



# Varma's Financial Statement 2018

15 February 2019

# Agenda

1. Key figures
2. Investments and solvency
3. Insurance and pensions
4. Current topics at Varma and in pensions
5. Current CSR topics
6. Current economic issues



# Solid insurance year for Varma

Quality of pension services



Pension application processing time

**31 days**

Efficiency



Share of expense loading used

**60%**

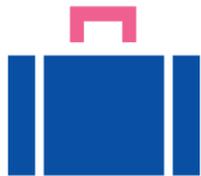
Premiums written



Premiums written, €

**5.1 bn**

## Key figures for the year



Market value  
of investments, €

**44.0 bn**



Solvency capital, €

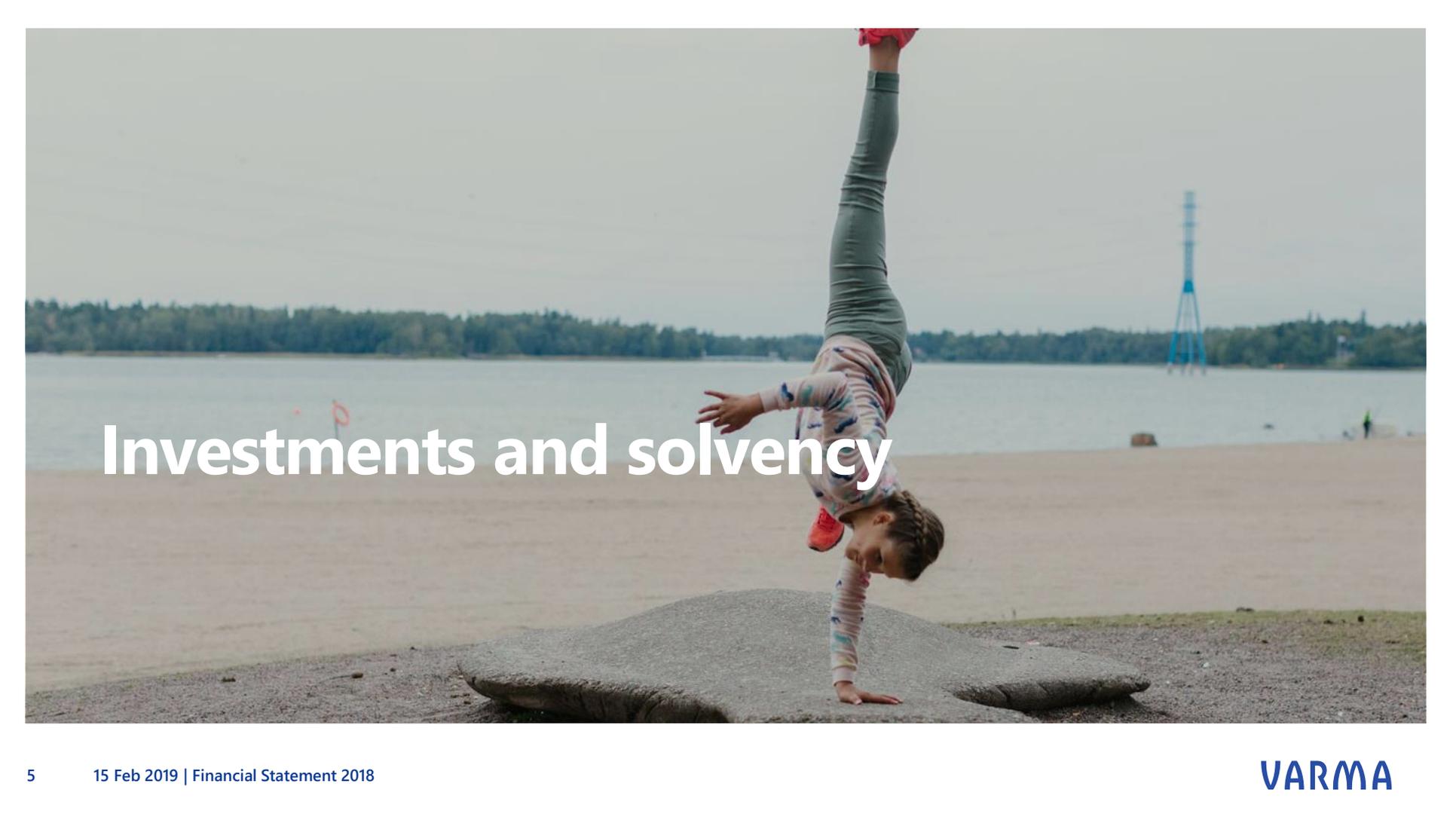
**9.6 bn**



Return on investments

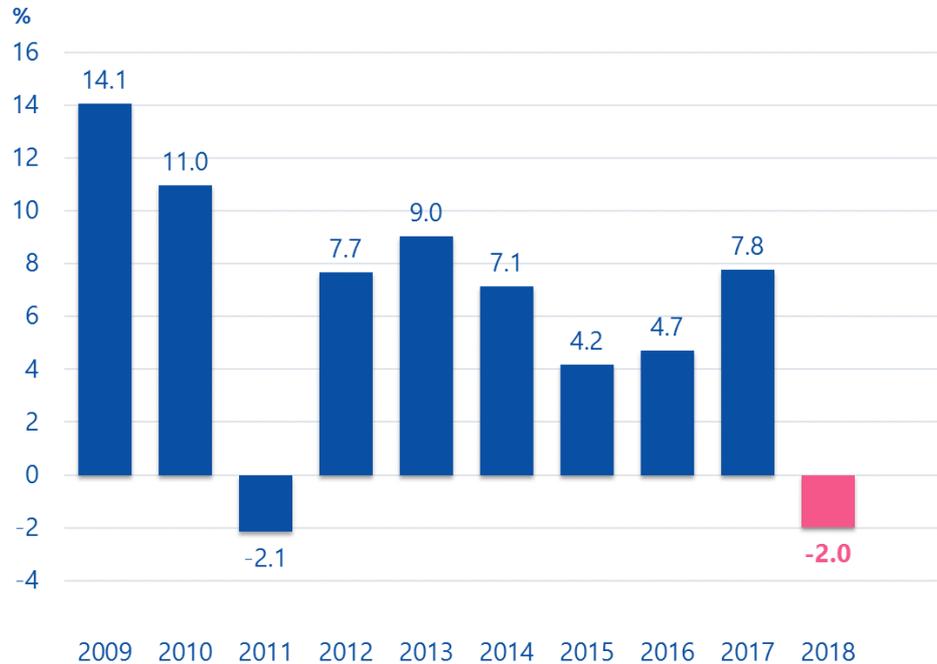
**-2.0%**



A child is performing a handstand on a large, flat rock on a beach. The child is wearing a colorful, patterned long-sleeved shirt, green leggings, and red shoes. The background shows a wide expanse of water, a sandy beach, and a line of trees in the distance. A blue tower structure is visible in the water. The sky is overcast.

# Investments and solvency

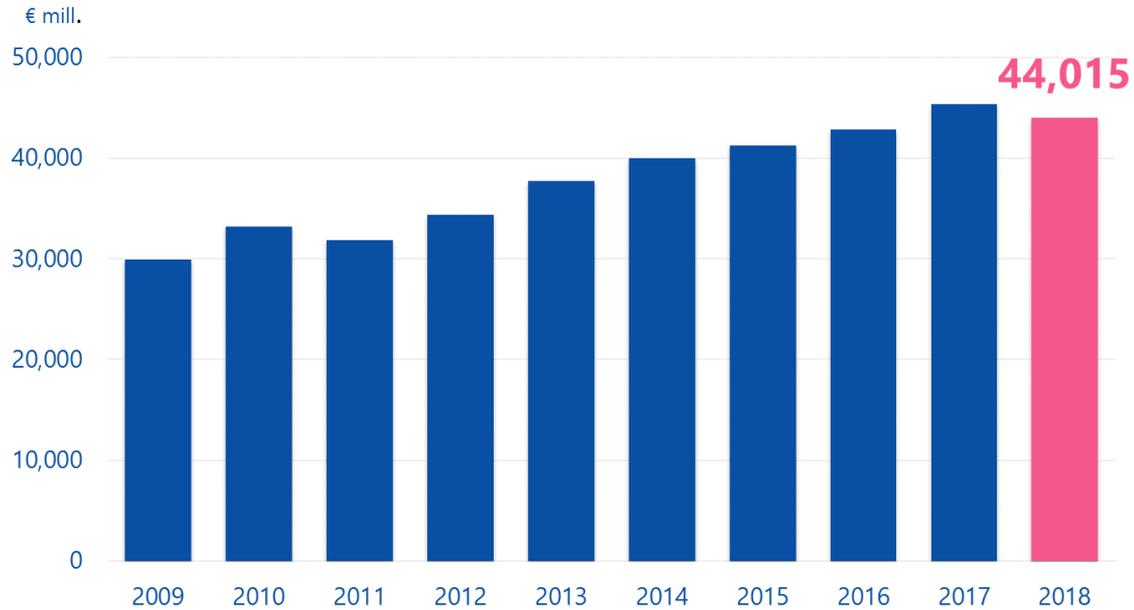
## Investment returns 2009–2018



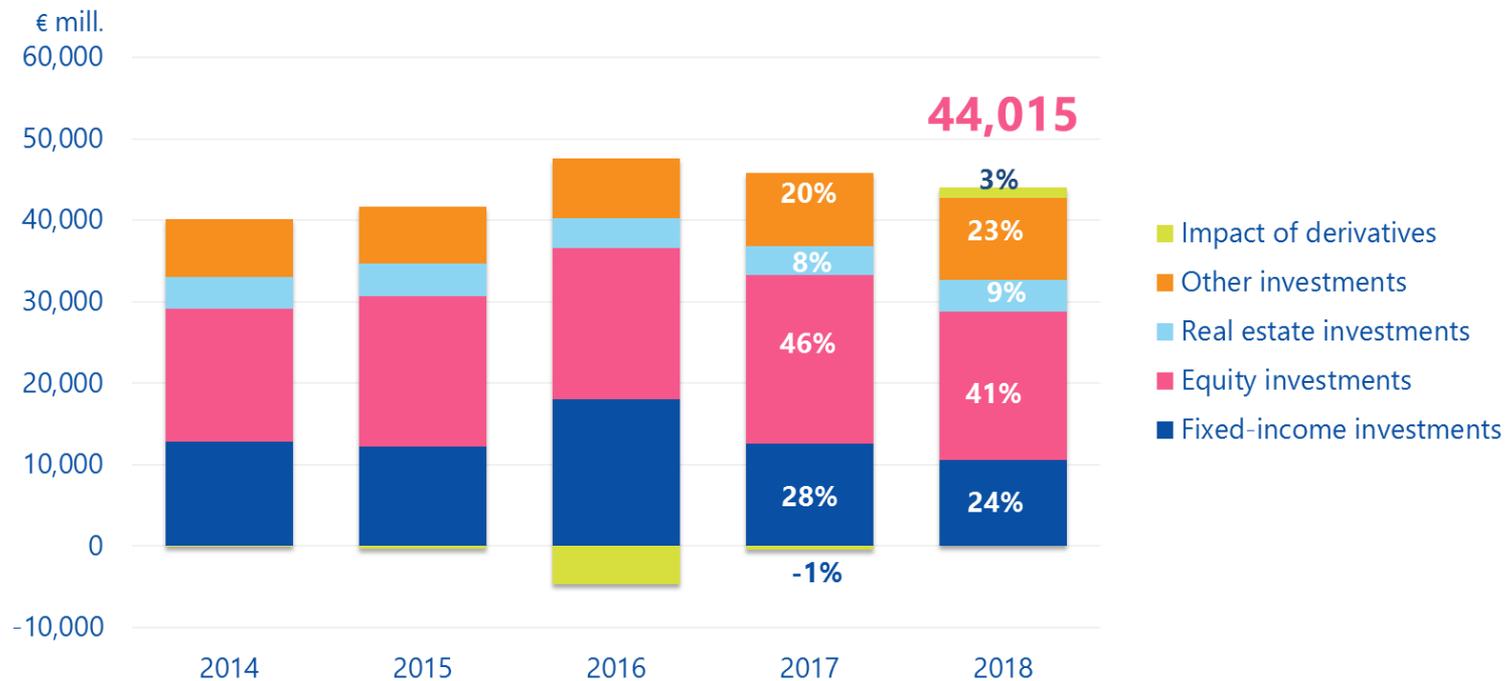
The average nominal return on investments over ten years is approx. 6.0%, calculated in accordance with the recommendations issued by TELA.

The return on Varma's investments fluctuated during 2018. Share prices sank especially towards the end of the year, and the overall return for the full year was rendered negative by the last quarter.

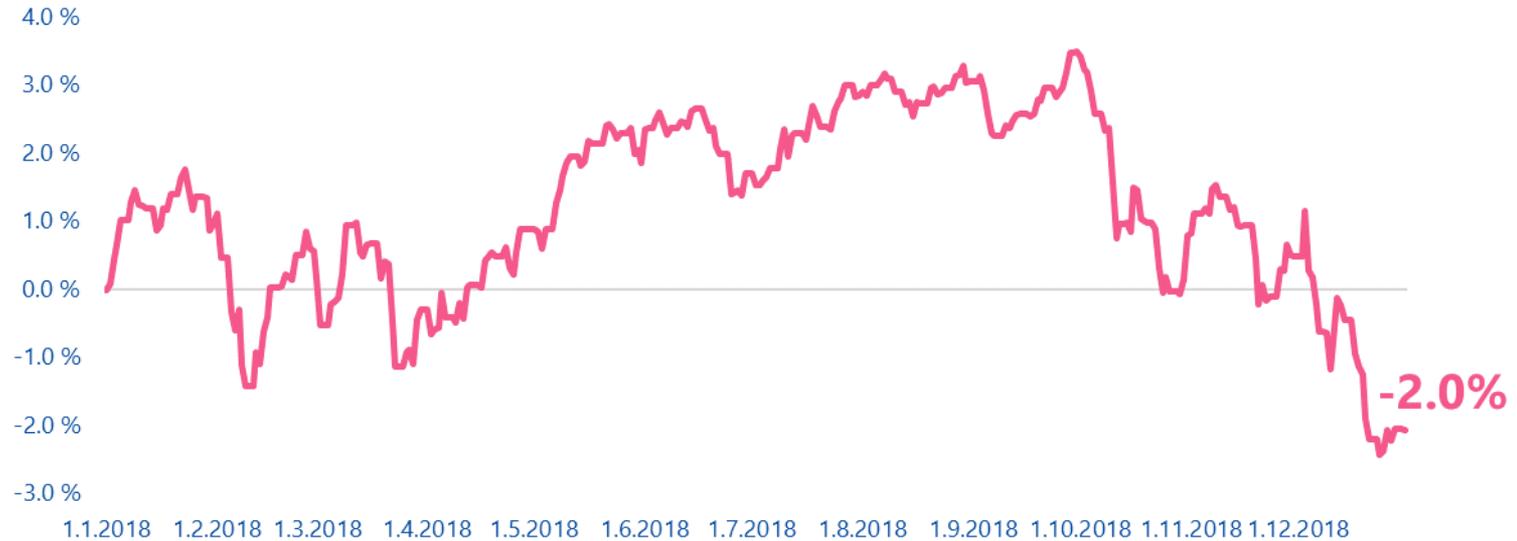
## Strong growth in investment assets since the financial crisis



## Distribution of Varma's investments

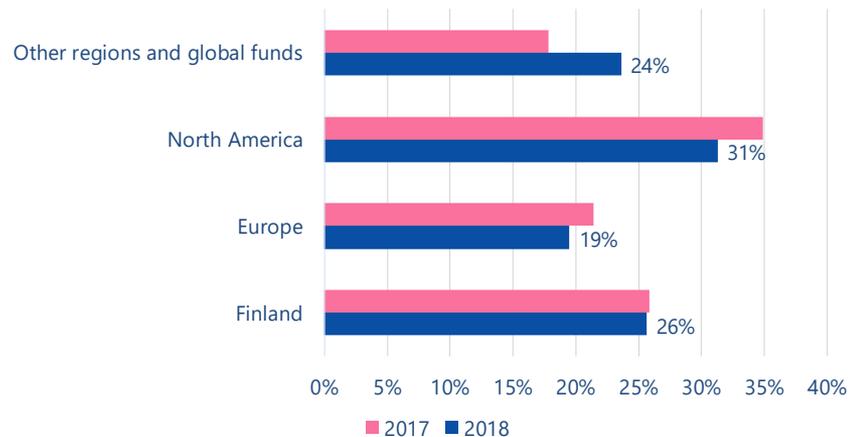


## Varma's investment year 2018

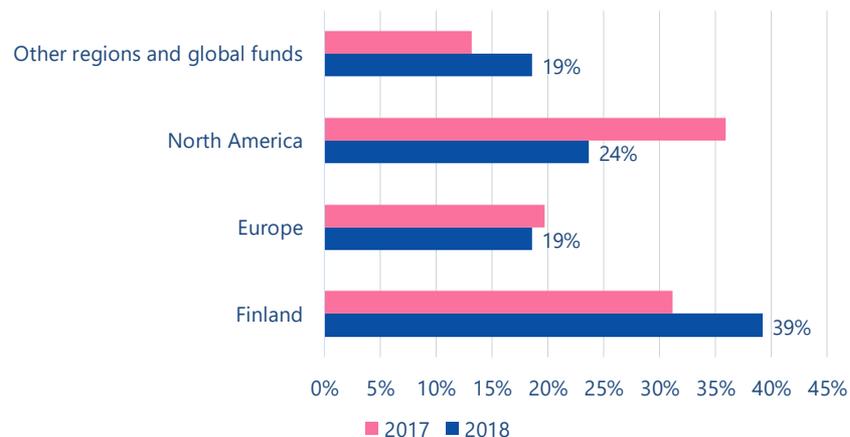


# Geographical distribution of investments

## Investments

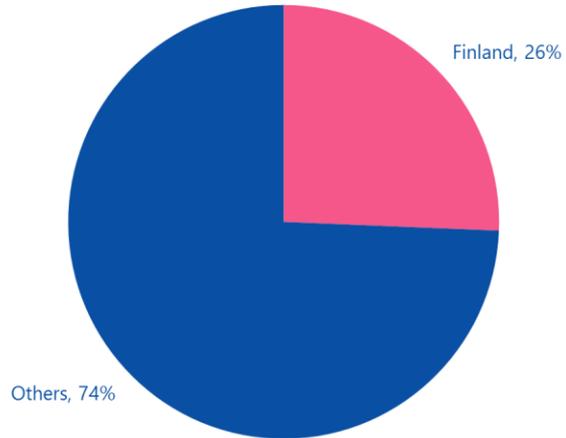


## Listed equities

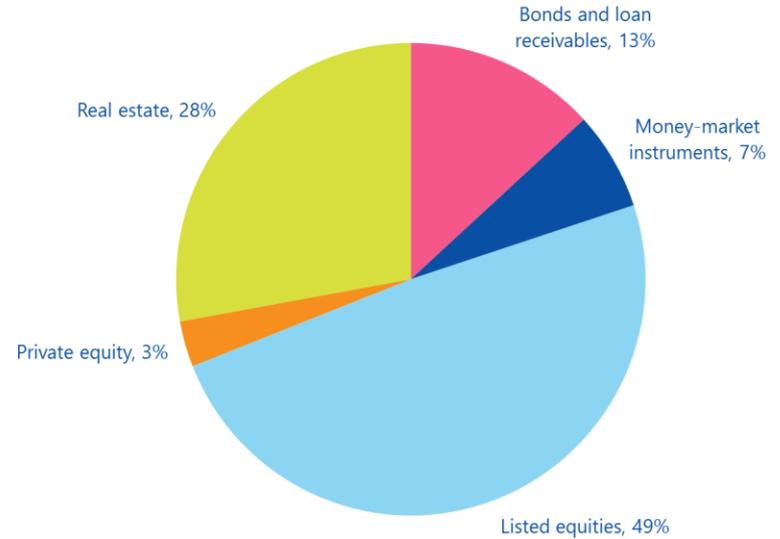


## Investments in Finland 26%, €10.9 billion

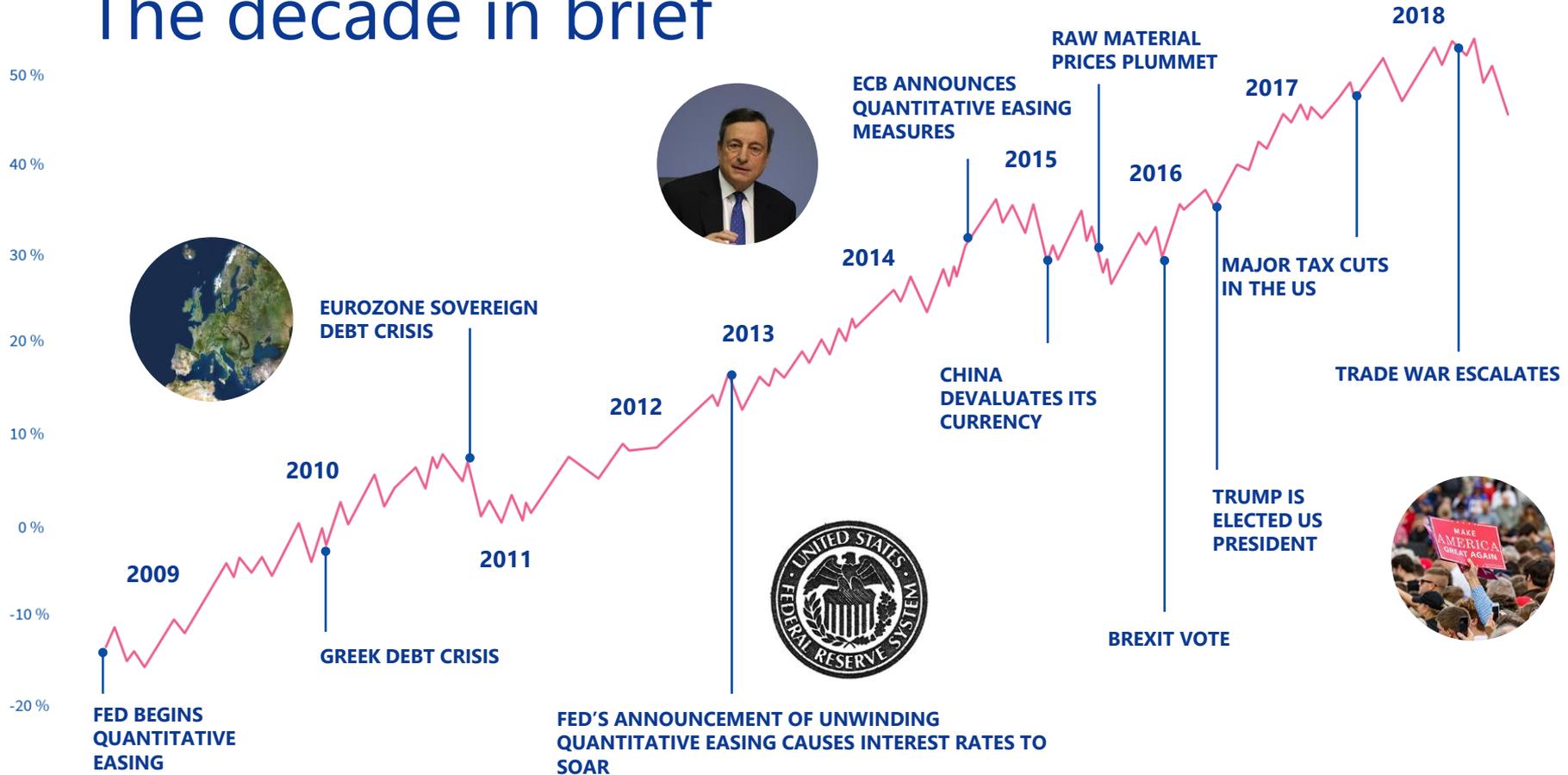
Investments in Finland



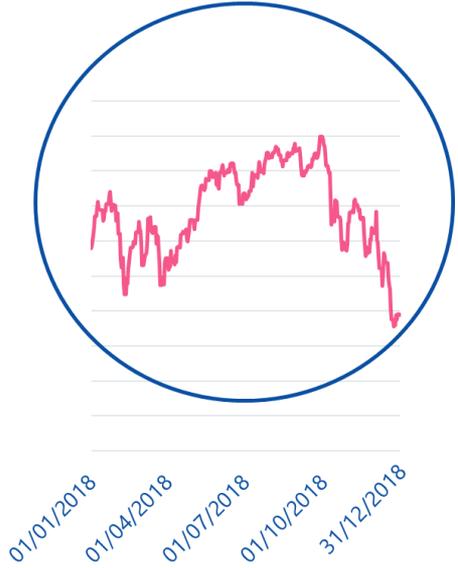
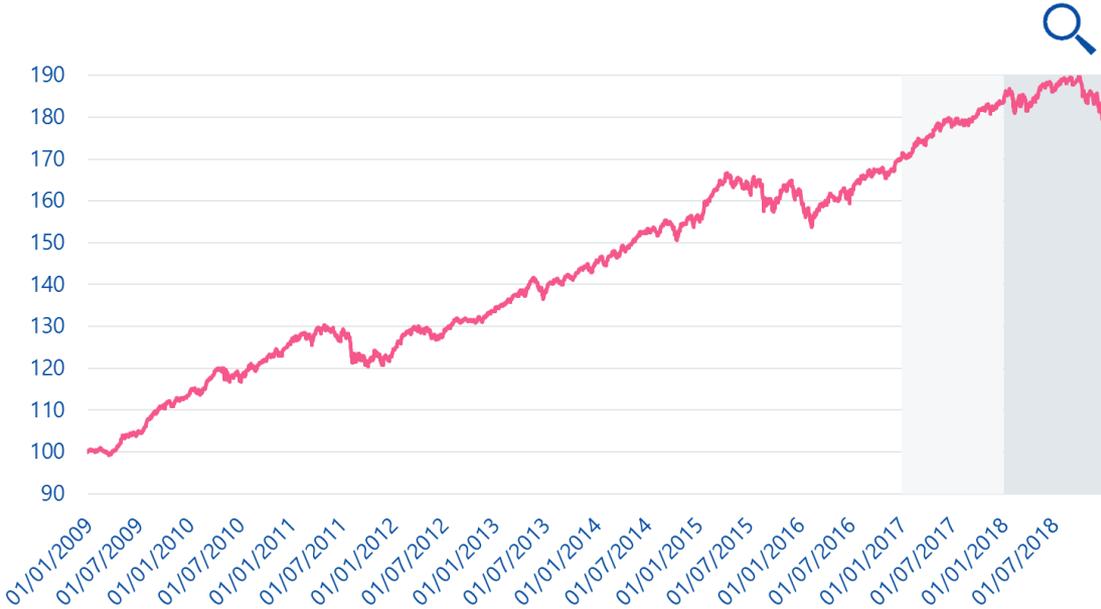
Distribution of Finnish investments



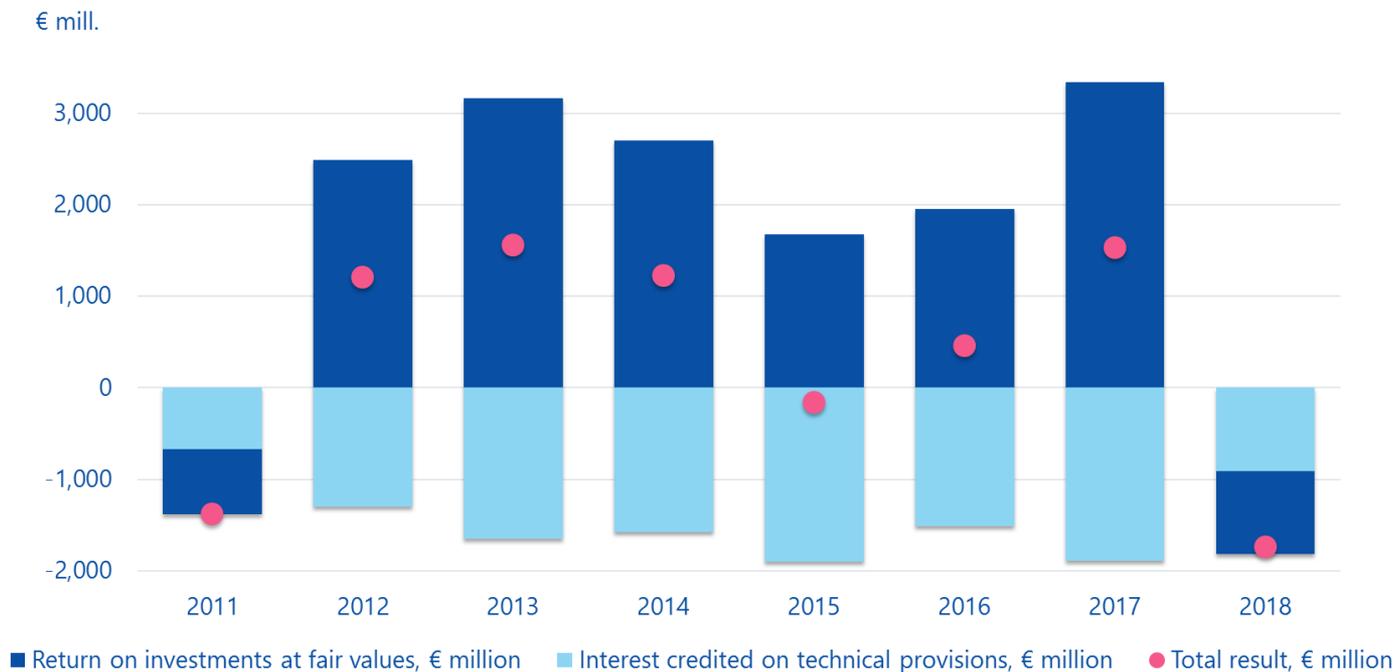
# The decade in brief



# Return development since 2009: cumulative return 79.8%, i.e. €20.5 bn



## Composition of the investment result



## Investments classified according to risk

	31 Dec 2018				31 Dec 2017				1-12/2018	1-12/2017	24 m
	Market value				Market value				Return	Return	Vola- tility
	Market Value		Risk position		Market Value		Risk position		MWR	MWR	
	€ mill.	%	%	%							
<b>Fixed-income investments <sup>1</sup></b>	<b>13,522</b>	<b>31</b>	<b>10,568</b>	<b>24</b>	<b>13,481</b>	<b>30</b>	<b>12,579</b>	<b>28</b>	<b>-1.8</b>	<b>3.7</b>	
Loan receivables	1,817	4	1,817	4	1,453	3	1,453	3	3.7	2.2	
Bonds	10,625	24	9,031	21	10,028	22	10,510	23	-2.9	5.4	1.9
Public bonds	4,104	9	2,142	5	4,153	9	4,285	9	-4.2	4.0	
Other bonds	6,520	15	6,889	16	5,874	13	6,224	14	-2.0	6.2	
Other money-market instruments and deposits	1,080	2	-280	-1	2,001	4	617	1	-0.1	-1.9	
<b>Equity investments</b>	<b>17,916</b>	<b>41</b>	<b>18,222</b>	<b>41</b>	<b>20,427</b>	<b>45</b>	<b>20,687</b>	<b>46</b>	<b>-3.6</b>	<b>11.4</b>	
Listed equities	13,407	30	13,713	31	16,492	36	16,753	37	-8.3	11.6	9.7
Private equity	4,255	10	4,255	10	2,767	6	2,767	6	17.5	7.9	
Unlisted equities	254	1	254	1	1,167	3	1,167	3	3.8	18.5	
<b>Real estate investments</b>	<b>3,879</b>	<b>9</b>	<b>3,879</b>	<b>9</b>	<b>3,602</b>	<b>8</b>	<b>3,602</b>	<b>8</b>	<b>5.5</b>	<b>4.9</b>	
Direct real estates	2,895	7	2,895	7	2,797	6	2,797	6	3.9	2.9	
Real estate funds	984	2	984	2	805	2	805	2	10.6	12.0	
<b>Other investments</b>	<b>8,699</b>	<b>20</b>	<b>10,037</b>	<b>23</b>	<b>7,900</b>	<b>17</b>	<b>8,907</b>	<b>20</b>	<b>-1.4</b>	<b>9.3</b>	
Hedge funds	8,703	20	8,703	20	7,886	17	7,886	17	1.6	8.5	2.2
Commodities	-8	0	25	0	11	0	179	0			
Other investments	3	0	1,308	3	3	0	842	2			
<b>Total investments</b>	<b>44,015</b>	<b>100</b>	<b>42,705</b>	<b>97</b>	<b>45,409</b>	<b>100</b>	<b>45,775</b>	<b>101</b>	<b>-2.0</b>	<b>7.8</b>	<b>3.6</b>
Impact of derivatives			1,310	3			-365	-1			
<b>Investment allocation at fair value</b>	<b>44,015</b>	<b>100</b>	<b>44,015</b>	<b>100</b>	<b>45,409</b>	<b>100</b>	<b>45,409</b>	<b>100</b>			

The modified duration for all the bonds is 2.8.

The open currency position is 24.6% of the market value of the investments.

<sup>1</sup> Includes accrued interest

## Investment returns for Varma and the markets

%	Varma	Finnish equities	European equities	US equities	Euro government bonds	Euro corporate bonds
2018	-2.0	-3.9	-10.8	-4.4	1.0	-1.3
2017	7.8	11.5	10.6	21.8	0.1	2.4
2016	4.7	13.3	1.7	12.0	3.3	4.7
<b>Average nominal return</b>						
5 years	4.3	9.3	3.4	8.5	3.7	2.6
10 years	6.0	12.8	8.6	13.1	4.0	5.0
Since 1999 *	5.3	8.0	3.6	5.6	4.4	4.1
<b>Average real return</b>						
5 years	3.7	8.6	2.8	7.9	3.1	2.0
10 years	4.8	11.4	7.3	11.8	2.8	3.8
Since 1999 *	3.6	6.4	2.0	4.0	2.8	2.5

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

Finnish equities = OMX Helsinki Cap Index

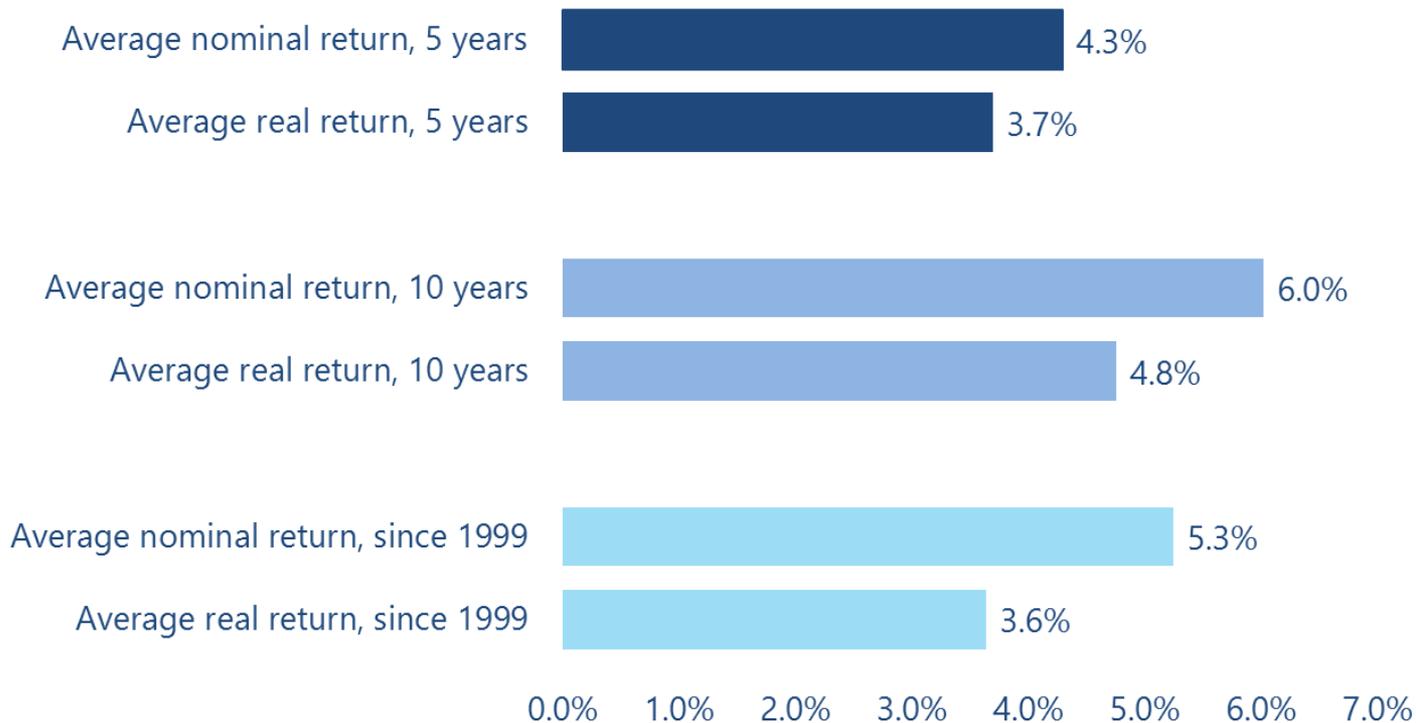
Euro government bonds = IBOXX Eurozone EUR (Total Return)

European equities = Stoxx 600 Total Return Index EUR

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

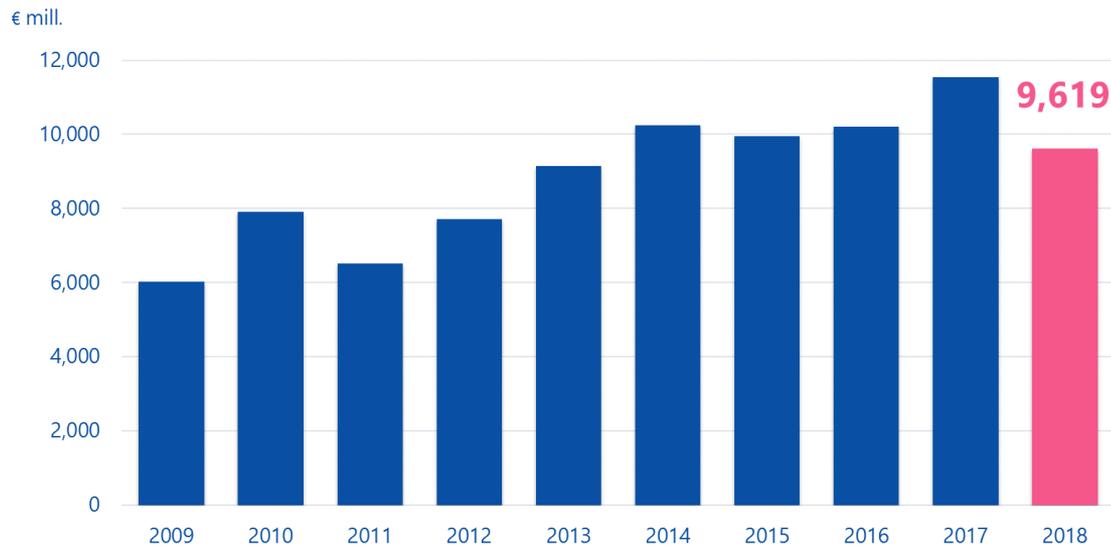
US equities = S&P500 Total Return Index

## Long-term returns at a strong level

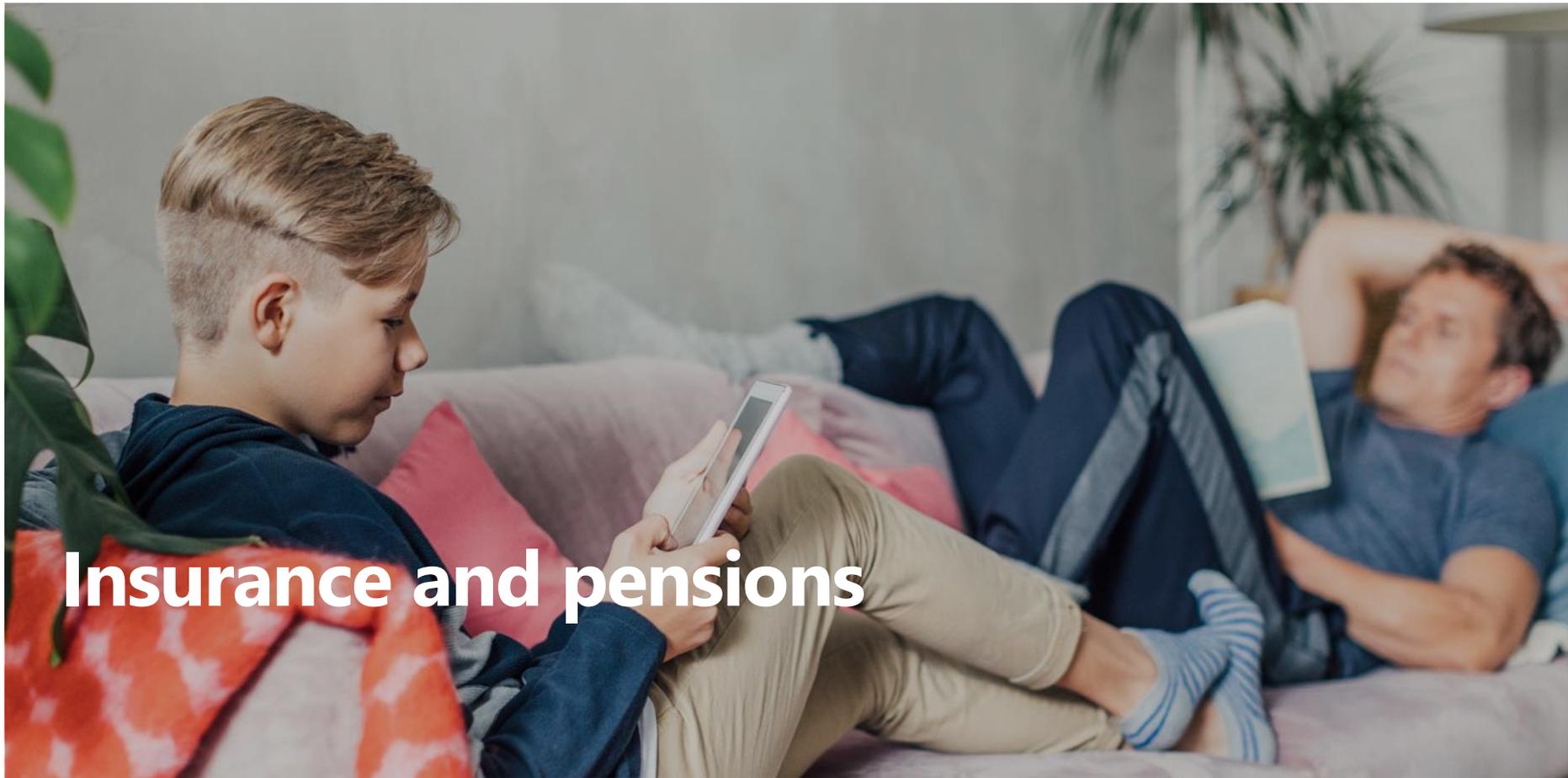


## Solvency remained strong

Strong solvency and efficient operations contribute to the sustainability of the earnings-related pension system



- Solvency capital amounted to EUR 9.6 billion.
- Solvency capital was at a secure level, i.e. at 1.6 times the solvency limit.
- Solvency ratio was 127.5%



# Insurance and pensions



Insured employees and  
entrepreneurs

560,000

Pensioners

343,400

Pensions paid

€5.7 billion

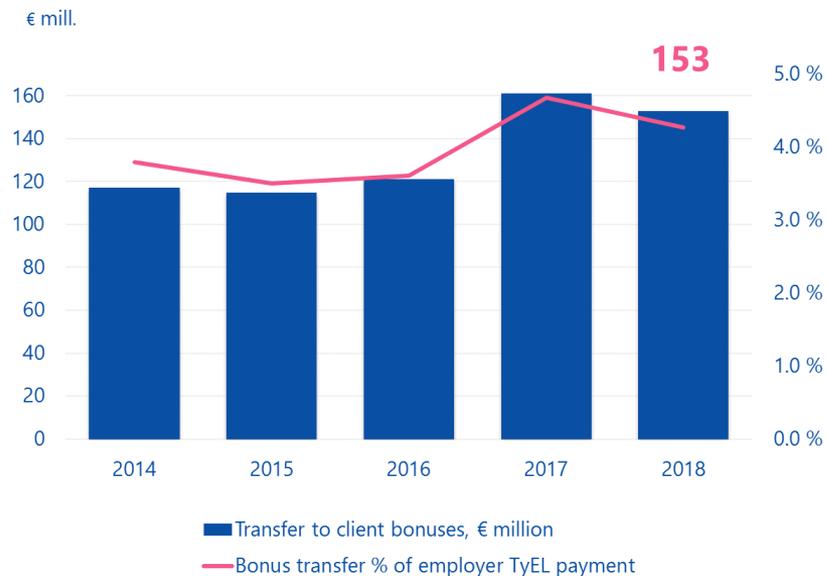
## Best loading profit ever



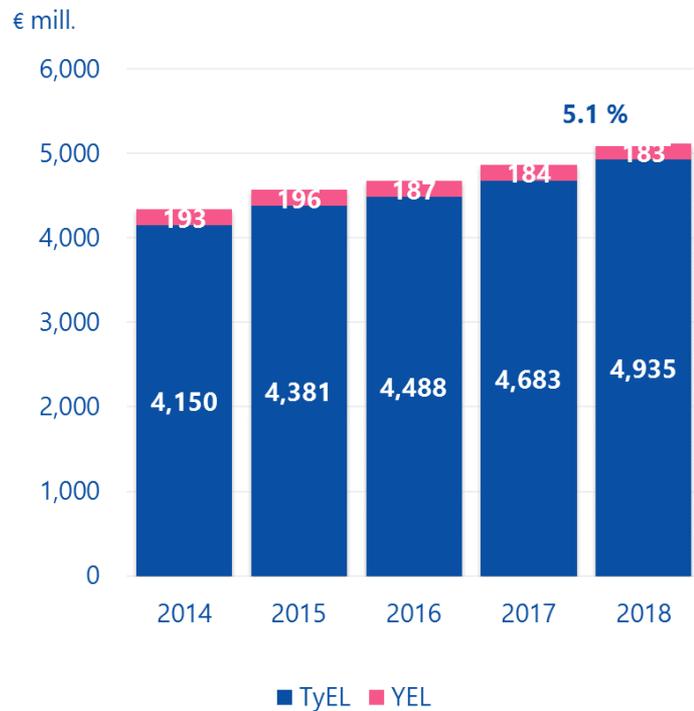
- Varma handles pension cover cost-effectively. We used 60% of the amount reserved for administrative costs.
- Varma's efficiency together with strong solvency guarantees the most competitive client bonuses in the sector.

## Varma will pay EUR 153 million back to its clients as client bonuses

- Varma will distribute the full amount of loading profit for 2018 to its customers as client bonuses, i.e. contribution discounts.
- Varma's strong solvency and operational efficiency benefit its clients in full.



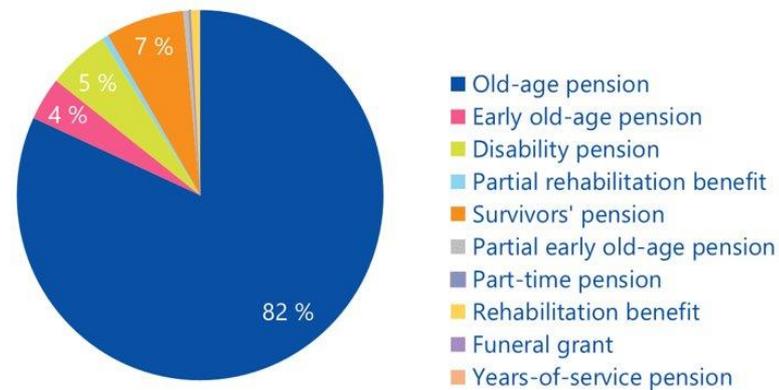
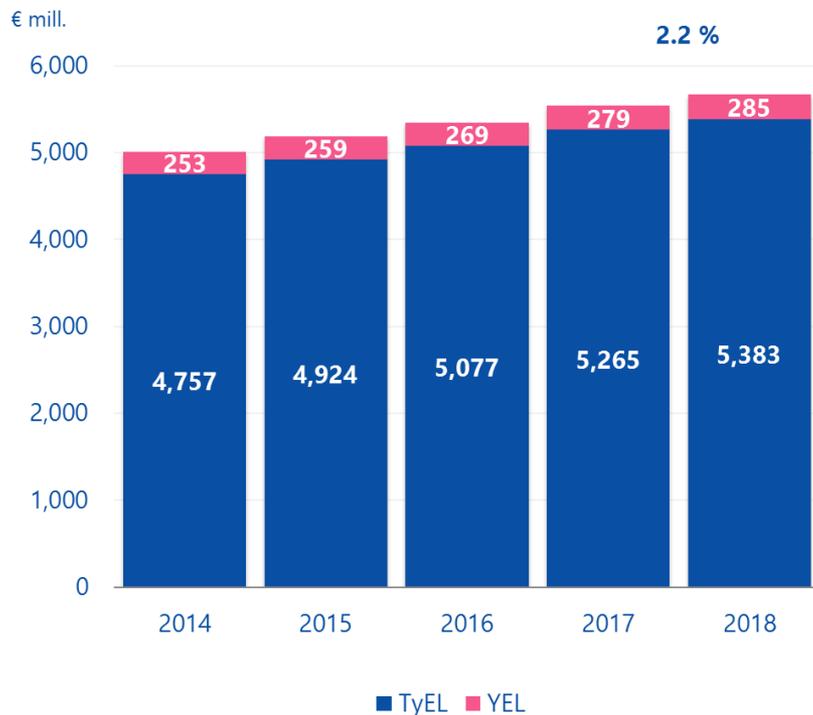
## Premiums written increased

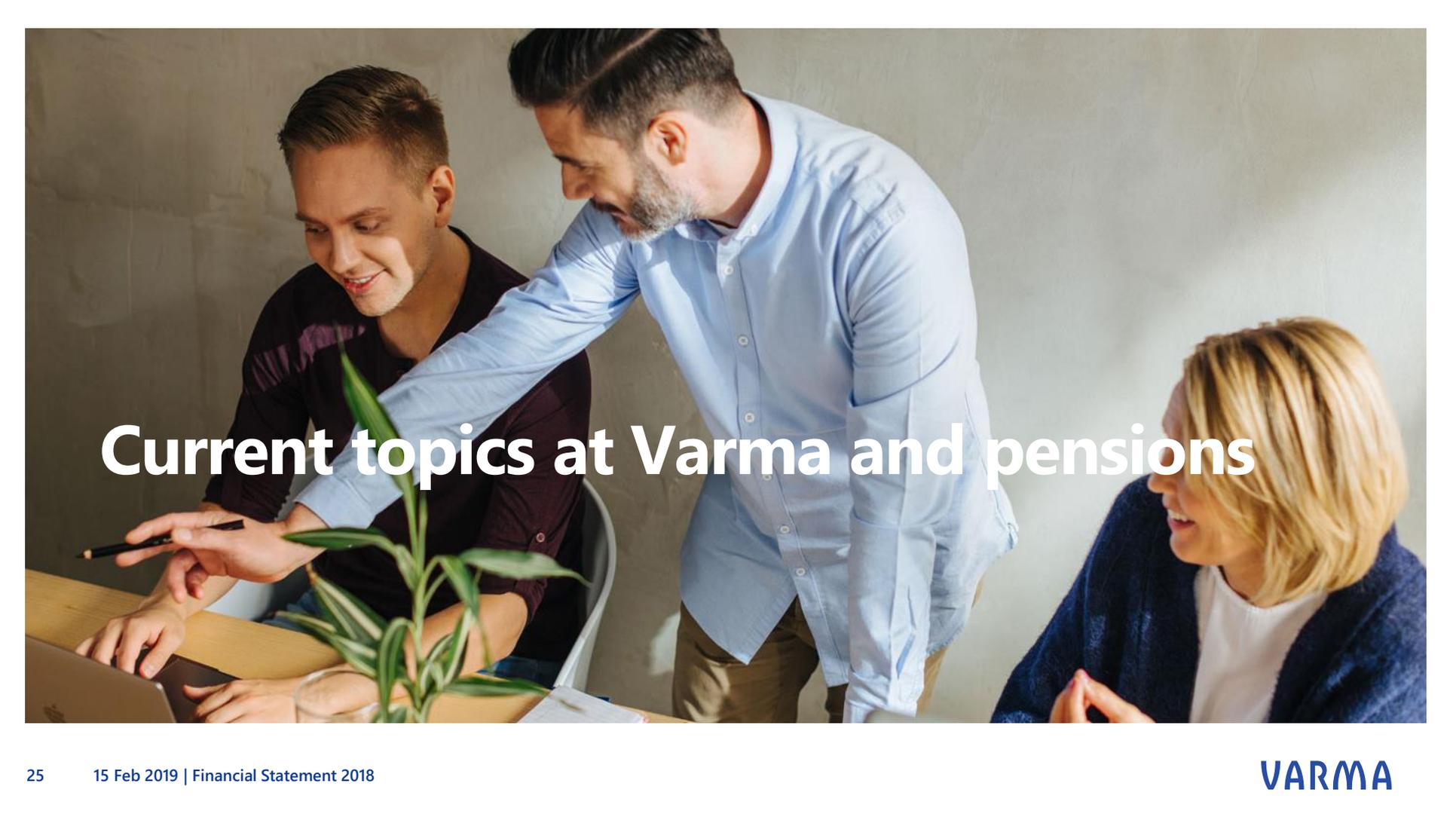


- Premiums written increased to EUR **5.1** billion, i.e. **5.1%**
- At year-end, **559,981** people were insured with Varma.

## Pensions paid by pension benefit

We paid out pensions in the amount of EUR 5.7 billion to 343,400 people.



A photograph of three business professionals in a meeting. Two men and one woman are gathered around a table. One man is seated and pointing at a laptop screen, while another man stands behind him, leaning over to look at the screen. A woman is seated to the right, looking towards the men. The scene is brightly lit, and a small potted plant is visible on the table.

# Current topics at Varma and pensions

# Current topics at Varma and in pensions



## Incomes Register introduced

- As of the beginning of 2019, Varma started using the national Incomes Register to receive the information it needs from employers in close to real time.
- The Incomes Register will speed up the processing of insurance contributions and pension decisions.

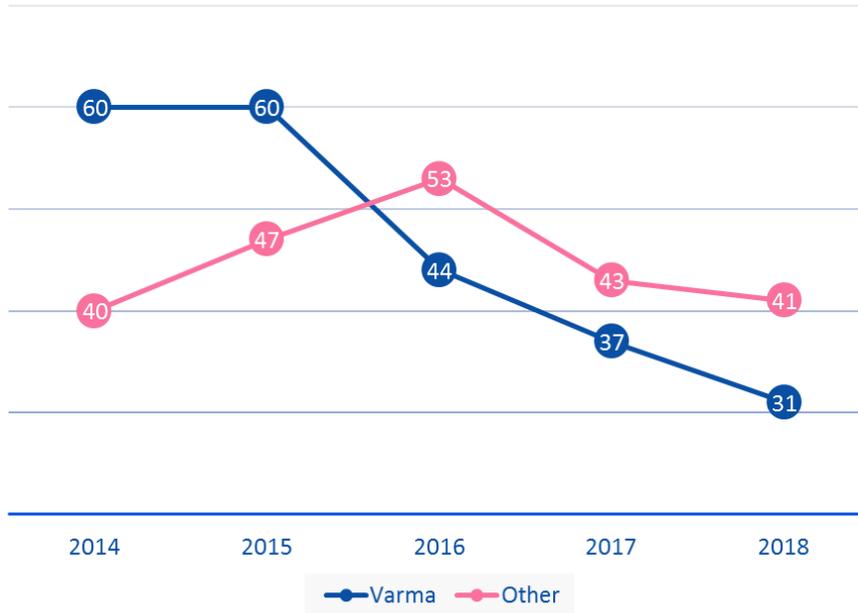
## Disability on the rise

- The number of those who retired on disability pension increased by 10% at Varma in 2018.
- New disability pensions increased the most among those over 60 and under 45 years of age.
- Growth has been the fastest in disability pensions attributed to mental health disorders.

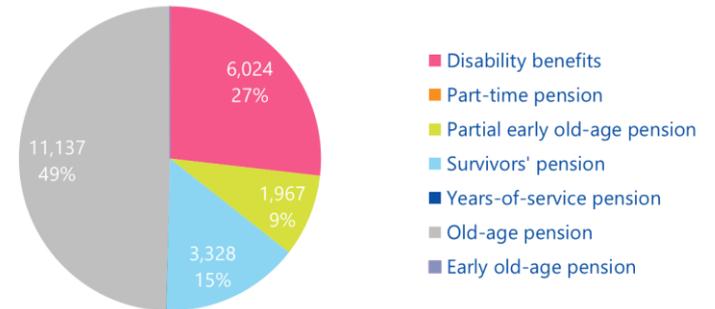
## Retirement age rose

- The number of old-age pension applications decreased by 10% due to the raised lower limit for old-age pension.
- The average age of those who received an old-age pension decision from Varma was 63.7 in 2018.
- Retirement age is gradually rising.

## Varma processes pensions 9 days quicker than average in the earnings-related pension sector



A total of 22,476 new pension decisions were made



An aerial photograph of a large water treatment plant. The facility consists of numerous rectangular basins and channels, some of which are filled with water and others with ice. In the background, a bridge spans across a wide river or lake, with a city skyline visible under a hazy, overcast sky. The text "Current CRS topics" is overlaid in white on the left side of the image.

# Current CRS topics



## Working for future generations

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

**Mitigating climate change**

**Promoting workability and a good working life**

**Ethical business and open communication**

**Responsibility for Varma employees**

**VARMA**

# Mitigating climate change



Ranked 5th in a global climate index



CO<sub>2</sub> emissions of shares –17% in 3 years.



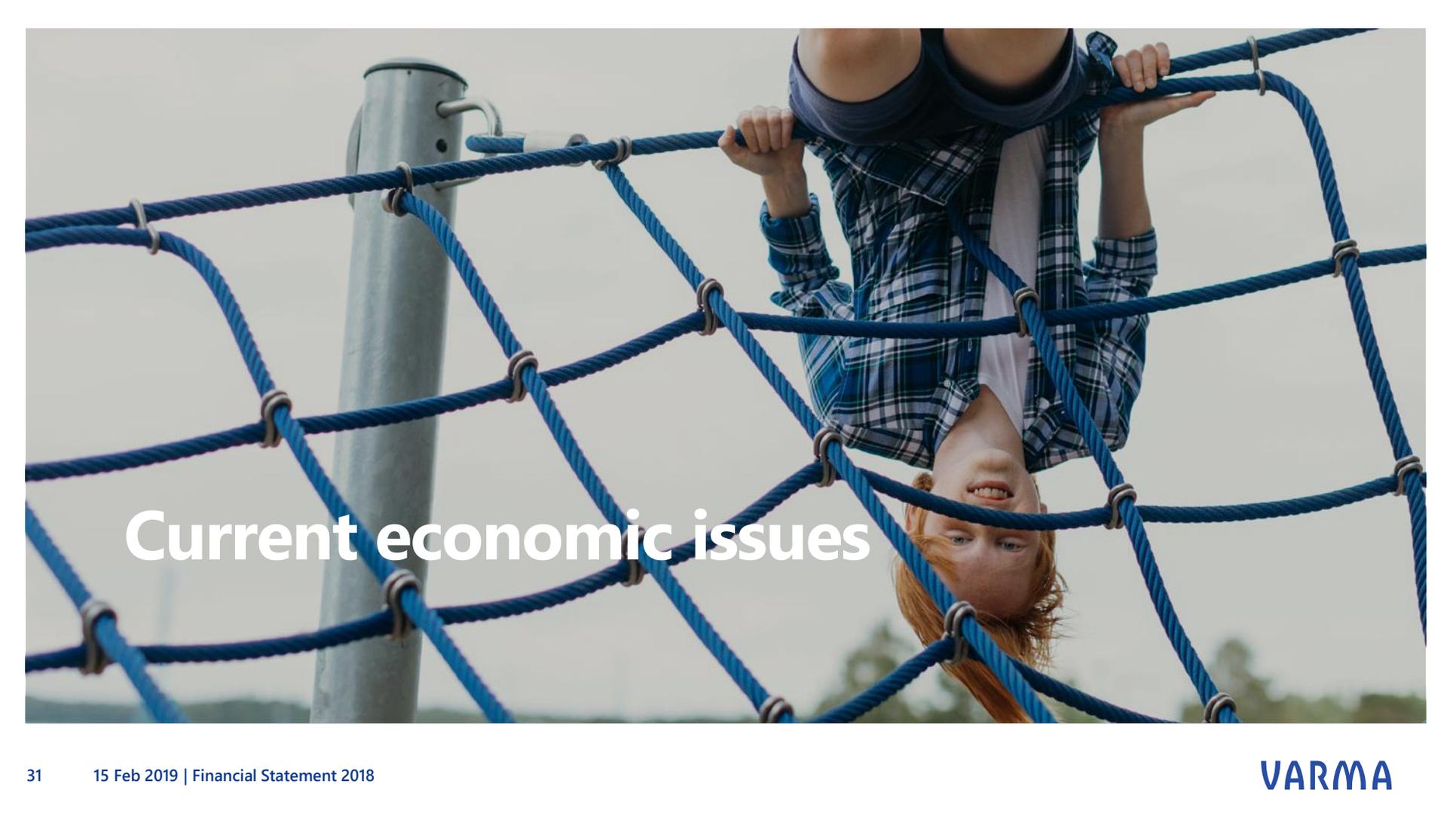
Climate risk management and reporting according to TCFD



8 solar power plants



34% of real property granted environmental certification



# Current economic issues

## Current issues

- Two years of strong growth for Finland
- The economic cycle peaked at the turn of 2017–2018
- Growth rate in China and Germany, important export markets for Finland, has dwindled
- The rapidly declining birth rate challenges the earnings-related pension system, but only in the long term.



# Attachments

## Key figures

	2018	2017
Premiums written, € million	5,118	4,867
Pensions paid, € million <sup>1</sup>	5,668	5,544
TyEL-insured	523,270	501,320
YEL insurance policies	36,700	35,900
Pensioners	343,400	342,600
Investments, € million	44,015	45,409
Return on investment, € million	-902	3,343
Return on investment, %	-2.0	7.8
Total result, € million	-1,741	1,524
Loading profit, € million	56	45
Operating expenses as % of loading component	60	67
Technical provisions, € million	36,521	36,696
Solvency capital, € million	9,619	11,534
Solvency ratio % <sup>2</sup>	127.5	133.5
Solvency capital/solvency limit	1.6	1.7
Average number of personnel, Parent Company	532	524

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

<sup>2</sup> Pension assets in relation to the technical provisions under §11 of the Ministry of Social Affairs and Health's decree governing pension institutions (614/2008).



**VARMA**