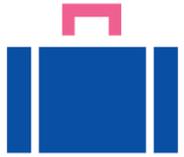


A woman with long, flowing blonde hair is shown in profile, looking out over a body of water. The hair is blowing in the wind, creating a sense of movement. The background is a soft, out-of-focus view of the water and sky.

Varma's Financial Statement 2020

VARMA

Key figures



Market value of investments

€50.2 billion



Solvency capital

€11.5 billion



Return on investments

2.8%



Efficiency

61%



Development of investment returns and solvency

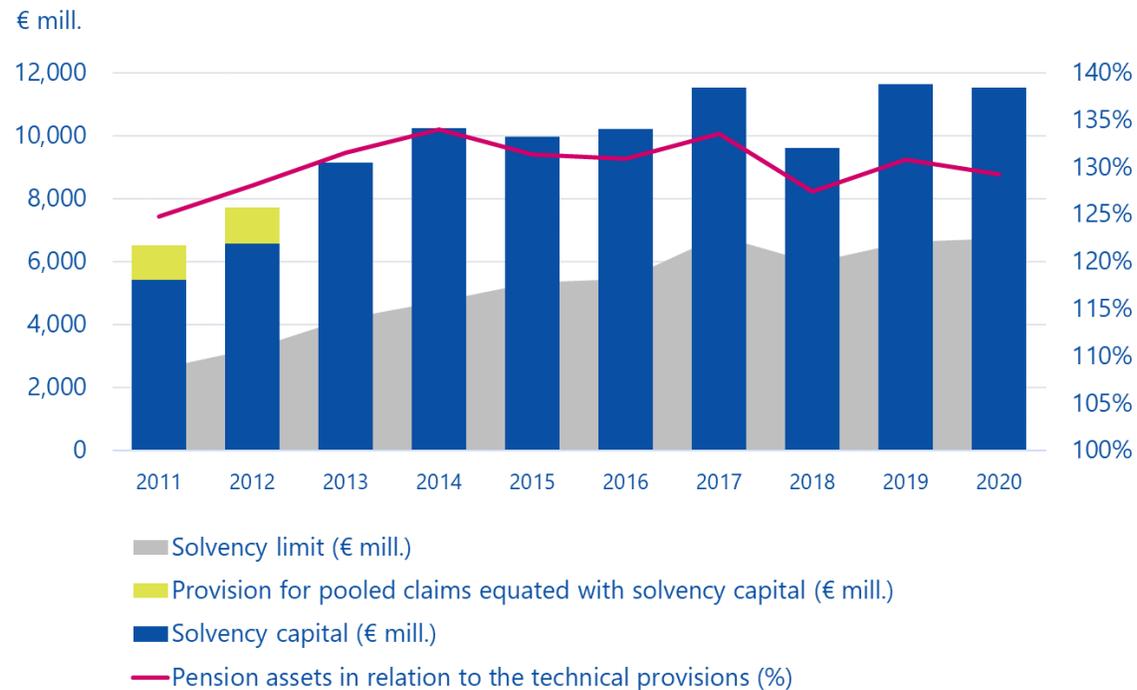
	1-12/2020	1-9/2020	1-6/2020	1-3/2020	1-12/2019
Investment return (MWR)	2.8%	-2.6%	-5.7%	-10.0%	12.0%

	12/2020	9/2020	6/2020	3/2020	12/2019
Solvency capital (€ mill.)	11,517	9,719	8,818	7,870	11,646
Solvency capital / solvency limit	1.7	1.7	1.7	1.6	1.8
Solvency ratio (%)	129.3	125.7	123.5	121.6	130.8
Investments at fair value (€ mill.)	50,157	46,791	45,279	43,597	48,709

A man in a dark jacket and red scarf is walking on a rocky shore with driftwood. The background shows a lake and a forest under a cloudy sky.

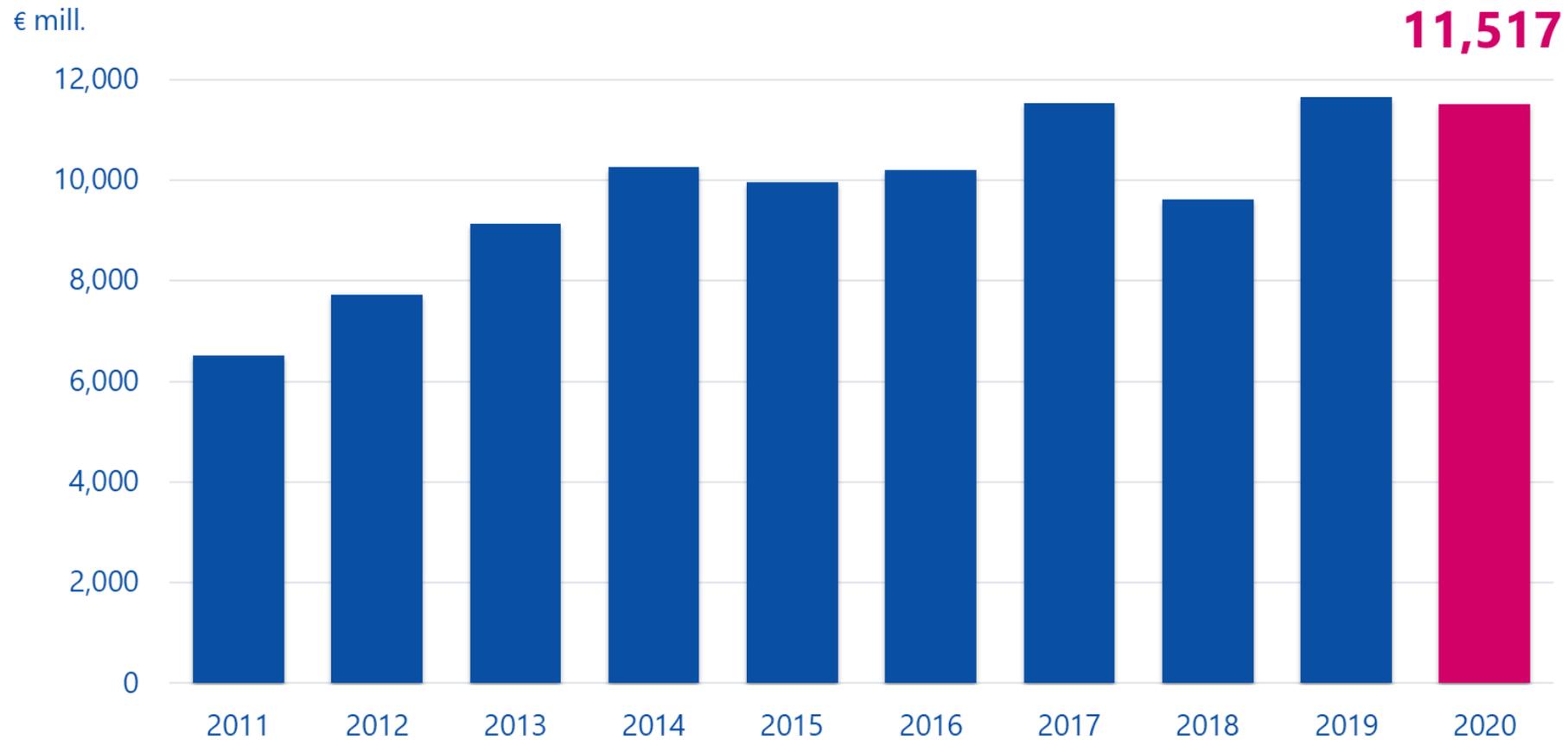
Solvency remained at a good level

Solvency strengthened further in the last quarter of the year



- Varma’s solvency remained at a good level throughout the year.
- Solvency capital strengthened by EUR 1.8 billion to EUR **11.5 billion** after the end of September.
- Solvency capital was **1.7** times the solvency limit.
- Varma’s solvency capital, which serves as a risk buffer for investment operations, remained at a strong level throughout the year and provides protection against volatility in investment market returns.
- The solvency ratio was **129.3%**.

Solvency capital €11.5 billion





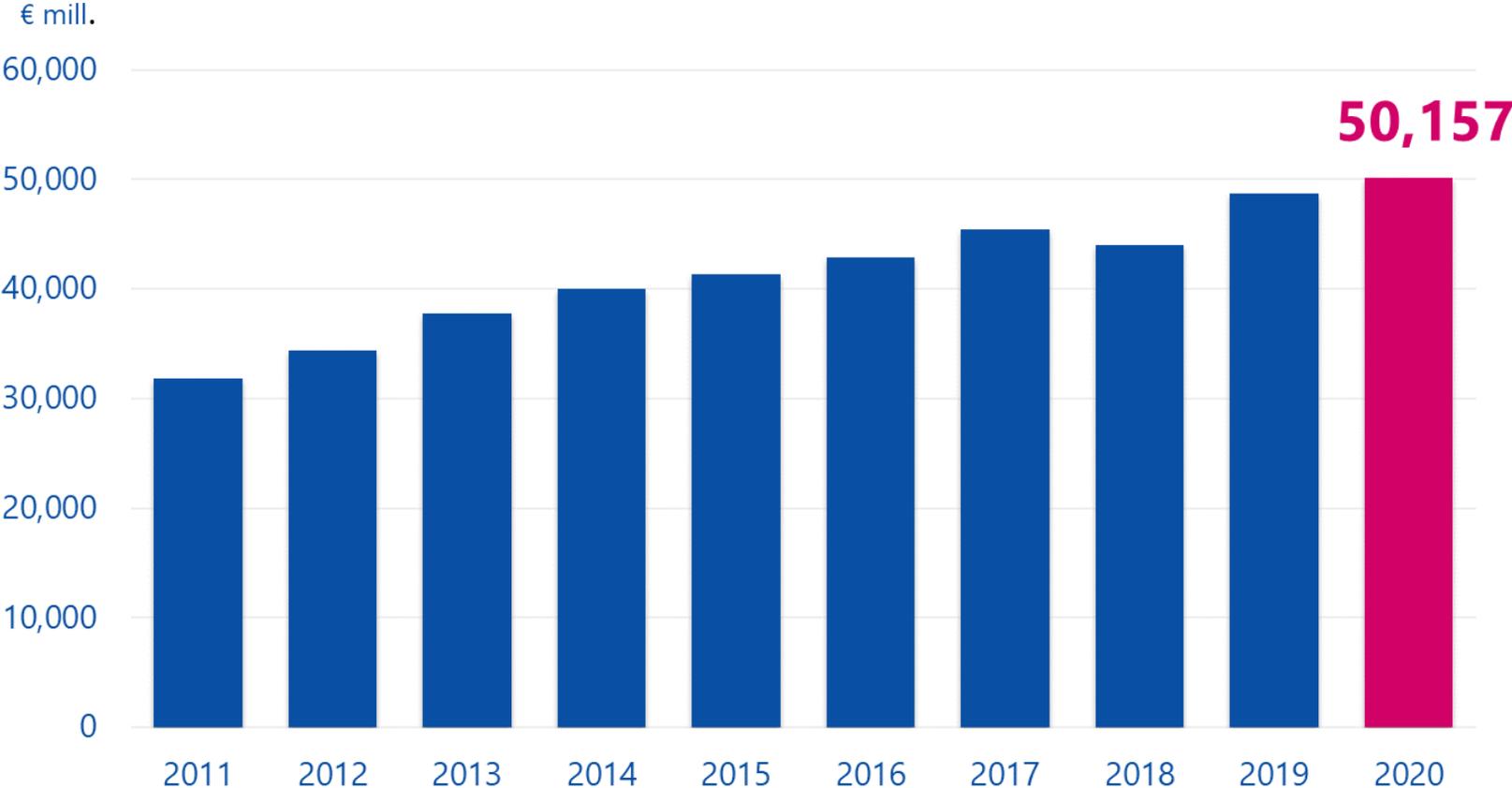
Investment returns swing back to positive territory

Outlook for the economy and the investment markets

- The Covid-19 pandemic had a negative impact on Varma's investment returns in early 2020, but in the final quarter, the returns were back in positive territory.
- Despite the dire Covid-19 pandemic, Varma's pension assets rose to a new record; our pension assets have never been higher than they are now.
- Especially important for the real economy and investment markets were the rapidly initiated strong stimulus measures.
- Finnish companies made it through the first Covid-19 year better than expected. Vaccines have been developed in record time, which will very likely give us a path out of the Covid-19 economic crisis.

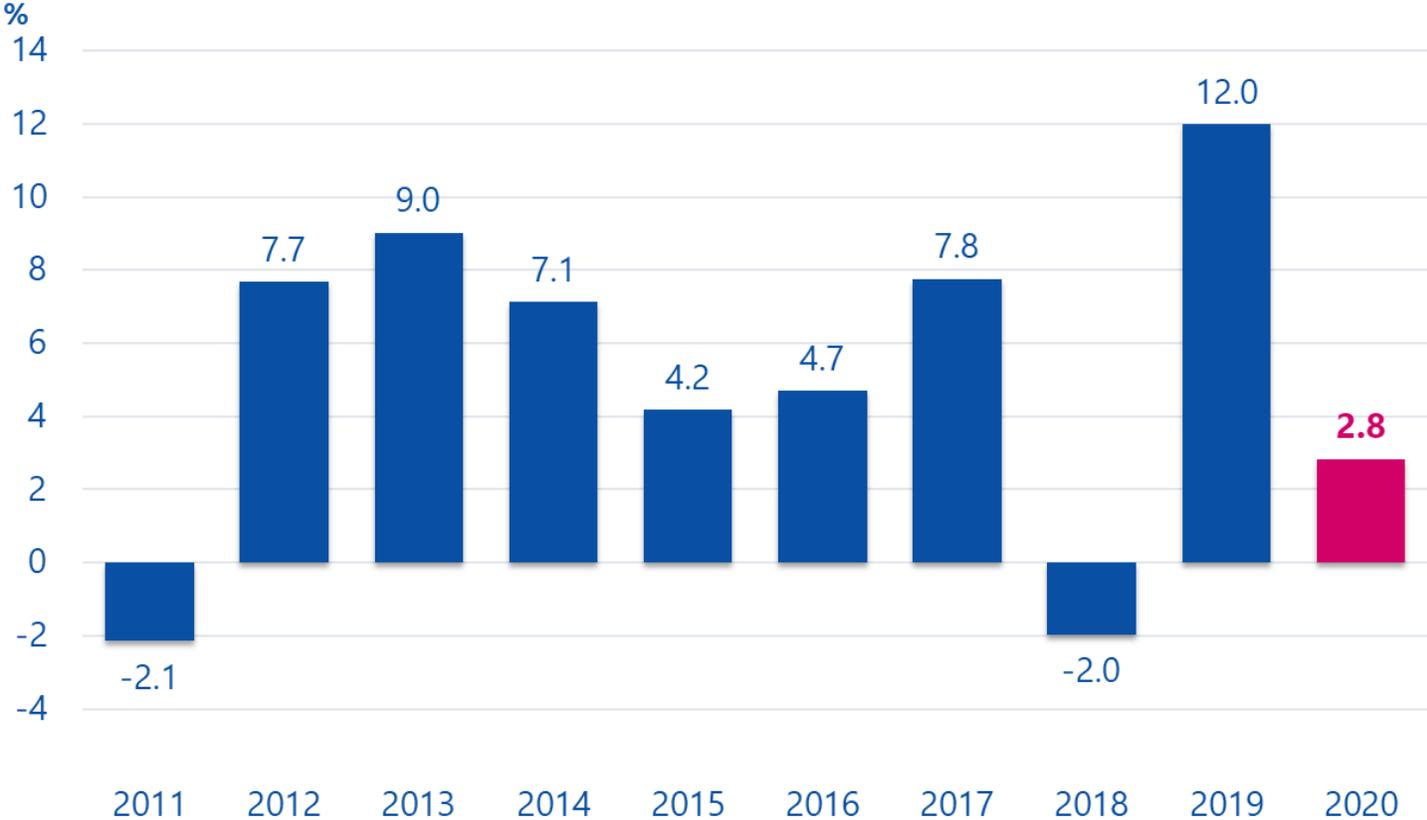


Market value of investments €50.2 billion



The pension assets were increased by the transfer of company pension funds to Varma. The total value of pension assets transferred to Varma was EUR 885 million.

Investment returns 2011–2020

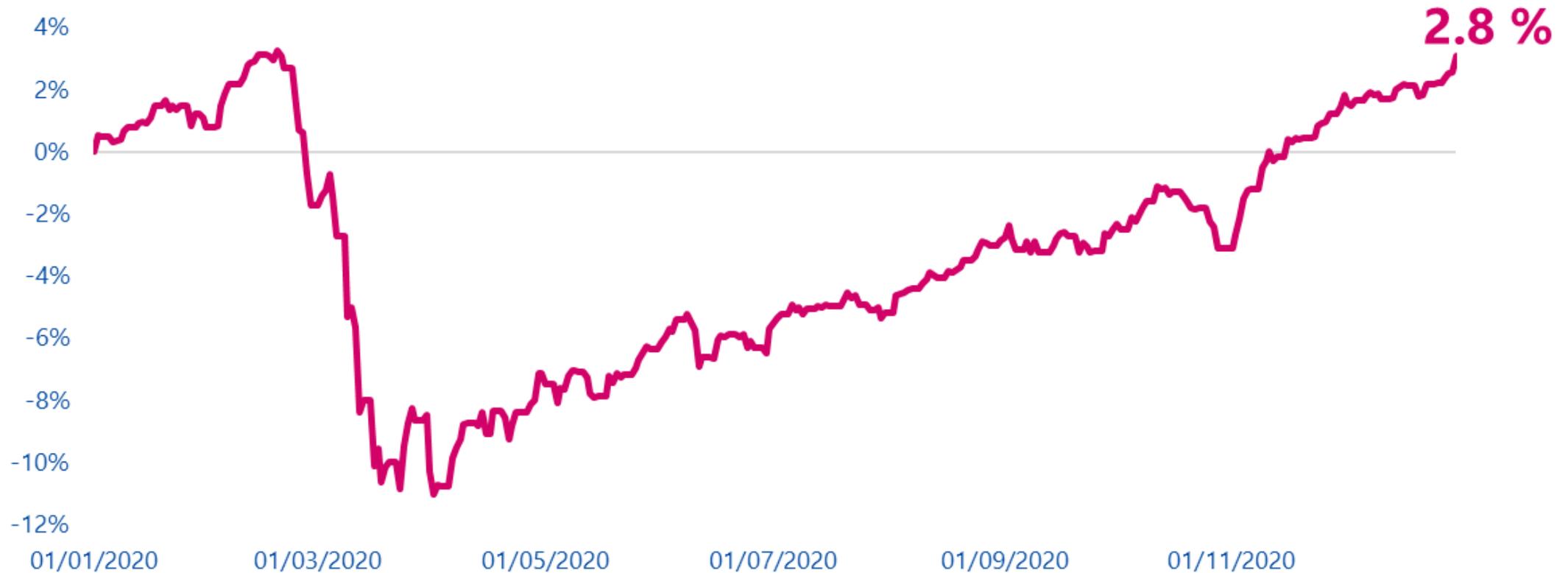


The average nominal return on investments over ten years is approx. 5.0%, calculated in accordance with the recommendations issued by TELA.

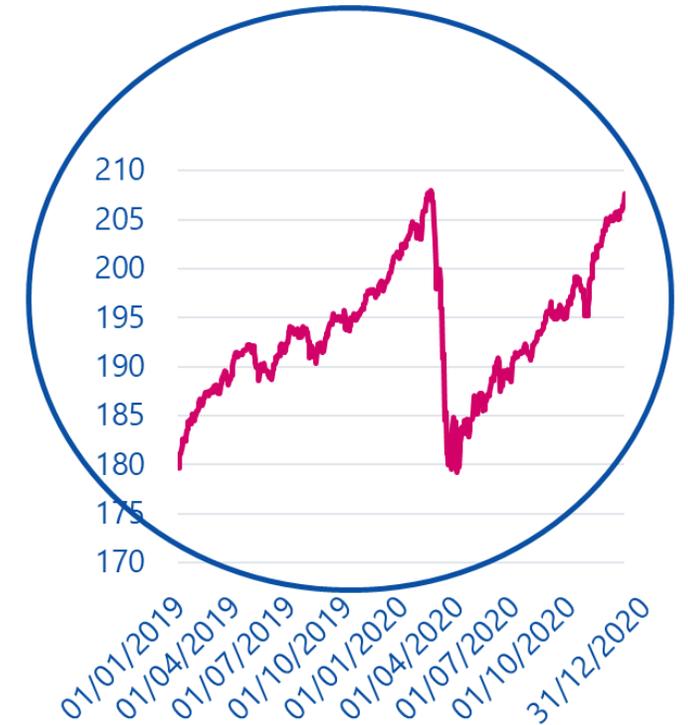
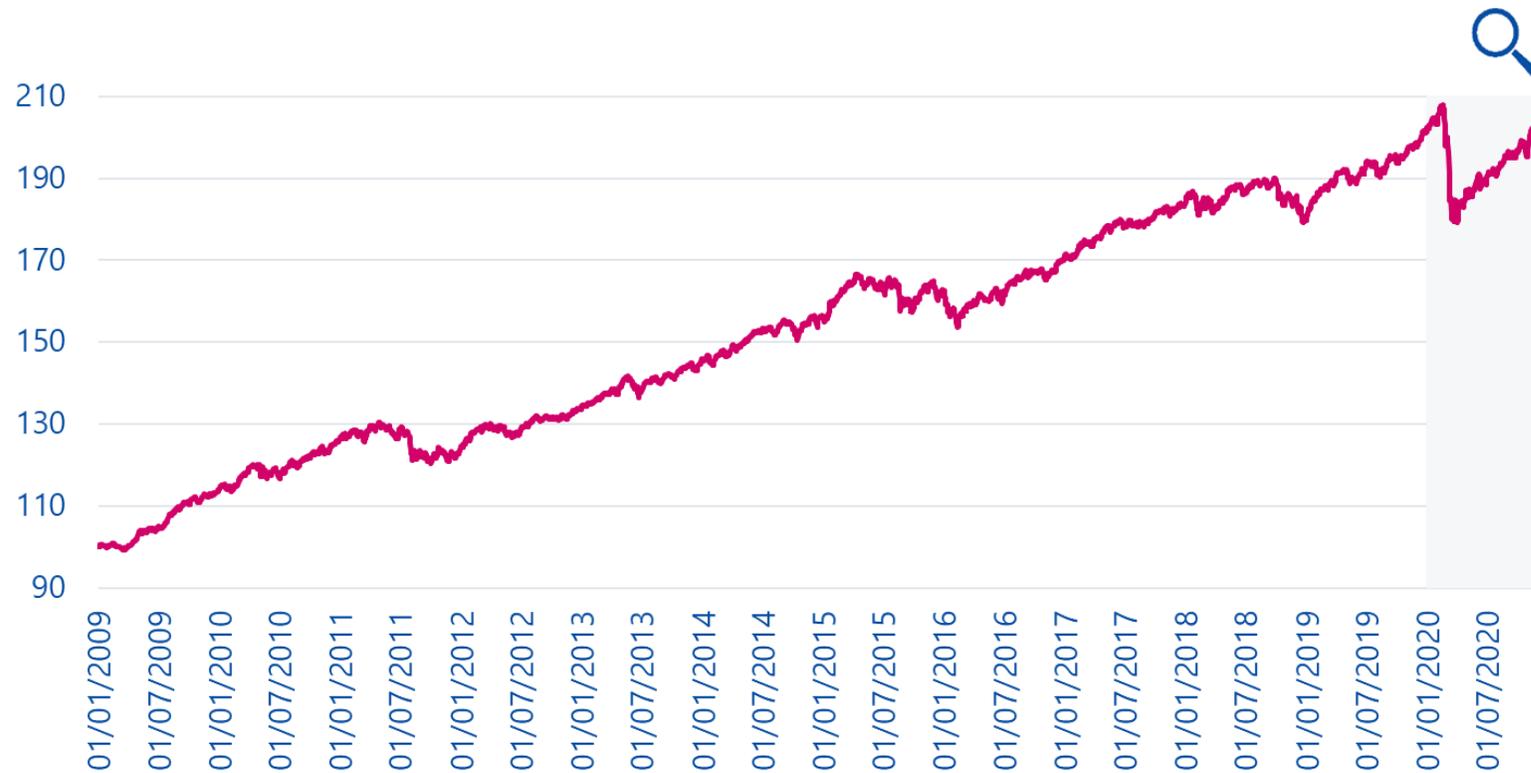
Return on investments at fair values per quarter



Varma's investment year 2020



Return development since 2009: cumulative return 107.7%, i.e. €27.2 billion

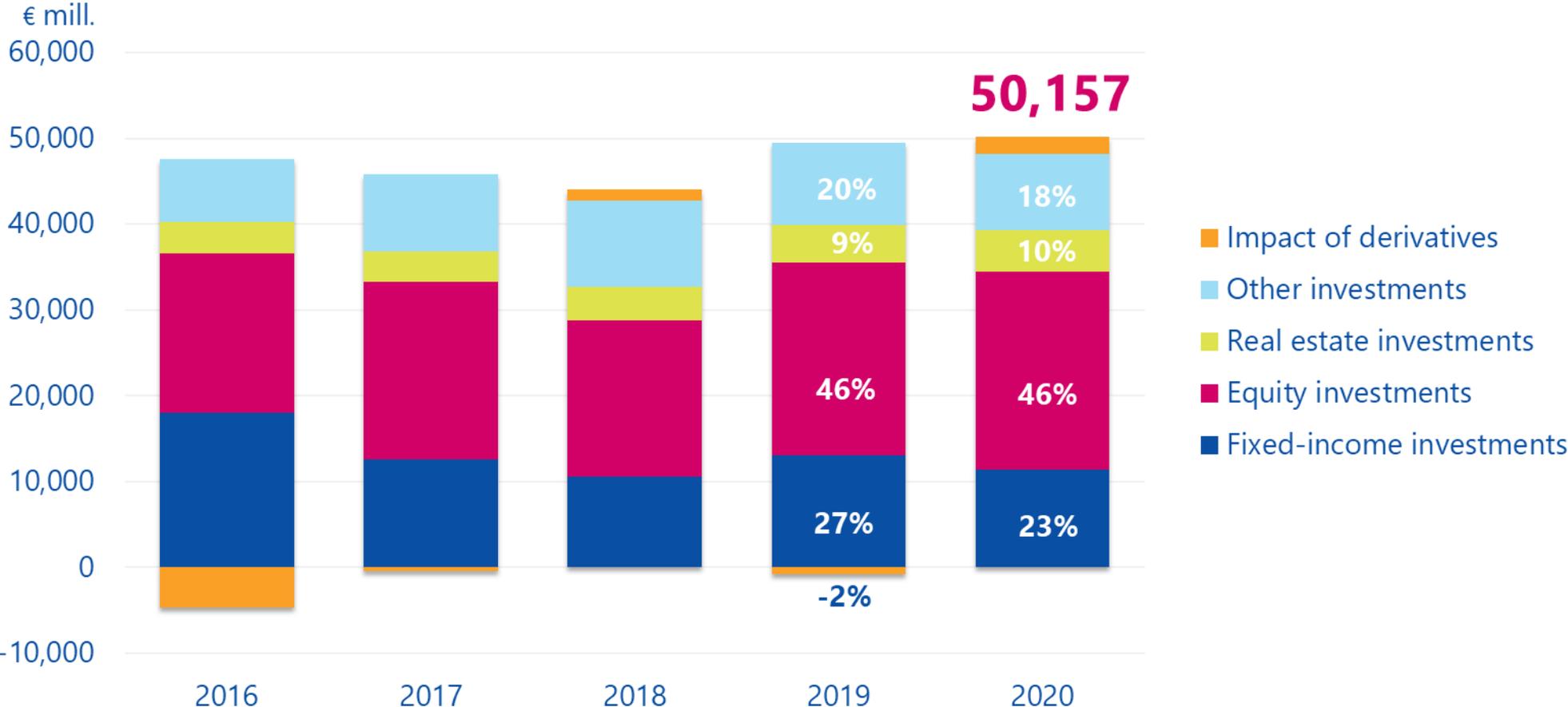


Investments since 2000

Development of the market value of and return on Varma's investments 2000–2020

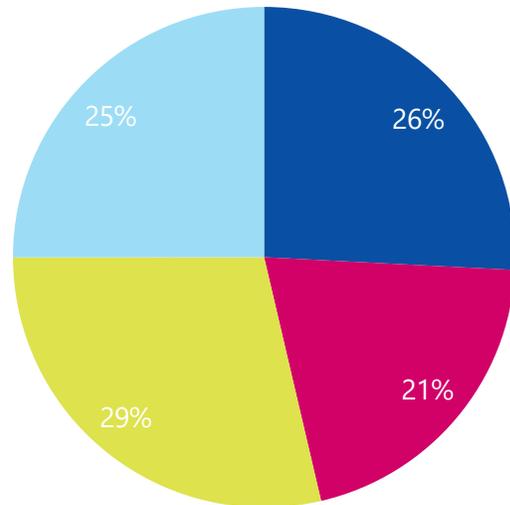


Investment allocation



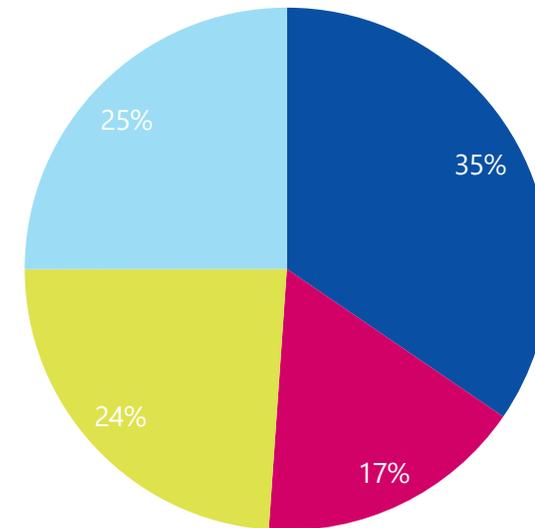
Geographical distribution of investments

Investments



■ Finland ■ Europe ■ North America ■ Other regions and global funds

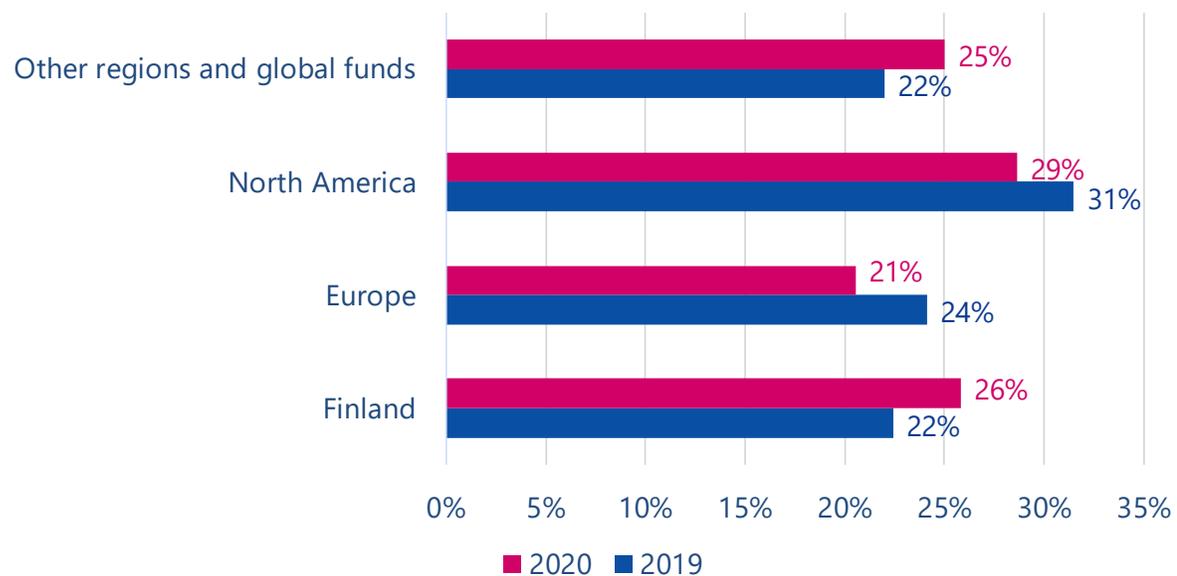
Listed equities



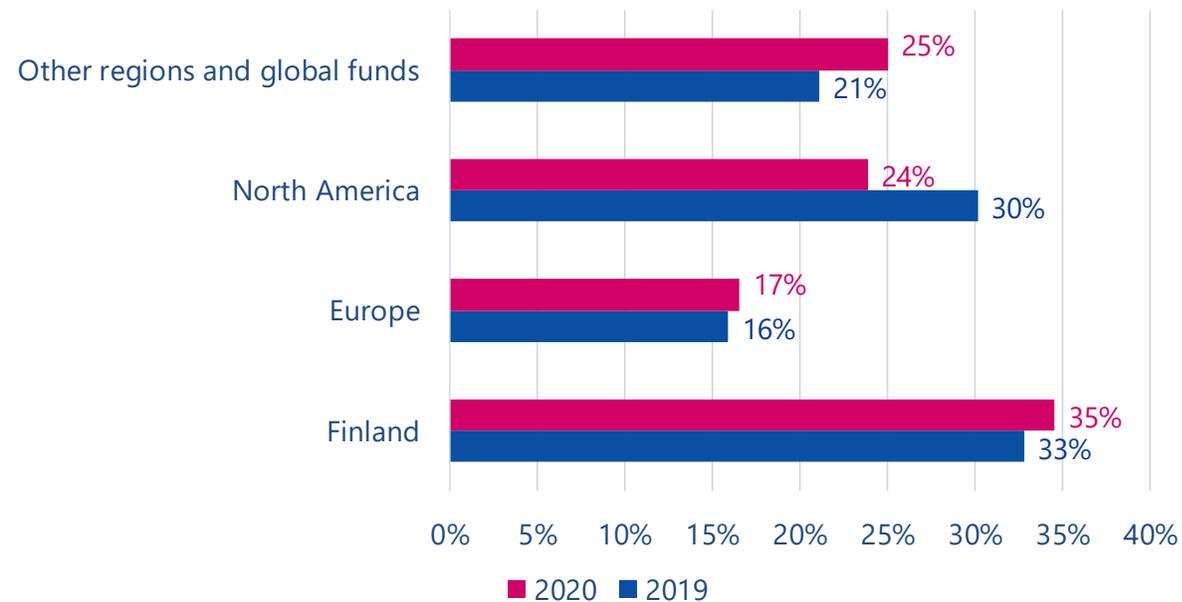
■ Finland ■ Europe ■ North America ■ Other regions and global funds

Changes in the geographical distribution of investments

Investments

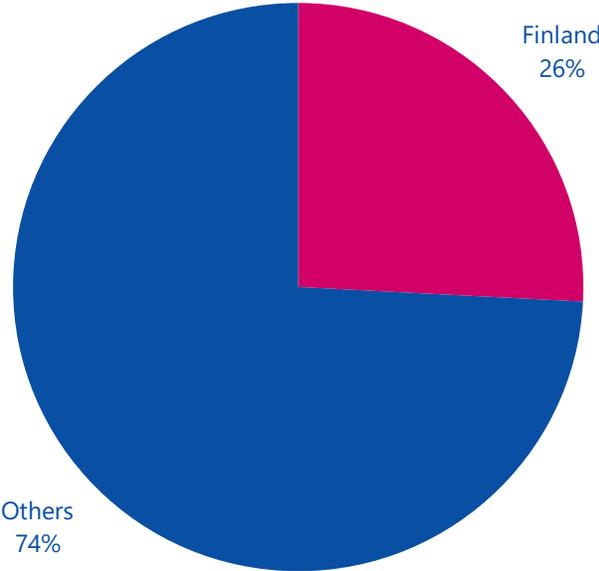


Listed equities

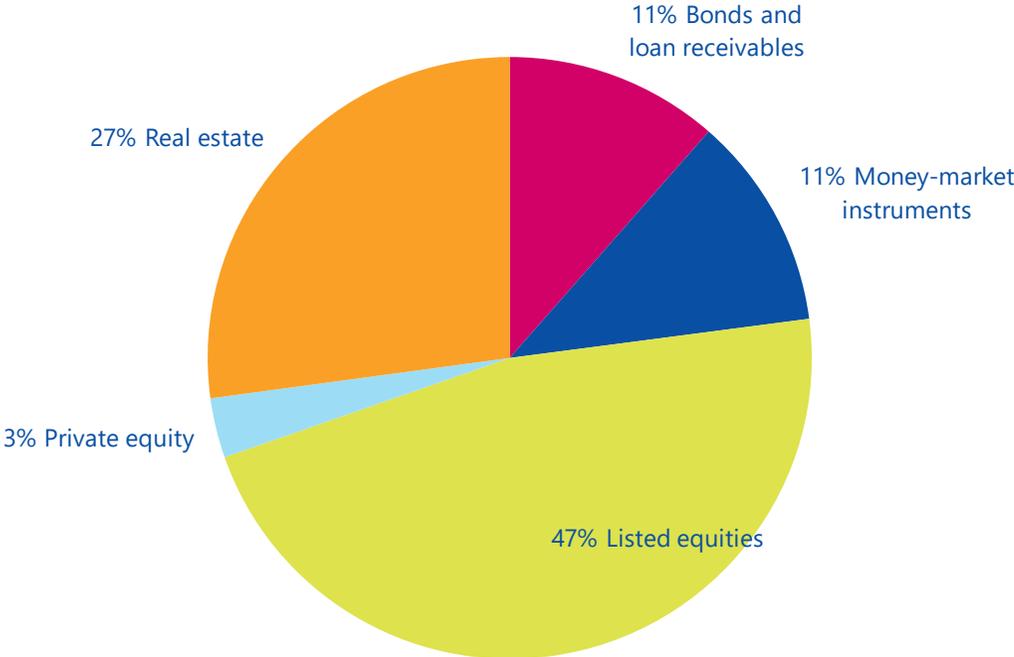


Investments in Finland 26%, €12.4 billion

Investments in Finland



Distribution of Finnish investments



Investments classified according to risk

	31 Dec 2020				31 Dec 2019				1-12/2020	1-12/2019	24 m
	Market value		Risk position		Market value		Risk position		Return	Return	Vola- tility
	Market Value	Risk position	Market Value	Risk position	MWR	MWR					
	€ mill.	%	€ mill.	%	€ mill.	%	€ mill.	%	%	%	
Fixed-income investments ¹	12,279	24	11,410	23	12,957	27	13,052	27	1.9	4.5	
Loan receivables	2,711	5	2,711	5	2,315	5	2,315	5	0.5	4.0	
Bonds	8,128	16	7,459	15	9,563	20	10,693	22	3.0	5.1	6.2
Public bonds	3,326	7	2,490	5	3,577	7	4,707	10	6.1	2.6	
Other bonds	4,803	10	4,969	10	5,986	12	5,986	12	1.0	6.6	
Other money-market instruments and deposits	1,440	3	1,240	2	1,079	2	44	0	-1.0	0.4	
Equity investments	24,222	48	23,083	46	22,486	46	22,457	46	5.9	22.8	
Listed equities	17,946	36	16,807	34	17,252	35	17,223	35	5.2	25.4	19.2
Private equity	5,958	12	5,958	12	4,945	10	4,945	10	7.8	15.1	
Unlisted equities	318	1	318	1	289	1	289	1	8.6	16.9	
Real estate investments	4,828	10	4,828	10	4,413	9	4,413	9	2.0	4.1	
Direct real estates	2,875	6	2,875	6	2,792	6	2,792	6	3.4	3.9	
Real estate funds	1,953	4	1,953	4	1,622	3	1,622	3	-0.2	4.7	
Other investments	8,827	18	8,827	18	8,853	18	9,548	20	-2.0	4.5	
Hedge funds	8,818	18	8,818	18	8,857	18	8,857	18	-1.0	5.0	10.1
Commodities	0	0	0	0	0	0	0	0			
Other investments	9	0	9	0	-5	0	691	1			
Total investments	50,157	100	48,149	96	48,709	100	49,471	102	2.8	12.0	8.9
Impact of derivatives			2,008	4			-762	-2			
Investment allocation at fair value	50,157	100	50,157	100	48,709	100	48,709	100			

The modified duration for all the bonds is 3.4.

The open currency position is 24.8% of the market value of the investments.

¹ Includes accrued interest

Investment returns for Varma and the markets

%	Varma	Finnish equities	European equities	US equities	Euro government bonds	Euro corporate bonds
2020	2.8	15.7	-2.0	18.4	5.0	2.7
2019	12.0	20.4	26.8	31.5	6.7	6.3
2018	-2.0	-3.9	-10.8	-4.4	1.0	-1.3
Average nominal return						
5 years	5.0	11.1	4.5	15.2	3.2	2.9
10 years	5.0	9.5	6.7	13.9	4.7	3.9
Since 1999 *	5.4	8.9	4.3	7.2	4.5	4.1
Average real return						
5 years	4.2	10.2	3.7	14.3	2.4	2.2
10 years	3.9	8.3	5.6	12.7	3.5	2.8
Since 1999 *	3.9	7.3	2.8	5.7	3.0	2.6

* 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

Key figures

	2020	2019
Premiums written, € million	4,931	5,286
Pensions paid, € million ¹	6,028	5,856
TyEL-insured	505,172	504,131
YEL insurance policies	37,800	37,800
Pensioners	347,100	343,700
Investments, € million	50,157	48,709
Return on investment, € million	1,372	5,241
Return on investment, %	2.8	12.0
Total result, € million	-231	2,197
Loading profit, € million	49	53
Operating expenses as % of loading component	61	62
Technical provisions, € million	40,726	38,608
Solvency capital, € million	11,517	11,646
Solvency ratio % ²	129.3	130.8
Solvency capital/solvency limit	1.7	1.8
Average number of personnel, Parent Company	537	537

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

² 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).

A young man with dark hair, wearing an orange beanie, a blue denim jacket over a plaid shirt, and blue jeans, is smiling and leaning forward in a forest. The background is filled with tall, thin trees and a ground covered in brown leaves and twigs.

Current CSR topics



Working for future generations

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

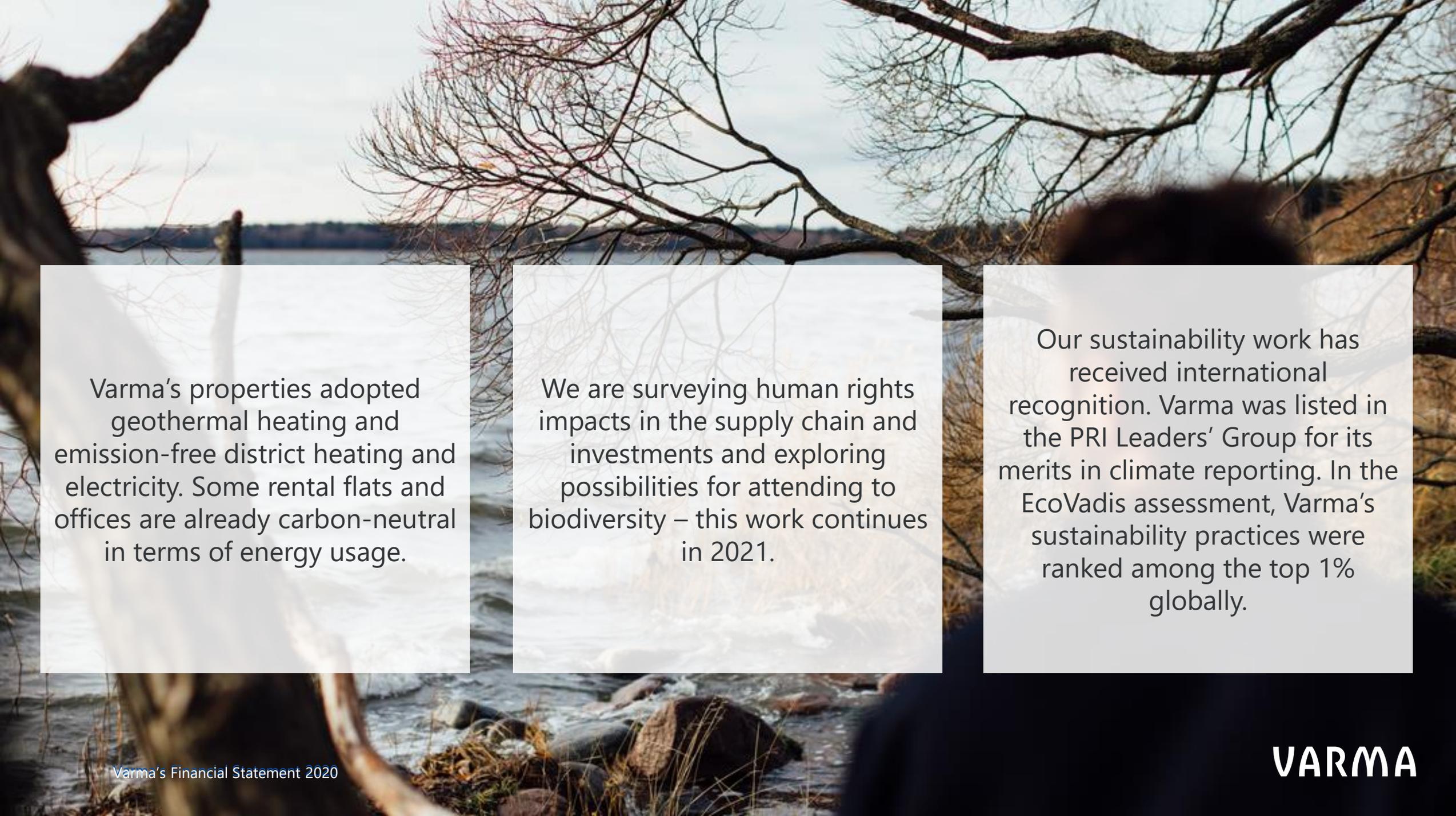
Mitigating climate change

Promoting work ability and a good working life

Ethical business and open communication

Responsibility for Varma employees

VARMA



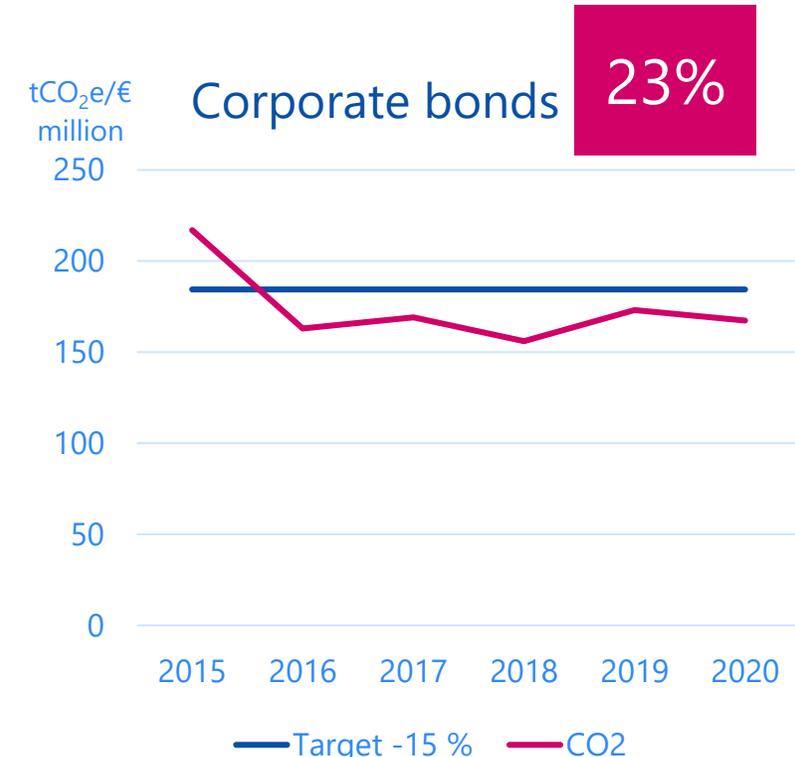
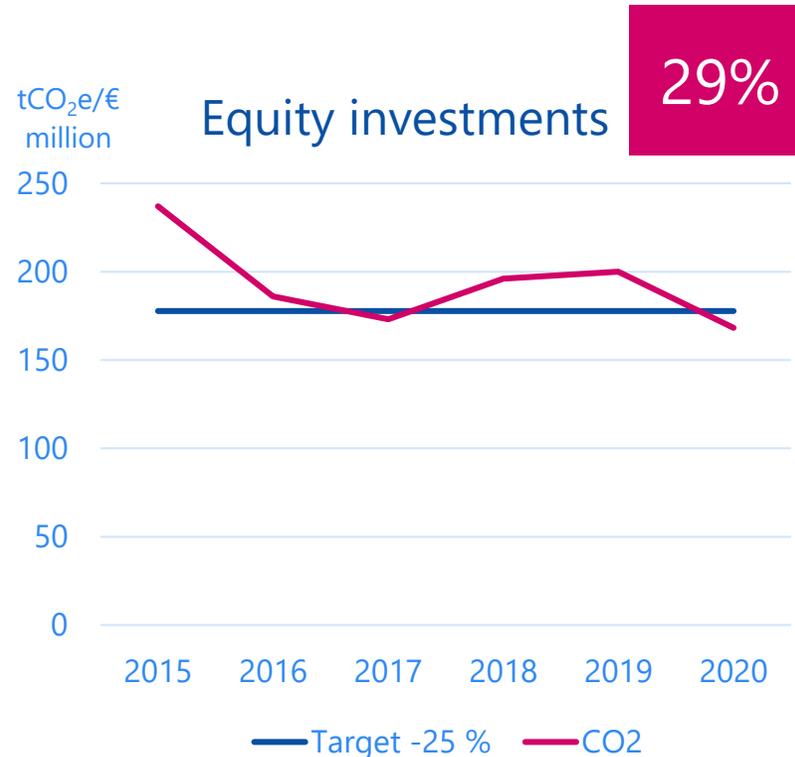
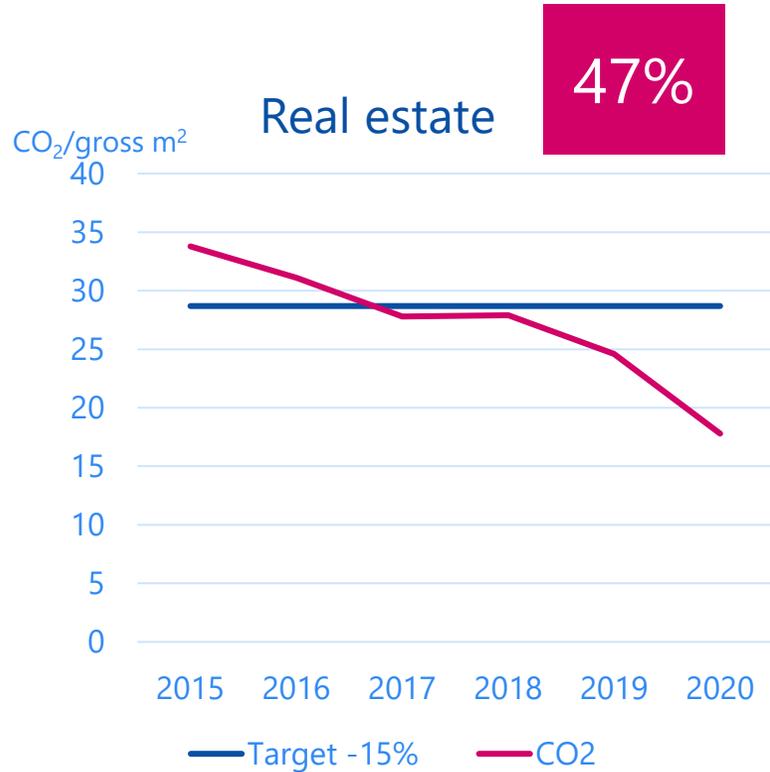
Varma's properties adopted geothermal heating and emission-free district heating and electricity. Some rental flats and offices are already carbon-neutral in terms of energy usage.

We are surveying human rights impacts in the supply chain and investments and exploring possibilities for attending to biodiversity – this work continues in 2021.

Our sustainability work has received international recognition. Varma was listed in the PRI Leaders' Group for its merits in climate reporting. In the EcoVadis assessment, Varma's sustainability practices were ranked among the top 1% globally.

Emissions from investments significantly down from 2015

Carbon footprint down the most in real estate, where emissions were nearly cut in half



Head office serves as a test lab for responsible real estate investment

The carbon footprint of Varma's own operations has declined **82%** from the 2015 baseline.

The Salmisaari head office has

- emission-free district heating (recycled heat)
- emission-free real estate electricity, generated with hydropower
- its own solar power system
- more than 200 charging stations for electric and hybrid cars



A woman with blonde hair tied back, wearing a blue top with gold geometric patterns, is sitting on a red sofa. She is looking down at a laptop screen in front of her. The background is a modern interior with wooden slats and green plants.

Pensions and insurance



Insured employees and
entrepreneurs

543,000

Pensioners

347,100

Pensions paid

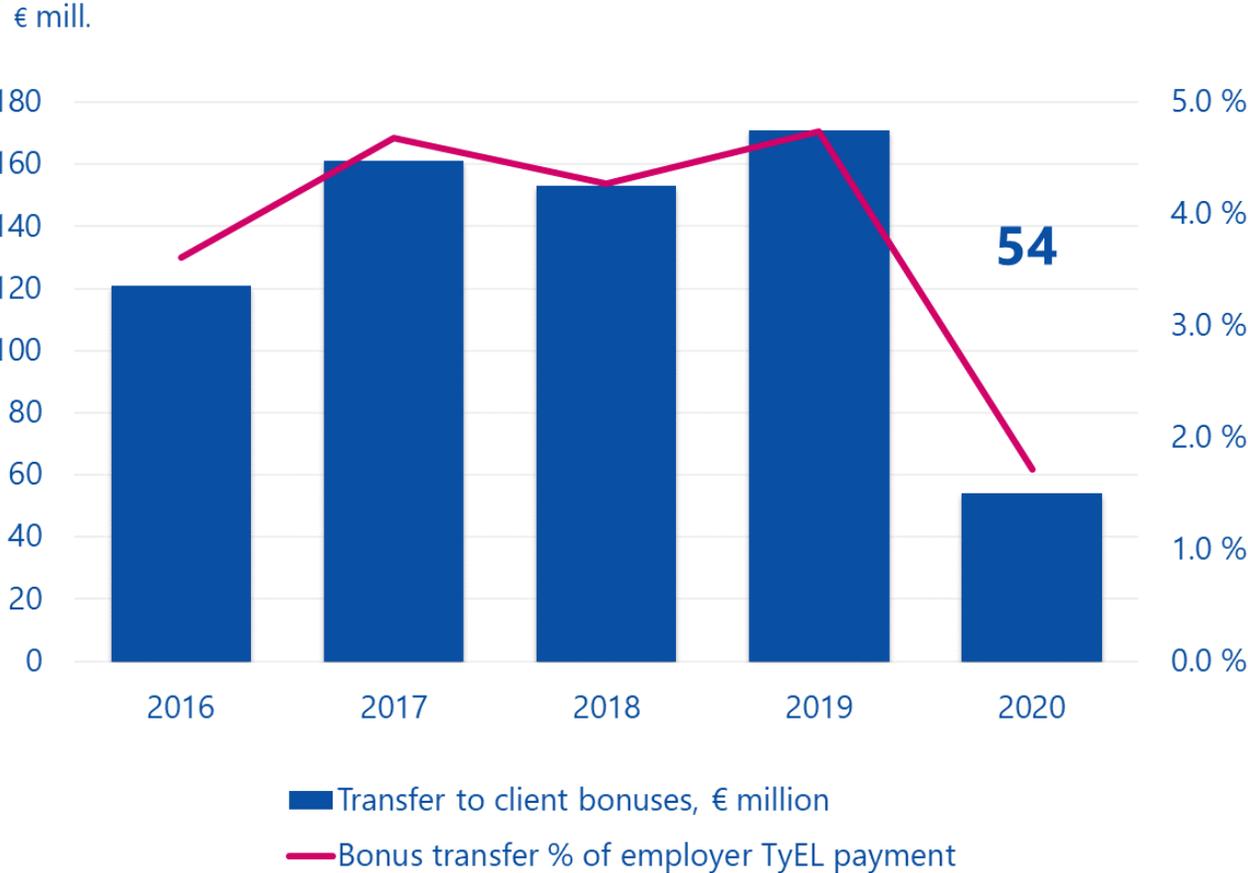
€6.0 billion

Loading profit at a strong level



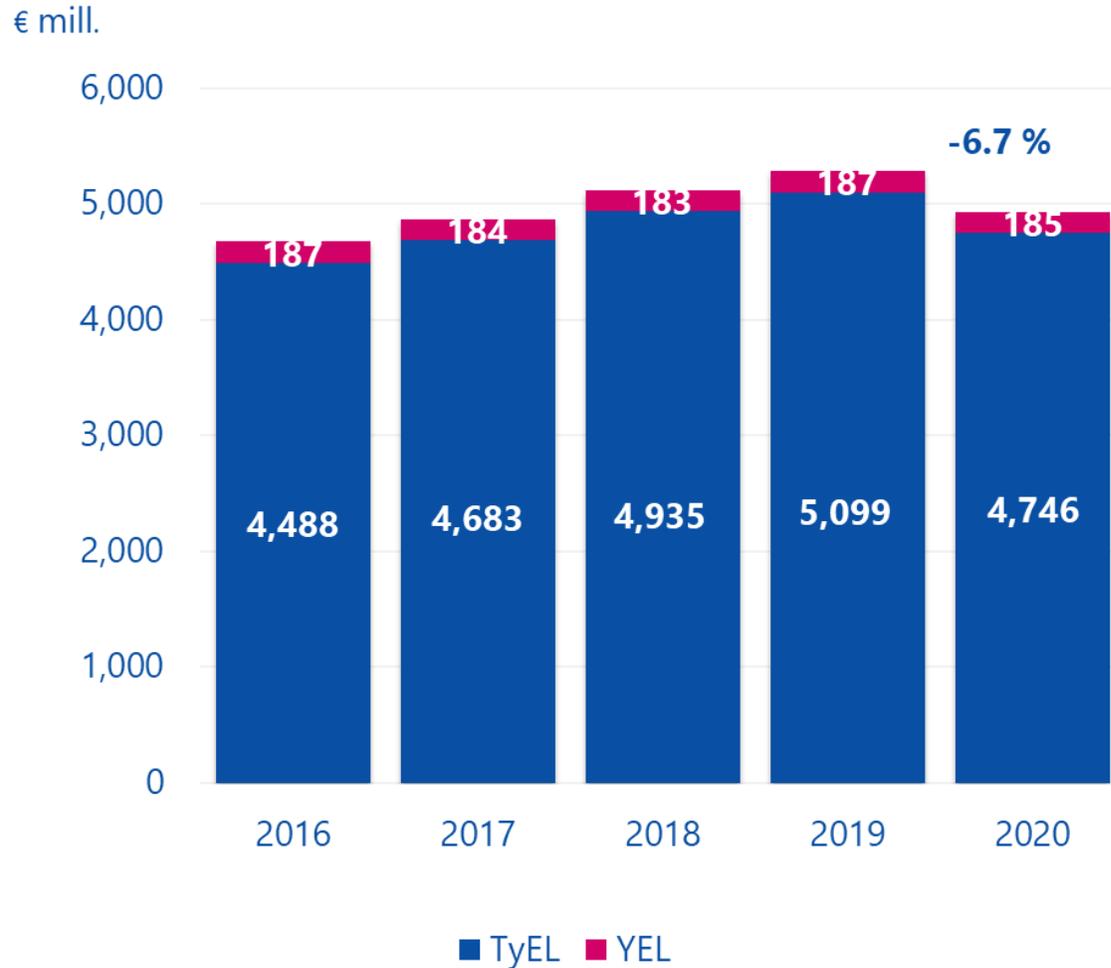
- Varma handles pension cover cost-effectively. We used **61%** of the amount reserved for operating expenses.

Client bonuses



- Varma will refund EUR **54.2** million to its customers in the form of client bonuses.
- The bonuses are granted as deductions in insurance contributions.
- In 2020, the amount of client bonuses fell to one third of the normal, because accumulating client bonuses was not allowed during the temporary reduction of pension contributions between May and December, as a result of a legislative amendment due to Covid-19.

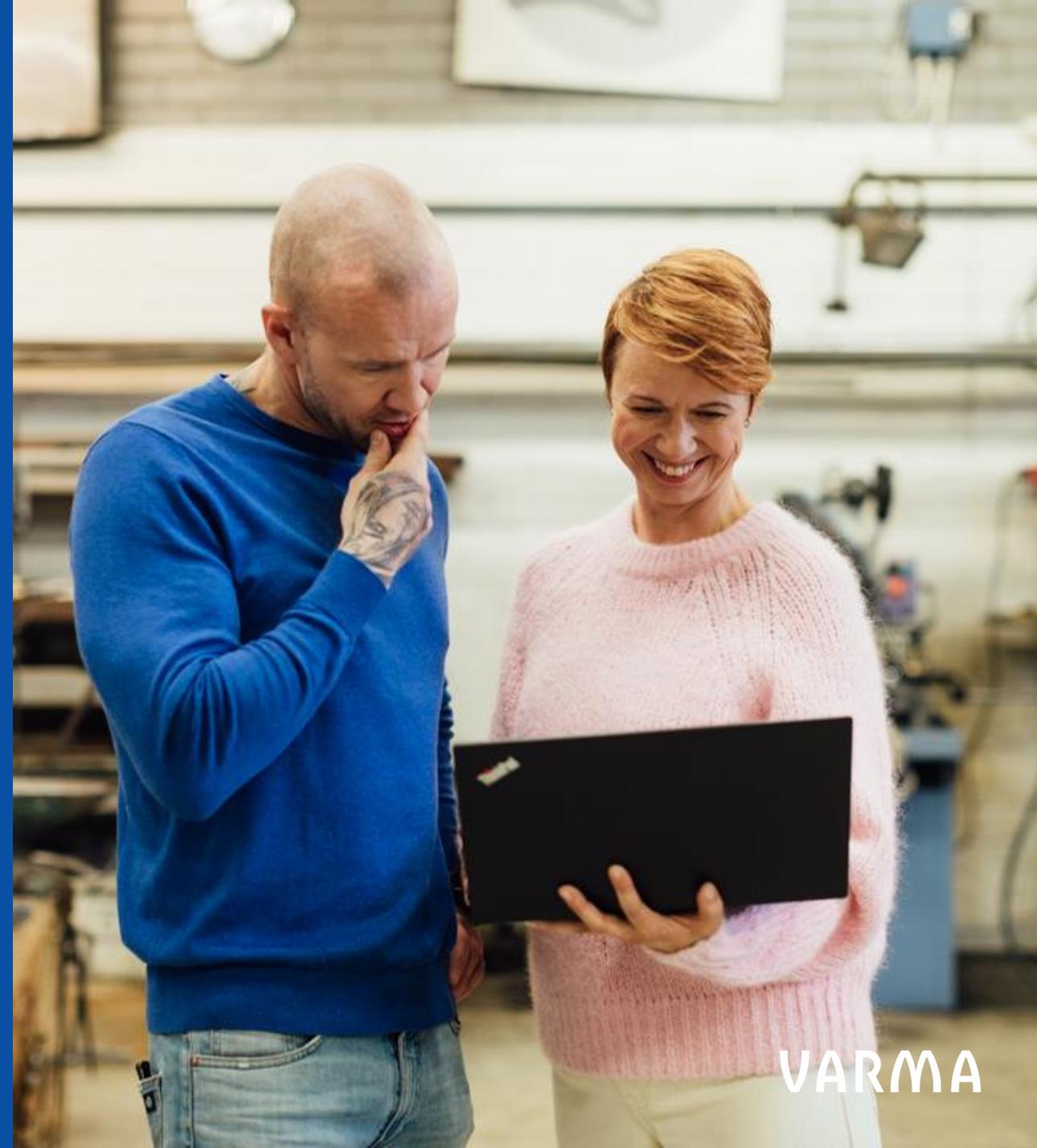
Premiums written



- Varma's premiums written totalled **EUR 4.9 billion**, of which TyEL insurance accounted for EUR 4.7 billion and YEL insurance for EUR 0.2 billion.
- The temporary reduction of employers' pension contribution lowered the premiums written compared to 2019.
- At year-end, **543,000 people** were insured by Varma.

Coronavirus affected Varma's customers less than was anticipated at the start of the year

- The number of pension insurance contribution enquiries increased during the year, but so far the number of bankruptcies among Varma's clients is fairly low.
- It is clear, however, that many entrepreneurs and employers will continue to face difficulties in spring 2021.
- The most severe difficulties will be experienced by companies that were already in default before the start of the pandemic.
- Varma gained a total of EUR 105 (144) million in new premiums written during the year.



VARMA

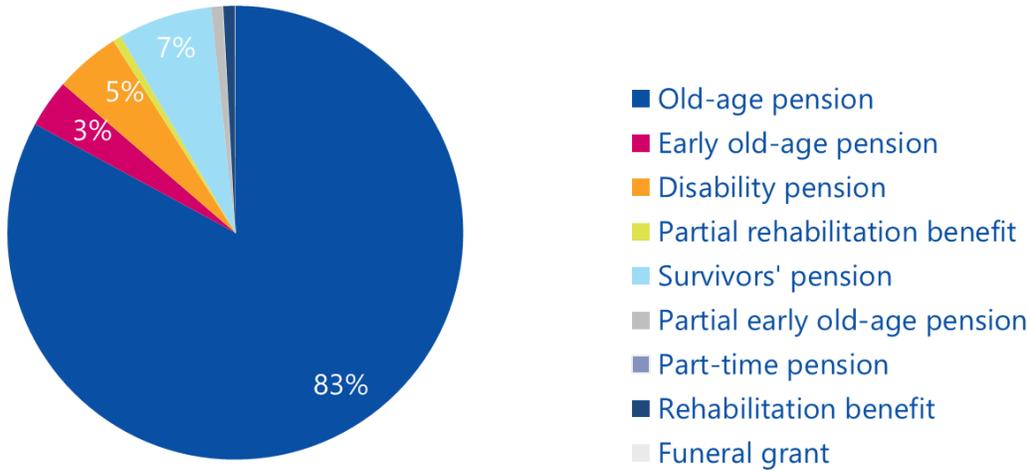
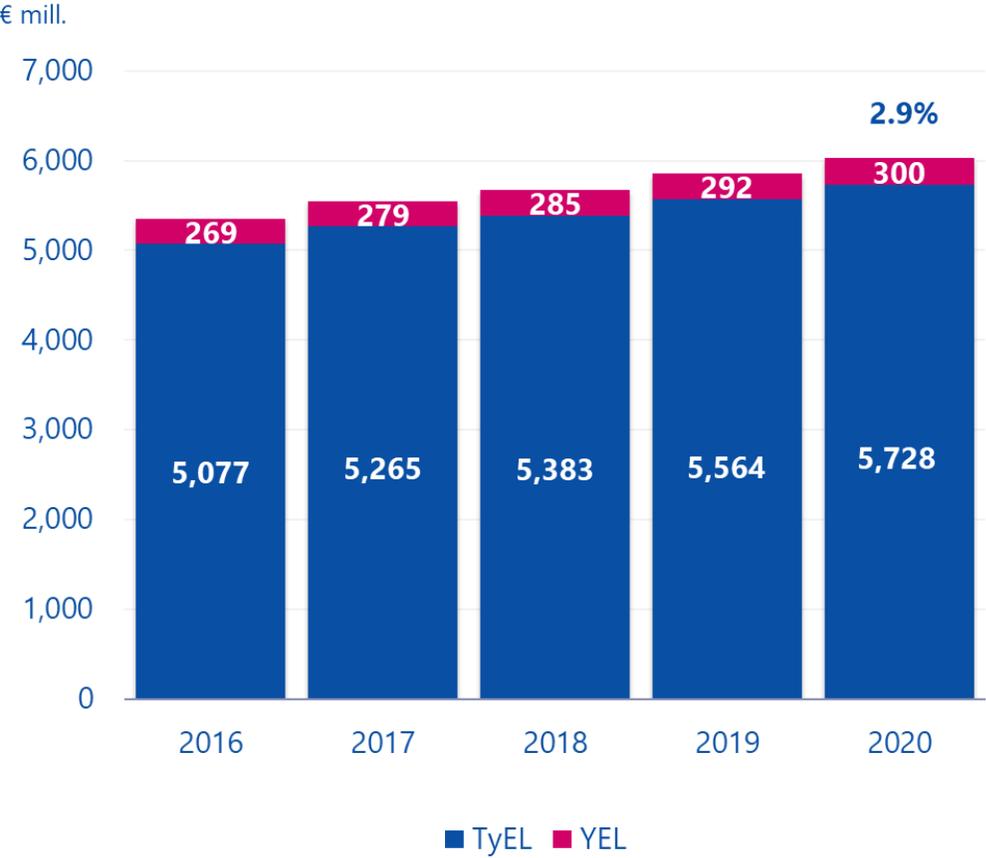
Current pension issues

- We issued approximately 51,900 pension decisions during the year, and paid out monthly pensions to 347,100 people.
- Pension applications processing accelerated by 6 days from 2019. The average processing time for all pension types was 19 (25) days.
- Of the different types of pension, the popularity of partial old-age pension grew in the early autumn, when public debate about the future of this pension type started. The number of applications increased by 2.9% from the previous year.
- Customer satisfaction towards our phone service rose to an all-time high: on a scale of 4–10, the grade was 9.3 (9.1 in 2019). We received feedback from around 17,000 customers.

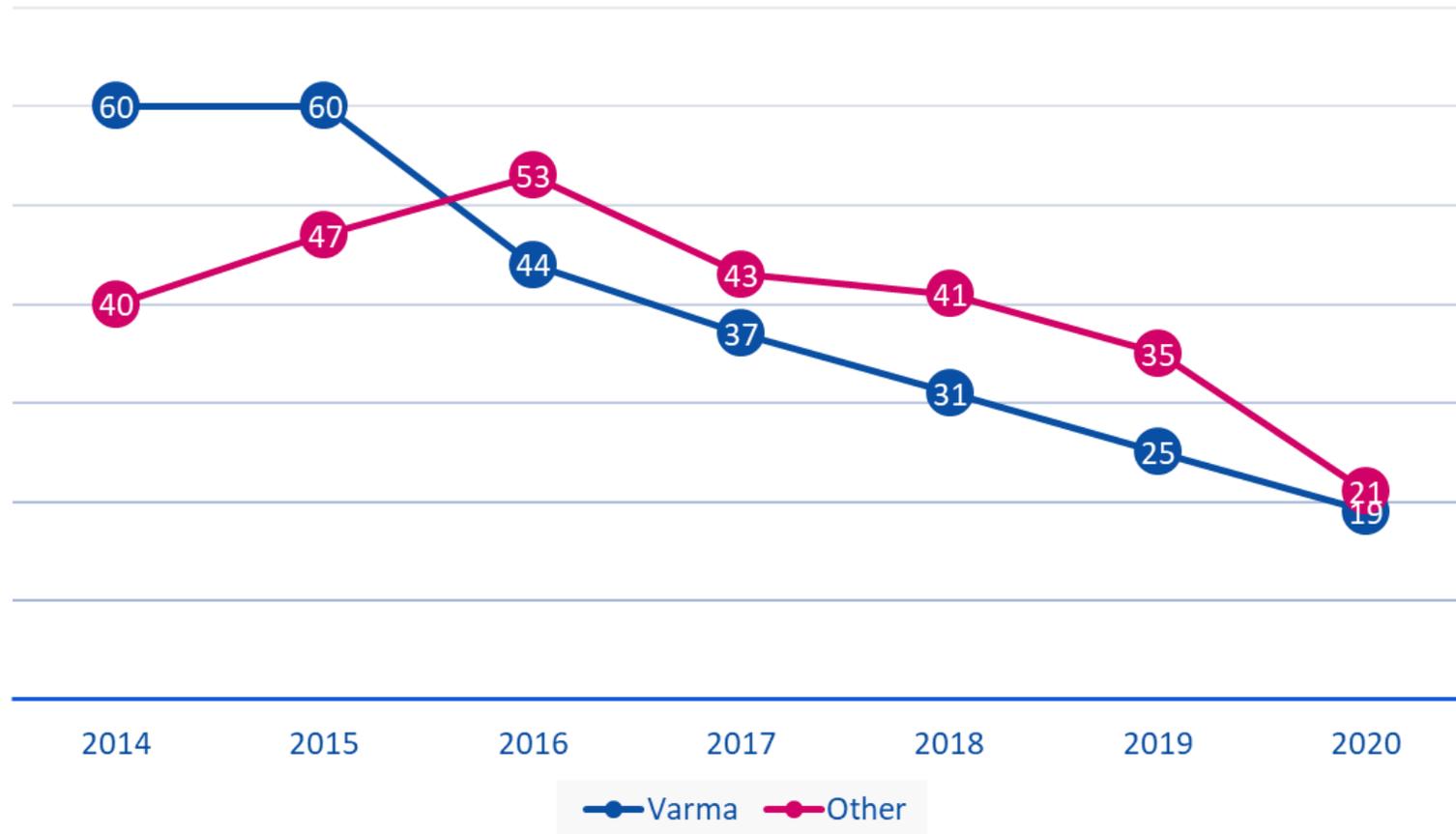


Pensions paid

We paid out pensions in the amount of **EUR 6.0 billion** to 347,100 people.



Pension applications processing accelerated



- Varma's pension applications processing accelerated by **6 days** from 2019.
- Varma processes pension applications **2 days faster** than the sector average.

Current work ability topics



No rise in disability pension applications; share of mental health disorders on the rise

The number of disability applications Varma received varied substantially from one month to another, but the total number remained at the previous year's level. Rehabilitation applications were down compared to the previous year. In terms of new disability pension applications, the proportion of mental health disorders as a reason for inability to work increased to 38.1 (36.3%).



Survey: Covid-19 pandemic had both positive and negative impacts on working and work ability

Of those who replied to the customer survey, 45% estimated the social support received from the work community to have declined during the Covid-19 pandemic. One third also experienced a decline in a sense of control over their work. Most respondents (42%) felt that the opportunities for reconciling work and leisure time had increased.



Knowledge-based management: new forecasting model for identifying the disability risk

We created a forecasting model for identifying the disability risk. Using a data-based approach, we are now better equipped to assess the extent of the disability risk in our client companies. For our customers, this means more accurate allocation of Varma's support activities, better results and, later on, new data-driven services.

VARMA