

A woman with long reddish-brown hair, wearing an orange knit beanie, a grey coat, and a white lace-knit sweater, is looking down at a metal can she is holding. She is standing in a recycling facility, with various metal structures and equipment visible in the background. The scene is brightly lit, suggesting an outdoor or well-lit indoor environment.

**Annual and
Sustainability Report**

2022

VARMA

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The year 2022

The year 2022 was characterised by Russia's invasion of Ukraine in February, which not only caused human suffering but also had financial impacts. For Varma, this meant that focusing on our core task, securing pensions, was even more important. We succeeded well in this task, and our solvency remained at a strong level.

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.

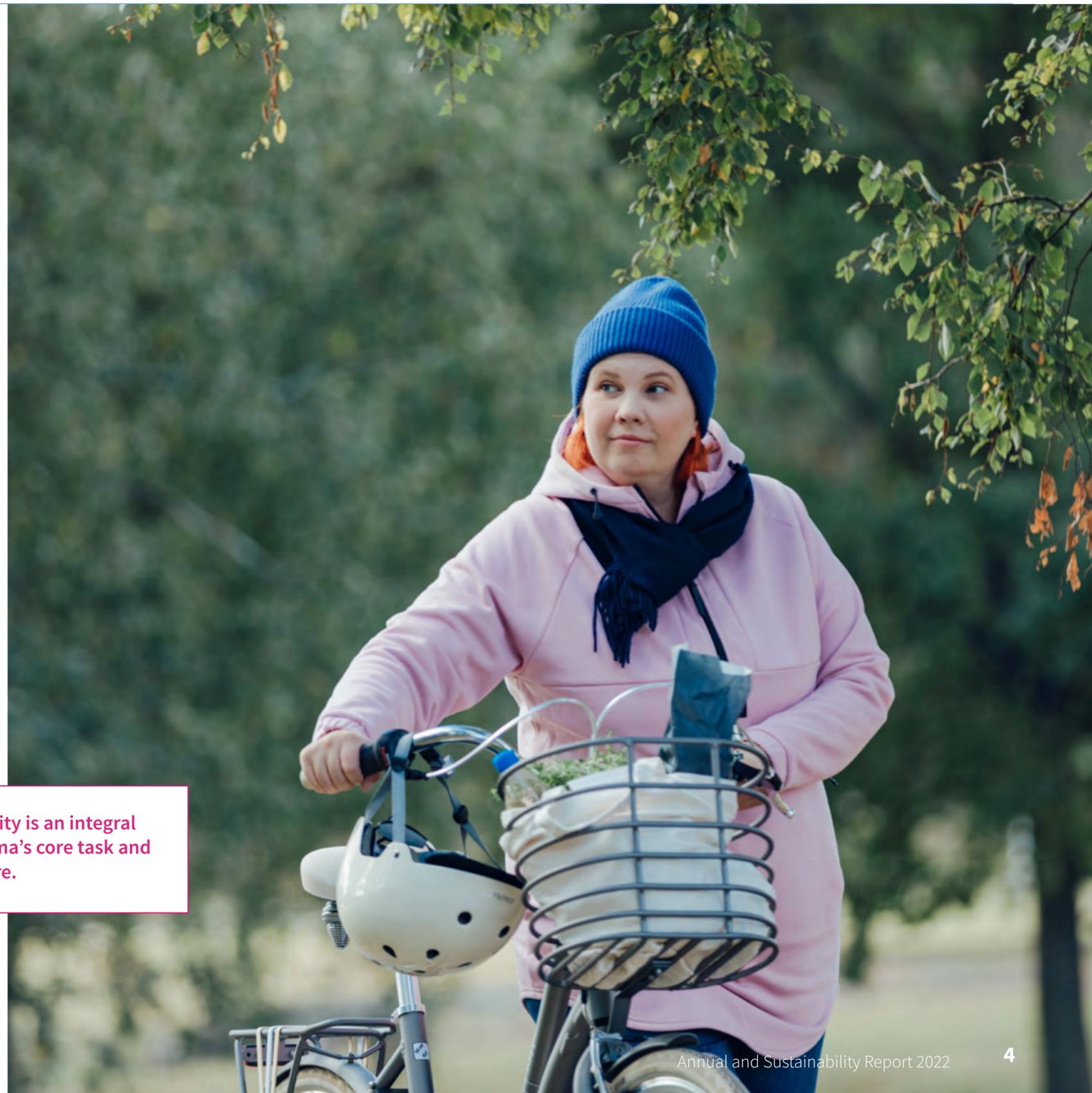
Varma provides pension insurance for work carried out in Finland. Our core task is to secure pensions.

We take care of the statutory earnings-related pension cover of 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 equities, fixed income 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 disability risk management help client companies to 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. Varma's head office is located in Salmisaari, Helsinki, and our network of account managers covers nearly the entire country. Varma has 531 employees. Our success is based on our competent employees, who are passionate about their work. Our modern work culture is built on our employees' agile and responsible ways of working.

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



While the world was in turmoil, we focused on securing pensions

The year 2022 will go down in history as the year that brought geopolitical and safety themes to light in a new way.

Following the pandemic, people were looking forward to a return to normality, but the war Russia launched in Ukraine turned those expectations upside down. The year also put regular households to the test: electricity prices climbed to a record high, interest rates spiked and soaring inflation made living more expensive.

For Varma, this meant that focusing on our core task, securing pensions, was even more important.

We succeeded well in this task, and despite the market twists, our solvency remained at a secure level throughout 2022.

The earnings-related pension system has also coped well with the pressure. From a historical perspective, investment returns and pension contributions are well balanced. This

is thanks to the long period of good investment returns after the financial crisis. Strong investment returns also allow the pension system's future development.

As an investment year, 2022 was nevertheless challenging. Diversification of the portfolio across geographical areas and asset classes helped secure our investments against the worst turmoil. At year-end, the market value of our investments was EUR 56.2 billion.

It is great that the financial situation of our client companies and entrepreneurs continued to improve after the pandemic. This was mirrored in the increased TyEL payroll, which forms the basis for pension contributions. The biggest TyEL payroll improvement was seen in the sectors for which the past years had been

The earnings-related pension system has coped well under pressure. From a historical perspective, investment returns and pension contributions are well balanced.



especially difficult, such as the hospitality, arts, entertainment and recreation sectors.

In 2022, Varma had success in customer acquisitions in the small businesses sector. Identifying and serving the needs of small businesses will also be one of our themes for 2023.

Reformed act brings clarity to entrepreneurs’ social security

The 6.8 per cent index increase in pensions at the beginning of 2023 significantly increased the number of pension applications received by Varma towards the end of the year. The number of people receiving a pension from Varma rose by 7,000 from the previous year.

The impact of the index increase to pensions was especially clear in the increased number of partial old-age pension applications, which nearly tripled. A person who has turned 61 can draw 25 per cent or 50 per cent of their accrued pension without having to stop working.

Despite the high application volumes, the pension processing times were not extended.

Partial old-age pension applicants often received their pension decision on the same day they applied for it. This would not have been possible without a smooth application process and good preparation. We have significantly developed our digital services, and we will continue to invest in them with an eye to our customers’ needs.

Entrepreneurs’ pension insurance was also reformed in 2022, as Parliament approved the amendment to the Self-Employed Persons’

Pensions Act (YEL) on how confirmed YEL income is determined. The change is aimed at improving entrepreneurs’ social and pension security.

The amendment brought clarity and uniformity to our work at Varma, while it also gave us a new responsibility to check that entrepreneurs’ YEL income is always at the correct level as their business develops. The change was a step in the right direction, but entrepreneurs’ pension security must be further developed.

The change in the YEL act increased the number of inquiries made to our customer service. Determining an entrepreneur’s income level in dialogue with them takes our customer service personnel’s time, but at the same time, it gives us important feedback on entrepreneurs’ daily work.

Preventing biodiversity loss alongside climate work

With sustainability being a key part of our operations, we can be pleased that EcoVadis, an international corporate sustainability assessment specialist, awarded Varma the Platinum EcoVadis Medal in its assessment.

We continued our sustainability work in 2022 and revised our Sustainability Programme for 2022–2025. While taking care of paying and securing pensions, our investment decisions are guided by sustainability. We promote sustainable working life by helping our customers prevent and manage work ability risks.

We set even more ambitious climate targets and now aim to cut the absolute emissions of

our investment portfolio in half by 2030. We joined the international Science Based Targets initiative and thereby committed to establishing climate targets in accordance with the Paris Agreement.

Varma also adopted biodiversity loss mitigation as a sustainability guideline alongside climate work. Our Biodiversity Roadmap, drawn up in 2022, sets the framework for responsible investment requirements in an effort to address biodiversity in investment operations. In our Principles for Human Rights, we commit to intervene in human rights violations in our investee companies, supply chains or among our personnel.

Varma is a significant real estate investor in Finland, and the company aims for emission-free electricity and heat in its real estate by 2030. In the reporting year, we carried out energy renovations in several of our residential properties, and we have managed to increase the share of emission-free electricity and heat by, for example, using geothermal heat.

Aiming for longer careers

The last quarter of 2022 calmed down the investment markets, but the future of the economy is dictated by the development of inflation and interest rates.

In terms of the pension system, keeping the working-age population and birth rate at a good level is important. Fortunately, we have abandoned the thinking of steering 55-year-olds to the unemployment pathway to

retirement. We are retaining our ability to work for longer, which is reflected in longer careers.

The rise in the retirement age is a quiet success story of the pension reform of 2017. Likewise, we have to take care of our young people so that they are not left outside the labour force when they face challenges. Training and educational opportunities and entering working life must be supported to prevent an age cohort of marginalised young people from forming.

Here at Varma, we will keep developing earnings-related pension insurance. We will introduce more effective services for disability risk management in order to offer our customers better opportunities to address any problems that jeopardise work ability in a timely manner. More than 80% of Varma’s vocational rehabilitants return to working life.

At Varma, 2022 will be remembered as the year when the hybrid model became part of everyday work. Our flexible work approach combines working remotely and at the office in the best possible way in terms of performance and work flow. Common office days for everyone help ensure that we also get together face-to-face.

I want to express my gratitude to our customers for their trust in us. It has been a pleasure to work for the Finnish pension system and employees. We will continue this work in 2023.

Risto Murto
President and CEO

The rise in the retirement age is a quiet success story of the pension reform of 2017.



The year in figures

Return on investments

-4.9%

Value of investments

56.2 € bn

Solvency ratio

130.5%

Varma's solvency remained at a secure level throughout 2022. Varma's solvency ratio was 130.5 per cent, and solvency capital was 1.8 times the solvency limit.



Solvency capital

13.3 € bn

Efficiency

70%

Premiums written

6.1 € bn



Climate allocation of the portfolio:

24.2% i.e. **13.6** € bn

Emissions from real estate
(since 2015):

-61%

Absolute emissions
(since 2021):

-11%

The year in brief

Solvency remained strong throughout the year

European equities strengthened towards the end of the year, bringing some respite to a year of negative returns. Varma’s solvency remained at a sustainable level throughout the year, despite the challenging investment environment.

The return on Varma’s investments was -4.9 (18.5) per cent. The value of Varma’s investments was EUR 56.2 (59.0 on 1 Jan) billion.

Varma’s investment portfolio is broadly diversified across geographical areas and asset classes alike. This provided security while listed equities declined all over the world. Of Varma’s investments, private equity investments yielded 7.9 (49.6), real-estate investments 5.7 (5.9) and hedge funds 2.3 (15.3) per cent. The return on fixed income investments was -5.2 (1.9) per cent and on equity investments -8.7 (32.3) per cent.

In the last quarter of the year, inflation growth and upward pressure on interest rates settled down.

Pension assets are invested for the long term, which lowers the significance of individual years. Pension investments have a profitable decade behind them.

Varma’s goal is to maintain the company’s strong solvency through investment returns and efficient operations. Varma’s solvency ratio was EUR 130.5 (139.4 on 1 Jan) per cent, and solvency capital was 1.8 times (2.0 on 1 Jan) the solvency limit.

Solvency capital acts as a risk buffer for investment assets and enables Varma to aim for higher appreciation by making investments with better expected returns.

Absolute emissions clearly down

Varma’s goal is to cut the entire investment portfolio’s absolute emissions by 25 per cent by 2025 and by 50 per cent by 2030. Setting absolute emission targets for an entire investment portfolio is rare both in Finland and globally.

At the end of 2022, absolute emissions were down 11 per cent compared to 2021.

The climate allocation accounted for 24.2 (18.2) per cent of Varma’s investment portfolio at the end of the year. Our target is for the climate allocation to represent 25 per cent of the investment portfolio by 2025. The allocation includes companies whose business benefits from climate change mitigation and

Varma’s solvency remained at a sustainable level throughout the year, despite the challenging investment environment.

who cause no significant greenhouse gas emissions.

In the reporting year, the CO₂ footprint of real estate investments was down 61 per cent compared to 2015. We have focused on low-emission investments, and in real properties, the share of emission-free electricity and heat has been increased.

Varma aims for a carbon-neutral investment portfolio by 2035.

Varma will refund EUR 173 million in client bonuses to its customers

Varma’s operational efficiency remained at a good level. Varma’s solvency and efficiency benefit clients in the form of client bonuses, which amount to EUR 173 (222) million. The bonuses will lower our customers’ TyEL insurance contributions.

In 2022, administrative costs were 70 (62) per cent of the expense loading included in the insurance contributions.

Key figures 2022

	2022	2021
Premiums written, € million	6,118.6	5,634.6
Pension payments to pensioners, € million*	6,492.0	6,235.6
TyEL insured 31 December	547,700	531,200
YEL policies	42,500	40,000
Pensioners	352,200	345,700
Investments, € million	56,204.4	59,023.6
Investment income, € million	-2,867.7	9,256.5
Return on investment capital, %	-4.9	18.5
Total result, € million	-3,446.3	5,586.5
Loading profit, € million	38.2	51.2
Operating expenses as % of loading income	70.0	62.0
Transfer to client bonuses, € million	173.4	222.3
% of TyEL payroll	0.72	0.99
Technical provisions, € million	45,372.7	45,225.0
Solvency capital, € million**	13,344.4	16,890.3
in relation to solvency limit	1.8	2.0
Average number of personnel	531	527
Personnel expenses, € million	56.8	52.8
Donations, € million	0.02	0.05
Membership fees in sectoral organisations, € million	1.0	0.9
Purchases from service providers and suppliers, € million***	55.8	55.3

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

**Calculated according to the regulations valid at the time (same principle applies to other solvency indicators)

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

Varma gained a total of EUR 114 (45.9) million in new TyEL contribution income during the year. This includes the net impact of new sales and premiums written transferred from other pension institutions. Premium income stood at EUR 6.1 (5.6) billion.

Partial old-age pension applications nearly tripled

Varma paid out pensions in the amount of EUR 6.5 (6.2) billion to 352,000 (346,000) people. A total of 28,500 (21,100) new pension decisions were made during the year. New pension decisions increased 34.7 per cent from 2021.

The biggest growth was in partial old-age pension applications. The number of applications increased by nearly 190 per cent in 2022 compared to the previous year. Nearly 7,000 (2,500) Varma customers retired on partial old-age pension. The majority of these were men, at 65 per cent.

Varma's total processing time for pension applications accelerated to 16 days compared to 19 days in 2022, and more than half of partial old-age pension applicants received their pension decision on the same day they applied for it.

The number of new disability pensions increased slightly from 2021.

Disability pension was most commonly applied for by a construction or transport industry employee due to a musculoskeletal disease. Mental health disorders were the main reason for new disability pensions (34.4 per cent).

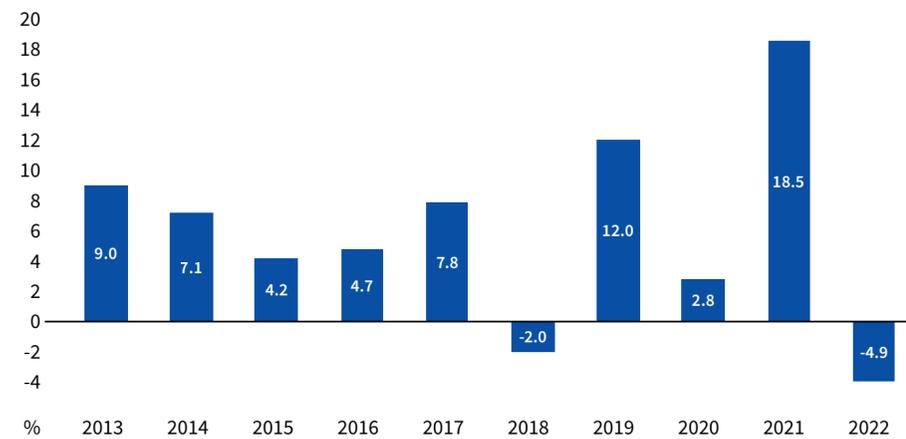
The amount of rehabilitation applications declined early in the year, but took an upward turn in the autumn. The number of applications for the whole of 2022 was 9.1 per cent lower than in the previous year.

At the end of the year, 590,000 (571,000) individuals were insured by Varma.

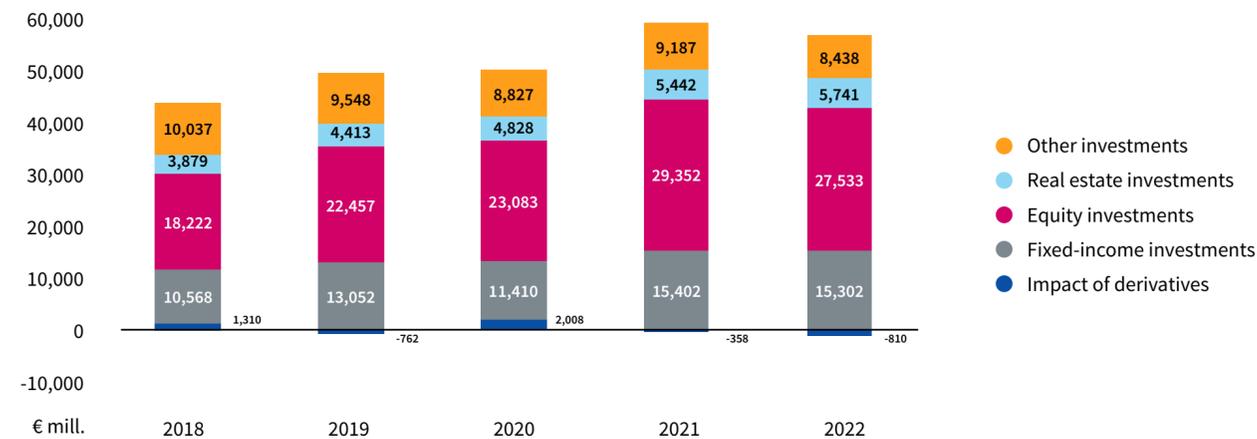
[Read more about pension cover](#)

New pension decisions increased 34.7 per cent. The biggest growth was in partial old-age pension applications.

Investment returns (%)



Investment portfolio (€ million)



The world was in turmoil in 2022

The year 2022 was characterised by Russia’s invasion of Ukraine in February, which not only caused human suffering but also had financial impacts. The global economy and investment market suffered from turbulence. In working life, employees and employers alike were adjusting to the new normal after the lifting of Covid-19 restrictions.



Sampsa Ratia
Investment Director, Head of Real Assets

Russia’s war of aggression raised energy prices and weakened the availability of energy. Varma contributed to the energy saving measures in the office and commercial properties under its ownership by optimising ventilation, cooling and heating, and reducing the lighting used in advertising signs. We also implemented energy-saving measures in our rental housing properties.



Jarkko Soikkeli
Director, Head of Strategy Group and Allocation

Share prices reacted to the change in the economic environment with a substantial, sustained decline. Returns on fixed-income investments were also record low. Varma’s investment returns were negative, but the allocation in unlisted investments brought diversification benefits. Our solvency remained strong.

The change in the investment environment was reflected in pension investments

Inflation caused a hike in the earnings-related pension index and an increase in pension applications

The energy crisis brought about saving measures

New forms of working were created



Tarja Syväla
Pension Services Director

The exceptional hike in the earnings-related pension index, caused by inflation, prompted our customers to apply for partial old-age pension. The number of partial old-age pension applications received by Varma nearly tripled. Partial old-age pension was a source of much-needed extra income for many as the cost of living increased.

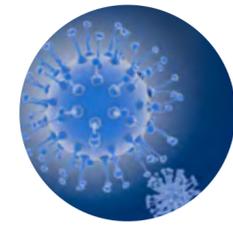
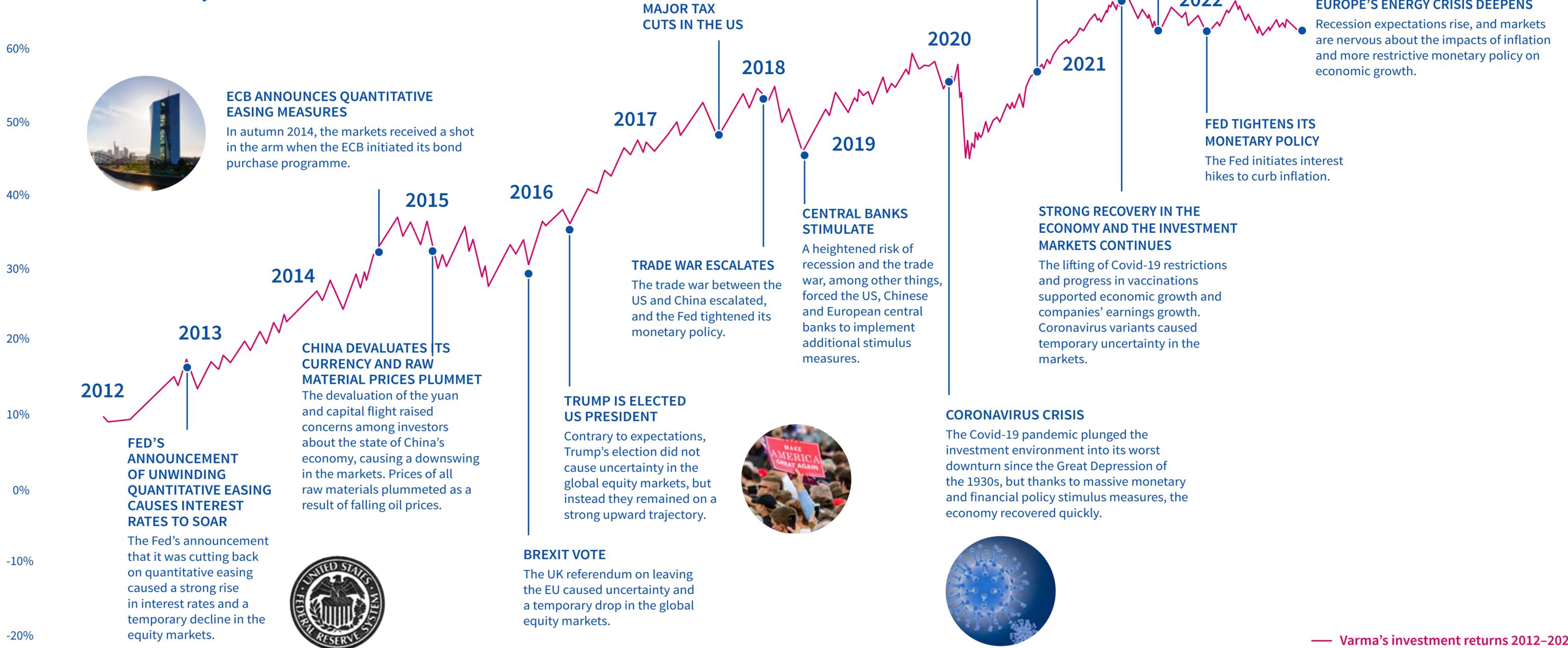


Katri Viippola
Senior Vice President, People, Communications and Development

Covid-19 restrictions were relaxed in the course of the spring, and at many workplaces, people who perform expert work switched to a hybrid model, consisting of a mix of on-site and remote working. At Varma, we believe in a flexible work approach that allows teams to decide on the best practices for their work. We want to combine the best aspects of different ways of working.

Decade in brief

The decade following the financial crisis has been a period of sustained economic growth. The coronavirus pandemic, war in Ukraine and central banks' tighter monetary policy have caused increased uncertainty and restlessness in the investment market.



— Varma's investment returns 2012-2022



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 current 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 to us 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 2022, we executed our strategy by focusing on the development of digital pension insurance services that meet customers’ needs and disability risk management services that utilise data and analytics. We also promoted an

agile operating culture at Varma by deepening related competence and introducing agile ways of working.

Our objectives

In 2022, Varma’s targets related to the quality of pension services, the development of premium income, solvency and efficiency.

In terms of our pension-service quality targets, we measure the uninterruptedness of our private customers’ income. This means that our customers receive their pension during their first month of retirement. Our target was for 85–90 per cent of new pension recipients to have their pension paid during the first month of their pension entitlement. The figure for 2022 was 89.3 (86.6) per cent.

Premiums written totalled EUR 6.1 (5.6) billion. Premiums written is based on the total

payroll, which in 2022 increased by 7 per cent from the previous year.

Varma’s solvency remained at a strong level in spite of the challenging investment environment. At year-end, our solvency capital stood at EUR 13.3 (16.9) billion.

Varma manages pension cover cost-effectively. We used 70 (62) per cent of the amount of contributions reserved for operating expenses. The smaller the percentage is, the more efficient the earnings-related pension company is.

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.**



Varma is the most solvent earnings-related pension company in Finland.

€13.3 bn

At year-end, our solvency capital stood at EUR 13.3 billion.

Varma's strategy

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



Values

With joy and passion
Reliability
Sustainability
Courage

Varma's core function

Securing Finnish pensions
Responsibility to customers

Strengths

Smooth digital solutions and high-quality pension insurance services
The most effective partner for developing work ability
Highest customer bonuses
Solvency as a foundation
Trailblazer in responsibility

Changes and opportunities in the operating environment

Varma's targets

Quality of pension services

Solvency

Premiums written

Efficiency

CHANGES



- Private customers' expectations for broad, real-time digital services
- Need for high-quality personal customer service. Some elderly private customers and those in a challenging life situation have no access to digital services.
- Impacts of the transformation of working life and the rising retirement age on work ability

- The development of the global economy was characterised by slower growth, rapid inflation and aggressive monetary policy by the central banks
- The rise in interest rates was exceptionally strong from the extremely low starting levels. Returns on fixed-income investments were also historically low due to the rise in interest rates and risk premiums of corporate bonds
- Share prices reacted to the change in the economic environment with a substantial, sustained decline

- The impacts of Russia's war of aggression and the uncertain situation of the global economy on businesses operating in different sectors
- Structural transformation of working life and companies: entrepreneurial work is increasing, and most new jobs are being created in SMEs
- Labour shortage in different industries
- 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
- 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

- Future return expectations improved due to the rising interest rates and more moderate equity valuation level

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

- Changes in work culture and ways of working: hybrid work, agile ways of operating, collective self-direction, self-management skills, improving digital tools
- Automation
- Efficient and agile development

Successes

Varma's targets

Quality of pension services

Solvency

Premiums written

Efficiency

SUCSESSES



- Uninterruptedness of income 89.3% (proportion of customers who have their pension paid during their first month of pension entitlement). In spite of the major increase in pension applications in autumn 2022, pension processing was not congested thanks to a smooth process.
- Phone service for private customers received a grade of 9.3 (scale: 0–10).
- The share of private customers' online applications was 71.2%.
- Of those who started a rehabilitation programme, 82.4% returned to the labour market.

- The return on investments was negative yet clearly outperformed the return on listed equity and fixed income markets. Unlisted investments brought diversification benefits.
- Varma's solvency remained strong.
- The absolute emissions of Varma's investments were down 11% compared to 2021.
- The climate allocation accounted for 24.2% of Varma's investments at year-end.
- The CO₂ footprint of real estate investments is down 61% since 2015.
- Varma was tied for first place in the Responsible Investment category of the Global Pension Transparency Benchmark.
- EcoVadis, an international corporate sustainability assessment specialist, awarded Varma the Platinum EcoVadis Medal. Varma ranked in the top 1% of the 90,000 companies analysed.

- Total payroll, which forms the foundation for contribution income, increased 7%. We gained plenty of new TyEL and YEL customers. The number of insured increased by approx. 19,000.
- We integrated corporate customers' personal pension and rehabilitation matters and YEL insurance matters into a single digital service.
- Of our expert services in work ability management, 76.2% were targeted to customers with a heightened and/or high disability risk.
- The revamped 'Work ability in figures' section of the Varma Online Service enables our client companies to easily gain an overview of the work ability situation and receive data-driven further action proposals to improve work ability.
- Client companies' satisfaction with the work ability development manager was 4.8 (scale: 1–5).

- We used 70% of the assets reserved for operating expenses.
- Varma was awarded the second highest, AA+, rating in the PeoplePower employee survey, and the PeoplePower index was higher than ever, at 78.5 (scale: 0–100).

CONTINUING IN 2023



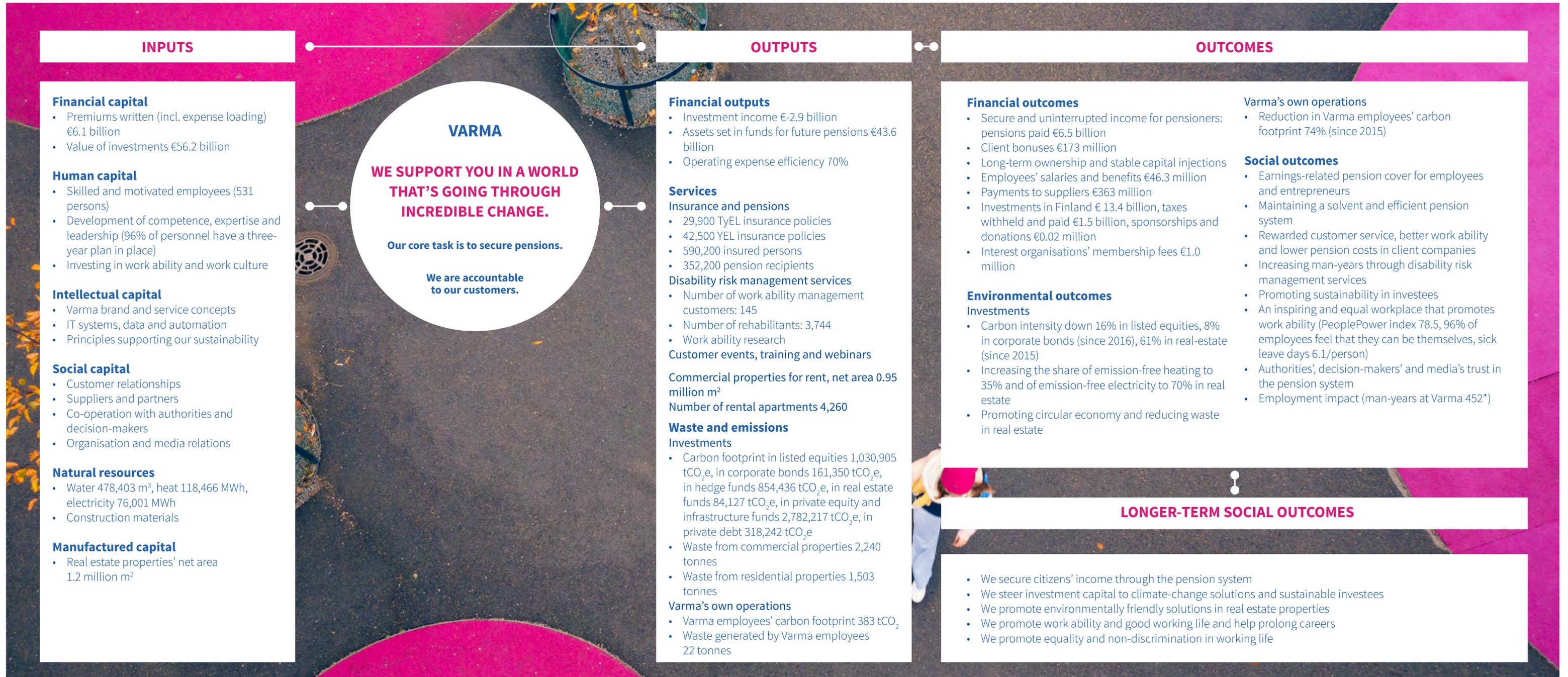
- Ensuring uninterrupted income for private customers: swift processing of pension applications and smooth payment of pension after the pension decision is made
- Development of digital services for private customers, raising the self-service rate and ensuring customer satisfaction
- Development of operating models, services and partnerships within rehabilitation
- 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
- Broader analysis of climate risks
- Data-driven development of responsible investment

- Development of YEL insurance service models and processes, and digital services
- Strengthening the risk-based, data-driven and knowledge-based approach in disability risk management
- Development of work ability management service models and services for different customer groups

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

How Varma creates value



*Absences and holidays and work input of part-time and hourly workers taken into account.



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 pension accrual is specified in legislation and 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 through index increases.

In 2022, the global political situation and economic environment were in turmoil and Europe's security was shaken, but trust in earnings-related pensions has remained stable.

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 TyEL pension contributions is placed in funds for pensions to be paid out later on. Entrepreneurs' earnings-related pensions are not funded in advance.

Pensions are well secured under the Finnish statutory earnings-related pension system. The financing of earnings-related pensions is influenced by economic growth, demographic development 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 conditions. Varma's solvency remained strong in 2022, despite the challenging investment environment.

The financial and social sustainability of the pension system requires longer careers than currently. 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.

Employees covered by earnings-related pension insurance have the same insurance cover regardless of which insurance company the employer has chosen for the arrangement of its employees' insurance cover. From the perspective of an individual insured person, the earnings-related pension system is simple and the accrual of pension benefits is transparent. Pension accrual is maintained even if the employer changes, and pension is applied

for from just one company, according to the so-called principle of the last institution.

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. Good investment performance over the long term means higher client bonuses for customers, and efficient operations reduce the expense loading included in insurance contributions.

Private sector earnings-related pension insurance companies are jointly liable in a situation where, for example, an insurance provider goes bankrupt. This is one of the reasons why their solvency levels and risk-taking in investments are regulated.

Main principles of the earnings-related pension system are sustainable

Finland's earnings-related pension system has been reformed regularly. At the beginning of 2023, the Self-Employed Persons' Pensions Act (YEL) was changed with the aim of improving entrepreneurs' social and pension security and clarifying how YEL income, which has a major impact on these, is determined. The earnings-related pension insurance company confirms YEL income based on an overall assessment that takes into account the sector's median salary, the amount and value of the entrepreneur's work input, as well as the scope of their entrepreneurial activities and their professional skills. In the future, earnings-related pension companies are obligated to monitor and review the entrepreneur's

income level regularly. The objective is for YEL income to be at the right level throughout the entrepreneur's career.

In 2022, the Finnish pension system ranked fifth in an annual international comparison, the Mercer CFA Institute Global Pension Index. The index compares the pension systems of different countries from the perspective of the adequacy of pensions, sustainability of the pension system and integrity of governance. Finland was ranked number one in terms of the reliability and transparency of its pension system governance for the ninth time in a row. Finland's ranking improved two places from the previous year, as the calculation method was adjusted to give more weight to countries with strong earnings-related pension cover.

In 2022, the global political situation and economic environment were in turmoil and Europe's security was shaken, but trust in earnings-related pensions has remained stable.





Sustainable Varma

Because of our societal role, we have a long-term responsibility for managing pension assets, as well as for our customers, Varma employees, and our shared environment. Sustainability is part of all Varma's operations. Our goal is to be a sustainability pioneer in the earnings-related pension insurance sector.

Sustainable Varma

Sustainability is an integral part of Varma's core task – securing pensions. 'Sustainable Varma' is also a key theme of our strategy, and sustainability is an integral part of our everyday work and business. Our sustainability work is guided by our Sustainability Programme, which was revised in 2022.

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.

For Varma, sustainable business means first and foremost taking care of pension assets and pension payments, investing responsibly and promoting sustainable working life.

New Sustainability Programme to guide our work

In 2021 and 2022, we carried out thorough work to update our Sustainability Programme. The new programme defines our sustainability

focus areas and the related objectives and measures for 2022–2025. The programme is based on a materiality assessment that was carried out in 2021.

In the materiality assessment, we made use of a stakeholder survey and the Executive Group's sustainability workshop in order to identify sustainability priorities and how our stakeholders' expectations and our operating environment have changed over the last few years. The stakeholder survey consisted of an online survey and interviews. The survey was sent to a broad group of people, representing different stakeholder groups: private customers, entrepreneurs, client companies,



commercial property customers, flat tenants, partners and service providers, representatives of Varma’s administration, Varma employees, representatives of financial sector organisations and associations, labour market representatives, legislators, nongovernmental organisations and representatives of the media. We received 4,432 replies to the survey. Most of the respondents were private customers, entrepreneurs and representative of client companies. We also conducted 13 interviews with members of Varma’s Board of Directors and the Executive Group, and representatives of the financial sector. The views brought up by the stakeholders were discussed and prioritised in the Executive Group’s sustainability workshop, applying the principle of double materiality, i.e. what impact do the views have, on the one hand, on our business and, on the other hand, on people and the environment.

In the materiality assessment, we identified themes and their impacts that have further grown in importance in our stakeholders’ expectations and in our operating environment. Examples of these are biodiversity, circular economy, human rights, and promoting work ability and longer careers. Taking care of our responsible core task, such as securing solvency and ensuring smooth implementation of pension cover, were still among the most important themes raised by our stakeholders. The cost efficiency and transparency of Varma’s operations, good governance and

efforts to increase trust in the pension system were also considered important themes.

The focus areas identified through the materiality assessment lay the foundation for our new Sustainability Programme. The focus areas of our Sustainability Programme are: Ensuring secure pensions, Investing for change, and For sustainable working life. The guiding principle for our Sustainability Programme is “A secure future for everyone”.

Ensuring secure pensions: Taking care of pension assets and paying pensions correctly and on time are the cornerstones of everything we do. We operate transparently and ethically, while also taking cost-effectiveness and environmental impacts into account.

Investing for change: Responsibility is a core aspect of all our investment decisions. We direct our investments towards tackling our current global challenges: mitigating climate change, adapting to the changes it brings, slowing down biodiversity loss and promoting human rights.

For sustainable working life: We promote sustainable working life and help our customers anticipate and manage disability risk. We take care of Varma employees and their competence. We build an inspiring workplace where everyone can be themselves.

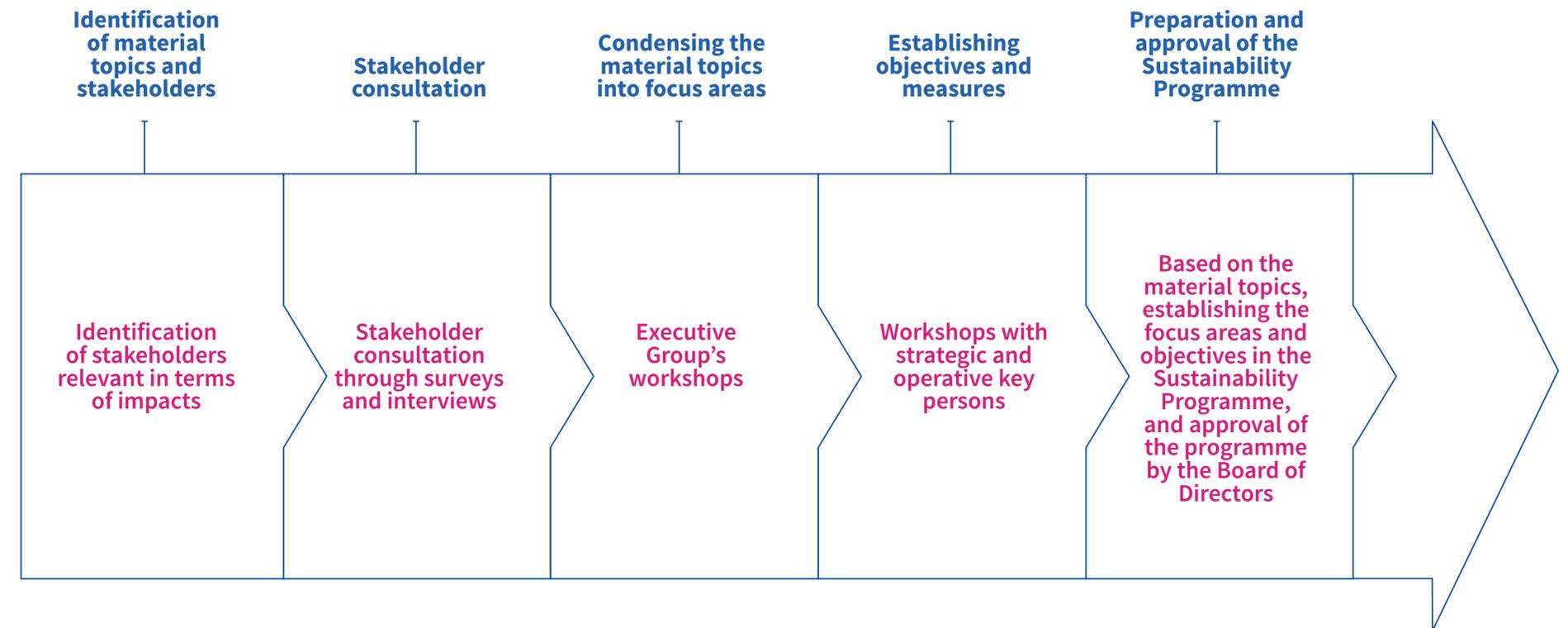
The three sustainability focus areas each include sustainability topics that are important for Varma and which were identified with the help of the materiality assessment. In order to promote the material topics, we have set various objectives. The table on pages 26–31 shows the material topics, the related objectives and our progress in 2022.

The Sustainability Programme was cascaded to Varma employees’ daily work in 2022

by organising sustainability workshops for all functions. We organised 16 workshops, in which a total of 461 Varma employees participated. They accounted for 87 per cent of the entire personnel. The heads of each function gave opening speeches at the workshops, after which the Responsible Investment & Sustainability department gave a presentation on the new Sustainability Programme. Furthermore, case studies tailored to each

function were discussed. The focus was on resolving practical sustainability challenges associated with the work of the function. The participants were asked to provide feedback on the workshops. On a scale from 1 to 10, the average score for all the feedbacks was 8.6. Positive feedback was given especially for the case studies. The participants also felt they had gained new sustainability aspects for their own work.

Materiality assessment process for the Sustainability Programme



A secure future for everyone

Through our sustainability work, we are building a better world for current and future generations.



Investing for change

We aim for better returns and reduced risks through responsible investment.



Ensuring secure pensions

We build trust in pension security and a sustainable future.



For sustainable working life

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

Responsibility in figures

We voted at

366 general meetings

In order to improve ESG reporting, we engaged with

778 fund management companies

In 2022, we revised our Sustainability Programme, tightened our climate policy and prepared a Biodiversity Roadmap and Principles for Human Rights.



Human rights assessment coverage of unlisted funds

94%

Those who returned to working life after starting a rehabilitation programme

82%

Supply chain procurement from sectors exposed to high human rights risk

0.3%



Climate allocation of the investment portfolio

13.6 € bn

Coverage of the biodiversity risk assessment by sector

77%

Share of the supply chain committed to or having set SBTs

19%

Sustainability objectives 2022–2025 and monitoring

Focus area of the Sustainability Programme	Material topic	ESG theme	Objective	Key results 2022	Performance 2022	Our impact
 <p>Ensuring secure pensions – sustainability of our own operations and the value chain</p>	Ethical and transparent business	 <p>Governance</p>	Our business is transparent and we communicate openly.	Rating for the openness of communication in T-Media’s MediaBarometer survey 2.95 (scale: 1–4)	Ongoing 	We strengthen confidence in our sustainable operations.
				The statement ‘Our company’s strategy and future prospects have been well-communicated’ in the PeoplePower® employee survey: 3.47 (scale: 1–4)	Realised 	
			Each Varma employee works responsibly and sustainably every day.	92% of Varma employees completed the Code of Conduct course.	Partly realised 	We operate responsibly and sustainably, and take into account our impact on people and society.
				Sustainability indicator included in personnel’s remuneration scheme	Realised 	
			Data protection and data security are at a high level at Varma, and we use the data in our possession responsibly.	We carried out regular assessments and audits measuring the performance of administrative and technical information security.	Realised 	We operate responsibly and sustainably, and take into account our impact on people and society.
				Data security incidents reported by Varma employees totalled 91. Of these, 7 concerned minor data security violations under the GDPR. Three cases were reported to the data protection ombudsman.		

Sustainability objectives 2022–2025 and monitoring

Focus area of the Sustainability Programme	Material topic	ESG theme	Objective	Key results 2022	Performance 2022	Our impact
 <p>Ensuring secure pensions – sustainability of our own operations and the value chain</p>	Sustainability in customer work	 <p>Governance</p>	We provide timely, smooth and equal services to all our customers.	Of new pension recipients, 89.3% per cent had their pension paid during the first month of their pension entitlement.	Realised ✓	We secure our customers' income.
				Private customers' customer satisfaction (scale: 0–10):	Realised ✓	
	Sustainability of our own operations and the value chain	 <p>Environmental responsibility</p>	We take into account the impacts of our operations on the environment and society throughout our value chain.	We committed to the targets of the SBT initiative and sent our targets for approval.	Realised ✓	We reduce our emissions in line with the Paris Agreement and mitigate climate change.
				We performed the scope 3 calculation for the second time, established our commitments and targets for our purchases according to the Science Based Targets initiative, updated our climate policy for investments and drew up an absolute emissions reduction plan for our investments.	Realised ✓	
		 <p>Social responsibility</p>	We take into account the impacts of our operations on the environment and society throughout our value chain.	We drew up Principles for Human Rights that apply to investments, our personnel and the value chain.	Realised ✓	We identify, address and mitigate human rights risks and their negative impacts.
				We started to assess human rights risks and impacts in our investments, supply chain and own operations.	Partly realised ➔	

Sustainability objectives 2022–2025 and monitoring

Focus area of the Sustainability Programme	Material topic	ESG theme	Objective	Key results 2022	Performance 2022	Our impact
 <p>Investing for change – responsible investment</p>	Respect for and addressing human rights in investments	 <p>Social responsibility</p>	We monitor the human rights risks and impacts of our investments and promote the reduction of negative impacts.	<p>Human rights assessment in 94% of unlisted funds</p> <p>Human rights assessment by country and industry</p> <p>We updated our active ownership and engagement principles.</p>	<p>Realised </p> <p>Realised </p> <p>Realised </p>	We identify, address and mitigate human rights risks and their negative impacts.
	Mitigating and adapting to climate change	 <p>Environmental responsibility</p>	We are committed to achieving a carbon-neutral investment portfolio by 2035.	<p>We updated our climate policy and targets for investments in 2022.</p> <p>Carbon intensity listed equities -8% Carbon intensity corporate bonds -16%</p> <p>Climate allocation of the portfolio 24%</p> <p>Absolute scope 1 and 2 emissions of investments -11% (compared to 2021)</p> <p>Climate policy 2022: absolute scope 1 and 2 emissions of investments -11% (compared to 2021)</p> <p>At the end of 2022, 2% of listed investments were in companies that rely on coal for more than 5% of their operations.</p>	<p>Realised </p> <p>Partly realised </p> <p>Realised </p> <p>Ongoing </p> <p>Ongoing </p> <p>Realised </p>	We mitigate climate change and adapt to its impacts.

Sustainability objectives 2022–2025 and monitoring

Focus area of the Sustainability Programme	Material topic	ESG theme	Objective	Key results 2022	Performance 2022	Our impact	
 <p>Investing for change – responsible investment</p>	Mitigating and adapting to climate change	 <p>Environmental responsibility</p>	We are committed to achieving a carbon-neutral investment portfolio by 2035.	70% of real estate investments’ electricity emission-free.	Ongoing ➔	We mitigate climate change and adapt to its impacts.	
				35% of real estate investments’ heat emission-free.	Ongoing ➔		
	Attending to biodiversity		We draw up a Biodiversity Roadmap for investments.	We drew up a Biodiversity Roadmap.	Realised ✓	We mitigate biodiversity loss in our investments.	
	Responsible real estate investment			We are a responsible real estate investor.	Score in the GRESB real estate sustainability assessment 86/100	Realised ✓	We promote addressing environmental and human rights impacts in Finnish real estate.
					Real estate emissions -61% (compared to 2015)	Ongoing ➔	
					Assessment on human right impacts and risks related to real estate business and two targeted human rights assessments	Partly realised ➔	

Sustainability objectives 2022–2025 and monitoring

Focus area of the Sustainability Programme	Material topic	ESG theme	Objective	Key results 2022	Performance 2022	Our impact		
 <p>Investing for change – responsible investment</p>	Engagement and active ownership	 <p>Environmental responsibility</p>	We actively engage with investees.	We voted at 366 general meetings, i.e. 85% of all general meetings.	Ongoing 	We promote good ownership practices.		
		We voted in favour of 43 shareholders’ proposals on sustainable business at foreign general meetings.		Ongoing 				
		In direct investments, we engaged with investees to rectify all norm violations brought to our attention. We also engaged to rectify 138 norm violations in our entire investment universe.		Realised 	We identify, address and mitigate sustainability risks and their negative impacts.			
				 <p>Governance</p>	We engage with our investees’ value chain and the capital markets.	We engaged through active ownership in order to promote material sustainability themes.	Partly realised 	We promote sustainable business. We engage on our own and together with other investors concerning human rights, labour rights, environmental matters and anti-corruption violations of the UN Global Compact principles.
				We started to monitor the amount of financing that banks acting as intermediaries provide to operations that rely on coal and oil.		Realised 	We further the addressing of the climate impacts of all our operations.	
				We engaged with 778 private equity fund management companies to improve ESG reporting.		Realised 	We engage with the capital market to improve ESG reporting.	

Sustainability objectives 2022–2025 and monitoring

Focus area of the Sustainability Programme	Material topic	ESG theme	Objective	Key results 2022	Performance 2022	Our impact	
 <p>For sustainable working life – social responsibility</p>	Development of sustainable working life	 <p>Social responsibility</p>	We promote work ability and longer careers in our client companies.	We targeted our disability risk management service to companies with the biggest disability risk (risk categories 2 and 3): 83%.	Realised 	Our client companies' absences due to illness and disability pensions are decreasing.	
				A customer survey on the effect of our services: Increased understanding of the means influencing disability risk management 3.6 (scale: 1–5)	Partly realised 		
				Discretionary pension benefits in payment in the first month of entitlement: 82.2%	Realised 		Our customers' income is not interrupted upon retirement.
				Those who returned to the labour market after starting a rehabilitation programme: 82.4%	Realised 		Our customer continues working despite their illness.
Responsibility for Varma employees	 <p>Social responsibility</p>	We develop a work culture that is equal, diverse and non-discriminatory, promotes work ability and allows everyone to be themselves.	PeoplePower® employee survey: Performance index 70.5 (scale: 0–100)	Realised 	Engaged and motivated Varma employees take care of our core task, securing pensions, and advance Varma's strategy and the achievement of the targets through their work.		
			The proportion of “yes” answers to the question “Do you feel that you can be yourself at work?” in the equality and non-discrimination survey: 96%	Realised 			
			Gender structure, women/men: Middle management: 41/59% Team leaders: 71/29% Specialists: 70/30%	Realised 			
			We carried out an accessibility assessment in our office premises.	Realised 			
			PeoplePower® employee survey: PeoplePower index 78.5 (scale 1–100) Work ability assessment 8.62 (scale 0–10)	Realised 			

Sustainability management and governance

The oversight responsibility for sustainability at Varma is exercised by Varma’s Board of Directors. The Board addresses and approves the guiding principles and policies of sustainability, and the Sustainability Programme. The Board of Directors also discusses responsible investment issues on a monthly basis, current sustainability issues in the annual sustainability review, climate risks on a quarterly basis and sustainability risks as part of the annual risk and solvency assessment. In 2022, the Board of Directors approved the Sustainability Programme, the updated Code of Conduct, the Climate Policy for Investments and the sustainability-related targets for the personnel’s remuneration scheme. The Board’s Nomination and Compensation Committee reviewed the sustainability-related targets for the personnel remuneration scheme, and the Audit Committee reviewed responsible investment topics and climate risks.

Sustainability issues are represented in Varma’s Executive Group by the chief investment officer. The Executive Group addresses and approves the high-level sustainability targets annually. Furthermore, Varma’s Executive Group discusses all major projects and decisions relating to the development of sustainability. In 2022, the Executive Group discussed the sustainability matters that require a resolution by the Board of Directors.

Furthermore, the Executive Group discussed and approved the [Principles for Human Rights](#) and the [People, Health & Safety Guidelines and Procedures](#). The Executive Group also discussed other sustainability topics.

The Investment Committee addresses and approves the responsible investment principles and policies that are presented to the Board of Directors. The committee also monitors the investment risks related to responsibility, such as climate change-related risks, and also evaluates violations of international agreements and norms.

Varma’s sustainability is led by the Sustainability Director, who reports to the chief investment officer, and the Responsible Investment & Sustainability department develops and co-ordinates Varma’s sustainability. In addition to the Sustainability Director, the Development Manager for Responsible Investment and the Sustainability Specialist work in the department. The department works in cooperation with the sustainability coordinators of Varma’s various functions, developing sustainability in accordance with external requirements and the sustainability programme.

The functions are responsible for implementing sustainability.

The sustainability of Varma’s own operations is closely linked to the compliance function to the extent that, for example, the

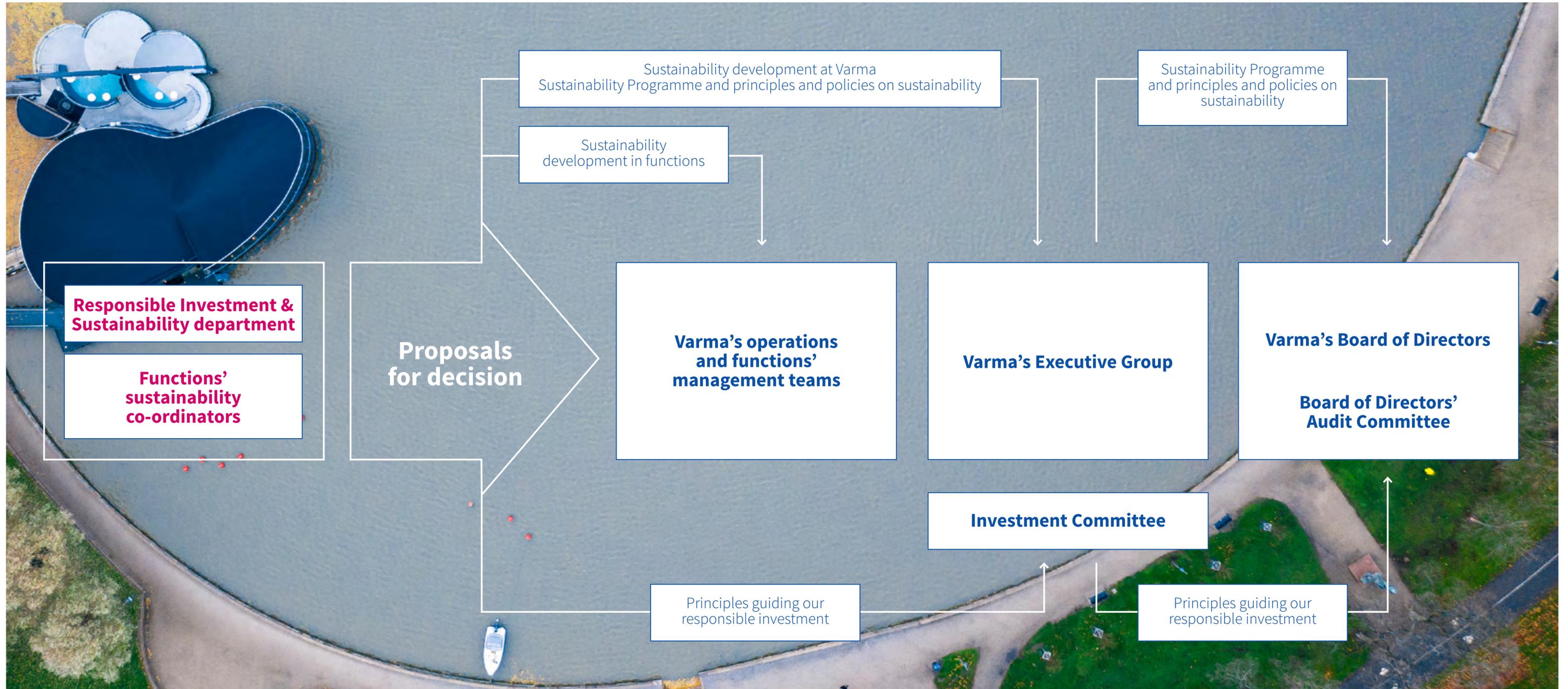
Code of Conduct stems from legislation applicable to the organisation. The Responsible Investment & Sustainability department and compliance function work in close co-operation and address sustainability topics on a monthly basis together. The Compliance function is an element of internal control. Its task is to ensure that decrees, official regulations, the decisions of governance bodies, and internal guidelines are complied with. The activities are risk-based and focus on information flow, advising, drawing up instructions and organising training. The Compliance Officer reports directly to the President and CEO.

Risks related to responsibility and sustainability are managed as part of Varma’s risk management. A risk co-ordinator, who was appointed to the Responsible Investment & Sustainability department at the beginning of 2023, promotes the assessment of reporting of responsibility and sustainability risks.

The oversight responsibility for sustainability at Varma is exercised by Varma’s Board of Directors.



Sustainability governance





Ensuring secure pensions

Taking care of pension assets and paying pensions correctly and on time are the cornerstones of everything we do. We operate transparently and ethically. We take into account the impacts of our operations on the environment and society throughout our value chain.



Thanks to Varma's solvency and active risk management, the company is well-prepared to secure pensions also when investment market volatility increases.

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 increase Finns' pensions assets and secure the payment of pensions. Strong solvency upholds confidence in pension cover and mitigates the most severe pressure to increase pension contributions.

Strong solvency capital acts as a risk buffer for investment activities and enables Varma to aim for higher returns on pension assets by making higher-risk investments with a higher return potential, for instance through equities.

Thanks to Varma's strong solvency and active risk management, the company is well-prepared to secure pensions also when investment market volatility increases.

Economic growth and employment as pillars of the pension system

In addition to pension companies' investment returns, 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 are viable and people who are in working life pay pension contributions, which are used to pay current and future pensions.

15 largest direct equity investments

	€ million	Varma's holding of shares, %
Sampo Plc	1,088.6	4.31
Neste Corporation	470.9	1.42
Nordea Bank Abp	401.5	1.10
KONE Corporation	374.7	1.46
UPM-Kymmene Corporation	351.8	1.89
Nokia Corporation	326.3	1.34
Tornator Oyj	320.4	16.41
Kojamo Plc	268.2	7.83
Wärtsilä Corporation	250.9	5.37
Microsoft Corp	231.4	0.01
Fortum Corporation	226.5	1.62
Outotec Oyj	219.9	2.74
Apple Inc	197.2	0.01
Valmet Corporation	169.4	3.64
Metsä Board Corporation	154.6	4.85

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

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

Varma's premium income stood at EUR 6.1 (5.6) billion in 2022. The TyEL payroll of employer customers insured by Varma increased by 7.0 per cent from the previous year. EUR 59 (55) million in new TyEL policies were sold, and in the 2022 account transfers, EUR 35 (26) million in net TyEL income was transferred from Varma to other earnings-related pension companies.

Earnings-related pension is an essential part of Finnish social security. In 2022, Varma paid EUR 6.5 (6.2) billion in pensions to approximately 352,000 (346,000) recipients.

We invested EUR 13.4 billion in Finland

Varma is an important investor in Finnish companies and, through its investments, promotes and enables their long-term development. Varma invests in companies' shares and provides financing through different loan instruments. Varma also owns real property.

At the end of 2022, 23 (24) per cent, or EUR 13.4 (14.2) billion, of Varma's investments were invested in Finnish society in one form or another. We report on our financial performance quarterly, and the [most recent financial information](#) is available on our website.

At the end of 2022, investments in Finnish society accounted for

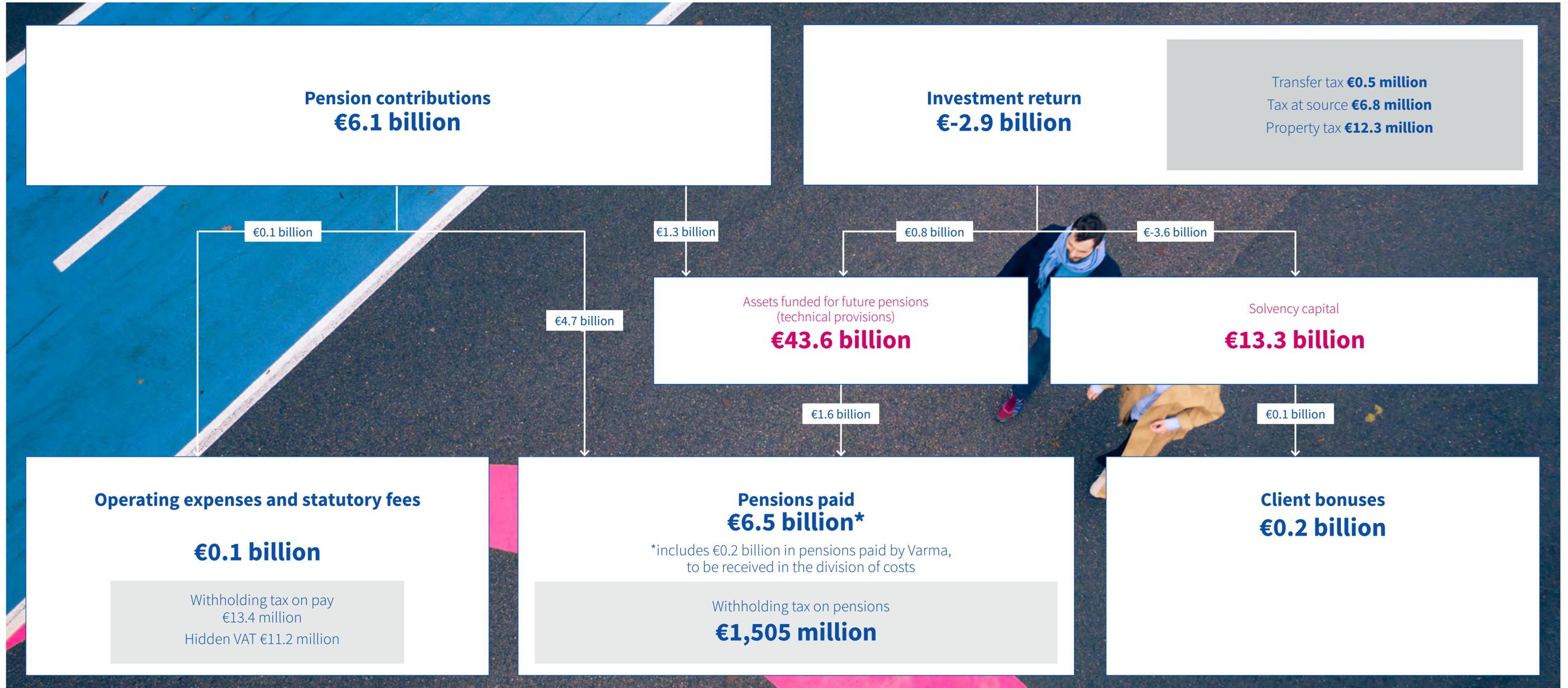
23%

i.e. EUR 13.4 billion, of Varma's total investments.

Solvency



Varma's cash flows from pension contributions and investment returns





Tax responsibility

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

The tax policy defines 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 or partake in investment structures whose purpose is to avoid reporting obligations or make the beneficial owner of the income unidentifiable.

Varma is liable to pay income tax only to Finland, as we provide earnings-related pension insurance only in Finland. 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 regulations, our leading principles are prudence and tax transparency.

Our principle is to avoid double taxation on investment returns, which would lead to lower investment 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 pursued. 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, combat tax avoidance and increase 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's Executive Group and the Board of Director's Audit Committee regularly discuss Varma's taxation matters in order to ensure the implementation of the tax policy and compliance with regulations.

EU directive increases tax transparency

Varma also adheres to the reporting obligation in accordance with the 6th Amendment of the Directive on Administrative Cooperation (DAC6), which concerns tax planning structures that cross EU borders. The act on the reporting obligation concerning cross-border tax planning structures took effect at the beginning of 2020. The purpose of the directive is to increase tax transparency and prevent aggressive tax planning. The entry into force of the act has not created reporting obligations for Varma.

Varma's investment activities are also regulated by the act on certain cross-border hybrid arrangements (1567/2019) and the related paragraphs 5 and 6, article 4, of the act on relief of double taxation (1552/1995). The purpose of the regulation is to prevent hybrid arrangements leading to tax avoidance and to

abate tax impacts caused by differences in tax treatment.

In 2023, Varma will assess the impact of the Anti-Tax Avoidance Directive III (ATAD III) on its investment activities. Based on the assessment, Varma will adjust its ways of operating as regards regulatory tax due diligence requirements.

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 2022, Varma paid out pensions in the amount of EUR 6.5 (6.2) billion, and of this amount, Varma paid EUR 1.5 (1.4) billion to the tax authorities as withholding tax.

We paid EUR 13.4 (12) million in withholding tax on our employees' salaries. In 2022, Varma paid EUR 0.5 (2.2) million in transfer tax, EUR 12.3 (11.7) million in real estate tax for plots and buildings, and EUR 6.8 (5.6) million in tax at source for foreign dividend income. Hidden VAT included in operating expenses totalled EUR 11.2 (10.4) 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.

We avoid the double taxation of investment returns because it would lead to lower investment returns and create pressure to raise pension contributions



Correct pensions on time

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

We aim to provide our pension and rehabilitation customers with expert advice and sufficient information in support of their decisions, as well as swift and correct pension decisions.

Applying for pension is a major moment in life, and it should go smoothly. It is important for our customers that we process their pension applications swiftly and with no interruptions to their income. Accordingly, a key target for Varma is to ensure the high quality of our pension services.

We paid out pensions in the amount of EUR 6.5 (6.2) billion to 352,000 (346,000) people in 2022. The number of pension recipients increased mainly due to the grown popularity of partial old-age pension.

We process pension applications swiftly

We constantly improve the processing of pension applications so that our customers receive a decision on their pension as quickly as possible.

In 2022, applicants received an old-age pension decision from Varma in 5 (5) days on average. A decision can be received in just one day if all the required information is submitted with the application. In 2022, the average processing time for all pension benefits was 16 (19) days.

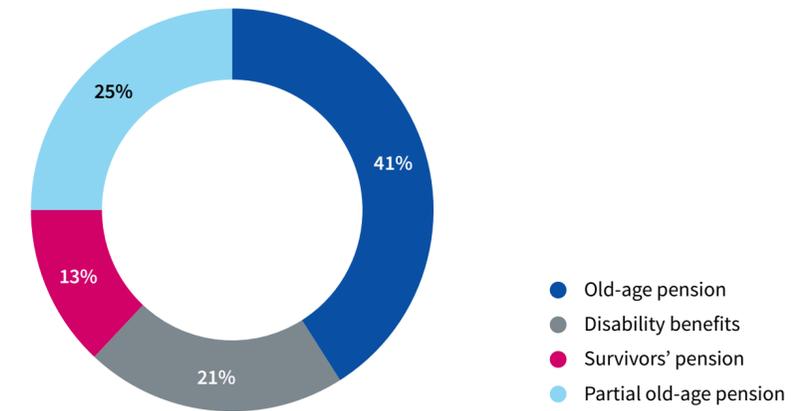
The smooth processing of pensions is based on our specialists' competence, a fine-tuned process, efficient IT systems and the use of automation and software robotics. Processing is also accelerated by the fact that most of our customers apply for pension digitally.

Pension applications are processed on average in 16 days.

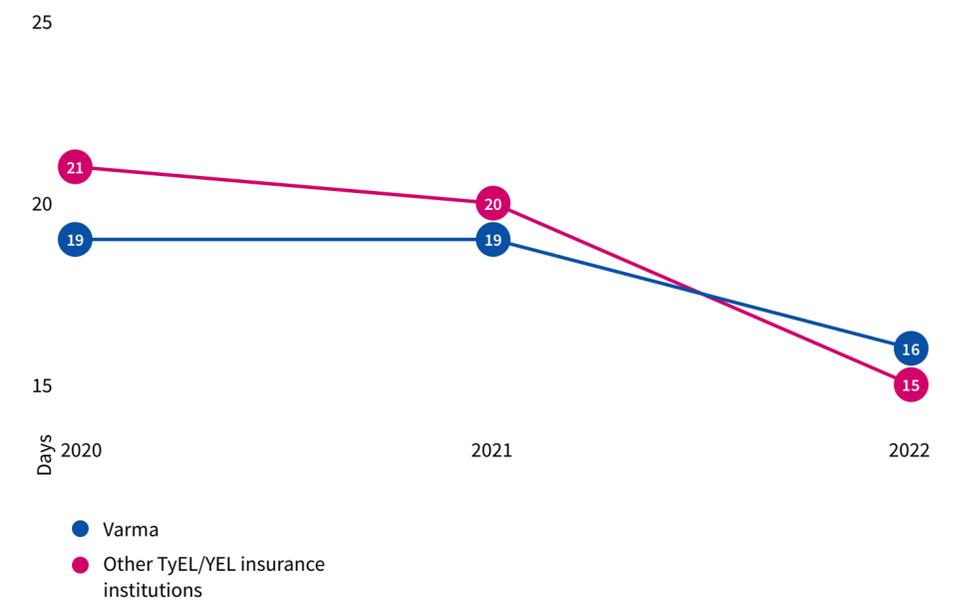
5 days

We issue old-age pension decisions in an average of 5 days.

New pension decisions



Pension application processing time in days



Customer service

We provide high-quality, smooth and equal services to all our customers.

All insurance and pension matters can be handled digitally

Varma’s private and corporate customers have a wide range of online services for different needs at their disposal.

In 2022, we continued the work started in 2021 to renew the Varma Online Service for registered users. We integrated corporate customers’ personal pension and rehabilitation matters and YEL insurance matters into a single clear service. The varma.fi website, which takes different customer groups into account individually, is built to provide users with smooth and people-centred service, from information searches to solving problems and buying pension insurance. In the Varma Online Service, our customers can take care of their insurance and pension matters securely. With the help of the Varma Online Service’s work ability section, our client companies can build a smooth process for managing the disability risk, from identifying risks to choosing and implementing improvement measures and following their impacts.

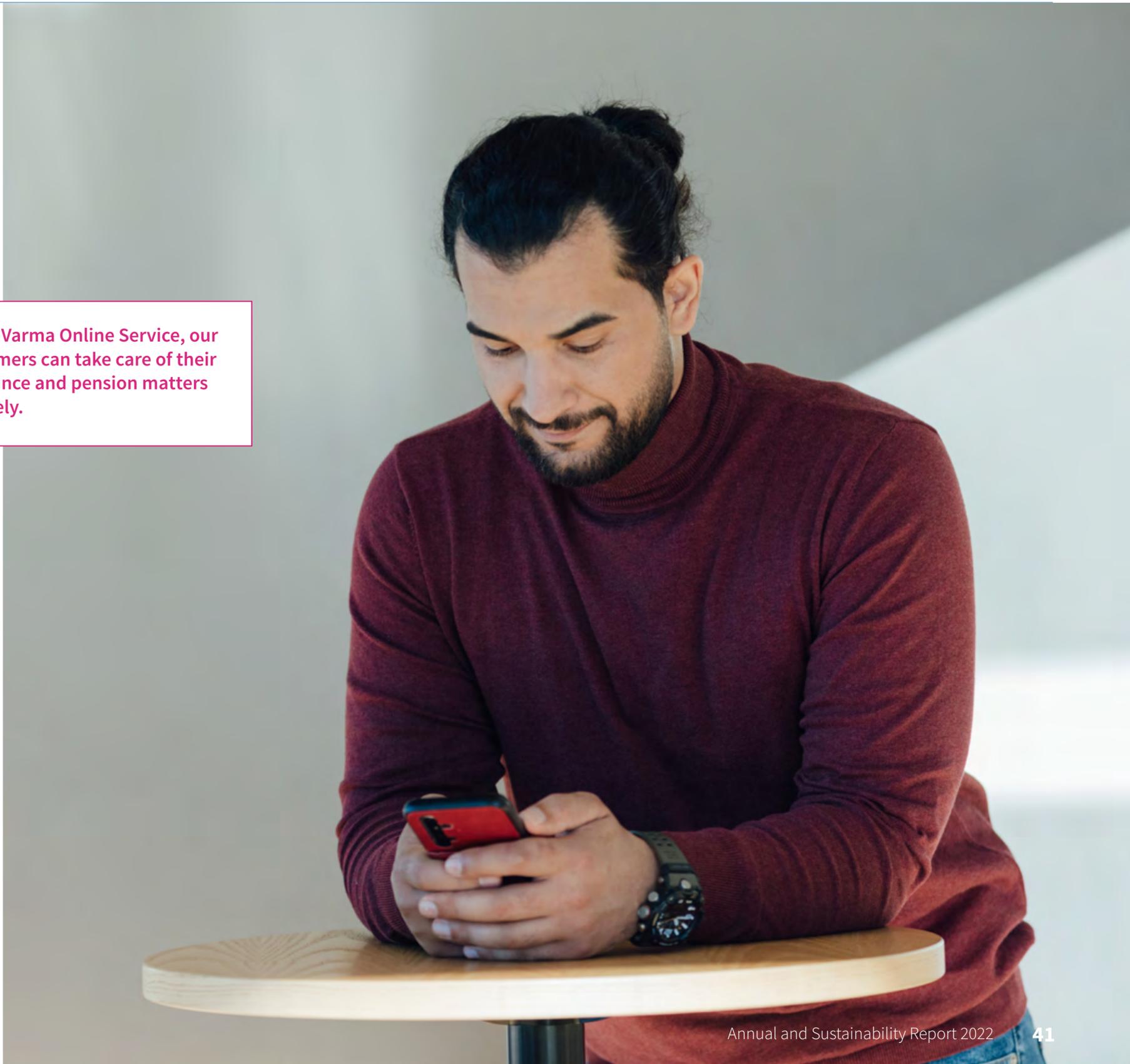
We offer all pension applications in digital format. A growing number of our customers apply for pension online every year: 83 (79)

per cent of all old-age pension applications in 2022 were submitted digitally to Varma.

Our pension and rehabilitation customers can choose the e-customer option, which allows them to check their pension or rehabilitation decision in the Varma Online Service. The customer receives a free SMS notification when documents have arrived in the service. Through the Varma Online Service, our customers can access their pension record and see up-to-date information on the accrual of their earnings-related pension. 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 the Varma Online Service. 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

In the Varma Online Service, our customers can take care of their insurance and pension matters securely.



up a rehabilitation plan after the customer has received a positive rehabilitation decision from us. Our rehabilitation and disability pension services for SMEs and entrepreneurs are based on a regional model: designated specialists in rehabilitation and disability pension support our customers in seven geographical regions.

Our employer and entrepreneur customers can take care of all their insurance matters online. The clear and straightforward service guides the user and provides a secure channel for taking out TyEL and YEL insurance. In 2022, we made our insurance applications even simpler and quicker to fill in.

Entrepreneurs must take out YEL insurance when they work as an entrepreneur to the extent that the value of their annual work input exceeds the minimum limit for YEL income (EUR 8,261.71 in 2022). YEL income refers to the monetary value of the entrepreneur's work input. The entrepreneur's pension accrual, other social security and insurance contributions are based on their YEL income. In 2022, we introduced the new YEL income calculator on our website. It helps entrepreneurs determine the correct amount of YEL income right from the start of the entrepreneurial activities. The calculator and included information are based on the instructions and data provided to the earnings-related pension companies by the Finnish Centre for Pensions.

In 2021, the Financial Supervisory Authority looked into pension providers' practices in confirming YEL income. In the background

is under-insurance, i.e. some entrepreneur's confirmed income is lower than their actual work input. In 2021–2022, Varma implemented measures required by the Financial Supervisory Authority by improving the consideration process for confirming the YEL income. The change in the Self-Employed Persons' Pensions Act (YEL) that took effect at the beginning of 2023 is meant to clarify how YEL income is determined. YEL income is confirmed on the basis of an overall assessment, and its level is monitored and reviewed regularly.

On the basis of earnings data obtained from the Incomes Register, Varma determines the TyEL insurance contributions of its client companies and the accrued earnings-related pensions of the insured individuals. The Incomes Register is maintained by the Finnish Tax Administration.

The Varma Online Service includes 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. Our contribution forecast service can be used to track the current year's budget and to estimate the TyEL contributions for the rest of the year and the next year. The Varma Online Service supports 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



Secure future

Amendment of the YEL act aims for better pension and social security for the self-employed

Due to underinsuring, the level of many entrepreneurs' pension and social security has remained low. At the beginning of 2023, the Self-Employed Persons' Pensions Act (YEL) was amended with the aim of improving entrepreneurs' social and pension security.

A self-employed person's pension accrual and other social security benefits are calculated based on the income confirmed under YEL insurance. The problem with YEL insurance has been underinsuring, i.e. too many entrepreneurs have not changed their YEL income to correspond to the changed value of their work input as their business has grown and expanded.

In the future, the level of YEL income is based on the median salary in the sector in which the entrepreneur pursues their activity. However, when confirming the amount of YEL income, the earnings-related pension insurance company takes the entrepreneur's overall situation into account, for instance, aspects affecting the value of the work input, such as the scope of the entrepreneurial activities and whether the entrepreneur works full time or part time. The biggest change is the obligation imposed on earnings-related pension companies to check entrepreneurs' YEL income every three years in order for it to better reflect any changes that may occur in the entrepreneur's work.

"The purpose of the change is to make sure that the entrepreneurs' income level is kept up to date and, for example, that the often low income of new entrepreneurs does not remain at a level that is too low as their business develops. Varma will start checking confirmed YEL income levels according to our sector's shared practices in late spring 2023. Prior to the actual checking process, we will always get in touch with entrepreneurs whose income will be checked," says Insurance Service Manager **Arja Iisakkala**.

Following the legislative amendment, earnings-related pension companies will have the obligation to present grounds for their decisions concerning the YEL income.

In 2022, we prepared for the amendment by revamping the processing for confirming the YEL income, training our employees, updating customer service guidelines and developing customer communication.

firms to make it easier for them to handle their customers' pension insurance matters.

The requirements of the European web accessibility directive apply to online earnings-related pension insurance services. Our services largely fulfil the accessibility requirements and do not contain critical accessibility deficiencies.

In addition to comprehensive digital services, we also offer more specific advice by phone and chat.

We comprehensively measure customer satisfaction

We track the customer satisfaction of both our client companies and private customers. We collect customer feedback on our customer service in various channels, and on customer

meetings and the processing of pension and rehabilitation applications.

Our client companies' customer satisfaction with the phone service declined in 2022, as the system updates influenced the phone service's response times. The goal of the system updates is to be able to offer our customers more efficient multi-channel service and an excellent customer experience. Customers' satisfaction with meetings with our work ability development managers and private customers' satisfaction with the phone service were at a very high level in 2022.

Private customers can influence our service development as part of a customer panel. Customers can sign up for the panel in the Varma Online Service.

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

	2022	2021	2020
Phone service for private customers	81	82	80
Private customers' application and payment process	65	65	65
Phone service for client companies*	58	71	73
Work ability management development managers' contacts with clients	83	not measured**	92
Commercial property customers	66	63	64
Residential tenants	40	44	44

*Client companies' customer satisfaction measurement period 1 Jan–2 Sep 2022 (new measurement system adopted 1 Jan 2023)
**Customer satisfaction measurement was renewed in 2022.



Our clients benefit from our strong solvency

The annual client bonus lowers employers' TyEL insurance contributions. The client bonus is determined by how efficiently Varma has been taking care of its task and how solvent the company has been. The client-specific bonus is also affected by the TyEL payroll insured with Varma and the client's insurance history at Varma.

In 2022, Varma's pension assets exceeded the technical provisions by 30.5 per cent. We will refund 1 per cent of the solvency capital, as well as the entire loading profit, to our customers as client bonuses. Varma will transfer a total of EUR 173.4 million to client bonuses for 2022, corresponding to 0.72 per cent of the TyEL payroll.

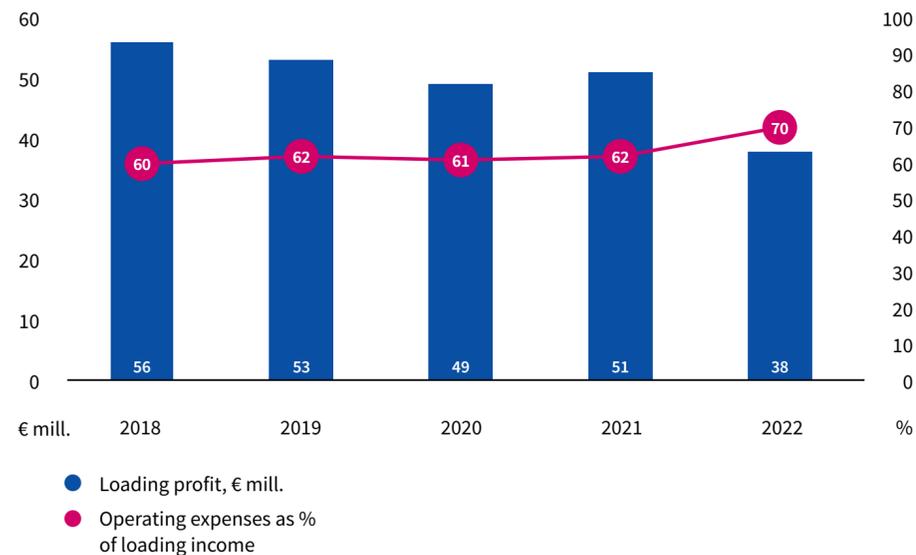
As of the beginning of 2023, legislation concerning TyEL contributions will change, and company-specific contributions will be introduced. The change will eliminate the part of the client bonus that is based on the pension company's operational efficiency, as each pension company will predetermine the expense loading component that is part of the TyEL contribution to correspond as closely as possible to its actual operating costs. The amount to be distributed as client bonuses will be based solely on the earnings-related pension company's solvency. The change will affect the determination of the TyEL contribution for the first time in 2023 and the client bonuses that will accrue in 2023 and will be paid in 2024.

We encourage companies to grow

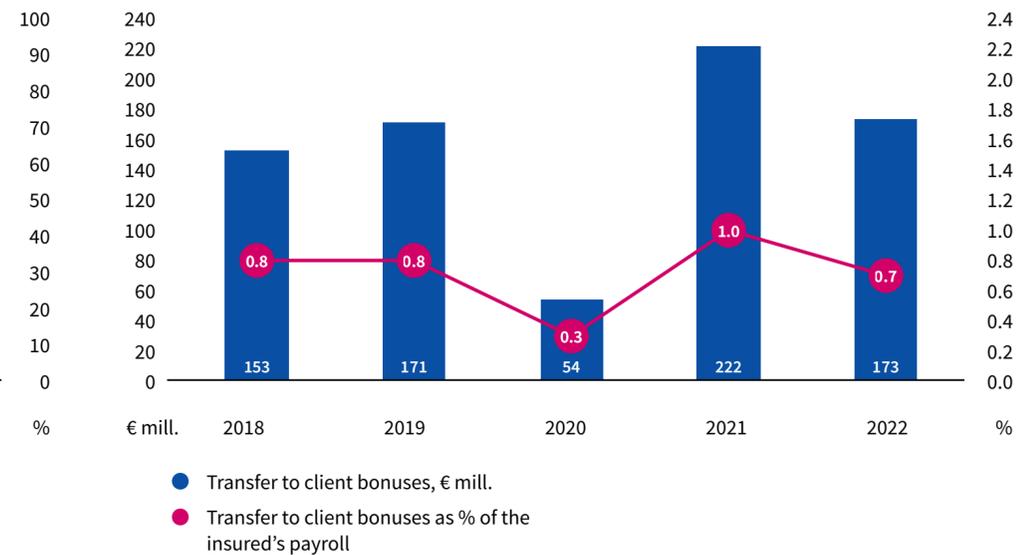
We support SMEs' growth platform and their leap to international growth. In this way, we want to contribute to the positive development of employment, which promotes the sustainability of the pension system. We collaborate with the Finnish Enterprise Agencies, Kasvu Open and Kasvuryhmä (Growth Collective Finland). The Finnish Enterprise Agencies promote the creation of sustainable business by offering free business counselling. Kasvu Open helps SMEs 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.

The client bonus lowers employers' insurance contributions.

Administrative cost efficiency



Transfer to client bonuses



Ethical and transparent business

Ethics and transparency guide our operations. Knowing and abiding by common rules is an essential part of responsibility for Varma employees. The transparency of our operations helps strengthen trust in Varma and our earnings-related pension system.

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](#). The purpose of the Code is to guide Varma employees in complying with regulations and behaving responsibly and sustainably. The Code of Conduct is approved by Varma's Board of Directors.

In 2022, we updated our Code of Conduct. In the Code of Conduct, Varma commits to good insurance practices, combating the grey economy, anti-corruption and anti-bribery, avoiding conflicts of interest, responsible and sustainable business and promoting human rights, 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. In the Code, we encourage Varma employees to raise any suspected unethical or illegal activities and other violations whenever there are grounds for it.

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. Varma also has a separate [anti-bribery policy](#) in place. Compliance with the policy is monitored through, for example, a gift register that is maintained by the compliance officer. A separate [tax policy](#) steers our tax responsibility (read more in the section Tax responsibility). Every Varma employee must abide by our



common principles. In case of problems and suspected violations, employees should contact the compliance officer.

Varma is an obliged entity as referred to in the Act on Detecting and Preventing Money Laundering and Terrorist Financing. We draw up a regularly updated assessment in order to identify and assess money laundering and terrorist financing risks. Internal guidelines and regular training for Varma employees ensure that we comply with laws and regulations aimed at preventing money laundering and financing terrorism in our operations. Varma is also subject to obligations related to international sanctions that are binding on Finland based on the decisions of the UN Security Council or the Council of the European Union. We also comply with the sanction systems of the UK and USA.

Varma has a [whistleblowing channel](#) in place for anonymous reporting of misconduct. Behind the whistleblowing channel is an EU directive concerning the reporting of violations, for instance, in public procurements and financial services, and in competition-, bribery- and corruption-related matters. The whistleblowing channel is available both to Varma employees and to external stakeholders. The reports are processed confidentially by the Whistleblowing team, which is made up of the representatives of the compliance function and Internal Audit. In 2022, a total of 9 reports were submitted through the channel. None of

these concerned misconduct as referred to in the directive. Three of the reports concerned disability pensions that were possibly granted on false grounds, and in two reports, investment decisions by Varma were criticised. Individual reports were also submitted relating to, for example, the insurance physician activities.

We are a participant in the UN Global Compact initiative, in line with which we promote human rights, labour rights, environmentally friendly business and anti-corruption. We report to the UN annually on our progress in these areas in conjunction with our annual and sustainability report.

The Finnish Financial Supervisory Authority (FIN-FSA) has 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 earnings-related pension insurance company itself is responsible. Our service offering follows FIN-FSA's guidelines, and we focus our services on disability risk management.

Respect for human rights

Varma is committed to respecting human rights through, for example, the implementation of its Code of Conduct, [responsible investment principles](#), and [active ownership and engagement principles](#). Our human rights efforts are also reinforced by our participation in the UN Global Compact. Work on

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

human rights is carried out in different parts of Varma, especially in the sustainability department and compliance function, and in tasks related to supply chains.

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.

In 2022, we carried out a human rights survey, which helped us identify three groups that Varma's operations have a particularly key impact on in terms of realising human rights: our investees, personnel and supply chain. Based on the survey, we drew up [Principles for Human Rights](#), which promote our principles of active ownership and engagement in our human rights work.

Responsible supply chain management

In order to ensure sustainability in our supply chain, we require all of our partners to commit to our [Supplier Code of Conduct](#).

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 obligated to ensure that Varma's sustainability principles are abided by in their own operations. The

Supplier Code of Conduct covers, among other things, good business practices, anti-bribery aspects, human rights, occupational safety and health, and respect for the environment. It also includes a notification requirement concerning Code violations and permission for audits performed by Varma. The Supplier Code of Conduct is attached to Varma's supplier contracts.

In the course of 2021 and 2022, Varma renewed its contract management procedures in order to reduce the contract risk. We introduced a harmonised contract management system and guidelines for contract and procurement processes. The renewal helps us ensure that the supply chain sustainability requirements are taken into account in our contracts.

Read more about the sustainability of our value chain in the section Sustainability of our own operations and the value chain.

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. At the beginning of 2022, the compliance function was separated from the legal affairs function and is now its own unit. The compliance officer reports to the CEO and Board of Directors.

Compliance is promoted through the use of online courses, which every Varma employee

is expected to complete. Varma employees take the data protection and data security course annually and the Code of Conduct training every two years. The completion rate is monitored and reported, for example, to the Board of Directors. In 2022, the online course on data protection and data security was completed by 96 per cent of Varma employees, and the online course on the Code of Conduct by 92 per cent of Varma employees.

Data protection and data security

The data security measures implemented at Varma support the company’s core task, i.e. securing pensions. 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 and employees handling personal data work according to the data protection principles approved by the Board of Directors and the guidelines based on them. Data security measures are in place to protect personal data and the income data of the insured, as well as Varma’s services, business operations and trade secrets, and the trade secrets of client companies. The targets, responsibilities and means of data security management are



defined in Varma’s data security policy. A [summary](#) of the policy is available on our website.

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 the continuous improvement of data security practices. In 2022, we arranged 35 training events, one of which is an annual online course on data protection and data security for all employees. We also arranged continuous automated training on data security awareness for all personnel.

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 2022, Varma employees reported 91 data security events, 7 of which concerned minor data security violations under the GDPR. Three cases were 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.

Transparent operations and open communication

Transparent operations and open communication are among the premises of our sustainability programme. The transparency of our operations helps strengthen trust in Varma and our earnings-related pension system.

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.

We want to be a bold leader in communication. This means, among other things, that Varma's experts boldly express their views and raise a dialogue on social themes that are 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 data as part of the Report of the Board of Directors. We also anticipated future amendments to reporting regulations and disclosed information for 2022 in accordance with the EU's new proposed Corporate Sustainability Reporting Directive (CSRD) and the EU's Sustainable Finance Taxonomy requirements. We also report on climate risk management in accordance with the TCFD framework.

We communicate openly also, for example, about our sponsorship practices, which are steered by our sponsorship and charitable donation guidelines. Sponsorship should contribute to achieving our strategic goals, and we focus mainly on long-term co-operation.

In T-Media's Reputation & Trust survey, Varma ranked number one in terms of reputation among earnings-related pension companies.

Varma does not grant financial support to political parties. We provide more detailed information on our [sponsorship and charitable donation principles](#) on our website.

Securing pensions is a responsibility that is based on trust. Protecting our good reputation is important to us, and we strive to continuously improve our responsible operations and strengthen trust in Varma.

We monitor the development of our reputation in T-Media's annual Reputation & Trust survey, which comprehensively measures the reputation of organisations operating in Finland. According to the summer 2022 survey results, Varma's reputation has improved significantly to 3.50 (3.34) on a scale from 1 to 5. In terms of reputation, Varma ranked in first place among earnings-related pension insurance companies. Our reputation shows a positive trend in the eight areas of the survey. Varma obtained the best results in the areas of the company as an employer, leadership, responsibility and financial performance.

Our rating for responsibility was 3.54 (3.36). A total of 11,663 Finnish people took part in the survey, with 301 respondents giving a more detailed assessment of Varma.

The media's views on Varma's communication are monitored annually in T-Media's MediaBarometer survey. In 2022, Varma reached the best results in communication expertise (3.70) and reliability (3.55), on a scale of 1-4. The rating for the openness of communication was 2.95. Varma was assessed by 20 media representatives.

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, our 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 our website.

Varma also has in place a customer panel consisting of private customers. The panel provides our customers an opportunity to influence our services. Customers can sign up for the panel in the Varma Online Service.

We engage in advocacy through memberships in the boards of directors of the Finnish Pension Alliance TELA and Finance Finland, and in various permanent working groups and working groups established for a specific initiative. The working groups address several national and EU-wide legislation initiatives related to our sector. We are also active in the working groups of the Finnish Centre for Pensions, a co-operation body for the earnings-related pensions sector.

Typical channels for interaction, in addition to the consultative committees and working groups, are different meetings with customers and other groups, media events, seminars, webinars, the website, chat, social media and publications.

In 2022, the world was in turmoil in many respects, which was reflected in the themes that interested our stakeholders. Dialogue with our stakeholders covered topics such as

Russia’s war of aggression against Ukraine and major changes in the global economy and their impacts on the earnings-related pension system.

Our stakeholders were also interested in hybrid work and other new ways of working, mental health challenges in working life, sustainability of the pension system and climate change. We engaged with non-governmental organisations on topics such as biodiversity.

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. Read more about sustainability-related networks and initiatives in which Varma is involved in the section Responsible investment.

For Varma, it is important to promote equal and diverse working life. In 2022, Varma was an official partner of Helsinki Pride for the fourth consecutive year. We participated in the Pride week parade and official events organised during the week, and organised a Pride party of our own.

Accessibility of Varma’s online services

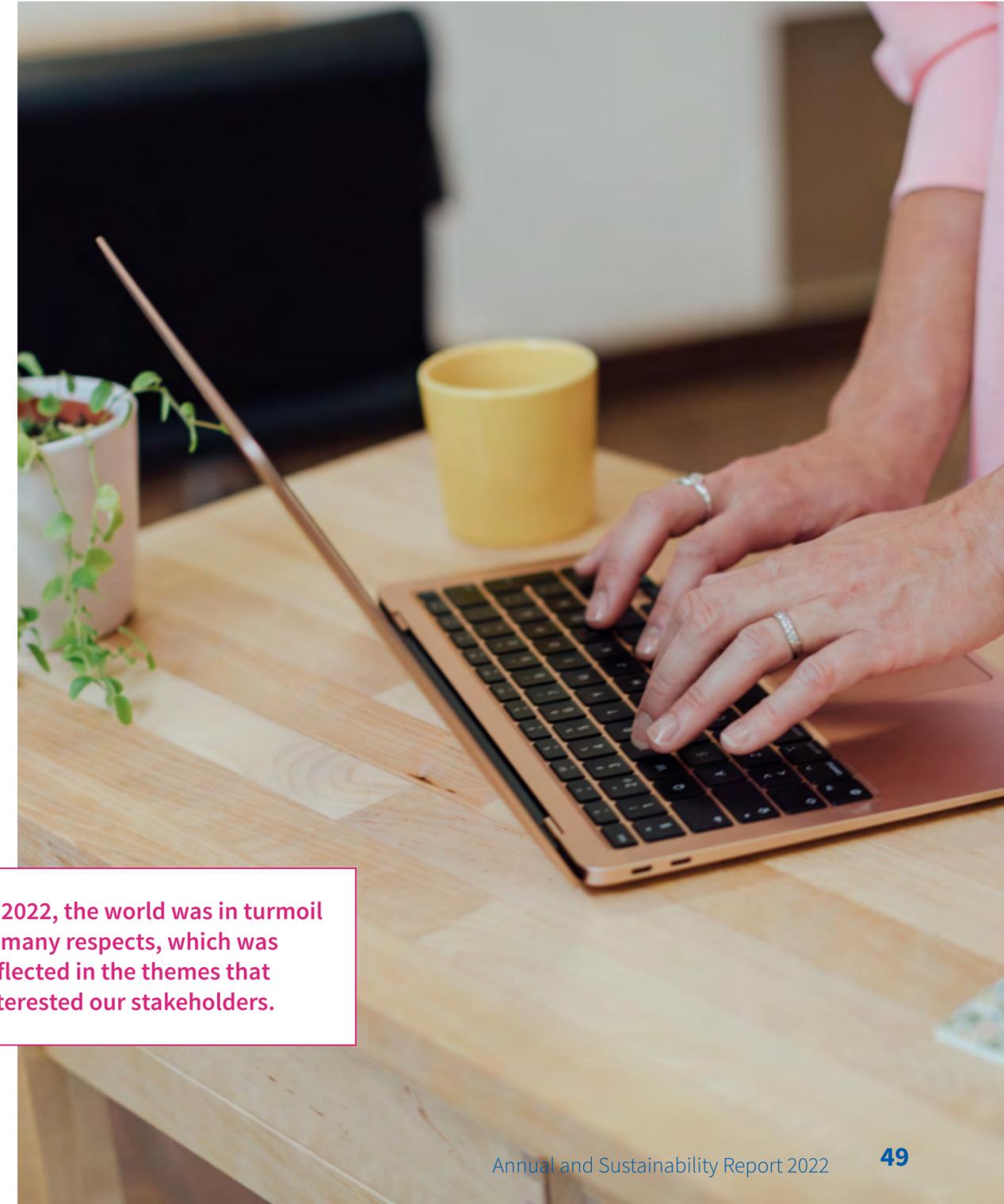
The Act on the Provision of Digital Services obliges both the public sector and earnings-related pension companies to comply with the accessibility requirements in their digital services. The Act is applied to Varma’s statutory earnings-related pension insurance services, i.e. the public pages of varma.fi and the Varma Online Service. The act is based on the EU’s Web Accessibility Directive, and its purpose is to guarantee everyone equal opportunities to use digital services.

Although our digital services largely fulfil the accessibility requirements and do not contain critical accessibility deficiencies, we continue to develop their accessibility.

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.

Interest organisations’ membership fees

	2022	2021	2020
Finance Finland	368,677	301,773	335,727
Finnish Pension Alliance TELA	613,402	644,811	657,235
Climate Leadership Coalition	11,000		
Directors’ Institute Finland	10,000		
Helsinki Region Chamber of Commerce	3,260		



In 2022, the world was in turmoil in many respects, which was reflected in the themes that interested our stakeholders.



Sustainability of our own operations and the value chain

We take into account the impacts of our operations on the environment and society throughout our value chain. In 2022, we carried out an assessment of the human rights risks and impacts of our supply chain and own operations, in addition to our investments. We also assessed the climate risks of our procurement and TyEL premium income.

Respect for human rights in the supply chain and own operations

Varma is committed to respecting human rights and operating in accordance with the United Nations Guiding Principles on Business and Human Rights. Varma requires the same from its supply chain.

In 2022, we carried out a human rights assessment, which helped us identify three groups that Varma's operations have a

particularly key impact on in terms of human rights: our investees, personnel and supply chain. The assessment helps us identify, prevent and mitigate more comprehensively any negative human rights impacts from Varma's operations and address them more effectively. As the outcome of the assessment, we drew up the [Principles for Human Rights](#) in which we commit to address violations of human rights.

The human rights impacts and risks related to the value chain can be observed for example by sector or location. The value chain human rights assessment was carried out by sector because Varma's procurement is focused on Finland. Our most significant procurement is related to the construction and maintenance of buildings, and to IT systems. We determined the sector distribution of our total procurement and used this information

Human rights risk by industry (share of our purchases)

Low/moderate

99.7%

High*

0.3%

*The Corporate Human Rights Benchmark (CHRB) of the World Benchmarking Alliance (WBA) identifies the apparel, automotive manufacturing, extractives, food and agricultural products, and ICT manufacturing sectors as presenting a high risk of negative human rights impacts.

to assess the share of suppliers in sectors with high human rights risks, which was 0.3 per cent. We also assessed the suppliers' compliance with the principles of the UN Global Compact using a database maintained by an external service provider.

Furthermore, we carried out a separate human rights assessment concerning the construction activities related to our real estate investments, as construction-related procurement required for Varma's real estate investments accounts for 48 per cent of the total procurement. The assessment examined the human rights risks related to raw materials, procurement and the construction phase in the upstream supply and value chain of the real estate business. Significant human rights risks identified included aspects related to the origin of raw materials and the realisation of employees' human rights in the construction phase. Furthermore, the long supply and value chains related to construction increase the likelihood of human right risks being realised.

In 2022, we engaged with construction sector suppliers in order to identify, prevent and mitigate any human rights impacts and risks. Next, we will define measures which could help us to better identify possible human rights risks related to co-operation partners in Varma's construction projects and to prevent human rights violations on construction sites.

In our human rights assessment, we also identified human rights risks and impacts affecting our own personnel. Varma has practices and processes in place for addressing violations concerning the company's own personnel.

Information on the human rights assessment concerning investments is in the section Responsible investment.

In addition to the human rights assessments, in 2022 we continued to provide Varma employees with training on human rights responsibility. The training efforts were targeted to functions where we have identified major human rights impacts.

Environmental aspects of the value chain Sustainability requirements of the supply chain

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

In 2022, we drew up the Principles for Human Rights in which we commit to address human rights violations.

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 emission-intensive industries, suppliers should pay special attention to monitoring their carbon footprint and to targets related to minimising future environmental impacts. Through our own example, we also strive to encourage suppliers to set science-based emission reduction targets according to the Science Based Targets initiative (SBTi).

Our most significant procurement is related to the construction and maintenance of buildings, and to IT systems. As regards procurement related to real estate business, we have drawn up circular economy principles for real properties for the processes of new construction and renovation projects as well

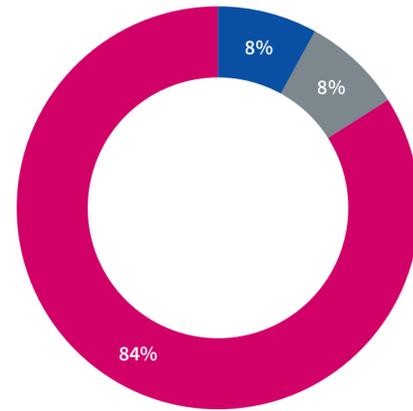
as maintenance. We also aim to increase the recycling rate of construction and demolition waste.

Of our purchases made in 2022, 98 per cent originated from Finland. The remaining 2 per cent originated from the US, France, the UK, Ireland and other European countries.

Climate risk assessment of procurement

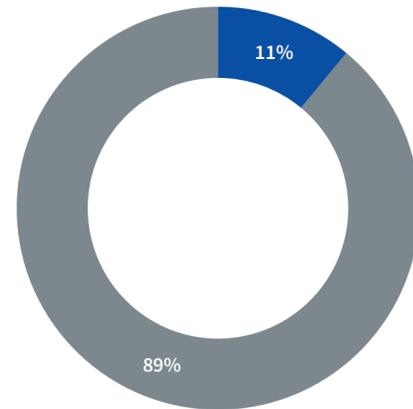
In order to improve sustainability management in the value chain, we carried out for the first time a climate risk assessment of our procurement in 2022. The climate risk assessment was performed by calculating the weighted carbon intensity of our procurement using PCAF's database. We also assessed the share of procurement made in 2022 from industries exposed to climate change transition risks and the distribution of the carbon risk between

Carbon risk's share of total procurement



- High
- Moderate
- Low

Transition industries' share of total procurement



- Others
- Transition industries

In 2022, we carried out a climate risk assessment of our suppliers for the first time.

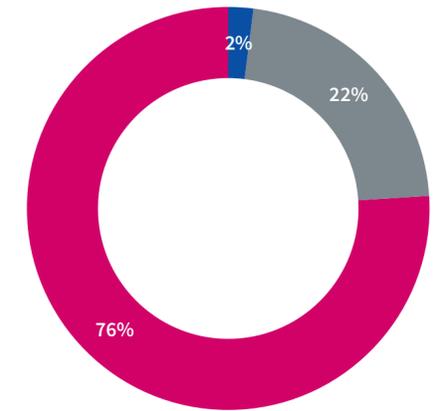
suppliers. The climate risk assessment only included Finnish companies, as they make up the majority of Varma's total procurement.

Furthermore, we examined the proportion of suppliers that were committed to setting or which had already set science-based emission reduction targets (SBT) by the end of 2022.

Climate risk assessment of premium income

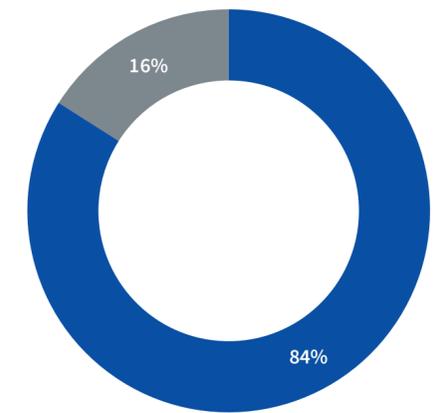
We examined the climate risks of TyEL insurance contributions paid to Varma in 2022. The assessment looked into the transition industries' share of the premium income and the carbon intensity of client companies paying insurance contributions. Of the insurance contributions paid to Varma, 16 per cent come from companies operating in the transition industries and 24 per cent come from high- or medium-carbon intensity companies.

Carbon risk's share of TyEL insurance contributions



- High
- Moderate
- Low

Transition industries' share of total TyEL insurance contributions



- Others
- Transition industries

Emission reduction targets (SBT) (% of all suppliers)

Target set

10%

Committed

9%

Developing responsibility in the value chain

We continue to develop responsibility in our supply chain. In 2023, we will continue to assess our human rights impacts and risks. A risk co-ordinator, who was appointed to the Responsible Investment & Sustainability department at the beginning of 2023, promotes the assessment and reporting of responsibility and sustainability risks also for the value chain.

Environmental aspects of our own operations

Varma’s updated Sustainability Programme also guides the environmental sustainability of our operations. For years now, we have been actively reducing the emissions of our own operations. Since 2016, we have been managing the environmental impacts of our operations using [WWF’s Green Office system](#). As a result of various measures, the emissions of our operations have declined 74 per cent since 2015, and the energy consumed at our Salmisaari office in Helsinki is emission-free. This is due to switching to fossil-free district heating and cooling 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 1.8 per cent of all electricity consumed in the building in 2022.

For real estate investor Varma, its own head office serves as a test laboratory where, for example, solar panels, charging points for electric cars and fossil-free heating and electricity have been piloted in recent years. In 2022, we contributed to the energy saving measures in our commercial properties by optimising ventilation, cooling and heating, and lighting.

In 2022, we committed to setting emission reduction targets in accordance with the Science Based Targets (SBT) initiative. These targets will steer our emission reduction measures.

With Varma employees switching from working remotely to a hybrid model, the amount of waste increased by 38 per cent from 2021. The majority of the waste generated in the building originates from the Compass Group’s restaurant. The amount of waste from preparing food has declined in recent years as a result of, for example, the restaurant starting to sell its leftovers in 2017. Compared to 2021, there was a slight, 2.8 per cent increase in printing paper consumption. Behind the increase was also the switch from full remote work to hybrid work when the Covid restrictions were lifted.

We strive to reduce the emissions caused by commuting by supporting teleworking and renewing our commuting policies. Varma acquires only normal 4- or 5-door family cars as company cars. Varma requires its employees to choose low-emission company cars. Varma acquires only fully electric or plug-in hybrid cars as company cars. The car’s carbon dioxide emissions must be below 80 g/km under the Worldwide Harmonised Light Vehicles Test Procedure (WLTP). If the car’s emissions do not exceed the 80 g/km limit under the WLTP, Varma pays the company car holder 20 per cent of the car’s tax value as

salary. In order to receive this compensation, the holder must commit to driving primarily in electric mode. Eco-friendly motoring is also promoted by the electric vehicle (EV) charging points in Salmisaari’s parking facility. More than 200 parking spaces in the facility have EV readiness, which enables the ordering of charging services from a service provider. 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.

In 2023, we will apply for the [WELL certificate](#) for our Salmisaari office. The certification scheme focuses on employee health and well-being.

Environmental information on Varma’s operations

	2022	2021	2020
Water consumption, m ³	3,493	2,227	1,649
Electricity consumption, MWh	1,645	1,355	1,313
Heat, MWh (weather-normalised)	2,068	2,113	2,126
Total waste (tonnes)	22	16	19
Carbon footprint tCO ₂	383	298	333





Investing for change

Responsibility guides all our investment decisions. We direct our investments towards tackling our current global challenges: mitigating climate change, adapting to the changes it brings, slowing down biodiversity loss and promoting human rights.



Responsible investment

Sustainability is an essential part of Varma's strategy and an integral part of our investment operations. Our focus areas in 2022 included climate change mitigation, human rights and biodiversity.

As a long-term investor and earnings-related pension company, sustainability is an important target for Varma, 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 of such investments.

Responsible investment means taking into account, in addition to expected returns, environmental, social and governance (ESG) criteria in investment operations.

From an investor's perspective, making allowances for sustainability does not conflict with expected returns. For us, sustainability is a means of securing long-term return on investments while ensuring that risks and

opportunities are taken into account broadly in investment decisions.

In 2022, we further improved the responsibility and sustainability of our operations by updating our Sustainability Programme, which supports Varma's strategy, for 2022–2025.

The focus areas of the updated Sustainability Programme include human rights, biodiversity and the sustainability of value chains. Read more about our Sustainability Programme in the section Sustainable Varma.

Principles guiding our responsible investment

Responsible investment is one of the focus areas of Varma's Sustainability Programme. In addition to Varma's [principles for responsible](#)

[investment, climate policy for investments](#), and [ownership policy](#), 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 PRI.

We updated our [active ownership and engagement principles](#) in autumn 2022. The principles cover fund investments, direct equity and fixed income investments, and they complement the ownership policy.

Varma's entire sustainable operations are further guided by the Code of Conduct, which was also updated in the reporting year. Varma's [tax policy](#) lays down the company's tax strategy and principles, which also apply to its 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 corresponding regulations in their own operations. Read more about our tax policy in the section Ensuring secure pensions.

Environmental targets steer our investments

Mitigating climate change is one of the main goals of Varma's responsible investment. The climate targets together with the Principles for Responsible Investment guide our operations and cover Varma's investment assets in their

entirety. The principles have been approved by Varma's Board of Directors.

In the reporting year, we updated our [climate policy](#) and set a target of reducing the investment portfolio's absolute emissions by 25 per cent by 2025 and 50 per cent by 2030.

The updated climate targets cover all asset classes in Varma's investment portfolio, including unlisted investments.

We have actively continued to pursue the goal we set in 2019 of achieving a carbon-neutral investment portfolio by 2035. One example of our work towards a carbon-neutral investment portfolio is the [seed investment](#) we made in June in the Paris Agreement-aligned exchange-traded fund (ETF) launched by BlackRock.

In addition to our climate targets, we focused on enhanced attendance to biodiversity, and created a Biodiversity Roadmap for our investment activities.

Read more about our climate targets and biodiversity in the section Responsibility for the environment.

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

In our Principles for Responsible Investment, 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.

At the end of 2022, only 0.3 per cent of Varma's listed investments were in oil exploration companies. Of listed investments, 2.0 per cent was in companies that rely on coal for more than 5 per cent of their operations.

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. Concerning indirect investments, such as in index funds, we require that they do not contain companies that operate in those industries, or we strive to engage with them with the aim of excluding such industries.

In our climate targets, we have excluded investments in companies with coal- or lignite-based operations accounting for more than 10 per cent of their revenue, production or production capacity. Prior to tightening our climate targets, we allowed a 30 per cent proportion of coal and lignite.

We are committed to exiting from thermal coal investments by 2025 and from oil exploration by 2030. At the end of 2022, only 0.3 per cent of Varma's listed investments were in oil exploration companies. Of listed investments, 2.0 per cent was in companies that rely on coal for more than 5 per cent of their operations.

In the reporting year, we started to prepare for the exclusion of intermediaries that finance fossil fuels. This means that we start to monitor the amount of financing that banks acting as our [intermediaries](#) provide to companies that rely on coal or oil in their operations. Through monitoring and possibly negative

screening, our objective is to persuade banks to stop financing polluting forms of energy.

Enhanced sustainability monitoring of high-risk industries

We have identified industries with a need for enhanced sustainability monitoring. 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, as outlined in our Principles for Responsible Investment.

In 2022, we adjusted our Principles of Responsible Investment as regards the defence industry, and started to apply enhanced ESG monitoring to it. We may invest in defence industry companies under certain conditions. Investing is possible if activities relating to controversial weapons (for example the manufacture, export and storage of the components of controversial weapons) account for a minor proportion (less than 5 per cent) of the company's activities and if the primary purpose of the weapons is to prevent conflicts and defend the sovereignty of

countries that have signed international arms control treaties.

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.

We expect compliance with international norms and agreements

In addition to local legislation, we expect our investees to comply with international norms and standards. This means compliance with the principles of the UN Global Compact initiative on sustainability and social responsibility, to which we are also committed. 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.

Monitoring investees’ compliance with international agreements and national laws is part of identifying sustainability risks. In general, sustainability factors refer to matters related to the environment and employees, to respect for human rights and, for example, to measures promoting good governance, such as preventing corruption and bribery. Human

rights and environmental violations may have a negative impact on investments.

In 2022, we continued to develop the systematic identification and monitoring of sustainability risks. We started to enter possible and likely sustainability risks into our risk management system. Sustainability risks are discussed four times a year by the Investment Operations’ management team and at least once a year by the Investment Committee. Sustainability risks are also addressed in the Board of Directors’ risk and solvency assessment.

Climate change is one of the most significant sustainability risks that investors must prepare for. 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. These include 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.

Learn more about how Varma takes climate change into account in the section Responsibility for the environment.

In addition to analysing climate-related risks, we monitor other sustainability risks by



In 2022, we continued to develop the systematic identification and monitoring of sustainability risks. We started to enter possible and likely sustainability risks into our risk management system.

Investees that were involved in Varma’s engagement process in 2022

	Environmental engagement initiatives	Social engagement initiatives	Governance engagement initiatives
Potential or confirmed violation*	No investees subject to engagement process	Human rights, labour rights	No investees subject to engagement process
Violation category	-	Varma’s own engagement process	-
Company’s sector	-	A company in the automotive industry, food production company	-
Number of companies	-	2	-
Violations by continent	-	North-America, Europe	-
Engagement process stage at the end of 2022	-	Discussed by the Investment Committee in 2022	-
Targets 2023	-	Engagement process and situation update according to plan	-

*A violation is established on the basis of the ISS Norm-Based Research Company Report (UN Global Compact Pillars) and/or Varma’s internal analysis.

striving to identify adverse business interests and violations of international agreements and norms. In 2022, we updated our norm violation process in order to increase our efficiency in identifying and monitoring possible and likely sustainability risks.

As regards listed investments, we observe compliance with the standards with the help of an external service provider, which upholds a database of companies and their confirmed and possible violations. The service provider engages in discussions with the companies which are suspected or have been found to have violated the standards and updates the database accordingly. In this way, the portfolio managers always have access to up-to-date company data.

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 through 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 severe violations, the fund will go through an escalation process that aims to rectify 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 and private debt into one of three categories: investees that are on an observation list, investees that are involved in an engagement process, and blacklisted investees, i.e. those that are not invested in.

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. Violations in the second most severe category are included in Varma’s engagement process. Further investments cannot be made in an investee that is in an engagement process without a decision by the investment committee. At year-end, direct investments included two companies in which Varma’s own engagement process was ongoing.

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 provider that monitors compliance with international norms. Varma did not have direct investments in blacklisted companies in 2022.

Towards the end of 2020, we adopted a new norms-based screening process based on our engagement principles. In 2022, we were involved in an engagement process with two companies. The contacts with these companies related to social matters and, especially, the realisation of human rights or labour rights. As regards the realisation of human rights, we engaged with a food production company, and as regards the realisation of labour rights, we engaged with a company in the automotive industry. These places of business were located in Europe and North America.

Realisation of human rights the focal point of responsible investment

As an important focal point of responsible investment in 2022, Varma paid attention to social issues and especially human rights as part of the investment process. 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 and investees.

We carried out a human rights assessment, which helped us identify three groups that Varma’s operations have a particularly key impact on in terms of realising human rights: our investees, personnel and value chain.

Based on the assessment, we drew up Principles for Human Rights, which promote our principles of active ownership and engagement in our human rights work. We are also committed to identifying and preventing human rights violations related to our value chain and investments.

We assessed human rights risks and impacts on different continents, in various industries, and particularly in private equity, infrastructure and hedge funds, and real estate funds.

In the fund survey, we looked into whether the fund’s ESG policy is aligned with the UN Global Compact and whether the fund has a human rights policy or human rights-related principles. As regards fund principles, we assessed how well they align with the UN Guiding Principles on Business and Human Rights. We also determined how the funds take human rights into account when investment decisions are made.

On the basis of the assessment, we evaluated how well human rights are implemented in the funds while assessing the fund’s overall responsibility.

Various human rights risks and impacts are highlighted in different industries and geographical areas. We broadly assessed human

As global political events have unfolded, we have taken an even closer look at our investments with respect to sustainability and risks related to geographical areas and governments.

rights risks and impacts with the aim of identifying investees that may be exposed to sustainability risks and do not meet our sustainability requirements. We examined possible and confirmed human rights violations in terms of the location of the companies’ main office and the incident in question.

On the basis of an analysis by an external service provider, we identified possible and likely human rights violations in industries such as the construction, apparel and food production industries. Possible and likely human rights impacts identified in the IT sector included violations related to consumer rights, cybersecurity and child labour.

The assessment also helped us identify countries where the government does not necessarily protect individuals’ physical integrity and where ownership rights or the right to freedom of movement, religion, expression or association might not exist.

Russia’s war of aggression against Ukraine brought sustainability themes related to governments’ actions under scrutiny in a new way. As a result of the war, a multitude of companies withdrew from Russia, and the war’s impacts have had an effect on the companies which Varma has invested in. As global political events have unfolded, we have taken an even closer look at our investments with respect to sustainability and risks related to geographical areas and governments.

Governments’ human rights violations may be significant, and since 2018, we have used the UN’s SDG index to monitor them.

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 are what 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 the PRI Hedge Fund Advisory Committee.

Furthermore, Varma is actively involved in the work of the co-operation organisation Standards Board for Alternative Investments (SBAI), which aims to develop

good governance and best practices, increase transparency and reduce conflicts of interest in alternative investments. In February 2022, we organised, together with SBAI, the Annual Nordic Institutional Investor Forum at Varma's head office. The event drew in 117 investors from around the world. Discussions at the event covered, for example, the sustainability requirement of alternative investments and carbon footprint measurement.

Through the world's largest corporate sustainability initiative, the UN Global Compact, Varma promotes and develops the environmental, social and economic sustainability of companies and organisations.

Investors' co-engagement initiatives strive to promote the realisation of the UN Global Compact principles by pressuring companies to change their operations, if necessary. In 2022, Varma was involved in a total of 138 engagement processes in which violations of international agreements were addressed together with other investors.

Because of the importance of mitigating climate change, we want to promote this theme also through investor co-operation. In 2022, Varma joined the international [Science Based Targets](#) initiative (SBTi), which drives climate action through science-based emission reduction targets. Consequently, Varma is committed to reducing its emissions aligned with the Paris Agreement and setting long-term science-based climate targets.

In September, we signed the [2022 Global Investor Statement to Governments on the Climate Crisis](#). The statement calls on political leaders to support action against climate change and promote investments, for example, in clean technologies and environmentally friendly infrastructure.

We are also a signatory to the global real estate and construction industry initiative [Net Zero Carbon Buildings Commitment](#), which advocates for carbon-neutral buildings.

Sustainability also visible in the ownership policy

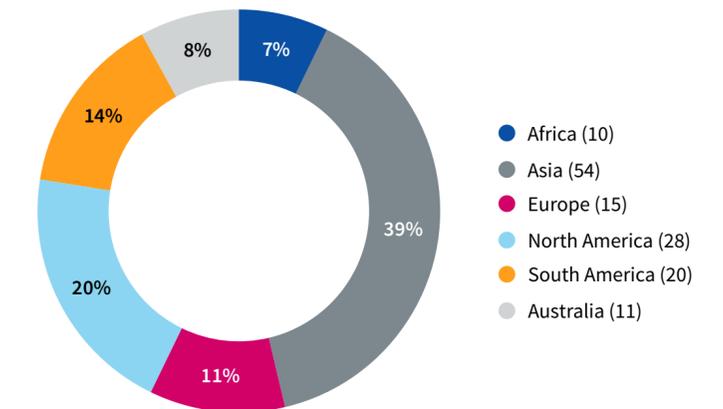
Varma is a major shareholder in Finnish companies. Our [ownership policy](#) describes the expectations Varma has of companies in which it is a major shareholder. The policy covers Varma's equity holdings both in Finland and abroad. Our activities are focused on companies and themes in which we estimate 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.

We updated our ownership policy in December 2022. The updated policy outlines that a share issue authorisation granted by the annual general meeting to the board of directors should not exceed 10% of the company's share capital without justifiable grounds. We also consider the controlled renewal and continuity planning of the board important.

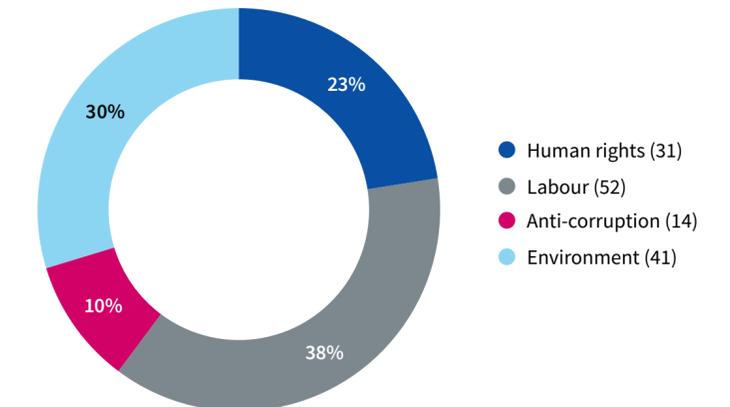
In our policy, we encourage our investees to have transparent remuneration practices and appropriate reward systems in place. We expect our investees to report their remuneration metrics in a way that clearly shows what the remuneration is based on. We see it as a positive development that companies are adopting material and measurable sustainability criteria.

The ownership policy is approved by Varma's Board of Directors. At Varma, the share ownership steering group is responsible for more detailed guidelines. The group is made up of Varma's CEO, CIO and the persons participating in shareholder nomination committees as Varma's representatives. The group decides on the practical application of the share ownership policy, and discusses current topics and future themes.

Joint engagements on UN Global Compact -breaches



Engagements by UN Global Compact principles on four areas



We have outlined in our ownership policy that we expect clear assessments and reporting transparency from the companies we own on the current and future impacts climate change will have on the company's operations and growth potential. The reporting should cover how climate change is included in the company's governance, strategy and risk management, especially in emissions-intensive industries. By reporting on the targets and indicators set by the company, it is possible to monitor the company's progress.

Our ownership policy further states that 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 the nomination committee 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 25 nomination committees in the year under review. [Memberships in nomination committees](#) 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](#) at annual general meetings on our website. In 2022, Varma was represented in 100 annual general meetings of Finnish companies.

We extended our voting practices in accordance with the ownership policy to annual general meetings of foreign companies, and we participated in the annual general meetings of 266 foreign companies in 2022.

In these annual general meetings, we supported several proposals that promote sustainable business. In the meetings, we voted in favour of shareholder proposals that urged companies to report on their climate risks and political support, and to assess risks related to the realisation of human rights.

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. The oversight responsibility for sustainability at Varma is exercised by Varma's Board of Directors. The Board decides on the principles and policies related to sustainability, as well as on the sustainability programmes to support the strategy.

The Investment Committee addresses and approves the responsible investment principles and policies that are presented to the Board of Directors. The committee

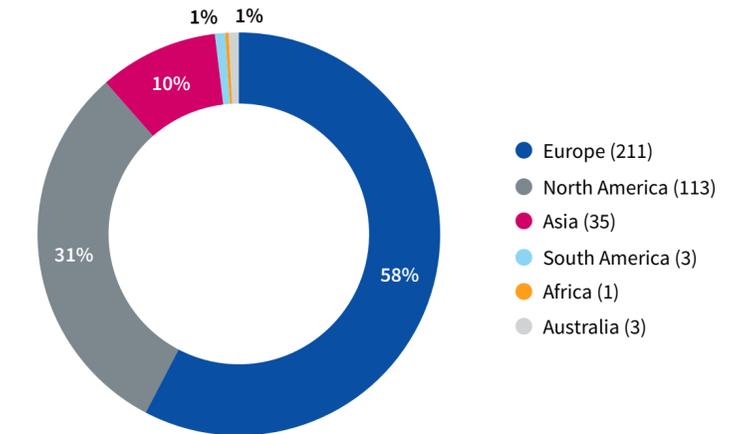
also monitors the investment risks related to responsibility, such as climate change-related risks, and also evaluates violations of international agreements and norms. On a company-wide level, the Chief Investment Officer has oversight and accountability for responsible investment.

The Responsible Investment & Sustainability department defines the high-level sustainability objectives and develops and co-ordinates the responsibility of Varma's own operations and investments together with the company's various functions. The functions are responsible for implementing sustainability. Within the Investment Operations, the development manager for responsible investment is in charge of many responsible investment development projects and works in close co-operation with the Responsible Investment and Sustainability department and investment teams. The head of each asset class is in charge of the day-to-day application of the Principles of Responsible Investment. Responsible investment development projects are discussed by the Investment Operations management team.

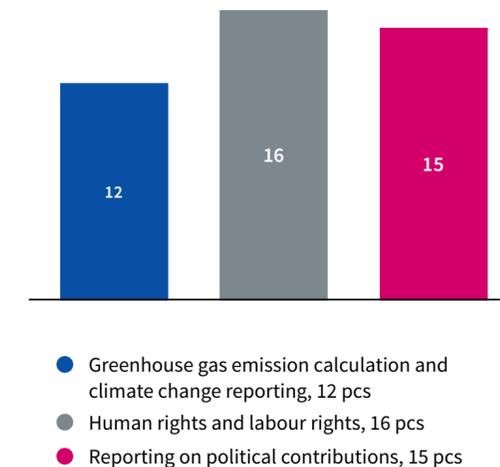


Read more about responsible investment on our website.

General meeting votes in 2022



Proposals promoting sustainable business that we voted in favour of at foreign general meetings in 2022



05

Responsibility for
the environment

Through our investment decisions, we are building a world that is safe and sustainable for future generations. Mitigating climate change and biodiversity loss are key sustainability commitments for Varma. 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 2022, we continued our efforts to achieve a carbon-neutral portfolio by setting even more ambitious climate targets.

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

In 2022, we set even more ambitious climate change targets for investments in the form of absolute emission reduction targets. We

signed the Science Based Targets initiative (SBTi), through which we committed to setting near-term science-based climate targets within the next two years.

In our Sustainability Programme, which was revised in 2022, we also commit to directing our investments towards mitigating climate change and biodiversity loss.

Overall picture of Varma’s climate impacts

In 2022, we performed for the second time a scope 3 emissions calculation, i.e. assessed the emissions of the value chain and formed an overall picture of the company’s emissions. Varma’s scope 3 calculation complies with the Greenhouse Gas (GHG) protocol, and it covers the years 2021 and 2022.

Varma’s own direct scope 1 emissions include company cars’ fuel. Scope 2 emissions comprise the energy consumption of Varma-controlled real estate, i.e. indirect emissions from purchased energy, which account for approximately 0.3 per cent of Varma’s total emissions. The calculation showed that more than 99 per cent of Varma’s greenhouse gas emissions are caused by the value chain, or scope 3 emissions. Varma’s fossil scope 3 emissions in 2022 totalled approximately 5,329 kilotons of carbon dioxide equivalent (ktCO₂e).

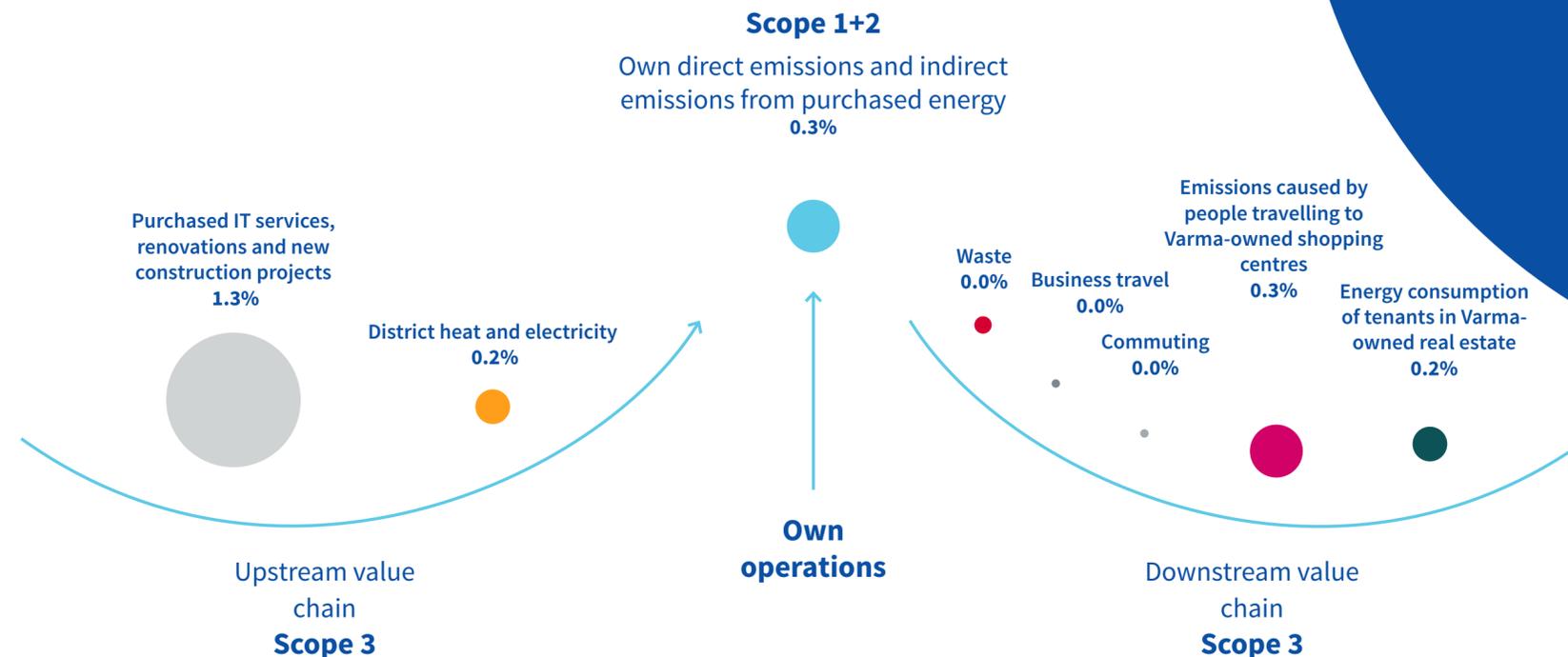
Varma’s scope 3 emissions included in the calculation were dominated by category 15, i.e. the emissions of the investment portfolio, and the weight of the other emission categories was as a whole low, below 5 per cent. Of the scope 3 emissions, 98 per cent were caused by the investees’ emissions. As regards investments, the calculation included Varma’s listed equities, corporate bond investments, private equity and infrastructure investments, hedge funds, real estate funds and private

debt. Direct real estate investments have been reported as part of Varma’s scope 1 + 2 emissions.

Other major scope 3 emissions are caused by purchased goods and services (0.3 per cent), capital goods (1 per cent) and transportation and distribution (0.3 per cent). The category of purchased goods and services included, for example, emissions from maintenance work, such as renovations, and from

IT services. Emissions from capital goods were fairly evenly distributed between renovations and new construction projects.

On the basis of the calculation, the biggest opportunities for scope 3 emission reductions relate to purchased goods and services and capital goods. We can reduce emissions by setting stricter targets for new buildings’ life cycle emissions and promoting decarbonisation through purchase criteria.

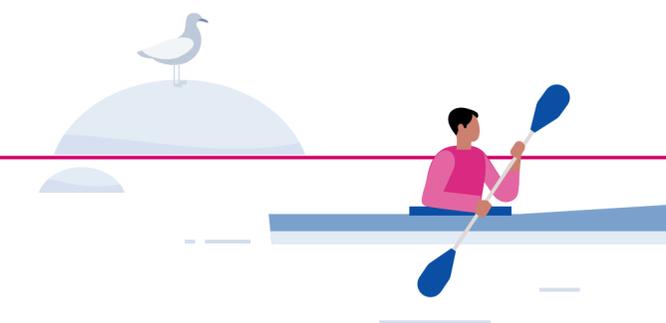


Scope 1: Emissions that are caused by the company’s own operations and under its direct control
Scope 2: Indirect emissions from the generation of purchased energy, for example, the production of electricity and heat
Scope 3: Emissions caused by the end use of goods and services sold and by purchased goods and services, i.e. all indirect emissions. With Varma, scope 1 and 2 emissions of our investee companies are also included.

Distribution of Varma’s scope 1–3 emissions

Emission category	CO ₂ emissions 2020	CO ₂ emissions 2021	CO ₂ emissions 2022	% share of total emissions
Scope 1		209	106	0.0%
Vehicles		209	106	0.0%
Scope 2		27,023	17,981	0.3%
Commercial properties’ heat and electricity		20,945	13,504	0.3%
Apartments’ heat and electricity		6,078	4,477	0.1%
Scope 3	-	5,981,843	5,328,893	99.7%
Category 1: purchased goods and services	19,436	18,520	18,520*	0.3%
Category 2: capital goods	38,930	51,424	51,424*	1.0%
Category 3: fuel- and energy-related activities	7,478	12,610	12,610*	0.2%
Category 4	not material	not material		
Category 5: waste generated in operations	938	124	131	0.0%
Category 6: business travel	19	34	284	0.0%
Category 7: employee commuting	112	111	111*	0.0%
Category 8	not material	not material		
Category 9: downstream transportation and distribution	8,236	13,575	13,575*	0.3%
Category 10	not material	not material		
Category 11	not material	not material		
Category 12	not material	not material		
Category 13: downstream leased assets	5,535	8,341	8,341*	0.2%
Category 14	not material	not material		
Category 15: investments (not incl. direct real estate)	1,645,272	5,877,104	5,223,897	97.7%
Scope 1–3, total		6,009,075	5,346,980	

*Missing figures for 2022 are estimated on the basis of 2021 figures. These figures typically have no major annual variation as they relate to continuous operations.



Varma’s climate targets in a nutshell

We published a revised climate policy for investments and updated climate targets in 2022. Our goal is to cut the entire investment portfolio’s absolute emissions by 25 per cent by 2025 and by 50 per cent by 2030.

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

- We invest in companies that enable a change towards lower emissions and whose business offers solutions for resolving climate-change issues.
- We foster collaboration in the financial markets in order to promote climate change mitigation and adaptation.
- We focus on analysing the financial risks of climate change in the investment portfolio.

We transparently disclose the impacts of climate change on our investments and the impacts of our investments on the climate.

The goal is to cut the absolute scope 1 and 2 emissions in Varma’s entire investment portfolio compared to 2021 by:

- 25 per cent by 2025
- 50 per cent by 2030.

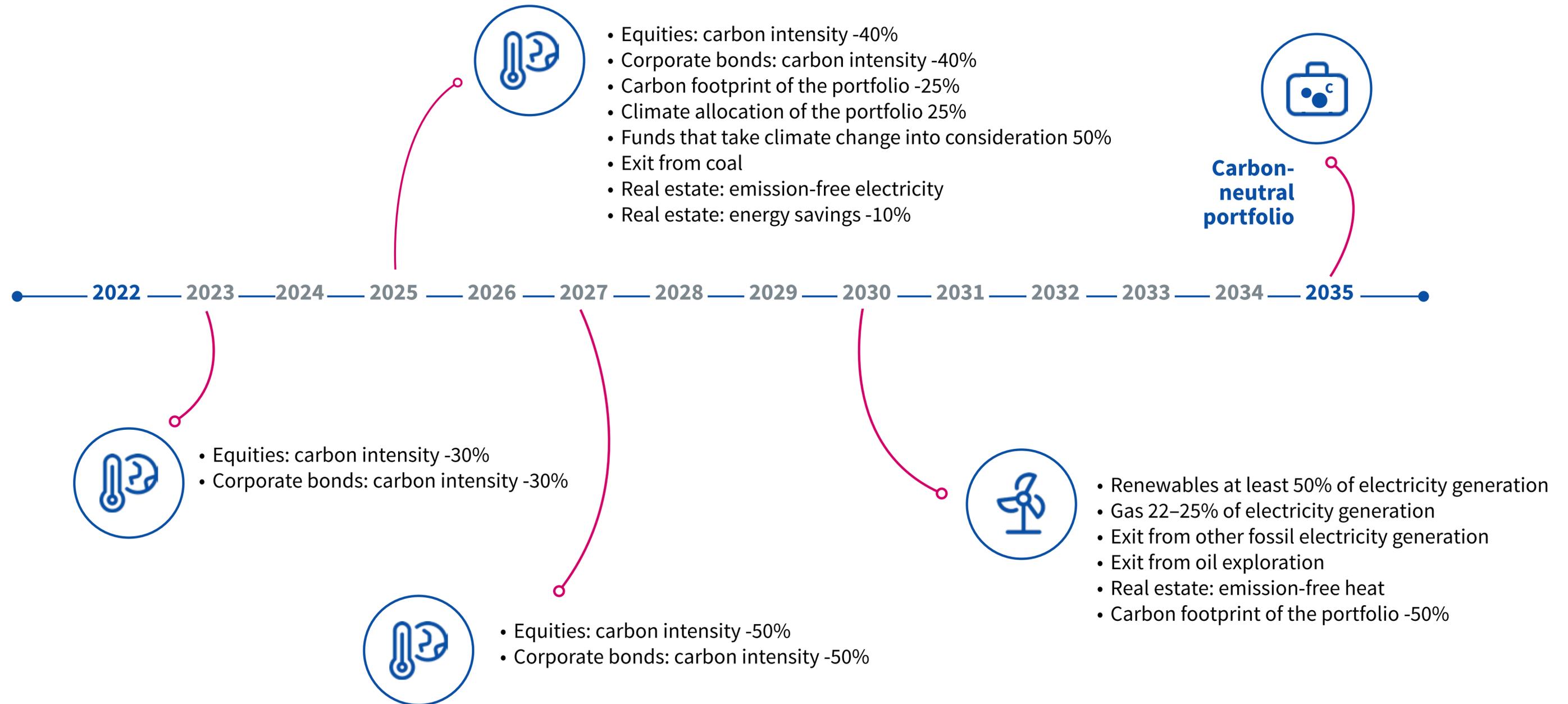
The goal is to reduce the carbon intensity of listed equity and corporate bond investments, i.e. greenhouse gas emissions in relation to revenue, from the 2016 level as follows:

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

We are committed to exiting from direct investments in thermal coal by 2025 and to excluding oil exploration from our investments by 2030. Our goal is to increase the share of funds that take climate change into account to 50 per cent by 2025.

We aim to raise the share of renewable energy in our electricity generation investments to at least 50 per cent by 2030. Real properties will use fossil-free heating and electricity by 2030 and 2025 respectively.

Roadmap for Varma's climate targets



Progress towards climate targets in 2022

Climate allocation 25% of the portfolio
by 2025



Exclusion of coal from corporate bonds and equities
by 2025



Exclusion of oil exploration from corporate bonds and equities
by 2030



Carbon intensity of corporate bonds down 50%
by 2027



Carbon intensity of listed equities down 50%
by 2027



Carbon-neutral investment portfolio by 2035

Emission-free electricity in real estate investments
by 2025



Emission-free heat in real estate investments
by 2030



Funds that take climate change into consideration



Absolute emissions of investment portfolio





New data on climate change and international agreements

According to the Intergovernmental Panel on Climate Change (IPCC), the global average temperature has risen 1.1 degrees Celsius from the pre-industrial level and the 1.5-degree limit for global warming set in the 2015 Paris Agreement will be reached in the first half of 2030s. The IPCC estimates that emission reduction actions must be accelerated in the 2030s in order to be able to reach the goals of limiting global warming. The United Nations' Environmental Programme (UNEP) also stated in its report published in October 2022 that the pathway to limit global warming to a maximum of 1.5 degrees is no longer credible. According to the report, emissions are expected to decline by less than one per cent by 2030, whereas limiting global warming to 1.5 degrees would require a 45 per cent reduction. The UN Climate Change Conference (COP27), which was hosted in Sharm el-Sheikh at the end of 2022, ended in disappointment. It is estimated that the agreement reached is not sufficient to reduce emissions so much that global warming could be limited to 1.5 degrees. The agreement included, to a large degree, matters that had already been agreed on at the 2021 COP26 summit in Glasgow. The final text included a new reference to the need to accelerate the use of renewable energy. The climate summit also agreed on a 'loss and damage fund' to compensate vulnerable countries suffering from climate impacts.

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 risks are a key focus when sustainability issues are annually reported to Varma's Board of Directors. Furthermore, the Board of Directors discusses climate risks on a monthly basis and, in its risk review, on a quarterly basis. On a company-wide level, the Chief Investment Officer is in charge of monitoring the climate impacts of investments. The head

of each asset class is in charge of the practical application of the climate targets. In addition, Varma's sustainability director, who is in charge of responsible investment and sustainability, develops and co-ordinates, together with their unit, responsible investment and climate change mitigation in different asset classes.

The Investment Operations management team regularly addresses matters related to responsible investments, and climate targets are monitored daily in the Investment Operations' internal portfolio report. Furthermore, climate aspects are covered four times a year in the Investment Operations' allocation group, which oversees the risk level of the investment portfolio.

Climate risks are addressed as part of responsibility and sustainability risks in the risk and solvency assessment. Investment activities are also steered by the [climate](#)

[policy for investments](#), in which we commit to develop our investment portfolio towards carbon neutrality in 2022–2035. Since 2016, we have been committed to developing our investment operations such 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 recommendations. They should report on how the impacts of climate change are included in the company’s governance, strategy and risk management, especially in emission-intensive industries. Reporting on the targets and indicators set by the investee company makes it easier to monitor the company’s progress.

Our means of engaging with investees are described in more detail in our active

ownership and engagement principles.

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.

We encourage our investees to set science-based emission reduction targets in accordance with the Science Based Targets initiative (SBTi). We regularly monitor the proportion of our SBT investments in the different asset classes. We signed the SBTi in 2022. By committing to the SBT initiative, we want to increase the transparency of our operations and ensure that our climate actions are aligned with global targets, because we expect the same from our investees.

In climate and environmental matters, Varma’s engagement is guided by both the climate policy for investments and compliance with international agreements and national legislation. 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 our investees. The screening covers,

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

Our impact	Potential impact on investing	Means of management
<p>Transition risks</p>	<p>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.</p>	<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 Scenario analyses in listed equity and corporate bond investments as well as real estate investments
<p>Acute physical risks</p>	<p>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.</p>	<ul style="list-style-type: none"> In real estate investments, the use of flood surveys and flood maps: properties will not be built in or acquired from areas at risk of floods In private equity investments, company analyses and supply chain management
<p>Chronic physical risks</p>	<p>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.</p>	<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 Scenario analyses in listed equity and corporate bond investments as well as real estate investments

for instance, failures in reducing air pollution and assessing environmental impacts.

Varma categorises its investee companies that violate international norms and agreements into three categories, the most severe of which may lead to a company getting black-listed 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](#).

A typical channel for Varma’s engagement is meetings with companies in which we have a holding. We have regular company meetings, in which we explore how they take climate change mitigation into account in their operations. We are also represented in companies’ nomination boards, and we participate in the general meetings of Finnish and foreign companies. Read more about our participation in general meetings in the section [Responsible investment](#).

In addition to climate change, we also take into consideration biodiversity in our ways of operating. Read more on the topic in the section on [biodiversity](#).

Collaborative initiatives and pledges

In addition to direct company contacts, we engage globally, together with other investors, through various collaborative initiatives and pledges.

We have joined the international [Powering Past Coal Alliance](#) (PPCA), which is working to advance the transition away from coal-based electricity and heat generation in 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 has engaged in co-operation with the [Nordic Climate Investment Coalition \(CIC\)](#). The CIC is a public and private sector coalition.

Furthermore, we are a signatory to the [CDP](#), which compiles data on companies’ greenhouse gas emissions and other climate change-related data. In 2022, Varma participated for the second time 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.

Varma has joined the [Partnership for Carbon Accounting Financials \(PCAF\)](#)

initiative. Its goal is to develop a harmonised approach to assess and disclose the greenhouse gas emissions associated with loans and investments.

In September 2022, we signed the [2022 Global Investor Statement to Governments on the Climate Crisis](#). The statement calls on political leaders to support action against climate change and promote investments, for example, in clean technologies and environmentally friendly infrastructure.

Varma is a participator in the global real estate and construction industry initiative [Net Zero Carbon Buildings Commitment](#), which advocates for carbon-neutral buildings, and in the sustainable demolition [Green Deal](#), an agreement between Finland’s Ministry of the Environment and the business sector to process and recycle demolition waste from construction projects.

In 2022, we were also involved in an engagement process concerning 788 international fund managers with the aim of improving their ESG reporting. This engagement work will continue in 2023.

We are part of various networks that fight climate change, such as the [Climate Leadership Coalition](#).

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.

In the [Report of the Board of Directors](#), we report information under the EU’s Sustainable Finance Taxonomy.





Climate actions and results

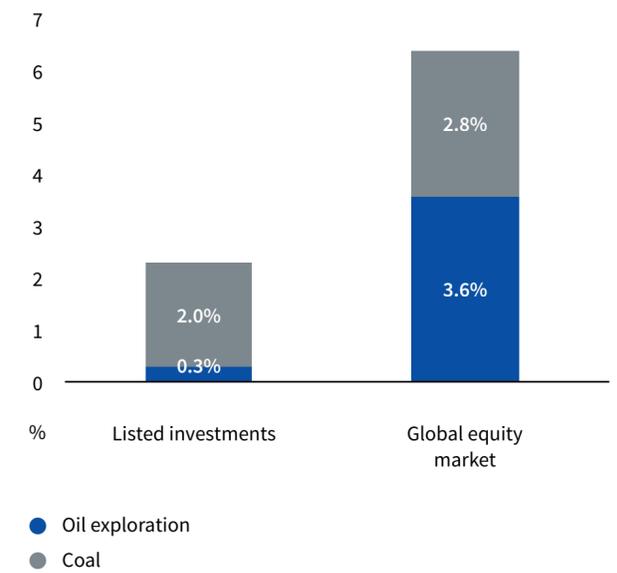
Negative screening and enhanced ESG monitoring

In our climate targets published in 2022, we commit to exiting from all investments in thermal coal by 2025. We do not make new investments in companies with coal-based operations accounting for more than 10% of their net sales, production or production capacity. The exception to this general rule is companies that have a science-based target of reducing emissions to help limit global warming to 1.5 degrees Celsius. 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. We see no future for coal-based electricity generation, and we do not make new direct investments in companies with coal- or lignite-based operations accounting for more than 10% of their net sales, production capacity or production.

At the end of 2022, 2 per cent of Varma's assets in listed investments were in

companies that rely on coal for more than 5 per cent of their operations. The proportion of investments in the oil exploration industry was very low, at 0.3 per cent, fund investments included.

Proportion of oil and coal in listed investments



We also apply enhanced ESG monitoring to industries that are significantly exposed to climate risks, such as the oil & gas industry, electricity & heat production, and the automotive, mining, construction materials, chemical, transport and forest industries. The enhanced ESG analysis also applies to companies with coal- or lignite-based operations accounting for 5–10 per cent of their net sales, production capacity or production.

Tracking the carbon footprint of investments

In accordance with our climate policy, we monitor and report on the carbon footprint of our investments according to the TCFD’s recommendations. The calculation and reporting of the greenhouse gas (GHG) emissions of investments follows the PCAF’s standards. In 2022, all asset classes, with the exception of government bonds and derivatives, were included in the carbon footprint calculation of investments, covering 93 per cent of the market value of our investment portfolio. Private equity and infrastructure investments, real estate funds and private debt are included as new asset classes in the calculation of absolute emissions. We also retroactively report the GHG emissions for 2021.

Our main goal is to reduce the absolute scope 1 and 2 emissions of the investment portfolio by 25 per cent by 2025. Furthermore, we aim to reduce the weighted carbon

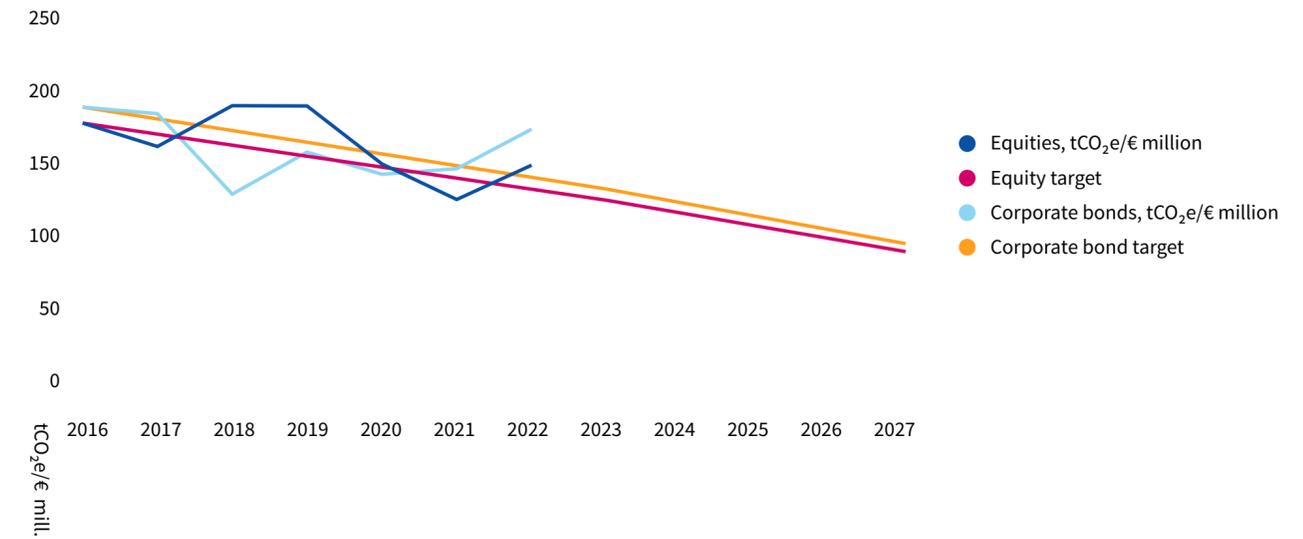
intensity of listed equity and corporate bond investments, i.e. greenhouse gas emissions in relation to revenue, from the 2016 level as follows: 30 per cent by 2023, 40 per cent by 2025 and 50 per cent by 2027.

At the end of 2022, the absolute emissions of the investment portfolio were down 11 per cent compared to 2021. The single most important driver was an M&A in the portfolio, which significantly changed the enterprise value and calculated emissions of a single company. The M&A accounted for 54% of the decline in the 2022 emissions. Also for private debt, the improved quality of emissions data has played a significant role in the reduction of calculated emissions. Compared to the previous year, data quality improved in all asset classes except real estate funds and hedge funds. The average data quality of the investment portfolio has, however, not improved from 2021 due to different weightings of the asset classes in the portfolio.

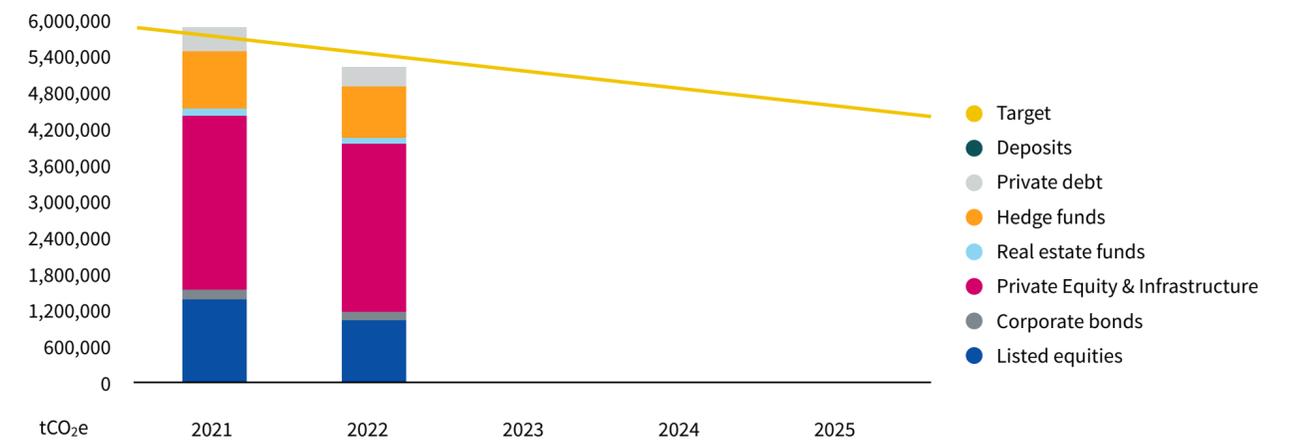
A major proportion of the emissions of private equity, hedge fund and private debt investments has been estimated using the PCAF’s database and emission factors. Our goal is to improve the quality of data pertaining to these asset classes by encouraging companies and funds to report according to the TCFD. The improved quality of data plays a significant role in the reduction of the calculated emissions of Varma’s investment portfolio.

In 2022, the carbon footprint calculation of investments covered 93 per cent of the market value of our portfolio.

Development of the weighted carbon intensity of listed equity and corporate bond investments compared to Varma’s climate targets



Absolute emissions time series



The carbon intensity of listed equity investments was down 16 per cent compared to the 2016 level, but in comparison to 2021, the carbon intensity was up 19 per cent. The carbon intensity of Varma’s equity portfolio significantly increased as a result of an M&A, carried out in 2022, by a single carbon-intensive investee company that increased the company’s calculated emissions in relation to its revenue. Without this M&A, the weighted carbon intensity of listed equity investments would have been down 33 per cent compared to 2016. At year-end 2022, the weighted carbon intensity of Varma’s equity portfolio was also lower than that of the global equity market.

In corporate bonds, the carbon intensity was down 8 per cent compared to 2016 but was up 19 per cent compared to 2021. The main reason for the change is an improvement in the emissions data for corporate bonds, especially in higher risk bond investments, which raised the weighted carbon intensity of the entire portfolio. The quality of data of corporate bond investments improved 19 per cent. The indicator used by us, weighted carbon intensity, is sensitive to individual emission-intensive companies. Therefore, a single company causing significant emissions may have a major impact on the entire portfolio’s indicator. For us to reach our climate targets, such investee companies need to implement

significant emission reductions or, alternatively, we need to reduce our holding in them.

The GHG emissions of real estate investments were down 61 per cent compared to 2015. Behind the reduction are, for example, energy renovations and energy efficiency measures executed at the sites, purchasing of fossil-free district heating and real estate electricity, and changes in the real estate portfolio. Read more about the environmental impacts of real estate investments on p. 82.

Weighted carbon intensity is sensitive to individual emission-intensive companies. Therefore, a single company causing significant emissions may have a major impact on the portfolio’s indicator.

The carbon footprint of Varma’s investments

Listed equity investments	31 Dec 2022	31 Dec 2016	Change	Varma vs. index
Market value (€ bn)	17.2	11.8	45%	-
Weighted carbon intensity (tCo ₂ e/€ million)	148.0	177	-16%	-25% 197.5

Corporate bonds	31 Dec 2022	31 Dec 2016	Change	Varma vs. index
Market value (€ bn)	2.5	3.1	-21%	-
Weighted carbon intensity (tCo ₂ e/€ million)	172.8	188	-8%	-36% 269.2

The carbon footprint of Varma’s investments*	Market value (€ bn)	Share of the portfolio	Scope 1 + 2 (tCo ₂ e)	Scope 3 (tCo ₂ e)	Weighted carbon intensity (tCo ₂ e/€ million revenue)	Carbon intensity (tCo ₂ e/€ million invested)	Quality of data (1 best - 5 worst)*
Listed equity investments	17.2	31%	1,023,525	4,873,385	148.0	59.7	1.55
Corporate bonds	2.5	4%	161,350	464,689	172.8	65.3	2.18
Hedge funds**	10.5	19%	854,436	536,916	103.9	81.2	5.00
Real estate funds	2.6	5%	84,127	-	-	32.9	4.28
Private equity & infrastructure funds	10.1	18%	2,782,217	1,907,790	299.0	274.3	4.87
Private debt	2.8	5%	318,242	465,452	79.2	114.3	4.00
Deposits	3.1	6%	-	-	-	-	-
Total	48.8	87%	5,223,897	8,248,232	160.2	114.5	3.42

*The emissions of real estate investments have been reported as part of Varma’s scope 2 emissions.

**Some of the funds’ data was calculated based on Q3 2022 figures.

Scenario analyses in real estate investments

In 2022, we committed to emission reduction targets in accordance with the Science Based Targets (SBT) initiative and set targets for our real estate, i.e. our scope 2 emissions, as part of our overall work to achieve our emission reduction targets.

The process of setting emission reduction targets for our real estate involved modelling target pathways for the absolute emissions (tCO₂e) and emission intensity (kg/CO₂e/m²) of both residential and commercial properties. The modelled 1.5-degree emission pathways in accordance with the SBTi were drawn up using the targets of the Sectoral Decarbonization Approach (SDA).

Earlier, analyses have been performed on Varma-owned real estate from the perspective of both climate-change-related transition risks and physical risks. The development of the greenhouse gas emissions of our real estate portfolio was most recently examined in an analysis carried out in autumn 2021. The analysis covered the carbon dioxide emissions from the heating and electricity of commercial and residential properties owned by Varma. A baseline scenario was established first, depicting the likely development of emissions without any further actions by Varma, not including the current scope of emission-free electricity purchases. The analysis also included a heat-pump scenario in which 40 per cent of district heat is replaced by different types of heat pumps by 2030.

In the baseline scenario, the CO₂ emissions from Varma’s real estate portfolio decline by an estimated 71 per cent from the 2020 level by 2030. The emission factor for district heat is expected to decline drastically this decade since most of the district heating companies providing heat to Varma’s properties have announced that they will be nearly or fully carbon neutral by 2030 or 2031. The total emissions of the real estate portfolio will decline nearly 90 per cent by 2035 if emission-free electricity and heat is purchased to the same extent as in 2020.

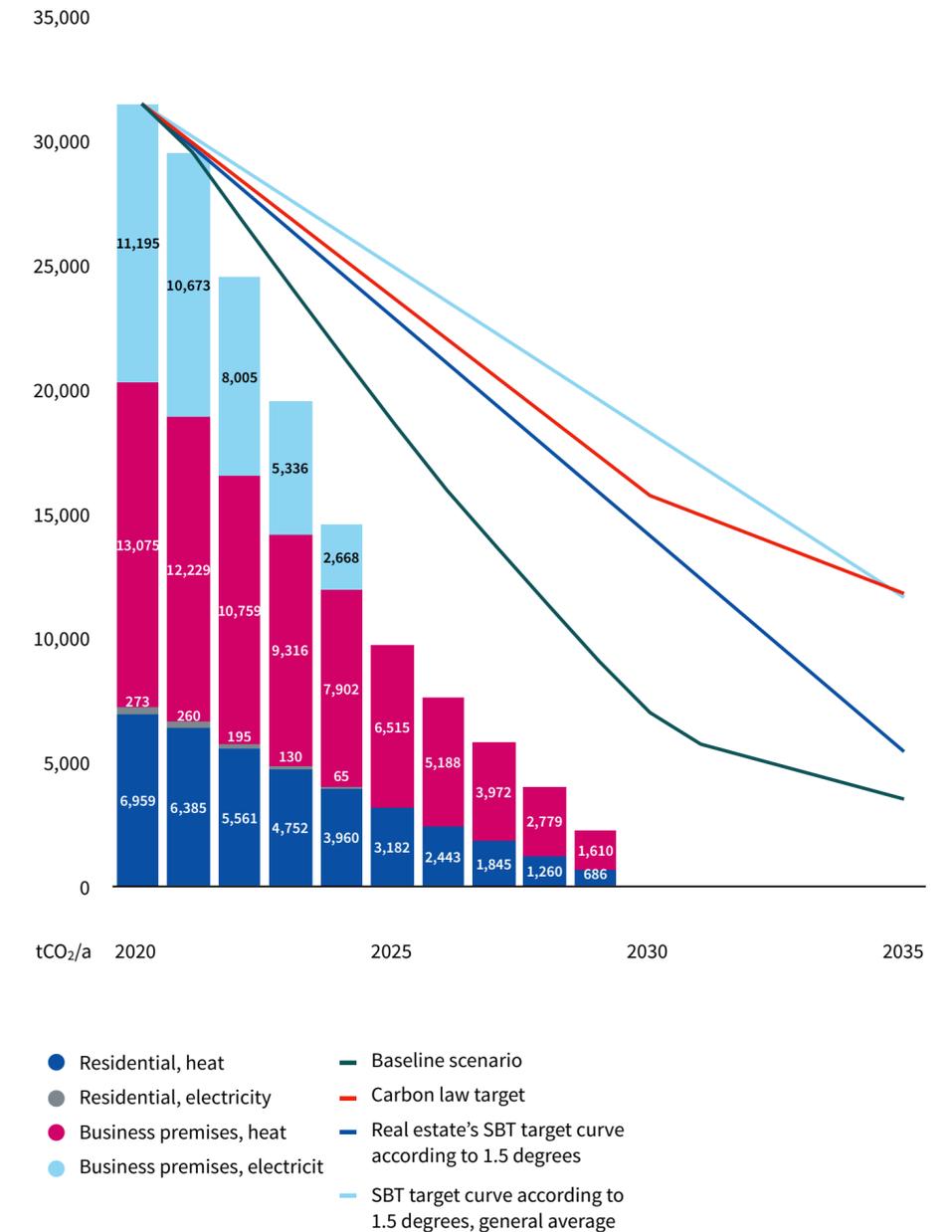
The analysis shows that the future emissions of Varma’s real property are, even in the baseline scenario, in line with the Science Based Targets’ (SBT) target of 1.5 degrees Celsius. Varma is well equipped to achieve carbon neutrality in its real estate portfolio in terms of scope 1 and 2 emissions by 2030. In the short term, the real estate portfolio’s emissions can be significantly cut through additional measures, for example, by switching to electricity-based heating, such as geothermal heat, buying carbon-neutral district heat and using emission-free electricity.

We updated the analysis focusing on the physical climate risks of our direct real estate investments in autumn 2021. 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, wind-driven 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 wind-driven rain on the coastline will increase. We take this into account in building condition surveys and facade solutions for new buildings. In addition to facade material choices, we pay attention to details that are key in terms of weather resistance, such as the design and execution of eaves and joints of different materials. As a result of climate change, precipitation will increase and rainstorms will become stronger in Finland.

At the same time, rainwater floods caused by rain and melting water will become more common. Cities, city planners and building control authorities are in charge of rainwater management, but as a real estate owner, Varma’s task is to see to it that the plans take into account any measures required for rainwater management. Our real estate portfolio was also analysed for sea flood risk. In the Finnish Climate Change Panel’s 2021 report, the sea flood risk in the Uusimaa region is estimated to be high and to increase going forward to 2050. Our analysis showed, however, that the sea flood risk in our real estate portfolio is low. In 2100, only five Varma-owned sites will be exposed to moderate risks, examined at a frequency of 1/1000 years. Varma takes the sea flood risk into account especially in new development projects and when purchasing new buildings.

Scenario analysis of the development of Varma’s real estate investments’ emissions in relation to climate targets

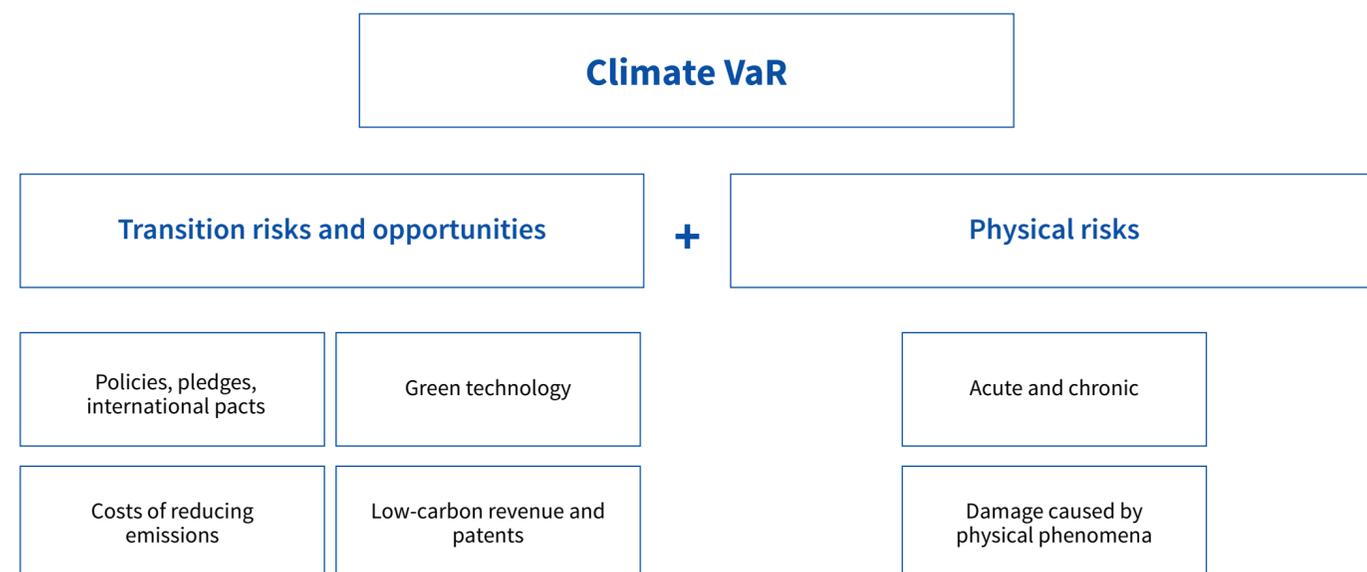


Scenario analyses for listed equities and corporate bonds

In 2021, we adopted a new tool for analysing climate risks. Climate Value-at-Risk (Climate VaR) is a tool developed by MSCI that is designed to provide an assessment of asset class-specific transition costs and opportunities as well as physical risks brought by climate change. Climate risks have major impacts on companies’ business models and profitability, the outlook of which has been challenging to assess using traditional historical analysis. Climate VaR strives to address this problem by depicting the temperature scenario’s potential impact on the investment’s market value.

The analysis of our listed equity investments shows that both negative and positive potential impacts are the greatest in scenarios in which the transition is the strongest. Compared to the global equity market, the largest relative difference is seen in the 1.5-degree scenario (Carbon neutrality 2050), in which the impacts on Varma’s equity investments would be significantly lower than they would be on the global equity market. In a scenario in which the positive measures in terms of climate change are the smallest, the potential negative impacts on Varma’s equity portfolio are larger than on the global equity market.

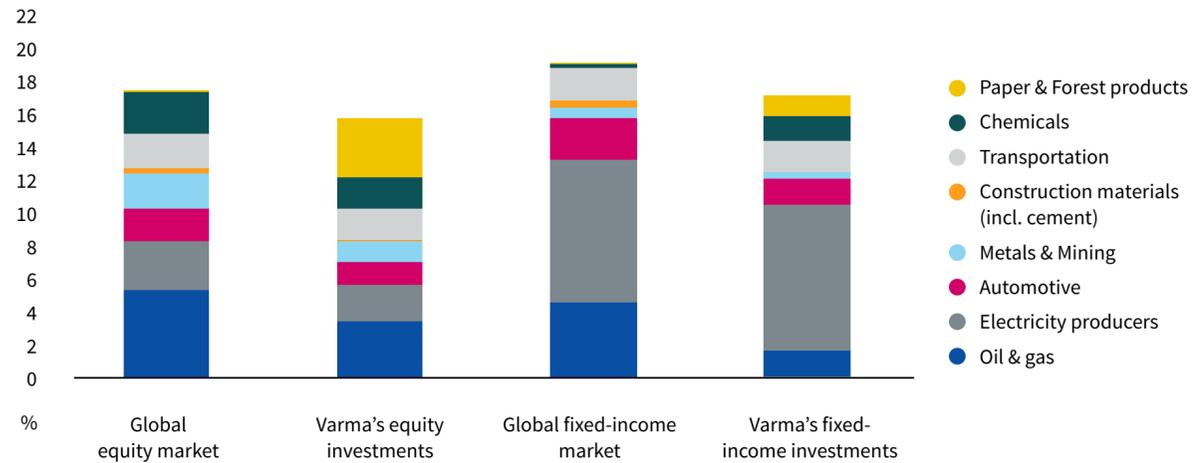
Climate VaR tool for climate risks



NGFS scenarios’ assumptions

NGFS scenarios	Net-Zero 2050	Below 2°C	Delayed transition	Nationally determined contributions (NDCs)
Transition type	Fast and orderly	Fast and orderly	Delayed and disorderly	No transition
Technology change	Fast	Moderate	Slow/fast	Slow
Geographical differences	Moderate	Low	High	Low
Energy production 2030				
Renewables	19%	14%	8%	10%
Coal	5%	14%	26%	24%
Oil	39%	36%	32%	32%
Gas	20%	22%	22%	23%
Nuclear	2%	1%	1%	1%
Biomass	15%	12%	10%	10%
Energy production 2050				
Renewables	47%	41%	49%	28%
Coal	1%	1%	0%	11%
Oil	18%	29%	19%	30%
Gas	8%	13%	7%	20%
Nuclear	1%	1%	2%	1%
Biomass	25%	16%	22%	10%
CO ₂ emissions 2030 vs 2015	-51%	-29%	9%	4%
CO ₂ emissions 2050 vs 2015	-98%	-75%	-92%	-29%
tCO ₂ price in 2050, dollars	672	193	622	34
Temperature change 2100 vs 1850–1900	1.55	1.766	1.71	2.46

Share of transition industries exposed to climate change in investments



We aim to identify companies operating in the transition industries with the strongest willingness to change and ability to adapt to climate change.

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, as well as the automotive-, metals & mining-, construction materials-, transportation-, paper & forest products- and chemical industry.

industries make up 77 per cent of the scope 1 and 2 greenhouse gas emissions of Varma's investments, although they account for less than 13 per cent of Varma's entire portfolio. Electricity producers and oil and gas companies account for more than half of the scope 1 and 2 emissions but only 14 per cent of the scope 3 emissions. A major proportion of the transition industries' emissions are made up of unlisted investments for which the majority of absolute emissions have been estimated using third-party emission factors.

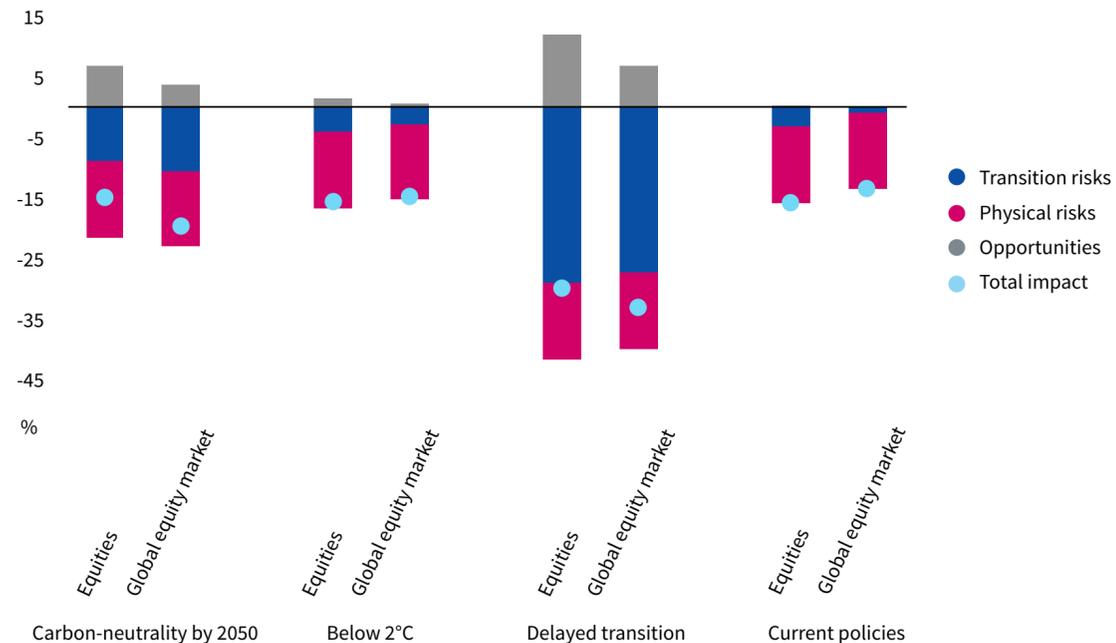
Varma has also made use of forward-looking data by analysing the estimated future scope 1, 2 and 3 emissions of its listed equity investments and the amount of carbon dioxide emissions companies can afford to release in 2020–2070 in order to limit the global temperature rise to below two degrees Celsius compared to the pre-industrial era by 2100. The estimated Implied Temperature Rise (ITR) figure, which is based on the analysis, shows that Varma's listed equity investments are aligned with a 2.40 (2.33) degree temperature rise, whereas the corresponding figure for the global equity market is 2.88 (2.86). In other words, if all companies in the world overshoot the emissions budget set for them in the same proportion as Varma's investments in listed equities, the global temperature increase would be 2.4 degrees by 2100 compared to the pre-industrial era.

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

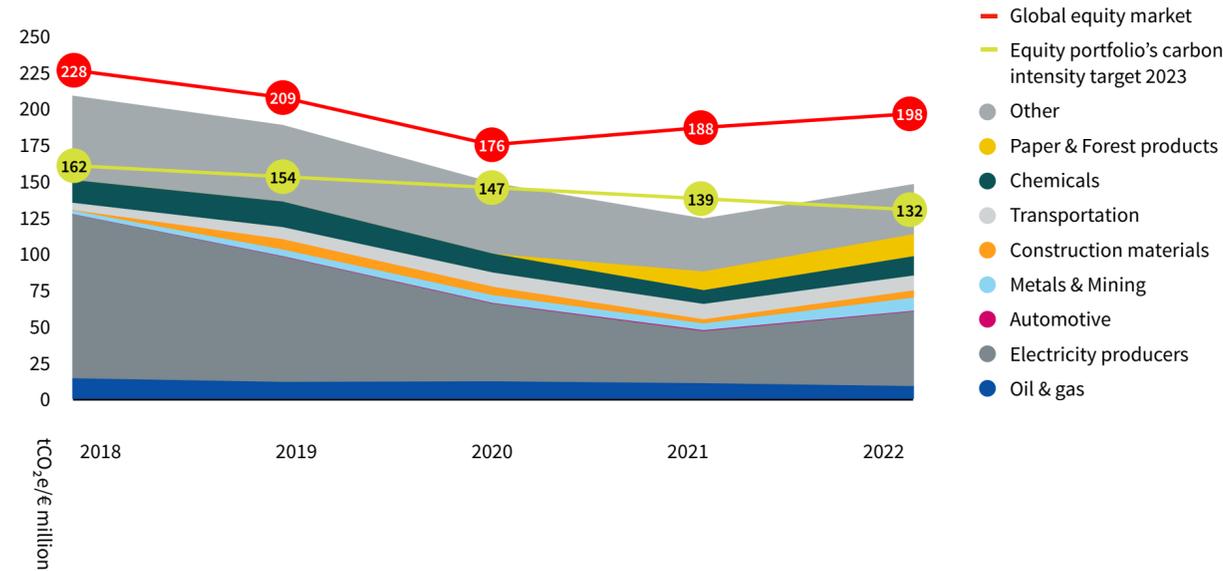
We also monitor and analyse the impact that different transition industries have on the climate risks of Varma's investments in different asset classes. From the perspective of climate change, companies within the industries vary widely, however. In order to attain the climate goals, we must identify, within the transition industries, investees that are able to adapt their operations and benefit from the transformation to a lower-carbon society.

In 2022, Varma reported for the first time on transition industries' weightings and GHG emissions for unlisted investments. Transition

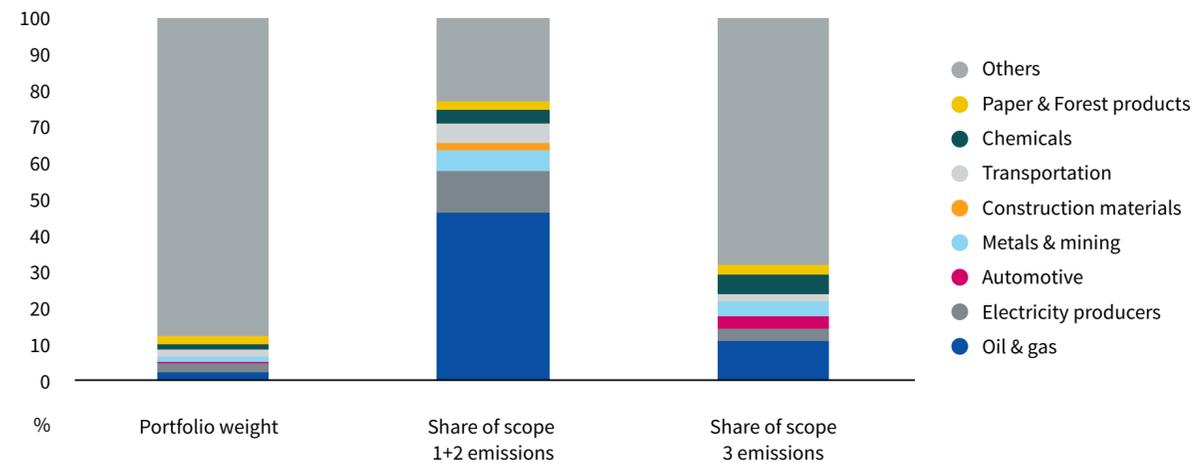
Climate VaR of equity investments



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



Transition industries' emissions



The Climate VaR figure of the transition industries is clearly negative in every temperature scenario. It indicates that the emission reductions under the temperature scenarios pose major risks to these industries. The impact is heightened in the carbon neutrality 2050 scenario and in the delayed transition scenario, in which the transition is faster. However, the transition industries also have significantly greater opportunities to benefit from the transition to a low-carbon society. The Climate VaR value of -100 per cent of the transition industries in the delayed transition scenario means that for the portfolio companies operating in the transition industries, the potential negative costs caused by climate change exceed the companies' market value. In other words, these companies are, on average, not in a position to operate in the world according to this scenario.

Therefore, it is important to identify the companies in these industries that are committed to ambitious emission targets and which take climate change into account in their operations. Our aim is to measure and increase the share of these companies through a climate friendly investment allocation, i.e. the climate allocation.

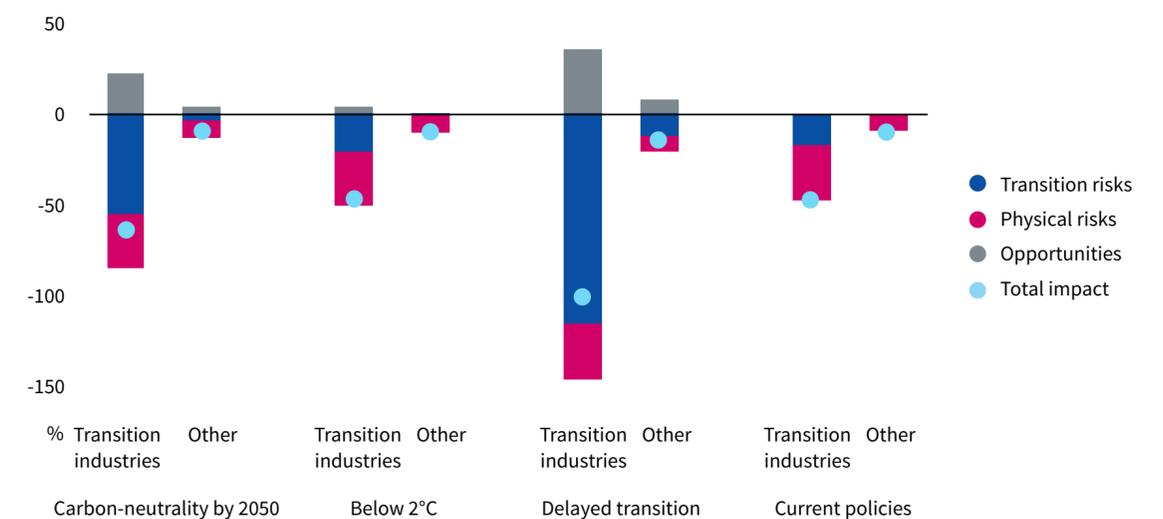
Climate-change-related opportunities

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

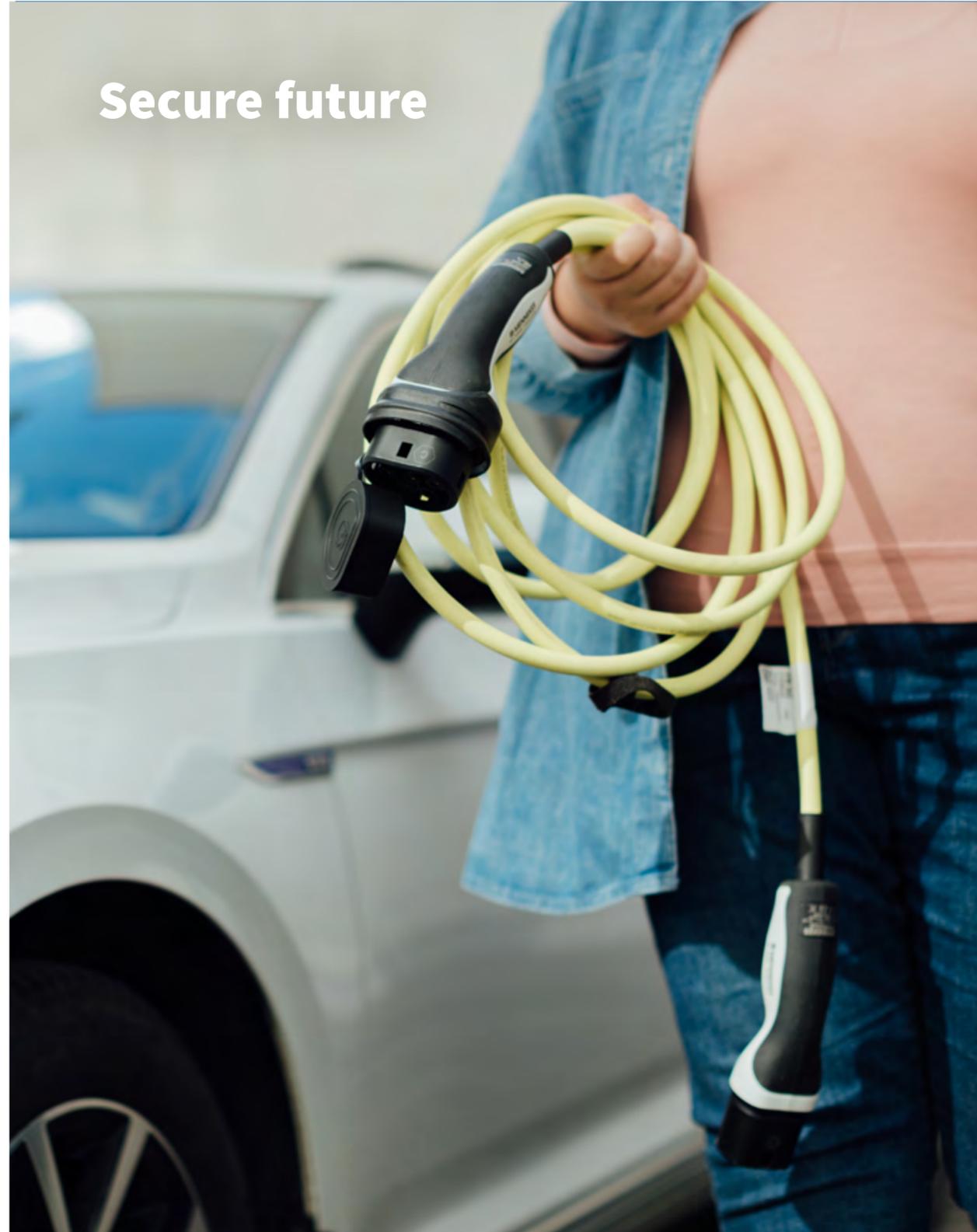
We reach for carbon neutrality by 2035 by identifying new investment opportunities brought by climate change and by creating a climate-friendly investment allocation. The allocation includes companies whose business benefits from actions to mitigate climate change, whose operations do not cause significant greenhouse gas emissions, who have a clear strategic and science-based target of reducing greenhouse gas emissions and whose operations offer carbon sinks. Our target is for the climate allocation to represent 25 per cent of the investment portfolio by 2025. The climate allocation accounted for 24.2% of Varma's portfolio at the end of 2022.

When it comes to climate change mitigation and the risks brought by climate change, it would be important for funds to systematically take climate change into consideration in their investment strategies. Our goal is to increase the share of funds that take climate change explicitly into account to 50 per cent of our portfolio by 2025. At the end of 2022, the figure was 28.5 per cent for fund investments.

Climate VaR of transition industries



Secure future



Emissions calculation challenges investors

The biggest challenge in calculating greenhouse gas emissions is the coverage of high-quality, comparable emissions data.

For listed companies, the quality of scope 1 + 2 data has for several years been at a level that allows the calculation of financed emissions, and in terms of market value, more than 80 per cent of the global equity market reports on the emissions from their own operations.

However, the lack of transparency in unlisted investments, especially in fund investments, poses a big challenge to investors. Funds are not under direct obligation to report on the emissions of the underlying companies, unless this is explicitly required when choosing the manager. The data may also be poorly available, and data processing requires significant manual labour from the investor. In individual cases, it is also possible that there is no data available on an investee, which means that emissions cannot be estimated.

Financed emissions are calculated in accordance with the PCAF's standards by dividing the investee's market value by its enterprise value, multiplied by the company's scope 1 + 2 emissions. The company's scope 1 + 2 emissions are thus allocated in proportion to the company's equity and debt holdings. For listed investments, data on investees is obtained straight from data service providers, which enables efficient emissions calculation.

"In terms of creating an overall picture of the portfolio's climate risks, it is important, however, that investors do not wait for a situation where all data is ready and easily available. Investors should strive to report on as large a proportion of the portfolio as possible, be transparent about the quality of data and calculation methods and encourage investees to improve the quality of their reporting all at the same time,"



says **Vesa Syrjäläinen**, Development Manager, Responsible Investment.

For unlisted investments, Varma reports for the first time the emissions of private equity and infrastructure investments, real estate funds and private debt. The emissions have been calculated internally using the PCAF's database and standards. If no sufficient data has been available for an investee to calculate the emissions, the emissions have been scaled up to cover the entire portfolio. For the second year in a row, we also report a rating for the quality of weighted data, showing the quality of emission data of individual asset classes on a scale of 1–5. Reporting the rating for the data quality gives the reader a more transparent picture of the investments' emissions and allows for better comparison between different asset classes and investors.

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.

In its Global Assessment Report on Biodiversity and Ecosystem Services, the [Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services \(IPBES\)](#) has estimated that around a million animal and plant species are threatened with extinction, many within decades. 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, the World Economic Forum (WEF) has 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 biodiversity 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. For an investor assessing risks and opportunities related to biodiversity, it is critical to find such science-based background information that

takes different views broadly into account. The framework of physical and transition risks used in the assessment of climate risks can also be used for assessing biodiversity risks. Furthermore, biodiversity loss has broader systemic risks, just like climate change.

Biodiversity assessments in Varma's investments

We launched our biodiversity work by carrying out a preliminary biodiversity analysis of the biodiversity of our investment portfolio in 2020. We focused on forest-, pulp- and paper companies since they are, from the perspective of our investment activities, most directly linked to land use. Furthermore, we have better engagement opportunities in direct investments than, for example, in index funds, through our shareholding. 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.

The work was continued in 2021 by exploring the risks, from an investor's perspective, that biodiversity loss presents for different industries, as a consequence of, for example, loss of nature, changes in land use and endangerment of species. We also looked into the measures that companies could employ to mitigate nature loss.

Our goal is to ensure that the biodiversity and climate targets carry equal weight in the near future and that they together promote our environmental responsibility.

We identified four biodiversity-related themes that investors can pay attention to in order to reduce their impacts on biodiversity loss. The themes are: sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, and protection and restoration of biodiversity and ecosystems.

Our Biodiversity Roadmap sets the framework for responsible investment requirements

In 2022, Varma continued its biodiversity work by creating a [Biodiversity Roadmap](#), with the purpose of creating a framework for responsible investment requirements, policies and goals that prevent biodiversity loss. Our goal is to ensure that the biodiversity and climate targets carry equal weight in the near future and that they together promote our environmental responsibility. How the climate and biodiversity work is applied depends on the asset class and type of investment. Our goal is to systematically assess the risks and impacts of our investments in terms of biodiversity loss. Our Biodiversity Roadmap applies to the entire investment portfolio.

The roadmap is divided into five focus areas: industry risk assessment, impact analysis, the real estate portfolio's biodiversity guidelines, engagement, and external and internal reporting.

Industry risk assessment

We conducted an industry risk assessment in order to identify our investment portfolio’s industries with the greatest risks related to biodiversity through their impacts and dependencies. Almost all industries face risks resulting from biodiversity loss.

As with climate change, when considering biodiversity, we wish to focus on transition industries and on a few sectors that are more risky in terms of biodiversity loss. Our assessment covers direct investments in companies, and capital-, loan- and hedge funds, which make up 77 per cent of our entire investment portfolio.

We encourage our investee companies operating in industries exposed to risks to draw up

a biodiversity policy by 2024. The policy may include strategies for reducing biodiversity impacts, a policy on how biodiversity will be integrated into risk management, reporting on the impacts, risks and dependencies of their own operations and indicators for verifying them, and objectives concerning biodiversity.

In addition to a sector risk assessment, we have analysed the riskiest geographical areas in terms of biodiversity violations. We reviewed identified environmental violations related to biodiversity both sector-wise and throughout the value chain. This way, we were able to identify certain areas that have a higher risk of biodiversity violations. By analysing this information, we can take measures to minimise biodiversity impacts and risks,

for example, through monitoring targeted at specific geographical areas.

Impact analysis

We have assessed the industry-specific impacts of our investments on biodiversity and, in the future, our goal is to shift our focus from general industry-specific impacts to the kinds of impacts individual companies have on biodiversity in different asset classes. We are doing this because there can be significant differences within industries in terms of how biodiversity loss is accounted for in operations and how biodiversity loss is incorporated into risk management. Our goal is to first take a deeper look into higher-risk sectors and develop Varma’s investment policy by integrating biodiversity awareness into negative screening, norm violation monitoring, selection criteria, active ownership and targeted engagement.

In 2023, we will analyse in more detail the impacts of our investment portfolio on biodiversity. In the analysis, we will assess companies’ impacts on biodiversity by reviewing environmental pressures on species and habitats, the entire value chain and the geographical location.

Real estate portfolio’s biodiversity guidelines

In real estate investments, eco-mindedness involves not only biodiversity, but also climate change mitigation, the use of natural resources and circular economy. These are also strongly intertwined. Varma has identified the need to improve biodiversity in its real estate portfolio.

We have created biodiversity guidelines for our real estate portfolio. The purpose of the guidelines is to offer ways to attend to biodiversity in properties that have been built. Taking biodiversity into account in these offers a good foundation from which to begin biodiversity work and increase biodiversity in the built environment. The guidelines contain a wide array of examples on how to take biodiversity into account. The guidelines include, for example, the following:

- A summary of the goals, significance and opportunities of biodiversity protection in a built environment
- Real estate infrastructure solutions, rain-water etc. and opportunities to use them
- Taking the changing climate into account in building design
- Opportunities to build habitats for species of particular interest/protected species

Mitigating biodiversity loss and controlling biodiversity impacts requires the systematic

consideration of the entire construction value chain, the prioritisation of measures targeted at the value chain’s key impacts and smooth co-operation between the parties in the construction value chain. The guidelines apply to built properties only and therefore do not provide detailed information on design, the construction phase or raw material procurement, for example. In the background assessment conducted together with the guidelines, we also reviewed the impacts and dependencies of the construction value chain on biodiversity on a general level.

Engagement

For an investor, one means of managing risks caused by biodiversity loss is to engage with investee companies. In climate and environmental matters, Varma’s engagement is guided by both the climate policy for investments and compliance with international agreements. We recommend that companies report transparently on the current and future impacts of biodiversity loss on the company’s operations and growth potential. We encourage our investee companies to manage biodiversity risks and to create policies for taking biodiversity into account. Biodiversity is intrinsic to our engagement practices and ways of operating.

Taking biodiversity into consideration is part of our norm violation monitoring. In 2022,

Industries with the highest impact and dependence in Varma’s investment portfolio

Industry	2022	Target
Electricity generation	2.36%	Biodiversity policies by 2024
Metals and mining	1.15%	
Paper and forest products	2.28%	
Automotive	0.63%	
Chemicals	1.59%	
Oil & gas	2.43%	
Construction	0.13%	
Transportation	1.99%	
Food and beverage	1.23%	

we engaged, together with other investors, in 41 possible or likely violations linked to the environment.

We communicate with risk-industry companies and encourage them to report transparently on the biodiversity impacts and risks of their operations. In addition, we hope that biodiversity awareness becomes a material aspect of the companies' strategies and risk management.

In 2022, Varma signed the [Finance for Biodiversity Pledge](#) for financial institutions. By signing the pledge, financial institutions commit to the next five stages before 2025:

1. collaborating and sharing knowledge
2. engaging with companies
3. assessing impacts
4. setting targets
5. reporting publicly.

Varma will also join the [Nature Action 100 initiative](#). The initiative drives greater corporate ambition and action on tackling biodiversity loss. Participating investors will focus on mobilising companies deemed to be systemically important to the goal of reversing

nature and biodiversity loss. The initiative is encouraging investor signatories to participate ahead of its spring 2023 formal launch.

Reporting on biodiversity

We wish to remain aware of our portfolio's risks, impacts and dependencies with regard to biodiversity. We aim to report according to the [Task Force on Nature-related Financial Disclosures' \(TNFD\)](#) framework for the first time for 2024.

Internal reporting enables the development of internal processes and allows our portfolio managers to account for biodiversity in their areas of responsibility and in the entire investment portfolio. Using internal reporting, we can better monitor the overall impacts of our investments on biodiversity and how dependent our investment portfolio is on biodiversity. Furthermore, we can better monitor our investments' and individual companies' impacts on biodiversity and thus make better investment decisions.

Internal reporting also enables the setting of targets and the systematic monitoring of progress towards the targets.



Roadmap guides our activities in 2023

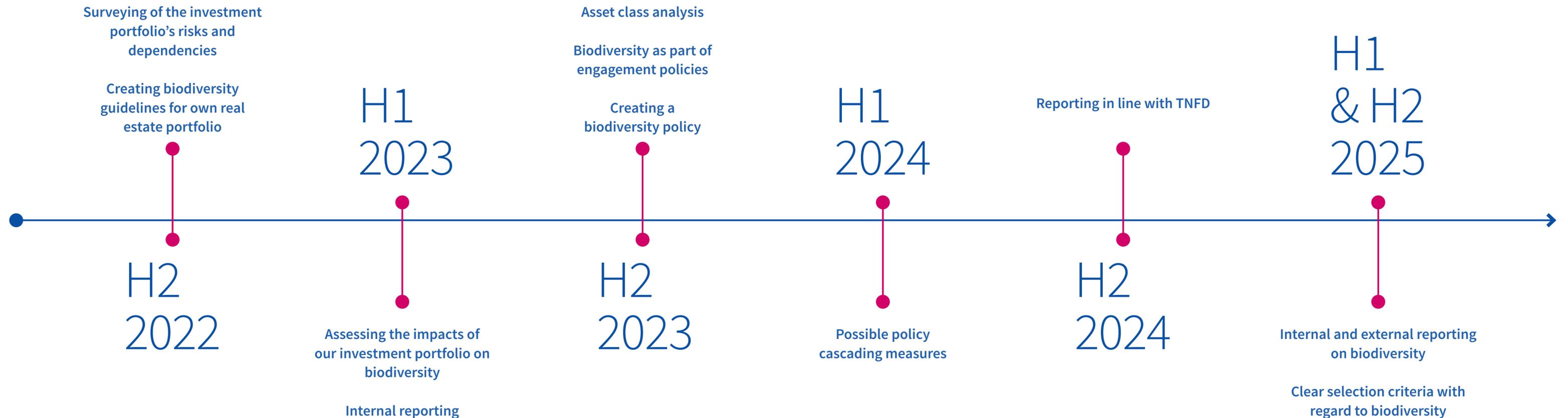
In 2023, we will expand the environmental policies related to our investments by creating a policy steering our biodiversity work to go alongside our climate policy. With the help of the biodiversity policy, we carry out a systematic, comprehensive evaluation of the entire investment portfolio, goal setting and reporting.

The policy will include

- targets (qualitative and quantitative)
- asset-class-specific principles
- means of engagement and
- reporting practices.

We monitor the development of global work combatting biodiversity loss and update our measures accordingly.

Biodiversity Roadmap's steps



Environmental impacts of real estate investments

Properties’ climate friendliness plays a key role in combatting climate change. We have decreased the carbon footprint of real estate investments by 61 per cent since 2015. This positive development is due to switching to fossil-free district heating and electricity, energy renovations and energy efficiency measures, and the change in Varma’s real estate base. The decline of the emission factors for district heat and electricity also contributed to the lower emissions.

Real estate emissions down through energy efficiency measures and emission-free heat and electricity

Our goal is to use fossil-free heating and electricity in our real estate by 2030 and 2025 respectively.

We have carried out energy renovations and renewable energy solutions in 20 of our residential and 13 of our commercial properties. Energy renovation measures include installing geothermal heat pumps, solar panels and air-to-air heat pumps in the properties.

At the end of 2022, nearly all residential properties and 22 commercial properties had switched to emission-free electricity. Emission-free district heat, for example recycled heat, had been adopted in one residential property and 21 commercial properties. The waste heat used in recycled heat is a by-product of data centres, substations and industrial processes. In addition, 21 properties use fossil-free real estate electricity, i.e. they are carbon neutral in terms of energy and electricity consumption. Of our residential properties, 14 have switched to geothermal heating systems. They also use emission-free electricity. At the end of 2022, 70 (56) per cent of real estate electricity and 35 (26) per cent of heat were emission-free.

Solar power plants have been installed at 16 of our residential and 11 of our commercial properties. Solar power accounts for around 1.5 per cent of these properties’ electricity consumption. 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. We continuously look for new sites for the adoption of renewable energy.

In Varma’s commercial and residential properties, specific heat and electricity consumption declined in 2022. We have reduced consumption through energy saving measures, such as the installation of more energy-efficient equipment, sensible utilisation of waste heat and adoption of LED lighting.

Varma participates in the nationwide [energy saving campaign ‘Down a degree’](#), which was launched in 2022 by Motiva, a sustainable development company. We have optimised ventilation, cooling and heating, and reduced the lighting used in advertising signs in our commercial properties.

Varma also strives to optimise and reduce water usage in its residential and commercial properties. We use a monitoring system that enables us to identify and react to deviations in water consumption in a timely manner.

We are committed to both commercial property and rental flat energy efficiency

Consumption data for Varma’s real estate

	2022	2021	2020
Residential			
Heat, MWh	34,369	36,183	39,168
Water, m ³ *	312,575	330,356	351,907
Electricity, MWh	6,275	6,178	5,753
Number of sites included in the calculation	63	57	57
Commercial premises**			
Heat, MWh	84,097	100,503	91,985
Water, m ³	165,828	142,629	152,222
Electricity, MWh	69,726	68,931	65,422
Number of sites included in the calculation	44	42	44
Commercial** and residential premises, total			
Heat, MWh	118,466	136,686	131,153
Water, m ³	478,403	472,985	504,129
Electricity, MWh	76,001	75,110	71,176
Number of sites included in the calculation, total	107	99	101

*For residential properties, water consumption includes household water.

**Commercial properties’ consumption figures do not include sites under the tenant’s maintenance responsibility.

action plans through the Finnish Energy Efficiency Agreement Schemes 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 have achieved savings of 7.5 per cent in commercial properties and 9 per cent in residential properties.

Waste monitoring and influencing waste volumes

Waste caused by Varma’s operations is mainly generated by its real estate business.

Upstream in the value chain, waste is generated by construction, maintenance and renovation activities, while downstream waste is generated by rental housing, use of commercial premises and demolition of real properties. Waste is generated, in particular, by construction and demolition materials, and the daily purchases of our commercial and housing tenants.

We have been monitoring the waste volumes of the commercial premises since 2018. In 2022, the calculation included 35 (35) sites, the total waste volume of which was 2,240

(2,397) tonnes. We also started monitoring the waste volumes of residential properties in 2021. In 2022, the calculation included 53 sites, the total waste volume of which was 1,503 (1,327) tonnes.

We control waste-related impacts through, for example, close co-operation with service providers. Apartments’ waste-related data is collected by an external manager, who regularly reports to Varma. In commercial properties, we use a data collection system in which waste management companies directly report the amounts of different waste fractions. Demolition waste is reported to Varma by the demolition contractors. We have drawn up circular economy guidelines for our renovation and new construction sites. Varma has published separate circular economy guidelines for commercial premises, including Varma’s own Salmisaari property, which encourage the identification and adoption of practices and arrangements to reduce waste and improve sorting and recycling in the use and maintenance of the premises. In 2022, the guidelines were also expanded to cover residential properties.

Waste-related impacts of commercial properties are also monitored through separate control visits and in meetings with tenants, where waste is addressed as part of other environmental responsibility measures. We also improve the processing and recycling of demolition waste from construction projects

Carbon footprint of direct real estate investments

	31 Dec 2022	31 Dec 2015	Change
Carbon footprint (tCO ₂)	17,981	58,050	
Share of residential properties	25%	18%	
Share of commercial properties	75%	82%	
Carbon footprint in relation to gross square metres (CO ₂ kg/gross m ²)	13.1	33.8	-61%
Carbon footprint of residential properties in relation to gross square metres (CO ₂ kg/gross m ²)	12.2	27.2	-55%
Carbon footprint of commercial premises in relation to gross square metres (CO ₂ kg/gross m ²)	13.4	35.6	-62%
Market value of real estate portfolio included in the calculation (€ bn)	2.4	2.2	
Sites included in the calculation as % of the market value of the entire direct real estate portfolio	74%	66%	

Waste from commercial premises

	2022	2021
Amount of waste (t/a)	2,240	2,397
Biowaste	534	513
Waste utilised as energy	229	225
Glass	45	42
Metal	50	51
Plastic	17	16
Paperboard/cardboard	537	568
Paper	71	115
Combustible waste	658	749
Wood-based waste	7	28
Construction waste	60	51
Fats, grease and sludge	25	25
Electronic waste	2	3
Confidential waste	4	9
Hazardous waste	0.4	2
Total gross area of sites monitored for waste, gross m ²	621,467	712,738
Utilised as material	60%	58%
Utilised as energy	40%	42%
Sites monitored	35	35



We have decreased the carbon footprint of real estate investments by 61 per cent since 2015.

through the sustainable demolition [Green Deal](#), an agreement between the Ministry of the Environment and the business sector. The main objective of the agreement is to increase the reuse and recycling of demolition materials by promoting the functioning of the markets for demolition materials from repair and demolition projects.

We also provide our residential tenants with guidance on sustainable living. We share, for example, tips on how to save energy on the info screens in the lobbies of the buildings. We also provide our commercial tenants with tips on energy saving measures.

Waste from residential premises

	2022	2021
Amount of waste (t/a)	1,503	1,327
Biowaste	141	114
Waste utilised as energy	14	-
Glass	29	13
Metal	22	16
Plastic	59	46
Paperboard/cardboard	179	135
Paper	162	162
Combustible waste	897	841
Wood-based waste	-	-
Construction waste	-	-
Fats, grease and sludge	-	-
Electronic waste	-	-
Confidential waste	-	-
Hazardous waste	-	-
Total gross area of sites monitored for waste, gross m ²	344,272	286,333
Utilised as material	39%	37%
Utilised as energy	61%	63%
Sites monitored	53	43

Circular economy in real estate

Varma has adopted circular economy principles in the processes of new construction and renovation projects as well as in maintenance. We aim for carbon-neutral construction and in-use carbon neutrality.

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 planned to enable adaptability.

The circular economy principles are taken into account in the construction planning phase and in the choice of construction materials. The use of renewable energy is addressed in all projects. In demolition projects, the recycling rate of demolition waste is high, at nearly 100 per cent.

The ongoing construction of the wooden Katajanokan Laituri office and hotel property strives to minimise climate impacts over the building’s life cycle.

As many as 70 buildings or building complexes already have environmental certification

We have outlined that our most important commercial 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. Our goal is to achieve a rating of at least “Good”. We have been certifying commercial premises since 2016 and residential buildings since 2021.

In 2022, ten buildings owned by Varma were granted BREEAM In-Use environmental certification. Five of these were for residential buildings. At year-end 2022, a total of 70 buildings or building complexes had environmental certification, accounting for 60 (50) per cent of the real estate base under the company’s direct ownership, based on their fair value. A total of six Varma properties have been granted the second highest rating of ‘Excellent’ under the BREAAM environmental certification system. We also had ongoing or planned construction projects for which LEED or BREEAM certification will be applied. The wooden office sites of Katajanokan Laituri in Helsinki and Keilaniemen Portti in Espoo are such projects.

[BREEAM](#) (Building Research Establishment’s Environmental Assessment Method) and [LEED](#)

(Leadership in Energy and Environmental Design) are environmental rating systems for buildings and building projects to assess the sustainability of buildings using harmonised methods. The rating systems assess, for example, a building’s energy efficiency, location, water consumption and waste sorting and recycling possibilities.

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 fourth time in 2022, earning 86 points out of 100. Varma’s score earned it a four-star rating out of five. Varma scored full points for the company’s sustainability policies and management. Varma still has room for improvement, for instance, in the coverage of consumption data, in assessing the economic impacts of climate-related risks and in engaging tenants.

GRESB (Global Real Estate Sustainability Benchmark) is a global tool and framework for assessing and benchmarking, for example, the sustainability performance of real estate investments, allowing investors to collect and compare their sustainability performance data. GRESB assesses, among other things, properties’ 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.

Varma has adopted circular economy principles in the processes of new construction and renovation projects as well as in maintenance.





For sustainable working life

We support work ability in a world that's going through incredible change. We promote sustainable working life and help our customers anticipate and manage disability risk. We take care of Varma employees and their competence. We build new ways of working and an inspiring workplace where everyone can be themselves.

Managing disability risks

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.

Managing disability risks on time

Varma influences the disability risk by providing its client companies with guidance in identifying risks and choosing the correct measures. The forecast model developed by us helps us assess the extent of the disability risk in our client companies using a data-driven approach. For our customers, this means more accurate identification of disability risks and allocation of Varma's support activities, data-driven services and better results.

Our comprehensive disability risk management services consist of expert services in work ability management and vocational rehabilitation, and digital services and tools.

The service offering is based on Varma's work ability cycle concept, by which we mean variations in work ability on the individual level and in the work community in relation to the development of work. The services have been implemented and are developed in strict compliance with data protection regulations. Our services are aligned with the Finnish Financial Supervisory Authority's guidelines.

We carry out research and studies on disability risk management as part of our own activities and in collaboration with research institutes and service providers. We use the research data to develop our services and operations.



The digital services of the work ability section of the Varma Online Service help our customers manage the disability risk. They can assess their organisation’s disability risks, build an overall picture of the current situation of work ability and plan development measures. In 2022, we renewed our “Work ability in figures” service, which enables our customers to easily gain an overview of the work ability situation based on diverse key indicator and comparison data. On the basis of the data, the service also recommends further measures for improving work ability. The “Application analytics” service, on the other hand, provides a view of recurring risk factors in disability and rehabilitation applications, the number of days of sickness allowance and background information on the applicants. The service also has a “Paths to Disability” section, in which various factors behind disability pension and vocational rehabilitation can be explored. Application analytics help gain insight into factors related to disability and support the planning of measures.

Guidance in planning measures to improve work ability is available in the Varma Academy online learning environment intended for our customers. It includes regularly supplemented work ability management material, for example study paths to guide the user, developed by our specialists. Our client companies are also able to share effective work ability management practices through our round table

discussions. The discussions include participants from companies of different sizes and various industries. A key theme of the discussions in 2022 was leading with knowledge.

Varma can also support its client companies’ disability risk management financially. Financial support amounted to EUR 1.23 (1.35) million in 2022, which was used to support 285 measures. We had ongoing work ability management co-operation projects in 145 (680) client companies, and they covered around 180,734 (346,000) employees and supervisors. In February 2023, we launched a webpage on our Work ability management subsite (in Finnish), providing information on the volume and targeting of our expert services and the measures covered by financial support.

Varma co-operates closely with occupational health-care providers, for example, to provide a common data platform for a work ability overview for mutual customers and to support customers in other ways. The ultimate goal is to enable more effective and impactful management of disability risks.

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 2022, of our customers who started a rehabilitation programme, 82 per cent returned to the labour market. We made 2,827 (3,261) rehabilitation decisions. Varma’s support helped 1,360 (1,559) rehabilitants return to working life.

Varma is the first earnings-related pension company in Finland to pilot the Individual Placement and Support (IPS) model for the rehabilitation of people with mental health disorders. The project started in 2020 and will run until 2023, and it is being carried out in collaboration with the training company Spring House. The aim is to help rehabilitants find employment, with their job forming an integral part of their rehabilitation. We are implementing a comparative study related to the pilot to determine the model’s impacts on the work engagement of rehabilitants, as well as the work ability and functional capacity of the rehabilitants. The pilot encompasses 40 Varma customers. In November 2022, 59 per cent of the customers taking part in the programme had found gainful employment, while the corresponding figure for the reference group was 28 per cent. The IPS model is thus more effective than traditional vocational rehabilitation.

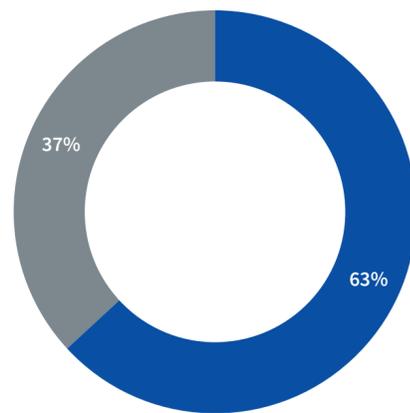
The number of disability pension applications took an upward trajectory in 2022. The amount of new applications increased

by 6.8 (-8.0) per cent. The main illness group behind disability is mental health disorders, the second-biggest reason is musculoskeletal diseases.

In 2022, Varma rejected 40.4 (39.4) per cent of new disability pension applications. The rejection rate for all earnings-related pension companies was 38.1 (37.7) per cent in 2022. The Pension Appeal Board changed Varma’s pension decisions in 10.3 (13.1) per cent of the cases. The corresponding rate for the entire private sector was 9.4 (10.6) per cent.

In 2022, the average disability pension contribution category of Varma’s client companies was 3.4 (3.4).

New disability pensions and rehabilitants 2022



- Cash rehabilitation benefit* recipients and those retired on a disability pension (3,154 persons)
- Recipients of a positive rehabilitation decision (1,842 persons)

*Fixed-term disability pension



Secure future



Sector-specific information on work ability

Varma’s research unit generated four work ability reports by sector in 2022.

In the publication series “Information about work ability”, Varma published work ability-focused reports on knowledge work, the service sector, the transportation sector and industry.

The reports examine workload and resource factors in different sectors and the state of work ability and disability, and offer workplaces solutions for managing work stress. The reports also describe the sectors’ operating environment and future competence needs.

“The disability risk factors vary between sectors and occupations. That is why we want to offer our customers sector-specific information as well as an increasing amount of occupational group-specific information on work ability and disability risks. This also provides workplaces with more tangible information on

stress factors in their sector and the means to control them,” says Research Manager **Auli Airila**.

The reports and summary fact sheets on them are available on Varma’s website. We also use these in our customer work and in the development of work ability management services.

In 2023, three new reports were published in the series. The reports examine the social and health care sectors and the construction sector. We will also publish a report on work ability among small businesses and entrepreneurs. The reports will additionally be used at, for example, the 2023 customer events: we will organise virtual clinics focusing on work ability themes in different sectors for our client companies.

06

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, encouraging remuneration, equal treatment and taking care of work ability.

Work culture that
keeps up with change

In 2022, we developed our agile operating culture. In daily hybrid work, it is important to us that we meet each other face-to-face as well as online. We offer Varma employees good conditions for maintaining their work ability and see to it that supervisory work is kept at a good and consistent level.

Varma offers varied tasks in a modern work culture. We work as a team, and we monitor and adopt the latest developments in work and technology. We ensure that Finnish working life thrives and keeps up with the change taking place in the world.

We believe that a good employee experience is key to customer satisfaction and Varma's success. A constantly evolving and attractive work culture gives us a competitive edge. 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 are present and available to our customers regardless of location.

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

Our operating environment and our customers' expectations are constantly changing, which is why Varma must react with ever-greater speed. Through our agile operating approach, we seek momentum, flexibility, joy and energy for renewal. At Varma, agility means competence and problem-solving, working together, freedom and responsibility, and clarity and transparency.

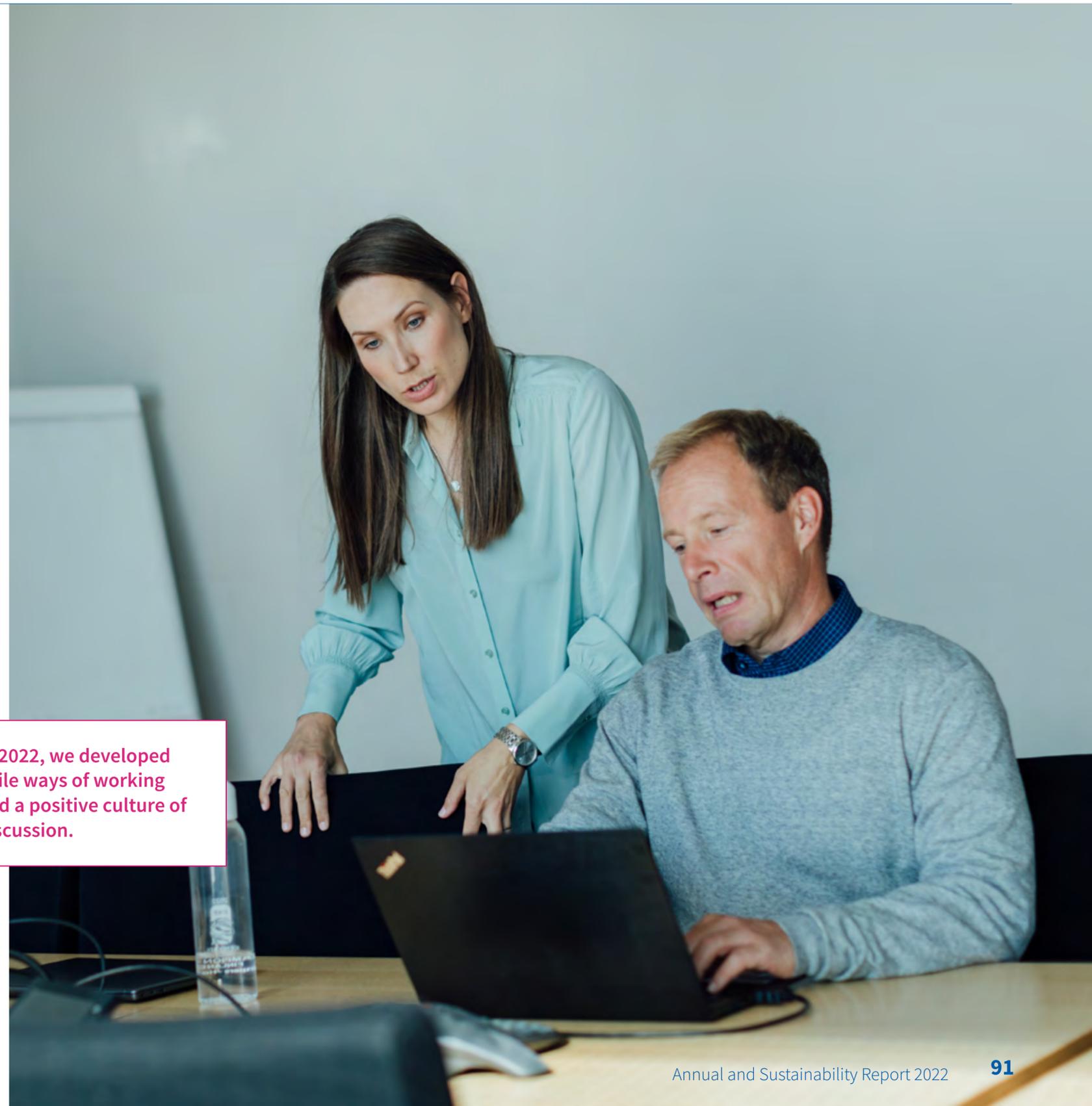
Personnel

	2022	2021	2020
Personnel	559	543	558
permanent	538	524	535
women/men (%)	67% / 33%	69% / 31%	71% / 29%
fixed-term	21	19	23
women/men (%)	52% / 48%	63% / 37%	70% / 30%
full time	522	510	523
women/men (%)	66% / 34%	68% / 32%	69% / 31%
part-time	36	33	35
women/men (%)	81% / 19%	79% / 21%	89% / 11%
Personnel covered by collective bargaining agreements (%)	89%	89%	88%
Average age	47 y 3 m	47 y 1 m	47 y 2 m
Average age of retirement on old-age pension	64 y 2 m	63 y 10 m	64 y 5 m
Average service period	12 y 11 m	13 y 4 m	13 y 11 m
Sick days/employee	6.1	4.2	6.6
Training days/employee	1.3	1.1	4.6
Employees covered by performance and development reviews (%)	100%	100%	100%

	2022		2021		2020	
	no.	%	no.	%	no.	%
Personnel turnover rate*	57	10.6	44	8.4%	44	8.2%
women	32	56%	25	57%	27	61%
men	25	44%	19	43%	17	27%
under 30 years	17	30%	12	27%	8	18%
30–50 years	30	53%	22	50%	32	73%
over 50 years	10	18%	10	23%	4	9%
Exit turnover rate**	40	7.43%	54	10.3%	47	8.8%
women	32	80%	39	72%	32	68%
men	8	20%	15	28%	15	32%
under 30 years	4	10%	6	11%	4	9%
30–50 years	15	38%	18	33%	19	40%
over 50 years	21	53%	30	56%	24	51%

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

**The calculation includes permanent employees



In 2022, we developed agile ways of working and a positive culture of discussion.

Various flexible working-hour arrangements, which improve productivity and give employees a say in their day-to-day lives, for example, when reconciling different life situations with their work obligations, are also part of an equal and non-discriminatory work culture. Flexitime, broad teleworking opportunities and various types of leave that support different life situations are at the core of a flexible work culture. At the end of 2022, six per cent of permanent Varma employees were working part-time while they were on, for example, partial child care leave. We have adopted a hybrid model according to which we work wherever we achieve the best results – either remotely or in our modern office premises. Practices are created through trial and experiences. In 2022, we gained experiences in, for example, working remotely from abroad.

In 2022, we deepened our agile operating culture. We offered Varma employees a learning journey to agility, tested out agile ways of operating, harmonised the descriptions of agile roles and reformed our operational planning. We also created a new development work and resources steering model, which was adopted in January 2023. The model is based on five customer-oriented areas, in which Varma’s ways of operating, services and thus customer processes are developed comprehensively.

A second theme in our 2022 work on work culture concerned reinforcing a good discussion culture and specialists’ skills in giving feedback. Varma employees could participate in a work community theatre presenting different ways of giving feedback as well as discuss in teams about giving feedback. A few teams also piloted a virtual feedback tool.

2022 is remembered as the year when the hybrid model became part of everyday work. Our flexible work approach combines working remotely and at the office in the best possible way in terms of performance, work flow and work ability. The model also helps ensure that we get together – virtually and face-to-face. In Varma’s approach, teams, departments and functions have agreed on common meeting practices and in what situations and how often people will meet up at the workplace. Common office days once a month for everybody draw Varma employees together to meet each other face to face and discuss current topics. In 2022, we also started preparing for the renovation of our office premises. We will make the shared spaces more compact in order to increase interaction, promote a sense of community and improve the functionality of the work spaces. The efficient and purposeful use of the premises is also sustainable business.

Persons working for Varma who are not employees

Besides its own employees, Varma’s business is supported by other professionals working in different roles. We have determined the number of these persons and the nature of their tasks by applying the following definition:

- the person works under Varma’s (partial) supervision for a long period of time and/or repeatedly and/or
- the person’s work input could be replaced, from the perspective of competence, with Varma’s own employees’ work input.

In 2022, just under 80 people worked for Varma in various tasks related to information management. They worked, for example, in IT development roles, technical roles, and as complementary resources, for example in the tasks of project managers or roles related to testing. Of these persons, approximately half worked full-time for Varma, while the other half worked part time with varying work input.

In 2022, three full-time and two part-time cleaners, three security guards with full-time and four with hourly contracts, two full-time mailroom workers and two full-time and four part-time persons in maintenance and electrical repairs were working in Varma’s Salmisaari office premises. Varma had a direct contractual relationship only with the cleaners; the rest were working under an agreement with the real estate company.

In terms of investments, Varma works in close co-operation with real estate managers. As regards housing

investments, we work with a real estate manager partner who is in charge of tasks related to building management and maintenance, letting and customer service. Nine people worked for Varma full time and just over 100 people part time. In commercial property investments, we work with five real estate management companies. In these companies, 11 people work full time and five people work part time for Varma. A real estate manager’s primary task is to maintain the properties’ technical condition and safety, and take care of the operative management of the maintenance network.

In addition to Varma’s employees, other people work in the company’s insurance sales. In 2022, these persons amounted to approximately 200. They were in a contractual relationship with our partner companies and sold insurance along with their other duties. Less than half of the full-time work of a person employed by a service provider was required to manage our payroll accounting.

Furthermore, experts and consultants of different fields were working for Varma in different parts of the organisation. They were mostly working part time on single projects in tasks that could, in terms of competence, also be carried out by Varma employees. In 2022, these persons numbered less than 20. Their tasks included, for example, marketing and communication.



Aiming for a high and consistent level of supervisory work

A key goal of our management system is to guarantee a high and consistent level of supervisory work for our employees. Varma’s supervisors receive regular, systematic training, and feedback on supervisory work is also systematically collected. The characteristics of leadership at Varma are an encouraging and coaching approach, goal-oriented performance management and actively ensuring employees’ competence and well-being at work.

Performance management starts with each employee’s job description, which the employee and the supervisor have a mutual understanding of. The main priorities are setting clear and concrete goals, active and motivating guidance, target-based development and regular performance follow-up and evaluation. In 2022, all of Varma’s functions performed a self-assessment of the management of agile performance, created a situation overview and determined development measures.

At Varma, specialists assume responsibility for the work’s progress, for making choices and for getting the job done, while supervisors anticipate and monitor the progress towards the goals, serve as sparring partners and give feedback. In teams, the focus is on collective self-direction to achieve the common goals and ensuring each person’s success. Agile

teams direct themselves, and team members direct one another.

Varma’s Executive Group approves the [People, Health & Safety Guidelines and Procedures](#), and is responsible for their implementation. The HR unit leads the implementation of the guidelines and procedures and the development of the work culture. The unit is also in charge of strengthening leadership and supervisory work and ensuring a consistent management culture and operating methods. The HR unit consists of the Senior Vice President, People, Communications and Development, the HR manager and five specialists. The People, Health & Safety guidelines and procedures apply to all Varma employees, and everyone is expected to abide by them. Under the guidance of supervisors, Varma’s functions, departments and teams are responsible for putting them into practice.

Data and analytics are part of the leadership toolkit at Varma. Up-to-date information on the state and costs of personnel resources helps create forecasts and make comprehensively evaluated decisions and progress.

Employee experience and supervisory work continuously monitored

We carry out a comprehensive employee survey every year, and the development measures that are laid down on the basis of it are monitored through two Pulse surveys during

the year. In recent years, our results have been very high in comparison to the benchmark of Finnish companies providing expert services. The PeoplePower® index, which describes the overall result of the December 2022 survey, rose from the previous year to 78.5 (76.8). With its best-ever result, Varma made it onto the list of Finland’s Most Inspiring Workplaces for the fifth time in a row. Companies with the best results make it on the annual list of Eezy, which also carries out Varma’s employee surveys.

In the 2022 survey, the employee experience was very good in all areas of the survey and clearly exceeds the external benchmark level. The result for the Employee Net Promoter Score (eNPS) question, which was included in the study for the first time, was also at an exceptionally good level, at 63. Varma’s clear strength was its management culture. Varma employees are especially satisfied with the changes implemented in the company, communication to personnel on the strategy and future outlook, and the executive management’s ability to make the right decisions for the company. The supervisor index measuring supervisory work was also at an excellent level and clearly exceeds the benchmark level. Varma employees also gave positive feedback on management and supervisory work in the open comments of the survey.

In the open feedback, credit was also given to the flexible opportunities for remote and

hybrid work, and the sense of community. We also received positive assessments, exceeding those of the benchmark organisations, on remote work practices, work management and Varma employees’ working conditions in surveys carried out by the Finnish Institute of Occupational Health in conjunction with a research project on the change in knowledge work after the pandemic period. In the employee survey, areas of improvement included personnel’s opportunities

to influence the development of their unit’s operations and the availability of information needed for work, but there was no statistically significant negative deviation from the benchmark in any of the areas.

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



Responsible employer for senior employees and summer employees alike

The starting points for Varma’s HR planning are achieving the business goals, ensuring strategic competence and anticipating future competence needs. The company’s strategic focal points and financial requirements guide and define our work. HR planning is based on sustainable and responsible resourcing, and agile and continuous competence development.

The foundations of recruitment at Varma are non-discrimination and transparency. Job vacancies are posted openly at least internally at Varma. A common process is followed in recruitment. We use anonymous recruiting frequently in order to ensure equal and fair treatment. We use partners and suitability assessments to select competent and motivated employees who are the best match for Varma. If candidates have equal qualifications, we prioritise the selection of candidates belonging to minority groups.

We focus on building a positive employee experience and an honest employer image. We openly share examples of daily life in our organisation, and we make sure to live up to our employer promise.

Varma employees are satisfied and have long careers, 13 years on average. We appreciate both the long experience and expertise of senior employees and the fresh ideas and

competence of those who have just started working at Varma.

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. In 2022, our co-operation with educational institutions included events organised by the Financial Academy, participating in the remote nationwide introduction to working life event, visits to educational institutions and guest speakers. It is important to us to offer young people their first jobs in their own field and help them advance in their career paths. In all recruitment, we also pay special attention to applicants who have special challenges in finding work, for instance, due to a handicap or illness. Varma has also participated for several years in the Responsible Summer Job campaign, in which employers commit to the principles of responsible summer jobs. In 2022, Varma was once again in the top ten in the Responsible Summer Job campaign’s large employer category.

If candidates have equal qualifications, we prioritise the selection of candidates belonging to minority groups in our recruitment.



Secure future

Keeping up with change through agile ways of operating

In 2022, we took a leap towards a more agile operating culture.

The world around us is changing at an accelerating pace. Our operating environment and our customers’ expectations are also rapidly changing, and we must be able to react with ever-greater speed. This is possible through our agile ways of operating.

“At Varma, we have for several years now moved towards agile methods of development, and in many teams, they are a natural part of daily work. Our goal is to bring speed, flexibility and joy to renewal,” says Development Manager **Anna Lauhamaa**.



In 2022, we took a leap towards a more agile operating culture. As part of our work in this area, we identified the need to more comprehensively examine the company’s cash flows and use of resources and to ensure the use of resources in strategically important areas. To that end, we created a new development work and resources steering model, which was adopted at the beginning of 2023. The model is based on five customer-oriented areas.

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 a personal three-year development plan in place.

Strategic capabilities and competence are systematically managed at Varma. The Talent Management process defines and identifies the capabilities, skills, key positions and key persons essential for Varma's strategy. In addition, a development programme has been drawn up for key persons, and/or means of supporting their development have been identified. Development projects linked to our strategic competence ensure that Varma employees' competence is renewed in the right direction in terms of Varma's future success.

Varma's personnel carry out demanding expert work that is meaningful for society and requires continuous development and renewal. We support Varma's specialists in meeting any future competence requirements and in being at the forefront of the incredible change taking place in the world. The ability to learn new things is one of the most important tools of a specialist.

Each Varma employee has drawn up a personal three-year development plan together with their supervisor. Competence development focuses not only on the competence



needs of individuals, but also on renewing the operations of teams and the organisation. In 2022, all of Varma’s functions created a competence outlook for the coming years and discussed which skills are highlighted and what kind of competence development they should especially focus on. The teams discussed their strengths in terms of competence and development needs and drew up a common development plan for the next few years. Finally, the discussions on competence were cascaded down to the individual level by sparring with a colleague or supervisor, and the personal development plans were updated.

We make broad use of various learning methods, tools and learning environments in both professional training and in learning new skills. A high level of supervisory skills and thorough induction of every new Varma employee and employees embarking on new roles lay the foundation for renewal and continuous development also in later stages of the employee’s career.

Besides traditional training methods, we make use of, for example, 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.

Varma uses a coaching model called piloting, which was developed in-house. The model features independent sparring partners, called pilots, who work alongside supervisors. The pilots are Varma coaches who have been trained to spar with their colleague alongside their own work.

In 2022, our competence development work focuses on the themes of agile work culture, leadership, data and digital skills, communication, engagement and sustainability. We offered lectures and online courses on agility, as well as coaching on agility tools and roles and on agile performance management. We established a Digi Academy alongside the Data Academy that was established in the previous year. The Data Academy provides coaching, good practices and learning opportunities through hands-on work and competence and experience sharing to Varma employees who work with data in different roles. The Digi Academy, on the other hand, is a training solution aimed at improving Varma employees’ digital skills in terms of developing and utilising digital solutions. Events organised during the year also included service design training and coaching on engagement and diversity. Lectures on topical issues introduced the participants to, for example, future working life and support for brainwork. The sustainability competence of

The development of competence was planned on individual, team and function levels.

Varma employees was improved in workshops organised by the Responsible Investment & Sustainability department. In the workshops, Varma employees looked into the basics of sustainability and identified acts of sustainability from the perspective of their own roles in all Varma functions.



Diversity, equality and non-discrimination

We promote diversity and equality

Varma is a fair and non-discriminatory workplace that does not tolerate discrimination, bullying or harassment. We work hard to ensure that we are an inclusive and diverse workplace. At Varma, acceptance of diversity starts with the principle that everyone is free to be themselves. Of the Varma employees who replied to our equality and non-discrimination survey carried out in autumn 2022, 96 per cent feel that they can be themselves at the workplace.

A responsible approach to personnel and working for us means clear goals and expectations, opportunities to develop at work and increase one's competence, systematic, competitive and fair remuneration and transparent remuneration principles, and that everyone bears responsibility for their work and the workplace atmosphere, and support is provided for maintaining work ability and ensuring the conditions for work ability.

Varma's equality and non-discrimination efforts are guided by three commitments:

- All Varma employees are treated equally, regardless of their age, gender, etc.
- Varma is an equal-opportunity and non-discriminatory employer.
- Varma promotes diversity and inclusion.

Varma is a member of the corporate responsibility network FIBS' Diversity Charter Finland, in which we pledge to guarantee equal opportunities, rights and treatment to everyone. We also promise to continuously develop leadership that supports diversity and the service practices in our organisation.

Special attention is also paid to the realisation of equality and non-discrimination in competence and career development, for example, in the management training of specialists and the Talent Management process.

Every two years we conduct a survey to assess the experience and state of equality and non-discrimination at Varma. We draw up goals and measures for the identified areas of development, and we follow up on them

At Varma, acceptance of diversity starts with the principle that everyone is free to be themselves.



regularly in an equality and non-discrimination working group and in co-determination and occupational health and safety (OHS) organisations. The priority areas identified together with the employees form the basis of our equality and non-discrimination plan, which is approved by Varma’s Executive Group.

The results of the survey conducted late in 2022 were excellent, indicating consistent improvement in the experience of equality and non-discrimination. The biggest positive development can be seen in gender equality as regards pay, career opportunities, and training and study opportunities. Our active, continuous work to promote equality and non-discrimination, along with our Pride co-operation and promoting of the rights of sexual and gender minorities, received special recognition. Areas in need of improvement include attending to the equality of employees of different ages and in different family situations. A few experiences of inappropriate conduct and language were also mentioned. A new equality and non-discrimination plan for 2023–2024 will be drawn up on the basis of the survey results.

In 2022, Varma also carried out a human rights assessment, and as part of it, human rights risks pertaining to Varma’s personnel were assessed.

We are a workplace that appreciates diversity

For us, diversity and inclusivity mean taking into consideration different backgrounds, skills and abilities, and respecting people’s differences. We believe that when you can be your true self at work, you have a better chance of reaching your full potential. Our goal is to consider minorities in our work community and increase diversity in the organisation, for example, through targeted advertising of job vacancies and by offering more job opportunities to representatives of minority groups. We are actively building a work culture that values diversity and inclusiveness, and we encourage a positive and supportive culture of dialogue that provides room and courage to present different perspectives.

In 2022, we improved the physical accessibility of our Salmisaari premises based on user experiences and an accessibility assessment carried out the previous year. The main finding of the assessment was that the Salmisaari premises are, for the most part, accessible as such, but by making changes, we wanted to make it easier for disabled people to move around and work at the Salmisaari premises. The measures included installing a few automatic doors, enhancing the accessibility of the break room and toilet facilities, moving access pass readers lower in the key routes and making sure that in our auditorium, the audio induction loop for people with impaired

We improved the physical accessibility of our Salmisaari premises in order to make it easier for disabled people to move around in the premises.

hearing works. We also improved how disabled people are taken into consideration in, for example, recruiting by adding accessibility information to our job postings and providing training to supervisors. The opportunity to work remotely and flexibly is one means of promoting equal working life.

Awareness of equality and diversity was also raised through two online courses, one of which focused on diversity and inclusion in the work community, while the other focused on Varma’s own principles and practices.

Varma wants to promote equal working life through participation in Pride activities. In 2022, we held a diversity lecture for our employees, and a group of employees participated in the Pride parade. A Pride banner on the outside wall of Varma’s head office was torn in one corner, but the cloth was reused

by turning it into colourful bags for Varma employees. The torn banner was replaced with a new one to evoke thoughts about equal working life among motorists on the nearby motorway.

Job grading system brings transparency to remuneration

At Varma, salary and remuneration are based on the company’s values and strategy. In connection with our annual financial statements, as part of the company’s corporate governance report, we publish [Varma’s statement on remuneration](#), which includes the company’s remuneration principles and, as part of them, the policies concerning the remuneration of the company’s administration, President and CEO, other management and personnel.

The goals, methods and principles of remuneration concerning Varma’s personnel are described in more detail in Varma’s remuneration policy. The purpose of the remuneration policy is also to reinforce consistent actions among supervisors in matters related to salary and remuneration, and to create more openness and transparency in remuneration for all personnel. Varma’s remuneration and the related principles and systems are also comprehensively described on the company’s intranet. Varma applies its own remuneration scheme arranged through a local agreement

instead of what is written in the industry’s collective agreement.

At Varma, the starting point for monetary salary and remuneration is that it is fair, performance-based and sustainable in terms of costs. The objective is to encourage and guide personnel to work productively and efficiently, to commit to Varma as an employer and to develop the company and themselves.

Overall remuneration includes a comprehensive, diverse and appropriate range of various forms of remuneration. The purpose of diverse overall remuneration is to take into account the different nature of the jobs and the different life situations and varying expectations of employees. In the range of benefits, we focus on health, well-being and, for example, support for leisure-time options suited to various family and life situations.

We actively follow the market pay level of the financial sector and, if required, of individual vocational groups in order to ensure fairness and competitiveness related to the availability and retention of human resources.

The job grading of the locally agreed remuneration system and a performance assessment based on common criteria provide the basis for the objective and transparent determination of Varma’s remuneration level. To ensure transparent and fair remuneration, we also highlight acting in accordance with responsibilities and processes, overall management, open communication on the criteria

and the courage to take different performance levels into account in remuneration.

Pay and career development at Varma is non-discriminatory

We monitor the realisation of equal and non-discriminatory pay and remuneration, not only in statutory reporting but also, for example, in annual market pay comparisons. The operating principles of the locally agreed remuneration system and systematic compliance with the principles make Varma’s pay structure more equal and fairer in the long term.

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, different genders are represented in the final three candidates according to the ‘comply or explain’ principle. We achieved the target, as women accounted for 44 per cent of the Executive Group and 41 per cent of middle management at the end of 2022. Furthermore, our target since 2021 has been to have at least 30 per cent representation of men and women among team

leaders and specialists by 2023. At the end of 2022, men accounted for 29 per cent of team leaders and 30 per cent of specialists, and women accounted for 71 per cent and 70 per cent respectively. Monitoring of and support for non-discriminatory career development are also taken into account in the leadership coaching and Talent Management process for specialists.

In conjunction with our annual market pay assessment, we also look into gender and age aspects to see whether equality in terms of gender and age is being fulfilled in our pay and reward system. According to a survey carried out in 2022, pay equality is implemented well at Varma. When comparing job requirements and performance of the same level, there are no significant pay differences between the genders. There is still some difference when the traditional method of comparing average pay is used, but this common method does not account for personnel structure. At Varma, the proportion of men in more demanding roles with higher pay is higher. When examining performance next to the job requirements and comparing the pay to the corresponding market pay level, pay equality is implemented remarkably well at the company level. However, men’s pay exceeds the market pay level somewhat more often than women’s pay. On average, an area requiring the greatest improvement was the pay level of middle-management women. On

average, the pay level of middle-aged Varma employees and those with a long career with the company is higher than those starting out their careers. The structure is very typical and reflects also the fact that pay is linked to evidence of performance and develops therefore with a delay. In the 2022 employee survey, Varma employees’ assessment of the competitiveness of the pay level and the fairness of remuneration significantly exceeded the

Pay equality is implemented well at Varma. The differences arising in an assessment based on average salary level out when job requirements and performance are taken into account.

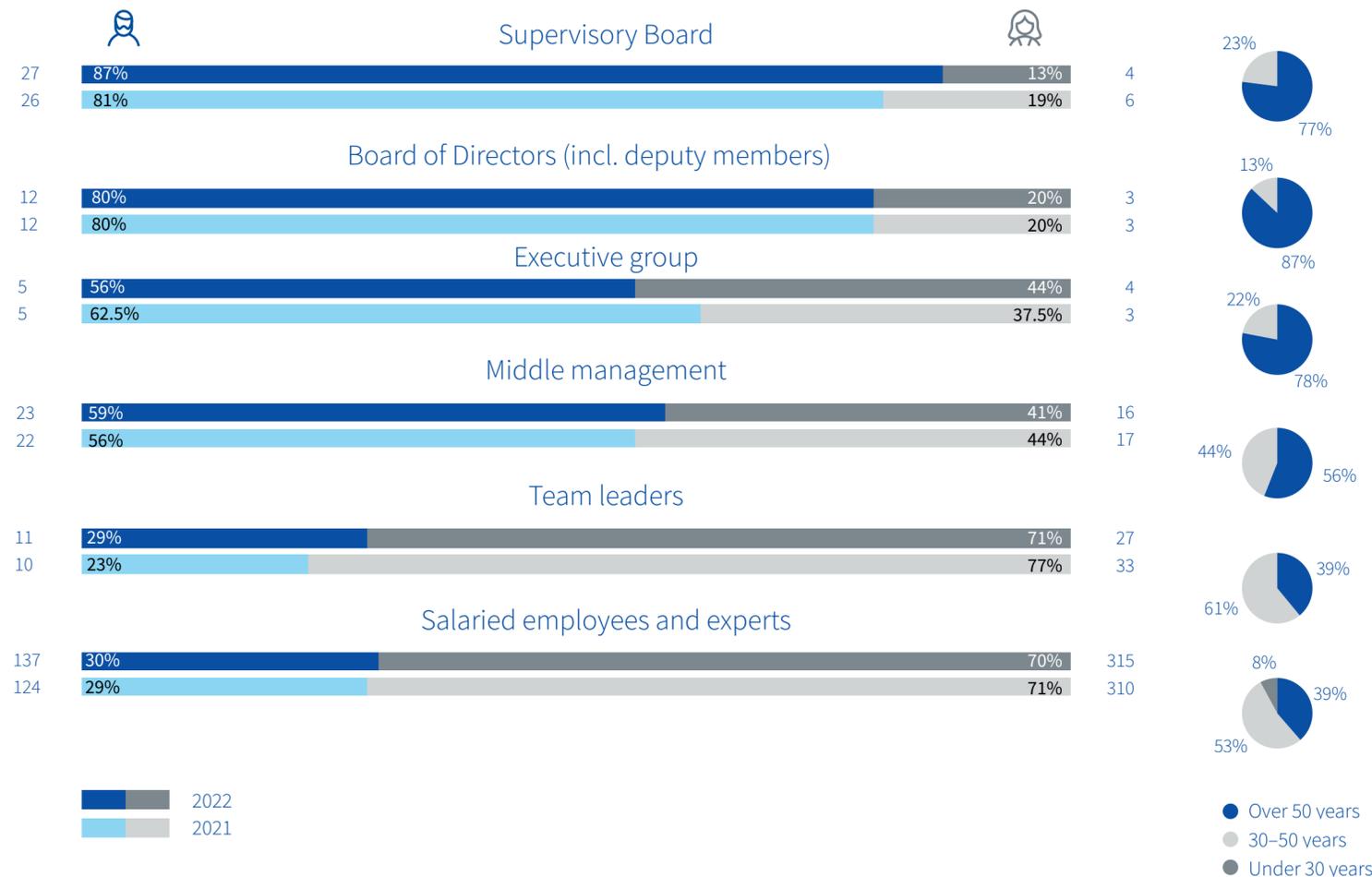


Women’s salaries in relation to men’s at Varma in 2022

	Women’s average salary as % of men’s salary
Executive Group (excl. the CEO)	90%
Rest of personnel, excluding the Executive Group	77%
Middle management	84%
Team leaders	101%
Salaried employees and experts	81%

A comparison of pay by location is not possible, since 96 per cent of Varma employees work at the Salmisaari premises in Helsinki and the remaining 4 per cent are scattered around Finland such that the number of representatives of different gender groups does not allow statistical comparison.

Gender distribution of employee groups, the Board of Directors and Supervisory Board in 2021-2022



benchmark for Finnish companies providing expert services, and had further improved.

Varma launched the development of the remuneration system in 2022. External remuneration experts interviewed the members of the Executive Group and personnel representatives. At the same time, an extensive survey covering the entire personnel on performance and other remuneration, job grading and basic salary was carried out. Based on the analysis, Varma employees’ satisfaction with remuneration and its structures was higher than average. The development work continued with designing the new remuneration structure and updating the job family descriptions. The new remuneration scheme for personnel will be introduced in 2023 with the aim of promoting co-operation and the achievement of the targets.

Instructions and steadfast intervention promote a harassment-free work community

Varma employees’ observations and experiences of inappropriate conduct, discrimination or harassment are regularly examined in connection with various surveys. Inappropriate treatment or conduct is not permitted under any circumstances. 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, and they are also part of mandatory and recurring online training for all Varma employees.

Every Varma employee must abide by our common principles. Breaches of our guidelines should primarily be brought to the employee’s direct supervisor. If that is not possible, the problem can be reported to the supervisor’s supervisor, HR or the compliance officer. All observations are handled confidentially, and there is also an opportunity to report issues anonymously through the shop steward, OHS organisation or employee survey. Misconduct and abuses at Varma can be reported through the statutory [Whistleblowing channel](#).

Supervisors are obligated to address inappropriate treatment and, without delay, determine together with the relevant parties and, if necessary, HR, what is going on and follow up on the situation. After the situation has been assessed, an employee who has behaved inappropriately will be given a notice or warning. If the harassment continues in spite of a warning, the employer is entitled to dismiss the harasser.

Work ability and safety

Systematic monitoring of Varma employees' work ability

We focus on occupational safety and on maintaining our employees' work ability. Smooth daily work forms the foundation for our work ability. It is created through clear targets, competence development, consistent supervisory work, consideration of work ability limitations and employees with partial work ability, and through efficient processes for active support, occupational health care partnerships and returning to work.

We manage the disability risk identification process through occupational health and safety (OHS) activities and the OHS organisation, comprehensive occupational health care and co-operation between supervisors and HR. Our tools for collecting data and monitoring the work ability situation include various surveys, close collaboration with occupational health care, comprehensive and up-to-date work ability data, incident and occupational accident reports, and active support discussions. In accordance with the nature of knowledge-based work, Varma's OHS focuses on leadership, the workplace atmosphere, work management and adapting to change through measures to prevent psychological stress.

Planning and follow-up of measures is carried out through the work ability management focal points, OHS's and occupational health care's plan of action, and the work community's development plan.

Efficient occupational health and safety management systems

Occupational health and safety management is governed in Finland by the Occupational Safety and Health Act. In OHS, Varma's executive management is responsible for the tangible and operational conditions, while supervisors are in charge of working conditions and tools. Supervisors are also responsible for ensuring that the work community functions well and that the conditions for psychological OHS work are in place. The immediate supervisor makes sure that OHS regulations are complied with and that problems are addressed at an early stage. At the heart of work ability management is the immediate supervisor's responsibility for monitoring performance and for holding active support discussions.

The employer has three and the employees have six representatives in the OHS committee, which convenes four times a year. The

committee is in charge of organising and developing OHS matters. An OHS plan of action is drawn up for two years at a time, and the measures are updated annually. The OHS representatives who are elected by personnel monitor the implementation of OHS measures, develop OHS measures and well-being and support employees in any work ability-related situations. All Varma employees can influence OHS management through their own behaviour in their work communities, through the OHS representatives and by reading the committee meeting materials, which are published and communicated on the intranet.

We have established work ability management priority areas for 2021–2023. The goal is for Varma employees to be able to develop during changes and take charge of their work ability, and to have efficient work ability support processes. In 2022, we supported Varma employees' work ability, occupational safety and well-being through diverse measures and training events. We offered, for example, an online course and a webinar on managing cognitive load and brain ergonomics. Online tools, channels and campaigns on recuperation and remote work ergonomics were also

available. An online course with instructional videos on how to deal with threatening customer situations and first-aid courses also contributed to occupational safety. We also started tripartite co-operation with our occupational healthcare provider and a partner offering fitness services in order to provide Varma employees with uninterrupted support in ensuring basic health, maintaining work ability and engaging in sports and fitness activities in leisure time. The co-operation includes instructor-led classes, campaigns and online training.

In autumn, a well-being survey targeted at employees over 55 by occupational healthcare, an intervention and a lecture on work ability and aging were implemented. Varma also joined an [initiative where family caregivers](#) who also work receive peer support. Power Bi reports, which contain work ability data, were introduced for department heads. Supervisors were also offered guidance and support in work ability management. In order to improve occupational safety when working remotely and at the office, we launched an online course to support the handling of challenging customer service situations and offered all Varma employees an opportunity

We upheld a sense of community while applying the hybrid work model by offering opportunities to meet each other.

to improve their first-aid skills. Furthermore, we upheld a sense of community while applying the hybrid work model by offering opportunities to meet each other face-to-face on office days as well via online events.



Comprehensive occupational healthcare services and employee benefits that promote well-being

We offer all our employees diverse occupational health care services that are more extensive than the statutory requirement, as well as many personnel benefits to support and promote work ability. All Varma employees are comprehensively insured against accidents at work and during leisure time. When an employee reaches the end of their career, they are covered by statutory earnings-related pension insurance, a collective agreement and legislation.

The support of healthcare professionals is also available through digital channels and digital applications. The direct contact information of occupational healthcare is available on the intranet and in a mobile phone app. We regularly monitor the quality of occupational healthcare in the occupational healthcare steering group and through customer satisfaction surveys. We annually update occupational healthcare's plan of action.

Varma employees are offered many employee benefits that promote work ability. Monetary benefits can be used according to one's choice on sports or culture and, for example, for massage or dental care. Also on offer are diverse remote sports services; coaching related to managing one's own work, ergonomics and coping at work; coaching support and instructor-led exercise classes.

Our Salmisaari premises have practical facilities for active commuters and a gym.

In the 2022 employee survey, the index that is used to ensure Varma employees' work ability was 80.1 (79.7). 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 value of and the level of control over their own work.



Reporting principles

We ensure the transparency of our operations by regularly and comprehensively reporting on our business and sustainability efforts. Our annual and sustainability report has been drawn up according to the GRI Standards, and in it we report on our compliance with the UN Global Compact principles. Additionally, we report on climate risks in accordance with the TCFD 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 factors for Varma.

Varma's annual and sustainability report has been drawn up according to the international Global Reporting Initiative (GRI) standards. Varma has reported according to the GRI standards for the period from 1 January to 31 December 2022. We have also reported information relating to Varma's own material topics in accordance with the GRI standards' reporting principles. Our GRI reporting follows partially the standards updated in autumn 2021. These indicators are marked in the GRI content index with the year 2021.

This report also serves as the basis for the UN Global Compact Communication on Progress.

We report on our work to promote human rights, labour rights, environmentally friendly business and anti-corruption. The GRI content index shows whether the content in accordance with the GRI indicator also reports on

measures or principles according to the UN Global Compact.

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

A comparison between the report content and the GRI Standards is provided through the GRI content index.

In 2021 and 2022, we carried out thorough work to update our Sustainability Programme. The new programme defines our objectives and measures for 2022–2025. It is based on a materiality assessment performed in early 2021 in order to determine topics that are currently material in terms of Varma's sustainability. The materiality assessment is based on stakeholder surveys. Stakeholder expectations were reviewed and processed by Varma's Executive Group according to their impact on society and the environment. As an outcome of the materiality assessment, we identified

topics that are material in terms of Varma's sustainability, and used these to establish the three focus areas of our Sustainability Programme: Ensuring secure pensions, Investing for change, and For sustainable working life.

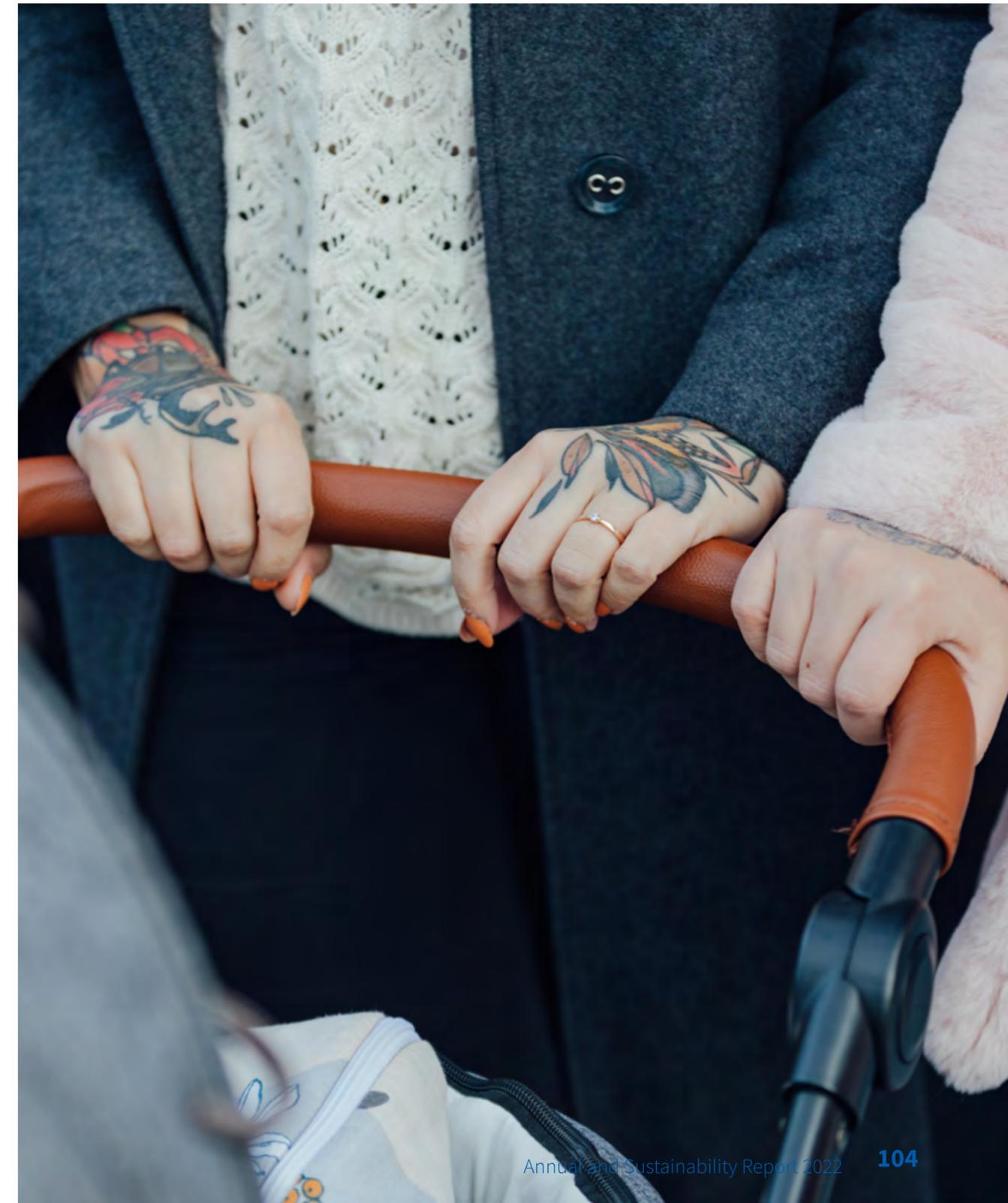
The indicators for financial responsibility are based on Varma's accounts and approved financial statements. The indicators relating to our pension services have been obtained from the systems of Varma and the Finnish Centre for Pensions, and from our online service reports. The personnel-related indicators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

As regards equity investments, turnover covered by the EU taxonomy has been analysed using data provided by the data service provider Bloomberg.

The analysis of industries exposed to climate change risk has been performed using MSCI's database. The carbon footprint (tCO₂) of Varma's own operations has been calculated using the WWF's Climate Calculator. The assessment of industries exposed to biodiversity is based on analyses by PRI and WEF, and it has been carried out using MSCI's database.

The climate risk analysis of Varma's supply chain and premium income has been performed using Varma's internal database and PCAF's emission factors.

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 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.

Climate Value-at-Risk (Climate VaR) is a tool developed by MSCI that is designed to provide an assessment of the potential profits and costs caused by climate change in the market value of an investment instrument. Climate VaR is made up of three elements: Policy Risk, Technology Opportunities and Physical Risk & Opportunities.

Policy Risk describes at instrument level the company’s costs of reducing emissions in order to be aligned with different temperature scenarios. Technology Opportunities assess the company’s revenue and return potential under different temperature scenarios, based on the patents owned by the company. Physical Risk & Opportunities describes the potential cost of acute and chronic physical risks to the company in different temperature scenarios.

The Climate VaR percentage calculated for Varma’s equity investments describes the current monetary value of the costs of the potential risks and opportunities caused by climate change over the next fifteen years, divided by the current market value of the company’s equities. The weighted Climate VaR has been calculated by multiplying the company-specific Climate VaR by the investment’s weight in the portfolio.

The temperature scenarios used by Varma are based on the framework published by the NGFS (Network for Greening the Financial System) and the forward-looking REMIND-MAGPIE (Regional Model of Investments and Development & Model of Agricultural Production and its Impact on the Environment) model.

Implied Temperature Rise (ITR) is a forward-looking metric developed by MSCI designed to show how well companies and portfolios are aligned with global temperature goals. The metric is based on company-specific carbon budgets, i.e. the absolute carbon dioxide emissions that a company can afford to release in order to keep global warming below two degrees Celsius by 2100, and whether the company’s projected emissions overshoot or undershoot the allocated budget. The data is publicly available for 2,900 companies on the MSCI website.

In the portfolio-level ITR calculation, portfolio holdings are proportioned to the

company’s enterprise value including cash (EVIC), and this is used to allocate the companies’ emissions budget and estimated overshoots of the emissions budget. The ITR figure is calculated by dividing the portfolio-level emissions budget overshoot by the portfolio-level emissions budget, multiplied by the TCRE (Transient Climate Response to Cumulative Carbon Emissions) figure supplied by IPCC and multiplied by the global two-degree emissions budget in gigatonnes.

For further information on Climate VaR and Implied Temperature Rise, please visit the MSCI website.

Real estate investments’ scenario analyses

In all the scenarios of the analysis concerning the development of our real estate portfolio’s greenhouse gas emissions, the estimate of properties’ heat consumption is based on the actual development shown in the district heating statistics. The development is affected by both climate change and energy efficiency measures.

In the scenarios, the consumption of electricity was assumed to stay at the current level.

On the basis of the district heating statistics’ data, the specific emission factors per municipality were assumed to linearly decline from the current calculated level towards the future target levels reported by the district heating

companies. For companies that have not announced an official emission reduction target, the development was assumed to mirror Finland’s carbon neutrality target for 2035. For other than renewable electricity, the emission factor for the residual mix of the Finnish grid was used. It was assumed to decline linearly from the 2021 value of 235 g/kWh by 70 per cent by 2035 and 100 per cent by 2050.

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 estate 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. The 2019 physical risk analysis on real estate investments was qualitatively updated in 2021, in addition to which a map analysis corresponding to the sea flood risk analysis was performed for new sites. Transition risks caused by climate change were identified and a rough estimate of materiality was performed according to the TCFD framework.

Our annual and sustainability report also serves as the basis for the UN Global Compact Communication on Progress.

COMMUNICATION
ON PROGRESS



This is our **Communication on Progress** in implementing the Ten Principles of the **United Nations Global Compact** and supporting broader UN goals.

We welcome feedback on its contents.

Methodology for calculating the carbon footprint of investments

The carbon footprint calculation of Varma's investments encompasses listed equity and corporate bond investments, private equity and infrastructure investments, direct real estate investments, real estate funds, private debt and hedge fund investments. The calculation covers direct greenhouse gas emissions from sources owned or controlled by the companies (scope 1), indirect emissions from energy mainly from the generation of purchased energy (scope 2) and emissions from the value chain (scope 3). The carbon footprint (tCO₂e) and the key figures based on it have been calculated in accordance with the PCAF standard.

In the calculation of the carbon footprint of listed equities and corporate bond investments, the market value of shares owned by Varma is proportioned to the company's enterprise value including cash (EVIC), and this ratio is used to allocate the emissions and revenue of the company.

In the calculation of the carbon footprint of private equity-, infrastructure-, private debt- and hedge fund investments, the market value of shares owned by Varma is proportioned to the company's enterprise value including cash (EVIC), and this ratio is used to allocate the emissions and revenue of the company, if the information is available. When the information is not available, the emissions are estimated

according to the PCAF standards. Real estate funds' emissions have been calculated using PCAF's emission factors and calculation standards. Emissions for the single real property below have been calculated by multiplying Varma's share of the real property owned by the fund with the emissions factor and the property's square footage.

The calculations cover 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 EVIC when possible, and the emissions are allocated to Varma on the basis of this proportion. The emission factor available from the PCAF database is used when no other data has been available.

Emissions are calculated according to the PCAF (Partnership for Carbon Accounting Financials) and TCFD recommendations.

The weighted average 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.

For companies that do not report their greenhouse gas emissions, Varma estimates the emissions using PCAF's emission factors. If emissions cannot be calculated for a single investment, the emissions are extrapolated



using the already calculated emissions of the portfolio.

The emission and revenue data used in the carbon footprint calculation apply to the situation at the end of the year preceding the reporting year.

The carbon footprint for 2022 of real estate investments managed by Varma has been calculated according to the GHG protocol. The calculation includes the CO₂ emissions of real estate maintained by Varma insofar as the consumption and amount data forming the basis for the emission calculation have been available for the whole year. Real estate purchased or divested during the course of the year is, as a rule, not included. The calculation includes emissions of real estate's purchased energy, i.e. electricity and district heat. Emissions are calculated using location-based and market-based methods. Location-based emissions are calculated using average emission factors for Finland. Location-based emissions are calculated only for internal use. Market-based emissions are calculated for district heat using the emission factor provided by the local district heating company or the specific emission factor given for municipalities on the website of Local Power, and for electricity using the emission factor for the residual mix of the Finnish grid. Emission-free district heat and electricity have guarantees of origin.

Calculation of scope 3 value chain emissions

In autumn 2022, Varma calculated its value chain emissions (scope 3). The calculation

followed the Greenhouse Gas (GHG) Protocol, which is the most widely established way globally to calculate the carbon footprint. The calculation made use of emission data from 2021. On the basis of the materiality analysis, nine emission categories were chosen for the calculation. The categories are: purchased goods and services (1), capital goods (2), fuel- and energy-related activities (3), waste generated in operations (5), business travel (6), employee commuting (7), downstream transportation and distribution, i.e. in Varma's context, travelling of shopping centre visitors (9), downstream leased assets (13) and investments (15). Of the scope 3 emissions, 98.2 per cent were caused by the investees' scope 1 and scope 2 emissions. Other major scope 3 emissions are caused by categories 1 (0.3 per cent), 2 (1.0 per cent) and 9 (0.3 per cent). As regards investments (category 15), the calculation includes Varma's listed equity and corporate bond investments, private equity and infrastructure investments, real estate funds, private debt and hedge fund investments. The included emissions cover 92 per cent of Varma's investment portfolio.

The majority of category 1 (purchased services and goods) and category 2 (capital goods) emissions have been calculated using the cost method and [Exiobase factors](#). Other sources of emission factors include [the Helsinki Region Environmental Services Authority HSY](#), [the IVL Swedish Environmental Research Institute](#) and [the OpenCO₂ database](#).

The mix of category 9 travel methods (travelling of shopping centre customers) was

assessed, for the shopping centre Willa, on the basis of a visitor survey. In the absence of more accurate data, the passenger traffic statistics for northern Finland were used for the shopping centre Rajalla.

The rest of the categories included in the calculation make up a total of 0.4 per cent of all the value chain emissions. When calculating category 3 (fuel- and energy-related activities) emissions, the WTT (well-to-tank, emissions from the entire value chain of used energy) emissions from energy usage have been estimated using Defra's emission factors and the volume of losses on the basis of statistics. Since the driving kilometres of leasing cars, as a full-type car benefit, should be included in the calculation of Varma's scope 1 emissions, their WTT emissions have been calculated here. In the absence of more accurate data, the leasing car driving kilometres have been estimated on the basis of contract kilometres.

In category 5 (waste), the amount of waste generated by the real properties has been extrapolated by waste type to cover the lettable area of the entire portfolio. The raw data has been divided between commercial properties (approximately 56 per cent covered of the lettable area) and residential properties (approximately 73 per cent covered of the lettable area).

In the calculation of category 6 (business travel), the emissions from business travel have been estimated using the cost method and Exiobase factors, except for air travel, for which there is data available, classified into

three groups according to the distance of the trip, and the emissions of which have been calculated using [Defra's factors](#). Train travel is assumed to have taken place in Finland, and no greenhouse gas emissions have been allocated to it, owing to [VR Group's carbon neutrality pledge](#).

In the calculation of category 7 (employee commuting), we have taken into account the number of employees and working days, and the share of remote work in 2021. The commuting distance and the mix of means of travel have been estimated using Helsinki Region Transport's (HSL) statistics. The emission factors for different means of travel are from Defra, and rail travel is assumed to be carbon-free, in accordance with VR Group's and [HSL's carbon neutrality pledges](#).

For 2022, the calculation boundary was expanded to include category 13 (downstream leased assets). It is an estimate of all the emissions from electricity and heat consumption covered by lessees' contracts. The calculation makes use of Motiva's average consumption factors by type of real estate.

Human rights assessments of the value chain

The human rights impacts and risks related to the value chain can be observed for example by sector or location. The value chain human rights assessment was carried out by sector, because Varma's procurement is focused on Finland. Our most significant procurement is related to the construction and maintenance of buildings, and to IT procurements. We

determined the sector distribution of our total procurement and used this information to assess the share of suppliers in sectors with high human rights risks, which was 0.3 per cent. We also surveyed the suppliers' compliance with the principles of the UN Global Compact using a database maintained by an external service provider. We used the Corporate Human Rights Benchmark (CHRB) of the World Benchmarking Alliance (WBA). It identifies the apparel-, automotive manufacturing-, extractives-, food and agricultural products-, and ICT manufacturing sectors as presenting a high risk of negative human rights impacts.

An 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 in pdf format 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 108.

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 area	Varma’s own material topics under GRI	Topic boundaries
<p>Ensuring secure pensions</p>	<p>GRI 2-23: Policy commitments GRI 2-27: Compliance with laws and regulations GRI 201: Economic performance GRI 205: Anti-corruption GRI 308: Supplier environmental assessment GRI 414: Supplier social assessment GRI 415: Public policy GRI 418: Customer privacy</p>	<p>Customers Varma’s own operations Varma’s societal impacts Supply chain</p>
<p>Investing for change</p>	<p>GRI 201: Economic performance GRI 302: Energy GRI 304: Biodiversity GRI 305: Emissions GRI 414: Supplier social assessment</p>	<p>Varma’s investments Varma’s societal impacts</p>
<p>For sustainable working life</p>	<p>GRI 401: Employment GRI 403: Occupational health and safety GRI 404: Training and education GRI 405: Diversity and equal opportunity GRI 418: Customer privacy</p>	<p>Varma’s own operations Customers</p>

GRI content index and UN Global Compact

Disclosure	Contents	Location	Omissions	Comment	UN Global Compact principles
GRI 2: General disclosures (2021)					
2-1	Organizational details	Varma in brief, p. 4			
2-2	Entities included in the organization's sustainability reporting			Varma Mutual Pension Insurance Company	
2-3	Reporting period, frequency and contact point	Reporting principles, p. 104			
2-4	Restatements of information				
2-5	External assurance	Independent assurance report, p. 123			
2-6	Activities, value chain and other business relationships	Varma in brief, p. 4 Sustainability of our own operations and the value chain, p. 50-52			
2-7	Employees	Personnel, p. 91			
2-8	Workers who are not employees	Persons working for Varma who are not employees, p. 92			
2-9	Governance structure and composition	Sustainability governance, p. 33 Corporate Governance Report, p. 8-12 (Corporate Governance)			
2-10	External initiatives	Corporate Governance Report, p. 4-12 (Corporate Governance)			10
2-11	Chair of the highest governance body	Corporate Governance Report, p. 8, 13 (Corporate Governance)			10
2-12	Role of the highest governance body in overseeing the management of impacts	Sustainability governance, p. 33			1-10
2-13	Delegation of responsibility for managing impacts	Sustainability governance, p. 33			1-10
2-14	Role of the highest governance body in sustainability reporting			The Executive Group approves the annual and sustainability report before its publication.	
2-15	Conflicts of interest	Corporate Governance Report, p. 7, 12 (Corporate Governance) Statement on remuneration, p. 19 (Corporate Governance)		Additionally, operating principles and eligibility requirements concerning the selection of the highest governance body.	10

Disclosure	Contents	Location	Omissions	Comment	UN Global Compact principles
2-16	Communication of critical concerns	Instructions and steadfast intervention promote a harassment-free work community, p. 100 Ethical business, p. 45–46		Compliance Officer reports biannually on reports submitted through the whistleblowing channel to the Executive Group, Audit Committee and Board of Directors. Other critical concerns that we become aware of through, for example, customer feedback, customer surveys or sustainability surveys, are reported to the Executive Group as needed.	10
2-17	Collective knowledge of the highest governance body	Sustainability governance, p. 33		The Board of Directors approves the Code of Conduct and updates thereto. The Executive Group completes the Code of Conduct online course, like other Varma employees. Sustainability issues are also regularly discussed by the Executive Group, and the Executive Group members participate in the sustainability work of their own functions. Sustainability reviews are organised for the Board of Directors.	1–10
2-18	"Evaluation of the performance of the highest governance body"	Corporate Governance Report, p. 7 (Corporate Governance)		In its annual self-assessment, the Board of Directors assesses the conditions for its activities, the method of discussion and decision-making at its meetings, the division of work and co-operation between the Board and the executive management, and the company's internal controls and risk management.	
2-19	Remuneration policies	Statement on remuneration, p. 19–21 (Corporate Governance)			10
2-20	Process to determine remuneration	Statement on remuneration, p. 19–26 (Corporate Governance) , Job grading system brings transparency to remuneration, p. 98			10
2-21	Annual total compensation ratio		Information not available	The equality and average figures of salaries and remuneration are monitored through several other indicators. Monitoring of the compensation ratio was not deemed necessary.	1–10
2-22	Statement on sustainable development strategy	Sustainable Varma, p. 22–24			1–10
2-23	Policy commitments	Principles guiding our responsible investment, p. 55–56 Environmental targets steer our investments, p. 56 Tax responsibility, p. 38–39 Ethical business, p. 45–46 Responsible supply chain management, p. 46		Climate Policy for Investments, Tax Policy, Principles for Human Rights, Anti-bribery Policy, Principles for Responsible Investment, Ownership Policy, Code of Conduct, Supplier Code of Conduct, Active Ownership and Engagement Principles	1–10
2-24	Embedding policy commitments	Sustainability objectives 2022-2025 and monitoring, p. 26–31 Ethical and transparent business, p. 45–49			1–10
2-25	Processes to remediate negative impacts	Respect for human rights in the supply chain and own operations, p. 50–51 Investees are expected to comply with international norms and standards, p. 57–59			1–10
2-26	Mechanisms for seeking advice and raising concerns	Ethical business, p. 45–46		Whistleblowing reporting channel	9

Disclosure	Contents	Location	Omissions	Comment	UN Global Compact principles
2-27	Compliance with laws and regulations	Ethical and transparent business, p. 45–49			9
2-28	Membership associations	Stakeholder co-operation and sustainability networks, p. 48–49 Key figures 2022, p. 8			
2-29	Approach to stakeholder engagement	Stakeholder co-operation and sustainability networks, p. 48–49 Responsible supply chain management, p. 46 Sustainability of our own operations and the value chain, p. 50–53			
2-30	Collective bargaining agreements	Personnel, p. 91	Information is incomplete	Entire personnel is covered by collective bargaining agreements	3
Material Topics					
GRI 3: Material Topics (2021)					
3-1	Process to determine material topics	New sustainability programme guides our work, p. 22–24			1–10
3-2	List of material topics	New sustainability programme guides our work, p. 22–24			1–10
Economic Standards					
GRI 3: Material Topics (2021)					
3-3	Management of material topics	New sustainability programme guides our work, p. 22–24 Sustainability management and governance, p. 32–33		The assessment of material topics does not meet all the criteria in GRI 2021 3-3.	1–10
GRI 201: Economic performance (2016)					
201-1	Direct economic value generated and distributed	Key figures 2022, p. 8 Tax responsibility, p. 38–39			
201-2	Financial implications and other risks and opportunities due to climate change	Climate risks and opportunities according to the TCFD recommendations, p. 67–69		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. Quantitative results for financial implications and cost actions not reported	7-9
201-3	Defined benefit plan obligations and other retirement plans		Information not available		
201-4	Financial assistance received from government		Information not available		

Disclosure	Contents	Location	Omissions	Comment	UN Global Compact principles
Market presence					
GRI 3: Material Topics (2021)					
3-3	Management of material topics	New sustainability programme guides our work, p. 22–24 Sustainability management and governance, p. 32–33		The assessment of material topics does not meet all the criteria in GRI 2021 3-3.	
GRI 202: Market presence (2016)					
202-1	Ratios of standard entry level wage by gender compared to local minimum wage		Information is not applicable	Finland has no local minimum wages, so comparison is not possible.	
202-2	Proportion of senior management hired from the local community		Information not available	Not reported	
Indirect economic impacts					
GRI 3: Material Topics (2021)					
3-3	Management of material topics	New sustainability programme guides our work, p. 22–24 Sustainability management and governance, p. 32–33		The assessment of material topics does not meet all the criteria in GRI 2021 3-3.	
GRI 203: Indirect economic impacts (2016)					
203-1	Infrastructure investments and services supported	Report of the Board of Directors and Financial Statement, p. 39–42, 58–59		Notes to the Financial Statements	
203-2	Significant indirect economic impacts	Responsible investment, p. 55–61 How Varma creates value, p. 18			10
Procurement practices					
GRI 3: Material Topics (2021)					
3-3	Management of material topics	New sustainability programme guides our work, p. 22–24 Sustainability management and governance, p. 32–33		The assessment of material topics does not meet all the criteria in GRI 2021 3-3.	1–10
GRI 204: Procurement practices (2016)					
204-1	Proportion of spending on local suppliers	Sustainability of our own operations and the value chain, p. 50–53			

Disclosure	Contents	Location	Omissions	Comment	UN Global Compact principles
Anti-corruption					
GRI 3: Material Topics (2021)					
3-3	Management of material topics	New sustainability programme guides our work, p. 22–24 Sustainability management and governance, p. 32–33		The assessment of material topics does not meet all the criteria in GRI 2021 3-3.	1–10
GRI 205: Anti-corruption (2016)					
205-1	Operations assessed for risks related to corruption	Corporate Governance Report, p. 17–18	Information is incomplete	Public reporting does not specify the operations which have been assessed for risks related to corruption, so not all the criteria of GRI 205: 205-1 are met.	10
205-2	Communication and training about anti-corruption policies and procedures	Ethical and sustainable business, p. 9 (Report of the Board of Directors)			10
205-3	Confirmed incidents of corruption and actions taken	Ethical and sustainable business, p. 9 (Report of the Board of Directors)	Information is incomplete	The compliance officer reports on compliance activities to the Board of Directors and its Audit Committee, and administratively to the President and CEO. Public reporting does not specify the confirmed cases of corruption.	10
Anti-competitive behavior					
GRI 3: Material Topics (2021)					
3-3	Management of material topics	New sustainability programme guides our work, p. 22–24 Sustainability management and governance, p. 32–33		The assessment of material topics does not meet all the criteria in GRI 2021 3-3.	1–10
GRI 206: Anti-competitive behavior(2016)					
206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	Corporate Governance Report, p. 17–18	Information is incomplete	Public reporting does not specify the legal actions, so not all the criteria of GRI 205: 206-1 are met.	10
Tax					
GRI 3: Material Topics (2021)					
3-3	Management of material topics	New sustainability programme guides our work, p. 22–24 Sustainability management and governance, p. 32–33		The assessment of material topics does not meet all the criteria in GRI 2021 3-3.	1–10
GRI 207: Tax (2019)					
207-1	Approach to tax	Tax responsibility, p. 38–39			
207-2	Tax governance, control, and risk management	Tax responsibility, p. 38–39			
207-3	Stakeholder engagement and management of concerns related to tax	Tax responsibility, p. 38–39			
207-4	Country-by-country reporting	Tax responsibility, p. 38–39		Varma is liable to pay income tax only to Finland.	

Disclosure	Contents	Location	Omissions	Comment	UN Global Compact principles
Materials					
GRI 3: Material Topics (2021)					
3-3	Management of material topics	New sustainability programme guides our work, p. 22–24 Sustainability management and governance, p. 32–33		The assessment of material topics does not meet all the criteria in GRI 2021 3-3.	1–10
301-1	Materials used by weight or volume		Information not available	We have not been able to collect this information on our real estate construction projects	
301-2	Recycled input materials used	Waste monitoring and influencing waste volumes, p. 83–84		We also improve the processing and recycling of demolition waste from construction projects through the sustainable demolition Green Deal, an agreement between the Ministry of the Environment and the business sector. The main objective of the agreement is to increase the reuse and recycling of demolition materials by promoting the functioning of the markets for demolition materials from repair and demolition projects.	7–8
301-3	Reclaimed products and their packaging materials		Information not available	We have not been able to collect this information on our real estate construction projects	
Energy					
GRI 3: Material Topics (2021)					
3-3	Management of material topics	New sustainability programme guides our work, p. 22–24 Sustainability management and governance, p. 32–33		The assessment of material topics does not meet all the criteria in GRI 2021 3-3.	1–10
GRI 302: Energy (2016)					
302-1	Energy consumption within the organization	Environmental aspects of our own operations, p. 53			7–9
302-2	Energy consumption outside of the organization	Overall picture of Varma’s climate impacts, p. 63–64			7–9
302-3	Energy intensity	Environmental information on Varma’s operations, p. 53			7–9
302-4	Reduction of energy consumption	Environmental aspects of our own operations, p. 53			7–9
302-5	Reductions in energy requirements of products and services		Information is not applicable	Not material in the context of provision of earnings-related pension insurance	
Water and effluents					
GRI 3: Material Topics (2021)					
3-3	Management of material topics	New sustainability programme guides our work, p. 22–24 Sustainability management and governance, p. 32–33		The assessment of material topics does not meet all the criteria in GRI 2021 3-3.	1–10

Disclosure	Contents	Location	Omissions	Comment	UN Global Compact principles
GRI 303: Water and Effluents (2018)					
303-1	Interactions with water as a shared resource		Information is not applicable	Not material in the context of provision of earnings-related pension insurance	
303-2	Management of water discharge-related impacts		Information not available	All our facilities are covered by Helsinki Region Environmental Services HSY's or other municipalities' effluent treatment services.	
303-3	Water withdrawal		Information not available	All our facilities are covered by Helsinki Region Environmental Services HSY's or other municipalities' effluent treatment services.	
303-4	Water discharge		Information not available	All our facilities are covered by Helsinki Region Environmental Services HSY's or other municipalities' effluent treatment services.	
303-5	Water consumption	Environmental information on Varma's operations, p. 53			7-9
Biodiversity					
GRI 3: Material Topics (2021)					
3-3	Management of material topics	New sustainability programme guides our work, p. 22-24 Sustainability management and governance, p. 32-33		The assessment of material topics does not meet all the criteria in GRI 2021 3-3.	1-10
GRI 304: Biodiversity (2016)					
304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas		Information not available	Our biodiversity assessment at our locations is still ongoing	
304-2	Significant impacts of activities, products, and services on biodiversity	Attending to biodiversity, p. 78-81		We have assessed the sector-specific impacts of our investments on biodiversity and, in the future, our goal is to shift our focus from general sector-specific impacts to the kinds of impacts individual companies have on biodiversity in different asset classes.	7-9
304-3	Habitats protected or restored		Information not available	Our biodiversity assessment at our locations is still ongoing	
304-4	IUCN Red List species and national conservation list species with habitats in areas affected by operations		Information not available	Our biodiversity assessment at our locations is still ongoing	
Emissions					
GRI 3: Material Topics (2021)					
3-3	Management of material topics	New sustainability programme guides our work, p. 22-24 Sustainability management and governance, p. 32-33		The assessment of material topics does not meet all the criteria in GRI 2021 3-3.	1-10

Disclosure	Contents	Location	Omissions	Comment	UN Global Compact principles
GRI 305: Emissions (2016)					7-9
305-1	Direct (Scope 1) GHG emissions	Overall picture of Varma’s climate impacts. p. 63-64 Reporting principles, p. 106-107			7-9
305-2	Energy indirect (Scope 2) GHG emissions	Overall picture of Varma’s climate impacts. p. 63-64 Reporting principles, p. 106-107			7-9
305-3	Other indirect (Scope 3) GHG emissions	Overall picture of Varma’s climate impacts. p. 63-64 Reporting principles, p. 106-107			7-9
305-4	GHG emissions intensity	The carbon footprint of Varma’s investments, p. 72			7-9
305-5	Reduction of GHG emissions	Roadmap for Varma’s climate targets, p. 65 Progress towards climate targets, p. 66 Responsible investment, p. 55-61 Sustainability of our own operations and the value chain, p. 50-53			7-9
305-6	Emissions of ozone-depleting substances (ODS)		Information is not applicable	Not material in the context of provision of earnings-related pension insurance	
305-7	Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions		Information is not applicable	Not material in the context of provision of earnings-related pension insurance	
Waste					
GRI 3: Material Topics (2021)					
3-3	Management of material topics	New sustainability programme guides our work, p. 22-24 Sustainability management and governance, p. 32-33		The assessment of material topics does not meet all the criteria in GRI 2021 3-3.	1-10
GRI 306: Waste (2020)					
306-1	Waste generation and significant waste-related impacts	Environmental impacts of real estate investments, p. 82-85 Environmental aspects of our own operations, p. 53			7-9
306-2	Management of significant waste-related impacts	Environmental impacts of real estate investments, p. 82-85 Environmental aspects of our own operations, p. 53			7-9
306-3	Waste generated	Environmental impacts of real estate investments, p. 82-85 Environmental aspects of our own operations, p. 53			7-9
306-4	Waste diverted from disposal	Waste monitoring and influencing waste volumes, p. 83-84			7-9
306-5	Waste directed to disposal	Waste monitoring and influencing waste volumes, p. 83-84			7-9

Disclosure	Contents	Location	Omissions	Comment	UN Global Compact principles
Toimittajien ympäristöarvointi					
GRI 3: Material Topics (2021)					
3-3	Management of material topics	New sustainability programme guides our work, p. 22–24 Sustainability management and governance, p. 32–33		The assessment of material topics does not meet all the criteria in GRI 2021 3-3.	1–10
GRI 308: Supplier environmental assessment					
308-1	New suppliers that were screened using environmental criteria	Sustainability of our own operations and the value chain, p. 50–52		SBTs and carbon risk	7–9
308-2	Negative environmental impacts in the supply chain and actions taken	Sustainability requirements of the supply chain, p. 51		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. We also encourage them to develop environmentally friendly solutions. Especially in emission-intensive industries, suppliers should pay special attention to monitoring their carbon footprint and to targets related to minimizing future environmental impacts.	7–9
Employment					
GRI 3: Material Topics (2021)					
3-3	Management of material topics	New sustainability programme guides our work, p. 22–24 Sustainability management and governance, p. 32–33		The assessment of material topics does not meet all the criteria in GRI 2021 3-3.	1–10
GRI 401: Employment (2016)					
401-1	New employee hires and employee turnover	Personnel, p. 91			
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees		Information not available	Benefits exceeding the statutory level have not been reported in detail.	
401-3	Parental leave		Information not available	Arrangements based on legislation.	
Labor/ management relations					
GRI 3: Material Topics (2021)					
3-3	Management of material topics	New sustainability programme guides our work, p. 22–24 Sustainability management and governance, p. 32–33		The assessment of material topics does not meet all the criteria in GRI 2021 3-3.	1–10

Disclosure	Contents	Location	Omissions	Comment	UN Global Compact principles
GRI 402: Labor/ management relations (2016)					
402-1	Minimum notice periods regarding operational changes		Information not available	Arrangements based on legislation. Legislation does not specify the minimum notice periods with the same level of detail required by the GRI.	
Työterveys ja -turvallisuus					
GRI 3: Material Topics (2021)					
3-3	Management of material topics	New sustainability programme guides our work, p. 22–24 Sustainability management and governance, p. 32–33		The assessment of material topics does not meet all the criteria in GRI 2021 3-3.	1–10
GRI 403: Occupational health and safety (2018)					
403-1	Occupational health and safety management system	Work ability and safety, p. 101–102			1–2
403-2	Hazard identification, risk assessment, and incident investigation	Work ability and safety, p. 101–102			1–2
403-3	Occupational health services	Work ability and safety, p. 102			1–2, 6
403-4	Worker participation, consultation, and communication on occupational health and safety	Work ability and safety, p. 101–102			6
403-5	Worker training on occupational health and safety	Work ability and safety, p. 101–102			6
403-6	Promotion of worker health	Work ability and safety, p. 101–102			1–2, 6
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	Work ability and safety, p. 101–102			1–2, 6
403-8	Workers covered by an occupational health and safety management system	Work ability and safety, p. 101–102			6
403-9	Work-related injuries		Information not available	Information is not reported	
403-10	Work-related ill health		Information not available	Information is not reported	
Training and education					
GRI 3: Material Topics (2021)					
3-3	Management of material topics	New sustainability programme guides our work, p. 22–24 Sustainability management and governance, p. 32–33		The assessment of material topics does not meet all the criteria in GRI 2021 3-3.	1–10

Disclosure	Contents	Location	Omissions	Comment	UN Global Compact principles
GRI 404: Training and education (2016)					
404-1	Average hours of training per year per employee	Personnel, p. 91	Information is incomplete	Information is incomplete as breaking down information by gender is not considered material	6
404-2	Programs for upgrading employee skills and transition assistance programs	Competence development, p. 95–96			6
404-3	Percentage of employees receiving regular performance and career development reviews	Personnel, p. 91			6
Diversity and equal opportunity					
GRI 3: Material Topics (2021)					
3-3	Management of material topics	New sustainability programme guides our work, p. 22–24 Sustainability management and governance, p. 32–33		The assessment of material topics does not meet all the criteria in GRI 2021 3-3.	1–10
GRI 405: Diversity and equal opportunity (2016)					
405-1	Diversity of governance bodies and employees	Diversity, equality and non-discrimination, p. 97–100			6
405-2	Ratio of basic salary and remuneration of women to men	Pay and career development at Varma is non-discriminatory, p. 99–100			6
Non-discrimination					
GRI 3: Material Topics (2021)					
3-3	Management of material topics	New sustainability programme guides our work, p. 22–24 Sustainability management and governance, p. 32–33		The assessment of material topics does not meet all the criteria in GRI 2021 3-3.	1–10
GRI 406: Non-discrimination (2016)					
406-1	Incidents of discrimination and corrective actions taken	Instructions and steadfast intervention promote a harassment-free work community, p. 100		Whistleblowing reporting channel	6
Freedom of association and collective bargaining					
GRI 3: Material Topics (2021)					
3-3	Management of material topics	New sustainability programme guides our work, p. 22–24 Sustainability management and governance, p. 32–33		The assessment of material topics does not meet all the criteria in GRI 2021 3-3.	1–10

Disclosure	Contents	Location	Omissions	Comment	UN Global Compact principles
GRI 407: Freedom of association and collective bargaining (2016)					
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	Sustainability of our own operations and the value chain, p. 50–53	Information is incomplete	98% of our procurement is made from Finnish suppliers and are thus covered by Finnish legislation. We have carried out a supplier risk assessment, which showed that 99.7% of our suppliers do not operate in high-risk industries.	3
Child labor					
GRI 3: Material Topics (2021)					
3-3	Management of material topics	New sustainability programme guides our work, p. 22–24 Sustainability management and governance, p. 32–33		The assessment of material topics does not meet all the criteria in GRI 2021 3-3.	1–10
GRI 408: Child labor (2016)					
408-1	Operations and suppliers at significant risk for incidents of child labor	Sustainability of our own operations and the value chain, p. 50–53	Information is incomplete	98% of our procurement is made from Finnish suppliers and are thus covered by Finnish legislation. We have carried out a supplier risk assessment, which showed that 99.7% of our suppliers do not operate in high-risk industries.	1–6
Forced or compulsory labor					
GRI 3: Material Topics (2021)					
3-3	Management of material topics	New sustainability programme guides our work, p. 22–24 Sustainability management and governance, p. 32–33		The assessment of material topics does not meet all the criteria in GRI 2021 3-3.	1–10
GRI 409: Forced or compulsory labor (2016)					
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	Sustainability of our own operations and the value chain, p. 50–53	Information is incomplete	98% of our procurement is made from Finnish suppliers and are thus covered by Finnish legislation. We have carried out a supplier risk assessment, which showed that 99.7% of our suppliers do not operate in high-risk industries.	4
Security practices					
GRI 3: Material Topics (2021)					
3-3	Management of material topics	New sustainability programme guides our work, p. 22–24 Sustainability management and governance, p. 32–33		The assessment of material topics does not meet all the criteria in GRI 2021 3-3.	1–10

Disclosure	Contents	Location	Omissions	Comment	UN Global Compact principles
GRI 410: Security practices (2016)					
410-1	Security personnel trained in human rights policies or procedures		Information not available	Principles for Human Rights were drawn up in 2022. In 2023, we will continue with human rights training.	
Rights of indigenous peoples					
GRI 3: Material Topics (2021)					
3-3	Management of material topics	New sustainability programme guides our work, p. 22–24 Sustainability management and governance, p. 32–33		The assessment of material topics does not meet all the criteria in GRI 2021 3-3.	1–10
GRI 411: Rights of indigenous peoples (2016)					
411-1	Incidents of violations involving rights of indigenous peoples		Information is not applicable	Not material in the context of provision of earnings-related pension insurance	
Local communities					
GRI 3: Material Topics (2021)					
3-3	Management of material topics	New sustainability programme guides our work, p. 22–24 Sustainability management and governance, p. 32–33		The assessment of material topics does not meet all the criteria in GRI 2021 3-3.	1–10
GRI 413: Local communities (2016)					
413-1	Operations with local community engagement, impact assessments, and development programs		Information is not applicable	Not material in the context of provision of earnings-related pension insurance	
413-2	Operations with significant actual and potential negative impacts on local communities		Information is not applicable	Not material in the context of provision of earnings-related pension insurance	
Supplier social assessment					
GRI 3: Material Topics (2021)					
3-3	Management of material topics	New sustainability programme guides our work, p. 22–24 Sustainability management and governance, p. 32–33		The assessment of material topics does not meet all the criteria in GRI 2021 3-3.	1–10
GRI 414: Supplier social assessment (2016)					
414-1	New suppliers that were screened using social criteria	Respect for human rights in the supply chain and own operations, p. 50–51		We determined the sector distribution of our total procurement and used this information to assess the share of suppliers in sectors with high human rights risks	1–6
414-2	Negative social impacts in the supply chain and actions taken	Sustainability of our own operations and the value chain, p. 50–53	Information is incomplete	98% of our procurement made from Finnish suppliers and are thus covered by Finnish legislation. We have carried out a supplier risk assessment, which showed that 99.7% of our suppliers do not operate in high-risk industries.	1–6

Disclosure	Contents	Location	Omissions	Comment	UN Global Compact principles
Public policy					
GRI 3: Material Topics (2021)					
3-3	Management of material topics	New sustainability programme guides our work, p. 22–24 Sustainability management and governance, p. 32–33		The assessment of material topics does not meet all the criteria in GRI 2021 3-3.	1–10
GRI 415: Public policy (2016)					
415-1	Political contributions	Stakeholder co-operation and sustainability networks, p. 48–49			
Customer health and safety					
GRI 3: Material Topics (2021)					
3-3	Management of material topics	New sustainability programme guides our work, p. 22–24 Sustainability management and governance, p. 32–33		The assessment of material topics does not meet all the criteria in GRI 2021 3-3.	1–10
GRI 416: Customer health and safety (2016)					
416-1	Assessment of the health and safety impacts of product and service categories		Information is not applicable	Not material in the context of provision of earnings-related pension insurance	
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services		Information is not applicable	Not material in the context of provision of earnings-related pension insurance	
Marketing and labelling					
GRI 3: Material Topics (2021)					
3-3	Management of material topics	New sustainability programme guides our work, Sustainability management and governance		The assessment of material topics does not meet all the criteria in GRI 2021 3-3.	

Disclosure	Contents	Location	Omissions	Comment	UN Global Compact principles
GRI 417: Marketing and labelling (2016)					
417-1	Requirements for product and service information and labeling		Information is not applicable	Not material in the context of provision of earnings-related pension insurance	
417-2	Incidents of non-compliance concerning product and service information and labeling		Information is not applicable	Not material in the context of provision of earnings-related pension insurance	
417-3	Incidents of non-compliance concerning marketing communications		Information is not applicable	Not material in the context of provision of earnings-related pension insurance	
Customer privacy					
GRI 3: Material Topics (2021)					
3-3	Management of material topics	New sustainability programme guides our work, Sustainability management and governance		The assessment of material topics does not meet all the criteria in GRI 2021 3-3.	
GRI 418: Customer privacy (2016)					
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	Data protection and data security, p. 47		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 2022, Varma employees reported 91 data security events, 7 of which concerned minor data security violations under the GDPR. Three cases were reported to the data protection ombudsman.	

Independent accountant's assurance report

To the Management of Varma Mutual Pension Insurance Company

Scope

We have been engaged by Varma Mutual Pension Insurance Company (hereafter Varma) to perform a 'limited assurance engagement,' as defined by International Standards on Assurance Engagements, hereafter referred to as the engagement, to report on Varma's Annual and Sustainability Report 2022 (the "Subject Matter") for the period 1.1-31.12.2022.

Criteria applied by Varma

In preparing the Annual and Sustainability Report 2022, Varma applied the Global Reporting Initiative Sustainability Reporting Standards and Varma's own internal reporting principles (Criteria). As a result, the subject matter information 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 2022 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.

Ernst & Young'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 29.9.2022. 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.

Ernst & Young 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 from, 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 2022 and related information, and applying analytical and other appropriate procedures.

Our procedures included:

- an update of our knowledge and understanding of Varma's material sustainability reporting topics, organization and activities,
- an assessment of the suitability and application of the reporting principles regarding the stakeholders' needs for information,
- interviews with senior management to understand Varma's sustainability leadership,
- interviews with personnel responsible for gathering and consolidation of the sustainability information to understand the systems, processes and controls related to gathering and consolidating the information,

- assessing sustainability data from internal and external sources and checking the data to reporting information on a sample basis to check the accuracy of the data,
- performing recalculation of reported information and evaluating the correctness of underlying data and 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 modifications that should be made to the Annual and Sustainability Report 2022 for the period 1.1- 31.12.2022, in order for it to be in accordance with the Criteria.

Helsinki, 7 March 2023

Ernst & Young Oy
Authorized Public Accountant Firm

Antti Suominen
Authorized Public Accountant

VARMA

www.varma.fi/annualreport