association (ILPA), Varma fosters private equity funds' sustainability and best practices.

Because of the importance of mitigating climate change, we want to promote this theme also through investor co-operation. In June 2020, Varma joined the global real estate and construction industry initiative Net Zero Carbon Buildings Commitment, which advocates for carbon-neutral buildings. In October, we also joined the [Science Based Targets initiative](#) with around 140 major investors. The investors who signed the initiative ask companies with the highest greenhouse gas emissions to set science-based targets to reduce their carbon dioxide emissions.

Coronavirus brings access to vaccines and medicine to the core of engagement

Equitable access to Covid-19 vaccines emerged as a major global theme during the reporting year. According to the UN, access to vaccines is a part of the implementation of human rights, and it is an important theme in Varma's responsible investment. In spring 2020, Varma joined a group of investors in [an international appeal](#) to phar-

Varma joined a group of investors in an international appeal to pharmaceutical companies, urging them to develop a coronavirus vaccine and work together in the fight against COVID-19.

maceutical companies, urging them to develop a coronavirus vaccine and work together in the fight against COVID-19. The purpose of the appeal is also to promote the equitable distribution of medicines and vaccines. As part of the appeal, Varma joined an appeal by a group of investors calling on the largest pharmaceutical companies to co-operate on the development and research of Covid-19 vaccines.

We have been supporting the Access to Medicine foundation's efforts for access to medicine since 2018. The purpose of the organisation is to guide pharmaceutical companies to do more to give people in low-income countries better access to medicine. Improving access to medicine and vaccines is one example of how Varma's social sustainability shows in investing. During the year under review, the Access to Medicine foundation focussed on access to Covid-19 vaccines.

Sustainability also visible in the ownership policy

Varma is a major shareholder in Finnish companies. Our ownership policy describes the expectations Varma has of companies in which it is a major shareholder. The policy covers Varma's equity holdings both in Finland and abroad. Our activities are focussed on companies and themes in which we estimate our expertise can be put to the best use and in which we have significant opportunities to exercise influence. The ownership policy also includes sustainability requirements. In addition to compliance with international norms, we expect the companies in which we have a holding to comply with clear assessment and transparent reporting practices on the impacts of climate change on their business operations, now and in future. We expect reporting, for example, on how climate change is included in the

Varma once again among the leaders in PRI's assessment

In 2020, the UN-supported PRI included Varma for the second time in the PRI Leaders' Group in an international comparison. In its assessment, which was conducted for the second time, the PRI compared investors' climate reporting performance. According to the assessment, Varma has excellent climate reporting practices. Visit our [website](#) for more information.

company’s governance, strategy and risk management, especially in emissions-intensive industries.

As stated in our ownership policy, we analyse and report on climate-related risks in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), and we encourage our investees to do the same. Read Varma’s TCFD report in the section [Responsibility for the environment](#).

Participating in the work of nomination boards is a major means of influencing, since Varma influences its investee companies mainly through the appointment of boards of directors. From the owner’s viewpoint, the board of directors’ role in the company’s strategy, risk management and choice of CEO is becoming increasingly important.

Varma was represented in 30 nomination boards in the year under review. [Memberships in nomination boards](#) are given on our website. Varma’s representative normally also participates in the annual general meetings of Finnish companies in which we have a holding. We publish our [voting decisions](#) in annual general meetings on our website. In 2020, Varma was represented in 84 annual general meetings.

Sustainability management and organisation in Investment Operations

The Principles for Responsible Investment, which are approved by Varma’s Board of Directors, form the foundation for our responsible investment activities.

On a company-wide level, the CIO is in charge of monitoring the responsibility of investments. The head of each asset class is in charge of the day-to-day application of the Principles of Responsible Investment. Additionally, Varma’s director of responsible investment develops and co-ordinates, together with his/her team, responsible investment in different asset classes. The Investment Operations management team regularly addresses matters related to responsible investments.



The sustainable equity portfolio promotes the UN’s goals and Varma’s own climate targets

Themes selected for our revamped equity portfolio include climate action and responsible consumption. The targeted size of the portfolio is EUR 500–1,000 million.

The themes that we selected from among the UN’s sustainable development goals for the investee companies are climate action, responsible consumption and circular economy, renewable energy, equal access to medicines and vaccines also in the emerging markets, research and development work, innovations and building a sustainable infrastructure. The equity portfolio invests in listed equities that are in accord with the above-mentioned themes in Europe, the US and Canada and in Asia’s developed markets such as Japan and Hong Kong, and in Australia.

“The first investments for the equity portfolio were made in June. At year-end, the size of the portfolio was just over EUR 400 million and included investments in around 170 companies. The targeted size of the entire portfolio in the long term is EUR 500–1,000 million, depending on the market situation,” says Portfolio Manager **Kaisa Ojainmaa**.

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RESPONSIBILITY FOR CUSTOMERS

We support work performed in Finland by promoting work ability and preventing disability in our client companies. Our job is to make sure that our customers receive their pensions without delay and that our pension decisions are correct.

CORRECT PENSIONS ON TIME

Smooth implementation of pension cover is our core task and a key part of our sustainable operations.

We pay pensions correctly and on time to an increasing number of pensioners

We aim to provide our pension and rehabilitation customers with expert advice and sufficient information, and with swift and correct pension decisions. Our client companies benefit from competitive bonuses, and our disability risk management services improve their employees' work ability. Applying for pension is a major event in life, and it should go smoothly. Accordingly, a key target for Varma is to continuously improve the quality of pension services. It is important for our customers that their pension applications are processed swiftly and with no interruptions to their income.

The number of pensioners and the euro amount of pensions paid are constantly rising at Varma, due to the change in Finland's age structure and longer life expectancy.

We process pension applications swiftly

Varma has been improving the processing of pension applications in order to speed up the process. Our efforts have proved very successful in recent years. In 2015–2020, the average processing time has been shortened from 60 days to 19 days. That is 2 days quicker than the average for the sector.

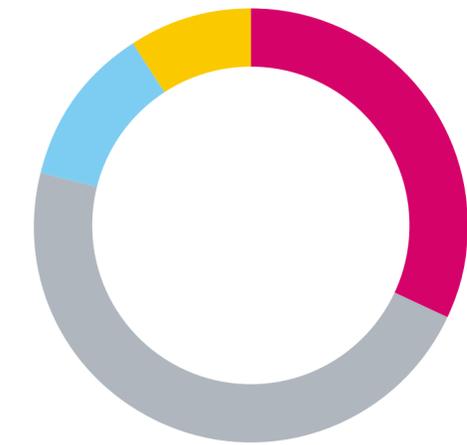
In 2020, applicants received an old-age pension decision from Varma in 4 days on average. A decision can be received in two or three days if all the required information is submitted with the application.

The smooth processing of pensions is based on our specialists' competence, a fine-tuned process, an efficient IT system and the use of automation and software robotics.

Pension applications are processed 2 days quicker than the average for the sector.

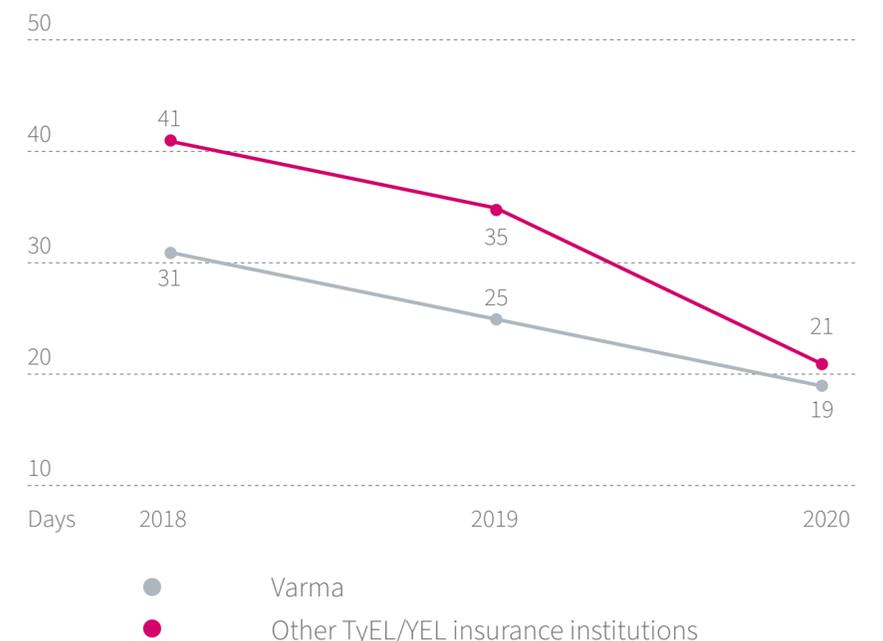
Check out our services for private customers on our website.

Pension decisions (%)



- Old-age pension, 32%
- Disability benefits, 47%
- Survivors' pension, 12%
- Partial old-age pension, 9%

Pension application processing in days



CUSTOMER SERVICE

All matters can be handled digitally

Varma's private and corporate customers have a wide range of online services for different needs at their disposal. We offer all pension applications in digital format. A growing number of our customers are using our online services every year: 77 (67) per cent of all old-age pension applications in 2020 were submitted in digital format to Varma.

Our pension and rehabilitation customers can choose the e-customer option, which allows them to check their pension or rehabilitation decision in our eServices. The customer receives a free SMS notification when documents have arrived in the eServices. The pension record shows the amount of pension that has accrued up until the end of the preceding year. Pension records can also be viewed in our eServices. Customers who have not opted to use this service receive the record by post every three years.

Our pensioners can download their electronic employee pension card to their smart phone or tablet via our eServices. The employee pension card serves as proof of retirement and entitles the holder to pensioner discounts.

Our rehabilitation customers have a digital service at their disposal. The service starts with steering an employee who is experiencing work ability problems to apply for rehabilitation, and it covers the entire path until the end of the rehabilitation. Our rehabilitation partners in different parts of Finland help draw up a rehabilitation plan after the customer has received a positive rehabilitation decision from us.

We support SMEs and entrepreneurs through a

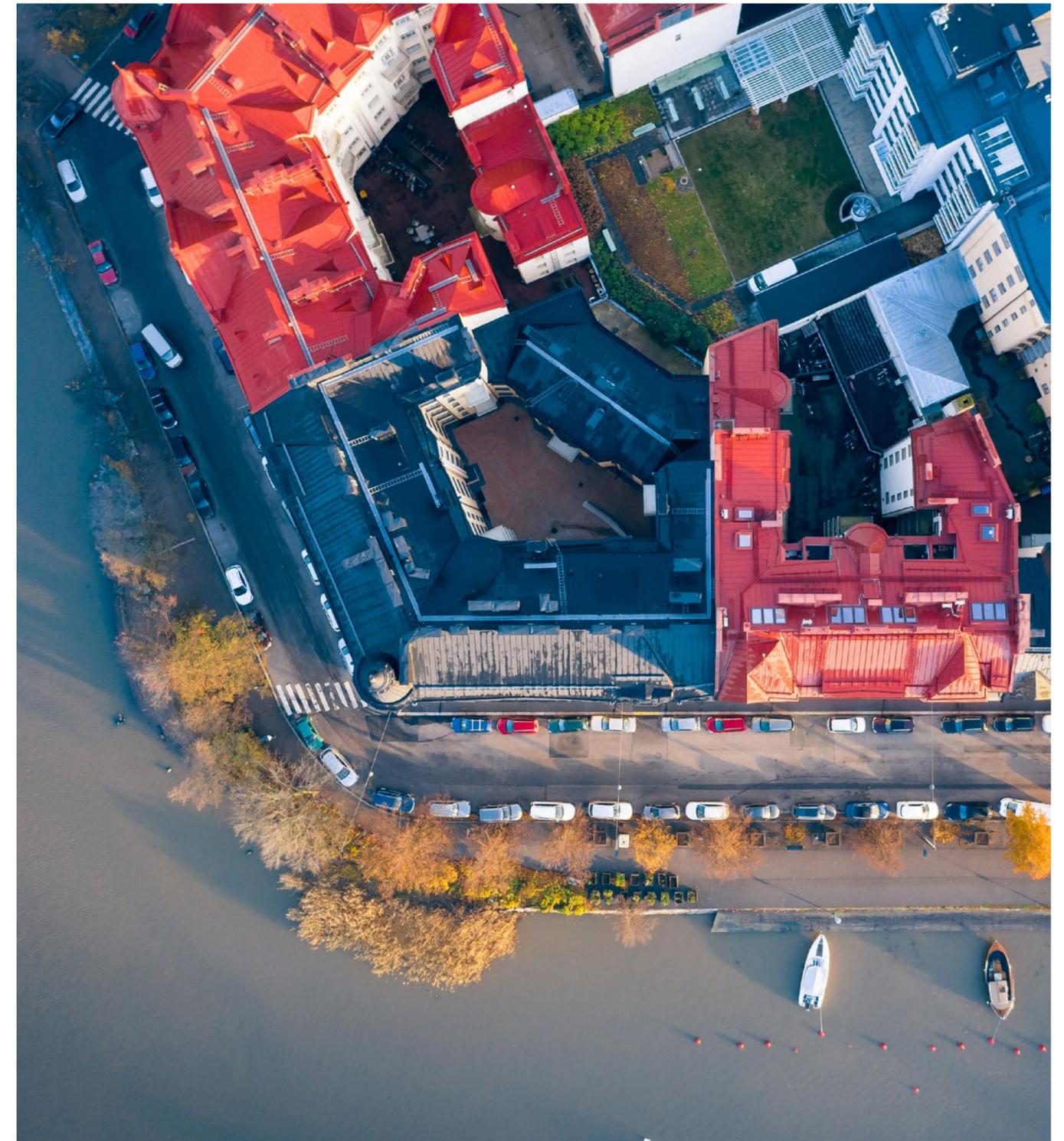
regional model in our rehabilitation and disability pension services: designated specialists in rehabilitation and disability pensions in seven geographical regions.

Our TyEL and YEL insurance customers can also take care of all their insurance matters online. The clear and straightforward service guides the user and provides a secure and quick channel for taking out insurance. Entrepreneurs taking out YEL insurance receive a visual of the impact of their YEL income on social security by means of the calculator embedded in the online insurance application.

The Incomes Register is maintained by the Finnish Tax Administration, and it was introduced at the beginning of 2019. Employers report earnings to the register in close to real time. On basis of the data obtained from the register, Varma determines the earnings-related pension contributions of its client companies and earnings-related pensions of the insured individuals.

Our eServices include a broad range of tools that provide detailed and almost real-time information on TyEL contributions. You can view the total amount of monthly salaries subject to the TyEL contribution that have been reported via the Incomes Register. In 2020, we reformed our contribution forecast service, which can be used to track the current year's budget and estimate the TyEL contributions for the rest of the year and the following year. Our eServices support accounting by allowing you to easily retrieve information on TyEL contributions and invoicing for reconciliations or financial statements. We also offer an online service specifically for accounting firms to make it

All insurance and pension matters can be taken care of through our online services.



Net Promoter Score (NPS), on a scale of -100 to +100

	2020	2019	2018
Pension Services' phone service	80	75.6	71
Pension Services' application and payment process	65	64.7	62.8
Phone service for client companies	73	72.5	71.7
E-mail service for client companies	57	45.2	47.3
Account and development managers' contact with clients	92	75.6	79
Business property customers	64	60	57
Residential tenants	44	51	47

easier for them to handle their customers' pension insurance matters. In addition to comprehensive digital services, we also offer more specific advice by phone and chat. As of 23 September 2020, we have applied accessibility requirements to our earnings-related pension insurance online service based on the requirements of the European web accessibility directive. We revamped our website in 2019–2020 to largely fulfil the accessibility requirements, and they do not contain critical accessibility deficiencies.

High customer satisfaction

We track the customer satisfaction of both our client companies and private customers. We collect customer feedback from our phone and email services, customer meetings and processing of pension and rehabilitation applications. Our customers are very satisfied with the service we provide.

In spite of the increased demand for customer service due to Covid-19, our client companies' satisfaction showed positive development. Varma's private customers can influence our service development as part of a customer jury. We invite members of the jury to take part in surveys where they can rate our services and share their experiences and ideas for

improving the services. Customers can sign up for the jury in our eServices.

Covid-19 pandemic affects client bonuses

Thanks to our strong solvency and efficiency, we pay competitive bonuses, which lower our client companies' insurance contributions.

The Covid-19 pandemic affects client bonuses to be paid for 2020. This is due to the temporary reduction of 2.6 percentage points in employers' TyEL contribution that took effect on 1 May 2020. By law, earnings-related pension insurance companies cannot pay client bonuses for the reduction period. Therefore, client bonuses are one third of their normal amount. EUR 54.2 (171) million, or 0.3 (0.8) per cent, of employers' TyEL contributions will be paid out as client bonuses for 2020. The client-specific bonus is affected by the TyEL payroll insured with Varma and the client's insurance history at Varma.

We encourage companies to grow

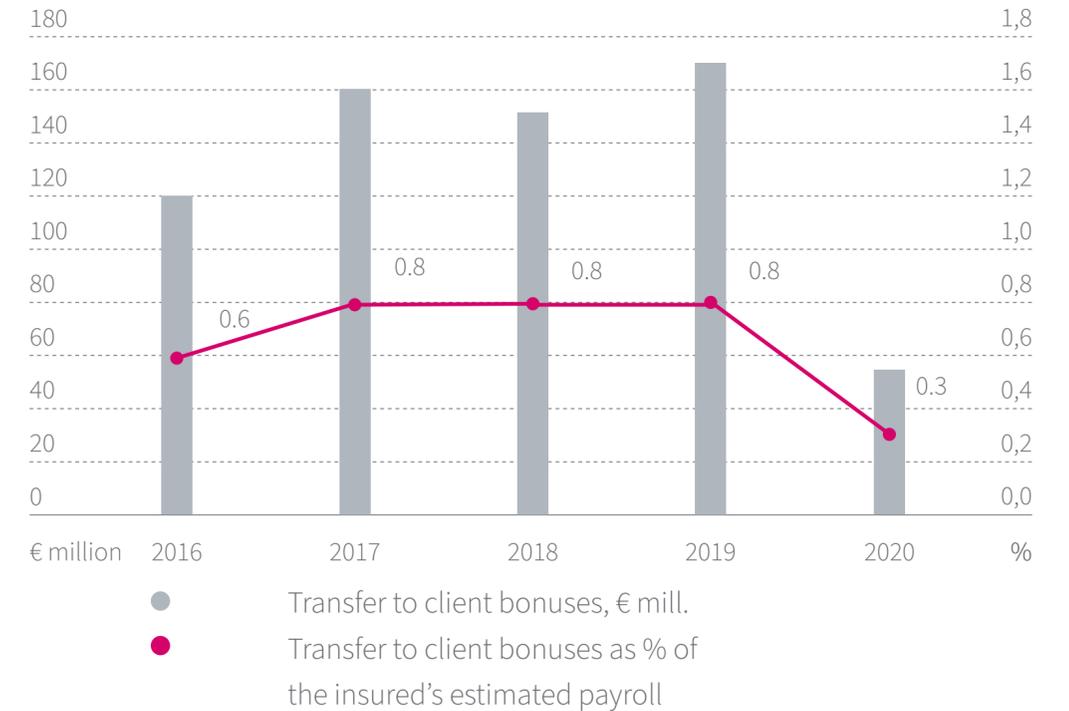
We support SMEs' growth platform and their leap to international growth. In this way, we want to

contribute to the positive development of employment, which promotes the sustainability of the pension system.

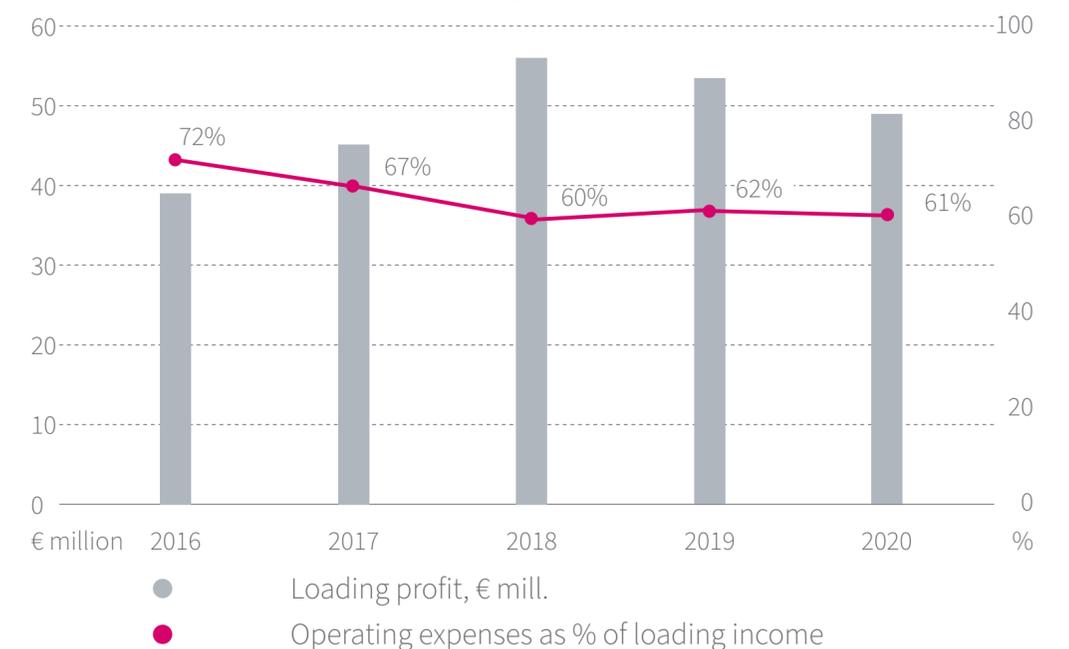
We collaborate with Kasvu Open and Kasvuryhmä (Growth Collective Finland). Kasvu Open helps small and mid-sized companies prepare for nationwide growth. Growth Collective Finland supports the peer work of mid-sized companies and their preparation for a strong period of growth and internationalisation.

Strong solvency and efficiency guarantee competitive client bonuses.

Transfer to client bonuses 2016–2020 (€ million)



Administrative cost efficiency



MANAGING DISABILITY RISKS

Managing disability risks on time

Varma is an effective expert in disability risk management. Disability risk management reduces sick leave rates and longer-term disability, lowers disability pension costs and improves well-being at work and productivity.

In 2020, we created a forecasting model for identifying disability risks. The model helps us assess the extent of the disability risk in our client companies using a data-based approach. For our customers, this means more accurate identification of disability risks and allocation of Varma's support activities, better results and, later on, new data-driven services.

We revamped our disability risk management services in 2020. Our range of services are targeted at disability risk management in accordance with the Finnish Financial Supervisory Authority's guidelines. Our services consist of expert services in work ability management and vocational rehabilitation, and digital services and tools.

Varma can also support its client companies' disability risk management through financial support, which totalled EUR 3.7 (6.1) million in 2020. We had ongoing work ability management co-operation projects in 505 client companies, and they covered around 246,000 employees and supervisors. We publish information on our well-being-at-work con-

tracts that include financial support on our website quarterly.

The work ability management service in our eServices helps our customers plan their work ability management. The service enables e.g. the monitoring, comparison and forecasting of personnel's age structure, pension amounts and the development of related costs. We also provide an interface from the management service to our customers' own HR systems.

In 2020, we added close to real-time visibility into recurring risk factors in disability and rehabilitation applications, background information pertaining to applications and the amount of daily sickness allowances. The services have been implemented and they are developed in strict compliance with data protection regulations.

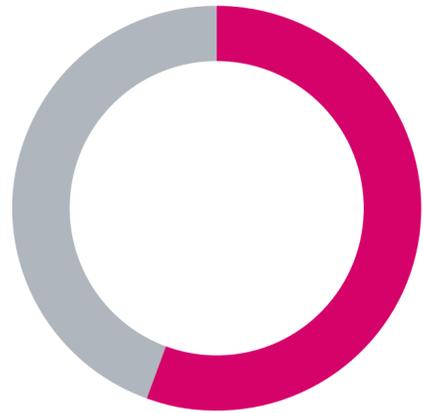
Our customers can use an online learning environment, Varma Academy, to learn about work ability management and thus support their own work.

In 2020, we introduced, for our customers' use, new research-based survey tools for charting the work ability situation overview and risk factors. Varma co-operates closely with occupational health-care providers, for example, to provide a common data platform for mutual customers. The ultimate goal is to enable more effective and impactful management of disability risks.

In 2020, we created a forecasting model for identifying disability risks.



New disability pensions and rehabilitants (persons) 2020



- Cash rehabilitation benefit* recipients and those retired on a disability pension, 3,317 (3,386)
- Recipients of a positive rehabilitation decision, 2,644 (2,548)

* Fixed-term disability pension

Rehabilitation helps people continue in working life

Vocational rehabilitation gives people the opportunity to continue in working life if an illness makes it difficult to continue working as an employee or entrepreneur. It may take the form of work trials, job coaching, vocational training or a business subsidy.

Varma’s rehabilitation work produces results. In 2020, 72 per cent of those who sought rehabilitation on their own returned to working life. In 2020, we made 3,418 rehabilitation decisions, which represents a slight increase (4.8 per cent) from the previous year. Varma’s support helped 1,412 rehabilitants return to working life.

The volumes of disability pension applications varied significantly during the year. The total number of new applications declined by 0.9 per cent from the previous year. The main illness group behind disability is mental health disorders, the share of which has been on the rise in recent years. The second-biggest reason is musculoskeletal diseases.

In 2020, Varma rejected 36.9 (34.6) per cent of new disability pension applications. The rejection rate for all earnings-related pension companies was 36.4 (33.6) per cent in 2020. The Pension Appeal Board changed Varma’s pension decisions in 12.3 per cent of the cases. The corresponding rate for the entire private sector was 11.3. In 2019, the rates were 14.2 for Varma and 13.0 for the entire private sector. These figures include only disability pension decisions; therefore, the figures for 2019 and 2020 are not comparable.

In 2020, the average disability pension contribution category of Varma’s client companies was 3.5 (3.6).



Revamped disability risk management services

Changing working life calls for a new approach to work ability management.

Changing working life calls for a new approach to work ability management. We revamped our disability risk management services for corporate customers in 2020. Our new services provide our customers with better tools for sustainable work ability management. Our new service offering combines work-ability management and rehabilitation and disability pension services under a single umbrella, consisting of expert services in work ability management and vocational rehabilitation, and digital services and tools.

“The service offering’s approach to work ability is based on Varma’s work ability cycle thinking. By work ability cycle we mean variations in work ability on the individual level and in the work community in relation to the development of work. Work ability is retained when the development of the work is in line with the individual’s professional development and resources. Critical stages in terms of work ability are when the development of the work diverges from the individual’s professional development or resources,” says Director **Pauli Forma**, who is in charge of the work ability services.



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RESPONSIBILITY FOR VARMA EMPLOYEES

Our success is based on our competent employees, who take care of our customers' pension cover. For us, responsibility for our employees means a flexible and modern work culture, continuous competence development, equal treatment and taking care of work ability.

AN AGILE WORK CULTURE THAT FOSTERS RESPONSIBILITY

In 2020, we focussed on supporting Varma employees to cope at work and to perform their work successfully in the unexpected turns of the Covid-19 pandemic. Varma employees have done a great job during these exceptional times, and supervisors have strongly supported their employees. In addition to boosting team spirit, special efforts were made to strengthen personal contacts. We also developed collective self-direction, engaged in pay discussions and created an inspiring co-working space for our employees. We also continuously ensure that supervisory work is kept at a good, consistent level.

We believe that a good employee experience is key to customer satisfaction and Varma’s success. A modern and attractive work culture gives us a competitive edge, and it is developed continuously. The slogan for our work culture is “Agile responsibility bearers”, which builds on a foundation of mutual trust and bearing responsibility for the productivity of our work. We work with joy and passion.

Flexible working-hour arrangements improve efficiency and allow employees to influence their day-to-day lives. At Varma, a flexible work culture also means being able to effortlessly balance work and personal life. In 2020, seven per cent of Varma employees were working part-time while they were on, for example,

partial child-care leave. Work is performed wherever one achieves the best results. Our modern premises take into account different work situations, easy personal interaction and the possibility to work from anywhere. In 2020, we created a co-working space, where Varma employees may have meetings, work on projects, innovate and get inspired in different compositions once the coronavirus situation eases. The pleasant space is also suitable for working alone and in small groups. The space was furnished with second-hand furniture. For our customers we are available regardless of place. Well-established remote working practices were useful during the exceptional times of spring 2020, when we smoothly switched to

A modern and attractive work culture gives us a competitive edge, and it is developed continuously.

Personnel

	2020	2019	2018
Personnel	558	558	553
*permanent	535	536	529
Women/men (%)	71% / 29%	71% / 29%	71% / 29%
*fixed-term	23	22	25
Women/men (%)	70% / 30%	68% / 32%	80% / 20%
*full-time	523	519	517
Women/men (%)	69% / 31%	70% / 30%	71% / 29%
*part-time	35	39	37
Women/men (%)	89% / 11%	85% / 15%	89% / 11%
Personnel covered by collective bargaining agreements (%)	88%	85%	88%
Average age	47 y 2 m	47 y 3 m	47 y 2 m
Average age of retirement on old-age pension	64 y 5 m	63 y 10 m	63 y 10 m
Average service period	13 y 11 m	14 y 1 m	14 y 5 m
Personnel turnover rate*	8.2%	10.4%	8.1%
Exit turnover rate**	8.8%	9.1%	8.5%
Sick days/employee	6.6	8.9	7.1
Training days/employee	4.6	2.9	2.5
Employees covered by performance and development reviews (%)	100%	100%	100%

* The calculation includes new permanent employees and employees who were made permanent.

** The calculation includes permanent employees.

full-time remote work. With the change, we created efficient new ways of operating.

In the Work Culture 2.0 group, Varma employees who are interested in developing the work culture carried out practical tests related to agile ways of working, self-management and competence sharing. The group aims to share good practices with all Varma employees and encourage new ways of working. The group has launched an “informer” campaign, the idea of which is to encourage Varma employees to positively expose agile and novel ways of working in different parts of the organisa-

tion. We also published a self-assessment workbook for Varma’s teams in autumn 2020.

Employee experience and supervisory work continuously monitored

We carry out an employee survey every year, and the development measures that are laid down on basis of it are monitored through two Pulse surveys during the year. The results have shown a continuous positive trend in recent years. In a survey carried out in December 2020, the PeoplePower Index measuring

Varma employees' satisfaction and engagement was an excellent 78.1 (75.2). The result propelled Varma to the second-highest rating and to the list of Finland's Most Inspiring Workplaces for the third time in a row. Companies with the best results in Eezy Spirit's employee survey make it on the annual list.

Our results improved significantly in all areas of the index. Varma employees are especially satisfied with communication on the strategy and future outlook, well-implemented changes and good conditions for employee well-being. Areas of improvement include personnel's opportunities to influence the development of their unit's operations, the interestingness of work and the experience that one's work is important to the company.

A key goal for us is to guarantee a high and consistent level of supervisory work for our employees. An encouraging and coaching approach to leadership, goal-oriented performance management and taking care of employees' competence and well-being at work are characteristics of management in Varma. At Varma, specialists are behind the wheel, and they are responsible for the work's progress, making choices and getting the job done, while supervisors are the co-drivers, anticipating, monitoring progress and giving feedback. The HR unit is in charge of managing the development work of Varma's work culture, strengthening leadership and supervisory work and ensuring a consistent management culture and operating methods. HR is also responsible for supervisors' tools and competence development according to the targets agreed in the Executive Group. The HR unit consists of the Senior Vice President of HR, Communications and CSR, HR Manager and a few specialists.

The supervisor index measuring supervisory work in the employee survey has significantly improved and clearly exceeds the benchmark

standard level. Varma's supervisors receive regular, systematic training, and feedback on supervisory work is also systematically collected. In addition to the annual employee survey, we monitor the development of the employee experience during the year through two Pulse surveys.

Responsibility for senior employees and summer employees alike

Varma employees are satisfied and have long careers, 14 years on average. We appreciate both the long experience and expertise of old hands and the fresh ideas of those who have just started working with Varma. In the 2020 equality and non-discrimination survey, the treatment of employees of different ages was found to be significantly more non-discriminatory than two years earlier.

We want to support young people's access to working life through concrete measures. We work with the Haaga-Helia University of Applied Sciences and offer trainee positions to students. We have also participated for several years in the Responsible Summer Job campaign, in which employers commit themselves to the principles of responsible summer jobs. We want to offer our summer employees their first job in their own field and we pay special attention to applicants who have special challenges in finding work in their own field, for instance due to a handicap or illness.

In 2020, Varma was ranked as the best employer in the large corporations category in the Responsible Summer Job campaign on the basis of the summer employees' assessments. Varma's summer employees were very satisfied with their jobs. Their overall satisfaction and willingness to recommend Varma were ranked the highest in the category. Varma's summer employees' average rating of their summer job experience was 3.80 on a scale of 1–4.

Surveys show that Varma is one of the most inspiring workplaces in Finland.

In 2020, Varma was ranked as the best employer in the large corporations category in the Responsible Summer Job campaign.



Varma employees explore their career paths

Varma employees drew up a personal three-year development plan.

We support Varma employees in the incredible change of working life. We challenged every Varma employee to explore their career paths and draw up a personal three-year development plan together with their supervisor.

“Varma’s new strategy challenges our ways of working in a new way. As a responsible employer, we wanted to urge every employee to think about what the incredible change means in his or her work. The process got our personnel to genuinely think about their career paths and embrace the need for changes,” says **Katri Viippola**, Senior Vice President of Communications, HR and CSR.

We offered tools and coaching to support the drawing up of the development plans. All Varma employees have had a discussion on the topic with their supervisor, and 98.5 per cent of them have entered the plan in the HR system. The progress of the plans is followed up on.

COMPETENCE DEVELOPMENT

Varma’s personnel carry out demanding expert work that is meaningful for society and requires continuous development and renewal. Responding to expectations raised by the transformation of work and providing an excellent customer experience are the focus of our development work. Each Varma employee has drawn up a personal three-year development plan together with their supervisor.

The transformation of work challenges all of us. We want to support Varma’s specialists in meeting any future competence requirements and being in the frontline of the incredible change that is taking place in the world. The ability to learn will be one of the most important tools in a specialist’s career. In 2020, each Varma employee drew up a personal three-year development plan together with their supervisor. We supported the discussions by offering tools and coaching for both supervisors and employees.

We also introduced our own coaching model in 2020. In the model, supervisors have sparring partners who are referred to as pilots. The pilots are Varma coaches who have been trained to spar with their colleague alongside their own work. The pilot listens to, inspires and supports the colleague in their thought processes. There are currently five pilots at Varma.

In 2020, Varma employees’ competence was developed through, for example, a training package built around four themes: the transformation of work, skills for a new job, coaching and agility. Due to the exceptional year, these themes turned out to be even more topical than expected. As Covid-19 forced all Varma employees to work remotely full time in spring 2020, we helped them to adapt to the new work reality by offering virtual coaching in managing their own work. The coaching provided tools for smooth remote working, coping with change, prioritising work, time management, stress management and recovery, among other things. Supervisors received training in change management skills in the midst of the Covid-19 pandemic and deepened their knowledge of labour legislation. Varma’s digital journey was promoted, for example, by organising training on agile methods and strengthening digital skills.

During the year of Covid-19, we supported Varma employees in switching to daily remote work by offering virtual coaching related to the management of one’s own work.

98.5%

of Varma employees have entered their personal three-year development plans in the HR system.

In 2020, we revamped the Talent Management process which is used to determine and identify the capabilities, skills, key positions and key persons essential for Varma’s strategy, and we drew up talent development programmes.

We make broad use of various learning methods and tools, such as sparring, networks and online learning environments. On-the-job learning and job rotation are efficient ways of learning new skills at both the individual and organisational level.

Varma uses Viima software, a community development tool intended to promote shared and open ideas and innovations. Any Varma employee can enter ideas in Viima concerning the development of our operations for others to comment on. The best ideas are rewarded.

EQUALITY AND NON-DISCRIMINATION

Promoting diversity and equality

Fostering equality and non-discrimination is a vital part of Varma's sustainability. Every two years, we conduct a survey to assess the state of equality and non-discrimination at Varma. The results of the survey conducted in summer 2020 were excellent, and the experience of equality and non-discrimination had improved tremendously. Varma employees' assessments of how employees of different genders, ages and minorities are treated improved significantly. In the open comments, credit was given to Varma for the active efforts to promote these themes. The most significant improvement was seen in satisfaction with pay equality and non-discrimination. In our view, well-executed pay discussions have had a positive impact on the experience of pay equality.

Based on the survey, we identified the following areas of equality and non-discrimination as areas in need of improvement: treatment of employees of different ages and in different family situations, the equal treatment of women and older generations when offering training and career development opportunities, extension of equality and diversity themes to different minority groups and ensuring the development of equal pay.

Goals and measures have been drawn up for these priority areas, and these are followed up on regularly by the equality and non-discrimination

working group and the co-determination and occupational health and safety (OHS) committees. The priority areas identified together with the employees are used to draw up an equality and non-discrimination plan, which is completed by the co-determination committee and approved by Varma's Executive Group.

Varma is a member of FIBS' Diversity Charter Finland, in which we pledge that all Varma employees are equal irrespective of their age and gender, and that Varma promotes diversity and inclusion and is an equal opportunity and non-discriminatory workplace.

Job grading system brings transparency to remuneration

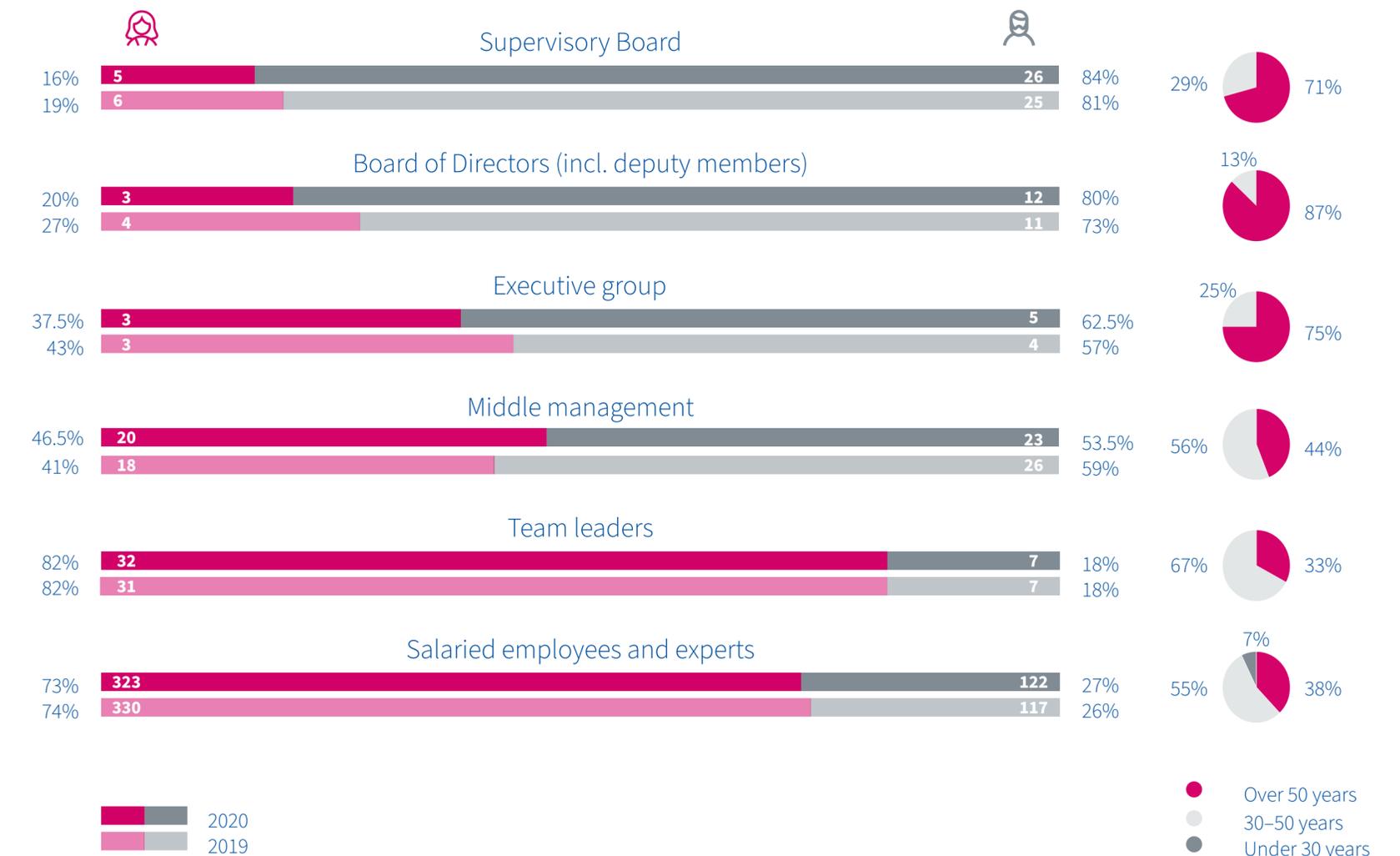
The job grading system and the locally agreed pay system form the basis for determining the pay level in Varma in a transparent manner. In addition to the requirements of the job, the pay level is influenced by the employee's performance. The basis for each employee's job grade, as well as feedback on and an evaluation of their performance are reviewed annually using common criteria. We conduct annual comparisons with market pay levels such that each employee's total salary is compared to the pay level of a financial sector role with corresponding requirements and performance. The comparison helps direct pay raises in a fair and equal way. It also

Women's salaries in relation to men's at Varma in 2020

Women's average salary as % of men's salary

Executive Group (excl. the CEO)	90%
Rest of personnel	75%

Gender distribution of employee groups, the Board of Directors and Supervisory Board in 2019 and 2020



helps ensure and promote the realisation of Varma’s equal pay objective.

An important goal has also been to increase both personnel’s understanding of how their pay is formed and the transparency of compensation. This long-term work to increase pay transparency has paid off, since satisfaction with the competitiveness of the pay and fairness of remuneration as well the experience of equal and non-discriminatory practices in terms of remuneration have shown significant improvement over the past two years (employee survey, equality and non-discrimination survey). This finding was further supported by the pay equality assessment carried out in August, according to which the salaries between men and women are more equal.

In 2020, we carried out a pay discussion round in accordance with the insurance sector’s collective bargaining agreement. The purpose of the pay discussions is to allocate the pay raises of the employees covered by the collective bargaining agreement and increase interaction between employees and supervisors as well as openness related to job requirements, performance and pay. The pay discussion item was targeted to persons whose performance clearly exceeds the level required in their job description. We prepared carefully for the pay discussions by organising employee and supervisor training, which also made use of drama-based methods. In the employee survey, Varma employees gave positive feedback on the pay discussions and deemed the interaction with supervisors to be excellent.

Instructions and steadfast intervention promote a harassment-free work community

Varma employees’ observations and experiences of inappropriate conduct are regularly explored through surveys. Varma has a zero tolerance policy towards inappropriate conduct, harassment and discrimination. This means inappropriate conduct is not permitted under any circumstances and that HR and supervisors intervene steadfastly in all cases that are brought to their attention.

Guidelines on how to proceed if one experiences or observes inappropriate conduct are available to all employees on the intranet. All function and department heads have also reviewed the guidelines together with their teams. Furthermore, Varma’s online course on ethical behaviour includes information and instructions on what to do in harassment situations. The course is compulsory for all Varma employees.

Pay and career development at Varma is non-discriminatory

A few years ago, we recognised that equal representation of genders has not been realised in the best possible way in earlier years, especially in Varma’s management and governing bodies. The target was set to a minimum of 40 per cent representation of either gender in Varma’s Executive Group and middle management by 2022. We aim to achieve this, for example, by ensuring that when new persons are recruited to the Executive Group or middle management, both genders are represented in the final three candidates according to the ‘comply or explain’

We actively build a corporate culture and a workplace where diversity is valued and where everyone is free to be themselves.

principle. The situation has improved, and in 2020, women accounted for 37.5 per cent of the Executive Group and 46.5 per cent of middle management.

As of 2021, our new target is to have at least 30 per cent representation of both genders among team supervisors and specialists by 2023.

Support for non-discriminatory career development is also taken into account in the leadership coaching and Talent Management project for specialists.

Every two years, we carry out a pay survey to determine whether gender equality is being implemented in our pay and reward system. The company-level difference between the average salaries of male and female employees at Varma are largely attributable to the fact that the number of women is proportionally higher in jobs with lower requirement levels.

In an analysis made in 2020 there was still a gap between the average salaries of men and women, but the difference has narrowed. When pay levels are examined by job requirements and performance, pay equality is achieved to a clearly higher degree. Based on the analysis, pay equality between men and women has significantly improved. Over the past two years, we have paid special attention to women’s pay development, and for instance, the pay raises of middle management in 2020 were weighted so as to promote pay equality. Women have also been receiving more performance-based remuneration than men.

We will continue to pay greater attention to and to follow up on equal pay development and the non-discriminatory treatment of our employees. We will especially focus on the consistency of performance assessments.

Striving for a diverse workplace that values individuality

Diversity is important to us, and it means that we take into account different backgrounds, skills and abilities. We believe that when you can be your true self at work, you have a better chance of reaching your full potential.

Compared to other companies operating in the Helsinki metropolitan area, the number of ethnic minorities employed with Varma is low. This is in part due to Varma’s national character as an earnings-related pension company and the fact that our work language is primarily Finnish.

Increasing diversity means that we aim to offer job opportunities especially to minorities, for example, to disabled people.

We actively build a corporate culture and a workplace where diversity is valued and where everyone is free to be themselves. We also continuously strengthen Varma’s discussion culture and encourage our employees to express their views more strongly in, for example, discussions with their supervisor.

Varma has an equality and non-discrimination working group, which promotes diversity and equality at Varma from different perspectives. Examples of equality and non-discrimination work in 2020 include an online publication on the concepts and other basic information related to equality and non-discrimination, an assessment of the practices related to partial disability and an event for Varma’s customers on the topic of diversity in working life. Pride Week was celebrated with a Pride banner and by inviting all personnel to take part in training on preconceptions, among other things.

WORK ABILITY AND SAFETY

We focus on maintaining the work ability of our employees in many ways. Smooth daily work forms the foundation for our work ability. We set clear targets, organise our work in the best possible way, take care of our competence and ensure good, consistent leadership.

Most Varma employees work on PCs either at the office or remotely, serving external and internal customers, and the number of occupational accidents is very low. Varma's OHS work focusses on preventive activities, and its targets are primarily related to the general work atmosphere, leadership, managing tight work schedules and ergonomics. OHS work involves, in addition to everyday leadership, comprehensive occupational health services, attending to equal and non-discriminatory treatment of personnel, continuous maintenance of a safe and fit-for-purpose work environment and guidelines for problem situations, among other things.

Pulse survey questions and development measures chosen on the basis of the employee survey as well as health surveys are part of our continuous, systematic efforts to monitor and develop work ability. We keep track of working conditions at the unit level by monitoring absences due to illness, overtime hours and the number of personnel.

We also draw up an annual personnel report with plenty of personnel data for internal use. Varma employees are offered many employee benefits that promote work ability, such as monetary support for sports, culture, massage and dental care, mobile coaching on well-being, good facilities for active commuters and an in-house gym where affordable group fitness classes are also arranged.

The executive management is responsible for the tangible and operational conditions of OHS work. Supervisors are in charge of working conditions and tools. They also ensure that the work community functions well and the conditions for mental OHS work are in place. The immediate supervisor makes sure that OHS regulations on, for example, maximum overtime hours are complied with. Each employee is responsible for abiding by the rules and reporting problems to their supervisor. The OHS committee is in charge of organising and attending to OHS matters. The employer has three and the employees have six representatives in the OHS committee.

An OHS plan of action is drawn up for two years at a time, and the measures are updated annually. In 2020, we focussed on supporting control over one's work, monitoring the increased mental health-related diagnoses and ensuring preventive

Smooth daily work forms the foundation for our work ability. It is created by clear targets, development of one's competence, consistent supervisory work and efficient processes for active support, occupational health care partnerships and returning to work.

80.4

In the employee survey, the index that is used to ensure Varma employees' work ability was 80.4.

support measures. We published an online course on premises security, which all Varma employees had to complete to ensure competence in occupational safety issues. During the year of Covid-19, we supported remote work ergonomics by arranging coaching on the theme and lending appliances and furniture that support ergonomics when working at home.

The entire personnel is covered by occupational health services that are broader than required by the law. They include online coaching, chat services, medical care and extensive specialist services. Health care professionals' support is also available through digital channels and digital applications. In 2020, the focus areas of the annually updated OHS plan of action included supporting employees' own active maintenance of work ability, enhancing the readiness for change and resources, and improving the systematic monitoring of work ability risks.

In the 2020 employee survey, the index that is used to ensure Varma employees' work ability was 80.4. The index is made up of five work ability-related questions in which Varma employees rate the help and support they receive from colleagues and supervisors and their experience of the level of control over and value of their own work.

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RESPONSIBILITY FOR THE ENVIRONMENT

Through our investment decisions, we are building a world that is safe and sustainable for future generations. Mitigating climate change is one of Varma's key sustainability targets. We aim for a carbon-neutral investment portfolio by 2035.

MITIGATING CLIMATE CHANGE IN INVESTMENTS

Mitigating climate change is one of Varma's key sustainability targets. Our efforts have paid off: the carbon footprint of our investments in different asset classes has clearly declined in five years, and we have received recognition in global comparisons. In 2020, we continued our efforts to attain a carbon-neutral portfolio.

Climate change is one of the most critical factors that investors must prepare for. It will have substantial financial, social and environmental implications for current and future generations. Climate change is also shaping the business opportunities of different sectors and influencing future investment valuations.

In our sustainability programme for 2019–2020, our goal has been to align our investment portfolio with the Paris Agreement's target of reducing emissions to limit global warming to 1.5 degrees Celsius compared to the pre-industrial level.

Mitigating climate
change is one
of Varma's key
sustainability targets.

Varma's climate targets in a nutshell

We published an updated climate policy for investments in 2019.

High-level objective: carbon-neutral investment portfolio by 2035:

We invest in companies that create solutions for reducing emissions and take the progression of climate change into account in their operations.

We invest in companies that benefit from climate change mitigation by creating products and services to replace fossil fuels.

We compose a climate-friendly allocation from the investments in different asset classes. Our target is for the climate allocation to represent 20 per cent of the investment portfolio by 2025.

The goal is to reduce the carbon intensity of listed equity and corporate bond investments, i.e. greenhouse gas emissions in relation to revenue, from the 2016 level as follows:

- 30 per cent by 2023
- 40 per cent by 2025
- 50 per cent by 2027

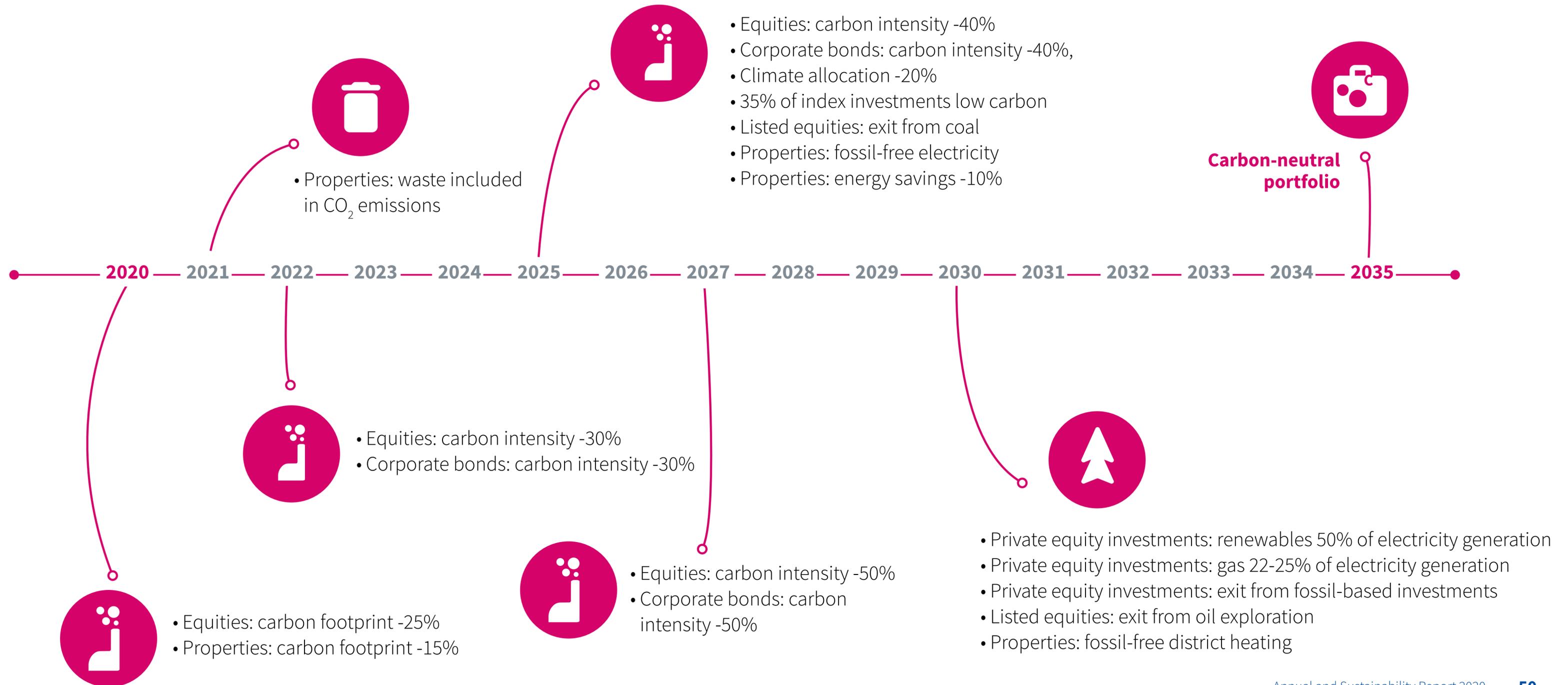
We are committed to exiting from investments in thermal coal by 2025, and to exclude oil exploration from our investments by 2030.

We will raise the share of our low-carbon index funds to 35 per cent by 2025.

In private equity funds, we will increase the share of renewable energy in our electricity generation investments to 50 per cent by 2030.

Properties use fossil-free heating and electricity by 2030 and 2025 respectively.

ROAD MAP FOR VARMA'S CLIMATE TARGETS



CLIMATE RISKS AND OPPORTUNITIES ACCORDING TO THE TCFD RECOMMENDATIONS

Varma is committed to supporting the TCFD (Task Force on Climate-related Financial Disclosures), which outlines and develops methods for companies to report on the financial impacts of climate change. This section includes information on Varma’s climate risks and opportunities according to TCFD.

From an investor’s perspective, climate change entails both physical and transition risks, which have an impact on the value of investments. Physical risks are divided into acute and chronic risks, which refer to the challenges that climate change poses to companies and society, such as unexpected damage caused by extreme weather events or the depletion of natural resources in the longer term. Transition risks refer to changes, for example, in regulation, technology and consumer behaviour that the transition to a lower-carbon economy entails.

On the other hand, climate change also presents investors with opportunities. For instance, companies developing technologies to mitigate climate

change or solutions to facilitate the transition to a low-carbon economy may offer investors good return opportunities.

Climate risk and opportunity management and strategy

Sustainability is a strategic focus for Varma, and mitigating climate change is one of the company’s key sustainability targets. Climate issues are a key focus when sustainability issues are at least biannually reported to Varma’s Board of Directors. The Executive Group also discusses sustainability issues at least once a year.

On a company-wide level, the CIO is in charge of monitoring the climate impacts of investments. The head of each asset class is in charge of the practi-

Climate-change risks, their potential impact on investments and the means of risk management in Varma’s investments

Risk	Potential impact on investing	Means of management
Transition risks	Regulatory impact, e.g. emission rights prices, carbon tax, varying regulation. Investees’ ability to identify new business opportunities and develop new technologies to mitigate climate change. Consumer behaviour and tightening regulation may influence the market and investees’ reputation.	<ul style="list-style-type: none"> Enhanced ESG monitoring of transition industries Reducing carbon intensity Negative screening Replacing district heating with geothermal heating in properties
Acute physical risks	Extreme weather conditions and natural disasters, e.g. floods and hurricanes. For example, the drying up of rivers may affect logistics costs, crop damage due to drought or excess rainfall may influence the cost of food production, heat may increase the cooling costs of business premises, winter clothing sales may suffer from mild winters, and tourism, e.g. ski resorts and restaurants in their vicinity, may be negatively affected by unfavourable weather conditions, like snow scarcity.	<ul style="list-style-type: none"> In real estate investments, the use of flood surveys and flood maps: properties will not be built or acquired from areas at risk of floods In private equity investments, company analyses and supply chain management
Chronic physical risks	Drought, heat waves, rain. For example, attempts are being made to mitigate the California wildfires caused by annual drought by undergrounding electricity transmission networks (reduced chance of wildfire ignition); in food production, coffee and cacao plantations are being moved permanently away from locations where conditions have become unfavourable; acute physical risks turn chronic.	<ul style="list-style-type: none"> Facade solutions for new buildings, building condition assessments Modelling of companies’ geographical production locations Assessing risk management in supply chains

cal application of the climate targets. Additionally, Varma's director of responsible investment develops and co-ordinates, together with his/her team, responsible investment and climate change mitigation in different asset classes.

The Investment Operations management team regularly addresses matters relating to responsible investments. Furthermore, climate aspects are covered 4 times a year in the allocation group, which oversees the risk level of the investment portfolio. The climate aspects of listed fixed income investments and equity investments are examined in relation to the benchmark index.

Climate risks are addressed in both the investment plan and the risk and solvency assessment. Investment activities are also steered by the climate policy for investments, in which we have committed to develop our investment portfolio towards carbon neutrality in 2020–2035. We have also previously committed to developing our investment operations so that our investments are aligned with the target of the Paris Agreement.

Information on climate-related policies – e.g. exclusions and enhanced ESG monitoring – is also given in [Varma's Principles for Responsible Investment](#) and [in the active ownership and engagement principles](#). Both of these have been approved by Varma's Board of Directors.

Engaging with investee companies

For an investor, one means of managing climate-related risks is to engage with investee companies. In our ownership policy, we guide companies to report transparently on the current and future impacts of climate change on the company's operations and growth potential. In essence, we are guiding the companies to report according to the TCFD rec-

ommendations. They should report on how the impacts of climate change are included in the company's governance, strategy and risk management, especially in emissions-intensive industries. Reporting on the targets and indicators set by the investee company makes it easier to monitor the company's progress.

We clarified our means of engaging with investees [in the active ownership and engagement principles published in 2020](#). Varma's engagement goals are twofold. Firstly, Varma engages with companies in an effort to rectify the situation if the investee company has violated local laws or international agreements. Secondly, through engagement, Varma as an investor can promote sustainability and sustainability reporting.

In climate and environmental matters, Varma's engagement is guided by both the climate policy for investments and compliance with international agreements and conventions. The Paris Agreement and local environmental laws are key elements in screening the investment portfolio for violations. In addition to the Paris Agreement's emission reductions, biodiversity is one of the engagement themes in environmental matters. We use the data provided by a third party to monitor violations of environment-related norms by its investees. The screening covers, for instance, failures in reducing air pollution and assessing environmental impacts.

Varma now categorises its investees that violate international norms into three categories, the most severe of which may lead to a company getting blacklisted if it does not sufficiently rectify its operations. Violations in the second most severe category are included in Varma's engagement process. Read more about the monitoring of norms in the section [Responsible investment](#).

In direct investments, we strive to engage with companies with the aim of having them decommission coal power plants by 2030.

A typical channel for Varma's engagement is meetings with companies in which we have a holding. We have regular company meetings, and in the meetings, we explore how they take climate change mitigation into account in their operations. In 2020, Varma was represented in the Shareholders' Nomination Boards of 30 companies and participated in the Annual General Meetings of 84 companies.

In direct investments, we strive to engage with companies with the aim of having them decommission coal power plants by 2030.

Collaborative initiatives and pledges

In addition to direct company contacts, we engage globally, together with other investors, through various collaborative initiatives and pledges. In 2019, we joined the international [Powering Past Coal Alliance](#) (PPCA), which is working to advance the transition away from coal-based electricity and heat generation in the EU and OECD countries by 2030.

We have also joined the [Climate Action 100+](#) initiative, in which investors collectively engage on a global scale with the largest corporate greenhouse gas emitters to ensure that the targets of the Paris Agreement are met.

In accordance with our climate policy, we promote collaboration within the financial markets in order to mitigate and adapt to the effects of climate change, while also taking part in the public debate on the impacts of climate change at events and through collaborative initiatives. In order to advance the financial market's joint efforts to mitigate climate change, Varma engaged in co-operation with the Nordic [Climate Investment Coalition](#) (CIC) in 2020. The CIC is a public and private sector coalition. One of the CIC's initiatives was a declaration made at the Nordic Prime Ministers Meeting 2020 calling for attending to climate change in investments. At the meeting, Varma's President and CEO encouraged other investors to take climate change into account in their activities.

Furthermore, we are a signatory to the [CDP](#), which compiles data on companies' greenhouse gas emissions and other climate-change-related data. In 2020, Varma also participated in the [CDP's campaign](#) that encourages companies to set science-based targets for emission reduction, i.e. to operate in accordance with the Science Based Targets (SBT) framework.

TCFD is a framework for reporting climate issues

The TCFD framework promotes the harmonised disclosure of climate-related risks and opportunities by businesses. According to the recommendations, companies should report on how climate issues are reflected in their governance models, on their strategies concerning climate change and the transition to a low-carbon economy, on the risks and opportunities climate change brings to the company, and on the climate-related targets and metrics they have in place.

Varma constantly analyses the financial risks and opportunities brought by climate change, and develops its reporting on climate risks in accordance with the TCFD's recommendations. We encourage the companies in which we have a holding to do the same.

Varma joined the global real estate and construction industry initiative [Net Zero Carbon Buildings Commitment](#), which advocates for carbon-neutral buildings. Varma’s goal is to switch to fossil-free energy consumption in the properties it owns by 2030.

We are active in various networks that fight climate change, such as the Climate Leadership Coalition and Climate Partners.

Climate targets, indicators and measures

Negative screening and enhanced ESG monitoring

In our climate targets published in 2019, we are committed to exiting from investments in thermal coal by 2025. We are also committed to excluding oil exploration from our investments by 2030. As part of our efforts to mitigate climate change, since 2015 we have excluded from our direct investments companies with coal- or lignite-based operations accounting for more than 30 per cent of their net sales, production capacity or production. At the end of 2020, 1.6 per cent of Varma’s assets in direct equity investments and exchange-traded funds (ETF) were invested in companies that rely on coal for more than 5 per cent of their operations. Equities in the oil exploration industry accounted for a minor share, 0.51 per cent, of our direct equity investments and ETFs.

We do not invest in coal-mining activities.

We also apply enhanced ESG monitoring to industries that are significantly exposed to climate risks, such as the oil & gas industry, electricity & heat pro-

duction, and the automotive, mining, construction materials, chemical and transport industries. The enhanced ESG analysis also applies to companies with coal- or lignite-based operations generating 15–30 per cent of their net sales.

Some companies require enhanced monitoring due to their exposure to climate risks. Our plan is to engage these companies in order to accelerate the decommissioning of coal-based operations. Our goal is to have these companies decommission their coal plants by 2030. Otherwise, we will exit the investment. We see no future for coal-based electricity generation.

In 2020, Varma joined a joint initiative by Nordic investors that aims to phase out coal-based operations. The investors jointly contacted companies that are involved in the construction of the Vietnamese Vung Ang 2 coal-fired power plant and urged them to withdraw from the [project](#).

Tracking the carbon footprint of investments

A key indicator in the management of climate risks is the carbon footprint, which is measured for direct equity investments, listed corporate bonds and direct real estate investments. The goal stated in our climate policy for investments, which was published in 2016, is to reduce by 2020 the carbon footprint of our equity investments by 25 per cent, that of our corporate bond investments by 15 per cent, and that of our direct real estate investments by 15 per cent from the 2015 level. We also compare our carbon footprint to the benchmark index. Our long-term goal is to align our investments with the targets of the Paris Agreement, aimed at limiting global warming to 1.5°C.

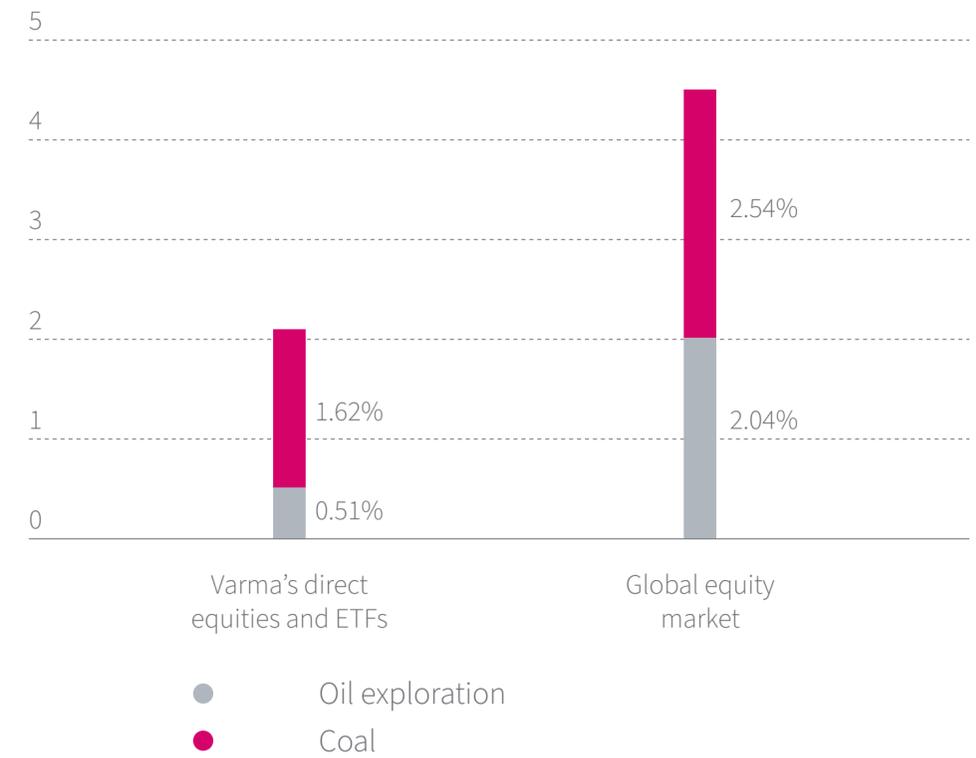
In 2020, we achieved all of our set asset-class specific carbon footprint targets. Compared to

Our goal is to engage companies in order to accelerate the decommissioning of coal-based operations by 2030. Otherwise, we will exit the investment.

29%

The carbon footprint of direct equity investments was down 29 per cent from 2015.

Proportion of oil and coal in equity investments



The carbon footprint of Varma's investments

Listed equity investments	31 Dec 20	31 Dec 15	Change	Varma vs index
Market value (€ bn)	15.1	10.8	40%	-
Carbon footprint (tCO ₂ e)	1,771,518*	1,810,908	-2%	-8%
Weighted carbon intensity (TCFD)	149	-	-	-15%

Listed corporate bonds	31 Dec 20	31 Dec 15	Change	Varma vs index***
Market value (€ bn)	2.55	3	-15%	-
Carbon footprint (tCO ₂ e)	662,195**	1,535,094	-57%	-66%
Weighted carbon intensity (TCFD)	142	-	-	-20%

*The coverage of the reported tCO₂e data is 97%. Emissions have been estimated for 2.5% of the portfolio using the industry average for carbon intensity.

**The coverage of the reported tCO₂e data is 86%. Emissions have been estimated for 8.5% of the portfolio using industry average for carbon intensity.

***The coverage of the fixed income index data is <25%. Figures for the global equity market were used in the comparison.

Direct real estate investments	31 Dec 20	31 Dec 15	Change
Carbon footprint (tCO ₂)	24,267	58,050	
Share of flats	25%	18%	
Share of business properties	75%	82%	
Carbon footprint in relation to gross square metres (CO ₂ kg/gross m ²)	17.8	33.8	-47%
Carbon footprint of flats in relation to gross square metres (CO ₂ kg/gross m ²)	16.1	27.2	-41%
Carbon footprint of business premises in relation to gross square metres (CO ₂ kg/gross m ²)	18.4	35.6	-48%
Market value of the real estate portfolio included in the calculation (€ bn)	2.1	2.2	
Sites included in the calculation as % of the market value of the entire direct real estate portfolio	71%	66%	

In 2020, we achieved all of our carbon footprint targets. We have reduced our ownership in the most carbon-intensive companies and chosen 'cleaner' companies.

40%

Our goal is to cut the carbon intensity of equity and corporate bond investments by 40 per cent by 2025.

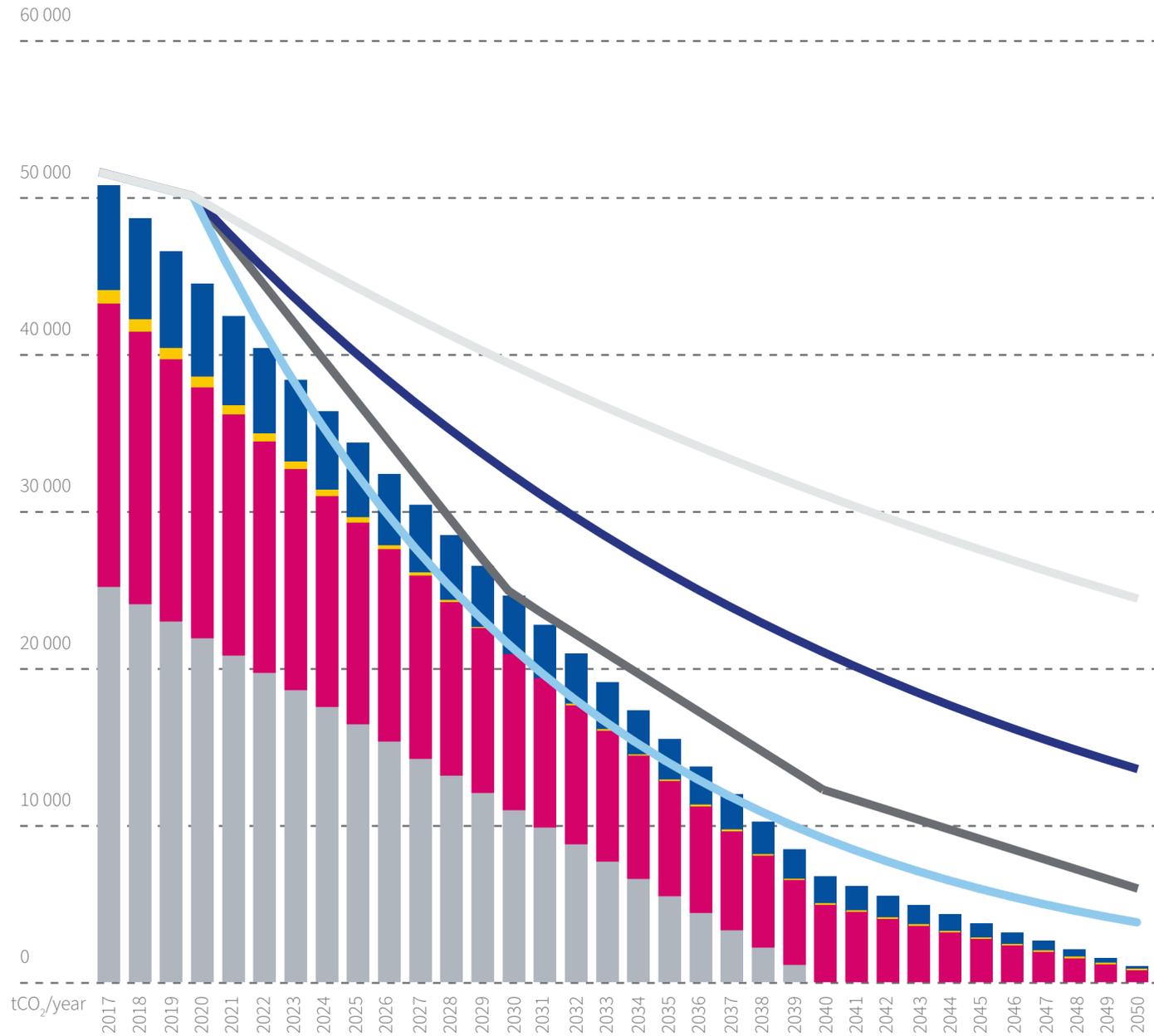
the 2015 level, the carbon footprint of listed equity investments declined 29 per cent, that of corporate bonds 23 per cent and that of real estate 47 per cent. The positive development is the result of reducing our ownership in the most carbon-intensive companies and choosing "cleaner" companies in specific sectors. Especially in terms of corporate bonds, Varma has, within sectors, divested companies with high emissions and invested in cleaner companies. The carbon footprint of real estate investments has been reduced, for example, through changes in the real estate portfolio, climate renovations and energy efficiency measures executed at the sites, and by purchasing fossil-free district heating and real estate electricity. You can read more about the environmental impacts of real estate investments on page 61.

In 2019, we set new goals in tracking the carbon footprint of investments. We monitor and report on the carbon footprint of our investments using the indicator recommended by the TCFD. Our goal is to reduce the carbon intensity of listed equity and corporate bond investments, i.e. greenhouse gas emissions in relation to revenue, from the 2016 level as follows: 30 per cent by 2023, 40 per cent by 2025 and 50 per cent by 2027.

At the end of 2020, the carbon intensity of equity investments was down 16 per cent compared to the 2016 level. The rate of change must accelerate in the coming years if we are to achieve the emission reduction targets set out in our climate policy. At year-end 2020, the weighted carbon intensity of Varma's equity portfolio was lower than that of the global equity market.

In listed corporate bonds, carbon intensity was on track with the climate policy's emission reduction target at the end of 2020, with 25 per cent lower carbon intensity than in 2016.

Scenario analysis of the development of Varma's direct real estate investments' emissions in relation to the target of limiting global warming to 1.5°C



* Gaia Consulting's estimate based on the relation between general and sector reduction speed under the 2-degree scenario.

- Residential, heat
- Residential, electricity
- Business premises, heat
- Business premises, electricity
- SBT curves according to 2 degrees
- Carbon law target
- SBT target curves according to 1.5 degrees, general average
- SBT target curve according to 1.5 degrees, sector average*

Our new indicator, weighted carbon intensity, increases the weight of big polluters, which means that a single company with large emissions may have a major impact on the investor's carbon footprint. For us to reach our climate targets, such investee companies need to implement significant emission reductions or, alternatively, we need to reduce our position in them.

Scenario analyses in real estate investments

We have carried out various scenario analyses based on global climate models in order to determine how well our investments are aligned with the targets of the Paris Agreement. The results were used, for example, to establish the targets for our renewed climate policy.

Scenario analyses have been performed on Varma-owned properties both from the perspective of transition risks and physical risks. The development of the emissions of our real estate portfolio was examined in an analysis carried out in autumn 2018. The analysis covered the carbon dioxide emissions from the heating and electricity of business and residential properties owned by us. A baseline scenario was established first, depicting the likely develop-

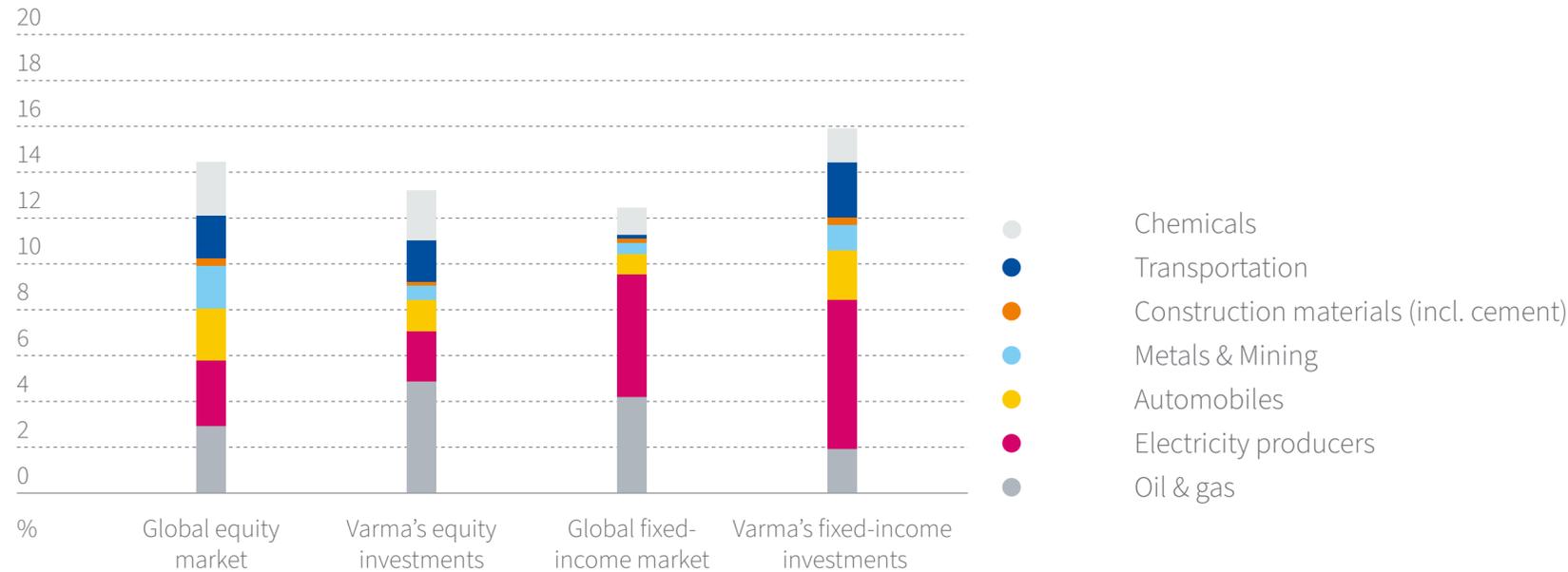
ment of emissions without any actions by Varma, except for the purchase of green electricity.

The analysis shows that the future emissions from Varma's real property are, even in the baseline scenario, in line with Science Based Targets' 1.5 degrees Celsius, but in order to reach the targets, the emissions from Varma's real property should decline by 92 per cent by 2050. We can achieve the biggest emission reductions by purchasing fossil-free electricity for business premises – residential properties already mostly use fossil-free real estate electricity. Additional emission reductions can be achieved with solar electricity and heat pumps. The development of the real estate portfolio's emissions is closely linked to district heating becoming greener, based on increased use of renewable energy, in Helsinki, Espoo and Tampere.

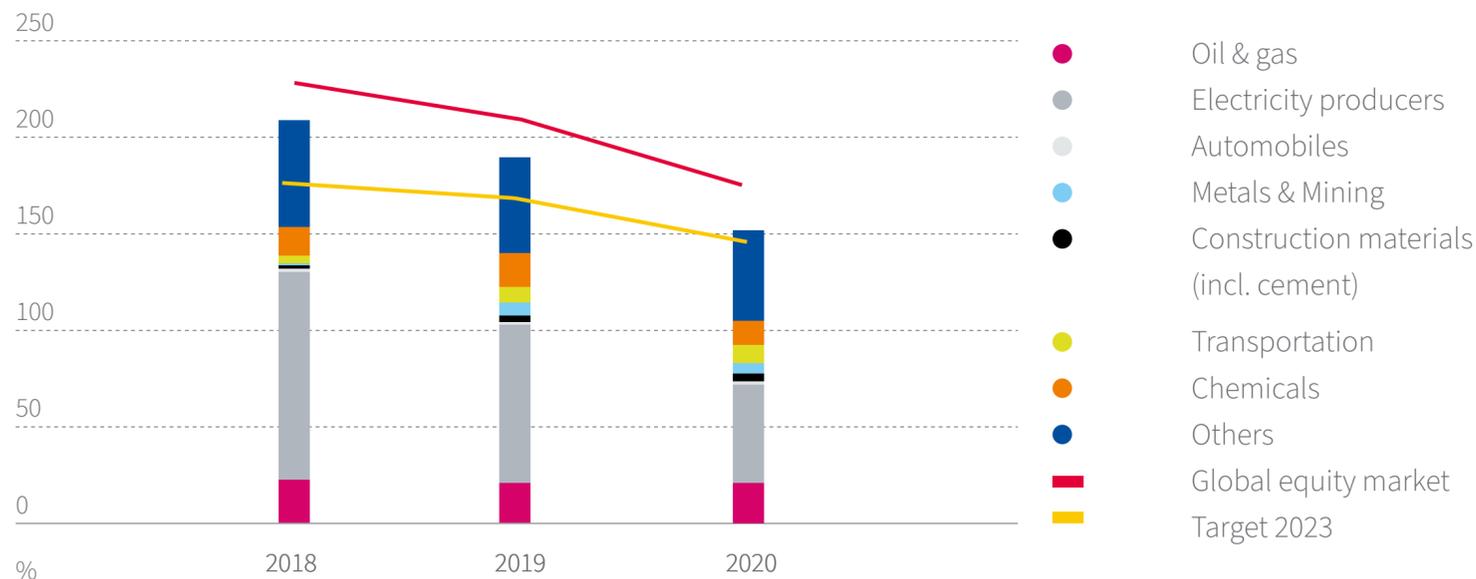
On the basis of the scenario analyses of the real estate portfolio's emissions, we set a new goal in our renewed climate policy: real estate's electricity and heating will be fossil-free by 2025 and 2030 respectively.

We commissioned an analysis focusing on the physical climate risks of our direct real estate investments in autumn 2018. Of the real property owned by Varma, around 70 per cent is located in the Helsinki metropolitan area. Practically all of the buildings are located within a radius of approximately 10 kilometres from the seashore, and thus their climate burden is higher than average. In addition to the risk of a sea flood, slanted rain and strong winds may cause problems in controlling moisture levels in the buildings. In the climate models, the estimate is that the amount of slanted rain on the coastline will increase by 34 per cent by 2100. We take this into account in building condition surveys and facade solutions for new buildings.

Share of transition industries exposed to climate change in investments



Contribution of different transition industries to the weighted carbon intensity of Varma's equities 2018–2020



Our real estate portfolio was also analysed for sea flood risk. The results show that the risk in Varma's real estate portfolio is low. Varma takes the sea flood risk into account especially in new development projects and when purchasing new buildings. A separate flood analysis and flood risk survey was carried out at Varma's headquarters in Helsinki's Salmisaari in 2019. The results show that the likelihood of a sea flood or sewer flood in Salmisaari is very low.

We will update our real estate scenario analyses in 2021.

Scenario analyses for equities and corporate bonds

We determined how well our listed equity investments are aligned with the targets of the Paris Agreement with the help of a scenario analysis in

2018. The analysis made use of the International Energy Agency's (IEA) scenarios for climate warming (2.7°C, 2.0°C and 1.75°C). The results indicate that our portfolio is in line with the under-1.75-degree target, but staying on the right track means lowering the carbon emissions of our investments in the long run. On the basis of these observations, we set the carbon intensity reduction targets published in our climate policy.

We examined the development of direct equity and fixed-income investments' carbon footprint during 2016–2020 compared to the reduction targets set out in our new climate policy. Based on the results, meeting our climate targets will require an annual reduction in the emissions of our investees with high emissions or that we reduce our position in these investees.

Contribution of different transition industries to the weighted carbon intensity of Varma's equities in 2020



Transition industries in Varma's investments and their risks and opportunities

We have defined industries that, in terms of climate change, both offer the greatest opportunities for emission reductions through their business and are also significantly exposed to risks caused by climate change mitigation, such as regulation and market risks. These transition industries comprise the oil & gas industry, electricity & heat production, and the automotive, metals & mining, construction materials, chemical and transport industries.

In addition to these industries, we actively monitor the development of the forest industry, which has a major role in Finland and thus in Varma's investments in Finland. The forest industry has climate effects through both emissions and carbon sinks. The forest industry also plays a key role in attending to biodiversity.

Companies operating within the transition industries also present investors with return opportunities. We aim to identify companies operating in these industries with the strongest willingness to change and ability to adapt to climate change.

We also monitor and analyse the contribution of different transition industries to the carbon intensity of Varma's direct equity investments, because transition industries have a major impact on it. From the perspective of climate change, companies within the industries vary, however, widely. In order to attain the climate goals, we must identify the best investments within the transition industries, in terms of both risks and opportunities.

One of the industries exposed to regulation concerning climate change mitigation is electricity production. Electricity generation made up roughly a third of the carbon intensity of Varma's equity portfolio at the end of 2020 (scope 1 and 2).

We also follow private equity and infrastructure funds' exposure to the transition industries. The goal is to raise the share of renewable energy in our electricity generation investments to 50 per cent by 2030. We strive to control the weight of industries with inherent climate risks by selecting managers and funds that are in line with our climate policy. Going forward, we are committed to a situation where the share of oil & gas companies in our private equity investments is smaller than the share of oil & gas companies in the listed equity market.

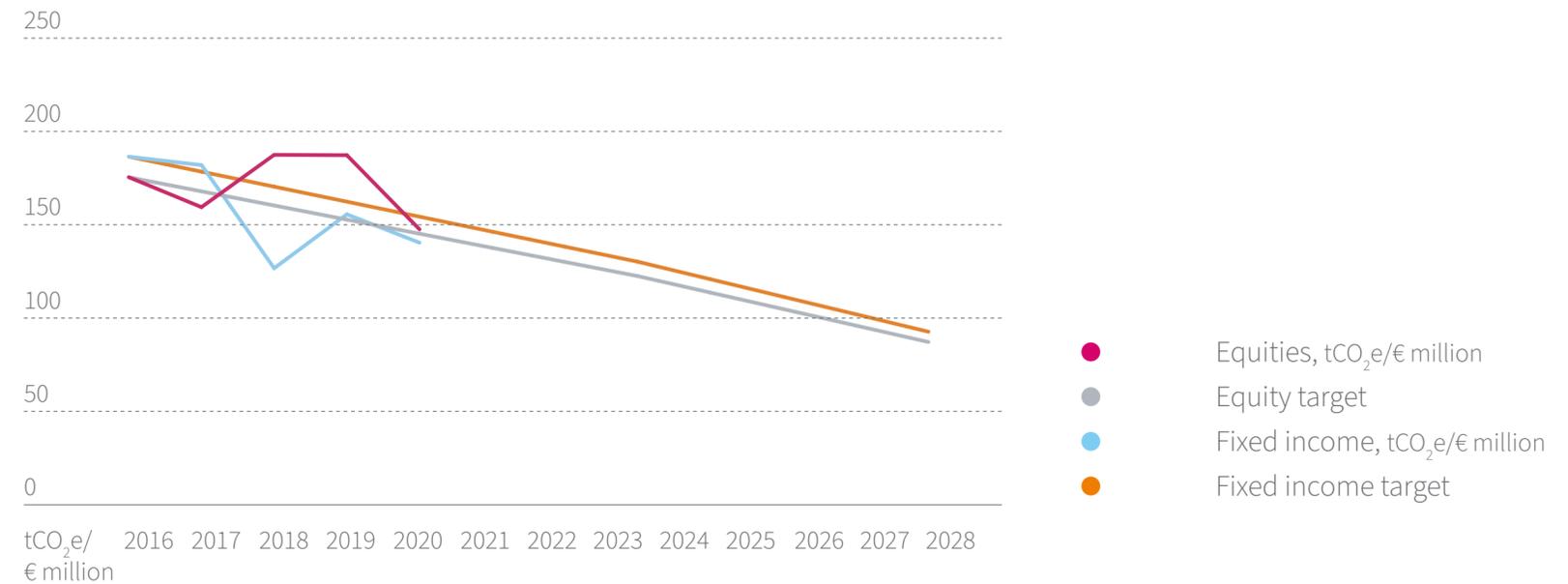
In private equity and infrastructure investments, the share of renewable energy of electricity generation was 45 per cent in 2020. The share of oil & gas companies in our private equity investments was clearly smaller than the share of oil & gas companies in the listed equity market. In infrastructure investments, we are investing in electricity companies that use renewable sources or are transitioning towards greener operations. The share of fossil-fuel-dependent investments in Varma's infrastructure investments was lower than the market average.

Climate-change-related opportunities and impact on investment returns

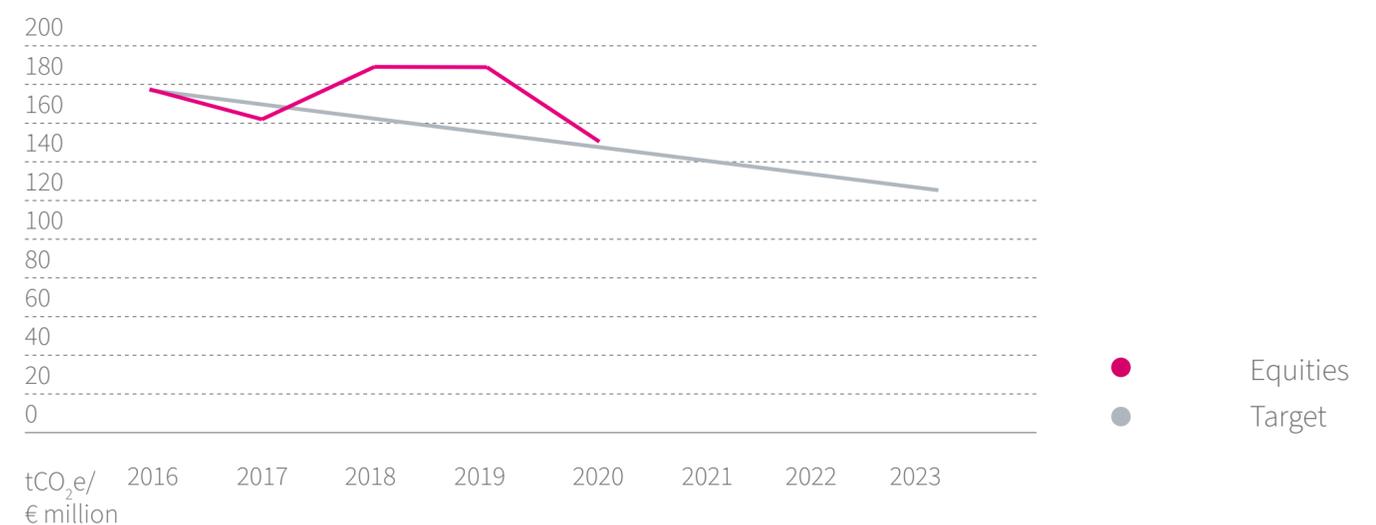
Responsible investment and mitigating climate change apply to all of Varma's asset classes and investment processes.

We reach for carbon neutrality by 2035 by identifying new investment opportunities brought by climate change and by creating a climate-friendly investment allocation. The allocation will include companies whose business benefits from actions to mitigate climate change, whose operations do not cause significant greenhouse gas emissions, who have a clear strategic and science-based target

Development of the weighted carbon intensity of listed equity and corporate bond investments compared to reduction targets under Varma's climate policy



Development of the weighted carbon intensity of listed equity investments and target level by 2023



PRI included Varma in the PRI Leaders' Group for the second time for its responsible investment work. In its assessment, which was conducted for the second time, the PRI compared investors' climate reporting performance.

of reducing greenhouse gas emissions and whose operations offer carbon sinks. Our target is for the climate allocation to represent 20 per cent of the investment portfolio by 2025. Read more in the sidebar on p. 58.

Varma has also been investing in green bonds. The debt capital raised through the issuance of a green bond is allocated to environmentally friendly investments. By the end of the year, our green bond portfolio was valued at approximately EUR 450 million, accounting for roughly 6.6 per cent of our liquid bond investments. Green bonds are in high demand, and global investors have been willing to accept their low return expectations. During the year, interest rates declined, whereupon the prices of bonds, green bonds included, rose. The return on Varma's green bond investments was 4.0 per cent in 2020.

When it comes to mitigating climate change, it would also be important for global index investors to shift their focus towards lower-carbon investments. We developed, in collaboration with our partners, two sustainable exchange-traded funds (ETF) in 2019. By the end of 2020, investments in these totalled EUR 1,063 million. Varma is represented in ETFs' sustainability committees. The ETFs were created jointly with the asset management company Legal & General Investment Management (LGIM) and the index investment company Foxberry, and they were listed on the London Stock Exchange. These index funds do not invest in companies or sectors that are on our investment blacklist: Tobacco companies, industries that manufacture controversial weapons and companies whose operations are based to a large extent on the use of coal and which have the highest emissions and significant fossil fuel reserves are excluded from the index.



Climate-friendly allocation being built

In order to promote the carbon neutrality of its investment portfolio, Varma assembles a climate-friendly allocation, made up of investments in different asset classes. Our target is for the allocation to represent 20 per cent of the investment portfolio by 2025.

Climate change offers investors opportunities, and by building a special climate allocation, Varma wants to identify any new investment opportunities brought by climate change. The allocation will include companies whose business benefits from actions to mitigate climate change, whose operations do not cause significant greenhouse gas emissions or who have a clear target of reducing greenhouse gas emissions.

In 2020, Varma identified investees that fit the investment allocation on the basis of their sector, produced product or service or established emissions reduction targets. The climate allocation accounted for 12.4 per cent of the entire investment portfolio at the end of 2020.

The allocation includes companies that have set emission-reduction targets in accordance with the Science Based Targets initiative. At the end of 2020, such targets had been set by 23 per cent of Varma's direct equity investments.

The climate allocation also includes green bond investments.

Furthermore, the climate allocation will also include Varma-owned properties that use fossil-free heating and electricity. At the end of 2020, the allocation included 7 business premises.



Varma's climate work and reporting receive recognition

We have received international recognition for our climate work and reporting.

In an international assessment, the UN-supported Principles for Responsible Investment (PRI) included Varma in the PRI Leaders' Group for the second time for its responsible investment work. In its assessment, which was conducted for the second time, the PRI compared investors' climate reporting performance. According to the assessment, Varma has excellent climate reporting practices. Of the more than 2,000 member organisations, 36 investors from around the world made it into the Leaders' Group.

We came in fifth place in the Asset Owners Disclosure Project's (AODP) most recent comparison, carried out in autumn 2018, which assessed the world's 100 largest global pension funds' approach to climate-related risks and opportunities. AODP is an international, independent organisation that assesses the world's largest institutional investors by their capacity to respond to climate-related risks and opportunities.

In 2020, Varma was recognised for its work to combat climate change by the Activist Grannies, a movement that rewards deeds that demonstrate a dedication to taking climate change seriously.

Varma also received recognition for its first TCFD report, having been ranked number one in the Climate Change category of the sustainability reporting competition in 2019.

Read more about our sustainability work on our website.

ATTENDING TO BIODIVERSITY

Biodiversity refers to the biological variety of life on Earth. A biodiverse environment has a wide range of genetically diverse species of plant and animals, each with its own role in the environment and place in the food chain. In a biodiverse environment, the different forms of life interact with each other in complex ecosystems.

The IPBES Global Assessment on Biodiversity and Ecosystem Services has estimated that around 1 million animal and plant species globally are threatened with extinction, many within decades. On the other hand, more than half of the global gross domestic product is partly or largely dependent on nature and its resources, for example in terms of the availability of food and fuels. The depletion of biodiversity jeopardises this dependence. In its global risks landscape 2020, the World Economic Forum (WEF) ranked biodiversity loss among the five most impactful and most likely global risks within the next decade.

For an investor, measuring the impacts of changes in biodiversity is more complicated than measuring the impacts of climate change. Furthermore, whereas greenhouse gas emissions are global, problems and opportunities related to biodiver-

sity are often local in nature. Within industries that are directly linked to land use, investors may strive to identify risks as well as opportunities related to both climate change and biodiversity. The analysis of economic risks and opportunities and positive impacts related to biodiversity has been complicated by the scarcity and lack of commensurable indicators that can be applied to a variety of investees. On the other hand, biodiversity is already mentioned in many companies' strategies and sustainability policies.

We carried out a preliminary biodiversity analysis of the biodiversity of investment portfolio in 2020. We focussed on forest industry companies since they are most directly linked to land use. Our analysis showed that all the forest industry companies in which Varma had shareholdings had taken biodiversity into account in their sustainability policies. The analysis also revealed that from an investor's point of view, biodiversity indicators still lack commensurability.

We follow the global development of the framework of the Task Force on Nature-related Financial Disclosures (TNFD). In addition to the TNFD framework, the protection of biodiversity comes up in

In 2021 will explore the risks that biodiversity loss generates in different industries, through, for example, loss of nature, changes in land use and endangerment of species.

the EU taxonomy, which establishes whether an investment is environmentally sustainable. The protection and restoration of biodiversity is one of the environmental objectives of the taxonomy regulation.

One of Varma's responsible investment focus areas in 2021 will be to identify the risks that biodiversity loss generates in different industries, through, for example, loss of nature, changes in land use and endangerment of species. We will also explore what kind of measures taken by companies can reduce the loss of nature. For an investor assessing risks and opportunities related to biodiversity, it is critical to find background information that is based on science and takes different views broadly into account.

A Million

animal and plant species globally are threatened with extinction, many within decades.

ENVIRONMENTAL IMPACTS OF REAL ESTATE INVESTMENTS

Buildings account for more than 40 per cent of Finland’s greenhouse gas emissions, which means that properties’ climate friendliness plays a key role in combatting climate change. We reduced our real properties’ carbon footprint by 47 per cent in 2015–2020. Our goal now is to use fossil-free heating and electricity in our real estate by 2030 and 2025 respectively. To reach this goal, we started climate renovations in 13 residential buildings in 2020, and 8 of our office sites switched to fossil-free district heating.

Varma’s goal was to reduce the carbon footprint of its real estate by 15 per cent between 2015 and 2020. We reached and even exceeded that goal, as the carbon footprint of our real estate investments declined by as much as 47 per cent during this period. This positive development is partly due to the change in Varma’s real estate base, but switching to fossil-free district heating and electricity, climate renovations and energy-efficiency measures in the properties also played a role. The decline of the emission factors for district heat and electricity since 2019 also contributed to the lower emissions.

Emissions from Varma’s housing stock have reduced especially due to fossil-free real estate electricity. Except for a few individual sites, all of Varma’s rental properties have switched to using fossil-free real estate electricity.

In buildings, carbon dioxide emissions are mainly caused by the energy consumption arising from electricity and heating, which can be reduced by improving the energy efficiency of the buildings. We are committed to both commercial property and rental flat energy efficiency action plans through the Finnish Energy Efficiency Agreement Scheme for the property sector. The agreement period covers the years 2017–2025. Varma aims for a 10 per cent reduction in the properties’ energy consumption by the end of 2025. We had an intermediate target of 4 per cent consumption savings by the end of 2020. This target was achieved in both our business and housing properties, with a consumption reduction of more than 6 per cent in both since 2017.

The Covid-19 year with remote working shows in properties’ consumption figures. In the housing

We reduced our real properties’ carbon footprint by 47 per cent in 2015–2020.

Consumption data for Varma's real estate in 2018-2020

	2020	2019	2018
Residential			
Weather-normalised heat, MWh	39,168	42,442	44,590
Water, m ³ *	351,907	328,992	339,024
Electricity, MWh	5,753	5,682	5,662
Number of sites included in the calculation	57	58	58
Business premises**			
Weather-normalised heat, MWh	91,985	102,849	106,864
Water, m ³	152,222	252,128	251,391
Electricity, MWh	65,422	81,829	85,671
Number of sites included in the calculation	44	49	53
Business premises** and residential, total			
Weather-normalised heat, MWh	131,153	145,291	151,454
Water, m ³	504,129	581,120	590,415
Electricity, MWh	71,176	87,511	91,333
Number of sites included in the calculation, total	101	107	111

* For residential properties, water consumption includes household water.

** Sites managed by the tenant are not included in monitoring. The sites in the portfolio being monitored have changed since 2016, when some sites’ consumption figures only covered part of the year.

stock, specific heat consumption declined and specific electricity consumption rose, while in business premises heat consumption increased and specific electricity consumption declined compared to the previous year. We have managed to reduce consumption in business premises through energy saving measures, such as recovery of the condensation heat of a data centre, sensible utilisation of waste heat and adoption of led lighting. Air conditioning equipment at the end of its life cycle has been replaced by switching to district cooling.

Fossil-free district heating and geothermal heating next to solar power

In addition to energy saving measures, Varma is reducing the carbon dioxide emissions of its real estate by choosing fossil-free alternatives in heating and real estate electricity. Our goal is to use fossil-free heating and electricity in our real estate by 2030 and 2025 respectively. At the end of 2020, 19 per cent of district heat and 23 per cent of real estate electricity were emission free.

In 2020, eight business premises owned by Varma switched to fossil-free district heating, i.e. recycled heat. The waste heat used in recycled heat is a by-product of data centres, substations and industrial processes. Seven of these also use fossil-free real estate electricity generated using wind power or hydropower, i.e. they are carbon neutral in terms of energy and electricity consumption.

In 2020, Varma started climate renovations in its residential buildings. The renovations are expected to result in 1,500 flats that are carbon-free in terms of heating.

In recent years, Varma has been building solar power systems in its business premises. At the end of

2020, a total of eight Varma-owned business premises had solar power installations.

Solar electricity accounts for different proportions of the electricity consumption of Varma’s real estate. At sites with solar power installations, the proportion has been around 11 per cent in May–August, and around 5 per cent for the whole year.

The properties to be equipped with solar systems have been chosen according to type of property, free roof surface and optimal electricity consumption such that electricity generated by solar energy can be fully used in the properties. The life-cycle costs of solar power systems have shrunk and their efficiency has improved, which makes solar power a worthwhile option for reducing the carbon footprint. We continuously look for new sites for the adoption of renewable energy.

Already 53 properties have environmental certification

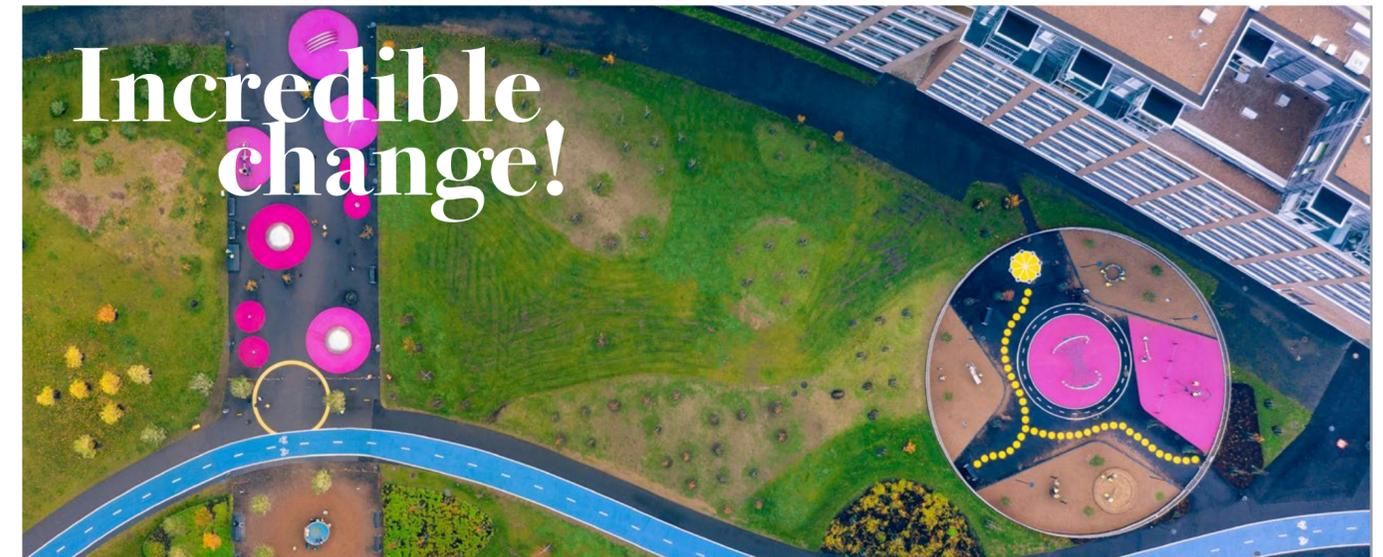
Our climate policy states that our most important buildings will be certified according to the BREEAM environmental rating system by 2025. Environmental ratings are a concrete way to develop the sustainability of real estate.

The quality system is particularly aimed at improving how energy efficiency is monitored and verified. The goal is to achieve a rating of at least “Good” or “Very Good”.

In 2020, eight buildings owned by Varma were granted BREEAM In-Use environmental certification. At year-end 2020, a total of 53 of our real properties had environmental certification, representing 42 (39) per cent of the real estate base under our direct ownership.

Three Varma properties have been granted the second highest rating of ‘Excellent’ under the BREAAM environmental certification system.

Some residential buildings will switch from district heating to geothermal heating, and electricity will be purchased emissions free. These houses will be carbon-neutral in terms of heating.



Climate renovations will turn 1,500 flats carbon-neutral in terms of heating

Varma started in 2020 a series of climate renovations in residential buildings owned by the company. Heat pumps and solar panels will be installed in 36 apartment buildings, which means the emissions from Varma’s total housing stock will decrease by an estimated 48 per cent by 2023. These renovations will result in 1,500 flats that are carbon-free in terms of heating.

Varma owns around 4,000 rental flats in Finland. In 2020, Varma launched a project to switch to heat pumps as the heating source for a large part of the properties in its housing stock. Some of Varma’s residential properties will switch to using solar panels and property-specific heat pumps that recover heat from exhaust air. The new energy solutions will replace part of the buildings’ district heat consumption.

Climate renovations were started at 13 sites in 2020, and the projects are due to be completed at the latest in spring 2021. Geothermal heat pumps, solar panels and air-to-air heat pumps will be installed in blocks of flats.

The sites are located in the Helsinki area, and in Tampere, Turku and Lahti. Following the renovations, eight sites will be carbon-neutral in terms of energy consumption.

The plan is to start climate renovations at nine new residential sites in 2021.

In 2020, Varma was planning or about to launch building projects with the intention of applying for the BREEAM New Construction certification. The office sites of Keilaniemen Portti in Espoo and Katajanokan Laituri in Helsinki were such projects.

We are also planning to start the certification process for residential sites in 2021.

BREEAM (Building Research Establishment’s Environmental Assessment Method) is an environmental rating system for buildings and building projects to assess the sustainability of buildings using harmonised methods. The rating system covers areas such as energy efficiency systems, waste sorting and recycling opportunities and location, i.e. whether the building is situated along good public transport routes and how cycling is encouraged in the space solutions, for example. Varma’s goal is also to install more charging points for electric and hybrid cars in properties under its ownership.

GRESB Assessment results used to develop the sustainability of real estate

Varma took part in the Global Real Estate Sustainability Benchmark (GRESB) assessment of real estate sustainability performance for the second time in 2020, earning 75 points out of 100. In the previous year, Varma earned 68 points as a first-timer. Varma’s peers – a group of 91 investors – received 70 points on average. Varma’s score earned it a three-star rating out of five. Varma is the only Finnish earnings-related pension insurance company to take part in the assessment so far.

GRESB (Global Real Estate Sustainability Benchmark) is a global tool and framework for assessing and benchmarking the sustainability performance of real estate and infrastructure investments, allow-

ing investors to collect and compare their sustainability performance data.

GRESB assesses the sustainability of the entire direct real estate portfolio with respect to sustainability-related risks and opportunities, energy and water consumption, greenhouse gas emissions, environmental management systems and broadly the sustainability policies and management in the entire company. We use the GRESB Assessment as a tool to develop the sustainability of our real estate.

In the assessment, Varma scored particularly high points, for instance, in sustainability policy and management. For Varma, improvement is needed in the comprehensiveness of consumption data, data assurance and the supply chain’s sustainable development.

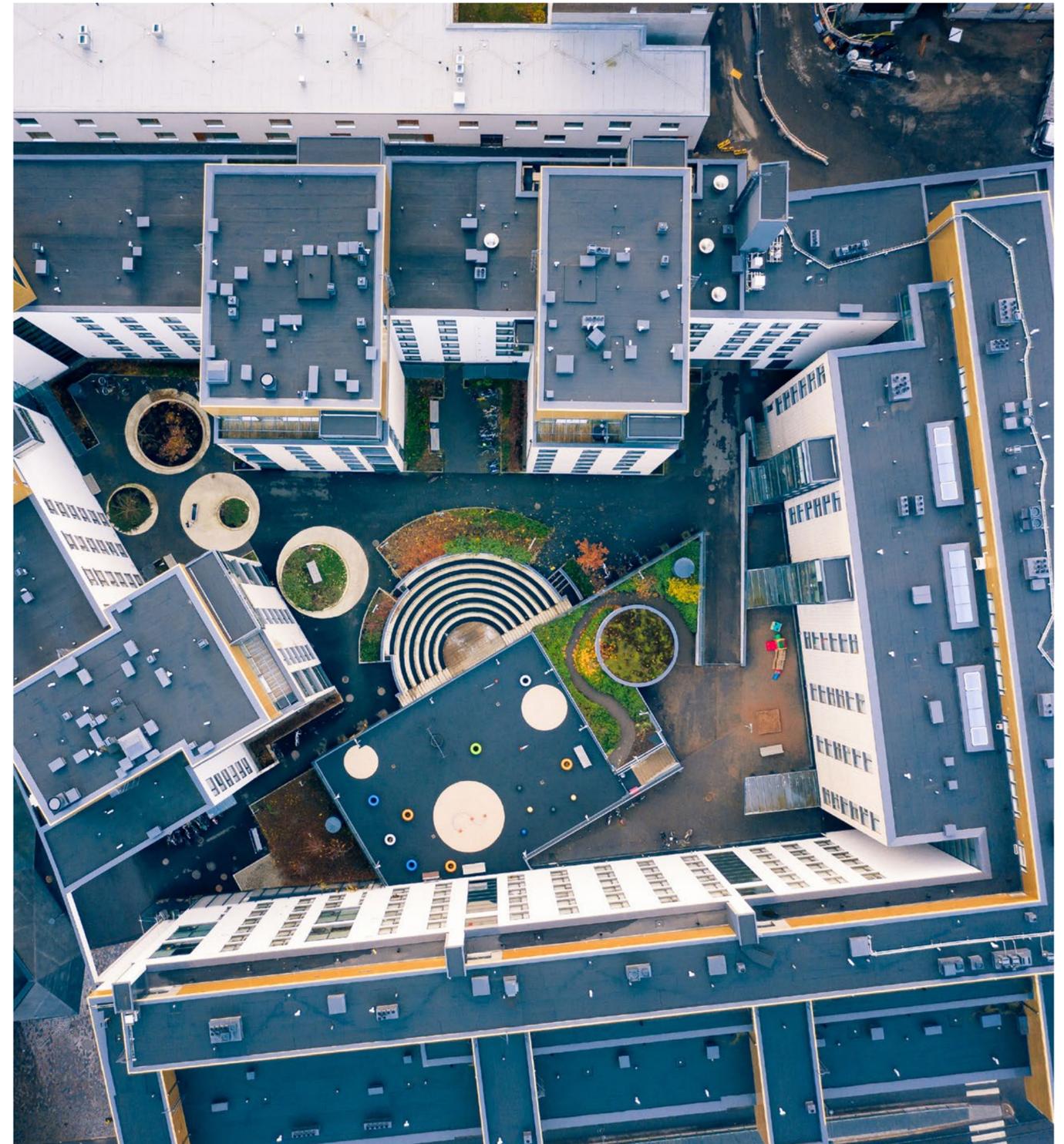
Waste monitoring extends

We have been monitoring the waste volumes of the business premises and the carbon dioxide emissions calculated on the basis of this data as of 2018. In 2020, the calculation included 33 (34) sites, the total waste volume of which was 2,395 (2,804) tonnes, and the related carbon dioxide emissions were 689 (831) tonnes of CO₂e. We will also start monitoring the waste volumes of residential properties in 2021.

Water consumption is one of the main cost items in property maintenance, and it also accounts for a large share of households’ energy consumption. In 2020, Varma launched a Fiksuvesi (“Smart water”) system in business and residential premises owned by the company to optimise and reduce water consumption.

We provide our tenants with guidance on sustainable living. We send all our new flat tenants [a guidebook on sustainable living](#) (in Finnish) that includes concrete tips on saving energy, and recycling and sorting waste, among other things. We

Heat pumps and solar panels will be installed in 36 apartment buildings, which means the emissions from Varma’s total housing stock will decrease by an estimated 48 per cent by 2023.



have also provided our commercial tenants with tips on energy saving measures.

Circular economy in real estate

In 2020, Varma drew up circular economy principles for real properties and implemented them in the processes of new construction and renovation projects as well as maintenance. The principles are aimed at steering construction and maintenance processes increasingly towards low-carbon and sustainable solutions.

Finland’s built environment generates around 40 per cent of the country’s emissions and 50 per cent of its waste, and consumes over 40 per cent of its energy. The majority of the emissions results from poor materials management. Because of this, Varma’s goal is to make use of circular economy models in its real estate business.

Construction according to the principles of circularity strives, through the selection of appropriate

construction materials fit for the purpose, for buildings that have a long useful life and are maintainable and environmentally friendly. The buildings are designed to be energy efficient, and construction waste and negative environmental impacts are minimised. Furthermore, the buildings are also planned to enable the dismantling of structures and adaptability.

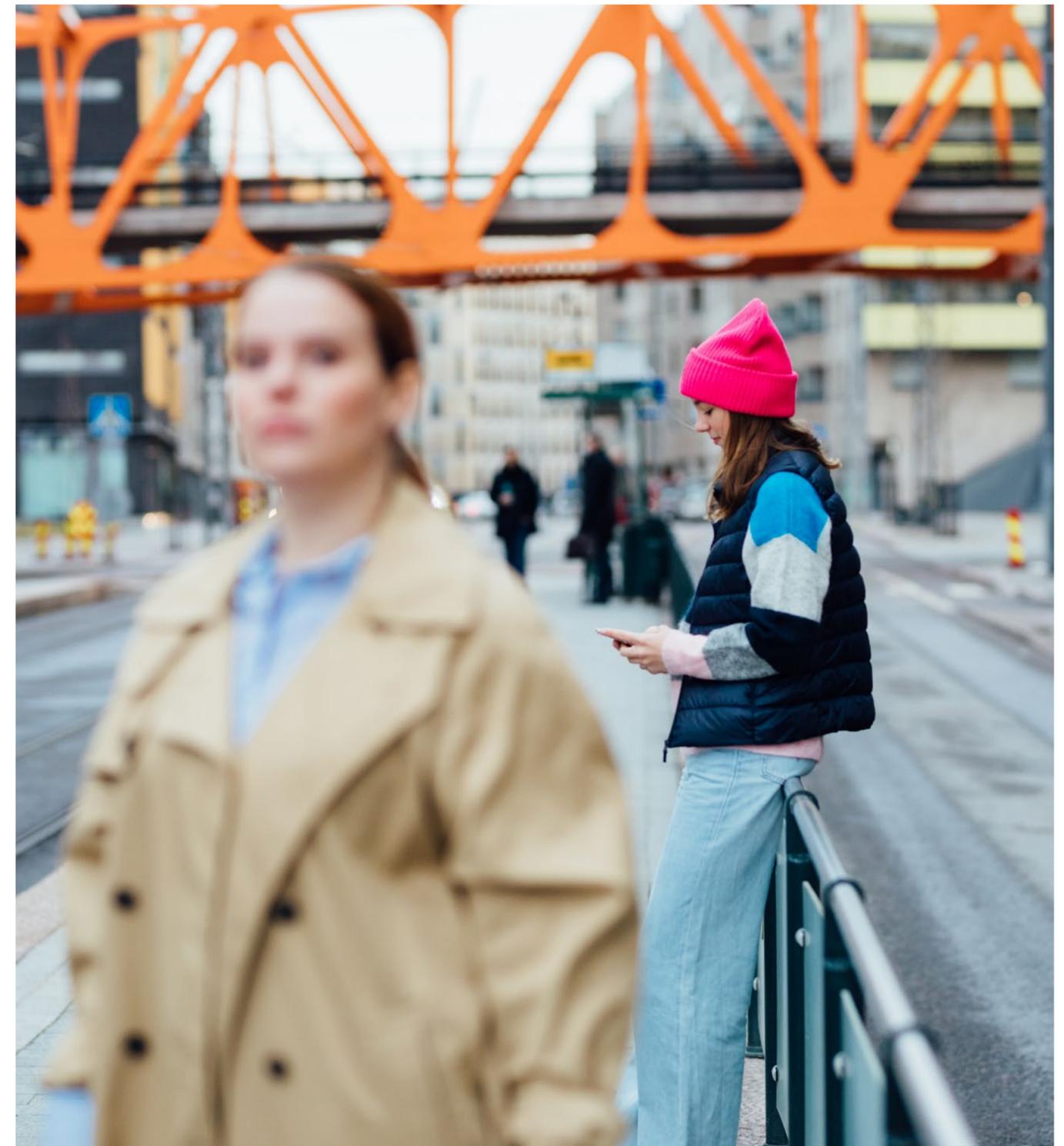
We are piloting circularity-based planning and construction in conjunction with the wood office building ‘Keilaniemen Portti’ in Espoo, for which construction work is scheduled to begin in 2021. Special attention will be paid to the principle of “designed for disassembly and re-use”, prioritising low-carbon construction materials and calculating the carbon footprint over the building’s entire life cycle.

Keilaniemen Portti will incorporate solar panels and green roofs, and energy efficiency will be given special attention.

Our goal is to adopt principles of circularity in all the processes of our new construction and renovation projects as well as maintenance. We aim for carbon-neutral construction and in-use carbon neutrality.

Waste from business premises

	2020	2019
Amount of waste (t/a)	2,395	2,804
Co ₂ emissions caused by waste (tCO ₂ eq/a)	689	831
Total gross area of sites monitored for waste, gross m ²	681,701	721,025
Total CO ₂ emissions caused by waste, kg/br	1.0	1.2
Utilised as material	57%	52%
Utilised as energy	43%	48%
Sites monitored	33	34



PROGRESS TOWARDS CLIMATE TARGETS IN 2020

Climate allocation
20% of the portfolio
by 2025



Exclusion of coal from listed corporate bonds and equities
by 2025



Exclusion of oil exploration from listed corporate bonds and equities
by 2030



Emissions from listed corporate bonds down 50%
by 2027



Emissions from equities down 50%
by 2027



Emission-free electricity in real estate investments
by 2025



Emission-free heating in real estate investments
by 2030



Carbon-neutral investment portfolio 2035

ENVIRONMENTAL ASPECTS OF THE SUPPLY CHAIN

Supply chain and sustainability requirements

Our sustainability requirements that apply to suppliers are laid down in the [Supplier Code of Conduct](#), which has been approved by Varma’s Board of Directors.

The premise of the Supplier Code of Conduct is that Varma expects its direct service providers, i.e. first-tier suppliers, to commit to the sustainability requirements. Direct suppliers are obliged to ensure that their subcontractors also comply with these sustainability requirements. It also includes a notification requirement and permission for audits performed by Varma. The Supplier Code of Conduct is attached to contracts.

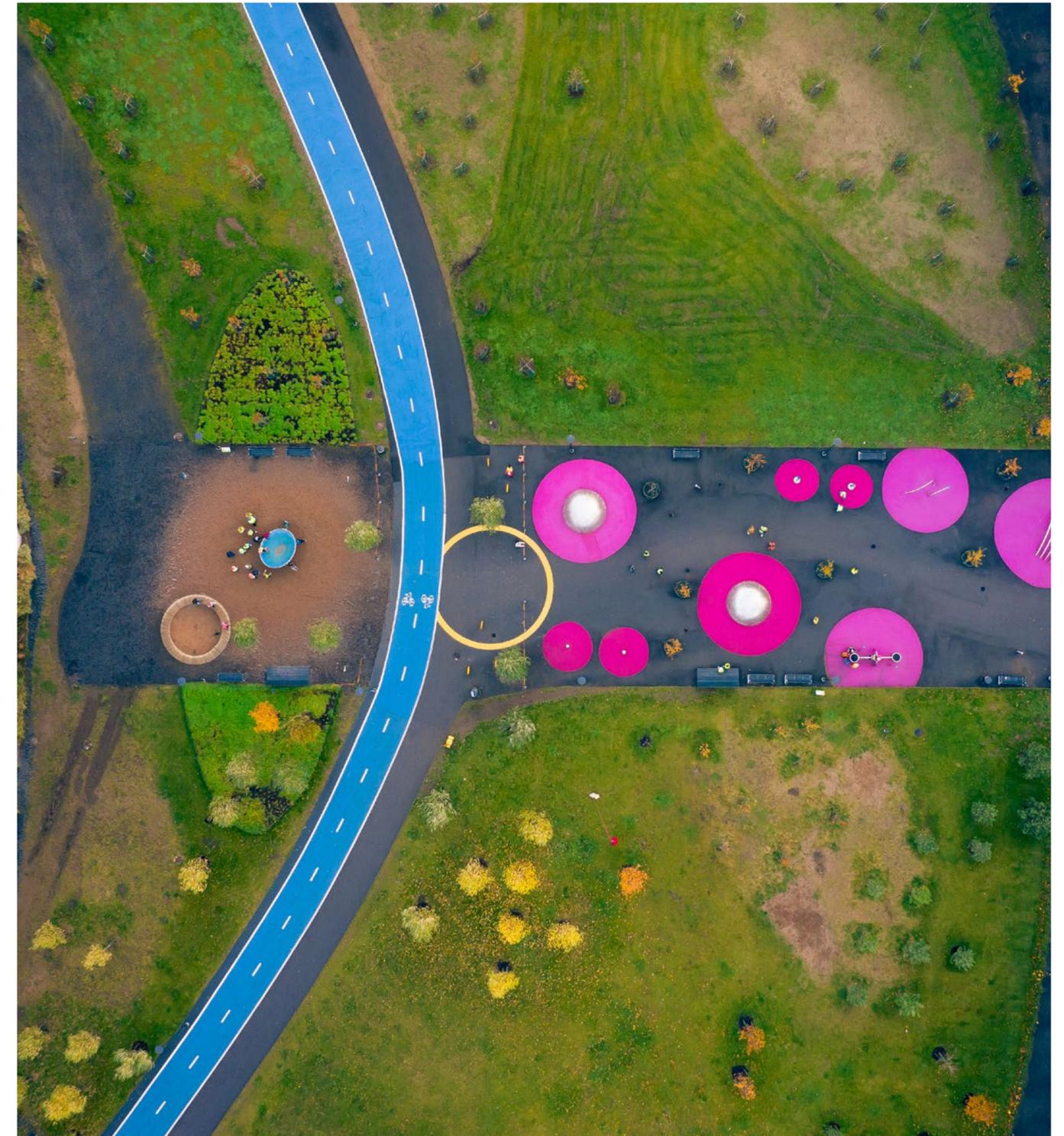
The Supplier Code of Conduct calls for respect for the environment. We require our suppliers to be aware of their environmental impacts and to take them into account in their operations. Environmental legislation must be complied with, without exception. Particular attention must be paid to assessing, minimising and preparing for environmental impacts, in order to prevent environmental risks.

We encourage our suppliers to use a certified environmental system or a documented operating method for managing their environmental matters. We also encourage them to develop environmentally friendly solutions. Especially in emissions-intensive industries, suppliers should pay special attention to monitoring their carbon footprint and to targets related to minimising future environmental impacts.

Our most significant purchases are related to construction and maintenance of buildings, and to IT systems. In terms of purchases related to real estate business, we published in 2020 circular economy principles for real properties for the processes of new construction and renovation projects as well as maintenance. We also aim to increase the recycling rate of construction and demolition waste.

Of our purchases in 2020, 98.75 per cent originated from Finland. The remaining 1.25 per cent originated from the US, France, the UK, Ireland and other European countries.

Especially in emissions-intensive industries, our suppliers should pay special attention to monitoring their carbon footprint and to targets related to minimising future environmental impacts.



ENVIRONMENTAL IMPACTS OF OUR OWN OPERATIONS

For real estate investor Varma, its own head office serves as a test laboratory where e.g. solar panels, charging points for electric cars and fossil-free heating and electricity have been piloted. In 2020, our head office switched to fossil-free district heating and cooling, which further reduced Varma's own carbon footprint. The Covid-19 year also contributed to the decline in emissions.

The environmental impacts of Varma's own operations are controlled using WWF's Green Office system, which was introduced at the beginning of 2016. Our goal was to reduce the carbon footprint of our operations by 15 per cent by 2020, which was in line with the target set for real estate investments in our climate policy.

The ambitious measures taken to improve environmental sustainability were successful. The carbon footprint of our own operations decreased 82 per cent from the 2015 baseline.

Our Salmisaari head office has BREEAM Excellent certification.

Varma's Green Office targets and measures for 2020 related to reducing energy consumption and waste, and emissions from commuting, among other things. We also started the WELL certification process for the Salmisaari office.

Greenhouse gas emissions from energy consump-

tion at our Salmisaari office were cut by as much as 99 per cent in four years, and 97 per cent from the previous year. This is due to switching to fossil-free district heating based on recycled heat. Recycled heat is emission-free, carbon-neutral, 100 per cent recycled and further-processed waste heat. The emissions from energy consumption were reduced back in 2016 by switching to fossil-free real estate electricity produced with hydropower.

The solar panels on the roof of our Salmisaari head office generated around 6 per cent of all electricity consumed in the building during the summer, and about 3 per cent during the entire year.

Due to the Covid-19 pandemic, Varma employees' air travel for business was reduced, which also contributed to the decline in the carbon footprint. Varma employees worked significantly more remotely, which resulted in a 30 per cent reduction in the volume of waste in a year. The majority of the waste generated in the build-



ing originates from the Compass Group’s restaurant. The amount of waste from preparing food was reduced earlier as a result of, for example, the restaurant starting to sell its leftovers in 2017.

We started an analysis of the potential of an emissions compensation scheme in the future, once we have reached the lowest possible level of emissions from our operations.

Printing paper consumption also declined 57 per cent from the previous year.

We strive to reduce the emissions caused by commuting by supporting teleworking and renewing our commuting policies.

Varma has an environmentally friendly company car policy in place, where the CO₂ emissions limit

was set at a maximum of 159 g/km under the new Worldwide Harmonised Light Vehicles Test Procedure (WLTP). Varma offers financial compensation if a Varma employee chooses a low-emission car (below 110 CO₂g/km using WLTP) as their company car.

Eco-friendly motoring is also promoted by the electric-car parking area in Salmisaari’s parking facility. It is possible to charge electric or hybrid cars at more than 200 parking spots in the parking facility of Varma’s head office in Salmisaari, Helsinki. Besides Varma, the parking facility is used by other companies in the Salmisaari office campus.

Varma has arranged good facilities for employees who cycle to work, and encourages the use of public transport for commuting by offering an employee benefit.

Environmental data of Varma's operations

	2020	2019	2018
Water consumption, m ³	1,649	3,054	3,316
Electricity, MWh	1,313	1,375	1,257
Heat, MWh (weather-normalised)	2,126	2,082	2,213
Total waste (tonnes)	19	25	25
Carbon footprint, tCO ₂	333	1,054	1,243

In 2020, we switched to fossil-free district heating in our office building, which further reduced our carbon footprint.

82%
The carbon footprint of our own operations has declined 82 per cent since 2015.

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ETHICAL AND TRANSPARENT BUSINESS

Knowing and abiding by common rules is an essential part of responsibility for Varma employees. We updated our Code of Conduct and anti-bribery principles in 2020. We also started conducting human rights surveys and opened a whistleblowing channel.

ETHICAL BUSINESS

Varma's core task, securing pensions, is a significant social mandate that requires a high level of ethics and transparency. Varma's way of operating is described in the company's Code of Conduct. We update the Code of Conduct in August 2020. The purpose of the Code is to guide Varma employees in behaving responsibly. The Code of Conduct is approved by Varma's Board of Directors.

In the [Code of Conduct](#), Varma commits to good insurance practices, combating the grey economy and bribery, and following responsible investment principles, among other things.

We are committed to operating in accordance with the UN Guiding Principles on Business and Human Rights, and we expect the same from our supply chain. The Code of Conduct also includes guidelines on what to do if one sees or experiences inappropriate behaviour at the workplace.

The Code of Conduct is complemented by Varma's other internal guidelines and instructions, which have been drawn up, for example, to guarantee data security and data protection, to prevent money laundering and to comply with insider regulations. Every Varma employee must abide by the Code of Conduct. In case of problems and suspected violations, employees can contact the Compliance Officer.

Towards the end of 2020, we also opened an independent whistleblowing channel for reporting violations anonymously. The whistleblowing channel is available both internally to Varma employees and to external stakeholders. Internally, the possibility for anonymous reporting is required, for example,

in cases where the whistleblower believes that their supervisor is involved in the violation or fears that reporting the violation may cause problems at work or in partner relationships. The external channel provides our stakeholders with an opportunity to express their views more openly.

The work ability activities that earnings-related pension companies offer their clients have raised discussion in previous years. In autumn 2019, the Finnish Financial Supervisory Authority (FIN-FSA) outlined that the management of disability risk must focus on customers based on their risks, and its objective must be the reduction of the disability risk for which the pension insurance company itself is responsible. In accordance with FIN-FSA's guidelines, we have renewed our service offering and drawn up a risk assessment of the entire insurance portfolio, which we use to allocate our services even more accurately to disability risk management.

Anti-bribery principles updated

Varma's [anti-bribery principles](#) were updated in 2020. The principles include guidelines on giving and receiving gifts and hospitality, sponsorship and donations, and customer and entertainment events, among other things. The purpose of the principles is to strive to prevent all forms of bribery at Varma and to promote a culture of anti-bribery.

Every Varma employee is expected to know and abide by the principles. Employees are familiarised with the principles as part of their introduction, and their competence is maintained through online courses.

Varma's core function, securing pensions, is a significant social mandate that requires a high level of ethics and transparency.

Human rights assessment ongoing

In 2020, Varma began a process to chart the fulfilment of human rights within the company, its supply chain and investments. The UN Guiding Principles on Business and Human Rights include a due diligence concerning human rights, which means that companies must identify, prevent and alleviate the negative human rights impacts of their operations and address them. The assessment process helps us deepen our understanding of our human rights impacts and risks and create standardised practices for the continuous monitoring of the fulfilment of human rights and the related operating principles.

The Ministry of Employment and the Economy has carried out a judicial analysis of a corporate social responsibility act, which refers to due diligence obligations concerning human rights and the environment that would be imposed on companies through legislation. We also aim to forecast and prepare for these obligations with the help of our assessment process.

In 2020, we assessed the human rights impacts and risks especially in our supply chain and own operations and identified areas in need of development as well as measures required to ensure a due diligence process. We will continue these efforts in 2021 and create an action plan to integrate the required measures into our business.

Responsible supply chain management

We have drawn up a [Supplier Code of Conduct](#) in order to promote sustainability in our supply chain.

The premise of the Supplier Code of Conduct is that Varma expects its direct service providers, i.e. first-tier suppliers, to commit to the sustainability requirements. Direct service providers are responsible for their own supply chain, and they are obliged to ensure that Varma’s sustainability principles are abided by.

The Supplier Code of Conduct covers, among other things, good business practices, human rights, occupational safety and health, and respect for the environment. It also includes a notification requirement and permission for audits. The Supplier Code of Conduct is attached to Varma’s supplier contracts.

Varma started to renew its contract management system in 2020. The goal is to reduce the contract risk by introducing a harmonised contract management system and providing guidelines for contract and procurement processes. At the same time, we will be better able to ensure that the supply chain sustainability requirements are taken into account in our contracts. The aim is for the contract management system to be taken into use in all of Varma’s functions during 2021.

Varma’s Compliance function

Through our Compliance function we ensure adherence to regulations, the Code of Conduct and other guidelines, and prevent legal risks from materialising at Varma. As a Compliance Officer, the head of legal affairs is responsible for organising the Compliance function. Compliance is promoted through the use of online courses, which every Varma employee is expected to complete at the start of their employment and every two years thereafter. The data protection and data security course is taken annually. In autumn 2020, we provided online training for Varma employees on the updated Code of Conduct, including the reviewed anti-bribery principles.

The completion rate is monitored and reported, for example, to the Board of Directors. In 2020, the online courses on the Code of Conduct and data protection and data security were completed by all Varma employees (100 per cent).

Data protection and data security

Varma processes the personal information of the insured, pensioners, rehabilitees and lessees, among others. We tend to the data protection of our private customers by ensuring that the processing of personal data fully conforms to laws and other rules and regulations. As a Controller, Varma is also responsible for its suppliers’ compliance. Varma’s data protection organisation operates in accordance with the data protection principles approved by the Board of Directors. Data security measures are in place to protect personal data and the trade secrets of client companies and Varma. The targets, responsibilities and means of data security management are defined in Varma’s data security policy.



100 %

All Varma employees completed the online courses on the Code of Conduct and data protection and information security.

Data security management at Varma consists of planning based on the assessment of data security risks, measures that improve data security, reviewing and monitoring the level of data security, and continuous improvement of data security practices. In 2020, we arranged 32 training events, one of which is an annual online course on data protection and data security for all employees. The EU’s general data protection regulation (GDPR) requires that Varma as a Controller identifies data security threats and is able to take preventive measures. In 2020, Varma employees reported 98 data security events, 39 of which concerned minor data security violations under the GDPR. One case was reported to the data protection ombudsman. We maintain on our website [descriptions](#) on the processing of personal data at Varma as required by the GDPR.

OPEN COMMUNICATION AND STAKEHOLDER CO-OPERATION

Transparent and open operations

Open and proactive communication is one of the starting points of our sustainability programme. The increased transparency of our operations helps strengthen trust in Varma.

Varma is a major influencer on the economic, socio-political and business scene. We have a wealth of knowledge of, competence in and insight into important societal themes, and we strive for open dialogue.

Our intention is to be a bold leader in communication. This means that Varma's experts express their views and interpretations and propose new initiatives on themes that are socially important to us.

Open communication in practice

We report quarterly on the development of our responsible operations as part of our financial reporting. We have also taken into account the statutory requirements concerning the reporting of non-financial and diversity data and published a report on non-financial information as part of the Report of the Board of Directors. We report on climate risk management in accordance with the TCFD framework. The TCFD framework was introduced at Varma in 2018.

We strive to communicate openly also about our sponsorship practices, among other things. We renewed our sponsorship guidelines in 2020. Spon-

sorship should contribute to achieving our strategic goals, and we focus mainly on long-term co-operation. Varma does not grant financial support to political parties. We provide more detailed information on our [sponsorship and charitable donation principles](#) on our website.

Since April 2017, we have published information on our new [well-being at work contracts](#) on our website (in Finnish). The contracts are published quarterly.

Securing pensions is a responsibility that is based on trust. Protecting our good reputation is important to us, and we continuously monitor the development of our reputation in T-Media's Reputation & Trust survey. The 2020 results show that Varma's reputation is at a solid average level of 3.42 (3.37). The same survey measured the general public's view of Varma's sustainability. The score in this area was 3.41 (3.36). Our goal is to continuously strengthen our reputation and develop our responsible operations, and the results show steady improvement in recent years.

A survey carried out by Taloustutkimus in 2020 places Varma among the top three companies in terms of media co-operation, image and sustainability. The communication skills of the top management received the highest rating among all the companies in the survey. The questionnaire was completed by 95 reporters, and it involved a comparison of 19 Finnish companies.

The communication skills of Varma's executive management received the highest rating among Finnish companies in a survey by Taloustutkimus.

Interest organisation's membership fees

	2020	2019	2018
Finance Finland	335,727	293,961	311,103
Finnish Pension Alliance TELA	657,235	733,328	707,875

Stakeholder co-operation and sustainability networks

As a major Finnish earnings-related pension provider, investor and working life expert, Varma has wide-ranging insight into the economy and Finnish society. This is why we want to engage in open dialogue with different stakeholder groups.

Our main stakeholders are customers, personnel, members of Varma's governance bodies, authorities and decision-makers, investees, labour market organisations, sector organisations, other earnings-related pension providers, non-governmental organisations and the media. Our statutory task, securing pensions, naturally helps to define our main stakeholders; as does the fact that Varma is a mutual company, owned by its customers.

We promote open societal interaction and we listen to our customers and other stakeholders. The achievement of these targets is supported by Varma's five consultative committees: the consultative

committees for pension affairs, pensioners, self-employed persons, employers and the insured. An up-to-date [list of the members of the consultative committees](#) is available on Varma's website.

Typical channels for interaction, in addition to the consultative committees, are different meetings with customers and other groups, briefings, training events, seminars, webinars, the website, chat, social media and publications. Our stakeholder co-operation in 2020 focussed more than usual on virtual channels. Our customer events went online, and we introduced new virtual tools.

Due to the exceptional times in 2020, our stakeholders were especially interested in topics related to changes in working life, new ways of working and maintaining work ability. The general impacts of the coronavirus pandemic on the economy and working life also raised interest. Corporate responsibility, uncertainties related to the global economy and politics, Finland's declining birth rate and



In 2020, our stakeholders were especially interested in the impacts of the coronavirus pandemic on the economy and working life.

climate change were also themes that raised discussion.

We engaged with non-governmental organisations on topics such as our climate targets, and our client companies were especially interested in developing diversity at the workplace.

We engage closely with interest organisations in the sector. We participate in, for example, the working groups of the Finnish Centre for Pensions, the Finnish Pension Alliance (TELA) and Finance Finland.

We are also involved in different networks of responsible business, such as the Finnish corporate responsibility network FIBS and Finland’s Sustainable Investment Forum Finsif. We have also joined the Climate Leadership Coalition and Climate Partners, both of which fight to mitigate climate change.

Varma was an official partner of Helsinki Pride for the second year in a row in 2020. A working group of Varma employees has been developing non-discrimination and diversity in our work environment together with the Helsinki branch of Seta, the Finnish LGBTI rights organisation. Any Varma employee can join Varma’s own Pride network. During Pride Week 2020, we participated in the virtual Pride parade and organised an online training event on subconscious preconceptions.

Accessibility of Varma’s online services

Since 23 September 2020, we have applied the accessibility requirements of the Act on the Provision of Digital Services to our earnings-related pension insurance online services. The act is based on the European web accessibility directive, and its purpose is to guarantee equal access to digital services to everyone in spite of various disabilities or impairments. [In our accessibility statements](#), we provide information on, among other things, the state of accessibility of our online services and how everyone can give feedback on accessibility deficiencies they have observed in our digital services.

Varma complies with the international Web Content Accessibility Guidelines (WCAG) in meeting the accessibility requirements. The goal is to ensure that, for example, the screen readers of visually impaired users, or other assisting technologies, are able to interpret the page contents correctly and that the user is able to use the online functionalities.

Our digital services largely fulfilled the accessibility requirements at the end of 2020, and they do not contain critical accessibility deficiencies. We take accessibility requirements into account when developing new digital services and planning or purchasing new services. We develop our services together with digital communication professionals and accessibility experts.

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REPORTING PRINCIPLES

We ensure the transparency of our operations by regularly and comprehensively reporting on our business and sustainability efforts. Our sustainability report has been drawn up according to the GRI Standards. Additionally, we report on climate risks in accordance with the TCDF framework. The report is externally assured.

REPORTING PRINCIPLES

Our sustainability report has been drawn up according to the GRI Standards. The contents of the report are based on a materiality assessment, which was used to identify the most important sustainability topics for Varma.

Varma's sustainability report has been drawn up according to the international Global Reporting Initiative (GRI) standards. We have also reported information relating to Varma's own material topics in accordance with the GRI Standards' reporting principles. This report has been prepared in accordance with the GRI Standards: Core option.

We have taken into account the statutory requirements concerning the reporting of non-financial and diversity data.

Reporting of Varma's material topics is based on the materiality analysis performed in autumn 2018, in which stakeholder groups were asked to assess sustainability aspects relevant to Varma. Stakeholder expectations were assessed and processed by Varma's Executive Group according to their impact on society and the environment. As a result of the materiality analysis, we identified a total of four material focus areas in terms of Varma's sustainability. Their key performance indicators are described in the report. These four areas are: mitigating climate change, promoting work ability and a good working life, ethical business and open communication, and responsibility for Varma employees. A comparison between the report content and the GRI Standards is provided through the GRI content index.

The indicators for financial responsibility are based on Varma's accounts and approved financial statements. The indicators relating to our pension services have been obtained from the pension processing systems of Varma and the Finnish Centre for Pensions, and our online service reports. The personnel-related indicators are from Varma's personnel data systems.

The environmental sustainability indicators were obtained from service providers, for example, from their energy management systems. The CO₂e figures for listed equity and corporate bond investments have been calculated using MSCI's database and tool.

The analysis of industries exposed to climate change risk has been performed using MSCI's database. The carbon footprint (tCO₂) for Varma's own operations has been calculated using the WWF's Climate Calculator.

In the case of investees' norm violations, we report the violation category, number of violations and the engagement principle.

Climate risks reported according to the TCFD framework

The reporting on climate-related risks follows the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). According to

Our Annual and Sustainability Report has been externally assured for the first time.

the recommendations, companies should report on how climate issues are reflected in their governance models, on their strategies concerning climate change and the transition to a low-carbon economy, on the risks and opportunities climate change brings to the company, and on the climate-related targets and metrics they have in place.

Real estate's sea flood risk analysis is based on the Finnish Environment Institute's (SYKE) data describing the current and future sea flood risk. In the analysis, the real properties were placed on a map on the basis of their location data, and the data concerning the sea flood risk was integrated into the map. Sea level data is based on SYKE's estimate, and ground elevation data on laser scanning.

Methodology for calculating the carbon footprint of investments

The carbon intensity (tCO₂e/M€) of Varma's listed equity investments includes both direct listed equity investments and some index-linked equities. The calculation covers both direct greenhouse gas emissions from sources owned or controlled by the companies (scope 1), and indirect emissions from energy mainly from the generation of purchased energy (scope 2). The carbon footprint (tCO₂e) and the key figures based on it have been calculated on the basis of Varma's holdings.

In the carbon intensity calculation, the market value of shares owned by Varma is proportioned to the market value of the entire company, and this ratio is used to allocate the emissions and revenue of the company.



Finally, all Varma's shares of the companies' emissions are added together and then divided by the sum of all the shares of the companies' revenues.

The calculation of the carbon intensity (tCO₂e/M€) of Varma's listed corporate bond investments includes direct listed corporate bond investments. The calculation covers both direct greenhouse gas emissions from sources owned or controlled by the companies (scope 1), and indirect emissions mainly from the generation of purchased energy (scope 2). The corporate bond owned by Varma is proportioned to the company's overall debt, and the emissions are allocated to Varma on the basis of this proportion. The calculation is an approximation, as there are currently no established practices concerning the calculation of the carbon intensity of corporate bonds.

The weighted carbon intensity (tCO₂e/ M€) of investments is based on the weighting of the investment in the portfolio. The figure is calculated by multiplying the carbon intensity of the companies by their portfolio weight, and adding these up. Average carbon intensity for the sector is used for those companies that do not report their greenhouse gas emissions.

The emission and net sales data used in the calculation for listed equities and corporate bonds apply to the situation at the end of 2019.

The carbon footprint (tCO₂) of real estate investments takes into account residential and office premises' emissions from energy consumption and, as regards office premises, also emissions from water consumption. The average CO₂ emissions from the three previous statistical years in Finland have been used as the emission factors for heat and electricity. In electricity's emission factor, only energy produced in Finland has been taken into account. Heat consumption is weather adjusted. The emission factor for district cooling is based on factors received from local

utilities. The emission factor for water is based on the latest, 2019, factors for wastewater treatment and potable water production provided by Helsinki Region Environmental Services HSY. Emissions generated by household water consumption are not taken into account in the calculation.

The calculation of the CO₂ emissions of waste takes into account emissions from the collection, transportation, processing, utilisation and final disposal of the waste. Emissions from the production, distribution and usage of products that end up as waste are not taken into account. Emission factors for the different fractions of waste have been determined according to the Julia 2030 project, in which the factors are based on the Helsinki metropolitan area's waste management system. There is large variation in the emission factors, as 14 different types of waste fractions are monitored. The factors range between 37 and 1,405 kg CO₂/waste tonne; the lowest factor is for wood waste and the highest for hazardous waste. Other fractions' emission factors lie somewhere in between.

Integrated, assured report

Since sustainability is an integral part of Varma's core task – securing pensions – and all our operations, it is natural for us to combine the traditional annual report contents and sustainability information into a single integrated report. The report is published online in Finnish and English.

Varma's parent company's data has been mainly used as the indicator boundaries. Any deviations to the boundaries are mentioned in conjunction with the table on page 77.

Our principle is to rectify any reporting errors observed following publication in the latest report.

The Sustainability Report has been verified by EY's Climate Change & Sustainability Services.

Varma’s sustainability focus areas, material topics and topic boundaries

Varma’s sustainability focus areas	Material GRI topics and Varma’s own material sustainability topics	Topic boundaries
Solvency as a cornerstone (Responsibility for pension assets)	GRI 201: Economic Performance GRI 203: Indirect Economic Impacts Cost-efficient operations, loading profit ¹⁾ Responsible investment ¹⁾	Varma’s own operations Varma’s societal impacts Varma's investments
Promoting work ability and a good working life (Responsibility for customers)	Disruption-free implementation of pension provision ¹⁾ Customer service ¹⁾ GRI 418: Customer Privacy Promoting work ability and longer careers in client companies ¹⁾	Varma’s own operations Customers
Mitigating climate change (Responsibility for the environment)	Mitigating climate change in investments ¹⁾ GRI 302: Energy GRI 305: Emissions GRI 306: Waste GRI 308: Supplier Environmental Assessment	Varma's investments Supply chain Varma’s own operations
Responsibility for Varma employees	GRI 401: Employment GRI 403: Occupational Health and Safety GRI 404: Training and Education GRI 405: Diversity and Equal Opportunity	Varma’s own operations
Ethical and transparent business	GRI 102: Stakeholder engagement GRI 102: Ethics and integrity GRI 205: Anti-corruption GRI 414: Supplier Social Assessment GRI 415: Public Policy GRI 419: Socioeconomic Compliance	Varma’s own operations Supply chain

¹⁾ Varma’s own material sustainability topic

GRI CONTENT INDEX

Disclosure	Contents	Location	Additional information	Reported in full in part
GRI 102: GENERAL DISCLOSURES				
Organisational profile				
102-1	Name of the organisation		Varma Mutual Pension Insurance Company	■
102-2	Activities, brands, products, and services	Varma in brief, p. 3, Earnings-related pension system, p. 17		■
102-3	Location of headquarters		Salmisaarenranta 11, 00180 Helsinki, Finland	■
102-4	Location of operations	Varma in brief, p. 3		■
102-5	Ownership and legal form	Varma in brief, p. 3		■
102-6	Markets served	Varma in brief, p. 3		■
102-7	Scale of the organisation	Key figures 2020, p. 8		■
102-8	Information on employees and other workers	Personnel, p. 42		
102-9	Supply chain	Environmental aspects of the supply chain, p. 66		■
102-10	Significant changes to the organisation and its supply chain		No significant changes.	
102-11	Precautionary Principle or approach	Risk management (Report of the Board of Directors and Financial Statements), p. 43–50, Climate risks and opportunities according to the TCFD recommendations, p. 51–58	Varma follows the Precautionary Principle in its operations. In all operations, the company's operating model is based on preparing in advance to avoid or mitigate risks and adverse effects relating to the environment.	■
102-12	External initiatives	Responsible investment, p. 33, Climate risks and opportunities according to the TCFD recommendations, p. 52–53		■
102-13	Memberships of associations	Open communication and stakeholder co-operation, p. 73		■
Strategy				
102-14	Statement from senior decision-maker	President and CEO's Review, p. 4–5		■
102-15	Key impacts, risks, and opportunities	Operating environment, p. 14–15 How Varma creates value, p. 16, Sustainable Varma, p. 19–20 Climate risks and opportunities according to the TCFD recommendations, p. 51–58		■

Disclosure	Contents	Location	Additional information	Reported in full in part
Ethics and integrity				
102-16	Values, principles, standards, and norms of behaviour	Strategy and goals, p. 12 Ethical business, p. 70		■
102-17	Mechanisms for advice and concerns about ethics	Ethical business, p. 70	Seeking advice: Our external stakeholders can contact persons in charge of sustainability, whose contact information can be found on our website. Varma employees are advised to contact their supervisor or the Compliance Officer.	■
Governance				
102-18	Governance structure	Corporate Governance Report (Corporate Governance), p. 4–18		■
Stakeholder engagement				
102-40	List of stakeholder groups	Open communication and stakeholder co-operation, p. 72		■
102-41	Collective bargaining agreements	Personnel, p. 42		■
102-42	Identifying and selecting stakeholders	Open communication and stakeholder co-operation, p. 72		■
102-43	Approach to stakeholder engagement	Open communication and stakeholder co-operation, p. 72–73, Sustainable Varma, p. 19–20, Responsible investment, p. 31–33, Customer service, p. 37–38, An agile work culture that fosters responsibility, p. 42–43, Equality and non-discrimination, p. 45	We will further develop our reporting on stakeholder engagement in 2021.	■
102-44	Key topics and concerns raised	Open communication and stakeholder co-operation, p. 72–73	We will further develop our reporting on stakeholder engagement in 2021.	■
Reporting practice				
102-45	Entities included in the consolidated financial statements	Notes to the financial statements, p. 20–21		■
102-46	Defining report content and topic Boundaries	Sustainable Varma, p. 19–20, Reporting principles, p. 77		■
102-47	List of material topics	Reporting principles, p. 75		■
102-48	Restatements of information	Environmental impacts of real estate investments, p. 64	The number of business premises of which the waste volumes were monitored in 2019 has been adjusted from 32 to 34.	■
102-49	Changes in reporting		No significant changes.	■
102-50	Reporting period		1 Jan–31 Dec 2020	■
102-51	Date of most recent report		25 Feb 2020	■

Disclosure	Contents	Location	Additional information	Reported in full in part
102-52	Reporting cycle		The report is published annually.	□
102-53	Contact point for questions regarding the report		viestinta@varma.fi	□
102-54	Claims of reporting in accordance with the GRI Standards	Reporting principles, p. 75		□
102-55	GRI content index	GRI content index, p. 78–84		□
102-56	External assurance	Reporting principles, p. 75–76, 85	Members of the Executive Group have been involved in the assurance process, providing information on managing sustainability at Varma and practical measures, among other things.	□

MATERIAL TOPICS

GRI 103: MANAGEMENT APPROACH

103-1	Explanation of the material topic and its Boundary	Sustainable Varma, p. 19–20, Reporting principles, p. 77		□
103-2	The management approach and its components	Sustainable Varma, p. 19–22, Responsible investment, p. 30–34, Managing disability risks, p. 39–40, Responsibility for Varma employees, p. 42–47, Climate risks and opportunities according to the TCFD recommendations, p. 51–52, Environmental impacts of real estate investments, p. 61–64, Progress towards climate targets in 2020, p. 65, Ethical and transparent business, p. 70–73	We will further develop our reporting on the management approach in 2021.	□
103-3	Evaluation of the management approach	Sustainable Varma, p. 20, Responsible investment, p. 34, Managing disability risks, p. 40, Responsibility for Varma employees, p. 43–47, Climate risks and opportunities according to the TCFD recommendations, p. 51–52, Environmental impacts of real estate investments, p. 63, Ethical and transparent business, p. 70–73	We will further develop our reporting on the management approach in 2021.	□

ECONOMIC RESPONSIBILITY

GRI 201: Economic Performance

201-1	Direct economic value generated and distributed	Key figures 2020, p. 8, Tax responsibility, p. 28–29		□
201-2	Financial implications and other risks and opportunities due to climate change	Climate risks and opportunities according to the TCFD recommendations, p. 51–58	Key risks and opportunities related to climate change are linked to our investment activities. We monitor the costs of managing these risks and opportunities as part of our investment expenses.	□

GRI 203: Indirect Economic Impacts

203-2	Significant indirect economic impacts	How Varma creates value, p. 16, Responsible investment, p. 30–34		□
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GRI 205: Anti-corruption

205-2	Communication and training about anti-corruption policies and procedures	Ethical business, p. 70–71, Sustainable Varma, p. 20	The Supplier Code of Conduct, in which anti-corruption efforts, for example, are required, is attached to new contracts.	□
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Disclosure	Contents	Location	Additional information	Reported in full in part
ENVIRONMENTAL TOPICS				
GRI 302: Energy				
302-1	Energy consumption within the organisation	Environmental aspects of our own operations, p. 68, Our key sustainability targets and their follow-up, p. 21	We look into the possibility of reporting energy consumption by renewable and non-renewable energy sources in future.	□
302-4	Reduction of energy consumption	Environmental aspects of our own operations, p. 67, Reporting principles, p. 75	Consumption reduction achieved through energy efficiency measures: Business premises 2020 1.3%, 2017–2020 6.3% (TETS energy efficiency agreement for business properties, average estimate). Residences 2017–2019 6.4% (VAETS energy efficiency agreement for residential properties, average estimate, 2020 figures not yet available)	□
GRI 305: Emissions				
305-2	Energy indirect (Scope 2) GHG emissions	Climate risks and opportunities according to the TCFD recommendations, p. 54, Environmental aspects of our own operations, p. 68, Reporting principles, p. 75–76	Calculation started in the base year 2015. The source of GWP values for equities and corporate bonds is MSCI. No clear insight into the calculation basis of the carbon dioxide equivalents.	□
305-4	GHG emissions intensity	Climate risks and opportunities according to the TCFD recommendations, p. 54, Reporting principles, p. 75–76	For equities and corporate bonds, the calculation is in relation to net sales, for real estate investments in relation to gross square metres. The calculation includes the scopes 1 and 2.	□
GRI 306: Effluents and Waste (2016)				
306-2	Waste by type and disposal method	Environmental impacts of real estate investments, p. 63–64, Environmental aspects of our own operations, p. 68, Reporting principles, p. 76	We look into the possibility of reporting waste volumes by hazardous waste and other waste in future. Waste volumes from our own operations are small.	□
GRI 308: Supplier Environmental Assessment				
308-1	New suppliers that were screened using environmental criteria	Environmental aspects of the supply chain, p. 66	The percentage share of screened suppliers is not reported. The Supplier Code of Conduct includes environmental aspects, and the Code is attached to all new contracts.	□

Disclosure	Contents	Location	Additional information	Reported in full in part
SOCIAL RESPONSIBILITY				
GRI 401: Employment				
401-1	New employee hires and employee turnover	Personnel, p. 42	We do not report the data by gender or age group.	□
GRI 403: Occupational Health and safety (2018)				
403-1	Occupational health and safety management system	Work ability and safety, p. 47	Occupational health and safety management is governed in Finland by the Occupational Safety and Health Act. At Varma, the management system comprises the OHS organisation and active work ability management activities. In both of these, co-operation with occupational health-care and a high level of activity by the organisation's management, supervisors and HR play a key role. Documents that are regularly drawn up and followed-up on include work ability management focus areas, the plan of action for occupational health care and the OHS plan. The OHS committee, which convenes four times a year, follows up on the implementation and quality of the planned measures.	□
403-2	Hazard identification, risk assessment, and incident investigation	Work ability and safety, p. 47	The process of identifying work ability risks is managed at Varma through legally compliant OHS activities and OHS organisation and occupational health care services. HR and occupational health-care together regularly monitor the work ability data and risks and the related measures. The indicators for work ability management are monitored by the Executive Group quarterly, and operative management regularly monitors absences and other work ability indicators at their meetings. HR provides supervisors with guidance on the work ability management model and monitors the work ability management and OHS responsibility processes implemented by the operative management. HR also provides related reports and analyses and is responsible for the continuous development of the processes. Employees are given guidance and support in ensuring their work ability and preventing work ability risks. Employees are entitled and obligated to contact their supervisor, the OHS organisation or occupational health-care services, if the situation calls for it.	□
403-3	Occupational health services	Work ability and safety, p. 47	We regularly monitor the quality of occupational health-care in the occupational health-care steering group and through customer satisfaction surveys. The direct contact information of occupational health-care is available to all Varma employees on our intranet and in a mobile app.	□
403-4	Worker participation, consultation, and communication on occupational health and safety	Work ability and safety, p. 47	The employees have six representatives in the OHS committee. Through them, the employees can influence OHS management. The OHS committee's tasks are specified on our intranet. The committee meeting materials are also published on the intranet, and the meetings are always reported on separately. The OHS committee convenes four times a year.	□
403-5	Worker training on occupational health and safety	Work ability and safety, p. 47		□
403-6	Promotion of worker health	Work ability and safety, p. 47		□

Disclosure	Contents	Location	Additional information	Reported in full in part
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships		The Supplier Code of Conduct includes aspects related to OHS matters, and the Code is attached to all new contracts.	■
403-8	Workers covered by an occupational health and safety management system		We only monitor information of persons employed by Varma. 100% of personnel is covered by OHS management.	■
GRI 404: Training and Education				
404-1	Average hours of training per year per employee	Personnel, p. 42	Average hours of training are presented as average hours for all employees. As a more pertinent indicator of personnel development, we follow the three-year development plans (99% of employees updated their plan in 2020).	■
404-2	Programs for upgrading employee skills and transition assistance programs	Competence development, p. 44	Supervisors discuss continuing careers and retirement with their employees who are approaching retirement age. Those who plan to retire are offered coaching by the pension company and advice to sort out the related practical matters. Employees who face redundancy or whose employment relationship is coming to an end are offered guidance and support according to the situation. The support may be, for example, career coaching and coaching for finding employment.	■
404-3	Percentage of employees receiving regular performance and career development reviews	Personnel, p. 42		■
GRI 405: Diversity and Equal Opportunity				
405-1	Diversity of governance bodies and employees	Equality and non-discrimination, p. 45		■
405-2	Ratio of basic salary and remuneration of women to men	Equality and non-discrimination, p. 45		■
GRI 414: Supplier Social Assessment				
414-1	New suppliers that were screened using social criteria	Ethical business, p. 71	The percentage share of screened suppliers is not reported. The Supplier Code of Conduct includes social aspects, and the Code is attached to all new contracts.	■
GRI 415: Public Policy				
415-1	Political contributions	Open communication and stakeholder co-operation, p. 72		■
GRI 418: Customer Privacy				
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	Ethical business, p. 71		■
GRI 419: Socioeconomic Compliance				
419-1	Non-compliance with laws and regulations in the social and economic area		No incidents in 2020.	■

Disclosure	Contents	Location	Additional information	Reported in full in part
VARMA'S OWN MATERIAL TOPICS				
Responsible investment				
	Engaging with investees on environmental, social and governance matters	Responsible investment, p. 31–34		
	Reviewing investees' compliance with standards	Responsible investment, p. 31–33		
Disruption-free implementation of pension provision				
	Pension application processing time	Correct pensions on time, p. 36		
Customer service				
	Net promoter score	Customer service, p. 38		
Promoting work ability and longer careers in client companies				
	Effectiveness of rehabilitation	Managing disability risks, p. 40		
	Effectiveness of work ability management	Our key sustainability targets and their follow-up, p. 21		
Mitigating climate change in investments				
	Carbon footprint of Varma's listed equity investments	Climate risks and opportunities according to the TCFD recommendations, p. 54		
	Carbon footprint of Varma's listed corporate bond investments	Climate risks and opportunities according to the TCFD recommendations, p. 54		
	Carbon footprint of Varma's direct real estate investments	Climate risks and opportunities according to the TCFD recommendations, p. 54		
Cost-efficient operations				
	Loading profit	Key figures 2020, p. 8		

INDEPENDENT ACCOUNTANT’S ASSURANCE REPORT

(Translated from the original report in Finnish language)

To the Management of Varma Mutual Pension Insurance Company

Scope

We have been engaged by Varma Mutual Pension Insurance Company (here after Varma) to perform a ‘limited assurance engagement,’ as defined by International Standards on Assurance Engagements, here after referred to as the engagement, to report on Varma’s Annual and Sustainability Report 2020 (the “Subject Matter”) for the period from 1.1-31.12.2020.

Criteria applied by Varma

In preparing the Annual and Sustainability Report 2020, Varma applied the Global Reporting Initiative Sustainability Reporting Standards and Varma’s own internal reporting principles (Criteria). Please note that such principles may not be suitable for another purpose.

Varma’s responsibilities

Varma’s management is responsible for selecting the Criteria, and for presenting the Annual and Sustainability Report 2020 in accordance with that Criteria, in all material respects. This responsibility includes establishing and maintaining internal controls, maintaining adequate records and making estimates that are relevant to the preparation of the subject matter, such that it is free from material misstatement, whether due to fraud or error.

EY’s responsibilities

Our responsibility is to express a conclusion on the presentation of the Subject Matter based on the evidence we have obtained.

We conducted our engagement in accordance with the International Standard for Assurance Engagements Other Than Audits or Reviews of Historical Financial Information (‘ISAE 3000’), and the terms of reference for this engagement as agreed with Varma on 6.8.2020. Those standards require that we plan and perform our engagement to obtain limited assurance about whether, in all material respects, the Subject Matter is presented in accordance with the Criteria, and to issue a report. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risk of material misstatement, whether due to fraud or error.

We believe that the evidence obtained is sufficient and appropriate to provide a basis for our limited assurance conclusions.

Our Independence and Quality Control

We have maintained our independence and confirm that we have met the requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants and have the required competencies and experience to conduct this assurance engagement.

EY also applies International Standard on Quality Control 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements, and accordingly maintains a comprehensive system

of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Description of procedures performed

Procedures performed in a limited assurance engagement vary in nature and timing and are less in extent than for a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Our procedures were designed to obtain a limited level of assurance on which to base our conclusion and do not provide all the evidence that would be required to provide a reasonable level of assurance.

Although we considered the effectiveness of management’s internal controls when determining the nature and extent of our procedures, our assurance engagement was not designed to provide assurance on internal controls. Our procedures did not include testing controls or performing procedures relating to checking aggregation or calculation of data within IT systems.

A limited assurance engagement consists of making enquiries, primarily of persons responsible for preparing the Annual and Sustainability Report 2020 and related information and applying analytical and other appropriate procedures.

Our procedures included:

- a) Gaining an understanding of Varma’s material sustainability reporting topics, organization and activities,
- b) An assessment of suitability and application of the reporting principles regarding the stakeholders’ needs for information,
- c) Interviews with senior management to understand Varma’s corporate responsibility leadership,
- d) Interviews with personnel responsible for gathering and consolidation of the corporate responsibility information to understand the systems, processes and controls related to gathering and consolidating the information,
- e) Examining the correctness of information reported based on risk assessments, including analytical procedures, interviews with personnel responsible for gathering and consolidation of data, collecting supporting evidence and reconciliation of a sample of material calculations,
- f) Performing recalculations of information reported and assessing the correctness of the underlying data that is the basis of narrative disclosures.

We also performed such other procedures as we considered necessary in the circumstances.

Conclusion

Based on our procedures and the evidence obtained, we are not aware of any material mod-

ifications that should be made to the Annual and Sustainability Report 2020 for the period from 1.1-31.12.2020, in order for it to be in accordance with the Criteria.

Ernst & Young Oy
9.3.2021
Helsinki

Antti Suominen
Partner, Authorized Public Accountant

Jani Alenius
Leader of Climate Change and
Sustainability Services, EY

VARMA

www.varma.fi/annualreport