



Varma's Financial Statement 2021

VARMA

The year in figures

Value of investments

59.0
€ billion

18.5%

In 2021, the return on Varma Pension Insurance Company's investments was 18.5% or EUR 9.3 billion, the highest annual return ever in Varma's history.

Investment portfolio's emissions declined:

30%
Equities

Solvency

16.9
€ billion

Pensions paid

6.2
€ billion

Efficiency

62
%

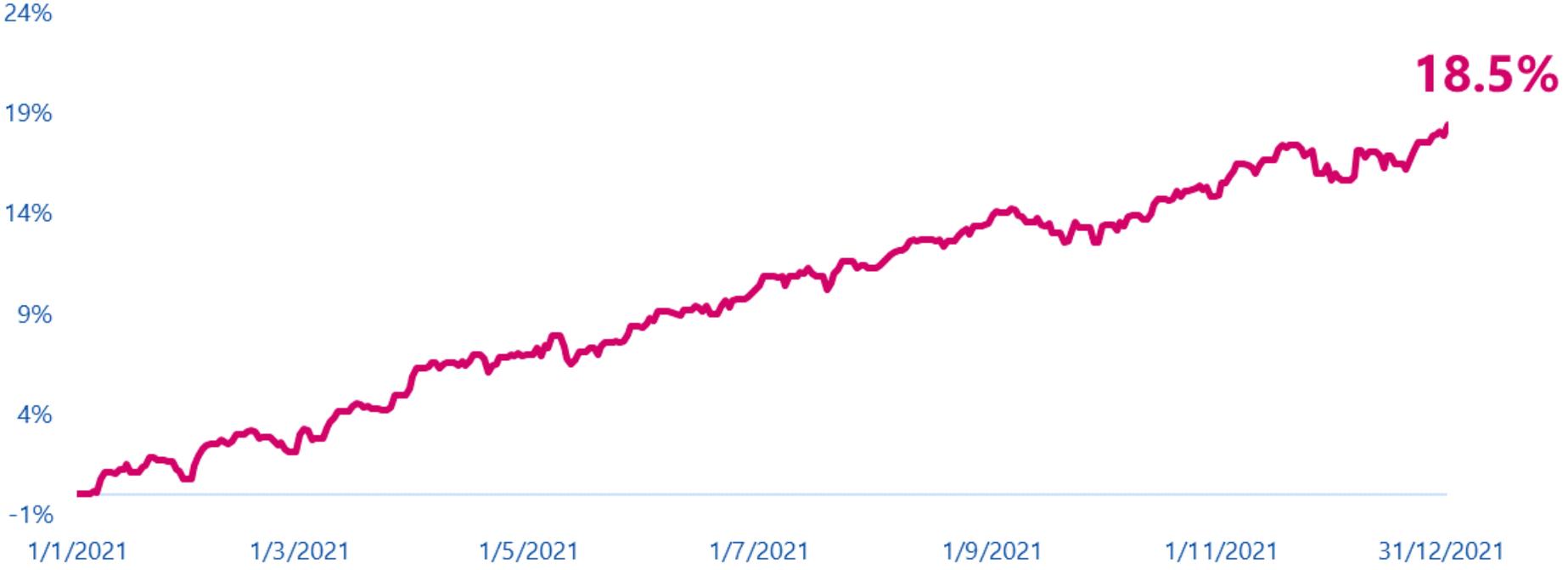
Premiums written

5.6
€ billion

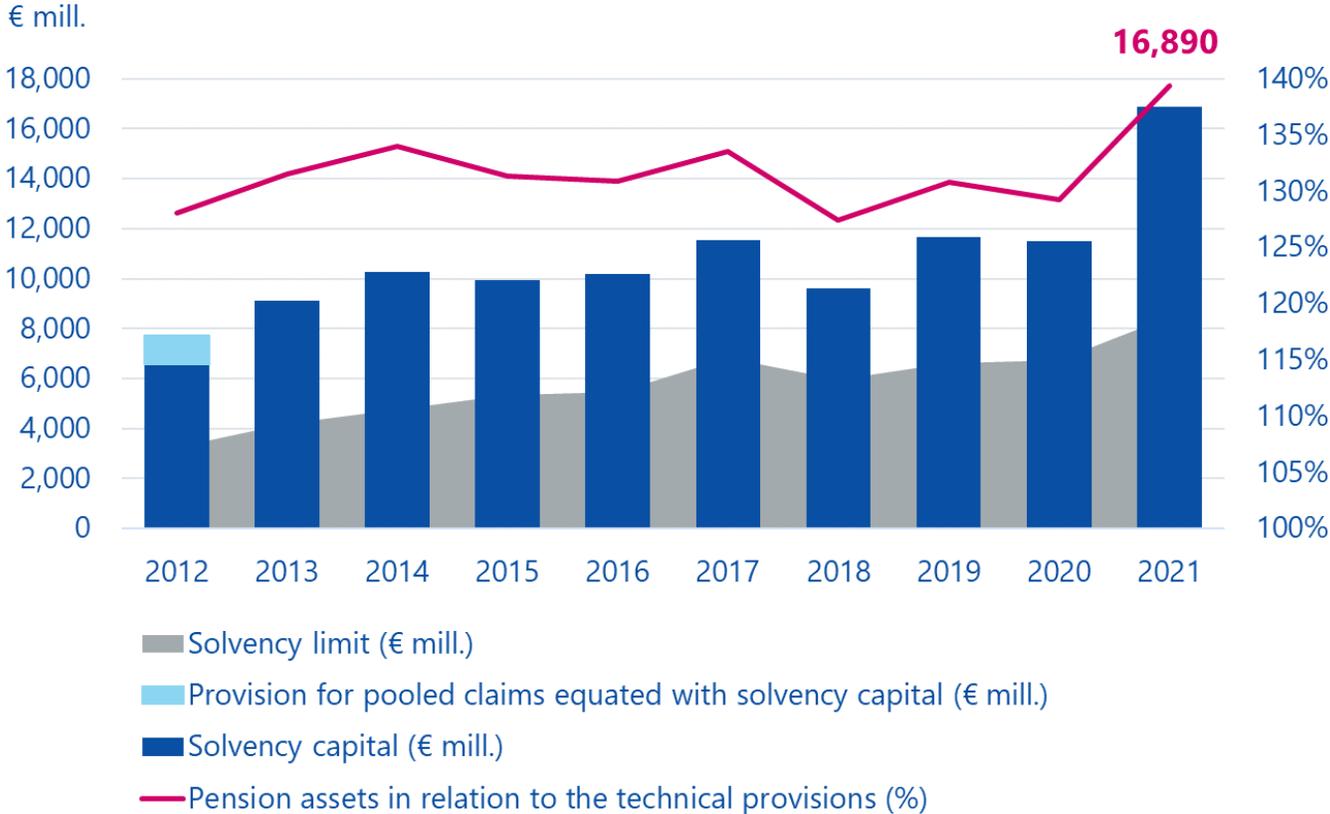
23%
Corporate bonds

57%
Real Estate

Varma's investment year 2021



Varma's solvency reached a new record thanks to strong investment returns



- Thanks to good investment returns, Varma's solvency capital reached a new record high of **EUR 16.9 billion**.
- Solvency capital was **2.0 times** the solvency limit.
- Varma's solvency capital, which serves as a risk buffer for investment operations, provides protection against volatility in investment market returns.

Development of investment returns and solvency

	1-12/2021	1-9/2021	1-6/2021	1-3/2021	1-12/2020
Investment return (MWR)	18.5%	13.5%	10.4%	6.0%	2.8%

	12/2021	9/2021	6/2021	3/2021	12/2020
Solvency capital (€ mill.)	16,890	15,701	14,664	13,462	11,517
Solvency capital / solvency limit	2.0	1.9	1.8	1.7	1.7
Solvency ratio (%)	139.4	137.7	135.6	133.5	129.3
Investments at fair value (€ mill.)	59,024	56,616	55,033	52,923	50,157

The total payroll of Varma's client companies grew nearly 7%

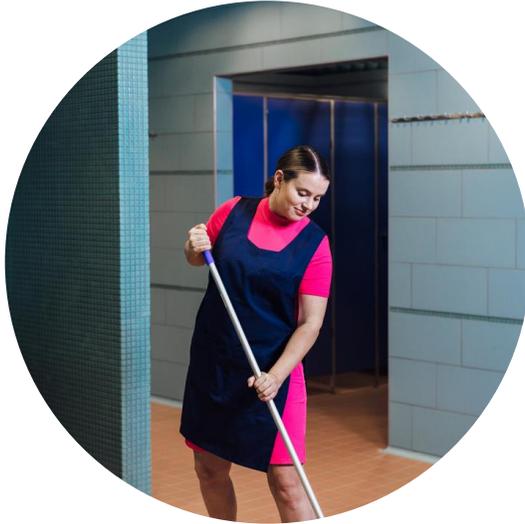
- The financial situation of Varma's client companies and entrepreneurs improved in 2021 from the first year of Covid-19, and this was mirrored in the increased TyEL payroll and fewer payment reminders.
- The total TyEL payroll of Varma's client companies increased 6.6% from 2020.
- The number of TyEL payment reminders declined 4% from the previous year. In terms of euros, the reduction was 27%.

The increase in client companies' payroll indicates that their financial situation has improved.



The TyEL payroll forms the basis for pensions to be paid.

Number of people on disability pension down by 30% – 21 coronavirus-related applications processed



Mental health disorders the main reason for disability

The number of people on disability pension has declined by nearly 30% compared to 2016. The main reason for disability in the disability pensions that were granted in 2021 was mental health disorders. Of these, depression and anxiety disorders were the most common.



21 coronavirus-related applications processed in 2021

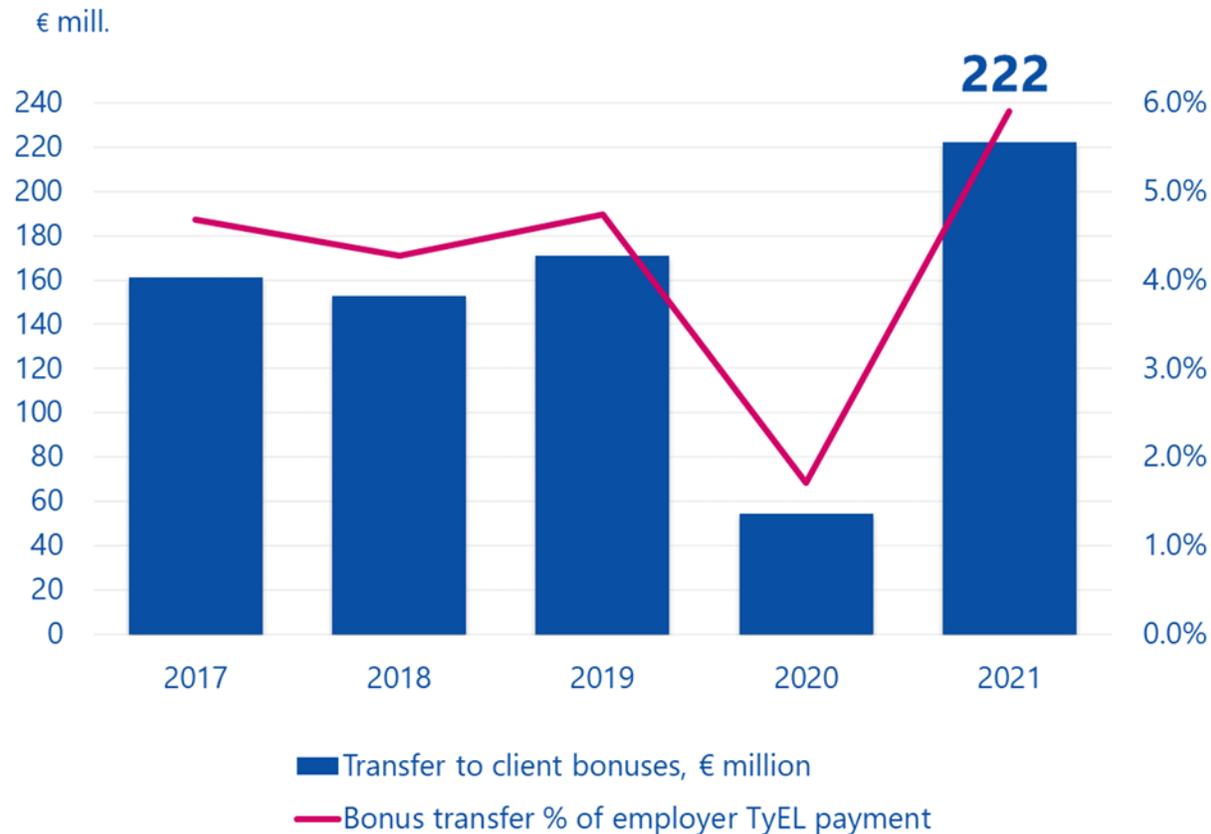
In 2021, Varma processed 21 disability pension applications in which Covid-19 was cited as a main reason for disability. Of these, two people were granted disability pension until further notice, eight were granted the cash rehabilitation benefit and one was granted the partial cash rehabilitation benefit.

Varma's operational efficiency at an excellent level



- Varma handles pension cover cost-effectively.
- Administrative costs were **62%** of the expense loading included in the insurance contributions.
- The smaller the percentage is, the more efficient the earnings-related pension company is.

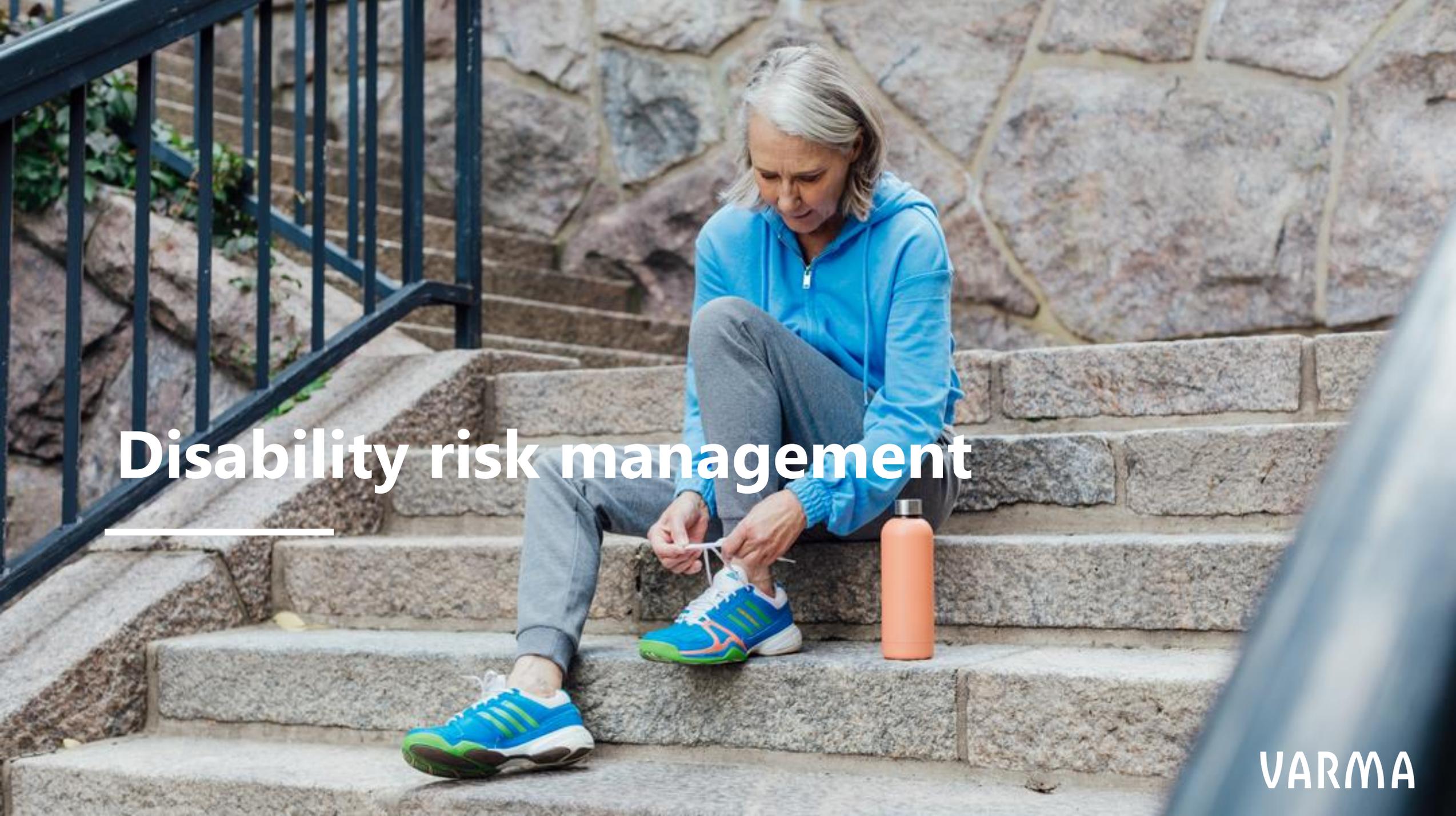
Highest client bonuses ever



Varma will refund **EUR 222 million** to its customers, i.e. the highest amount of client bonuses in the company's history.

The change compared to the previous year is primarily due to the temporary reduction in insurance contributions that was implemented in 2020, due to which the amount of client bonuses was limited through legislation to one third in the comparison year.

Varma's solvency capital increased in 2021, which raised the amount of client bonuses by **EUR 55 million**.

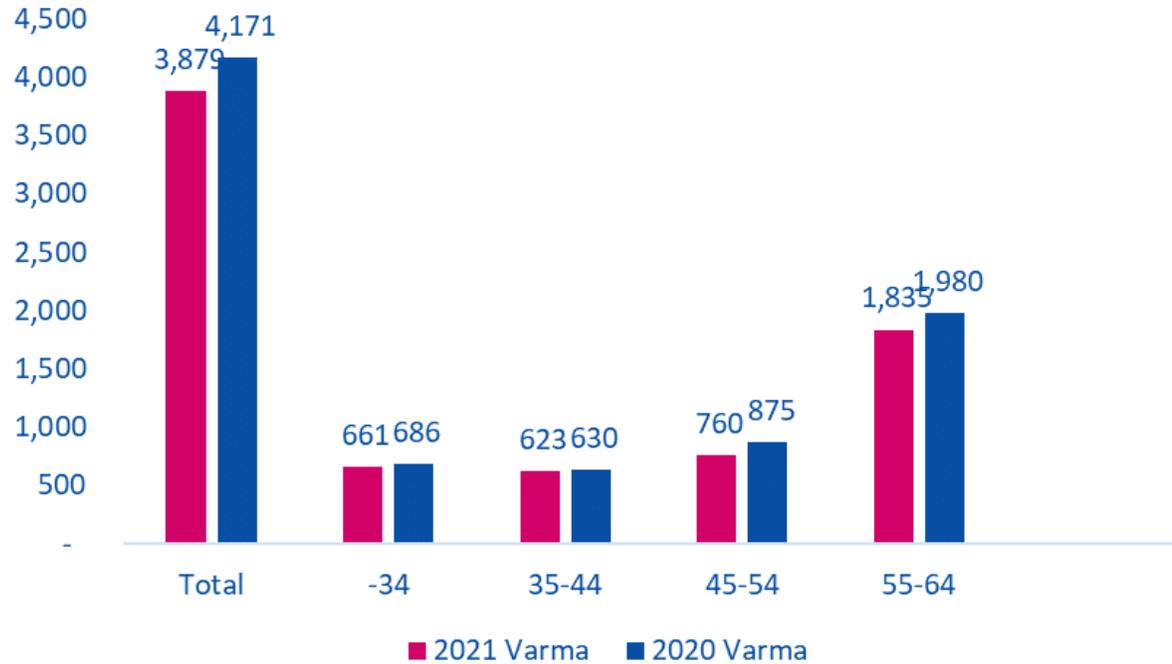


Disability risk management

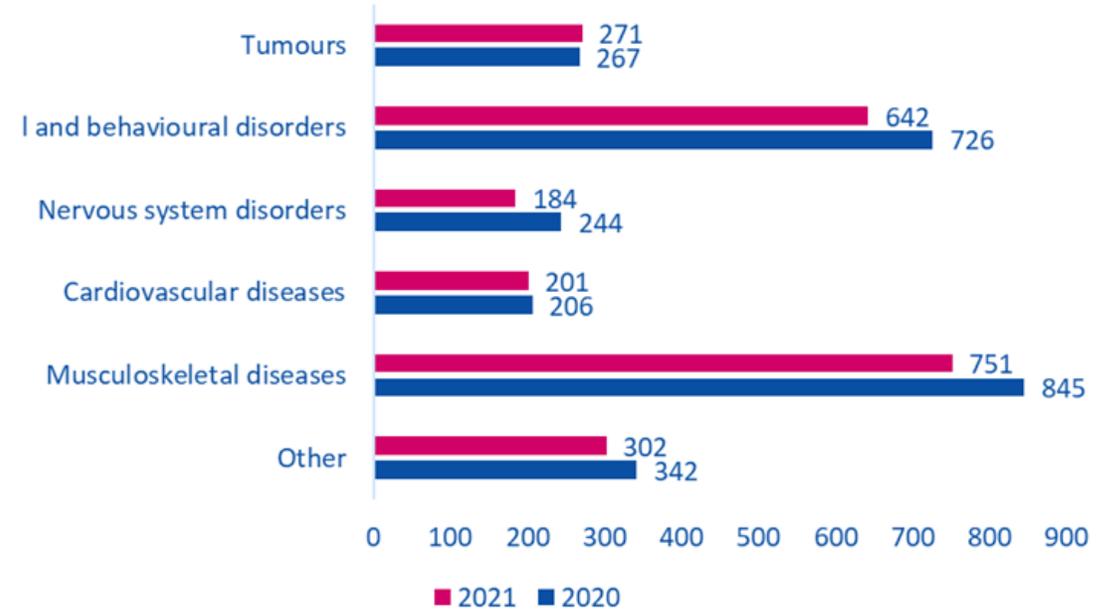
VARMA

Mental health disorders and musculoskeletal diseases key reasons for disability

New disability pension decisions by age group (incl. rejected applications)



Reasons behind new disability pension decisions



80% of rehabilitation customers returned to the labour market

- A larger share of Varma's private customers use rehabilitation to return to working life than retire on disability pension.
- Despite the challenges of the Covid-19 times, 80% of Varma's customers who entered and completed the rehabilitation programme returned to the labour market.
- Among our rehabilitation customers, the greatest disability threat was caused by musculoskeletal diseases, the second most common cause was mental health disorders.



Pandemic's impact on work ability

- In the early stages of the pandemic, it was discovered that balancing work and other aspects of life was easier for those who shifted to remote work. This improved the experience of well-being at work for many.
- However, the prolonged pandemic may have weakened work engagement and increased the risk of burnout.
- Not all types of work can be done remotely, and such work may be linked to extra stress during the pandemic.
- Varma assesses the impacts of the pandemic and rapid changes in working life in order to forecast customer needs and improve the relevance of the company's services.



Questionnaire: Young employees rate their work ability worse than others

- Mental health-related challenges have increased among knowledge workers, and younger employees are getting more attention as a group at risk of disability.
- This trend is also evident in the results of a questionnaire on resources and stress factors at work carried out in Finnish universities, in which young employees rated their work ability worse than others.
- Varma co-operates with universities in order to identify disability risks and groups at risk of disability.



Around **20,000** university employees answered the questionnaire in autumn 2021.

A woman with short, wavy, light-colored hair and glasses is looking down at a lavender plant in a garden. She is wearing a teal cardigan over a blue top. The background is filled with lush green foliage and trees. The text 'Insurance and pensions' is overlaid in white, bold font on the left side of the image, with a white horizontal line underneath it.

Insurance and pensions

VARMA



**Insured employees
and entrepreneurs**

571,000



Pensioners

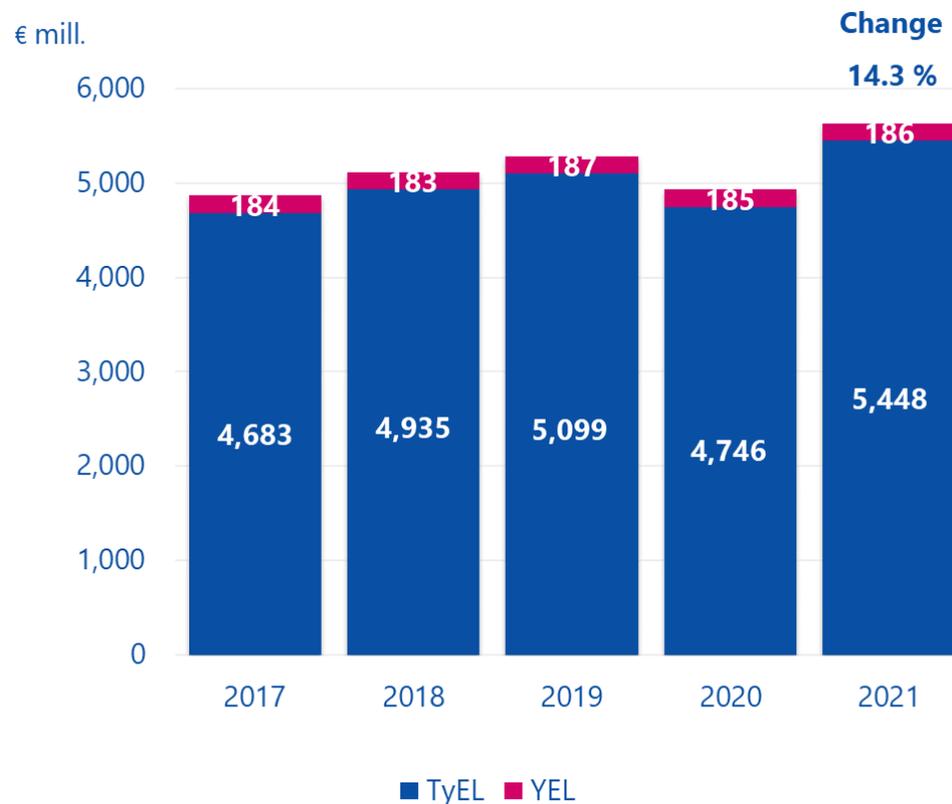
346,000



Pensions paid

EUR 6.2 bn

Premium income



- Varma's premium income totalled **EUR 5.6 billion**, of which TyEL insurance accounted for EUR 5.4 billion and YEL insurance for EUR 0.2 billion.
- Premium income increased **14.3%** compared to 2020.
- The temporary reduction in employers' pension contributions lowered the premium income in 2020.
- At year-end, **571,000 people** were insured by Varma.

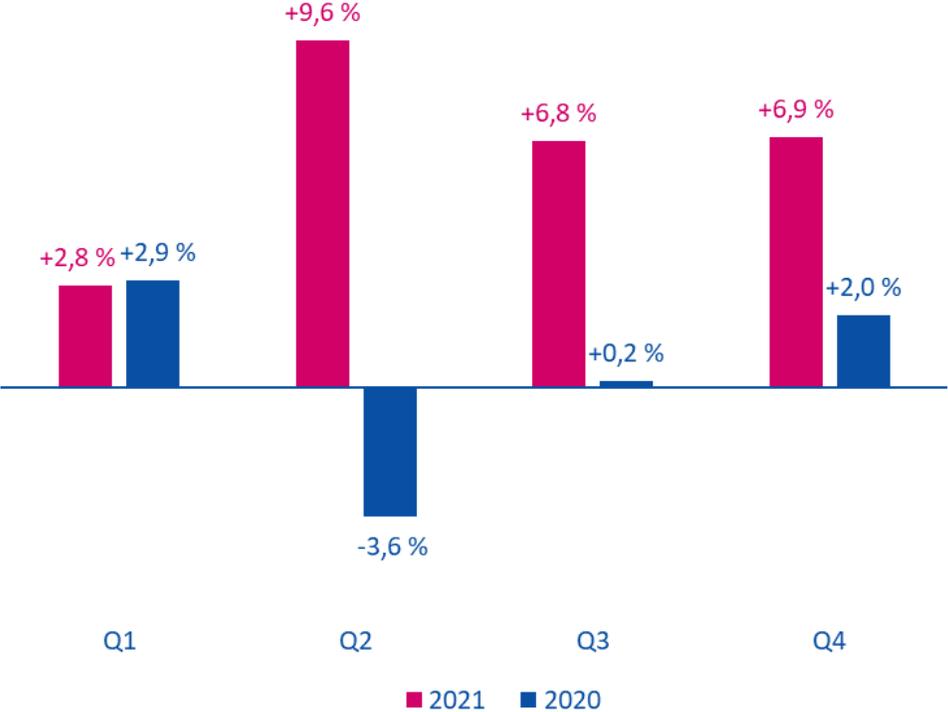
Pensions paid



- Varma paid out pensions in the amount of **EUR 6.2 billion**, of which TyEL insurance accounted for EUR 5.9 billion and YEL insurance for EUR 0.3 billion.
- Pensions paid increased **3.4%** from 2020.

The TyEL payroll has already increased above the pre-pandemic level

Quarterly change in the TyEL payroll compared to the same period last year



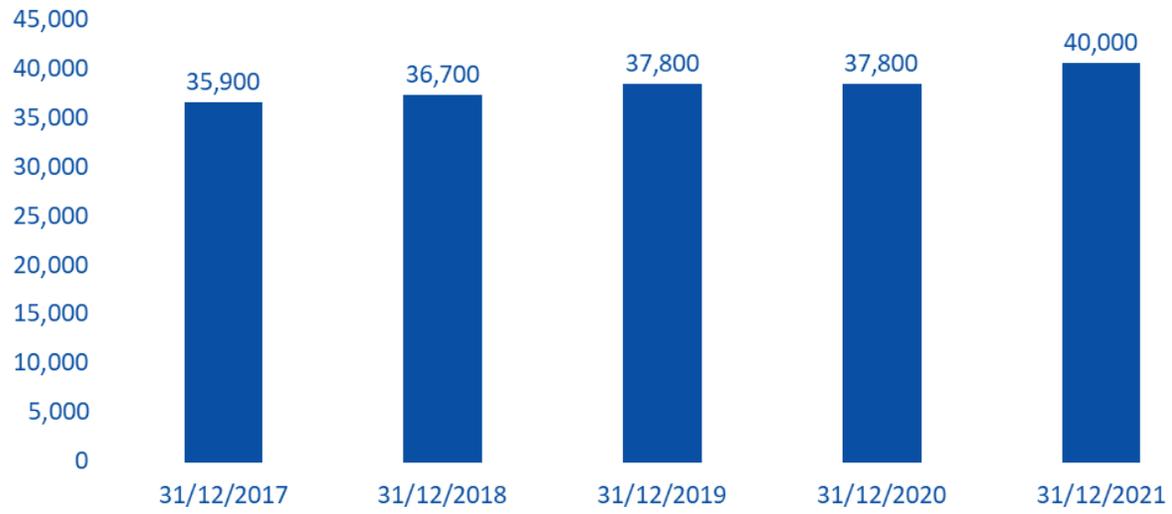
The total TyEL payroll of Varma’s client companies increased **6.6%** from 2020.

The total payroll increased the most, 9.6%, in the second quarter of the year, compared to same period in 2020.

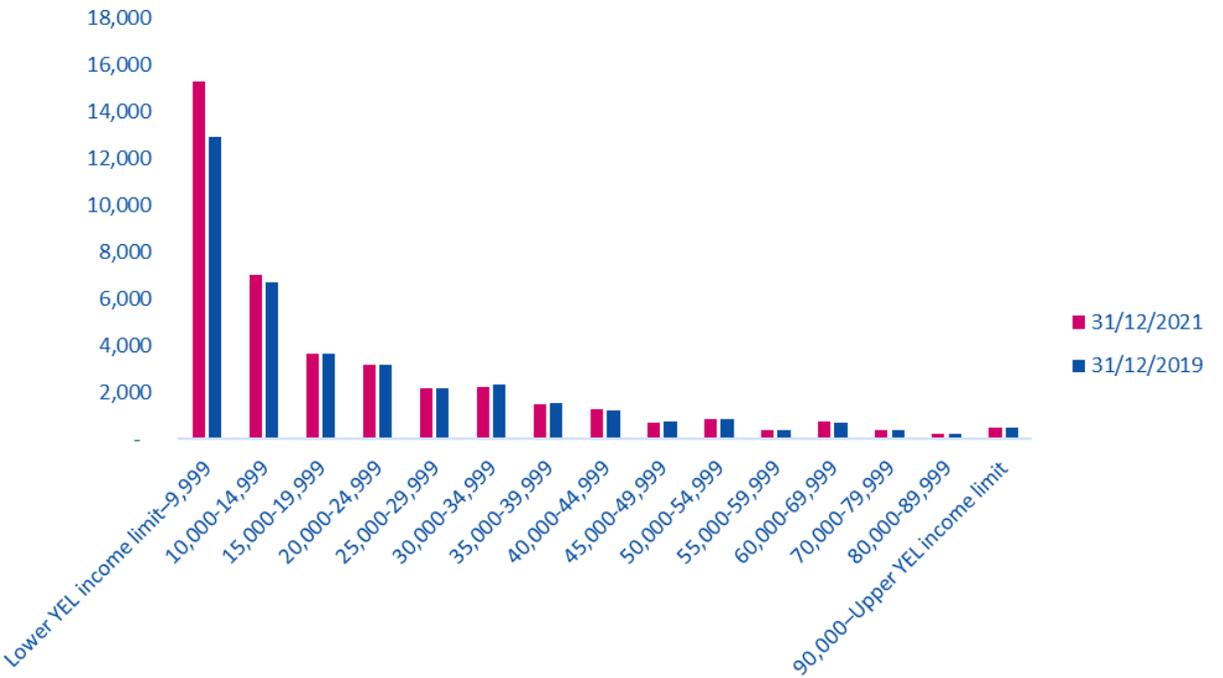
The payroll in the travel, restaurant, arts, entertainment and recreation industries took an upward turn in 2021 but has not reach the pre-pandemic level.

Roughly 2,200 new pension policies for the self-employed since the previous year

Number of YEL insurance policies



YEL confirmed income now and before the pandemic



Current information about pensions

- A total of 21,132 new pension decisions were made in 2021.
- The average processing time for all pension applications was 18.8 days, which is 0.8 days shorter than the sector average.
- Old-age pension decisions are made the fastest (in a few days), while disability pension decisions take the longest (over a month).
- The first pension was paid within the target period, i.e. in the first month of pension entitlement, to 87% of new pensioners.



A total of 21,131 new pension decisions were made

First decisions	2021	2020	Change, %
Disability benefits	5,672	6,046	-6.2
Rehabilitation benefit	1,438	1,564	-8.1
Partial rehabilitation benefit	317	273	16.1
Disability pension	3,385	3,598	-5.9
Partial rehabilitation benefit	532	611	-12.9
Part-time pension	2,484	2,464	0.8
Years-of-service pension	21	28	-25.0
Survivors' pension	3,453	3,385	2.0
Old-age pension	9,495	9,173	3.5
Early old-age pension	6	4	50.0
Total	21,131	21,100	0.1

A total of 51,413 pension decisions were made in 2021, i.e. 1.0 % less than in the previous year.



Sustainability

VARMA



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

Responsible investment in 2021



The proportion of low-carbon index investments rose to 41%

At year-end 2021, 41% of Varma's external index investments were low-carbon. Our goal was to raise the proportion of low-carbon index investments to 35% by 2025, meaning we reached the goal 4 years ahead of time.



The climate allocation accounted for 18% of Varma's investment portfolio

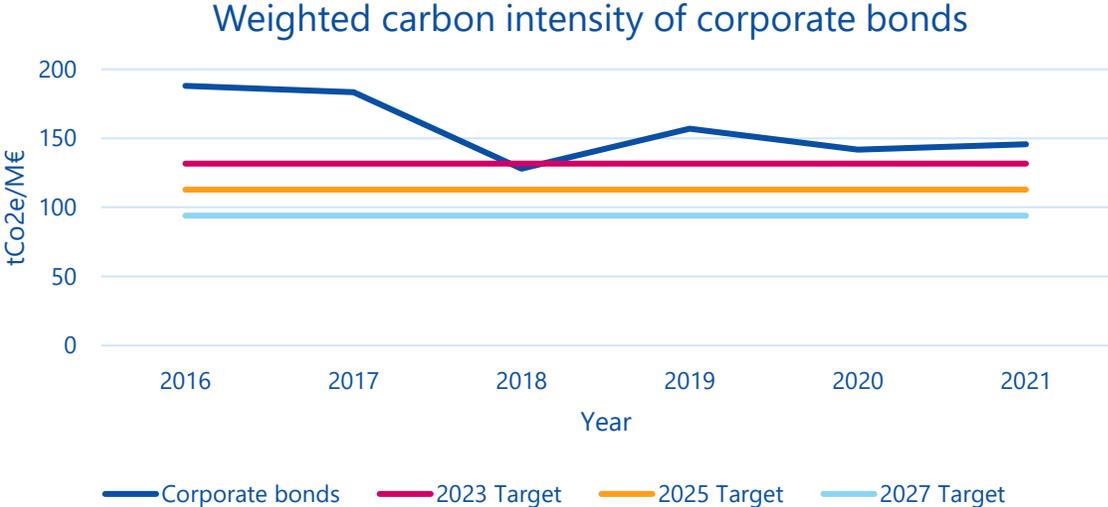
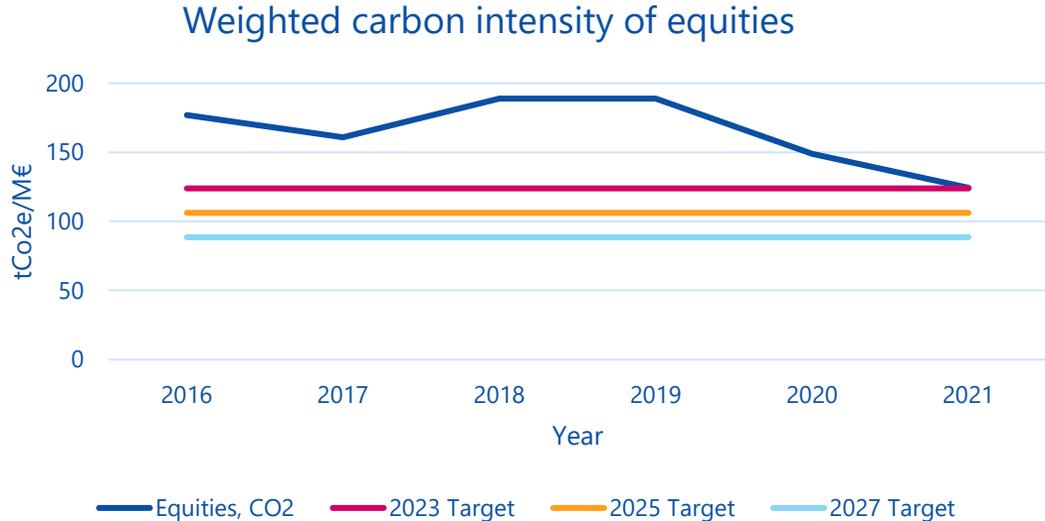
At the end of 2021, climate-friendly investments, i.e. the climate allocation, accounted for 18.2% of Varma's entire investment portfolio, while in 2020 it accounted for 12.4%. The growth is especially due to the rapid increase in companies' commitment to ambitious emission reduction targets.



Assessment of biodiversity loss

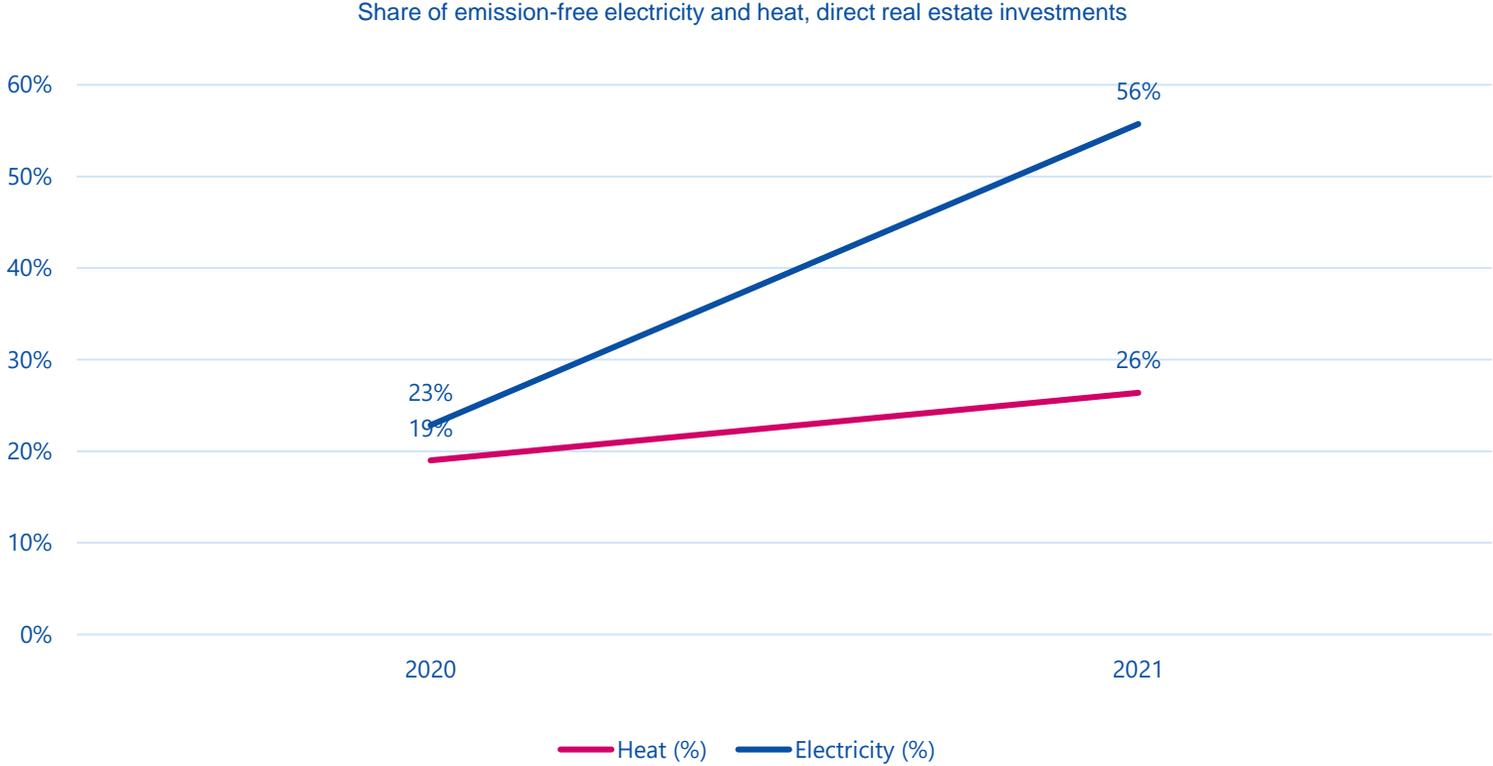
We explored the risks, from an investor's perspective, that biodiversity loss presents for different industries, as a consequence of, for example, loss of nature, changes in land use and endangerment of species. We identified themes that investors can pay attention to in order to reduce their impacts on biodiversity loss.

Climate actions substantially drive down carbon footprint of investments



At the end of 2021, **the carbon intensity of Varma’s equity investments was down 30% compared to the 2016 level and that of listed corporate bonds 23%**, i.e. we are on track to achieve the emission reduction targets set in our climate policy. At year-end 2021, the weighted carbon intensity of Varma’s equity portfolio was also lower than that of the global equity market. **The carbon footprint of real estate investments was down 57% compared to 2015.**

Of Varma-owned real estate, 56% use emission-free electricity and 26% emission-free heat



Varma’s climate-policy-aligned, emission-free targets in real estate investments:

- Emission-free electricity by 2025
- Emission-free heat by 2030

Progress towards climate targets in 2021

Climate allocation 20 % of the portfolio by 2025



Exclusion of coal from listed corporate bonds and equities by 2025



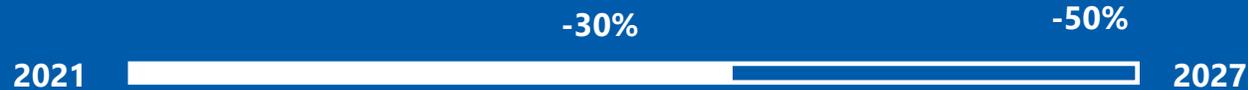
Exclusion of oil exploration from listed corporate bonds and equities by 2030



Emissions from listed corporate bonds down 50% by 2027



Emissions from equities down 50% by 2027



Emission-free electricity in real estate investments by 2025



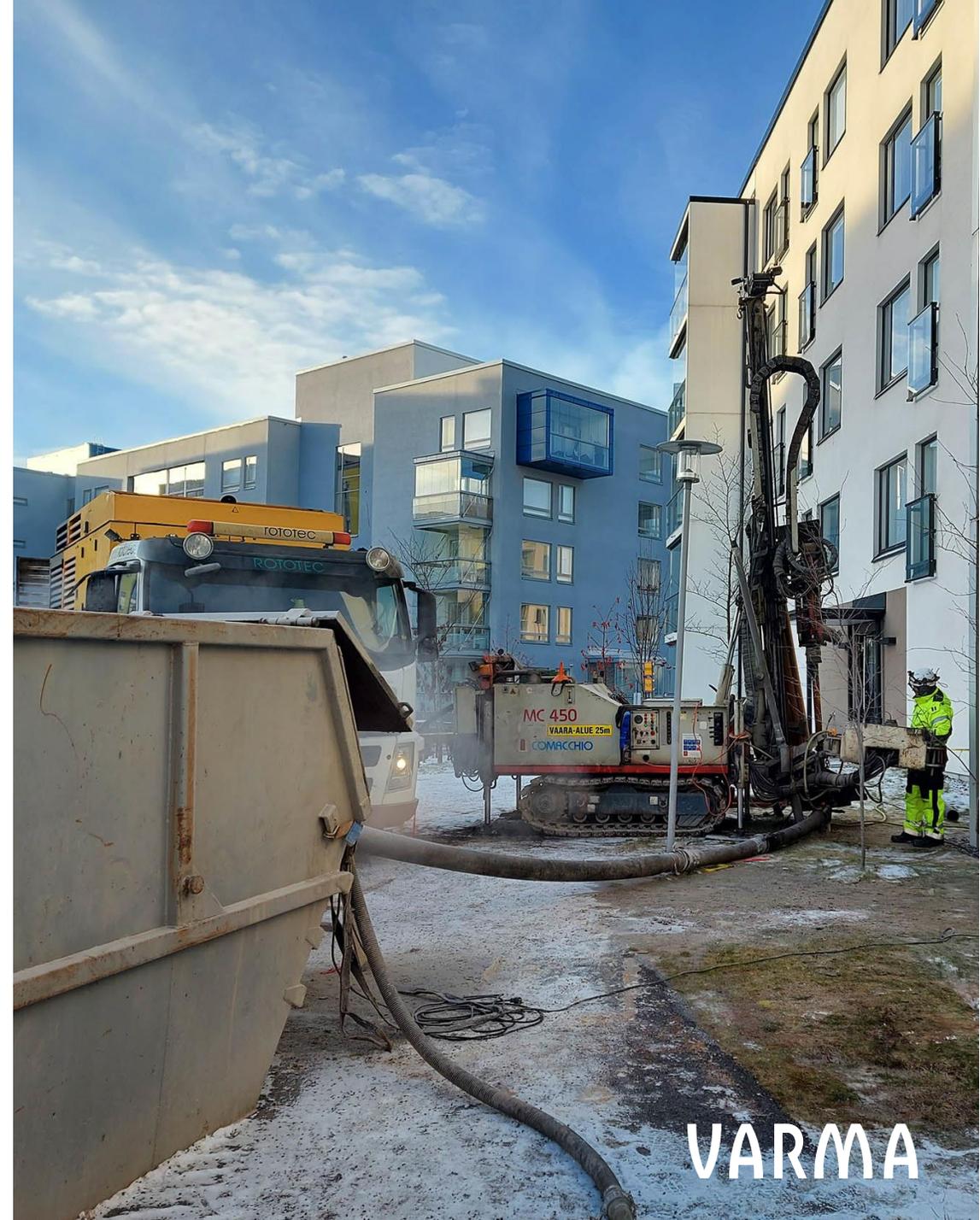
Emission-free heat in real estate investments by 2030



Carbon-neutral investment portfolio by 2035

Energy renovations will turn over 850 flats carbon-neutral in terms of heating

- In 2020, Varma started energy renovations in 13 apartment buildings owned by the company in order to halve the emissions of its housing stock by 2023.
- In 2021, energy renovations were started in 9 Varma-owned rental apartment buildings in the Helsinki region and Turku.
- Once the sites that are under renovation are completed, 20 Varma-owned rental sites will have gone through an energy renovation.
- Varma's energy renovations include the installation of geothermal heating systems and solar panels.
- Thanks to the renovations, some of the buildings can be disconnected from the district heating network, and they will be carbon-neutral.
- These renovations will turn 857 rental flats carbon-neutral in terms of heating. Furthermore, the carbon footprint of 457 flats will decrease, but they will not be carbon-neutral in terms of heating.



Emissions from Varma's own operations have declined 84%

- Emissions from Varma's own operations have declined **84%** from the 2015 baseline.

The Salmisaari head office has:

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



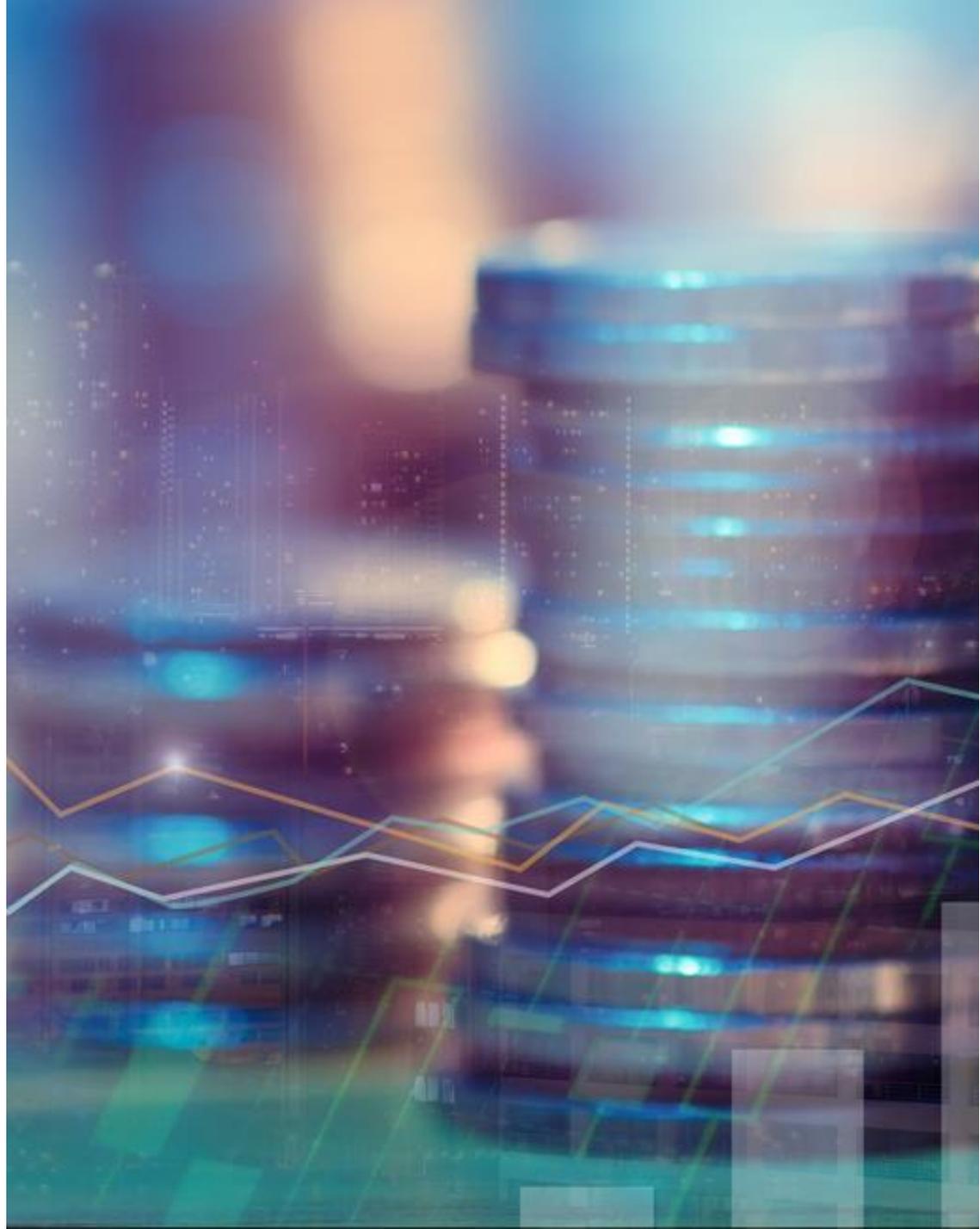


**Best return on investments in
history**

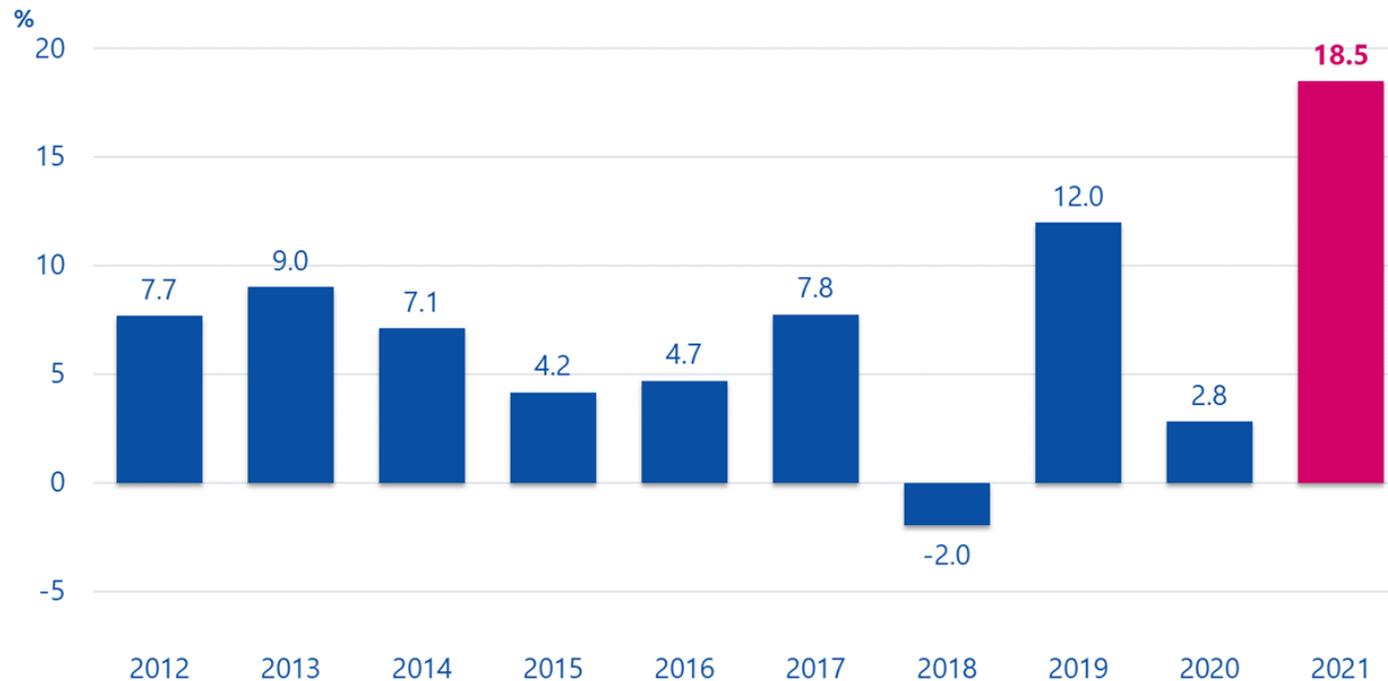
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Outlook for the economy and the investment markets

- In 2021, the recovery and growth of the Finnish economy was faster than expected.
- Despite the lack of resources, industrial output increased to the pre-pandemic level during the year.
- In the U.S., growth was at a record level, while in Europe the recovery took off slower and the economy has grown at a slower pace.
- Last year was exceptionally favourable for investors. Companies' earnings have been good, thanks to the recovery, and we have seen positive development in the investment market.



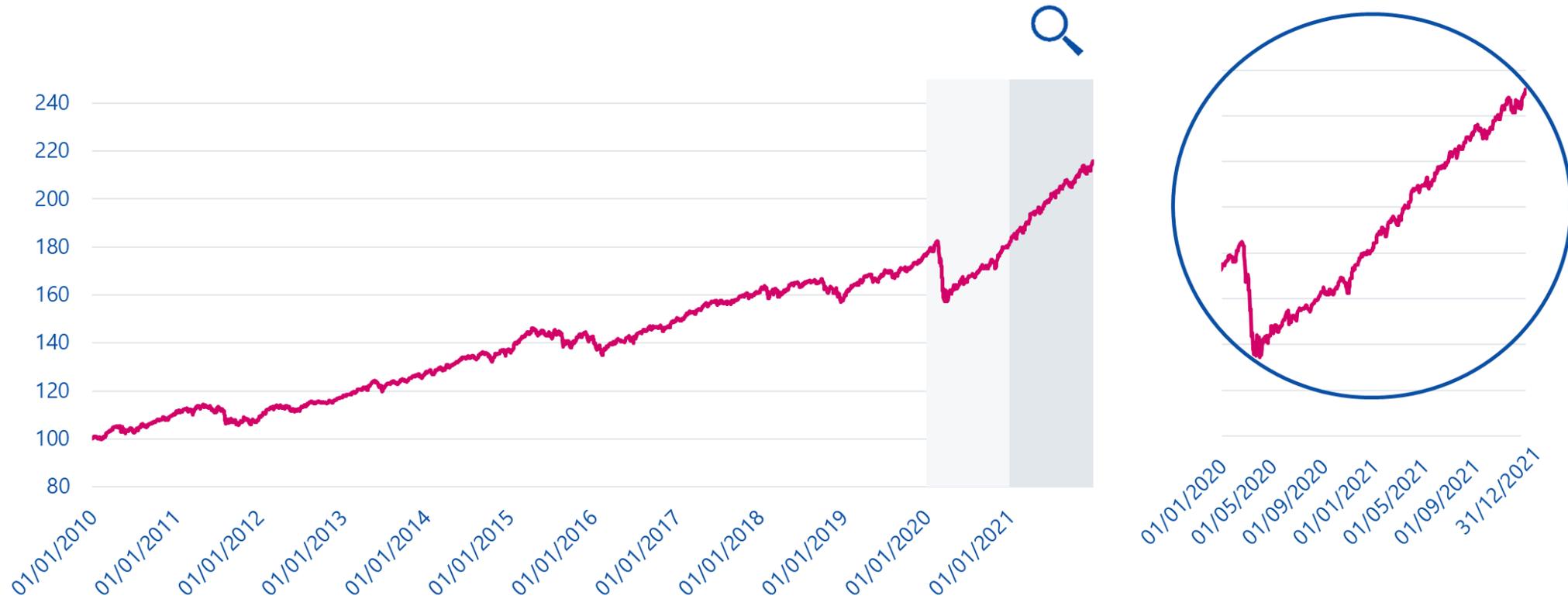
Investment returns 2012–2021



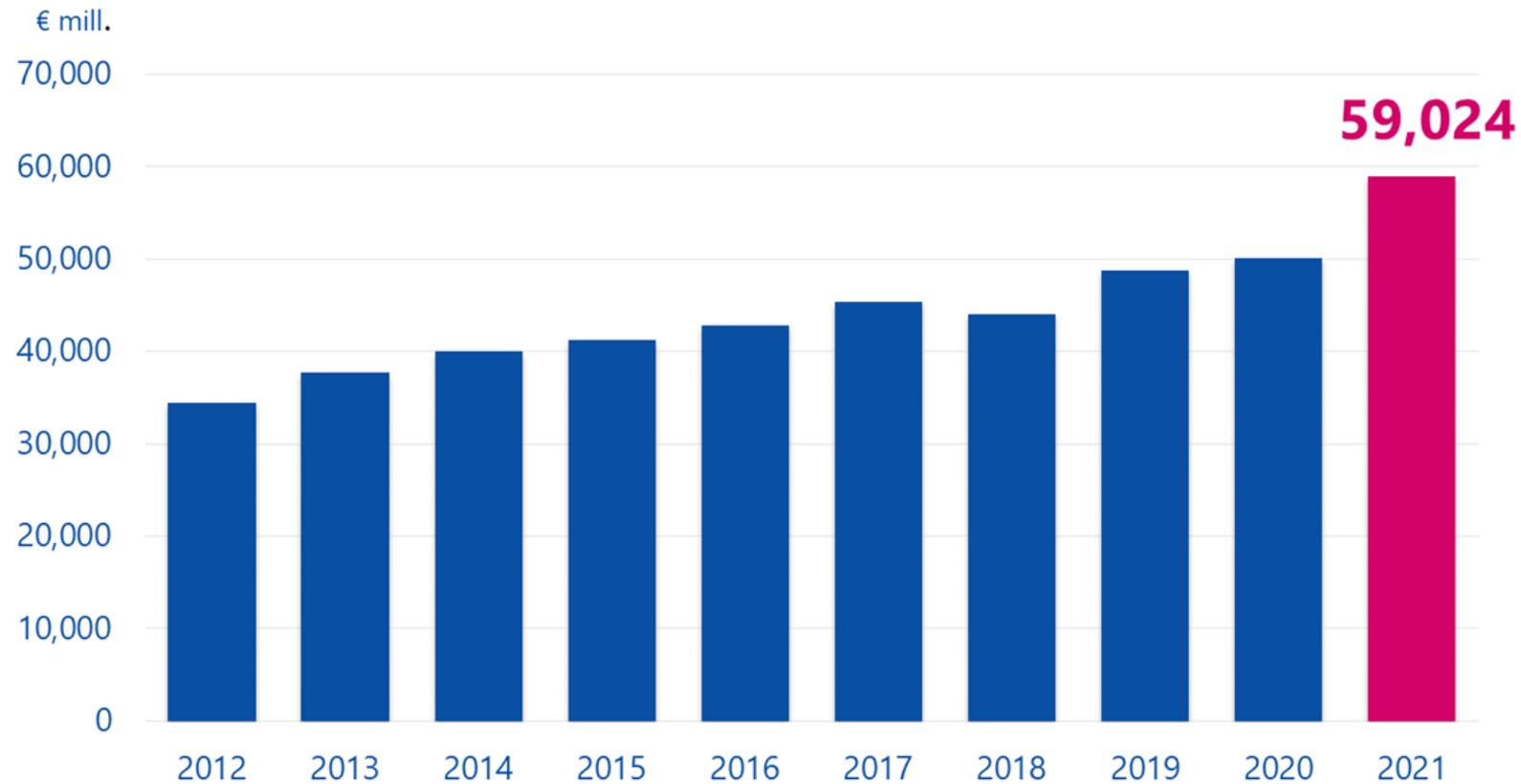
The average nominal return on investments over ten years is approx. 7.1%, calculated in accordance with the recommendations issued by TELA.

- In 2021, the return on Varma's investments was **18.5%** or EUR **9.3** billion.
- The value of the investments grew to EUR **59.0** billion at year-end.

Return development since 2010: cumulative return 115.7%, i.e. €32.9 bn

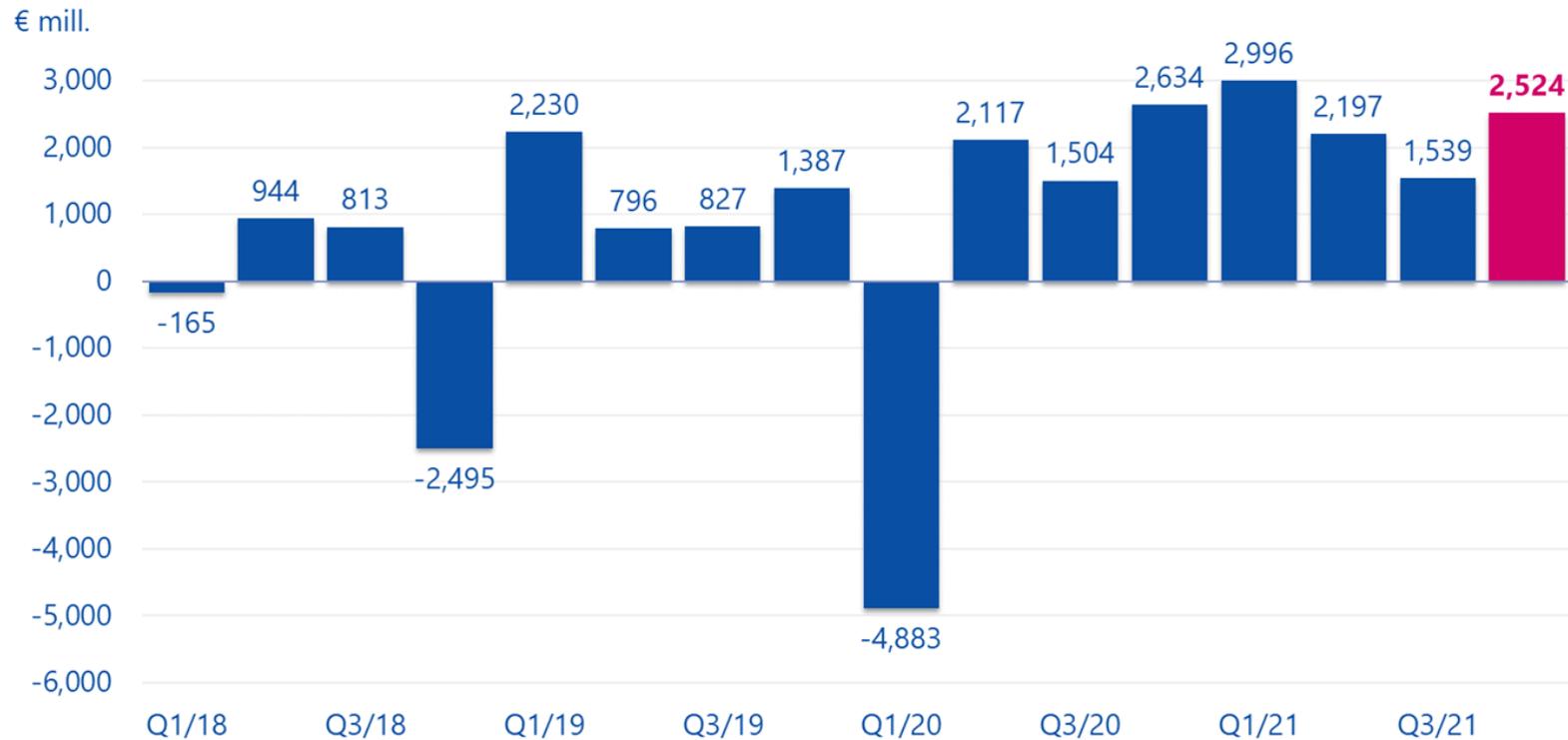


Market value of investments reached EUR 59 billion

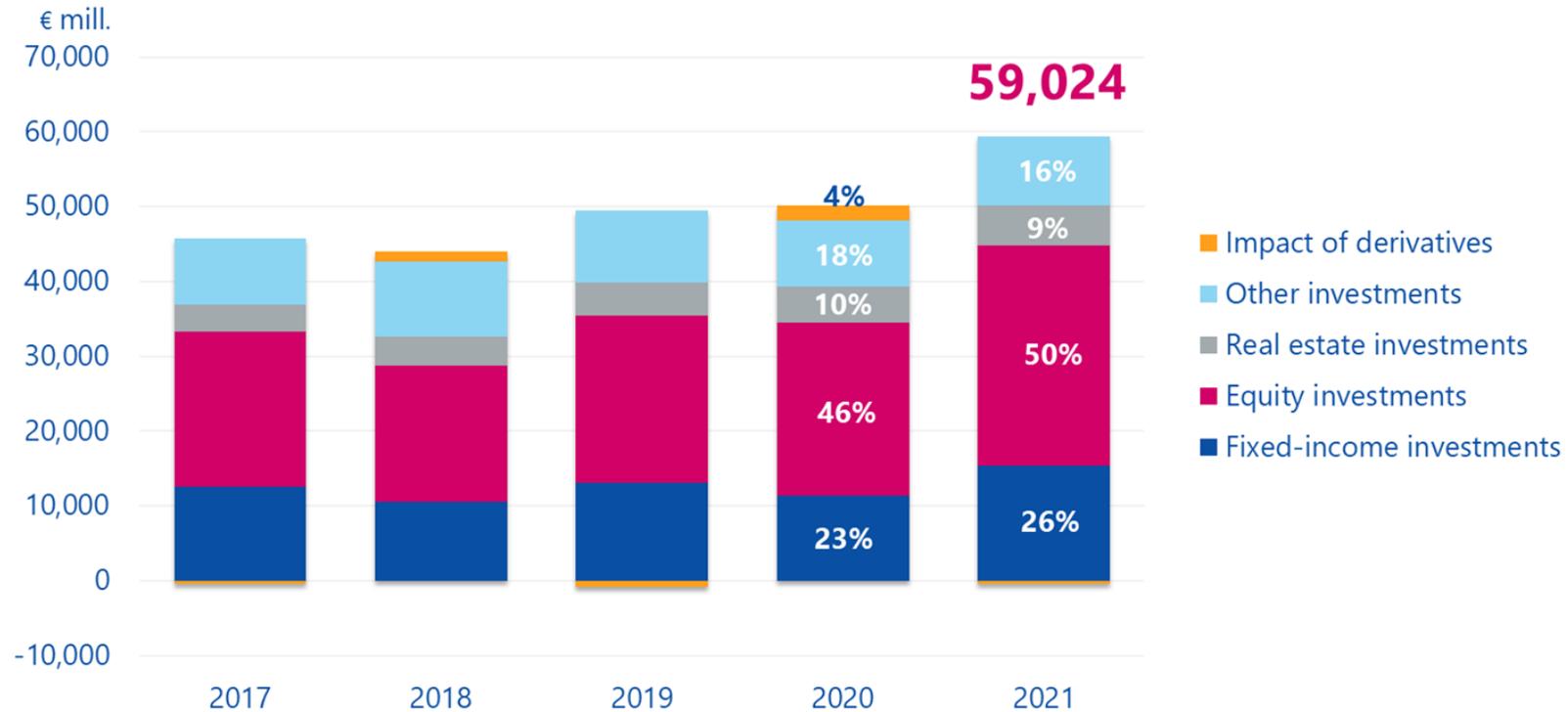


Return on investments at fair values reached EUR 9.3 billion in 2021 – the highest return was generated in the first quarter

Return on investments at fair values by quarter



Investment allocation



Investments classified according to risk

	31 Dec 2021				31 Dec 2020				01-12/2021	01-12/2020	24 m
	Market value				Market value				Return	Return	Vola- tility
	Market Value		Risk position		Market Value		Risk position		MWR	MWR	
	€ mill.	%	%	%							
Fixed-income investments ¹	15,251	26	15,402	26	12,279	24	11,410	23	1.9	1.9	
Loan receivables	2,711	5	2,711	5	2,711	5	2,711	5	5.4	0.5	
Bonds	9,269	16	10,281	17	8,128	16	7,459	15	1.4	3.0	6.2
Public bonds	5,132	9	6,189	10	3,326	7	2,490	5	-1.2	6.1	
Other bonds	4,136	7	4,092	7	4,803	10	4,969	10	4.2	1.0	
Other money-market instruments and deposits	3,271	6	2,409	4	1,440	3	1,240	2	-0.9	-1.0	
Equity investments	29,144	49	29,352	50	24,222	48	23,083	46	32.2	5.9	
Listed equities	20,010	34	20,217	34	17,946	36	16,807	34	26.4	5.2	18.4
Private equity	8,663	15	8,663	15	5,958	12	5,958	12	49.6	7.8	
Unlisted equities	471	1	471	1	318	1	318	1	26.3	8.6	
Real estate investments	5,442	9	5,442	9	4,828	10	4,828	10	5.9	2.0	
Direct real estates	3,086	5	3,086	5	2,875	6	2,875	6	4.1	3.4	
Real estate funds	2,356	4	2,356	4	1,953	4	1,953	4	8.5	-0.2	
Other investments	9,187	16	9,187	16	8,827	18	8,827	18	15.3	-2.0	
Hedge funds	9,184	16	9,184	16	8,818	18	8,818	18	15.3	-1.0	10.4
Commodities	0	0	0	0	0	0	0	0			
Other investments	3	0	3	0	9	0	9	0			
Total investments	59,024	100	59,382	101	50,157	100	48,149	96	18.5	2.8	8.9
Impact of derivatives			-358	-1			2,008	4			
Investment allocation at fair value	59,024	100	59,024	100	50,157	100	50,157	100			

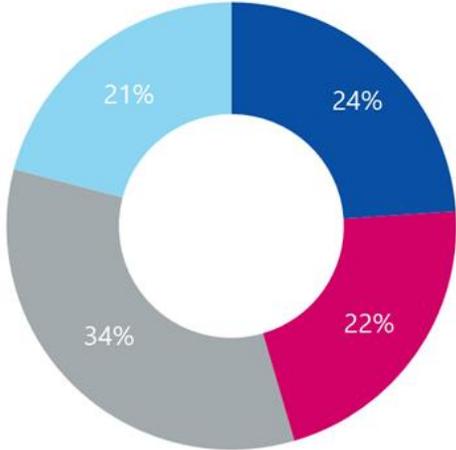
The modified duration for all the bonds is 4.18.

The open currency position is 23.9% of the market value of the investments.

¹ Includes accrued interest

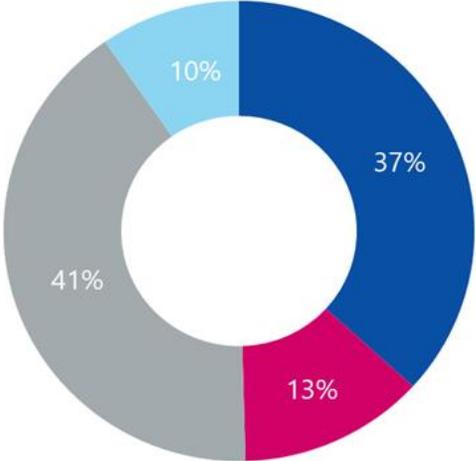
Geographical distribution of investments

Investments



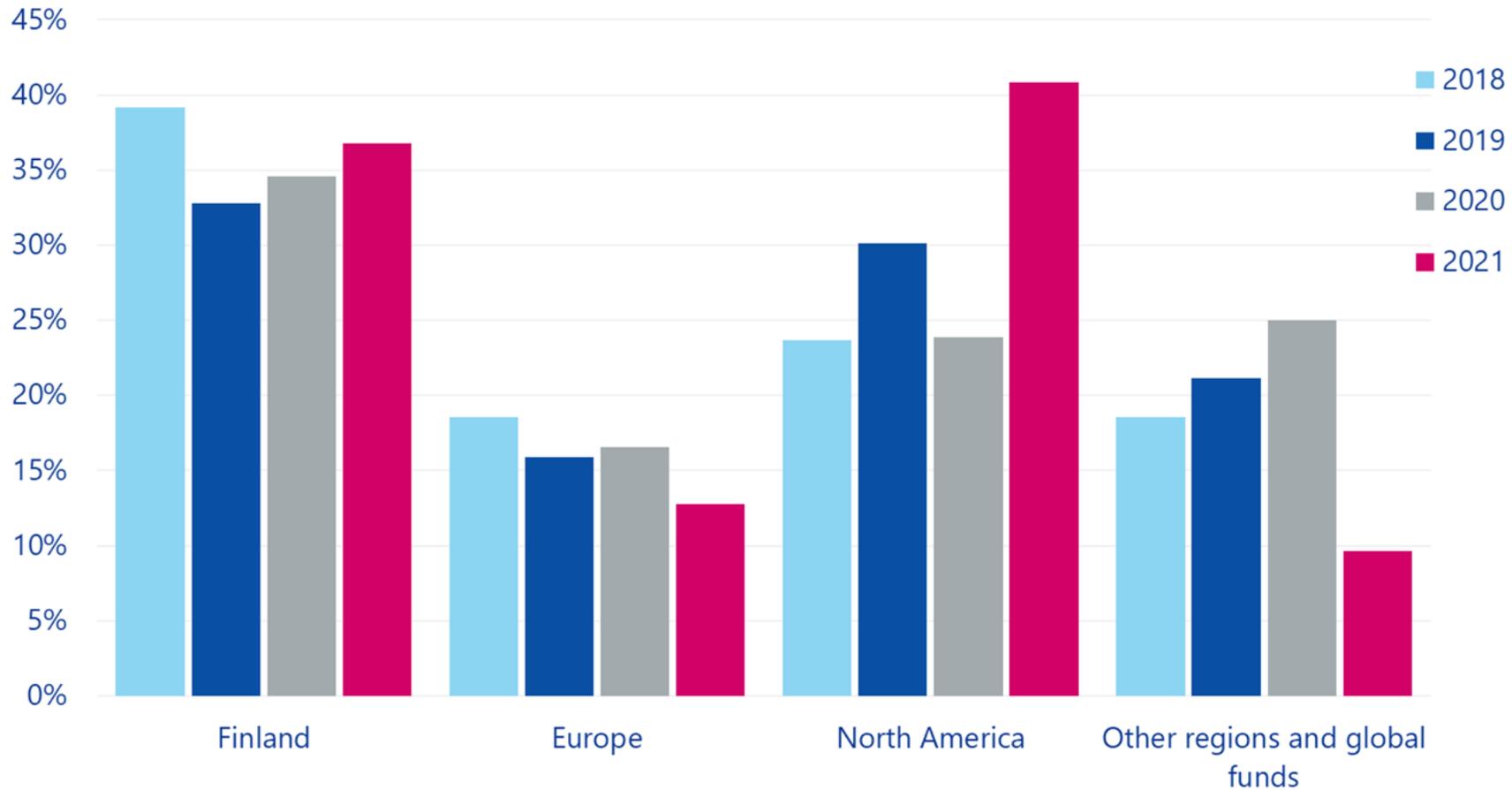
- Finland
- Europe
- North America
- Other regions and global funds

Listed equities



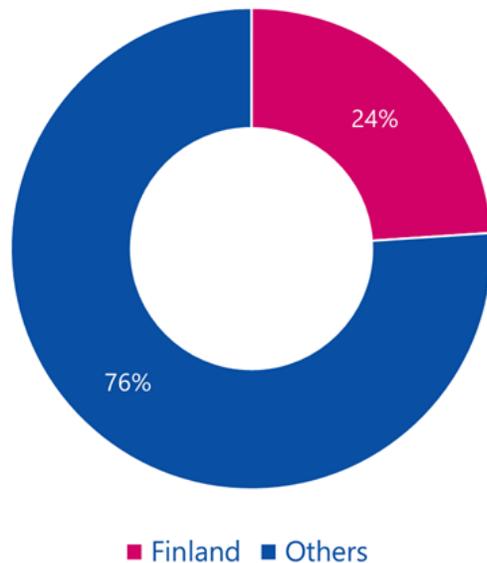
- Finland
- Europe
- North America
- Other regions and global funds

Listed equity investments focussed on Finland and North America

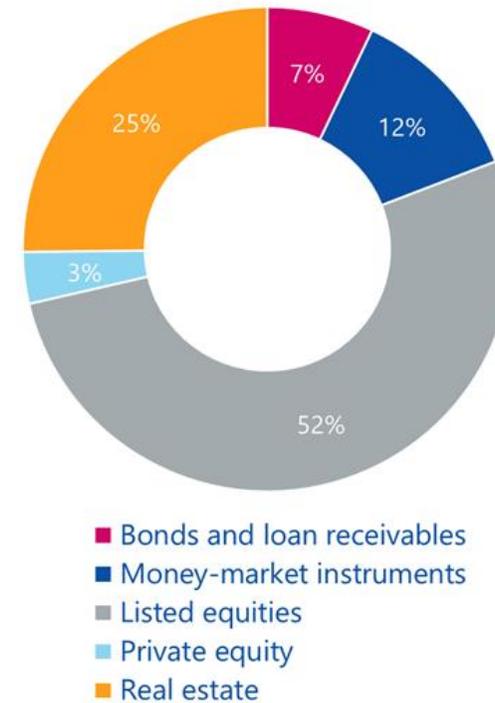


Investments in Finland 24%, i.e. EUR 14.2 billion

Investments in Finland

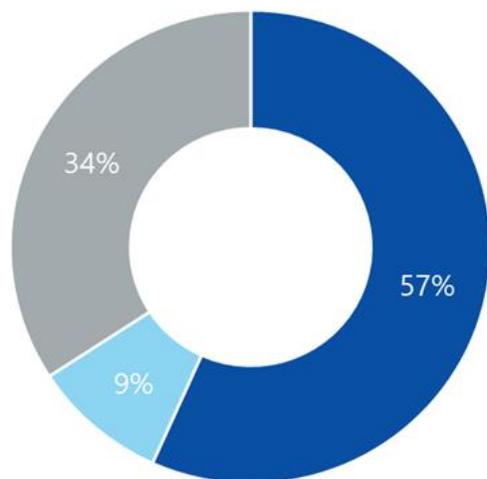


Distribution of Finnish investments



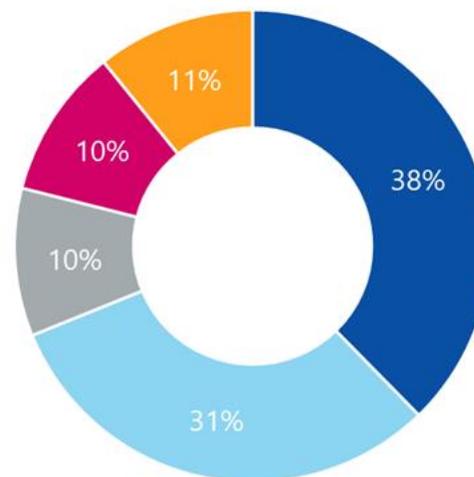
66% of real estate investments, i.e. EUR 3.6 billion, in Finland

Real Estate Investments, €5.4 bn



■ Direct Finland ■ Indirect Finland ■ Indirect Other

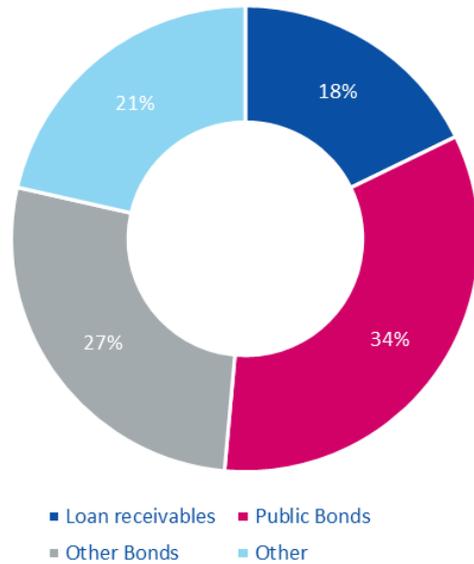
Direct Real Estate Investment Finland, €3.1 bn



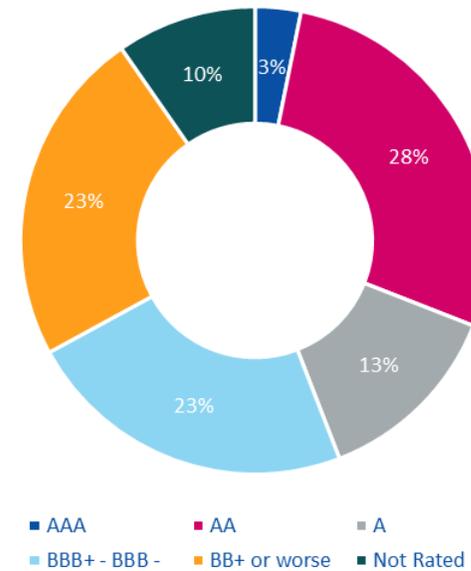
■ Offices ■ Housing ■ Hotels
■ Retail ■ Other

34% of fixed income investments in public-sector bonds

Fixed income investments by type of investment according to market value



Bonds by credit rating



Varma's and the markets' investment returns

%	Varma	Finnish equities	European equities	US equities	Euro government bonds	Euro corporate bonds
2021	18.5	25.3	24.9	28.7	-3.4	-1.1
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
Average nominal return						
5 years	7.6	13.4	8.9	18.5	1.8	1.8
10 years	7.1	15.2	10.1	16.6	3.9	3.6
Since 1999 *	6.0	9.6	5.1	8.1	4.1	3.9
Average real return						
5 years	6.3	12.0	7.6	17.0	0.5	0.5
10 years	5.8	13.9	8.8	15.2	2.8	2.4
Since 1999 *	4.4	7.9	3.5	6.4	2.6	2.3

* 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

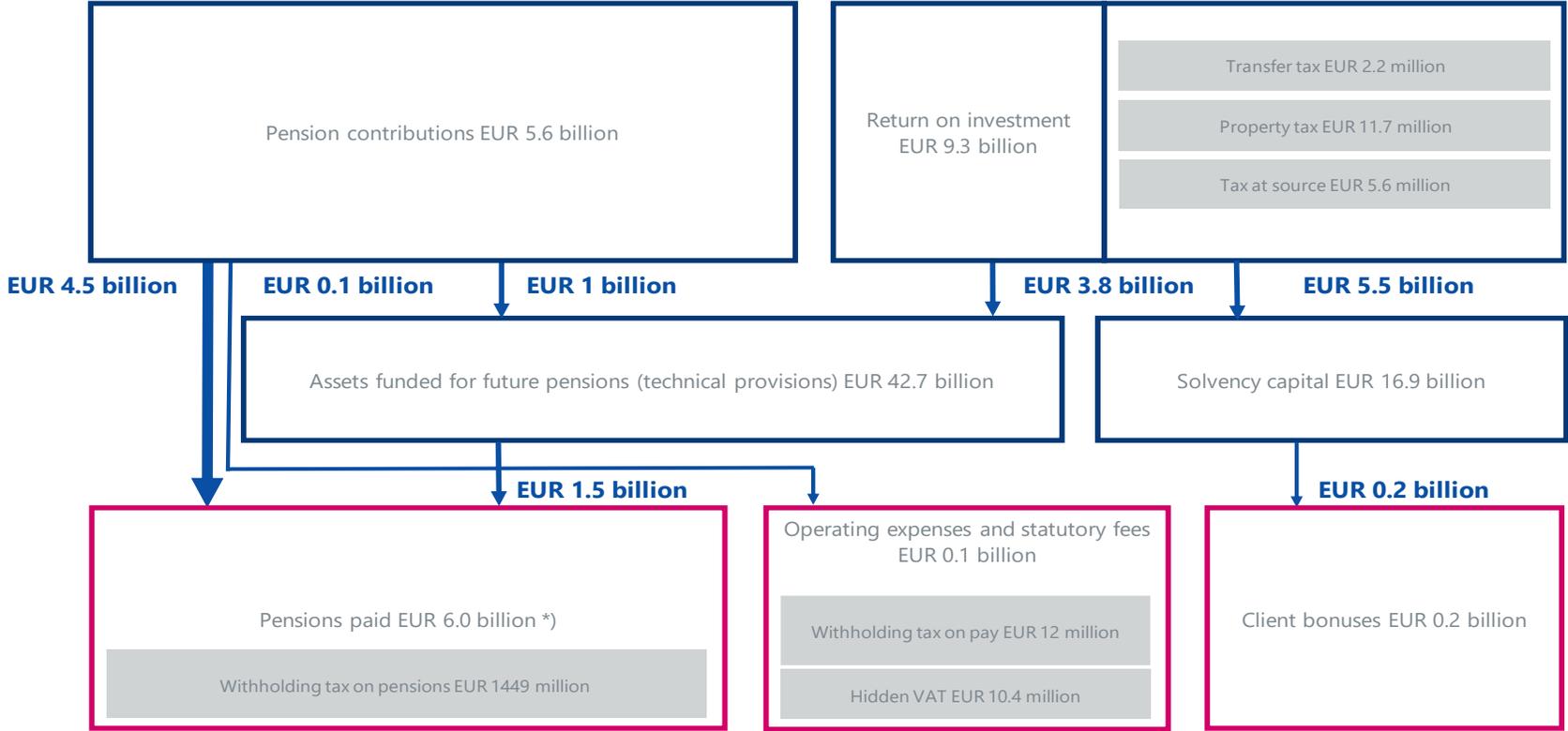
Key figures

	2021	2020
Premiums written, € million	5,635	4,931
Pensions paid, € million ¹	6,236	6,028
TyEL-insured	531,206	505,172
YEL insurance policies	40,023	37,800
Pensioners	345,700	347,100
Investments, € million	59,024	50,157
Return on investment, € million	9,256	1,372
Return on investment, %	18.5	2.8
Total result, € million	5,587	-231
Loading profit, € million	51	49
Operating expenses as % of loading component	62	61
Technical provisions, € million	45,225	40,726
Solvency capital, € million	16,890	11,517
Solvency ratio % ²	139.4	129.3
Solvency capital/solvency limit	2.0	1.7
Average number of personnel, Parent Company	527	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).

Varma's premium income and investment return cash flows



*) Include EUR 0.2 billion pensions paid by Varma, to be received in the division of costs

VARMA